

Merkel Meets the Premier

The Chancellor of Germany, Angela Merkel, visited Ukraine yesterday and met with both President Viktor Yushchenko and Prime Minister Yulia Tymoshenko, during what was the first visit of a German Chancellor to Ukraine since the Orange Revolution.



▲ Friends together. German Chancellor Angela Merkel with Prime Minister Yulia Tymoshenko.

According to Hryhoriy Nemyria, Deputy Prime Minister responsible for European integration, "the meeting went very well indeed and the two leaders discussed wide-ranging topics, including EU and Euro-Atlantic integration issues and bilateral trade and economic relations, including opportunities for strategic foreign direct investment."

The German leader stressed the importance of domestic political stability in Ukraine and underlined that a stable government was a pre-condition to successful European and Euro-Atlantic integration. She pledged support for closer co-operation on European integration and Ukraine's plans to join the NATO Membership Action Plan. On the domestic front, she backed the government's privatisation plans which she considers vital for Ukraine's economic reform and development.

Ms Merkel has met Ms Tymoshenko twice before, while attending summits of the European People's Party (EPP), in October 2007 in Lisbon, and more recently in June 2008, in Brussels.

Chancellor Merkel, who was raised in East Germany, has been chairwoman of the Christian Democratic Union (CDU) since April 2000. Since November 2005, she has led a "grand coalition" government with the CDU's sister party, the Christian Social Union (CSU) and the Social Democratic Party of Germany (SPD).

The CDU is a member of the EPP to which the Batkivshchyna party (the largest in the Bloc of Yulia Tymoshenko) is an observer member. The centre-right EPP is the largest European-level party on the continent with 74 member parties from 38 countries.

Chancellor Merkel – the first female head of state to chair the G8 since Margaret Thatcher – also met President Yushchenko. They discussed NATO integration, energy issues and security, and investment co-operation for Euro 2012 preparations, as well as migration-visa policy.

Germany and Ukraine have strong cultural and trade links. After Russia, Germany is Ukraine's most important trading partner. About 10 percent of Ukraine's imports come from the EU state.



▲ Deputy Prime Minister Hryhoriy Nemyria and Ms Tymoshenko. Mr Nemyria, who is charged with European integration, is a familiar face on the international diplomatic scene and advises Ms Tymoshenko on foreign relations.

BYuT Wants to Recall Parliament for Vote

Prime Minister Yulia Tymoshenko has not ruled out recalling lawmakers to parliament from their summer recess in order to vote on vital amendments to the 2008 state budget. Last week, as parliament broke for its summer recess, the premier and many of the government team were unhappy that, despite months of wrangling, there was no resolution of the budget issue.

Bogging down the process, President Viktor Yushchenko submitted his own budget amendments – once again challenging the Constitution and pitting the president's office against the Cabinet of Ministers. In the end, the Verkhovna Rada agreed to not agree and passed a resolution to submit both sets of proposals to the budget committee. Parliament then shame-facedly broke for its summer holiday and will reconvene in September.

Many in BYuT branded this dereliction of duty a disgrace. Ms Tymoshenko pointed out that while lawmakers were sunning themselves, payments promised to pensioners would not materialise and many infrastructure projects, such as road building, would go wanting.

"I do not rule out calling on faction leaders who have at least a shred of conscience to remain and finally adopt the budget amendments and not wait until September," said the premier.

BYuT parliamentary faction leader, Ivan Kyrylenko, announced that BYuT is completing the collection of signatures for a special session of the Verkhovna Rada to vote on the budget amendments.

"BYuT has practically collected the necessary 150 signatures of lawmakers to call a special session. We hope for the support of all of the factions, which are not indifferent about the country's fate," said Mr Kyrylenko.

BYuT lawmaker, Andriy Kozhemyakin, branded it as "terribly irresponsible" to opt to take a holiday before passing the much needed legislation.



Premier Makes Euro 2012 a National Priority

During a one-day trip to Warsaw last week, Prime Minister Yulia Tymoshenko met with the Polish President Lech Kaczyński and Prime Minister Donald Tusk. Topping the agenda were the preparations and plans for co-hosting the Union of European Football Association (UEFA) Euro 2012 soccer championship. The urgency is real as both countries need to demonstrate progress in their readiness to stage the tournament on time, ahead of a crunch meeting of UEFA officials in September.

Speaking at a joint press conference, Mr Tusk admitted that in their meeting "most of their time was devoted to joint preparations for Euro 2012." They showed a united purpose, which was summed up by Ms Tymoshenko, who said the slogan for their preparations should be "Two countries, one team... we will meet this challenge."





▲ Prime Minister Tymoshenko with her Polish counterpart Donald Tusk. Euro 2012 was top of their agenda as they met in Warsaw last week.

After meeting Polish President Lech Kaczyński, the Ukrainian premier emphasised that Ukraine and Poland's special relationship extends beyond Euro 2012. "Cooperation between our states in all the directions, including the issues of gearing-up for the Euro 2012, will always advance further and strengthen," she said. She thanked the president for his ongoing support, notably on internal issues as well as Euro-integration aspirations. She added, "We will further advance as reliable partners."

Since Ukraine was named tournament co-host in April 2007, UEFA has grown increasingly concerned over its readiness to stage the prestigious tournament. Visiting both host countries earlier this month (see Inform Issue 77), UEFA president Michel Platini cautiously expressed that he was pleased with Poland's progress; however his assessment of Ukraine was less favourable, allaying fears from fellow UEFA officials that Ukraine would not be ready in time to host the showpiece.

Despite criticism, both President Viktor Yushchenko and Ms Tymoshenko have expressed that their government will do whatever it takes to make the championships a national success. On Wednesday 16 July, Ms Tymoshenko led a cabinet meeting largely devoted to Euro 2012, where she told fellow ministers to give the event an absolute priority.

Continuing with preparations, Ms Tymoshenko visited Lviv on Saturday where she held crisis talks with the city's mayor and province's governor. Of all four Ukrainian cities aspiring to host games during the tournament, Lviv has shown the least progress, with the proposed stadium still in the design phase. The visit injected a much needed sense of urgency into Lviv's plans and at the same time reassured city officials that the government will do whatever necessary to support its goal to be a host city.



▲ Polish President Lech Kaczyński greets Ukraine's premier. The two countries have a special relationship that extends well beyond co-hosting Euro 2012.

"Currently Ukraine is stepping up its preparation for the event and it needs to build and restore much infrastructure, including stadia, hotels, roads and airports."

Enter the Dragon?

Rallying to the Euro 2012 cause, Ukraine's Vice Minister for the Economy, Natalia Boitsun, said, "Currently Ukraine is stepping up its preparation for the event and it needs to build and restore much infrastructure, including stadia, hotels, roads and airports."

Ms Boitsun said she would welcome bids from Chinese companies that worked on the 2008 Beijing Olympics, to help Ukraine deliver the numerous infrastructure projects. According to her, the budget for the event is \$26.12 billion, of which \$19.13 billion will rely on investments.

An international forum on the infrastructure and investments for Euro 2012 will be held in Kyiv, 7-10 October, 2008.





In spite of the government's enthusiasm, the ultimate decision on Ukraine's suitability as a co-host will be taken by UEFA. Its president, Michel Platini, has set a final deadline of 25 September for both countries to prove their readiness. This is the date of UEFA's next executive committee meeting in Bordeaux, France, when a final decision will be made. Media reports have suggested that should both countries fail to meet expectations, the tournament will be moved, with Italy, Scotland, Spain and Germany all mentioned as possible replacements.

Cross-Party Backing

Regardless of the criticisms from UEFA and the media, Ukraine's bid to co-host Euro 2012 is supported by both sides of the country's political divide. Rinat Akhmetov, the Party of Regions backer and owner of Ukrainian's current domestic soccer champions, FC Shakhtar Donetsk, supported the bid from the outset, providing finance for the re-development of the eastern city of Donetsk, one of the designated host cities.

"Euro 2012 is one of those rare beasts that transcend day-to-day party politics."

Euro 2012 is one of those rare beasts that transcend day-to-day party politics. It presents a unique opportunity for the nation to demonstrate its ability to host one of the world's largest sporting events. It tells the world that Ukraine has arrived – that it has evolved into a democratic, independent, responsible state worthy of the international spotlight. The event dwarfs the Eurovision song contest which Ukraine hosted in 2005. As an international attraction it commands worldwide attention; its TV pictures screened in 180 countries. In order to hasten preparations for the tournament, party politics must be brushed aside, for the opportunity is too important to miss; the very reputation of the nation is at stake.

No Way Back for Vanco

Last Wednesday, the US-energy company Vanco announced that it had filed for arbitration in Stockholm as talks with the Ukrainian government broke down. The dispute arose following the government's unilateral termination of a Production Sharing Agreement (PSA) in May of this year.



The prospect of legal action has been brewing for months as the government exhausted avenues to find a negotiated settlement. Yet the Cabinet of Ministers is determined to stand its ground to prevent Vanco Prykerchenska, the subsidiary of the Texan oil company, Vanco Energy, from regaining its rights to explore for oil and gas in the deep water shelf of the Prykerchenska area, south of the Crimean Peninsula.

Corruption Around the Black Sea Shelf

The government's cancellation of the PSA pitted the president's office against the Cabinet of Ministers.

On 18 June, President Viktor Yushchenko ordered the Cabinet of Ministers to suspend its revocation of the 30-year PSA.



But Prime Minister Yulia Tymoshenko was emphatic on the issue: “We should not go back. The Ukrainian government withdrew from the corrupt agreements concluded by the previous government. We put a stake into the ground on this issue. Transparency and fairness must prevail and we are very satisfied that we have a strong case.”

First Deputy Prime Minister, Oleksandr Turchynov was equally adamant: “Vanco shall not have any rights.”

Vanco has had a chequered history in Ukraine. In 2005 it surprisingly won a bid to explore and extract hydrocarbons in the 12,900 square kilometres (5,000 square miles) Prykerchenska section of the Black Sea – beating stiff competition, including a joint bid by heavyweights Shell and Exxon Mobil. After 18-months of difficult negotiations, in which Vanco surprised officials by its uncompromising behaviour, a PSA was eventually concluded and signed by the Yanukovich government in 2007. Indeed, the PSA deal was agreed and signed on 19 October, 2007, after the Yanukovich administration had lost control of the government during the 30 September parliamentary elections.



▲ At the centre of the dispute is the Prykerchenska exploration zone. The area covers around 12,900 square kilometres (5,000 square miles).

The signature was with Vanco Prykerchenska, not the legal entity that won the tender. It was discovered that the latter was registered in the Caribbean and belonged to four Ukrainian students. The assignment of the deal from Vanco International, which won the tender, to Vanco Prykerchenska, occurred on 25 October, 2007, less than a week after the PSA was agreed. This has given rise to questions of a possible quid pro quo agreement involving the Party of Regions billionaire lawmaker, Rinat Akhmetov, who controls a company which owns a stake in Vanco Prykerchenska.

Need for Transparency

The terms of the PSA were stacked heavily in Vanco's favour. When asked by the government in March to renegotiate the deal, the company refused.

On 25 April, the government revoked the oil and gas exploration licence belonging to Vanco International, a subsidiary of Vanco Energy, saying that the tender conditions did not allow it to pass the right to develop the resources to another company, Vanco Prykerchenska, which did not exist at the time Vanco won the tender.

Subsequent investigations have proven a far from transparent ownership structure.

On 15 May, it was revealed that Vanco Energy had three partners in Vanco Prykerchenska: the Donetsk Fuel and Energy Company (DTEK), linked to Rinat Akhmetov; Shadowlight Investments Ltd, linked to Russian businessman Yevgeny Novitsky; and Integrum Technologies (Austria), whose owners are unknown. Some speculate the latter could be a cover for Gazprom – Russia's state-owned gas company, or for Dmitry Firtash, the Ukrainian businessman and beneficiary of the shadowy gas intermediary, RosUkrEnerg.

Indeed, the murky ownership structure caused the premier to dub the affair “RosUkrEnerg 2.”



When quizzed about the beneficial owners of Integrum Technologies, Vanco Energy's Senior Vice President, Jeffrey Mitchell, said, "I plead ignorance."

A Determined Government

President Yushchenko has clashed repeatedly with the Cabinet of Ministers over the Vanco affair and has been accused of lobbying in the company's favour.

"All the usual mud is being thrown," said an industry insider who follows the events closely. "They'll tell you the government's decision is frightening investors. The reality is the government is taking a stance against corruption which can only be good for the long-term investment climate," he said.

A government-spokesperson told Inform, "Transparency and good corporate governance are the watchwords that will drive this administration's energy policy."

Currently, the government is considering all legal options, including the possible jurisdictions covering the case, given that there are US corporations and US citizens involved.

As the affair drags on the Cabinet of Ministers stands firm. "We are committed to working with responsible corporations to help develop our Black Sea resources, and particularly interested in attracting foreign direct investment from the west. But we expect transparent and responsible behaviour from all participants" said Ms Tymoshenko.

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