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Newsletter for the international community providing views and analysis from the Bloc of Yulia Tymoshenko (BYuT)

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## Tymoshenko Makes Final Appeal For Unity

The Bloc of Yulia Tymoshenko (BYuT) has again appealed to President Viktor Yushchenko to join it in forming a new democratic coalition with the Lytvyn bloc. The prime minister led the appeal, stressing that the coalition was needed urgently to pass measures to curb the impact of the global financial crisis on Ukraine's economy.



▲ Prime Minister Yulia Tymoshenko appeals to the president to support a coalition so that parliament can pass important measures to stave off an economic crisis.

"We need a coalition in the parliament to pass laws and assume responsibility," said Ms Tymoshenko. "Without a governing coalition and chairman of the Verkhovna Rada, not a single law and resolution can be passed, including those anti-recessionary measures which lie dormant in parliament."

Last week the premier tried to impress upon the president the need for unity. "If the democratic coalition is not restored before the end of this week when a fairly difficult scenario of financial and economic crisis is evolving worldwide and in Ukraine, we will look for other options and other opportunities because we have no right to leave Ukraine without a viable parliament at such a difficult moment," said Ms Tymoshenko.

Many commentators consider that BYuT may even contemplate a coalition with the Party of Regions, if doing so enables the government to pass measures to tackle the economic crisis.

"The situation is very serious and demands a steady hand on the tiller," said Viktor Pynzenyk, Minister for Finance. His comments followed news on Thursday that the national currency, the hryvnia, had sunk to a low against the dollar of 7.38 – its lowest since its introduction in 1996.

## Even Kuchma Calls for Unity

Even former President Leonid Kuchma saw the seriousness of the situation and appealed for a coalition to be formed. "It is necessary to find a solution, to form a coalition which will work effectively and which will take responsibility for the adoption of anti-crisis measures," said Mr Kuchma. He also expressed a view that it would be dangerous to hold early elections now.

Viktor Baloha, chief of staff of the president's secretariat responded in a far less constructive fashion to Ms Tymoshenko's appeal. According to *Interfax*, Mr Baloha thinks that the premier "has neither a reason nor the moral right to put forward demands to either Ukrainian President Viktor Yushchenko or to the Our Ukraine-People's Self-Defense bloc to restore the "orange" majority in the Verkhovna Rada."



Photo: Agência Brasil

▲ Former President Leonid Kuchma calls for unity.



Volodymyr Lytvyn, the leader of his eponymous centrist-bloc was in full support of a coalition with BYuT and the Our Ukraine-People's Self-Defence (OU-PSD) bloc, which he described as the most optimal for Ukraine. Appreciating that many lawmakers within OU-PSD would endorse such a coalition, he said, "the last word on this coalition's formation (or not) requires the decision of President Yushchenko."

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## Stimulus Package Proposed

**Ukraine's government has proposed a package of infrastructure projects aimed at stimulating its spluttering economy. At a meeting of the Cabinet of Ministers, Prime Minister Yulia Tymoshenko outlined a five-year major capital investment proposal that ranges from investment in coal mining to road building. The move comes at a time when the European Union (EU) is urging its member states to spend €200 billion (\$260 billion) to stimulate their economies.**

Last week the premier announced that ministries had been tasked with preparing a complete list of infrastructure projects, and that the Ministry for the Economy would summarise a shortlist of projects for discussion with European states and potential investors.

The premier said that 14 priority projects worth UAH 58 billion (\$8.6 billion) were approved at a meeting with representatives of the fuel and energy sector, and that some UAH 14.9 billion (\$2.2 billion) has been earmarked for 2009. In the coal sector alone, some 62 projects have been identified worth UAH 6.5 billion (\$1 billion).

**"This is Keynesian economic thinking, using fiscal policy to mitigate the effects of a recession."**

"This is Keynesian economic thinking," said a British businessman based in Kyiv, "using fiscal policy to mitigate the effects of a recession. Ukraine is not alone; we see other countries proposing similar

pro-active measures to spend their way out of a recession."

The EU has called upon its 27 member states to spend an additional €200 billion; temporarily allowing them to break budget deficit ceilings to stimulate their flagging economies. A stimulus package of this size amounts to 1.5 percent of the EU's GDP.

Without waiting for EU guidance, some countries have already unveiled ambitious plans to regenerate their economies. The UK, for instance, has launched a raft of measures including cutting value added tax, reducing income tax and bringing forward a budget of £3 billion (\$4.6 billion) to be spent on infrastructure. This includes an allocation of £400 million (\$612 million) to be spent on roads and motorways.

### World Bank Loan

Last week, Ukraine's government announced it had secured a 30-year UAH 3 billion (\$447 million) loan from the World Bank, at an interest rate of less than 5 percent per annum. Analyst firms, such as Millennium Capital, reacted favourably to the news, recognising that the debt will partially cover the current account deficit and help relieve pressure on the hryvnia.



The moves by the government to address the financial crisis appear to have the backing of the public. In a poll by the National Institute of Strategic Studies, published on 28 November, 63.2 percent of respondents thought the government was best suited to tackling the crisis. Only 16.7 percent thought the president was better suited.

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## Government Eyes Black Sea Bonanza

Prime Minister Yulia Tymoshenko has proposed the large-scale development of gas and oil reserves in the Black Sea. At a cabinet meeting to discuss energy infrastructure projects, the premier said that the government is to evaluate the prospect of a single company to manage exploration and extraction rights. Such an entity would promote greater transparency in the energy sector and lessen Ukraine's reliance on imported natural gas. Meanwhile, the government has reaffirmed its decision to withdraw from its production sharing agreement (PSA) with Vanco International.



The move to exploit what are thought to be substantial hydrocarbon reserves along the country's Black Sea deepwater shelf will lessen Ukraine's dependence on imports, help cushion the country from gas price hikes, and bring it a step closer to realising energy independence.

Ukraine's energy intensive industry is highly dependent on relatively cheap imported natural gas. In 2009, Naftohaz Ukrainy – the state-run gas company – will import at least 55 billion cubic metres of gas from Gazprom. This is in addition to some 20 billion cubic metres of natural gas produced domestically. Currently, negotiations in Moscow are close to finalising a price for imported gas in 2009, within the framework of a multi-year deal.

Developing the Black Sea shelf would represent the largest investment to-date to boost Ukraine's fledgling gas production sector. "I would like us to start implementing a large-scale project, including the entire shelf, and including all the components of prospecting and production," said Ms Tymoshenko. "We foresee a separate state programme with its own accounts and with defined sources of financing, including long-term credit from international financial institutions."

Addressing foreign investors, the premier said, "This is a very serious scale project which can have both a mortgage and state guarantees."

### Vanquishing Vanco: An End to Dodgy Dealings in the Black Sea

A prerequisite to exploiting the Black Sea shelf is the need to stamp out shadowy deals that have hindered its development.

The premier's statement came only a week after the Cabinet of Ministers passed a resolution, reaffirming its decision to withdraw unilaterally from a 30-year PSA with the US owned (and Bermuda registered) Vanco International.



In July, Vanco filed for arbitration in Stockholm as negotiations broke down, following the government's termination of its PSA in May (see timeline). The dispute arose when the government discovered that the exploration and extraction rights for the 12,900 square kilometres (5,000 square miles) Prykerchenska section of the Black Sea, had been transferred from Vanco International – the company that was awarded the tender – to Vanco Prykerchenska Ltd. The latter is a company registered in the British Virgin Islands and partially owned by Rinat Akhmetov, a close ally of the former prime minister and leader of the Party of Regions, Viktor Yanukovich. It was Mr Yanukovich who ratified the PSA before leaving office in 2007. ▶▶▶

Interestingly, System Capital Management, a company owned by Mr Akhmetov, has hired the international legal and lobbying firm Covington & Burling LLP in the US. In Mr Akhmetov's corner are Stuart Eizenstat, who was President Clinton's Ambassador to Europe and chief White House domestic policy adviser to President Jimmy Carter. He is joined by Alan Larson a former Under Secretary of State for Economics. It is believed that these heavyweights will lobby the new administration of President-elect Barack Obama in support of Mr Ahkmetov's interests in Vanco, which are held through the Donetsk Fuel and Energy Company (DTEK).



▲ Lobbying for Mr Ahkmetov, Ambassadors Stuart Eizenstat (left) and Alan Larson.

It is hoped that the US government does not become embroiled in the Vanco saga. A detailed examination of the facts would soon unearth an opaque company structure and a chequered history in the region. Furthermore, US interests are no longer as prevalent as they once were, as today the US owned Vanco International only has a 25 percent stake in Vanco Prykerchenska. The other shareholders are Mr Akhmetov's DTEK, Austrian company Integrum Technologies and Shadowlight Investments Ltd. The latter is connected to Yevgeny Novitsky, a Russian businessman with alleged links to the Russian Solntsevo organised crime syndicate.

### **Vanco Dispute Timeline:**

#### **2005**

In December the government issues a tender for the exploration and extraction of hydrocarbons in the Prykerchenska part of the Ukrainian Black Sea shelf (southeast of the Crimea Peninsula).

#### **2006**

On 26 April Vanco International surprisingly wins the tender, beating a joint bid by heavyweights Shell and Exxon Mobil.

Some 18 months of negotiations follow.

#### **2007**

Vanco Prykerchenska Ltd. is formed in August.

On 3 October, the Cabinet of Ministers passes a resolution approving an agreement with Vanco International to share products from the Kerch shelf.

On 19 October a Profit Sharing Agreement (PSA) is signed by the Yanukovich government.

On 25 October, Vanco International transfers the PSA rights to Vanco Prykerchenska.

#### **2008**

In January, the incoming Tymoshenko government is made aware of facts by a government agency and authorises an official investigation.

In March, the prime minister makes it clear that the 30-year PSA is unfair and should be re-negotiated.



The actual ownership of Integrum Technologies is even more uncertain. Earlier this year Vanco Energy's Senior Vice President, Jeffrey Mitchell was asked to shed light on the mystery. His response was less than illuminating. "I plead ignorance," he said.

### **Cleaning up the Energy Sector**

With Vanco having already refused an out of court settlement, the matter looks destined for the Stockholm court of arbitration.

"Withdrawing from what looks like a corrupt agreement concluded by the previous government was the right thing to do. As I have said before, we have put a stake in the ground on this issue. If Ukraine is to prosper as a responsible, law abiding, democratic country we must operate with probity, transparency and fairness. These tenets were missing from the agreement," said a confident Ms Tymoshenko.

The crusading stance, taken by Ms Tymoshenko and her ministers, to rid the energy sector of corrupt practices is not new. In 2000, as Vice Prime Minister for fuel and energy, Ms Tymoshenko launched a series of initiatives to tackle corruption and break the



## Timeline continued...

2008

On 25 April, Minister of Environmental Protection, Heorhiy Philipchuk, revokes Vanco's license. He cites that the tender conditions do not allow Vanco International to transfer the rights to Vanco Prykerchenska, which did not exist when Vanco International won the tender.

On 15 May, the owners of Vanco Prykerchenska are determined: Vanco International; the Donetsk Fuel and Energy Company (DTEK); Shadowlight Investments Ltd; and Integrum Technologies (Austria).

On 19 May, the president signs a decree, at a session of the National Security and Defence Council, to resume Vanco's license.

On 21 May, the Cabinet of Ministers passes a resolution to withdraw unilaterally from the PSA.

On 18 June, the president issues a decree to suspend the Cabinet of Ministers' resolution of 21 May.

On 17 July, Vanco Prykerchenska sues Ukraine in the Stockholm arbitration court.

On 19 November, the Cabinet of Ministers passes a resolution that reaffirms its decision not to pursue the PSA with Vanco Prykerchenska and to continue to work toward arbitration.

On 25 November the prime minister issues instructions to draft a project for the wide scale development of Ukraine's Black Sea shelf.

stranglehold of criminal groups on the energy sector. More recently, she has campaigned against intermediaries in the supply of Central Asian gas to Ukraine. And the new gas deal being negotiated with Gazprom will almost certainly see the elimination of RosUkrEnergo. This Swiss registered intermediary has been dogged by allegations of corruption, links to organised crime and was the subject of an investigation by the US Justice Department.

## Black Sea Holds New Promise

Ridding the energy sector of dubious and corrupt practises is necessary if Ukraine is to develop its Black Sea shelf to its full potential. The premier emphasised the government's willingness to work with respectable foreign companies. "It is believed that Ukraine's Black Sea shelf holds significant hydrocarbon reserves. We foresee a tremendous opportunity for foreign investors and experienced professional companies to invest long-term and work with us to exploit these deposits," she said.

With this in mind, the head of the prime minister's group of advisers, Vitalii Haiduk, has been tasked with studying the creation of a single company to oversee the development of the Black Sea shelf.

"The decisions we make now are important for today and tomorrow. Investing in infrastructure and developing these resources will not only transform the energy sector and secure greater long-term energy independence, but will generate jobs and have a positive impact on our economy," said Ms Tymoshenko.

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## An Answer to the Russian Question

The  
Economist

The following article by Prime Minister Yulia Tymoshenko was published in "The World in 2009." This is *The Economist's* annual collection of predictions for the year ahead. Available now, it contains views from journalists, politicians and business leaders.

**In the post-war reconciliation between France and Germany Yulia Tymoshenko, prime minister of Ukraine, sees a useful precedent for relations with Russia.**

The finest achievement of Europe's post-1945 leaders was their recognition that, unless Germany was integrated into the evolving Western system, insecurity would reign across the continent. In 2009 Europe will begin to recognise that only by securing the European vocations of both Russia and Ukraine can the EU continue on its path of stability and prosperity.



But recognising a need and finding the diplomatic means to carry it out is rarely straightforward. Diplomatic relations between Russia and Ukraine are, in historical terms, very new. Ukraine's status within the Russian and Soviet empires froze history. Then, in a few dramatic months in the early 1990s, the Soviet Union folded. Suddenly, there was a need to forge diplomatic ties, and to define independent national interests, among peoples that had been living side by side for centuries. The success of Franco-German reconciliation over the past half-century represents a hopeful model.

Indeed, in 2009 Europe will begin to address a strategic task left over from the great revolutions of 1989-91: the vacuum in security that arose in the countries that lay between the EU and Russia. For to avoid confrontation in the years since 1989, a strategic and conceptual no-man's-land had taken hold. In place of the iron curtain, new and invisible borders arose in Europe between states that were protected by security guarantees and those where such guarantees were absent. This was bound to tempt countries dissatisfied with the post-cold-war settlement, and demoralise potential victims.



In 2009 the EU must acknowledge the task of ensuring that the ongoing changes taking place in the lands between the EU and Russia proceed in an orderly, peaceful – and, most important – mutually beneficial fashion. The aim is clear: Russia and Ukraine on the road to becoming two prosperous and friendly neighbours in the manner of today's France and Germany.

To achieve this outcome, there is an urgent need to establish mechanisms that could contribute to reform and renewal in both countries without breeding tension. Such a reconciliation is particularly vital for Russia. By demonstrating that it can live amicably with its neighbours, Russia's claim to have become a reliable member of the world community would appear more convincing. It would also mollify China's leadership, which is understandably reluctant to see a reconstituted Russian power appear on its doorstep.

But Russia is not accustomed to intensively co-operative international procedures. Soviet diplomatic processes left it ill-prepared for them, and the country's yearning for great-power status has made it difficult to integrate Russia into Europe's co-operative institutions, which is why it wants only a partnership arrangement with the union. (Ukraine, on the other hand, is fixed on a course of future EU membership.) But keeping Russia outside the European framework of consultation, co-ordination and compromise only strengthened the sense of isolation that many Russians have felt since the Soviet collapse. Some, sadly, could succumb to the temptation to define their country's interests in ways irreconcilable with those of Russia's neighbours.

**The challenge for the EU is to begin to shape a bargain involving Russia and Ukraine**

## **A European solution or a European problem**

So Russia faces a strategic test in 2009: can it accept a framework that provides it with both benefits and obligations for working with the EU in fields ranging from energy security to migration and global warming? Greater confidence and stability would also come to Russian-Ukrainian relations, because they would be set within the wider European context.



The existence or absence of a framework of co-operation often determines whether diplomatic disputes mutate into a crisis. Effective international frameworks, however, usually demand a grand bargain. The settlement between France and Germany over steel in 1952 resulted in a sharing of sovereignty over a vital state function. This agreement set a precedent for the entire European project. In 2009 the challenge for the EU is to begin to shape a bargain involving Russia and Ukraine.

Another such “1952 moment” could be at hand. Energy, in particular natural gas, offers an opportunity to replicate the insights that animated the EU’s founders in 1952. Finding a united voice on energy is the key to a new act of reconciliation for the EU. Ukraine will play its part and share the common burden as Europe seeks to shape such a unified policy.

**“This is why relations between Ukraine, Russia and the EU must not be allowed to drift.”**

In our Orange revolution, Ukraine made a choice, not between Russia and the West, but between democracy and authoritarianism. That choice was irrevocable, but is still challenged by some. This is why relations between Ukraine, Russia and the EU must not be allowed to drift. Only by creating firm institutional links will common political and economic projects come to dominate relations across the region, not fears about security.



Questions or comments? E-mail us at [nlysova@beauty.net.ua](mailto:nlysova@beauty.net.ua)