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Newsletter for the international community providing views and analysis from the Tymoshenko Bloc (BYUT).

Issue 4, 23 June 2006

Green light for new government

After three months of stop-start talks a coalition agreement was signed on 22 June, heralding the long awaited formation of a new Orange coalition government.

The new coalition government comprises members of BYUT, Our Ukraine and the Socialist Party. BYUT leader, Yulia Tymoshenko will return as Prime Minister, while Our Ukraine will take the post of Chairman (Speaker) of the Verkhovna Rada (Parliament). The position of First Deputy Prime Minister goes to the Socialist Party.



Ukraine's new prime minister: Yulia Tymoshenko speaking in parliament.

Composition of Parliament

BYUT	22.29%	129 seats
Our Ukraine	13.95%	81 seats
Socialist	5.69%	33 seats
Total	243 seats	
Party of Regions	32.14%	186 seats
Communist	3.66%	21 seats

The parties by share of the vote and number of seats. Although the Party of Regions won more seats than any other single party, its share of the vote declined from 44% (in the third round of the 2004 presidential election) to 32% in March 2006. BYUT increased its share of the vote returning more seats than its coalition partners combined.

Last week, as talks stalled over which party should take the Speaker position, Oleksandr Moroz, leader of the Socialist Party, took the moral high ground by relinquishing his claim on the post. This paved the way for further discussions that resolved remaining policy and portfolio issues.

Signature of the coalition agreement reaffirms the nation's commitment to ongoing market reforms and its aspiration to join the EU. It also ends months of political uncertainty that slowed down investment and paralysed the organs of government.

"The very creation of the coalition defines Ukraine's course for many years ahead and moves us onto the path towards European integration," said Yulia Tymoshenko.

The coalition agreement is a bitter blow to the pro-Russian Party of Regions which last week stepped up eleventh-hour talks with Our Ukraine in the hope to create an alternative 'grand coalition'. Yevhen Kushnarev of the party contends that the new government will fall apart. Tymoshenko dismissed the notion: "We have all learned from the past. Now we must demonstrate

that we can work effectively together as a cohesive entity to tackle the urgent political and economic issues which face our nation. The people expect nothing less than an enduring stable government that will be a catalyst for economic growth and social justice."

Notwithstanding this, BYUT recognises that formidable challenges lie ahead. Major issues such as kick-starting the economy, averting another gas crisis and normalising relations with Russia, whilst promoting a reform agenda, would present a headache for any self-respecting government.

As for now, Ukraine's politicians can draw breath. The challenge of forming a government has been won. They will need their strength. The more daunting challenge of government is next.

It's a Gas: averting a crisis

The new government already has its work cut out for it. An immediate issue is to avert a second gas crisis that would undermine its authority and plunge Ukraine into economic meltdown.

The roots of this latest predicament are traceable to the hasty gas deal in January involving Ukrainian state gas company, Naftogaz Ukrainy, the Russian state controlled gas company, Gazprom and intermediary company RosUkrEnergo. Under the deal Ukraine agreed to pay RosUkrEnergo \$95 per thousand cubic meters of natural gas, up from \$50 the year



before. At the time, most industry observers criticised the deal which guaranteed prices for a meagre six months while locking Ukraine into a five-year transit deal at \$1.60 per thousand cubic meters. The brevity of the contract and concerns over the opaque ownership of the Ukrainian half of RosUkrEnergo served only to cast a further cloud over the deal.

Six months on, Gazprom has warned Ukraine that it is not storing sufficient gas for the winter and that another major price rise is on the way. Experts predict a 34% increase to \$128 per thousand cubic meters. Such a sharp increase will impact Ukraine's energy hungry industries still struggling to wean themselves off cheap imported gas.

This week consumers voiced their anger. Thousands of people took to the streets in protest at the 25% increase in gas and electricity prices on 1 May, and on fears of an 80% hike in gas prices expected from 1 July.

According to Gazprom, the rise is due partly to Central Asian states increasing the cost of their gas. It also reflects the company's policy to bring gas prices in line with market prices paid by western European countries. However Russian President Vladimir Putin labours a political connection: "Why should consumers in Germany pay \$250 per thousand cubic meters and those in Ukraine \$50? If you (the west) want to give Ukraine that kind of gift, then pay for it."

In May Naftogaz's embattled head, Oleksiy Ivchenko, stepped down amid mounting criticism of the company's rising debts and inability to stave off further price increases. Last week, Naftogaz secured a \$200 million loan to help settle the \$600 million debt it owes RosUkrEnergo.

The January gas dispute also claimed the scalp of Yuriy Yekhanurov's government which suffered a vote of no confidence on 10 January. Does a similar fate face the next government which enters office with the added baggage of an already beleaguered electorate?

"Not necessarily," says Oleksandr Turchynov, deputy leader of the Batkivschyna party. "We recognise that globally the era of cheap energy is over and that gas prices must eventually reflect market prices. It should be a gradual process though. It would be naïve to think we could tear up the contract and go back to the low prices of a few years ago, living happily ever after."

"A pragmatic approach has to be found whereby we renegotiate the terms of the agreement and agree sensible phased increases in both price and transit costs. It behoves the contracting parties to negotiate in good faith in the spirit of reasonableness, fairness and transparency. The economic and political fallout, not to mention the damage to national reputations, of another stand-off should be avoided at all costs."

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