



/nform

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

www.ibyut.com

Issue 64, 4 March 2008

Gazprom Reduces Supply of Gas to Ukraine

Hours after Russia hailed Dmitry Medvedev as president-elect, the Russian state gas company that he chairs, Gazprom, announced that it had reduced the supply of gas to Ukraine by 25 percent as a consequence of unpaid gas debts.



Yesterday, a spokesperson for Naftohaz Ukrainy, Ukraine's state run gas company, confirmed a reduction in supply amounting to 38 million cubic metres a day.

"These are insignificant volumes and they will not have an adverse impact on Ukrainian customers," said the official.

Last week the Ukrainian government confirmed it had paid \$1.1 billion to Gazprom. The latter insists the debt for gas in 2007 and 2008 is \$1.5 billion. The continued wrangling is centred on outstanding debts for 2007 – the Russians accusing Ukraine of using 1.9 billion cubic metres of Russian gas without permission –

and because no contract for 2008 is in place.

Speaking at a press conference on Saturday, Ms Tymoshenko reiterated her desire to eliminate shady intermediary companies from the supply of gas to Ukraine, and stressed the need for a direct contractual relationship between Naftohaz and Gazprom.

"I have always believed there should be no intermediaries, no short-lived corporations. We have Gazprom and Naftohaz. Let's sign an agreement and buy gas," said Ms Tymoshenko.

On 12 February, President Viktor Yushchenko and Russian Federation President Vladimir Putin agreed a framework deal which involved the elimination of RosUkrEnergo and the plan to establish two new joint ventures: one for the import of gas to Ukraine and the other for its onward sale in the country. The price for gas would remain at \$179.50 per thousand cubic metres.

While welcoming the removal of RosUkrEnergo from supplying Central Asian and Russian gas to Ukraine, the Tymoshenko government wants to see a transparent contract between Naftohaz and Gazprom. Also, it wants Naftohaz to retain responsibility for gas deliveries within Ukraine and has already taken steps to wind up the activities of UkrGazEnergo, which held lucrative industrial contracts for the supply of gas within Ukraine.

"We have decided firmly that not a single cubic metre of gas will be supplied through anyone other than Naftohaz," said Ms Tymoshenko.

"Threatening Ukraine is ruining Gazprom's international reputation, the political undertones are obvious," said a British businessman based in Kyiv, "such threatening behaviour will make it harder for the company to grow its business in international markets."

Multi-Vector Politics Undermines the Orange Revolution

Political Intrigue Threatens to Torpedo Integration Plans

Ukraine hosted the second Europe-Ukraine Forum that brought senior NATO, EU, government and think tank officials to Kyiv only a month before NATO is set to host its summit in Bucharest. 2008 could be a breakthrough in Ukraine's integration with the West but for that to take place there needs to be an end to multi-vector policies where one set of policies undermines the other set.

Ukraine, which joined the WTO last month, is developing a new energy relationship with Russia without the use of non-transparent intermediaries. The government is seeking a Membership Action Plan (MAP) from NATO and negotiating an 'Enhanced Agreement' and deep Free Trade Area Agreement with the EU (see article on page 4).

These foreign policy breakthroughs are dependent on domestic political stability and unity of the orange coalition and government that came to power following pre-term elections last September. Prime Minister Yulia Tymoshenko, whose eponymous bloc made the greatest gains in these elections, leads a government committed to reform and reducing corruption.

Ukraine's integration with the West is increasingly being undermined by alternative policies implemented by the president's chief of staff, Viktor Baloha, whose unexpected recent rise to prominence is leading to contradictory multi-vector domestic policies.

At the Wilton Park conference centre late last month, during a conference on Ukraine, a government insider said that the actions of the president's chief of staff do not always see eye to eye with the president.

“The president’s conviction that he can win a second term without Ms Tymoshenko’s support is fanciful.”

Orchestrated and vociferous hostility to the Tymoshenko government is only serving to increase her popularity while serving to continue the downward trajectory of the president's rating's which are already dangerously low. This, in turn, sows the seeds of distrust that neither partner in the orange coalition needs or wants.

There are daily threats, denunciations and demands made to Prime Minister Tymoshenko. A meeting of regional governors, who are appointed by the president, was hastily made in late February and used to launch unsubstantiated attacks on the government. Prime Minister Tymoshenko was described as “worse than primitive populism” and demands were made that her “risky games be immediately halted.”

President Yushchenko's odds of being re-elected for a second term are impossible without allies. As in 2004, when Ms Tymoshenko supported Mr Yushchenko's presidential drive, another similar presidential alliance would again be unbeatable in 2009.

The president's conviction that he can win a second term without Ms Tymoshenko's support is fanciful, ultimately impossible and will lead to a tragic outcome to his presidential career. Tymoshenko's personal popularity and that of her political force is three times as high as that of the President Yushchenko and his party, Our Ukraine.



The artificial conflict sown by the president's chief of staff threatens to lead to a repeat of the orange crisis three years ago when the Tymoshenko government was dismissed. A similar dismissal today is impossible following 2006 constitutional reforms but an alternative strategy is being mooted to remove Ms Tymoshenko in April. Such a strategy will ultimately backfire on the president.

Baloha Leads Defections

So far seven deputies have exited the Our Ukraine People's Union party which is part of the pro-presidential Our Ukraine - People's Self Defence (OU-PSD) bloc. Leading the exodus is Viktor Baloha who chairs the president's secretariat. In his wake are Roman Bessmertny deputy chief of staff; Myhayalo Polyanchych; Igor Kryl; Viktor Topolov; Okansa Bilozir and Vassyl Petyovka.



The defections are being interpreted as a prelude to Mr Baloha establishing a new party that will become a political platform to support President Viktor Yushchenko's bid to win the next presidential election, scheduled for 2009/2010.

According to Our Ukraine's presidium, the defecting deputies have not left the OU-PSD bloc and must adhere to the coalition agreement and decisions of the party or resign their mandates.

The orange coalition remains precarious after last month's resignation of seven members of the Our Ukraine faction. More defections are set to follow with the likely aim of provoking a vote of no confidence in the Tymoshenko government, followed by the replacement of the orange collation with a grand coalition.

Only six days after Ms Tymoshenko was confirmed as prime minister by parliament, the Party of Regions parliamentary leader Raisa Bohatiorova was selected by the president to head up the National Security Defence Council (NSDC), thus repeating another failed strategy from his first year in office when Petro Poroshenko headed the NSDC. Then and now the NSDC has been misused as an counterweight to Ms Tymoshenko rather than as a vehicle to coordinate Ukraine's foreign policy and integration with the West.

Instead of undertaking multi-vector contradictory policies and scheming Byzantine plots, the president should support the Tymoshenko government's policies to combat corruption and overhaul the rule of law. Ukrainians are highly disillusioned by the lack of progress in the rule of law, both in due process and the equality of all citizens before the law, since the Orange Revolution.

Continued high level corruption also brings forth keen disappointment, both at home

and abroad, that contributes to low popularity ratings. Ms Tymoshenko has consistently supported the removal of non-transparent gas intermediaries. Former Defence Minister Anatoliy Hrytsenko, a highly respected figure in NATO, described the 2006 gas deal as not only corrupt but as a 'betrayal' of the country's 'national interest.' Ms Tymoshenko said at a press conference last week that RosUkrEnergo was being politically protected by senior Ukrainian officials.

Ukraine's foreign policy breakthroughs this year could set the country on an irrevocable path to integration with the West. For this to take place there needs to be an end to contradictory multi-vector policies that undermine each other. It is time to grab Ms Tymoshenko's offer of a parachute for 2009 before it is too late.

Free Trade Area Talks Underway

Ukraine Seeks Free Trade Area Agreements with the EU and Russia

On 18 February talks began with EU officials to establish a free trade agreement. A few days later Prime Minister Yulia Tymoshenko returned from her visit to Russia announcing plans to revisit the creation of a free trade zone with the Russian Federation.



Talks with EU officials on establishing a free trade zone got underway with the visit of a delegation to Kyiv headed by Peter Mandelson, the EU Trade Commissioner. Mr Mandelson said it was “a sign of the EU’s commitment to Ukraine that the ink is hardly dry on its WTO accession agreement and we are here in Kyiv to build on that membership with a new stage in our economic relations.”

Vice Prime Minister Hryhorii Nemyria, commented on the talks during a trip to London: “WTO accession, which was the culmination of more than 14 years of negotiations, has opened the door to establishing a deep and comprehensive free trade area agreement.”

Mr Nemyria said that the agreement under discussion goes beyond the standard free trade area treaty that is normally confined to

trade and import tariffs. “Our agreement will be deeper and more wide ranging as it encompasses the liberalisation of services and harmonising the regulatory environment. It will be a catalyst for the moderinsation of Ukraine’s economy.”

Establishing a free trade area will lower the costs of EU imports for Ukrainian businesses and consumers, and provide improved access to the EU internal market.

“It will also help make Ukraine more attractive for investment... and open export opportunities,” said Mr Mandelson.

President Viktor Yushchenko described the opening of the talks as a “landmark event” but recognised that it would be challenging. “We are at the beginning of a long, challenging and ambitious path in our history,” said the president.

Vice Prime Minister Nemyria described the establishment of a free trade area as a “Herculean task” that could take years. The sticking points in the talks are expected to be steel and agricultural products which would require Ukraine to eliminate tariffs gradually and adopt EU standards.

“We are delighted that these talks are underway,” said Mr Nemyria, “the political will is there to see them through. It furthers our goal to be a quality, stable democratic country with a future at the heart of the EU.”

“We are at the beginning of a long, challenging and ambitious path in our history.”



The EU is Ukraine's largest trading partner. Bilateral trade is estimated to be worth approximately \$32 billion a year.

French Support

France is openly encouraging greater EU cooperation with Ukraine. French officials have floated proposals for an Association Agreement that would give Ukraine rights to be pre-consulted on new EU policies. Such a consultative status would be similar to that enjoyed by countries in the non-EU Schengen passport-free zone or European Economic Area, such as Norway, Iceland and Liechtenstein.

French President Nicolas Sarkozy has a warm personal relationship with Ukraine's Prime Minister, Yulia Tymoshenko.

No Turning of the Back on Russia

Last month Ms Tymoshenko visited Moscow meeting with President Vladimir Putin and Prime Minister Viktor Zubkov. On her return, she announced plans to prepare documents aimed at creating a free trade zone with the Russian Federation. The proposed free trade relationship would operate by the same rules and principles that govern the WTO.

"We have proposed to the Russian Federation that even before Russia joins the WTO we would start forming relations practiced by that organisation, observing all of its procedures, norms and regulations," said Ms Tymoshenko.

President Viktor Yushchenko has expressed support for the establishment of a free trade regime with the Russian Federation.

Course Set for Transparent Privatisations

The Tymoshenko government has announced plans to sell-off controlling shares in six regional energy companies. The privatisations are designed to increase state revenues in order to fund the government's plans for increased social welfare spending and the modernisation of industry.

Minister of Finance Viktor Pynzenyk told investors that the government planned to raise \$1.7 billion from privatisations this year. This is thought to be a modest goal given the expected value of the assets earmarked for privatisation.

The cream of the crop of identified state assets is UkrTelecom, the country's fixed-line telecoms company. Minister for Transport and Communication, Yosyp Vinskyi believes that as much as \$7 billion could be raised from plans to auction a majority stake in the company.

The previous record price for a privatisation was \$4.8 billion from the auction of the Kryvorizhstal steel plant sold to Arcelor Mittal in October 2005. By way of comparison, privatisation receipts amounted to \$119 million in 2006 and a meager \$720,000 in 2007.

The first privatisation in 2008 is expected to be the Odessa Portside Plant, slated for later this quarter. The chemical plant, located at the Black Sea port is Ukraine's leading producer of nitrogen fertilizer and ammonia. Opening bids are expected to be in the region of \$500 million and \$700 million, although analysts believe it could be sold for upwards of \$1 billion.



The sale of stakes in regional energy companies in Lviv, Odessa, Poltava, Transcarpathia, Sumy and Chernihiv would further swell the government's coffers. In the past, President Viktor Yushchenko has blocked the privatisation of the energy companies on the grounds that it could impact the solvency of the state Energy Company of Ukraine.

The President's decree of 7 February overruling of the Cabinet of Minister's decision to sack the head of the State Property Fund, Valentyna Semeniuk, is thought to indicate his reluctance to endorse the speed of the government's privatisation plans. However, the government is determined to push ahead with its privatisation schedule which will help it to honour its election pledges. These include welfare reforms and the repayment of bank deposits to savers who lost their savings during the hyper-inflation caused by the disintegration of the Soviet Union.

HARDtalk



Last week Vice Prime Minister Hryhoriy Nemyria appeared on BBC TV Hard Talk.

During the hard hitting interview with Stephen Sackur, Mr Nemyria answered wide ranging questions including topics such as the slender parliamentary majority; EU and NATO membership; tackling corruption and energy issues.

You can see the interview on the Hard Talk website

<http://news.bbc.co.uk/1/hi/programmes/hardtalk/7269371.stm>

Questions or comments? E-mail us at nlysova@beauty.net.ua



For the latest English-language news from BYuT visit www.ibyut.com

Bloc of Yulia Tymoshenko