



Defectors Put Pressure on Coalition

Last Friday the democratic coalition lost its slender majority in Ukraine's 450-seat Verkhovna Rada (parliament) when two lawmakers gave notice to quit the coalition. The departure of Ihor Rybakov of the Bloc of Yulia Tymoshenko (BYuT) and Yuriy But from the Our Ukraine – People's Self-Defence (OU-PSD) bloc puts the democratic coalition at 225 seats.

Chairman of the Verkhovna Rada, Arseniy Yatsenyuk, spoke for many by saying, "a kind of treason has taken place."



▲ Two defectors try to threaten the viability of the democratic coalition in Ukraine's Verkhovna Rada.

Some political pundits suggest the defections could be a prelude to the break-up of the governing coalition, with the Party of Regions entering as power-broker in a new coalition. One of the first acts of such a coalition would be to replace Prime Minister Yulia Tymoshenko.

Such a scenario has been debated for several months in Kyiv's cafes, as President Viktor Yushchenko and his premier clashed repeatedly over issues ranging from privatisation to constitutional reform.

It is widely believed that the head of the president's secretariat, Viktor Baloha, has been plotting to topple the Cabinet of Ministers and inveigle himself as prime minister of a coalition involving the rump of the pro-presidential OU-PSD and the Party of Regions. The refusal of Yuriy Lutsenko, leader of the People's Self-Defence faction, to back the scheme resulted in trumped up charges levelled against him and another of his bloc's leaders, Davyd Zhavnia (see page 3 article: 'Lutsenko Charges Declared Illegal').

Interestingly, the two defectors only gave notice to quit the coalition and not their respective blocs. Had they done the latter, they would be replaced by members positioned lower on their respective bloc's lists, and the democratic majority would resume.

"The fact they haven't resigned from their parties is more than suspicious," said a Kyiv-based businessman.

BYuT lawmaker Valeriy Pysarenko, argues that the departure of the two lawmakers did not affect the ruling coalition as parliament by law stipulates the replacement of a lawmaker resigning from a ruling coalition by a party list member.

Others interpret the law differently. It appears the law is not entirely clear on this issue.



▲ Arseniy Yatsenyuk, Verkhovna Rada chairman said, "some kind of treason has taken place."



Hryhoriy Nemyria, Deputy Prime Minister for European integration, who was attending a meeting of the International Monetary Fund and World Bank in Amsterdam, commented, "The timing of this is very curious given that it coincides with parliament's move to replace the head of the State Property Fund. We don't think this is a coincidence."

Last week the majority coalition submitted a motion to dismiss State Property Fund Chairwoman Valentyna Semeniuk, who has doggedly blocked the government's privatisation plans. Ms Semeniuk was away on holiday, causing Mr Yatsenyuk to call her to parliament. Her imminent dismissal, it is believed, prompted Mr Baloha to pull the trigger in an attempt to scupper the coalition.

Mr Nemyria did not believe the defections would cause the break-up of the democratic coalition or result in the dismissal of the government. This view is shared by most politicians who, according to a Reuters report, "saw little reason for alarm."

President Yushchenko said on his presidential website, "There are no legal grounds to say the coalition has collapsed. The parliamentary majority is fighting fit and carrying on with its work."

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2008 Budget Back on Track

A potential crisis that would have resulted in severe cuts in government spending has been averted. Last week President Viktor Yushchenko signed into law a bill passed by parliament that approves much of the detail submitted in the 2008 budget and forecast revenue for the year.

"We restored the budget," said Prime Minister Yulia Tymoshenko who was clearly pleased to see the government and president working together in unison, "it shows that the democratic coalition can work in harmony and achieve good results."



▲ Pleased the 2008 Budget is back on track. Prime Minister Yulia Tymoshenko with Minister for Finance, Viktor Pynzenyk, in the Verkhovna Rada.

Previously, the Constitutional Court had declared the original budget submission – approved by parliament last December – illegal, citing that some of its provisions should be the subject of separate legislation.

The December budget pegged spending to UAH 235.4 billion (\$47 billion), with a deficit of UAH 18.5 billion (\$3.7 billion), amounting to 2.1 percent of GDP.

The new bill closes a UAH 141 billion gap (\$28 billion) and puts the government back on track

to complete its planned economic reforms and social spending programmes.

"This is a minor coup for Tymoshenko, although she still faces the budget hole from lost privatisation revenue," said an emerging market analyst based in London.

The president has not yet lifted his decree blocking the privatisation of the Odessa Port Plant, the sale of which experts believe could raise as much as \$1 billion. The privatisation of a string of small state-owned energy companies and UkrTelecom, Ukraine's fixed-line telecommunications provider, is also being blocked by the intransigent head of the State Property Fund. ▶▶▶

The privatisation programme is needed to subsidise the government's programme to repay lost Soviet-era savings to millions of citizens. The programme, which began in January, so far has limited payments to UAH 1,000 (about \$200) per savings account holder.

Quote of the Week

"I will clench the beak as in the picture by Picasso, holding the olive branch of peace despite any storms. I believe we have all the grounds and opportunities for constructive collaboration. The government will never be a source of conflict. But it will be a powerful source for introducing order into the country."

Yulia Tymoshenko



An upbeat Ms Tymoshenko appeared unfazed and vowed to continue the repayment programme. "Although the State Property Fund has failed to raise a single penny, through our joint efforts we expect we will be able to cover the revenue gap," she said

The premier said that the government could expect an additional UAH 20 billion of budget revenues, attributable to three factors: economic growth, strong investments and a programme to remove the shadow economy.

Indeed, in January through May, the government exceeded its forecast income by more than UAH 10 billion, collecting UAH 90.4 billion. This was largely down to improved tax collection.

The anti-smuggling initiative "Contraband Stop!" which worked well during the last Tymoshenko-government, together with strong import levels, saw the State Customs Service nearly double its revenues over the prior year. Volodymyr Matviychuk, Deputy Finance Minister described the achievement as "a sensation."

Ms Tymoshenko said that the Ministry of Finance was launching consultations with all ministries concerning amendments and additions to the 2008 State Budget and that preparation for the 2009 budget would get underway simultaneously.

Reflecting a day later, Ms Tymoshenko said, "I'm very happy that yesterday we demonstrated in the Verkhovna Rada the unity and calm in the coalition, and unity and calm between the President and Premier... I truly want the branches of government to work together peacefully and harmoniously without double standards."

Lutsenko Charges Declared Illegal

The rift in the pro-presidential Our Ukraine – People's Self-Defence (OU-PSD) bloc appears to be deepening. Last week the Podilskiy district court of Kyiv declared illegal the criminal case brought against Interior Minister Yuri Lutsenko, who temporarily left the country for Moldova – many suspect in fear of arrest.

In recent months Mr Lutsenko, the leader the People's Self-Defence bloc, has been increasingly critical of the president's office and sympathetic to the policies of Prime Minister Yulia Tymoshenko.

The charges facing Mr Lutsenko look for the entire world to be politically motivated. They centre around the alleged improper use of government aircraft to transport him and his family and an assault on the controversial Mayor of Kyiv, Leonid Chernovetsky.

Fellow lawmaker, Davyd Zhvania, who is the chief financier of the People's Self-Defence bloc is also facing the wrath of the Prosecutor General's Office under immigration charges. ▶▶▶

Mr Zhvania was one of the leading organisers of the Orange Revolution.

According to the court, there was insufficient material to indicate that Mr Lutsenko committed an official malfeasance when he inflicted light injuries upon Mr Chernovetsky. Mr Lutsenko has never disputed striking Mr Chernovetsky. The incident took place after a meeting of the National Security Defence Council set up to explore the alleged illegal sale of parcels of land owned by the City and authorised by the scandal-plagued mayor.

A report by UNIAN said, "The court also declared that Yuri Lutsenko is not guilty of abuse of his office or authorities, when he used planes of the Interior Ministry for his flights in August of 2006."

The charges brought against Mr Zhvania look equally dubious. He is alleged to have flaunted immigration laws by having dual Ukrainian and Georgian citizenship. Mr Zhvania renounced his

Georgian citizenship when he became a Ukrainian citizen – something that did not impede him from becoming a member

of the 450-strong Verkhovna Rada (parliament).

In his defence he pointed out that Ukraine's First Lady, Kateryna Yushchenko, maintained her

American citizenship after she received a Ukrainian passport in 2005.

She is believed to have given up her US citizenship in 2007, even though the legal process demanded foreign citizenship to be surrendered before taking Ukrainian nationality.

"It is to be hoped that these fabricated charges are dropped and we can all get on with the process of government," said Oleksandr Turchynov, First Deputy Prime Minister.

Undeterred by the charges, the People's Self-Defence bloc has called on President Viktor Yushchenko to dismiss the head of the presidential secretariat, Viktor Baloha, and prosecutor general, Oleksandr Medvedko. Mr Baloha is seen by many to be the instigator of the drive to persecute the faction's leaders and the architect of a plot to dismiss the parliamentary government (see Inform Issue 73, 2 June).

Political Repression on the Rise?

Some leading commentators and journalists have speculated that political repression is on the rise in Ukraine.

"This is far from a return to the repressive days of Kuchma," said BYuT lawmaker Andriy Shevchenko, "but the signs are worrying enough and for the first time the focus is not the opposition but members within their own bloc and coalition."

The People's Self-Defence bloc's refusal to take part in a OU-PSD meeting and indication that it will not enter into a new electoral alliance with the pro-presidential bloc appears to indicate a "burning of bridges" between the two factions.

"Perhaps we are seeing the rump of the Orange Revolution faithful coalescing," said a member of a foreign NGO based in Kyiv.



▲ Happier times for Yuriy Lutsenko, pictured above. He was the first OU-PSD leader to visit BYuT's election night campaign headquarters to congratulate BYuT leader Yulia Tymoshenko.