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INSIDE UKRAINE

1. State decisions	3
1.1. Inaction leads to early resignations	3
1.2. Need for dialogue between the Maidan and the government	3
1.3. The regulatory framework needed.....	4
2. Economic consequences of Crimea annexation	5
2.1. Autonomous dependence.....	5
2.2. Direct losses of Ukraine	5
2.3. Indirect losses of Ukraine	6
2.4. Expected government actions	6
3. Political competition	8
3.1. The Maidan will control the government	8
3.2. “Right Sector” should look into the future, not the past.....	8
3.3. Active parliamentary work of UDAR on Crimea	9
3.4. Yulia Tymoshenko’s return to politics.....	9
3.5. Existential crisis of the Party of Regions	10



The International Center for Policy Studies (ICPS) restores issuing analytic paper «Inside Ukraine», the last issue of which was prepared in September 2010.

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

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1. State decisions

The government failed to prove its seriousness about implementing systemic reforms within the month of its existence. The authorities show no political will and do not take the appropriate steps in order to destroy the corrupt post-Soviet system of state administration and to create a transparent mechanism for democratic governance. Only the faces changed, not the principles of the system. Instead of bearing full responsibility for the actions or omissions, the authorities use jingo slogans seen as painful against the background of institutional failure to resist Russian aggression effectively.

1.1. Inaction leads to early resignations

After the Russian invasion of Crimea, the Ministry of Defense and the National Security and Defense Council should have formulated a clear and effective strategy against the external aggressor. Instead, the information space was filled with patriotic rhetoric and reports that Ukrainian troops in Crimea were left to their fate with a lack of strict orders from the government in Kyiv.

The government presented the Defense Minister's inaction as part of a deliberate plan. Its essence was to ignore the Russian military provocations in order to win time and mobilize forces on the mainland of Ukraine. In fact, the Ministry of Defense has failed to formulate a strategy to deal with the external aggressor and even organize the work inside the department, to say nothing of the general mobilization in the country.

The decision on military pullout from Crimea has been made only on March 24, when control over the military units and the property had been lost.

As a result, on March 25, the acting Defense Minister Ihor Teniukh became the first official of the new Cabinet, who resigned and was dismissed by the Verkhovna Rada's decision.

Mykhailo Koval's appointment raised many uncomfortable questions because the authorities failed to explain the criteria of their decision.

It seems that the steps taken by the new government are situational, without any analysis of their effect. This perception has geopolitical echo, when the institutional capacity of all state power in Ukraine is in question. Instead of taking necessary steps regarding current problems of separatism and Russian intervention in regions, the government organized overseas trips for obtaining financial aid guaranteed if the government starts to implement reforms and prove its aim to change the country. Against the backdrop of the war threat and the urgency of reforms, political leadership of the country shows its pettiness, lack of systemacy and focus on protecting personal interests.

1.2. Need for dialogue between the Maidan and the government

The inefficiencies of the government reinforce the dissatisfaction among the Maidan representatives. They are increasingly aware that the new government does not hear them. In order to reverse this trend, civil activists are going to develop mechanisms in order to influence state policy formation. Thus, the Maidan is learning to lobby decisions important for the society.

In order to reach the officials, the national assembly urged the MPs to vote for the anti-corruption laws, some of which had been developed by the yesterday's opposition.

One of these legislative initiatives supported by the Parliament became the law on public procurement, which provides access to information about the tenders held by the state totaling \$ 300 billion per year.

However, the law on public access to the property registers, which allows you to check the property officially registered by the officials and members of their

Ministry of Defense inaction was presented as part of a deliberate plan

Absence of strategy casts doubts on the institutional capacity of all state power

The new authorities do not hear the Maidan

families, did not get a majority of votes. Such a behavior casts doubts on the sincerity of their call to fight corruption.

Public activists also stress the need to create a new procedure for the formation of the respective bodies that will ensure the independence of the judiciary system. This step must be preceded by dismissal of the judges engaged in carrying out political orders. This bill will start the lustration process in the judiciary, but the political leaders do not comment on their attitude to this legislative initiative.

Information on the concept of local government reform has not been disclosed for a long time. In fact, the work in this field is underway, but the Ministry has its doors closed, without even publishing the proposed concept.

At the same time, Arseniy Yatsenyuk makes statements about the need for regional administrations elimination. Undoubtedly, a clear division of responsibilities between local councils and administrations should be made. The functions of national policy: preservation of territorial integrity, protection of civil rights and national sovereignty cannot be entrusted to local councils, as they are conglomerates of different political parties. These duties are the responsibility of the national representative bodies, e.g. state administrations or prefects.

1.3. The regulatory framework needed

An effective regulatory framework regulating the new bodies' structure, mechanism of their functioning and duties should be provided.

Europeans define several criteria of efficient legislation. First of all, any violation of rules or regulations should be strictly adhered to punishment. In addition, managers' decisions are made not to their discretion, but based on fixed standards of the institution they represent. This entire process is closely monitored by controlling units which are independent from the institutions they monitor. These units carry out regular audit and monitoring of organizations, procedures and standards. This approach can help reorganize the system of government, make it more democratic and independent of party leaders' whims.

But in practice, there is no positive result in prescribing the powers and functions of the new government agencies, with particular attention focused on the Lustration Committee and the Anti-Corruption Bureau. Functional responsibilities, strategies and plans of these institutions have not been developed yet. One can see just TV performances of their leaders. Specific results are already expected from these agencies, while the leaders have not even received the legal basis to carry out their duties. As a result, some of the statements made by Tetyana Chornovol as head of the Anti-Corruption Bureau caused a wave of public criticism last week. Such a behavior has a negative impact on the assessment of the new government's ability to implement reforms and establish a democratic system of state power in Ukraine.

The above-mentioned remarks do not mean that it is only the leaders' fault. In fact, it is the result of the system the Maidan is fighting against. This system was created for one-party totalitarian regime. It could not have any signs of democracy as it was established as anti-democratic one since the very beginning. So far there is no sign of the old system transformation. Creation of a democratic government administration has not yet started. Moreover, it is not even discussed yet.

Thus, the Maidan demands democratic behavior from the totalitarian governmental structure. Changes will occur only if the reform of public administration is implemented. The state machine should be separated from the party branches and bureaucratic administration should ensure stability of the state authorities irrespective of parties change.

Problems with adoption of anti-corruption laws indicate non-desire to change the system

Elaboration of local government reform is not public enough

Reforms require efficient legislation

The Lustration Committee and the Anti-Corruption Bureau have not yet received legal framework

The Maidan demands democratic behavior from the totalitarian structure

2. Economic consequences of Crimea annexation

Economically, indirect consequences of Russia's annexation of Crimea are more dangerous for the Ukrainian economy than direct ones. In addition, new economic challenges related to the Crimean situation are imposed on the systemic problems of the Ukrainian economy and lead to the multiplier effect. This factor should be considered when developing the government's anti-crisis measures and economic reforms.

2.1. Autonomous dependence

Despite the status of autonomy, Crimea is closely linked to Ukraine economically, as evidenced by statistics on international trade in the region. Crimean share of Ukrainian exports and imports amounts to 1.5-1.6%. The share of Crimea (including Sevastopol) in the formation of national GDP during 2001-2012 was 3.6-3.7%, while the population of Crimea is 4.3% of the population of Ukraine. Though the main industries of Crimea are manufacturing, trade and transport, it is port logistics (12.1%) and gas extraction (7.6%) that provide considerable input in respective Ukrainian industries. At the same time, Crimea has always been a subsidized region – subsidies formed approximately 40% of the total budget of the peninsula. Russian experts estimate that the subsidies for Crimea will cost USD 3 billion per year.

Crimea is closely linked to Ukraine's infrastructure – 80% of potable water and electricity of the peninsula is provided by continental Ukraine. Railway service with Crimea is possible only via Ukraine. Another important point – Ukrainians form approximately 70-75% of the total tourist flow in Crimea, Russians – only 25%. There is no doubt that the tourist flow will be dramatically reduced.

Thus, Crimea is heavily dependent on Ukraine economically, while its input in Ukrainian economy merely corresponds to the share of its population in all-Ukrainian figures.

2.2. Direct losses of Ukraine

The main direct economic consequence of the Crimea annexation is the loss of the Black Sea gas fields and a possible deterioration in the country's energy sector.

Resources in the northwestern part of the Black Sea shelf are estimated at 495.7 billion cubic meters of natural gas and 50.4 million tons of oil and condensate, in Kerch area - 321.2 billion cubic meters of gas and 126.8 million tons of oil and condensate, continental slope - 766.6 billion cubic meters of natural gas and 232 million tons of oil and condensate. The total gas potential of the Black Sea shelf is estimated at 2.3 billion tons of fuel. It is approximately 40% of total gas deposits in Ukraine. Though the industry requires large investments, the development of the Black Sea deposits was considered as an effective way to reduce dependence on gas supplies from Russia.

The direct economic losses will arise from the nationalization of Ukrainian enterprises located in Crimea. "Chornomornaftogas", "Ukrtransgas", a series of powerful chemical industry enterprises, ports and more than 130 resorts can be nationalized.

It is expected that the assets of "Chornomornaftogas" will be included into "Gazprom" and Russia will begin active development of oil and gas deposits of the Black Sea.

For most private companies, nationalization is quite a remote risk. Ukrainian owners of the Crimean assets can face the problem of re-registration. After the annexation of Crimea all private property, including land, real estate, and companies must be re-registered in accordance with Russian legislation. The need

Crimea has always been a subsidized region

Loss of the Black Sea gas fields will negatively affect the country's energy sector

For private companies, nationalization is quite a remote risk

for reissuing of shareholders' registers will result in a sharp increase of transaction costs for medium and large businesses.

Loss of Crimean seaports can lead to short-term losses for their major customers – grain exporters. A transport blockade of the peninsula will lead to cargo traffic leaving from the Crimean ports to terminals in Mykolaiv, Kherson and Azov ports.

Another problem is the possibility of blocking the Ukrainian ships passing through the Kerch Strait. A ban to cross the Kerch Strait will negatively influence export of agricultural and metal products.

Having occupied the territory of Crimea, Russian troops seized Ukrainian military facilities. As a result, Ukraine has lost its military bases, equipment, ammunition, and fleet. The Ministry of Defense estimates losses at UAH 18 billion.

Annexation of Crimea will lead to rerouting of cargo transportation

2.3. Indirect losses of Ukraine

The Crimean crisis has also caused indirect economic losses. In 2013 Russia was the largest trading partner of Ukraine with 24% of exports. The most important exporting industries to Russia are engineering, metallurgy, chemical industry and agriculture.

Under such circumstances, the following question becomes urgent – can Russia refuse to use Ukrainian products? A significant part of Ukrainian exports to Russia is bought by state-owned companies. It is possible that Russians will not wait till creation of their own facilities, as their decisions are based more on political expediency than economic one. Cancellation of contracts will have a negative impact on the Russian economy, but this effect will be lesser than the impact on the economy of Ukraine.

Mostly, Ukraine buys energy from Russia. In 2013, the share of this component in the structure of commodity imports was 62.2%. Although, in comparison with the previous year, the volume decreased by almost 20% - to USD 14.5 billion.

In addition, engineering, metallurgy and chemistry products form a significant share of imports from Russia. In 2013, Ukraine imported nuclear reactors, boilers, machinery worth USD 1.24 billion (94.7% comparing to 2012), ferrous metals – USD 0.81 billion (73.6%), electrical machinery – USD 0.79 billion (73.6%).

Ukraine's dependence on Russian gas supplies is painful, and the increase in gas prices will have a negative influence on branches using gas as a raw material. Raising prices is just a matter of time. So called Kharkiv gas discount in the amount of USD 100 per 1000 cubic meters of gas was tied to the rent of the military base in Sevastopol. Though Ukraine does not recognize annexation of Crimea, Russia will not only cancel the discount, but also raise the gas price.

Despite the obvious disadvantages, the expected sharp increase in gas prices has some positive effects. It will lead to reduction of energy dependence on Russia, the long-awaited implementation of energy saving technologies and the fulfillment of international financial donors' requirements.

Further deterioration of Ukraine's investment attractiveness is an obvious reaction of foreign and domestic investors in view of the confrontation with the aggressor and the possibility of further occupation by Russia. It can negatively affect the pace of economic growth.

Political, not economic factors will affect the trade between Russia and Ukraine

Gas price increase has some positive effects

Deterioration of the investment attractiveness will negatively affect economic growth

2.4. Expected government actions

Mitigation of the economic impact from the loss of Crimea largely lies in the political sphere. It envisages the legal regulation of the status of the Crimean territory under Ukrainian legislation, the ability of the government to negotiate with Russia (as well as its willingness) on current Crimean problems and trade issues, and to agree on setting up the supply of alternative energy sources.

An important task is evaluation of Ukrainian losses, accompanied by corresponding international audit and appeal to international courts in order to obtain compensation from the Russian side due to annexation of Crimea.

Nowadays the Ukrainian companies with assets in Crimea need a legal field to protect their interests. For elaboration of this field it is necessary to attract businesses for consultations and consideration of their needs. Political expediency should not be allowed to dominate over economic common sense.

***It is necessary to
create legal
framework for
Ukrainians
companies in
Crimea***

3. Political competition

Political players gradually start pre-election struggle after a short-term standstill in internal politics, caused by the Russian aggression in Crimea. New parties try to find their spot in a political landscape of the country. A considerable achievement for political parties, represented in the parliament, would be to reach the level of support they enjoyed at the previous parliamentary elections. The player with strategic thinking, able to forecast the events and to figure out several steps in advance, will win in political competition.

3.1. *The Maidan will control the government*

On March 23, Ruslana and “Kolo doviry Maidanu” organized another rally for unity of Ukraine, with approximately 10 thousand people participating in it.

Civil activists appealed to the government to adopt anti-corruption laws as soon as possible – by the end of the week. These laws will open public access to the information on state procurement and real estate registers. Besides, they will increase accountability of authorities towards society. Furthermore, the top priority tasks include elaboration of local self-government reform and ensuring independence of courts.

There is no dialogue currently going on between civil activists and government. Methods of influence during revolution and its aftermath are different, therefore the Maidan has to re-orient to other ways of interaction with the government. In order to exert influence, it has to become a professional lobbyist, which would know all the governmental procedures and understand where there are entry points in the government, which would allow all the interested parties and society to influence the decision-making process.

Representatives of the Maidan were dissatisfied with inaction of new government both in solving the Crimean crisis and in reform-making. They require higher accountability from the authorities and make public steps in order to control this process. Taking into account the fact, that there was minimum time for preparation, the number of people who participated in the rally shows that the society is highly mobilized and it will demand concrete actions and accountability from the authorities. The visit of the Automaidan to the house of Arseniy Yatsenyuk also displays that the new government will not be allowed to play according to the old rules.

Success of the Maidan will depend on availability of reforms map and its ability to develop efficient levers of influence on the government.

3.2. *“Right Sector” should look into the future, not the past*

On March 22, “Right Sector” held the convention, where the party was created. The convention also approved the Articles of Association and nominated Dmytro Yarosh as a presidential candidate. Thus, “Right Sector” institutionalizes its activities and becomes a new player on the Ukrainian political landscape.

The first steps were also made to present the political party and its leader to the international community. An article about Dmytro Yarosh appeared in the influential Canadian paper “Globe and Mail”. It objectively describes both personality and political views of the leader. Publications of this type in the countries, where there is a considerable Ukrainian diaspora, does not only position the new political party in a positive way, they also may be used to arrange fund-raising campaigns since many Ukrainians abroad support nationalistic ideas.

Special emphasis is put on the slogans of “Right Sector” such as creation of a strong army, fight against corruption and oligarchs and protection of the Ukrainian sovereignty. This publication is a powerful counterweight to the horror stories of the Kremlin which depict “Right Sector” as ultranationalists and radicals, who are a direct threat to peaceful citizens of Ukraine.

Civil activists appeal to the government through the rally

Higher accountability is required from the new government

“Right Sector” becomes a new player on the Ukrainian political landscape

However, “Right Sector” should pay more attention to development of political platform, especially in socio-economic sphere. Constant emphasis on nationalism in Stepan Bandera’s formulation created an impression that ideology of the new political party is oriented at the past, but not the future. It may be used only as a symbol, while for electoral work the political party should clearly provide solutions for today’s problems.

Besides, positions of Dmytro Yarosh are negatively influenced by “Right Sector” being used as a power instrument in economic disputes due to re-distribution of business between representatives of current and previous governments. Dmytro Yarosh as the person who has ambitions to become the President and implement deep reforms in the country is expected to prove the ability to put his own political force in order.

Confrontation between the new government and “Right Sector” becomes more and more threatening and may have serious political consequences. On March 25, Oleksandr Muzychko, leader of “Right Sector” in Western Ukraine, was killed by the police unit during his arrest. He was perceived as one of the most aggressive representatives of “Right Sector” and several videos of his actions in state institutions harmed the image of the political movement. Circumstances of his murder and changes in official police explanation pose many questions. Society demands objective investigation from the police as any manipulations will signal non-desire of the new government to build the country with the rule of law. Oleksandr Muzychko’s death may open the Pandora box in confrontation between the government and “Right Sector”. Radical representatives of the latter already claimed that they wanted revenge.

3.3. Active parliamentary work of UDAR on Crimea

In the contrast to mysterious inaction of the government in the Crimean issue, UDAR tries to find a solution from the situation, at the same time rarely criticizing its allies from “Batkivshchyna” and “Svoboda”.

In the parliament UDAR MPs actively participated in elaboration of the bill “On the occupied territories” and supported the initiative to recognize the status of the Crimean Tatars as an indigenous people in Crimea. Vitali Klitschko was among the first to talk about the need to pull out the Ukrainian soldiers to the continental Ukraine.

UDAR also supports the Maidan’s demands as regards fight against corruption. The Security Service of Ukraine, headed by Valentyn Nalyvaichenko, UDAR representative, carried out the first arrests among representatives of previous government suspected in money-laundering. UDAR also supported appeals of civil activists to adopt a minor package of anti-corruption laws as soon as possible. These appeals were expressed at the downtown rally on March 23.

UDAR also supports the campaign to employ the Ukrainian alumni of the Western universities in civil service institutions. Though other coalition parties also make some steps in this direction, UDAR activities are more systemic.

On March 25, it was probably the first time when Vitali Klitschko harshly criticized the new government, claiming that its actions are ineffective and it may be time to discuss another candidacy for the Speaker. However, on the same day at first UDAR MPs did not support the resignation of Ihor Teniukh and then they did not vote for the dismissal of Oleksandr Turchynov. Incongruity between declarations and voting results may be interpreted either as an absence of the faction’s strong position on the issue at that time, or as Klitschko using critics to raise stakes in negotiations with the allies.

3.4. Yulia Tymoshenko’s return to politics

After a brief treatment in Germany, on March 21, Yulia Tymoshenko took part in four-hour live TV program, which became an unofficial start of her election

Importance of political platform elaboration

Confrontation between the government and “Right Sector” becomes more and more threatening

UDAR actively works in the parliament on the Crimean issues

UDAR supports the Maidan in fight against corruption

UDAR may use critics to raise stakes in negotiations with the allies

program.

Though she directly influenced creation of the government and local administrations, she tried to stay in the middle in her assessment of the governmental policy. On the one hand, she emphasized that since the very beginning it had been necessary to create a non-partisan government of professionals. On the other hand, she expressed readiness to share responsibility with her team. It is highly possible that she will opt for a similar tactics during the election campaign. Critics against the government will not influence her directly while positive achievements of the government will be displayed as her own.

Comparing to the 2012 elections, “Batkivshchyna” loses its support. UDAR and new political players such as “Right Sector” and “Kolo doviry Maidanu” will take part of its electorate.

In order to break this trend, Tymoshenko tries to use some of the slogans of these political parties. Her statements about the professional government are similar to Vitali Klitschko’s position on the government of technocrats. Struggle against oligarchs announced by Tymoshenko resonates with the aims of the Maidan’s civil activists. Having a clear understanding what political slogans are popular in the society, Tymoshenko will focus on anti-oligarchic and nationalistic rhetoric, the latter being especially important due to the Russian military threat.

So far the results of the government work do not give grounds for Tymoshenko’s PR. The government of “Batkivshchyna” and “Svoboda” faces severe critics as they did not present a clear plan for Crimea, they delay elaboration of detailed reform strategy and they failed in some of the first appointments. At the same time, these factors may be used as a background in the election campaign to position Yulia Tymoshenko positively – as an experienced politician whose diplomacy skills may be used to solve the issues with Russia.

3.5. Existential crisis of the Party of Regions

The Party of Regions currently experiences an existential crisis. The party convention which has to decide about its form of existence and leadership was again postponed – till March 29.

The option is considered when the party, which was one-leader monolith for years, will be headed by a collective body of Politbureau type consisting of up to 10 members. Thus, major financial donors of the party will be able to overtly influence decision-making process in the party.

Delay with nomination of the presidential candidate limits the time the Party of Regions has for the work with the electorate in the south and the east, while its rating significantly dropped. Obviously, regardless of the name, a representative of the party has scarce chances to win. However, participation in the presidential campaign will indicate the volume of electoral support the party still enjoys and its future prospects.

Though Sergiy Tigipko was earlier discussed as one of the key candidates to become Party of Regions leader, he lost his patience, did not wait for the decision of the party convention and submitted his documents as an independent candidate. Such a step decreased the politician’s chances to be nominated by the Party of Regions. The latter already had groups that were against his nomination, whereas independence of this kind is negatively perceived by the rest of the faction. The party convention of March 29 will reveal the intrigue.

Beside names of the leaders, ideological platform of the Party of Regions is also unknown. After several weeks of wait-and-see period the Party of Regions MPs made several statements, which are perceived as assistance to the Russian scenario. They stress the need to protect rights of population in the South and the East, to make Russian the second state language and to conduct a constitutional reform.

After several important arrests, namely of Yevgen Bakulin, “Naftogaz” CEO, representatives of Party of regions claim about the launch of political persecutions and the need to grant the rights of opposition. The latter is an

***Yulia
Tymoshenko’s
balancing between
critics and support
of the government***

***Tymoshenko
focuses on anti-
oligarchic and
nationalistic
rhetoric***

***Inaction of the
government as a
background in the
election campaign***

***Instead of one
leader the Party of
Regions may
obtain Politbureau***

***Party of Regions
MPs assist the
Russian scenario***

important feature of a democratic state. When “Batkivshchyna”, “Svoboda” and UDAR were the opposition, they were in favor of such a bill. Having obtained authority, they have an opportunity to create a legal ground for these changes. It will show sincerity of their statements in the past, as well as their belief in democratic principles.

Bakulin’s arrest, as well as Dmytro Firtash’s detention in Vienna, seriously undermines positions of one of the major groups within the Party of Regions. It is so-called Firtash-Lyovochkin-Boyko group which includes up to 30 MPs. The arrests, as well as annexation of Crimea, where some major companies of Dmytro Firtash are located, will significantly influence the group’s ability to finance any political projects.