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International
Centre for
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Studies

4 Borys Hrinchenko st., office 3, Kyiv, 01001, Ukraine | Phone (380 44) 279 88 23 | office@icps.kiev.ua | www.icps.com.ua

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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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Team of authors:

Vira Nanivska, Iaroslav Kovalchuk, Vasyl Filipchuk, Olena Zakharova, Volodymyr Prytula, Vasyl Povoroznyk, Svitlana Mizina, Anatoliy Oktysiuk, Oleksiy Obolenskiy, Svitlana Sudak

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1. The Government Policy

Thanks to the active civic participation democratic elections were held in one round, regardless of terrorists' deliberate campaign to disrupt elections in the East. In certain aspects preparation of elections by the Government had some gaps, for instance organization of PEC work when the number of its members is minimum, information security or protection of PEC and DEC members in the East. Major critic concerns inefficiency of antiterrorist operation in Donbas due to which it was impossible to hold elections in most districts of the region.

1.1. Gaps in election organization

One of the tasks in the Government program by Arseniy Yatseniuk was to ensure fair and transparent presidential elections. Democratic nature of May 25 elections casts no doubts, yet their technological organization became a subject of some critical remarks.

Even when the Government has political will, state executive machine is unable to completely implement political decisions. Their implementation is impeded by the need to clearly formulate step-by-step orders from the center. Meanwhile, in the process of decision-making the authorities do not evaluate risks the performers will face and do not elaborate alternative scenarios these steps may lead to.

For instance, the Government foresaw that certain candidates might make last minute withdrawals of their members in electoral commissions and sabotage the elections. In order to counter this scenario, Verkhovna Rada decreased minimum number of PEC members from 12 to 9. As a result, PECs were unable to accommodate all the voters especially in the regions with high turnout or in the regions where presidential elections were held with local ones, for instance in Kyiv. Due to long queues at the poll stations some voters did not vote, though they planned to do it.

One of the ways to counteract technologies of elections disruption is to ensure accountability of candidates and their PEC members in the electoral legislation. In this case any attempts to speculate with withdrawal of representatives or with so called technical candidates should be linked to inevitable punishment. It proves the need to adopt election code in which all the norms on elections will be unified.

The issue of criminal responsibility for the electoral fraud was raised before the parliamentary elections of 2012. Then opposition, which is now in the Government, insisted that the electoral crimes have longer limitation period and the electoral commission members involved in these crimes be punished. As we see, now the issue of violations during the 2012 parliamentary elections is not discussed. At the same time many DEC and PEC members from that campaign participated in the organization of presidential elections this year.

Another topical issue in elections is informational security. Security Service of Ukraine (SBU) informed about the attempts to intrude in electronic system of Central Election Commission (CEC). Though they managed to prevent these attempts, CEC website did not function properly for a long time and did not display the results.

The Government failed to guarantee security for election commission members in Donbas. Numerous cases of kidnapping of DEC heads,

Government organization of elections became a subject of some critical remarks

In some cases PECs were unable to accommodate all the voters

Problems with informational security during elections

intimidation of election commission members, seizure of administrative buildings and destruction of election documentation led to the elections being held only in 9 out of 34 electoral districts in Donetsk and Lugansk regions.

The Government was expected to mobilize all the military and police resources on the election day in order to prevent terrorists' attempts to disrupt the elections and in order to localize them on the smallest territory possible. While a week before the elections there were issues with elections in 12 districts in Donbas, by May 25 the number increased to 25. As a result, more than 4 million people in the region were unable to exercise their right to vote.

1.2. Questions to ATO leadership

Inefficiency of antiterrorist operation in the East, which has lasted for two months, resulted in the fact that terrorists continue holding control in the region and managed to disrupt the elections there.

Shooting of Ukrainian soldiers near Volnovakha displayed incompetency of the army leadership, while ambush on "Donbas" unit and the fact that it was not provided with the support of regular army proved the lack of coordination between different units on the part of ATO leadership and betrayal of some officers.

On the other hand, first achievements of ATO in Donetsk and Mariupol on May 26 proved that the Ukrainian troops have resources to fight terrorists without casualties from the Ukrainian side. However, success depends on the leadership. In order to develop the success and stabilize situation in the East, the terrorists should not be allowed to regroup their units and receive support from Russia.

Andriy Illarionov, expert and former advisor to Vladimir Putin, stressed the need to close eastern border of Ukraine as early as in late February. However, for three months of confrontation Ukrainian border in Lugansk region has remained opened to gunmen groups and frontier detachments could not do anything. No one promotes the idea of reinforcing frontier detachments with military units, though it is clear that it is impossible to win over the terrorists without closing off routes of weapon and gunmen reinforcement from Russia.

Though State Border Guard in Ukraine has special units and even intelligence service, head of the Guard Mykola Lytvyn claims lack of resources. As a result, convoys of vehicles with weaponry and gunmen make it to Ukraine, while separatists' leaders such as Valeriy Bolotov cross the border with Russia without any problem.

Behavior of the army leadership, heads of State Border Guard and the Interior Ministry during events in Crimea and Donbas require legal evaluation and are to be considered by prosecutors. Officers whose criminal inaction or betrayal resulted in casualties among Ukrainian soldiers and civilians as well as in actual loss of a part of Ukrainian territory are to be made accountable for their actions.

1.3. Who will coordinate European integration in Ukraine?

On May 27, it was probably the first time when Arseniy Yatseniuk announced the potential coordination mechanism for implementation of the Association Agreement between Ukraine and the EU. The Government

Terrorists managed to disrupt elections in Donbas

Experts stressed the need to close eastern border of Ukraine as early as in late February

decided to go the easy way and transfer coordination to respective unit in the Secretariat of the Cabinet of Ministers. The unit will be supervised by deputy minister of the Cabinet.

The name of the unit is not nearly as important as a range of authorities it will get. Coordination and monitoring are not only orders of the Cabinet as a Soviet administration system; it is a constant work in various spheres. The thing is that the Association Agreement is the most ambitious bilateral international agreement in the Ukrainian history, which encompasses a lot of commitments on the Ukrainian part.

Before the elections Petro Poroshenko claimed that it was agreed with the EU that the position of deputy prime minister or first deputy prime minister on European integration would be created. It would certainly reinforce state policy in the area of eurointegration. The office-holder of this rank by definition is a member of the Cabinet of Ministers, participates in all the sessions of the Government and may influence the decision-making process. Another important question is when bilateral bodies in the area of eurointegration such as Council and Association Committee will be created as it is required by the Agreement.

It is obvious that the current Prime Minister is eager to keep the image of a major eurointegration guy. However, it weakens Ukraine's positions as regards fulfillment of its commitments.

Yatseniuk also announced creation of new positions of deputy ministers on European integration in each ministry. Undoubtedly, it is a positive signal provided that horizontal model of cooperation is established among these deputy ministers.

As well, every ministry will have the EU specialist who will help Ukraine implement the Association Agreement between Ukraine and the EU. The question is what status this person will have. If he is a foreigner, he will not be a civil servant. If he is hired as a consultant, it is not specified to whom he will provide his services: deputy ministers or respective units within ministries.

Arseniy Yatseniuk does not mention other governmental institutions (agencies, services, inspections) which would be subordinated to the respective ministers. Yet it is not clear how the coordination will be established between these bodies.

To conclude, it is necessary to create a separate institution for coordination of eurointegration. A special ministry would be the best choice. According to the Ukrainian legislation, ministries have necessary scope of functions and authorities. Reinforcement of other ministries with specific deputy ministers is also a positive idea for it will provide a synergy of all the agencies.

Government decided to go the easy way in the area of eurointegration

PM is eager to keep the image of a major eurointegration guy

It is necessary to create a separate institution for coordination of eurointegration

2. Economic Situation

Economic situation in Ukraine requires from President-elect to conduct reforms as without tangible results he will soon lose popular trust. The election program of the politician provides only a general description what steps a new President will take.

The NBU has come up with a proposal to restructure exposure under FX loans according to the exchange rate as of the date when the respective agreement was signed. Such a step may cause considerable losses to the banks and further destabilize situation in the sector.

In the energy sphere there are attempts to settle the gas conflict between Ukraine and Russia with mediation of the EU, but they do not bring any results.

2.1. Expectations from Petro Poroshenko in economic sphere

The election program of the President-elect deals with the economic issues rather generally. However, critical situation in Ukrainian economics will make the politician draw a significant deal of attention to economic reforms and energy independence of Ukraine.

The highlights are the following: tax cut and decrease of their number, fight against the offshore areas, simplified taxation for small and medium businesses, and prompt signing of the economic part of the Association Agreement. The terms of the latter will become a guideline for economic reforms. A special attention is drawn to reform of legislation in order to improve business climate as well as fight against corruption.

In the energy sphere Petro Poroshenko emphasizes how important it is to organize reverse-flow gas supplies from the EU to Ukraine and to start extraction of unconventional gas in the country. The politician also promised to build LNG-terminal on the Black Sea within two years and to continue negotiations with Turkey. All these steps are aimed at decreasing consumption of Russian gas by Ukraine.

The key question to the President is whether he will have political will to fight corruption in business and state administration and whether his steps will be supported by the Government.

2.2. NBU idea about FX loans

In order to minimize the losses of individuals who repay mortgage in FX, NBU elaborated the bill “On settlement of situation with repayment of FX mortgage loans”. The bill foresees obliging commercial banks to restructure FX loans according to the official FX rate as of the date when the agreement was signed. At the same time interest rate is not subject to change.

Adoption of the bill may have rather negative consequences on the banking system. Due to exchange rate difference in the process of loan restructuring banks may suffer losses of up to UAH 16 bln.

The losses will exert additional pressure on equity. Some banks will be unable to meet the obligatory requirements for equity norms which will lead to NBU sanctions. The number of delinquent banks may increase; state banks will need capitalization support, which will exert additional pressure on state budget of Ukraine.

Poroshenko's program deals with the economic issues rather generally

NBU suggests recalculating exposure under FX loans as of the date the agreement was signed

Besides, banks will suffer losses due to difference between the cost of resources and the mortgage yield. The thing is that the interest rate under restructured mortgage in UAH will be lower than the cost of term deposits attracted.

Due to potential negative consequences of the bill, an alternative way may be to convert 50% of the borrower's exposure with simultaneous consideration of differences in FX rate and interest rates on a separate credit account of the borrower. A part of the amount will be written off on a yearly basis pro rata to annual share of borrower's repayments of exposure converted.

Another option is to allow banks to set a special FX rate for some categories of borrowers in order to repay mortgage (according to the NBU rate, without bank income), as well as possibility to cancel pension due on FX sale.

There are other options how to support borrowers who have FX loans

2.3. Situation in the energy sector

The second round of negotiations on gas supplies between Ukraine, Russia and the EU was held on May 26, 2014. However, they did not bring any results. Ukraine insists on the need for package deal which will define schedule for debt repayment and terms for further gas supplies to Ukraine. Ukraine is ready to pay what is due if the compromise is reached which will guarantee constant gas supplies to Ukraine. Russia expects Ukraine to pay USD 2.5 bln. by May 29, 2014, which is an obligatory requirement for discount talks.

However, statements of officials do not allow being too optimistic about the compromise. PM Arseniy Yatseniuk accuses Russia of stealing 2.2 bln. cubic meters for the amount of USD 1 bln. when Russia seized "Chornomornaftogaz" in Crimea. Guenther Oettinger, European Commissioner for Energy, appeals to Ukraine to deal with gas issue and Crimea problem separately. At the moment it is necessary to settle the issue on gas supplies and debt; otherwise it will impede the negotiations.

Statements of officials do not allow being too optimistic about the gas compromise

In case by May 29 "Naftogaz" and "Gazprom" do not sign a deal on decrease of gas price for Ukraine, the companies will go to Stockholm arbitration court.

Oleksandr Shlapak, Minister of Finance, says that Ukraine has money to repay gas debt towards "Gazprom", but it is not clear what the price for natural gas will be. Yuriy Prodan, Minister of Fuel and Energy, claims that Ukraine is ready to pay the bill towards "Gazprom", but only after temporary price is agreed at the level of USD 268.5 per 1000 cubic m.

Guenther Oettinger suggests paying 50% of the debt and continuing negotiations with the EU as a mediator. If the consensus is reached, rest of the sum will be paid. It shows that the EU is worried about the situation and tries to convince Ukraine to make some steps to avoid cut in gas supplies.

Russia will not leave European energy market and speculates on the idea of gas pipeline through non-EU countries. Through construction of North Stream and South Stream Moscow tries to decrease transit dependence on Ukraine. These actions threaten Ukrainian energy security, but support of the EU and the USA is likely to prevent Russia from realizing its intentions.

Some Balkan countries, Slovakia, Italy, Croatia, Romania and Hungary will face serious problems if supply of Russian gas through Ukrainian territory is cut.

As for the EU energy security, Polish PM Donald Tusk suggested creation of European energy union. This idea is supported in Brussels.

The EU elaborated a new strategy to decrease energy dependence on Russia. The document will be published by the end of May. Obviously, even provided that the EU exerts considerable pressure on Russia, it will be difficult to settle the gas conflict between Kyiv and Moscow. At the same time Europe will not be able to promptly mitigate the risks of sudden cut in gas supplies.

***Russian
behavior
threatens energy
security of
Ukraine and the
EU***

3. Political Competition

Presidential elections were completed in one round with a confident victory of Petro Poroshenko. Now the politician faces many challenges, which he promised to fulfill in his program, while the timing of their implementation is limited.

It is expected that Yulia Tymoshenko, who received only 13% of votes, will reformat her political party with an eye to the forthcoming parliamentary elections.

Unexpectedly strong support of Oleh Lyashko and Anatoliy Grytsenko affirms the fact that both politicians are interested in early parliamentary elections and will try to bring their parties into the parliament.

Low support of Serhiy Tyhypko can be explained by the fact that most residents of Donbas region could not participate in the elections because of the terroristic attacks. However, the even distribution of his support in the South and East indicates that the politician is likely to inherit a part of the Party of Regions electorate.

Vitaliy Klitschko was able to get a convincing mandate of support from Kyiv citizens. In addition, UDAR easily will be able to form a majority in the council of Kyiv, which will positively impact the ability of the UDAR leader to implement his program of reforms in the capital.

3.1. Promises and challenges of the winner of the presidential race

Petro Poroshenko could win the presidential election in the first round. The candidate received high results not as much due to his personal rating, but as to the desire of the majority of Ukrainians to hold elections in one round and to stabilize the political situation in the country as quickly as possible. Thus, for many voters the main criterion for their choice was the sociological results that throughout the campaign showed a considerable lead of the billionaire.

This voter's motivation sets a serious challenge to the politician since the society will expect concrete results from him in short term, and the so-called "honeymoon", when the politician at the beginning of his term is not criticized, will be as minimal as possible.

Priorities for Poroshenko as President are to eliminate the terrorist threat in the East, to initiate a dialogue with that part of the Donbas region, which was unable to participate in the elections, and to start negotiations with Russia.

Russia appears to be ready for a direct dialogue with Poroshenko without additional mediators, but the Kremlin opposes the active resumption of the anti-terrorist operations in Donbas. At the same time the successful fight against terrorism is the key to stabilize the region.

Poroshenko repeatedly stressed the need to speak the language of force with the militants and believes that ATO should last a few hours, not months. So, as a President he promised to make his first visit to the Donbas region.

Poroshenko also said that he is satisfied with Arseniy Yatsenyuk as Prime Minister. It is expected that the new President will submit the candidacy of the Minister of Foreign Affairs and Minister of Defense according to his quota. He will also insist on changing some other officials, especially the Minister of the Interior. At the same time all other ministers are likely to keep their positions until the next parliamentary elections. In his

High result of Poroshenko is explained with the desire of most Ukrainian to hold elections in one round

The President will visit Donbas first

program the politician supports a parliamentary-presidential state form and he promised not to make any efforts to expand his authorities.

At the same time Poroshenko continues to push for early parliamentary elections this year, which, in his opinion, are to be held using proportional representation system with open lists.

Although Poroshenko's challenge is to improve relations with Russia, the European integration also remains his priority. In his program, he promised to sign the economic part of the Association Agreement as soon as possible and to introduce visa-free regime with the EU during the first year of his presidency. The ultimate goal of his policy is to start negotiations on a full EU-membership for Ukraine.

In domestic policy, Poroshenko's main tasks are the reform of the police, the anti-corruption lustration and the creation of professional corps of civil servants. He also promised to carry out decentralization of the state power, when most of the powers will be assigned to the executive committees of local councils.

Furthermore, Petro Poroshenko faces numerous challenges in domestic and foreign policy. Public attention will be focused on how consistently he will perform the promises made during his election campaign.

3.2. Unexpected election results

While sociological surveys clearly predicted the victory of Poroshenko, the Election Day brought a number of surprises. Almost all of them may be explained with the fact that several millions of Donbas residents could not participate in the elections because of the terroristic threat. Thus, the political forces that are popular in the West and in the Centre received more support at the national level, while the ones who are focused on Russian-speaking voters from the East, such as Serhiy Tihipko and Mykhaylo Dobkin, received less support.

This trend explains why Serhiy Tihipko failed to take the third place, while sociologists predicted that the politician can even qualify for "silver". Nevertheless, the results show that he has an even support in all south-eastern regions, with the highest relative concentration of his supporters in Odessa, Luhansk and Donetsk regions. This affirms that Tihipko has the best starting position to entice the former Party of Regions electorate to his re-established "Strong Ukraine" party.

The real discovery of this election was Oleh Lyashko who confidently finished third and extended his influence from Chernigiv region to Western and Central Ukraine. This is a serious statement to start building a team and working with sponsors that can help the Radical Party to make it to the Ukrainian Parliament at the next elections. However, at this point the political power exists solely because of scandalous behavior of its leader. In order to work at the parliament, one needs both a team and a program.

The third surprise was the Yulia Tymoshenko's prompt recognition of the election results. She hoped till the end that Poroshenko would fail to win the elections in the first round, while in the second round she would be able to partially mobilize voters of other candidates, including Anatoliy Grytsenko and Oleh Lyashko.

Due to the defeat in the elections, "Batkivshchyna" is facing significant changes. Firstly, a part of the fraction (around 15 members) is loyal to Poroshenko, and another 20 MPs belong to the group of Arseniy

The Government is likely to remain till next parliamentary elections

Fight against corruption is among the President's priorities

Serhiy Tihipko failed to take the third place due to impossibility to vote in Donbas

Yulia Tymoshenko hoped for the second round

Yatsenyuk, who is likely to cooperate with the President.

Yulia Tymoshenko should regroup her forces and prepare herself for the early parliamentary elections in conditions of a relatively low support of her political power and the appearance of new players on her electoral field. These players include Oleh Lyashko, Anatoliy Grytsenko and Yuriy Lutsenko. It is expected that the latter will lead Poroshenko's party project at the next parliamentary elections.

3.3. Vitaliy Klitschko's victory in Kyiv

Vitaliy Klitschko gained a decisive victory in the elections of Kyiv mayor with a support of more than 55%.

UDAR leader has repeatedly stated that the powers of the mayor might be expanded and fixed in the new version of the Law "On the capital".

One option of such an expansion is to join the two positions – the mayor of Kyiv and the head of the Kyiv City State Administration. The politician explains that to get real results one needs real authorities. However, the concentration of power in one center and the lack of check and balance system that ensures control over the mayor's actions, will lead to political corruption.

On the other hand, it is possible that Kyiv will become an experimental platform for reform of local self-government – a concept that is developed by the Government. According to this concept, the local state administrations will be dissolved while the executive committees of local councils receive broad powers in the social and economic spheres. On the other hand, civil servants of the highest rank will be responsible for implementation of national policies, protection of territorial integrity and adherence to the Constitution.

The effectiveness of Vitaliy Klitschko as Kyiv mayor can be positively impacted by the high results of UDAR on elections to the City Council. This political party may be able to form a majority in the Kyiv City Council, even without involving other parties.

However, it should be mentioned that some of the seven parties that preliminary passed to the Kyiv City Council, may be eager to cooperate with UDAR. A number of parties, including "Samopomitsch", the Radical Party of Oleh Lyashko and "Nove Zhyttia" has never been represented in the City Council before. Their presence in the Council promises to bring some new quality to municipal politics in Kyiv.

Vitaliy Klitschko will look for mechanisms to expand the powers of mayor

New parties in Kyiv City Council will contribute to a quality of municipal policy