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тиждень

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TAMING THE OLIGARCHY

DOES THE OPPOSITION HAVE A ROADMAP?

The
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10 January

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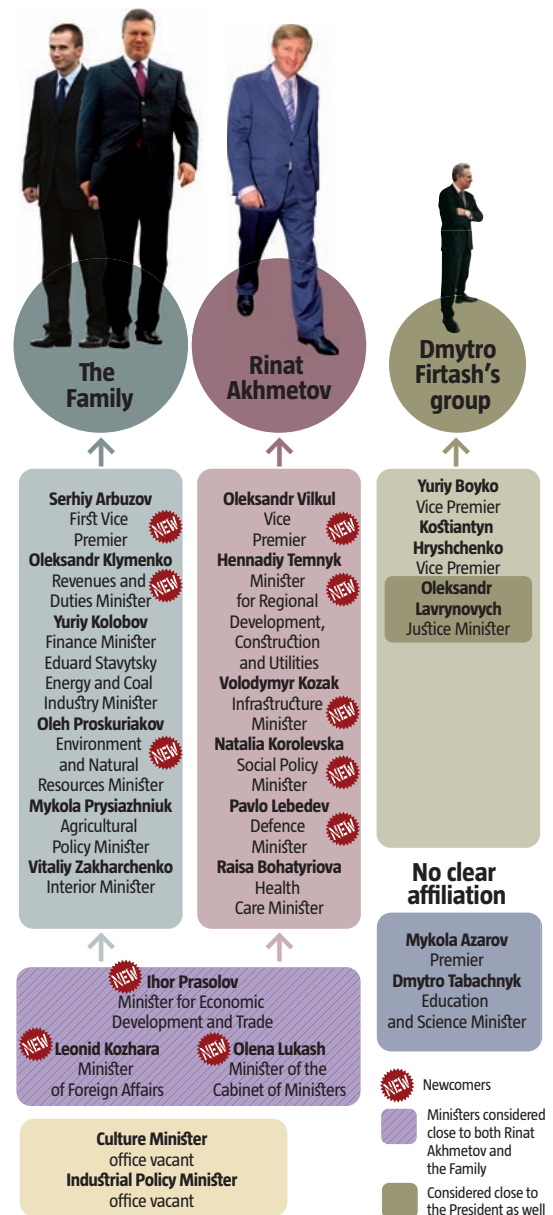
The Azarov/Arbuzov Government

Author:
Oleksandr Kramar

The latest reshuffle in the top echelons of power, launched after the new parliamentary was elected, is almost over. The new Cabinet of Ministers appointed by President Yanukovych on 24 December 2012, proves that the Family has once more reinforced its position under the guise of Azarov's reappointment as Premier, and so did Rinat Akhmetov's group of influence (his key assets include steelworks, electricity production and coal mining) with the "old Donetsk" people (a group of the Party of Regions' officials who had previously had influence) and those connected to Dmytro Firtash's group of influence whose assets are mostly concentrated in the gas and chemical industries. One of the earliest representatives of the Family in the government Vitaliy Zakharchenko will continue to serve as the Interior Minister. Two newly-established ministries may also end up in the Family's total control after possible reshuffles over a certain period.

The Family's biggest group includes five key ministries that will report to Serhiy Arbuzov, the newly-appointed First Vice Premier, ex-NBU Governor and a former manager at Oleksandr Yanukovych's bank. Three of the five are already "in the Family". The State Customs Service and State Tax Administration merged into the new Ministry of Revenues and Duties headed by ex-Tax Administration Chairman Oleksandr Klymenko who also started his career in Oleksandr Yanukovych's business. As a result, virtually all budget revenues are heading there. Moreover, it has vast opportunities to exert pressure on any business that pays taxes and duties. Another representative of the Family and ex-Deputy Governor of the NBU, Yuriy Kolobov, stayed in his office of Finance Minister, controlling the distribution of budget funds. The NBU also remained under the Family's control after Arbuzov was replaced by Ihor Sorkin, another ex-Deputy Governor of the NBU from Donetsk. Mykola Prysiazniuk who is close to Yuriy Ivaniushchenko, the Family's man with a criminal background, who is banned from entering the US, remains Minister of Agricultural Policy. The State Agency for Land Resources controlled by the Agriculture Ministry may become a key instrument in preparations to concentrate farmland in the hands of entities chosen by the Family despite the

The Cabinet for Two



The month in history



15 January 1776

The first known periodical on the territory of Ukraine titled **Gazette de Leopold, Lviv Newspaper**, is published in Lviv



23 January 1793

The second split of the **Polish-Lithuanian Commonwealth** between Prussia and Russia leaves Volyn and Polissia under the Romanovs

6 January 1846



Taras Shevchenko writes his most famous poem, **"Zapovit"** (My Testament)



The Verkhovna Rada rejects the draft law to decriminalize articles used for the verdicts against Yulia Tymoshenko and Yuriy Lutsenko



Well-known dissident, human rights advocate and political prisoner Mykhailo Horyn dies in Lviv



Nearly 7,000 Russians protest against the law banning the adoption of Russian orphans by foreigners

moratorium on land sale that was extended until the end of 2015 (read more on p. 20) but may be cancelled anytime now. In addition to these three ministries, Serhiy Arbuzov will control the Economic Development and Trade Ministry headed by Ihor Prasolov (former Chairman of the NBU Supervisory Board and previously a top manager at Rinat Akhmetov's SKM) and the Social Policy Ministry. The latter is headed by Natalia Korolevska who was an opposition candidate in the last parliamentary election. Her party Ukraine – Forward! did not pass into parliament but stole nearly 1.6% of votes from the opposition. According to some sources, her appointment is linked to Rinat Akhmetov.

Two other Vice Premiers, including former Interior Minister Kostiantyn Hryshchenko and Yuriy Boyko – both associated with Firtash's group of influence – have no real power. Until recently, another Firtash man, Valeriy Khoroshkovsky, had the same status in the government. Perhaps this was why both Khoroshkovsky and Serhiy Tihipko rejected seats in the government, reluctant to play a purely decorative role. Unlike them, Boyko accepted it and will supervise the “Family-loyal” Energy Ministry headed by Eduard Stavytsky, the ex-Minister of the Environment and Natural Resources, who conducted the privatization of Mr. Yanukovich's luxurious Mezhyhiria residence, the Environmental Ministry headed by Oleh Proskuriakov, ex-Deputy Minister of Environment and Natural Resources, as well as the Ministry for Industrial Policy, for which a minister has yet to be appointed. It looks as if Mr. Boyko will not stay in the government for very long. Just like that of Azarov, Boyko's task may only be to prepare his successor, Eduard Stavytsky, who will become the supervisor of the Family's second block of ministries if this assumption is true. On 9 January, President Yanukovich replaced SBU Chief Ihor Kalinin with Oleksandr Yakymenko, a former head of security at entities linked to the Family.

A number of ministers linked to the “new Donetsk group”, i.e. representatives of big and powerful Donetsk business in the Party of Regions – primarily Rinat Akhmetov, has grown visibly stronger in the government. In addition to Prasolov and Korolevska who report to Arbuzov, Raisa Bohatyriova remains Health Care Minister (although she lost her Vice Premier position); Pavlo Lebedev whose career is linked to Akhmetov's business partner Leonid Yurushev heads the Defence Ministry (with the former Ministry for Emergencies merged with it); Leonid Kozhara is Minister of Foreign Affairs; and Olena Lukash is a Minister of the Cabinet of

Ministers (the last two are probably directly loyal to President Yanukovich). Rinat Akhmetov finally has a loyal Vice Premier, Oleksandr Vilkul, former Governor of the Dnipropetrovsk Oblast and top manager at Met-Invest. Vilkul will supervise the Ministry of Regional Development, Construction and Utilities with Minister Hennadiy Temnyk who was Vilkul's long-time deputy, and the Ministry of Infrastructure with Minister Volodymyr Kozak, former manager at Akhmetov's Lemtrans. Oleksandr Vilkul is going to represent his patron's interests in the new government. So far, the influence of “the Donbas' unofficial king” has been the only obstacle on the way to the Family's omnipotence.

Justice Minister Oleksandr Lavrynovych who was one of the candidates for VR Speaker and Education Minister Dmytro Tabachnyk also remained in office. Lavrynovych is often linked to Firtash's group although he is directly oriented towards Yanukovich. The fact that Tabachnyk is still Education Minister is probably linked to the Kremlin's influence, which sees him as virtually the key figure in bringing Russian ideological expansion to Ukraine. This fits into Yanukovich's ideas about concessions to Moscow at the expense of the political and ideological issues he finds obscure. Another telling fact is the unprecedented concentration of people with parts of their biography, both personal and professional, closely linked to Russia, in the new government (see p. 14 for more details).

Apparently, part of the plan is to show the country and the world that the government is able to reload the ruling team. The final chord is likely to be played when the Family prepares the parliamentary majority to vote for Arbuzov as Premier. Mykola Azarov barely conceals the moral readiness to hand over all government affairs to Arbuzov as soon as the latter has the power to handle them. Meanwhile, Yanukovich is offering more legislative initiatives to increase his control over the government and make the role of the premier purely nominal. Arbuzov is working to create the image of an effective and enthusiastic administrator and an anti-crisis manager, to fit in with the image of the “iron fist” that seemed popular for a while in Ukraine, according to surveys. Despite new waves of frustration, quite a few people still believe that an authoritarian leader will take care of their problems with all his power and strength. Meanwhile, Serhiy Arbuzov's behaviour proves that Ukraine risks getting yet another portion of petty tyranny whereby “strength” will be used as much as possible only to crush anyone who stands in the way of any of his arbitrary initiatives. ■

Read
more on
pages 14-19



Volodymyr Levytsky, Lviv University Professor and the author of the first academic papers on Advanced Mathematics in the Ukrainian language, **is born**



Hnat Khotkevych, writer, bandura player, composer and theatre director and actor, **is born**



Serhiy Paradzhahnov, Georgian-born Armenian film director who made a significant contribution to Ukrainian cinematography, **is born**

Taming the Oligarchy:

What is on the Opposition's Agenda?

In late December, *The Ukrainian Week* hosted a public discussion on oligarchic capitalism in Ukraine with members of parliamentary opposition parties. MPs from Batkivshchyna, UDAR and Svoboda share their ideas and initiatives on freeing the Ukrainian economy from the yoke of the oligarchs and creating a favourable environment for free and competitive business. Below is an overview of the opposition's plans and comments from newly-elected MPs.

Most participants shared similar views on the nature of problems caused by the oligarchic model in Ukraine. The many chronic diseases of this model that were mentioned in the discussion persuaded everyone that it had to be eliminated in order to create the right environment for the dynamic development of Ukraine's economic and human potential, based on free and competitive entrepreneurship. However, for the most part, participants omitted the fact that the oligarch-controlled model is a typical feature of Eurasian, Russian and Soviet civilization. To overcome it, European states that had been under its pressure for a certain period have to successfully undergo de-sovietization and consolidate their national identities. The experience of the Baltic States shows that the situation is currently much worse in countries where the process was slower, such as Latvia, compared to states that made a greater leap in eliminating the impact of Soviet colonialism, such as Estonia. When the discussion came around to means for overcoming the oligarchic model, opinions were split, revealing the lack of a clear plan to solve the problem within the parliamentary opposition.

Batkivshchyna's Andriy Pavlovsky, for instance, noted at the end of the discussion, that any talk of de-oligarchization and de-

monopolization are "merely theoretical, not backed by anything real" as long as the Yanukovich regime is in power. Clearly, the opposition's priority task is to get rid of the ruling regime, but the problem is that Yanukovich was already removed from the government once before in 2004, but it did not change the system which eventually led him to victory in 2010. The change of government should not be a goal in itself for the opposition, nor a guiding principle of "removing them first and thinking about what to do next later". It is now that the opposition should offer society a clear algorithm of its actions if the current regime is removed, and explain to most voters why they should support the opposition rather than vote for it simply because it is against the regime. De-oligarchization and de-monopolization should be the key issues on the opposition's agenda. Otherwise, the changes will not be systemic or irreversible.

UDAR's Rostyslav Pavlenko and Oksana Prodan spoke of the right, but general changes to set the scene for removing the oligarchic system. They stressed the need to overcome corruption as an integral component of the flourishing oligarchy; increase the liability and accountability of officials before the public and local authorities. They mentioned small and medium businesses and NGOs as the potential social base that could boost these transformations. UDAR's MPs claim to have a set of draft laws and specific proposals, and insist that their political force will include all the initiatives outlined at the discussion into its agenda.

It is merely necessary to wait for the time when relevant initiatives will actually be considered by parliament and presented to the public as the party's action plan. Meanwhile, the speeches of UDAR's MPs suggest that their

De-oligarchization and de-monopolization should be the key issues on the opposition's agenda. Otherwise, the changes will not be systemic or irreversible

initiatives do not currently provide for any special measures to de-monopolize the economy and deprive the oligarchs of their opportunities to affect the political process of feeding their personal parties.

The intentions of Batkivshchyna, as mentioned by its MP, Andriy Pyshnyi, are aimed at general transformations in the country which, in turn, would indirectly sideline the oligarchic model. So far, Pyshnyi has admitted that Ukraine's prospects are grim, as long as oligarchs call the shots to ruling parties, but he said that Ukrainian politics is a fairly expensive process, therefore politicians have to look for alternative sources of funding. One possible source he mentioned was the partial coverage of election campaign costs by the government for the parties that make it into parliament, but this will hardly become the main source of funds for the parties to cover the significant spending that they only reflect in small portions in official reports. In this respect, a survey by the Democratic Initiatives Foundation, conducted before the latest election shows in-



interesting results: 6% of Ukrainian voters are willing to support political parties with party fees today. The average amount they are willing to pay is nearly UAH 1,500. 6% of Ukrainians, even if only those employed are counted, is over 1 million people. This is enough to set up two or three powerful parties, supported by their members and non-oligarchic business. It is forces like this that are capable of dramatic transformations.

Other instruments of de-oligarchization that Pyshnyi mentioned include the new Election Code with rules allowing voters to recall an MP and providing for open party lists. However, the latest election proved that party leaders tend to leave figures linked to oligarchs or prone to crossing over to other parties on their party lists despite the criticism of civil activists and the media. Pyshnyi also said that his party had already prepared a Code of Economic Growth, an anti-corruption package with a relevant lustration procedure, and a draft law to nationalize enterprises, previously illegally privatized by oligarchs. All this is

The oligarch-controlled model is a typical feature of Eurasian, Russian and Soviet civilization. To overcome it, European states that had been under its pressure for a certain period have to successfully undergo de-sovietization and consolidate their national identities

intended to support non-oligarchic business. If implemented, all these initiatives will have an important impact and may weaken oligarchs for a while, but these moves will not eliminate the oligarchic model in Ukraine completely, so it could re-emerge shortly thereafter.

Unlike Batkivshchyna and UDAR MPs, Svoboda representatives used the discussion as a platform to present draft legislative initiatives on possible ways to de-monopolize the economy and return assets that had been transferred to offshore zones. But, even the few provisions they revealed seemed to be a good starting point for a relevant debate in parliament, rather than a tool to solve problems.

The Svoboda-drafted initiatives can only be effective if paired with the resolution of a slew of political and economic problems, or afterwards. Without adjusting them to possible side effects and hidden mines, radical initiatives may become handy tools for the authoritarian regime and harm the independent non-oligarchic business that is expected to be one of the

pillars for Ukrainian transformations. For instance, the anti-monopoly legislation will not cover all the oligarchs' assets (Svoboda proposes the nationalization of assets which currently give a specific oligarch, control of more than 25% of the market. The resale of the asset will pay the oligarch the amount he initially spent on its purchase). Meanwhile, attempts to solve the problem by means of cutting the monopoly threshold for the forced sale of monopolistic enterprises on regional and local levels could also threaten non-oligarchic business, as its production facilities may naturally have a large share of the regional market where they operate. Meanwhile, five or seven oligarchs with their diversified conglomerate that operate in various branches and control 10-15% of the market in each industry will have the opportunity to continue their complete domination over the economy, and regain their control over politics within a short period.

Svoboda's claim that the provision on the mandatory re-registration of offshore companies in Ukraine will be harmless to medium business because it does not operate through offshore zones seems doubtful. In fact, offshore schemes are extensively used by small and medium-sized business, given the unrestrained tax authorities, the lack of an independent court and corrupt law enforcement agencies. In this situation, such schemes seem to be virtually the only option for competing with other market players, including those linked to the government. In addition to this, Ukraine lives by a well-known dictatorial rule, whereby "friends get everything while foes get the law". Non-oligarchic business may be ready to return assets from offshore zones and give 50% back to the government as Svoboda suggests, but it does not see any guarantee of not turning into a victim itself as a result. Leaving these, as well as other potential risks out when finalizing and possibly passing radical initiatives could discredit the very idea of a struggle against oligarchs and efforts to free the Ukrainian economy from their total monopolization. ■

"We have an oligarchic economy that transforms Ukraine into a resource colony, keeping it impoverished and obsolete"

**Vitaliy Melnychuk,
Deputy
Chairman of
the Audit
Chamber of
Ukraine,
1997-2005**



Ever since Ukraine regained independence in 1991, it has not had a complete economy. It had been part of a very specific yet integral commercial complex oriented towards satisfying the economic, military and other needs of the entire USSR.

Ukraine faced the challenge of transforming a fragment of the command and militarized economy that had been part of the "Union's national economic complex" into a modern national market-type economy. What made the task even more difficult was that Ukraine's economy was more distorted than that of other republics, such as Estonia, Lithuania or Uzbekistan. The lion's share of Ukrainian industrial output was produced by heavy industries, such as the machine building, chemical or defence machinery branches. Hence the huge energy consumption that remains until the present. In 1990, Ukraine consumed thirteen times more energy than Germany per USD 1,000 of GDP, and ten times more than France. Most of these products were either raw materials or used in production; intermediate goods and components were exported to Russia. As a result, consumer goods accounted for only 13% of total output.

Ukraine failed to convert this vast, heavy, energy-guzzling and inefficient fragment into a modern market-type national economy over the 21 years of its independence. Today, Ukraine's economy is as distorted, monopolized, resource-oriented, energy-consuming and inef-

ficient as it was back then. Over this period, industrial production has become even more concentrated on resource industries.

The only thing that changed dramatically was the structure of ownership in the economy. In the past, the government was the key owner. Today, it's the oligarchs. According to Dragon Capital, the six richest Ukrainians out of the top 100 own assets worth USD 35bn. This is several billion more than the total assets of the remaining 94. Overall, the share of assets of the 100 richest Ukrainians is 38% of the country's GDP, compared to 11% in Germany, 10% in France, 7% in USA and 22% in Russia.

Nearly 95% of Ukrainian industrial output is produced at enterprises with third and fourth stage technology. These are steelworks, the chemical sector, the fuel extraction complex and heavy engineering. The third stage enjoyed world domination in 1880-1930.

Meanwhile, the share of fifth and sixth stage enterprises that dominate global industrial production today, based on electronics, computing and fibre-optic technologies, software, telecommunications, robot design, IT services and biotechnologies, does not exceed 5% in Ukraine. However, these are the branches that generate the biggest added value per unit of production, which exceeds that of third or fourth stage enterprises – most of them owned by oligarchs – tens or hundreds of times.

Therefore, the structure of the Ukrainian economy has deteriorated rather than improved since Ukraine regained independence as time did not stand still.

Industry as the leader of the Ukrainian economy produces extremely low added value. Its profitability did not exceed 3-6% in 2003-2011. A third of the 55,000 enterprises in Ukraine operate at a loss.

This results in low salaries, tiny profits and mandatory social benefits for employees, hence low pensions, the lack of adequate revenues to the country's budgets or money to upgrade facilities and create new jobs, as well as unemployment.

Monopolies, inefficiency and uncompetitive business caused by the oligarchic structure result in a slew of major problems, such as inefficient exports and imports, a trade deficit, the constant threat of the devaluation of the hryvnia, a disastrous deficit of budget funds and a permanent increase in public debt, as well as the threat of default.

All this together is the poverty of the country, its people and non-oligarchic business.

Ukraine's principal exports are raw materials. In 2011, they accounted for over 2/3 of total exports, with 33% for iron and steel, 15% for minerals products, 13% for food, primarily grain, and oil; and 9% for chemicals.

The production and export of iron and steel is the domain of the five richest oligarchs, therefore exports are a key subject for some top officials. Ukraine is the eight biggest producer of steel, behind China, Japan, the USA, India, Russia, South Korea and Germany. In 2011, it produced 35.5mn t. Unlike other countries, exporting from 4% (China) to 30% (Japan) of total output, Ukraine exports a record-breaking 68% or 24mn t. This is double the 34% it exported as part of the USSR.

Inefficient imports reflect the fact that Ukraine does not currently produce basic goods, so is forced to buy everything from abroad. In 2011, only 5.3% of all light industry produce bought by Ukrainians domestically were produced in Ukraine. The rest was imported. 18% of medicines consumed were Ukrainian. Surprisingly, Ukraine imports more ready-made food than it exports.

Ukraine's principal imports include energy sources, specifically oil and gas. In 2011, Ukraine bought gas worth USD 14.1bn and USD 4.3bn worth of oil. This was 35% of total imports or USD 18.4bn. They are largely used to produce power which in turn is used as a resource in the production of goods for Ukraine's ineffective exports. Therefore, higher exports boost imports in this vicious circle of energy dependence.

The trade deficit shows that imports have exceeded exports in Ukraine for many years.

According to the State Statistics Committee, the trade deficit was USD 14.2 bn in 2011 and an estimated USD 15bn in 2012.

Last but not least is public debt, caused by the inefficient economy that offers low salaries and equally low revenues to the State Budget, the Pension Fund and other social funds. Hence the need for additional resources and the current disastrous deficit thereof. As a result, public debt has grown inexorably from UAH 308bn in 2009 to UAH 500bn in 2012. The plan for 2013 is to borrow a further UAH 136bn. Add the escalating cost of debt, which will eat up UAH 101bn in 2013 and compare it with total state budget revenues of UAH 362bn.

Why is this? The key reason is the oligarchic economic structure, oriented towards the conservation and exploitation of large enterprises and production facilities left over

from the Soviet economy, acquired for peanuts and which is largely directed towards the export of raw materials at any price. In fact, this status quo also hits oligarchs. In 2012, the assets of the 100 richest people in Ukraine decreased by 25%, while the assets of financial and industrial groups owned by the top five oligarchs, such as SKM, Privat and EastOne, lost 30%-40% of their value.

Thus, the oligarchic economy brings forth low added value, salaries and revenues to the budget; consumes a lot of fuel and makes the country rely on imported fuels; causes a foreign currency deficit and the constant risk of hryvnia devaluation; boosts public debt and turmoil, also wipes out demand for a well-educated and qualified workforce. It causes poverty, as 70% of household consumer spending is on food and basic goods, leaving only 3.8% for vacations and entertainment and 1.1% for education.

Ukrainian oligarchs are far from the Rockefellers of the early 20th century, as some describe them. Rockefellers built railways that were as innovative then, as Google or nanotechnologies are today – these are all products with the highest added value. Ukrainian oligarchs invest in resource-oriented industries that

UKRAINIAN OLIGARCHS ARE LIKE THE BIGGEST LANDOWNERS IN THE AMERICAN SOUTH, WHO OPPOSED THE ABOLITION OF SLAVERY AND HAMPERED THE INDUSTRIAL REVOLUTION

hamper the progress of Ukraine's economy, since their added value is the lowest. This makes them look more like the biggest landowners in the American south, who opposed the abolition of slavery and did everything possible to hamper the industrial revolution in the US.

“The oligarchic model must be transformed into a free market model, as well as a competitive and responsible economic system”

**Volodymyr Lanovyi,
President of
the Centre for
Market
Reforms**



The current oligarchic system, its generation of the disproportional allocation of national wealth and the absence of development prospects are the reasons for most of the problems in the Ukrainian economy, the social sphere and education.

The issue is not that there should not be any big owners, major entrepreneurs and corporations, but that they should be

“entrepreneurial” – that’s the key word! Entrepreneurial means searching, innovative and professional, who think about improvement and about qualitative changes in their business, their industry and at their enterprise. This is the main thing. This is what brings the economy to higher competitive levels. Countries that failed to work on innovations and did not create an entrepreneurial environment, have achieved nothing.

Meanwhile, the oligarchic order in Ukraine has a key difference from the situation in developed countries, when talking about the influence of big business. For example, in the West, entrepreneurs attempting to engage political means for the active development of their business, are involved in just one type of activity, are concerned with their own matters and improve them. Everything is different in Ukraine. Our oligarchs are people who from the very start had a close connection with various levels of officialdom and who

obtained the opportunity to indiscriminately seize different enterprises, to which they did not have any professional relation. They did not look for the realization of any ideas or research that they could have had in them, simply took what was available and that which was allocated to them. As a result, they seized tens and hundreds of enterprises, often using corruptive means. Our oligarchy could not have come into being without corruption and today, cannot operate without it.

Having seized such a vast number of facilities and not having the slightest idea of what to do with them, they feel that having hired the best managers, they will be able to efficiently manage these assets by phone from the Bahamas. This type of “entrepreneurial” psychology is the very natural state of an oligarch. When he becomes aware of the scale of his assets, he wants to increase them, but is not interested in individual enterprises and their prospects. Thus, this type of oligarchic business, which is artifi-

cially created in Ukraine, Russia and several other countries, is based on the seizure of a vast number of enterprises in various industries and is characterized by the fact that their owner has absolutely nothing to do with their management; they simply serve him to generate income.

Oligarchs are not interested in the development of their enterprises. On the contrary, they exhaust them and invest in the most attractive assets. For example, Rinat Akhmetov himself, not having modernized the steelwork facilities that he owns, invests, in mobile communications. But what contribution has he made to it? What innovations, what programmes, which additional services? Nothing. In other words, it's simply the investment of capital, particularly abroad, because there is literally nothing to invest in any more in Ukraine. This is why capital is so actively leaving the country right now. Oligarchs do not bind

their future with the Ukrainian economy or Ukraine itself. It's non-national business.

Oligarchic capital is bad because it comes to politics, which the oligarch needs to become richer. He is incapable of improving enterprises, so with the aid of the government, gets better prices, cheap resources, soft loans, tax benefits and highly profitable enterprises. He has thus deprived Ukraine of ensuring the possibility of ensuring the resource development of other economic components. In this context, his influence on elections and the formation of parliament, the government and national programmes is decisive. Our programmes for economic and social development are the complex business plans of individual moneybags.

Oligarchs don't need normal markets, competition, true entrepreneurship, economic freedoms, free resources and a favourable financial climate to build such an

economy, where they receive benefits from the government. Since oligarchs don't care about their individual facilities and since they don't have the time or need to develop them, the latter undergo degradation, as does the economy, which loses its competitiveness. Enterprises are becoming degraded and will gradually grind to a halt and close down, while the number of jobs will actively decrease.

In other words, the oligarchic model is not simply without prospects, it's also destructive. It has to be reformed into a different economic model of a free market, as well as a competitive and responsible economic system.

So the key task is to eliminate oligarchs from government and deprive them of the possibility to gain income, illegal means for their enrichment, influence on political processes and the process for the forming of the government.

"It is necessary to motivate or force big capital to be socially responsible"

Andriy Pavlovsky, MP, All-Ukrainian Union Batkivshchyna (Fatherland)



The continuation of the oligarchic economic system became possible because in the early 1990s, power was taken by a mix of Soviet red directors with capital that clearly belonged to the mafia.

But who will transform it? Will it be by peaceful means, or will there be some kind of new Ukrainian social revolution? These are very urgent issues, to which, unfortunately, there are still no answers. At the same time, there is the pros-

pect that by joining forces, we could demand a change in Ukraine's leadership. But in principle, pro-Ukrainian forces should take the helm and use their power to do what is necessary. It is necessary to motivate or force big capital to be socially responsible. The leverage of state regulation is sufficient to do this. It is necessary to finally implement antimonopoly legislation, which has not been the case in Ukraine. After all, every oligarch is actually a monopolist in a specific sphere of the economy. In essence, the Anti-Monopoly Committee of Ukraine (AMCU) is turning a blind eye to the situation. Since the AMCU is headed by Rinat Akhmetov's people, what else can be expected from it?

It is necessary to raise the issue of the renewal of basic social justice and the distribution of national wealth and incomes, since 1–2% of people control 90% of the economy, while according to the UN, 80% are on the verge poverty in Ukraine. So it is necessary to make the redistribution fair. It should be said that there are such strategic enterprises as the railway, ports,

military facilities and the defense industry, which must remain the property of the state. If they are currently in the hands of the oligarchs, there is no reason to be afraid of the word "nationalization". Why is Ukraine one of the few countries that does not have a luxury tax? Why are we afraid of this, why is there no progressive tax scale, which exists in such countries as the USA and most European countries? Unfortunately, the old national democrats had a phobia – they were afraid of being accused of being leftist or communist. As a result, we have landed ourselves in a situation whereby people who oppose anything Ukrainian own everything, while Ukrainians will once again be the hired help, slaves, if you will. So oligarchs simply view Ukraine as a territory where they can make money. They see the Ukrainian population as mute cattle which have to be squeezed out and bring them huge profits with their hard work.

If we come to terms with this, in about 50 years, Ukraine will only have a population of 20 million. If

“The law on the liquidation of private monopolies will be a test for the current oligarchs’ patriotism”



Oleksandr Bondar, Head of the Expert Group of the All-Ukrainian Union Svoboda in Parliament

I shall address two draft laws, prepared under my leadership by the Expert Group of the All-Ukrainian Union Svoboda, that will now be realized in parliament. They are documents, which will resolve not all, but most of the indicated issues: two fundamental problems that are in the oligarchic capital of Ukraine; private monopolies and offshore accounts.

Firstly – the law on the liquidation of private monopolies. I anticipate, so to say, a test of the commitment to the market economy of the current oligarchs, who have concentrated their assets in a range of Ukraine’s industries. We recommend that they voluntarily turn over those, through which their share on the national or regional level exceeds 25%, which, by the way, is already prohibited today by anti-monopoly legislation, and on which the Anti-Monopoly Committee holds relevant information. At the same time, the difference in the sale of state property will be forwarded to the State

Treasury – the holders of the assets will be reimbursed the funds which they paid at the time for their acquisition and the balance gained from selling at open auctions will be transferred to the State Budget.

If the owners reject the voluntary sale of a share of their assets, their property will be returned to state ownership via the entry of the State Property Fund of Ukraine (SPFU) into the Shareholders’ Register in their stead. It will either be resold or remain under state ownership. Once more, they will only be reimbursed the amount that they spent on the acquisition of the relevant facilities in their time, while the balance will be forwarded to the State Budget.

The second draft law on the voluntary-coercive return of property from abroad, at which not only from offshore zones, but also Cyprus and other zones, which fall under the standards of the so-called evasion of double taxation. It is through them that funds are taken out of Ukraine by our oligarchs. Vast sums of money are transferred abroad via these schemes. The latest data shows that USD 100bn has been transferred since Ukraine’s independence, of which USD 70bn was transferred during the rule of the current “government of professionals”. Clearly, the oligarchs themselves don’t believe the current government, because they well understand who is ruling Ukraine and what can happen next.

Our proposal on this issue is also very simple and comprehensible, as well as being of a voluntary-

coercive nature: three months are allowed for the re-registration of all offshore companies in Ukraine, after which an account is opened for the structures at Ukrainian banks. All funds located abroad are transferred to them. 50% of these funds are forwarded to the budget and the balance remains with the company for investment in the enterprises they own. 50% is the mandatory tax, after all, these funds were taken out of Ukraine for many years and taxes were not paid on them. If this does not happen voluntarily within three months, the same scheme comes into effect as the one in the previous draft law: the SPFU is entered into the register of Ukrainian entrepreneurs instead of the offshore companies. The SPFU sells this property or it remains under state ownership; the funds that their owners spent when they acquired the relevant property are returned to them, while the rest is forwarded to the State Treasury.

If these oligarchs consider themselves to be Ukrainian entrepreneurs and want to operate in Ukraine, we give them the right to re-register in Ukraine and truly promote its development. If not, then too bad: offshore companies will not be allowed to own any property in Ukraine and all those who have funds abroad will not be able to spend a single penny to buy something – it will be illegal to do so. The MPs who do not want to support this law will demonstrate that they are either afraid of the oligarchs, or that they are working under optimization schemes, using offshore accounts.

“The main problem is the total monopolization of the economy by oligarchs”

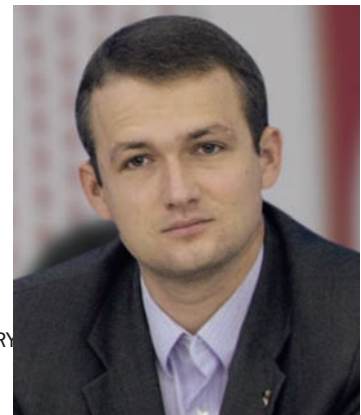
Our main problem today is the total monopolization of the economy by oligarchs.

With the existence of private monopolies, there is absolutely no need for competition. Oligarchs don’t need to compete; it’s easier for them to come to an agreement among themselves. The oligarchy is actually created by several private

monopolies, let’s say, a cartel conspiracy on the level of the entire country. They have no need to enter someone else’s niche or to fight for the labour resource market, etc, not to mention the modernization of the economy. More specifically, many steelworks are still operating on equipment from the 1950–1970s.

Oligarchs also have absolutely no need to develop the domestic

Yuriy Levchenko, Head of the Analytical Service of All-Ukrainian Union Svoboda



market, because they understand well that being monopolists, it is sufficient for them to work for export and have the same earnings that they would gain without the development of the domestic market.

Finally, the oligarchic model is blocking the development of other branches of the economy through oligarchic political control.

As a result, the most modern branches are at a standstill (biophysics, computer technology), because oligarchs don't see the need to promote state support for them.

Another aspect is the control of the labour market. The fact that five-six people actually control the entire economy and that they are participants in a cartel conspiracy, leads to the fact that they have exclusive control over the Ukrainian labour market. In actual fact, in one way or another they agree among themselves about the fixing of salary levels. And in essence, Ukrainians have no choice as regards where to work. This maintains the current impoverishment level of the Ukrainian people.

By controlling the labour market, they also control politics. It's a vicious circle. We see numerous instances whereby, for example, during the last election, the employees of one enterprise or another were forced to vote for the parties which are actually supported by relevant oligarchic organizations.

Oleksandr Bondar has already made public the draft laws that we shall be proposing in this parliament, but I would like to add that for many years, Svoboda has stood for the liquidation of private, let me reiterate, specifically private monopolies on the Ukrainian market, as well as the nationalization of strategic enterprises. We also stand for a ban on the privatization of those that have not yet been privatized.

There is a clearly determined list of strategic enterprises that have to be owned by the state. They include power-generating and energy-distribution companies, the Ukrainian railway and Ukrtelecom, in other words, so-called natural monopolies. When the state has a certain influence on one of them, using market methods, I repeat – market methods, it can impact its development and be one of the factors that will prevent a single person from monopolizing an entire branch in the future.

“The oligarchic model makes Ukraine vulnerable to external influence”

In essence, this model is non-competitive and extensive in the sense that it develops for as long as there is something ready that can be handed out and is extremely vulnerable to risks – both internal and external. In addition to the fact that it can last for years if there are sufficient resources to divide it all up, it experiences huge losses in the face of the slightest adversity. We saw this in the 1998 and 2008 crises, and there are gloomy forecasts for 2013. If there are significant external challenges, such a model makes Ukraine vulnerable to both external influences and to the loss of independence if a certain level of the survival instinct among its players is exceeded by today's mercantile interests. Thus, the view that oligarchs are the source of our independence is mistaken. They will be ready to reject it if offered higher immediate profits. Attempts to drag Ukraine into the Customs Union with Russia are a clear illustration of this.

Determinant indicators of the monopolist model include artificial monopolization and high corruption on all levels, beginning with the political one, in other words, influence on the rules of the game and decision-making and ending with the so-called insignificant one, when there is an exchange of services at different levels, which replace the rules which would have applied to everyone. A peculiar mutual responsibility is thus created, where it is very difficult to find the thread which needs to be pulled, in order to finally bring this model to an end and replace it with a more competitive and viable one.

The issue of what to do can be resolved in several directions. Firstly – economic. This is the issue of de-monopolization. It's the issue of freeing business, both small and medium-sized, as well as non-oligarchic big business, from official pressure, also that of the oligarch, connected to this official. It should pertain to the establishment of necessary condition for the emergence of new players on the



Roštyslav Pavlenko, MP, UDAR

market, who would create jobs and introduce new ideas.

The second important direction is overcoming corruption via several mutually-related things. First of all, the transparency of procedures. Any budget expenses must be open to the public. Moreover, the latter, be it through politicians or directly, must have influence and capability, hold certain information and apply this knowledge to control certain officials. The issue of an independent arbiter

THE VIEW THAT OLIGARCHS ARE THE SOURCE OF OUR INDEPENDENCE IS MISTAKEN. THEY WILL BE READY TO REJECT IT IF OFFERED HIGHER IMMEDIATE PROFITS

also emerges; in other words, that which is known as judicial reform.

I think that depending on how much clearer the economic crisis and the crisis in the administrative methods of the current regime become, certain elements of what has been stated here could pass through parliament. But this is also an issue of partnership with civil society. The above-mentioned initiatives can only be realized via these means.

"We still have every chance to overcome oligarchy during our lifetime and at the same time, not cause harm to small and medium-sized business"

Oksana Prodan, MP, UDAR

Today, it is only possible to start production in Ukraine, at which not only on a large scale, providing there is a connection with the government. Thus we do not have independent business. So even those, whom we don't included in the six-seven or ten families, are still related to the government to a lesser or greater degree. And they are forced to give it at least 50% of their earnings.

Why are we convinced that change is possible? First and foremost, because even oligarchs have begun to lose assets in Ukraine. This proves that the existing system requires change from even their point of view. This is one of the favourable factors that could be positive for us and for a change in the system. In addition, internecine wars have begun between the oligarchs themselves. The fact that one Family, the president's family, which was not previously one of the six, but which gained oligarchic status simply by gaining the highest authority in Ukraine, is trying to seize and make other oligarchic groups dependent on it, gives us the chance, that while fighting among themselves, they will lose the control that they have today.

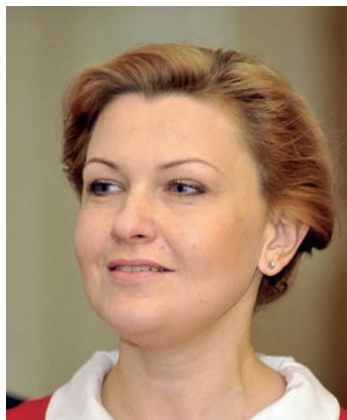
Will we be able to take advantage of this? First of all, we need a strong society. We have already spoken about both the interdependence between each of us, and about the symptom of the fact that we are developing and will have the opportunity to change the system. Secondly, everything possible has to be done to ensure that in parliament (because it is also part of the government), the opposition is the leader of society, which it will never break away from.

What is the first thing that has to be done? It is necessary to ensure the execution of the laws of Ukraine. No draft laws, however good they may be (for example, we

have good laws in the sphere of regulatory policy, but they don't work), they will not come into effect until the courts actually start working properly. This is one of the most important things for all opposition forces and society as a whole. The next fundamental issue is the establishment of equal conditions for everyone who wants to be involved in business, and everyone who simply wants to work in Ukraine. "The battle with corruption" is significantly devalued, not only for experts, but also for regular citizens, as are "reforms". UDAR has already developed draft laws, which realistically make corruption impossible in the sphere of business regulation and removes the possibility of officials making fateful decisions at their own discretion.

We realistically have every chance of overcoming the oligarchy during our own lifetime and do it in such a way that will not cause any harm to small and medium-sized business, the interests of which I represent. It is this business that is the foundation of democracy in many countries. It has to become the foundation of both democracy and competition in the Ukraine of the future.

It is important for us not only to nationalize, remove or change the owner of one enterprise or another, but to also have a package of decisions that must be approved simultaneously, in order to change the system in which the oligarchs were formed. ■



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Old Comrades in the New Government

The latest reshuffles in the top offices of key government institutions have reinforced the Family – to no one's surprise – and highlighted an interesting trend: people with Russian background are being appointed to the government en masse.

Author:
Andriy
Skumin

The Party of Regions finally pushed former NBU Chairman Serhiy Arbuzov's strongly-opposed replacement Ihor Sorkin (his former deputy) through parliament and Arbuzov himself ended up in the Cabinet of Ministers. Earlier, Yanukovych replaced SBU Chief Ihor Kalinin with Oleksandr Yakymenko, SBU First Deputy Chief and, according to the media, head of security at entities once linked to the Family.

Yet another wave of reshuffles showcased the Family's growing power through the concentration of leverage in the executive branch while its positions in parliament weaken, forcing it to turn to compromises

with representatives of various interest groups. Meanwhile, Yanukovych continues to sponsor bills that would help him gain direct control over the government and push the nominal premier out of the scene.

The process reveals another interesting trend: in addition to the perfectly expected domination of Donetsk-born players in the government, the number of top officials closely linked to Russia at some stage of their careers is also increasing. The current independent Ukrainian government involves an unprecedented number of people who were born, educated, shaped professionally, served or worked in Russia or for

Russia, and stay in close family, business or professional contact with Russian entities. Will these people, who barely think of themselves as separate from the Russian World, act for the benefit of a self-sufficient or Europe-oriented Ukraine? Doubtfully so, as any official – or any person – is affected by the environment that shapes his or her worldview and values. It is now premature to qualify them as the Kremlin's agents and moreover, they may prove surprisingly persistent in resisting its influence in some issues. Yet, they seem to view Ukraine only as “yet another Russia” which makes the country vulnerable and takes away its prospects. ■

A smell of Russian spirit

A non-exhaustive list of Ukrainian top officials closely linked to Russian at some point in their careers



Mykola Azarov,
Premier

Born in Kaluga, Russia, Azarov graduated from Moscow State University and worked in Russia for 37 years until 1984. In an interview with Russian journalist Vladimir Pozner, Azarov said that he considers himself to be Russian. He holds the Order of Friendship usually granted to people conducting pro-Russian policy outside of Russia. Since the mid-1990s, Azarov has been in parties whose priorities included the introduction of Russian

as the second official language in Ukraine. As a Ukrainian official, he has promoted Ukraine's integration into Kremlin-led projects, such as the Common Economic Space, the Customs Union and others. Azarov initiated the erection of a monument to Piotr Stolypin, Prime-Minister of the Russian Empire known for his Ukrainophobia, in Kyiv. When TV-host Kateryna Osadcha asked him about his progress in learning Ukrainian, Azarov answered: “I learn Ukrainian every day. That's why I recommend that you and your channel use the beautiful Russian language instead of broadcasting in Ukrainian alone.”

Oleksandr Yakymenko,
SBU Chief

Graduated from the Yeysk Aviation College (Russia) and served in the Russian Air Force until 1998. In 1997, Yakymenko graduated from the Gagarin Air Force Academy (Russia) and resigned from military service later. His posts on the Yeysk College forum suggest that he still believes that he is serving the KGB — he does not hide the fact that he ended up at the SBU because he had been underestimated in Russia, and could return there if his Russian colleagues appreciate him, and thinks of Russian administration as “ours”. In a post on the dissolution of a Russian military unit in Sevastopol he wrote: “And now some sad news. On August 1 (2009 – Ed.), the 43rd Red Banner Separate Naval Air Assault Unit decorated with the 3rd rank Kutuzov Order seized to exist in Sevastopol after 72 years... That's how our (!?) civil officials run the Defence Ministry.”





**Pavlo Lebedev,
Defence
Minister**

Born in Novomikhailovskoye, a village in Tuapse District, Krasnodar Krai in Russia. In 1984, Lebedev graduated from the Yaroslavl Military and Finance College.



**Vitaliy Zakharchenko,
Interior Minister**

Graduated from the Special Police School of the USSR Interior Ministry in Riga in 1986 and the Riga Branch of the Minsk Higher School of the USSR Interior Ministry in 1991. Both schools were known for intense Russian chauvinism during Perestroika and national liberation movements in the Baltic States. It is unclear until present whether Zakharchenko was involved in the notorious shootings in Riga in 1991 as part of the Riga OMON group.

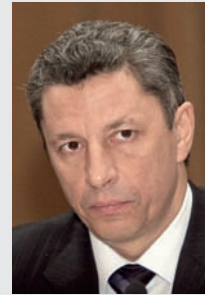
**Hennadiy Temnyk,
Regional
Development,
Construction
and Utilities
Minister**

Graduated from the Voronezh Higher Air Force College in the Russian Federation.



**Yuriy Boyko,
Vice Premier**

Graduated from the Mendeleev University of Chemical Technology of Russia. In 2005, Boyko was elected Chairman of the Republican Party of Ukraine. Its platform included the introduction of Russian as the second state language. In 2006, the party joined the Ukrainophobic Ne TAK! Bloc. Boyko is considered to have close business connections with Russian entities. According to some sources, the Boyko family has little tolerance for all things Ukrainian in everyday life.



**Ihor Sorkin,
NBU
Chairman**

Born to Russian parents who now live in Moscow. Sorkin's father Viacheslav Sorkin is Deputy Director of the Investment and Construction Department at Gazprom. He is known as one of the spin-doctors behind

the construction of the South Stream pipeline. Sorkin graduated from the Higher Military Command College in Baku. According to the media, the newly-appointed NBU Chairman not only served in the Soviet Armed Forces but was an officer in the Russian Army. He worked in Russian companies earlier, including EuroTrade in Ufa.

**Natalia Korolevska,
Social Policy
Minister**

Natalia Korolevska's brother Kostiantyn Korolevsky served in the Moscow City Government. In 2010-2011, he was Deputy Minister of Regional Development in Russia. Now, he is subject to a pending criminal case with charges of fraud.



The Battle for Inheritance

Author:
Oleksandr
Kramar

The trend of the past two years whereby the Family has been increasing its weight in the conglomerate in power turned into a dominating objective in 2012. Reshuffles in the conglomerate in power fuels conflicts within oligarchic groups.

In early 2012, the group of “Family managers” was expanded with Ihor Kalinin as SBU Chief, Dmytro Salamatin as Defence Minister and Yuriy Kolobov as Finance Minister. At this stage, the Family mostly reinforced itself with its “old Donetsk” administrators, including those linked to Premier Mykola Azarov. The losses of the nominal Firtash-Liovochkin group have become less visible: removed from the office of SBU Chief at the beginning of the year, Valeriy Khoroshkovsky became a decorative Vice Premier with no real powers, and was ultimately kicked out of government. The parliamentary election showed that Firtash-Liovochkin’s people did not get on the Party of Regions’ party list, which would have given them the opportunity to make it into parliament.

Reshuffles in the conglomerate in power proved that Yanukovych’s satellites have been sidelined: Serhiy Tshipko and Volodymyr Lytvyn with their people from the Strong Ukraine and People’s Party ended up with insignificant positions in parliament. At the same time, the trend towards the strengthening of the “new Donetsk” contingent and the Family by squeezing out old Donetsk administrators, Firtash’s people and former satellites, will continue within the hierarchy. In addition, a notable index of the consequence of personnel reshuffles was not only the strengthening of the “Family’s” position and that of the nominal Akhmetov group, but also the fact that little-known people have been appointed to most positions, rather than independent well-known politicians, who, given the choice between the government and parliament, gave preference to the MP’s mandate. Among other things, this could also be evidence of the fear of a repeat of the fate of Yulia Tymosh-

enko and Yuriy Lutsenko, being without the MPs immunity at an awkward time. If this is the case, there is a clear signal that the major players of the ruling conglomerate do not believe in the longevity of the current regime or their own prospects in it. At the same time, against this background, the abundance of “family members” is evidence that Yanukovych is continuing to move towards the absolute concentration of power in the Family’s hands, using the “either win the horse or lose the saddle” principle. He cannot but fail to be aware of the growing potential of the opposition in parliament, but clearly, he is preparing to evade such risk from the position of power. For example, by means of conducting a scheduled referendum, which would deprive MPs of their immunity, then as well as other methods of “persuasion”, in view of the necessity to gain approval for any initiative of the Presidential Administration.

INTERNAL OPPOSITION

On the one hand, even after the transformation of the PR into a quasi-bloc of groups with varied agendas, it still does not have a parliamentary majority and issues will be decided via situational coalitions under individual voting, first and foremost, with the CPU. On the other – it is because of the necessity to approve decisions with the Communists, that it will be more difficult to reach a consensus with the different groups of influence in the PR itself. Every time, the government will be forced to search for arguments for potential situational allies in parliament. It is one thing to allocate positions and select a Premier, which is a necessary pre-condition for the certain predictability for all players, and something to vote for specific legislative initiatives, authored by an antagonistic group, often directed if not against, then at least not in the interests of other conglomerate members.

Against this background, the Yanukovych regime is gradually being drawn into a conflict with big business and oligarchs of the sec-

ond echelon, for whom the consequences of a pyramid system of relations, in which rights and security depend on the good will of the ruler and the appetites of his circle, is becoming ever more noticeable. What was notable in this context was the conflict between Kharkiv Mayor Hennadiy Kernes and Oleksandr Yaroslavskiy regarding the Metalist stadium, which is controlled by the latter. Yaroslavskiy stated that “some obscure individual crawls in and starts to stir up the whole country” and actually performed a demarche, demonstratively selling the Metalist football club, into which he had already invested almost EUR 500mn. In addition, information has been circling on the refusal of Valeriy



Khoroshkovsky to “amicably” sell his majority share in the Inter TV channel to the Family, which is currently working actively on the establishment of its own media-holding, obviously preparing for the presidential election. The situation with the bankruptcy of a range of airline companies owned by oligarch Ihor Kolomoisky, which some observers connect with the conflict between him and the structures of Yanukovych’s older son, remains unclear.

NEW POLITICAL GENERATION

Under such conditions, ambitious politicians from the conglomerate in power, such as Valeriy Khoroshkovsky and Serhiy Tihipko, who worked for a long time on their liberal-reform and pro-European image, have already begun to prepare for their own political projects. The further increase in the number of disgruntled people in the pro-government camp and the rapid in-

crease in the ranks of disenchanted people who voted for Yanukovych in the South East, who have not yet found an alternative among the available opposition forces, could be a significant electoral reserve for them. After all, in the case of the anaemia or self-discreditation of the current opposition leaders and the permanent demand in Ukrainian society for “new” (even though they are actually old) faces in politics, Tihipko, Khoroshkovsky or some other minion of Firtash can also try to compete for part of the Batkivshchyna (Fatherland) and UDAR electoral field, particularly in the South East and Centre of Ukraine.

If the Firtash group continues to suffer losses from the results of the further reformatting of the government hierarchy and the allocation of state property, then MPs connected to it could shortly transfer to the undisguised opposition against the premier, but more likely than not,

they could, to a certain extent, demonstrate loyalty towards the president, “who has fallen under the wrong influence”. But even if the whole of the Firtash group doesn’t do this, it’s doubtful whether this will hinder the realization of the Khoroshkovsky project. In the modern Ukraine, there is a very significant potential for media manipulation, since there is a lack of civil society and classic political structuring of society, the low political culture of voters, added to which most Ukrainians are not picky when it comes to sources of information. Inter is the channel to which Arseniy Yatseniuk should be grateful for his high ratings in the past. Khoroshkovsky’s potential is actually also quite high. With his ability to have the full weight of Inter’s media resource behind him, he could very well try to become a sort of Ukrainian Berlusconi, a kind Italian oligarch, who built his political popularity on the basis of the media empire he controls.

The possible emergence of a “new opposition”, made up of disgruntled representatives of the ruling environment, at first glance, poses a threat to the prospects of Viktor Yanukovych (or his successor, who will undoubtedly be from the Family’s circle) in the presidential election. This could help the government to avoid a repeat of the 2004 black and white scenario in 2015, and the 1999 model would come into play. In this case, in contrast to 2004, previously determined favourites were not manifested, and voter sympathies were much divided in the first round. In 2015, representatives of the ruling conglomerate, who are currently playing at opposition (Symonenko, Tihipko, Khoroshkovsky and Poroshenko), as well as the current opposition (Yatseniuk, Klitschko, Tiahnybok and Hrytsenko), could take part in the first round. Such a scenario would give the government the opportunity to apply the technology of one majority constituency, blurring the “government – opposition” line as much as possible, then applying the potential of the administrative resource to its full extent. Should this happen, Yanukovych will win. But if one of the most successful “new opposition” flirts with being an opponent and the Family sees in him a potential threat, Ukraine could end up with its own equivalent of Khodorkovsky. ■



DECISION TIME

It will be ever-more difficult for Yanukovych to walk the geopolitical tightrope. Moscow and Brussels will force him to make a definitive decision as early as 2013



Author:
Oles
Oleksiyyenko

The events of 2012 showed that for objective reasons, the geopolitical tightrope will not be long-lasting. In the first years of Yanukovych's presidency, its policy of "multilateralism" and neutrality, first and foremost, meant the actual rejection of European and Euro-Atlantic integration, thus pleasing the Kremlin to a certain extent. Russia didn't hide the fact that it is waiting for Ukraine to join the Customs Union as soon as possible and even set a deadline of a year to eighteen months. In truth though, they are prepared to wait even longer. In the EU, after Ukraine disregarded its position concerning political prisoners and, for this reason, the EU did not sign the Association and Free Trade Area Agreements with Ukraine in the autumn of 2011, they expected that Yanukovych would not take the risk, and that the oligarchs would not allow him to submit to the domination of the Kremlin and that it would be possible to pressure him into executing the demands that had been set forth, and in the meantime, break off relations with Kyiv.

However, the result of the parliamentary election in Ukraine con-

firmed that the Yanukovych era is coming to an end and that his chances of maintaining power after 2015 are not high. At the same time, the Kremlin does not see anyone among top Ukrainian politicians, who could compete with the current guarantor and opposition candidates during the presidential election, and make Ukraine part of the Eurasian Union – essentially, the new USSR. So the formerly announced date of the final creation of this structure – 2015 – became symbolic in yet another sense: the indicated year could become decisive, in respect to drawing Ukraine into it. All of this forced the Kremlin to take action, to the extent that the threat of entry into the Customs Union – in full or in part, has become more urgent than ever before.

In early December, some representatives of the ruling conglomerate began to publicly discuss loopholes in legislation, which could give formal grounds to start the process of joining the Customs Union, in spite of the priority set forth in the law on the foundation of domestic and foreign policy – European integration. On the eve of the meeting

between Yanukovych and Putin, scheduled for 18 December, one of the lobbyists for eastern integration in the Cabinet of Ministers of Ukraine, Valery Muntyan, provided information that Ukraine could sign the declaration on joining the Eurasian Economic Community (EurAsEC) and begin the procedure for the coordination of part of the agreement of the Customs Union in exchange for a reduction in the price of gas for Ukraine to the levels paid by Belarus. However, the meeting did not take place. Instead, the European factor suddenly presented itself. EU representatives agreed to conduct a bilateral summit in February without any preliminary conditions and sign the Association Agreement by autumn 2013, on condition of at least some progress in the execution of prior demands regarding political prisoners and conducting necessary reforms. On December 20, the EU paid the last tranche under the previous EUR 28mn programme to support Ukraine's energy strategy, and decided to allocate another EUR 45mn for this purpose on December 21. Clearly, this position of European

officials mobilized part of the ruling camp to counteract membership in the Customs Union, thus even reducing the possibility of the ratification by the Ukrainian parliament of the agreements signed in Moscow.

Currently, the situation surrounding Ukraine fits into the context of the intensification of trade and economic confrontation between Russia and the EU. The idea of creating a free trade zone between them has existed for many years. It is potentially favourable for the European Union, since facilitating access to the Russian market will allow the accumulation of its own production sales volumes there. However, the Kremlin is now bringing forth the rejection by the EU of the standards of the Third Energy Package as a condition for facilitating the access of European commodities onto the Russian market, since they are creating obstacles for the Russian Federation's energy expansion on the European market and in the use of gas diplomacy for strengthening its influence in the most potentially vulnerable countries. Tension manifested itself during the EU – Russia Summit on 21 December. In essence, this summit did not result in any progress on the most contentious issues. On the eve of the summit, Karel De Gucht, the EU Commissioner for Trade, stated that Moscow is overestimating customs duties on European cars, is banning the export of live animals from the EU and is generally making the export of hundreds of products extremely expensive. Based on the results of the Summit, José Manuel Barroso, the President of the European Commission, stated that the EU does not intend to make exceptions for Russia regarding the Third Energy Package, since “our regime is not discriminatory and anticipates greater market liberalization. We welcome your companies on our market, however, they have to comply with our rules.”

With this in view, immediately after the cancellation of the meeting between Yanukovich and Putin, both Russia and the EU signaled the necessity of making a clear choice between the EU and the Customs Union. More specifically, Elmar Brok, Chairman of the European Parliament Committee on Foreign Affairs, noted: “...the position of European institutions is clear; that Ukraine cannot simultaneously be a member of the Customs Union and

the EU and it cannot have a free trade zone with two organizations. One conflicts with the other. The time has come for Ukraine to make a choice as to what will be in its interests in the long term, not taking into account that, which is only favourable today”. In his turn, Mikhail Zurabov, the Ambassador of the Russian Federation in Ukraine, noted that “there are no reserves of strength, which could give us the opportunity for a long-term analysis of the current situation and find a solution... if it is to happen based on a decision that has been made, then it should take place in the first six months of next year”.

Russians have good cause for haste, as the signing of the Association and Free Trade Area Agreements with Ukraine in autumn 2013 will make it impossible to drag Kyiv into the Customs Union. Moreover, the inevitable reformatting of the Verkhovna Rada so that it's under the control of presidential candidates on the eve of the 2015 election could make it unrealistic to drag the decision on joining the Customs

the government – opposition line or EU – Customs Union line, which will be accompanied by increasing pressure from Russia and the intensification of pro-Kremlin projects in Ukraine. Should Kyiv refuse to join the Customs Union, the Kremlin could resort to direct interference in the internal political situation in Ukraine without conditionality, using provocation to prevent the signing of the Association and Free Trade Area Agreements with the EU. For some reason, the location of Ukraine's and Russia's Ministers of Foreign Affairs has suddenly swayed to Western Ukraine where surveys show the highest rates of opposition to Ukraine's integration into Russia. In the early January, Russian Minister Sergey Lavrov met with Leonid Kozhara in Chernivtsi, stirring clashes between the police and protesters. The next meeting in February is planned to take place in Lviv, the unofficial capital of Western Ukraine. This looks like an attempt to test the possible reaction of the population and the opposition if the government takes specific moves towards Russian integration.

If Russia fails to disrupt the signing of the Association and FTA Agreements and Yanukovich does not cause another surge of tension between Kyiv and European capitals, the EU may eventually sign the Association Agreement at the Eastern Partnership Summit provided that Yanukovich undertakes commitments that some member-states and the European Parliament will see as crucial to the ratification.

In that case, Ukrainian gas transit system may be left as the major bargaining item for the Kremlin.

The above-mentioned Ambassador Mikhail Zurabov clearly indicated that “the issue of the GTS does not depend on the Customs Union”, in other words, it could become a separate object for bargaining. Moreover, Russia is currently considering the establishment of a bilateral, rather than a three-sided consortium, in effect a joint venture, in which it will be able to take control of the pipeline within a short period of time. Having lost the opportunity to win over Ukraine in its entirety, the Kremlin could, at the very least, count on taking control of its strategic assets, which in the future will probably give it the opportunity to replay the situation so that the results are in its favour. ■



HAVING LOST THE OPPORTUNITY TO WIN OVER UKRAINE IN ITS ENTIRETY, THE KREMLIN COULD COUNT ON SATISFYING ITSELF WITH ITS STRATEGIC ASSETS

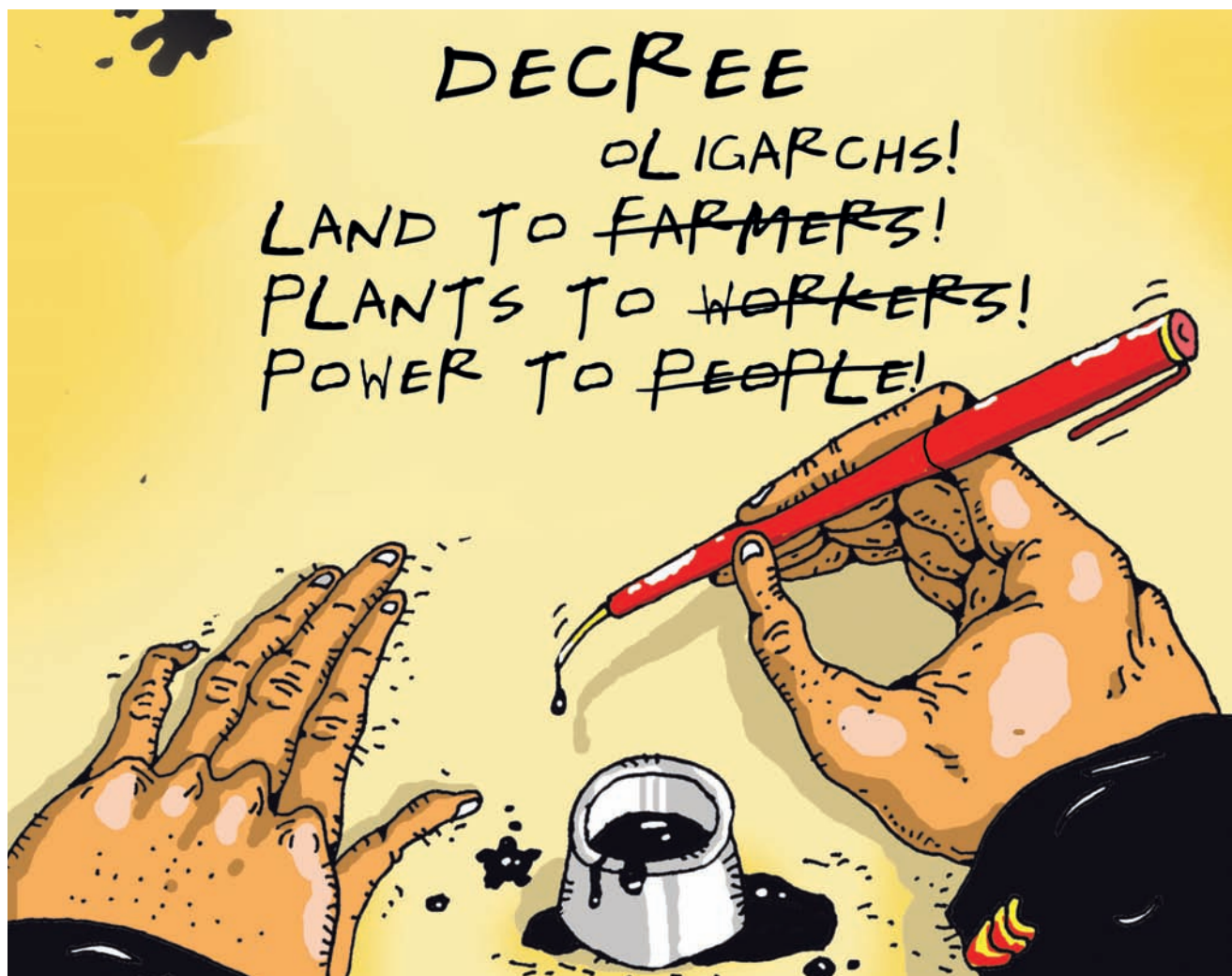
Union through parliament. There has already been a polarization of the ruling conglomerate: a division into categorical opponents and supporters of such integration.

Some officials, including Petro Poroshenko, Viktor Baloha, Ihor Yermeev and people linked to them, continue to insist on European integration. A European integration-oriented group has emerged within the PR. Serhiy Tihipko currently speaks on its behalf. He has submitted an initiative to confirm the priority of Ukraine's European integration to the parliament. Meanwhile, the PR's presidium is under control of the Customs Union proponents. VR Speaker Volodymyr Rybak and First Vice Speaker Ihor Kaletnik support Ukraine's integration into the Customs Union.

So in 2013, the polarization of Ukrainian politicians in general and more specifically parliament on this issue will intensify, regardless of

Ban on the Sale of Ukraine's Black Earth Extended

The existing moratorium on the sale of agricultural lands has been extended until as late as 2016. **The Ukrainian Week** looks at possible beneficiaries



Author:
Bohdan
Malynovsky

Since the Land Code was passed back in 2001, the idea has been to make land a commodity. Eleven years later, the issue of opening an agricultural land market is still contentious: should farmland be allowed for sale or not? If so, who should have the right to buy it and in what quantities? The government did not dare tackle the issue under President Leonid Kuchma or under President Viktor Yushchenko. Both supporters and

opponents of the idea expected that the current government under President Viktor Yanukovich would try to put the problem to rest. The thinking was that it would surely be able to find a scheme under which Ukrainian chernozem ("black earth", the soil contains a high percentage of humus and is therefore highly fertile – Ed.) agricultural land would be quickly appropriated by several families. However, on the initiative of Hryhoriy Kaletnik, Party of Regions

MP and current chief of the parliamentary Committee for Agricultural Policy and Land Relations, the Verkhovna Rada prolonged the ban once again in late November 2012. This time, though, the moratorium was extended for another three years rather than one as before. The duration of the extension, which will expire on 1 January 2016, leaves no doubts that this was a political decision – the next presidential election is set to take place in 2015.

Some people with knowledge of the situation view the decision as coming from influential groups that aim to hinder the Family from adding agricultural land to the other attractive Ukrainian assets it has acquired. On the other hand, the Family's business may not yet have accumulated enough financial power to do so. Another possibility is that it may be hoping to enjoy much more freedom of action, including less interference from influential oligarchs, after the problem of 2015 is resolved this way or another and the Family has concentrated all the power in its hands. It is clear that after the final redistribution of Ukraine's assets, chernozem will be the only remaining resource with the potential of bringing in unheard-of profits in the future—provided, of course, that the right scheme is utilized. It appears that the potential Ukrainian land barons have yet to come up with one.

In any case, land remains one of the hottest issues in Ukraine and could trigger major confrontations both within the current government and between the government and the opposition parties as well as market participants, while prompting unpredictable reactions from millions of land-owning farmers. Add to this the historical Ukrainian attachment to land, which is viewed as a key factor of national security and sovereignty. Given all these nuances and circumstances, a decision may have been made (especially after it became clear that the Party of Regions would have no stable majority in the newly elected Verkhovna Rada) to remove this additional destabilizing factor.

NO SUPPORT?

A survey of agricultural producers carried out by the Ukrainian Agrarian Business Club (UABC) in spring 2011 showed that 80% would support an extension of the agricultural land sale ban. Half of the respondents were categorically against, arguing that agricultural land should never be made available for sale and purchase. 17% were in favour but only for a moderate term (3-5 years), while another 13% favoured a long term extension (6-10 years). There were agricultural market players among the respondents: farmers, CEOs and owners of agribusinesses that arose from defunct collective farms, and top managers of agricultural holdings. This para-

doxical fact has a perfectly logical explanation.

Modern economics states that what matters in a market economy is not who owns assets but who manages them. In Western Europe, farmers are in no hurry to purchase lands that multiple generations of their ancestors rented from descendants of local feudal lords. Ukrainian agribusinesses have a similar mindset as they rent thousands and tens of thousands of hectares from land owners. "The majority of companies working the land are not going to purchase it," Harmelia Vice President Vadym Bodaiev says. And this is an optimal decision. For example, a company would need to fork out up to \$50 million US dollars to buy 50,000 hectares of land. This is much more than the cost of the machines it uses to cultivate this area. Even agricultural holdings — not to mention less powerful companies and privately-owned farms — cannot afford to take this much money out of circulation, money they need now to upgrade their equipment and farms and purchase foreign-produced high-yield seeds, fertilizers, etc.

What agricultural investors badly need, Bodaiev says, is long-term stability in land relations, at least as long as their project's pay-back period, which is 7-20 years in Ukraine. Moreover, Ukraine still lacks an adequate legal framework for transactions involving agricultural land, while they are strictly regulated in developed market economies. Not just anybody can purchase a plot of land there and not everyone has the right, even after purchase, to sow the field or use it as

pasture for cattle. Most countries limit the range of potential buyers of agricultural land and quite a few restrict ownership to one person. Many more countries define who has the right to conduct farming.

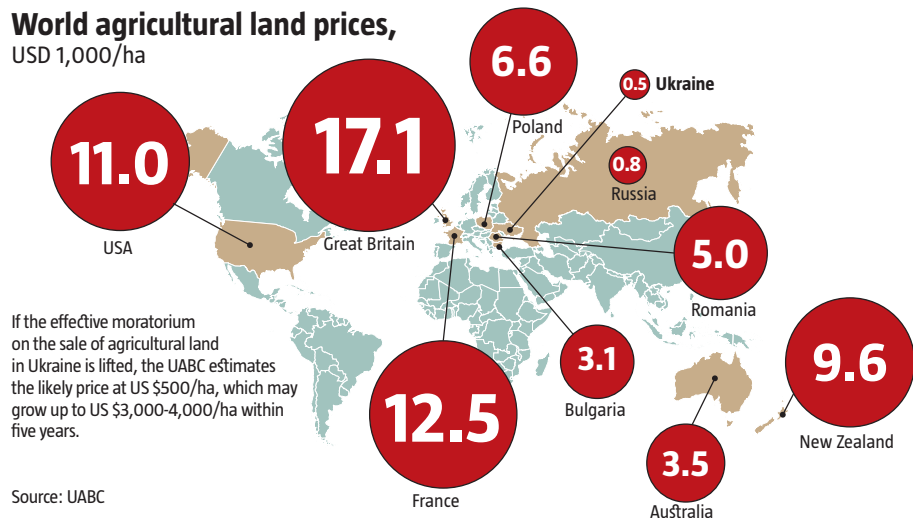
Ivan Tomych, President of the Union of Agricultural Servicing Co-operative Societies, says that to put Ukrainian villages on the market track, the government needs to have a package of laws passed that would secure enough support for agricultural producers, reform local budgets and revamp the authority of local government bodies. In order for

THE DURATION OF THE EXTENSION LEAVES NO DOUBT THAT THIS WAS A POLITICAL DECISION

the land market to start operating, countless additional pieces of subordinate legislation and amendments to other documents are needed. For example, the Law "On the Land Market" was passed in the first reading and has been gathering dust in parliament for a year now because no one wanted to approach such a sensitive subject prior to the election.

A large portion of the land owners are also clearly scared by the prospect of land changing hands. They have good reason to be concerned about what might happen to their land in this environment of total legal nihilism, rampant corporate takeovers and authorities and businessmen that employ no-holds-barred tactics. What if skinheads start making rounds in villages, de- »

World agricultural land prices, USD 1,000/ha



manding that locals sell their land for next to nothing? A court that today strips citizens of their right to vote by annulling their ballots on contrived grounds may one day take away their private property as well, despite ownership rights being enshrined in the Constitution. Even if the judicial system were fair, an ordinary land owner would clearly be at a disadvantage in terms of the ability to defend his legal rights due to a lack of funds for court proceedings and attorneys.

WHO WILL BUY?

Ukrainian land is greatly undervalued. Experts say that if agricultural land had gone on sale starting on 1 January 2013, a hectare of chernozem would cost USD 1,000 on average, much less than \$12,500 in France, USD 6,600 in Poland and USD 3,100 in Bulgaria, according to the UABC. The low price of Ukrainian land may attract profiteers and oligarchs.

Non-oligarchic capital is not being invested in Ukrainian agricultural land, but the moratorium is not the only obstacle. Another hindrance is Ukraine's low business attractiveness. "Investors are very frightened and reluctant to invest in Ukraine's agriculture," UABC President Aleks Lissitsa says. This is also true of Ukrainian investors. On the one hand, large Ukrainian agribusinesses report multimillion-dollar investments. On the other hand, the majority of these go to relatively liquid assets that can even be taken abroad if need be, while investments in fixed property or infrastructure are in the range of hundreds of thousands of dollars, rarely millions, even in the case of fairly successful agricultural holdings that use 10,000-20,000 hectares of land. In order to buy land the company cultivates, it will need at least USD 10mn, even if prices remain as low as they are now. Investing this much money in fixed property, which essentially means burying it, is something large businesses are not ready to do because no one can say precisely how quickly investments will be recouped. In fact, this is the reason why, with few exceptions, Ukrainian oligarchs, who are accustomed to reaping high profits, have not hurried to target Ukrainian agricultural land. However, there are people who are willing to get a piece of the Ukrainian land pie even now without any reservations. These are,

above all, investors from the Persian Gulf area and China. First, they are used to doing business according to informal agreements rather than law. Moreover, they have more experience working in countries that, like contemporary Ukraine, have low legal and business cultures. For example, they are actively buying land in Africa. Second, we are talking about government companies in China and relatives of local monarchs from the Persian Gulf countries. Both have close ties to the state and hence more leverage with the governments of the countries they operate in. But the main thing is that they are after more than just making a profit – their strategic goal is to provide a stable source of food for

ten illegal) as possible, while their farms switch completely to Chinese seeds, fertilizers and pesticides. One consequence is growing imports from China. Another, more alarming consequence is that Chinese seeds may be genetically modified (the country sets no limits on GM foods), while Chinese pesticides are extremely toxic. For example, DDT is still being applied there, and Chinese versions of the pesticide can still be found in products six months after harvest, while original pesticides made by leading Western producers completely decompose within two to four weeks. GM plants may cross-pollinate standard plants within the range of two kilometres, while pesticides contaminate ground water and rivers. Of course, developed countries have controlling bodies that do a fairly good job of preventing this kind of un-green behaviour, but the situation is completely different in countries where any issue can be solved with bribes. Moreover, China sometimes presses for the right to apply its own technological standards. For example, this is its intention for the Chinese-Belarusian industrial park near Minsk. As a result, the use of GM foods and harmful pesticides becomes completely legal in these areas, while Chinese investors turn out to be above the law in the country of operation.

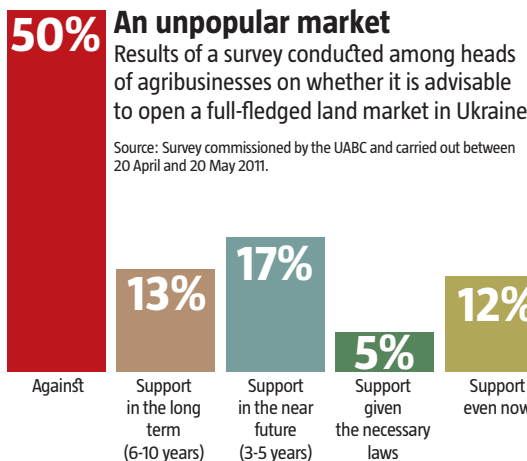
However, the Yanukovich regime seems to be turning a blind eye to these and many other existing threats to national security. China has already opened a USD 3bn credit line to develop joint agricultural projects, half of which are aimed at improving irrigation systems in Kherson Oblast, a region of fertile chernozem land and one of Ukraine's most sparsely populated areas. Considering the Chinese experience of investing in African countries, it may be assumed that China invests this much money in upgrading agricultural infrastructure with an eye to putting it under its complete control later.

Amid tense relations with both the West and Russia, the current Ukrainian government is increasingly seeking support in the Far East. This is not surprising because China differs from other world leaders in being completely indifferent to the ideological inclinations of its partner countries. The only condition is that they boost its economic power in the world arena. ■

UNLIKE POTENTIAL UKRAINIAN LAND BARONS, CHINA IS PREPARED TO BUY UP UKRAINIAN AGRICULTURAL LAND EVEN NOW

their countries amid increasing global food and water shortages and thus to insulate themselves from possible revolutions. Oil sheikhs and Chinese government companies are not afraid to invest with an eye to the more distant future.

The consequences of Arab or Chinese investments in agriculture are viewed by many as a threat to economic security, especially in undeveloped countries. For example, in Russia agricultural holdings controlled by the Chinese (those who have managed to acquire Russian citizenship or non-residents acting through proxies) are rapidly turning into veritable Chinese colonies. They hire as many Chinese labourers (of-



The Year of the EU, a Year of Anxiety

2012 seems to have been the year of the EU. This is the conclusion I drew after I started out by assuming this was a crisis of the Euro, which I realized was, and continues to be, a crisis of the entire economic and political project of the EU.

That a fiscal union cannot be viable or enduring without a political union is a sheer fact of life which cannot be denied by anyone who more or less sticks to reality instead of living in a fantasyland. That much ink has been and will be spilled over the future of the EU to determine whether we face its demise or an unprecedented era of unification is an undeniable fact as well. Yet one small nuance is lost in translation here: namely, the question of what kind of EU we will have in 2013, if one is still there. George Soros hit the bull's eye when he described the ongoing drama of the European Union. In his article "The Tragedy of the European Union and How to Resolve It" published in The New York Review of Books, he offers a clue to the problem. Putting it in black and white, Soros says the tragedy of the EU is that it originated as a global open society pursuing the ends to create a club of democracies with their full commitment to human rights and civil liberties; yet what we can expect to emerge after the Euro crisis is likely to be a deeply hierarchical system with two classes of member states – creditors and debtors.

How can we expect political symmetry, equality, and reciprocity in a system with such an asymmetric balance of economic power? And it seems this class differentiation will become permanent because it will be impossible – for economic policies and fiscal reasons – for debtor countries to catch up to the creditor countries. Soros said,

"Germany has actually benefitted from the euro crisis, which has kept down the exchange rate and helped exports." Instead of doing the bare minimum necessary to resolve the crisis, he said Germany should "lead or leave the EU."

Needless to say, the demise of the EU would deal a nearly mortal blow to the global social and moral order. It would be a blow to civilized politics, peace, and our hopes to have a century of the fulfilment of humanity and its enormous creative potential, instead of a century of destruction and moral apocalypse as was the case in the 20th century. The EU represents a continent which has done its utmost to overcome a suicidal and self-destructive pattern of politics that shaped the tragic past of the modern world with its two global wars, deep internal divisions of Europe, mental blocks, social gaps, and the loss of memory and sensitivity.

And here we encounter another formative and crucial event of 2012 – the decision to give the Nobel

Peace Prize to the EU. That event split and polarized public opinion not only in Norway but also in most European societies. The fact that José Manuel Barroso, Herman van Rompuy, and Martin Schulz came to Oslo for the Nobel Peace Prize and then announced that it was the entire community of European Citizens that received the supreme peace award did not sound terribly plausible, to say the least.

The fact that a faceless organization, instead of a flesh-and-blood human rights activist or a dissenting intellectual, received this supreme award tells us something even more disturbing about Europe's profound crisis than the ongoing crisis of the Euro. True, the EU is a symbol of peace and the potential to change and this is the only hope for humanity in the 21st century. Europe represents soft power and respect for human rights after centuries of devastating religious conflicts and two world wars – what else, one would think, could be added to the story of our powers of critical self-questioning and adjustment to new political sensibilities?

Yet the question remains what happened to the Nobel Peace Prize Committee which did not seem to care that it almost consecutively selected two top American politicians whose sole merit was that they were not George W. Bush and that they represented an opposing power. With all due respect, selecting former US Vice-President Al Gore for a slide show on global warming and then the new US President Barack Obama, credited for not being Bush, seemed a bit overstretched even as far as anti-Republican partisan sentiment and resentment was concerned.

It is with sound reason, then, that the latest recipient of the Nobel Prize

for Literature calls for a comparison with those recent recipients of the Nobel Peace Prize in terms of the loss of criteria and moral compass.

Instead of Milan Kundera whose name was and continues to be on the lips of a number of academic and literary critics as a most convincing and richly deserving candidate for the supreme award in literature, a favourite of the Chinese Writers' Union and, in effect, of the Chinese Communist Party was selected for the award, which was a slap in the face to all dissenting Chinese writers, artists, and nay-sayers.

It remains unclear which crisis is more devastating and dangerous for our future – the crisis of markets and fiscal union or the crisis of our moral imagination. China and Russia seem to have firmly established themselves as two versions of a social alternative to the EU and the West in general – forging a variety of crony capitalism that lacks liberty, plurality and human rights. ■



Author:
Leonidas
Donskis

**2013 MUST THEREFORE BE THE
YEAR IN WHICH WE REGAIN
MORAL GUIDANCE AND THE
POLITICAL INSTRUMENTS
TO UNIFY EUROPE**

René Rouquet:

“Ukrainians alone can demand condemnation of Ukraine’s election riggers”

Interviewer:
Alla Lazareva,
France

René Rouquet, head of the French parliamentary delegation to the Parliamentary Assembly of the Council of Europe (PACE), was elected PACE vice president in 2012. In his interview with *The Ukrainian Week*, he discusses whether international organizations can realistically be expected to impose sanctions on election riggers and whether Party of Regions representatives will again join the socialist faction at the PACE winter session to be held on 21-25 January in Strasbourg.

U.W.: In December 2012, the team of PACE observers released their report on the parliamentary elections in Ukraine. It points out that Ukrainian politics is largely dependent on money provided by oligarchs and calls the elections ‘non-transparent’ and ‘unfair’. Do you share these conclusions? Do you believe that the Council of Europe should demand sanctions against election riggers in cases where these falsifications have been proven?

Before speaking about any sanctions it should be clearly proven that falsifications indeed took place. The report composed by mission chief Andreas Gross, impressions of other observers and, finally, OSCE conclusions point to numerous deviations from European standards and several controversial situations that can be equated with falsifications. On the whole, no actions were registered on the day of the elections that could be called massive falsifications.

U.W.: In fact, they took place later, during the vote count...

Right, but you know how observers work. They can identify irregularities at their polling station but have no way of doing so at a neighbouring one. It is very hard to clearly determine what really happened. Most observers noted irregularities. But if we’re talking about condemning election falsifiers or applying sanctions against them, this is first and foremost up to the Ukrainians themselves to demand. The task of the Council of Europe

and OSCE is to clearly call a spade a spade and offer legal assessment. Demands of possible sanctions would have to come to these organizations from Ukrainian parliamentarians and NGOs.

U.W.: What possible sanctions could be considered?

First of all, those that would require correcting unfair election results, but even this much is very hard to do.

U.W.: Precisely this type of political sanction would be optimal for Ukraine – with the support of international organizations, calling things by their proper names and restoring fairness to the electoral process.

True, but there is also another aspect. The states that have signed the protocol on securing democratic elections must report before the Council of Europe before the countries with which this protocol was signed. This means that the Council of Europe must continue its monitoring activities in order to find out whether there are any pos-

itive changes taking place. In many countries where similar problems occurred, Council of Europe specialists are helping to work out proposals to amend legislation. Monitoring determines whether new laws have indeed been passed. A promise is not enough. I remember a recent election in Armenia that was not perfect. But today Yerevan seems to be moving along the path of positive change. On 18 February, we will learn whether the innovations that have been introduced are working. But even in developed democratic countries such as France, things do not always work to perfection.

U.W.: Are you referring to the incident in Perpignan where voting slips were hidden in a man's socks?

Right, there were problems in Perpignan. But violations were also recorded in Île-de-France, my home province. These were not as brutal, but any violations have to be exposed both at the smallest polling stations and at the national level. Otherwise people will feel disappointed and cheated. I was in Ukraine in 2004, working as an observer during the first and second rounds of the presidential election that ended with the Orange Revolution. Personally, I was pleasantly surprised by the way it all happened, particularly considering that it was a country that had not yet developed stable democratic skills. Returning to the mission of international observers, we need to understand that their capabilities are limited. Pre-election missions are three days long, and only the voting process and the first day of vote counting are monitored during the election itself.

U.W.: Isn't this report going to be discussed in the session hall during the PACE winter session?

No, this report was finally approved during a meeting of the standing committee in Andorra on 30 November. If there are no extraordinary events in the meantime, Ukraine will be discussed when the report of the Monitoring Committee rapporteurs is finished.

U.W.: Some sources say that the question of dispatching a post-election PACE mission to Ukraine was discussed in Andorra.

That would have made sense, but the decision has to be made during the session.

U.W.: In his interview for The Ukrainian Week, PACE President Jean-Claude Mignon said that he wanted to arrange for a joint mission of the Council of Europe and OSCE to Ukraine in order to visit political prisoners together and try to meet with political leaders. Is this project making any progress?

Yes, Jean-Claude Mignon regularly mentions this intention of his. The Committee on Migration has taken systematic interest in the situation with political prisoners in all member states. I don't know if Ukraine is one of the priorities, but this preparatory work is being done.

U.W.: Leonid Kozhara, Ukraine's new Minister of Foreign Affairs, said while he was still a Party of Regions MP, that the definition which PACE gave to the term political prisoner had nothing to do with Ukraine. Do you consider Yulia Tymoshenko a political prisoner in the proper sense?

Of course. The situation with Yulia Tymoshenko is an anomaly that is hard to comprehend. Why do the Ukrainian authorities, including the president of the country, assume responsibility for this? Even if they employ legal arguments, it is clear that Viktor Yanukovich could solve this problem through his personal authority. The majority of European politicians cannot make sense of this situation; I can't see anyone in Europe calling it normal.

U.W.: In your opinion, to what extent does the application of selective justice in Ukraine hamper the signing of the Association Agreement with the EU?

I am not a member of the French government, but I am one of those who are convinced that we cannot further financial and political relations with Ukraine until the problem of selective justice has been resolved. What we need to find is a political solution. I have never heard any French government officials speak in favour of Tymoshenko remaining behind bars and in the conditions she now has at that. This is unacceptable. I don't understand

On 14 January,

the members of the new Ukrainian delegation to PACE were announced: Volodymyr Vecherko, Serhiy Kivalov, Serhiy Kliuiev, Yulia Lovochkina and Ivan Popesku (all from the Party of Regions); Volodymyr Arieu, Lesia Orobets, Serhiy Soboliev and Pavlo Riabykin (all from UDAR); Petro Symonenko (Communist Party); Oleksandr Shevchenko (Svoboda) and non-partisan MP Lev Myrsky. There is no information so far on who will head the delegation.

why the Ukrainian president fails to understand it himself. Any normal person understands that it is unbearable to be under video surveillance around the clock. It is more than evident to the Council of Europe. Our organization has taken great care to make sure that prisoners are kept in conditions that permit them to keep minimal human dignity. The entire world, not only Europe, knows about the Tymoshenko affair. We are also informed about the case of former Internal Affairs Minister Ihor Lutsenko and persecutions against other ex-government members.

U.W.: In late January, the new Ukrainian parliamentary delegation will come to Strasbourg to begin its work. Until recently, your socialist faction included members of the Ukrainian Party of Regions, which is oligarchic in its composition, and priorities. A year ago, Andreas Gross, leader of your faction, explained to The Ukrainian Week that it had happened "because there is no entrance examination". Will European socialists again agree to admit Ukrainian Party of Regions members to their group?

You know, this is a very complicated thing. Let's say some country held an election, even a completely democratic election. Then its parliament determined the members of the national delegation. It is only in Strasbourg that the delegates apply for membership in this faction or other. If no one is against their candidacies, the delegates join the political group of their choice.

U.W.: Does a political group have the right to reject a membership application?

No, only the national delegation has the right to withdraw a person from a particular group. If there are excessively odious persons involved, the entire delegation may be denied recognition. But these are extreme measures. A request of this kind was submitted with regard to the Russians during the second Chechen War, but it never came to a logical conclusion. All of these things are, after all, utterly serious. They concern the sovereign choices that a country makes, and the Council of Europe does not have the right to invalidate them. ■

Adam Michnik:

"Neo-Soviet Putin culture and the Berlusconi-type mafia culture have come to co-exist in Ukraine"

Interviewer:
Olena Trehub, Washington

Polish civil and political activist, spin-doctor behind Solidarity and founder of the influential Polish daily *Gazeta Wyborcza*, Adam Michnik, was recently invited by the International Center on Nonviolent Conflict to speak at the US Institute of Peace. Mr. Michnik and Dr.

Saad Eddin Ibrahim, a well-known Egyptian dissident, who criticized the Mubarak regime for decades and was his political prisoner, shared their experience of protecting liberty in their two countries with US diplomats and experts.

The lecture revealed several aspects of Solidarity's struggle for Polish democracy in the 20th century that could be of interest and use to Arab Spring activists, as well as to Ukrainian civil society. Adam Mi-

chnik talks to *The Ukrainian Week* about the outlook for democracy in Ukraine.

UW: More and more activists, journalists and intellectuals think that it will be a movement like Poland's Solidarity rather than a political leader that will take Ukraine to a new level of development. Could it be too late?

— Your country's politics is at a difficult stage in history. But I don't agree with many Polish colleagues who have a pessimistic view of Ukraine's democratic outlook. The recent parliamentary election proved that Ukraine is not Russia. It's a different country with a different society and a different system of values. The outcome of the election showed that your country is pluralistic and will remain so. Yanukovich does not have Putin's status and will not gain it in the near future. What is going on in Ukraine at this point is the birth — albeit very painful — of a democratic country and society. This is always a difficult process: in the UK, France and even more so in Germany, just as in Poland. In Ukraine, there are still grounds for optimism.

The fact that the ideas of a civil movement are being born at this point is interesting. It is a motion of no confidence against political elites. In addition,



PHOTO: ANDRIY LOMAKIN

civil society is maturing, moving to a higher level. I don't know whether this idea will come to life or fade away, but its very existence signals hope for a change in society.

UW: In your opinion, what is the biggest obstacle in the development of Ukraine and its society?

– Just like many other post-Communist countries, your country has developed two extreme cultures: Putin's neo-Soviet and a Berlusconi-type mafia. The latter believes that money buys everything, from politicians and the media, to voters. It's a huge problem that cannot be resolved in the short term. But it should be clearly diagnosed so that society is aware of it. Civil society should build institutions to resist these corrupt and authoritarian mechanisms.

UW: Will civil activists turned politicians help solve the problems you mentioned? Quite a few activists and journalists ran in the last parliamentary election. This fueled a debate about where a journalist is of more use: in parliament or in the media, revealing the government's wrongdoings...

– Of course, a journalist can become a politician but he stops being a journalist as soon as he enters parliament. It's impossible to combine the two.

UW: But, for example, Mykola Kniazhytsky, former Executive Director at TVi where you are member of the Supervisory Board, was elected to parliament but wants to continue his Evening With Mykola Kniazhytsky show.

– This is unacceptable. The tension and conflict between the worlds of politics and the media are completely natural. Clearly, a journalist can have his or her own political preferences. If one wants to gain power, he or she should leave the media. One cannot

be a prosecutor and a judge at the same time!

Journalists rarely go into politics in Poland. More often, politicians become journalists or columnists after leaving the political arena.

UW: At the turn of the 1980-1990s, a new elite took the helm in Poland. They were mostly representatives of civil society, including you. Is this transfer to democracy irreversible?

– Doctor Saad told us that Mohamed Morsi, the newly-elected current President of Egypt, had been in jail with him, he was Mubarak's political prisoner, a democrat, an intellectual and a professor. After his release from prison and being on the other side of the fence, with power in hands, Morsi has been sliding towards dictatorship and acting just like Mubarak. This was the problem with Lenin, Mao Zedong, Fidel Castro, and me too. I never wanted to be a politician, but I had been deeply involved in politics, struggling against a dictatorship. Then I ended up in parliament. That was the first convention of the Sejm, right after Poland moved away from Communism and began to build a democratic state. It's like a war, I told myself: every architect, plumber or journalist puts on a uniform and goes to the front for the duration of the war. The first parliament in post-Socialist Poland was my war. After we won the election I returned to civil life and stopped being a politician. Many of my colleagues stayed in politics and never took off their uniform. Their philosophy was: "Until now, we were ruled by Communists ruled; we are now in power". "We" were Solidarity and Catholics. I saw this as a danger. I called it "anti-Communism with a Bolshevik face". What we needed after the dictatorship was average temperatures and compromises, even if they were unpleasant. It was a time of a harsh debate about taking Jaruzelski (the last Communist leader of Poland – Ed.) to court in Poland. He not only introduced martial law but was also the one who brought Poland out of it and helped in its transition into a democracy. I was among Jaruzelski's advocates, although I

was his prisoner for many years. My reasoning was that we could not start another civil war immediately after the ending another. Communication should involve everyone, from right-wing nationalists to Communists and religious fundamentalists. After what happened in Poland, we have no right to be pessimistic. We have to believe that people can change for the better. It's risky. But we, the dissidents, have been telling ourselves the following all our lives: he who does not risk, does not go to jail.

UW: You talk about a possible downslide in democracy throughout Central and Eastern Europe, similar to that in Hungary under Viktor Orban and



THE FACT THAT THE IDEAS OF A CIVIL MOVEMENT ARE BEING BORN IS A MOTION OF NO CONFIDENCE AGAINST POLITICAL ELITES

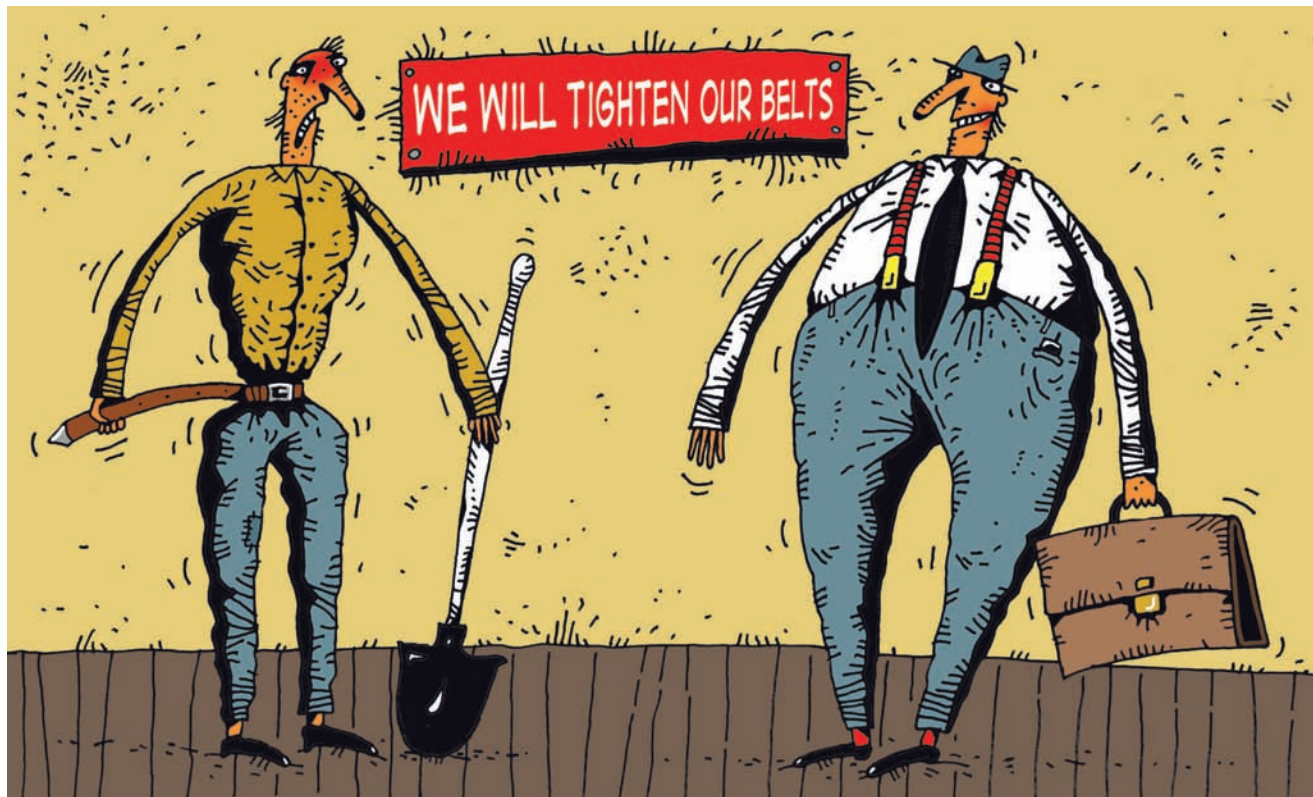
in Ukraine under Yanukovich. How can the younger generation, which has never seen authoritarianism in action and is not immune to Communist dictatorship, resist it?

– I don't have an obvious answer for this. I don't know how young people behave. They don't know who Brezhnev and Shcherbytsky were. They are very cynical. This is typical for any post-revolutionary situation. Revolution involves tension, risk, emotion, idealism and sacrifice. When all of this ends, another slogan comes into being: "It's time to enjoy life!" Today we can freely fly to the Canary Islands, have exotic drinks, buy cars, etc. It's a typical post-homo sovieticus generation. Who knows which way it will turn – this is something that's impossible to predict. Take Russia. Mikhail Khodorkovsky is a model of a smart former Komsomol member who built a business worth billions. At a certain point, he became an idealist. For me, he is one of the moral role models in Russia. An extraordinary man – a Rockefeller turned into Nelson Mandela! Who would have thought that such a thing is possible? ■

Adam Michnik is Polish dissident, journalist, proactive participant of the 1960-1980s political opposition, Sejm MP in 1989-1991, and Editor in Chief of Gazeta Wyborcza since 1989

Special Offer 2013

Society and business that is not connected to the government will be forced to tighten their belts



Author:
Liubomyr
Shavaliuk

2012 was marked by a liquidity crisis, the maximum squeezing of business for financing pre-election improvements, a worsening of the balance of payments and the hopeless battle of the National Bank of Ukraine against the rising cost of the US dollar. All of this was supplemented with an ever-greater swell of rumours about the Family's voluntary-coercive acquisition of attractive assets.

As a result – by the end of the year, investors were finally disenchanted with prospects, and most important of all, with the expediency of conducting business in Ukraine. At the same time, the increase in minimum salaries and pensions prior to the election was offset by the problem of their actual payment after election day,

which made it impossible to continue covering up the extreme budget crisis, that the Azarov government has led Ukraine into in the last two and a half years.

However, taking recent trends into account and the confidence of the ruling regime that it has been on the right course in the last three years, it can be expected that 2013 will be even worse for the economy than 2012 was. The decline of the economies of EU member-states added to the “results” of the Ukrainian government's activities, as did the obscure prospects for the growth of the world's heavyweights – the USA and China. Under such conditions, Ukraine has yet to experience a systemic collapse of the hryvnia, manufacturing, etc, which it has been possible to avoid so far with the simultane-

ous accumulation of disproportion in just about every branch of the economy. Nevertheless, the resources for holding back crisis trends using administrative methods have practically run out.

GDP DECLINE

The gross domestic product (GDP) growth rate, which fell to almost zero in 2012, is very likely to be negative in 2013. There is a high risk of a decrease in the nominal volume of the export of Ukrainian goods, particularly if the world economic situation as pertains export commodities continues to worsen. Eurozone problems will not be eliminated: even the optimistic forecast of the IMF anticipates its economic growth at a level of only 0.2%.

The Russian economy is also slowing down. Its GDP growth

rate decreased to 2.9% in the third quarter from the customary 4–5%, while industrial growth (which covers a significant share of domestic export) fell to 1.9% in November, compared to the same month in 2011. The significantly worse 2012 harvest will be reflected in negative macro indices, at least in the first half of 2013 (the export of wheat was de facto suspended in December) – the export of grain substantially improved Ukraine's trade balance in recent times.

The problem with sales on external markets will supplement the constriction of domestic demand. It's clear from the 2013 budget that the period of forced increases in nominal salaries and pensions prior to the election has ended.

In 2013, their size remains the same for almost the entire year (until 1 December), thus, under conditions of expected increased inflation, for most of the year, salaries will essentially only decrease. Under conditions of the inevitable optimization of business, which has already begun, the dismissal of a significant number of workers can be expected. All of this will lead to a reduction in the expenses of Ukrainians and subsequently, the decline will not only intensify in branches of industry working for the domestic market, but will also extend to retail trade and the service industry – the last redoubts of economic growth in 2012. Moreover, the greatest decline will be suffered by small and medium-sized business.

Even if a good harvest is gathered and the economic situation improves on external markets in the second half of 2013, this could prove inadequate for the Ukrainian economy to reach at least zero growth by the end of the year. And the methods used by the Azarov/Arbuzov government are not advisable.

BUDGET TROUBLES

Clearly, budget revenues for 2013 will not be attained. The government's forecast for nominal GDP in the amount of UAH 1,576bn seems phantasmagorical, but it is the basis for income to the consolidated budget. Statistics show that the 2012 GDP at current prices will probably not reach a

level of UAH 1,420bn. Thus, without realistic growth, there can only be a 12% increase of its nominal value in 2013 with a double-digit inflation, which is unrealistic under a stagnant economy.

It's true that the government has decreased planned revenues to the consolidated budget by UAH 10bn compared to 2012. However, this will not protect the Cabinet of Ministers of Ukraine from the emergence of cash gaps. They will emerge, even in spite of the advance tax payments made by business, and tax rebate indebtedness, which has begun to increase again and even more so in view of these factors. In the worst case scenario, the actual deficit could be twice the size of that planned, although it will accumulate more smoothly than at year-end 2012.

The national debt will also put pressure on the budget. In 2013, Ukraine has to repay USD 9bn in foreign loans and UAH 45bn in domestic loans. Even with renewed cooperation with the IMF, refinancing such amounts as well as financing the planned deficit amount of UAH 50bn will be somewhat difficult. It is likely that foreign private investors who absorbed almost USD 5bn-worth of government Eurobonds in the last six months of 2012 lose trust

in the government, too. So if the IMF fails to provide funds, the government has no option, other than to print money and/or delay social payments. High inflation, a sharp devaluation of the hryvnia, a fall in the income of the population and the prospects of a technical default towards end of the year is inevitable under such a scenario.

THE SPECTRE OF STAGFLATION

Consumer prices for 2012 have not changed. In 2013, quite a few factors will contribute towards increased inflation. First of all, the expected devaluation will cause the indexation of prices on import goods. However, since they only constitute 20% of the consumer basket, even a 20-30% fall in the hryvnia exchange rate will lead to a mere 5% increase in overall price levels. Secondly, it's very likely that the cost of items with the administrative pricing will increase, particularly in the context of renewed negotiations with the IMF. Thirdly, if the government does not restrict the export of grain, then because of the relatively poor 2012 harvest, a deficit could be seen, as well as a price increase on several food product markets. These factors will go against the flow, which will be determined by a fall in the

A difficult 2013

Forecasted indices	International Monetary Fund	World Bank	Cabinet of Ministers of Ukraine	Consensus - forecast*	The Ukrainian Week
Actual GDP, growth in %	3.5	3.5	3.4	2.9	-0.5
Change in the consumer price index at the end of the period, December - December %	5.9	9.5	4.8	7.1	Official inflation – 7.8, actual – 15 *****
Year-end UAH exchange rate, UAH/USD	9.18	No data	8.40***	8.81	9
Consolidated budget balance, as a % of GDP	-3.1	-3.0**	-3.2****	-1.7	-5.1
Current account balance, as a % of GDP	-6.6	-5.3	No data	-6.3	-6

Based on IMF, World Bank, Cabinet of Ministers of Ukraine, Ministry of Economic Development and Trade of Ukraine data and *The Ukrainian Week's* estimates

* Consensus-forecast – average forecast of the Ministry of Economic Development and Trade of Ukraine, based on the data of 15 leading scientific and research institutes, non-government and commercial organizations, conducting macroeconomic forecasts in Ukraine

** Consolidated budget balance plus the Naftogaz of Ukraine deficit

*** Average annual UAH exchange rate

**** Top deficit of the state budget

***** With approximately 60% of the economy being in the shadow, actual inflation is generally several times higher than that indicated by the State Statistics Committee

income of Ukrainians and domestic demand. Therefore the overall level of consumer inflation will not be high. It could be less than the 7.4% forecast by the IMF, and could possibly not even reach the 4.8% that the government set in the budget. At the same time, the stimulation of the economy through the budget, the financial system or foreign investments, could change the general trend and accelerate the inflation rate, but these resources are currently limited.

It is worth noting that according to a different logic, prices are currently being formed on such markets as real estate, automobile, etc. Efforts to reshape the latter increases risks for dealers. The noticeable narrowing of the market forces them to include ever-increasing expenses into the price. These two factors could lead to more expensive cars, even in spite of the overall decline in the population's purchasing power. However, the price of real estate and the number of actual agreements will probably decrease. A decline in business activity has already resulted in the business segment stepping up its competition to gain clients, and in time, this trend could also extend to economy class residential real estate.

EXPENSIVE LACK OF FUNDS

Throughout 2012, the cost of loans and deposits was unusually high – the consequence of a permanent liquidity crisis in the banking sphere. Although interest rates were reduced somewhat in December, the systemic reasons for fixing this trend are not apparent yet. Ukrainians could start withdrawing their deposits because of decreased incomes and the exacerbation of devaluation expectations, after the effect of the threat of the introduction of a tax on the sale of currency is exhausted. Moreover, those, who out of panic exchanged a significant part of their hard currency savings, could create an effect of deferred demand, should the threat of devaluation come to pass. Enterprises will withdraw funds from banks because of unprofitable activities and the ever-growing appetites of the tax authorities. On the other hand, foreigners will avoid investing



Challenges for the economy

The failure to acquire a new IMF loan could drain the National Bank of Ukraine's gold and foreign exchange reserves to a critical level of USD 20bn and lead to the collapse of the hryvnia to UAH 9–9.5/USD. Under economic crisis conditions, administrative methods to support the national currency of Ukraine will no longer work. For example, the mandatory sale of foreign currency by exporters on the Interbank Foreign Exchange Market in 2013 will have no effect – a fall in the volume of exports and thus foreign currency earnings appears inevitable.

The liquidity crisis, followed by expensive resources will lead to the bankruptcy of numerous banks.

The inability to refinance the state debt poses the threat of a default in 2013.

Printing money under hryvnia deficit conditions could provoke double-digit inflation.

The latest wave of business optimization will provoke an increase in unemployment and at the very least, the freezing of salaries, which will lead to a squeeze on domestic demand and accelerate economic decline.

The intensification of tax pressure on business that is not controlled by oligarchs will lead to its partial folding, the accelerated decline of GDP and the growth of the shadow sector of the economy.

The worsening of the investment climate will lead to a "resource blockade" of Ukraine and provoke the outflow of capital.

The continued redistribution of the economy between the "family" and main oligarchic groups will lead to the problem that all owners of profitable businesses will experience a "squeeze" for a share of their property.

money into an economically unstable Ukraine. So financial institutions will be forced to continue their battle for financial resources, and this will maintain interest rates at a high level for a certain period. Not even a new IMF loan will improve the situation, because in all likelihood, it will only refinance the loans that Ukraine will have to repay in 2013 (about USD 6.25bn).

If cooperation with the IMF is not renewed, then the payment of foreign obligations could bring the monetary mass down to critical levels. Should this happen, there will be record-breaking interest rates, banks could go bankrupt, at which there can be no question of the nationalization of troubled financial institutions, because the government simply does not have the money to bail them out. Deposit and loan rates will probably remain at a high level until the devaluation of the hryvnia, which is inevitable.

DEPLETING RESOURCES

The hryvnia exchange rate was pretty stable throughout 2012, although the disproportion in the balance of payments increased. It is very likely that 2013 will be the year of the devaluation of the hryvnia. The trade deficit will probably stop increasing, but the decreased income of the population will decrease the consumption of imported goods. However, private foreign capital will give such a Ukraine in a wide berth. This trend took root in previous years, and is more detrimental than the current account deficit to the balance of payments. This picture is supplemented with the government's repayment of the USD 9bn foreign debt, which is planned for 2013. There are two possible scenarios for the further development of events. One: the government comes to a new loan agreement with the IMF. After this, to eliminate disbalance, it conducts a smooth, controlled 20-30% devaluation, which could well be one of the IMF's conditions. Two: the depletion of gold and foreign exchange reserves at a rate of USD 1–2bn per month and an uncontrolled devaluation of the hryvnia, possibly closer to the second half of the year. In any case, the government does not have foreign currency. Without IMF assistance, at present, it is only possible to acquire foreign currency from Russia, but the cost of this money is well-known. Whether devaluation will then be halted at a controlled and stimulating UAH 9.5–10.5 /USD, or reach a chaotic and ruinous rate of UAH 12 /USD and more, is an open question. ■

Bank Reserves Diminishing

Economic crisis coupled with an ill-advised monetary and credit policy have created an explosive mixture that may lead to the collapse of Ukraine's banking system

Author:
Liubomyr Shavaliuk

Four years have passed since the last crisis in Ukraine's banking sector. Banks have been able to fix their balances with moderate success and began to show some profits only last year. There was hope that the condition of Ukrainian banks would continue to improve. However, a number of foreign-owned Ukrainian subsidiary banks have been sold, high interest rates have persisted, and some financial institutions are already having trouble returning deposited money to its clients. All this points to gloomier prospects and more problems for the banking industry.

BALANCING ON THE EDGE

Ukrainian banks fundamentally suffer from a chronic deficit of financing. The key sources of financing are deposits made by individuals and businesses in addition to external loans. These account for 59% of all resources available to the banking industry, and any changes essentially redefine the terrain on the financial market (**see the Financial chart**). External loans were the main source of financing for the banking system prior to the crisis. It will take the banks a while to repay these – a mere 48% of December 2008 loans have been paid back as of the end of 2012. The situation is exacerbated by the disappointment of foreigners with Ukrainian banks and bankers. The latter may not see any large inflow of foreign capital for years to

come, while old debts must be repaid in any case.

Not surprisingly, deposits took the lead as the main source of financing available to Ukrainian banks after the crisis. Lured by high deposit interest rates, Ukrainians deposited a lot of their money in bank accounts last year, but this may have simply revealed the maximum amount that they are willing to entrust to the banks. Moreover, people's income will fall as the economy tumbles, which will force them to spend the money they now keep in financial institutions. Even a further increase in interest rates

is unlikely to attract significant amounts of additional deposits.

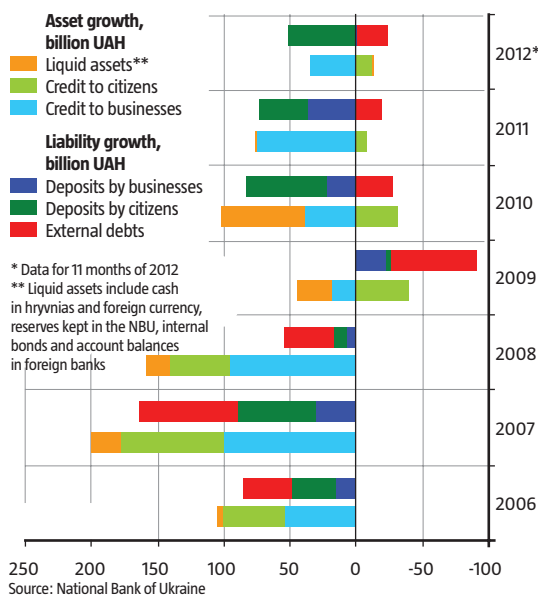
Money deposited by businesses usually accounts for a large part of banking resources. Businesses make such deposits when they grow and need to have more circulating assets. However, there was no growth last year, so their accounts shrunk. Now there is every reason to expect economic decline or, at best, stagnation in 2013, so this source of financing will be unavailable.

Against this backdrop, it is interesting to see where banks channel the money they receive (see the Financial Drought chart below). The short supply of money has essentially put an end to consumer lending. Banks are only getting their old loans paid back and issuing a tiny amount of new ones. All resources are being utilized to credit businesses. But this is not enough, and companies are choking with few circulating assets left after losses and taxes. Production volumes are falling, and factories have ceased to operate in many cases.

Not only businesses but also financial institutions themselves are lacking cash: they have not been able to increase their liquid assets (cash, foreign currency reserves, etc.) over the past two years. Thus, as the balance in the banking system improves, its liquidity and potential solvency is falling. Banks were able to maintain the status quo with liquid assets in 2011 but were forced to buy internal bonds in 2012, thus cutting into their hryvnia and for-

Financial drought

Starved for money, Ukrainian banks are squeezing finances from the economy



eign currency reserves. This exposes the system to additional risks, which may soon materialize.

NO RELIEF COMING

The National Bank would have to lend banks a helping hand in conditions of disrupted financing. In this situation, the central banks of most countries pour money into the system to boost economic growth. Developed countries have even gone a bit too far with this instrument in recent years. This does not apply to the National Bank of Ukraine (NBU), because its priority now is to ensure the stability of the hryvnia rather than economic growth. It would seem that the two macroeconomic objectives would have to complement each other, but the economic situation in Ukraine is such that they actually contradict each other. 2012 statistics confirm this and professional economists are aware of the issue, but the NBU's management is turning a blind eye.

As a result, Ukraine's banking sector has been operating in the following mode for more than a year now. Banks have been channelling all their financial resources into the anaemic business of their owners as a matter of first priority. The crumbs that remain have ended up on the interbank foreign currency market, which

has expanded three to five times in the past two years. Realizing that any refinancing will be used to buy foreign currency, the NBU has issued credits only to loyal banks on specific conditions (such as purchase of internal bonds or crediting government projects) under which this money can never find its way to the currency market. The NBU knows exactly how much money (received interest rates, repaid loans, etc.) enters the banking system each month and has no problem calculating just the right volume of refinancing to avoid flooding the currency market with hryvnias and prevent uncontrolled hryvnia devaluation. Therefore, as long the hryvnia exchange rate is stable and devaluation expectations high, this scheme may work, even though it strips commercial banks of liquidity, as well as of a desire and capability to credit the economy.

Of course, the National Bank issues many refinancing credits (see the **Excessive Dependence chart below**), otherwise the banking system would have reached a critical point by now. But this money is not enough to secure even a short-term solution, to say nothing of economy-boosting credits. Refinancing volumes are rising, and as much as one-fourth of the banking system needed refinancing in late 2012.

In these conditions, it is hard to predict which will happen sooner: a systemic crash of the banking system or NBU-orchestrated hryvnia devaluation.

SKYROCKETING INTEREST RATES

The condition of the banking sector is adequately reflected in interest rates. All key interest rates grew in 2011 and remained high in 2012, in some cases reaching historical highs (see the **Banking Pyramid chart below**). The interbank market is the first to react to a short or excessive supply of money in the system,

BANKS ARE CHANNELLING ALL THEIR FINANCIAL RESOURCES INTO THE BUSINESS OF THEIR OWNERS AS A MATTER OF FIRST PRIORITY

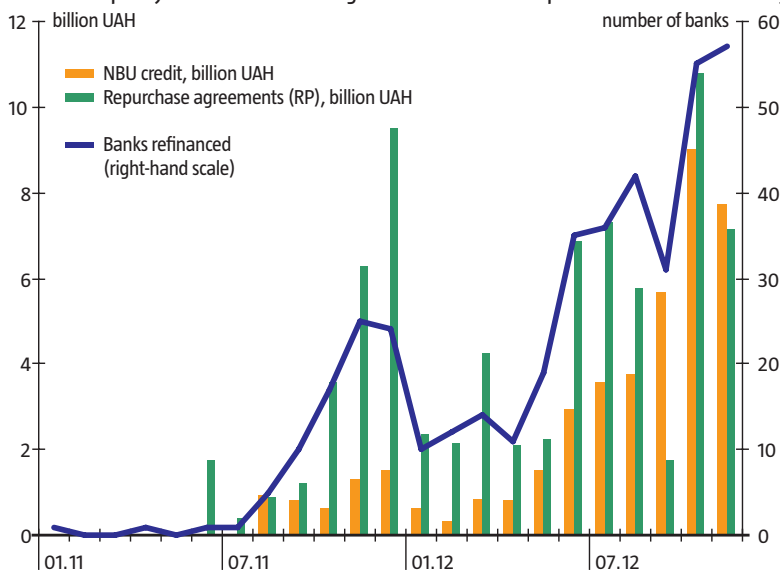
and it posted the most significant increase in the cost of credit. The dynamics of interest rates in 2011-12 and 2008-2009 appear nearly the same: two shared waves and the same duration of the period leading up to a deep crisis. The only difference is the higher amplitude in 2008-2009 when the disproportions were bigger and the NBU had less time and knowledge to react properly. This comparison suggests that even if Ukrainian banks avoid massive problems in the near future, many of them will not survive until 2014, given the current trends.

Interest rates on hryvnia deposits are beating decade-old records. And this is the most massive resource available within the country. It looks as if banks are showing that they have only one option left as they seek sources of financing. And this single option is valued in hryvnias – interest rates on foreign currency deposits made by households are much lower than in 2008.

The high interest rates increasingly lose their effect with each passing quarter, while the rate of deposits received is falling. Interest rates on deposits made by businesses have been rapidly growing, but companies lack finances to serve their own needs, and so they watch skyrocketing

Excessive dependence

The NBU's policy makes an increasing number of banks dependent on its refinancing



Source: National Bank of Ukraine

deposit interest rates with an ironic smile. Interest rates on loans are, of course, also growing. Loans to physical persons became more expensive immediately after the crisis. For businesses, interest rates on loans are not growing as fast as on the deposits they make. All in all, despite a short supply of money and the need to survive, companies are not prepared to borrow money at the current rates and prefer to shut down and wait for better times. As a result, the economy and the standard of living in the country are falling. This hurt Ukrainians in the second half of 2012 and will continue to do damage in the future.

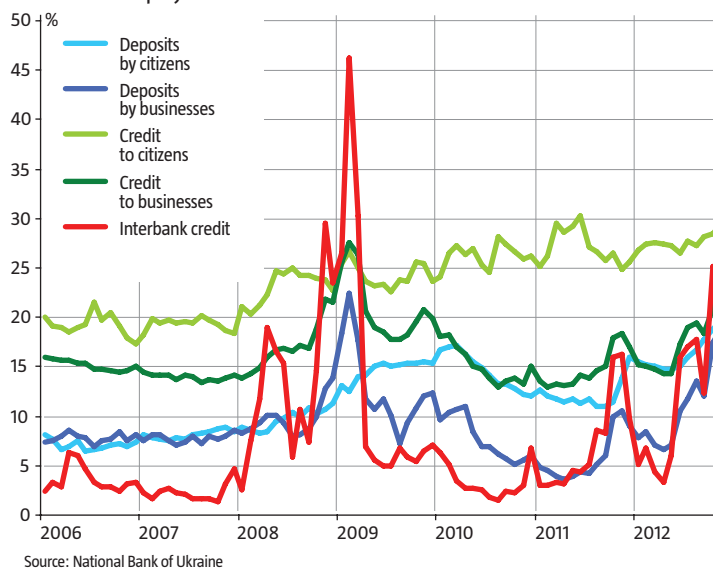
Interestingly, high interest rates have coexisted with a low inflation rate in Ukraine for quite some time. This is direct evidence that money is lacking both on the financial market, which defines interest rates, and on commodity markets, which define price levels. If money is lacking on both of these markets, neither the state nor citizens or businesses have it. This is a direct result of the NBU's activity under Serhiy Arbutov, who is an agent of the Yanukovich regime's "Family." He has been moved to a government post and may eventually head the Cabinet of Ministers. In this case, it is frightening to imagine what the financial and political policy of the Family, which will likely maintain its control over the National Bank, may eventually lead to.

WHAT WILL BECOME OF THE BANKS?

Bankers will, no doubt, continue to scratch their heads over where and how to obtain financing. All current and potential creditors of Ukrainian financial institutions are gradually losing the motivation to trust them. Moreover, Ukrainian citizens and businesses as well as non-residents (largely European) are themselves experiencing problems, including loss of jobs, falling incomes, financial losses, etc. They will need money in order to overcome these hardships, so even this potential source is becoming depleted. The key rates will stay high as long as this fundamental trend persists. Therefore, the temporary drop in the interest rates the country saw in December 2012 raises more

Banking pyramid

High hryvnia interest rates cause disproportions that push banks closer to bankruptcy



questions than it offers answers. If the increase in liquidity and the drop in rates were so insignificant and short-lived after the end of the election campaign and amid marked optimism on world capital markets, what will they look like when the situation is less favourable?

On the one hand, the NBU may continue its current policy of precisely measured refinancing. In this case, the high interest rates will continue to hurt bank

double effect. First, resources would flow from the interbank currency market to credit, because there would be nothing to gain on that market if the hryvnia is adequately valued. Second, non-residents that have adopted a wait-and-see approach would start investing more actively in Ukraine's economy. This would bring more money to the banking system. Moreover, the population would realize that an influx of money reduces the risk of bankruptcy and would be more willing to deposit money that it now keeps at home in cash. Furthermore, the NBU's refinancing would reach its goal of lending credit to the economy, because bankers would no longer have reasons to channel the money they will be receiving elsewhere. An additional benefit is that refinancing may actually turn out to be unnecessary – as is known from the past, interest rates drop and banks' liquidity rises almost overnight in this case.

Is there a possible third scenario? Theoretically, it does exist. But it would require the world economy to enter a phase of rapid growth, Ukraine to greatly improve its investment climate, Ukrainians to begin trusting their government and Ukrainian businesses to come out of the shadows en masse. All of these circumstances are unlikely. ■

CURRENT AND POTENTIAL CREDITORS OF UKRAINIAN FINANCIAL INSTITUTIONS ARE GRADUALLY LOSING THE MOTIVATION TO TRUST THEM

balances. Some banks will go bankrupt, becoming completely dependent on the NBU and needing its refinancing for years to come. A worse outcome of this scenario would be a bank run and capital withdrawal abroad by bankers. Ukrainians know what this entails from the previous crisis.

On the other hand, the NBU could abandon the idea of maintaining the hryvnia's exchange rate at any cost and instead carry out controlled devaluation which would reflect the macroeconomic situation. This move would have a

Danger, Police!

Copwatch, a global campaign to stop police brutality, is gaining ground in Ukraine as local 'copwatchers' observe and document police misconduct

Author:
Valeria
Burlakova

Copwatch emerged as a movement in the United States in the 1990s. Today, the network of street monitoring volunteers who capture police misconduct on video is active in the US, Canada and a number of European states. Ukraine recently joined the lot.

"We do not interfere, we just observe," says Serhiy, a Ukrainian copwatcher. Activists prefer to film the police openly rather than on hidden cameras, and upload the videos to YouTube. "You can't videotape me," police officers often protest on camera. "Why not?" activists ask. "Because you can't!" There is no law banning the videotaping of officers on duty, as Art. 5 of the Law on Police defines the work of the police as public. "A police officer is a public figure and represents the government. Therefore, he or she should not turn to privacy laws for protection," lawyers comment.

Still, Ukrainian copwatchers have to be cautious even if acting within the law. "We always videotape police in groups of three or four," copwatcher Bohdan says. "One of us stays nearby to call friends if we happen to need help." These precautions come from intimidation and threats to arrest activists while they are taping. "Recently, some police officers wanted to take us to their station to book us. They didn't find any legitimate reason so they asked us to go with them voluntarily. We refused. Desperate, they started calling someone and asking whether they had the right to arrest us. We eventually got bored and left," Bohdan recalls.

Ukrainian online media is saturated with video clips exposing the routine illegal actions of many police officers, such as refusal to show their IDs. "I once saw two highway patrol officers smoking next to a gas station," activist Ser-

hiy says. "I asked them to stop. 'What do you mean?' one asked surprised. 'It's a gas station' I explained pointing at the huge No Smoking sign. When I asked their names, one stated the common fake name Ivan Ivanov. I asked to see his police ID. Instead, he grabbed the other officer by the hand and ran to the car."

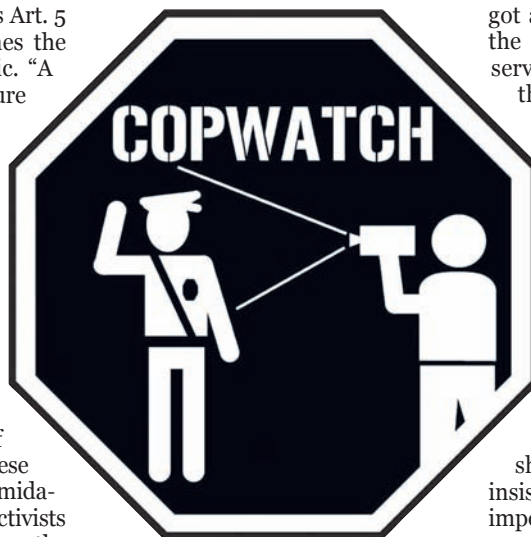
Copwatchers ran into another officer Ivan Ivanov at the central railway station in Kyiv. "The police are really aggressive there because they are involved in deals with transport, smuggling and so on," activists explain. "They hate being video-policed. Once, we started

police are afraid of it because they know that an officer refusing to show his ID risks getting a letter of reprimand, losing a bonus, or worse.

With time, Ukrainian copwatchers have learned to throw cold water on both average police officers and police chiefs. "Sometimes the videos uploaded on the web result in personnel changes," Serhiy says. "For instance, after a video of the police beating a homeless person at the railway station was posted on YouTube, the officers involved were fired. Someone in Donetsk videotaped some intoxicated on-duty policemen. One lost his job; the other got a serious reprimand. Overall, the Ministry of Interior's press service keeps an eye on these things."

Videotaping does not always work this way, especially with illegal actions by the police at rallies and protests. "The police are ordered by top officials to disrupt the rally, so they beat people knowing that they have some sort of protection," says copwatcher Yevhen. In such cases the activists who experienced police misconduct should take it to the court, he insists. However, this is next to impossible in Ukraine today. As a result, the feeling of impunity encourages further police misconduct.

Ukrainian copwatchers believe that waiting for the system to change makes little sense and people should start changing their own actions instead. Activist Serhiy admits that he feels he can breathe easier now. "The normal reaction is to get nervous when talking to the police," he explains. "My legs were shaking when I did for the first time and I couldn't explain why. Now I can talk to the police freely. After all, it's their job to protect us." ■



taping as they stopped a guy with bags. The police left him immediately, ran to us, grabbed us by the hands and shouted to turn off the camera. This was our dialogue:

- What's your name?
- Ivan Ivanov!
- Ok, can I see your ID?
- Why should I show it to you?

I'm not going to!

- So, you're not a police officer. Should I call 102? (the emergency number for the police - Ed.)

According to copwatchers, the last phrase is a magic wand. The

Embraced by Lawlessness

The Ukraine we live in is not a unique country. There are several more such countries on post-Soviet territory. Two things are the same in each: the lawlessness exercised by law-enforcement bodies and a lack of basic legal protection for citizens.

People have no rights, unlike those who are called on to protect them. Even when a policeman or judge is actually caught accepting a bribe, it's usually a low-ranking figure. Bigger fish are sometimes caught, but what happens after their arrest remains unknown. The Judge Ihor Zvarych case was an exception, but not an ideal one, because the other bribe-takers did not follow him to prison - some were even promoted.

Everyone knows where the cops who rigged local elections in Mukachevo and the presidential election in 2004 ended up. All of them are still working, in lucrative positions to boot. Everyone knows that drug dealing and prostitution are under police control. But so what? Nothing is done. There has not been a single cause célèbre. However, when a journalist investigates the holiest of holies - yet another feeding trough of the police - a scandal immediately erupts. The police recently searched the home of Taras Zozulinsky, a Lviv-based journalist, who found a bug among his clothes. The search lasted six hours! Tell this to anyone in Europe, and they would laugh their heads off. You see, special detection equipment can do the job in a matter of minutes. Meanwhile, our Pinkertons used a flashlight, screwdrivers and a knife in their search. Even Sherlock Holmes equipped himself with a magnifying glass for such work. I'll refrain from commenting on the deductive method.

After the search, an anomaly in 21st century practice, the Head of the Lviv police unit demanded from the journalist that the newspaper's editorial office hands the bug over to the police. The newspaper's administration had previously promised that it would do so, but only on the provision of a warrant for the removal of this important piece of evidence. The investigator had promised to obtain it, but someone was itching to get his hands on the device as soon as possible, at which, without producing any paperwork. This is why the investigator began to intimidate the journalist, threatening to search the entire editorial office, thus paralyzing its operations.

Why such zeal on the part of the police? It all becomes crystal clear when you consider that Zozulinsky was investigating drug trafficking. And in this instance, all links led directly to the police. The story goes even deeper. A while ago, someone fired shots into the windows of the Express newspaper's editorial office. The police have yet to identify the culprit, even though the bullets' trajectory would have easily

led them to the window from which they were fired and could have established who was in the flat at the time of shooting. But what for? The police themselves were interested in intimidating Express and Post-Postup.

Back in 2004, the police taught us the same lesson when they themselves set fire to Postup's editorial office. The then chief of the Lviv police is still a chief, albeit in a different oblast. The Lviv police also provided protection to a chain of pharmacies which used to sell narcotics. Their owners were eventually imprisoned, but their patrons in the police got off scot-free. Members of the Democratic Alliance NGO saw Lviv Oblast police demand bribes from each truck that was loaded with beetroots. The activists were beaten up and arrested, while police chiefs reported there had been no violations. The testimony of ordinary people who saw the police beat the activists was published on the Internet. The result? Nothing. Zilch.

Lawlessness reigns supreme everywhere, starting from the state border. My wife's relatives drove down from Russia to spend Christmas with us. On the border, a Ukrainian border guard asked them: "Do you need help in filling out the declaration form?"

"No, we have nothing to declare," was the answer. The border guard went away; the car remained where it was. After a while, another border guard came up: "So do you need help or not?" The response was the same. Finally, our relative realized that he had to ask how much he was required to pay for assistance.

RUR 500. He handed over the money and the border guards wished them a happy journey, without even looking into the boot of the car.

I'm not saying that things were different under the previous govern-

ment. Everything was the same, but less blatant and on a smaller scale. Kickbacks used to be in the range of 10%, while now, the minimum is 30%. Law enforcement agencies did not act with such impudence; bribes were not openly demanded on the border; private bodyguards did not beat up people; there was no Berkut (special police unit); there weren't so many corporate raids. Ukraine has now turned into a veritable testing ground for various means to maintain power. Suspicious setups came one after another: terrorists in Dnipropetrovsk, a killer in a Kyiv supermarket, the murder of a judge and his family, etc. People are skeptical. Only the Ukrainian government has no doubts, which is why its reaction is lightning-fast: permitting searches and the removal of evidence, surveillance and wiretapping, the arming of the police, etc. The only thing that is not yet permitted, is shooting on sight. ■

**UKRAINE HAS TURNED
INTO A VERITABLE TESTING
GROUND FOR VARIOUS
MEANS TO MAINTAIN
POWER**



Author:
Yuriy
Vynnychuk

Difficult Times for White Collar Workers

In 2013, the Ukrainian workforce expects redundancies, while enterprises are preparing for the large scale optimization of personnel

Author:
Margarita
Ormotsadze

Olesya Hirska, an analyst at one of Kyiv's holdings, together with three other colleagues from her department, was made redundant in early December 2012, following a three-month delay in salary payment. The redundancy came about as a result of the optimization of expenses. She never did receive most of her back-pay. This is just one of thousands of instances of the large-scale personnel "cleaning" process at Ukrainian enterprises, begun towards the end of 2012. According to data compiled by the State Statistics Committee, demand for employ-

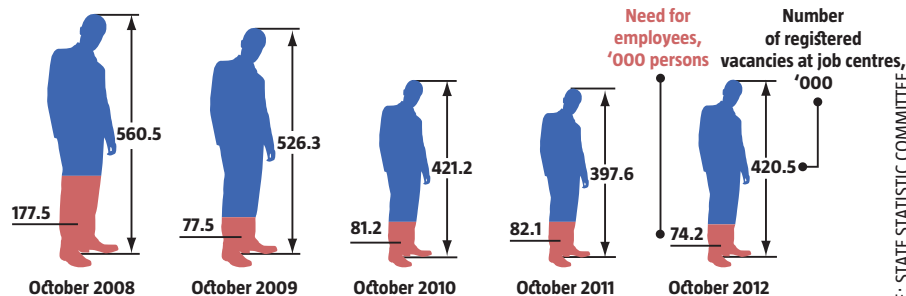
ees at Ukrainian companies fell by 10% in October 2012, compared to October 2011 and more than two-fold since the "black" October of 2008. Experts forecast that these trends will intensify. However, in their view, some companies could deliberately disguise their true need for workers, in order not to attract the attention of tax authorities.

Global trends testify to the deep recession in the Ukrainian economy, which will last at least until the third quarter of 2013. Changes on the domestic labour market are not always in line with the situation that has emerged in the entrepreneurial

environment. "The fluctuation in unemployment levels is not really connected to the actual fluctuations of business processes. Companies often prefer to formally maintain employees, working reduced hours, etc," confirms Oleksandr Zholud, an analyst at the International Centre for Policy Studies. However, he feels that because of pessimistic economic forecasts, employers will be forced to continue optimization.

Employees also feel the negative trends: 23% of the people surveyed by the hh.ua international career portal are convinced that there will be relatively insignificant redundancies at their enterprises in 2013. The same percentage of respondents expects mass lay-offs. Olena Hryshchuk, Director of the For-sazh recruitment agency, feels that there is no point in counting on the dynamic development of new projects and thus an increase in vacancies, bearing in mind the absence of foreign investment and the overall economy of companies in 2013. Currently, we are only seeing isolated cases of business expansion, accompanied by an increase in vacancies in these spheres," states Ms. Hryshchuk. Clearly, the companies this pertains to, belong to pro-oligarchic and pro-government structures. The rest will have to tighten their belts.

EXTRA HANDS. Demand for manpower and offers



Top 5 specialists most sought after by employers.



Based on the research of the hh.ua international career portal
*research conducted by the superjob.ua portal

CONCENTRATION OF FEUDALISM

According to official data, unemployment in Ukraine is at a level

of 399,000, of which 243,000 are women. However, the figures cited by experts are somewhat different – nearly 2mn. The differences in statistics are explained by the fact that most employees find themselves in a “grey” zone – on forced vacations or not registered at job centres. A further million people are working a two-three day week and four hour work schedules on the request of employers. The government estimates that the shadow employment market numbers 4.7mn or 23% of all able-bodied citizens. Enterprises are ever-more often transferring people from legal positions, to employment without any documentary agreements. It is characteristic that in Latin American countries, qualified specialists “strike” against the black labour market, rejecting enterprises which do not offer an official employment contract. Ukrainians, on the other hand, have even learned to be pleased to be hired illegally: they feel that by not paying taxes in full, they are creating problems for the government.

Formally, in Ukraine, the government takes care of global employment market issues. Already in the autumn of 2012, it approved a comprehensive employment program covering the period until 2017. Its declaration includes: “the expansion of opportunities for the realization of the right of citizens to worthy employment, increasing their income by means of creating conditions for increasing the employment level of the population, encouraging employers to create new jobs, the maintenance and development of labour potential, etc”. The document provides for state facilitation in the development of priority sectors of the economy: the mining industry, energy, the chemical industry, oil refining, transportation and communications, etc. In other words, nearly all the major directions of government oversight pertain to the sphere which is under the influence of the local oligarchy, which merely strengthens society’s feudal status.

IT technology, the representatives of which are constantly in demand on the labour market, is

possibly the only branch that is not under the influence of the oligarchy. However, the most highly qualified IT specialists prefer to execute orders for foreign companies at home, or actually move to more developed countries. Herman Ovcharko, Director of the Superjob.ua portal feels that “programmers, sales specialists and pharmacists will have no need to worry about getting a job in 2013”. Accountants can also remain optimistic, since demand for these specialists is of primary importance to business under any conditions.

SALARY “SEESAWS”

In 2013, even the representatives of “deficit” professions are not likely to aspire to a significant earnings increase. The most optimistic forecast regarding salary growth is provided by the international HayGroup. Its calculations were conducted on the basis of an analysis of the actual salaries at Ukrainian companies. It has concluded that in 2013, employee salaries will increase by 10%, which exceeds the expectations of any European country. In the Eurozone, average salary increases are expected at a level of 3.3%. Other experts anticipate a fairly restrained salary growth rate, since enterprises have already passed maximum salary possibilities. More specifically, by tasking specialists with the responsibilities generally conducted by several employees, which was traditionally accompanied with increased salaries. But this limit has almost reached its maximum value for the current economic situation. “Realistically, 2012 salaries increased by 13–14% in comparison to 2011. Part of the reason for this was its increase in the budget sphere on the eve of the election. But because of this, in view of the economic situation, we will already see a significant decline in salary increases at enterprises as early as in 2013”, – notes Oleksandr Zholud.

However, white collar workers prefer not to notice unfavourable trends and, as if living in a parallel reality, continue to wait for increased incomes. The above-mentioned unemployed

According to State Statistics Committee data, unemployment has increased by almost

6%

in Ukraine between October 2011 and October 2012



THERE IS NO POINT IN COUNTING ON DIVERSITY IN VACANCIES OR A SIGNIFICANT RECOVERY ON THE LABOUR MARKET IN 2013

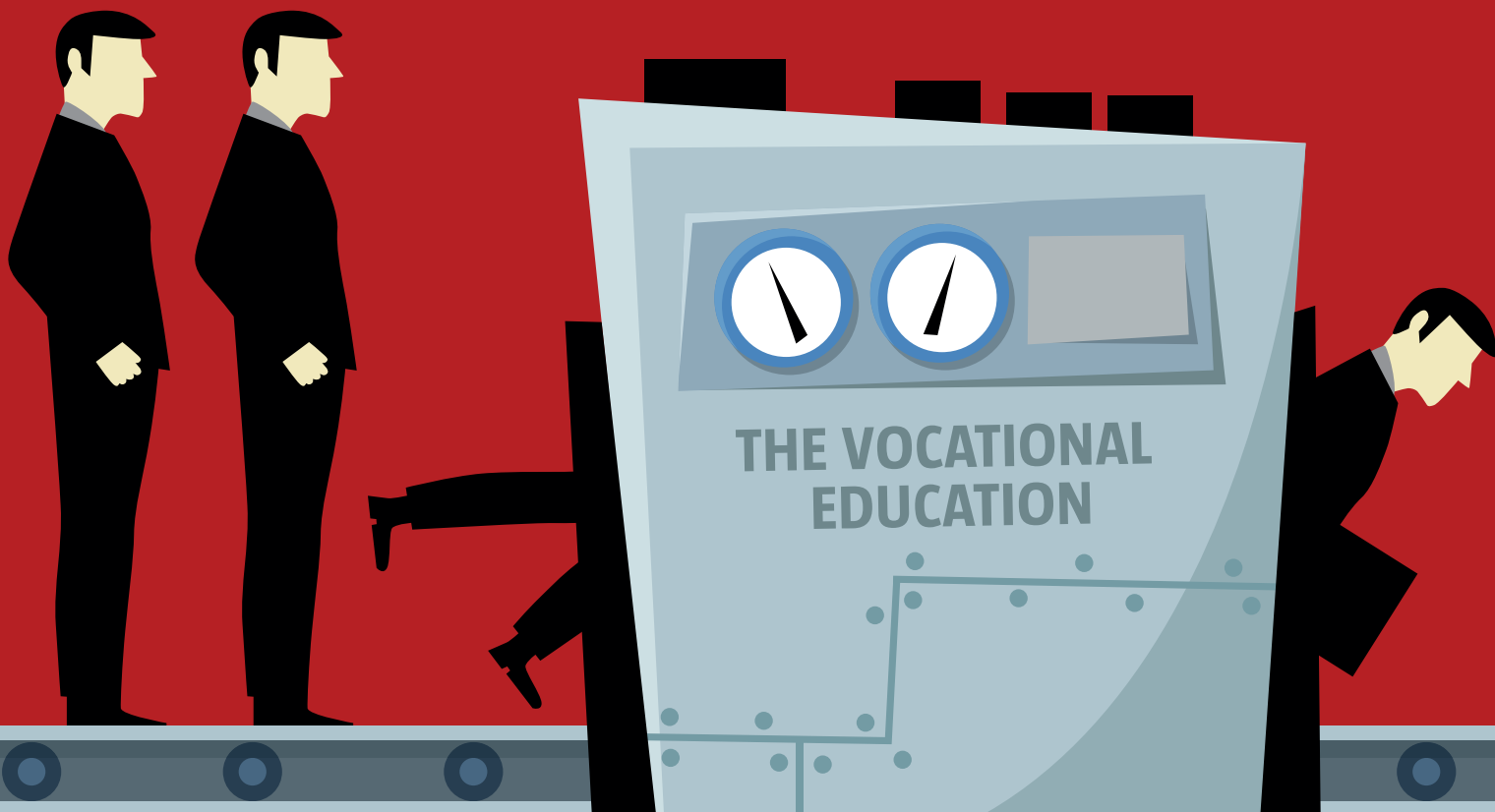
Olesya Hirska feels that she will find a good job with a better salary next year. Her expectations are not the exception: according to a hh.ua portal survey, 27% of Ukrainians are counting on increased salaries in 2013, while 38% feel that at the very least, salary levels will not decrease. However, there are no realistic reasons for positive forecasts among specialists in most spheres, and such hopes can only be explained by people’s irrational optimism.

In any case, it is clear today, that all the intentions of the Ukrainian government regarding the “improvement” of conditions on the labour market are mere declarations, while enterprises are gradually losing the capability to ensure a due salary

level. The level of competitiveness among companies themselves, in view of the total monopolization of all spheres of the economy, is in decline. In such realities, it is futile to count on worthy employment based on professional qualities – corrupt ones take precedence, and for the most part, at pro-oligarchic monopolies. Under conditions of the deepening of such trends, Ukraine risks reliving yet another large-scale migration of specialists abroad. The consequence of this will be a critical decline in the efficiency of society. ■

A VICIOUS CIRCLE

Ukraine’s labour market is suffering a mismatch of education and jobs. According to official statistics, almost 3.5mn people with higher education work as technical staff. This is first and foremost the result of the gap in the numbers of university and vocational school graduates. The former are too many while the latter are too few, as people try to get a university degree just for the sake of it en masse. The lack of specialists with vocational training generates great demand for blue-collar workers, hence numerous blue-collar job offers. This mismatch is typical both for Ukraine and many European countries (see p. 38). Those who are reluctant to work as technical staff go to seek a job abroad, yet mostly get jobs that do not meet their degree.



The Great Mismatch

Skills shortages are getting worse even as youth unemployment reaches record highs

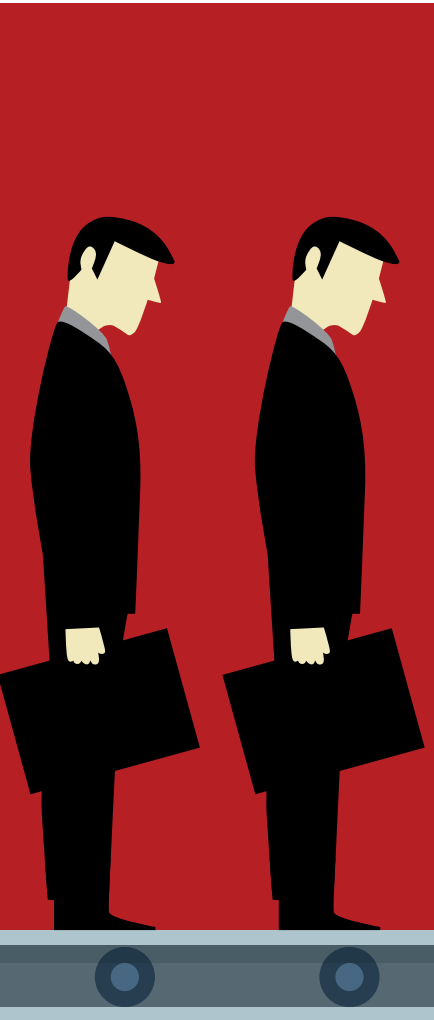
IN PARTS of Europe and the Middle East more than a quarter of 15- to 24-year-olds do not have a job. In some black spots such as Spain and Egypt the figure is more than a half. Altogether 75m of the world's young people are unemployed and twice that number are underemployed. This not only represents a huge loss of productive capacity as people in the prime of life are turned into dependants. It is also a potential source of social disruption and a daily source of individual angst.

The Japanese have a word for the 700,000 young people who have withdrawn from society into domestic cocoons: hikikomori.

Yet at the same time companies complain vigorously that they cannot get hold of the right people. Earlier this year Manpower, an employment-services firm, reported that more than a third of employers worldwide had trouble filling jobs. Shortages are pressing not just in elite areas such as engineering but also in mid-level ones such as of-

fice administration. This week McKinsey, a consultancy, reports that only 43% of employers in the nine countries that it has studied in depth (America, Brazil, Britain, Germany, India, Mexico, Morocco, Saudi Arabia and Turkey) think that they can find enough skilled entry-level workers. Middle-sized firms (between 50 and 500 workers) have an average of 13 entry-level jobs empty while large employers have 27.

What is going on? And what can we do about it? McKinsey ar-



gues persuasively that a big part of the problem is that educators and employers operate in parallel universes—and that a big part of the solution lies in bringing these two universes together: obliging educators to step into employers' shoes, employers to step into educators', and students to move between the two.

The best way to do this is to revamp vocational education, which outside the German-speaking world has been treated as the ginger stepchild of the education system. Governments have poured money into universities. Universities have competed to sing their own praises. As a result, parents and their offspring have shunned vocational schools: many students surveyed by McKinsey chose to go to academic schools despite thinking that vocational ones would give them more chance of finding work.

But some far-sighted countries, schools and firms are busy reinventing vocational education, McKinsey argues. South Korea has created a network of vocational schools—called “meister” schools, from the German for “master craftsman”—to reduce the country’s shortage of machine operators and plumbers. The government pays the students’ room and board as well as their tuition. It also refers to them as “young meisters” in order to counteract the country’s obsession with academic laurels (South Korea has one of the world’s highest university-enrolment rates).

Technical schools are building exact replicas of workplaces in order to make it easier to cross the theoretical-practical divide: the TAFE Challenger Institute of Technology in Perth, Australia, has a fully functioning replica of a gas-processing plant (minus the gas). Talent-starved companies are striking deals with governments to mix practical and academic education: in Egypt Americana Group, a food and restaurant company, has a programme that allows students to spend up to half their time working for Americana (earning wages) and half their time in college.

Policymakers are also enjoying some success in using vocational education to reach underprivileged groups. South Africa’s Go for Gold, a partnership between the Western Cape Education Department and the NMC Construction Group, identifies promising schoolchildren for additional instruction and guarantees them a year’s paid work experience and a chance at a university scholarship. India’s Institute for Literacy Education and Vocational Training sends people to villages to speak to families about the opportunities on offer with blue-chip companies such as Taj Hotels and Larsen & Toubro.

It is easy to be sceptical about these attempts to bridge the gap between education and employment. Academic drift is one of the most powerful forces in educational life: look at the way Britain’s technical schools were allowed to wither on the

vine and its polytechnics converted into universities.

Nevertheless there are reasons for optimism. For one, technology is greatly reducing the cost of vocational education—which has always been one of the most important reasons for its slow spread. “Serious games” can provide young people with a chance to gain hands-on experience, albeit of the virtual kind, at minimum cost. Miami Dade College, America’s largest community college, has introduced a system that sends automatic alerts to

THE BEST WAY IS TO REVAMP VOCATIONAL EDUCATION, WHICH HAS BEEN TREATED AS THE GINGER STEPCHILD OF THE EDUCATION SYSTEM

faculty advisers whenever one of their charges trips a warning wire, such as falling grades. Colombia’s Labour Observatory provides details on the graduation and employment rates of every educational institution in the country.

MASTER THE MEISTER

Second, more and more private-sector institutions are coming up with ideas to improve vocational training. China Vocational Training Holdings specialises in matching students with jobs in the Chinese car industry by keeping masses of data on both students and companies. Mozilla, the creator of the Firefox web browser, has created an “open badges initiative” that allows people to get recognition for programming skills. IL&FS Skills, an Indian training company, gives students a guarantee of a job if they finish its courses.

Better vocational education is hardly a cure-all for the global jobs crisis: millions of young people will be condemned to unemployment so long as demand remains slack and growth sluggish. But it can at least help to deal with an absurd mismatch that has saddled the world not just with a shortage of jobs but a shortage of skills as well. ■

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Kyivan Rus' as an Ancient Ukrainian State

From the viewpoint of contemporary European ethnology, the people who inhabited Southern Rus' in the 10th through the 13th century A.D. and were governed by the principalities of Kyiv, Pereiaslav and Halych had proto-Ukrainian ethnolinguistic traits

Author:
Leonid Zalizniak

The historical heritage of Kyivan Rus' is a key problem in the history of Eastern Europe. It is undeniable that the Ukrainian lands governed by Kyiv played a leading role in the formation of the Eastern Slavic world and its statehood (see Figure 1). Whether real or imagined, the heritage of Kyivan princes not only legitimized the very existence of young East European states (above all, Muscovy) in the late Middle Ages, but also provided the basis for their expansion into the rich territories of Southern Rus'-Ukraine. That is the reason why, as Russian historian Alexander Pypin put it, "the dispute between the southerners and the northerners" (i.e., Ukrainians and Russians) over Kyivan heritage has shown no signs of slacking in the five centuries since the formation of Muscovy. For obvious reasons Ukrainians ("Little Russians"), as "the younger brother" in the empire of Great Russians, found it hard to argue their case. The "older brother" had at its disposal a totalitarian government apparatus with a wide range of "weighty" arguments ranging from financial incentives and promotions for supporters to camps on the Solovky Islands and execution of its opponents.

LAWS OF ETHNOHISTORICAL DEVELOPMENT

The framework for identifying the ethnicity of the people who lived in princely Kyiv and figuring out Ukrainian ethnogenesis is defined by the universal laws of ethnohistorical development in medieval Europe. The following are the fundamental postulates of contemporary European ethnology:

1. Approach ethnic groups as ethnocultural organisms that are born at a certain point, go through a life cycle and inevitably disintegrate as they dissolve among their neighbours.

2. The age of an ethnic group is determined retrospectively with the help of methods from various disciplines (history, archaeology, linguistics, ethnography, anthropology, etc.) which are used to identify the starting point of the people's continuous ethnocultural development.

Figure 1. The geographical spread of toponyms derived from the name Kyiv, according to Oleg Trubachyov

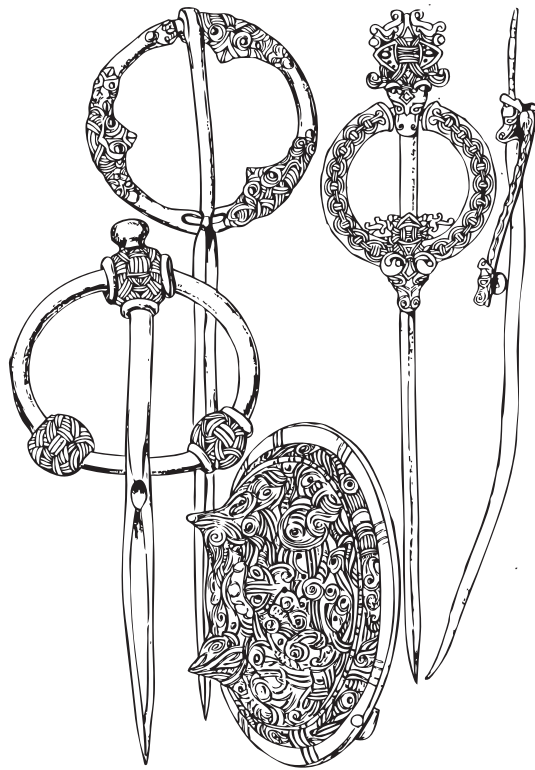


3. Most European peoples (the French, the English, Germans, Spaniards, Czechs, Serbs, Croatians, Poles and others) who live in the territory of cultural and historical influence of the Roman Empire emerged in the early Middle Ages, i.e., the 5th through the 7th century A.D.

4. The tribal stage in the development of peoples populating the European middle belt began when Europe entered the Middle Ages and ended in the 9th-10th century when these ethnic groups united to form their own states (English, French, Czech, Serbian, Polish, etc.). These often covered the territories of neighbouring peoples and took the form of medieval empires (British, Spanish, French and Polish).

5. As backward provinces were colonized by their metropolises, young post-imperial ethnic groups were born. They emerged out of a synthesis between local traditions and the ethnic culture of the conquerors and began their own historical existence at the moment they split off from the respective empire. For example, the barbarian frontiers of the Roman Empire were home to Romanic peoples (Spaniards, Portuguese, French, Romanians, etc.). The Spanish Empire gave rise to Spanish-speaking Mexicans, Chileans, Argentineans, Peruvians, Venezuelans, Cubans, etc. The British Empire was the motherland of English-speaking Americans, Canadians and Australians. The Portuguese Empire brought forth Portuguese-speaking Brazilians and the French Empire the Quebecois. As the Kyivan Rus' Empire colonized the forested northern parts of Eastern Europe, it gave rise to Belarusians, Pskov-Novgorodians and Russians.

Contemporary ethnology distinguishes between several stages in the ethnic development of large peoples in medieval Europe. The origins of European ethnic groups populating the territory that fell under the cultural and historical influence of the Roman Empire go back to the Middle Ages. The fall of the empire caused well-known upheavals (the Barbarian Invasions), after which the situation stabilized. Ethnographic, archaeological, linguistic and anthropological evidence, as well as written sources, enable us to retrospectively trace the continuity of ethnocultural development in the



Scandinavian fibulae from the Kyiv region, 10th-11th century

ethnic territories populated by a large group of the Romanic peoples (Spaniards, Portuguese, Catalanians, French, Provençals, Italians, Sicilians and Romanians), Anglo-Saxons, Slavs (Poles, Czechs, Slovaks, Serbs, Croatians, Bulgarians and Ukrainians) and others back to the late 5th-7th century A.D. This provides a foundation for describing the development of the aforementioned ethnocultural groups in these territories. In particular, notable Russian archaeologist Valentin Sedov traced the origin of the abovementioned Slavic peoples

there were proto-Polish and proto-Czech tribes, while Volhynians, Derevlianians, Ulychians, Tivertsians, White Croatians, Polianians and possibly Siverians could be viewed as proto-Ukrainian tribes (see Figure 2).

Related tribes consolidated and crafted their own states during the 9th and 10th centuries. This is how the Kingdom of England and the Kingdom of Poland emerged, as well as the Duchy of Bohemia and the first polities of Serbians, Croatians and Bulgarians, which sometimes expanded into neighbouring lands and took the form of medieval empires. On the same reasoning, the medieval state of Rus', which was formed when the abovementioned proto-Ukrainian tribes united, should be viewed as an ancient Ukrainian polity. The first polities that arose in the lands populated by the Anglo-Saxons, Poles, Czechs, Serbians, Croatians, etc. are without reservation recognized as the medieval states of these respective peoples.

KYIVAN RUS' AS A MEDIEVAL EMPIRE

In line with the universal laws of ethnic development in medieval Europe, the Ukrainian ethnocultural entity emerged in the early Middle Ages and went through an intensive formative period in Kyivan Rus'.

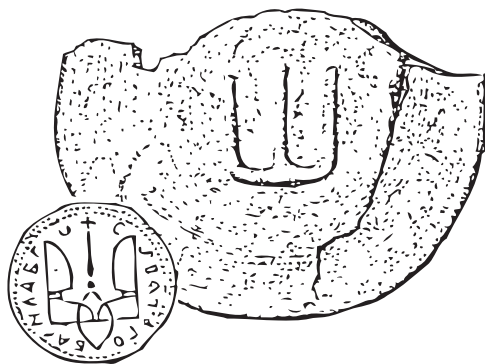
There is no doubt that the Kyivan Rus' of the 10th through the 13th centuries was an empire spanning the lands of many Slavic, Baltic, Turkic, and Finnic ethnic groups. With the metropolis exerting sustained influence on the conquered provinces, the ethnic culture (and language) of the conquerors mixed with those of the subjugated peoples. Directly emerging from this process were young ethnic groups that inherited ethnocultural elements of both the ruling ethnicity and the indigenous peoples. These groups put themselves on the historical map as distinct entities when they freed themselves from their metropolises. This most often happened when empires declined and young peoples fought for their independence.

The Roman Empire, for example, spawned the Romanic peoples. After the fall of the British Empire, its descendant nations – Americans, Anglophone Canadians, Australians and New Zealanders continued their independent existence. »

THE UKRAINIAN ETHNOCULTURAL ENTITY EMERGED IN THE EARLY MIDDLE AGES AND WENT THROUGH AN INTENSIVE FORMATIVE PERIOD IN KYIVAN RUS'

(except Ukrainians) through the early Middle Ages.

The population in the European middle belt was in the tribal phase of its development in the 5th through the 9th centuries when it was composed of separate interrelated tribes or ethnic groups with their own ethnonyms. For example, the Angles, Saxons and Jutes are considered proto-English tribes. Likewise,

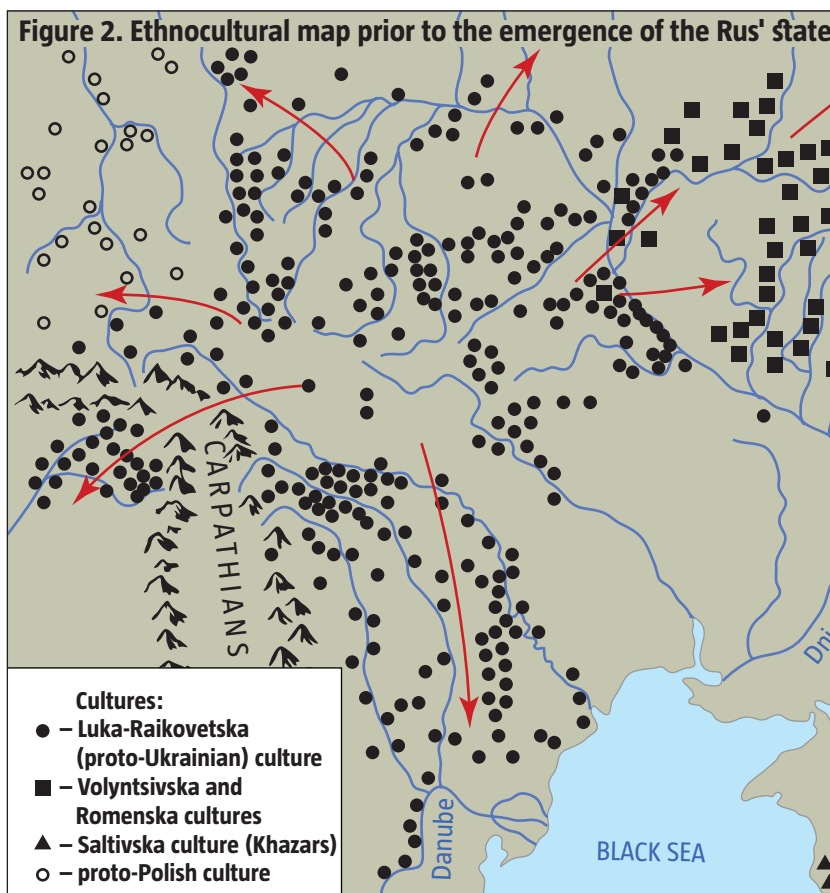


The Spanish Empire gave rise to around 30 post-imperial ethnic groups in Latin America: Mexicans, Chileans, Bolivians, Argentinians, Cubans, Puerto Ricans, etc. Brazilians came from the Portuguese Empire and the Quebecois from the French Empire.

Much like the Romans Latinised their conquered provinces and triggered the formation of the Romanic peoples, ancient Ukrainians from the Kyivan Rus' Empire Rusified (not Russified!) Baltic and Finnic peoples that inhabited the woodlands of Northeastern Europe and engendered a group of Rus' ethnicities (Belarusians, Pskov-Novgorodians and Russians). Similar views on the genesis of East Slavic peoples have been expressed by Mykhailo Hrushevsky, Mykola Chubaty, Mykhailo Braichevsky and Yaroslav Dashkevych.

In their interpretation, the common Old Rus' "cradle of brotherly East Slavic peoples" acquired a completely new meaning. Emergent peoples such as Belarusians, Pskov-Novgorodians and Russians lay in this cradle, rocked by their father, the proto-Ukrainian colonists centred around the metropolitan city of Kyiv. The Ukrainian people took form in the early Middle Ages, while Belarusians, Pskov-Novgorodians and Russians emerged from the body of the Old Ukrainian empire – Kyivan Rus'. Classical Russian historiographer Vasily Klyuchevsky wrote: "It was not until the time of Andrey Bogolyubsky that Great Russians came onto the historical stage", which was in the second half of the 12th century. Therefore, there is no way Kyivan Rus' could have been simply the first stage of Russian statehood – it was formed long before the Russian people emerged as such, and was a product of the efforts of Old Ukrainians at the medieval stage of their development.

The image of a trident on a silver coin of Volodymyr the Great and at the bottom of a clay pot from the Kytaiv Settlement near Kyiv, 10th century



After the fall of the medieval empires, their formative ethnicities (the British, Spaniards, French, Portuguese, etc.) lived in ethnic states, while the emergent peoples began writing their own history. It most often began with a national liberation struggle against the centre of the empire. Think of the American War of Independence or many of the military conflicts in the Spanish colonies of Latin America during the 19th century. The demise of the Roman

Empire came amid endless wars of independence waged by Roman provinces. One theory states that the so-called period of feudal fragmentation in the 12th-century Rus' consisted, in fact, of a series of wars waged by young proto-Belarusian, Pskov-Novgorodian and Russian ethnic groups in a bid to free them-

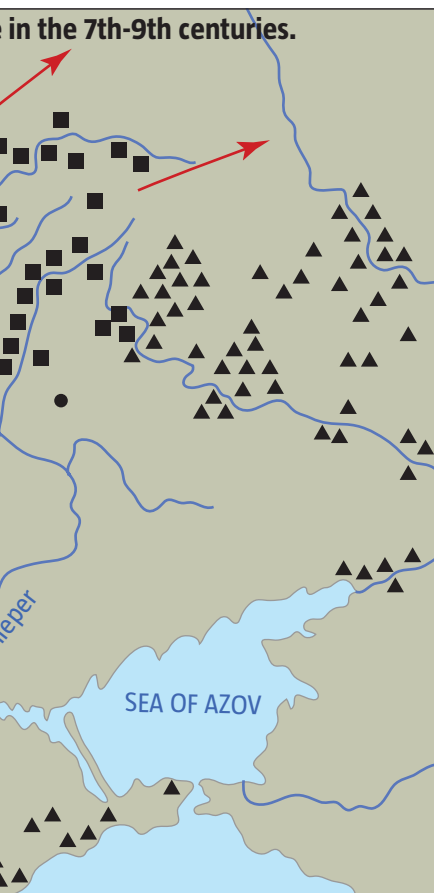
NOBILITY AND ETHNONYMS

Some Soviet researchers denied that proto-Ukrainians were the creators of Kyivan Rus', referring to the well-known fact that Scandinavian Varangians were the first Kyivan princes. The important role Scandinavian commercial, aristocratic and military elements played in the formation of Rus' in the 9th and 10th centuries is undeniable and rests on convincing evidence from medieval written sources and archaeological finds along the Dnieper: typical ornaments worn by Vikings, characteristic burial rites, Runic inscriptions and so on.

However, the Scandinavian names of the first Rus' princes and

THERE IS NO WAY KYIVAN RUS' COULD BE THE FIRST STAGE OF RUSSIAN STATEHOOD – IT WAS FORMED LONG BEFORE THE RUSSIAN PEOPLE EMERGED AS SUCH

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their warriors – Askold, Olaf (Oleh), Ingvar (Ihor) and Helga (Olha) – were replaced with Slavic names such as Sviatoslav, Volodymyr, Yaroslav, Yaropolk and others as the Rus' state asserted itself in the second half of the 10th century. This seemingly formal indicator reflects the deep process of foreign noblemen being assimilated by the proto-Ukrainian population of Rus'. Similar occurrences were typical of European states in the early Middle Ages. Most European medieval ethnicities in the 8th through the 10th centuries that were mature enough to form their own states rallied precisely around foreign nobility, often Scandinavians, as was the case in Rus'. For example, the state-forming elite in France under Charlemagne was the military nobility of the Franks, a Germanic tribe. Just as in Rus', Vikings from Denmark and Normandy were the oldest kings and noblemen in England in the 10th and 11th centuries. The first Polish kings in the 10th century from the Piast dynasty actively engaged Scandinavian Vikings in order to consolidate lands around Gniezno, at that time the capital of

Poland – exactly what the Kyivan princes did around the same time. Now the Kingdom of England is considered the first state entity of Anglo-Saxons, i.e., the English people at the early medieval stage of its ethnohistorical development. By analogy, we have every reason to believe that Kyivan Rus' emerged as a state of the Southern Rus' people, i.e., proto-Ukrainians.

Beginning with 19th century historian Mikhail Pogodin who was promoted the Normanist theory of Russian statehood, those opposed to granting the principality of Kyiv the status of a proto-Ukrainian city claimed that there was a break in the ethnohistorical development of the Middle Dnieper region under Mongol rule. However, archaeologists and historians proved during Soviet times that despite the Mongols having exterminated the residents of Kyiv, Pereiaslav and Chernihiv, no replacement occurred in the populations of the Middle Dnieper Region, Volhynia and Galicia. Thus, one and the same ethnocultural population, known as Ruthenians (Rusy) in the princely era and Ukrainians in recent centuries, has been developing in this territory since the early Middle Ages. Advocates of the view that Ukrainians emerged in the late Middle Ages maintain that Southern Rus' was populated by Ruthenians in the princely era, while the ethnonym Ukrainians gained currency much later, allegedly at the time when Ukrainians emerged as a people. This approach is clearly manipulative. Changing ethnonyms in the course of national history is common among European ethnic groups. The Polish people were known as the Lyakhs in the late Middle Ages, but prior to that it consisted of individual tribes, each with different names. Medieval Romanians went by the name Wallachians, and Russians were referred to as Muscovites. There is no doubt that the Lyakhs/Poles, Wallachians/Romanians and Muscovites/Russians are the same ethnicities known under different names during different historical periods. Why then doesn't this rule apply to Ruthenians/Ukrainians?

In line with universal laws of the development of European peoples, the Ukrainian ethnocultural organism was known under several ethnonyms over its 1,500-year existence. In the first millennium A.D., it con-

sisted, just like other young European ethnicities, of individual inter-related tribes, each with a different name – Dulibians, Antes, Sklaveni, Volhynians, Derevliani, Polianians, Siverianians, Ulychians, Tivertsians and White Croats. When they united to form Rus', a proto-Ukrainian state, one ethnonym, Ruthenian, was established. From the late Middle Ages until modern times, this was gradually replaced with the ethnonym Ukrainian. Traces of the older name survive in the Carpathians (Rusyns), a fact that is unjustifiably exploited by some politicians. The language of Bohdan Khmelnytsky (1595-1657) was not significantly different from modern Ukrainian, but he was known as a Ruthenian prince. The Polish population of Lviv referred to the urban residents of Galicia, who were, no doubt, Ukrainians, as Ruthenians and their language as Ruthenian in the interwar period. Therefore, tying the genesis of Ukrainians to the history of their latest ethnonym is unconvincing. Ethnonyms change, while ethnic essence remains the same, as we have seen through the examples of Poles, Romanians, Russians and Ukrainians.

This proposed version of the ethnic genesis of the Ukrainian people rests on universal principles of

UKRAINIANS EMERGED IN THE EARLY MIDDLE AGES, WHILE BELARUSIANS, PSKOV-NOVGORODIANS AND RUSSIANS WERE BORN FROM THE BODY OF THE OLD UKRAINIAN RUS' EMPIRE

ethnic development in medieval Europe. It provides an answer to the key question in the history of Eastern Europe: what was the ethnicity of the residents of princely Kyiv and Southern Rus'-Ukraine from the 10th through the 13th century? The answer is that they were as much Ukrainian as their contemporaries in Gniezno, Paris and London were Polish, French and English, respectively. In terms of language, culture and consciousness, each of these peoples was vastly different from its modern-day descendants. Nevertheless, they clearly were Ukrainians, Poles, Frenchmen and Englishmen at the medieval stage of their historical development. ■

When religion, art, as well as manners and customs were a single whole in everyday life, for the first time, man tried to make sounds, using hollow bones. In the authentic cultures of Africa, South America and Asia, the basis for one instrument or another could be, let's say, a dried pumpkin, a blown up pig's bladder or a tortoise shell (some African tribes also used human skulls). The logic was simple and sure: play everything that can make a sound.

In the Grip of Vibration

Old-new music practices thrill the world. It is also possible to play the ethnic instruments of ancient peoples and learn local guttural singing in Ukraine

Author: Olena Maksymenko

Today, interest in anything ethnic in the world has become a large-scale epidemic. "A person with an African drum can now be seen more often, that a person with a guitar, – says Leonid Pavlonok, a Belarusian musician, who plays in the Nagual, Malanka and Orkestr Rekha (Rekha Orchestra) bands. – In our times, DJs playing "grandma's songs" or something that is radically underground are particularly popular, for example, the didgeridoo with live drum and bass. Currently, East Slavic countries are seeing a powerful influx of ethnic instruments and interest in other cultures. This interest has dwindled somewhat in America and Europe, having peaked in the 1980-1990s, which saw the emergence of the world music concept".

NOCTURNES ON PIPES

Widely known Ukrainian masters in narrow circles make drymbas (a Ukrainian mouth instrument), lyres, drums, maracas, tambourines, etc. For the most part self-taught, without special music (or handcraft) education, these masters have attained a significant (sometimes international) level of expertise by means of numerous attempts and mistakes, and have transformed their fascination into

a full-time profession. Moreover, they rarely keep to authentic technologies: sometimes a plastic membrane on a tambourine or tom-tom is significantly more practical than a traditional skin: it's not afraid of moisture (so can be played when it rains at festivals without any problems), it does not require the killing of an animal, cannot be damaged, and at the same time, sounds just as good. Not quite authentic, but practical – noted one musician, "a musical instrument is not a tamagochi, which has to be taken care of and nurtured".

Thus, thanks to Dmytro Matyukhin, artist, musician, master of the didgeridoo and one of the authors and organizers of the "Overtonic" (Obertonik) overtone music festival, this Australian relative of the Hutsul trembita has become very popular in Ukraine. The traditional didgeridoo is made out of eucalyptus, gnawed out inside by termites during the drought season. "Aborigines knock on trunks and find those that sound the most suitable, – explains Dmytro. – They cut them down, clean them out inside if necessary, then they stick on a mouthpiece made of black beeswax and decorate them". In contrast from the trembita, an au-



thentic didgeridoo is not lifted into the air; the end from which the sound emits, is generally rested on the ground, since the instrument is very heavy. "in principle, it is impossible to make one like this in Ukraine: there are neither termites, nor eucalyptus trees, so needless to say, the guys work with different types of trees. They cut the trunk lengthwise, hollow out the internal cavity, af-



PHOTO: OLENA MAKSYMENKO

1

ter which the two pieces are joined together into a single pipe – the process is long, demands a lot of attention and is very complicated” – says the musician. After a series of experiments with dense cardboard, bamboo, metal and plastic, Dmytro succeeded in inventing his own “recipe” for making a didgeridoo: “I find plastic pipes on the construction material market and knock on them to hear the sound.



PHOTO: OLENA MAKSYMENKO

2



PHOTO: OLENA MAKSYMENKO

3

At home, I heat them over a fire until the plastic is as malleable as plasticine, then give them the required form: I narrow them near the mouthpiece and widen them near the bell mouth. I make a comfortable mouthpiece from the same pipe. I then accurately adjust the required note by widening the bell mouth. When the half-finished product is ready, I design and decorate it”. Dmytro’s didg-

eridoos, which are colourful, phantasmogorically decorated and sometimes twisted into a ram’s horn, are gradually spreading throughout the world, ever-more people are gathering for his master-classes, willing to endlessly “prrr” clumsily into the pipe, until they finally learn how to make the necessary sounds. “I realized that there was a sufficiently free niche in Ukraine, – shares Mr. Ma-

»

tyukhin. – I learned through the Internet that Yaroslav Kaminskiy had already started making didgeridoos shortly before me. We met, spoke and realized that no one else seemed to be working in this field. So we decided to promote good vibrations in Ukraine!”

THE THROAT AS AN INSTRUMENT

Some folk groups are reviving not only the skill of playing traditional ancient instruments, but also the good old principle of extracting sound from everything that comes to hand. This is how, in their time, the Belarussian group, Nagual, found fame – in the musicians’ hands, a vacuum cleaner hose “sang” – wonderfully, I might add – as did other unexpected items. “The choice of instruments was dictated by the wish to find something unique in both form and sound. And what was even better – if it could be made with your own hands. In addition, my fascination with the source of music pushed me to instruments with an archaic sound. We can make sounds using any everyday item!” In truth, the musician admits that groups have now changed their concept somewhat: “You won’t see us with plumbing pipes. Right now, we are using traditional instruments: a drum kit, guitars, a violin, accordion and vocals...” – says Leonid.

Current folk artists experiment with various musical instruments, as well as with the musical capabilities of their own bodies. Ever-more people are ready to learn the art of guttural singing, which was previously a privilege of Shaman practice, but can now be heard more often at concerts together with different, sometimes modern musical instruments. “Guttural singing can be heard in African tribes and in Ireland (where it is quite a new style), in Guinea – women’s guttural singing, – says Radvil, a master of guttural singing. – I think that every nation sang in this style at one time or another of its history, it’s just that for the most part, this tradition didn’t survive to our times. This is because the arrival of Christianity brought its own adjustments to pagan and Shaman traditions. Today, guttural singing is enjoying a revival in various countries. New styles and experi-



PHOTO: OLENA MAKSYMENKO



PHOTO: OLENA MAKSYMENKO

ments are emerging. But the countries best known for guttural singing are still Mongolia, Tuva, Siberia and Buryatia”. The primary designation of guttural singing is to bring the singer to a so called “different state of consciousness”, to sing in a different dimension. The more practical, “vital” application of such a practice is for medical purposes. Today, some

Shamans, such as Nikolai Oorzhak, conduct healing séances with the application of this type of singing. But at the same time, the singing is very distinctive and attractive for performing on stage.

“There are three different types of guttural singing: sygyt, khoomei and kargyraa, – says Tagiro Vetroyar, a master of guttural singing. – The Shaman are

THE NON-MUSICAL FUNCTIONS OF SEVERAL AUTHENTIC INSTRUMENTS:



Didgeridoo massage:

Of late, didgeridoo massages have been common practice during master classes and festivals in Ukraine. Its disciples confirm that the ultrasound of the didgeridoo relaxes the muscles, helps during spasms, joint pains and stimulates bone growth after fractures and breaks. Ancient sound therapy procedures with the aid of overtone singing was used as help during chronic tiredness, stress, increased anxiety, sleeplessness, headaches and many other ailments and injuries.



A singing bowl for the purification of water:

The meditative Tibetan instrument not only immerses a person in a state of calm and contemplation, but can also be used for the purification of any type of water as a result of relevant treatment using sound. It purifies water and gives it healing properties. Some coffee addicts use this purification and “charging” means before brewing.



Dangerous wind instruments:

The Indian flute is made without any holes (the sound changes depending on how strongly it’s blown), but also serves as a blunt weapon, since it is made of extremely



hard wood. It fulfills the function of a stick in combat practice. In ancient times, the humble and unpretentious Japanese pipe also had another function, as a tube, through which poisoned wires were blown.



PHOTO: OLGA PRASS

convinced that the world, just like man and its microcosm, are divided into three levels: heavenly, terrestrial and subterranean. Sygyt is characterized by high, strong, piercing notes, khoomei – by its soft-sounding style and kargyaa – by a lower voice range with an intense croaking tone. Singing in one of the guttural singing styles, we interact with the relevant world, both within ourselves and in the environment. Even the extent to which a person is or isn't Shaman is not important..." Today, musicians also daringly combine guttural singing with authentic Ukrainian melos, and with the guitar, and with the didgeridoo. "I think that guttural singing, just like any other form of singing, can be combined with any instrument. The main thing is for there to be harmony, be it with a guitar, percussion, drums or synthesizer. Some people are against guttural singing in effect losing its roots. I don't agree with this. The main thing is what and how people use it for themselves and what they put into it" – says Tagiro.

At present, ancient practices are becoming ever-more accessible, since the Shamans are sharing their knowledge that used to be closed, they visit and organize thematic festivals, and are creating communi-



PHOTO: OLENA MAKSYMENKO

ties in social systems – they are concerned that their tradition is currently under threat of extinction. Those willing to do so, can master the art of guttural singing at masterclasses, which are conducted after concerts, at festivals or in art cafes.

NOT THE LAST OF THE MOHICANS

Interest in Native American Indian music currently appears to be less widespread, but more deepened and structured. Native American Indian music is not combined with modern musical instruments or the traditional instruments of other

CURRENT FOLK ARTISTS EXPERIMENT WITH VARIOUS MUSICAL INSTRUMENTS, AS WELL AS WITH THE MUSICAL CAPABILITIES OF THEIR OWN BODIES

cultures as often. Expert and musician Kostyantyn Mitokaru makes many different wonderful things: wing-shaped psalteries and drums, but mainly native American flutes: "In 1869, the Reverend Alfred Riggs, a missionary who lived with the Santee Sioux tribe, offered the first description of the plains flute, which he saw while living with the

tribe: "This flute is called a "cho-tan-ka", (čhothánka – literally "large core" – meaning the large core of the timber used to make the flute). In addition to the Lakota name "cho-tan-ka", Native American Indian tribes gave it other names, such as: šiyóthanka – "large partridge" (the flute was often formed in the shape of a bird's head), the wilkižo – "whistle" and the wayážopi – "they whistle on it". "Love flute" or "courting flute" are terms that are often used in relation to Native American flutes in literature, which is not an accurate reflection of the instrument. It's true that young Native American boys used the flute to draw to themselves the attention of girls they liked, but this was not the main purpose of the instrument".

Lostyantyn became interested in the music theme almost by accident, when he was trying to make his own souvenir as a gift. "I wanted to hear its sound, – says the craftsman. – That's how everything began. I began searching for information on the Internet and ask questions of various forums". The learning process was quite difficult, since he hadn't played any instruments until that time and does not have a musical background. The process of creating a flute begins with the selection of timber, calculations of the material required and a sketch or a design. Only then does the actual production process begin – for the most part, it involves handwork, the calculation of tone holes, their placement and decoration...

Fascination with music ethnicity is of a specific nature for each individual. For one person, it's the search for new original motifs and sounds, for another – following trends, others search for their roots, while still others see it as a magical practice or scientific research. "Today, there is an abundance of guitarists, flautists and particularly drummers on every street corner! – says Dmytro Matyukhin. – In my view, Jimi Hendrix did everything with his guitar, that could be done. It's doubtful whether it is possible to outdo him. The same applies to other instruments. For Ukraine, the didgeridoo is something exotic, in other words, there is still the prospect and opportunity to do something significant in this sphere". ■



Voyage of Time **Directed by Terrence Malick**

Since his surprising comeback with the deep and universal *Tree of Life* two years ago, Terrence Malick has been working on three films simultaneously. One is *Voyage of Time*, a documentary devoted, much like his previous film, to the birth and death of the Universe. As in *Tree of Life*, Brad Pitt is once again involved in the project – this time in the role of narrator. A date for the premiere has not yet been set.

A Field in England **Directed by Ben Wheatley**

Ben Wheatley's critically acclaimed black comedy *Kill List* (2011) has inspired much enthusiasm for his upcoming film under the working title *A Field in England*. The genre will be close to horror. Set in the 17th century, the film focuses on three deserters who end up at the home of an alchemist and live on mushrooms alone. Will the film become something more than Jan



Kounen's psychedelic Western *Blueberry*? The production is in its final stages, and a premiere date has not been announced.

Maksym the Wasp **Directed by Oleksiy Mamedov**

Based on the comics of Ihor Baranko, *Maksym the Wasp* is one of the most anticipated Ukrainian films in the adventure, detective and thriller genres. The screenwriting team that includes well-known contemporary Ukrainian writer Iren Rozdobudko changed the original



text significantly, but it still feels exciting and new, portraying Cossacks as master swordsmen, brilliant detectives and James Bond-style heroes – all in one. The story also includes witches, beautiful women and Ottoman Turks. The filmmakers would like to see French actor Vincent Pérez in the lead role. A date for the premiere has not been set.

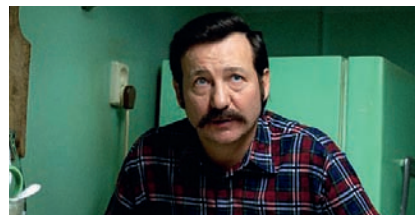


Nymphomaniac **Directed by Lars von Trier**

Ten years ago, Trier said that he wanted to shoot a big and artistically valuable erotic film. Finally, he has. *Nymphomaniac* is the confession of a woman who diagnosed herself with nymphomania. The cast includes Hollywood celebrities Willem Dafoe, Uma Thurman, Christian Slater, and *Transformers* star Shia LaBeouf – whose contracts entail real sex scenes. The premiere is set for May 30 in Denmark.

Waleśa **Directed by Andrzej Wajda**

Sure to become a modern classic of Polish cinema, this dream project profiles Solidarity movement founder, first President of post-Socialist Poland, and Nobel Prize winner Lech Waleśa. According to director Andrzej Wajda, it may be the third film of a trilogy, the first two being *Man of Marble* and *Man of Iron*. *Man of Hope* could be the subtitle for Waleśa's biopic. The premiere is expected to take place in Poland this spring.



2013 MUSIC CALENDAR



May 30, 7 p.m.* **Joe Cocker**

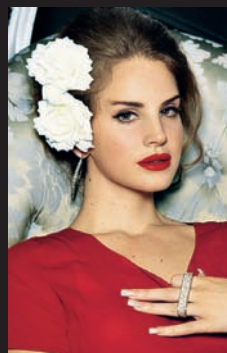
Three years after his last visit to Ukraine, Joe Cocker will once again please local audiences with a new show based on his latest album *Fire It Up*, the 22nd record in his career. Of course, old hits will comprise

part of the program as well. Forty years ago, a young man with no education from provincial Sheffield did not dare dream of world fame. However, he soon fired up Woodstock in 1969 after a brief stint singing in pubs. Today, Cocker is an honoured musical patriarch, the winner of multiple music awards. But he says that he still feels full of energy despite his age.

June 10, 7 p.m.* **Lana Del Rey**

Unlike many of her colleagues, the American singer will play a gig in Ukraine at the peak of her fame. Her record *Born to Die* landed first in the British

and German Billboard Top 200 and second in the US, with music critics calling her the most promising performer of 2012. Elizabeth Grant took on the aristocratic stage name – a hybrid of Lana



Turner and Ford Del Rey – and began to conquer the world only six months ago. Lana's image is a collage of 1940s Hollywood glamour, idiosyncratic characters from classic horror movies and the hipster trends of today. The cocktail of her musical influences includes Nancy Sinatra, Elvis Presley, David Bowie and Eminem.



The Grandmasters **Directed by Wong Kar-wai**

Wong Kar-wai, the man behind the intoxicating *Mood for Love*, returns to defend his reputation after the failed *My Blueberry Nights* released in 2007. He chose a promising story: the life of Chinese martial artist Yip Man, and invited the biggest Hong Kong and Chinese celebrities, including Tony Leung, Zhang Ziyi and Chang Chen. And he will head the Berlinale jury, his film opening the festival as a world premiere.

Froth on the Daydream/ L'écume des jours **Directed by Michel Gondry**

The grand novel by Boris Vian has been adapted into film twice: by Charles Belmont in 1968 and *Go Riju* in 2001. Critics panned both interpretations. This third version comes from the crazy



dreamer and visual acrobat Gondry, who aims to offer the best adaptation of this painful and tragic love story whose heroine dies when water lilies begin to grow in her lungs. The film features Audrey Tautou and Romain Duris in the lead roles. The premiere will take place on April 10.

The Green Shirt **Directed by Volodymyr Tykhyi**

Although Volodymyr Tykhyi shot his last feature film a long time ago and has been doing short films lately, including *Mudaky*. *Arabesky* ("Morons. Arabesques") and *Ukraine, Goodbye!*, The



Green Shirt has a good chance of connecting with audiences thanks to its acute social theme of kidnapping and the total indifference of the government and people to it. Moreover, the film combines a variety of innovative camera techniques and includes Yuriy Odynokiy in a leading role. The film is expected to fill the void of socially critical Ukrainian films when it is released in November.

Only Lovers Left Alive **Directed by Jim Jarmusch**

Thousand-year-old vampires named Adam and Eve, a ban on killing, and love— all components of an unusual new work by Jarmusch, whose talent for surprising audiences with unbelievable unions of human souls, emotions and dialogues produced cult classics such as *Dead Man* and *Broken Flowers*. To add some mysticism to the scene, he has involved Tilda Swinton and



Mia Wasikowska. Ever since he made *Broken Flowers*, Jarmusch has not been a welcome guest at festivals. Only *Lovers Left Alive*, slated for premiere in December, will give him another change.

The Brothers **Directed by Viktoriya Trofymenko**

One of the few Ukrainian films with good festival prospects, Trofymenko's debut feature film is based on a solid foundation: the characters from Swedish writer Torgny Lindgren's novel have been transformed from Swedes into Hutsuls, and Sweden into the Ukrainian Carpathians. The film also features a unique local Hutsul dialect and professional camerawork by Yaroslav Pilinsky, and is expected to be beautiful and dramatically powerful. The film is scheduled to premiere at Kyiv's "Molodist" film festival in October.



June 15, 7 p.m.* **Blackmore's Night**

Richie Blackmore the founder of this folk rock band is a perfect example of how characters change with age. Blackmore is

a living legend of hard rock, listed by Rolling Stone as one of the top 100 guitarists in the world. A former member of Deep Purple and Rainbow, hooligan and brawler, and a fan of dark jokes, Richie began to

play Renaissance music when he created the Blackmore's Night duo 15 years ago. His girlfriend, performer and co-writer of most of the band's material, Candice Night, helped him quit his hard rock career. Inseparable today, the couple tours European castles and fairs with a band of musicians



playing gigs for sentimental fans of historical reconstructions.

June 29**
Depeche Mode
The legend of electronic rock returns to Kyiv

as part of their three-month tour promoting their 13th record whose title and release date are still under wraps. The band insists that they consider several new songs on the album to be the best creations of their entire musical career. The story of the Depeche Mode we know today began in 1980 when Dave Gahan, then studying design at university, joined the synth-pop band with naïve ambitions. Since then, the band has sold over 100 million records worldwide, standing out as leaders of the British New Wave and influencing the global alternative music scene. In addition to risky musical experiments and Gahan's sentimental vocals, the band is known for its captivating shows.

* Ukrainian Palace, 103, vul. Velyka Vasylkivska, Kyiv
** Olympic Stadium, 55, vul. Velyka Vasylkivska, Kyiv

The Angels and Demons of the Demerdzhi Mountain Range

Article and
photos by
Oleksandr
Zinchenko

Heavenly forces don't take the easy way. In order to roll a rock from the sea up to the top of a mountain, they can first level the mountain, chisel its fragments with the tide, dry the sea and raise a new mountain range from the depths of the sea. The same rock will be perched on the top. This is the short history of Demerdzhi, probably the most beautiful place in Ukraine, at least in autumn. For thousands of years this beauty has drawn people to it.

THE WORLD IN MINIATURE

Anything that was even a few steps away was concealed from my view by a dense fog. Theoretically, I was supposed to be able to see a grand panoramic view from here, stretching from Ayu-Dag all the way to Kara-dag. In actuality, I could not even see the third person going up the hill in front of me. Moreover, I had an old Soviet tent in my backpack – it had absorbed so much moisture overnight, that it seemed to weigh as much as 15kg. Excessive weight on your back is not conducive to appreciating the beauty of this world. We were climbing Demerdzhi. My first impression of this mountain was not favourable.

Finally, a faint outline of one of the rocks in the Crown showed through the fog. The overall gloom that my travel companions were overcome with was not dispelled, not even by the realization that we were on the right track. Then suddenly, the rock in front of us lit up with a pale golden glow: barely visible at first and then increasingly bright. It was as if melted gold was boiling in the air. Perhaps this is how angels appear to people... A moment

later, it seemed as if the fog curtain was pulled back by an invisible hand: we had not able to see more than a dozen metres, but could now see the horizon and beyond! Rocks rose before us. Behind them was a gaping, kilometre-deep abyss. The sea was way down below, sunrays glistening on its waves. This is how I fell in love with Demerdzhi.

In Alushta, if you stand with your back to the sea, you will see the majestic canopy of Chatyr-Dag right in front of you and Demerdzhi creeping up to the coastline on the right. At 1,239 metres, this mountain would only tickle the ankles of Everest, but it appears impressive, grand and even unapproachable if viewed from Alushta. This landscape reflects the whole world like a mirror: Japan and the South of France, Scotland and New Zealand. Filmmaker Leonid Gaidai shot his comedy about a captive woman, set in the Caucasus, right here. The Englishmen turned it into Spain in their series about the adventures of Lieutenant Sharpe. These same locations were then used by Ukrainian cameramen to recreate Turkey for our Roksolana. The rocks in the Valley of Ghosts became the Andes in the Ukrainian-Russian film, Hearts of Three.

TWO GOTHIC STATES

The rulers of the Khazar Khanate founded a settlement here in the dark Middle Ages. Later, powerful Mangup princes built their castle on this site, several decades before the fall of the Principality of Theodoro. This was such a long time ago, that

the walls of Constantinople had not yet heard the singing of muezzins and Prince Yury Dmitrievich was fighting against Vasily Temny over Moscow. In other words, it was so long ago that even the Sun still rotated around the Earth, because Copernicus had yet to be born, and there was no-one around to explain the obvious. It was back in the time when two Gothic states, one true and the other feigned, bared their teeth against each other. The true one was the diminutive Principality of Theodoro, lying in three valleys to the south and west of Bakhchysarai. The territory comprised the Gothic eparchy with its centre on Mangup Mountain. The feigned Gothic state was Gothia Maritima founded by Italians on the southern coast of the Crimea.

The two Gothic states confronted each other. Although both were populated by Christians, the Mangup prince had a constant ally in his pagan neighbour, the Crimean khan. Conflicts between the two states led to the construction of a small castle. Whereas the Italians built fortresses on the sea-coast, the residents of Theodoro had to build their own fortifications. This is how the Funa castle

emerged across the valley from the Genoese Aluston fortress, Lusta in Italian, to counterbalance it.

The story of Funa was short and inglorious. First, the citadel was destroyed by an earthquake and then by enemies (it is not clear whether Italians or Ottoman Turks). Rebuilt after the calamities that befell it in the mid-15th century, it was finally seized by the Turks in the summer of 1475. Theodoro's residents were later replaced in this fantastic locality by the Crimean Tatars.

Beauty can be treacherous and the seeming solidity of mountains deceptive. In the late 19th century, part of the mountain fell on Demerdzhi, a Tatar settlement. Now, only centuries-old walnut trees scattered among the rocks mark the places where people used to live more than a hundred years ago. In the spring of 1944, even the remaining residents were gone. Those who came in their stead renamed Demerdzhi to Luchyste. Even now they tell incredible stories about the treasures that settlers found in the ruins of old Tatar houses and about the panic which came over the former residents of Ryazan and Alma-Ata Oblasts when they saw night fog rise from the sea for the first time in their lives.

In the darkness, it seemed as if the sea itself, rather than fog, was rising up the mountains.

A BROCKEN SPECTRE

It was in these conditions that I saw a Brocken spectre on Demerdzhi. It was early November, and fog was rising from the valley. All

of a sudden, I saw a shadow surrounded by a glow right before me on the side opposite to the setting sun ... Around the dark contour of a person with a rainbow-like halo around its head. The spectre moved ahead of me, and when I waved to it, it waved back!

It was an ordinary miracle – no mysticism, just an optical illusion. It was my own shadow marvelously reflected in droplets of fog. Unfortunately, I did not know at the time that a Brocken spectre can be captured on camera. Back then, I was so fascinated by playing with it that I simply forgot to take photos.

Demerdzhi also has wondrous climate – it performs healing miracles. My hypothesis is that this is a result of endorphinotherapy: the beauty of the place triggers a true explosion of happiness hormones.

Finally, an autumn experience I had on Demerdzhi, you could say, laid a powerful bomb under the materialistic view of the world. Here is a small lead-up to the story. In the guestbook from a previous photographic exhibition of mine, I found several pages with very nice poems. They ended with a prose postscript expressing the wish to “have an artistic meeting in a city if not in the Crimea”. A phone number was left which I tried to call, but there was a problem with the connection at the

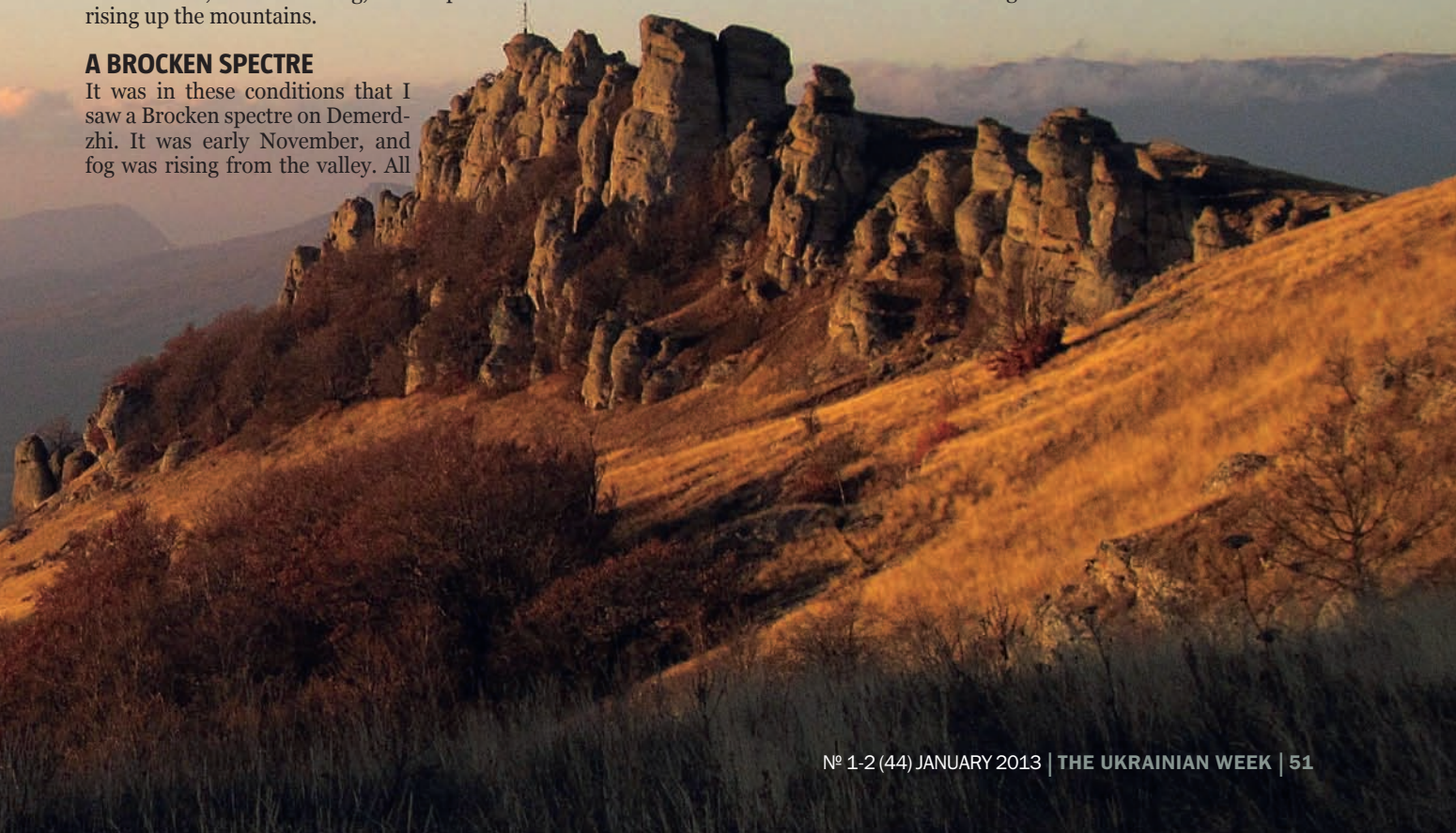
PLACES TO STAY

Luchyste has several small hotels owned by horse ranches. If you are an amateur horse rider, they are just the place for you. But prices are at a level of resorts on the southern coast. The cheaper option is to knock on a door of any house and ask to stay overnight. You will be welcomed by the hosts or given an address where you can stay. Village houses are less comfortable, but the price will be a pleasant surprise.

HOW TO GET THERE

Take a train to Simferopol and a bus or trolleybus from there to Alushta. Get off on “Lavanda”, the first stop after the Angarskyi Pass. This is the starting point for the road leading to Luchyste. You can take a local bus, but the wait can sometimes be inconveniently long. You can take the one-hour walk in good weather. Alternatively, you can get a lift from a passing car.

time, and later, of course, I forgot all about it. Sometime later, I was back on Demerdzhi. I spotted a fellow photographer on a neighbouring rock in the Valley of Ghosts who was also taking photos. There were just the two of us there. At sunset we met again, struck up a conversation and introduced ourselves. What followed next defies common sense: my interlocutor began reciting poems in which I recognized the topics of my old photos. It turned out that this was the same poet who wanted to meet me “in a city if not in the Crimea”. And now in the Crimea we were! Very Coelhoesque... This convinces me that Demerdzhi is a place where miracles are an ordinary, routine and even regular occurrence. ■





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