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WILL BE A TEST  
FOR UKRAINE'S INDEPENDENCE

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тиждень

international edition

# The Ukrainian Week

№ 20 (43) DECEMBER 2012



**Why Ukraine should  
avoid the trap  
by all means**

**The  
Economist**

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# 2013



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May the new year bring you peace, happiness  
and prosperity!

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## The Ukrainian Week

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27 November



**Viktor Yanukovich signs the Law on the Referendum.** Go to p. 12 for more details on the threats of the new law

6 December



**The Senate passes the Magnitsky Bill envisaging sanctions against blacklisted Russian officials and the freezing of their assets.**

10 December

**The EU commits to signing the Association Agreement and FTA with Ukraine in November 2013** provided that Ukraine shows progress in several areas

# The US Bans Visa for Prosecutor

Key people in the Yanukovich regime have been banned from traveling to the West, but the first “victim” of this ban appears to be a provocateur

**Author:**  
**Oleksandr Mykhelson**

Ukrainian officials are beginning to be persona non grata in the West. At least, this is the conclusion made by a good few observers of the scandal surrounding the First Deputy Prosecutor General of Ukraine, Renat Kuzmin, whose visa for entry into the USA was revoked. As is well-known, in early October, following the approval of the US Senate resolution regarding official Kyiv, which proposed banning representatives of the Ukrainian Government, involved in the Tymoshenko case from entering US territory, including the Deputy Prosecutor General, Kuzmin wrote a letter to the US Congress and Vice President Biden with a proposal to address the US Congress in order to tell them the “truth” about Tymoshenko and her complicity in the murder of four people. However, on 19 October, the US Ambassador to Ukraine, John Tefft, personally informed him of the cancellation of his multi-entry five-year visa.

An open letter to the US President Barack Obama dated 3 December, states that American officials are supposedly hampering investigations in the case of the 1996 assassination of Yevhen Shcherban. Kuzmin claims that the US Justice Department has documents and evidence provided by Petro Kyrychenko, a former aid of Lazarenko, Lazarenko himself and ex-Major Mykola Melnychenko, which confirm Tymoshenko's guilt. However, Kuzmin complains that



the American side is not responding to the application for the transfer of this evidence, made by the General Prosecutor's Office of Ukraine. Moreover, the Deputy Prosecutor General asserts that “On the initiative of some American and Ukrainian politicians, the US Justice Department has developed a detailed plan to counteract and destroy the case on the assassination of Yevhen Shcherban.” Kuzmin then discloses highly controversial details. According to the letter, he was supposed to be arrested on the territory of the USA, for exerting pressure on Melnychenko. So Kuzmin would have languished in

The month  
in history

1 December 1991



**Over 90% of the 32 million Ukrainians who voted in the national referendum supported independence for Ukraine**

3 December 1722



**Hryhoriy Skovoroda**, Ukrainian enlightener philosopher, poet and teacher, is born

6 December 1903



**Mykola Kolessa**, composer and the patriarch of Ukrainian conductor school, is born

11 December



**Oleksandr and Andriy Tabalov** elected to the VR under United Opposition list are the first crossovers in the new parliament. UO will demand withdrawal of their mandates

12 December



**127 WTO countries condemn** Ukraine's plans to revise imports duties

13 December



**Viktor Yanukovich signs a decree to re-appoint Mykola Azarov as Premier** after the VR votes in his favour with 252 votes



Read more on the Magnitsky Act and its consequences for Kyiv officials on page 10

“green” diplomatic passport, which he has, but which does not provide for such immunity). At the same time, well-informed sources of *The Ukrainian Week* stress that the Ukrainian official could only be arrested in the USA for espionage or a felony offence. In a 2010 interview, Kuzmin remarked briefly that he was conducting “investigative procedures” with Petro Kyrychenko in the United States. If there was no official permission for this from competent US bodies, Kuzmin clearly violated American law. However, as those interviewed by *The Ukrainian Week* stated, he would only have been expelled from the country for doing this, not arrested.

The lack of reaction from the Ministry of Foreign Affairs of Ukraine, the Prosecutor General and the Presidential Administration to the “diplomatic incident” can only be evidence of the attempt by the Ukrainian government to distance itself as much as possible from the incident with Kuzmin, saying in effect, that this is a personal issue, in order to avoid suddenly coming under the heavy hand of the US. ■

#### EXPERT OPINION

**Steven Pifer, US Ambassador to Ukraine in 1998-2000 and Senior Fellow at the Brookings Institution** Ukrainian-American relations have deteriorated due to the democratic regression that has taken place in Ukraine over the past two years. This includes - but by no means is limited to - the selective prosecution of former government officials such as Yulia Tymoshenko. Mr. Kuzmin's letter will not change that. I found the letter odd for a couple of reasons. First, it is odd for a foreign government official of Mr. Kuzmin's rank to send an open letter to the president of the United States. I assume that he does not expect a reply. Second, it is odd that Mr. Kuzmin believes the U.S.



Department of Justice would elaborate a plan aimed at discrediting him and is worried that he might be arrested. That is not the way the Department of Justice works. Moreover, if Mr. Kuzmin wants to travel to the United States on official business connected with his duties as deputy prosecutor general, he would as a Ukrainian official normally apply for a diplomatic visa that would confer immunity protecting him from arrest. Finally, it is hard to understand why the Ukrainian government continues to have Mr. Kuzmin out in public addressing Western audiences so often. I do not think that helps to make the government's argument. In September he appeared at a conference on a panel regarding the Tymoshenko case. He sought to persuade the audience that the Ukrainian legal system was impartial, that the government did not selectively prosecute former officials, and that it had correctly handled Tymoshenko. Judging by the reactions I heard from many Americans and other Europeans there, his presentation and comments had exactly the opposite impact.

an American jail, had the ex-Major not warned him of the insidious plans of adversaries on the other side of the ocean.

Specialists in the field of diplomacy, questioned by *The Ukrainian Week*, see this story as a bad joke. According to all diplomatic standards, deputy prosecutor generals and even prosecutor generals do not write letters to the presidents of other countries. The situation regarding the revocation of Kuzmin's visa also seems strange. It is known that it was not a diplomatic visa, which ensures immunity against criminal prosecution (in contrast to a

9 December 1863



**Borys Hrinchenko**, writer, linguist and author of the first fundamental dictionary of the Ukrainian language, is born

17 December 1897



**The Kharkiv Locomotive Plant builds the first Ukrainian steam locomotive**

24 December 1982



**An-124**, the third largest operating cargo aircraft designed by the Antonov bureau in Kyiv, makes its first flight

# DANGERS TO UKRAINE'S INDEPENDENCE

The country's sovereignty will be challenged through a combination of domestic turmoil, Western estrangement, and Russian assertiveness

**Author:**

**Janusz Bugajski, Senior**

**Associate at the Center for Strategic and International Studies, Washington DC**

**U**kraine is facing a testing year in its development as an independent state. Increasing alienation from the West will make Ukraine more vulnerable to Russia's political pressures; such a scenario can radicalize society and raise the specter of national instability.

## GEOSTRATEGIC SETTING

A key priority that Vladimir Putin set for his third presidential term was the creation of a Eurasian bloc to balance the European Union in the West and China in the East. This would enable Russia to strengthen its position as a "pole of power" in a "multipolar" world. Such a grand plan envisages the integration of former Soviet republics, with tighter economic links culminating in a political and security pact. By solidifying economic, security, and political bonds it becomes less likely that Russia's neighbors will be in a position to join alternative alliances such as NATO or the EU.

In May 2012, Putin signed an Executive Order On Measures to Implement the Russian Federation's Foreign Policy. It instructed state organs to focus on the integration processes within the Commonwealth of Independent States (CIS) as a national priority. These are to include numerous sectors, including economic, security, and law enforcement. The Order envisages deeper Eurasian assimilation within the framework of the Customs Union and the Common Economic Space between Russia, Belarus, and Ka-



zakhstan, and the creation of a broader Eurasian Economic Union by January 2013.

Putin has also declared that Moscow will strengthen the Collective Security Treaty Organization (CSTO) by enhancing foreign policy coordination within the bloc. Although Ukraine currently stands outside these Russo-centric structures, the Kremlin has stressed that all formats would be open to other states, primarily to members of the CIS and to associates such as Ukraine.

## SOVEREIGNTY CHALLENGED

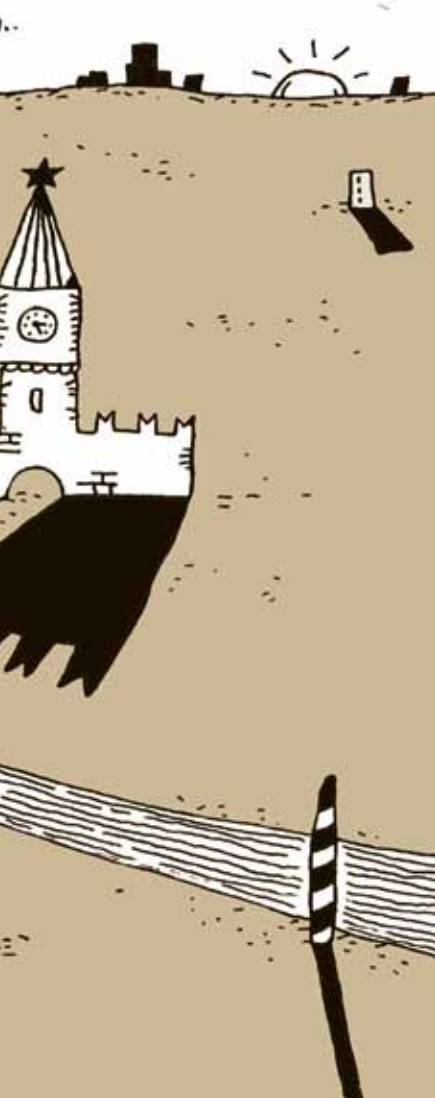
Ukraine's political regression plays into Moscow's hands and presents a direct challenge to its independence for three core reasons. First, it will distance the country from the economic and security benefits of integration with Western structures. Second, the lack of credible alternatives in Europe can pull the country into a "Eurasian" framework based on authoritarianism and statism. And third, most ominously, it can divide Ukrainian society and generate social instability that could threaten

the country's territorial integrity and statehood.

The EU underscores that Ukraine's democratic reversals disable the signing of an Association Agreement and a comprehensive free trade accord. There is little indication that this position will change given Brussels criticism of the parliamentary elections and its demands for releasing Yulia Tymoshenko, Yuriy Lutsenko, and other political prisoners. In the longer term, Ukraine's political estrangement would mean a permanent blockage from the EU project.

Although Ukraine may be drawn into the Eurasian economic structures as compensation for its exclusion from the EU, such moves will further disqualify the country from mainstream Europe. Membership of the post-Soviet Customs Union would undermine qualifications for free trade and other EU benefits. President Viktor Yanukovich and the Party of Regions elite may fear that their business ventures will suffer from harsh competition with Russian oligarchs. But the carrots of cheaper energy and substantial loans





wants to buy into Ukraine's gas pipeline or ensure Kyiv's membership of the Customs Union. If economic conditions continue to deteriorate and the government becomes insolvent, Kyiv will find itself precariously exposed to Russia's enticements.

### SECURITY DIMENSIONS

In the security arena, Ukraine's "non-bloc status" underscores that the current government no longer aspires to join NATO. The rationale for international neutrality was to stabilize relations with Russia and lessen Moscow's pressure on Kyiv to distance itself from the West. Nonetheless, permanent neutrality may encourage the Kremlin to become even more assertive, and without the realistic prospect of NATO accession as a balancer Ukraine could be drawn into Russia's organizational constellations.

In the worst-case scenario, the Ukrainian government's inability to defend the country from gradual absorption into Eurasian organizations and its widening estrangement from Western structures could precipitate an internal implosion. Dissatisfaction with receding European prospects and a consignment to neutrality or a Russian-centered bloc, especially if accompanied by declining economic conditions, can alienate large sectors of Ukrainian society.

The reaction of the Ukrainian government to growing social unrest would determine whether the country descends toward conflict. A crackdown is less likely to cover society than in Russia or Belarus and it could ignite several destabilizing trends. It would further polarize and radicalize Ukrainian politics, draw clearer battle lines between supporters and opponents of a union with Russia, and become increasingly linked with regional differentiation.

Such a scenario could heighten the resentment of Western and Central Ukraine not only against the country's democratic reversals but also in opposition to another close alliance with Moscow. Such developments could severely undermine the current government, precisely the scenario that Ukraine's "non-bloc status" was supposed to prevent. If mishandled, an escalating national crisis could challenge the integrity of the state by raising calls for substantial regional autonomy, confederation, or even secession. If this culminates in more direct and intensive Russian involvement in Ukrainian

politics the national crisis will become critical.

### DEFENDING UKRAINIAN INDEPENDENCE

To uphold Ukraine's independence and prevent a dangerous spiral of destabilization, the government needs to focus on three key national interests. First, above all, it must more effectively balance Kyiv's international connections between East and West. It can temper the Kremlin's designs by relaunching the EU association track through a commitment to releasing prisoners that Brussels considers to be political hostages. It can also revive relations with NATO by participating in Alliance operations and enhancing its military and political inter-operability.

Second, Ukraine needs to wean itself off its dependence on Russia's energy supplies and develop a more effective energy strategy. Russia is

## AN ESCALATING NATIONAL CRISIS COULD CHALLENGE THE INTEGRITY OF THE STATE BY RAISING CALLS FOR SUBSTANTIAL REGIONAL AUTONOMY

refusing to cut gas prices for Kyiv while proceeding with the South Stream gas pipeline designed to bypass the country. However, Moscow's policies are a blessing in disguise, as they can reduce Ukraine's dependence on gas imports from Russia, diversify energy sources, boost gas extraction in the Black Sea, encourage the construction of an LNG terminal near Odessa, and promote energy conservation.

Third, Ukraine must avoid sinking into the category of dictatorship in international perceptions and becoming indistinguishable from Russia, Belarus, or the Central Asian republics. To exhibit their governing credentials, maintain internal stability, and reinvigorate Kyiv's Western connections, the authorities need to demonstrate a commitment to human rights and the democratic principles undergirding the OSCE, the organization Kyiv will be chairing in 2013. Ultimately, Ukraine's key national interest, to uphold its independence, remains contingent on two factors: democratic development and the freedom to decide on its international alliances. ■

from Moscow may convince Kyiv that the Customs Union is more likely to maintain their power than the political liberalization demanded by the EU.

Economic conditions are working against Ukraine. For instance, Kyiv is running out of options to finance USD 4.3bn of outstanding foreign-currency debt in the first half of 2013. To regain access to IMF funds and avert a financial crisis, the government needs to agree to raising gas prices and adopting a more flexible exchange rate. In sum, the Ukrainian economy is rapidly declining and revenues are falling as the euro zone crisis lowers demand for steel and other Ukrainian exports. Without an IMF agreement, Ukraine's limited options include turning to Russia for loans and thereby increasing its dependence on Moscow.

Energy also remains a favored weapon for the Kremlin in exerting political pressure on its neighbors. At present, Ukraine is cutting Russian gas imports because of the high prices that Moscow refuses to reduce without gaining political benefits. In exchange for cutting prices, Gazprom

# In Whole or in Part?

The Kremlin will try to drag Ukraine into the Customs Union – or at least get control of some sectors of its economy

**Author:**  
**Maksym**  
**Bugriy**

**A**t first glance, the Ukrainian and Russian governments are now in a sort of a Nash equilibrium state, where each party continues to stick to its own strategy: Putin demands that Ukraine joins the Customs Union with Russia, Kazakhstan and Belarus, while Yanukovich demands cheaper gas. This equilibrium does not look likely to last. The players' weight categories are too different, especially as the conflict of the Yanukovich regime with the West deepens. A crisis scenario whereby Yanukovich will have to take this "last chance" to maintain power is possible, yet the most likely scenario for 2013 is for Ukraine to continue to stay away from the Customs

Union. The first reason for this is that joining it runs counter to the Family's key goal: to grab unlimited power in the state.

In fact, Ukraine's exports to Customs Union markets are growing, even without membership, while Kazakhstan's and Belarus' membership experience suggests that this does not save them from all kinds of trade restrictions by Russia. For Ukraine, joining the Customs Union does not guarantee that it will be possible to avoid discrimination against Ukrainian producers for economic or political motives. However, economic dependence on Russia may grow significantly in 2013 even if Ukraine does not join the Customs Union. The key tools used for this will be Moscow's finan-

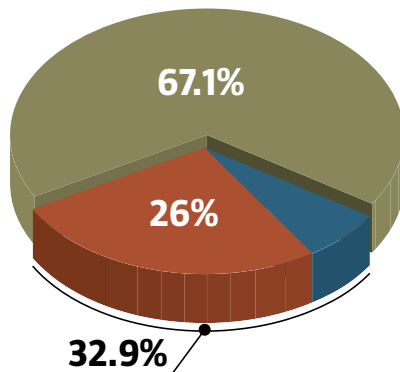
cial expansion and Russian-controlled transnational holdings, set up on the basis of acquired Ukrainian assets. Russian financial institutions are currently among the key lending instruments Ukraine uses to buy Russian gas or cover its budget deficit as they arrange the placement of Ukraine's Eurobonds. They will continue to lend funds to Ukrainian oligarchs. The key Russian-Ukrainian project in 2013 may be the merger of the nuclear power and mechanical engineering industries of the two countries – at least it may formally begin next year. Essentially, it has already started with the construction of a joint venture – a plant for the production of nuclear fuel in Kirovohrad Oblast.

Apparently, Russia also wants to use this scheme to gain access to Ukraine's strategic uranium resources. Already in 2012, 90% of fuel for Ukrainian nuclear power plants was supplied from Russia compared to 70% in 2011. Russia and other Customs Union member-states are major foreign consumers of Ukrainian mechanical engineering products, since Ukraine cannot compete on international markets. This will facilitate the acquisition of Ukrainian mechanical engineering assets, especially railway, ship and aircraft building plants, by Russian companies in 2013.

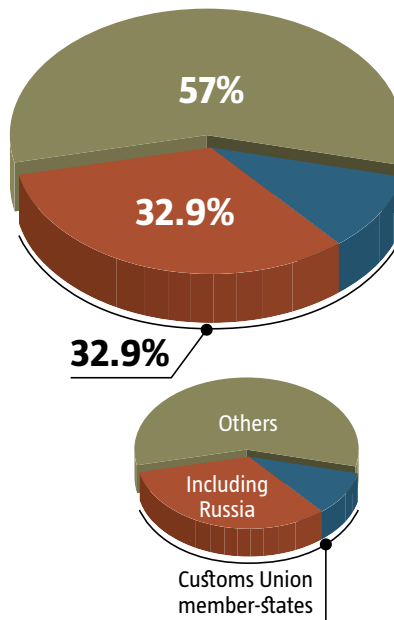
More specifically, Russian expansion in railway carriage building – the major part of Ukraine's exports to Russia – will continue, bringing forth the threat of being replaced with imported products. In 2012, an entity owned by Russian businessman Stanislav Gamzalov bought 25%+1 share of the Kriukiv Car Building Plant – possibly from Serhiy Tihipko's TAS Group. This may signal that Russians

## Ukraine's trade with Russia is intense even without membership in the Customs Union

**Exports over Jan-Sep 2012**  
(product share in total exports)



**Imports over Jan-Sep 2012**  
(product share in total imports)





## KEY TARGET SECTORS FOR RUSSIA'S POSSIBLE ECONOMIC EXPANSION IN 2013

**The monopolization of the nuclear power sector.** 90% of fuel for Ukrainian nuclear power stations is supplied from Russia compared to 70% in 2011. If Russians fund the construction of a nuclear fuel production plant in Kirovohrad Oblast and two nuclear reactors at Khmelnytsk Nuclear Power Station, they could claim access to nuclear power in Ukraine in the future.

**The banking sector.** Russian entities already control nearly 20% of the Ukrainian banking system. They are also major lenders to private business, government and some oligarchs in Ukraine. In 2013, the Ukrainian banking sector may grow more dependent on Russian capital as Western investors flee the country.

**Mechanical engineering.** Uncompetitive in international markets, the Ukrainian mechanical engineering sector mostly sells its products to Russia and other Customs Union member-states. This will escalate the acquisition of Ukrainian mechanical engineering companies, especially railway carriage, ship and airplane builders, by Russian companies.

**The oil and gas sector.** It depends on raw materials and loans, as well as the priority role that the Kremlin grants to the oil and gas sector. Therefore, this sector of the Ukrainian economy will be one of the most vulnerable ones to Russian expansion. Government-owned monopolist, Rosneft, can increase its presence on the oil market after it acquired TNK-BP. In the future, it may begin to dictate its rules on the Ukrainian market following Gazprom's suit. If the Firtash-Liovochkin Group happens to lose its current political influence, Dmytro Firtash's entities could sell their assets, including oblast gas suppliers and chemical plants, which are often acquired with Russian loans and using Russian gas. In this case, the Kremlin will end up with additional instruments of political and economic pressure against Yanukovych.

will later target other industry assets.

Deals with entities that are part of Dmytro Firtash's empire can also be interpreted as an element of Russian expansion. Firtash's companies get Russian loans, including those from Gazprombank, and cheap gas to increase their assets in Ukraine. Under certain circumstances, these can be sold to their lenders.

Russians will also gain a foothold in the retail oil product market. First and foremost, this will be done by means of Rosneft's entrance onto the Ukrainian market. It appears that Rosneft will soon own the Lysychansk Oil Refinery.

Finally, Russia may invest significantly in Ukrainian agriculture. Presented as a "strategic partnership" in grain exports, this may involve deals to buy terminals at Ukrainian Black Sea ports.

Forcing the Eurasian integration of Ukraine under Moscow's control, justified by the motivation to survive the crisis, is another likely scenario. Supported by many Party of Regions members – some of them in the government – the Kremlin is already making technological arrangements for this "alternative" path and pro-Russian projects in Ukraine.

Efforts are being made to persuade Ukrainians that integration with Russia is the only right way. The media is massively focusing attention on joint Russian-Ukrainian economic research with conclusions on the benefits of Ukraine's membership in the Customs Union and useless cooperation with the EU. The Kremlin will probably continue to use "stick" tactics, although more aggressively, fueling the tension around the construction of South Stream that bypasses Ukraine and discrediting Kyiv's plans to diversify its gas suppliers. In the meantime, it could threaten to take Ukraine to the Stockholm court for violation of the "take or pay" principle, and cut off gas in the coldest seasons. Notably, think tanks loyal to the Party of Regions spread more and more comments about the crisis in the EU and the "myths of European integration", while Ukrainian officials talk well of the Customs Union or choose not to criticize it. Another pillar supporting Ukraine's membership in the Customs Union will be producers oriented at the Russian market and non-diversified producers of cars, refrigerators, airplane engines and aerospace equipment, still mostly headed by red directors. ■

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# Will the **MAGNITSKY** A

If passed in its universal version and applied world-wide, it could have serious implications for Kyiv

**Author:**  
**Ariel Cohen,**  
**USA**

**N**ovember 16 marked the third anniversary of Sergey Magnitsky's death in a Russian jail. The U.S. House of Representatives Foreign Affairs Committee marked the occasion by passing the Magnitsky Bill. It now has moved on to the Senate for approval—the next step on its way to becoming law.

Provided the language Senators John McCain (R-Ariz.) and Ben Cardin (D-Md.) have written survives the legislation process, it is possible that the Magnitsky Act would apply to Ukraine. It will be up to the President and the State Department to decide, who, if anyone, may end up on a “Magnitsky List”.

The Magnitsky Act seeks “to impose sanctions on persons responsible for the detention, abuse, or death of Sergei Magnitsky, and for other gross violations of human rights in the Russian Federation, and for other purposes.” Individuals guilty of massive human rights violations would be refused visas, and their assets within the preview of the U.S. government would be frozen.

Ukraine's treatment of former Premier Yulia Tymoshenko and ex-Interior Minister Yuriy Lutsenko, as well as of other political prisoners, may come under “other purposes” language, applicable to countries beyond Russia.

Lutsenko, a key political ally of former Premier Yulia Tymoshenko, was sentenced to four years in prison in February 2012, for “embezzlement and abuse of office.” Lutsenko, like Tymoshenko,

claims that his conviction came on trumped charges brought by the allies of President Viktor Yanukovich.

The European Court of Human Rights rejected the conviction of Lutsenko and ordered a payment of EUR 15,000 in damages. However, Ukraine has not been ordered to release the 47-year-old prisoner while the government appeals the ruling. According to Serhiy Vlasenko, Tymoshenko's lawyer, “The court found that Article 18 of the European Convention on Human Rights had been violated. They've recognized that this was a politically motivated persecution,” said Vlasenko.

If the Magnitsky Act passes in its universal version and is applied world-wide, it could have serious implications for Kyiv. If, on the other hand, the law is limited to Russia alone, it would take an inordinate amount of lobbying to pass a similar law applying to Ukraine specifically.

The Magnitsky Act is unique, because it took the commitment, energy and political savvy of William Browder, then-Magnitsky's client and the founder of the UK-based Hermitage Capital private equity fund, to convince lawmakers to pass the bill.

Today, there is no discernable champion of Tymoshenko and Lutsenko in Washington who could match Browder's tenacity and reach on the Hill. Moreover, the Yanukovich Administration has hired Washington lobbyists in the past, and would “go to the mat” to defeat a legislative equivalent of the Magnitsky Act in case one is aimed at them.

The death of Sergei Magnitsky in a Russian prison was a tragic demonstration of rampant corruption in the Russian state's highest echelons. It would be



Senators John McCain (R-Ariz.) and Ben Cardin (D-Md.) initiated the law to apply sanctions against Russian officials

very unfortunate if Ukraine is put in the same category as Russia.

The fallout from application of a Magnitsky Act equivalent to Ukraine would be disastrous.

**THE MAGNITSKY ACT WOULD PROVIDE A MODERN SYSTEM TO PINPOINT AND PUNISH GROSS VIOLATORS OF HUMAN RIGHTS**

Ukraine is not Russia. Until recently, it had a better human rights record than Russia. With Ukraine's legacy of forced starvation under Stalin, it would be



# ACT Apply to Ukraine?



PHOTO: AP

tragic if it were recognized as a major violator of human rights.

Unfortunately, according to Amnesty International and Human Rights Watch, Ukraine's track record is steadily deteriorating. Torture is rampant in prisons and police precincts. Human rights activists, such as Andriy Fedosov of Uzer, a mental disability rights organization, and Dmytro Hroisman of Vinnytsia Human Rights Group, are beaten or harassed. There are widespread reports of ill-treatment of refugees, asylum-seekers and migrants involving arbitrary detention, racist abuse, and extortion. Still, Ukraine is no Russia.

Even with Magnitsky Act in place, Russia, the largest country on Earth, is attractive to Western investors as a source of hydrocarbons and other natural resources. Ukraine is not as blessed with oil, gas and other raw materials, as its northern neighbour. Western business may think twice whether to invest in Ukraine if a Magnitsky-style law applies.

Nor is the Magnitsky affair exactly like the Tymoshenko and Lutsenko cases. Tymoshenko and Lutsenko are alive, while Sergei Magnitsky is dead.

He was a 37-year-old attorney and accountant who worked for Hermitage, then the largest Western private equity fund in Russia. In the course of his work, he uncovered what he believed to be a giant corruption scheme that involved the embezzlement of USD 230mn from the Russian Treasury by law enforcement and tax officials. After making accusations, he was arrested on fabricated tax evasion and tax fraud charges.

Magnitsky died in isolation at the Butyrka prison in Moscow, where he was beaten mercilessly by guards and denied medical care. An investigation by the Russian Presidential Council on Human Rights and statements by leading Russian human rights activists have confirmed as much. This has not resulted in the punishment of those involved. Indeed, some who deserve punishment have since been decorated or promoted.

Yet, the Senate language of the Magnitsky bill is aimed at

human rights abusers not only in the tragic case of Magnitsky, and not only in Russia, but around the globe. As we wrote in a Heritage Foundation Backgrounder, the United States needs to take new measures to protect human rights in Russia -- and elsewhere.

Countries like Iran, North Korea, Belarus, and Uzbekistan, where political opposition is either exterminated in the GULAG-like death camps, or jailed and tortured, would be primary targets. Ukraine is not in the same category, but may endanger itself if the Lutsenko and Tymoshenko cases are not resolved quickly.

Targeted legislation like the Magnitsky Act would be an effective way to encourage not just Russia and other offenders to respect the rights of its citizens. However, Senate sources point out that broad application of the Magnitsky law may open a diplomatic can of worms, and spoil relations with "important" abusers of human rights, like China and Saudi Arabia.

The Magnitsky Act would provide a modern system to pinpoint and punish gross violators of human rights, while allowing U.S. firms to compete for business on a level playing field -- in Russia and elsewhere.

America should prioritize the rule of law—including individual rights, human rights, corruption, and organized crime—in its relationship with Russia and other human rights violators.

Congress may take action against those corrupt officials that systematically violate the natural rights of people -- not just in Russia but across the globe. The Magnitsky Act not only empowers Congress to take action against such individuals but sends a message that the U.S. will support those who value the rule of law and freedom worldwide. Let's hope that Ukraine will not need Congress's attention any time soon. ■

On December 14, the Russian Parliament passed the Draft Law On Measures of Influence Against Individuals Involved in Violation of the Rights of Russian Citizens in the first reading as a response to the Magnitsky Act. If passed, the draft law will ban entrance to Russia for some groups of US citizens, including those who committed or were involved in crimes against Russian citizens abroad, kidnapping or illegal deprivation of freedom of Russian citizens, and passing of unjustified or unfair verdicts regarding Russian citizens and prosecution thereof without proper reasoning. The draft law envisages arrest of financial and other assets and bans on any property or investment contracts for such groups.



# Divide and Conquer

Moscow knows that Ukraine may slip out from under its control after the 2015 presidential election. It looks like the Kremlin is setting the scene for a preventive attack

**Author:**  
**Oleksandr**  
**Kramar**

The defeat of the Yanukovych regime in the parliamentary election has made the Kremlin nervous. Putin seems to be frustrated with Yanukovych – rightly so, as the Ukrainian president continues to resist Ukraine’s integration into Russo-centric unions out of fear of losing his unlimited power and the intent to build “another Russia” for his own “Family” in Ukraine. Despite this, the Kremlin sees no alternative to Mr. Yanukovych among top Ukrainian politicians. Meanwhile, a shift of power to the opposition risks ruining every chance of drawing Ukraine into Putin’s neo-imperialistic project and destroying Moscow’s accomplishments over the past few years, including the extended stay of the Russian Black Sea Fleet in Crimea until 2042, higher status for the Russian language in Ukraine, and a monopoly in supplying nuclear fuel to Ukrainian nuclear power stations. The latest developments suggest that the Kremlin may have counted on direct interference in Ukrainian politics and using protest sentiments as a handy tool. This can lead to controlled destabilization in Ukraine.

## THE UKRAINIAN CHOICE. REALLY?

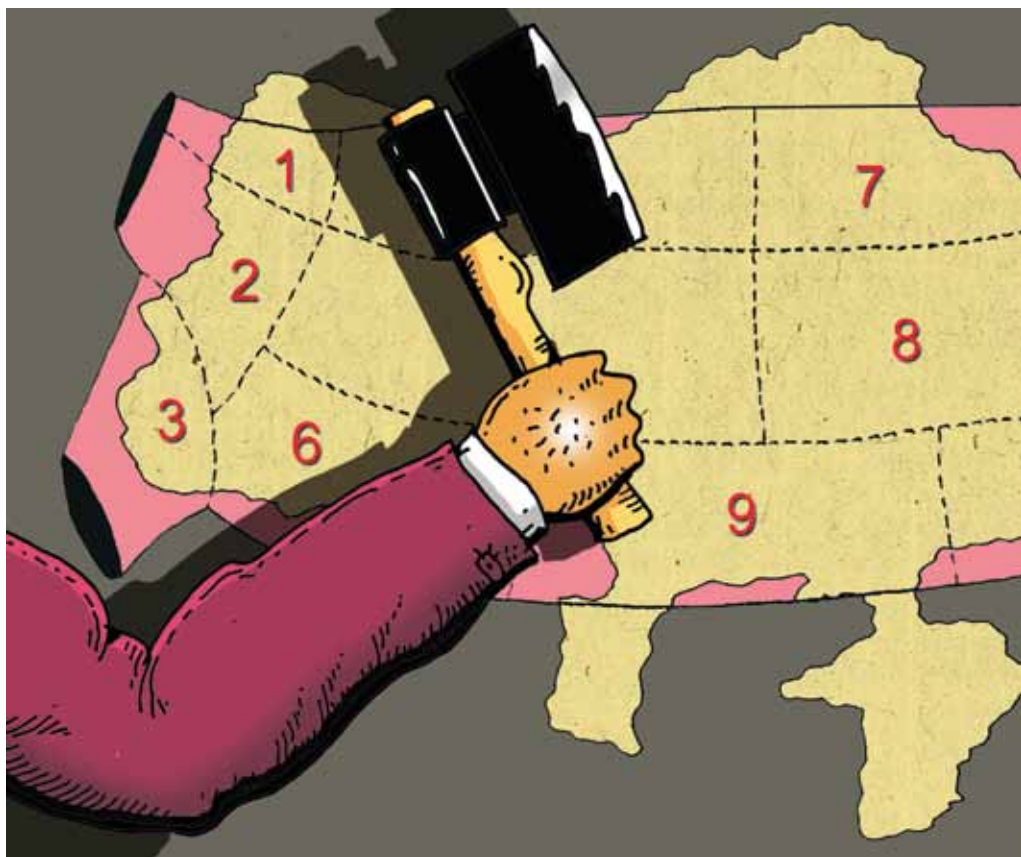
The launch of the Russian government’s official publication *The Russian Newspaper* with an... in Ukraine insert, is a symbolic step in reinforcing Russia’s direct ideological presence. The print run is 3,000 copies, to be initially distributed in Kyiv, Kharkiv and several other big cities. A more practical step in this direction is the growing presence of Viktor Medvedchuk’s project, the Ukrainian Choice. Vladimir Putin and Dmitri Medvedev’s wife are his daughter’s godparents. The Ukrainian Choice is holding roundtables and seminars on federalization in the

regions while the media back them with extensive coverage.

This looks like the implementation of an ultimatum: either you are our friends, or the voters are not your friends. Putin and Medvedev reportedly articulated this at a meeting on gas issues with Yanukovych in the fall of 2011. Apparently, they will be counting on the Party of Regions’ core electorate in southeastern Ukraine, which manifested its dissatisfaction in the ruling power by giving it much less support in the latest parliamentary election compared to previous ones. Meanwhile, Medvedchuk and other pro-Russian politicians call on the voters to approve the idea of Ukraine joining the Cus-

toms Union and Russian becoming the second official state language. They are ever more critical of the government and the opposition because they do not meet the voters’ expectations which, in their opinion, are largely about closer ties to Russia. At the same time, the media is unfolding a campaign, the main message of which is that delaying membership in the Customs Union aggravates the socio-economic situation and the quality of life for most Ukrainians.

Immediately after the Law On the National and Local Referendums came into effect on 27 November, which was promoted by the Ukrainian Choice, the latter intensified its efforts to unite



mostly pro-Russian NGOs around it. On 30 November, 53 national and regional NGOs, including the Civil Duma of Crimea, the Union of the Citizens of Ukraine and a number of associations that call themselves "Cossack" and "patriotic", signed an agreement with the Ukrainian Choice. According to one announcement, its main goal is to return to the people of Ukraine their constitutional right to have and exercise power. In his comment on it, the Ukrainian Choice founder, Viktor Medvedchuk, noted that the agreement was signed on the basis of ideas articulated in the manifest of his organization. An analysis of this manifest sheds some light on both its real goal, and specific mechanisms for its implementation.

The task of promoting and spreading ideas is for the media that will highlight specific questions, opinion polls and priorities of the voters "the way they are instructed to". A consistent combination of domination in the media space – especially hidden domination – and the regular reporting of opinion poll results presented as the only accurate ones by contrast to all others, may create a vicious

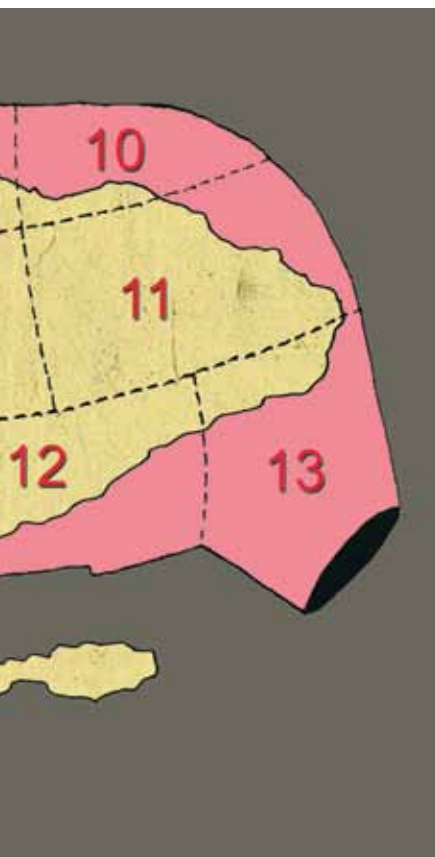
circle and provide orchestrated public opinion. The plan is to reach a stage whereby people will see imposed priorities as their own, and then use the Ukrainian Choice to launch "real public power" (this looks very similar to Bolshevik propaganda – and we all know how that ended). "You run the country, not the people you elect!" says the manifest and the massive advertising campaign that covers the entire country.

This will most likely be followed by the conversion of the influence, gained in the battle for public opinion, into political power through referendums, promoted as public initiative. Of course, this needs to be backed by a suitable law on referendums. The Ukrainian Choice has one to offer. If passed, it would allow the passing of strategic laws and the cancellation of those that are in effect, decisions on the most important issues of social life, integration into international unions and associations (the Ukrainian Choice's platform clearly defines the ones Ukraine should join) and the manifestation of popular will, which could result in the dissolution of parliament and the resignation of government.

#### A WEAK IMMUNE SYSTEM

The sad conclusion now is that Ukraine has insufficient immunity against internal attempts to take power. Under current circumstances, all it takes is the right organizational skills for consistent nationwide campaigns, significant funding, the lack of strong democratic institutions or resistance from an authoritarian government and an idea that at first glance is attractive to the general public.

Medvedchuk and his project already have the first two factors for success. As to resistance from the government, the Yanukovich regime has recently tried to take over the referendum initiative in order to preserve its power, passing the law on the referendum, which essentially determines that a referendum can be held at the president's discretion. However, his ability to resist the Kremlin's well-planned special operation in the long run is doubtful, given its international isolation, conflicts with the opposition, internal struggle between various groups of influence, and Russians holding the key positions in Ukraine's defence



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block. Another discouraging aspect is the worsening socio-economic situation and increasingly protest-oriented moods that spread rapidly throughout the electorate as the quality of life deteriorates, and voters do not have the opportunity to vent their anger by legitimately punishing those responsible for this state of affairs politically, through elections and choosing different leaders.

In this situation, a possible scenario is to provoke the aggravation of existing conflicts among individual oligarchs or between oligarchs and the Family as their appetites swell both in politics and the economy, and fuel overall destabilization in the country by facilitating orchestrated "ochlocratic initiatives". As a result, Ukraine's top decision makers are expected to find themselves in a situation where they will have no choice, but to seek a force capable of stopping the chaos and ensuring that they will preserve their ill-gotten assets in Ukraine, since taking them, as well as those currently being prepared for privatization, out of Ukraine is next to impossible.

Finally, the concept of the campaign is a potentially explosive mix of struggle with corruption and government accountability on the one hand – both ideas are currently highly popular with protest-oriented voters – and nostalgic sentiments about the revival of the Soviet Union and a yearning for integration into Russia's neo-imperialistic project, on the other.

### THE RUINS OF THE RUSSIAN WORLD

Important provisions on the Ukrainian Choice's agenda are to give the Russian language a privileged status in all areas of social life; the right to dual citizenship, which is essentially a step towards Ukraine being gradually swallowed up by Russia; and the peddling of the idea of Ukraine's federalization, which is supposed to weaken ties between different parts of the country and reinforce those of regions where most citizens speak Russian or hold Russian passports.

If implemented, this scenario could lead Ukraine to a dilemma between integration into the Russian project as a whole country or losing its territorial integrity, as was the case in Georgia and Mol-

dova. This would result in another version of the 2004 PISUAR, an abbreviation for the short-lived South-Eastern Ukrainian Autonomous Republic project, promoted by separatist movements in Severodonetsk, Luhansk Oblast, in response to the Orange Revolution.

### NOSTALGIA FOR THE USSR

Socio-economically, the manifest focuses on "the priority development of high-tech industries, such as engineering, airplane and aerospace engineering, shipbuilding and the defence industry." This looks like a curtsy for the red director-type managers who have found themselves sidelined lately as a result of the internal conflict within the Party of Regions. Secondly, this does not entail the modernization of these industries by upgrading promising facilities, eliminating unpromising ones, and building new plants in the indicated sectors.

The manifest suggests focusing on the preservation of indus-

tries referred to as "A" group in Soviet times. Its progress depended on the needs of the USSR-wide defence complex and closely linked Ukraine to other parts of the Soviet Empire.

### DANGEROUS STEREOTYPES

Spin doctors behind the Ukrainian Choice probably counted on the poorly informed homo sovieticus masses, who would fail to analyze their manifest properly and believe what they hear, guided by their nostalgic sentimentality for Soviet times and aggravated by their current frustration with both pro-government and opposition political forces.

Moreover, the erroneous stereotype of better living standards in Russia has been fueled intensely throughout Ukraine's two decades of independence by the total domination of Russian and pro-Russian media in Ukrainian media space, and superficial assessments of Russia's and Ukraine's macroeconomic indicators by Ukrainian experts and politicians who used this as an argument in their criticism of the Ukrainian government. According to them, the latter "was unable to ensure the standard of living of not only new EU member-states, but even that of Russia."

Ukraine went through a similar experience in 2009-2010 when the electorate voted for promises of "improvement" and "stability" without thinking about how realistic they were. Today, the risk of the Kremlin's successful manipulation of socio-political processes in Ukraine's reinforced by the nation's fragmented identity, the lack of firmly-established state institutions and a developed civic society, the poor awareness and political culture of the vast majority of voters, and the excessive influence of misleading media on public opinion. In this situation, any conflicts in the opposition and the passive position of the West contribute to the threat of destabilization, orchestrated by foreign players in the 2015 presidential campaign. This would be followed by the failure of the expected return of Ukraine to the democratic European course, which many Ukrainian and Western politicians are hoping for. ■

## THE LATEST DEVELOPMENTS SUGGEST THAT THE KREMLIN MAY HAVE COUNTED ON DIRECT INTERFERENCE IN UKRAINIAN POLITICS

tries referred to as "A" group in Soviet times. Its progress depended on the needs of the USSR-wide defence complex and closely linked Ukraine to other parts of the Soviet Empire.

The next passage of the manifest confirms this: "the choice of Ukraine's foreign economic integration plays a decisive role in this context. An assessment of the efficiency of integration in the Customs Union with Russia, Belarus and Kazakhstan; Common Economic Space or EurAsEC, and possible integration into the EU... shows the undeniable efficiency of eastward integration. This will renew demand for our production."

The manifest leaves out the fact that the "undeniable efficiency" of Eastern integration was determined by experts whose conclusions were based on the concept of preserving the current structure of the Ukrainian oligarch-controlled economy distorted by total corruption. Also, it



# Andriy Pyshnyi:

The further Ukraine is from the Customs Union, the better

**Interviewer:**  
**Oleksandr Mykhelson**

**A**ndriy Pyshnyi began his career in 2000 as the Head of the Legal Department at Oschadbank (State Savings Bank of Ukraine), rising to the position of First Deputy Chairman, and in 2004 – 2005 he was acting Chairman of the Management Board. From May 2007 until June 2009 he was the Deputy Secretary of the National Defence and Security Council of Ukraine. He entered the parliament in 2012 as No. 19 on the Batkivshchyna party list. The newly-appointed politician enjoys the trust of Arseniy Yatseniuk: In the Front for Change, he headed the Party Control Committee and during the election campaign, was one of the Deputy Heads at the Election Headquarters.

**UW: What are your views on the 2013 State Budget?**

If I'm not mistaken, Members of Parliament only received the draft budget around lunchtime on 4 December. One thing that catches the eye is the fact that there is a change in emphasis: from the "carrot" budget, to a "stick" budget. Taxpayers will once again pay for everything: UAH 1.6bn less income tax will be collected from Ukrainian enterprises, while it is planned that UAH 1bn more tax will be collected from private individuals, in other words, from the citizens.

At the same time, there doesn't appear to be a light at the end of the debt tunnel, which Ukraine is hurtling through for the third consecutive year – the direct and guaranteed national debt is reaching an enormous UAH 600bn.

In early 2012, the budget deficit constituted UAH 8bn, but increased to UAH 38bn in the third quarter alone. To understand the

actual budget deficit, it is necessary to add to this the official Pension Fund deficit, state guarantees (including for NJSC Naftogaz of Ukraine), UAH 40bn of VAT that has to be repaid, UAH 16bn of overpaid profit tax. If you add all of these together, the actual deficit exceeds the planned deficit by 100%.

It's the same situation with the draft 2013 budget. The official deficit is UAH 50bn, 3.2% of GDP. However, they forgot to count the Pension Fund deficit – UAH 40bn, financial support via government bond borrowing to Naftogaz and Oschadbank – UAH 8bn and UAH 1.4 accordingly, the loan to the Agrarian Fund – UAH 5bn and state guarantees – UAH 50bn. It turns out that the actual deficit is at least 9% of GDP! All of this means that the basic micro-economic indices at the present time do not only have blurred contours – they don't even exist as such. Budget planning is dead.

**UW: But if everything is really so bad, how can the country exist at all in the coming year?**

Ukraine is facing an extremely difficult year. Internal incompetence and insatiability are aggravated by external challenges. This budget was written "on the run", in haste and does not reflect anything, other than Yanukovich's attempts to stay in power at all cost. As a result, funding for the General Prosecutor's Office increased the most – by UAH 550mn, the SBU (Security Service of Ukraine) – by UAH 160mn and twice as much has been allocated to maintain public order than for national defence. The main enemy of the Ukrainian government is within the country.

This is the

reason why Yanukovich had to have the budget passed, no matter what, by the current Verkhovna Rada, which is under his control. Political idiocy: the lame-duck government – forwarded the budget to the equally lame Verkhovna Rada. As a result, Ukraine does not have a budget, but the cost estimate of a war against its own people.

Yanukovich feels that the next parliament will be considerably more difficult for him. I was on air at one of the TV channels yesterday and one of the participants, an MP from the Party of Regions frankly



PHOTO: UNIAN

admitted that his party does not know how to work with the new parliament and the opposition in it. There is no pro-presidential majority. To be more accurate, it will be situational and Yanukovych will have to put it together anew each time. And, of course, the main achievement of society lies in the fact that the government will never have the 300 votes required to change the Constitution. By the way, this explains why the current majority was so quick to approve the law on an all-Ukrainian referendum, in violation of regulations and the Constitution. After its initial rejection, it spent two and a half years on the shelf.

**UW: Is there a threat that the referendum can be transformed into an instrument of power for Yanukovych, bypassing parliament?**

Absolutely. This instrument allows the implementation of the plan to usurp power. This law allows changes to be introduced to the Constitution and laws to be approved without parliamentary participation. It also allows Yanukovych to “give his blessing” to decisions, related to such fundamental issues as the sovereignty and territorial integrity of Ukraine. I presume, that having recovered after the defeat in the election, the Presidential Administration has realized that it has lost – that Ukraine now has a parliament that stands in the way of the usurpation of power and will be a hotbed of opposition.

The main value of the new parliament does not lie in what it can do, but in what it can prevent. This is why the government has started looking for alternative routes, one of which is the resuscitated anti-constitutional law on the referendum.

This law is made out in such a way, that in many cases, the person formulating the questions can programme responses. The executive hierarchy completely controls the vote-counting process. The Central Election Commission (CEC) does not even publish the results – merely announces them! And under this law, it is the CEC that determines the constitutionality or non-constitutionality of the questions included in the referendum. We all saw last month



Newly-elected MP Andriy Pyshnyi is the right-hand man of Arseniy Yatseniuk

how the CEC works, when it was completely unable to establish election results in so-called “problem” districts, even with the protocols stamped with original ink seals in their hands.

The government will try to throw questions that will polarize society into the referendum. They are constantly busy with this to distract public attention. For example, this is what happened in July, when it was “selling” the law on the destruction of the Ukrainian language. This is how it was able to mobilize its own electorate.

**UW: But the opposing camp was also mobilized – look at the numbers gained by the Svoboda party.**

Indeed, this initiative worked on both sides. But the essence lies elsewhere: in three years of the

Yanukovych regime, the provisional division of the country into East and West has lost the mobilizing significance, which is so important for the Party of Regions. Society has begun to group along the government – people line. So, having thrown in a provocative subject, the Presidential Administration is trying to distract society from the socio-political situation and work on the division of Ukraine.

I do not rule out that the law on the referendum will be used for the polarization of Ukrainians at critical moments for the Party of Regions, for the purpose of thrusting its destructive scenario on society, which has nothing in common with the real needs and interests of the people.

**UW: So what can the opposition do with this law?**

First of all, refuse to recognize it. Secondly, we are working on an appeal against this law in the Constitutional Court. Thirdly, it is necessary to set up effective communication with society, which would express its aversion to this law just as decisively.

By the way, this is the top-priority task – the organization of not only an effective opposition in parliament, but also consistent communication with society for the purpose of its active engagement in political life.

**UW: Is the opposition intending to cancel or change such ambiguous laws as the law on the principles of foreign and domestic policy or the language law, and if so, how?**

As far as the law on the principles of foreign and domestic policy is concerned, even today it provides for European integration as a foreign policy priority, which is why Yanukovich has no choice but to execute it. The only thing that has been removed is the clause on NATO membership, which has been replaced with Yanukovich's Kharkiv deals, under which Ukraine pays the highest price in Europe for Russian gas, gave Russia part of Ukrainian territory and also limited its own foreign policy field.

**UW: Do you consider NATO membership to be irrelevant?**

First and foremost, I see NATO as an organization, capable of forming a reform agenda for Ukraine. This includes the establishment of sound civil society institutions. In general, democracy is a privilege of healthy societies. In this context, the standards of NATO member - states are important – just as important as EU Association, since it is pointless searching for a better plan.

**UW: In your opinion, should Europe agree to this Agreement under Yanukovich's presidency, or should it block it until there is a change of power in Ukraine?**

I am one hundred percent behind the Agreement being concluded as soon as possible, this is why Europe should not abandon Ukraine, but on the contrary, must strengthen pressure on the ruling regime, per-

sonifying responsibility. Together with the effective work of the opposition and a combination of external and internal factors, the government will be forced to make extensive compromises with society.

Opposition to the prospects of the signing of the Association Agreement under the Yanukovich presidency is demonstrated by the fact that international isolation has been imposed against Ukraine by the West. What is less obvious is the fact that political isolation has tangible consequences in the economic sphere. More specifically, this is why Ukraine cannot continue its cooperation with the International Monetary Fund.

**UW: In your view, will Ukraine still be able to borrow money abroad on the scale necessary to support the economy in the coming year?**

Ukraine is already borrowing at greater expense than pre-default Greece. If the increase in foreign borrowing during Yanukovich's government is calcu-

ket is actually in ruins. Each imported item means fewer jobs for Ukrainians. When Yanukovich came to power, the raw material component in the export structure comprised 68%, today – 70%. In the meantime, raw material markets are falling at the fastest and deepest rate, which is why Ukraine lost almost 15% of its GDP in 2008. So what does the Party of Regions do? Having acquired total power, it not only failed to improve the situation, it made it even worse. Why? Because a raw material-based economy is the source for ensuring the prosperity of a dictatorship.

**UW: In other words, this is being done deliberately?**

If the economy is not based on raw materials, the government must build a completely different system of communication with small and medium-sized business. And this is a completely different organization of state power.

I often met young people during the election campaign. I asked these young people: why doesn't Yanukovich, with all his power to reform higher education, ensure first jobs and construction of housing for young people? Huge funds are available for the repair of presidential *dachas* – country residences – so could it also have been possible to find some resources for a youth policy? The answer is that Yanukovich is not interested in young people. After all, they don't vote for him!

They demand a completely different quality of life and a completely different quality of political power. Therefore Ukraine's current government is interested in reducing the numbers of these progressive citizens, and having more that are completely degraded. And this is why it is recreating a raw material-based economy. Actually, the same applies in Russia. I recently looked at some statistics – in Russia, raw material accounts for 85% in the structure of exports, while advanced technology products – only 4.5%. And even this, I think, is military-industrial complex production. This is why I oppose the Customs Union. The further Ukraine is from the Customs Union, the better. ■

## THE GOVERNMENT IS NOT INTERESTED IN PROGRESSIVE CITIZENS AS THEY DEMAND A DIFFERENT QUALITY OF LIFE AND POLITICS

lated, it will emerge that on average, it has grown by almost UAH 7bn per month.

This is what the regime is capable of: take money while it is being given, and spend it at will. It's catchword from "stability to prosperity" has a new resonance: in June - a 1% fall in industrial output (in comparison to the same period of the previous year), July – 1.5%, August – 4.5%, September – 7%. Recession is rampant in Ukraine. The foreign trade balance: 2010 – minus almost USD 10bn, 2011 – up to USD 14.5bn and in the first nine months of 2012 – USD 11.5bn. By the end of the year, Ukraine could possibly reach a negative balance of USD 17bn! How's that for "stability" with a trend towards "improvement".

41% of goods on the market are imported. The domestic mar-





# Alone at the Top

Vladimir Putin has initiated some high-profile battles against corruption. But to many he seems increasingly isolated and out of touch

**S**tate-run television is not usually the place to find news of corruption scandals involving officials close to Russia's president, Vladimir Putin. Murky business dealings have never been a bar to government service. When high-level bureaucrats fall, they usually go quietly. But viewers have recently been treated to quite a spectacle on Channel One: evening broadcasts full of current and former ministers, their lovers, their expensive homes and millions in misappropriated funds.

This nascent anti-corruption campaign began in October with the dismissal of Anatoly Serdyu-

kov as defence minister. He was fired after investigators linked a company spun off from the ministry to a \$100m fraud. That a high-level official with ties to Mr Putin could be so publicly dumped was unprecedented. But since then, a \$200m embezzlement case over a satellite-guidance system has threatened Mr Putin's chief of staff, Sergei Ivanov. And on November 27<sup>th</sup> Rossiya-1 channel aired a documentary linking a former agriculture minister, Yelena Skrynnik, to a reported \$1.2 billion fraud.

For Mr Putin, taking on graft in his own circle has several benefits. It is popular: between 2005 and 2012, corruption rose from

tenth to third in the concerns of ordinary Russians. It is also an issue that unites his opponents. Mr Putin may dismiss democratic worries, but he sees himself as a popular leader, responsive to the national will. Legitimacy of a kind matters deeply.

Eight months after his election to a third term, Mr Putin's support looks shaky. The polls give him some of his lowest approval ratings ever. So he feels "compelled to carry on a populist course, as if the elections were still ahead of him," says Nikolay Petrov of the Carnegie Moscow Centre. Fighting corruption also defangs the most resonant complaint of the opposition.

Launching corruption cases against his inner circle can also rein in excesses that make Mr Putin politically vulnerable and the state ineffectual. In his 12 years in power, bureaucratic corruption has gone "unpunished, unattended, and uncontrolled", says Elena Panfilova of Transparency International, a lobby group. Worse, state employees now feel emboldened to siphon off resources even without sustaining social stability. Targeting a few high-profile officials can be a way to "introduce a certain level of fear," Ms Panfilova notes.

A disruptive public war on corruption also can create more infighting among political and business clans. That seems to be happening at Rostelecom, where two managers are being questioned about a \$225m fraudulent loan from VTB, a state-run bank. Control over lucrative telecoms licences may be the real point. Yet an anti-corruption purge can also take on its own uncontrolled momentum, which could make Mr Putin weaker, not stronger.

All this feeds a sense of uncertainty, with the Moscow political elite "disoriented," according to Mr Petrov. Investigative files on the two defence cases have existed for years, only to resurface now. Are the rules changing? What could be unearthed tomorrow, and against whom? At the same time, the mood of rudderless leadership has been worsened by questions over Mr Putin's health.

For much of October and November, Mr Putin worked at his Novo-Ogaryovo residence outside Moscow, rarely going to the Kremlin and cancelling foreign trips to Bulgaria, India and Turkey (though he is now going to Turkey next week). News reports discussed a possible back problem caused by flying an ultralight plane beside some wild cranes in September. The Kremlin dismissed this, saying only that Mr Putin had pulled a muscle while exercising. In another political system, the story might have stopped there, but in Russia the mystery took on symbolic resonance.

Over the years, Mr Putin has played on traditional Russian deference to the leader while relying on manipulation of the media. The "charismatic aura" for Mr Putin, says Lev Gudkov of the Levada Centre polling group, has produced a system like "Byzantium, only on

television." The real point of the story about Mr Putin's back was not the supposed ailment but the breaking of a taboo over discussing his health—and his future.

The biggest concern is Mr Putin's isolation. His claim to Germany's Angela Merkel that Pussy Riot members had hanged the effigy of a Jew in 2008 was bizarre and inaccurate (in fact, the band was protesting against anti-Semitism); either he was misleading her or he had himself been misled. Mr Putin has spent over a decade in power and Yevgenia Albats, editor of the liberal New Times, talks of the "typical syndrome of an ageing general secretary".

Compared with his early years in charge when he relied on economic aides like German Gref and Alexei Kudrin, Mr Putin has less faith in the counsel of those around him and more certainty in his own judgment. After a difficult year, he believes that he "owes his position to a hard-fought electoral victory, unlike his colleagues who have no mandate from the voters", says Sergei Guriev of the New Economic School. On many issues, says one former adviser, Mr Putin "thinks he understands the situation, but in fact it can be quite incomprehensible for him".

Decision-making in the Kremlin appears to be on hold. Mr Putin has slowed down progress on the budget, on pensions and on privatisation. This may partly be a prudent move to sit out recent turmoil in global markets. But the danger of what Chris Weafer of Troika Dialog calls a "deliberate policy of inactivity" is that Mr Putin waits too long, acting only when the next political or financial crisis hits him.

As for the campaign against corruption, it will go only so far. Corruption is a pillar of Putin-era stability as much as a threat to it. Much of what could be called corruption has become formalised, if not legalised, through official tenders, court rulings and bank-approved loans. That makes it both more prevalent and amorphous—and harder to eliminate.

Alexei Venediktov of the Ekho Moskvyy radio station likens the situation to "turbulence" in an aeroplane. The ruling class may know "in which direction and with which pilot" they are flying, he says; but the plane is shaking disconcertingly. ■



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# IGOR CHUBAIS:

**It's naïve to expect changes in Russia through elections**

**P**hilosopher Igor Chubais is the brother of Anatoly Chubais, the spin doctor behind Russian privatization who has held key positions in Russia over the last 20 years. In contrast to him, Igor Chubais chose scholarly activity, heading up the first Russian Studies faculty in Russia, at the Institute of Social Sciences. He feels that the experience of the rise and collapse of the totalitarian Soviet Union, calling it “a state doomed to destruction from the very start”, is the current problem, which has yet to be understood by society. In his interview with *The Ukrainian Week*, he talks about the direction in which Russia is moving, how many years the ruling regime has left and relations between official Kyiv and Moscow.

**UW:** Clearly, the falsifications in the last parliamentary election in Ukraine will complicate dialogue between Kyiv and the European Union as well as the USA even further, which could, in turn,

**Interviewer:**  
**Milan Lelich**

**thrust the Yanukovych regime into the arms of the Russian government. How likely is such a scenario?**

I can only express my personal view on this: taking the current governments in Moscow and Kyiv into consideration, a significant improvement in relations is impossible. The entire 20 years since the collapse of the Soviet Union



**THE RUSSIAN GOVERNMENT WILL FIND IT MORE AND MORE DIFFICULT TO SAVE ITSELF WITHOUT SOME KIND OF AN SUPPORTING ECHO FROM THE BALTIC STATES, CENTRAL ASIA AND UKRAINE**

have proved that the Kremlin has been unable to create stable inter-governmental unions.

Until the internal administrative structure in Russia changes, it's futile to count on any international support or influential international alliances.

Several years ago, when working on the radio, I glanced at the agenda of the United Russia Party, which stated that it sees one of its tasks as “the creation of a circle of friendly countries around the Russian Federation.” Over this period, Russia has not gained a single friend from among its neighbours, and has even lost those that were its friends.

However, the influence of the Russian political system on all neighbouring countries will continue. It will be ever more difficult for its government to save itself without having some kind of an “echo” from the Baltic States, Central Asia and Ukraine. But this system is artificial and ineffective.

**UW:** Is it possible to compare the current Russian propaganda machine to that of the Soviet Union?

— In the last years of its existence, the Soviet propaganda machine was counter-productive: when it said on TV that the West was a jungle of capitalism and pure hell, many were convinced that it was ac-



tually paradise. Some people have the same view today, although in truth, there are also many problems in the West.

Today, the Russian mass media has transformed into a means of mass propaganda, a “zombie-maker”, which, unfortunately, has a very strong impact on public opinion. However even here, the effect is not always the one that is planned: many people have already developed a self-defence reaction to what they are told from the TV screen.

In a normal country, the government is responsible for everything going on. However in Russia, neither Putin, nor Medvedev is guilty: they blame everything on Yushchenko, Saakashvili, the State Department, etc. The Russian government constantly looks for a fall-guy, which does not sit well with many people though. In fact, the Russian mass media does not present any country as a friend, with the occasional exception of China. However this system is far too foreign to really affect the Russians. No sooner does something happen that is radically contrary to the Russian propaganda line, or vice-versa, ideally fits in with it, than it's exaggerated to the maximum extent. This is the same method used by the entire propaganda machine when issues pertain to Ukraine or the Baltic States.

**UW: You have often pointed out the lack of efficiency in the current state administration system of Russia. After the last presidential election, there was a popular cartoon of Putin portrayed as Leonid Brezhnev, entitled “2024” (meaning that Putin would rule until then). In your opinion, is it possible to prevent this?**

Right now, all that the thinking part of our society is talking about, is when will this system, which is destroying Russia, be brought down. There is one more question – how. It's very hard to make a forecast, because these processes are nonlinear and depend on several factors. Personally, I take the forecast made by a foreign member of the Russian Academy of Sciences, economist Vladimir Kvint, very seriously. In his time, Henry Kissinger won this person over to the USA. Kvint asserts that the current regime will lead Russia to an economic collapse in 2017. In his view, 2017 will be the last year for the Russian economy in its current form, and will be followed

by irreversible processes. The economy is currently entirely based on the export of fossil fuels, while the extraction of oil and gas will decrease in the coming years and prices will fall. In addition, the Americans are currently building plants for the liquefaction of shale gas, the output capacity of which will satisfy about 50% of West European demand for gas. This will be a mighty blow to the Russian economy.

**UW: Do you believe in the possibility of the peaceful removal of Putin, via elections?**

— No, it's impossible to remove him in this manner. And the issue is not Putin himself. Any authoritarian regime is set up in such a way, that it does not play games that do not guarantee victory. Today, the only point in participating in an election (for the opposition) – is to declare to the people: “Although you support us, we shall not win, because these are not elections, but imitations thereof.” So it's naive to expect changes in Russia through the vote. What happened during the last election in Russia profoundly discredited this mechanism as such. As a result, during the recent local election, voter turn-out was 10–15%, and in essence, the winner from the United Russia had the support of 5% of the population.

**UW: In other words, only the people can clean up the Russian regime?**

None of the people I know would be prepared to take to the streets and shoot their neighbours. The acuteness of a conflict does not depend on what the citizens want, but on what the government is doing. It was possible to persuade Yeltsin that he was unable to normally govern the country, so he resigned. Why can't this be done with Putin? By the way, I was told (although I cannot vouch for the absolute reliability of the information), that in the narrow circle of the government, they are looking at the option of the departure of the current head of state: he wants to remain until the Olympics, but he is being recommended not to delay and leave immediately.

Many see Sergey Shoigu, the former Minister of Emergencies, who was appointed Minister of Defence in autumn, as a candidate for the vacancy – he is the only politi-

cian from the pack in power who can be “sold” to the public and who does not evoke aggression on the part of the voters. In this context, the removal from office of Anatoli Serdiov, the Minister of Defence, is interesting. The issue is not that he was dismissed, but that one of the president's support pillars has fallen. It's doubtful that Putin wanted this.

**UW: Why is the wave of protest in Russia broken up and not grown into a revolution?**

In the West, when there is a 3% tax increase, the streets are filled with protesters. Meanwhile, so much is happening here – and no reaction. But this is not because Russians are a kind of submissive nation. For 70 years, the Soviet government had been turning its people into homo sovieticus. Now, people don't want to take to the streets; they don't have faith in their ability to change anything. However, in recent times, this faith is emerging, so their turn will come.

**UW: Has Russia changed since the Bolotnaya Square (the site of Russian protests in 2011) and Sakharov?**

— Of course. People came to the square and saw that they are not alone in their dissatisfaction with the government, when a hundred thousand people shouted: “Putin – thief!” This launched reflection and analysis – Russia truly became different in this aspect.

**UW: After the meetings, there was considerable criticism of the so-called creative class, which was considered to be the main driving force of these protests, since many of the protesters simply saw it as a fashionable trend, and in effect, this class is not capable of leading the population on a massive scale ...**

I totally disagree. I was there and I saw the faces – completely different people from those simply wandering around town. And what is the “creative class”? Who defines the criteria and who meets them? This notion is an element of manipulation. When we went to a rally in January, into the freezing -20° cold, people stood on their balconies and greeted us. This was a unity of the whole city. This is why the government began a defamation and information war against such demonstrations. ■

**BIO:**  
**Igor Chubais**  
(born in 1947) – PhD. In 1988–1990, he was one of the activists in the informal Moscow-based Perestroika and Perestroika-88 unions and a member of the Moscow People's Front. In 1990, he was one of the founders of the Democratic Platform in the Communist Party of the Soviet Union. He was the Editor in Chief of the *Noviye Vekhy* (New Milestones) journal and presenter of a radio programme. In 2010, he signed the Putin Must Go open letter. He is also the author of *From the Russian Idea – to the Idea of a New Russia* (1996), *Russia in Search of Itself* (1998) and *Unraveling Russia* (2005)

# Deficit Looming Large

The Ukrainian government is likely to take radical steps to close the budget gap

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**1997-2005**

**F**inancial calculations made by government officials show that the budget gap will widen, and the government will try radical methods to close that gap

According to government data on economic growth, the state and local budgets for 2013 were drawn up based on the nominal GDP of UAH 1.576 trillion and a 4.8% inflation rate. In 2012, budget of all levels were expected to receive UAH 474bn, given the nominal GDP of UAH 1.5 trillion. However, it is evident even now that Ukraine's GDP for 2012 will not exceed UAH 1.4 trillion. Thus, the budgets are set to receive at least UAH 32 billion less than projected.

According to the government, various-level budgets will account for 29.4% (UAH 463bn) of the GDP in 2013. This means that, adjusted for inflation, the real receipts will drop by UAH 32.2bn. This sum is comparable to two annual budgets of Kyiv and 40 such budgets of cities like Zhytomyr or Sumy. It appears that in order to avoid tackling some hairy issues, the government simply "extended" to 2013 the 2012 state and local budgets which were previously approved but never fulfilled. This means that budget receipts and budget spending will essentially stay at the 2012 level, even though some disbursements will have to be increased, such as salaries in the government sector, utilities for government bodies, pensions, servicing and repaying sovereign debt, etc. Therefore, even if the country's budgets at all levels receive, in 2013, their respective projected amounts of income (the same as in 2012), they will not rise

above the expected 2012 level, which was never reached. Economists call this stagnation.

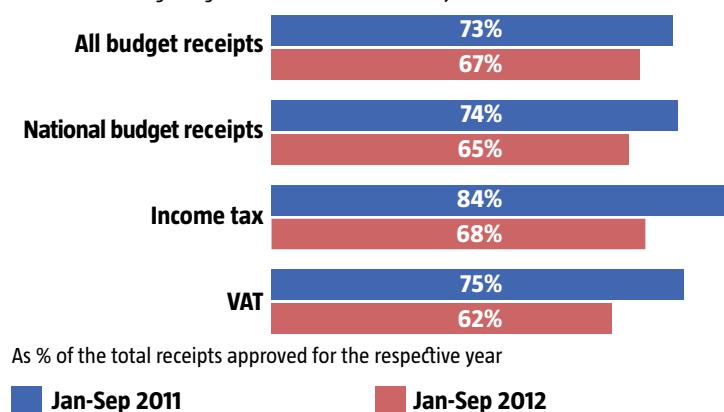
Therefore, the national finances in 2013 will depend on three key factors which emerged in the second half of 2012: decreasing budget receipts at various levels, issues with financing the Pension Fund, higher servicing costs for sovereign debt due to the replacement of cheap foreign loans (primarily from the IMF) with more expensive money accumulated by selling eurobonds on international financial markets and internal bonds at home.

In 2012, there has been a perceptible problem of low state budget receipts (**see Budget breakdown**) caused by a decline in business activity which, in its turn, is seen as a consequence of crisis phenomena in the economy, deteriorating investment climate and a sharp reduction in loans issued to the real economy.

In January through September 2012, all budgets in Ukraine received a mere 67% of their expected annual income (78% over the same period in 2011). With 65%, the national budget performed even worse. Budget receipts from the income tax were at 68% and from the VAT at 62% over this stretch despite unprecedented pressure the tax administration has been putting on businesses. Clearly, the remaining third is unrealistic to collect in the last three months of the year as has been proved by budget performance in October and November. The reason is the inadequate economic policy and the government's unwillingness to revise it amid deepening crisis. The national and local budgets were based on the 2012 forecast of 3.9% economic growth (higher than the actual 1.5% in January through October 2012 and possibly close to zero for the entire year) and 7.9% inflation rate

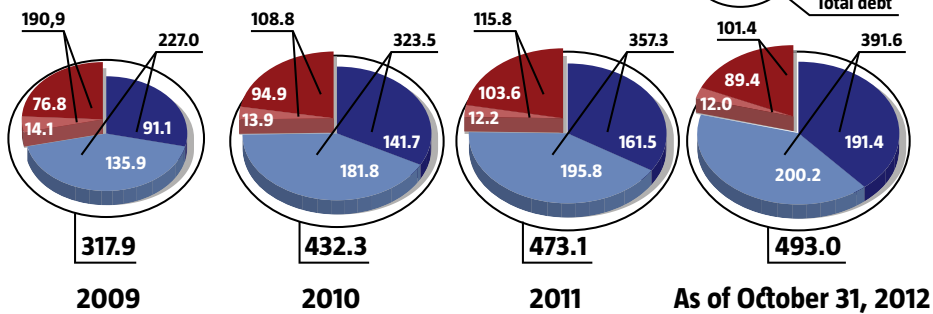
## Budget breakdown

The comparison of receipts of the national and local budgets over nine months of 2011 and 2012 signals that the figures laid in the 2012 budget were inadequate, aimed at showing budget deficit lower than it really was



## Ever costlier debts

Changes in the amount and structure of Ukraine's sovereign debt show that servicing it will grow more and more expensive. With government bonds mostly denominated in foreign currencies and eurobonds being the key source of loans given the increasing international isolation, and the need to pay over USD 6bn to the IMF, this negative trend will continue to burden public finance in 2013



(much higher than the actual a 0.3% deflation in the first 10 months). Such government forecasts may have to do with its reluctance to officially acknowledge the worsening budget gap problem and inability to fulfill its financial commitments.

Dangerous trends have been observed in 2012 relating to the Pension Fund gap. In an election campaign boosting effort, the government significantly raised pensions, which cost the Pension Fund an additional UAH 9bn. It failed to collect this sum by the end of the year, so transfers to it from the state budget were increased by nearly UAH 7bn, including UAH 5.6bn in direct financing of the Pension Fund budget deficit (**see Failed pension reform**). In 2013, a total of UAH 83.2bn will have to be allocated to the Pension Fund from the na-

tional budget, which is UAH 17.3bn more than in 2009, the first "post-pension reform" year. Thus, the Ukrainian government is likely to resort, on multiple occasions throughout 2013, to such extravagant moves as a 15% "pension tax" on foreign currency exchange transactions.

Virtually the only source available to the government to service and repay sovereign debt (and government-guaranteed loans if necessary) is Ukraine's state budget. The government can make direct disbursements from the budget or use the so-called financing mechanism under which government loans are obtained to pay for outstanding debts. Ukraine's sovereign debt continues to rise rapidly, increasing by UAH 34.3bn in the first 10 months of 2012, which is equal to about 10% of the state budget receipts projected for

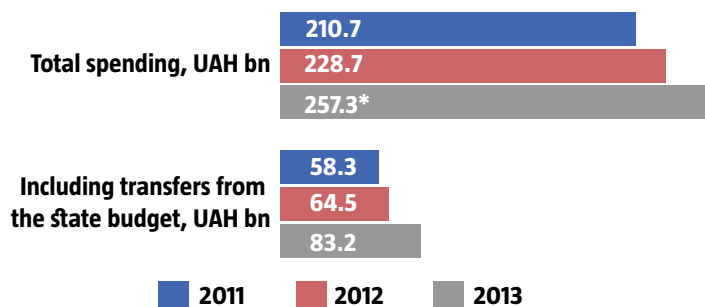
2012. Thus, the Ukrainian government will have a bigger appetite for additional resources next year. It is already planning to borrow UAH 135.5bn, UAH 38.5bn more than planned for 2012. At the same time, the bulk of loans are even now being used to service and repay previously incurred debts, which are becoming increasingly expensive (**see Ever costlier debts**). For example, in 2012, close to UAH 66bn were used to repay sovereign debt and another UAH 30bn to service it (nearly UAH 96bn in total). In 2013, the respective sums will be UAH 81bn and UAH 35bn, a total of UAH 116bn. This is a significant amount under any circumstances and even more so in crisis time. State budget receipts, the only source for servicing sovereign debt, will be a mere UAH 361.5bn, UAH 12.5bn down from 2012.

Therefore, the state finances will be in dire straits in 2013 due to a number of negative factors which will create tension around formulating and fulfilling the chief functions of the state and local self-government bodies. The declining real budget income and an objective rise in protected spending, such as salary in the government sector, pensions and servicing and repaying sovereign debt, will greatly constrict the room for economic, social and political maneuvers for the government (even to benefit its favourites). In the present situation, financing even these protected articles may turn out to be problematic. Since the key creditor with which the Cabinet of Ministers will have to deal in 2013 is the International Monetary Fund, much will depend on Kyiv's cooperation with the IMF.

The government is likely to try four different ways to resolve the situation. First, the hryvnia may be devalued through a monetary policy that will stimulate high inflation. The budget will then be essentially filled with devalued hryvnias, thus shifting the economic burden on the population. Second, fiscal and regulatory pressure on business may be stepped up. Third, non-standard ways to close the budget gap, such as a 15% tax on foreign currency exchange transactions, may be introduced. Fourth, budget programmes and social spending may be reduced. ■

## Failed pension reform

Growing spending of the Pension Fund in 2011-2012 was covered by transfers from the state budget. The trend may aggravate as the crisis escalates and the government struggles to pay pensions raised before the election



\*The Pension Fund's budget for 2013 is not approved yet, therefore total spending may change



# High Risk Zone

The investment climate in Ukraine in 2013 will not intimidate Russia alone

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If the current situation with foreign investments is compared with data from 2009, it emerges that 2012 was the worst of the last decade. From October 2011 until October 2012, for the first time since comparative data has been available, foreign investment in Ukraine, with the exception of that from Cyprus and the British Virgin Isles, was less than USD 1bn. The Investment Attractiveness Index for Ukraine, calculated by the European Business Association, reached a historic minimum rating of 2.14 points, while at the peak of the previous crisis in 2008–2009, it only fell to 2.22.

Investors are fleeing Ukraine, not so much because of the global economic crisis, but because of the reality of the business environment in Ukraine. The main factor is the arbitrariness of the government as its principle of administration. There is no independent judiciary – everything is resolved as it was during Soviet times, “on the phone” – in private discussions. Laws, following the traditions of the Russian Empire, were

written for idiots; but never before has it been less funny than now. Property rights are more nominal: according to the level of its protection, Ukraine is on the same level as Angola 128<sup>th</sup> – 129<sup>th</sup> place (of 130 countries) in the IPRI rating. Even if government-related raider attacks for the most part currently avoid companies with foreign investments (although even here there have already been several exceptions!), their owners are well aware that their turn will come, “foreign” enterprises will be targeted in order not to touch “their own”, in other words, those with direct links to Yanukovich’s circle. Much has been learned from the Russian and Belarussian experience.

Ukraine’s symbolic rise in the Doing Business rating was achieved as a result of a certain simplification in the registration of a typical LLC and a reduction in the number of tax payments for such LLCs. But neither one, nor the other is a true barrier for business in the reality of Ukraine. It is simply a “facade” of deregulation. Instead, the number of managers who admit that personnel changes in the government’s control bodies can significantly impact their success, has tripled.

While foreigners (and the civilized part of the national business community) were previously supported by optimism regarding prospects for overcoming a problem, today, disenchantment prevails. The more visitors learn about Ukraine, the more they understand that the problem does not simply lie in “political will”, but also in the system itself, under which this will simply cannot emerge, because the government is held together on personal (largely informal) privileges for individual enterprises and branches of industry. And even the hypothetical emergence of an individual politician, interested in the creation of equal and honest rules of the game, will not re-

solve anything. More and more investors, both domestic and foreign, are beginning to seriously consider whether a real catastrophe is looming. After all, a country with a ruined judiciary and corrupt law enforcement agencies is far too reminiscent of a human organism, deprived of immunity. At the same time, even within the opposition, there don’t appear to be any people, but too many instructions/teams, capable of averting such a catastrophe.

2012 is marked by the mass withdrawal of foreign banks from Ukraine, which in their time, were the first to take a “bite” at the prospects of its European integration. They are either selling their assets much cheaper than what they paid for them, such as Commerzbank, or are folding their operations, such as Swedbank. It is currently difficult to forecast whether those that have remained will follow their example, or hold out until the bitter end. Right now, based on the logical development of events, it’s the turn of the immigration of industrial investors. But first of all, they are far less flexible – more specifically, it’s more difficult to sell their assets and secondly, they can pursue more long-term goals. However, if there should be new investments, they will generally support projects that are already in place and at minimal levels.

Thus investment growth in 2013 will clearly be weak: less investment will depart, but less will come in. Maybe though, Ukraine will obtain investments for the extraction of gas, or less likely, for agriculture – only on condition that the moratorium on the purchase and sale of land is lifted. Countries with rich natural resources are generally ruled by dictators who, for the most part, are corrupt. So the companies involved in such business are used to relevant risks. The situation with investors from CIS countries, first and foremost Russia, is similar: they are fully adapted to the specific features of doing business in Ukraine. After all, they grew up under similar circumstances. It follows, that even if the official index of the volume of attracted investments can be maintained at the same level, their quality may be found to be significantly worse. ■

## AFRICAN LEVEL

Conditions for conducting business in Ukraine are among the worst in the world – the evaluation of international institutions:

- **137<sup>th</sup> place (of 185 countries)** in the Doing Business rating (index on the ease of doing business) compiled by the World Bank and the IFC (Russia – 112<sup>th</sup>, Estonia – 21<sup>st</sup> and Georgia – 9<sup>th</sup>)
- **144<sup>th</sup> place (of 176 countries)** in the Corruption Perceptions Index – 2012 from Transparency International (together with Bangladesh, Cameroon, Central African Republic, Congo and Syria)
- **152<sup>nd</sup> of 183 countries** with regard to the total tax rate. In Ukraine, it constitutes 57.1% (World Bank and PricewaterhouseCoopers research)
- **163<sup>rd</sup> place (of 179 countries)** in the Economic Freedom Index – 2012 (Wall Street Journal and the Heritage Foundation)
- **181<sup>st</sup> place (of 183 countries)** in the ease of paying taxes ranking (World Bank and PricewaterhouseCoopers research)
- **4.43 on the 10-point scale** of the Investment Activity Index in Ukraine in October 2012, based on the results of a survey of the managers of 253 American, European and Ukrainian enterprises, conducted by Research & Branding Group



• **73<sup>rd</sup> place (of 144 countries)** in the Global Competitiveness Report (World Economic Forum, 2012)

• **Down to 2.14** on a 5-point scale – the level to which the Investment Attractiveness Index for Ukraine in Q3'2012 has fallen. The level of Ukraine's attractiveness for investors, which has been evaluated by the European Business Association with the support of InMind marketing research company since 2008, has fallen to the lowest level in the last three years.

In 2012, business was struggling to survive, let alone develop. The financial performance of unprofitable companies plummeted in Q1'2012, followed by profitable businesses in the next quarter.

Despite this trend, tax authorities continued to pressure businesses, squeezing out income tax to fill the budget.

Over the first six months of 2012, the performance of industries controlled by oligarchs, oriented at the domestic market that include companies involved in the production of clothes and leather goods, and wood processing, fell significantly, sometimes at a double-digit rate. Ukrainian producers lost part of the domestic market as a result of tax and regulatory pressure, as well as the overvalued hryvnia, despite growing consumer demand backed by increased nominal salaries. This was the result of the government's efforts to please the electorate using budget funds. Imported, rather than Ukrainian goods flooded the market as imports grew by 8.5% over the first six months of 2012.

Affected by the sluggish global economy that hit exporters, Ukrainian industry stagnated, experiencing a 1.4% decline over 10 months compared to the respective period in 2011.

The construction industry also operated at a loss, its output falling by 10.2%, while cargo turnover declined by 6.4%. The unfolding financial crisis saw business profits decline more than two-fold in Q3'2012.

2013 promises more difficulties for non-oligarch business. Pressed by the budget deficit, the government will exert unsustainable tax

# Between a Rock and a Hard Place

Business not owned by oligarchs will find itself in a much more difficult position in 2013, under the influence of the growing appetites of the government and the sluggish economy

**Author:**  
**Liubomyr Shavaliuk**

pressure on business, depleting its working capital.

In addition, the government tolerates raider attacks which aggravate the business climate and scare away investors. As a result, the potential for economic growth and the choice of tools to resist the looming crisis show a marked decrease. Meanwhile, the NBU's ineffective monetary policy has led to critically high interest rates, making loans inaccessible and provoking money deficit in the economy. Before the election, the government raised the minimum salary rate. This imposed a huge financial burden on companies as they had to raise salaries for their staff with no added efficiency to offset extra spending. As a result, many companies became uncompetitive, went partially into the shadow and suspended investment.

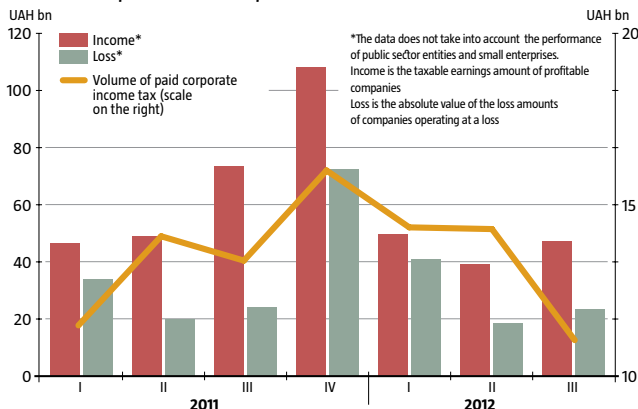
The number of companies operating at a loss will increase dramatically. They will cut salaries and reduce the number of staff, therefore official and hidden unemployment is bound to increase. Eventually,

Ukrainian consumers will spend less, decreasing retail turnover, which has been growing so far, albeit slower every month. Price cutting against the backdrop of declining output signals falling purchasing capacity which is extremely dangerous for the economy. Shrinking demand will inevitably reduce output. Since the government has no strategy to stimulate domestic demand and cannot stop this process, output is likely to fall further. This will trigger a full-scale recession that may harm all branches of the economy. Economic decline in 2012 had the worst impact on the earnings of big enterprises. In 2013, small and medium businesses will suffer most, as they are largely oriented at the domestic market, operating in trade, real estate and farming.

A combination of negative factors, such as tax and administrative pressure, with objective economic difficulties, will push business owners to switch into the shadow or the closure of businesses on a massive scale, until better times. ■

## OPERATING AT A LOSS

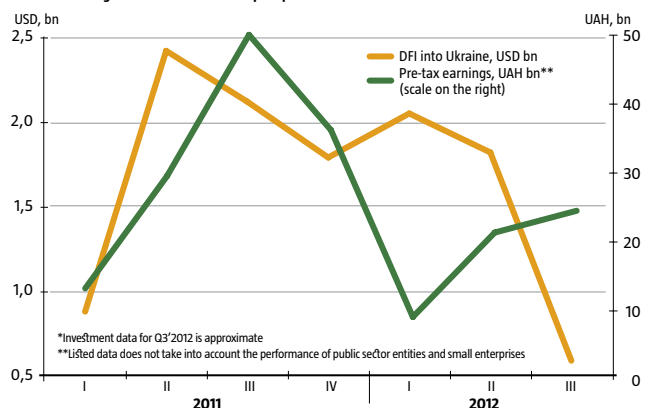
Pre-tax financial performance and corporate income tax



## THE VICIOUS CIRCLE

No profits – no investment

Pre-tax earnings and DFI into Ukraine per quarter



# Ukraine's Robber Barons: Where They Come From



**Author:**  
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**Reform**

Oligarch clans today have the financial, economic and political tools to dominate society. They are based on production assets gained through the privatization of state-owned enterprises in various forms and other social benefits. These included the open, yet government-controlled sale of stock in tenders at knockdown prices; the shadow expropriation of state-owned facilities by means of setting up joint ventures with the government or simply buying them; the fake bankruptcy of state-owned companies accompanied by illegitimate court verdicts to transfer ownership to private companies that covered commitments to pay their debts which, for the most part, were significantly lower than the cost of the respective assets – this one was particularly popular in the Donbas; the granting of exclusive licenses to exploit mineral deposits and radio frequencies to the nouveau riche, essentially for free; assistance from officials in winning big and profitable public tenders and construction contracts, and so on.

The soon-to-be-rich also took over the trade of imported gas, oil, nuclear fuel, coal and grain; and the servicing of tax, customs, pension, police, budget, social and other contributions and benefits. Windfall profits and endless assets were mostly appropriated under Leonid Kuchma's presidency, yet oligarchs continue to mushroom today.

The newly enriched "masters of life" did not stop with their economic accomplishments and entered the political domain, to further guarantee their corrupt profits. Top officials encouraged them to do so as they themselves looked for partners for corruption deals. Without their support and that of the police, oligarchs would not exist. In turn, the latter encourage corrupt officials to produce laws that suit business owners. One could not exist without the others. Together, they have constructed a new type of business, where en-

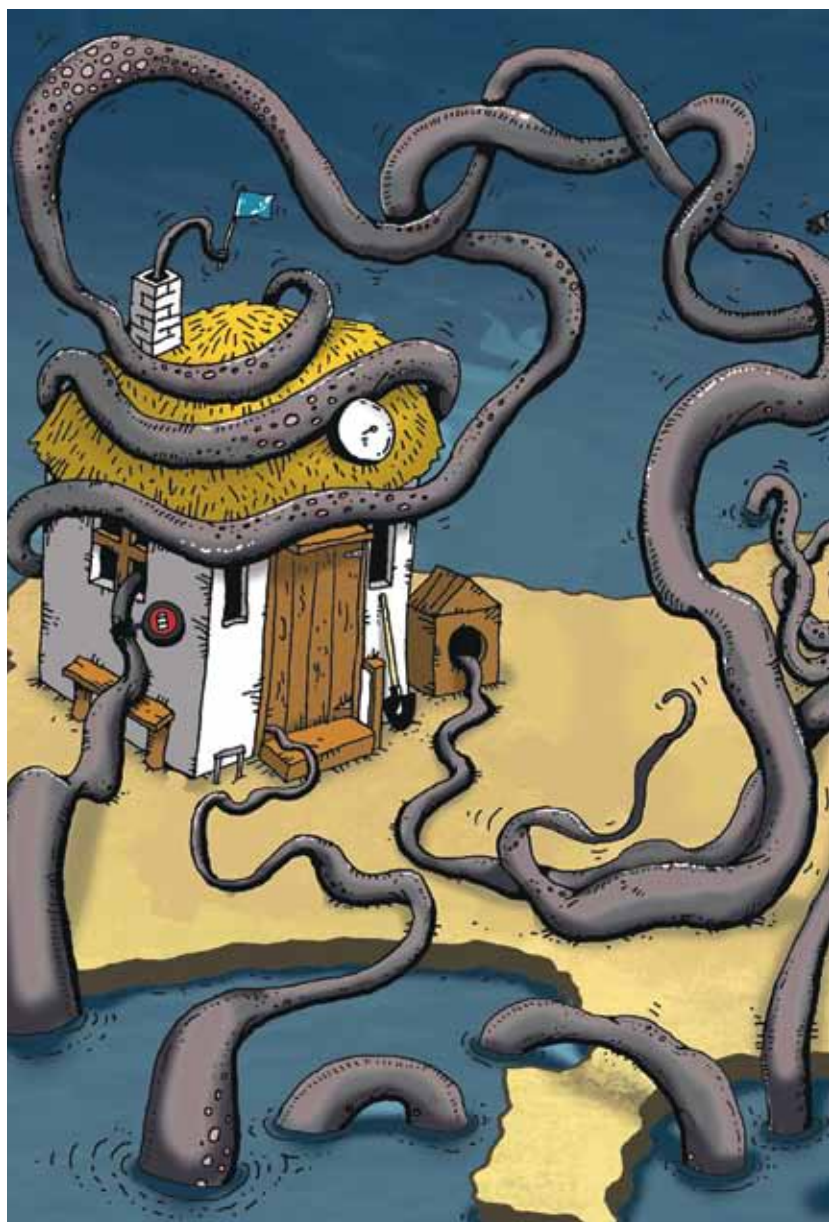
richment comes from political rather than economic arrangements that are often illegal.

Oligarch-controlled capitalism is at its peak today, as power is almost entirely distributed among oligarchs. Before the parliamentary election, Ukraine had no money to pay basic social benefits to pensioners, invalids and other underprivileged categories, while

pouring money into "independent" parties and some self-nominated candidates.

## TYCOON EMPIRES: GHETTOS FOR THE NATION

A characteristic of the oligarchic system is that it cannot co-exist with either domestic or foreign, small or big business. Tycoons are the first enemies of innovation,





competition, market self-regulation and equal rights. They prefer manual control of the economy, bureaucratic market regulation, centralized distribution of resources and pricing. At the same time, they fear small producers, which are more flexible and dynamic in following market trends, hence more competitive than oligarch-owned dinosaur conglomerates. As a result, pro-government clans attempt to crush small and medium businesses by restricting their access to loans and investment, and causing them problems, via the rules of the game that they have established and law enforcement agencies.

They are also antipodes and the mortal enemies of big private one-

branch corporations, oriented towards business profits and upgrade. Unable to compete with them, oligarchs use both legitimate (overpriced raw materials, artificial tax claims and so on) and illegitimate (raider attacks) means to remove them from the scene. Ultimately, they try to swallow them up. Numerous examples include the Stirol chemical plant in Horlivka, the Nikopol Ferroalloy Plant, the MMK Illich in Mariupol and so on.

Today, oligarchs partially or fully control all the facilities that look as if they could generate vast short-term profits in Ukraine.

In addition, tycoons make every effort to prevent the owners of competitive businesses from going

into politics, where they could create competition in corruption and political fields – for instance, by funding alternative parliamentary or presidential candidates.

They are also afraid of transnational companies that are more powerful, financially sound and technologically modernized. Since Viktor Yanukovich became president, entrepreneurial transnational companies have essentially suspended the opening of their subsidiaries in Ukraine. Instead, international giants, such as oil and gas companies, have been offered the opportunity to operate in Ukraine with the aid of monopoly abuses, rent privileges and the support of their own governments. The fact that these relations are exclusive, is confirmed by the deals signed this year on the allocation of

## PRO-GOVERNMENT CLANS CRUSH SMALL AND MEDIUM BUSINESSES BY RESTRICTING THEIR ACCESS TO LOANS AND INVESTMENT

the energy resources to be extracted in Ukraine at a rate of 70:30 in favour of foreign companies. Such concessions are rare in international practice as the maximum usually granted by governments to foreign companies is 50%.

### WHAT DOES IT TAKE TO RU(I)N A BUSINESS?

Unlike Western countries, but just like in Latin America and Asia, Ukrainian oligarch business structures are multilayered and highly diversified holding corporations with a limited number of major stakeholders – generally less than 10. Very often, the interests of oligarchs do not correspond with those of top managers whose interest do not extend further than their own salary increases. Meanwhile, business owners do not effectively control their managers' activities. These discrepancies, as well as the owners' inability to control all fields of the corporation, result in a burdensome bureaucracy, swelled administrative costs of running the business and make it impossible to make the right strategic decisions regarding business development and raising capital on the highest level. One example was the recent scandal with Roshen, a well-known





Ukrainian chocolate empire owned by Petro Poroshenko. Its managers decided to make all packaging in Russian. After a massive protest campaign on the web, Petro Poroshenko said that he had been unaware of the decisions of his executives and would do everything to cancel them.

Moreover, multilayered and diverse structures prevent the timely reaction of their owners to market changes in every field. Weak administrative and financial control over production facilities undermines internal financial discipline. Late reaction to market changes results in difficulties or the failure to meet external financial liabilities. Thus, the domination of oligarch clans in the economy makes it uncompetitive, financially vulnerable, unstable and weak.

### CAPITAL DRAIN

Striving to increase the overall profits of their corporations, in addition to searching for extra privileges and benefits from the government, tycoons focus on upgrading the structure of their assets. However, the efforts are not innovation or business-oriented, and do not involve any special technological or marketing solutions.

Instead, Ukrainian oligarchs have focused on the grabbing of additional energy facilities, land, loans and professional managers – mostly foreign. The goal of their

new business projects is also to conquer markets and cut production costs in conglomerates.

Optimizing business by means of moving capital abroad is another downside of oligarch-style business management. Ukrainian tycoons buying companies in European and other Western states has become the latest trend, and is part of their strategy to take capital out of the country on a massive scale. Firstly, their huge facilities based on obsolete Soviet plants are uncompetitive. Secondly, some oligarchs convert Ukrainian assets

Ukrainian financial and industrial groups (FIG) are banks and lending institutions. Oligarchs use them as channels with all the necessary instruments and legitimate opportunities to transfer their assets abroad. Also, they work as mechanisms to get newly-printed cash from the National Bank intended for all citizens, including the entrepreneurial segment of the economy. In addition, they service the debts of the oligarchs' entities, saving them from bankruptcy and real responsibility under their liabilities. In this case, powerful banks that are part of the biggest FIGs take over the actual financial accruals of the economy to cover the needs of their loss-generating enterprises.

### CARTHAGE MUST FALL

Highly diversified corporations owned by one or several people are unnatural and harmful for the economy. The goal of economic and political change should be to deprive owners of huge business empires of the opportunity to shape the government, dictate its decisions and employ corrupt financial deals to grab national wealth. Necessary reforms include:

- Criminal liability for corruption in parliament, such as bribes for votes and the appointment of parliamentary committee heads, ministers and judges.

- Restrictions on contributions to election campaigns from

## BUYING COMPANIES IN EUROPEAN AND OTHER WESTERN STATES IS PART OF THEIR STRATEGY TO TAKE CAPITAL OUT OF THE COUNTRY ON A MASSIVE SCALE

into foreign ones in an effort to monopolize international raw material markets. Privat Group is one of them, trying to take over the ferroalloy market. Although unlikely to succeed, its aspiration to use non-business methods on an international level are obvious. This export of capital is sooner an irreversible drain of assets, bringing no future profits to Ukraine.

For this reason, the most valuable sub-divisions of the biggest



one person, the violation of which should result in significant punishment.

- Criminal liability should extend to party functionaries and individual candidates for the illegal funding of election campaigns.

- A ban on the appointment of powerful capitalists to government or other top positions, or a restriction on the amount of property owned by potential candidates.

- The modernization of public governance, including a ban on official interference with business processes and operations; the decentralization of financial, investment, fiscal and budget flows; the cancellation of the police methods currently used by tax authorities; ensuring equal rights for taxpayers and customs duty collectors; consumer protection and so on.

- Increased criminal liability for civil servants, law enforcement officers, SBU (the Security Service of Ukraine) employees, prosecutors, judges, tax inspectors and customs officers for corruption.

- A ban on the ownership of more than one national TV channel or media group by one person.

- Direct public control over the actions of officials.

Corrupt tycoon-controlled business should be deprived of its material basis. Measures for this include:

- The drafting of government programmes and plans based on interests in the development of the national economy rather than individual lobbyist groups and their projects.

- The reintroduction of transparency in privatization tenders.

- Restriction of the share packages one person may acquire through the privatization of state-owned companies to no more than 10-15%.

- Keeping intermediary private firms out of trade and financial transactions involving state-owned companies and institutions.

- Criminal liability for raider attacks on companies and court support of raiders.

- The introduction of competitive licensing for the extraction of minerals, radio frequencies, subcontractors in public tenders, construction contracts, and so on.

- A ban on private companies purchasing enterprises in order to cover their debts, resulting from the deliberate overpricing of raw materials and services by their suppliers.

- The introduction of a system of market – non-targeted and non-exclusive – monetary refinancing of the economy by the NBU.

Accomplishing all this is a great challenge. The “masters of life” are able to quickly concentrate significant funding on certain political projects, stonewall bills and regulations aimed against them and unite against common threats, no matter how fiercely competitive they are in the struggle for resources and production facilities. Moreover, the parties currently in parliament do not see the oligarch-controlled government and economy as one of the biggest dangers for Ukraine. Therefore, efforts should be taken to unite society around political forces that will fight for Ukraine’s transition to an egalitarian system that acts in the interests of most citizens, free markets and a pluralistic political model that is free of tycoon influence. ■

# Business Lunch with another approach



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# THE GHOSTS OF INDUSTRIAL

Industrial depression in the Donbas depopulates towns once built around plants and coal mines

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**J**ust like any historically industrial region, most populated areas in the Donbas sprung up near plants and coal mines. However, a growing number of unprofitable enterprises have been shut down in the past two decades, causing a catastrophic loss of jobs and complete decline of infrastructure. To the locals, this means no traditional sources of support. Migration ensues, and entire districts turn into ghost towns. Underlying all these sad developments is the overall inefficiency of the social economic system in the Donbas.

## DEADLY RESTRUCTURING

Deindustrialization and depopulation are typical of any post-Soviet city or town, but the Donbas is special in that it is a purely industrial region in the manner of the

late 19<sup>th</sup>-century. Both the economic cycles and local mentality revolve around large industrial complexes as a certain sacral symbol, an object of pride and even a totem. “To me, a city without industry is kind of fake,” says Oleh Sestrin, a Mariupol-based worker who comes from a family of workers. This type of thinking predominates in the region and has driven the locals into a dead end over the past decades.

“The catastrophic decline of industry in the Donbas has affected the psyche and mentality of the population in several major ways,” Donetsk-based psychologist Andriy Bashkirov says. “Of course, when you lose nearly all your usual ways of making money virtually overnight, you become terrified at the prospect of any further change and will hold onto

even the little you have now. This is the obsessive desire for ‘stability’ which spin doctors are exploiting. However, the impact of deindustrialization has gone much deeper.

Given the industrial orientation of all aspects of local life and workers’ traditions like coal mining dynasties, shock-worker records and proletarian pride in one’s own plant, people without their enterprise tend to lose their sense of purpose in life. The traditional foundations of their lives have been ruined. Citizens stop appreciating and loving the place where they were born and lived their entire lives. This is the root of all the problems in Ukraine’s black belt – alcoholism, disregard for the law, rampant crime, and so on. The Donbas is still living with the consequences of this his-

## DYING TOWNS

**Stepnohirsk** is a small town in Zaporizhia Oblast located on the bank of the Kakhovka Water Reservoir. It was abandoned by residents after its coal mines closed

**Snizhne** is an oblast-level town in Donetsk Oblast which is suffering from continuing depopulation caused by deindustrialization

**Petrovske** is a country-level town in Luhansk Oblast which has been dying since the closure of the Hryhorii Petrovsky Chemical Association

**Vuhlehirsk** is a country-level town in Donetsk Oblast located near Yenakievo. The breakdown of the coal mining infrastructure triggered emigration there.

**Torez** is an oblast-level town in Donetsk Oblast which has been gradually losing its population after all of its coal mines and plants were closed

workers a long time ago, with zero chance of returning. The true number of abandoned homes may be 2-3 times higher.

Entire districts have become desolate in some depression-struck cities. For example, 9 out of 12 coal mines that provided jobs for the coal mining town of Brianka, 58km from Luhansk, were closed during large-scale industrial restructuring. This government manoeuvre triggered a humanitarian catastrophe. The population of the town has dropped nearly 50% in the past 20 years. People fled in different directions to survive, abandoning their homes. In the mid-1990s, selling a piece of residential property in the

mining industry was destroyed on purpose in the 1990s. The local authorities were given a carte blanche from Kyiv to sell off products, extremely expensive equipment and enterprises into private hands. The entire region was on the edge of survival, while a handful of those who now make up the so-called local elites filled their pockets. This process has slowed down somewhat but continues even now, because 90% of enterprises that were closed will never resume operation. Consequently, people who used to work there have been forced to seek a better life outside their own home towns because they can no longer survive in them. Neither the local nor the central authorities are doing anything to offer residents of what used to be coal mining settlements any other economic prospects.”

### ABANDONED MINES, ABANDONED HOMES

Luhansk Oblast is a vivid example of the overall situation in the Donbas. As of early 2012, there were 11,500 abandoned flats and homes in the oblast. This official number is just the tip of an iceberg. Experts say that in many cases officially registered residential property owners left the area as migrant

STUCK BETWEEN EPOCHS. Residents of Zorynsk do not see any prospects for the future and are nostalgic about the past

# AL PAST

tory, to say nothing of the real depopulation of small towns and villages.”

The bankruptcy of a coal mine is often a real death verdict to a coal mining settlement and its inhabitants, because it forces locals into subsistence agriculture. A coal mine means not only jobs that are a source of living but also a utilities infrastructure, social and other provisions, a sense of being needed, and more. No-one offers any alternative jobs when enterprises close, and since the 1990s, the region has suffered from depopulation and extreme social labour emigration.

“The so-called restructuring was in many cases unnecessary,” Oleksandr Ilchenko, a public activist, entrepreneur and former coal miner from Sverdlovsk, Luhansk Oblast, says. “The coal







Luhansk hinterland for US \$100-300 was considered a great success.

Oleksandr, 30, a Luhansk resident, remembers that in 1996, his family sold a two-room flat in the depressed town of Zorynsk with a plot of land as a bonus for US \$300. He believes they were lucky, because one year later their neighbours were unable to find a buyer for their flat, so they simply locked it up and left for Russia.

As we enter Zorynsk, the cone of a coal mine welcomes us. The coal mine is no longer operating and looks like the skeleton of a huge iron monster. What immediately catches the eye is the multitude of abandoned houses, first individual homes and then entire blocks of flats. The destruction of the town is close to complete – nearly all the locals we met said they worked outside of town and dreamt of leaving it as most of their relatives and acquaintances had done. The only thing that permits several thousand local residents to survive there is the M-04 highway to Izvaryne on the border and jobs in Alchevsk.

**THE ORDER IS TO SURVIVE.** Sukhodolsk tries to attract new residents by offering abandoned flats free of charge



## THE BANKRUPTCY OF COAL MINES FORCES PEOPLE INTO SUBSISTENCE AGRICULTURE

A major problem for residents who are not even directly linked to industrial production is the absence of any alternative in the local economic system, which is another cause of permanent emigration. “No-one will understand you, if you don’t want to work at a plant,” painter Andriy Siry, a Yasynuvata native and now Kyiv resident, explains. “They put pressure on you since childhood if you dare dream of something that does not fit into the local cultural code. What?

your flat, then so be it – it can go to hell.”

“I don’t remember my hometown very well,” Serhiy Halkin, a native of Snizhne Donetsk Oblast, says. His family was fortunate enough to be able to move to Boryspil, near Kyiv. “We left Snizhne in 1997 when the local coal mine where my father and grandfather worked was shut down. There were no jobs available, and the situation was so desperate that even food products were not delivered to grocery stores on a regular basis. But we didn’t have money to buy them anyway. There is not much I remember from my childhood years in Snizhne, except a lot of Lenin statues. I have never gone there after we left, and, frankly, I don’t feel particularly drawn.”

### REDUCING DEPENDENCY

The cities where the coal mining industry kept at least some of its position thanks to privatization have a lower depopulation rate. For example, the infamous town of Sukhodolsk, where 28 coalminers were killed in an accident in 2011, has

You want to paint? Plants are standing idle in the country, but everyone wants to be a painter, they will tell you. So people like myself have never had a choice in contemporary Donbas – we have had to leave as soon as an opportunity presented itself, without waiting for a better chance. If you need to abandon





started to see people returning to their abandoned flats. This is even despite the fact that, statistically, this town is among the fastest shrinking municipalities in Ukraine.

From the very first glance, Sukhodolsk appears depressed: grey streets, battered houses that have not been kept up or remodelled since the breakup of the USSR abound and locals are few. Abandoned flats are reminiscent of all the depressed towns in the region. Especially phantom-like are blocks of flats with alternating populated and abandoned floors. For example, there is a grate on the fourth floor in a 12-storied building in the city outskirts – there is no way up from there. “It’s a good thing that they blocked the passage not so long ago,” a local resident says. “Drug addicts used to have a den up there. On the other hand, a young couple recently got permission to occupy an abandoned flat nearby. And they did move in. Now they are trying to remodel the place.”

The Sukhodolsk authorities encourage people to occupy abandoned flats. They are handed over

free of charge, but the cost of remodelling falls on the new owners. In this way, some ghost buildings are coming back to life.

But will it last? For the past two years, the Mykola Azarov government has repeatedly declared that the coal mining industry is very significant for the state due to its desire to reduce dependency on Russian natural gas. Hence a revival of this sector was to be expected, the government assured. However, economic experts say that powerful oligarchs have much to lose if they decide to switch to coal: they will have to overhaul their production lines at great expense. In other words, these coal mining regions should not expect any positive changes soon.

The biggest problem is that the authorities are not even trying to diversify the economy of the Donbas, which remains dominated by heavy industry and coal mining. This perpetuates the dependency of the local population for survival on these sectors, which are now uncompetitive due to their outdated technology, inefficient use

**GOING NOWHERE.** The absence of any alternative is gradually killing the Donbas

of labour and dependence on raw materials rather than finished products. Most production facilities are privately owned, but the owners invest almost nothing in upgrades. If this situation continues, plants and coal mines will continue to close and towns will lose their inhabitants.

In short, the entire socio-economic system of the Donbas is in a dead end and mere production

## **BOTH THE ECONOMIC CYCLES AND THE LOCAL MENTALITY REVOLVE AROUND COAL MINES AND PLANTS**

According to a UN report,

**5**

Ukrainian cities (Dnipropetrovsk, Donetsk, Zaporizhia, Kharkiv and Odesa) are among the top 30 cities in the world by depopulation rate

reform will not suffice to revive it. Measures must also be taken to help people who have lost their jobs in industry after restructuring. The Donbas will have to go through this painful but much needed process at some point, just like its foreign counterparts have done, from the Ruhr region in Germany to Wales in the UK. And this should be done before it is too late. ■

## The half-million population of Mariupol in Eastern Ukraine is standing for its right to breathe safely

Article and photos by  
**Natalia Kommodova,**  
*Mariupol-Donetsk*

**O**ver 10,000 people recently took to the streets, demanding an end to the emission of the poisonous smog that covers Mariupol virtually every day from the Azovstal and MMK Illich Steelworks, both owned by billionaire Rinat Akhmetov's Metinvest Holding. Despite reports by the plants and the authorities of reduced emissions, locals claim that the industrial giants continue to blatantly poison the oxygen they inhale and that Mariupol is gradually dying, at the same time, killing the Sea of Azov with its unique flora and fauna. Meanwhile, regulators are turning a blind eye to the environmental abuse and its devastating effect.

Thousands of people signed an anti-smog resolution and presented it to the president, the government, the ombudsman and even the Green faction at the European Parliament. Discouraged protesters were prepared to block the work of the city hall and the major polluters for as long as it takes them to implement modern air cleaning solutions and for municipal authorities to report accurately on what people inhale. The unprecedented scale of the rally pushed plant owners to make concessions.

### THE GAS CHAMBER BY THE SEA

Mariupol, a city on the sea shore, has the worst air pollution in Ukraine. It is home to the biggest steel and coke plants in Ukraine. They generate 25% of all emissions in Donetsk Oblast. "It is possible to touch as well as see what you inhale in Mariupol," the locals joke.

Mariupol is the only city in Ukraine where citizens are not officially warned of weather conditions that make it dangerous to go outside and even air out apartments

On average,  
polluted air cuts  
lives by  
**8 months,**  
and by  
**2 years**  
in dangerous zones

Source:  
The European  
Environment  
Agency (EEA)

The annual share of industrial pollution per citizen is 800kg. This is almost eight times as much as the average pollution per person in Ukraine. Lung cancer kills every fifth citizen of Mariupol, while the local cemetery is reportedly the biggest in Europe. Sociologists report a massive migration out of the city and a steep devaluation of real estate. Meanwhile, neither the governor nor environmental watchdogs think that the situation in Mariupol is disastrous.

Azovstal and MMK Illich steelworks produce 98% of all emissions. They also support the city, since they own stores, food producers and drug stores, while the plants employ nearly 40,000 local residents. People patiently grew used to the dust and char that cause eyes to burn and dizziness before things got much worse this fall. The caustic "smell of money" – this is how the locals refer to smog – has spread to districts re-

# STOLE



mote from the plants, while the suffocating mist now covers the city every day.

Mariupol is the only city in Ukraine where citizens are not officially warned about bad weather conditions that make it dangerous to be outside or even open windows. On windless or foggy days, industrial emissions do not diffuse fast enough, concentrating in residential districts near the plants instead. Whenever that happens, the streets turn into gas chambers. The most damaging effect is on children.

"Our district was previously considered to be clean, because it's far from the plant," says Inna Dmytryshyna, mother of Maryana, 2, and Daryna, 4. "Now, even shut windows no longer protect us from dust and smoke. My daughter has chronic bronchitis and she can't breathe without an inhaler. Local pulmonology units are all packed with patients. 'What's going on there? We seem to run out



# EN AIR



of inhalers before we deliver them,” wondered a supplier from Donetsk when I bought one for my daughter.”

Over a period of 10 months, Mariupol was engulfed in thick smog for 187 days – more than six months. In September, 23 of 30 days were dangerous for breathing. Mid to high levels of pollution were announced three times in October alone. These are the periods when people are officially recommended to wear special protective masks and clothes outdoors.

“It only takes seconds for smog to cover an outdoor sports ground where school kids have their PE classes in warm seasons. The children begin to suffocate. It is common now to “evacuate” them immediately back to school if this happens,” says Eleonora Haivoronska, a PE instructor at School 53 and activist in the local environmental protection campaign. “Sometimes we have to pro-

vide first aid to children who don’t feel well.” She says that children get sick on a massive scale, especially during these smog attacks. Doctors diagnose them with acute respiratory viral infections as opposed to chemical bronchitis caused by toxic emissions. As a result, parents cannot prove that local industry has damaged their child’s health in court.

In fact, the Sanitary Service has been reporting that the levels of dust and toxic substances, such as hydrogen sulfide, carbon monoxide, phenol and formaldehyde, exceed the acceptable level in 25% of all air samples. They claim that sanitary areas which are supposed to protect people from poisonous emissions are no longer effective, and pollution has reached residential areas. However, when environmental activists requests measurements of pollution levels to find out what people really inhale when smog covers the city, the Sanitary Ser-

vice finds excuses not to do it, such as an ongoing reform or the lack of petrol for the car.

## LICENSED TO POISON?

The reconstruction of a sinter plant and reduction in emissions from Azovstal by 2012-2013 were the requirements for the plants to be granted licenses by the Ministry of Environment. In September 2012, the local authorities along with Akhmetov’s Metinvest passed a new Health Improvement Programme in Mariupol that postponed modernization for four years. After 4 November, a decision was taken to suspend it altogether. As a result, the next smog attack pushed a record-breaking 10,000 protesters onto the city’s main square. Wearing respirators, they stormed City Hall, demanding the resignation of the inactive mayor, Yuriy Khotlubey, and other officials. Several days later, the management of Azovstal announced a stoppage in operations in order to conduct renovations, declaring smoke from the processing of recoverable resources containing peat, as a possible source of the suffocating smog. Plant employees claim that the real cause is spending cuts. With obsolete purification facilities and production techniques that are over 100 years old, steelworks cannot but violate emission requirements. If they try to meet them, steel and coke will become too expensive.

“Unfortunately, Ukrainian industrial plants do not take environmental risks into account when doing their financial calculations,” says Pavlo Khazan, leader of the sustainable development and energy campaign at the Green World Ukrainian Environmental Association. “Paradoxically, Ukrainian environmental legislation is considered to be one of the most advanced in Europe, but it’s not working. Regulators have essentially given the green light for big industrial plants to emit levels of poisonous chemicals into the air and water that pose a threat to people’s health. Environmental officials and local authorities put Mariupol citizens under threat, saying that the city’s steelworks cannot curb emissions because of current technological processes.”

According to Mykola Afanasiev, ex-Director of the now dis-

**Almost 80%**  
of industry in Donbas is dangerous to the environment. Top offenders include steelworks, coal plants and fossil-fuel power stations

Rinat Akhmetov’s Metinvest is a monopolist on the domestic steel and iron ore market



## DANGEROUS MARIUPOL

► Mariupol is the second largest city in the Donetsk Oblast and the 10th most populated city in Ukraine

► Industrial plants emit over 800kg of poisonous chemicals per citizen per year in Mariupol which is twice the average level in the Donetsk Oblast and eight times that of Ukraine as a whole

► Major polluters of the city on the shores of the Sea of Azov include Azovstal and the Illich Steelworks, which was transferred to Rinat Akhmetov's portfolio in 2010. They account for 98% of all emissions

► According to the State Environmental Protection Agency, emissions in Mariupol rose by more than 22% in 2011

► Over the first 10 months of 2012, the city spent 187 days or more than half a year covered in dense smog

► The programme to improve the environment in Mariupol by 2020 will cost UAH 6.3bn

► The monitoring carried out in the mid-1980s in Mariupol revealed that the damage to its citizens' health significantly exceeded the financial equivalent of the entire steelworks complex at that time

banded State Inspection for the Protection of the Sea of Azov, the plants have been postponing important environmental measures every year. As a result, the level of the least harmful and visible chemicals in the air in Mariupol has declined while that of barely noticeable yet extremely toxic gases in emissions remains unchanged.

Experts propose several solutions, including a significant increase in fines and stricter punishment – including criminal – for breaching environmental protection laws. Plants would no longer benefit from violating requirements, while authorities will not be able to pretend that problems do not exist.

### A RED FLAG FOR THE SYSTEM

Over 13,000 people signed the resolution before the Stop Smog rally. On 4 November, protesters urged the MPs representing their city to initiate necessary legislative changes, having considered the situation in the new parliament. They made it clear that they are

not demanding the closure of the plants, but transparency and responsibility, compliance with environment protection laws and respect for the right to a safe and healthy life.

“Our rally is a red flag, warning the system that our patience is running out,” says the anti-smog resolution. “Driven to boiling point, the public is demanding that the authorities solve the problem here and now. We no longer trust sham pretence measures taken by the government and the plant's administration!”

Protesters urge the Verkhovna Rada to amend the Law On Environmental Emergency Zones so that a relevant status is designated for cities and towns that are environmentally dangerous as a result of both disasters and long-term damage to citizens' health.

Metinvest, in turn, promises to invest over USD 620mn to improve the environmental situation in Mariupol by 2020, while issuing a reminder that the local steelworks operate at huge losses. “In

spite of our losses, we continue to finance reconstruction at a scale unseen in the past 50 years,” the holding's press service said.

The Health Improvement for 2012-2020 Programme, drafted with Metinvest experts and approved by the city council, provides for a 40% reduction on emissions, “provided that the market situation is sufficiently favourable”. However, steelworks are facing a grim future as the crisis unfolds again, thus people in Mariupol have good reason to mistrust official pledges.

Currently, the residents of Mariupol are getting used to open windows, walking in parks and inhaling air without char as long as the operation of Azovstal's toxic sinter plant is suspended. Activists say that they will not attend rallies as long as the air remains unpolluted. The anti-smog protest in Mariupol signaled a surge of civic activity never before seen in Donbas. Experts assume that it could serve as a model for other environmentally dangerous cities. ■

# Easy Come, Easy Go

Uncertain futures, hypersensitivity, and the burdens of the 1990s are eroding Ukrainians' trust in the institution of marriage

Author:  
Bohdan Butkevych



Over the past few years, Ukraine's divorce rate has risen to the top among European countries, with 5.3 divorces per 1,000 people. This despite the fact that Ukrainians are overwhelmingly eager to get married – more so than people in Western Europe where every third marriage is civil, compared to every tenth in Ukraine. Experts claim that while Ukrainians often get married as early as possible, they do not know how to maintain their marriages. The major factors leading to broken families include constant financial strain and the fact that the generation raised in the 90s – when Ukrainian society plummeted into a psychological and demographic abyss – is now ready to get married.

## ALCOHOL, CHILD SUPPORT AND POVERTY

“Ukrainians are a matrimonially active nation,” says social psychologist Andriy Strutynsky. “But this is more of a bubble: people get married early and easily, and they split up the same way. The family is no longer the crucial element holding society together. Very often, we don’t take marriage seriously, and we break it. Financial factors matter, too. As a result, respect for marriage fades. And remember alcoholism, one of the fiercest pandemics tormenting Ukraine. It destroys 20-25% of all marriages.”

Serhiy and Liudmyla, a Zhytomyr-based couple, have lived together for six years. They have a son, Oleksiy. Serhiy wants a divorce because he has met another woman and wants to start a new life with her. The only unresolved issue between him and his ex-wife is the child: Liudmyla threatens never to allow him to see his son. However, Ukrainian statistics signal that children rarely hold marriages together, as up to 50% of divorces occur in families with children. The number of single-parent families increases annually, hitting 20% in 2012. Children remain with the mother in 90% of all cases.

The Kyiv-based Okhrymenkos are in the process of getting divorced. Oleh and Olha have spent nine years together. They have no children although they had been planning to have one this year. Both say that they got married for love. “It’s hard for me to live with a woman who, after so many years together, does not understand that



every man has hard times sometimes – financially and psychologically,” Oleh says. “My business has been declining over the past two years as a result of the ongoing pressure from tax authorities. Obviously, we’ve had a much lower income and could no longer afford the life we were used to. Instead of supporting me during this difficult time, my wife began to nag at me. I had not agreed to that when we got married.”

Olha says that her husband is insensitive and cannot be the head of the family. “He often comes home drunk, and that has been the last straw for me. I won’t tolerate an alcoholic at home. My father drank and it was terrible,” she complains.

This is typical for Ukraine. According to experts, an average married couple in Ukraine divorces after 11 years of marriage driven by a crisis in the relationship. The most widespread reasons include financial difficulties accompanied by alcohol addiction, ultimately leading to irreconcilable differences. Moreover, the divorce procedure is very simple and the cost of child support is absurdly low. These are two more factors that encourage Ukrainians to treat marriage irresponsibly.

An average divorce procedure in Ukraine takes a month and a half compared to at least a year for the court to register the appeal in many European countries. Child support usually costs the husband a small percentage of his official salary (excluding unreported earnings) and rarely prevents the divorce. At just UAH 300-400 or USD 36-50 per month, child support is very affordable for most men working in big cities. Ukrainian law only provides for child support, while many foreign jurisdictions require an ex-husband to support his ex-wife through alimony until she remarries.

“A normal government is always interested in encouraging

independence, the Ukrainian government has never articulated a clear marriage or family policy.”

## THE LOST GENERATION

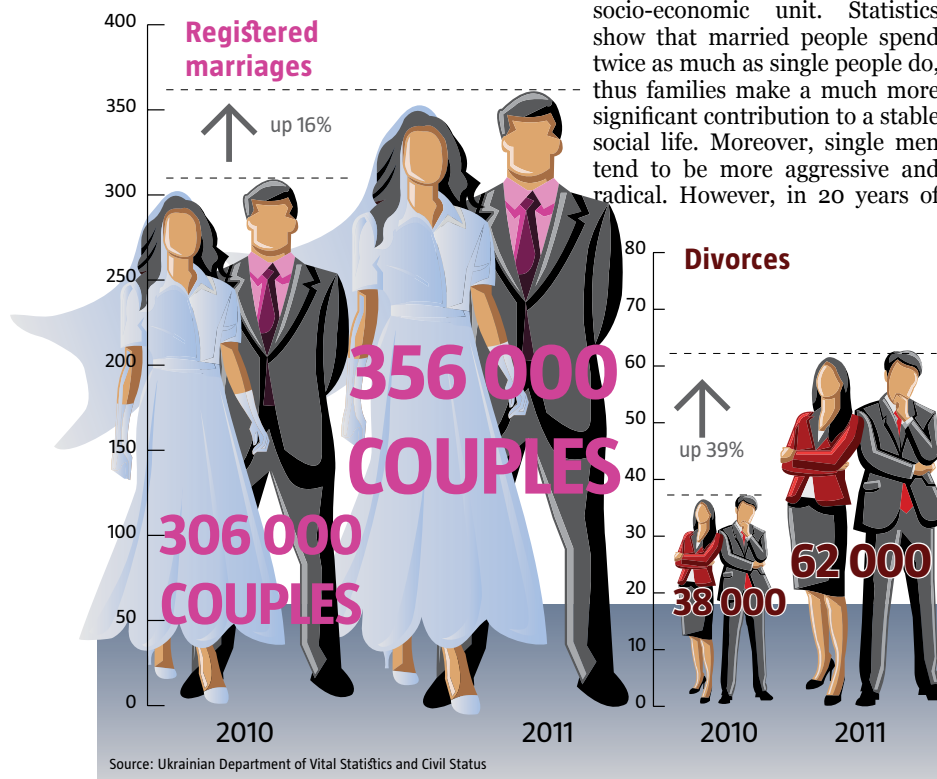
According to research conducted by the Research & Branding Group, 79% of Ukrainians got married following their emotions, while 15% were guided by reasonable motives. “An important reason for the irresponsible attitude towards marriage in Ukraine is the immature hypersensitivity about family life,” says psychologist Nadiya Artyshko. “Most get married because they are carried away by their emotions, which is not inherently bad. The problem with marriage is that feelings alone can not solve any problems once the initial wave of emotions has faded, leaving bare routine and reality. There is another interesting difference: most Western Europeans first live in a civil union and then get married officially. By contrast, most civil unions in Ukraine fail to generate a full-scale family and eventually fall apart. This is because Ukrainians have no confidence in the future or themselves, and society is infantile.”

“Like other post-Soviet countries, Ukraine has one of the highest divorce rates in Europe,” claims Liudmyla Sliusar, a researcher at the Institute for Demography and Social Studies. “The first surge came in the late 1960s after the complex two-tiered divorce procedure was simplified. Virtually unchanged until the late 1980s, the divorce rate soared again during the crisis of the early 1990s. After the 2000s, it slowed down but the process is not consistent, and is prone to fluctuations. We saw the divorce rate rise in 2010-2011.”

Experts project that the trend will intensify. Ukraine has not yet fully overcome the 2008-2009 financial crisis that hit both people’s wallets and their confidence in the future that had just begun to flourish after a moderate rise of welfare in the mid-2000s. Sociologists note that Ukrainians are currently rolling back to the 2000s in terms of their mindset and expectations. Since economists project another wave of crisis, a plausible assumption is that many people will soon file for divorce due to the reasons mentioned above.

## IN 20 YEARS OF INDEPENDENCE, THE UKRAINIAN GOVERNMENT HAS NEVER ARTICULATED A CLEAR MARRIAGE OR FAMILY POLICY

people to get married and keep their marriage strong,” claims sociologist Serhiy Mazurets. “Family is the cornerstone of society. Earlier, it was supposed to provide new hands to work and fight. Today, it has become an important socio-economic unit. Statistics show that married people spend twice as much as single people do, thus families make a much more significant contribution to a stable social life. Moreover, single men tend to be more aggressive and radical. However, in 20 years of





There is another important socio-demographic trend causing the current divorce situation in Ukraine. "In the past two to three years, the generation that was born in the 1980s and grew up in the mentally and psychologically turbulent 1990s has reached the matrimonial age," Andriy Strutynsky explains. "That was when the divorce boom occurred, as most people who suddenly found themselves in a new world had no chance to live the life they were used to, including the usual life of marriage. Children raised in an atmosphere of chaos, complete destruction of the usual order and the lack of an understandable moral code absorbed this lack of confidence in the future and reluctance to undertake long-term obligations. Now, this 'crisis generation' is getting divorced just as quickly as it got married because it does not view marriage as particularly important and does not believe that it is worth saving in a crisis situation. It is also influenced by the common European trends of increased marriage age and number of unregistered unions. Unlike Western Europeans who treat the civil union as a test before married life, Ukrainians use it to escape the burden of excessive financial and psychological obligations."

According to the Institute of Demography and Social Studies, over 80% of Ukrainians aged 50-54 are married, compared to only 44% of Ukrainians under 30. The average marriage age in Ukraine is 30 for men and 27 for women. 10-12% of couples, predominately young people under 35, do not register their relationships.

"Family and marriage are losing their conventional roles in Europe and the US," states Nadiya Artyshko. "In this sense, we're pretty close to developed countries. However, the biggest problem is that the old religious conservative essence of marriage is gradually replaced with a new social role in Europe and the US, and a social, psychological and moral vacuum in Ukraine." The challenge is not so much about the growing rate of divorces and civil unions as it is about the need to gain confidence in the future, which will in turn raise people's self-esteem and allow them to treat their personal life with more attention and care. ■

According to the Institute of Demography and Social Studies, over **80%** of Ukrainians aged 50-54 are married, compared to only **44%** of Ukrainians under 30. The average marriage age in Ukraine is 30 for men and 27 for women. **10-12%** of couples, predominately young people under 35, do not register their relationships



Author:  
Michel Wieviorka

## Why Marriage is Declining in France

Old sociology textbooks analyze only one type of modern family: a nuclear formation with the father and the mother linked by marriage and children. Today, the classic family model no longer exists and the institution of marriage is being constantly diluted.

This trend is now evolving in France. According to data from the National Institute of Statistics and Economic Studies (INSEE), the number of marriages registered annually went from 290,000 in 2001 to 235,000 in 2011. The average marriage age went from 28 to 30 for women and 30.2 to 31.8 for men between 2001 and 2011 respectively.

The first reason for this is that more and more people opted for civil unions, known as PACS in France. This is the Civil Pact of Solidarity introduced in 1999 as legislation that allows two people of different genders or the same gender to arrange their life together in compliance with rights and duties similar to those of a marriage. In 2010, 203,882 couples chose PACS, almost catching up with the rate of marriages that year. The share of same-sex PACS unions is just 6%.

The second reason is the fading social role of the Catholic Church that has virtually lost all its power and no longer promotes and imposes conventional values, marriage and family first and foremost.

The third reason lies in the public opinion, which calls on societies to create conditions that would allow same-sex couples to live together, agree on heritage rights, adopt children legitimately and have family medical insurance. News about the drafting of a law on same-sex families announced by France's Minister of Justice Christiane Taubira in September 2012 fuelled much debate, especially among conservative citizens and the Catholic Church.

The fourth reason is medical and technical progress. In vitro fertilization and more possibilities for using surrogate mothers open new prospects described in detail by biologist and philosopher Henri Atlan in his book *Artificial Womb*. These prospects create new forms of life. Differences in legislation among countries has resulted in the establishment of a fertilization market of sorts: different couples, both homosexual and heterosexual, travel abroad seeking medical aid that is forbidden in their home countries.

Finally, economic and social difficulties and the need to work abroad create an additional burden on family lifestyle and structure. An incomplete family in France often includes a poor migrant woman bringing up her children alone.

These profound transformations have provoked ardent debate where different religious, moral, ethical and pedagogical concepts collide. Is it acceptable to tackle deep differences between genders and generations? Do they comply with Christian dogma? To what extent can technologies that modify culture, and therefore our concept of human nature, be applied? Does a child really need both parents? Is it acceptable for a child not to know its biological origin? These debates are renewed in the intellectual arena. The decline of marriage essentially reflects an aspect of the general changes facing of our society. ■

# To Marry or not to Marry

The evolution of marriage from forced to voluntary, from church to civil, and from convenience to love

**Author:**  
**Volodymyr Maslychuk**

**T**he history of marriage is one of the most confusing aspects of private life. On the one hand, it has always been subject to strict regulation by laws, religious dogmas and traditions. On the other, history offers plenty of examples when all these formalities were broken. The change of attitude towards family relations in Europe – and Ukraine – reflects civilizational shifts in societies.

## A UNION WITH BLESSING, BUT NOT LOVE

Conventional norms of family life and marriage were extremely sacral in ancient communities. "The Primary Chronicle" offers a vivid description of relations between men and women in Eastern Slavic tribes: "The Polans followed the tradition of their ancestors, quiet and gentle... They also had a wedding ritual: a groom did not go to the bride's home; instead, she was brought to him in the evening and the next day whatever was paid for her was taken to her family. The Drevlians lived like animals, like cattle: they did not have weddings. They would capture girls when the latter went out to get water. The Radimichs, Severians and Vyaticchi had a tradition... Instead of weddings, they had games between villages, dancing and singing demonic songs, and stealing the women they had an arrangement with. They had two or three wives." The chronicler focused on Christian morals and the crucial role of marriage in the eyes of God, as well as traditional wedding rites. Most im-

portantly, both brides and grooms made a voluntary choice.

Christianity brought a special attitude towards marriage that was interpreted as a sacrament through a church wedding, while monogamy was recognized as the only form of family and spousal relations. Still, the church began to regulate marriage fairly late in history, introducing its control over matrimony gradually, leaving numerous exceptions and pre-Christian rituals intact.

Byzantium did not introduced church weddings as a mandatory ritual until the 10th century. From there, it was adopted in Kyiv Rus. A century later, it was introduced in Western Europe having absorbed strict elements of Germanic laws, which viewed monogamy as a top priority, imposed heavy punishment for cheating and losing virginity before marriage, yet allowed women and children to be sold. All this was also affected by the social order: common people were quite distant from the church at that time, celebrating marriage with weddings and dancing. Church marriage was left to the wealthy.

Traditional marriages included plenty of symbolic acts. The complex marriage ceremony was often preceded by various betrothals, engagements and matchmaking. The bride and groom did not know each other before the matchmaking and betrothal. What people interpreted as love was supposed to come after years of living together, keeping house, raising children and going through bad times together. The groom's parents took a daughter-in-law into their home as a new pair of working

hands, often encouraged by a good dowry. In addition to this, in many cultures, the groom was supposed to buy the bride. Parents and church or secular hierarchies were often the ones choosing spouses for their children.

The religious role of marriage that gradually became essential and widely-accepted also had many interesting aspects to it. The church worked on controlling both family life and divorces. In this case, Orthodoxy went along with folk traditions. This was one of the reasons why the Pope reproached Orthodoxy, since the Orthodox Church allowed its followers to get divorced up to three times, providing they had sufficient grounds, while the Catholic Church forbade it.

**CHURCH WEDDINGS:** Pressure from the clergy shaped the religious role of marriage







A COUNTRY WEDDING BY PIETER BRUEGEL THE ELDER

Ukrainian history features several important points about marriage. Living on the border facilitated democratic family relations in Ukraine and the spread of voluntary marriages. Unlike the clergy, which viewed matrimony as a mandatory procedure, customary law viewed marriage as an agreement that was voluntary in most cases.

Historian and writer Orest Levytsky describes quite a few episodes from marital and family life in the 16-18<sup>th</sup> centuries. "a church marriage ceremony in itself, without the traditional wedding ritual, had no significant meaning in matrimony, and was celebrated as a purely religious act," he writes. It was more important to cut a deal after the matchmaking and betrothal. Wasyl Wygowski, a Greek-Catholic nobleman from Ovruch (now in Zhytomyr Oblast) complained in 1726 that the Werbytskis, a noble family, had agreed to his marriage with their daughter. After the betrothal, they did not wait for the actual wedding ceremony and married her off to an-

**NATIONAL TRADITIONS:** Average people saw actual wedding parties rather than matrimony as the key part of getting married for a long time

other man, thus disgracing Wygowski. At that time, the act of a church marriage was not viewed as something important.

With time, church practices with their numerous exceptions took over customs. In 1634, the Archbishop of Chernihiv, Isaya Kopynsky ordered priests to excommunicate those who lived together without a church marriage. State authorities that decided on issues of inheritance and the care of the children of a couple that had not married in church, also considered church

## LIVING ON THE BORDER FACILITATED DEMOCRATIC FAMILY RELATIONS IN UKRAINE AND THE SPREAD OF VOLUNTARY MARRIAGES

marriage to be legitimate. On 18 November 1744, the Synod of the Russian Empire instructed its clergy to make newly-weds sign a pledge to start living together as a married couple immediately after the church cere-

mony, not waiting for the actual wedding. This pressure resulted in a new practice of getting married in church and celebrating the wedding on the same day. This tradition has continued until the present.

The church continued to control the marriage issue for a long time after. The divorce procedure was based on old traditions of "divorce letters". Meanwhile, common people in the Hetmanate and Slobidska Ukraine largely viewed marriage as a voluntary and free agreement in the late 18th century, often living as couples "in faith".

### SACRAMENTAL NO MORE

Marriage in Western Europe began to transform with the Renaissance and Reformation. As culture grew more focused on individuals and many spheres of life were secularized, a different interpretation of marriage evolved. Martin Luther, a leading figure of Reformation, struggled to deny the ecclesiastic sacramental nature of marriage, setting childbirth and life in fidelity as its priorities, which was beyond the competence of religion. Protestant morals interpreted marriage as the spiritual unity of a man and a woman above anything else. Meanwhile, the problem emerged of the voluntary choice of a spouse. The attitude towards love changed, too, as it was no longer viewed as a sickness. From then on, meetings, infatuation and the sentiment of love became an integral prerequisite for marriage.

Enlightenment determined the free choice of a future husband or wife, which often contradicted church and conventional norms. The latter treated a choice not approved by parents as something extremely negative – often for good reason. The French Revolution was the peak of the implementation of Renaissance ideas on marriage. The equality, liberty and struggle against the church brought their fruit, facilitated by one precedent. After the first changes and upheavals brought forth by the revolution, François-Joseph Talma, a well-known French theatre actor and revolutionary activist, decided to marry a rich courtesan, Julie »





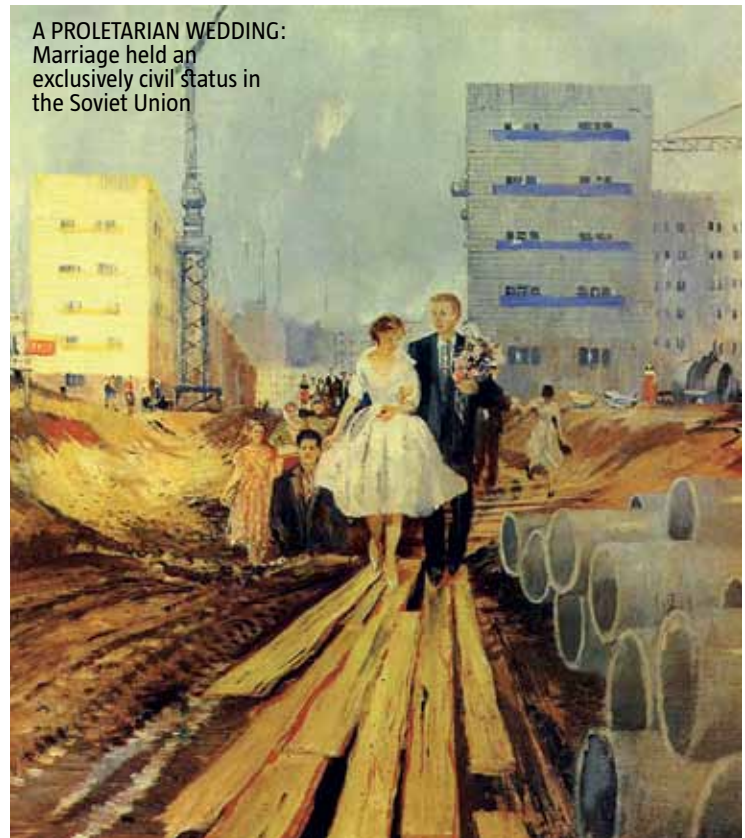
A UKRAINIAN WEDDING ON THE EARLY 20TH-CENTURY POSTCARD

Carreau, in 1790, but the priest refused to bless the marriage of a “clown”. Talma began the struggle for his rights. Eventually, the National Convention recognized civil marriage as the sole mandatory act in 1792, introducing the registration of civil status acts all over France that would only be performed by secular authorities. Napoleon Bonaparte supported the innovation and fixed the replacement of church marriage with civil registration in the 1804 Civil Code. During the Napoleonic Wars, Bonaparte’s legislation became widespread in the parts of Europe occupied by the French army.

During the Restoration, the accomplishments of the French Revolution in terms of marriage were abolished. Church marriage was once again recognized as the only legitimate one, with the ban on divorces remaining in effect. Yet, it failed to completely wipe out the innovations of revolutionary France. Throughout the 19th century, both church and civil marriages coexisted in Europe.

Another important point was for leaders of national move-

**ETHNIC BACKGROUND:** Common wedding rituals were among the signs of a nation’s unity as modern nations were shaped



A PROLETARIAN WEDDING: Marriage held an exclusively civil status in the Soviet Union

ments to understand the role of marriage. Sharing common wedding rituals often inspired a sense of unity among representatives of one nation that were territorially and administratively divided. One of the first printed ethnographic works on Ukraine by Hryhoriy Kalynovsky, published in 1776, contained stories about wedding traditions in the Hetmanate and Slobidska Ukraine. In both, marriage was supposed to symbolize both spiritual and national unity. That was the reason why Ivan Franko married Olha Khoruzhynska from Kharkiv Gubernia in Eastern Ukraine; and East Ukrainian-born Mykhailo Hrushevsky married teacher Maria Voyakivska from Western Ukraine.

### SECULAR DIVIDE

The process of filling marriage with a civil sense is clearly linked to the separation of church and state. Passed on 9 December 1905, the law on secularization in France served as the basis for similar acts in Soviet Russia, which was passed on 20 January 1918, and the Turkish Republic, passed in 1925. As

a result, legislature made the state (or civil) registration of marriage prevail over its sacramental role. By that time, civil marriage had become widespread in European countries, especially Holland (since 1580). England recognized it in 1836, followed by Germany – especially its protestant regions – in the late 19<sup>th</sup> century. In 1783, the legitimacy of civil marriage was recognized in the USA.

After the Bolsheviks took power in Petrograd, they sped up the legalization of civil marriage in Russia. On 4 December 1917, the Decree on Civil Marriage, Children and the Record of Civil Status Acts, was passed. It stated that the only marriage recognized by the Soviet government was that registered by state authorities, while church marriage was a private matter. On 16 September 1918, the Civil Code was introduced to set the ground in attitudes towards marriage. It determined marriageable age; did not require any consent from parents, caretakers or administration; and abolished punishment for cheating and incest. It was enacted in Soviet Ukraine in 1920. ■

# CAROL OF THE BELLS: BACK TO THE ORIGINS

Hundreds of years ago, pre-Christian Ukrainians welcomed New Year with the tune that sounded like a swallow's song. Today, its tender bells chant for Christmas in European concert halls, jazz concerts and Hollywood movies

**Author:**  
**Olena**  
**Korchova**

**U**krainian Shchedryk, the generous one, has spread all over the world as a hugely popular Christmas tune, Carol of the Bells. Mykola Leontovych composed the choir arrangement used in all further versions, from pop to jazz, club and rock. Choir conductor and composer Aleksander Kozhets introduced Shchedryk to the USA and Canada. Meanwhile, Ukrainians hardly remember him because of Soviet historians who eliminated him from the 20th century Ukrainian music as a migrant traitor.

Tracing back the history of the song that counts centuries is almost impossible today. It was born in the mysterious archaic layers of Ukrainian culture. The original lyrics that rhythmically repeat a swallow's tender spring song had appeared in pre-Christian times when the language of nature served as the basis for human language. Back then, the ancient farmer ancestors of modern Ukrainians started their

new year in spring – on the first day, March 1, or the day of spring equinox, March 21. That's why archaic ritual songs portray emotional upheaval in spring and the joy of young nature's beauty that birds are the first ones to herald. Another message of the song is the birth of a new life as the original lyrics mention a sheepfold with new-born lambs. This flows harmoniously into the Christian motif of the baby Jesus being born in a Bethlehem stable which was added to it later and become pivotal in modern times. The first four notes of the tune are all in a minor third, a musical interval that is among the most pleasant for the human ear and a basic interval for lullabies which are the first music a child hears.

Before it became popular worldwide, the song lived a modest life entertaining villagers in the Right-Bank Ukraine, especially Podillia and Volyn. In 1914, Mykola Leontovych created the best choir arrangement for it. On December 25, 1916, the student choir of St. Volodymyr University – currently Taras Shevchenko University in Kyiv – conducted by Alexander Koshetz performed it for the first time on stage. That was the beginning of the brief recognition for Leontovych as one of the most talented Ukrainian composers until he was shot by an "authorized" Bolshevik agent on a festive winter day in January 1921. His biography suggests that a few days before his death Leontovych had been working on his next arrangement for a folk song about death. "Death is walking around my yard; It is getting closer to me

slowly; Slowly and quietly it comes; Oh, my children, my flowers – don't let her in; Don't let me die," were the lyrics.

In 1919, Shchedryk stepped on its triumphant path through Western Europe and across the Atlantic. Eventually, Peter Wilhousky – another immigrant from the East – wrote the English lyrics for it in 1936, turning it into the Carol of the Bells.

Apart from Shchedryk, conductor Alexander Koshetz popularized many Ukrainian folk songs arranged by Leontovych. During the Ukrainian People's Republic (UNR), Koshetz was appointed head of the Ukrainian Republican Choir set up to promote Ukrainian music in the world. Supported by Symon Petliura, the choir went on a West European tour in 1919. After the UNR government was overthrown and the Bolsheviks came to power, Koshetz along with some choir singers decided to remain abroad. In 1922, they moved to the USA. For the next two decades, they performed successfully in the USA, Canada, Cuba, Mexico and Brazil while being based in New York and Winnipeg. Virko Baley, a renowned American-Ukrainian composer and conductor, as well as Alexis Kochan, a Ukrainian-Canadian singer and composer, once suggested that the tune of the old Ukrainian lullaby *Oy Khodyt Son Kolo Vikon* (The Dream Passes by the Windows) inspired George Gershwin's *Summertime*. Later, Shchedryk won over Hollywood in Chris Columbus' comedy series *Home Alone*.

According to the English-language Wikipedia, over 150 version of Shchedryk had been written by 2004. ■

Mykola Leontovych composed the choir arrangement for Shchedryk used in all further versions, from pop to jazz, club and rock





# Learn to Listen to Yourself

Composer Cai Caslaviniieri talks about Ukrainians in Poland, commercialized music culture, and freedom of musical choice

**Interviewer:**  
**Bohdan Butkevych**

**C**ai Caslaviniieri is a popular Polish composer and DJ. Mykhailo Jankowski – that's his real name – has Ukrainian roots. His grandparents moved to north-western Poland in 1947 during Operation Vistula, the forced resettlement of the Ukrainian ethnic minority from Polish territories near the border with Ukraine. He never hid his roots despite the many troubles they caused him, and eventually achieved remarkable success as a musician. Today, he is known as an electronic musician and DJ, and has composed many tracks for global corporations and fashion houses. Cai also works with Ukrainian musicians. He recently remixed a song by the Ukrainian folk-rock band Haydamaky, which became quite popular in Poland.

**You have to live and fight your way through the circumstances into which you were born.** I was born in Poland, although I consider myself Ukrainian. Actually, I don't know where whether it's better to be a patriotic artist in Poland or Ukraine. Of course, many people believe that the grass is greener in one's homeland. But Ukrainians now have a good life in Europe, especially Poland, because all of their former problems and conflicts have faded away. It's a powerful thing to feel that you belong to a community. I'm happy to be Ukrainian, even in a different country. But I would choose to be born in my historical homeland if I had that choice. My grandfather helped open the first Ukrainian school in post-war Poland and still only speaks Ukrainian to this day.

**It is no longer shameful or dangerous to be Ukrainian in Poland.** I myself experienced being pointed at, called a "banderite" and judged – especially in school. I remember that in those days, someone could beat you up just because you

were Ukrainian. Meanwhile, the older generation of Ukrainians who survived Operation Vistula have similar sentiments about the Poles. They hate the Poles because they see them as the primary oppressor. Of course, all these conflicts arose simply out of human folly, not because of some innate national animosity. But now, with access to huge amounts of information about anything in the world, even the least educated people are beginning to realize that culture is the only thing that makes us different from each other. And culture is gaining immense value in the globalized world. Ukrainian culture in Poland is no exception.

**There is a persistent hunger for pro-Ukrainian initiatives,** especially with the emergence in recent years of a new wave of Ukrainian migrants who now work here on a permanent basis. For instance, Ukraїńska Watra (Ukrainian Bonfire) has been the largest festival and gathering place for Polish Ukrainians for 30 years, connecting generations of families. I remember my mum taking me there every year since my early childhood. She told me that her parents had done the same thing. Surprisingly, the Poles grow more and more interested in the festival. Now, as the number of Ukrainians in Poland grows, any Ukrainian initiative will be successful because people look forward to it. They don't just want to talk and listen to Ukrainian songs, but truly unite.

**Only after Euro 2012, average Poles began to realize that Ukrainians are not Russians.** Before that, everyone had been Russian for them – all thrown into one pot, and that was a huge problem. Experts say that the championship did not draw anyone closer, but as an ethnic Ukrainian who lives in Poland, I can say that the positive change in the attitude towards Ukrainians is really palpable – especially compared to Russian fans and their outrageous

behaviour during the championship. The key thing is that both nations hosted the championship – and they did well. Now they share this good feeling of having accomplished a difficult task. In Poland, everyone was very serious about preparations for the Euro – it was the key theme in the country's life for a while.

## COMMERCE & ART

**When I compose music for corporations, it's exclusively my creation.** Clients do not interfere at all. Moreover, the companies I work with prefer this approach. They are happy with it because they want to have something exclusive in the end. My interest as an artist is to create good alternative music for a company's advertising campaigns. Most people involved in business don't know much about music. They listen to whatever is on the radio. That's why it's nice to know that something you created is not only good commercially, but contributes to the development of their taste, and is something they really like.

**I used to have little contact with Ukrainian artists.** But we've



been working closer lately. Director Svirlana Fedoniuk (under the pseudonym Dominika Domal) used my music in her film *God's Miracle* (Chudo Hospodnie). The film was awarded a gold medal at Kinokimera, a festival for independent films in Kherson. I also remixed a song by the band Haydamaky.

**Ukraine needs to develop the habit of paying for art.** You want a song, you should pay a euro or a dollar for it. It's not much but it's supposed to breed this cultured attitude towards the artist and their intellectual work.

**Artists need to eat.** Nobody brings us chicken, eggs, or bread just for having beautiful eyes or talent. We have to pay money for everything just like everyone else. All work is commercial in essence because it is supposed to provide the performer with the means for survival. And all art is work essentially—there is no such thing as non-commercial art or non-commercial artists. That's only possible if art is not a job or work for someone. A long time ago, kings and lords paid to support artists they liked. Today, gifts like this no longer exist.

**I highly respect all people involved in art.** It takes courage not to simply go work at a bank to provide oneself with sustainable income for life, and instead bet everything trying to earn something with such an uncertain occupation as art, where there is a huge risk of never achieving any success. That's why I have equal respect for big-screen celebrities and guys playing the violin on the street.

### COMPUTER FREEDOM

**Computers have rapidly transformed from productivity tools into musical instruments.** This process will be the key musical trend – and the new era in music that is being born in front of us – for the coming decades. Earlier, you would hear the term “electronic music” for any music made on the computer. Now, everything is changing. Computers are no longer note calculators for sounds and effects. They are a separate world where totally new musical realms emerge. A special trend – or style – will be the fusion of ethnic instruments and folk music with modern computer technologies. We will add multimedia to this, turning it into a complete show of music and other art forms.

**The analog sound of real instruments is sort of coming back, bringing back the music, the sound and the style of the 1970s.** Remember that hugely popular “Barbra Streisand” track by Duck Sauce? It was just a song by Boney M put to a primitive dance loop. People just experimented with it, and it grew into a huge success. Partly, this is the reaction to all spheres of life growing ever more computerized, while people want to grasp the simplicity and neatness of the 40-year old sound, and take the best from that interesting period. It's quite logical, because

the young artists who represent this trend are searching for a style of their own. Naturally, they have to experiment with everything before finally finding one.

**I don't listen to music because I want quiet and rest after I compose my music or play eight fashion shows in a row.** In fact, music begins with internal harmony and the ability to listen to yourself. That's why I try to not imitate anyone. Still, I look up to the best piano performers or composers when-

## THERE IS A PERSISTENT HUNGER FOR PRO-UKRAINIAN INITIATIVES IN POLAND

ever I have to compose a piano piece, or the best violinists when I do a piece for the violin.

**I never write lyrics to my tracks.** Whenever I work with a vocalist, his or her vocals should be a different instrument with its own emotions, feelings and ideas. The vocalist has to contribute something of his or her own into the piece for it to become live and real. Every instrument has to tell a story of its own. Then, they intertwine into one big story. A composer should be open to the world. Otherwise, he will be the only one who loves and understands his music.

**The barrier between composers and listeners is dissolving more and more every year.** Earlier, very few people could do music because all of the equipment was expensive and inaccessible. With the appearance of the Internet, everything changed. Now you just need a PC and a few instruments to record beautiful music at home without an expensive studio. And it takes seconds to distribute it around the world. That's why conventional show business, television and radio are suffering. In Poland, for instance, MTV is mostly watched by people with limited taste in music. Today, everyone has freedom of musical choice. People no longer want their choices dictated by someone else. That's why the most popular artists today are the ones who proactively share their product with the audience and bring the barriers between themselves and the users to a minimum. ■



# Authentic Christmas in Music and Films

**Shadows of Forgotten Ancestors**  
(Tini Zabutykh Predkiv)

Directed by Serhiy Paradzhanov (1964)

The classic film is based on the novel by Mykhailo Kotsiubynsky, one of the best Ukrainian modernist writers. The story takes place in the whimsical Hutsulshchyna, a Carpathian region known for its unique traditions, preserved from old times. One of the first episodes shows Hutsuls celebrating Christmas: they put on colourful and spooky costumes, arrange a fair, play music, dance and have fun. Then, an authentic Carpathian church appears in the scene. Such wooden shrines do not exist anywhere else in the world, but being vulnerable to the aggressive environment there, they are also rare in Ukraine. The film was shot in an authentic location, the village of Kryvorivnia in the Carpathians. Locals played in crowd scenes, singing folk songs and speaking the local dialect in the background. This authenticity and the mysterious rituals, surrealistically intertwined with regular village life, reveal the unique psychological portraits of the characters. One of the best poetic films, it brought its Armenian-Ukrainian director, Serhiy Paradzhanov, worldwide fame, and revealed many talents among his film crew. *Shadows of Forgotten Ancestors* won the Grand Prix at 24 festivals, wowing renowned directors including Federico Fellini, Michelangelo Antonioni, Akira Kurosawa and Andrzej Wajda.



## Events

**17 -22 December, 6 p.m.**

### Music Christmas Art Fair

**Ya Gallery**  
(17, vul. Husenka,  
Dnipropetrovsk)

Pavlo Hudimov's Ya Gallery invites everyone to an original Christmas fair. Instead of being plied with the mulled wine and sweets offered at traditional festive fairs, the main point of this one will be to treat the audience to films about art, lectures on art collections and an art exhibition. The paintings were specially selected for the fair and will stay there till the very end of the show. Visitors can buy the pieces they like, but can only take them after the fair is officially closed, because each item on show is an integral part of the art project.



**19 December, 7 p.m.**

### Strauss Festival Orchestra Vienna

**Palats Ukrainyia**  
(103, vul. Velyka Vasylkivska,  
Kyiv)

Conducted by violinist Peter Guth, the Vienna-based orchestra will present its original arrangements of Vienna music and classical repertoire, Monika Mosser singing with her brilliant soprano. Renowned musicians interpret popular classical pieces and less familiar tunes, music jokes and pieces of operettas accurately, carefully following the best traditions. This captivates both music critics and music lovers all over the world, from Berlin, Paris, and Rome to Tokyo, Mexico and many more.



**6 January, 5.15 p.m.**

### The Legend of Mulan

**Sports Palace**  
(1, Sportyvna Ploshcha, Kyiv)

The grand show of the Paris circus is based on an old Chinese legend about Mulan, a courageous girl who went to serve in the army instead of her old father and 12 years later, became a general of the emperor's army. The Legend of Mulan includes over 95 artists, hundreds of costumes, amazing make-up and breathtaking props.

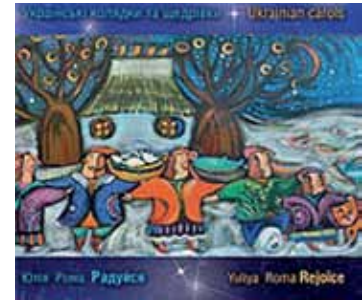
The unparalleled show that presents the entire range of human emotions on stage will leave unforgettable memories.

## Our Christmas (Nashe Rizdvo) Skriabin, Taras Chubai and friends (Caravan CD, 1999)

Ukraine's most popular rock musicians of the 1990s, including Taras Chubai, Yulia Lord and Skriabin, joined efforts to create Our Christmas. A collection of traditional Ukrainian Christmas songs performed in acoustic and electronic arrangements, the project has a vintage feel to it. As reviving local folklore is growing more and more popular in Central and Eastern Europe today, musicians look for authentic songs and singing techniques, brush off the dust and insert them into the framework of



modern sound. Recorded 15 years ago, this album can be seen as the forefather of the trend. The fusion of original folk rhythms and festive ambience are easy to listen to and enjoy. The electronic basis is laced with live violas, trumpets, percussion and guitars. This CD sounds like a music miniature, playing only thirty minutes, made up of short and somewhat naive tracks, which can be associated with a toy "vertep" – a nativity scene. The record is already part of the Ukrainian music legacy. Released a while ago, it has now become rare, but music lovers can listen to the tracks online for free.



## Rejoice (Raduysia) Yulia Roma, Natalia Lebedeva, Kostiantyn Ionenko, Alik Fantayev (COMP Music EMI, 2012)

Once again, talented musicians celebrate Christmas with modern, classy jazz. They show their love for what is dear to them, rethinking it and placing it into an alternative background of music and mischievous jazzy rhythms. The Ukrainian jazz scene is far from being satiated, since this style only came to Ukraine less than a decade ago. That's why every new attempt is like a gunshot – it takes courage and professionalism. Rejoice is a record of laconic yet elegant music, flowing in waves, with breakers of emotional and temperamental vocals. According to critics, the Ukrainian songs performed by Yulia Roma and her band create the ambience of authenticity and mystery, comparable to the feel of Nikolai Gogol's early novels.

## A Lavish Night with Good Jazz (Shchedriy Vechir z Dobrym Jazzom) ShockolaD (Dzyga, 2010)

Young Ukrainian band ShockolaD describes its style as world music. Performances at many festivals in Ukraine and abroad have opened its members to different genres, experiments and improvisation. The record is a perfect example of how a folk Christmas song is played in the jazz style, offering brilliant interpretations of Ukrainian ritual songs in acid jazz, cool jazz, fusion, swing and reggae. A Lavish Night with Good Jazz is the band's fourth record in its six years of recording and performing experience. The band presented its record at the Lviv Philharmonic – to a packed Lviv audience, which knows about good music. In their career, ShockolaD follow one rule: think globally and act locally. They make music that anyone in the world can understand, yet use the original Ukrainian music canvas with its unique local motifs and textures as a basis.



6-19 January

### Christmas festivities

#### Mamayeva Sloboda (2, vul. M. Donsia, Kyiv)

Everyone has the opportunity to come to Mamayeva Sloboda and join in the celebration of Christmas. The Cossack village will offer an authentic Holy Supper with hay under a homemade tablecloth, twelve lean dishes on the table, carols and verteps – nativity plays. The Fifth Winter Christmas Dreamland will feature a craft fair, singing, sleighing and concerts. The Old New Year or Malanka and Vasyli's Day will be celebrated in line with all rituals, to the smallest detail: while the Epiphany will offer everyone the opportunity to bathe in an ice-hole, followed by Cossack wheat porridge called kulish and the alcoholic drinks that Cossacks used to enjoy.



7-9 January

### Donut Festival

#### Lviv

Christmas celebrations in Lviv are accompanied each year by the Donut Festival. It is known as one of the tastiest events in town. It involves baking and eating all kinds of donuts and introducing visitors to Ukrainian traditions. Performances of verteps, loud games and carol singing have become an integral part of the programme, supplemented by new surprises year after year. The 2011 Donut Festival was entered in the Guinness World Record Book: participants made the biggest ever presentation of 7,040 donuts.

8-13 January

### Christmas Decoration Festival

#### Centre for Ukrainian Culture and Arts

#### (19V, vul. Khoryva, Kyiv)

It is hard to imagine winter holidays without Christmas trees, especially in Kyiv. Christmas decorations have become a special symbol of a festive mood, common joy and Christmas dreams. Guests will have the chance to enjoy not only an exhibition of Christmas



decorations, but also New Year's workshops, music concerts, tours and good old Christmas cartoons. A Christmas tree decoration made with your own hands will become special for the family.



# Back to the Village



The world love for all things ethnic has reached Ukraine. As a result, the number of open air folk museums – skansens - is growing along with the interest in them

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**A**s the capital of Ukraine, Kyiv has its own open air museum – the National Museum of Folk Architecture and Life of Ukraine, generally known as Pyrohovo. It has been around for over three decades, having opened its doors in 1976. Sprawling across 133.5 hectares of land, this is the largest museum of its kind in Ukraine. Despite its impressive size, Kyiv residents and visitors are well-acquainted with it and have seen most of its buildings, which, by the way, are not in the best of shape now. So it makes perfect business sense to invest in similar

new skansens: peoples' interest in them, particularly during folk festivals leaves no room for doubt. For example, Mamajeva Sloboda, located in a park next to the National Aviation University, has been a great success since its opening in July 2009. The place is packed during festivities. Visitors can spend time in the recreated living quarters of regular and senior Cossacks, attend a Liturgy at a wooden church, built in line with the canons of ancient Ukrainian architecture, get a bite to eat in a real tavern and learn interesting crafts during master classes. The museum's main

drawback is its location. It is surrounded by the city, so it is sometimes hard to ignore the clumsy multistoried buildings towering over a cosy recreated village house or threshing barn. To help Kyiv residents, who are generally reluctant to spend their vacations on an ethnographic expedition, a brand new museum complex, the Ukrainian Village, was built near the village of Buzova in the Kyiv-Sviatoshyno District.

## THE LIFE OF ANCESTORS

The museum itself is divided into six mini-zones, representing different regions of Ukraine. Each features authentic houses (some over 180 years old) which were transported from these regions and painstakingly put together by specialists who were advised by ethnographers. Not only the houses and their full decorations but also numerous outbuildings



have been reconstructed – threshing barns, potteries and blacksmith's shops. The Sloboda Ukraine zone even features a miniature operating distillery and conducts master classes in the making of moonshine. Nearly all the structures at the open air museum are functional, so they are not in danger of going to rack and ruin.

There is a house on either side of the entrance to the Ukrainian Village: one dated 1888 from the village of Pyshnenky (representing the region of Ukraine along the middle reaches of the Dnipro River) on the left and a Hutsul house from the Carpathians on the right.

The former has an interesting oven that is characteristic of the Poltava region. In the larder of the latter, there is an unusual bed which appears to bulge up in the middle. According to tour guides, it is supposed to create some privacy for the husband and wife, because sex life was virtually impossible in houses which traditionally also accommodated many children. An important detail: there is a playground (the smaller one of the two there) near the Hutsul house, so children are sure to have fun.

Located on the museum's territory is the Saint Demetrius of Thessaloniki Church, which is always open. Its iconostasis, carved by contemporary specialists, is almost comparable to ancient models of Ukrainian Baroque. The church's policy is to attract rather than repel people, so no critical remarks are made regarding visitors' external appearance.

There are four more homesteads on the neighbouring, larger part of the Ukrainian Village. These represent Sloboda Ukraine, Southern Ukraine, Polissia and Podillia. Curiously, the house from Podillia has painted images both outside and inside, all made by professional artist Oksana Horodynska. She made the oven especially vivid by covering it with classical images of roosters, guelder-rose, oak leaves and numerous flowers.

Visitors who come to the museum on Saturdays can buy freshly baked bread and participate in the baking process. This is just one of eleven master classes conducted by the museum. In addition to





baking, instruction in offered in Petrykivka painting, pottery, smithing, Easter egg painting and even chopping wood. There is also a small zoo. Just don't expect to see any exotic animals there – the zoo only has traditional Ukrainian domesticated animals: piglets, rabbits, sheep and guinea fowl. Nevertheless, this does not take away from the joy of interacting with them, especially for children.

### EXPLORING ETHNIC VARIETY

Compared to other post-Soviet countries and even its Western neighbours, Ukraine has quite a few open air folk museums. Most of them are located in Western Ukraine, and just two are to the East of the Dnipro River. One is the diminutive Museum of Folk Architecture, Life and Children's Art in the village of Prelesne, Donetsk Oblast, which consists of just one village homestead typical of Sloboda Ukraine. In contrast, the other – the Middle Naddnipro-anshchyna Museum of Folk Architecture and Everyday Living located in Pereyaslav-Khmelnytsky, is vast. It is big enough to keep visitors on their feet for an entire day or even longer. One of the museum's biggest draws is its wooden churches. Taras Shevchenko once painted its Saint George's Church. Another, Saint Paraskevi of Iconium, is home to – surprise! surprise! – the Space Exploration Museum with a Foucault pendulum in the middle.

Understandably, museum specialists have paid particular attention to the Carpathians with their

living authenticity. Three other open air museums focus on the life of the highlanders. An exception is the Chernivtsi Museum of Folk Architecture and Life, which generally focuses on the lifestyle of people living in the lowlands of Bukovyna. This museum has a rich tradition of carnivals, particularly the Epiphany, for which participants come from a number of villages in the region. The lifestyle of the Hutsuls and their neighbours, the Boikos, from either side of the Carpathians, is represented in two open-air museums: one in the village of Krylos near Halych and the other in Uzhhorod. Both are quite compact, but the latter is perhaps the most photogenic, since it is located in a picturesque area under the walls of an ancient castle.

The old-timer among Ukrainian skansens is the Museum of Folk Architecture and Life in Lviv, known as the Shevchenko Orchard. It received its first exhibit, the Saint Nicholas Church from the village of Kryvka, back in 1930 thanks to the efforts of Metropolitan Andrey Sheptytsky. The museum continues to make acquisitions and is now waiting for one of the few surviving wooden Roman Catholic churches from the village of Yazlivchyk, near Brody. The Shevchenko Orchard quite successfully competes with Kyiv's Pyrohovo in terms of the number of events it hosts and has the major advantage of being centrally located. It is within walking distance of Lychakivska Street and the Lviv High Castle (Vysokiy Zamok). ■



### THE BEST-KNOWN OPEN AIR MUSEUMS OF THE WORLD



#### Skansen. Djurgården Island, Stockholm, Sweden.

Founded in 1891 by Artur Hazelius, it is the world's first-ever open air museum. It derives its name from a nearby fortress, skans, which means 'fortification' in Swedish.

#### Westphalian Open Air Museum, Detmold, Germany.

The museum represents the rural architecture of the North Rhine-Westphalia region, including windmills, thatched cottages, timber-framed houses, etc.



#### Korean Folk Village, Yongin, Gyeonggi, South Korea.

The village is made up of 260 traditional houses, dating back to the late Joseon Dynasty period and includes some 30,000 specimens of local folk culture.

#### Pioneer Settlement, Swan Hill, Victoria.

Australia's first open air museum, has up to 10,000 exhibits on display, showing the everyday living of European pioneers who colonized the continent.



#### Norwegian Museum of Cultural History, Oslo, Norway.

The main exhibit of this skansen is the Gol Stave wooden church built in 1212. The museum also features one of the

world's largest archives of early 20th-century photographs.

#### Luostarinmäki Handicrafts Museum, Turku, Finland.

The museum consists of 18 city blocks built in the late 18th century for the middle class and artisans. It includes, among other things, the workshops of a carpenter, watchmaker, sailor, tobaccoist, etc.



#### Árbæjarsafn, Reykjavík, Iceland. The museum is a mini-model of the entire country.



Founded in 1957 just outside the capital, it has expanded and become part of the city. It fully represents the architecture and everyday living of peasants, city dwellers and fishermen.

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