

Ukrainian Week

international monthly edition

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FEUDAL FUN

Ukraine's high and mighty, from President to prosecutors,
are bagging public lands for private games



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Bohdan Andriytsiev, Director, ECEM Media Ukraine LLC

Roman Tsupryk, Chairman of the Editorial Board

Serhiy Lytvynenko, Editor-in-Chief, Ukrainskiy Tyzhden

Lidia Wolanskyj, Editor, Ukrainian Week International Edition

Anna Korbut, translator

Mailing address: PO Box 2, Kyiv, 03067

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**March 6**

Bread supplies are interrupted in Luhansk. "Temporary," say local officials.

**March 10**

A Svboda activist is given a two-year suspended sentence for painting a statue of Felix Dzerzhynskiy

**March 14**

The Anti-Monopoly Committee takes five companies that speculated on buckwheat to court.

QUOTES

VASYL SHKLIAR
 remains prize-less

"As long as Dmytro Tabachnyk is in this Government, I can't accept the Shevchenko Prize."


OLEKSANDRA KUZHEL
 uncovers Customs

"When everybody says that all bribes go upstairs into the 'mutual aid fund,' they're talking about Yanukovych."


DMYTRO FIRTASH
 defends his President

"He didn't get to go to a fancy foreign college. But believe me, the Soviet Union knew how to make managers and Yanukovych went through that school!"


VOLODYMYR LANDYK
 fights the traffic cops

The PR deputy was annoyed with cops who stopped him for a traffic violation and sicced his driver on them.



The Ticking Meter

Viktor Suslov, a former Economy Minister, explains why Ukraine is sixth among countries supposedly facing default

UW: Business Insider recently included Ukraine on its list of 18 countries that are supposedly on the verge of default. How justified is that?

– These analysts only confirmed what our specialists and international observers have been saying for some time now. The NBU reports that short-term public and private foreign debt due for repayment, refinancing or restructuring by July 1, 2011, has reached US \$42.1bn. And this does not include



In line for a default

Business Insider's latest ratings of countries at risk of default include several European countries, mostly from the former socialist camp. And Ukraine, too, finds itself in this. With a public external debt of US \$42.1 billion and a sluggish economy, Ukraine is sixth for default risk, between Portugal

and the United Arab Emirates. Whereas Portugal is also being dragged down by foreign debt, worth EUR \$20bn, the UAE, especially Dubai, is suffering from an overheated property market. BI says it looked primarily at economic and political stabilization factors in each country, together with the level of foreign debt.

The month in history

March 7, 321

Roman Emperor Constantine the Great declares Sunday a day of rest.

March 10, 1861

Poet and painter Taras Shevchenko dies in St. Petersburg. On May 25, his body is moved to Kaniv.

March 18, 1921

The Peace of Riga is signed, dividing Ukraine between the USSR and Poland.

March 20



Vitaliy Klitschko wins on a TKO against Odlanier Solis in one round.

March 24



A wall of the Kozatskiy Hotel collapses in downtown Kyiv, killing one person.

March 25



The Tax Administration cancels the monthly "empty" reports it had instituted a month ago for fixed tax payers.

March 27

In Kyiv, the Ukrainian Greek Catholic Church elects Sviatoslav Shevchuk to replace the retired Cardinal Husar.

the interest due! As of January 1, currency reserves were US \$34.6bn. This means that the country was then able to cover only 82% of its liabilities. Today, only IMF credits and sovereign loans are saving Ukraine from default. But this doesn't encourage economic reform or debt reduction. It just aggravates the problem. The government is disinclined to balance Budget expenditures and revenues, to set up the conditions to reduce the current account deficit, or to respond appropriately to many other economic challenges. The result is that we're living in debt. Gross foreign debt has grown over US \$10bn since 2008 and is now over US \$104.5bn. In short, Business Insider's estimates are justified and we really do face the threat of a default.

This is why Ukraine needs reforms. Actually, the government is busy trying to do just that, but all its measures are only messing the economy up even more. The current account deficit is only likely going to get worse in 2011. The same for debt.

See p. 24
for more
on banks

UW: The Government says it's cutting Budget expenditures down sharply to make it easier to pay off debts. Is this really a way out?

– It's not enough to cut down expenditures. Revenues need to go up, too, and the country has to stop living in debt. But here the Government is asking the IMF for credit without presenting any programs that this money should go towards. Devaluing the hryvnia to support exporters and increase the inflow of hard currency to the country must be part of such a policy. Yet this Government is blocking exports by restricting exports of farm products... Sources in Odesa ports say that it's virtually impossible now to ship any cargo from the country. Customs procedures are extremely complicated and bribery is thriving. Shipping companies are now trying to avoid transit routes across the border of Ukraine. So, instead of taking advantage of its geographical location, the Government is even losing out on that. ❏

NUMBERS

180 volumes

are filled with the criminal case against Yulia Tymoshenko

\$100,000

of public money has been allocated to pay for residents of government dachas to take taxis from Pushcha-Vodytsia

UAH 12 billion

is what Ukrainians owe for residential services

UAH 3.878 billion

will cover the reconstruction of the Olympic Stadium in Kyiv, an increase of 29% since the start

466,300 Ukrainians

are out of work, a rise of 2.1% from February

Ukrnafta posted a loss of

UAH 21 billion

in 2010, compared to profits of over UAH 1 billion in 2009

\$4.5 billion

is what the Government plans to borrow to build a rail connection between Boryspil Airport and Kyiv

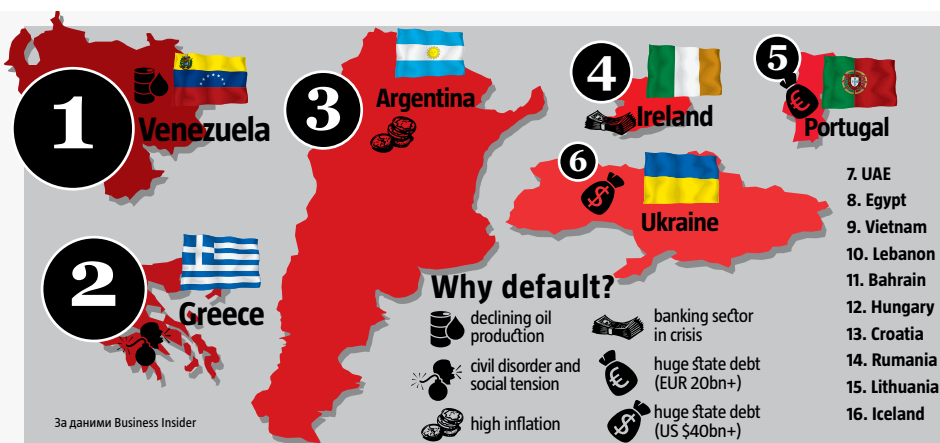
The VR increases its expense allocation to

UAH 980 million

This year, it spent UAH 3.5mn for hotels, restaurants and air travel alone

UAH 805,000

in damage is caused by 600 cu m of polluted run-off in the Dniester estuary



March 22, 1941



Ivan Trush, painter, critic and arts administrator in Halychyna, dies in L'viv.

March 24, 1989

The first local branch of Narodny Rukh is established in Ternopil.

March 25, 1911



Oleksandr Bandera, brother of Stepan and OUN activist from 1933 on, is born. Killed at Auschwitz.

March 30, 1856



The Treaty of Paris ends the Crimean War. Russia loses.

Target: The President

Kuchmagate II has been planned as converging fusillade. But the outcome could take the attackers by surprise

Author:
Yuriy Raikhel

A new act in the play called "The Gongadze Affair" has taken the media by storm. Ukrainians immediately forgot about buckwheat, growing utility bills and rising food prices—even Yulia Tymoshenko's

long-anticipated trip to Brussels and her passionate speeches about dictatorship coming to Ukraine. All this has paled by comparison with the question buzzing around the entire nation: who will go to jail—or not?

Post mortem

What happened after Georgiy Gongadze's disappearance and the tape scandal

16.09.2000

Georgiy Gongadze is kidnapped and murdered

Ukraine Without Kuchma protests begin

The National Salvation Forum is set up, bringing together opposition politicians and activists to remove Kuchma from office

28.11.2000

15.12.2000

19.01.2001

09.02.2001

09.03.2001

Oleksandr Moroz, who worked with Gongadze discloses Melnychenko's tapes

Yulia Tymoshenko resigns as Vice Premier

Massive rallies at the Presidential Administration; government crushes Ukraine Without Kuchma

Yulia Tymoshenko is released from detention

26.03.2001
Yuriy Kravchenko resigns Interior Minister

Viktor Yanukovych is appointed Premier

21.11.2002

09.2002

The Kolchuga Affair. Ukraine is accused of selling missiles to Iraq, despite an international embargo. Relations with the West go into a tailspin

26.04.2001

09.04.2001

05.09.2004
Presidential candidate Viktor Yushchenko is poisoned

Orange Revolution starts on Maidan Nezalezhnosti to protest stolen election

Three suspects in the Gongadze case are arrested: former MIA officers Mykola Protasov, Valeriy Kostenko and Oleksandr Popovych

Premier Viktor Yushchenko is forced to resign

Gongadze case is transferred to court

A court sentences Protasov to 13 years in prison and Kostenko and Popovych to 12 years each

22.11.2004

26.12.2004

28.02.2005

04.03.2005

28.10.2005

15.03.2008

Viktor Yushchenko is elected President of Ukraine after a second run-off vote

Yuriy Kravchenko, suspected of ordering Gongadze murder, is found dead: a suicide with two shots in the head

31.05.2009
Eduard Fere, MA Chief-of-Staff and a key witness in the case, dies after six years in coma

24.03.2011

Prosecutor General accuses Leonid Kuchma of abuse of office and involvement in Gongadze murder

25.02.2010

21.07.2009

Viktor Yanukovych is elected President; arrests of Tymoshenko allies begin

Oleksiy Pukach, suspected of organizing and executing Gongadze's murder, is arrested

The show's scriptwriters have done a good job, there's no question about that: they tossed their media megabomb with perfect timing and can now expect the audiences to keep watching mesmerized for some time to come. Yet, all this is at a very distant orbit from the central purpose for which the entire show was actually planned.

LAUNCHING A COMBINATION

Ukrainians are extremely discontent, social tension is growing as the deficit surges, and mere white noise alone cannot distract voters from their daily concerns. They can listen endlessly to stories about fighting corruption and growing GDP but nobody believes any of it after a visit to the nearest store. This kind of stuff can keep voters distracted for two or three days. An investigation and arrest are expected to have a longer run. This looks all too much like a well thought-out, nicely staged mid-game combination.

It is obvious from the way the prologue has been played strictly according to script that the play is backed by plenty of financial, organizational, media and other resources. Rumors have it that, in addition to Leonid Kuchma, Volodymyr Lytvyn and other people could also be brought to court. Yulia Tymoshenko has even suggested that Mr. Kuchma's son-in-law, Viktor Pinchuk, is under pressure and more.

This media fog will likely continue. Yet, that's all it really is: a fog. Simultaneous protests suit the script to establish social tension. The issues, the broad implementation, and the cynical approach to those involved all hint at who is directing from behind the stage. It has all the markings of the same people who orchestrated Kuchmagate I, back in 2000-2001. Then, too, the options for Ukraine's government were suddenly very limited and any hopes of progress in relations with the West killed.

CONTINUOUS OPTIONS...

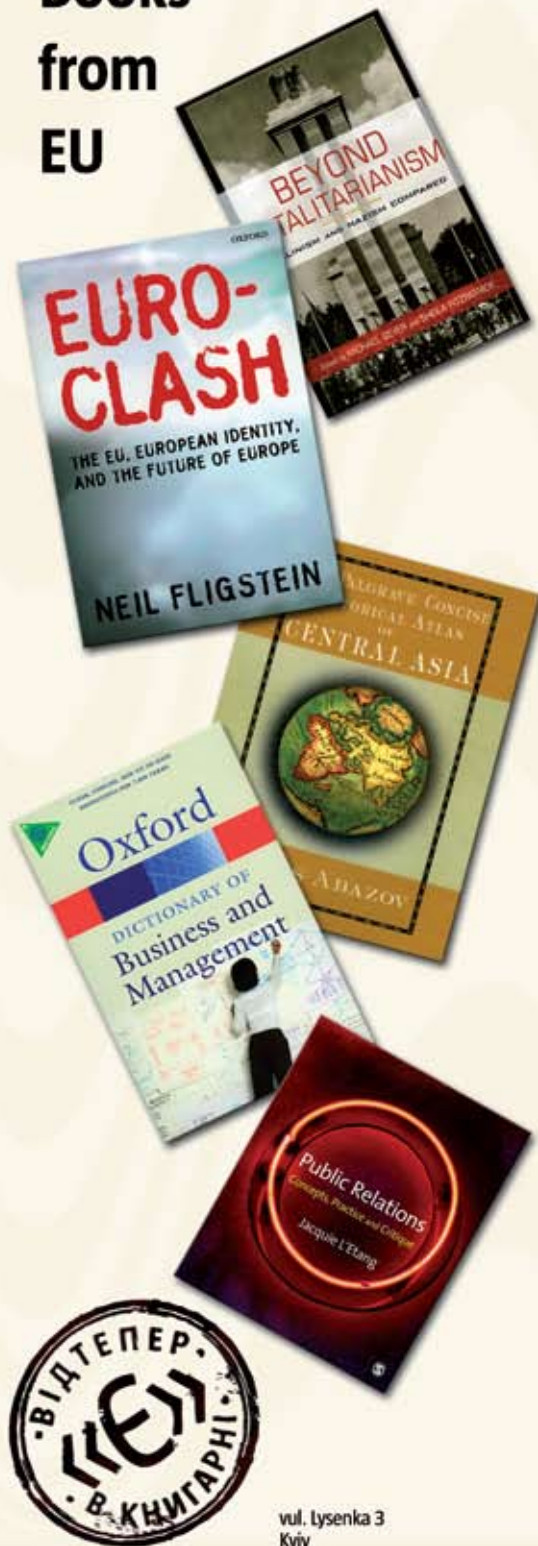
The public, meanwhile, is being tossed red herrings to skillfully switch its attention. But the closer one looks at them, the more obvious their false nature

becomes. Take the Pinchuk angle. It's fairly easy to take his media and pipe-making empire away from the ex-President's son-in-law. Both Ukraine and Russia offer plenty of similar stories. Maybe somebody even wants to do so, but lacks the reach. But to do so would cause so much trouble and lead to such predictable consequences that it isn't worth the effort.

Firstly, Viktor Pinchuk is an international player. He is known in influential Western financial and political circles. As his father-in-law famously wrote, Ukraine is not Russia: Kyiv can't even risk imagining that which Moscow easily allows itself. A step like this would be catastrophic for Ukraine, especially the financial sector, even if it's not immediately apparent. Who's going to invest in Ukraine after an attack this aggressive? Especially, since Pinchuk has no direct connection to the Gongadze case. The legal implications for Kuchma are not entirely clear: indeed, it's not obvious whether a court case will happen at all. As a political figure, the one-time president has no value whatsoever, so discrediting him offers few political points. If the government takes it too far, people will just feel sorry for the victim. So the fusillade risks being a blank.

Secondly, if Kuchma goes to a public trial—and this is the only available option—, when he finds himself up against the wall, the former president could start saying things weren't at all in the script. And then those running the show could find themselves with a caricature of the Reichstag Trial on their hands, where morally the future head of the Comintern, Georgiy Dimitrov, who was charged with arson in 1933, switched from being a defendant to being a plaintiff. Stalin wisely took into account the mistakes of Germany's Parteigenosse and did his best to avoid this in the purges of 1937-1938. Obviously, the current government lacks the leverage that the best friend of soviet sports fans had—and Ukraine today is not the USSR then. This—and the fact that Viktor Pinchuk is hardly faint of heart and has enough clout to protect himself—makes

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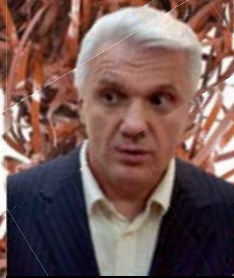
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◀ **Viktor Yanukovych**
(then-governor of Donetsk) — telling President Kuchma of the intention to interfere with the court in the case of a lawyer called Salov



◀ **Mykola Azarov**
(then tax czar) — reporting to Kuchma on interference with court work in Luhansk Oblast to hold management of Slovianskiy Bank liable and about not carrying out a Supreme Court ruling to fine the State Tax Administration UAH 200mn



◀ **Volodymyr Lytvyn**
(then Presidential Chief-of-Staff) — abusing office; instigating Administration and law enforcement agencies to illegal actions re: Gongadze; demanded information about obviously illegal actions concerning Gongadze from Interior Minister Kravchenko



◀ **Ihor Bakai**
(then head of Naftogaz Ukrainy) — accused of evading taxes “dumbly and stupidly,” in a voice that sounds like Azarov



◀ **Leonid Derkach**
disseminating private information recorded without court order in a conversation between Yulia Tymoshenko and her allies

the Pinchuk scenario very unlikely.

Volodymyr Lytvyn is a different matter. The leash he is held on is already too short. But the problem is that his party, especially its regional branches, is increasingly discontent with the role of something running underfoot with Party of the Regions. Mr. Lytvyn already complained about this in a recent speech to PR activists—not that this bothers PR, but they hardly need more opposition. So, they just tell the right people not to play with fire. An experienced politician like Lytvyn also knows that he could well be sacrificed as a stringer in any play to demonstrate how equal everybody is before the law.

A COUP?

Thinking that the government wants a fine performance of “The Triumph of Justice” and “Just Desserts for the Guilty,” not only in the tragedy of Georgiy Gongadze, but in many other affairs, would be completely naive. Nobody in Ukraine believes this. What is happening now has all features of a coup d’état. But without seizing the Winter Palace, the Bastille or the Baltic marines, the theatrics of it are different and the director seems to have considerable applying them in Ukraine.

This time it looks like the director’s has found an entry point in an extremely nasty struggle inside the President’s inner circle. Much ink has been spilled over how many folks were very unhappy with the way Mr. Yanukovych handed out posts after his victory. The President’s attempts to put all influence groups at an equal distance from himself have also failed: he ended up having to make his choices anyway, moreover under visible pressure from outside the country, where other folks thought that the redistribution of power in Ukraine did not meet their expectations, either.

Lo and behold! various scandals are back in the limelight. But, of course, the goal of this coup is simply to gain influence over the President. If he understands this and has entered into complicated relations with vari-

ous interest groups, the audience could have some exciting entertainment in store. The intermediate goal is the President—and not necessarily the current one. The final goal is to run Ukraine in the right direction. To deprive a nation of its sovereignty is a complicated task and takes time. Meanwhile, elections are drawing closer and preparations have already started.

All this looks well-scripted and nicely performed, so far. And the director has several different acts up his sleeve, keeping in mind what Helmut von Moltke once said, “No plan survives contact with an enemy.” So far, the President has been persuaded to make some dramatic moves, partly by fuelling his desire for revenge over 2004. In this situation, subjective and situational aspects and motives do not matter much. More importantly, such a major contretemps among Ukraine’s top politicians risks escalating to a real war, easy to start but hard to finish, as the Roman historian—and politician—Gaius Sallustius Crispus once put it.

In short, there is no guarantee that the bullets will hit only the planned targets. A society that trusts no government is fatal and a State cannot survive like this for long. Did the instigators and organizers of this conflict understand or anticipate that they were establishing an extremely dangerous precedent for themselves, in the first place? If they really want to purge those in power, they are acting against themselves. But if they are trying to use the judicial noose against their rivals, they should remember the many historical examples of how this could end. Under different circumstances, a process like Kuchmagate can be turned against the scriptwriters and backstage directors. Is that what this witch hunt is for? Not likely.

Purging those in power by running a coup under the guise of judicial and prosecutorial procedure can succeed. The actors can change. But household budgets could fail to match market prices. As Napoleon put it, “War is a series of unexpected events.” ■

A Bad Example

Did Lee Harvey Oswald really shoot John Kennedy on his own? We will never know. John Wilkes Booth, Sirhan Bishara Sirhan and Brutus will remain misunderstood figures for eternity. Maniacs, hired assassins, or zombie Manchurian killers. We all have to accept the fact that there are mysteries that will never reveal themselves to us, especially when it comes to political attacks. It's not even that hard to hide the truth. You just need a few key figures with enough power and money. But this isn't the worst. Secrets have one peculiarity: when there are a dozen different interpretations floating around, including the most unlikely ones, and one of them is finally declared the truth, no one will be able to tell the difference. And no one will believe it.

The year 2011 has only started and I'm already convinced: the resurrection of the Gongadze affair and the questioning of Leonid Kuchma will end up the main nomination for "Surprise of the Year." Both the competent and the less-than, the masters of the corridors of power and junior windbags are all competing for a wise answer to the case against the former Head of State. Some say that Kuchma isn't the real target, but just the means to a different end. That those in charge want to either hit the ex-president's son-in-law, Viktor Pinchuk, so that he becomes more "manageable" and shares some of his wealth. That they're really after VR Speaker Volodymyr Lytvyn, Mr. Kuchma's one-time Chief-of-Staff, in order to clip his wings.

And if we assume that Leonid Kuchma was the target, then two possible motives arise as well. Either this is Mr. Yanukovych's delayed vengeance for having been "betrayed" on the Maidan or it's a red herring to draw attention away from what's going on in society to a spectacular if empty performance and to show some muscle. For whose benefit? The inner circle, the opposition, Europe, themselves? All these options are entirely within the scope of the ruling party. Which of them dominates may not be that important. The main point is that all these motives lack the one motive that would be appropriate for a modern democratic state—or at least a state that cares about its reputation. No one, absolutely no one at all has even raised the possibility that the ultimate goal of Kuchmagate II is an honest desire to restore justice, to hold a fair trial, and to punish wrongdoers. Once again, one of the interpretations that no one will believe.

I don't believe that this government suddenly became interested in the truth in general or in Gongadze in particular.

**ABSOLUTELY NO ONE HAS
EVEN RAISED THE
POSSIBILITY THAT
THE ULTIMATE GOAL
OF KUCHMAGATE II
IS AN HONEST DESIRE TO
RESTORE JUSTICE AND
PUNISH WRONGDOERS**

I don't believe in the official report of the investigation—not then, not now.

I don't believe in the tape recorder under the couch. To be honest, I don't much believe Maj. Melnychenko, either.

I don't believe that Gen. Kravchenko shot himself in the chin twice. They really should try testing this one out.

I don't believe that Kuchma ordered the murder of a journalist and the rest is food for conspiracy theorists (who set Leonid Kuchma up, we won't know, but a bit of analysis of domestic and, more importantly, external policy before and after this episode offers plenty of food for thought).

Don't get me wrong. I don't feel sorry for Mr. Kuchma. He helped set up a system whose victim he himself became over the years. Even if all this comes down to is a little shaking up, it will have been a terrible blow to his pride, if you ask anyone who personally knows Leonid Kuchma. Indeed, all of those who are in some way or another connected to his personal drama are his protégés

and pupils. A professional machine-builder, he himself developed and perfected the roller under which he has finally fallen. As to the morality of those who are not afraid to disturb a dead lion, no one has any illusions, nor ever did.

But there is one relevant and pragmatic turnaround in all this sad tale: Imagine for a minute the current President, who just gave or

ok'd the green light. How can he not be putting himself in the same spot as his predecessor?

One year and a bit of Yanukovych & Co has resulted in so much "business" that a normal prosecutor would have enough for dozens of charges of "abuse of office" and "overstepping of powers." So let's just assume that he will get his fill and decides to hand over power peacefully to his successor. No, before he can dare to do that, he will inevitably remember Leonid Kuchma, who was a dignified senior statesman one Tuesday, someone whose interviews were sought, whose presence was requested at dinner parties as an honored guest, who traveled abroad, and now only the investigator wants to talk to him—and his one-time bodyguard.

Having established this kind of precedent, Viktor Yanukovych is going to grab onto power to the bitter end. Ideally, until the end. With his hands. With his teeth. There are plenty of models to choose from. Col. Gaddafi has hung in there for over 40 years.

Welcome to eternity! ■



Author:
Yuriy Makarov

"The Subscriber is Unavailable"

(This is a recording)

Ukrtelecom's bizarre privatization: prepared for over 10 years, to be sold to God-knows-who



Author:
Oleksandr Bondar,
*National Deputy,
Chair, State
Property Fund
(1998-2003)*

Party of the Regions' style is well known, but this time it outdid itself. Under President Kuchma, state-owned assets were sold off for peanuts. But privatization under current Chair Oleksandr Riabchenko is different even than under Mykhailo Chechetov, who ran the Fund in 2004. Then, everyone knew who got what: which plant went to Akhmetov, Novynskiy, Kolomoyskiy or whoever... Today, nobody knows anything.

To set the record straight, a special committee will be set up to audit the tender. Or Special VR Privatization Oversight Committee will look into the way the tender was run. Two questions need to be answered: how much the government spent to prepare Ukrtelecom for privatization and who is the real owner now? Everybody already knows that it was bought, not by Austrians, as was originally announced, but by an unknown offshore company.¹ Moreover, just before the privatization, the National Communications Regulatory Commission took proposed changes to the top rates for landlines as a basis. The Austrian holding could not have lobbied this decision before Ukrtelecom was sold. This means that whoever is behind this privatization has good enough ties to the President's inner circle to influence the NCRC. But this wasn't likely Rinat Akhmetov: He was in a position to buy Ukrtelecom openly, since a company of his had met all the requirements of the SPF.

In short, no one will be able to challenge this privatization. Indeed, nobody is even going to try because, strictly speaking, no laws were broken. Still, this event does merit a political assessment—if only to show Ukrainians how much of their taxpayer money was wasted to prepare such a major asset to be given away to God-knows-who for peanuts.

I can tell you right now that the government put billions of hryvnia into Ukrtelecom—even if Mr. Riabchenko claims that the operator has been running at a loss. The company was prepared for privatization and it is the only owner of a 3G license. Then too, the government has been giving Ukrtelecom deferrals on transferring dividends to the Budget for some time. In other words, this privatization has turned out to be very costly for everyone concerned.

What's more, raising rates on landlines is most likely just the first government gesture to help the new owner. And we can expect further moves in his benefit. For instance, his company will be the only one to get a 4G license. This could lead to a monopoly on wired internet connections just as in Arab countries, that is, windfall profits for the company and control over information flows for those in power.

This doesn't look good for mobile operators: they will find themselves in an uncompetitive environment with no market pricing or equal access to resources. It's hard to say now how Ukrtelecom's new investor will behave. We can project what strategy a major telecoms player might follow, but here we're talking about an unknown company. Whatever happens, this doesn't bode well for consumers. After all, the investor needs to offset the UAH 10.5bn this acquisition cost.

The prospects for privatization in Ukraine after this decision are yet another matter. Think about it: preparation for sale lasted for over a decade, interspersed with debate over whether a company that controls telecommunications should be made private at all. In the end, it was sold to some unknown entity that is obviously not going to invest anything in its newly-bought asset²—in stark contrast to other potential buyers, which included major European telecoms operators. The idea of turning

**FOREIGN INVESTORS CAN SEE
THEY ARE NOT WELCOME AND
HOMBOYS WILL GET TO
CHERRY-PICK ALL THE BEST
ASSETS**

this privatization into a showcase failed: a slew of interested bidders were excluded from the tender. Initially, plans were to increase the Start Price, but this idea was also trashed. Instead of several competing bid-

ders, which would have raised the final sale price, only one company was allowed to bid and paid barely more than the opening price.

The current Administration has made it very clear to foreign investors that they are not welcome and that homeboys will get to cherry-pick all the best assets. Ironically, Ukraine has no more properties of this level. The one and only Odesa Port Plant is only interesting to operators on the chemicals market. And here, too, the new owner has most likely already been designated. ■

¹ The announced buyer, an Austrian company called EPIC, denies this.

² The SPF claims the opposite.



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An Ancient Sickness



SUCCESSFUL TREATMENT.
The transparent office of the Interior Ministry is part of anti-corruption reform in Georgia

Infected with the soviet disease of corruption, FSU countries keep contaminating new areas—except for Georgia

Author:
Andriy
Skumin

Former soviet and eastern bloc countries largely lie at the bottom of TI rankings for corruption. Corruption has entrenched itself firmly in the activities of those who act on behalf of the government or local communities in these countries.

SOURCES OF POWER

After the 1991 putsch, corruption at the very top caused the greatest damage and always fed on oil and gas. This was especially true of countries like Azerbaijan, Turkmenistan, Kazakhstan and Russia, which extracted their own hydrocarbons. There are countless ways of siphoning money through fuel deals, and nearly all of them are in the hands of top officials.

One of the most popular and easiest schemes used in mid-90s involved barter and mutual offsets. These were commercial deals to supply certain commodities worth a certain amount of money in exchange for fuel supplies worth the same. The perfect example is Ukrainian Ihor Bakai, a financial whiz with only a vocational school diploma. He traded gumboots, underwear and other domestic junk for

Turkmen gas at prices two or three times higher than in Ukraine. This made multimillionaires out of Bakai and several Turkmen officials. The awkward bit was how to explain all this to the Turkmen people...

Post-soviet countries typically had abundant assets owned by the state or local communities. As they switched to market principles, privatization and denationalization of enterprises and distribution of land became yet another source to feed corruption. For instance, in June 2004, the State Property Fund of Ukraine sold 93.02% of Kryvorizhstal, one of the largest steel mills in the world, to the Investment Steelworks Union, a consortium owned by Rinat Akhmetov and Viktor Pinchuk, behind closed doors, for UAH 4.26bn, a paltry US \$800mn. One year later, after the steelworks had been renationalized, India's Mittal Steel bought the same stake at a public tender for UAH 24.2bn or US \$4.8bn—nearly six times more.

State procurements of goods and services are another corruption-generating industry in the post-soviet part of the globe. In this sector, all

kinds of illegal schemes are based on getting an order and inflating the price of goods and services being contracted, often between 15 and 25%.

CORRUPTION TAX

Burdensome licensing procedures are also widespread in post-soviet countries, whether it be registration, licensing or simply issuing documents, such as acts or statements. This explains why these countries are always in the bottom of business-friendliness rankings—because a well-placed bribe accelerates all these procedures. Getting a limited company registered normally takes considerable effort, patience and nearly a month, while paying US \$500 to a “consulting firm,” the bribe and reward for the intermediary included, cuts the process to just a few days. Getting a certificate to confirm land ownership can take 12-18 months, whereas a US \$200 incentive can reduce the wait to two months.

In the end, the corruption of poverty is the most basic form of corruption. It comes from the abysmally low salaries in many professions, where the bribe basically serves as a bonus to

miserable wages for a service employee or an official. For instance, paying for a physical exam, treatment or the services of a nurse at a public hospital is completely illegal. Yet, several years ago, someone posted an unofficial price list for hospitals in Turkmenistan: US \$2-5 for a consultation, US \$2-3 for treatment and notice of sick leave, US \$4-6 to prescribe a course of treatment, and \$0.5-1 for a drip or injection by a nurse. This online discussion of the unofficial cost of medical services in Turkmenistan shows that prices vary according to country but the concept is alive almost everywhere in the post-soviet region.

A weak judiciary system and a low level of courtroom culture among post-soviet populations let various oversight and enforcement agencies, such as tax, fire and health services, abuse their position. The target of this horde of inspectors is business, which gets used to seeing "gifts" as a necessary evil, just like taxes.

Law enforcement agencies and the courts themselves are another major source of corruption in post-soviet countries. Today, they are among the most corrupt agencies in virtually all these countries. The less transparent the government, the higher the corruption. Most post-soviet countries have price lists for opening or closing a criminal case, changing the category of violations such as extortion to fraud, or getting the desired judgment.

MISSION POSSIBLE

Over the past few years, a precedent was created that spoiled all firm convictions about the ineradicable nature of corruption, making Georgia the poster child of anti-corruption efforts in this region. In 2002, Georgia ranked 85-87 out of 102 countries in the Transparency International's global ranking with 2.4 points, on a par with Ukraine and Vietnam. Only 15 pariah countries were worse than these three: Even Russia and Honduras were less corrupt in 2002 than Georgia.

Yet, in 2003, the Rose Revolution brought a new wave to power, led by Mikheil Saakashvili. In 2010, Georgia was among Top 10 countries with the least corruption, based on a survey of 84 countries. This dramatic change was driven by Mr. Saakashvili's political will to no longer fear top corruption and not to judge fraudsters by their political colors. Anti-corruption pressure was applied to both opponents and supporters of the leader of

the Rose Revolution and more than 400 "high-flyers" found themselves deplaned.

The March 2005 Deregulation Program became the turning point, leaving only 150 out of nearly 900 business procedures in place. It introduced a "one-stop shop" for starting up a busi-

ness and now it takes less than a day to start a company in Georgia—and three days at the most to register ownership of land or real estate!

The unprecedented reform of law enforcement agencies implemented in Georgia turned the country into a showcase for fighting corruption. It virtually wiped out corruption among the police. The impact was not long in coming: today, 87% of Georgians trust their police, compared to 10% in 2003, before the reform. Unlike Russia, which films soap operas about good-hearted cops as a way to improve the image of its police, this is the real result of real reforms to the law enforcement system.

Next, the traffic police were replaced by patrols. For this, 15,000 people with zero experience in the police were hired and trained for a couple of months. The 40,000 policemen who worked as traffic cops were fired: the total number of law enforcement personnel laid off under Mr. Saakashvili is up to 75,000. The newly-hired amateurs demonstrated a professionalism and honesty that surprised the whole world. The profit margins for corruption have shrunk significantly under President Saakashvili, too. Today, a Georgian police officer gets US \$500-1,000, plus housing, insurance and a high pension. And if they are caught taking a bribe, they can lose all that overnight—and get 6 to 9 years in jail for their trouble.

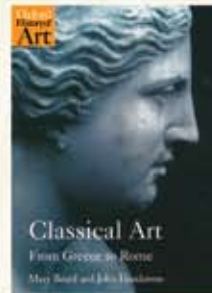
Georgia is a great example that debunks the myth about corruption as a permanent habit. Yes, everybody, it can be eradicated. ■

GEORGIA AS DEBUNKED THE MYTH THAT CORRUPTION IS AN INERADICABLE TRADITION

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will charge
you
\$500
to register a limited
company in Ukraine,
while
\$200
will get your land
ownership certificate
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Office Control

LAUGHING THROUGH TEARS

In Ukraine, domestic business tends to interact with government according to a long-standing, simple rule: the state robs the people and the people steal from the state. Yes, this is an uncivilized practice, but the country's confusing, convoluted and contradictory legislation, laced with loopholes and ambiguities, makes any other approach barely conceivable. Statutory gaps and drawbacks are cemented in the customs law, with such unspoken components as gifts for officials, commercial services provided to businesses by associated entities, bribes, protection, and a whole range of corruption.

Nominally at least, relations like this often turn both entrepreneurs and their state overseers into lawbreakers—even criminals. But as it is accepted by both parties, this concept has served as a platform for social consensus at the microeconomic level for years. The fly in the ointment is that the latest amendments, especially expanded powers for tax inspectors under the new Tax Code, more power to bailiffs and so on, undermines this socio-economic status quo. The question now is whether the reformers realize the likely effect of their intent to effectively legalize their robbing of the nation with impunity. ■

Tax Inspector

Motto: "Still earning money? Then we're coming for you!"*

Feed on: administering, (not) reimbursing VAT, (not) accepting tax declarations, inspecting for cash registers, issuing receipts, and so on

In the mid 90s, the phrase "tax inspection" terrified entrepreneurs. In time, legislators added new provisions, written, as it were, in blood: banning scheduled onsite inspections more often than once a year, requiring inspectors to notify entrepreneurs about upcoming visits at least 10 days in advance, setting a list of reasons for unscheduled inspections, and so on. As of January 1, 2011, however, publicans can raid taxpayers anytime and even seize their property for up to 96 hours without court order.



Tax Police

Motto: "We can't put everyone in jail, but we can always hope."

Feed on: scoops from the tax inspection and their own sources

Their visit to an office or a warehouse is a genuine disaster that can put some of the staff in court, especially directors and chief accountants. Sometimes, these disasters are preceded by a difference of opinion between the taxpayer and a tax inspector. Tax police are armed and can confiscate computer equipment, stock and so on. There's not really any way to resist them: tearing off their shoulder patches or even just saying something rude—even if the overseers have abused their powers—can put any of the staff behind bars. It's better to call your lawyers or friendly law enforcers, such as the Berkut, which eventually leads to a complicated interagency tug-of-war. The Tax Code requires taxpayers to allow the police into all company premises: earlier, the requirement was only that the staff not interfere.

* All quotes taken from surveyed businesses.

SOMETIMES INSPECTORS DON'T
COLLECT TRIBUTES BUT PAY THEM...
TO TRADITIONS:
(shot glass held high)



INSPECTION,
CUSTOMS,
TAX, FIRE,
SANITARY

"To love, friendship and service!"

● Fire Inspector

Motto: "We can't let you burn at work. Where's your fire extinguisher?"

Feed on: many gaps in safety procedures at most companies

Normally, their visits are short and only slightly painful—unless their objective is to paralyze the company's operation. That means the owner is in trouble: the myriad and literally interpreted legislative requirements about how to make the office safe against fire are virtually impossible to meet. Violations found by fire inspectors allow them to seal the office and suspend operations for a few days. Resistance is impossible by default. Better be friends with your firefighters!

● Health Inspector

(Sanitary-Epidemiological Service)

Motto: "Where there's food, there's us..."

Feed on: numberless inevitable violations of sanitary and epidemiological requirements

These guys just love hanging out at cafés, bars and restaurants, and frequently drop in on food processing plants. Your health inspector is very (or not) watchful of compliance with health legislation and regulations and the organization of disease-prevention measures such as garbage collection, staff health books, and overall sanitary requirements for the premises. They are authorized to collect samples of food for lab testing and any violations revealed can result in production being shut down... So, don't skimp on food samples...



● State Auditor (Control-Inspection Service)

Motto: "Budget funds just lo-o-ove to be counted!"

Feed on: managing cash flows from tenders, spending by State-owned enterprises, budget funded programs and so on

The power and responsibility of inspectors, who are really professionals in their field, does not involve entrepreneurs directly. These folks work with budget cash flows, so an inspector visits your company only when you are using budget funds, such as for a bailout or as part of a tender contract. This is rare enough and mostly means trouble for the manager of the funds, not the company itself. Still, such inspections often have nasty consequences. The documents and details the inspector collects can get into the hands of tax people or even the prosecutor's office. Sometimes, working with the "right" auditors can help, to fix any mistakes in statements.

● Customs Official

Motto: "Customs has the goods."

Feed on: goods that need clearance, invoice checks, forwarding agents, confiscated goods and so on

Businesses involved in exports and imports in any way do their best to have a "buddy" in Customs. Without this, clearing your goods can take weeks, or even months if worse comes to worst. Having your own regular crossing spot at the state border is even better. The process is the easiest for companies that can get legitimate tax breaks at the level of a law or a Cabinet resolution. There are also numberless ways to "simplify" or "streamline" clearance if your company has the right connections. Typical tricks include: undervaluing invoices directly or by "adjusting" the lists of goods in statements; queue-jumping or faster clearance procedures by paying an expediting firm; and even abandoning goods at Customs and buying them back later for a lower price when they go up for auction. And, yes, Customs officials know all about this.

Shame and Blame

“Fighting corruption is one of the most important things to improve Ukraine’s image”

Interviewed
by:
**Dmytro
Hubenko**

Photo:
**Oleksandr
Chekmeniov**

As Co-Rapporteur of the Parliamentary Assembly of the Council of Europe, from 1995 until 2008 Denmark’s Hanne Severinsen effectively participated in Ukrainian politics—13 years that represented more than a half of independent Ukraine’s history. Nor has Ms. Severinsen stopped following the situation in this country

THE CANCER OF CORRUPTION

UT: You oppose the idea of a majority election system for the Verkhovna Rada. But Party of Region’s new election law reintroduces mixed voting system and leaves party lists closed. What impact will this have on democracy in Ukraine?

The history of political development in Ukraine has shown that it is very easy to manipulate a majority-based election. As we saw in the past, you can create artificial parties and split the opposition, to the advantage of the local oligarchs, who have the best possibility to gain the biggest share of the local vote. Combined with closed party lists, where the voters have no influence on whom they can elect, adopting the mixed system gives you the worst of both worlds. One of the problems is that many politicians in Ukraine start with the question, “What system will give me the most power?” instead of thinking, “What system would be represent voters the best?”

UT: This year Ukraine presides over the CoE Committee of Ministers, but it did not follow the Council’s recommendation to support EU sanctions against Belarus after its recent election, and many human rights cases have been brought against the country this past year. How will this affect Ukraine’s CoE presidency?

The president of the Council of Europe is chosen in alphabetical or-

der, so sometimes countries that are not ideal for all other members chair the Council. Normally, the country can use its position as chair to set the agenda. But if it is a country that has a poor image because it doesn’t uphold its commitments as a member of the CoE, its moral suasion will not be very high. I mean the country may hold the chair, but it won’t be able to raise its finger and set the agenda.

The problem is that Ukraine has unreformed institutions: the judiciary, the prosecutors and the secret service. The sad thing was that in the name of so-called reform, the High Court of Justice has been totally placed under presidential control. Meanwhile, the Prosecutor’s Office is also dependent on president, meaning that you have no separation of power. “Power corrupts and absolute power corrupts absolutely.” If you see corruption, sometimes you will dare to speak about it, but there will be no punishment, no enforcement, because power is overly concentrated.

It is obvious that Ukraine suffers from selective justice. Under the guise of fighting corruption, those in power put the opposition in prison to scare others in the opposition to be loyal. Ukrainian officials tell the outside world that these people are guilty, forgetting the legal presumption that a person is innocent until proven guilty. I think it is also an attempt at character assassination, as we saw in Denmark.

One of the underlying systemic problems is that nearly all parties have close links with business. I now work voluntarily in the Danish Helsinki Committee, and I have two well-known former Danish prosecutors general, Mikael Lyngbo and Erik Merlung, as colleagues. We have some funds at the Committee for legal monitoring, so at the moment they are following the cases of Korniychuk and Lutsenko, and will also follow others, like Ivashchenko,

and will report to the OSCE, the CoE and the EU.

CONSTRUCTIVE CRITICISM

UT: Is the EU prepared to act against human rights violations on the continent these days?

I know that EU ambassadors in Kyiv often discuss what to do. They are very concerned about the situation in Ukraine and want to support civil society, because it should be strengthened. It is the most important. I think there should be more opportunities, like student exchange programs, for youngsters to go to Western Europe and see how things are there. So, removing visa requirements would be useful—and not for the sake of the government.

UT: A couple of years ago, over 50% of Danes agreed that Ukraine should join the EU. Is that still the case today?

The image of Ukraine has declined, partly because of the mistakes after the Orange Revolution, partly because Danish business owners come home and talk about the corruption. It’s not worse than in Bulgaria and Romania, but their membership demonstrated that, if you take in countries that haven’t done anything against corruption, it creates lots of problems. So, I think that fighting corruption is one of the most important things to improve the image of Ukraine.

UT: What would you say to Ukraine’s opposition parties at this point?

I urge some of the opposition parties in Ukraine to start from scratch again, meaning form local organizations and rely on local sources, not based on business interests but value-based. I’d really like to take part in the debate about creating a better political system, where you really feel that that you can elect someone you can trust to be “my MP.” For voters, it is a bad situation when they vote for a par-

ticular party, but a lot of the elected people are there just for their own interest and then switch to another party. So, you really need to have an election system with open lists and regional choice.

UT: What offers the best conditions for state corruption in post-soviet countries?

I've already mentioned the concentration of power and the dependence of judges. But it's also a question of education—and of shame and blame. You can see corruption in the US, but when it's detected, it's a big shame. Ukrainian society is too familiar with petty corruption and big corruption alike. There should be shame attached to it. People who experience unfairness and even crime should use new media like Facebook and Twitter to spread the knowledge of what's going on. Of course, there's the heritage of the Soviet Union: you had a history of officials coming up with artificial claims and you had to find out how to live with all these strange orders. Ukrainians are very good at surviving, they are very innovative, but they unfortunately have to use their strength to figure out how to live with this arbitrariness.

UT: What do you think of the draft language law proposed by Party of the Regions? It focuses a lot on Russian and reinforces it while weakening the state language, Ukrainian.

I think since Ukrainian was really a minority language in soviet times and has been looked down on, it is very important that you give the Ukrainian language the possibility to progress. So, the risk is that the new legislation will reverse many of the improvements in Ukrainian identity that were seen in the last 20 years. When I travel in Eastern and Southern Ukraine I meet people who are Ukrainians. They speak Russian, but that has nothing to do with them not being proud to be Ukrainians. So, they may find a way to sometimes speak Ukrainian, sometimes Russian. Since Ukrainian has been really suppressed, it needs a helping hand, but that's not discrimination against Russian.

UT: The European Parliament recently

adopted a highly critical resolution, which Ukrainian officials dismissed as hostility to Ukraine's EU integration. How do you see it?

Those who are now very worried about the situation in Ukraine are the forces that really want Ukraine to be a part of Europe. So,

it is not criticizing Ukraine, but criticizing the concentration of power in Ukraine because that could damage the link between the EU and Ukraine. The people who criticize are the people who really want Ukraine to be together with Europe. ■



Glitzkrieg

Respectability is for sale. Here is a buyer's guide. Names are omitted to protect the guilty from blushes and us from lawsuits

PICTURE yourself as a big shot from an unpopular country—leader of an oil-rich bit of the Middle East, say, or a tycoon from a grungy bit of the former Communist world. You wish your family could shop, invest, socialise and study in the richest and nicest parts of the world (and flee there if needs be). But you don't deserve it and won't earn it: you will not stop torture, allow criticism, obey the law, or keep your fingers out of the public purse.

Luckily, respectability is on sale. You just have to know how to buy it. The place to start is London. Among its advantages are strict libel laws, which mean nosy journalists risk long, costly legal battles. And helpful banks, law firms, accountants and public relations people abound.

Laws on money-laundering have irritating requirements about scrutiny of new customers. This used to be merely an exercise in ticking boxes, but has got a bit tougher. Still, a well-connected and unscrupulous banker will be your best friend, for a fee. You cut him in on some lucrative transactions with your country or company. In return he will pilot you through the first stages, arming you with a lawyer (to scare rivals and critics) and an accountant (to keep your books opaque but legal).

Next comes a virtuous circle of socialising and do-gooding. Start with the cash-strapped upper reaches of the cultural world: a big art gallery, an opera house, or something to do with young musicians. Donations there will get you known and liked. Or try funding a prize at UNESCO or some other in-

ternational do-gooding outfit. Support causes involving war veterans or sick children. Sponsoring sport works too. But don't overdo it—the public is wiser than the glitterati, and will soon scent a crude attempt to buy popularity.

Send your children to posh English schools. Shower hospitality on their friends: they will be important one day. But invite the parents too: they are influential now. A discreet payment will tempt hard-up celebrities to come to your

parties. Minor royals are an even bigger draw: British for choice, but continental will do. Even sensible

THE PATH FROM VILLAIN TO HERO HAS NEVER BEEN EASY. BUT NOW RESPECTABILITY CAN BE BOUGHT

people go weak at the knees at the thought of meeting a princeling, however charmless or dim-witted.



Many such titled folk like a lavish lifestyle but cannot earn or afford it. So offer a deal: you pay for their helicopters, hookers and hangers-on. In return, they bring you into their social circuit, and shower stardust on yours. You will need patience: the parties are dull and the guests vapid and greedy. Building your reputation as a charming and generous host may take a couple of years. But once people have met you socially they will find it hard to see you as a murderous monster or thieving thug. Useful props in this game are yachts, private jets, racehorses, ski chalets and mansions.

Armed with social and cultural clout, you can approach money-hungry academia and think-tanks. A good combination is a Washington, DC, think-tank and a London-based university (Oxford and Cambridge, being richer, are also choosier about whom they take money from). The package deal should involve a centre (perhaps with a professorial chair) and a suitable title: it should include words like global, sustainable, strategic and ethical.

I STINK, YOU THINK

On the subject of titles, expect an honorary doctorate for yourself and a PhD for your favourite young relative. This need not be an onerous undertaking. A lobbying firm can help with the research. Think-tanks' flimsier finances make them easy prey too—and they are more immediately influential than universities. Most of their experts are expected to raise all their own funds. A few million here or there is chicken feed for you but a career-saver for them and their programmes.

Sponsorship does not just make you look brainy and public spirited. It also skews the academic debate. If you are a pious Muslim, let it be known that a focus on uncontroversial subjects such as Islamic architecture, calligraphy and poetry will keep the money coming. Textual criticism of the mutually contradictory early versions of the Koran, by contrast, is a no-no. If you are from Russia, support cheerleaders for the "reset" in relations with America and pay for people to decry former Soviet satellites as irrelevant basket cases. If you are in oil or gas, pay for studies criticising the disruptive exercise of competition law on energy suppliers.

Then move on to the media. Generous advertising in the mainstream print dailies is a good way to make friends. Nobody will read the lavish supplements that trumpet your imaginary virtues and conceal your real flaws. But the newspaper's managers will be happy. It may be too much to expect them to get the journalists to tweak their coverage (though that can happen) but you will find it easier to put your point across. Sumptuous fact-finding trips are an easy way of making hacks' heads softer and hearts warmer. You can also hold conferences, with high fees for journalists who moderate sessions or sit on the panels. They will soon get the idea.

You are now in a position to approach politics. Most rich countries make it hard (or illegal) for foreigners to give money to politicians or parties. But you can oil the wheels. A non-executive directorship can be a mind-changing experience. Invite retired politicians and officials for lucrative speaking engagements and consultancy work: word will soon get around and the soon-to-retire will bear your interests in mind. Even better, set up an advisory council stuffed with influential foreigners. You need tell them nothing about what you do. Nor do you have to heed their advice.

Foreign respectability also makes you look good in the eyes of your own people. And it demoralises your critics, crushing their belief that Western media, politics, academia and public life are to be admired.

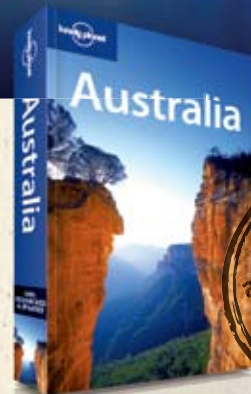
Your progress from villain to hero will not always go smoothly, especially if you have to start killing your opponents. But when the alarm is raised, your allies will rally to your defence. A tame academic can write an opinion piece; a newspaper grateful for your advertising will publish it. Your fans can always say that someone else is much worse and that you are at least a reforming, if not fully reformed, character. A few references to American robber-barons such as John Pierpont Morgan will bolster the case. So too will a gibe at less-than-perfect Western leaders such as Silvio Berlusconi. After all, nobody likes hypocrisy. ■

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Europe's minority parties: What manner of beast?



Author:
Leonidas
Donskis

The surge of ethnically-based political parties in Latvia and even more so Lithuania requires our attention and a look at the reasons that might be behind this phenomenon. The first might be based on conventional reasoning and draw our attention to the Kremlin and its strategies. And why not?

That Russia has repeatedly launched massive media and psychological attacks against the various Baltic States is a public secret. Just take a closer look at the Lithuanian media and their sources of financing for a reality check. This is a wake-up call to remind us of how Russian capital took over some of the most influential dailies and magazines in one EU country.

Yet it would be simplistic to refer to Russia's financial and economic clout as the only factor to explain—or explain away—the rise of Russian and Polish minority parties in Lithuania's last municipal elections. In fact, this trend signals the arrival of a new phase in Baltic politics. Indeed, this tendency can be seen throughout the EU: the EU is increasingly becoming a new political battleground among major, mainstream and—especially—marginal political parties.

A combination of waning political interest in the European Parliament and low turnout among national voters during EP elections is the best sign that small and marginal political parties could increase their chances to join the European club, gaining a new arena and a new playground for settling their national accounts and finishing their unfinished business at home.

The easiest way to confirm this is to recall some Members of the European Parliament from the Baltic States who do not hesitate to overtly lobby Russia's strategic interests by organizing political seminars together with the Russian Embassy in Brussels or to advocate Russia's human rights record—which is currently neck-and-neck with that of China and Iran over who is second to North Korea as a hell on earth for human rights defenders, dissenters, and conscientious citizens.

I'll never forget a telling episode from the European Parliament that best exposes the contrast between Russia's human rights defenders and the Kremlin's advocates from the Baltic States. I participated in hearings on Russia's human rights abuse record, to which the great, incomparable Sergei Kovalev was invited. After the official hearings, we had a seminar where we continued our discussions, focusing on a number of well-known individual cases. What happened then was an intervention that deserves to be quoted and thoroughly analyzed by posterity.

A colleague from Latvia expressed her dissatisfaction with the hearings, suggesting that Russia should not be singled out on the grounds of its violations of hu-

man rights, and that the participants needed to pay more attention to violations of human rights in the Baltic States, especially in Latvia where, according to this MEP, the Russian-speaking minority was increasingly being persecuted, offended and deprived of its dignity.

Mr. Kovalev rose immediately in response. He commented on this pearl of political wisdom in his usual calm, deep voice. "No state on earth is ever going to be perfect," he said. "But to compare and even equate a normal, albeit imperfect, state with present-day Russia is profoundly immoral." I could hardly have added anything to his words.

This could shed more light on what is happening in Latvia and Lithuania now, which has recently had a new surge in ethnically-based, mean-minded political parties. True, nobody is perfect—and this applies to all sides. I've said many times that I deeply deplore the fact that something like parallel societies or at least political communities exist in Latvia and Estonia because of the political alienation of some portion of the Russian-speaking minorities in these countries.

But whatever the faults of Latvian and Estonian politicians in integrating and including minorities in mainstream national politics and culture, this is not a reason to immediately start cooperating with forces deeply hostile to the Baltic States and their elites. It does not take much wisdom or political maturity to serve as the Kremlin's Trojan horse in the Baltics because of local conflicts and animosities—especially when the "holy simplicity" of some of my West European colleagues in the EP leads them to portray the fifth column in the

Baltic States as human rights activists.

On the other hand, it would be ludicrous to blame everything on the revival of ethnic parties. I will repeat myself on this: Yes, I regard the existence of ethnically-based political

parties in EU countries as a profound misunderstanding, if not a political oddity, but the truth never entirely belongs to one side, either.

The success of the Polish-Russian alliance in Lithuania's recent municipality elections—and the success of the Polish Elective Alliance in particular—can be partly explained by silly debates over whether or not Lithuanian Poles can use specific Polish characters to write their names in their passports, and partly by the narrow-mindedness and provincialism of certain Lithuanian politicians and MPs. Nobody's perfect.

Whatever the case, the EU and its political institutions can and should become something incomparably more than just an extension of local clashes and partisan politics projected onto the European arena. Otherwise, Europe will find itself in a no-win situation. ■

**TO COMPARE AND EVEN EQUATE
A NORMAL, ALBEIT IMPERFECT,
STATE WITH PRESENT-DAY
RUSSIA IS PROFOUNDLY
IMMORAL**



К Н И Г А Р Н Я



13 April (Wednesday) 2011

18.30

Ye Bookstore, vul. Lysenka 3

Ukrainskiy Tyzhden magazine and Ye Bookstores invite you to join us as part of the "European Experience" project and meet with:

Our guest—José Manuel PINTU TEIXEIRA

With the support of the European Union Representation in Ukraine

On the theme: Ukraine-EU Relations Today

José Manuel Pinto Teixeira

From 2007

EU Ambassador, Head of EU Representation in Ukraine

2002 – 2005

Ambassador, Head of Delegation in Mozambique

1998 – 2002

Ambassador, Head of Delegation in FYR Macedonia

1997 – 1998

Head of ECHO Mission in Bosnia-Herzegovina and Croatia

1996 – 1996

Deputy Head of Unit ECHO/1 (ACP states) Head of Sector for Humanitarian Aid to East, Central and Southern Africa

1994 – 1995

Head of Sector for the CIS – Caucasus and Central Asia; Armenia, Azerbaijan, Georgia, Ingushetia, Chechnya, Dagestan, Tajikistan

1992 – 1994

EC Delegation in Angola Counselor and Chargé d'Affaires

1991 – 1992

Member of Cabinet

Seconded to Ministry of Foreign Affairs, Portugal – Portuguese Presidency of the EC Adviser to the Secretary of State for Foreign Affairs and Development Cooperation

1998 – 1991

1st Secretary, EC Delegation in Swaziland

PATRIOT GAMES

Party of the Regions is now the main funnel for money from the Russian budget—and some local Ukrainian ones—in support of pro-Russian activities



Author:
Andriy Duda

In early February 2011, Russian World, a nationalistic organization, heard some bad news. Moscow's Foreign Economic and International Affairs Department informed the Russian Arts Center, an association in Crimea, that the Russian capital would no longer fund its activity from the municipal budget. In short, the Russian Arts Center will not receive UAH 1.5mn this year.

MOSCOW DOES NOT BELIEVE IN TEARS

Transfers from the Moscow budget to pro-Russian organizations in Ukraine, primarily in Crimea and Sevastopol, have been the biggest source of funding for such groups in recent years. Under the Comprehensive Targeted Medium-Term Program to implement government policy regarding Russians living abroad over 2009-

2011 approved by one-time Moscow Mayor Yuriy Luzhkov, RUR 325.4mn was allocated from the Moscow budget in 2009, and RUR 354.5mn in 2010. For 2011, the Program had a budget of RUR 371mn or around US \$12.8mn. Crimean analysts estimate that one third of this was supposed to go to beneficiaries in Ukraine, that is, to pay for the activities of pro-Russian organizations here.

Many in Crimea believe that this item in the Moscow budget to fund "compatriots" abroad was actually part of ongoing embezzling scams set up by Mr. Luzhkov and his circle. Most likely, Russian taxpayer rubles found their way to Crimea in general and Sevastopol in particular, in exchange for allocations of land and property by local councils in favor of Mr. Luzhkov's business interests.

In fact, when Russian President Dmitri Medvedev decided on August 28, 2010, to "remove Yuriy Mikhailovich Luzhkov from the office of the Mayor of Moscow because of a loss of confidence in him on the part of the Russian President," many professional "Crimean-Russian patriots" were shocked and bewildered.

COMPATRIOT WARS

Cutting off money from Moscow does not mean that Russia has chilled towards its professional fans, though. It's more of a qualitative change: these days, Russia prefers to fund people and organizations who can deliver the goods, such as government decisions, well-organized rallies and demonstrations, media events for Russian consumption and so on, rather than professional Russophiles.

Partly due to this, Party of the Regions has begun to monopolize the market of "pro-Russian services" and has gained control over money that the Russian Govern-

PHOTO: PHIL

ment allocates its fifth column in Ukraine.

Since last fall, Russia has been granting cash only to those organizations in Ukraine that are in the Register of Organizations of Russian Compatriots and are members of the related Coordination Council chaired by Vadym Kolesnichenko (PR). By the end of 2010, the Register had 141 organizations, including 25 authorized in Crimea and Sevastopol.

Professional Russians, meaning those who make a living on pro-Russian ideas for Russian money, are finding themselves in turmoil as competition takes its toll and they often end up squabbling among themselves. Far from all pro-Russian organizations are happy about Russian funds going through the Council. Indeed, the Russian Community of Sevastopol resigned from the Council and the Kharkiv Organization of Compatriots spoke against the re-election of Vadym Kolesnichenko as the Council's Chair. The main reason for this dissent is the suspicion of "ineffective" allocation of funds, meaning that cash is not going to those who are complaining. But Mr. Kolesnichenko has two aces in his sleeve. One is Russian diplomats, who see him as a compromise choice, that is, someone they can work with. So, the Russian sponsors, including the Russian Federal Cooperation Agency, re-elected Mr. Kolesnichenko at a Council meeting on February 12. This suggests that direct transfers for some pro-Russian organizations will be cut, while Russian money is centrally distributed through the Council.

The other ace is that Mr. Kolesnichenko is a member of Party of the Regions. Since PR members are in top positions at government agencies, they are the most useful counterparties for promoting "the needs of Russian compatriots," among others. But what is PR willing to do for Russia, in exchange for controlling substantial cash flows from Russia to support its compatriots?

A UKRAINIAN BUDGET FOR THE RUSSIAN WORLD

Russia is not alone in funding the fifth column in Ukraine. Although no one is saying much about it,

considerable Ukrainian taxpayer money is going into pro-Russian initiatives days. The formula for this set-up is quite simple: a PR-controlled local council approves a regional or local development program, such as the Program to Develop the Russian Language and Other National Languages, in a certain area and allocates funds to implement the program from the oblast or municipal budget.

On September 26, 2008, the Donetsk Oblast Council approved a Program to Develop the Russian Language and Arts in Donetsk Oblast for 2008-2011. This one program will cost the oblast

ing shut down. The utter cynicism of the situation is clear, when this is compared to a total development budget of only UAH 4.46mn for 2011 in Luhansk Oblast, even though, under Art. 71 of the Budget Code of Ukraine, it is supposed to cover all capital costs within the oblast including investment projects, construction, major repairs to municipal housing, and so on. In other words, funds that could otherwise be used to improve living conditions for the people of Luhansk are being spent on their supposed language needs. Similar programs have been approved at the regional and the oblast center levels in Zaporizhzhia Oblast, for instance.

For those who manage such funds, "supporting the Russian language" is not just their contribution to the Russian World, but an easy and effective way to embezzle funds. Just a year ago, in February 2010, the Audit Chamber of Crimea disclosed the grey side of "supporting the Russian language" in Crimea. According to the Chamber, US \$130,000 was allocated for the Great Russian Word festival in 2008-2009, but the organizers never did account for US \$77,000 of that... ■

THE UKRAINIAN MARKET OF "PROFESSIONAL RUSSIANS" IS GOING THROUGH A SHAKE-UP

budget UAH 7.343mn, or nearly US \$1 million dollars. On December 20, 2010, Luhansk approved a Regional Targeted Program For Developing and Using the Ukrainian and Russian Languages in Luhansk Oblast for 2011-2014. Funding for this Program is UAH 1.9mn. But the title is misleading. The cash is allocated to support the Russian language only, while the oblast's few Ukrainian schools are slowly be-

Funding for Russian World



Source:



2011 allocations from Russia's Budget:



Purpose:

Comprehensive Targeted Medium-Term Program for policy with respect to Russians abroad for 2009-2011		
The City of Moscow	RUR 214mn (US \$7.34mn) 58% of total	
The Federal Agency for the CIS, Russians Abroad and International Cooperation in the Arts, (Rossotrudnichestvo or Russian Cooperation)	RUR 1.8bn (over US \$61mn)	Presidential Decree №1315 dated September 6, 2008, On Some Issues Concerning Government Management of International Cooperation
The Russian World Foundation	RUR 500mn (US \$17.1mn)	Decree of the President of the Russian Federation, №796 dated June 21, 2007

Mothballed Banks

A borrower's reputation and prospects are becoming more important than collateral in lending

An economic recession accompanied by plummeting domestic and foreign demand, a declining hryvnia and pervasive uncertainty—these and other factors sent credit risks soaring two years ago, says Anastasia Tuyukova, an analyst with Dragon Capital, a Ukrainian investment company. Financial institutions have not managed to revive proper lending at acceptable terms since then, although the situation is clearly better in 2011 than it was in 2009, when only seven banks were issuing personal or commercial loans. Indeed, lending virtually disappeared from the market for a time as the share of deadbeat loans grew over 2009-2010 while the regulator restricted lending in foreign currencies.

These days, the government claims the economy is growing again. But the banking system, which was ever bristly to respond to positive macro indicators by stepping up lending prior to the crisis, is in no hurry now to support the real sector with extra hryvnia. And a stagnant credit market is one of the main reasons behind a decline in GDP.

By early 2010, loan interest rates and terms were draconian and demand for borrowed money shriveled to nearly zero. In fact, lending remained alive only in bank flyers. According to Prostobank Consulting, a monitoring company, the real sector could borrow money to add to working capital or buy equipment on the basis of a micro credit at 31% interest in hryvnia and 23% in a hard currency—usually dollars—in 2010. By the end of 2010, these rates had fallen to 20-22% and 13%, but this failed to generate any demand. Businesses had few options to acquire capital to expand, while shrinking consumer lending and mortgaging put a crimp on sales of durables and cars—and nearly killed construction. According to the NBU, the gross added-

Author:
Valentyna
Kuzyk

value (GVA) of construction plunged 30% year-on-year in 2008, and another 40% in 2009.

SO, WHAT WILL THE LENDING MARKET LOOK LIKE IN 2011?

For starters, Ukrainian banks are flush with cash. In August 2010, the balance on correspondent accounts hit a record UAH 34bn, or nearly US \$4.3bn, while in January 2011, the NBU reported that personal deposits had risen to UAH 425.8bn,

more than 30% more than in January 2010. Market participants say they had not expected such a boom in deposits and were forced to cut interest rates by 3-5% over the last year. Still, bankers learned lesson from the crisis and are not rushing to make loans cheaper despite the excess liquidity. They are counting to make money on securities, instead. Meanwhile, Ukrainians, having undergone their own credit hell and seen it happen elsewhere, are not eager to fall into the debt trap again, especially under the conditions being offered. These not only include extremely high interest rates, but terms that allow a lender to change the interest rate unilaterally as a standard contract provision.

So far, the NBU's attempts to stimulate lending to the real sector have had little effect. Over 2008-2009, banks mostly used refinancing provided by the regulator for stabilization purposes, to buy foreign currency. But these cash flows never reached the real sector. In fact, refinancing made it possible to shift external corporate debt to sovereign debt. After some time, the NBU suspended these dubious subsidies but was unable to come up with anything new or more effective. Nor did the Government put together any clear lending priorities, including state-funded programs to subsidize loans.

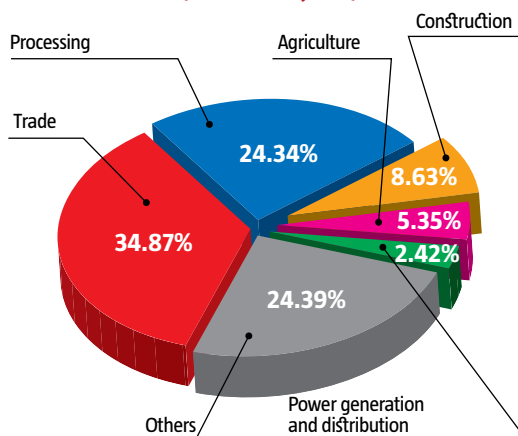
In 2011, bankers promise that lending will intensify, but mostly commercial loans, as personal and consumer loans are considered too risky. "Our loan portfolio will grow largely due to corporate clients," says Oleksiy Salyvon, Deputy COB at VAB Bank. "While mortgages will boost the retail loan portfolio, it will take much longer to pick up pace than car and consumer loans."

Dragon Capital also expects its loan portfolio to grow by 15% in 2011, largely due to a 17% rise in corporate loans. As to retail lending, the decline will slow down

What kinds of loans?

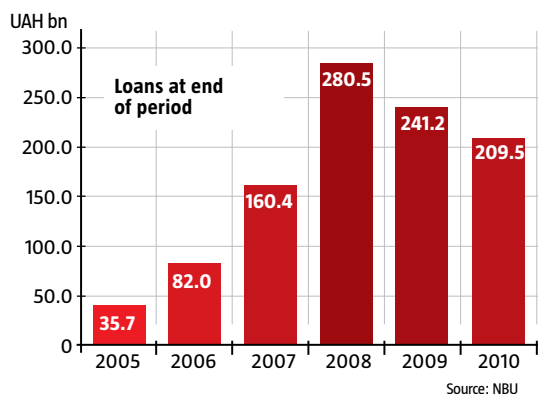
by commercial activity

Total: UAH 500.5bn (end of January 2011)



Debt, the morning after

Personal lending trends



Overdue clients



RODOVID BANK: Between a rock and a panic

Angry clients have come back to Rodovid Bank in long queues demanding their savings back. The panic started after Premier Azarov announced March 11 that personal deposits would be transferred to a state-owned financial institution, while Rodovid Bank would maintain only troubled assets. According to Ukrainiysky Tyzhden sources, nearly UAH 4bn of personal deposits are in limbo in the Bank's accounts. This amount is almost equal to the total loans issued by Rodovid, UAH 4.5bn, of which 70% qualify as troubled. Since Summer 2009, Rodovid Bank has received over UAH 8bn in public money, including UAH 5.6bn to pay out deposits to clients of the troubled Ukrprombank. The panic over Rodovid Bank could have unpleasant repercussions for the entire banking system, although it is groundless. Plans were anyway to return depositors their savings from the State Budget, so transferring accounts to a state-owned bank is changing six of one for half-a-dozen of the other, just as with Ukrprombank. Once again, the Government has been unable to force a bank to meet its liabilities before depositors by tapping into those entities that siphoned off its assets. ■

TOP THREE BANK BANKRUPTCIES Slovianskiy Bank (Zaporizhzhia)

Reasons: In 2000, Borys Feldman, the owner of a bank that was one of the Top Five in Ukraine by capital, ran in trouble with the Government. A criminal case was opened against him and depositors fled the bank. In January 2001 it was shut down. 97% of depositors received compensation worth a total of UAH 3.9mn.

Bank Ukrayina (Kyiv)

Reasons: One of the largest Ukrainian banks claimed UAH 308bn in losses in fiscal year 1998, after companies linked to its managers failed to pay back loans worth over UAH 1bn. The bank was shut down in 2001. Eventually, all deposits over UAH 10 (\$2) or 88% were returned, totalling UAH 32.1mn.

Intercontinentbank (Kyiv)

Reason: Management crisis and change of shareholders when owner died and bank was put on market. Issued unsecured loans to associated entities or backed by promissory notes from shell companies worth UAH 25mn (US \$5mn). Liquidation began in April 2006. Eventually, 97.4% of depositors were paid back a total of UAH 78mn.

over the first six months, analysts say, and lending will pick up again over the second six months, though only 4-5%.

According to market participants, banks have adjusted loan conditions based on their post-crisis experience. "A stable financial position, transparent incomes—and understandable, transparent financial statements from the corporate sector—, and a good track record are the key criteria in deciding whether to lend," says Pavlo Tsetkovskiy, COB at Erste Bank. "The last couple of years have shown that collateral does not always protect a bank from losses if the borrower is unable to pay back, since chances are few that the assets will sell without a loss, especially if a property is foreclosed. The responsibility and financial stability of borrowers have become more important than collateral."

Despite their traditional sanguinity and promises that lending will pick up pace for over a year now, bankers are still reluctant to make loan terms more reasonable. "For instance, personal lending intensified in the Czech Republic when interest rates froze at around 10% annually," says Mr. Tsetkovskiy. "Getting to that point will be difficult in Ukraine, as long as the market offers deposits at 15%."

Other measures needed to revive lending, such as taming inflation, allowing land market to operate properly, protecting lenders,

Loan appeal

Currency: hryvnia;

Term: 5 years

Equipment upgrade
(legal entity)

Ukreximbank	
17.80	from 20
Raiffeisen Bank Aval	
20.39	from 35
Ukrsibbank	
20.79	from 30

Purchase new foreign car
(individuals)

Yuneks	
7.81	from 75
Credobank	
12.99	from 50
OTP Bank	
13.97	from 75

Effective rate; % annual
Downpayment; % of total

Source: Proftobank Consulting as of March 2011

and proper procedures for handling assets used as collateral, are still in the drafting stage. For most financiers, however, global uncertainty about the value of money and the prospects of the virtual economy, as well as the inability to assess the solvency of the real economy, are their biggest headache. Banks themselves have been mothballed. ■

OPINIONS



Natalia Lebedeva

Deputy COB, Kyivska Rus Bank

In 2010, the key requirements for commercial borrowers included good financial performance and a solid business reputation. This year, by contrast, banks will care more about the prospects of the markets where companies operate and analyze their competitive positions and demand for their products. Banks will mostly lend to stable and promising industries, such

as retail trade, especially petroproducts, the farm sector, food industry, pharmaceuticals, and oil industry.

We expect interest rates on loans to fall in 2011 as deposit rates are cut. Today, banks still have expensive deposits in their portfolios that they took on earlier. As soon as expensive capital is replaced by cheaper capital, there will be room to cut interest rates."



Mykhailo Vlasenko COB, Astra Bank

Last year, the cost of borrowing went down significantly. For instance, interest on car loans was 25-27% annually in hryvnia at the beginning of 2010, compared to 16-18% now. Tougher competition and new players on the loans market will push consumer interest rates down an additional 1-3% over 2011. Interest rates cannot decline quickly because of the cost of capital on the market and the risk factor. In 2011, we expect Ukrainian banks to increase their loan portfolios in hryvnia by 20% and cut those in foreign currencies by 10%. The changing structure of the portfolio should lead to modest growth of 2-5%.

With Hammer and Sickle

As global demand for grain surpasses the supply, Ukraine's farm sector is looking at a great opportunity—but only for the chosen few

The latest numbers from the UN Food and Agriculture Organization (FAO) confirm that the Food Price Index of 55 products has been steadily rising for more than eight months now. In January 2011, it had reached 231 points, 3.4% up from December 2010. The grain index hit a peak of 245 points. Over 2010, world prices for wheat skyrocketed 84%, followed by sugar, which surged 55%. These and other disturbing figures spurred talk about a global food crisis—and not without reason (*see charts opposite*).

For instance, the International Grains Council warns that, at 655mn t, global wheat consumption will exceed production, 651mn t, in the 2010/11 marketing year. Rising demand for food coupled with an unstable financial system, a race to devalue among the main currencies, and the growing cost of fuels and other raw materials is creating sky-high risks of a food crisis. Prospects are strong that the combination of global devaluation and restricted emissions of currency could lead to a default crisis in many industries, including agriculture. Given that demand is already outstripping supplies by 4mn t in 2011, what a shrinking production of grain could lead to is fairly clear, using wheat is an indicator.

ECONOMICS AND HOT AIR

Economic theory has already come up with a new term: agflation, meaning the rapid growth of food prices against plummeting supplies as basic inflation remains low and incomes grow nominally for most households. This could lead to a future where growing potatoes will be more profitable than working in an office. Agflation will hit low-income countries and social groups the hardest—those who spend most of their earnings on food.

In Fall 2010, the governments of Kenya, Uganda, Nigeria, Indonesia, and Philippines warned that they might run out of some basic

Author:
Oleksandr
Kramar

40 years

from now,
the world
population will be
9.1bn

**GLOBAL FOOD PRODUCTION
COULD BE DRIVEN BY BRAZIL,
RUSSIA, INDIA, CHINA AND...
UKRAINE**

By 2050,

global food
production
needs to increase

70%

foods in 2011. Robert Zoellick, President of the World Bank, called on global leaders to “put food first” among their priorities and “return to a form of gold standard” to prevent global inflation. Available estimates suggest that food production must go up 70% by 2050 to meet the demand of a population expected to hit 9.1bn by then—70% of it urban, compared to today's 49%.

Among other things, a UN report published at the beginning of June 2010, listed the potential drivers of growing food production for the upcoming decades: Brazil, the Russian Federation, India, China and...Ukraine. Indeed, Ukraine was listed second after Brazil. “We could become part of the global food security program,” Premier Mykola Azarov said at a meeting with Inger Anderson, Vice President of the World Bank. “Ukraine can potentially grow over 100mn t of grain.” So, a global food crisis could turn into a golden opportunity for

a February survey by the Research&Branding Group showed that most Ukrainians expect a global food crisis to hit Ukraine, too: every third respondent is squirreling away staples.

Trends seen in 2010 confirmed that the ruling party, rather than increasing the potential of Ukraine's farm industry, including export capacity, or setting up the necessary conditions for any of this, wants to merge Ukrainian farm industry into the existing raw materials monopolies controlled by homeboys or privileged outsiders (*see previous article*). This offers plenty of space for maneuvering, since Ukrainian and Russian tycoons have shown little interest in agri-business or socio-economic influence over farmland—until now.

The relatively low concentration of production in this sector makes monopolization that much easier. One way is to gain control over two aspects:

pricing policy and sales, primarily exports;

fixed assets and raw materials, including land and fertilizers.

The situation with fertilizers is pretty clear. Most nitrogen companies in Ukraine are already in the hands of Dmytro Firtash and his business empire (*see Ukrainskiy Tyzhden #13*). Control over the sale of foodstuff is now in the home stretch: Cabinet Bill №8053 contains only two amendments—but very critical ones—to the Law “On supporting agriculture in Ukraine.” In fact, they completely change the system for exporting agricultural products. Ukraine will now have a “state exports agent” selected by the Cabinet of Ministers—via a tender no doubt! This agent may be either state-owned or a commercial entity with a state stake, though the size of that stake is not specified. Art. 16 of the Bill basically grants this agent a monopoly over exports. Its only competitors will be growers themselves, but their exports cannot exceed production volumes. What's more, this amendment covers ex- ▶

Ukraine. The catch is whether its Government can foster an environment that can make the most of this glimmering potential.

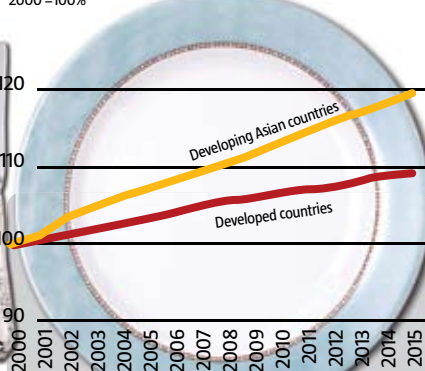
PRACTICE AND REALITY

In its February 18, 2011 issue, *Ukrainskiy Tyzhden* wrote that administrative pressure and a growing tax burden are fuelling agflation in Ukraine. So far, this country, with its huge agricultural potential is not only not making the tiniest effort to take advantage of this under the extremely favorable international situation, Ukraine has proved unable to even stabilize its own domestic food market. For instance, prices were officially frozen, but the result was that buckwheat, for one, disappeared from store shelves. To no one's great surprise,

Demographics and consumption

More people...

Projected world population growth
2000 = 100%

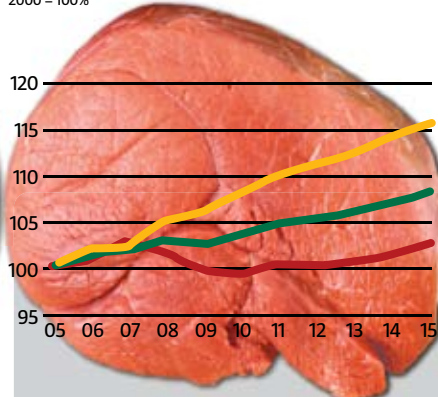


Forecast to 2015 from The Bleyzer Foundation:

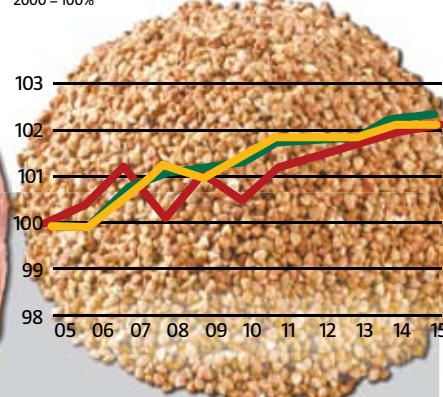
- Major rise in demand for meat in emerging economies
- Growing demand for feed grain with rising meat consumption
- Growing demand for grain with the rising cost of hydrocarbon fuels and growing consumption of biofuels

...More stomachs to feed

Meat consumption per capita
2000 = 100%

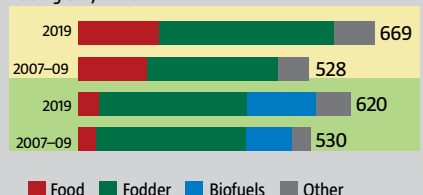


Grain consumption
2000 = 100%

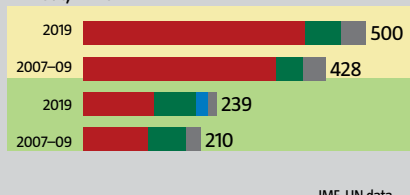


Grain consumption

Feed grain, mn t



Wheat, mn t



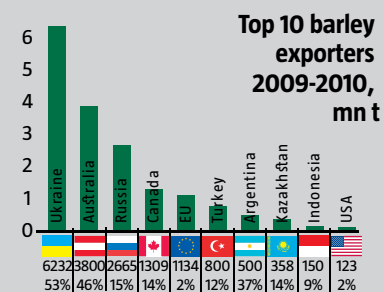
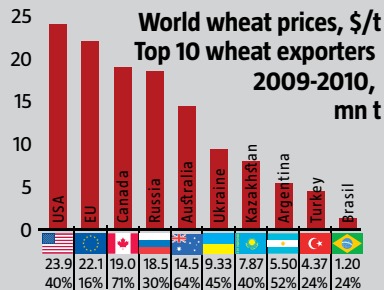
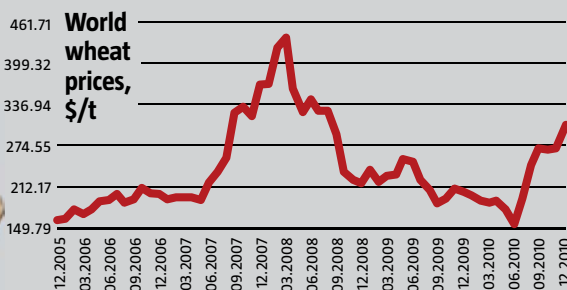
IMF, UN data

Demand outstrips supply

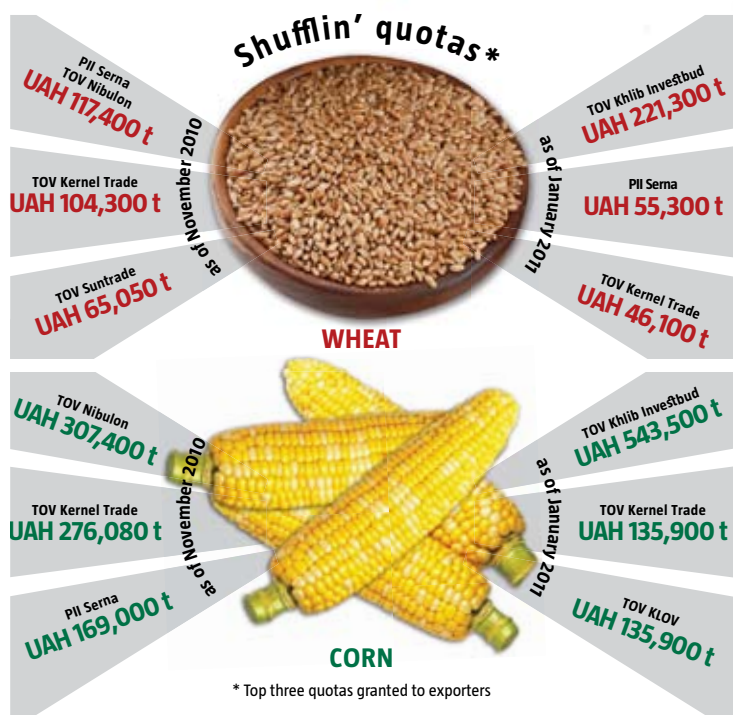
Global wheat production vs consumption, mn t



Prices and positions



IMF data



ports of wheat, rye, barley, powdered milk, butter, buckwheat and sugar—and the Government can add other items to the list as it chooses. Analysts estimate that the prize is control over annual turnover worth UAH 70 billion, or nearly US \$9 billion.

The legislation allowing control over fixed assets including land, firstly, is already drafted. Arts. 19 and 22 of the new Bill “On the land market” establish mechanisms for buying up land from individuals whose farmland is currently being leased for peanuts. If a State Land Fund is established based on a recent initiative, the “privatized” state will get to control all the land in the country that nobody supposedly owns or needs, as well as all the land that the Fund will be able to buy for taxpayer money. Without a proper land market and competition, including foreign investors, the potential of Ukraine’s farm industry cannot be properly developed—especially given the lack of progress in those industries long controlled and exploited by Ukraine’s oligarchs.

WHOSE TOP PRIORITY?

Big Business is most interested in the biggest segment of Ukraine’s farm sector, grains. Over the first six months of 2010, exports in the grain segment were worth US \$1,130mn, almost 5% of the total,

compared to only US \$310mn of exports of dairy products and eggs. In the 2009/10 marketing year, Ukraine was the sixth biggest wheat supplier in the world, shipping 9.33mn t and the biggest exporter of barley, shipping 6.23mn t.

Though official 2010 trading results have not yet been published, it is already clear that the Government changed export policy significantly last year. On October 16, 2010, the Ukrainian Grain Association broke the news that customs officials were blocking ships with grain at all Ukrainian ports. On November 13, Mykola Myrkevych, president of the Association of Farmers and Private Landowners, accused the Government of establishing unjustified exports quotas. He said Ukraine could export up to 16mn t of the 41mn t of grain harvested last year. The UGA estimated the loss to the real sector at UAH 10bn. The government apparently did this to halt inflation on the domestic market and fill its own storehouses with grain at affordable prices. But what does such a policy have in common with promoting Ukraine’s agricultural potential?

The blocking of exports continued even after quotas were distributed among 28 companies on November 12 because the Economy Ministry was holding back licenses. Moreover, the Cabinet cut the timeframe for submitting applica-

tions for 2011 export permits in half—from 15 to 7 days after the announcement of registration. In that time, a company would also need to get a confirmation from the Ministry of Agriculture that there was grain available for export. Meanwhile, the practice of giving higher quotas to select companies, a widespread practice in the past, continues.

What happened last fall has important consequences, as businesses linked to the government monopolize food exports. The new political conditions are undermining old market players, who are having trouble meeting their liabilities before foreign partners. At the end of January, Serhiy Stoyanov, President of the Ukrainian Agrarian Confederation, noted that longtime importers of Ukrainian grain keep asking suppliers for long-term contracts. Everyone remembers how the Government suddenly introduced licensed quotas for exports without any transitional period in October 2010. But are any long-term deals possible under the current regulatory policy? Even an inquiry from the Grain and Feed Trade Association (GAFTA) received no response from Ukrainian officials, who withdrew nearly all representatives of NGOs from the commissions in

THE LOW CONCENTRATION OF FARM PRODUCTION MAKES MONOPOLIZATION THAT MUCH EASIER

charge of distributing grain quotas, making the process even less transparent.

At the end of December 2010, Agriculture Minister Mykola Prysiashniuk announced that the Premier had told him to “effectively cancel” quotas by the beginning of February, but that never happened. Could that be because not all market participants have been corralled under an inside operator yet?

AN UNVARNISHED CONCLUSION

The medium term prospect is this policy will lead, not so much to the development of Ukraine’s agricultural potential, as to an even deeper fusion of Big Business and Big Government, especially in the farm sector. ■

Entrepôt poutine

Russia's premier looms behind Ukraine's biggest grain exporter

Vladimir Putin and his Donetsk favorites have set up something similar to RosUkrEnergo on Ukraine's grain market, giving Russia an in to one of the top five grain exporters in the world.

ROSUKRGRAIN?

Last summer, there was lots of talk about some kind of grain market union between Ukraine and Russia, the idea apparently being that the world was in a food crisis so major players could cash in by dictating world grain prices cartel-style. But the talk proved to be just that. At any rate, no official word ever came of a Ukrainian-Russian grain conglomerate.

Unofficially is another matter altogether. In December, *Ukrainskiy Tyzhden* (#165) published its investigation into how the quasi state-owned grain investment company Khlib Investbud (KIB) had managed to monopolize the Ukrainian market. Although Agriculture Minister Mykola Prysiashniuk has put it out that Khlib Ukrainy, the state grain company, had a 61% stake in KIB, official documents obtained by *Ukrainskiy Tyzhden* showed that the government had no longer controlled what has since become the country's top grain trader since August 2010. *De jure*, the company is run by TOV Kalasar, a firm whose roots are linked to business circles around—Minister Prysiashniuk. *Ukrainskiy Tyzhden* dug deeper and discovered that the threads lead even farther, to Russia.

The 50/50 owners of Kalasar are Oleksandr Kozyriev, who has connections to the Yenakievo business group, and Genetechma Finance Limited, a Cypriot offshore company. Normally, figuring out the owners of Cypriot firms is a tricky business, but these folks are not even trying to hide their traces. Cyprus-based Genetechma is a subsidiary of Luxembourg-based Bellevue Industries Sarl, in turn a subsidiary of VAT VEB-Leasing, a direct subsidiary of Russia's foreign trade bank, Vnesheconombank (VEB) where Vladimir Putin is Chair of the Supervisory Board.

Author:
Yuriy Nikolov

Meanwhile, KIB, a state-owned company according to Yenakievo-born Minister Prysiashniuk, is in fact controlled by a private company in which both Yenakievo businessmen and Mr. Putin's bank own equal shares. At RosUkrEnergo, Ukrainian oligarchs Dmytro Firtash and his partner Ivan Fursin also held 50%, while Gazprom had the other half. Obviously, everyone remembers what this entity, set up by Leonid Kuchma and Vladimir Putin and creatively expanded under President Yushchenko, led to: Gazprom ended up with 100% control over Ukraine's gas reserves. Today, the Kremlin dictates both gas prices and volumes in Kyiv.

WEAVING A FINE VEB

To understand the situation better, let's look at what Mr. Putin's Vnesheconombank really is. Known also as the Russian Development Bank, VEB services the foreign debt Russia inherited from the USSR. Ten years ago, Mr. Putin chose this bank to support structural reforms in Russia as well. Today, it administers the pension savings of all Russians, giving it the richest financial base of all post-soviet countries. Four years ago, Mr. Putin set up the Bank for Development and Foreign Economic Affairs, a state-owned corporation, within Vnesheconombank. Since then, this bank has been Kremlin's main agent in foreign markets.

Vnesheconombank has already shown its expansionist skills in Ukraine. The latest financial crisis started with the failure of Prominvestbank, the former soviet industrial investment bank and one of Ukraine's biggest financial institutions. It was skillfully killed by a raider attack that spread panic among depositors. Vnesheconombank "saved" Prominvestbank by buying 94% of its shares—for peanuts.

Last year, Vnesheconombank serviced a transaction to sell Zaporizhstal, one of the biggest steelworks in Ukraine. VEB was also fingered in the disappearance of Vitaliy Haiduk and Serhiy Taruta from the round-up of Ukrainian tycoons. Just before the White&Blue Administration took over from the Orange one, pro-Tymoshenko businessmen were forced to hand over control of Industrial Union of Donbas to a group of Russian investors. This deal was also financed through VEB.

MAD MONEY

Today, Mr. Putin's bank is finding easy money on the grain market in

Ukraine. Last summer, the state lost control over Khlib Investbud yet chose this company to be the state grain trader. KIB got a contract to buy 5mn t of grain in Ukraine worth UAH 7bn, an average of UAH 1,400/t. Later, the firm got a lion's share of Government-issued grain export quotas. As a result, major grain traders like Nibulon, Kernel Trading and Serna, which had been working in Ukraine for years, were either pushed aside or kicked out of grain business altogether. Moreover, this monopolization of the grain market forced Ukrainian farmers to sell grain to KIB at the prices it dictated, i.e., cheap. Now, the state exporter is selling that same grain at higher prices—domestically. In other words, KIB's practices on Ukraine's domestic grain market are part of the reason why cheap flour disappeared from store shelves and bread prices have begun to rise (see p.26).

Meanwhile, businessmen have enjoyed the taste of victory so much that they are happy to dig deeper into the farmers' stores. In February, the Farm Fund bought three lots of grain from KIB: 769,639,000 t, 895,214,000 t, and 1,030,280,000 t. The government needs to buy at least 2.7mn t to set up the national intervention fund in time. The Ministry of Economy gave the Farm Fund the go-ahead to pay UAH 1.55bn to KIB for just one of these contracts. This means that, regardless of which of the three lots of grain the contract is for, the price will be higher than the initial purchase price of UAH 1,400/t.

Obviously, whoever owns the pocket into which the profits from this deal will go is going to instruct those who administrate Ukraine's grain market when, to whom and how much to sell the grain for. Russia has suspended its own exports of grain until mid-2011, based ostensibly on last year's dry summer of 2010, they say. Ukraine followed suit and also virtually froze grain exports, although the 40mn-t harvest in 2010 was more than enough to feed both Ukraine and other parts of the world.

When two of the world's top exporters suspended shipments of grain, wheat prices began to soar. Bringing grain to world markets at peak prices after buying it for peanuts at home promises windfall profits. It could even bring windfall political dividends, such as gaining control over some country that, for the sake of bread during a global food crisis, will be forced to "give in to peace," as Mr. Putin likes to put it. ■



LANDBAGGERS

Government officials are restricting demand for land, scaring off foreign investors and preparing to grab any patch

Author:
Iryna
Khodorova

In his first anniversary speech as President, Viktor Yanukovich announced that 2011 would be the last year that Ukraine had a land market in which legislation forbade the buying and selling of farmland. The President has kept his promise. Compliant deputies voted to cancel the moratorium on sale of farmland by 2015. According to Mykola Kaliuzhnyi, Deputy Director of the State Agency for Land Resources, the Bill "On the land market" has been approved in the Cabinet and is now going to the Verkhovna Rada. If passed, Ukrainians will finally be allowed to buy and sell farmland.

Experts claim that agribusinesses that currently lease land

for peanuts could benefit the most from this, provided that another fundamental Bill, "On the state land register," is also passed. Due by June 2011, this should make the official procedure for taking ownership of land easier.

INTEREST GROUPS

According to the State Land Committee, 15.91mn ownership certificates for all categories of land have been registered in Ukraine as of January 1, 2011, 15.41mn of them to individuals. Still, analysts claim that some 70 companies control 4.2mn ha of farmland, or 10% of all land in this category. For instance, Myronivskiy Khlipoproduct is exploiting 180,000 ha and Astarta-Kyiv has

166,000 ha. In 2010, 225,000 ha controlled by Illich-Agro merged with Rinat Akhmetov's business empire after the Illich Steelworks was swallowed up.

Under current legislation, leasing fees can be paid in cash, in kind or in services. Official estimates are that nearly 60-70% of leases have been paid in kind over the past few years, mostly in the food grown—grain, vegetables, potatoes and oil—, or in services to landowners, including cleaning roads, plowing gardens, supporting village community centers, schools, social infrastructure, and so on. Experts say some lease contracts contain exotic benefits, such as death care, but those are rare.

PHOTO: UNIAN



Nice as that sounds, in fact, the annual income from an average plot of 4.1 ha is barely UAH 1,000-1,500. Often, landowners not only lease off their land for peanuts, but also work for the tenant.

Today, 60% of leasing contracts are for five years, but people are unlikely get their land back after these expire. Tenants have generally included a right of first refusal (RFR) clause in most contracts with the owners, thus ensuring the necessary basis for buying the land. Under current legislation, a single individual cannot buy over 100ha of land, but this is easy enough to avoid by registering ownership for an associated entity.

FIXING STATUS QUO

The Bill “On the land market” sets up things to legitimate the status quo. Art. 22 entitles tenants or users of land to a right of first refusal on a given parcel of land. Only the State can stand in their way, since it has the same preemptive right according to Para. 4 of this Article: “If several entities express the intention to exercise their right of first refusal...on a farming plot at the offered price, the State, represented by a specially authorized agent, shall be entitled to exercising this right on a priority basis...” This allows officials to actually block the purchase of any land plot quite legally. Some latifundia tenants will likely have “to share” with government officials in the process of getting land ownership, but that’s another story.

Ukraine’s land reform, especially its final stages, is beginning to resemble nothing so much as the voucher privatization of industrial

companies. Back in 1999, when then-President Leonid Kuchma signed a Decree “On emergency measures to spur agricultural reform,” a certificate confirming ownership of a land plot became the key entitling document, identical to a voucher. In practice, though, the government never let landowners use their plots freely: it dragged out actual allocations, cut narrow plots and so on. What’s more, the official allocation was preceded by the Bill “On land leasing” on October 6, 1998, which encouraged widespread leasing of one-time collective farm lands.

Now, a little background: in 1999, 3.7mn ha of farmland were leased, compared to 29mn ha in 2000. The new Land Code implemented January 1, 2002, forced most landowners to lease their allotments: the State listed “improper use of land” as one of the grounds for rescind ownership. It became risky to let land lie idle. Yet, both then and now, some Ukrainians were physically unable to farm. According to

the State Land Committee, 40% of smallholders are pensioners.

Official surveys suggest that one landowner in 10 is willing to sell his allotment. Yet, if the Bill “On Land Market” is enforced, the hope of selling it to any business without RFR could vanish. Firstly, the legislation will require a seller to notify, in writing, the tenant and the appropriate government office of the intention to sell the land and specify the price and other terms. Secondly, any entity that believed its RFR was being violated could sue the seller and demand that the rights and obligations of the seller be transferred. The provision will allow officials to appeal any purchase or sale transaction, including an allotment purchase by a tenant, since the Bill places the State higher than all other buyers of land.

PLAYING WITH NUMBERS

The Bill “On the land market” contains provisions restricting the free sale of land—essentially, free competition. On the contrary, they allow of-

EXPERT OPINION

ON PROTECTION



Andriy Martyn, Board Member, Land Union of Ukraine:

– Ukraine is regaining its role as a leading global food producer and we’re all proud of this. We understand this role will be extremely valuable over the next century. Agricultural holdings are an effective business. They can be sold abroad for a good price. But what’s left in the rural area afterwards? I guess the Anti-Monopoly Committee should have focused on land consolidation a while ago. Officials keep talking about protecting the rural population. But who is there to protect?... 80% of owners in Ukraine who were allocated land are either close to or beyond retirement age.



Leonid Kozachenko, President, Ukrainian Agrarian Confederation:

– Land ownership by foreigners is a touchy issue. Look at Brazil. Brazilian legislation allows foreign companies to own only 49% of arable land. There are many other things we could borrow from them. In 2010, investment in Brazil’s farm sector alone added up to US \$22bn, with only 50mn ha in private ownership and 150mn ha potentially. And what do we have in Ukraine?... 35mn ha of farmland and US \$40mn of investment. Just compare!

officials to abuse their positions and restrain demand for land even further. Moreover, these provisions are likely to knock farmland prices down. There is really no way to determine a fair price for black soil without a civilized market. The Land Union of Ukraine, which includes land allocation organizations, farmland assessors and farmers, claims that land prices today mean the cost of a lease traded by companies that buy and sell tenant firms. "One hectare of fertile land in a good location costs around US \$200-600," says

LUU President Andriy Koshyl. "This

price covers livestock, premises and all other items on the balance sheet. But it's still only rent."

In fact, the only benchmark is the minimum value set by the State Agency for Land Resources. In 2010, the Agency assessed one hectare of black soil at UAH 12,000, with plans to raise this to UAH 25,000 in 2011, or over US \$3,000. Assessors claim this price is tentative, as some allotment are more expensive, for instance, if they are close to big cities, while barren land would be cheaper. Using the official value as a starting point, a parcel of 3,000 ha will cost UAH 75mn. Ukrainian farmers are unlikely to enjoy this kind of money from their turnover.

Moreover, tactically, renting land is more practical than buying it. "Lease contracts are already in place," says a top manager of a large Eastern Ukrainian farm holding. "Our lawyers are working to extend them." But owning land is strategically important for farming businesses. "Nobody will invest much in farming without being able to own the land," says Mykola Vernytskyi, Director of Proagro, a farming consultancy. "One day, a landowner might say to his investor: I've found a different tenant. The average lease is five years, and in this kind of short term, tenants simply deplete the soil." Owning land allows farmers to use it as collateral for a loan, increase capitalization—and use farming methods that are less destructive.

Official restrictions on foreign buyers reduce competition on the land market. "We have made sure that only Ukrainian citizens, and the Fund of State-Owned Land we're about to set up, will be eligible to

privatize farmland," says the Land Resource Agency's Kaliuzhnyi, making no bones about their investment priorities. "Foreigners will be required to put their allotments up for auction within a year. For those who don't, the Bill allows for expropriation." The one loophole that will remain is that foreigners can still set up joint ventures.

In short, lifting the moratorium will hardly improve the well-being of rural households. Analysts say that land will sell well only near Kyiv and other major cities, where land prices plummeted 10 or sometimes 100 times since Fall 2008 after banks stopped handing out mortgages. Interest in land could change the category to construction for logistics cen-

THE BILL "ON THE LAND MARKET" ESSENTIALLY SETS UP THE LEGAL CONDITIONS FOR ENTRENCHING STATUS QUO

ters, cottages and so on. Big agribusiness is not interested in allotments of 2-4 ha—an indication of how little Big Business thinks of the real landowners. This attitude, in turn, comes from legislation allowing thousands of hectares to be leased from rural owners for peanuts today while also allowing the lessee to snap it up wholesale, supervised by those same officials who are in charge of the land. Letting foreign players into Ukraine's market, even just formally, could encourage domestic tycoons, to not only respect someone's right of ownership, but also pay a more appropriate price for the land. Moreover, there are plenty of international mechanisms to prevent abuse by non-resident owners. ■

Ukraine's Land Fund

Total area

60,354,800 hectares

Forests and forested areas

10,591,900 hectares
17.6%

Residential

384,500 hectares
0.6%

Built-up territory

2,499,100 hectares
4.1%

Industrial

222,000 hectares
0.4%

Farmland

42,813,700 hectares
71%

Other

2,026,600
hectares
3.3%

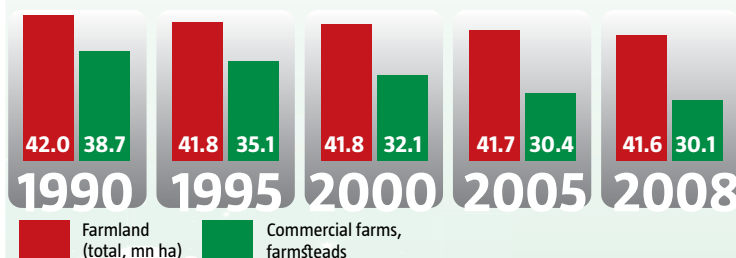
Water

2,423,500
hectares
4.0%

Data from
State Land Cadaster
Department

Disappearing land

■ The total area of farmland is shrinking, especially chornozem that is being used for farming. In 1990, 38.7mn ha of land was used for commercial farming purposes, that is, 92% of all farmland. By 2008, these numbers had fallen to 30.1mn hectares and 72.3%.

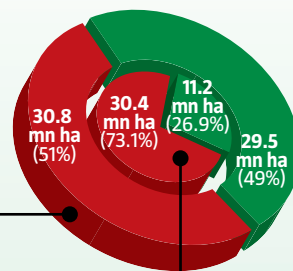


Data from National Institute of Strategic Studies

Land ownership

- general territory
- farming territory

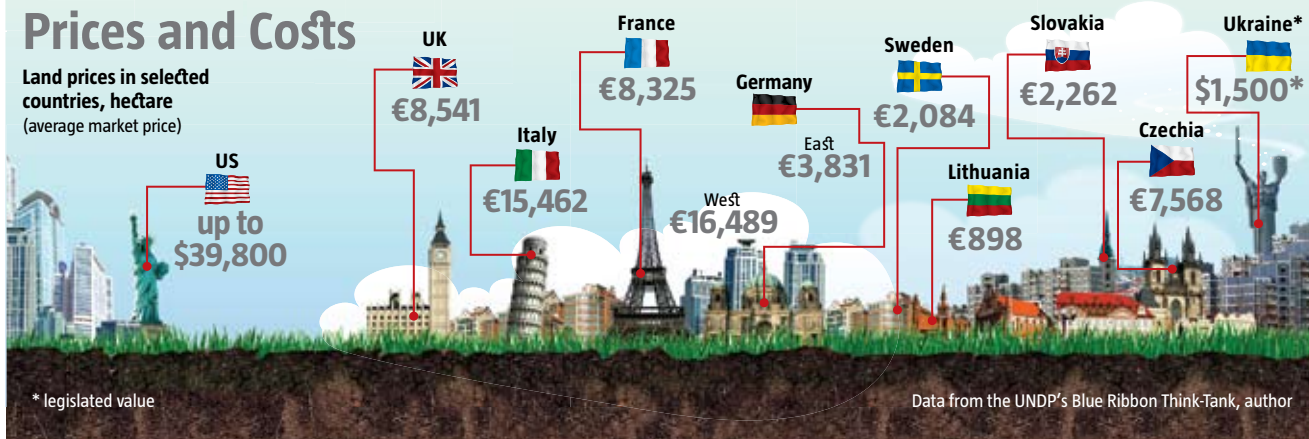
Legend: State-owned - Green; privately-owned - Red.



Data from State Land Resources Agency

Prices and Costs

Land prices in selected countries, hectare (average market price)



Data from the UNDP's Blue Ribbon Think-Tank, author

Big Time Game

Most of Ukraine's territory is hunting country—the best of it already bagged by various calibers of politicians and bureaucrats

Author:
Bohdan Butkevych

Nearly 80% of Ukraine's territory, 46.5mn ha of a total 60.3mn ha, qualifies as hunting ground. By law, it cannot be sold into private hands, only leased. That hasn't stopped Ukraine's rich and powerful from grabbing the best holdings, where they can satisfy their appetite for killing.

KEEP OUT! (THIS MEANS YOU)

The hunting grounds of one official whose family is from Donetsk span 8,500 hectares along the left bank of the Kyiv Sea. Our guide is the local ranger, Anton, driving a Niva service car. Around us are tall pines and stillness. The dirt road we drive along ends near a huge fence, the height of three or four men. When we get to the gate, a burly man in camouflage silently opens it for us.

This side of the fence, the woods are much denser than outside, a real thicket. "Our master likes everything, as he puts it, intact, both women and nature," Anton explains without a smile. "So, we're running this little 'taiga' here for him. He bought the land and dreamed of bringing in bears. Wasn't easy to convince him not to do that. He loves shooting elk, so we bring new animals in every two years. And he never comes alone, always with companions. They aren't so much hunters, it's more that they like to get drunk and shoot a lot. When they get too crazy, they start banging away at everything in sight. We often have to buy more game, especially boars."

According to Anton, the owner spends UAH 10nm a year on his hunting grounds. That

covers everything, from animals to equipment. This winter animals ate nearly 400 t of grain. The rangers are paid UAH 4,500 every month when on duty which lasts three months without leaving the area.

We pull over to the guesthouse for the owner and his companions. "Sorry, we can't go in, the staff could give us away," the ranger says. "But believe me, it's very hot. First time I ever saw a real marble toilet. Honestly, I don't understand what this is all for. They do all their drinking and hanging out in the forest and sauna anyway."

Another ranger, Pavlo, gets into the car. "I've been working here since the 90s with breaks, before the land became private. In 2006, our boss finally got his hands on this property, which he had been crazy about for some time. Rumors have it that he paid US \$180,000, not including a few 'gifts' for county council deputies."

We drive on. Where there is no fence, the woods are so thick a car can't get through. Some of the forest trails we cross are dug up and menacing spikes stick out of the sand. "These aren't meant for poachers," Pavlo explains. "Those guys aren't that stupid. They know what happens to anyone who tries to shoot something here. One guy had all his ribs broken and they took his shotgun, too, without any warrants. The paths are blocked mostly against mushroom pickers and picnickers. They need to understand that this is private property and they're not welcome."

I ask where the animals are and why we haven't seen any wildlife. "Last time the master was here, he shot an awful lot of game," Anton says. "The animals have been hiding ever since. But it's not as violent here as at Shentsev's place. It's a bloody war every season on his 50,000 hectares. I worked there for several seasons and I saw the barbarism."



SCULPTURE: ANDRIY ZHURA

POACHING WITH DIGNITY

The state-owned Kaharlytske hunting preserve is next to Kaharlyk in southern Kyiv Oblast. We meet Director Oleksiy Isayev, who takes us to a pretty wooden cabin. It doesn't look flashy, but it's rich in hunting trophies. "I killed this boar myself," Oleksiy says proudly. "It was that big because we bred it properly: we let it grow big enough to become an interesting prey. And we always try to arrange hunting so that only the right kind of game gets killed."

"Mykola Rudkovskiy owns the land next to ours," our ranger says, pointing outside. "Compared to many others, they run their grounds properly. They organize big shooting parties and civilized hunts. But most privately-owned preserves are beyond control. The owners can do whatever they want, shoot anything, anytime."

We notice a herd of roes off to our left. "29, 30, 35," Isayev and the ranger count. "They're running too fast, something must have scared them." The ranger looks carefully at the horizon and points to some bushes. We see a car moving and in no time we pull up next to it. A couple of healthy-looking fellows in camouflage, with weather-beaten faces and sharp eyes are fussing around the white Zhyguli. But they've only got brush in their hands. The men and the rangers look at each other in a challenging manner. They do look like ordinary poachers and the director recognized one as we pulled closer: a local jacklighter Isayev has caught red-handed several times. But right now, there's nothing to blame them for: no dead game, no weapons.

"Actually, the real problem is not the locals who hunt for meat," the ranger admits. "It's the high-flying poachers on quads, SUVs and even hang-gliders. They cause three times more damage than any villager with his shotgun. One of these dudes told me once that hunting was more fun, not just shooting where you weren't supposed to, but being chased down. So what do we do with him, even if we catch him? Fine him UAH 1,000?"

SHARING THE PIE

Hunting areas include forests, farmland and wetlands. According to official data from the State Agency for Forest Resources, known until recently as the State Forestry Committee, 31.85mn ha of hunting ground are distributed among 382 organizations of the Ukrainian Society of Hunters and Fishers; 818,000 ha are used by 25 preserves of the Society of Military Hunters and Fishers; another 8.2mn ha are exploited by other users, such as hunting clubs, organizations, associations, including 229 privately-owned companies; and 5.6mn ha are rented by 213 branches of the State Forestry Committee.

MONEY TALKS FOR PAPER OWNERS

"The hunting system in Ukraine has been adapted to the rich—those who prefer to do their shooting beyond others' eyes and rules," says Serhiy Lipynskiy,² a former official of the State Forestry Committee. "Decision-makers aren't bothered by the fact that this is ruining the hunting environment, that wildlife is disappearing, and the country is being turned into feudal state." Experts, industry employees and hunters surveyed by *Ukrainskiy Tyzhden* unanimously stated that not a single hunting preserve has been leased fairly in the years of independence.

"You won't find a clearly described procedure for leasing such grounds anywhere," explains Stanislav Synchuk, Editor-in-Chief of Hunting and Fishing magazine, "because nobody wants clarity in this situation. The law requires all users to pay contributions to a special state fund for the right to use the land. But I don't remember anyone ever doing that and I'm sure no one ever will. The rich don't want to part with their money."

Nearly all hunting grounds in Ukraine are effectively privately-owned, even though they are still officially state-owned because the law does not allow ownership to be registered on such land. An organization called the Ukrainian Society of Hunters and Fishers has been the main user of hunting grounds since soviet times. Officially, 382 regional organizations of the USHF own 31.85mn ha. This is almost 70% of the total hunting area. In private conversations, employees of the State Agency for Forest Resources themselves admit that the hunting business is unprofitable in Ukraine. The government invests nothing in it, so in theory it should be interested in handing the lands over to an effective operator. In practice, however, kleptocrats and government hangers-on have grabbed the best bits—and no one really cares about the rest.

"The Society stopped being a public organization a long time ago, although it remains so on paper," says Synchuk. "It's similar to a kolhosp, a



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PHOTO: UNIAN

collective farm. Officially, it's unprofitable but, in fact, organizations like that make money hand over fist. Most hunting grounds in Ukraine have been abandoned and 95% of the time are only managed on paper."

Synchuk describes a standard scheme to actually transfer land into private hands: the Society starts running a preserve jointly with some entity whose member of the Board of Directors or Supervisory Board will eventually become the owner. Eventually, nobody but the co-administrator will be able to set foot on the territory. "You find out who is the fixer at the local hunting office and talk to this person—with the right amount of cash in your hands," says Synchuk. "But you need personal references or a high position. Money alone won't do the trick."

"A few years ago I worked for the State Forestry Committee in Chernihiv Oblast," says Serhiy Lipynskiy. "One day, the deputy administrator of the local tax office—let's call him Ivan—comes and says that they want to register the preserve in their names—11,000 hectares at US \$15,000 a hectare. Later, Ivan meets with my bosses at a sauna, where he brings a suitcaseful of cash. Two months later, the Oblast Council Resolution passes a resolution to lease the land. 60% of that bribe goes to the State Forestry administration, while the rest is distributed among the other institutions involved. The only good thing I can say about this former tax official is that he really keeps the preserve in a more-or-less proper state: he's hired more rangers and brought in game several times. But no one's allowed in there."

TROPHIES FOR SHOW. Oleksandr Volkov, ex-advisor to President Kuchma, and one of the few high-ranking hunters who doesn't hide his passion for big-time game



And this scheme is used everywhere."

Ukrainskiy Tyzhden sent an inquiry to the Society of Hunters and Fishers, with no luck. The door was locked at both regional departments of the Society when our reporters visited and nobody would talk to the journalists from the main office at vul. Honchara in Kyiv.

THE PRICE OF POACHED LAND

Ukrainskiy Tyzhden sources say that the price for the use of 1,000 ha of hunting ground starts at US \$30,000. Rumors have it that a reserve along the Kyiv Sea recently went for US \$80,000/ha. The requirements are that the minimum hunting preserve should be 3,000 ha, while the average is at least 5,000 ha. Simple math shows that a good preserve will cost at least US

HIGH-PROFILE HUNTERS

The most famous owners of hunting preserves

VIKTOR YANUKOVYCH
President of Ukraine



Dniprovsko-Teterivske forest and hunting preserve, Kyiv Oblast. 30,400 ha.

OLEKSANDR VOLKOV
Former VR Deputy



Poltava Oblast, in the Sula-Dnipro delta. Area unknown

DMYTRO SHENTSEV
VR Deputy (PR)



Hai hunting reserve, Kharkiv Oblast. 17,500-50,000 ha.

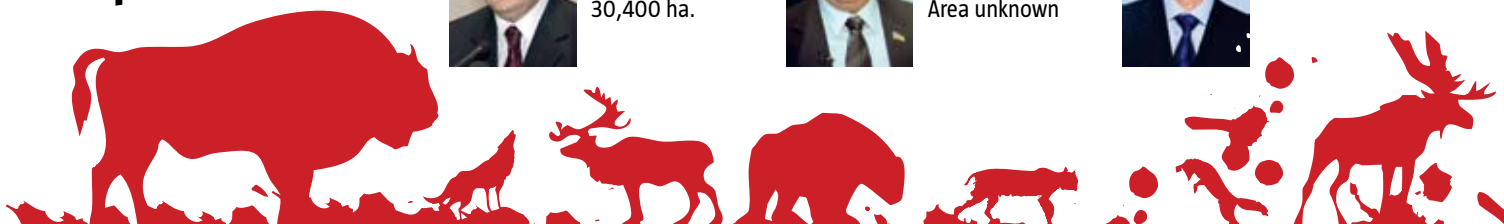
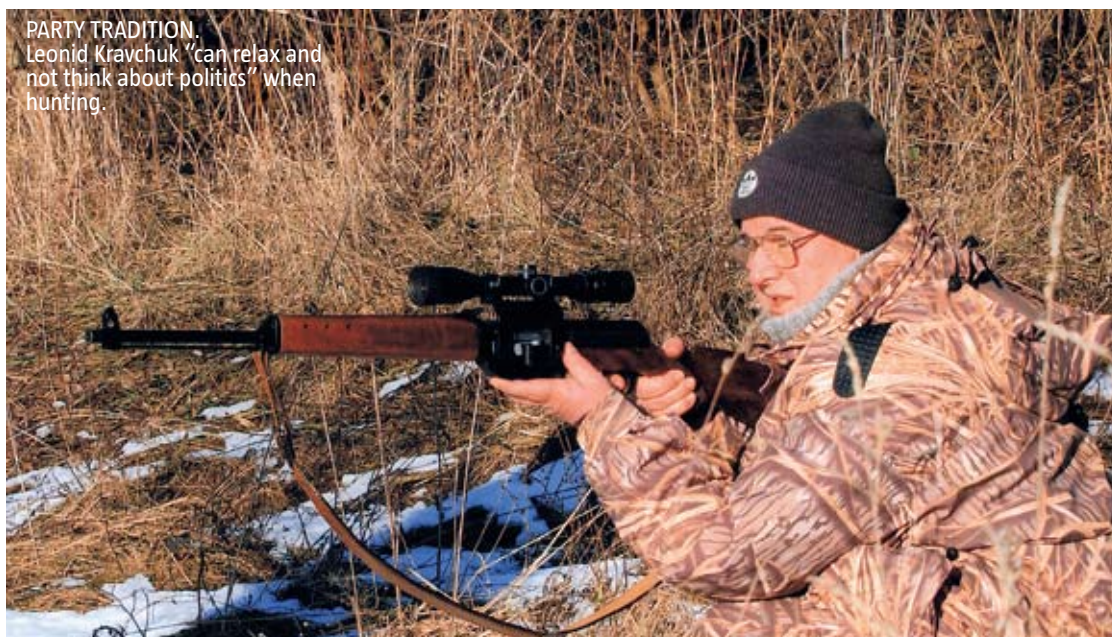




PHOTO: UNIAN

PARTY TRADITION. Leonid Kravchuk "can relax and not think about politics" when hunting.



A FATAL PASSION. Yevhen Kushnariov, one-time PR Deputy, and head of the 2006 PR election team. Killed while hunting at Dmytro Shentsev's preserve.

\$250,000. The land is actually considered sold for this money, even though officially it's only been leased for temporary use. Once the bribe is paid, the owner only has to come and pick up the ready documents.

"It's a status thing for the rich, for deputies, for governors and prosecutors," says ecologist Volodymyr Boreyko. "A private hunting preserve is a 'must,' just like a dacha by the Dnipro, a dacha in Crimea, a sauna, a mistress, and an SUV. At one point, Ihor Bakai actually rented Trakhtemyriv Island and arranged a hunting preserve there.

"Leonid Kravchuk, too, was allowed to use a state-owned preserve in Chernihiv Oblast jointly with Viktor Medvedchuk," Boreyko continues. "He later turned it into a society for nature lovers. Then there's Mr. Shentsev with his private 50,000 ha of hunting ground, the place where

Kushnariov was murdered. And, of course, the President and his Sukholuchchia, Mykola Rudkovskiy, Nestor Shufrych, and Viktor Lozinskiy. Name anyone and they all have at least a tiny piece of their own land for hunting."

Synchuk notes, "The most expensive hunting grounds are close to Kyiv, of course, especially between the Dnipro and Desna rivers. Most private territories are in Kyiv and Chernihiv Oblasts, where there are fantastic woods close to the capital. There are good preserves in Crimea, too, but there are few private preserves in the West. It's too far, only for real hunters. Our elite hunts mostly boar and deer."

The worst thing about all this is that people who want to start a hunting business in Ukraine have no chance. "I'm a hunter myself and we always go to this one reserve

with friends," says Lipynskiy. "We buy birds for our own money to hunt them later. It costs us UAH 9-10,000 annually. A year ago, we decided to take on this land to arrange a hunting spot and sell hunting licenses for it. Our minimum estimates were that we would have to spend at least UAH 500,000 a year to support the preserve. This doesn't include the bribe we would have to pay officials to get all the necessary permits and be sure that the oblast council will allocate this land to us. We weighed all the pros and cons and realized that it would take us at least 100 years to make back all our costs. Naturally, we gave up on the idea." ■

¹ Dmytro Shentsev (PR) owns the game preserve where one-time Governor of Kharkiv Oblast Yevhen Kushnariov (PR) was killed in 2006 while hunting.

² Name changed at the request of the source.

³ Confiscated by court decision.

MYKOLA RUDKOVSKIY
Former Transport Minister



TOV Oksamyty Service, Kaharlyk County, Kyiv Oblast. 35,000 ha.

IHOR BAKAI
Former Chair of State Affairs Administration



ZAT Trakhtemyriv on the Kyiv-Chernihiv border. 11,000 ha.

NESTOR SHUFRYCH
Former Emergencies Minister



Kreminka hunting reserve, Zakarpattia. 30,000 ha.

VIKTOR LOZINSKIY
Former VR Deputy



Holovanivske hunting reserve, Kirovohrad Oblast. 26,400 ha¹

Open source information



ECO Eats

Growing demand for organic food in Ukraine is encouraging farmers to quit chemicals

Author:
Inna
Zavhorodnia

"Eco," "bio," "organic"... the growers of produce and other foods in Ukraine have plenty of names for their products. So far, they have been fairly free in this business, since the Bill "On organic production" has only gone through first reading. "Normally, organic farmers are inspected twice a year and certificates are issued on that basis," says Andriy Koniashyn, Executive Director of the Organic Movement Federation of Ukraine. "It's not just the product that undergoes certification, but the entire production cycle. That's how you get 'products with a face' and it makes it possible to track all stages of production, from the origin of the seeds to the end product in the hands of consumers."

THE FAMILY SECRET

Byron Agro, a farm in Stovpiah, Kyiv Oblast, grew out of the need to feed the owner's own family. "My cousin had a baby and she needed milk," Director Yuriy Serheyev says. "That's how it all began. We now have around 40 calves, 64 goats, 87 sheep, and 18 cows," says Viktor Velhan, the farm's manager and livestock expert. "The animals are kept in these corrals when it's warm outside. We own several hectares of land and lease more from the village, including nearly 20 allotments from local residents. It's just enough to feed our livestock."

Kyiv-born Serheyev, now 32, started his eco business after training in the UK. "I have two degrees, in marketing and economy," says Serheyev. "I wasn't into farming at all first, but now I'm learning through doing. My mother helped me with the start-up capital. I'm hoping to break even in about five years, but right now I'm investing all I get into the farm."

The farm is marketing its products as ecologically pure. "We don't use any mineral fertilizers or chemi-

cals. We hoe, water and cultivate our vegetables. We use milk and another organic mixture, against the Colorado beetle. Our cows have natural food from spring to fall," Velhan says, pointing to the land around the farm. "We feed them with hay and meal feed, grits, offal, oatmeal and barley. No chemicals. If they get sick, we boil linseed and St. John's Wort, or feed them calcium carbonate and salt. We expect to get 7-8,000 t of milk every year."

Velhan goes on: "We don't spray our pears or apples. We use worm-eaten ones to make compote for the staff. That's our secret: farming grandfather-style." To revive livestock breeding and bring back the long-forgotten taste of real food, he uses a manual from 1960. "Nothing better's been written yet."

The farm produces foods for the family first and the rest gets sold. "Some people ask us to deliver one liter of milk to Kyiv," Serheyev says. "In fact, clients line up for our milk. When we run out of it, people start calling and saying, 'Do you realize our children are hungry?'"

LEFTOVERS OF COLLECTIVIZATION

Stovpiah doesn't quite see things the same way. "We have different goals: we work and they're bothered," Velhan kids. At the beginning of the village, we pass the ruins of the Mayak kolhosp or collective farm. Once, it kept up to 7,000 animals and grew vegetables. Now, there's not a single animal left. Starting a business on a ruin wasn't easy.

"Last winter, we had unfinished premises and not enough fodder," Serheyev recalls. "We bought the kolhosp cowshed built in 1957 and are fixing it up. But the old director is a real dog-in-the-manger. Not long ago, he cut off our power, so we now have a small war going. The hay sheds are empty, so are the silos. We haven't got round to that yet. We asked him if he wanted us to pay rent. He said no.



Workers are another big issue. Ukrainians have somewhat lost the habit of work. Horilka is also a problem. Every salary or advance is like a natural disaster."

STUDYING THE SWISS

Byron Agro is in no rush to certify its products until new laws are passed. With no certification, consumers who prefer organic food have to trust the farmer. As the organic movement evolves and moves to larger markets, quality standards and control become inevitable. Today, Ukraine has nearly 15 accredited certifying organizations—and only one of them is Ukrainian.

Getting certified as an organic producer starts with a two-year transfer period. Viktor Melnyk's farm grows organic vegetables in Holubivka, Vinnytsia Oblast, and has gone through this. Melnyk started his business after a trip to Switzerland, where he worked at a biody-

Organic food prices in Ukraine:

- 1 l milk – UAH 18-25
- 1 kg butter – UAH 164-375
- 1 kg potatoes – UAH 10
- 10 eggs – UAH 25
- 1 kg minced meat – UAH 85
- 1 kg goat cheese – UAH 210



PHOTO: HRYPORIY KONSTANTYNOV

namic farm in 1996-1998. "Switzerland actively supports organic production," he says. "Bio farmers are paid CHF 800-900 for every hectare."

Melnyk now grows 30 ha of carrots, potatoes, beets and various grains for markets in large cities, like Kyiv, Odesa, Dnipropetrovsk. "Selling the product is key," he explains. "The first steps were difficult. Our food costs 30-40% more than average. The Swiss still help me and I call them whenever I have questions."

A GROWING ENTERPRISE

Pavlo Tizesh from Botar, Vynohradiv County, Zakarpattia, has been exporting organic products to the EU for five years now. "We live by the border," Tizesh says. "I took courses in Hungary and now we export juices, jams and syrups to Hungary and Austria. Inspectors actually come from Budapest." Three years ago, Tizesh looked closer at the do-

mestic market where his product is getting more and more popular. "We already have loyal clients in Zakarpattia, especially for meat."

Yevhen Boyko has been in organic farming since 2004. In 2007, he and his Swiss-born partner Rainer Sachs founded TOV Zhyva Zemlia Potutoryi in Ternopil Oblast. "In addition to crops, we bought cattle to produce organic milk," Boyko says. "Manuel and Eva-Maria, a couple from Switzerland, run our livestock operation. Their hard work and professionalism help us produce the best milk. Initially, they planned to work here for 10 years and maybe even stay on. But Western Europeans have a hard time understanding some of the nuances, especially our bureaucracy."

After two years, the Swiss are going home. "I'm now hiring a guy from Austria," Boyko says. "Graduates from Ukrainian universities don't have the same practical experi-

ence as people in the West. A Westerner can take on some portion of the work immediately; they are more responsible, motivated and performance-oriented. Ukrainian specialists have either migrated or work for other farms." So far, Ukraine has just a few institutions with programs for eco-farming, so Potutoryi plans to set up a training platform to improve farmers' qualifications.

The OMFU says the domestic market for organic products has doubled since last year, though it still remains modest. Ukrainians either don't think about what they actually eat or are not ready to pay more for healthy food. Farmers often ignore expensive certification while claiming that their products are organic. Rural folks also call their products organic to tempt customers at local markets. Unfortunately, this does not mean that they aren't spraying their potatoes or apples. ■

Ukraine's organic food market is worth

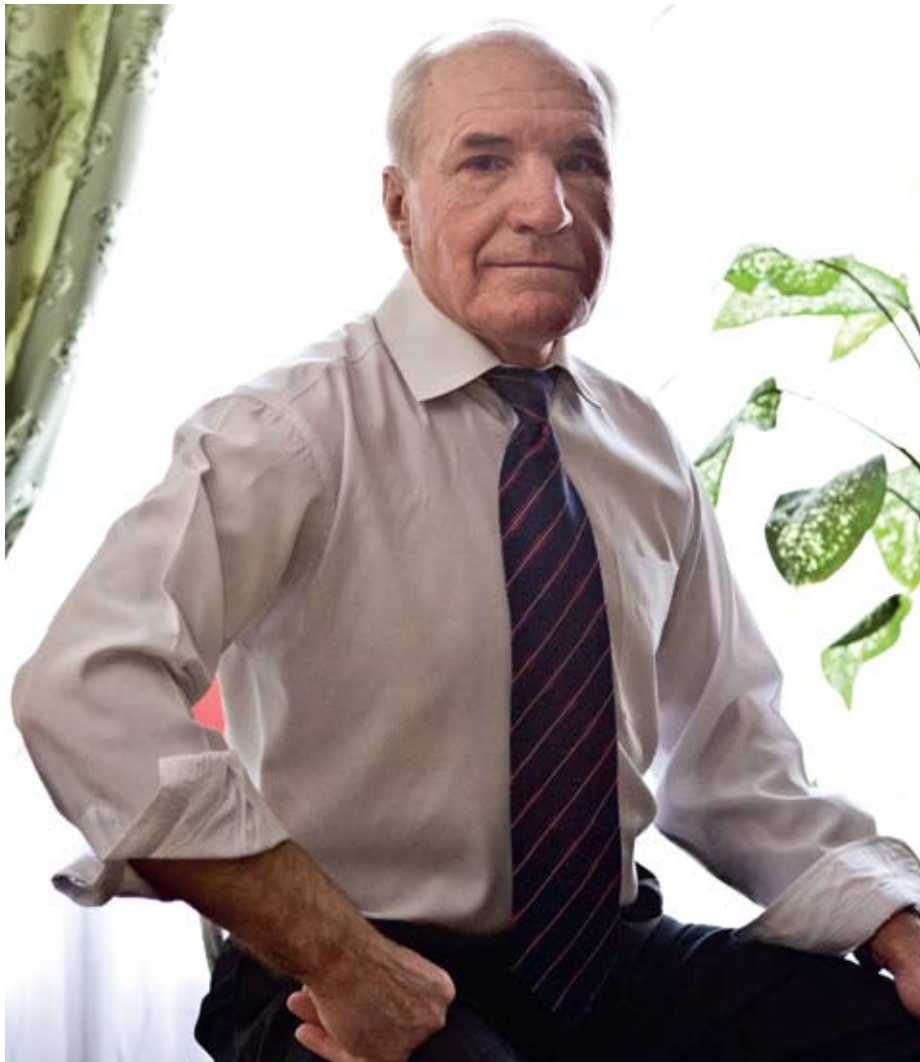
EUR 4.8mn

In Ukraine, a total of nearly
270,000
ha of organic farmland, spread among
121
farms

(Source: Federation of Organic Movement of Ukraine)

Protest under the Kremlin

Dissident Valeriy Kravchenko got into the anti-communist movement at Arsenal, a showcase soviet plant



Authors:
Ihor
Petrenko,
Alisa Lipolz

Photo:
Andriy
Lomakin

Moscow, late 1980. Before the Summer Olympics, the soviet capital was purged of undesirables: bums, hookers, black marketeers... That December 5, the city's well-fed militia were not working too hard on duty near Spasskaya Bashnia, the Kremlin's famous clock tower. It was snowing. Suddenly, one of them noticed a strange man carrying his coat on one shoulder. Why would someone walk around with his coat unbuttoned in the middle of winter?

A young tool-and-die maker from Kyiv's Arsenal plant, stood in front of

the wall. He took his coat off and defiantly cut his arm with something sharp. Red drops fell on Red Square and on the white snow. Valeriy Kravchenko then pulled out a poster on hooks that he had made, unfolded it and hung it up. The guards scrambled from their post and rushed to the protester. Bewildered tourists walking by the Cathedral of Vasily Blazhenniy read, "L.I. Brezhnev, you want my blood? Come and drink it, you bloodsucker!" But the lone man disappeared quickly, arms twisted by the militia and dragged to a small lock-up in the tower's basement.

Kravchenko recalls the episode: "They took a statement about why I did so. I told them about the persecution of dissidents and discrimination in the Soviet Union. I mentioned human rights: 'Why do you shut everyone's mouths?' I asked them. 'Your press shows just one side of life!' They listened to me and then took me for a psychiatric examination."

COLD DESPAIR

Any active protest can look like insanity at first glance. "When you go for a fair cause, it's such an adrenaline rush!" Kravchenko jokes. Of course, he knew he would run into trouble. He may have felt despair, but he moved to the Kremlin in sound mind. "Back in Kyiv I made a stainless shank – a small one, so that the police would not incriminate me for carrying a weapon. I polished it, put it in boiling water to kill bacteria, and wrapped it in sterile plastic. Then I took two days' family leave, bought a train ticket and arrived in Moscow next morning."

Meanwhile, his wife was four months pregnant with their second baby. She had no idea of her husband's plans.

Kravchenko is a common last name. His both parents were Ukrainians but Valeriy was born and raised in Uzbekistan. Later, he served in the soviet army in Ukraine, near L'viv, and decided to stay in his parents' homeland. He got a job as a tool-and-die maker at a local plant and joined the Communist Party there. Eventually, he married.

Valeriy Kravchenko soon saw how different soviet reality was from its official image. Minor details irritated him: food and clothes had to be bought through connections. More important issues remained unresolved, too. One of them, the "free housing" promised in the Party's platform, was receding into the very distant future, like communism, even for the families of Arsenal workers. Social interactions seemed twisted and distorted to the point of absurdity. Kravchenko criticized the situation among some colleagues: "Take it

easy! Don't wreck your life," was their response.

In 1971, Kravchenko wrote a letter to Leonid Brezhnev criticizing the Party's domestic policy and announcing that he would leave the Party.

THE ECONOMY OF LIES

It was still nine years until the march on the Kremlin. Giving up a Party card was a radical but growing phenomenon among the working class. While an army of bureaucrats lined up to get "partified" and enjoy their proletarian privileges, workers had to be dragged into the Communist Party to at least somewhat validate its claim to being the "avant-garde of the proletariat."

Work at Arsenal was getting more and more unbearable: the management kept bothering the workers with all kinds of complaints. Meanwhile, as if some spontaneous conspiracy, workers began to discuss important, even obvious ideas about the prospects for a second party beside the CP, freedom of speech and association, competition among producers, and the drawbacks of socialism that everybody could see. Injustice angered, but opportunities to speak out were few.

The last straw, says Valeriy Kravchenko, was an incident with Oleksandr Riezvanov, another tool-and-die maker.

After its XXIV Congress, the Party ordered the entire soviet industry to "increase output by 36-40%," although no country in the world has ever managed to achieve this kind of skyrocketing growth. Clearly, the limping economy of "developed socialism" as Brezhnev proudly called it, was also unable to do this. But local officials, worried about their positions, began to add, overstate and twist numbers in reports to not admit the complete failure of the Party's ambitious goal.

One of the many falsifications was allocating salaries to employees, regardless of the volume or quality of what they produced. The lucky Arsenal worker would then share the extra 30-35 rubles with his foreman. Thus did over-reporting beget corruption.

Oleksandr Riezvanov, the Arsenal tool-and-die maker, spoke against this practice publicly: he said this was ruining the link between wages and work. Party officials began to harass the worker, calling him a "defamer" for his criticism. They took his photo off the leader board. Despite his

"Master with Golden Hands" title and excellent qualifications, his wages kept getting cut. Effectively, the managers made him look like a good for nothing lazybones.

"Back then, everyone in the workshop talked about what they were doing to Riezvanov. And the nature of over-reporting and other things like that began to bug me more and more. Eventually, life convinced me that the system was flawed and that protesting was the matter of conscience." Not long afterward, Valeriy Kravchenko stood in front of the Kremlin with the shank and his poster...

IN THE PSYCH WARD

After a psychiatrist in Moscow examined him, Kravchenko was allowed to return to Kyiv, to the Arsenal plant. Maybe this protest did work and something would change for the better? He had seen on TV how workers protested in the US and Italy. Instead: "A few days later, my house was searched. They took my briefcase and glued a stamped paper on it. An investigator took my statement. And then he showed me the prosecutor's order for a psycho-neurological examination." Kravchenko was taken to the Pavlova Psychiatric Hospital.

"They gave me a shot... I was in the observation ward of Investigation Department №13, which was for people who had committed crimes and were being checked for insanity. The ward was different from a normal one, with strong window bars. They kept me there all the time as if I was already jailed. One day, some of the real criminals told me another political prisoner had arrived." This was how Kravchenko met Mykola Polishchuk from Bila Tserkva, Kyiv Oblast.

"I came up to Polishchuk and greeted him in Russian. He invited me to sit down and said 'How did it happen that your own mother has turned into a stepmother for you?' I asked him to repeat it again. I'd heard him well enough, but didn't get it. He explained, 'You have our name, a Ukrainian last name, but speak a foreign language.' It was his second time in there, opposing forced russification. As I talked to Mykola, I must admit, I began to think I was giving my freedom away for peanuts," the former Arsenal worker recalls.

Kravchenko's biography, which had included Uzbekistan, the army, and Arsenal, had turned him into a Russian-speaking specimen, typical

and convenient for the communist empire. But having taken one step on the path to protesting a hypocritical system, a person would logically move towards the idea of national liberation. Kravchenko discovered it, unexpectedly and paradoxically, in a psychiatric hospital.

He was kept at Pavlova for two months. And again, just as in Moscow, doctors reported he was in sound mind. In April 1981, the Kyiv Municipal Court announced Valeriy's sentence: four years in jail based on several articles, the major one being Art. 187-I of the Criminal Code of Ukrainian SSR, "spreading libelous claims that slander the soviet state and social order." He was also accused of "hooliganism" and "making cold steel."

THE AGE OF REHABILITATION?

Today we know about the activities of dissidents from the Ukrainian Helsinki Group. Although most soviet people did not show extreme radicalism and never took floor anywhere more public than a dinner table. Yet, opposition to the soviet regime was more widespread than that and largely spontaneous. In the late 70s, it often took on the most unexpected and impressive forms. Oleksa Hirnyk immolated himself at Chernecha Hora in Kaniv, where Taras Shevchenko is buried. Captain Valeriy Sablin started an uprising on a Baltic Fleet warship. Crimean Tatar Musa Mamut also poured gasoline over himself and immolated himself in protest against the persecution of his people. A group of Jews seized a crop-duster AN-2 to migrate to Israel because the government wouldn't let them out of the country otherwise...

Kravchenko served his full term. Before Ukraine declared independence, the Supreme Court of Ukraine rehabilitated him "for the absence of any crime," so he was able to help set up Narodniy Rukh and the Democratic Party. Today, Kravchenko is with an NGO that works to restore the reputation of political prisoners and dissidents. Kravchenko and Polishchuk remain friends to this day, as do Heorhiy Moskalenko and Viktor Kuksa who raised the blue and yellow flag over the Shuliavka District in Kyiv and each served several years for that. Neither has ever been officially rehabilitated. ■

¹ The highest award to a worker in the Soviet Union.

THE ORIGIN OF HOMO SOVIETICUS

At the XXIV Congress of the Communist Party in 1971, Leonid Brezhnev announced a "new historical society—the soviet people" based on "bringing all nations and peoples closer together." He was partly right. In their social test tubes and Gulags, the Communists managed to develop that denationalized, passive-aggressive zombie, called homo sovieticus. Active resistance can look like insanity. But dumb tolerance is doubly insane.

Donbas uprising

On March 1, 1991, Donetsk miners started a general strike, a deliberate step to break up the soviet empire. Unfortunately, the national democratic movement failed to follow suit

Author:

Vakhtang Kipiani,

Editor-in-Chief, Istorychna Pravda website

Today, the events that revolved around the struggle of Donbas for social rights at the same time as their growing awareness that they belonged to the Ukrainian polity have been forgotten. They have been almost entirely shunted aside in public memory by images of Rukh rallies, human chains, and protests driven by Kyiv and Halychyna. And this is extremely unfair, because it was precisely the combination of the ideas of the intelligentsia and the anger of the workers that accelerated the collapse of the Soviet Union.

AT THE EDGE OF A BREAKTHROUGH

During the years of perestroika, Donetsk miners, together with their brothers in Vorkuta, Kuzbas and Karganda, became one of the precursors of the democratic movement, naturally bringing together the goals of the struggle for freedom in general and the struggle for freedom of labor. Just before the strike, on February 26, 1991, the workers' committees of Donbas had held their meeting with the participation of representatives of the L'viv-Volyn basin. A Moscow-based anarchist newsletter of the time, KAS-KOR, reported on the event:

"Yuriy Boldyriev¹ reported on the results of negotiations with the government, noting that the main

obstacle to resolving the basic demands of the miners regarding higher wages was a lack of money in the republic's budget.

"Boldyriev said that when he was warned that a strike was in the offing, Premier Vitaliy Fokin breathed a sigh of relief: 'Better a terrible end than terror without end,' he said, letting it be known that he preferred a certain present to an uncertain future."

After a five-hour heated debate, 25 of the 32 strike committee members made up their minds: Time to act!

This was hardly the first strike in the USSR. Over the previous three years, the region, which had been known as "The Union's Stokehold" and was seen as the poster child of soviet workers, had more than once awakened to the sirens of the big enterprises calling everyone, not to catastrophe, but to protest. The frightened government tried to gag them with handouts and resolutions about wage increases and higher rates, but the dying soviet economy no longer had the resources to make good on any of these promises.

The average lifespan of slave-like mining professions such as coal cutter and sinker was only 38 years at that time because of the frequency of fatal accidents, on-the-job injuries, abominable sanitary conditions, and some of the lowest standards of workplace equipment in the civilized world. Moreover, pensions for these underground specialists ranged from



160 to 210 rubles and miners became eligible only at 50—an age to which they had to survive in the first place. By 1991, the average wage in the country was higher than a miner's wages: 405 rubles. Miners were becoming aware that, unless the soviet umbrella was destroyed and Ukraine gained sovereignty, there would be no way to improve their lives.



THINKING UKRAINIAN

Donbas miners may have talked in Russian, but they thought, as one now-forgotten politician famously said, Ukrainian. Few remember today that, on September 9, 1989, two miners from Donbas, Petro Poberezhniy and Pastushenko, addressed the founding assembly of Narodniy Rukh Ukrainy, later known simply as Rukh. Poberezh-

niy was the Zasiadka mine's foreman, while Pastushenko was the Komsomol organizer from the Hayev mine in Horlivka. Poberezhniy explained the reasons for the strike:

"Comrades, we demanded the right to control our own output. We are trying to find a market for our hard-won coal that is in excess of the state order. For instance, we know that Western Ukraine and Zaporizhzhia need coal and we're short of potatoes and other foods. We could easily exchange what we fairly produce."

Poberezhniy also mentioned the "disgusting lies" of the Party press, how ignorant people in Donetsk were of the history of "our people," how they did not understand "our national symbols," and so on. Back home, *Vecherniy Donetsk*, a local paper, hissed behind the back of the miner who had spoken at the Rukh convention, "this kind of honor is reserved for very angry individuals."

On August 27, 1989, Miners' Day, Donetsk miners passed a resolution demanding the resignation of Volodymyr Shcherbytskyi, First Secretary of CP Central Committee and Valentyna Shevchenko, Chair of the Presidium of the Verkhovna Rada of the Ukrainian SSR. One member of the Donetsk Strike Committee, Oleksandr Kalinin, admitted in an interview for the Mariupol-based *Dnevnik Priazovia*, in Spring 1991 that the radical political demands resulted from a deadlock: the government's hollow promises had driven people to the "point of no return."

The Communists, needless to say, were in hysterics. As the "rightful political representatives of the working people," they could see the writing on the wall, once Eastern and Western Ukraine joined forces. So the Party press launched a major smear campaign against the miners, accusing them of wanting the whole hog at the expense of steel-

workers, railway workers, farmers and teachers...

DIGGING A GRAVE FOR COMMUNISM

Over March-May 1991, 49 mines, 40% of the total, went on strike, including 15 mines and 3 mine-building units in Donetsk, 8 mines in Selydov, 7 in Chervonoarmiysk, 4 in Pavlohrad, Dnipropetrovsk Oblast, and one each in Khartsyzk and Lysychansk. Moreover, 22 coal enterprises in L'viv Oblast supported the strike. The strike leaders used a few tricks to expand the movement. Researcher Burnosov gives one example: "This Boldyriev calls from Donetsk and yells: 'What the hell are you doing there? Why aren't any of your mines striking? I've got seven already...'"

To turn Donetsk against the protesters, the administration of Donbasvuhillia² shut down all its kindergartens and sent the staff on unpaid leave, on the excuse that strikes were too costly. Just imagine the quarrels that ensued among family members and neighbors. But the provocation didn't work.

Party functionaries then turned to propagandizing the nationalist threat. On July 25, 1991, *Rabochaya Pravda*, the newspaper of the Independent Trade Union of Zoria miners, printed a telegram from Stepan Khmara, where the former human rights advocate supposedly promised to hang two ITU leaders, Polevoy and Cherniavskiy "on a single branch to the anthem of a Ukraine free of Jews and Russians."

The workers' strike committees now expressed lack of confidence in the official union committees and successfully demanded that they be withdrawn from the enterprises or disbanded altogether. Workers at the legendary Zasiadko mine held a democratic election for Party Committee Secretary among six candidates, contrary to the instructions of the CP Central Committee. They also held a strike vote and a vote on their politi-

WHAT MINERS WANTED IN MARCH 1991:

- impeach the USSR President for having no mandate of public trust and being elected by boards of electors – the Plenum of the Central Committee and Congress of National Deputies;
- dismiss the Congress of National Deputies;
- declare the Declaration of Sovereignty of Ukraine a constitutional document;
- establish a Board of Confederations of Sovereign States as a coordinating body;
- fulfill Item 33 of 1989 Protocol on Approved Measures on regular adjustment of wages to the price index and cover all citizens;
- fulfill Item 10 of the Protocol granting pensions to all underground workers including foremen with at least 25 years of underground, regardless of age;
- fulfill Item 20 of the Protocol, changing the former State Technical University into an arts center for children;
- guarantee immunity to all participants of the renewed strike.



PHOTO: OLEKSANDR CHEKUNOV

cal demands. 59.6% of the workers supported the strike and 71.5% the political demands. Incidentally, one of the Party committee chairs at the time was the future owner of Zasiadko, Yukhym Zviatilskiy.

In the first days after the strike, Sloviansk-born Mykola Yevgrafov convicted previously for criminal and political reasons, wrote in Respublika, a photocopied paper: "Right now we are going through a bad hangover after 73 years of unrestrained, drunken rape of economic laws... The entire country is paying for what the communists have done! And the country has the right to hold them accountable... The soviet empire is doomed. No one can save it. They have to let the republics go if they want to hang on to them."

THE STRONGHOLD OF DEMOCRACY

This anti-totalitarian mood in Donbas these 20 years ago was the natural, inevitable consequence of the economic and political models of the centralized state. It was the proletarian miners who started digging the grave of soviet communism first. Just few years later, though, party hacks backed by criminals regained control and did away with these ordinary men of principle and the region that had once been a stronghold of the new democracy turned into its grave.

Over 1989-1991, the difference between Donbas and the rest of Ukraine in terms of language and mentality was less visible than to-

day, nor was it seen as an insurmountable challenge. The people of Donetsk Oblast were engaged in democratic processes no less than people elsewhere in Ukraine. Indeed, anti-communist and reformist radicalism was much more intense here than in most other regions and Donbas was then looking to Yeltsin's Moscow in terms of politics and at his opposition to the centralized political and economic bureaucracy.

But now the process of replacing the communist elite came to a standstill. Elsewhere, people came to power from the streets: engineers, university professors, doctors and writers. In other words, the social escalator that had been dead for decades started to move again. But Donbas only saw a reshuffle—and a horizontal one at that. Instead of party hacks, red directors and technocrats from party circles grabbed power. In effect, second secretaries or heads of oblast industrial departments replaced the heads of executive committees or became the first "democratically elected" mayors.

THE NEW DONETSK

Another feature of Donbas was that criminals became more involved in the handing out of public, community and cooperatively owned assets. The Donetsk mafia was neither a legend nor invented by journalists: by the mid-1990s it was a major factor affecting local policy at a time when Kyiv was too busy to worry about Donetsk. In the process of nation-building at the regional level,

these renegade officials and bandits were all too able to put trade union leaders, those heroes of the first strikes and men who once spoke on equal terms with First Secretary Gorbachev and Premier Ryzhkov, in their places.

The new Donbas identity emerged from an alloy of back-breaking work, the open plundering of the "homeland storehouses" by officials, and the running amok of young men in leather jackets and sweatsuits, the "Adidas nation." The miners' struggle for social and political rights was reduced to the right to the minimum consumer basket, Russian TV, concerts by Nikolai Baskov and Iosif Kobzon¹—and the sight of the new "lords of life" gradually trading in their fake Adidas suits for burgundy jackets and luxury Italian suits later.

The first attempts to shape and to explain the phenomenon of Donetsk intellectually appeared at this time. They ranged from the semi-separatist Interdvyzhenniy Donbassa founded by the Kornilov brothers to cultural projects to shape a Donbas identity, including the cult of FC Shakhtar. If bread is hard to come by, you can at least feed the plebes on circuses. But over the 90s, miners finally lost their influence. The last time they made themselves felt was in Fall 1993, when a snap presidential election was called after they marched on Kyiv demanding work and wages.

In 1998 and 1999, suddenly there were rallies of mine workers, their wives and even crippled miners. But every time, they gave the impression that it was local governments and the owners of mines, steel plants and mine associations that had driven them to Kyiv, not poverty or rights. On TV, everything looked perfect. Bared to their waists, the workers marched to Kyiv in strong columns. Wretched veterans demanded benefits, too, but they were barely heard. That could be because the heroes of Donbas were no longer the heirs of Stakhanov's glory. They were now people who, directed by the hand of PR's Mykhailo Chechetov, unanimously voted for "a better life today." ■

¹At the time, one of the leaders of the Donetsk strike. Today Bolydriev is a VR deputy from Party of the Regions known for his exaggerated statements.

²The regional coalmining association.

³Two Russian pop crooners, one in his early 30s, the other in his early 70s.



PHOTO: PHIL

SOLID WOOD.
Sv. Yura's belfry, 15th-17th cc

Cinnamony Drohobych

In this Western Ukrainian city, visitors can enjoy beautiful medieval and Art Nouveau architecture without the crowds and clamor

Author:
Iryna Kolodiychyk

The winter months, when L'viv Oblast tends to be sunny and clear this last climate-changing decade, are the best time to visit this small city. Here you can feast your eyes on leafless avenues of Art Nouveau buildings in the city's center or listen to the startled cawing of flocks of crows as they migrate from tree to tree in the parks, as though drawn from some Gothic fairytale.

MEDIEVAL SALT-MAKER

The earliest settlement took shape here when salt began to be produced from salt brine found in underground caves in the area about 1,000 years ago. The most popular legend about the origins of the name Drohobych is that Bych, the original prince's seat, was torched by Polovtsian raiders nearly 900 years ago and not far from the burned ruins, the residents founded a second Bych, Druhiy Bych, or Drohobych as it is now. A letter from Pope Boniface IX to

Przemyszl Bishop Erich in 1392 mentions the city as one of Europe's salt-making centers.

In the times of Kyivan Rus', the Great Salt Road went through Drohobych, the route for locally-made salt to be transported to the rest of Europe. Indeed, Europe's oldest salt-making company still operates in Drohobych. The old salt works are located next to two wooden churches: the 16th century Church of the Exaltation of the Holy Cross with its sharp Gothic spires and the 15th-17th »



CITY HALL,
one of the tallest buildings
in Halychyna

PHOTO: ANDRIY LOMAKIN

WORTHY SIGHTS

The Church of Sviatoho Yura or St. George is a wooden church that was moved together with its belfry to Drohobych from Nadiiv, now a village in Ivano-Frankivsk Oblast, in 1647. Legend has it that Drohobych residents obtained it in exchange for salt, a valuable commodity at the time. The church features a 17th-century iconostasis with traditional Ukrainian icons and murals.

Villa Bianca, now the Drohobych Palace of Fine Arts, is a classic example of Viennese Art Nouveau. It is located on vul. Tarasa Shevchenka, next to several other architectural specimens of the same style.

Sviatyi Bartolomei Cathedral and its belfry were likely built in the 15th century on the site of a fortress. The chambers of the military leaders were built on the foundations during Drohobych's medieval glory years. Another part, an ancient Rus' defensive tower built in the 13th–15th centuries, was later turned into a belfry.

The Art Nouveau-style Main Synagogue is now under reconstruction.

century Church of Sviatoho Yura, with its rounded domes.

One place worth visiting is the studio of Lev Skop, a noted icon painter, restorer, and professor from the L'viv Academy of Fine Arts. More than anyone else, this silver-haired man is an endless, accessible font of knowledge about Ukrainian wooden architecture and Halychian medieval icon painting. Skop has been busy restoring local icons for nearly 25 years.

WORSHIPING EQUALLY

The layout of Drohobych follows the pattern of many medieval cities in Europe: a town hall and

city administration in the center, with the houses of artisans and merchants clustered around it, and churches of various denominations in its corners. This pattern established the equality of all ethno-religious communities in the city. The Drohobych town hall overlooks the city and has an ancient clock with four faces, oriented toward the cardinal points.

The walls of Sviatyi Bartolomei Cathedral, standing in one of the corners of the old city, tell the story of Drohobych. The marble decoration on the door with its two swords is a reminder of the local men who fell at the Battle of Grunwald. Inside the church stands a monument to Kateryna Ramultova, wife of one owner of the local salt works. Erected in 1572, it is the most significant monument here. Contemporary postcards of Drohobych feature the Cathedral with its belfry and the monument to Yuriy Drohobych, a medieval scholar, rector of the Bologna Academy in Italy, and one of the city's most renowned residents.

In the opposite corner of the square stands the brick Sviata Triytsia or Holy Trinity Church. Built in 1690 as a Roman Catholic cathedral, it was purchased by the local Ukrainian community from the Austrian government in 1808 for a Greek Catholic parish and school. In soviet times, it was handed over to the Russian Orthodox Church, but when Ukraine became independent, it was returned to the Ukrainian Greek Catholic Church.

An old cemetery located about a mile away from the Sviata Triytsia Church was founded on May 3, 1790, according to scholars. The first thing that catches your eye here is the burial vault of a Polish couple, Karl and Karolina Nachlik. Alongside the graves of many other wealthy and educated Poles is a common grave for OUN and UPA members and individual graves of others who fought for the Ukrainian state.

SHADES OF CINNAMON

Its warm brown facades lend Drohobych the aura of a city built of cinnamon. Several early 20th-century sepia-colored buildings on vulytsia Lesi Ukrainky are now part of the Drohobych Pedagogical



PHOTO: ANDREY LOMAKIN

PROVINCIAL EUROPE.
A combination
of Viennese
and Ukrainian style.

University. Yet another shade is added by old villas built in the interwar period, some of which are covered in boards halfway up that have turned dark brown over time. At the end of the street is the Main Drohobych Synagogue, also built in Art Nouveau style. This monumental building stood abandoned, its windows shattered for a time, but in the past few years donors from around the world helped roof it and it now serves as a gallery for contemporary art exhibits and projects.

A majestic reddish-brown brick building at the beginning of vul. Striyska was built under the Austro-Hungarian Empire and once housed a district court, a prison and the tax police. After September 1939, it was used by the NKVD, who set up a prison and a torture chamber in its basement. Thousands of people went through this inferno and were eventually buried in the yard. In 1989–1990, excavations directed by the Memorial Society revealed the remains of nearly 500 people here. They were reburied at the Drohobych Pole Skorboty or Field

of Sorrow. Strewn with the excavated bones of the murdered, Ploshcha Rynok, the market square, was a terrifying testament to the inhumanity of the soviet government. From time to time you can still see people in black gowns here, but these days they are physics and math students rather than judges.

ARTISTIC SHADES

In early 2001, some frescos made by Bruno Schulz, a world-famous Jewish painter and modernist writer, were found in an old building in Drohobych. Schulz's best-known literary work is "Cinnamon Shops," a collection of short stories about his childhood years and his family, who lived in downtown Drohobych between the wars. Unfortunately, most of the original frescos were smuggled out of Ukraine and are now in Jerusalem. But this did not take away from Drohobych's aura as the city of Schulz or the Art Nouveau town. It sees a constant flow of Schulz fans, primarily from Poland and Israel, as well as literary buffs who relish his mystical sto-

A WORD ABOUT LOCALS

Like other cities in Halychyna, Drohobych was populated by Poles, Ukrainians, and Jews before WWII, as well as by Hungarians and Germans, in smaller numbers. Since then, the population has become more homogeneous and largely Ukrainian. Several Polish associations and a small Jewish community are active to this day.

ries. All come here to see with their own eyes the place they have read so much about. A Bruno Schulz Museum was opened in one of the rooms of Drohobych University where he taught drawing between the wars.

Ivan Franko is another great writer whose name is linked to Drohobych. He referred to the city and the vicinity in works such as "Boa Constrictor" and "Perekhresni stezhky" (Crossed Paths). Literary tourists will also enjoy a trip to the picturesque village of Nahuievychi, 10 kilometers from Drohobych, where the Ivan Franko Museum and Franko's father's house are located. And when you drop in to the local coffee house for dinner, don't forget to try some of the famed local dish, Drohobych kovbasa. ■

HOW TO GET THERE AND WHERE TO STAY

There is regular minibus service between L'viv and Drohobych. The centrally-located Tustan Hotel at vul. Shevchenka 1 offers inexpensive one- and two-person rooms starting at UAH 150 per night. Situated on the outskirts of Drohobych, the Lymon Hotel at vul. Kozlovskoho 1 charges UAH 100–400 per night, complete with restaurant, parking, sauna, swimming pool, and fitness room.



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