

international monthly edition

The Ukrainian Week

№ 3 (26) MARCH 2012

ELECTION 2012

...USE ALL ADMINISTRATIVE
LEVERAGE...

oblast authorities,
the governor, heads of
administrations, SBU,
the Prosecutor's Office...

THEY'LL BE F***ED

The
Economist

Featuring selected content
from The Economist

WWW.UKRAINIANWEEK.COM

FOR FREE DISTRIBUTION



DEPARTURE: 22:35
AIRPORT: TAN SON NHAT
DESTINATION: HO CHI MINH CITY
BAGGAGE ALLOWANCE: 20 KG
ARRIVAL: 13:45



799* 0 800 509 800**

*for cell phone calls within the territory of Ukraine, 1 uah per 1 minute, the connection fee is charged according to an operator's cell plan **free calls within the territory of Ukraine
License AB N-446862 issued by Ukrainian aviation state authority as of 18-nov-2009

AeroSvit
UKRAINIAN AIRLINES

Mille Miglia
ristorante & enoteca

**New dimensions
in Mille Miglia Restaurant
with new Italian Chef,
Niccolo Rossi**

Radisson Blu Hotel
22 Yaroslaviv Val Street, Kyiv

+38 044 492 2255
radissonblu.com/hotel-kiev

Radisson **BLU**
HOTEL, KYIV

BRIEFING

Kliuyev becomes Secretary of the National Security and Defense Council with an Eye on Elections



FOCUS

Getting Ready to Give "a Punch in the Face"?
The government is searching for mechanisms to offset the huge loss of popularity

4

POLITICS

Cadres Are Important:
Recent appointments suggest that Mr. Yanukovich does not trust the Party of Regions' cadre reserve

6



10



On His Majesty's Secret Service:
Whose interests will the new SBU Chief protect?

12



Lawyer Oleksiy Bahanets:
"Not a single witness in court said that Yuriy Lutsenko was guilty"

14

18

Court on Demand:
The Constitutional Court is losing its reputation as an independent arbiter



Offsetting Populism:
Bringing social policy out of the legislative field to be manually managed by the government

19

20

ECONOMICS

Addicted to Spending:
Ukraine is increasing foreign debt, producing less and buying more

22



Michael Spence explains why Ukraine, unlike Brazil or South Korea, has failed to make an economic breakthrough

24

NEIGHBOURS

Love in a Cold Climate:
Germany's eastern policy has never been stronger

27



Camouflaging Its Weakness:
Gazprom's aggressive policy hints at problems in Mr. Putin's energy empire, but Ukraine will not benefit from this

28

THE AMBASSADOR

Wolf Dietrich Heim talks about cooling relations between the EU and Kyiv, the prospects of Austrian banks in Ukraine and the future of the Eurozone



30

INVESTIGATION

Mayhem in Donetsk:
Food quality check ends in a fight

34

HISTORY

Eastern Convicts:
1942 saw the beginning of the mass deportation of people from Ukraine for forced labour in the Third Reich



36

CULTURE & ARTS



Cloaked in Bearskin:
Ukrainian-Georgian-German film "Ursus" is one of the most anticipated movies of the year

42



Making It Real:
An overview of Ukrainian films on big screens or about to be released

44



Attack of the Clones:
George Lucas talks about why he is bringing Star Wars back to the big screen

46

NAVIGATOR

Top 10 Mystical Spots in Ukraine:
A tour of thrilling and mysterious adventures



48

THE UKRAINIAN WEEK
The Ukrainian Week

The Ukrainian Week № 3 (26) March 2012

Founder: ECEM Media Ukraine LLC **Publisher:** The Ukrainian Week LLC

First published in January 2010

State registration certificate 16412-4884P of March 13, 2010

Bohdan Andriytssev, Director, ECEM Media Ukraine LLC

Serhiy Lytvynenko, Editor-in-Chief, The Ukrainian Week

Natalia Romanec, Shaun Williams, Editors;

Anna Korbut, Translator

Mailing address: PO Box 2, Kyiv, 03067

Publisher address: vul. Mashynobudivna 37, Kyiv 03067 Ukraine

E-mail: office@tyzhden.ua, **Tel.:** (044) 351-1300

www.ukrainianweek.com

Print: TOV SKIMP, TOV ART STUDIYA DRUKU; vul. Boryspilska 15, Kyiv

Ordering number: 134-02. Print run: 15,000

Sent to print on 24 February 2012

Free distribution



8 February

BYuT's Roman Zabzaliuk presents recordings, in which the leader of the Reforms for the Future faction discusses payment for opposition MPs quitting their factions

15 February



200 Afghan war veterans turn their backs on the president as he arrives to put flowers to the peacekeepers' monument after waiting for 1.5 hours in the freezing cold, on the other side of the president's security and iron fence

QUOTES

ARSEN AVAKOV is on the run

The former Chairman of the Kharkiv Oblast State Administration from the Orange government faces criminal charges and is on the international wanted list. Mr. Avakov is in Europe. Meanwhile his apartments are being searched



VOLODYMYR KONSTANTYNOV feels Ukrainophobic

The Speaker of Crimean Parliament gets irritated because many ministers address him in Ukrainian



JOSE MANUEL PINTO TEIXEIRA

does not believe

Mr. Yanukovych
EC Ambassador sees no point in dialogue with the Ukrainian president as "no signs of improvement can be seen"



OLEKSANDR KOVALIOV faces pressure

The leader of Afghan veterans disloyal to the government says he is facing pressure from tax authorities and the police. Similar information is coming in from the leader of the Donetsk Union of Afghan veterans



Kliuyev Appointed With Eye on Election

On February 14, Andriy Kliuyev, head of one of the key influential groups in the government, was dismissed as First Deputy Prime Minister and appointed Secretary of the National Security and Defence Council (NSDC). Raisa Bohatyriova, who is linked to Rinat Akhmetov's financial-industrial group and had headed the National Security and Defense Council (NSDC), became Deputy Prime Minister and Health Minister. It remains to be seen who will take Kliuyev's position in the government. Experts are inclined to believe that this person will

be the main candidate for the prime minister's chair after Mykola Azarov steps down. The latest reshuffling once again suggests that Azarov's resignation is imminent — former Health Minister Oleksandr Onishchenko was said to be close to Azarov. Serhiy Tihipko, Iryna Akimova, Serhiy Arbutov and Valeriy Khoroshkovsky are mentioned as possible successors to Kliuyev. However, the biggest question is how the latest reshuffling will change the balance of power among various groups in the government team? Bohatyriova's dismissal is no surprise, but Kliuyev's new appointment is

The month in history

1 February 1897



Yevhen Malaniuk, Ukrainian poet, journalist and arts expert, is born

7 February 1483



Ukrainian scholar Yuriy Drohobych publishes "Prognostic Estimation of the Year 1483" in Latin in Rome in which he predicts two lunar eclipses, calculates moon phases and mentions planetary movement

8 February 1106



Prince Volodymyr Monomakh compiles "The Testament", the first didactic book in Kyiv Rus

16 February



The European Parliament condemns Russia for unfair election and use of force against the opposition

17 February



500 prisoners of Berdiansk jail go on a hunger strike to protest against inhuman conditions

19 February



Vitaliy Klychko defends his WBC heavyweight championship belt

21 February

Disabled miners break into the Ministry of Social Policy to demand the recalculation of their compensations



ted tions

intriguing. On the one hand, some say that his transfer is a demotion that will weaken his position. One possible reason is that, as the coordinator of the parliamentary majority, he failed to keep opposition MPs from frustrating the president's speech in parliament on the day of a new session. Moreover, the Association Agreement with the EU, for which Kliuyev was responsible, has not been initiated. He is also said to have been the mastermind of the plan to push through the Verkhovna Rada a bill on reforming Ukraine's gas transportation system and Naftogaz which would essentially give control of the

gas transport system to Russia. He is also implicated in a scandal in Europe. According to some reports, Kliuyev channelled financial aid Ukraine received from the European Union to enterprises associated with him, prompting Europe to slash its aid overall and to shut down some programs completely.

Despite these reservations in the media about Kliuyev, arguments for a completely different story behind his change in jobs are just as compelling. As NSDC Secretary, Kliuyev will focus on preparations for the parliamentary election. (He concurrently heads the Party of Regions' campaign headquarters.) In introducing Kliuyev to the staff and members of the NSDC, Yanukovich emphasized, according to his press service, that Kliuyev's task is to build the security sector "in new conditions while meeting the challenges faced by our country". The president expects all power structures to effectively fulfil the tasks set by the new secretary (who is also, let us not forget, the head of the Party of Regions' campaign headquarters). That the NSDC's role may increase is acknowledged by people close to Yanukovich. "Kliuyev is a strong crisis manager... The apparatus of the NSDC has virtually stopped operating in the past several months, so we will see certain measures to step up its activities," presidential aide Dmytro Vydrin said.

Should this be the case, Kliuyev's appointment is a logical link in a series of reshuffles in power structures aimed at preparing them to effectively fulfil the tasks set by the president for the duration of the election campaign and the October election itself. After all, the upcoming popular vote may lead to the biggest tension since the Orange Revolution. If the government attempts to rig the results in order to win at any cost, quelling wide public protests may become its top priority. "It makes sense that the NSDC would be the focal link for finding possible solutions at a time of socioeconomic tension," Kostiantyn Matviyenko, expert at the Hardarika Strategic Consulting Corporation, suggests. This means that Kliuyev would essentially become a bridge between the president and the power ministers.

Alina Pastukhova

NUMBERS

Ukraine's public debt hits
USD 59.216bn in 2011
according to the Ministry of Finance

The Ukrainian army has
18 fighter aircraft in working order
based on data from the Center of Army Survey, Conversion and Disarmament

The Russian Black Sea fleet occupies
38 berths
in Sevastopol without permission

Based on a survey by the Don't Be Indifferent NGO,
66% of coffee shops
in Kyiv violate language legislation as they offer no menus in Ukrainian

Kyiv dormitories offer rooms for Euro 2012 guests at a rate of
EUR 135 per night

Film Firecrosser collects over
UAH 1mn
at the box office - a record for Ukrainian films

The Ukrainian Ministry of Foreign Affairs pays
USD 100,000
for a special promotion insert on Ukraine in the Washington Post

According to the Interior Ministry, enforcement agencies have opened
139 criminal cases
in which journalists were victims in 2011 compared to 98 in 2010

9 February 1918



The Ukrainian People's Republic signs the Brest-Litovsk Treaty, an exclusive protectorate treaty, with the Central Powers

16 February 1813



Stepan Hulak-Artemovskiy, renowned composer and writer of the Zaporozhian Cossack Beyond the Danube opera libretto, is born

24 February 1807



Pope Pius VII renews the Halychyna Greek Catholic Metropolis

25 February 1887

Les Kurbas, theater director, playwright, translator and innovator of Ukrainian theater, is born

Getting Ready to Give "a Pu

The government is searching for mechanisms to offset the huge loss of popularity over the past two years. It appears that administrative leverage, manipulations and falsifications are going to be applied on a massive scale



Author:
**Leonid
Aleksandrov**

Based on various surveys, the current rating of those in power ranges between 14-18%. According to the mass media, even Andriy Kliuyev, the head of the Party of the Regions' election team, had no choice but to inform the President of his doubts about the party's chances of winning a simple majority, let alone a constitutional one, in the parliamentary election.

FISTS AT THE READY

Commenting on this failure of Mr. Yanukovich and his Russian spin doctors in 2004, one of them, Gleb Pavlovski, said the Ukrainian revolution "just didn't get a timely punched in the face". In spite of the dubiousness of this opinion, it appears that the government is taking it seriously. This is particularly so for those nudging the president to attain victory no matter what, even if it involves taking

advantage of personal complexes and stereotypes. Today, Mr. Yanukovich and his team are accumulating all possible power leverages in their hands and they are doing so openly and even demonstratively. The appointment of people, supposedly linked to the president's older son, to top positions in the Interior Ministry and the Tax Administration heralded the beginning of purges. Those loyal to the new administration found themselves in key offices throughout the entire hierarchy. A similar fate probably also awaits the SBU and the Defense Ministry, the new administration of which is also considered to be close to Oleksandr, the President's older son.

In addition to clearly signaling the government's readiness for a coercive scenario, these personnel shifts give grounds for other serious conclusions. The assumption

emerges that the leading oligarchs will propose that Mr. Yanukovich does not run in the 2015 presidential election, appoint a successor and step down from politics with guaranteed security, if the current government loses the upcoming parliamentary election. However, the effective President may believe – and for good reason – that his only credible guarantee is to stay in power. Hence it is not only the opposition that could be facing major problems during and after the parliamentary election, but also the Donetsk oligarchic circle. When all is said and done, the latter are already moving away from "state affairs", since the enforcement block is in the hands of the President's group of influence while the economy is being delegated to the Firtash-Boyko-Khoroshkovsky alliance.

SURPRISES FOR THE OPPOSITION

Given the dialogues on the Zabzaliuk tapes, which have been released to the public (see THE TAPE SCANDAL for more details), the government is preparing to apply a huge arsenal of instruments for the parliamentary election campaign. For some reason, the mass media does not mention this as often as, for example, the circumstances or the bribe amounts given to cross-over MPs, after all, this, unfortunately, no longer comes as a surprise to anyone in Ukraine.

In addition to clear hints of the application of repressive tools, people on the Zabzaliuk recording talk about plans to have representatives of the party in power formally "represent" the opposition in electoral commissions. This will allow those in power to take the necessary decisions in commissions, where the government may not even have a formal majority. The outcome is clear, based on the 2010 local election and subsequent by-elections. Using legislation which has expanded the powers of electoral commissions as an excuse, they can get rid of all the representa-

Knock in the Face"?

tives of the opposition, observers and journalists, claiming that they "interfere with the work of the commission" and provide the outcome required by the government. This is what almost happened in the Chervonoarmiysk Region of the Zhytomyr Oblast, at the pre-term election to the oblast council of majority constituency 41 on February 12, 2012. Prior to the election, the oblast electoral commission refused to register official observers from one of the opposition candidates. On February 10, 2012, the Zhytomyr County Administrative Court instructed the District Electoral Commission (DEC) to register the official observers from this candidate. The DEC disagreed with this decision and filed an appeal. On February 11, 2012, The Zhytomyr Court of Administrative Appeal dismissed the appeal and ordered the DEC to register 38 official observers from the opposition candidate. However, on that same day, the DEC, which was largely comprised of government representatives, refused to execute the order, throwing out the observers. Electoral Commission members only calmed down after the intervention of the police.

An intense search is currently under way for pseudo-opposition "new faces", first and foremost on the agricultural territories of future constituencies. This is precisely what the voice, sounding very much like that of Ihor Rybakov, the leader of the pro-government Reforms for the Future faction in parliament, says on the Zabzaliuk recording. Such new faces will be offered extensive support (administrative resource) from the government and financial support from the businesses close to it.

The most susceptible are the candidates in majority constituencies. The government is trying to recreate the 2002 success of ZaYedU (For a Single Ukraine), which with a rating of 12%, directly or indirectly, was able to lure most majority constituency MPs of the 4th Convention of the Verkhovna Rada to its bloc. The opposition's plan to present a single list of majority constituency candidates envisaged by the united opposition agreement signed on January 22, 2012 raised doubts about the success of this technology. The abovementioned Zhytomyr Oblast Council elec-

tion confirmed this, when in spite of the large-scale application of administrative resource, the single candidate representing Batkivshchyna (Homeland, the Bloc of Yulia Tymoshenko) and Front Zmin (The Front of Changes, the party led by Arseniy Yatseniuk) won with 43% of the vote, which is fairly good for majority constituency elections in Central Ukraine. Unlike earlier projections of victory for pro-government candidates in the amount of 160-180 of the total 225 majority constituencies in Ukraine, the opposition is now talking about their certainty of victory in most of them and the intention to fight for a further 1/3, determining that the party in power can only be assured of victory in no more than 35-40 constituencies.

However, it is too early for the opposition to rest on its laurels. What guarantees are there that an inconvenient candidate, approved and nominated by the united opposition, will be registered in the first place? Taras Chornovil, Mr. Rybakov's former party faction colleague, virtually confirmed this in a recent interview for *The Ukrainian Week*. One option is for a court to cancel the party meeting to nominate a candidate, based on a complaint from one or several delegates. Even though the Central Election Committee (CEC) cannot exclude candidates from running under the new law, the Prosecutor's Office can. In the 2010 election in Crimea, candidates not allied to the Party of Regions were largely prohibited from running on the grounds of criminal charges. Opposition candidates can also be accused of election violations. After all, it is easy to imitate the bribery of voters, punishable under Art. 157 of the Criminal Code. Prosecutors are not the only ones who can intimidate majority constituency candidates. Since many candidates will probably be business owners, pressure from tax inspectors and the Department for Fighting against Economic Crimes (UBEZ) can also be brought to bear.

The government has the leverage to use milder yet efficient mechanisms to misrepresent the will of the voter. These include the reshaping of constituencies to suit the interests of certain deputies from the party in power. Currently, virtually all mem-

THE TAPE SCANDAL

On 23 December, Roman Zabzaliuk, a 17-year veteran of Yulia Tymoshenko's party, unexpectedly quit BYuT. The press learned of this almost immediately, but it was only on 10 January that VR Speaker Volodymyr Lytvyn announced that he had joined Reforms for the Future, the party of MPs that switched from opposition factions to the Party of Regions, despite the fact that Mr. Zabzaliuk had written an official request to join the party on 27 December.

There was no explanation for this step, taken by Mr. Zabzaliuk. In was only on 8 February, that he held a press conference, during which he made a sensational statement: this was a "special operation". To quit BYuT, Mr. Zabzaliuk received a payout of USD 450,000 from Ihor Rybakov, leader of the Reforms for the Future faction. To confirm his words, Mr. Zabzaliuk presented five one-minute fragments of recorded and transcribed telephone conversations.

The recordings feature a voice that sounds like Mr. Rybakov. He discusses the cost of buying an MP – USD 500,000; "extra payments" mechanisms or USD 20,000 monthly for "voting properly"; and tools for falsifying the upcoming parliamentary election.

Below are the transcripts of fragments of Zabzaliuk's tapes, originally in Russian, where a voice that sounds like Ihor Rybakov talks about buying MPs and falsifying elections

1)

Z. (Roman Zabzaliuk): Can I start the conversation with around USD 500,000? Can I say that?



R. (Ihor Rybakov): Yes, yes, yes, yes! Start with USD 500,000 and then the rest if they do everything right. That's one thing. The

other thing is that, if we have a deal with them, I need candidates in Western Ukraine as much as I need air to breathe.

Z.: You mean for Oblast Electoral Commissions or deputies?

R.: Candidates, goddamn it. They will be putting pressure on BYuT and Yatsyk (Yatseniuk – ed.) there.

2)

R.: We need any candidates. Any f...ing candidates! The main thing is for them to be on our side. We need candidates that are popular in Western Ukraine. I don't give a f...k, where they're from. The main thing for me is to have these slaves... We'll give them the majority constituencies. All the leverage we have: Oblast authorities, the governor, heads of administrations, SBU, the Prosecutor's Office – all of them will support them. The entire administrative resource. So tough, they'll be f...cked.

bers of the CEC are controlled by the government. The biggest risk for the opposition is the creation of an unfair and uncompetitive environment for the election campaign, from the mass bribing of voters to the total domination of pro-government forces in the media. According to some insiders in the Kyiv branch of the Party of Regions, virtually all the spin doctors of Leonid Chernovetsky, who directly bribed voters during the municipal

election, are now working for the Party of Regions.

AND NO ONE WILL KNOW...

Meanwhile, preparations continue to neutralize the timely and proper response of the West to the election campaign in Ukraine. The scenario is based on classical practices reflecting the history and methods used by soviet special services for their operations. One example is the reaction to the recent announcement on the suspension of some EU financial aid programs for Kyiv made by Jose Manuel Pinto Teixeira, Head of the European Commission Representative Office in Ukraine. Several members of the mass media spread distorted information about what Mr. Teixeira said, to make it appear that he spoke against the government. Sources in the Ministry of Foreign Affairs claim the plan was to further fuel the scandal in the form of a protest from the Ukrainian side. However, this knot of "distortions" and "inaccurate delivery of information" was untied fairly quickly and the conflict petered out. Similar cases, as well as the earlier incident, when the Ukrainian Ministry of Foreign Affairs incorrectly commented on the alleged recall of the then French Ambassador, Jacques Faure, as a result of his statements in the summer of 2011 regarding Ms. Tymoshenko, signal that diplomats working in Ukraine for an extended period, who are well aware of the true situation and capable of informing leading countries of local developments, could become victims of special media campaigns to discredit their reputation as a source of information.

On the other hand, Ukrainian authorities are establishing their

own mouthpieces in Europe. January 2012 saw the opening of the European Center for Modern Ukraine in Brussels. Rumor has it that Leonid Kozhara, a Party of Regions MP, will be involved in it. Potential partners include European experts known for their earlier comments in favor of the Russian or effective Ukrainian government, such as Inna Kirsch. Such centers are supposed to create an "informational noise", backing up the traditional view of "CIS observers" that "everything is just fine" in Ukraine.

Another interesting trait is that American spin doctors directed by Paul Manafort have made a huge contribution into the improvement of Mr. Yanukovych's image over 2005-2010. They were supposedly the ones to lead the Party of Regions away from its "because" slogan and the division of Ukraine into three classes, to the more civilized "bettering life today" rhetoric and other slogans that are acceptable in the modern world. It looks as if Mr. Yanukovych & Co will not require Mr. Manafort's services this year though. It's possible that his former clients have revised their idea on ways to gain and maintain power.

CHANGING RULES IN THE MIDDLE OF THE GAME

When the Verkhovna Rada passed the new election law in November 2011 with 336 votes, which is unprecedented of late, the few critical voices were drowned out in the unanimous choir of the Party of Regions, BYuT and The Front of Changes. Most opposition members claimed the decision to vote for the law was right. They said that the provisions, banning the CEC from excluding candidates from running in the election

THE WONDER PEN was an easy way to get the outcome the government needed from the election



and allowing electoral commissions to approve decisions by a majority of total members, not necessarily members present, would prevent falsification. Thus, the government ended up with a threshold raised to 5%, the reinstatement of the mixed majority-proportional voting system, a ban on the participation of blocs in elections, and the approval of the EU that it needed so badly.

Counter to the 1998 ruling of the Constitutional Court, the new law allows candidates to be nominated both in party lists and majority constituencies at the same time. According to some observers, this provision was left there on purpose to have the election rules revised on perfectly legitimate grounds. To do this, the authorities would have to file an appeal to the Constitutional Court claiming that the new law runs counter to the Constitution and ultimately change the election law, based on the Constitutional Court's ruling.

When presenting his tapes to the media, Roman Zabzaliuk said that he did indeed sign a relevant appeal, drafted by



Onwards to 2004

Ukraine risks returning to the wide-scale misrepresentation of the voters' choice in the nation, observed during the last years of Leonid Kuchma's presidency, which ultimately led to the Orange Revolution. The political technologies used at that point did not disappear even after 2004, and until recently, the use of which was restricted to South-Eastern Ukraine, where the government has never really changed. After the latest presidential election, however, the old practice covered the entire country.

high level

Falsification scale

low level

2002

Parliamentary Election

The "soft" and sometimes intense use of administrative leverage, restriction of the opposition's access to the mass media, and in some regions, falsification as well as the bribery of voters.

2004

Presidential Election

The government uses administrative leverage on a massive scale in all regions and monopolizes the mass media. Large scale falsification is observed during the voting, including mass ballot casting, bringing voter participation to 100% in Eastern Ukraine, the mass migration of "pro-government" voters from one polling station to another with certificates allowing them to vote in places other than where they are registered, fraud in favor of the pro-government candidate during home voting, and the unprecedented abuse of administrative leverage.



PHOTO: UNIAN

Reforms for the Future, the faction he "crossed over" to.

Without the back-up of being on party lists, majority constituency candidates will be more vulnerable to administrative pressure during the election. If they lose, they risk being defenseless in the face of possible revenge, as confirmed by the fate of Yulia Tymoshenko and Yuriy Lutsenko, who no longer had a deputy's mandate. On the other hand, competition will be fierce for places in opposition party lists and subsequently the fuelling of conflicts within the opposition.

The government is likely to pass changes in the election law to cut the threshold, make life easier for the Party of Regions' satellite parties, such as Volodymyr Lytvyn's bloc, and mess up the opposition's plans. The latter then would end up

2004 One way to get rid of an inconvenient voting result at a polling station is to burn the ballots down

with a huge list of "technical opposition members" instead of the four columns and one approved list of majority constituency candidates. Many of these technical opposition members would have chances to get into parliament both on party lists and as majority constituency candidates, then once in parliament, switch to the party in power.

THE NECESSARY DEFENSE

The has already taken some steps to respond to the threats. It has signed an agreement for joint actions. Some initiatives come up on the local level – the leading opposition parties in the Dnipropetrovsk Oblast have agreed to hold primaries in order to determine a single candidate in each constituency.

By the way, such primaries could be an answer to the government's attempts to bring potential crossovers into parliament through opposition party lists, based on agreements with party leaders). After all, people, including candidates, potential commission members, observers, representatives and others, who can be involved in the election process, play a role that is difficult to overestimate. If these people, who have moral values, manage to resist pressure and bribery, falsification scenarios could fail. But this can only happen if the opposition finds such people and begins to prepare them using the joint forces of the united opposition right now. ■

A "MORAL" CRIME

The Prosecutor General's Office refused to react to an attempt to bribe MPs despite evidence furnished by BYuT member Roman Zabzaliuk on February 8, when he presented an audio recording in which Ihor Rybakov, leader of the Reforms for the Future parliamentary group, discussed the possibility of paying USD 500,000 each to unidentified opposition MPs for quitting their factions and monthly payment of USD 20,000 to each MP who votes with the pro-presidential majority. As a result, both Zabzaliuk and Rybakov applied to the Prosecutor General's Office. The latter is demanding the return of the USD 100,000 he allegedly gave Zabzaliuk "for medical treatment" and denies bribery charges. The Prosecutor General, Viktor Pshonka, announced the reasons for not initiating a criminal case: "This is not a procedural activity for the Prosecutor General's Office; it is a moral issue. As for issues related to the repayment of debts, who loaned money to whom and issues of libel – in these cases, the Prosecutor General's Office does not conduct pre-trial procedural investigations". At the same time, *The Ukrainian Week* has learned that Zabzaliuk did not transfer the actual recordings to the Prosecutor General's Office, which in addition to the bribery of MPs, also outline methods to falsify the upcoming parliamentary election, allegedly being developed on President Viktor Yanukovich's orders. An official letter from the Prosecutor General's Office stated that Zabzaliuk did not present any evidence of receiving a bribe or being pressured. At the same time the Prosecutor's Office advised him to refrain from statements and actions that "compromise himself, voters, the VR and the state." The money he received has been converted into UAH 3.6 million by BYuT members and transferred to a Children's Haematology and Oncology Centre.



Parliamentary and Local Elections

Generally democratic elections with a high level of competition, including equal terms for conducting campaigns and no illegal pressure on participants of the election process. However, the bribing of voters bribed and falsification of voting were determined, particularly in local elections.

Early Parliamentary Election

Generally democratic election with a high level of competition. The use of administrative leverage and falsifications is restricted to a few regions.

Presidential Election

Generally democratic election with a high level of competition. The use of administrative leverage and falsifications is restricted to individual regions.

Local election

Wide-scale use of administrative leverage by the government, including the use of law enforcement agencies; restricted access of opposition forces to the mass media; mass exclusion of opposition candidates from running in the election and the cloning of local organizations representing political parties.

2006

2007

2010

Cadres Are Important

Recent appointments suggest that Yanukovich does not trust the Party of Regions' "cadre reserve"

APRIL 2010
As Kharkiv deals are ratified at the VR, the future Defense Minister shows colleagues his power



Author:
Oleksandr
Mykhelson

Like Russia in the early 1990s, Ukraine is rapidly being overtaken by its president's family. While Boris Yeltsin relied primarily on his daughter Tatiana, Viktor Yanukovich works through his elder son Oleksandr.

Countless journalist investigations show that long chains of intermediary companies that eventually obtain control over choice bits of Ukraine's economy are increasingly often led by people linked to Oleksandr Yanukovich.

Top-office appointees in the country are also persistently rumoured to be linked to him, and it is these cadres who are, as Stalin famously quipped, all-important. An overview of the latest appointments in the power structures suggests that the first phase of the familial overtake has been completed.

ALL THE PRESIDENT'S MEN

The first harbinger was NBU chief Serhiy Arbuzov. In December 2010, the 34-year-old banker took over

the helm from Volodymyr Stelmakh. Retrospectively, Arbuzov's appointment heralded Yanukovich's typical style of human resource management: a hitherto unknown person takes a top office for undisclosed reasons, and the aura of mystery never goes away. The Verkhovna Rada approved Arbuzov as chief of the NBU without even requesting a programmatic speech from him – an unheard-of fact for any European country, especially at a time of financial hardship.

rtant

The appointment of Interior Minister Vitaliy Zakharchenko followed the same scenario. Before taking up the ministerial seat in November 2011, the 30-year-old police official headed the State Tax Service. In the 1990s, he worked in the city of Kostiantynivka, where Arbutov made his career, and also in Makiyivka, the “talent foundry” of the current government. On the same day Zakharchenko moved to the Interior Ministry, his deputy, Oleksandr Klymenko, took his place at the helm of the State Tax Service.

All these fresh appointees have one thing in common – they are close to Oleksandr Yanukovich.

In February 2012, the president is likely to finish “building a new Ukraine” in one sector of public administration – the power structures. The Security Service is now headed by Ihor Kalinin who was in charge of training Yanukovich’s drivers who became guards when the current president was still in the opposition. Ex-chief of Ukroboronservis Dmytro Salamatin, who distinguished himself as the most fisticuff-happy MP in the Party of Regions, is now the new Minister of Defence. The Prosecutor General’s Office did not find see a crime in his actions when he beat opposition MPs on the day parliament ratified the Kharkiv Treaties.

THE PRESIDENT’S GAMBIT

With the appointment of Kalinin, a professional KGB man, the SBU apparatus heaved a sigh of relief. After his predecessor Valeriy Khoroshkovsky, who had no professional expertise whatsoever in the field, the SBU officers and generals did not know what to expect from Yanukovich. In contrast, Salamatin’s appointment scandalised more than army generals – the man is said to get physical with his fists. He was born in Kazakhstan and still has Russian citizenship, according to some sources. (It is not clear when he acquired Ukrainian citizenship.)

Strikingly, both men have “genetic” links to Russia. Kalinin is a

former KGB officer (but then, once a KGB officer, always a KGB officer), and Salamatin has little familiarity with either the Ukrainian language or the realities of Ukraine’s army. Nor are these officials from Donetsk-Makiyivka-Kostiantynivka too concerned with patriotism or other non-pragmatic things. All of this naturally made the public wonder: Are these appointments the Kremlin’s quota? Experts polled by **The Ukrainian Week** suggest, however, looking at the Ukrainian president rather than Moscow. Kalinin managed a private security firm during the Orange government and headed the Directorate of the State Guard. He proved in practice his ability to protect Yanukovich despite all “obstacles” like the outrage of the public. (For example, he offered no comment on the April 21, 2010 tragedy when the president’s motorcade caused a car accident in which a taxi driver died. According to some sources, Oleksandr Yanukovich recommended

kovych have over his men? His protégés have (so far at least) been viewed as the president’s men. And this perception is shared by the public at large and those who still wield real power in the country – the oligarchs.

At the same time, questions arise about the “long bench of professionals” that the Party of Regions has traditionally boasted of. The latest appointments suggest that it is either nonexistent or the president does not deem it an acceptable reserve for himself. So, we can soon expect to see new top-level appointments of people who have neither the authority nor much-vaunted “professionalism” but possess recommendations from people who have the president’s ear and, at the same time, are distanced from the Party of Regions.

Under this scenario, Yanukovich may be preparing plan B in case the Party of Regions loses in the parliamentary election under the proportional system. With the Constitution that Ukraine has now, the greatest concern for Bankova Street is the 2015 presidential election. Year 2012 is just a link in this process, and if the necessary result is not achieved in autumn and the Party of Regions wins no more than 20-25%, it will be a top-priority task for Yanukovich to change the configuration of the government by distancing himself from the Party of Regions and attempting to establish a position above parties and political camps.

This gives Ukrainian oligarchs something to think about. The Ukrainian Week has predicted that the power structures will end up in the hands of the Family within a matter of months after the Interior Minister and the head of the State Tax Service are replaced. Then the president and his inner circle will be able to speak to their compatriots, regardless of their wealth, from a position of power.

However, this policy poses obvious risks for Yanukovich. One person is simply physically incapable of controlling everyone and everything involved in the formal political institutions and branches of the government. In this situation the Leader – as Yanukovich is called in the Party of Regions’ internal documents – will inevitably get stuck in the swamp of current intrigues which may eventually lead him into a blind alley. ■

WE CAN EXPECT NEW APPOINTMENTS OF PEOPLE WITH RECOMMENDATIONS FROM THOSE WHO HAVE THE PRESIDENT’S EAR AND ARE DISTANCED FROM THE PR

Kalinin to his father in the mid-2000s.

There is no information about possible links between Oleksandr Yanukovich and Salamatin. But it is a known fact that Ukraine’s defence complex was structured as a strict vertical following the Russian pattern. Specialists disagree on the efficiency of the organization. For example, they say that until now export enterprises that were formally independent of each other were able at the same time to sell military equipment to two countries, such as India and Pakistan, that have strained relations. However, no-one doubts that the president welcomes the centralization of the defence sector, just like, for example, obtaining personal control over regional and district governors, the government and, through his party’s structures, most mayors and local councils.

Only one thing remains a mystery in this situation: How much influence does Oleksandr Yanu-

The President's Secret Service

Whose interests will the new SBU Chief protect?

Author:
Oleksandr Mykhelson

On 18 January 2012, President Yanukovych appointed Valeriy Khoroshkovsky Minister of Finance. Prior to this shift, Khoroshkovsky served as Chief of the SBU, Ukraine's Security Service. SBU Deputy Chief Volodymyr Rokytsky briefly replaced his former boss, but according to The Ukrainian Week's sources, his tenure as Chief was doomed from the start. Other potential candidates for the position included Ihor Kalinin, a formerly unknown Head of the State Security Body. Eventually, President Yanukovych appointed Kalinin SBU Chief in a decree dated 3 February.

BACKGROUND

Ihor Kalinin's official bio available on the State Security Body's website on the day of his new appointment does not tell the public much about him. Born on 28 December 1959 in Rayevoye, a village in Mitishchi County, Moscow Oblast, Kalinin graduated from the Moscow Higher Military Command School for Road and Engineer Troops in 1981. He joined the USSR KGB in 1984, fought in Afghanistan from 1986-1988, and was later decorated with the Order of the Red Star. His rank and position at the KGB when the USSR collapsed are unknown. From 1992-2002, he worked at the National SBU Academy, where he taught courses on international counterintelligence operations, among other subjects. Mr. Kalinin holds a PhD in military sciences, focusing on investigation and foreign armies. According to unconfirmed data, he used to work in foreign counterintelligence at the KGB.

In 2002, Kalinin headed the Center for Special Training of Main Unit A, the successor of Alfa, a well-known soviet special operations unit. At that point, Oleksandr Birsan was the Head of the Center. Appointed as Chief of the State Security Body by President Yush-



PHOTO: UNIAN

chenko, in April 2010 Mr. Birsan was replaced by Ihor Kalinin, who had been transferred to reserve after the Orange Revolution. After the new SBU Chief came to office, the press found out he had been working at Alfa Shchyty, a commercial security agency founded by one-time Alfa special unit members back in 1991. According to some sources, Mr. Kalinin was conducting special training programs there for VIP drivers, including that of Viktor Yanukovich.

According to an SBU General, Kalinin retired as colonel in 2005 and remained in this rank until 2010. Currently a Lieutenant General, it took Mr. Kalinin less than two years to magically skip over two rungs in the career ladder after being appointed Head of the State Security Body.

SCANDALS

During his time at the State Security Body, scandals were like water off a duck's back for Mr. Kalinin. On 21 April 2010, the day after Kalinin was appointed Head of the State Security Body, the president's entourage got into a big car crash. As it sped through Kyiv's Kharkiv Ploshcha transporting Yanukovich to a meeting with Russian president Medvedev, the president's ambulance hit a taxi, killing the driver.

The scandal was soon overshadowed by the Kharkiv deals the president signed at the meeting that outraged the nation. The driver's family was paid compensation. However, in October 2010, the Ukrayinska Pravda online publication posted an investigation. The authors suggested that the State Security Body might not have been the one to blame for the accident. Reporters revealed that at that time, the president's personal security team was led by Oleksandr Zanevsky, a Russian citizen. The media described him as the "apprentice" of the president's older son Oleksandr. Since 22 March 2010, Zanevsky has been known as an advisor to the president.

After the scandal, Kostiantyn Kobzar, one-time Deputy Head of the State Security Body, replaced Kalinin, who actually never commented on this in the media. Still, the scandals involving the state body he ran continued to proliferate. In June 2010, one of the president's bodyguards spotted a mi-

crophone in the hands of Serhiy Andrushko, a reporter for STB TV, and mistook it for an explosive device. He put an armlock on the reporter and pushed him down to the ground. The scandal eventually gained widespread awareness.

The courts rejected all lawsuits filed by the reporter. Surprisingly, Kalinin himself was hardly ever mentioned in the media, even though complaints about the rude behavior of the President's bodyguards have continued to pour in following the incident. For example, bodyguards did not allow the press to take pictures and videos of the president's entourage in April 2011. On 6 December, journalists who flew to Donetsk to cover President Yanukovich's official visit to

elite special operations unit during the Orange Revolution and retired right after the Orange Revolution. His return to positions that are important for the president under the current circumstances may mean that he had proven continuously loyal to Viktor Yanukovich during the critical period of November-December 2004. Therefore, he might turn out to be a valuable official for the government during the challenging upcoming parliamentary election in 2012 and the period that follows.

Meanwhile, Kalinin's appointment as SBU Chief may result in an increased influence of the Russian special services on developments in Ukraine. Earlier, Valeriy Khoroshkovsky mentioned the SBU's "common Cheka¹ past" with Russia's FSB. Now, they might end up with a common future, unlike most former European FSU countries where the relevant authorities are moving away from leadership with backgrounds in the KGB.

The foreign counterintelligence experience Kalinin gained while working for the KGB was focused on struggling against the West, while today's threats stem largely from the East, including ongoing trade and gas wars with Russia, energy dependence on Russia, controversial anti-Ukrainian statements from Russian politicians, Russian support of separatist movements within Ukraine, the presence of the Russian military in Crimea, and so on. How effectively will an SBU run by a former KGB officer be able to withstand these threats? How likely is the SBU to eventually focus its efforts on counteracting "Western interference" in Ukraine's domestic political processes through close cooperation with the special services of Ukraine's "big brother," given the latter's practical experience?

In any case, the new appointment at the SBU should not be interpreted merely as a need to have someone do the job previously performed by Valeriy Khoroshkovsky, another valuable employee of the president. From the "family interest" standpoint, putting a much needed and more loyal person into the SBU's top chair is a perfectly self-sufficient goal. ■

THIS APPOINTMENT WAS YET ANOTHER PERFECTLY PREDICTABLE STEP IN REINFORCING "THE FAMILY"

the Yenakiyevo Steel Plant were subjected to an unprecedentedly thorough security check at the airport. Still, Mr. Kalinin remained unknown to the public until being appointed SBU Chief.

PROSPECTS

Apparently, such lack of publicity is perfectly typical for generals in the Special Services. Still, some facts regarding his background that have recently come to light give grounds for some predictions as to his future role as the SBU Chief.

This appointment was yet another perfectly predictable step in reinforcing "the family." Mr. Kalinin's former colleagues confirm this assumption. "The appointment of his personal security chief as the SBU Chief will tell analysts everything they need to know," says Oleksandr Skipalsky, ex-SBU Deputy Chief. "He is the president's loyal man, the president trusts him, and this should serve as a basis for conclusions." According to another former employee of the law enforcement authorities, "as far as we know, he has never been a business owner... Thus, Kalinin will be totally loyal to the person who appointed him, the president, that is."

Notably, the new SBU Chief served in top positions at the Alfa

¹ Extraordinary Commission, the first soviet state security authority, established in 1917 by Vladimir Lenin

In Pursuit of Truth

Lawyer Oleksiy Bahanets: “Not a single witness in court said that Yuriy Lutsenko was guilty”

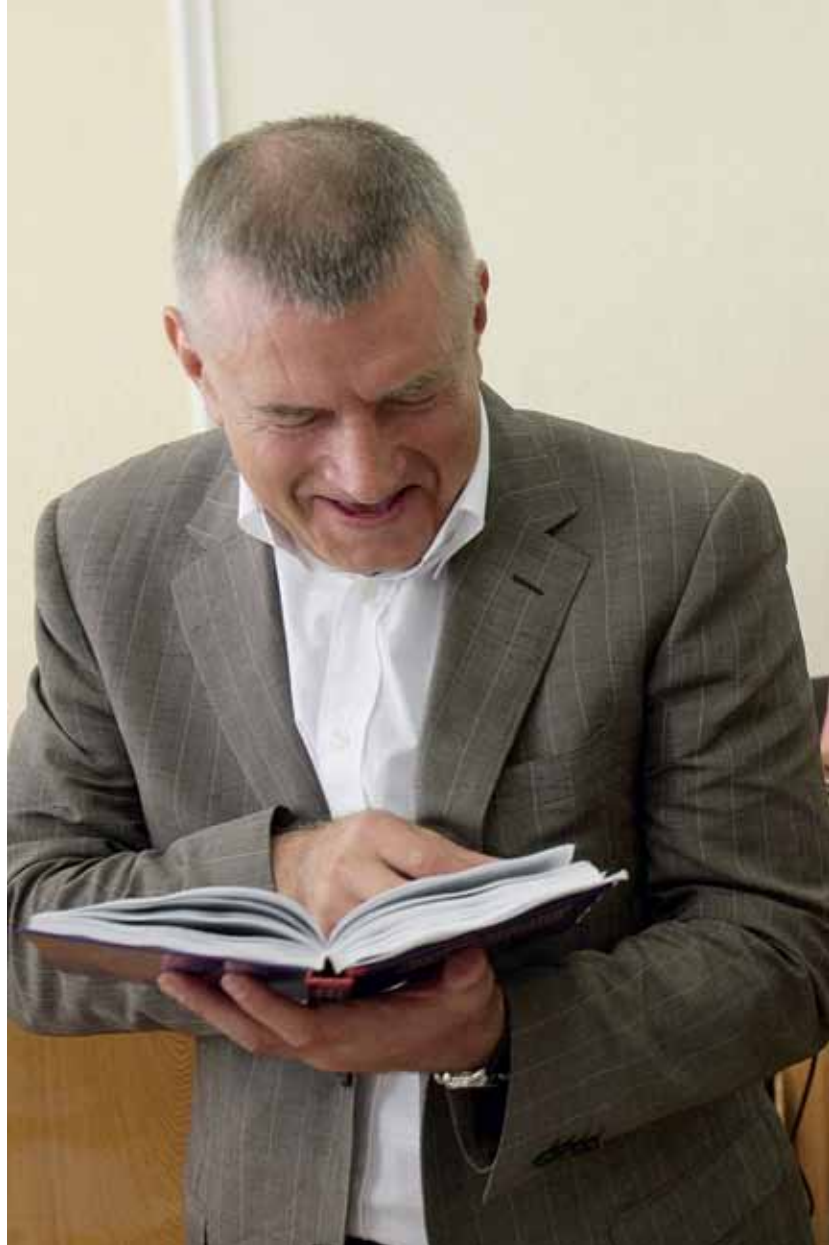
Interviewer:
Alla Lazareva

Court hearings in the Yuriy Lutsenko case are over. So are lawyers' debates. Just days ago, Kyiv Pechersk District Court ruled that the verdict would be announced on February 27. Apparently, prosecutors feel they have to rush, possibly to forestall the verdict of the European Court of Human Rights.

The Ukrainian Week talks to Oleksiy Bahanets, Yuriy Lutsenko's lawyer, about the proceedings and the virtual switch of witnesses from the position of accusation to defence, an extremely rare occurrence in court practice, particularly in a situation where prosecutors are acting to please the government.

UW: According to the press, the prosecution listed nearly 150 witnesses in the Lutsenko case, compared to those listed by the defence – a mere 16. The former were either questioned or their testimony was read. Did any of the witnesses for the defence have an opportunity to speak in court?

– The Office of the Prosecutor General of Ukraine declared that a list of 145 people had been added to the charge sheet, who will be summoned to give evidence in court, making a total of 148 witnesses. The defence only declared 16 witnesses, including three employees of the Prosecutor General's Office, namely two investigators and one Deputy Prosecutor General of Ukraine. They participated in the falsification of materials in the criminal case and applied illegal investigative means. However, the court denied our petition without providing substantiated grounds.



UW: Many prosecution witnesses refused to confirm the written testimony they had given at the Prosecutor General's Office and essentially supported Mr. Lutsenko. How many were there? Who were they?

– The Office of the Prosecutor General interrogated more than 200 people during the pre-trial investigation of the case against Mr. Lutsenko. At first, nine signed the interrogation transcript, where they confirmed that when he was Minister of the Interior, he had allegedly given supposedly illegal orders concerning his former driver, police officer Leonid Prystupliuk. These were his former colleagues including Mykhailo Kliuyev, First Deputy Minister; Oleksandr Fokin, Deputy Minister; Valeriy Melnyk, Chief-of-Staff for the Interior Minister; Mykola Kurko and Volodymyr Kryvolapchuk, both heads of the Human Resources De-

partment for the Interior Ministry; Oleksiy Prylipko, Serhiy Levchenko and Volodymyr Stepanenko, heads of the Operational Services Department; as well as Vasyl Sheludko, Head of the Maintenance Department.

They all refuted the data of the pre-trial investigation, saying they had not received a single illegal order from Mr. Lutsenko, either directly or indirectly. They were confident that they had acted in accordance with valid legislation when checking and initialing all draft orders and instructions, subsequently signed by Mr. Lutsenko. They said that the differences in their testimonies could be largely explained by pressure from the Prosecutor General's Office and the deliberate of what they had said distortion by the latter, as well as the recording of information that they had not provided.



PHOTO: UNIAN

As for other witnesses listed by the prosecution, they were all middle and lower level management employees of the Interior Ministry headquarters, such as heads of sectors, departments, divisions or individual units, as well as investigators. Since they were not eyewitnesses to the incidents of which the minister is now charged, to make it look as if they had a lot of evidence, during their questioning of these people, investigators from the Prosecutor General's Office did not investigate the facts that they already knew, merely clarified their assumptions and opinions, asking them "could Lutsenko have acted this way...", "could he have given such instructions" and "do you think that similar actions by other Interior Ministry employees would be considered illegal"...

This is why all of them said they knew nothing of Mr. Lutsen-

ko's crimes and that the information set forth in their interrogation transcripts were only assumptions, moreover they were twisted and falsified by the investigators of the Prosecutor General's Office.

Thus, 87 of 145 witnesses presented by the public prosecutors were questioned in court. None gave evidence against Mr. Lutsenko.

UW: Several dozen witnesses from the prosecution refused to appear in court. Mr. Lutsenko insisted that they should be summoned and questioned in court, but the judge dismissed this request. Can the court legitimately take such evidence into account?

— Since the court stated evidence supposedly given during the pre-trial investigation, it can be used by the court to prove either the guilt or the innocence of the

defendant. As for the legal grounds for calling so many witnesses — they are a complete fabrication. The materials of the case had no evidence, which would explain why these people could not come to court.

UW: What are the prospects for the case against Lutsenko? Rumor has it that the prosecution is rushing to announce its verdict before the European Court of Human Rights makes its decision on the ex-minister's application.

— It's difficult to say anything at this point, since the law and legislation of Ukraine are ineffective, at least in cases against the government's political opponents. There are no legal grounds to give Mr. Lutsenko a guilty verdict. The defence has no doubt that the court is being controlled from outside. Evidence of this is that almost as many witnesses were questioned and as much evidence declared over two weeks of 2012, as over eight months in 2011. Moreover, nearly every day, the process took up just about all working hours, despite other cases being assigned to the judges for consideration during the same period, but they were not heard. This gives objective grounds to conclude that instructions have indeed been issued to speed up the consideration of the case, so that the verdict is announced before the ECtHR announces its decision on Lutsenko's application, and it is quite obvious what the latter decision will be.

UW: To what extent is the information provided by Hennadiy Moskal to the court regarding the assassination attempt on Yuriy Lutsenko, allegedly planned by Maksim Ku-rochkin, a Russian businessman, reliable?

— It's difficult to answer this question, since I wasn't an eyewitness. The only thing I can confirm is that Mr. Lutsenko also mentioned the attempt to me prior to Hennadiy Moskal, the First Deputy, announced it to the court.

UW: Mr. Lutsenko's lawyers insisted on summoning Leonid Kravchuk and Oleksandr Turchynov to court to give evidence. Why do you think it's important to hear these people?



Valeriy Melnyk, former chief of the apparatus, aide and advisor to Yuriy Lutsenko, is considered a key witness in the case against the former Interior Minister. The Prosecutor General's Office pinned special hopes on this witness during pre-trial investigation

UW: How come some witnesses for the defence withdrew the testimonies they gave in the Prosecutor General's Office?

— I want to tell you that it is better to go through the Afghan War than be interrogated in the prosecutor general's office. First, I had just had surgery and needed to have fresh bandages put on. Meanwhile, they would not even let me, pardon the details, go to the bathroom. They took away my phone and watched my every step. These people are indifferent to all things human. Then they took me to a room where I was interrogated by three people. They questioned me about Lutsenko's wife, his driver and personal life. When I asked them whether this was an interrogation, they said it was just an ordinary conversation.

I was in a condition that required my taking medications regularly. They did not let me do anything, even though I kindly asked them several times. The first interrogation continued for about 10 hours during which I did not drink or eat anything and had no right to leave anywhere.

UW: Were you threatened during the interrogation?

— Yes. They explained to me that the case had to be closed as soon as possible, and said that if I did not answer their questions, I would follow Lutsenko to prison. Their tone was threatening.

The transcript of the interrogation contained a lot of nonsense, and I asked to have it redone. They did so for the second interrogation. During the third one they videoed everything, but my physical condition did not permit me to speak normally. They showed me a computer screen with questions and answers that I had to read.

When I asked them to give me the text to read it again, they refused. I was distracted in different ways and so I signed what the Prosecutor General's Office needed.

UW: Didn't you understand what you were reading? Did you try to refuse?

— I tried to refuse, but they forced me to read. They brought up personal moments, because this system knows everything. Let me repeat that my physical condition was poor, and with the diagnosis I had, I was unable to answer questions normally. But in court I said that my testimony in the Prosecutor General's Office was given under pressure. People working in that structure are inhuman.

U.W.: You know most of the witnesses. What did conversations with them look like?

— Pressure was exerted on virtually everyone. It depended on a particular person's importance for the case. They had a special approach to me, because I was closest to Lutsenko.

UW: Were any conversations held with you before you testified in court?

— Yes. The TVi channel even carried out an investigation into that. The chief of the Investigation Directorate at the Prosecutor General's Office called me and insisted we meet. I asked him what for, and he said that it was about the next day's hearing in the Lutsenko case. Even though I was not in Kyiv, I came and met with him in the morning before the court session. They consistently requested that I not withdraw testimony I gave during the pretrial investigation under any circumstances. I replied that I would say everything in court, and then they threatened that a criminal case would also be opened against me. In court, I said that I was feeling miserable during the interrogation and that I was forced to read from a computer screen.

UW: Were your phones tapped?

— Yes. I was forced to change my telephone number. Moreover, they tapped my family's phones, too. I know that from trustworthy sources. This is precisely why I threw out two of my SIM-cards.

UW: Could you please describe the procedure according to which housing was provided to Lutsenko's driver?

— The Housing Commission looked into that. His driver was from Rivne Region. So did he have to move from one apartment to another or not? He moved around with Lutsenko all the time. All the documents went through the minister's apparatus and were signed by all his deputies. A meeting of the Housing Commission decided to provide (Leonid) Prystupliuk with a flat. To my knowledge, Lutsenko

did not personally make this decision.

UW: Do you think that people from Lutsenko's inner circle were already preparing a "future case" against him back then?

— I don't rule it out. There may have been someone who did not like Lutsenko's activity. The Interior Ministry also has a certain caste-like nature, and Lutsenko was an outsider. He was a highly principled and democratic person — he never raised his voice, loved the truth and was against torture. I remember he asked all services about torture in the police. That could have gone against someone's grain. He suffered for the truth. Lutsenko was not afraid of being public, and regularly met with the press and publicized reports.

UW: This is the first case of this kind in Ukraine. Is Lutsenko such a big threat?

— Let me emphasize once again that he paid for his love for the truth. He inherited it from his father who also always defended people's interests. The Lutsenko case is vengeance for his words; it's the animal fear of this government. They are perfectly aware that if Lutsenko were free, more energetic protests would already be taking place across the country. He could be a leader.

UW: What is your prediction regarding the verdict in his case?

— Our justice system is now following commands from Bankova Str. Because the Lutsenko case is politically motivated, you cannot expect any comforting results here. This system is like a steamroller: all dissenters find themselves under the press.

UW: Do you think the European Court of Human Rights can influence the case?

— I believe the verdict will be delivered earlier. The case is being artificially sped up. Regarding the European Court of Human Rights, do you see how Ukraine is fulfilling PACE resolutions? Europe does not trust us. The animal fear of the powers-that-be forced them to resort to all possible methods in order to destroy Yulia Tymoshenko and Lutsenko in the political arena. One thing that grieves me is that an innocent person has been behind bars for so long for no good reason.

UW: If Lutsenko is sentenced to prison, what will happen next?

— First, an appeal and then another submission to the European court. But it also takes a strong-willed decision by a judge, yet our entire justice system is working for one party. However, I still believe in popular wrath. We cannot tolerate this for too long. Sooner or later people's patience will be exhausted.

– The defence wanted to subpoena Mr. Kravchuk since he was the one who issued the decree in 1992 instructing authorities to celebrate Police Day every year, while public prosecutors wanted to see Mr. Turchynov in court. Our request to question the first president of Ukraine was dismissed, while Turchynov was interrogated on February 10. Despite being summoned to court on the prosecutors' insistence, Mr. Turchynov categorically denied any wrong-doing on the part of Mr. Lutsenko as regards the charge of abuse of office for celebrating Police Day in 2008 and 2009. He pointed out the decree issued by the Cabinet of Ministers the following year, which only banned celebrations requiring additional public spending, which the Interior Ministry did not.

UW: On February 8, the court partly satisfied the requirements of the defence. Why, in your view?

– This can only be explained by the fact that from the court's point of view, these requests will have no impact on the decision as to Yuriy Lutsenko's fate, which has been made in advance. This is my personal opinion.

UW: The panel of judges described demands in the PACE Resolution to release Yulia Tymoshenko and Yuriy Lutsenko as an attempt to exert pressure on the Ukrainian judiciary. Viktor Klymenko, the public prosecutor, said the same. Do you agree with this?

– Both the panel of judges, headed by Serhiy Vovk and the prosecutor, Viktor Klymenko turned a blind eye to my appeal to revoke preventive measure against my client. In the justification to my requests I mentioned that all the circumstances taken into account by the Pechersk Court when opting for the harshest preventive measure – arrest – were no longer effective, although these grounds were far-fetched and illegal from the very start.

Firstly, the circumstance based on the clearly false claim that my client is dragging out the pre-trial investigation made by the investigator is inapplicable, since the investigation has long been concluded.

Secondly, the fact that Mr. Lutsenko exercised his constitu-

tional right to not plead guilty and contest the charge he is facing, cannot serve as grounds to apply preventive measure against him.

Thirdly, the Code of Criminal Procedure of Ukraine does not provide for grounds, such as the investigator's statement that Mr. Lutsenko had distorted the information available to him on the case in his interview for the press, to keep someone under arrest. Moreover, as most witnesses examined in court said, the Prosecutor General's investigators were the ones who had twisted the evidence given during the pre-trial investigation while some had also been subjected to psychological pressure.

Fourthly, the materials of the criminal case, collected during the pre-trial investigation and verified during its consideration in court, contain no data on the attempts or intent of my client to violate the previous preventive measure – an undertaking not to leave.

I based my requests on our criminal procedure legislation, not the PACE Resolution. I only referred to it, as well as the new law on the liberalization of Ukraine's Criminal Code on crimes related to commercial relations, as additional circumstances the judge should take into account when considering my appeal. I also referred to the declarations of President Yanukovich and Prosecutor General Pshonka, whereby they instructed the judiciary to restrict the use of arrest as a preventive measure for non-violent crimes and to release people, who have been detained for more than two months from temporary detention centers. In other words, there has been no pressure on judges whatsoever, especially on the part of PACE.

UW: In your opinion, what will be the verdict of the Pechersk Court in the Lutsenko case?

– Given the fact that I now live in a non-democratic, extrajudicial state, where courts are dependent on the executive branch, whose representatives, including the Prosecutor General, constitute a majority in the Supreme Council of Justice and the Supreme Court of Ukraine, I'm not expecting a legitimate verdict. However, according to the law, the only possible verdict is "not guilty". ■

COMMENT



Former Interior Ministry employee **Mykola Lehenkyi** is one of them. He was deputy head of the Interior Ministry's Human Resources Department from 2005 and was personally responsible for organising Militia Day festivities in 2008 and 2009.

UW: In your opinion, why did some witnesses change their testimonies in court? Why did they say one thing in the Prosecutor General's Office and something totally different in court?

– It is hard for me to speak for everyone, but I did not change my own testimony. I said in court the same thing I said to the Prosecutor General's Office. Judging from my observations, most witnesses did the same.

UW: Were personal conversations held with you about your testimony?

– Yes, there were conversations with me. It is hard for me to say whether or not it was direct pressure. In court, I repeated what I heard from the head of the investigation group: "I can't grasp why you are defending Lutsenko... What are you thinking? I also have to think about how to apply 6.2 to you. (Point 6.2 "Refusal to open a criminal case for lacking corpus delicti. – Author). Perhaps these words should be viewed as an attempt to show a loyal attitude to me or as pressure. It's hard for me to say.

UW: Could you tell in greater detail about how Militia Day celebration was organized?

– That the celebration and the formal ceremony took place in the Ukraine Palace is a tradition, not some special fantasy of the minister. All artists performed at the concert for free. Moreover, some wanted to participate even without a personal invitation. In 2008, the preparations followed the usual scenario: an action plan was developed and approved by all heads of the units charged one task or another.

UW: Was Lutsenko personally involved in the organization activities? Or did the departments take care of everything?

– The departments dealt with organization. Each one had its own line of work. The plan itself and the organization was developed by the Directorate for Social and Humanitarian Work, which I headed at the time. The draft of this document was first approved by heads of the units that were responsible for some function or another, then by the legal department, later by all the deputy ministers and finally by the minister himself.

After the plan was approved and work was already under way, a regulation suddenly appeared which is now being imposed to Lutsenko (government order No. 943 issued in October 2008. – Author). Additional events, in particular the grand reception and fireworks, were immediately scrapped after that. Only the official event was kept intact. That is how expenses were reduced.

UW: Do you know how much money was allocated for Militia Day celebrations?

– I know that there was UAH 300,000 in the budget of the Interior Ministry to rent Ukraine Palace.

I would like to draw your attention to another detail. On November 19, the Cabinet of Ministers issued another regulation, this time about tendering procedures. Article 7 of this regulation specified the goods and services that could be purchased without a tender. These included goods and services for events and official receptions involving the President of Ukraine, the Speaker of the Verkhovna Rada and members of the Cabinet of Ministers. Relying on this article, the Treasury permitted this transaction and acknowledged that it was not a financial violation. This means that the money was disbursed in a legal way. The festivities for the **Militia Day in 2009** were held in the same way as in 2008, i.e., somewhat modestly.

Investigators On the Rise

The law enforcers who produced criminal cases against the opposition leaders have all been promoted

Author:
Anton Karpinsky

Several law enforcement officers who were responsible for producing cases against Yulia Tymoshenko and Yuriy Lutsenko have been promoted. Intriguingly, almost all of them have been moved to Ivano-Frankivsk. ■



SERHIY VOICHENKO

Previous position: investigator in especially important cases, Prosecutor General's Office.

New position: First Deputy Prosecutor of Ivano-Frankivsk

Serhiy Voichenko followed Kalifitsky to take a high position in Transcarpathia. He headed a group of investigators who put Lutsenko behind bars. Voichenko distinguished himself through the use of "dictation" for witnesses and twisting their testimonies, as was revealed in court. Strangely, no information about his promotion has been posted in the Appointments section on the official site of the Prosecutor General's Office.

In early February 2012, in his office in Ivano-Frankivsk, Voichenko was handed a copy of a lawsuit filed by Lutsenko in a U.S. federal court. Prosecutor General Viktor Pshonka, several of his subordinates, and Voichenko are defendants in the new case.

OLEKSANDR KALIFITSKY

Previous position: head of the Chief Directorate for Investigating Especially Important Cases, Prosecutor General's Office

New position: prosecutor of Ivano-Frankivsk Oblast

Oleksandr Kalifitsky is considered to be close to First Deputy Prosecutor General Renat Kuzmin, who has been dubbed "hawk for the opposition." Kalifitsky headed the Chief Directorate for Investigating Especially Important Cases in the Prosecutor General's Office. He was personally responsible for directing the prosecution in the criminal cases against former Prime Minister Yulia Tymoshenko and former Interior Minister Yuriy Lutsenko. Many of his colleagues say his cynicism makes him stand out among the rest. In 2008, his name was brought up in connection with a case fabricated against Viktor Sandyha, an investigator from the Prosecutor General's Office who disclosed large-scale embezzlement committed by Donetsk coalmine barons in the Makiyivvuhillia mine. Kalifitsky charged Sandyha, who had 22 years of experience in investigation, with stealing ... a mobile phone from a deputy Makiyivvuhillia director, one of the accused in the case. Sandyha was fired and barely escaped imprisonment. He proved his innocence only after titanic effort.



VLADYSLAV HRYSHCHENKO

Previous position: head of the Directorate for Crime Detection, Prosecutor General's Office

New position: Deputy Prosecutor of Ivano-Frankivsk Oblast

The media call Hryshchenko Kalifitsky's right-hand man. Hryshchenko has followed his boss everywhere since they met in Kyiv. When Kalifitsky was promoted to the head of the Chief Investigation Directorate in the Prosecutor General's Office, Hryshchenko was appointed head of the Directorate for Crime Detection there. The Hryshchenko-Kalifitsky duo was actively involved in producing cases against Tymoshenko and Lutsenko. When Kalifitsky was moved to Ivano-Frankivsk, Hryshchenko followed him a short time later, on October 20, 2011.



OLEKSANDR HECHVOHLOD

Previous position: investigator in the Prosecutor General's Office

New position: Deputy Prosecutor in Chernihiv Oblast

Nechvohlod's career rose rapidly on a crest of political cases. When materials about a beating of MP Oles Doniy in the Verkhovna Rada during the ratification of the Kharkiv Treaties on April 27, 2010, reached his office, he soft-pedaled the matter. He disregarded appeals from Doniy's legal representatives and refused to open a criminal case against the people who nearly shattered the MP's skull. His ability to "correctly" react to such situations must have been noticed, and he was transferred from the Kyiv Prosecutor's Office to the Chief Investigative Directorate in the Prosecutor General's Office where he was immediately assigned the gas case against Tymoshenko. The former prime minister used Nechvohlod's discordant-sounding surname to present him in her tweets as the epitome of unscrupulous investigators in the country. He was appointed Deputy Prosecutor of Chernihiv Oblast a short time after Tymoshenko's guilty verdict was delivered, on December 23, 2011.



MYKOLA HRABYK

Previous position: investigator in the Security Service of Ukraine

New position: chief of the Department of Investigations in the SBU Kharkiv Office

Hrabyk was actively involved in investigations linked to the trials against ex-top manager of Naftohaz Ihor Didenko and ex-chief of the Customs Service Anatoliy Makarenko. He was later directly responsible for directing investigative actions in the gas case against Tymoshenko. Hrabyk was promoted to Major of Justice after the Didenko case. The president awarded him with the For Courage order, 3rd degree, on Independence Day. A short time after the verdict in the Tymoshenko case was issued, he was appointed chief of the Department of Investigations in the Kharkiv Office of the SBU.

FORECAST. *The Ukrainian Week* believes that more figures involved in the trials against ex-government officials are very likely to soon be promoted. These may include the prosecutors in the Tymoshenko case (Lilia Frolova, Mykhailo Shorin, Oleksandr Mykytenko and Andriy Bairachny) and in the Lutsenko case (Viktor Klymenko, Dmytro Loban and Yevhen Zinchenko).

Court on Demand



PHOTO: UNIAN

The Constitutional Court is losing its reputation as an independent arbiter and is turning into yet another component of the presidential hierarchy

Author:
Andriy Skumin

Legend has it, that the Constitutional Court is “an independent and objective body.” However, the president’s team risks undermining its social legitimacy and reduce the reputation of the only constitutional jurisdictional body in Ukraine to that of a rank and file element of the presidential hierarchy, as it gains tactical benefits by seeking the resolution of conflicts in the Constitutional Court. However, there is no guarantee that these risks are a fait accompli.

It makes absolutely no sense to revise the procedure for selecting members of the Constitutional Court or changing their powers, since the Constitutional Court has already lost its credibility. In a recent interview, Volodymyr Shapoval, Chairman of the Central Election Commission, stated that: “No matter what we do with the Constitutional Court, it will look like moving furniture around in a brothel. The actual problem lies in the issue of where to find people with a proper sense of justice and respect for legal culture, let alone integrity. Forgive me for saying this, but if they don’t receive daily instructions, some judges look like dogs, yearning for

a stick to chase. Some of their decisions are drafted by inexperienced employees of the apparatus, while judges read them with mistakes and often don’t understand what the actual point is.”

Quite a lot has been done to discredit the Constitutional Court over the past two years. The campaign began with a decision dated April 6, 2010 which deemed that the formation of “coalition of crossover MPs” was constitutional, even though it runs counter to the decision of the Constitutional Court from September 17, 2008. The judges’ excuse was that the previous decision had been made before the approval of the Law “On the Regulation of the Verkhovna Rada of Ukraine”. In a “Dissenting Opinion”, Mr. Stetsiuk, a Constitutional Court judge, said this excuse was “not convincing” since the Constitution gives a clear list of grounds on which MPs can establish parliamentary coalitions on the one hand, and the provisions of the Regulation cannot be considered as legally equal to those of the Constitution on the other.

Indeed, the excuse was no more convincing than the voting on this decision; four judges were absent and three voted contra,

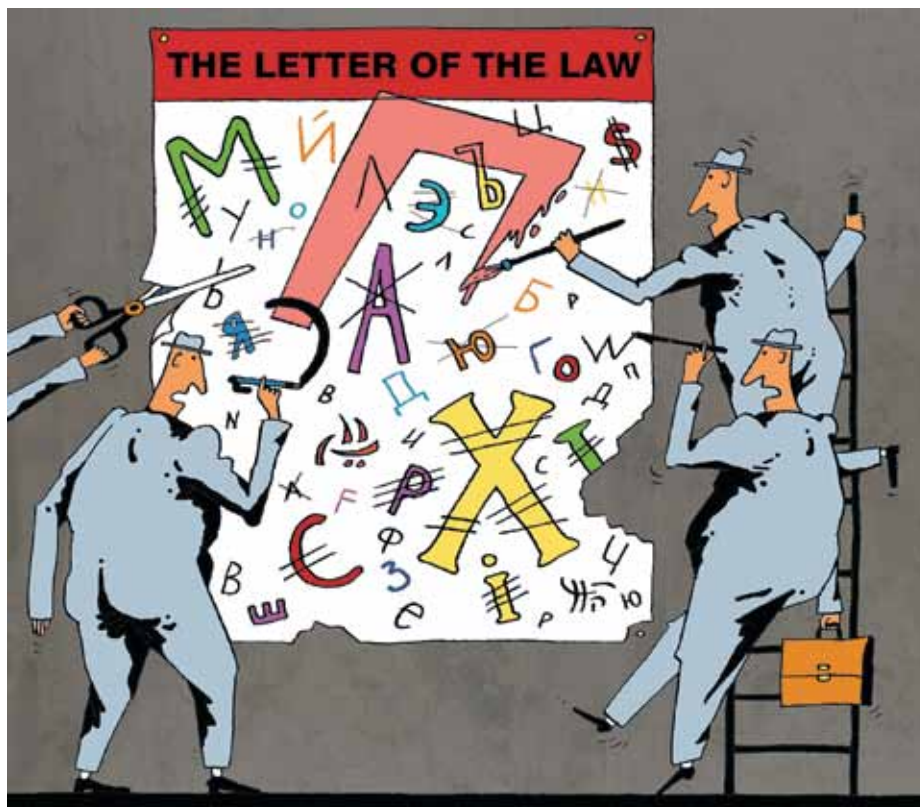
which means that only 11 of 18 members of the Constitutional Court voted according to someone’s instruction. Clearly, plotting a quiet coup, such as the cancellation of the 2004 political reform, with such human resources would be a risky move, so a comprehensive reformatting of the Constitutional Court began. On July 12, 2010, Anatoliy Holovin was elected as its Chairman. A former KGB member since 1979 and subsequently, an employee of the SBU and Prosecutor General’s Office, Mr. Holovin is from Makiyivka, Donetsk Oblast.

When Mr. Yanukovich’s team came to power, the same selection criteria were extended to the Constitutional Court as to other authorities, including Donetsk origin or Eastern Ukrainian roots and total loyalty to the Party of Regions. In September 2010, the Constitutional Court was purged of non-loyal members. On 2 September, Judge Vyacheslav Dzhunya’s powers were terminated. As a result of unprecedented pressure, Ivan Dombrovsky (as member of the Supreme Court in 2004, he supported the decision to recognize the falsification of the 2004 presidential election, thus depriving Viktor Yanukovich of the presidency), Yaroslav Machuzhak and Anatoliy Didkovsky (both supported positions which did not coincide with the views of the current president’s team, particularly the procedure for establishing parliamentary coalitions of individual MPs) resigned on 9 September. They were all replaced by the “right” candidates at voting held during the Judges’ Convention.

The latest decisions of the Constitutional Court signal that it is now completely loyal to the government. Of its 18 judges, only Viktor Shyshkin, Dmytro Lylak and Petro Stetsiuk can be considered unbiased. They have always had an independent view on the cases on which decisions have recently been made. The result was not late in coming - the Constitutional Court can now pass the most absurd decisions. Experts have already begun to talk about the necessity of dissolving the current composition of the Constitutional Court, since it is incapable of taking adequate decisions because of its lack of professional and moral status. ■

Offsetting Populism

The Constitutional Court is bringing social policy out of the legislative field to be manually managed by the government. This signals preparations for the election



DRAWING BY HOR LUKANCHENKO

Author:
Andriy
Kovalenko

On 25 January 2012, the Constitutional Court of Ukraine took yet another step to taking social policy out of the legislative field to manual administration. From now on, the Cabinet of Ministers can ignore any social commitments of the state provided for by law simply on the grounds that drafting or amending public spending is not feasible. It appears that the current government is preparing to avoid responsibility for the failed populist promises of previous years, yet is once more developing grounds for their large-scale application in the upcoming election.

ANTI-CONSTITUTIONAL

The prehistory of this outrageous ruling is as follows. The Pension Fund, represented by its adminis-

tration, applied to the Constitutional Court to interpret some provisions of the law and answer the following questions: 1) is the government authorized to establish the components and the amount of available social benefits based on its socio-economic capabilities; 2) can the government change the procedure and the amount of existing social benefits and support funded by the State Budget of Ukraine, and 3) are regulations concerning social protection of Ukrainian citizens issued by the Cabinet of Ministers to meet the requirements of the Budget Code of Ukraine, the law on the State Budget for the respective year and other documents mandatory for the courts of Ukraine?

In answer to these questions, the Constitutional Court ruled that

“meeting general social needs in terms of social protection at the expense of the State Budget of Ukraine, based on the state’s financial capabilities is one of the elements of Ukraine as a social state.” However, it failed to explain how this conclusion meets Art. 22 of the Constitution whereby “existing rights and freedoms shall not be restricted by new laws and amendments to effective laws”. This provision is imperative and has no references to “the state’s financial capabilities”. Whosoever believes it to be incompliant with reality, should initiate an amendment of the Constitution, duly justifying their position rather than just pretend that it doesn’t exist.

Ignoring the provisions of the Constitution to please the current government has lately turned into a common practice in the Constitutional Court of Ukraine. On December 26, 2011, it deemed the norms of the 2011 State Budget Law’s Transitional Provisions to be anti-constitutional. Under Chapter VII.4 of the Transitional Provisions of the Law on the 2011 State Budget of Ukraine, articles of some “social laws” were applied under the procedure and in amounts determined by the Cabinet of Ministers, based on the available financial resources of the Pension Fund’s 2011 budget.

AT THE WILL OF THE GOVERNMENT

The Constitutional Court has essentially authorized the executive branch to determine which part of social legislation should be complied with or not, at one time or another. This means that the principle of the division of power has been violated. According to its constitutional status, the Cabinet of Ministers does not have any legislative functions, while the Constitutional Court essentially requires the enforcement of the Cabinet’s regulations alongside the

laws of Ukraine when dealing with issues related to the social protection of citizens.

This sets up a precedent whereby the government can ignore any social acts passed by parliament and adds another brick to the wall crushing the Ukrainian parliamentary system, turning the Verkhovna Rada into a mere "talk-fest". From now on, the Cabinet of Ministers will only comply with decisions passed by the "only legislative authority", as the parliament is referred to in the Constitution, if it considers them to be expedient, justifying the opportunities and priorities of public spending, based on its own impressions. Given the mechanisms to pass state budgets through parliament used over the past three years, that have gone so far as to cause even members of the Party of Regions to complain in public, it is clear that a trend is emerging whereby the role of the Verkhovna Rada is being reduced to that of an advisory entity under the Cabinet of Ministers whose functions will be restricted to periodically okaying decisions made in advance by the Cabinet, while the latter will selectively implement the laws passed by parliament.

TOTAL FREEDOM

At first glance, the reason for passing what are in essence anti-constitutional decisions is incomprehensible, since all authorities are already controlled by the Presidential Administration, which could introduce necessary changes according to legislative procedures. The pro-government majority in parliament would introduce them into the state budget law (parliament has actively been using this mechanism in recent years) thereby terminating "social" acts for the current year. That's the end of it! Still the game that involves the Constitutional Court has an underlying political motivation. The president's team is obviously aware that some unpopular decisions to cut social spending in view of the budget deficit are inevitable. If a law is passed to decrease social guarantees for the public, the Party of Regions faction in parliament, along with its satellite parties, will be held responsible. Moreover, it has to be signed by the president, who is thereby taking on the burden of unpopular decisions, as all

The price of populism
Ukraine has nearly **18mn** of those entitled to privileges and subsidies

Ukrainian government provides privileges and subsidies to **380** categories of citizens, the biggest number in the world
Source: Ministry of Finance

The effect of populism
"We should remember the fact that the government cannot pay all social privileges provided for by law at once. Many of them are from the soviet past, obsolete and populist. The government, the budget and the Pension Fund are extremely short of cash, especially during the global financial crisis"
Statement from the Ministry of Finance

anti-social acts are. On the eve of the parliamentary election, this would be a risky step.

Signals have recently emerged of the government's intentions to repeat the 2004 practice, when Mr. Yanukovich's Cabinet resorted to a massive increase in social spending through the regulations it issued, i.e. regulations of the Cabinet of Ministers of Ukraine, to reinforce its competitive advantages over the opposition candidate. As a result, only months before the campaign, grants and pensions soared, but there were no legislative grounds or financial resources for these decisions. The benefits were paid from taxes collected in advance and were supposed to be cancelled after the conclusion of the presidential campaign.

Everything might be much easier this time. Controlled by the Party of Regions, the Verkhovna Rada could pass a dozen populist decisions initiated by the party in power, to convince the voters that the "better life today" they had promised during the campaign has finally arrived, clearly as a result of the "president's reforms". But if the government is unable to meet all of its pre-election commitments after the parliamentary election, which appears very likely, it can use the Constitutional Court's decision to drop them completely or partially, saying that they no longer comply

with "the state's financial capabilities". This will be perfectly "clean" from the legal standpoint.

Under such circumstances, both the president and the parliamentary majority will have the opportunity to place the burden of unpopular decisions on the government and sacrifice it from time to time, firing ministers to appease public dissatisfaction with social policy when it reaches critical levels. There is one more characteristic detail: most of the scandalous applications to the Constitutional Court of Ukraine have been recently submitted by central government authorities and local self-governments rather than the Party of Regions' MPs. For instance, the Constitutional Court's decision that essentially rules out evidence in the accusation against Leonid Kuchma for ordering the murder of journalist Georgiy Gongadze was made on the basis of an application by the SBU. The decision to seal information on the private lives of civil servants is based on a request from Zhashkiv City Council. Finally, the decision that puts regulations and instructions of the Cabinet of Ministers on the same level as laws, was made based on a relevant application by the Pension Fund of Ukraine. This means that "our party" and "our president" did not initiate these issues. It was the personal initiative of executive authorities bodies. ■

CRUCIAL VOTING IN THE CONSTITUTIONAL COURT



Decision dated October 20, 2011 regarding the use of illegal means to collect information ("the case to protect Leonid Kuchma")



Voting results: unanimous
Did not vote (absent) V. Shyshkin, N. Shaptala (at that time, the Constitutional Court was made up of 17 members)



Decision No 20- pn/2010 dated October 30, 2010 to cancel political reform



Voting results: P. Stetsiuk, V. Shyshkin voted contra; V. Ovcharenko, M. Markush did not vote (absent)



Decision dated December 13, 2011 to apply languages of ethnic minorities in courts



Voting results: V. Kampo, D. Lylak, P. Stetsiuk, V. Shyshkin voted contra; V. Ovcharenko, M. Markush did not vote (absent)



Decision No 20-pn/2011 dated

December 26, 2011 on the right of the Cabinet of Ministers to determine the amount and the procedure for expenses under "social" laws (based on the available financial resources of the Pension Fund of Ukraine's 2011 budget)



Voting results: unanimous. M. Markush, V. Ovcharenko, P. Stetsiuk, D. Lylak and S. Vynokurov did not vote (absent)



Decision No 2- pn/2012 dated January

20, 2012 regarding the interpretation of information on private and family life, including that of officials.



Voting results: unanimous. V. Ovcharenko, P. Stetsiuk and A. Stryzhak did not vote (absent)



Decision No 3- pn/2012 dated January 25, 2012 on the mandatory enforcement by the courts of Ukraine, of regulations and instructions issued by the Cabinet of Ministers regarding the social protection of citizens



Voting results: BV. Shyshkin, P. Stetsiuk, D. Lylak voted contra; A. Stryzhak did not vote (absent)

Addicted to Spending

Despite the global crisis, Ukraine is increasing its foreign debt while producing and selling less and buying more

Author:
Vyacheslav Darpinyants

A financial analyst I know who also happens to be a top manager and co-owner of a small company aptly described the current condition of Ukraine's economy by comparing it to the elk in a joke. In the joke, an elk wakes up with a hangover and goes to the river for a drink. While he is lapping up water to quench his thirst, a hunter fires a shot and wounds him. The elk pays no attention, but after another bullet hits his body, he raised his head and says in a sad voice: "I keep drinking more and more, but for some reason keep feeling worse and worse." It is an ungrateful undertaking to interpret jokes, but the topic – the economic condition of our country – is serious enough to justify our attempt. Incidentally, for a long time (until 1999) the elk were viewed as a single species, but thorough studies proved that there are, in fact, two species: *Alces Alces* (the common elk, which inhabits, in particular, Ukraine) and *Alces americanus* (the North American moose). At the moment, both species are experiencing a "hangover".

MOOSE THEORY

The tendencies inherent in the contemporary crisis can be best traced using the example of the moose. The global economy entered this stage a while ago with a slew of pre-existing conditions. Some of the causal links were highlighted in issues 38 (2011) and 48 (2011) of *The Ukrainian Week*. Since then the key trends have remained almost unchanged:

volatile currencies, a gloomy outlook for the labour market, industrial stagnation after the collapse of 2008-2009, increasing sovereign debt, etc. The only difference is perhaps that the World Bank once again scaled back its global economic forecast from 3.2% to 2.5% for 2012 and to a little over 3% for 2013. The EBRD then cut its forecast for the growth of Ukraine's GDP from 3.5% to 2.5% for 2012. Ukraine will most likely be greatly affected by the crisis in the eurozone. The most recent data on industrial production already points to a decline, its statement reads.

Essentially, the precipitation of global economic recession means that the emission of money (an anti-crisis measure to which nearly all national banks resort) is not delivering the desired result. "The elk is drinking more and more, but feeling worse and worse." Why? One explanation is that the inability to secure economic growth has to do with the structure of government expenses and the inefficient use of newly-issued money. This is partly so, but leading Russian analyst Mikhail Khazin, who began to write about the crisis and study the problems of recession long before it set in, observed that there is no direct correlation between appeals to "tighten belts" (which are heard in the USA, the EU, Russia and Ukraine and other countries) and promised "economic growth." Moreover, a sharp reduction of expenses (including from the budget) within national economies may deliver a devastating blow to them. In other



words, the elk in the joke cannot but drink. It has a hangover – and there is no getting away from it.

What are the causes behind this state of affairs? Loosely speaking, the contemporary economy may be divided into two components: the real sector (in which production and final demand are realized) and the financial sector. In the past 30 years, according to Khazin, the interaction between these two most important economic sectors was based on the financial sector producing credit (rather than monetary) emission. This approach enabled countries, financial institutions, companies and households to increase their consumption volumes, i.e., the end demand which guided producers. Naturally, debts grew (increasing even more in 2011) and were largely not paid off. Instead, they were restructured, prolonged or paid through new loans. The contemporary na-

According to the State Statistics Committee, industrial production growth has been slowing down from

9.6%
in August 2011 to
6.4%
in September,
4.7%
in October,
3.8%
in November and hardly changed in December



tional economic systems simply cannot function in any other way.

We know well what happened next: as soon as the US Federal Reserve System – the ultimate creditor – cut its interest rate to zero (essentially indicating the real value of money), panic erupted. Khazin sorted through a wide range of expert opinions, conjectures and forecasts and singled out two – in fact, interrelated and cyclic – trends: 1) financial institutions drastically cut credit volumes (which led, most importantly, to lower demand from the state and households, lower production volumes, layoffs and an even steeper decline in demand. – Ed.); 2) difficulties in paying off earlier loans (with financial institutions, companies and households going bankrupt and nations facing defaults. – Ed.).

What will happen next? What to do? It may not be a good idea to search for general answers to these questions, because it may

well be that no universal anti-crisis cure exists.

THE LOCAL REALITY

The Ukrainian Week has written in depth and on a number of occasions about the problems experienced by the Ukrainian elk. They are largely the same as in the case of *Alces americanus*, only smaller in scale and more acutely painful. But *Alces alces* is a remarkable animal. Why?

Our elk cannot live without the American moose. Ukraine's National Bank has yet to draw detailed analytical conclusions from 2011, but no result can be safely interpreted as a result in this situation. This is corroborated by both competent sources and interim official statistics. For example, in the nine months of 2011, Ukraine's gross external debt (including corporate debt) grew by \$5.8 billion and reached \$123.1 billion by the end of September. This is – just think about it – 76.6% of the national GDP. Of course, you can point to Portugal, Greece, Italy, Iceland and other countries whose sovereign debts exceed their GDP, in some cases multiple times. But they cannot be a basis for comparison, because Ukraine's GDP is measured in hryvnias, while our debts are in hard currency.

The growth of foreign debt in January-October 2011 was caused by several factors: the government placed \$2.8 billion worth of Eurobonds, guaranteed \$0.7 billion in loans and increased the commitments of other sectors in terms of trade and long-term credits (\$3 billion and \$1.4 billion, respectively). In general, our elk did not “drink” so much compared to previous years, but it was feeling even worse. In particular, the volume of

ber 30, 2012. This is almost 1.5 times the NBU's international reserves as of late September 2011. We were fortunate in previous years to have our debts restructured in one way or another. Will we have the same luck in 2012? *Alces americanus* is not in its best shape now.

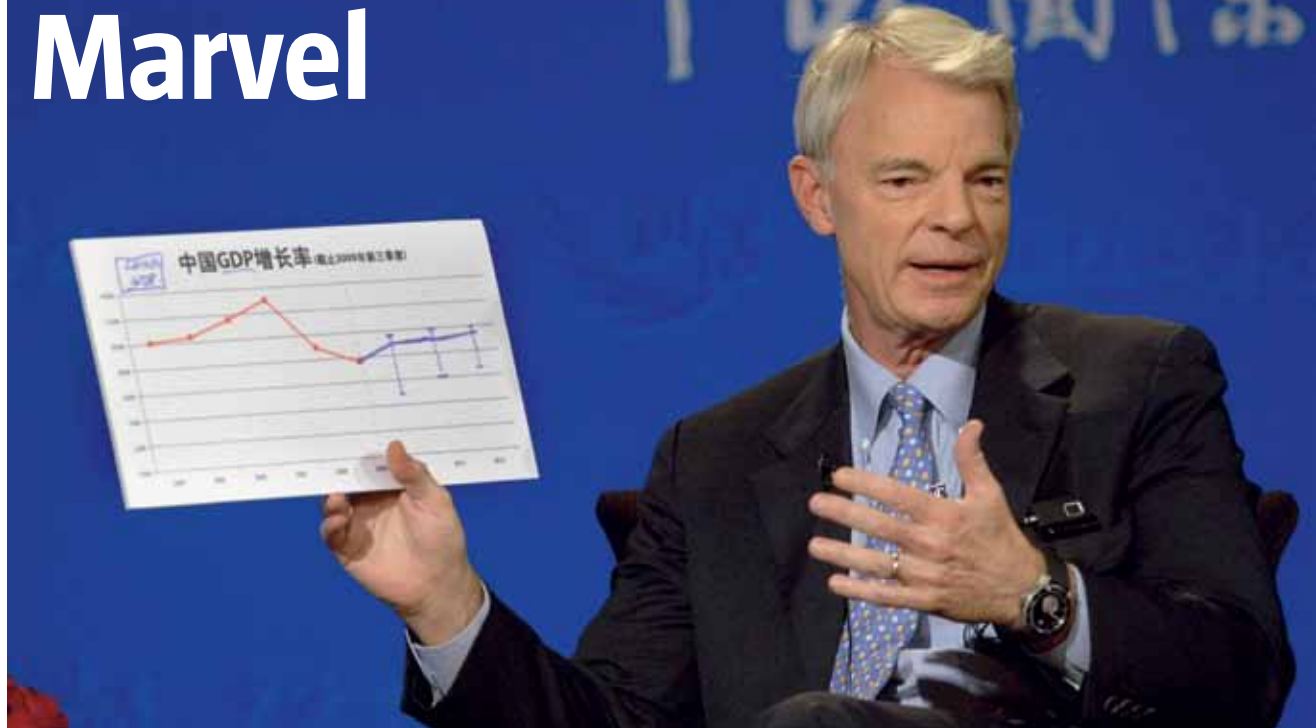
We could dwell on the condition of *Alces alces*, but the one figure that seems to stand out in this context is that the consolidated payment balance sheet for the third quarter of 2011 had a deficit of \$1.7 billion. The national bank officially admitted that this was caused by “a decrease in a capital inflow in the financial account, whereas the current account deficit continued to expand.” In other words, Ukraine received less credit and investment money than before and exported less than it imported. This latter condition has become traditional: the cumulative current account deficit grew to \$8.2 billion year-on-year as of September 30, 2011.

The real situation is clearly different from these statistical figures. But there is no need to look any deeper. The context is ridiculous as it is. Ukraine's economy is based on large industrial enterprises; imported gas is becoming more expensive; the trade balance has been negative; total foreign commitments are growing (even when the IMF does not seem to be delivering money); power in the country belongs to people who would have to be the first to suffer from all this (even disregarding the critical vox populi). “Plop, plop, plop” is a way to nowhere; this is not economic management. Strangely, *Alces alces* does not see a reflection of its condition in the “river.” We recently learned that Ukraine imported over 5,700 ploughs worth \$6.5 million in 2010. The sum may not seem very interesting, because it is much more profitable to export iron ore to China. But this is just one of many examples, and each example equals jobs that failed to be created and money that failed to be earned (not loaned!). And in general, who wants to run a country that imports ploughs? Someone told me that in the 1990s, one post-Soviet country exported spades, but they were made of titanium. ■

**\$52.6 BILLION CAN
THEORETICALLY LEAVE
THE COUNTRY BY SEPTEMBER
30, 2012**

short-term debts (remaining maturity basis) increased by \$3.1 billion in nine months to reach \$52.6 billion. This is how much currency can theoretically leave the country if creditors demand from the state and its residents that they meet their obligations in full on Septem-

Road Map to an Economic Marvel



Michael Spence, recipient of the 2001 Nobel Memorial Prize in Economic Sciences, explains why Ukraine, unlike Brazil or South Korea, has failed to make an economic breakthrough

Interviewer:
Bohdan
Tsiupyn

In 1960, the small island state of Singapore, adjacent to Malaysia, was a fishing village with an average GDP per capita of \$427. It became independent of Malaysia in 1960 and today has an average GDP per capita of \$38,000, one of the highest in the world. The fishing village became one of the largest ports in the world and a major financial center. Another island state, Cuba, had a revolution, made major changes in the lives of ordinary citizens by providing education and health care, but then chose to follow the Soviet version of central planning and languished in terms of growth and poverty reduction.”

The recipient of the 2001 Nobel Prize for the analysis of markets with asymmetric information, Michael Spence gives the example of two island countries

in his book titled *The Next Convergence* that analyzes the circumstances under which some countries, including China, have managed to force economic development for decades.

Professor Spence is an optimist. He suggests that 75% of the world population will eventually enjoy the same quality of life currently evident in so-called developed countries.

To meet this criterion, a country's GDP per capita rate must be over \$20,000. China has already crossed the \$7,600 line. Having slowed slightly as a result of the global financial crisis, it is still growing at around 9% annually.

No one can guarantee success. Each country must overcome its specific and often unpredictable difficulties. External interference is often inefficient, Michael Spence says.

Still, some inspiring examples include 13 states whose economies have been growing 7% annually over a 25-year period. Their experience is easy to outline and borrow, in theory at least. According to Prof. Spence, natural resources are often unnecessary, even burdensome to effective growth. What he means is that everything largely depends on the people of a given country, unless natural disasters and global crises affect the situation.

Why then are only a few countries repeating the success stories of Singapore and South Korea? Why have they failed to become producers and exporters or lift millions of their citizens out of poverty?

Atypical for an American economist, Prof. Spence puts an accent on factors other than purely economic ones, such as a country's openness, free competition, market mechanisms and investment draw.

In addition to these, Prof. Spence discusses the crucial role of efficient public institutions, fair laws and some non-market factors, such as the national idea and

self-identification as well as honesty and leadership talent.

Prof. Spence's book offers interesting explanations for these. He kindly spoke with The Ukrainian Week, highlighting some important aspects on the path to economic growth, and expressing his opinions on the most critical financial and economic problems now facing the world.

UW: The creation of a common European currency is often called an exciting economic experiment. Many people now criticize it, saying that it was doomed from its very inception because it was motivated by politics rather than economics. As an economist, do you see European attempts to save the common currency as a good thing?

– Absolutely! There were lots of people prior to the introduction of the euro who warned that it was risky without a higher degree of political or at least fiscal centralization. European political and policy leaders pretty much understood that, but they decided to introduce the euro first and continue with their political integration in parallel, albeit with a slight delay. What happened is that it got more delayed and the risks actually materialized, so a number of countries misused the freedom and low interest rates that went with the euro. It's turned out to be a pretty difficult situation. But I think there is still a lot of commitment to the common currency. It's a very good thing for Europe if we come out of the crisis and have a higher degree of integration that supports the monetary union, and it's good for the whole world to have an integrated Europe that's strong.

UW: Do you think that it's possible to have one currency, one monetary policy and uniform interest rates that work as well for Germany as they do for Greece and Portugal, for instance?

– I think it's pretty difficult right now. Greece and Portugal probably have to find a way to reset their economies, which means exiting from the eurozone for a while. I don't see how they can grow, especially Greece. Under the current conditions, I would say those are the two countries that most likely need to depart for a while.



Latest works by Michael Spence:

Globalization and Growth. Implications for a Post-Crisis World, 2010.

Edited by Michael Spence and Danny Leipziger. Leadership and Growth, 2010. Edited by Michael Spence and David Brady.

Health and Growth, 2009. Edited by Michael Spence and Maureen Lewis. Urbanization and Growth, 2009. Edited by Michael Spence, Patricia Clarke Annez, and Robert M. Buckley.

UW: So, you think the euro should work, but with a different list of monetary union members?

– I think the better outcome would be to have the core eurozone hold together, while it would probably be better for a couple of countries to leave. By that, I mean the countries that have become so out of balance in terms of their productivity-to-income ratio that they don't really have any growth potential.

UW: Given the problems in Europe and the US, many fear that the global economy is headed for a 1930s-style recession. Is humanity condemned to repeat a cycle of economic boom and bust forever? Aren't we supposed to accumulate knowledge and become smarter?

– I guess nobody really knows the answer to that. But history suggests that we have not mastered the art of eliminating large boom and bust. Will we learn that in the future? That's an interesting question but with a certain degree of humility one might say we don't know the answer. I'm consciously optimistic about the fact that over time we can make the global economy reasonably stable, and I think we can learn to make it feel more beneficial to most people. But there are big challenges in getting there. We have stability issues, distributional issues, employment issues, and we have all that in the context of a difficult fiscal situation in advanced countries. So, this isn't an easy problem. From an investor's point of view, there are very big downside risks.

UW: We hear a lot about debt these days, even in successful businesses and rich countries. Is debt an integral part of the economic system?

THE NATIONAL IDEA AND SELF-IDENTIFICATION AS WELL AS HONESTY AND LEADERSHIP TALENT ARE CRITICAL FOR ECONOMIC SUCCESS

– Debt, if properly used, is a perfectly legitimate part of the economic structure and financial system. It allows you to make long-term investments and dis-

tribute the costs appropriately across longer periods of time. If you have stable cash flows at the company level, you can reduce the cost of capital or increase the rate of return on equity investment. The problems we're seeing are not inherent with the notion of debt but rather with the excessive use of it.

UW: Political leaders are elected but they are not necessarily specialists in global economics. How can they be helped?

– I think that over time, both political leaders and citizens are going to be on a learning curve that entails a better understanding of the rapidly evolving environment in which we all live, economic and otherwise. So, we're probably in the early stages of that. I've spent a fair amount of time in developing countries and I find that political and policy leaders in these countries are quite interested in learning about the experiences of other nations while they plot their own course, especially in places like China, India, Brazil and so on, and I'm sure it's broader than that. I don't think the more sensible and vigorous economic policy debate is having much effect on the political process in America. Lots of people wonder why this is so, but the political process seems to be in a somewhat different world at the moment. Maybe that will change after the presidential election, but it's still too early to know.

UW: You say in your book that countries that were once poor, such as China and India, are now growing quickly and becoming more developed. Some say these countries are not getting closer to the West, but rather swapping places. For instance, China was the most developed country centuries ago while Europe was a wild place in the Middle Ages. Doesn't it seem that the world is reverting to this earlier state: China was once the center of civilization and it is becoming so once again?

– There's an element of truth in that. Asia has always been quite populous and probably there were times prior to the industrial revolution when the Middle Kingdom was a little more developed by the standards of the day and had higher income »

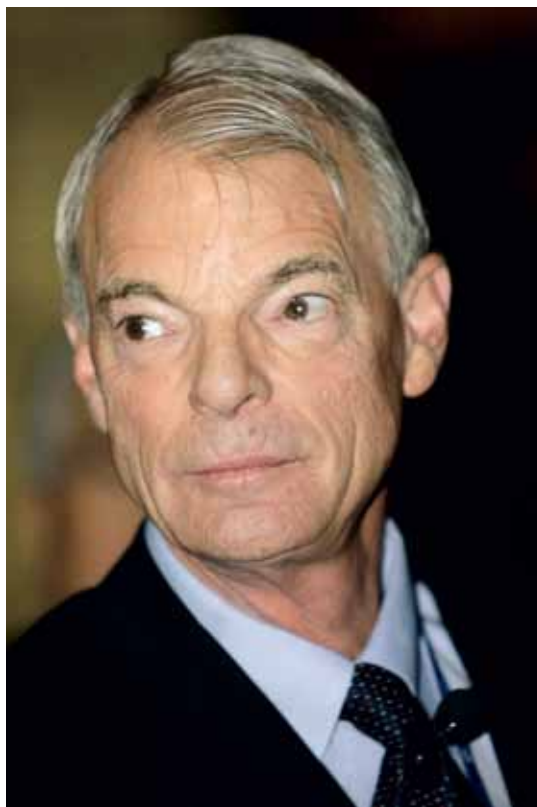
compared to Europe. These differences weren't very big by modern standards though. The book says we're in a pattern of convergence, and we have much higher income levels than we had before the industrial revolution. In a sense we're going back to the past, but in a very different configuration. And it's true because if India and China succeed due to their populations they will clearly become economic giants in the global economy. And then you'll have very big entities like North America, the European Union, Brazil and a number of other countries, but these won't have the size or the scale of China or India if they succeed.

UW: There was once a simplistic perception that China, India and other "tigers" were growing mostly because the West was buying goods produced there on credit, basically accumulating debt. Now that the run is over, can China and other similar countries still go further without relying too heavily on exports?

— No, they would be hit hard if the West stopped buying their products. If we had major economic difficulties in Europe and America, it would slow them down a little bit, although they're pretty resilient. The technical term sometimes used for this is "partially decoupled." They can definitely grow at a relatively high speed, so they're not dependant on us in the way they used to be when they were starting out on this long journey. But if you look at developed countries more carefully you will notice that they tend to be more dependent on global demand, technology and knowledge at the early stages, and they become less dependent on this as they grow bigger and richer.

UW: You offer a number of clear steps to facilitate economic growth, such as introducing market motivation for producers, opening up countries for foreign competition and investment, and introducing simple and fair rules for business. Why are more countries not growing faster if they can follow this clear and simple path?

— It gets a little more complicated in the details, but the basic idea is right. You need a functioning market system, private pro-



AN ATYPICAL AMERICAN. Michael Spence says progress does not rely on purely economic factors

THE FAST GROWERS...*

Singapore
\$59,936 (2010)
\$41,478 (2005)

South Korea
\$31,753 (2010)
\$22,600 (2005)

Brazil
\$11,845 (2010)
\$8,606 (2005)

China
\$8,394 (2010)
\$4,091 (2005)

... AND THE SLOW GROWERS*

Ukraine
\$7,198 (2010)
\$5,583 (2005)

* GDP (PPP)
per capita

perty, incentives to invest, and a reasonably stable environment governed by understandable rules that are applied even-handedly. Also, you need high levels of investment savings.

Just look carefully at the countries that haven't succeeded in the past 20 years, although many of them are starting to show signs of success. If you look at the failures where growth never occurred, one reason is that politics got tangled up because nobody had really developed a growth agenda.

UW: You've mentioned self-identity. The audience in Ukraine is particularly interested in your opinion on this issue. What is national identity? Is it something intangible or, as some people say, unimportant?

— Look at Africa. Most countries there were created in the post-war period as colonial empires collapsed. They were put together rather haphazardly from a geographic point of view. In many cases you had a group of people who really didn't think of themselves as citizens of the country. Rather, they thought of themselves as members of a religious or ethnic group, or a tribe. They were put together and told

"now you're a country." So, the most basic element of a political system should be the sense that people belong to the same unit; they have to elect honest and reasonably talented people to make decisions for them and represent their interests.

In non-mature states, these issues get sidetracked in the battle for who is going to be in power. The underpinning of those battles is a set of identities, a group of identities that really don't correspond to a country at all. That's why it's important. Leadership is important.

UW: National identification is an essential element of a successful economy?

— Of course, it is important.

UW: Would you agree with a statement that some cultures are incompatible with economic growth?

— I suppose you may think that cultures and traditions that are offended by materialism, the pursuit of wealth and goods, might well find their growth agenda inconsistent with their underlying values. I wouldn't reject this but I wouldn't accept it automatically either. Most religious traditions I know of are not completely inconsistent with the idea of reducing poverty and expanding opportunities for people, although their growth agenda is inconsistent for the most part.

UW: Some people may be surprised to know that you say in your book that natural resources are not necessarily beneficial to a country. Isn't it good to have abundant natural resources?

— It should be a good thing because it's an asset and you can use the asset to educate people, to build infrastructure and expand opportunities over time. Based on experience, however, large amounts of natural resources have frequently distorted political incentives away from having a growth agenda, and towards a fight over who gets to benefit from this wealth. It's not inevitable, yet it's been the experience of many countries. Natural resources are an asset if government structures and institutions are built well enough to be able to deploy them to the benefit of the vast majority of the people. ■

Love in a Cold Climate

Germany's eastern policy has never been stronger



Time was when “Polnische Wirtschaft” (Polish economy) was a German byword for chaos and backwardness. Now it’s a compliment. Germany trades more with Poland’s healthy economy than it does with Russia’s sickly one, including oil and gas. Other once-communist countries such as the Czech Republic are closely linked to German industry’s supply chains—more so, in fact, than some “western” neighbours like Belgium or Denmark.

The political consequences of Germany’s historic eastward integration are still unfolding. The biggest shift is the end of distrust. This dated in part from the scars of the second world war, and more recently from Germany’s close relationship with Russia under Gerhard Schröder. Since 2005, under his successor as Germany’s chancellor, Angela Merkel, that has changed. From the Baltic to the Balkans, Germany is now seen as the natural

leader in efforts to reform Europe’s economy.

In November Poland’s foreign minister, Radek Sikorski, gave a big speech in Berlin in which he urged Germany to act to save the euro. So long as Poland was consulted, he said, it would follow Berlin’s lead. Some Poles cried treason, but support elsewhere was strong. Germany’s finance minister, Wolfgang Schäuble, said he was “moved almost to tears”. The Czech foreign minister (and possible future president), Karl Schwarzenberg, called it a “Copernican revolution in Polish political thought”.

So far, Poland is pleased with the result. Its priority is not to be left out: the great Polish fear is that France, never enthusiastic about enlargement to the east, wants to recreate a more tightly integrated European Union without Poland and the other easterners. Poland counts on Germany to block that. Poland and the Baltic states also bemoan French arms sales to Russia, including four Mistral amphibious assault ships with no defensive role. Germany steers clear of such deals.

The ex-communist countries are economic liberals by EU standards. They detest talk of tax harmonisation or any weakening of the single market. But in most other respects they are

Eurobonds and other mooted concessions (pressure that Germany privately welcomes, some say). For Eurosceptic Czechs, the priority is quite different. They fear inclusion, not exclusion. This week the Czech Republic joined Britain outside Germany’s new fiscal pact. Mr Schwarzenberg has warned Germany not to throw its new-found weight around.

The Germans also hold a big carrot with the EU budget for 2014-20. For the ex-communist east the “cohesion funds” that pay for roads, railways and other modernisation projects have been a huge boon. More of that is vital; friendly ties with Germany may ensure that the deal struck in the months ahead is a good one.

The budget issue divides the easterners from their old friends. Sweden and Britain are seen as stingy budget-cutters. Memories are still sore from the last budget round, when the then prime minister Tony Blair dumped his ex-communist allies to secure a better deal for Britain. Also waning is American power. The Obama administration’s explicit reorientation towards Asia and military withdrawal from Europe is eroding old Atlanticist loyalties.

That gives Germany more diplomatic space. It is working with Poland and Ukraine to broker a deal between the Moldovan government and the breakaway region of Transdniestria. Russia and America once took the lead roles there. It is also trying to speed Romania and Bulgaria’s accession to the Schengen passport-free travel zone, against the protests of the Dutch.

German policymakers react modestly to all this, insisting that they have no desire to run Europe. But for their eastern neighbours, the prospect is no nightmare. ■

GERMANY TRADES MORE WITH POLAND’S HEALTHY ECONOMY THAN IT DOES WITH RUSSIA’S SICKLY ONE, INCLUDING OIL AND GAS

not a group: three (Estonia, Slovakia and Slovenia) sit alongside Germany in the euro zone’s inner councils. They tend to take a hawkish view, cross that their hard-up taxpayers are bailing out richer countries like Greece. They urge Germany to stay tough on monetary loosening,

© 2012 The Economist Newspaper Limited. All rights reserved



CAMOUFLAGING

Gazprom's aggressive policy during the abnormally cold weather in Europe hints at problems in Mr. Putin's energy empire. However, it appears that Ukraine will not benefit from this

Author:
Oleksandr
Kramar

As the temperature in most European countries dropped significantly, the Russian gas monopolist radically cut fuel supplies to its key consumers. Its partners in Austria and Slovakia suffered the most – a cut of 30% followed by Italy and Poland – 24% and 8% respectively. Gazprom failed to comment on the news of gas supply cuts or respond to demands to explain the situation properly. At first, Gazprom representatives denied that this had even happened. Later, they went back to their old practice of blaming Ukraine for stealing their gas. After both versions were refuted, Russians began to blame Europe. On February 3, Sergei Komlev, Director of Gazprom Export OJSC's Contract and Price Structuring Department, said backstage at the Russia 2012 Forum that “they are asking for more than we are obliged to provide” meaning Europeans by “they”. However, at a meeting with Mr. Putin the very next day, Andrei Kruglov, Gazprom's Deputy CEO, was forced to admit that for several days, the company had

indeed restricted contracted gas supplies to Europe by up to 10%, although he gave assurances that this was no longer the case. However, this has not been confirmed by European sources.

THE INCAPABLE PARTNER

The situation this year has once again reminded everyone that, despite being one of the biggest gas exporters, Russia exports less than one third of all the gas extracted in the world. Any time gas consumption rises steeply in Russia, coinciding with a similar peak in the EU, it emerges that Russia is realistically incapable of exporting significantly higher volumes.

According to Mykhailo Korchemkin, Director of the East European Gas Analysis consultancy, daily extraction and withdrawal from Gazprom's underground storage facilities have recently peaked at 1.6bn m3 and 0.63bn m3. Still, it cannot cover the loss of the fuel it used to re-export from Central Asian suppliers which have now switched to China. For instance, over the past five years, the amount of Turkmen

gas purchased by Gazprom has decreased fourfold.

Gazprom's extraction peaked in 1993 and has been steadily declining ever since, falling to 547–556bn m3 in 2003–2008 and only 508–510bn m3 in 2010–2011. The reason for this – a long-term trend caused by exhausting old deposits and the lack of investment resources to develop new ones. Available funding is generally spent on projects based on geopolitical interests rather than economically expedient projects.

Alternative gas suppliers are more flexible in responding to increased demand in European countries. Unlike Russia, they do not consume much gas, for example Norway, and/or are located in different climate zones, such as Algeria and other North African and Gulf states. The Italian Eni, for instance, has informed the public that it was increasing gas imports from Algeria and Northern Europe through Switzerland.

ENERGY NON-EMPIRE

Importantly for Ukraine, Gazprom once again preferred to solve controversial issues from its monopolist standpoint at a critical time for its partner, when Ukraine consumed 1bn m3 of gas in just three days. As a result, Gazprom refused to supply extra gas to Kyiv, wantonly accused Ukraine of the unauthorized withdrawal of gas, at

ITS WEAKNESS

the same time hinted to European consumers of the necessity for the South Stream, and to top it off, billed its clients for the contracted 800mn m3 of gas that had not been imported in January to the tune of USD 330mn.

Energy experts are convinced that the latest defamation of Ukraine before its potential EU partners and attempts to artificially create an energy crisis, are all elements of the Kremlin's big political game, which is thus increasing pressure on official Kyiv.

The motives behind the Russian leadership's talk of troubles with gas supplies to Europe are also plain to see. After all, Moscow is not making a secret of them. For one thing, Vladimir Putin said the EU should address its questions to those promoting the diversification of suppliers and campaigning against the expansion of Gazprom's presence on the European gas market, including the relevant construction of the "necessary" South Stream and Nord Stream to do so. Aleksandr Medvedev, the Director General of Gazprom Export stated point blank: "If the EU's Third Energy Package were enforced today, half of our gas transited through Nord Stream would not reach the consumers. We hope this situation will force the European Commission to think twice about what's more important: the dreams of market lib-

eralization or the establishment of real competition."

In reality, though, this blackmail coupled with reprimands, signal problems in Putin's energy empire and that all efforts are being made to grab everything possible until such time that this fact becomes obvious.

During the latest economic crisis, Gazprom made a strategic mistake by giving preference to current, as opposed to long-term profits. Its response to the ever-increasing gap between the price of its pipeline gas, supplied under long-term contracts and formula prices, and fuel prices on the spot market, primarily for liquid gas, was a stubborn reluctance to agree to any kind of compromise. It treated European consumers from the position of power, traditional for FSU countries, demanding the establishment of joint ventures and that stakes in energy companies must be sold to it. This pushed some governments, as well as the European Commission, to review the prospects of gas cooperation with Moscow while the companies applied to the Stockholm Court for a resolution of the conflict.

Back in July 2011, during the economic forum in St. Petersburg, Angela Merkel said that the change in Germany's energy policy on the closure of nuclear power stations was not grounds for the pumping of unlimited amounts of Russian gas into it or the construction of the "third, fourth and fifth pipelines". Last autumn, the

ness. Thanks to the active development of shale gas extraction in the US, the price of gas has already dropped below USD 100 per 1,000 m3 in America. It could possibly decrease further to USD 71 over the next two years, whereas the Russian domestic gas price currently exceeds USD 126 per 1,000 m3.

Even German Gref, the President of Sberbank, was so struck by what he saw in the US, that in January 2012, he expressed his doubts about the competence of Russia's energy policy. "The US Energy Information Administration is currently overestimating global gas resources more than tenfold ... with our share of 25% (according to current estimates of global reserves – ed.), we are now trying to build pipelines and maintain a monopoly on extraction. Where we're at now, in terms of energy, is creating tremendous systemic risks."

US diplomats have recently been actively involved in promoting the interests of their gas extraction companies in European countries suffering from Gazprom's dominance. On February 6, Hillary Clinton visited Bulgaria, one of Russia's key South Stream partners, calling on it to intensify cooperation with the US energy companies on shale gas extraction in order to escape Russia's unhealthy political pressure. Richard Morningstar, the Special Envoy for Eurasian Energy, is expected in Sofia next week to discuss the issue in detail.

On February 6, Philip Gordon, Assistant Secretary of State for European and Eurasian Affairs, said that at a meeting during the Munich Security Conference, Hillary Clinton had made it clear to Viktor Yanukovych that the US is interested in investing in the exploration and extraction of shale gas in Ukraine. However, this will only be possible under a general revival of cooperation with the West, which has worsened as a result of the recent anti-democratic policy of the Ukrainian government, and the improvement of the investment climate in the energy sector, particularly through the liberalization of the domestic market in the form of the inclusion on it of leading European companies and the reform of Naftogaz. ■

GAZPROM ONCE AGAIN PREFERRED TO SOLVE CONTROVERSIAL ISSUES FROM ITS MONOPOLIST STANDPOINT

European Commission refused to grant Gazprom's flows a special legal status that would allow the company to prevent the mandatory access of third parties to them.

A NEW PLAYER

Regardless of the European Commission's ability to rein in the stagnating Russian gas monopolist, a new powerful player has already entered the European market - dynamic American gas busi-

Diplomatic Advice

Wolf Dietrich Heim, Ambassador Extraordinary and Plenipotentiary of the Republic of Austria in Ukraine, talks to *The Ukrainian Week* about cooling relations between the EU and official Kyiv, the prospects of Austrian banks in Ukraine and the future of the eurozone

UW: Austria has a long history of relations with Ukraine. Does Austrian society realize today that Ukraine is not Russia? Does it see our country as part of Europe?

– Indeed, Austria has a long history of relations with large parts of Western Ukraine which used to belong to the Austro-Hungarian Empire from the late 18th century up to WWI, like Eastern Galicia (a former Polish province) and Bukovina (part of Moldova or the Ottoman Empire) or Carpatho-Ukraine, a former part of Hungary. In the late 19th and early 20th century, a generation of Ukrainian politicians, journalists and intellectuals, among them personalities like Ivan Franko, got to know the old Austrian parliamentary system, the rule of law and freedom of press.

Many Austrians kept a certain nostalgia for university towns like Lviv (Lemberg) and Chernivtsy (Czernowitz), but after 1918 these regions became distant and inaccessible. Thanks to arts and literature and in particular to authors like Joseph Roth, the history and life in Galicia would also reach a wider Austrian audience in the 20th century.

Ukraine reemerged in the overall perception in Western Europe only after the break-up of the Soviet Union. With the independence of Ukraine in 1991, Kyiv became known more and more as a European capital. The Orange Revolution contributed again to raise awareness. In 2012, the Euro soccer championship offers great opportunities for Ukraine to be better known by many young people who know too little about one of Europe's largest countries. This is a unique opportunity not to be missed.

UW: Austria is the Western European country which has traditionally been the most open towards the East. Is there some understanding in the Austrian political

Interviewers:
Dmytro Hubenko,
Oleksandr Kramar

15 months
after the EU-Ukraine
Action Plan was approved,
the official Kyiv still has no anti-corruption strategy

class of how important it is to attach Ukraine to the rest of Europe?

– There seems to be a large consensus among the political parties in the Austrian parliament with regard to relations with Ukraine. We attach great importance to events and developments in Ukraine, and there is a lot of support for drawing Ukraine closer to the EU, to approximate legislation and implement European duties and values. In line with EU policies, we are happy to provide all kind of advice, expertise and support in every area where Ukraine wishes to make use of it. In the course of the last year, however, in Austria as well as in other EU countries, some people have had some doubts about Ukraine's commitment to European values and standards.

UW: Ukraine has been heading the Central European Initiative now since January 1, 2012. Austria traditionally plays the leading role in this organization. What possibilities does CEI provide in facilitating Ukraine's integration into the EU?

– The CEI is the largest and oldest intergovernmental forum for regional cooperation in Europe. It

and prosperity of the countries in the region, enhancing economic and social cohesion in both the present and a future, enlarged Union. The CEI activities are devised in particular to assist in bringing its countries closer to the EU.

The real strength of the CEI is that it has succeeded in turning the diversity among its countries into an added value. It has created a sense of ownership of the various mechanisms of cooperation by each of its Member States, and in doing so strengthens their cooperation and commitment to assist each other in the goal of drawing closer to the EU. The CEI is now a champion of regional cooperation for European integration. Moreover, with access to three seas (the Baltic, the Adriatic and the Black Sea) and with the Danube River in the middle, the CEI is perfectly suited to act as a bridge between macro regions. It already offers its own input to the EU Strategy for the Danube Region (EUSDR) in areas such as transport, sustainable energy and research and looks forward to contribute to other possible strategies.

As far as institutional structures are concerned, the new formula of sharing competences between the Secretariat of the CEI and the Presidency, namely the MFA Meeting in Trieste and the CEI Summit in the country holding the presidency, worked well last year with the Serbian Presidency. We are encouraged that this format will be kept by the Ukrainian Presidency.

UW: How far do you think the process of cooling the relations between the EU and Ukraine can go, if Ukrainian authorities ignore calls to stop political repressions and to honor human rights?

– The obstacles on Ukraine's path towards European integration are not only individual cases of former members of government being prosecuted and prevented

IN 2012, THE EURO SOCCER CHAMPIONSHIP OFFERS GREAT OPPORTUNITIES FOR UKRAINE TO BE BETTER KNOWN BY MANY PEOPLE

encompasses 18 countries of different sizes and economic strengths, historical and political background. Half of them are European Union member states, soon 10 with Croatia likely to join next. The other CEI members are "neighbours" in close cooperation (as candidates or potential candidates). The CEI is committed to supporting good-neighbourly relations, stability, security

from political activities. If democratic values and the overall rule of law are not respected, fostered and standards not improved, any declaration of intent to move Ukraine closer to the European Union will be perceived as not very credible.

UW: Is the EU ready to have attitudes that differentiate between the authorities and the Ukrainian people?

– It helps to take a look at another example, in Belarus the EU policies make a clear distinction between the government and related authorities on one hand, and civil society and the population in general on the other.

Of course Ukraine is neither Belarus nor Russia. Yet, many leaders have been proven wrong in their assumption that certain measures cannot be sufficiently targeted, one way or another the population may suffer. This is a rather cynical approach.

If we take a look at visa liberalisation for instance. We are now in the first phase of a technical process, in which Ukraine is putting the required legislation in place. Here we see some delays, with regards to biometric documents and anti-corruption strategy and laws.

15 months after the EU-Ukraine action plan has been agreed, there is still no anti-corruption strategy or relevant laws. Once the required legal basis has been implemented, the second phase will start when the impact of the new legislation will be analysed.

We see that things cannot be rushed, if commitments are not implemented in time. Another extreme example is the commitments that Ukraine assumed when joining the Council of Europe 16 years ago, as the recent PACE resolution raised.

UW: How active is Austrian business in Ukraine today? Is activity rising or declining?

– According to the State Statistics Service of Ukraine, Austria is the fourth largest investor in Ukraine with a total of USD 3.54bn invested. This is one strong indicator of how active Austrian businesses are in Ukraine. Most Austrian investments are concentrated in the financial sector, almost all large Austrian banks and insurance compa-

nies were early foreign investors in those fields. Over the past few years, Austrian business activities have spread into many different sectors such as telecommunication, manufacturing (machinery as well as consumer products), car imports, catering services and food distribution, agriculture, real estate and also environmental services such as waste removal to name only a few.

However, due to the challenging business environment, many Austrian companies still prefer to simply trade with Ukraine rather than to invest in the country. During the recent financial crisis Austrian business activity in Ukraine also suffered albeit we only saw very few companies leaving the market for good. 2010 was definitely a year of recovery with further positive tendencies in volume and in terms of value. However, we are still below pre-crisis levels in trade volumes, while FDI has been growing continuously.

UW: How could Ukraine improve its investment climate?

– As anywhere else, investment is connected with risks. For a businessman the main risks he or she runs are – among others – economic, political and legal risks. Due to the global economic environment and mutual trading relations, it is difficult for any country alone to curb economic risk.

The risks in the political and legal sphere need to be seen mainly in a domestic context. This is where I

would see the challenges that most foreign investors look at. With some likelihood the global economic environment will remain challenging for some time to come, so any country would be well advised to lessen political and legal risks.

With regard to Ukraine, the focus needs to be on measures strengthening the rule of law, fostering the independence of the judiciary and striving for a better balance between the judicial bodies. Few observers would say there

PHOTO: UNIAN





has been much progress in this context recently.

UW: During the last decade, Austrian banks were among the biggest investors in the banking sector of Central and Eastern Europe. But as the sovereign debt crisis was unfolding in the eurozone's periphery, the Austrian government in November 2011 recommended such financial institutions as Erste Bank, Raiffeisen Bank, all present in the Ukrainian market, to limit their trans border credits. How substantial is the threat that in case of a deepening crisis in the EU these limitations may grow into — the withdrawal of capital investment from their Ukrainian subsidiaries?

— As always, it is hard to say whether or not the global economy will improve soon, or whether or not the sovereign debt crisis in many western countries will deepen. To me it seems that many western countries still need to get things done to overcome the sovereign debt crisis. Austria is not directly exposed to great downward risks. Our public debt levels are relatively modest, but need to be gradually lowered from 72% of GNP to 60%. The Austrian public sector deficit has been much lower than those in most other EU countries even in the post-crisis years.

Nonetheless the Austrian Financial Market Authority is committed to establish limits of Austrian commercial banks' credit lines in Central and European countries to a certain ratio credit/deposits. Most Austrian banks in Ukraine have limited expo-

sure in this context, their credit portfolio is covered well by deposits, thus there is little currency risk or little need to refinance externally. These limitations as well as the uncertainty related with the sovereign debt crisis in some countries should not be interpreted as a withdrawal of capital investment from Ukrainian subsidiaries. The Austrian banks in Ukraine have the relevant experience, the right size, long term strategy and enough stamina to operate in the Ukrainian market.

UW: Austria is one of the most stable countries in the eurozone, and may, as Germany or Netherlands, become a donor for the eurozone periphery. What is your opinion about the idea of turning the monetary union into a transfer union?

— Austria is a net payer to the EU budget. This means that in the framework of the wide range of EU programs our contribution to the EU budget is slightly larger than payments to Austrian farmers, enterprises, scientists and so on. How much we pay annually into the EU budget is clearly established by budget laws. How much we get out of the EU budget is a dynamic, competitive issue. It depends on Austrian individuals as much as state institutions to make the best use of EU funds. Each year, large parts of the EU budget are not made use of by member states, because projects or policies are not defined in time, or are not sufficiently in line with EU law.

The other question is what the net total accumulated economic effect of our EU membership has

been. Most experts agree that Austria has benefitted considerably from membership. This can be illustrated in several ways. Since 1995, the Austrian economy has grown considerably, has become much more competitive, has internationalized. Our exports — and most of our trade is conducted within the EU — have grown dynamically. Our external balance has been positive for years, while 20 years ago it was chronically negative. Over the last 10 years, our net FDI outflow has grown from zero to roughly €10bn annually, most of which has been invested in eastern Europe, very little in fact in southern Europe.

Before membership our market access was very limited. Ever since the European Monetary Union (EMU) was established, we have conducted more than half of our trade within the euro zone, without barriers, without transaction costs, and without many of the risks that had to be hedged or considered in pricing 15 years ago. I believe this comparison is also indicative of the potential impact of Ukrainian free trade with Europe — market access to some 500m consumers with much higher purchasing power.

EU leaders have just now adopted a set of rules intended to foster budgetary discipline through a “fiscal compact”, to increase convergence in the euro area, to strengthen the coordination of economic policies and to improve the governance of the euro area.

25 EU member states agreed that the budgetary position of the general government should be balanced or in surplus. States which run excessive deficits will have put in place a budgetary and economic partnership program including a detailed description of reforms correcting the excessive deficits.

It may take some time to fully implement this new strategy Austria has the lowest unemployment rate in the EU. This implies that our employment policies and job creation initiatives may differ considerably from other countries where unemployment is above 20%, even much higher among young people in some member states. Personally, I do not see the EMU becoming a so-called transfer union. Debts will always have to be assumed by those who have incurred them. Any club of equals where some have to cover debts incurred by others is doomed to fail. ■

Austria is the
4th largest investor
in Ukraine with
**USD
3.54bn**



O'BRIEN'S IRISH PUB

Live music

- The best breakfast in town (8.00-12.00)
- Business lunch (12.00-15.00)
- Traditional Irish dishes (8.00-2.00)
- Broadcast of football matches, on the big screen & numerous TV sets
- We take orders for parties & banquets



We accepted all kind of credit cards

**17a Mykhaylivska str.
Tel. (+38044)279-15-84
www.obriens.kiev.ua**



Double Coffee®
brewed properly.



Party Time
15% discount for all alcoholic cocktails
From 21:00 to 07:00

Kyiv, vul. Mykhailivska 6 (+38044) 591 1836	Kyiv, vul. Konstiantynivska 6 (+38044) 591 1837
Kyiv, vul. B. Khmelnytskoho 42 (+38044) 591 1835	Kyiv, Moskovsky Prospect 34 A Entertainment Center BlockBuster (+38044) 591 1838



BUSINESS IN KYIV... MADE EASY.

Located in the city centre, InterContinental Kiev offers all guests business centre services, personalised concierge service plus free WiFi in all areas. Additionally you can order a limousine transfer or upgrade to access our Club lounge while our team look after your comfort and safety.

So when work is done, you can relax in the Spa, visit b-hush, our rooftop night spot or help yourself to free beer and soft drinks from your minibar. You take care of business; let us take care of the rest.

Do you live an InterContinental life?



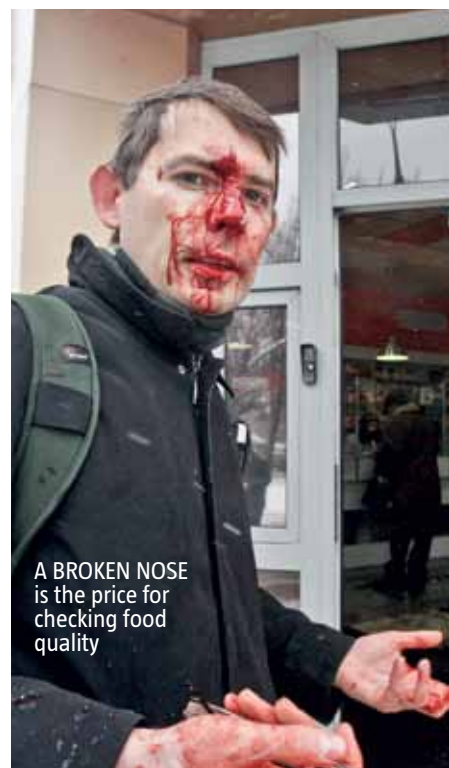
INTERCONTINENTAL
KYIV

For more information or to make a reservation please contact us at
+38 044 219 1919

In over 170 location across the globe including KYIV • LONDON • NEW YORK • PARIS

MAYHEM IN DO

Food quality check ends in a fight



Author:
Bohdan
Butkevych

Photos:
Andriy
Lomakin

Ukkraine Without Slaves, a regional non-governmental initiative in Donetsk, has launched a movement to protect consumers in Donbas. Clearly, real rather than controlled NGOs are something neither dishonest entrepreneurs, nor the government want. For this reason, activists often face attempts to quash their efforts. *The Ukrainian Week* found out what it takes to become an activist in Donetsk. Together with local NGO members, our reporters went to find violations and low-quality products in shopping malls. They soon learned that such a mission is quite dangerous. It can result in a beating and the taking away of personal belongings, especially when dealing with people who are ready to go way beyond legal limits.

THOSE WHO CARE

Stanislav Fedorchuk, a Ukraine Without Slaves activist, meets us at the railway station and immediately

takes us to the rest of the “think-tank”, including journalists Pavlo Kolesnyk and Vlad Beshpalov, and lawyer Dmytro Korobko. We are just in time: these successful people of different ages and professions, are drawing up a list of stores they are going to visit to check the quality of goods and services. The activists do not look provocative at all, but unlike millions of their countrymen, who express their dissatisfaction at home around the kitchen table, they embody it in their actions.

For more than six months now, this improvised public initiative has been causing turmoil in local supermarkets, shopping malls and parking lots. Needless to say, they face resistance in the form of beatings, being sworn at and sued based on concocted accusations. For example, the Astor supermarket chain lost its case against Dmytro Korobko, accusing the lawyer of tearing price tags off the fish while checking its quality.

“We faced some tough reaction from Decor Donbass and Sokol, two shopping malls in Donetsk, during our latest raids there,” said Pavlo Kolesnyk. We immediately decide to go there to find out whether they really beat people for a using a camera in their stores.

GET OUT OF THE STORE

We started with the Velyka Kyshehnia (Big Pocket – **trans.**) supermarket on the first floor of Decor Donbass. The activists’ well-trained eyes only take minutes to detect expired yoghurts, food stored in open trays and other violations. But, the security guards are very polite, so are the administrators who come out to meet us later. They go as far as to show us their documents and promise to take care of the faults we found. We give them the expired goods and go to Decor Donbass itself on the next floor. No problems here either: the security guards watch us but make no effort to interfere.

DONETSK

Inspired with this fortuitous beginning, we move on to 45, Leninski Prospect, where the Sokol shopping mall is located. A few days ago, six women checking the quality of products sold in the supermarket, were treated very badly. There has been no response from the police to two claims of the beatings they were subjected to. Dmytro Korobko jokes: "We have to call the police before even going inside. Given the previous incident, the security must be well armed here". We all treated this as a joke, only to discover later, that this was far from being the case.

We see just one security guard as we enter. Activists come up to the dairy section and see butter that has a weird color. As soon as Andriy Lomakin, *The Ukrainian Week's* photographer, tries to take a picture of it, a young man approached and rudely asked why we were doing this. "We are citizens of Ukraine and Ukrainian laws allow us to take photographs on the sales floor," Pavlo Kolesnyk replies. The following dialogue ensues (recorded from Pavlo's blog – ed.):

Young Man (Mr. X): Get out of the store!

Pavlo: Who are you?

Mr. X.: I'm the administrator of this store.

Pavlo: Why do you want us to leave the store?

Mr. X.: Because you are taking photos.

Pavlo: But this is allowed by law (Pavlo attempts to move the discussion out of the conflict zone).

Mr. X.: Which law does that? Did you ask in the Admin. Office?

Pavlo: Article 50 of the Constitution of Ukraine...

– Did you get permission from the Admin. Office to take pictures here or not? **Mr. X insists.**

Stanislav Fedorchuk tries to intervene in the conversation, but the so-called administrator without a relevant name tag, nervously calls out security, "Security! Here!" We

are almost instantly surrounded by six or seven security guards.

NO VIDEO RECORDING

As they shout "Get them out of here," the security pushes us out, grabs our camera and cell phones, and openly beats us up. They drag us past check-outs where many people wait in line and indifferently push us forward so that we don't interfere with their "shopping". One security guard smashes Pavlo's face with a well-trained blow and throws him out onto the street, where he leans over him and shouts hysterically "Now you know, b...tch? Video recording is forbidden!". Another one hits Andriy Lomakin, the photographer, on the back of his head. Andriy falls down the stairs and faints. I was the next one to be shoved out of the supermarket. Stanislav Fedorchuk is knocked to the floor and kicked in the head for an extended period.

Meanwhile, Pavlo Kolesnyk tries to get to his feet but is immediately beaten again and ordered to give up his cell phone. The guards continue beating him for another 100-150 meters while one reaches into his pocket, trying to grab the phone. The journalist only saves it thanks to the strap wrapped around his wrist. Shouting "Help, they're killing us!" has absolutely no effect, neither on the "security guards", whose faces show bloodlust and awareness of impunity, nor on passersby hunching over and rushing to do their business, as if they

are not witnessing a group robbery and beating. I finally manage to drag Pavlo to the closest drugstore.

Later, efforts were made to call out the police – who finally arrive 30 minutes later. After long explanations of what happened, the district police officer at the Lenin District Police Department in Donetsk, says that there is no way he can believe that the security guards beat us up for no apparent reason. Two ambulances took the activists to the hospital. Stanislav Fedorchuk was hospitalized one day after the beating, suffering from concussion and head trauma. Andriy Lomakin and Pavlo Kolesnyk were also diagnosed with concussions, with the latter also having a broken nose and head injury.

Donetsk Mayor Oleksandr Lukianchenko said the incident was "shameful for the city" and that he would take it under his personal control. Sokol might even be closed down. Indeed, at the time of publication, the shopping mall was closed, yet it is now open. Criminal cases were initiated under two articles including Art. 171 and 125.2 of the Criminal Code of Ukraine regarding interference into professional journalist activity and trivial injury. The majority of Donetsk City Council consisting of the Party of Regions' members refused to put the issue of license withdrawal from the shopping mall on the agenda. There is no guarantee that the mayhem-makers will be held liable. ■

ART. 50 OF THE CONSTITUTION

Everyone is entitled to safe environment and reimbursement of damage resulting from the violation of this right. Everyone has a guaranteed right to have free access to information on the environment, the quality of food and items used in everyday life and the right to spread such information. No one can seal such information

LESSONS LEARNED.

The staff of Velyka Kyshenia politely withdraws expired food from the display area



Eastern Convicts

1942 saw the beginning of the mass deportation of people from Ukraine for forced labour in the Third Reich



Author:
Tetiana
Paštushenko

National-socialist *arbeits-einsatz* (labour deployment – ed.) during WWII was the largest employment of foreigners in the economy of a separate country in history since the times of slavery. If one takes into account the fact that 50% of these soviet labourers were from the territory, now occupied by modern Ukraine, then our compatriots made up one of the

largest groups of foreigners, working in the Reich. During the occupation of the Wehrmacht, just about every Ukrainian family experienced the calamity of labour deployment. Forced labour in Nazi Germany and the post-war Soviet repatriation policy had tragic consequences on the fate of millions of people in our country, radically changing the course of their lives.

FROM PROPAGANDA TO FORCED DEPORTATION

The first Ukrainians already found themselves in German forced labour in the summer of 1939. These were the residents of Zakarpattia (Transcarpathia) which at that time was occupied by Hungarian forces, who were liberated and sent to work in Austria. The next wave to be sent to the Reich in early Sep-

tember 1939, were servicemen from Halychyna (Galicia) serving in the Polish Army, who were captured and subsequently joined the ranks of civilian labourers. The first civilian labourers from Ukrainian territories, occupied by the Wehrmacht, voluntarily left for Germany in the summer of 1941 from the “Halychyna” district.

Prior to the German-Soviet war, the Nazi leadership had not planned to use work forces from occupied territories in the USSR (particularly Ukraine) in the industry of its own country. On the contrary, schemes had been developed for the mass destruction of millions of local residents (Generalplan Ost – General Plan East) and the German colonization of captured Soviet lands. The failure of the “blitzkrieg” in autumn 1941, the necessity to conduct positional military action and mobilize ever more German peasants and labourers to the army, forced Hitler to partially change his extermination plans and use the labour resource of his occupied Eastern territories in the economic interests of the Third Reich.

First of all, Nazi functionaries pinned their hopes on several million Soviet prisoners of war. However, by the end of 1941, of the 3.5mn captured Soviet servicemen, 60% did not survive the hunger of the winter of 1941/1942. The main efforts of the Germans on captured Soviet territories were subsequently directed towards recruiting civilian labourers.

The Nazi propaganda campaign in Ukraine began in the winter of 1942. Its top priority was to target large cities: Kharkiv, Kyiv, Stalin (now Donetsk) and Dnipropetrovsk. In view of the unemployment and hunger, the population of large industrial centers became the desired catch of Nazi propaganda.

At the peak of the winter hunger of 1942, an appeal by the General-Commissioner of Kyiv, Kvittrau was published on the pages of the Kyiv-based newspaper, “Nove Ukrayinske Slovo” (“New Ukrainian Word”): “Ukrainian men and women! Germany is giving you the opportunity to have useful and gainful work. The first transport trains are setting off for Germany in January 1942. You will have good provisions during the journey and in addition, there will be



PHOTO FROM WARALBUM.RU

hot food in Kyiv, Zdolbuniv and Przemyśl. In Germany, you will be well taken care of and will find good living conditions. Wages will also be good: you will receive money according to the tariff and your productivity. Your families will be taken care of for the duration of your work in Germany”.

It's no wonder that a lot of unemployed city-folk, exhausted by hunger and hopeless existence in half-ruined cities, believed the promises of the German recruiters. The first echelon, comprised of 1,117 labourers-specialists, set off from Kharkiv to Koeln on January 18, 1942, the second to Brandenburg – on January 21. The first train of labour resources from Kyiv to Germany, comprised of 1,500 people, departed on January 22, 1942, and from Stalin – on February 24. A specific feature of the initial German labour recruitment, was the clear-cut specialization of labourers according to their professions (preference was given to men specializing in construction, metallurgy, mining, etc), as well as their largely voluntary nature.

By February 1942, German officials were already demanding an additional 290,000 farmworkers and 80,000 qualified specialists for German industry – 30,000 from Kyiv and 50,000 from Stalin, Ukraine. However, the flow of volunteers did not satisfy the ever-increasing demand for a labour force, and after the first letters from “free Europe”, it ground to a

**FORCED
MIGRATION:**
Ukrainian
women are
forced to go
to work in
Germany.
Spring 1943

complete halt. An extensive forced deportation campaign was begun, in which even local authorities and the police participated.

After the introduction of the position of General Plenipotentiary for Labour Deployment in March 1942, which was filled by Fritz Sauckel, the scale of the work of recruitment commissions increased significantly in the East. In »

COMPENSATION

In 1946, the International Military Tribunal in Nuremberg recognized the Nazi practice of expatriation and the forced labor of foreigners as a crime against humanity and a gross violation of the standards of international law. However, the issue of the determination of forced laborers as victims of Nazism and their right to compensation remained beyond the limits of international-legal and internal state regulation for a prolonged period of time.

It was only towards the end of the 1980s that negotiations began between the USSR and West Germany (FRG) regarding the paying of humanitarian aid to former forced laborers from the Soviet Union, which were concluded in 1993 with the signing of a Russian-German treaty. For its implementation, the FRG allocated DEM 1bn for distribution to the “Mutual Understanding and Reconciliation” funds, which were established in Kyiv, Moscow and Minsk.

In September 1993, during trilateral negotiations in Minsk, this sum was divided between Russia, Ukraine and Belarus in a ratio of 40%, 40% and 20% accordingly. As of September 1, 1999, humanitarian payments in Ukraine were received by 631,375 people, for which DEM 377.4mn was allocated.

In September 2000, the “Remembrance, Responsibility and Future” foundation was established in the FRG, the participants of which included not only the state of Germany, but also its industrial circles. Its task was not the provision of humanitarian aid, but compensation for forced labor. According to the results of its activities, by June 2007, when payments were officially finalized, 1.6mn people in more than 100 countries of the world received a total of EUR 4.37bn. In Ukraine, the “Mutual Understanding and Reconciliation” Fund paid out a total of EUR 867mn to 471,000 claimants, including former Ostarbeiters and their heirs.



GOTO 3 GALLERY, VARSALEBUM.RU

his telegram to the Reich Commissars in occupied regions, dated March 31, 1942, he openly demanded the use of forcible measures: "I am asking you to force recruitment, for which you, together with the commissions, are responsible, using all possible measures, including the strict application of the forced labour principle, in order to treble the number of recruits in as short a time as possible".

The Germans began mass raids on the local population, engaging local police and soldiers of the Wehrmacht, as of September 1942. The implemented system of promises, social pressure and brutal terror allowed them to deport more than 1mn civilian labourers from the occupied Eastern territories, most of them (714,000) from Ukraine.

For Ukrainians, 1943 was marked by a new campaign on the part of the Nazis: the mobilization of able-bodied labourers aged between 16 and 50. There was no mention of free will, even in the propaganda notices. In 1943, the Germans deported almost 1.09mn people from Ukraine and in 1944 – an additional 600,000.

UNDER THE OST SIGN

Regardless of whether they went to the Reich under voluntary or forcible conditions, Ukrainians had the same social and legal status, or to be more accurate, they had no rights. In order to ensure the "purity of German blood", prevent the spreading of the influence of "Soviet propaganda" on Germans and



PHOTO FROM THE PRIVATE ARCHIVE OF VIKTOR MORYLNYI

attain the productive use of people from Eastern occupied territories, the Reichssicherheitshauptamt – Reich Main Security Office (RSHA) was tasked with drafting a complex of special documents, which would regulate this process. Bernhard Baatz, an official of the RSHA, proposed an identifying sign for this multi-national category of labourers in the form of a triangle with the letters OST on a blue background (similar to the sign for Polish labourers from the

GERMAN RECORDS:
Ostarbeiter
working
certificate
of Ukrainian
Sophia
Rudenko

General Governate, which contained the letter P). In time, people from Eastern occupied territories wearing this sign came to be called Ostarbeiters, in other words, labourers from the East. Not all the newcomers from Ukraine were called Ostarbeiters. People from Halychyna had a different legal status in the Reich.

The main principles regarding the use of Eastern labourers were set forth in so-called Decrees on Ostarbeiters, prepared by a special RSHA commission and signed by Heinrich Himmler on February 20, 1942. They provided for the supervision of their work, relocation, leisure and even sex life. Ostarbeiters were housed in special camps under strict guard. At production facilities, they were segregated from Germans and other foreign labourers, were given pay, which was half, or even a third of the salary of Germans, from which their living expenses were deducted. Nutrition standards were the lowest among the other categories of foreign labourers in Germany. Penalties for labour and political transgressions included a wide range of measures from corporal punishment to being sent to penal or concentration camps. For sexual contact between an Ostarbeiter and a German woman – capital punishment for the partner and concentration camp for a woman.

Legislation regarding Eastern labourers changed throughout the war. At year-end of 1942, they were allowed to write to their families (two postcards per month), from November 1943 – they could leave the camp at the discretion of the camp leaders, and towards the end of 1944, the nutrition standards for people from the Soviet Union were made comparable to those of other foreigners. However, before the conclusion of the war, Eastern labourers remained the most oppressed and the ones lacking the most rights in the Third Reich.

Chances for survival largely depended on where a person ended up: at a state production facility, where working and living conditions were the most difficult, or on a private farm, where it was easier to subsist. One third of the Ostarbeiters worked on farms, 45% in industry. According to gender-age composition indices among Eastern labourers, the large-

est was that of women (51%) and the largest number of minors (almost 41% among men and 60% among women).

Poor living conditions, inadequate nutrition, hard work, catastrophic sanitary and hygienic conditions in the camps and the spread of various parasites and vermin led a situation whereby the highest percentage of injuries and mortality from infectious diseases and exhaustion was observed among the Ostarbeiters (compared to other foreigners). Most deaths were caused by tuberculosis, cardiovascular problems, consumption, industrial accidents and typhoid.

According to statistical data, average monthly mortality among Ostarbeiters in 1943 was up to 1,210. However, in 1944–1945, it was even higher, as a result of allied air strikes. According to detailed calculations, 80–100,000 Ostarbeiters died in the Reich.

The living conditions of Ukrainians differed from camp to camp and from farm to farm. Many years after the war, a lot of the forced labourers were able to talk about the help and compassion of their German colleagues at work and humane treatment on the part of the “Bauers” (German farmers). For some of them, this was the first, and sometimes their only trip, not only abroad, but also beyond their own village. And through barbed wire, many of them were able to see a significantly higher standard of living, not only of average Germans, but also Czechs, Poles, the French and their brothers in captivity. For some, it was an opportunity to escape from the former Soviet reality, not to return to the USSR.

REPATRIATION

Once military operations came to an end in Europe in 1945, for a certain period of time, most forced labour from the East lived in displaced persons' camps in West Germany. According to international treaties between the allies and the anti-Hitler coalition, approved at the Yalta and Potsdam Conferences in 1945, return (repatriation) to the USSR was declared to be mandatory for all the citizens, who had lived in the Soviet Union prior to 1939. There were 1.850mn such people, of which, a large proportion was made up of

During WWII,
2-2.5mn
Ukrainian workers
were forcibly taken
to the Third Reich as
workforce

THE VICTIM
OF THE NAZI
FORCED LABOR:
A US Army
doctor examines
a patient with
tuberculosis in
Dortmund coal
mines. April 30,
1945



PHOTO FROM WARALBUM.RU

former forced labour. Those who did not wish to return to the Soviet Union and were able to avoid mandatory repatriation became one of the elements of the so-called third wave of emigration from Ukraine.

Hundreds of different camps and stations were established on the territories of East European countries and on the western bor-

ders of the People's Defense Commissariat and examination-filtration stations of the NKVD, which were conducted by Chekists (Cheka agents). According to the results, only 58% were returned to their families at their former place of residence. 19% of men were mobilized to the Red Army, a further 14% – to so-called work battalions, 6.5% were handed over to the NKVD, in other words arrested, while 2% worked in temporary camps or other Soviet military units abroad. But even those who were allowed to return home had to undergo another examination in state security agencies, on the results of which, a so-called filtration case was opened on each person.

Thus, regardless of the rights and freedoms of repatriates, that were declared by the Soviet government, in real life, the political status of these people actually differed little from the status of criminal offenders (interviews with NKVD-KGB officers, the opening of special cases, mandatory registration with the police and not being able to live in capital cities). ■

EASTERN LABORERS REMAINED THE MOST OPPRESSED AND THE ONES LACKING THE MOST RIGHTS IN THE THIRD REICH

derland of the USSR in record time, in order to ensure the return from abroad of millions of Soviet citizens. Their priorities, in contrast to those of the relevant entities of Western allies, were the political filtration and statistical registration of people who had been abroad for an extended period, not medical and material aid to Nazi victims. Most repatriates were examined and filtered at front-line and army camps or temporary-transit sta-

THE BURDEN OF WAR

During the Soviet era, former Ostarbeiters were unable to rid themselves of the “working for the enemy” label

Interviewer:
Oleksandr Pahiria

Photo:
Oleksandr Chekmeniov

Forced workers of the Third Reich were mentioned neither at the pompous Victory Day celebrations, nor on any other days of the Soviet calendar. Soviet authorities always treated them with suspicion and mistrust, never providing financial and medical support, after they returned from their forced migration. People who had seen the life in Western and Central Europe, so different from the “Soviet paradise,” had long been libeled as representatives of hostile consciousness and discriminated as inferior citizens of the USSR.

Ukrainian Ostarbeiters in Pereyaslav-Khmelnytsky share their life stories with *The Ukrainian Week*. ▢



VARVARA SAVENKO

Born in 1923 in the village of Vyunyshche, Kyiv Oblast

“In April 1942, so-called policemen came and told my father that he had to go to the village council. He went, and on his return a short time later, told me to gather my belongings as I would be going to Germany. About 30 of us, both boys and girls, met near the school. We were herded to the Pereyaslav train station, I remember that we were driven in carts, freight cars stood there and we were taken in these cars to the city of Chemnitz (Germany). We were taken from the so-called distribution center – this is where factory owners, farmers, bosses and all who needed free labor, gathered – to a glove factory in the city of Mittelbach, where we knitted men’s gloves”

After her initial experience of *arbeitsinsatz* in May 1942, she wrote a letter home, in which she referred to Nazis in a derogatory manner. For this “crime”, she was arrested by the Gestapo and after numerous interrogations and beatings, was sent to a German women’s concentration camp in Ravensbrück. There she suffered from hunger, cold, infectious diseases and hard labor until April 1945, when she was liberated by Soviet forces.



OLEKSANDRA KAZAKOVTSOVA

Born in 1923 in the village of Vypovzky, Kyiv Oblast

“I was studying to be a doctor’s assistant in Vasylkiv, then went to Vypovzky, when we took our first exam. We only went there for the holidays and no-one knew that we would be taken from there to Germany. I was sent there on May 17, 1942. When we arrived, I was sent to a factory in Moosbirbaum (Austria). At first, I worked in the kitchen: washed dishes and peeled potatoes, but our barrack was bombed in the spring of 1943, so I was transferred to the medical barrack, where I worked as a medical worker, bandaging, giving calcium injections [...]. I then worked as a first aid nurse at the hospital until April 1945, when we were liberated”

After the arrival of the Soviet forces, she worked at the hospital for wounded Red Army soldiers near Lake Balaton in Hungary. On her return home in 1947, Oleksandra Hnativna and her family could no longer live in Kyiv, were harassed during their studies and work as a result of the “working for the enemy” label they earned during WWII.

**SOPHIA HOLYAND**

Born in 1924 in Pereyaslav

"I came home and my mother said: 'Sonya, my baby, they are taking children to Germany, what shall we do?' She hid me in the hay behind the house. Then they came to my mother and asked: 'Where is your daughter?' My mother replied: 'I don't know, she was here somewhere, then her friends came and they left.' They came again several times over the next three days or so, before tracking me down and catching me. There was a horse in the yard and four girls were sitting there. A lot of horses were taken from villages, and after the horses, they took the girls. They took us to the train station in June 1942" On her arrival in Bavaria, she found herself with a German farmer from the village of Bayerisch-Eisenstein. Wearing the OST sign, she carried out all the hard labor on the farm and was often beaten by the farmer and suffered from hunger. She escaped after her initial experience of exhausting hard labor. In time, she was sent to another farmer, who was compassionate towards Ukrainians (fed them together with his own family, gave them money and clothes for their work). In the spring of 1945, she ended up in the American zone of occupied Germany. Repatriation was conducted alongside the filtration by the NKVD and KGB. "We were asked about where we worked, who we worked for. This information was corroborated, after which we were given a certificate."

**MYKHAILO BORKO**

Born in 1924 in the village of Sharky in the Kyiv Oblast

"The Germans started to recruit people for Germany in early 1942 – I hid in the attic. They must have come with papers about five times. The police came on June 1, 1942 and took my father because of me, so I came out of my hiding place and my father was released. We were herded into freight cars at the Rokytna train station – there was music, singing and shouting while our mothers cried. We were sent to the city of Hof (Bavaria), where I worked in a sawmill. We lived in a hostel near an asphalt road, were escorted to work and given rubber boots and a shovel. We had to work hard, but the food was bad – 200g of bread"

After a month of hard labor and hunger, he decided to escape to Ukraine, but was detained by the Gestapo on the way. He was under investigation in Nurnberg and later incarcerated in the Flossenbürg and Mauthausen (Austria) concentration camps, where he stayed until May 5, 1945, when American forces entered the city. He underwent filtration during repatriation. After the war, Soviet bodies continued to monitor his actions. He wrote his memoirs, "My Wings were not Broken" in 2009.



Cloaked in Bearskin

“Ursus,” a Ukrainian-Georgian-German co-production, is one of the biggest and most exciting film projects of 2012

Interviewer
Yaroslav
Pidhora-Hviadzovsky

What makes the project so huge and promising is its blending of genres, crossing of borders and reincarnation of protagonists, coupled with the involvement of a large production company and an international cast. The film also represents the first use of motion capture technology in a Ukrainian big-screen production. The technique was used to produce Robert Zemeckis's *Polar Express* and *Beowulf*, as well as Steven Spielberg's latest masterpiece, *The Adventures of Tintin*. The film will utilize the new Arri Alexa camera used by Martin Scorsese to shoot *Hugo*, and also boasts battle scenes filmed in Georgia and a climactic rally through Europe and the Berlin zoo. *Ursus* is definitely one of the most anticipated movies of the year in Ukraine. The team has already made a deal with a major German distributor to show the film in theaters. The Ukrainian Week spoke with Zaza Buadze, the film's Georgian screenwriter, to find out more about the production.

UW: The script reveals allusions to the world of filmmaking: the protagonist, a former filmmaker, dreams of winning at the Berlin Film Festival; other characters have the last names of well-known directors. Are you obsessed with the Berlinale award?

—These are just fun references for film buffs. In fact, it all began exactly when the script starts, in the early 1990s, when Georgia was embroiled in a civil war. Ineke Smits, a film director from the Netherlands, was going to take the bear we had in our studio to her country. “Ineke, what are you talking about?” we told her,

“Take us, we’re all dying here!” Years later, my friend Otar Shamatava, director of the Imedi TV channel that had commissioned a series from me, recalled the story and suggested that I write a script focusing on a director that would serve as a collective portrait of our generation of filmmakers. I started writing it and Otar let me do whatever I wanted with it, so my first draft was 250 pages long. I developed two plot lines. The main one was the journey of Nika who turns into a bear and travels to the Berlin Zoo. The second one included some narratives and stories from the lives of Nika, his friend Foma, and their travelling companion Sonia. They were like unproduced short films, movies within a movie. When we realized we needed a shorter script, we had to cut the second plot line as well as most of the movie buff references. I’m reminded of this epigraph from Claude Lelouch’s *A Man and a Woman*. 20 Years Later, a pretty bad movie, I must say. “Filmmaking is backbreaking work and a little magic,” he said. Our protagonist, Jean-Pierre Jeunet, was born out of that “little magic.” He is a director in our film, which also features a bear—hence the reference to Jean-Jacques Annaud and his *The Bear*.

UW: Why do your characters go to Germany? Why there? Why wouldn’t they go to France through Annaud?

— Because the bear image started to draw in all these details like a magnet. Why go to Cannes or Venice when we have the Berlinale with its Golden Bear as the top award?

UW: The script is not in German; I’ve read it in Ukrainian. Will the film also be in Ukrainian?

— I want it to be a multilingual movie. Nika is Georgian and Foma



is a Georgian-born Ukrainian, so in the beginning, these characters speak Georgian and Ukrainian. And I didn’t just add his Ukrainian roots after I moved to Kyiv; I had seen his prototype initially in a real stuntman of Ukrainian origin at the Georgia-Film studio. Why did I choose Hohol? as his last name? I didn’t do it because KGB generals in James Bond movies are often named Pushkin. We have many Hohols in Georgia—there is a village in Western Georgia where almost all the locals are Hohols; they migrated there from Ukraine 150 years ago. They’re Georgians now but they know very well where they come from.

UW: While writing the script, did you rely on any genre or storyline tricks that you knew would be popular?

— No way! It was a flow of consciousness. I began to write the script in 2005 and we finished it with Otar in mid-2006. Dirk Dotzert, a writer, journalist, producer and experienced script doctor, helped us at the end. Since we’d seen some opportunities for



an international release for this project, its focus and perspective became important: the text contained some things only Georgians would understand, which wouldn't have connected well with Germans or Europeans. By now, a lot of people have read the script and it was well received. Everyone now understands the storyline because it's a universal one.

UW: According to the script, in order to get to Berlin at the invitation of the local zoo, Nika wears a bear costume and crosses the border with Foma. A prop master makes the costume for him from the skin of a dead animal. To write this, you must have had an idea about how to show the bear on the screen convincingly.

– From the beginning, we did it as if we were part of a conspiracy with the viewers. It was just us, the screenwriters, and the audience, plus two protagonists and the knowledge that one is a human, not a bear. Then we looked for a practical solution. With all due respect, a bear would never

Nika sees himself as a bear, not just himself in a new disguise

have the same effect as the cat, Behemoth in Volodymyr Bortko's *The Master and Margarita*. So, we either needed a fantastic costume, or a computer-generated bear. We had to think of a way to justify the presence of a CGI bear on the screen. It's not in the script but the film will have an episode where the studio props master makes the bear costume, Nika puts it on along with the bear head, comes over to the mirror and sees himself as a CGI bear, not just himself in a new disguise. Actually, we got the idea from the script, in the episode where Sonia says "Berserk!" when she sees Nika wearing the bear costume. We realized then that our character turned into a werebear, half human, half bear, not a human in a bear costume.

UW: A lot of people are speaking sarcastically about your invitation of Cate Blanchett to act in the film. How did you come up with this idea?

– She's perfect for this. She was the one we thought of as we were writing the script, not after

it. We sent Cate's agent the script in English and she liked it. We're not sure about her shooting schedule though. But we have ours very clear: we have to start shooting in June-July 2012.

UW: You chose Ukrainian actor Bohdan Beniuk as Foma. Indeed, he is somewhat like the good soldier Švejk he's been playing at the Ivan Franko Theater in Kyiv for a while now. Did you have that image in mind while writing the script?

– In fact, I didn't know Bohdan Beniuk back in 2005, but Foma is so much like Švejk or Sancho Panza. I was so happy to discover him. I knew he was born for the part.

UW: The characters travel from Georgia to Germany through Turkey, Bulgaria and Romania. Where will you shoot all those scenes?

– We'll shoot all of the Eastern European scenes in Ukraine: in Kyiv and Rakhiv, a town in the Carpathians. Georgia will do for Turkey and Georgia, and Berlin will go for Berlin. It's easy because they drive along the highway and only stop in Petrychi. Ai is a Turkish city we made up because it means "bear" in Turkish.

UW: I suppose you're going to shoot the war in Tbilisi? And I've heard you were an eyewitness...

– Yes. There is an episode in the script where a man goes to get some milk for his cat through the war zone. That was a true story, only the man didn't have a cat named Nietzsche in the script. The man came over to the soldiers hiding behind the pillars of the Rustaveli Theater and told them they didn't know how to shoot. He said he could teach them to do it right. People from outside Tbilisi won't be able to imagine that, but it was like a play or a theater show. Rustaveli Prospect in Tbilisi is different from Khreshchatyk in Kyiv. It's tiny. And that's where soldiers were shooting while passers-by stood along the sidewalks and discussed it. It was an absurd comedy. For better or for worse, God made Georgians that way. We always turn grievance or joy into a show and the war was the best proof of that. ■

¹Mykola Hohol is the Ukrainian spelling and pronunciation of "Nikolai Gogol"

Ukrainian Cinema. Making It Real

Author:
Yaroslav
Pidhora-
Hviadzovsky

The *Ukrainian Week* launched the Cinema Project column 18 months ago to talk about Ukrainian films at different stages of production. It is time now to check in and see how they are doing.

Of all the films we wrote about, Mykhailo Illienko's *Firecrosser* was released first. We have decided to see how the others are doing and what prospects they have. Remarkably, Illienko's film had significant government financing and is a purely Ukrainian product without co-production with other countries. Can we say that the Ukrainian cinema is coming back? We will see in a minute. ▮



Firecrosser (feature-length film)

Genre: historical drama

Director: Mykhailo Illienko

Status: completed

The film is based on the life story of the outstanding pilot in the Second World War, Ivan Datsenko. The film went into production in 2007 but was delayed for 18

months due to serious problems with financing. The budget of nearly \$2 million was filled by the state and the Insight-Media Production Centre.

Release: released in Ukraine on January 19 with 12 copies and drew largely positive reviews. The distributing company B&H started film screenings from Kyiv, Kharkiv and Ivano-Frankivsk. The film will be shown in 13 Ukrainian cities in January-February 2012. It is scheduled for television broadcast in 2013, and DVD and Blu-ray releases will come later.



Delirium (feature-length film)

Genre: experimental avant-garde drama

Director: Ihor Podolchak

Status: completed

The film went into production in 2008, but it took Podolchak three long years to complete it. Meanwhile, he debuted with *Las Meninas*. On the good side, he had neither deadlines nor pressure from the producers to deal with. He invested his own money and used

help from his friends and businessmen and eventually reached a budget of \$900,000. *Delirium* delivered the goods – just like *Las Meninas*, it strikes the audience with its formal complexity, combinations of visuals and sounds and undeniable ambiguity.

Release: undetermined.

Podolchak is now looking into festival participation. He did not make it in time for the Berlinale, so he is now waiting for a reply from the organizers of New York-based Tribeca Film Festival.



My country is Ukraine (an animation series)

Genre: adventure, history and comedy

Directors: Stepan Koval, Oksana Pryshchepa, Serhiy Rudenko, Andriy Sliesarevsky, Kostiantyn Chepik, Yevhen Alokhin, Oleh Tsurikov and Natalia Skriabina

Status: in production

As of October 2008, 12 of the 26 instalments were completed. According to the State Agency for Cinema, the series must be finished by the end of 2013. These three-minute pieces are being made in the Novatorfilm production studio headed by animator Stepan Koval and are based on the concept "comic stories about cities."

Release: undetermined

According to Koval, the artistic director of the project, the Ministry of Culture is supposed to take care of the film's distribution. Sources in the ministry say that he also has the right to determine the future of his product.



In Love with Kyiv (an almanac of short films)

Genre: comedy, drama and melodrama

Director: Illia Vlasov, Taras Tkachenko, Valeriy Bebko, Denys Hamzinov, Olha Hibelynda, Oleh Borshevsky and Artem Semakin

Status: completed

The almanac was launched in 2010; 10 short films were shot of which eight were included in the final collection. Each story is about Kyiv only. The shooting started in June and ended in December 2011. The \$800,000 film did not use any government money, relying exclusively on private investments. It was part of the Ukrainian stand at the Cannes Film Festival.

Release: the world premiere took place on February 9, 2012. The production company inQ signed an agreement with a large distributor, Top Film Distribution, on distributing the almanac in the CIS countries and the Baltic states.



Who is afraid of Uncle Babai? (feature-length animation)

Genre: adventure and mystique

Director: Maria Medvid

Status: in production

After starting in the spring of 2008 with a budget of UAH 10.5 million, the picture cartoon, which was fully financed from the state budget, went into hibernation in 2009 due to a lack of funds. In 2011, after a video was produced using material shot in Ukranima-film, the State Agency for Cinema decided to replace director Natalia Marchenkova with Maria Medvid. The new deadline is January 25, 2013.

Release: undetermined



Sherlock Holmes and Dr. Watson (short animation)

Genre: ironic detective story

Director: Oleksandr Bubnov

Status: close to completion

A multilayer computer animation technique with painted inserts was used for the film which went into production in 2008 as a

continuation of an 18-minute-long cartoon under the same title. The sequel was designed as a half-an-hour one-piece short animation film, but it later turned into a mini-series with six parts, each running 6.5 minutes. Director Oleksandr Bubnov intends to complete shooting by May 2012.

Release: undetermined

The world premiere is planned to take place in Ukraine after which the cartoon will be shown at festivals.



The Demons (feature-length film)

Genre: drama with elements of comedy

Director: Varvara Faier

Status: search of financing

The project kicked off in 2010 and successfully went through the pre-production stages: preliminary financing (a tentative budget of \$420,000; financing from Ukrainian and Russian private investors), deciding on locations (Poltava Region) and casting (Ukrainian and Russian actors). The project

was frozen after several autumn scenes were shot. Pitching at the Odesa Film Festival in July 2011 failed to attract investors. The film was not submitted to two government-organized competitions for financial support.

Release: undetermined



Ursus, the Caucasian Brown Bear (feature-length film)

Genre: road movie, drama

Director: Otar Shamatava

Status: preproduction

This is a Ukrainian-Georgian-German production that was started in 2011 and is scheduled

for completion in the summer of 2013. While the team is working on the director's version of the script, the producers are waiting for responses from several actors they invited. As far as financing is concerned, there is still no answer from Ukraine's State Agency for Cinema (the film successfully passed the first competition) or Georgia's Cinema Centre. Instead, the project acquired a new partner in the German company Ma.Ja.De Filmproduktion, which earlier financed two Serhiy Loznytsia films. The project will be presented for the first time at the Berlin International Film Festival on February 14, 2012.

Release: 2014



The Brothers (feature-length film)

Genre: psychological drama

Director: Viktoria Trofymenko

Status: preproduction

The project was launched in 2011 and then stopped due to a lack of financing. The film was chosen by the government for financial support. The production company, ProntoFilm, has received money and resumed work on the film. Locations have been picked, and casting trials have continued since December 2011. The first shooting period is scheduled to take place in late February 2012 in the Carpathians (the "winter story"). Then, in April and May, when the snow has melted, more shooting will be done in the mountains (the "summer story"). Producer Ihor Savychenko plans to complete the film by January 2013.

Release: autumn of 2013

Attack of the Clones

George Lucas talks about why he is bringing Star Wars back to the big screen

Interviewer:
Elaine Lipworth

Beginning with the release of the original STAR WARS: EPISODE IV - A NEW HOPE in 1977, the franchise has become a global phenomenon. The themes resonated because they were universal, examining the conflict between good and evil and between technology and humanity. In 1999, Star Wars: Episode I - The Phantom Menace opened a new prequel trilogy revealing the background of the original saga. In 2012, the force comes back again, in 3D this time. The rest five episodes will be made in 3D over the next few years.

I'm really excited about the new big screen release of the film. We've worked very hard to get the best quality 3D we could. The film was designed to put you in the environment and surround you with the sound and the picture. There is nothing like it. This will be the third generation that will be able to see it on the big screen and when you're

young, it's an overwhelming and powerful event.

STAR WARS is about generations, about one generation having to try to improve on what the generation before it did.

The first three movies were made very carefully with limited sets, costumes, aliens and spaceships. But when I went to do PHANTOM MENACE and the subsequent two movies, I was free because we had developed the visual technology by that time. I could basically do anything I wanted. I went from essentially doing frescoes and paintings on the ceilings of churches, to working out in the field with oil paints and watching the sun hit the leaves, and seeing a whole different world.

Originally I was not a big fan of 3D. I really thought 3D was a gimmick. Later on I was trying to get digital projectors into the the-



BIO

George Lucas

Writer, director and producer George Lucas directed his first feature film, *THX 1138*, in 1970. In 1971, he established his own film company, Lucasfilm Ltd. In 1997, Lucas wrote and directed *STAR WARS*, which broke all box office records and earned seven Oscars. Then, he went on to co-write *THE EMPIRE STRIKES BACK* and *RETURN OF THE JEDI*, where he was also executive producer. In 1999, he started to work on the prequel trilogy as producer, screenwriter and director.

aters. I was doing a presentation in Las Vegas. Bob Zemeckis and Jim Cameron came up to me and said: 'We want to get 3D into the theaters. Would you join us in showing the theater owners that you can do 3D?' And I said: 'That'd be good because in order to do 3D you have to have digital theaters. So it would promote my idea of digital theaters.' When I saw the test that we did of *STAR WARS* in 3D, I realized how exciting it was to watch. I got fascinated with the idea of converting *STAR WARS* into 3D, which was easier said than done. It took us a long time to develop a structure in which we could actually do a really good conversion of a 2D film into 3D.

I got into the film business in a crazy kind of way, which is what happens in life. Originally I just wanted to build cars because I like working on cars. I was a carpenter and my father wouldn't let me go to art school, so I started to learn photography. I went to a film school, USC (University of Southern California) and realized that it was a cinematography school. At the time I didn't have any idea that you could learn to make movies in college. I didn't know much about movies. But then I discovered that I loved to make films and I was extremely good at it. I found my passion.

When trying to get a film off the ground, you just have to be persistent and persevere, no matter what. You have to act as though your life depends on it and do everything you possibly can to get the movie made under any circumstances whatsoever.

I'd always been a big fan of the visual side of films and was an ad-

vocate of silent movies at school. I like to tell my stories with motion and graphics. All my films have been done that way. You can just play the music and watch the movie and it works just as well as if you understand the dialogue.

My films have what has been described as an effervescent giddiness. I've never done really dark movies. I'm just not interested. Ultimately a movie has to have a good story and great characters. That's the bottom line. They also need a strong psychological underpinning that people can relate to in their own lives, in their own psychology. It has to have a strong psychological core and deal with primal issues. Those are the kinds of movies I make.

I think up stories and then actually make them into movies. That's what artists have done throughout history. But whenever you do that, there are a lot of problems. If you only have black chalk to scrape on a wall, you eventually want to put some color in there. So you go out and try to find some color and you move the medium forward. Film is the most technical of all the art forms. In order to do fantasy and science fiction or anything that's not contemporary, you're forced to go beyond the technological ceiling. I've had to broaden the medium so that we could do things that just couldn't have been done before.

I've always been finding better ways to get my vision on the screen. What they call 'visionary' is really just being frustrated with the medium and trying to make it better. I don't know if that's being a visionary or somebody who can just see clearly.

As a young director I was inspired by Akira Kurosawa, Federico Fellini, Jean-Luc Godard, Richard Lester and John Ford. Now that I'm an old man, I guess I do more inspiring than I am inspired.

I've finished a film called RED TAILS, which is about African-American fighter pilots during World War II. This is a project I've been working on for 23 years and it's a labor of love.

I keep telling everyone I'm sort of retiring. But I'm really going to go back to where I started, which is to more avant garde, experimental filmmaking. I've made enough money so that I can finance it all myself. I don't have to worry or answer to anybody and I can just do whatever I want. If they don't get released, they don't get released! ■



Top 10 Mystical S

Ukraine is home to many places steeped in myth and legend. Some are ancient, others new. ***The Ukrainian Week*** highlights 10 mystical spots on the map of Ukraine

The Valley of Ghosts, near Alushta, Crimea

Demerdzhi, a beautiful rocky part of the Crimean Mountains, is spotted with solid rock trapped in a base of limestone "cement." Soft limestone parts have been eroded by water leaving sculptures made of harder rock. They shape the whimsical landscape of the Valley of Ghosts. Over one hundred such formations alternate in appearance throughout the day as the sun's position changes—from resembling human faces to images of animals. Researchers claim that eye-witness reports of supernatural phenomena occurring in the valley are the result of hallucinations from local plants that release chemicals causing temporary psychological disorders. Researchers of paranormal phenomena, however, claim that the Valley of Ghosts has powerful energy.



9



Werwolf, Adolf Hitler's World War II Eastern Front military headquarters near Vinnytsia

Werwolf was a miniature copy of the Wolfsschanze or Wolf's Lair. Inconspicuous and well camouflaged on the outside, the Werwolf complex spanned several floors. The central zone included main buildings housing Gestapo offices, a telephone station, a canteen for the top command and officers, a swimming pool, 12 apartments for generals and top officers of the headquarters, premises for Hitler and two underground bunkers. 5,000 soviet war prisoners performed the most difficult digging work. They were all killed after the work was completed. The German engineers who designed the complex were also killed when the airplane that was transporting them back to Germany exploded mid-flight for reasons unknown. Hitler visited his Ukrainian headquarters three times between July 1942 and August 1943.

Spots in Ukraine

The Dominican Church in Lviv

The Dominican Church was founded in 1749. Designed by Polish engineer of Dutch descent Jan de Witte, the cathedral was financed by crown hetman Józef Potocki and completed in 1764. Until WWII, the magnificent baroque cathedral was the central church of the Roman-Catholic Dominican Order. Soviet authorities turned it into a museum of the history of religion. Currently, the cathedral belongs to the local Greek Catholic parish. According to many guards who quit the job after their first night shift, unbelievable things begin to happen in the church at midnight, such as loud sermons in the dark, empty hall, whose good acoustics enhance the sound of the otherworldly choir. The sermons occur on a regular basis lasting at least three hours. Books nestled tightly on the shelves of the church library often fall down and a typewriter clicks all night from a room with a cemented entrance. Such things have been happening in the church for the past few decades, ever since the basements of the complex were revealed and renovated. It is from these basements that, according to popular belief, the ghost of a Dominican monk blamed for the nightly disorder emerges. Frightened guards have reported spotting a translucent figure in a white cloak that continues his nightly routine as if unaware that he already belongs to the other world.



8

7



Alim's Ravine in Crimea

The rocky slopes of the marlstone and limestone canyon are dotted with stone capes hanging over numerous natural grottos that sheltered primitive humans. A medieval cave monastery town Kachi-Calyon was founded in the 5th century by monks who fled from Byzantium. In the 1950-1980s researchers discovered a human settlement from the Middle Stone Age and unique petroglyphs created there over 5,000 years ago in Alim's Ravine. It has been infamous due to many people who get lost there, even though the route is a piece of cake for novice hikers. According to numerous tourists who have lost their way there, some unknown force made them wander for hours around one spot.

6



Kaminne Selo in Zhytomyr Oblast

Kaminne Selo is a geological complex of many huge stones geometrically ordered such that they resemble a village street layout. The stones are shaped like houses and one even resembles a church. Researchers still debate the origin of the stones. Under one official assumption, a moving glacier brought the stones there and the wind has been shaping them into "houses" for 20,000 years. What arranged them in their distinct orderly fashion remains unknown. The trees around Kaminne Selo look frail, with perpetually dim and withered leaves. The most mysterious part of it is the stone with the so-called God's footprint, since the pit of the "print" remains warm all year round.

5



Uzhhorod Castle

In the 9th cent. it had been a wooden fortress owned by the local Slavic tribe of White Croats. In the 11th cent. the wooden fortification was replaced by a new stone castle. Italian engineers carried out a complete reconstruction of the castle to never be captured by assault again. Today, it hosts the Zakarpattia history museum. Since the 20th century, night guards have been seeing a white female figure. Those who dared to get closer were terrified to find that the figure was completely translucent. Some say the ghost is the deceased daughter of one of the castle's supervisors. Outraged by the treason, her father ordered to have the girl cemented alive in the castle wall.

4



Lysa Hora in Kyiv

Even after Christianity was violently imposed on the Kyivan Rus, Lysa Hora remained a shrine for the followers of ancient beliefs. In the 1930s, Lysa Hora became an underground military plant. A missile unit was located here until the mid-1970s. In the early 1980s, the mount was granted natural park status. Visitors feel extremely uncomfortable there, as if dozens of eyes are watching, and the stares are almost palpable. During the time of the Lysohirsky Fortress, the unit commander issued a strange instruction ordering officers "to warn the soldiers who go on guard to not be afraid of strange noises; they come from the wind and night birds."

3



The Stone Tomb near Melitopol

This is part of the world cultural heritage located on the right bank of the Molochna river near the village of Terpinia ("patience") in Melitopol County, Zaporizhzhia Oblast. This large and mysterious stone hill was a cult location for many ancient peoples and tribes who lived or crossed what is now Southern Ukraine. The Stone Tomb was used as a temple by hunters during the Bronze Age. Years of research have revealed several thousand petroglyphs in the site's many grottos and caves. They are unique samples of primitive art, some dated to the Stone Age by researchers. The Nazis considered the Stone Tomb to be the oldest site of the Aryans. The area around it radiates pulses at a radio frequency of 5Hz! Energy bursts this powerful appear on aerial photographs of the Earth's surface as circles. Video devices often break and turn on and off on their own in the area of the Stone Tomb.



Hromovyshe Valley in Zhytomyr Oblast

Inconspicuous at first sight, the place seems to attract lightning. The locals avoid getting close to the spot during rainy weather. Lightning has already killed nearly ten people there. Eyewitnesses say that strange illuminations sometimes appear in the valley at night. After that, a bright ray of light rises to the sky. Nobody knows where the ray comes from. Visitors who step foot in the valley feel its negative effect immediately, manifested in emotional and physical disorders. In the mid-1990s, archeologists began to work at Hromovyshe. Rumors have it that they soon found the remains of an old building made of huge stone blocks and many Roman and Bosphorus coins of the early 1st millennium AD.

Pidhirtsi Castle

Pidhirtsi is a village in Brody County, Lviv Oblast. The castle was built from 1630-1640 with donations from the Polish magnate Stanislaw Koniecpolski. It was once considered one of the best examples of a palace and castle complex in Europe. European monarchs, such as Polish kings Wladyslaw IV Vasa and John III Sobieski, Austrian Emperor Franz Josef I and German Kaiser Wilhelm I, visited the castle many times. Rumors of Pidhirtsi Castle's ghosts have circulated for several hundred years, yet scientific confirmation has only recently arrived. Some pictures made in front of the basement entrance and in rooms of the palace feature a transparent human silhouette. The team of Ukraine's Psychic Challenge TV series has made some astonishing revelations. All 20 psychics said that the castle is full of ghosts. Later, Ghost Hunters, an American paranormal television series, visited the castle. Following detailed research using innovative technologies, their confident conclusion was that ghosts reside in virtually every part of the palace.





B O O K S T O R E



ALL BOOKS FROM UKRAINE ONLINE

O N L I N E B O O K S H O P

WWW.BOOK-YE.COM.UA/SHOP