

WHEN WILL YULIA TYMOSHENKO
BE RELEASED?

PATRIOT GAMES: A SCENARIO THAT WILL HELP
VIKTOR YANUKOVYCH WIN THE ELECTION

DRAFT LAW TO GUARANTEE INDEPENDENCE
OF JUDGES HIDES ATTEMPTS
TO REINFORCE DICTATORSHIP

i n t e r n a t i o n a l e d i t i o n

The Ukrainian Week

№ 19 (61) OCTOBER 2013



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International edition
The Ukrainian Week

The Ukrainian Week № 19 (61) October 2013

Founder ECEM Media GmbH

Publisher ECEM Media GmbH

Address Austria, Am Gestade, 1, 1010 Vienna

State registration certificate KB № 19823-9623ПР 19.03.2013

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Tel. (044) 351-13-87

www.ukrainianweek.com

Editors address 37 Mashynobudivna str., Kyiv, 03067, Ukraine

Print Novy Druk LLC, 1 Mahnitohorska str., Kyiv, 03056, Ukraine

Ordering number **13-8086** Sent to print on 17 October 2013

Print run 15 000. **Free distribution**

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Тижень



The European Commission includes the Odesa-Brody oil pipe into the list of key infrastructure projects to be funded with a total of almost EUR 6bn. The European Commissioner for Energy, Günther Oettinger, claims it is ready to finance the upgrade of Ukraine's gas transit system

Rumours spread in Ukraine and abroad about the possible default of Naftogaz NJSC. There are currently no economic grounds for this. The purpose of the media attack against the state-owned company is as yet unknown



Viktor Yanukovich signs a decree on the last mandatory conscription and the introduction of a volunteer professional army in 2014 (see more on p. 20)

Ukraine or Tymoshenko?

Authors:

Oles Oleksiyenko, Serhiy Voropayev, *Brussels*

Just days before the latest visit of Pat Cox and Aleksander Kwasniewski to Kyiv, many top officials in Brussels claimed that Yulia Tymoshenko was almost on the airplane to Germany. This optimism soured after the two representatives of the European Parliament (EP) returned from Ukraine. Polish MEP and member of the Group of the Progressive Alliance of Socialists and Democrats, Marek Siwiec, wrote on his blog that partial pardon would be the best option in the situation with Tymoshenko. This means halving her sentence of seven years; the fact that she has already served most of the shortened term could be the ground for her release, member of the Party of Regions' European partner specified.

Apparently, this suggestion does not come out of the blue. The Ukrainian government extends the bargaining process for as long as possible while its political partners in the EU promote a scheme convenient for the official Kyiv: Tymoshenko will pay Ukraine USD 200mn as a compensation for the losses Ukraine incurred as a result of her actions as premier and refuse to run for presidency for three years. Then, she can go for treatment.

The European response to this – another postponement of the deadline for the Council of Ministers to take the final deci-



PHOTO: PHIL

The month in history

7 October 1918

Ukrainian-Russian government negotiations are terminated after the Soviet delegation refuses to recognize Ukraine's independent status

15 October 1582

Pope Gregory XIII implements the Gregorian calendar

16 October 1853

Russia and the alliance of France, Britain, the Ottoman Empire and Piedmont-Sardinia start the Crimean War for domination in the Black Sea region





The Verkhovna Rada amends the Criminal Code to introduce liability for raider attacks. It ranges from 2 to 10 years in prison

The Ukrainian and Russian governments sign an agreement to set up a joint Black Sea grain pool. This is unexpected, given the openly cool relations between Kyiv and Moscow today. Some political analysts assume that the confrontation is just for the public eye, with the leaders actually playing an intricate geopolitical game



The Ukrainian national football team makes it to the 2014 World Cup play-off. It will most likely play against Sweden, Romania, Iceland or France next

sion on the signing of the Association Agreement from October 21 to November 18 – probably convinced Yanukovich even more that the Europeans are ready to concede to him.

The fact that the hearing of the report of the Kox-Kwasniewski mission (extended for another month) was postponed from October 15 to November 15 signals that the EU no longer expects the Yanukovich regime to take the final decision on Tymoshenko by October 21 as Ukraine's President promised earlier. Before the meeting of the EP Conference of Presidents, a body of political group leaders, EU Enlargement Commissioner Štefan Füle expressed hope that Yulia Tymoshenko would soon be released for treatment in Germany. This would happen before the Vilnius Summit but not next week, he then added cautiously. This may signal of yet another promise from Yanukovich made behind closed doors, or at least of a respective hint from someone from his circle.

EP President Martin Schulz also hopes that there is still chance to come to a decision. "If there were no chance, we would not extend the mission," he said. Hannes Swoboda, Austrian EMP and Chair of the Progressive Alliance of Socialists and Democrats Group, explained in his comment for *The Ukrainian Week* that the EP expects Yanukovich to give a clear signal that negotiations may have a positive outcome. This positive outcome means doing something to cut the verdict for Ms. Tymoshenko and let her go to Germany for medical treatment.

Based on the meeting, Elmar Brok, Chairman of the EP Commit-

tee on Foreign Affairs, noted that the Monitoring Mission offered a draft solution to the Tymoshenko case. It recommends partial pardon for her before she goes to Germany, i.e. reducing her sentence from seven to two years which Tymoshenko has already served.

In addition to the debate on this recommendation at the meeting, the Cox-Kwasniewski mission mentioned Tymoshenko's classified letter to Yanukovich that could serve as a basis for her release before the treatment. It is currently unknown whether the letter contains just her consent to go to Germany (which should not be viewed as refusal to struggle with the regime) or her request for pardon or treatment abroad. According to Martin Schulz, this letter may be sent to Yanukovich anytime soon.

Meanwhile, members of the European People's Party (EPP) group that includes Batkivshchyna continue to press on the need to solve the Tymoshenko issue. This rhetoric is gradually turning into an ultimatum. "There is no time left, and Ukraine's chances to sign the Association Agreement at the Vilnius Summit in November are fading. Ukraine should urgently demonstrate real progress. Otherwise, the EU will not sign the Association Agreement based on rhetoric alone," Jacek Saryusz-Wolski said in an interview for *The Ukrainian Week*.

There is no clear information on what Tymoshenko talked about for three hours with EU Ambassador Jan Tombinski and US Ambassador Geoffrey Pyatt on October 16. According to the official version, they discussed what the ex-premier will do if Yanukovich

refuses to pardon her and the EU signs the Association Agreement. In a typical obscure diplomatic manner, Tombinski said that Tymoshenko expressed a "very constructive approach".

In her address to Batkivshchyna read out at the recent assembly, Tymoshenko herself announced optimistically that this was her "last distance address" and she "will soon personally lead the historical assemblies, just like before." If she refuses to go for treatment abroad as a prisoner, this will signal that she tries to avoid being arrested again after her return from Germany to prevent her from running in the 2015 presidential campaign.

TYMOSHENKO'S INTENT TO RUN IN THE PRESIDENTIAL ELECTION MAY DISCOURAGE YANUKOVYCH TO RELEASE HER IN EXCHANGE FOR THE ASSOCIATION AGREEMENT

Meanwhile, a release of any kind would allow Tymoshenko to take part in the race. This is unacceptable for Yanukovich. So, chances to solve her issue by the Vilnius Summit on November 28-29 fade. Freeing her from physical imprisonment (even if this activates her participation in Ukrainian politics from abroad) is one thing. Opening a potential way to the president's office is another thing: this could create risks both for those in power, and the Family's business. The current president may consider the stakes to be too high to sacrifice all this for the Association Agreement. ■

17 October 1113



Construction of Mykhailivsky – St. Michael's – Cathedral is completed in Kyiv



18 October 1918

Ukrainian MPs in the Austrian Parliament set up the Ukrainian National Republic, the highest legislative body of the West Ukrainian People's Republic, led by Yevhen Petrushevych in Lviv. The next day, it passes a decree on the establishment of the Ukrainian State on the ethnic Ukrainian territory that is part of the Austro-Hungarian Empire and asks ethnic minorities to send their delegates in proportion to the population



21 October 1833

Alfred Nobel, Swedish chemist, engineer, inventor, activist, philanthropist and the founder of the Nobel Prize, is born

PATRIOT GAMES



Successfully tested by Leonid Kuchma over a decade ago, the below scenarios can help Yanukovich win the presidential race in 2015

The promotion of Viktor Yanukovich's new image as a European integrator ready to resist Moscow's pressure continues. The goal is for him to win more voters in Central and even Western Ukraine, where pro-European sentiments prevail. The Party of Regions – fierce opponents of all things Ukrainian and Euro-Atlantic integration in the recent past – is radically changing its rhetoric.

The media and experts have long buzzed about the Bankova's plans to repeat the scenario once

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Oleksandr
Kramar

used by the unpopular President Leonid Kuchma in 1999 for Yanukovich in 2015. Back in 1999, Leonid Kuchma's popularity was much lower than Yanukovich's today. However, after Viacheslav Chornovil, a major politician who was expected to run as the main opposition candidate against Kuchma, died in a car crash under suspicious circumstances, and the Kaniv Four fell apart, Kuchma managed to draw the leader of the Communist Party, Petro Symonenko, in the second round. As expected, most Ukrainians fiercely opposed Sy-

monenko – and the “return of the red plague” – so they elected Kuchma. Otherwise, they would never have voted for him.

Unlike Kuchma, Yanukovich has a much wider choice of candidates in a second round. According to sociological surveys, he could win the election in a race against Svoboda's Oleh Tyahnybok (by fueling the “brown plague” threat) or the Communist Party's Petro Symonenko.

Any of these scenarios would require Yanukovich to eliminate the most popular candidates at the finish line. There are two options. Today, these most popular candidates are Yulia Tymoshenko, UDAR's Vitaliy Klitschko and Batkivshchyna's Arseniy Yatseniuk. According to a survey by the sociological company, Research&Branding Group, Yanukovich would have got 20.8% if the election had taken place at the end of September. Klitschko would have followed with 11.7%, Tymoshenko with 10.9%, Yatseniuk with 6.3%, Petro Poroshenko with 3.2% and Tyahnybok with 3.1%. Overall, this looks similar to the data published in spring by the Razumkov Centre (**see Electoral preferences in spring and fall of 2013**).

NO MAN – NO PROBLEM

Apparently, those in power will not allow Yulia Tymoshenko to run in the election. News has recently surfaced that Vitaliy Klitschko could also be eliminated from the race because he has not lived permanently in Ukraine for the past 10 years as required by Ukrainian legislation. The Ukrainian Week's sources claim that UDAR takes this threat seriously and is developing options for counteraction. Experts note that this information could have leaked out because Bankova is not taking this scenario seriously. Otherwise, this plan would have been kept secret until the very last moment. Those in power may also be planning to use this argument against the single opposition candidate in the first round – something fiercely promoted by UDAR members since as the most popular opposition candidate, Klitschko would be that leader – in the first round. Sociological surveys conclude that if he is eliminated from the race, his votes will most likely be distributed between Yatseniuk,

Tyahnybok, Poroshenko and Symonenko, Arseniy Yatseniuk will then get the vote of most of Klitschko's electorate.

The race against Yatseniuk would also mean a defeat for Yanukovich, according to the latest sociological surveys. Therefore, attempts to eliminate Klitschko from the race would be of little benefit for the Presidential Administration: it would automatically boost Yatseniuk's chances of victory. So far, sociologists have reported that Yanukovich stands the best chance of winning the 2015 election in a race against Oleh Tyahnybok. For that, Yatseniuk has to be squeezed out of the game as well. A standard scheme to do this could be to focus on the conflicts within the united opposition and add to it a wave of mudslinging or accusations that Yatseniuk is cooperating with the government. However, these schemes have already been tested and failed to give the desired effect. A wide-scale campaign of mudslinging against Arseniy Yatseniuk may now have the opposite effect and push him to the second round as a candidate persecuted by those in power. A more certain way

would be to launch a trial and put him in jail. However, this is an unlikely extreme scenario given its risk to Yanukovich's image. He still does not know how to solve the poorly orchestrated situation around the imprisonment of Tymoshenko.

THE BIGGEST RISK FOR THE OPPOSITION – AND THE BIGGEST CHANCE FOR THOSE IN POWER – IS THE FIRST ROUND

So, virtually the only effective mechanism to eliminate Yatseniuk and Klitschko from the game simultaneously is to talk Yatseniuk into supporting Klitschko in the first round in exchange for, say, the premier's office in a parliamentary republic. After this, Klitschko may be kicked out of the race based on the abovementioned legal provision. This could happen late enough to leave too little time for Yatseniuk to register as a candidate for the presidency. As a result, Oleh Tyahnybok would remain the only eligible candidate of the top four opposition leaders. In spring, when

Ukraine buzzed about the scenario of Yanukovich versus Tyahnybok, the latter insisted that "any opposition candidate in the second round will be supported by the entire opposition". However, sociologists confirm that a large part of Klitschko's and Yatseniuk's electorate will again vote with their feet or against all in the second round if those in power fuel the "brown plague" hysteria around Tyahnybok, especially in South-Eastern and Central Ukraine.

ATOMIZING THE OPPOSITION

The biggest risk for the opposition – and the biggest chance for those in power – is the first round. This is where the regime may implement a scenario that will make massive falsification in the final round unnecessary and prevent anything like Orange Revolution. Moreover, it does not require the elimination of the most popular opposition candidates or Yulia Tymoshenko. The scenario is to dilute votes among numerous opposition candidates as much as possible and minimize their chance to even get to round two. It is possible to project now »

¹ The Presidential Administration is at Bankova Street

² A group of four candidates in the 1999 presidential race made up of Yevhen Marchuk, Oleksandr Moroz, Volodymyr Oliynyk and Oleksandr Tkachenko, who intended to nominate a single most popular candidate in the election. They met to discuss this and call on all candidates to lead a fair campaign in Kaniv, Cherkasy Oblast, hence the name

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The Kaniv Four: The disruption of the agreement to nominate a single candidate in the 1999 presidential election between Oleksandr Moroz, Yevhen Marchuk, Oleksandr Tkachenko and Volodymyr Oliynyk brought an easy victory for Leonid Kuchma over Petro Symonenko in the second round

that the ballots will include such people as Petro Poroshenko, Anatoliy Hrytsenko, Viacheslav Kyrylenko, Viktor Yushchenko, Mykola Katerynychuk and other unpopular candidates that may still steal the leaders' votes. A young and promising candidate like Serhiy Tihipko may pop up right before the election.

United, the opposition electorate outweighs that of Yanukovich. But fragmented between 10-12 candidates with ratings of over 1%, including 4-5 with potential support of more than 5% (Tymoshenko, Klitschko, Yatseniuk, Tyahnybok and Poroshenko), it will leave much fewer chances for candidates promoting themselves as the government's opponents to get to the second round. As a result, Yanukovich could end up running against communist Symonenko, forcing the voters to once again choose between two evils. Should this happen, the current rebranding of Yanukovich as a pro-European politician who has withstood Russian pressure, will play a decisive role in his race against the "Kremlin's puppet" and the "ghost from the past", Petro Symonenko.

Currently, Symonenko's personal rating is way lower than that of Klitschko, Tymoshenko or Yatseniuk. However, the campaign to dilute opposition voters among political outsiders is not in full swing

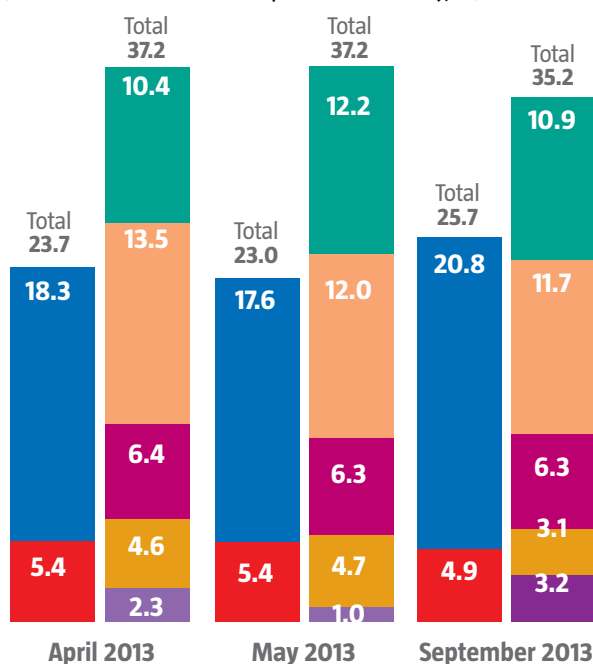
yet. And, if they have no alternative, most Soviet-Russian voters, disappointed with the pro-European Yanukovich, will have to vote for Symonenko. Sociologists report that the Party of Regions' voters mostly opt for the Communist Party as their second preference

and Symonenko as an alternative to Yanukovich. Many voters who supported Yanukovich and the Party of Regions in 2004-2006 had previously churned high ratings for the Communist Party and Symonenko in 1998, 1999 and 2002. Now, when they no longer see Yanukovich as a president worthy of their trust and support, the opposite is likely to occur.

After all, the Communist Party gained 13% in the 2012 parliamentary election. This was unexpectedly high, even despite the administrative leverage used by the Party of Regions in their core regions to gain a majority for itself. In the first round, those in power may not need to press the Communists hard, since Yanukovich will be fine with a considerable gap between himself (24-25%) and Symonenko (15-16%). Under the best-case scenario, the four opposition leaders can get 45-50% together at most in the first round (the remaining 10-15% will be split among outsiders). This means just 11-13% for each of the top four opposition leaders, which hardly guarantees a victory for one of them over Symonenko with his 15%. The same thing happened to the Kaniv Four candidates in 1999. ■

Electoral preferences in spring and fall of 2013

(if the election were to take place next Sunday, %)



April-May 2013 data is based on a joint survey by the Razumkov Centre and the Democratic Initiatives Foundation. September 2013 results are based on a survey by the Research & Branding Group (R&B Group) which, of all existing sociological companies, normally reports the highest support for the Party of Regions and Viktor Yanukovich



Viktor Yanukovich



Petro Symonenko



Yulia Tymoshenko



Vitaliy Klitschko



Arseniy Yatseniuk



Oleh Tyahnybok



Anatoliy Hrytsenko (April-May)



Petro Poroshenko (September)

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Control of Judges in the Name of Europe

Under the cover of European integration, the government has pushed lobbied initiatives through parliament

Author:
Oleksandr
Mykhelson

Last week, the Ukrainian government succeeded in steam-rolling through parliament another pseudo-integration bill. It requires amending the Constitution and, if passed, will fundamentally change the rules of the game for the judiciary. The document with the appealing title “On Strengthening the Guarantees of the Independence of Judges” is, in fact, an attempt to strengthen authoritarian dictatorship. A report by the Razumkov Centre says that the bill, which was made public on 9 October, “clearly reflects a trend characteristic of Ukrainian law-making in the recent past, namely exploiting European standards to perpetuate and reinforce a non-democratic form of governance... European standards are being essentially adapted to fit Ukrainian realities.” The sponsors of the bill are trying to exploit the blessing from the Venice Commission, which indeed gave its general approval, but this is due to insufficient or incorrect understanding of the situation in Ukraine.

The core of the proposed changes is as follows. Today, the President of Ukraine forms, reorganizes and disbands courts. He also appoints first-time judges for a five-year term. After that term expires, every judge is appointed to office indefinitely by the Verkhovna Rada unless he is voted down. If the bill in question is made into law, parliament, rather

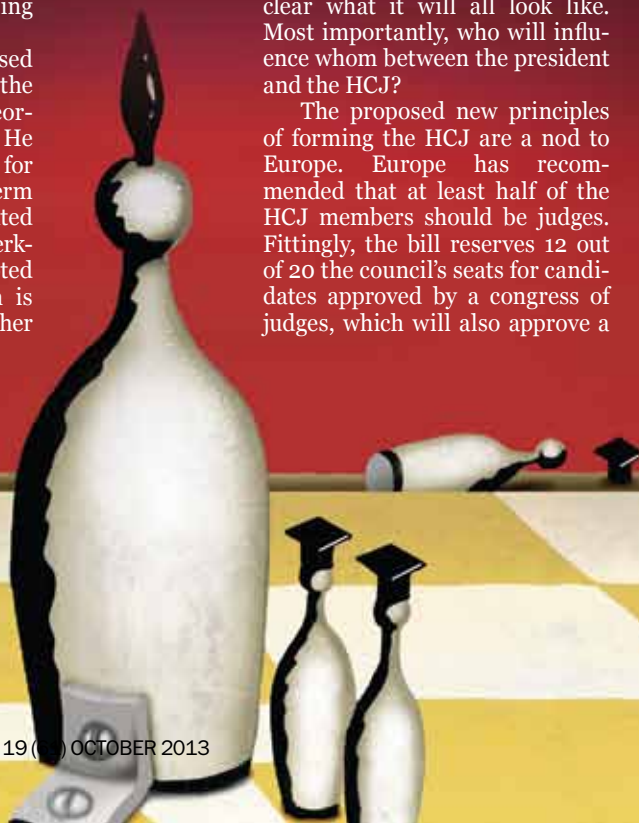
than the president, will form, reorganize and disband courts by passing a law in each individual case. However, MPs will no longer appoint judges – this power will be transferred to the president. As a gift to the judiciary, the bill raises, for judges, the minimum retirement age, qualifying age and duration of legal practice needed for appointment. The already appointed judges will keep their offices and those who have passed qualification exams will be automatically promoted. The other parts of the bill are concerned largely with monitoring judges’ performance. The president will also have an exclusive right to fire or transfer them between courts. Appointments will be made on mandatory submissions from the Higher Council of Justice (HCJ), while dismissals or transfers on that of the Higher Qualification Commission of Judges (HQCJ). Transfers to higher offices are promised to be competition-based, but it is unclear what it will all look like. Most importantly, who will influence whom between the president and the HCJ?

The proposed new principles of forming the HCJ are a nod to Europe. Europe has recommended that at least half of the HCJ members should be judges. Fittingly, the bill reserves 12 out of 20 the council’s seats for candidates approved by a congress of judges, which will also approve a

majority of HQCJ members. Moreover, the Prosecutor General, who remains a member of the HCJ ex officio, must not vote on issues pertaining to the responsibility of judges. To Europe, this points to a desire to separate the Prosecutor’s Office from the judiciary, but in Ukraine the former influences the latter in other ways than voting.

The bill also permits the HCJ to operate with merely two-thirds of its official membership present. Thus, with deft maneuvering, the most powerful player, the Presidential Administration, could leave at least half of the judges on the HCJ out of the game. Europe indeed welcomes the idea of removing any channels for parliament to influence the judiciary. This is not surprising, because from the European viewpoint, parliament is a purely political institution, while politics should not interfere with administration of justice.

Paradoxically, pro-European politicians and experts in Ukraine are forced to reiterate the dictum which their opponents like to use – it is inefficient to blindly and mechanically transfer European practices to Ukrainian realities. But there is more to this situation – it is not merely an attempt by the Ukrainian authorities to make good on their promises to the EU. Tellingly, the reforms of the Prosecutor’s Office and the Interior Ministry, promised to Europe a



IN PURSUIT OF EUROPEAN STANDARDS

The bill in question was sponsored by the government and appears to be just one move in its long-term strategy of passing lobbied decisions under the appealing disguise of "adaptation to European requirements and standards". This process was launched a long time ago and can be expected to intensify if the Association Agreement is initiated and starts being implemented. The government minds that come up with these legal novelties seem to be following a well-known Ukrainian folk saying which says that you can turn the law whichever way you please. For example, one prominent initiative of this kind was the new redaction of the Law **On the Election of People's Deputies of Ukraine** adopted on 17 November 2011. It introduced a mixed election system, removed the "against all" option for voters and barred blocs from participation. The pro-government working group which drafted the law launched an aggressive information campaign regarding approval from the Venice Commission. Eventually, only a handful of the commission's recommendations were incorporated, but the Party of Regions declared at every corner that the law had passed expert evaluation in the Venice Commission and was found to conform to the European standards. In the 2012 parliamentary elections, it became an important tool for rigging election results and large-scale abuse in the way commissions were formed at various levels and votes were counted.

Another salient example is the new **Criminal Procedure Code (CPC)** passed by the Verkhovna Rada on 13 April 2012. The justification offered was that Ukraine had commitments to conform to the recommendations and resolutions of the Council of Europe, the European Convention for the Protection of Human Rights and Fundamental Freedoms and the rulings of the European Court of Human Rights. However, the CPC actually incorporated a number of novelties that can be utilized in persecuting the opposition. For example, the code formalizes wiretapping and covert break-ins into apartments and houses.

On 3 July 2012, the Verkhovna Rada passed the scandalous Law **On the Foundations of the State Policy on Languages** which led to another onslaught on the Ukrainian language and opened more ways to forcefully Russify Ukrainians. This has been done in the form of voluntary-forceful shutting of Ukrainian-language classes in a number of regions, such as Odesa, and the introduction of Russian as the "second foreign language" studied in schools. Ukrainian-speaking citizens have become victims of linguistic discrimination in official and government institutions in many regions; mechanisms for protecting Ukrainian in the press, the services sector, etc. have been blocked. The sponsors of the law found a nice cover for their evil intentions, claiming that Ukrainian laws had to be made to conform to the European Charter for Regional or Minority Languages.

On 20 November 2012, the Verkhovna Rada passed the Law **On the Single State Demographic Register and Documents Establishing Ukrainian Citizenship, Identity of a Person or His/Her Special Status**. This is one of the most expensive laws lobbied by YeDAPS, a company specializing in printing forms for documents. For example, under the law, "electronic" biometrical IDs are to be produced and a number of currently valid "paper" documents are to be replaced, in many cases without any real need. An explanatory note justifies this multibillion law (in terms of revenues generated for YeDAPS) as follows: "One of the key points of the Association Agreement between the EU and Ukraine is protection of personal data of physical persons and introduction of modern security levels for all identification documents issued by Ukraine."

long time ago, are only slowly moving up the pipeline, while the bill in question was circulated back when it was a joke to speak of Viktor Yanukovich as the driver of European integration in Ukraine.

Having the power to appoint and dismiss judges is an important option, both politically and economically. Normally, (non-)appointment of a judge by parliament depends, above all, on the Verkhovna Rada Committee on Justice, which has been permanently chaired by Party of Regions member Serhiy Kivalov. This, of course, is a "gold mine". (Naturally, we refer here only to the authority and clout that this venerable MP has.) At the same time, this is a headache for the Presidential Administration which has to make deals with the parliamentary committee regarding potential judges. Incidentally, making deals with the Verkhovna Rada about a new Prosecutors General is no picnic, either. This office does not come up for grabs as often, but the stakes

are higher. The new bill frees officials in the Presidential Administration from both problems. It removes the five-year limit on the mandate held by the Prosecutor General. The current norm at least hints at regular rotation — theoretically, the Prosecutor General must be re-appointed every five years through a procedure involving both the president and the Verkhovna Rada. Now this norm has been scrapped altogether. The president appoints, parliament approves, and the Prosecutor General can fulfill the will of the president until fired, again by the president. True, the Verkhovna Rada will also be able to dismiss him from office by a majority vote, but the head of state is likely to make up his mind faster if necessary.

The bill was passed by parliament in a vote on 10 October, but amending the Constitution requires another one with at least 300 MPs committing. In other words, it now depends on the opposition whether the bill makes it through parliament. ■



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The Richest Pay Less

While tycoons pay most of their taxes offshore, the budget crisis is escalating along with increasing tax pressure on non-oligarch businesses

Author:
Lyubomyr Shavalyuk

With Ukraine's economy in recession for over a year now, companies are struggling to deal with the lengthy decline: some are receding into the shadows, others are reporting losses and

some have terminated production. However, not all companies face the same difficulties. Income and income tax dynamics show that non-oligarch businesses are left to struggle through the crisis and satisfy the state's growing fiscal appetite while the biggest oligarch industries enjoy the best tax privileges.

INCOME DRAIN

Crisis developments began to appear long before Q3 2012 statistics reported a decline in GDP and the beginning of a new recession (**see Steady decline**). From January to June 2012, profitable enterprises reported a 16% decrease in profits before tax compared to the previous year, while non-profitable companies reported a 48% increase in losses. This negative performance was initially confined to the industrial sector but was likely to spread to other sectors. Since then, corporate profits and the inflow of corporate tax have been shrinking.

This is due to several factors. Thanks to high grain prices and despite a poor harvest last year, agriculture boosted overall income. This trend is unlikely to continue into 2013 since grain prices are falling even though the 2013 harvest is good. However, even if farmers' income did grow, income tax revenue from agriculture would hardly change since farmers pay a flat tax.

The financial and insurance sectors performed unexpectedly well: in 2012, their profit before tax hit UAH 49bn, which was UAH 18bn or 59% higher than the year before. Out of this, UAH 23bn was collected in Q4 2012. Where did this revenue come from if neither banks—with UAH 2.5bn higher profits before tax (UAH 9.7bn)—nor insurance companies (with a similarly moderate rise) contributed to it? Since real tax inflow was recorded based on those amounts (the financial sector paid UAH 12bn more in income tax in 2012 compared to 2011), the boost in budget revenues was probably due to holdings, asset management companies and other profit centres. In Q1 2013, however, they fell back: the financial sector reported a slight rise in income and a loss of UAH 15bn, i.e. sevenfold from last year. Most



likely, this is not due to the introduction of an excise tax on securities transactions or other government decisions.

In fact, the financial sector was not the only one that showed signs of recession in Ukrainian business in the first six months of 2013. Virtually all industries have gone through a painful 31% rise in losses (before tax) to UAH 78bn compared to the first six months of 2012. Even retail trade which was an island of growth throughout 2012 and part of 2013 reported 77% higher losses totalling UAH 16bn. Clearly, payroll cuts and a decline in sales will follow, further curbing tax revenues.

AFTER US, THE DELUGE

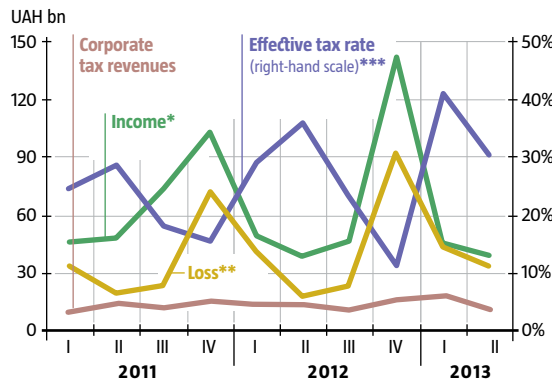
Despite the visible decline of the corporate tax base, tax pressure on businesses has been growing for the past few quarters (**see Tightening the screws**). This began last year when tax pressure was abnormally high during Q1-3 2012. Effective tax rates were 29%, 36% and 24%, or 4-7pp higher than in 2011. In Q1 2013, it grew further to 41%. Meanwhile, the basic income tax rate envisioned by the 2010 Tax Code was gradually decreased from 23% in 2011 to 19% in 2013. The government uses this and some other positive changes in the tax legislation, such as fewer taxes and shorter time expenditures needed to fulfil tax statements, as a showcase for international organizations. In reality, tax authorities use their own interpretations of the tax legislation and their powers to squeeze money out of businesses and collect far more corporate tax payments than the companies' profit suggests.

In the first quarter of 2013, for instance, most profitable SMEs paid advance taxes estimated in proportion to their income in the previous year rather than the tax on their actual income. They were obliged to pay 1/9 of their income for 9M 2012 in January-February, and 1/12 of their total 2012 income for the following months. This boosted the effective tax rate to a record 41%.

Tax inspectors may get very inventive in pumping money out of businesspeople, but this tax strategy will have a destructive effect in the longer run. First, such an environment does not encourage people to start new businesses or in-

Tightening the screws

Ukrainian business is facing growing tax pressure but cannot afford to cover it because of the crisis. As a result, this policy fails to boost corporate tax



*Total profit before tax at profitable large and medium companies

**Total loss before tax at unprofitable large and medium companies

***Effective corporate income tax is the ratio of government corporate tax revenues to total profit before tax at profitable large and medium companies

Sources: State Statistics Committee, State Treasury, own estimates

dustries. This means that escaping the recession will depend on where external demand for the products of existing enterprises moves. Secondly, an excessive tax burden depletes working capital. Thus, entrepreneurs are pushed to turn to the financial sector where high interest rates make any business expansion unreasonable. As a result, turnover and production stop, economic downfall continues and the tax base depletes.

WHO PAYS THE BILL?

The tax pressure shown in statistics turns out to vary depending on who is paying. Some industries are in perfect harmony with the tax authorities despite the crisis. This is easy to see in the breakdown of corporate tax revenues by industries. When *The Ukrainian Week* asked the Ministry of Revenues and Duties to provide information on individual sectors, it only made excuses – apparently, it prefers to keep some things out of the public eye. So we have made approximate calculations based on the available data. They reflect major trends in taxation fairly reliably. The below estimates of corporate tax paid by economic and industrial sectors in 2011-2012 are based on a comparison of the financial performance of large and medium enterprises before tax (the estimates cover 83% of all products sold by commercial entities) and their net income as published by

the State Statistic Committee (**see Who's paying the bill?**).

In 2012, industrial enterprises paid UAH 18.9bn or UAH 7.8bn (29%) less than they paid in 2011 in corporate tax. This is hardly surprising as the before-tax profits of profitable industrial entities shrank from UAH 107bn to UAH 86bn, while non-profitable industrial businesses reported a total loss of UAH 65bn compared to UAH 48bn in 2011. Paradoxically, industrial enterprises reported growing revenues: the 0.5% decline in physical output was offset by a 3.7% rise in product prices. If this is correct, the original cost of their products should have risen as well. However, since the prices of key imported raw materials used in production (especially fuels) have virtually not changed (due, among other things, to the unchanging hryvnia exchange rate), what could have reduced the income of enterprises and the taxes they pay? Meanwhile, the problem is worsening: industrial enterprises paid UAH 4-6bn in taxes in previous quarters, and just UAH 2bn in the first quarter of 2013.

THE PRIVILEGED CASTE

Income tax revenues analysed by industry signal that the taxes paid by oligarch-dominated sectors of the economy declined dramatically in 2012. The drop was 87% in metallurgy, almost 1/3 in chemistry and 29% in mining. Overall, the

OLIGARCHS REPORT LOSSES WHILE TRANSFERRING MOST INCOME TO OFFSHORE AREAS

two most oligarch-controlled industries – metallurgy and chemistry – accounted for 11.3% of gross revenues in the Ukrainian economy while paying only 2.1% of total corporate tax. In metallurgy, the gap was tenfold with 8% and 0.8% in paid taxes. Their key argument was that these industries faced the biggest losses in the entire industry in 2012, losing UAH 16 and 7bn respectively, so they claimed to have no income to tax.

However, their financial statements help to clarify the situation: they pay most of their taxes offshore. Viktor Pinchuk's Interpipe paid just 12% of its total taxes in

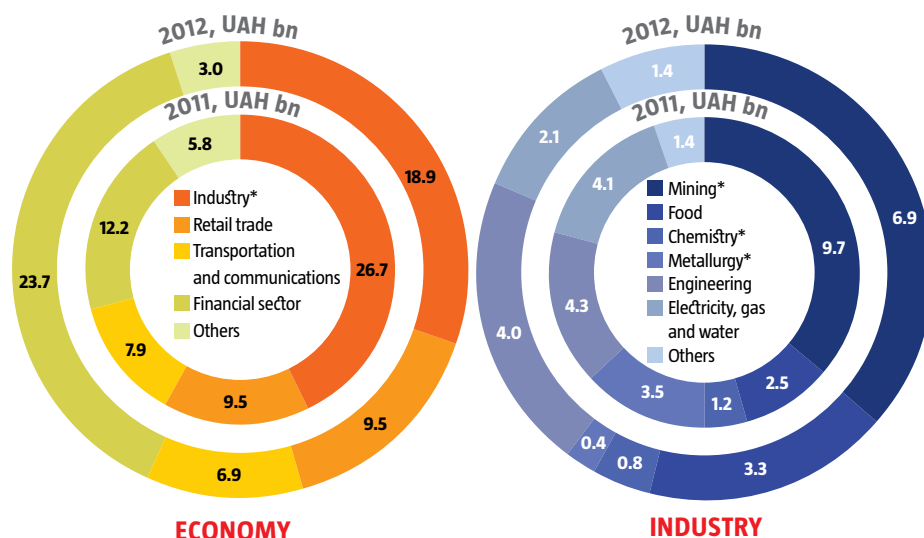
2012 in Ukraine. The remaining 88% went to the budgets of different countries through different schemes. Unlike Interpipe, steel giant Metinvest did not provide a regional breakdown of the corporate tax it paid last year in its statement. However, all of the group's Ukrainian plants (nine, except for Zaporizhstal, which Metinvest controls since 2012) paid total corporate tax of USD 266mn, and only USD 166mn of this in Ukraine – this came mostly from mining plants.

Ukraine's economic recession is systemic and comprehensive: as of mid-2013, business profitability was falling in virtually all sectors. However, not all businesses face equally burdensome effects. Oligarchs are reporting losses in Ukraine while transferring most income offshore and paying taxes there. This results in a steep decline in the revenues that the Ukrainian budget gets from their assets. The government is trying to offset this through increased tax pressure on non-oligarch sectors. For example, the food industry paid 33% more corporate tax in 2012 than it did in 2011; engineering plants paid just 8% less than in 2011 although their income had plummeted even lower. Together with retail trade (-1%) and construction (+27%), these entrepreneurs are bearing the brunt of the Ukrainian business sector's growing tax burden as oligarch-controlled industries evade it.

In addition, non-oligarch businesses pay most VAT unlike steelworks and chemical plants. Meanwhile, oligarchs have the necessary leverage to get full VAT reimbursement for the products they actually export, and probably faked exports as well. In 2012, the amount of reimbursed VAT was well above even half of the value-added tax paid by Ukrainian producers (UAH 46 and 83bn respectively). Ultimately, the lion's share of taxes is paid by Ukrainian citizens not only through personal income tax (UAH 68.4bn) but through VAT on most imported goods (over UAH 101.6bn). These taxes are paid by millions of ordinary Ukrainians from SMEs, health care and education systems and other public-financed sectors forced to deal with the burden of

Who's paying the bill?

Changes in corporate tax revenues show that non-oligarch businesses are paying a disproportionately large share of taxes



Estimates of corporate tax revenues to the consolidated budget of Ukraine. The data is approximate. It shows the difference between the pre-tax earnings/losses of large and medium enterprises and net income/losses of large and medium enterprises, including banks

*Oligarch-controlled industry

Sources: State Statistics Committee, NBU, own estimates

rescuing the state's budget during the worsening economic crisis.

WHAT CAN BE DONE?

Many widely promoted myths portray oligarchs as a crucial element of Ukraine's economy that fills the budget and international

reserves. In reality, they remain a privileged caste that barely pays any taxes. Meanwhile, the taxes paid by everyone else enrich entities close to the government and oligarchs through profoundly corrupt public procurement schemes. As a result, Ukraine's economy is like a sinking Titanic where those in power push the non-oligarch business to the lower decks while rushing to the lifeboats with their oligarch friends.

In the current situation, Ukraine needs policies focused on driving economic growth. This must be based on three major elements:

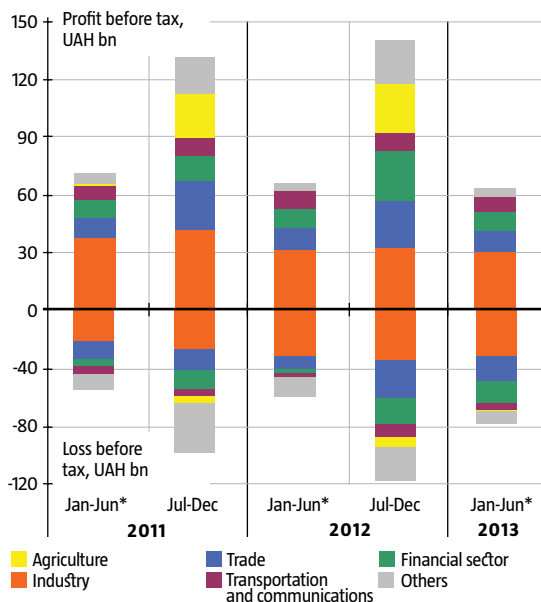
The first is to stop or strongly restrict corruption in public procurements, which outprice the revenues from all taxes and duties in Ukraine.

The second is to expand the tax base, cancel privileges for oligarch businesses close to the government and gradually cut the effective tax rate for enterprises to facilitate their development.

The third is to switch from pagentry to real efforts to prevent schemes whereby incomes and capital end up abroad. The key missing ingredients here are political will and the transformation of Ukraine's oligarch economy into a market one. Apparently, the current regime will never possess these. ■

Steady decline

Profitable businesses lose income and unprofitable ones report more losses. A steep rise in loss of retail trade will result in a recession on this island of stability

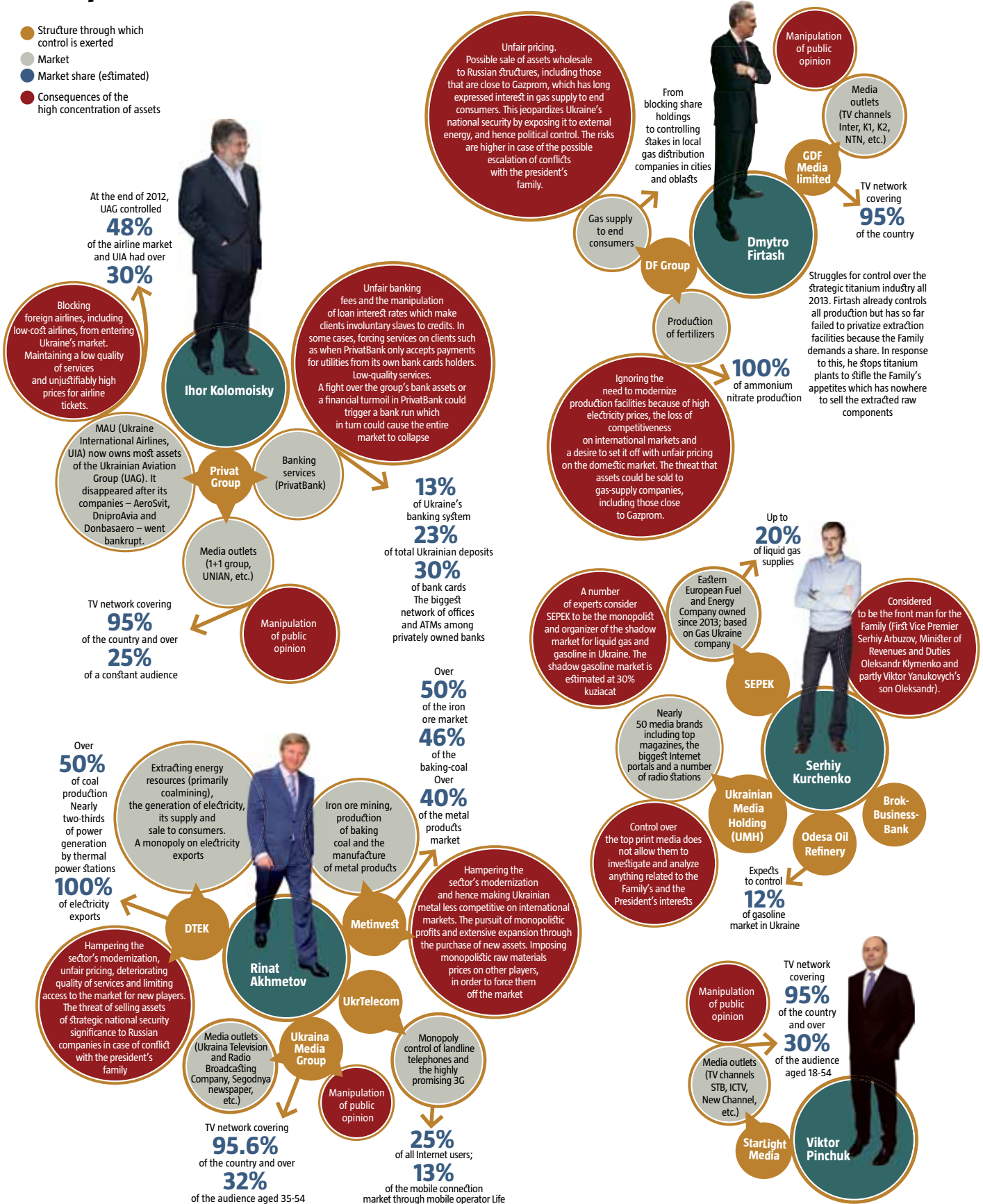


*Jan-Jun profit does not include performance of small enterprises and most agricultural companies while yearly statements do

Sources: State Statistics Committee, own estimates

An Update on Ukraine's Robber Barons

- Structure through which control is exerted
- Market
- Market share (estimated)
- Consequences of the high concentration of assets



The Gated Globe

Governments are putting up impediments to globalisation.
It is time for a fresh wave of liberalisation



Imagine discovering a one-shot boost for the world's economy. It would revitalise firms, increasing sales and productivity. It would ease access to credit and it would increase the range and quality of goods in the shops while keeping their prices low. What economic energy drink can possibly deliver all these benefits?

Globalisation can. Yet in recent years the trend to greater openness has been replaced by an enthusiasm for building barriers—mostly to the world's detriment.

THE WORST DID NOT HAPPEN...

Not so long ago, the twin forces of technology and economic liberalisation seemed destined to drive ever greater volumes of capital, goods and people across borders. When the global financial crisis erupted in 2008, that hubris was replaced by fears of a replay of the 1930s. They were not realised, at least in part because the world had learnt from that dreadful decade the lesson that protectionism makes a bad situation worse.

Yet a subtler change took place: unfettered globalisation has been replaced by a more selective brand. As our special report shows, policymakers have become choosier about whom they trade with, how much access they grant foreign investors and banks, and what sort of capital they admit. They have not built impermeable walls, but they are erecting gates.

That is most obvious in capital markets. Global capital flows fell from \$11 trillion in 2007 to a third of that last year. The decline has happened partly for cyclical reasons, but also because regulators in America and Europe who saw banks' foreign adventures end in disaster have sought to ring-fence their financial systems. Capital controls have found respectability in the emerging world because they helped insulate countries such as Brazil from destabilising inflows of hot money.

Sparingly used, capital controls can make financial systems less vulnerable to contagion, and crises less damaging. But governments must not forget the benefits of financial openness. Competition from foreign banks forces domestic ones to

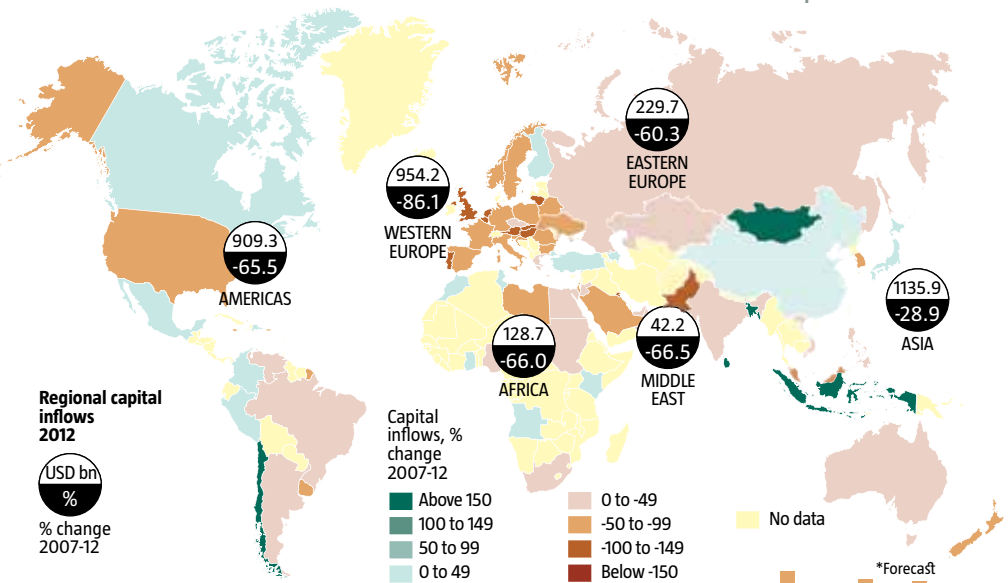
compete harder. Ring-fencing banks and imposing capital controls protects from contagion, but also traps savings in countries with little use for them.

Trade protectionism cannot claim the justifications that capital controls sometimes can. Fortunately, the World Trade Organisation (WTO), the trade watchdog, prevents most ostentatious protectionism, but governments have developed sneaky methods of avoiding its ire. New impediments—subsidies to domestic firms, for instance, local content requirements, bogus health-and-safety requirements—have gained popularity. According to Global Trade Alert, a monitoring service, at least 400 new protectionist measures have been put in place each year since 2009, and the trend is on the increase.

Big emerging markets like Brazil, Russia, India and China have displayed a more interventionist approach to globalisation that relies on industrial policy and government-directed lending to give domestic sellers a leg-up. Industrial policy enjoys more respectability than tariffs and quotas, but it raises costs for consumers and puts more efficient foreign firms at a disadvantage. The Peterson Institute reckons local-content requirements cost the world \$93 billion in lost trade in 2010.

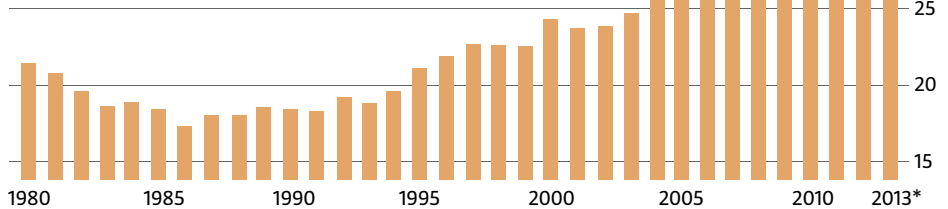
Attempts to restore the momentum of free trade at a global level foundered with the Doha round of trade talks. Instead, governments are trying to do so through regional free-trade agreements. The idea is that smaller trade clubs make it easier to confront politically divisive issues. The Trans-Pacific Partnership (TPP) that America, Japan and ten others hope to conclude this year aims to set rules for intellectual-property protection, investment, state-owned enterprises and services.

Regional free-trade deals are a mixed blessing. Designed well, they can boost liberalisation, both by cutting barriers in new areas and by spurring action in multilateral talks. Done badly, they may divert rather than expand trade. Today's big deals are probably a net positive, but they may not live up to their promise: in the rush to sign a deal, TPP participants look likely to accept carve-outs for tobacco, sugar, textiles and dairy products, diminishing the final deal.



World exports, as % of GDP

Sources: IMF; McKinsey Global Institute; The Economist



...but it could be so much better. Gate-building does not cause much outrage. Yet it is worth remembering what opportunities are being lost. In 2013 the value of goods-and-services exports will run to 31.7% of global GDP. Some big economies trade far less: Brazil's total exports are just 12.5% of GDP. Increasing that ratio would deliver a shot in the arm to productivity. Trade in services is far lower than in goods; and even in goods, embarrassing levels of protectionism sur-

pointed. The latter two have suffered sharp falls in their currencies. Some countries have counted the cost and are opening up. China's new leaders are tiptoeing towards looser rules for foreign capital and getting behind a push for a modest global trade deal. Mexico plans to readmit foreign investors to its oil industry in an effort to boost output. Japan hopes that the TPP will shake up its inefficient sectors, complementing fiscal and monetary stimulus.

But the fate of globalisation depends most on America. Over the past 70 years it has used its clout to push the world to open up. Now that clout is threatened by China's growing influence and America's domestic divisions. Barack Obama's decision to skip an Asia-Pacific leaders' summit in Bali to battle the government shutdown at home was ripe with symbolism: China's and Russia's presidents managed to attend. Mr Obama must reassert America's economic leadership by concluding a TPP, even one with imperfections, and force it through Congress. The moribund world economy needs some of the magic that globalisation can deliver. ■

THE MORIBUND WORLD ECONOMY NEEDS SOME OF THE MAGIC THAT GLOBALISATION CAN DELIVER

vive. America tacks a 127% tariff on to Chinese paper clips; Japan puts a 778% tariff on rice. Protection is worse in the emerging world. Brazil's tariffs are, on average, four times higher than America's, China's three times.

In the past year the cost of impediments to trade has become clearer. Few countries have put up more gates than Russia, India and Brazil; growth in all three has disap-

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WHO WILL PROTECT US?

Squeezed between two power blocs, Ukraine will inevitably join one. It cannot afford its non-aligned status and the upcoming military reform will not help



Author:
Roman Malko,
Andriy Duda

Defence Ministry officials and experts close to it insist that Ukraine is currently not in danger of any serious conflict that could escalate into a military operation, so there is no need to panic. Ukrainians should feel safe, they say - nobody is going to attack them. They also claim that if necessary, international treaties guarantee foreign help for Ukraine.

Other experts, including Ihor Teniukh, Chief Commander of the Ukrainian Navy in 2006-2010, see great likelihood of a global military

conflict in this decade, in which non-aligned Ukraine may have to take part. Neighbouring countries are another source of potential threat. A recent example is the Russian invasion of Georgia in 2008.

To maintain its current non-aligned status, Ukraine has to speed up modernization of its army, increase spending on the military training and buy new weapons. Most non-aligned European states are fairly highly militarized and spend much on defence.

Switzerland, with the population of 8 million, has a constantly growing defence budget (USD 4.83bn in 2011 and USD 5.45bn in 2012). With the reserve military personnel summoned to training for several weeks every year Switzerland can gather a 650,000-strong army within four hours and a 1.7 million-strong one within two days. Sweden with the population of 9 million plans to spend USD 6.1bn in 2013 on defence. Finland with 5 million people spends twice as much per capita as the 45-million

EXPERT OPINION



Ihor Teniukh, Chief Commander of the Ukrainian Navy in March 2006-March 2010

Unfortunately, we have reason to agree with the experts who believe that a global military conflict is possible in this decade –

there are grounds for it so it will only take a nudge to bring intent to life. Russia's militarist policy has been significantly reinforced: it has activated its presence in the Persian Gulf and the Mediterranean for the first time in twenty

years; it is taking steps to rearm the army and the navy; its policy on the subordination of post-Soviet states, particularly Ukraine, is growing tougher (take the 2008 intervention in Georgia). Officials talk of the possible use of nuclear weapons and withdrawal from international treaties on limitation and reduction of arms. The major factors fueling threats to our country include the critical decline of our capacity to protect Ukraine which may be used to put pressure on it; and unresolved issues linked to the temporary stay of the Russian Black Sea Fleet on Ukrainian territory, as well as the shortcomings in the relevant legal framework.

Meanwhile, the situation in Ukraine's defence sphere is critical. The key problem is that the Armed Forces are not part of the counterbalance system. The Interior Ministry, the SBU (Security Service of Ukraine) and the Prosecutor play a major role in it. In addition, the military is seen as a superfluous element from the viewpoint of politicians and their interests. The worst part is that the Army has already exhausted its capability to maintain battle-readiness with just minor tweaks. The ill-grounded approach to forming the military, particularly the declared large-scale downsizing of the military

Ukraine does. Its 2013 defence budget was USD 3.72bn including over 25% on arms upgrade. However, even they have had heated debates to quit their non-aligned status and join the NATO over the past few years. Ukraine cannot afford their scale of defence spending given its permanent budget deficits and economic stagnation. The more the government spends on the military, the more it will have to cut on social spending. This is not an option in the face of the upcoming elections.

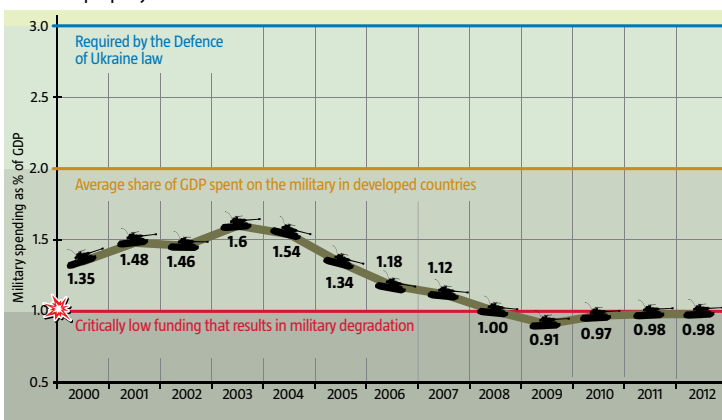
This fall, the government approved a new reform programme that entails abolition of annual conscription, reduction in military personnel and a switch to the volunteer professional contract-based army in 2014 (see **A Volunteer Army: Beyond Alliances and Quality Standards on p. 20**). Many consider this to be a serious mistake, although they also claim that the current system needs significant reform. A relatively small army of volunteer servicemen, no matter how professional, cannot protect a country from military aggression effectively. So, Ukraine will hardly manage to keep its non-aligned status much longer. It will join one of the existing military alliances inevitably – this only a matter of time.

Today, the Ukrainian army needs USD 3-3.7bn annually at the very least, to maintain its current potential. Instead, the planned military spending in 2013 is USD 1.8bn of which 83.2% (USD 1.5bn) is for maintenance while the meager 6.4% (USD 0.1bn) is for training and 10.4% (USD 0.2bn) is for arms upgrade (see **Misleading protection**).

Meanwhile, Ukraine's neighbours undergo intense militarization. The military budget of Russia is USD 71.2bn in 2013 and is planned to grow to USD 96.4bn in

Misleading protection

Poor and ineffective financing prevents the Ukrainian Armed Forces from fulfilling their functions properly



Source: public sources and estimates by Ihor Tieniukh

2015 and USD 105.2bn in 2016. By 2020, it is planning to modernize 70% of its weapons. The military budget of Poland, Ukraine's biggest European neighbour and NATO member-state with the population of 38.4 million and a 120,000-strong volunteer professional army, is USD 8.5bn in 2013. Its plan for

military: USD 3.4bn in 2013. Plus, it is implementing a three-stage rearmament plan: the first stage was completed in 2007, and the other two will be in 2015 and 2025.

Experts claim that Ukraine should determine the percentage of GDP that it will allocate to the military in the legislation, and actually stick to it. The ideal share that would allow Ukraine to catch up with its neighbours is 5%. This would cover full rearmament and a gradual upgrade to the level that the military of Ukraine's neighbours have. However, the affordable share today is 2%.

Another thing experts point at is that even if the government increases funding, most of it will be stolen. So, a radical overhaul of the military system and structure is needed. One option is to segregate the functions of the Armed Forces Headquarters and the Defence Ministry into combat operations and administrative management respectively. This would prevent overlapping, lower the level of corruption and bring basic order to the army. ■

EVEN IF THE GOVERNMENT INCREASED FUNDING FOR THE MILITARY, MOST OF IT WOULD BE STOLEN. SO, A RADICAL OVERHAUL OF ITS SYSTEM IS NEEDED

technical upgrade by 2022 provides for nearly USD 45bn to be spent on rearmament with aviation as the main focus. Ukraine's second biggest European neighbour and another NATO member-state, Romania, with the population of 21.8 million and the army of 90,000, plans to spend almost twice of what Ukraine does on its

through the upcoming reform, is dangerous. Even a quick look at the measures listed in the Army Development Concept proves that these will not be implemented, since the funds projected for them will not be sufficient.

Such plans show how the government seeks simple ways to solve complex issues. We can claim confidently that the listed goals will be accomplished only partially, while the "reforms" will do more harm than good.

Without proper innovative armament and the redistribution of functions and responsibility

supported by a due legal framework, the reform whereby the size of the military will be reduced is a way to nowhere. As a result, Ukraine's Army will, at best, be an accessory for our sovereignty.



Leonid Poliakov, expert at the Centre for Army, Conversion and Disarmament Studies

Weaponry and machinery are undeniably important, but there is no point in them without

the due moral and psychological condition of the military as an important indicator of battle-readiness. The moral and psychological condition is below poor. Why? Because servicemen don't believe that the state, commanders, let alone the government, need them. The parliament which does not want to finance their needs doesn't need them either. How much does the government plan to spend on housing for the military? Nothing. What else can be said? What other country, even a post-Soviet one, has such a waiting list for housing that is as long as Ukraine's?

A Volunteer Army: Beyond Alliances and Quality Standards

The new military reform entails a transfer to a volunteer professional army in 2014 and a significant reduction in military personnel. In reality, it seems to be nothing more than an attempt to save money



PHOTO: UNIAN

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At the beginning of this fall, yet another State Programme for the Reform and Development of the Ukrainian Armed Forces was passed. This one covers the years through 2017.

The text of the programme has not been disclosed yet, but the laconic yet resolute statements of the Defence Minister, Pavlo Lebedev, have shed light on the strategic changes that the military will undergo under the latest Army 2017 project. The major aspect of the reform is the inevitable and complete switch from mandatory annual conscription to a volunteer contract-based service. According to official statements, this change will occur next year, so the conscription campaign that kicked off on October 1 will supposedly be the last of this kind in Ukraine. Another innovation is significant downsizing. Ide-

ally, this should provide Ukraine with a smaller but highly professional and well-equipped army. The planned total of personnel will be 122,000, of which nearly 70,000 men are combat troops and 50,000 are in maintenance. Today, according to various estimates, there are nearly 180,000 people in the Ukrainian military, with 100,000 in maintenance and 80,000 combat troops.

ILLUSIONARY SELF-SUFFICIENCY

The new professional army should be based on contract service, and the state is supposed to provide relevant incentives for people to join it. These include financial rewards, housing, employment benefits and opportunities to train with new weapons and technology. Proper patriotic education is necessary, too. Overall, military service should become interesting and rewarding.

Today, however, the wages of Ukraine's Armed Forces contract serviceman ranges between UAH 1,463 and UAH 2,926 (USD 180-360). This is below the existing average wage of UAH 3,000 to UAH 3,304 (USD 370-408). Still, we may soon see an intense promotion campaign for contract-based military service, and a flow of new promises to increase financing for the military. Politically, the timing is perfect as the 2015 presidential election campaign has already kicked off unofficially.

Initially, it is likely to draw quite a few volunteers, given the high unemployment among young people, especially in the rural regions of

Ukraine. In the long run, however, disappointment may follow, and many volunteers are likely to leave the army. The populism traditionally used for the military throughout the years of independence and promises not grounded on sufficient resources may take a heavy toll on the country. With time, Ukraine may end up with much of the taxpayers' money wasted on disappointed servicemen who will quit the army eventually, and depleted military professionalism since no volunteers will be willing to serve longer than three to five years.

Last year, the Chief of Staff of the Ukrainian Army, Volodymyr Zama-na, mentioned that the wage for contract-based servicemen would reach USD 750-800 starting from 2014. However, the state budget will most likely afford to pay what Defence Minister Pavlo Lebedev promised this August. According to him, the pay for a contract infantry soldier will be UAH 3,005 (USD 370), UAH 3,641 (USD 449) for unit commander and UAH 4,340 (USD 535) for a tank commander from July 1, 2014. The wage for officers is supposed to increase as well. The government may indeed manage to pay this before the election. However, it is hardly comparable to wages in Russia (nearly USD 1,600 for a lieutenant) or over USD 4,000 for an officer in Germany.

Another potential problem is what to do with those transferred to reserve units? Many of the military are ill-fit for civilian life since their only skill is to protect their country. The estimated number of those becoming reservists in 2013-2017 is nearly 42,000. Only 21,000 of them (with 10 and more years in service) will be entitled to the state adaptation programme. Preliminary estimates show that it will cost the government over UAH 100mn. It is unlikely to spend that much, however: the 2013 budget programme for the professional upgrade of social defence employees and social adaptation of reserve military staff entails UAH 50,000.

Moreover, the functions of the social and professional adaptation of the military have been taken away from the Defence Ministry and transferred to the Social Policy Ministry. With just one section comprised of six people within the Department for Social Protection of Chernobyl Victims and Other Categories (the military are listed as

Other Categories), it is unlikely to be able to effectively deal with the influx of former servicemen. As a result, many of them may find themselves forgotten by the state. Some will go to the security services of Ukrainian business owners and tycoons who have by now formed thousands-strong private armies that can well be viewed as a threat to national security. Others will end up on the streets. Given their experience with weapons, they could pose another threat.

ILLUSIONARY PROFESSIONALISM

Over many years of attempts to create an army with a new format in Ukraine, the concept of switching from national to contract-based service has been confused with professionalism. These two things are not always identical. A well-trained military, regardless of enlistment procedures, plus modern weapons and technology, are two fundamental elements of a professional army. In other words, Ukraine should now think about a professionally trained army with daily training that uses new or modernized equipment, not just a contract-based army. However, Ukraine is not planning a large-scale overhaul of its weaponry anytime soon. On paper, authorities allocate huge sums for rearmament, but this year's defence budget provided just about USD 111mn to buy new weapons. Meanwhile, Ukraine needs at least USD 500mn annually to actually rearm its army effectively – and these are optimistic estimates. This amount is scheduled to increase to USD 1.2bn by 2017, when the supply of new weapons for the Armed Forces, including that being currently developed by local engineers, is scheduled for.

There is no certainty with the three long-term military engineering projects: the Sapsan Tactical Missile System; the An-70 military transport aircraft; and the multi-purpose battleship Korvet. The military recently stopped Sapsan – thus taxpayers' money has long been wasted with zero outcome, and it is unlikely that someone will be held responsible for this. The system was supposed to become virtually the only instrument of protection from possible military aggression in a non-aligned Ukraine. An-70 became yet another bargaining chip in the political confrontation with Russia – alone, Ukraine is



unable to place enough orders for Antonov, the aircraft manufacturer, to be able to finish the project. The first Korvet should be completed by the end of 2015. However, the issue of the weaponry it will be equipped with is still open. As a result, it could be launched without armaments.

Overall, the Defence Ministry's financial needs have never been fully met throughout the years of independence, even though the military always requested less than they needed. In 2013, the defence budget was UAH 15.6bn (USD 1.9bn) of the necessary UAH 20bn (USD 2.5bn). It is still unknown whether the whole amount will be allocated by the end

of the year. The situation was no different in 2012 with UAH 16.3bn (USD 2mn) being estimated for allocation and UAH 14.7bn (USD 1.8bn) actually being allocated of the nearly UAH 20bn requested. The Defence Ministry's request for UAH 24.5bn (USD 3bn) for 2014 will obviously follow suit. After the President approves the State Complex Programme for the Reform and Development of the Armed Forces Through 2017, the military will receive similar resources to keep more servicemen afloat for five more years. Experts are convinced that the army reform will fail with a budget of under USD 2bn. ■

Recipes for Consolidation

Sarmīte Ēlerte, ex-Minister of Culture of Latvia, talks about the successes and challenges in integrating the Russian-speaking community in Latvian society



Interviewer
Iryna
Panchenko

Latvian politician and ex-Minister of Culture, Sarmīte Ēlerte asserts that the big capital of oligarchs cannot have legal origins, while handouts to whitewash themselves cannot justify robbing society. “Business is something completely different,” the 56-year old politician feels. Stolen money will always be used for discord and resistance to democratic changes in the country. Ēlerte’s personal achievement lies in the fact that the very notion of oligarch has forever lost any positive or even neutral connotation in Latvian media space. The country’s mass media no longer calls these people successful businessmen.

UW: Latvia quickly walked the way on which Ukraine has not even taken the first step. EU membership helps it to build new political relations with Moscow. What challenges did your

country face during the European integration process?

– Latvia’s greatest achievements during its years of EU membership have been the development of institutions and systems that help us overcome corruption successfully. I’m not saying that we don’t have problems. The greatest difficulty is to teach each individual Latvian to have a sense of responsibility. The state must create a viable system, but it is each citizen that has to be responsible for his or her own education, development, financial status and way of life. Free press, an independent judicial system, competitive business and quality standards – all these evolve out of the conscious and responsible choice of participants in the process. The structural funds of the European Union were instrumental in conducting reform in Latvia. However, it is dangerous to get used to the thinking that this

will always be the case. European funding is a short-term incentive; it should be understood meanwhile that no one is obligated to help or pay for you. This is your country. As far as Ukraine is concerned, I think you have to choose whether you want to live under democratic standards, which provide for the huge personal responsibility of every member of society, or in a post-Byzantine, or more accurately, a post-Soviet, country. These things do not mix. Ukraine’s problem lies in the lack of social agreement regarding what the state should look like. Russia or the EU – this is not simply about formal relations, it’s a civilisation choice. Europe is based on the tradition of respect of law and individuality developed and in operation over many centuries. Laws do not work in post-Soviet conditions.

We have a common policy with the EU. Latvia is a small country and cannot be neutral next to such a giant as Russia. In 1990, the latter declared that it will no longer buy our sprats. This was a significant component of our export, and it’s a good thing that we immediately turned to the European market. Quality requirements there were completely different, and this also played an important role in our competitiveness.

UW: It seems that the Russians that live in Latvia are very different from those living in Russia. Have you managed to fully integrate them in society? What were your successes and miscalculations?

First of all, what went on in our country for 50 years is impossible to change in 20. Secondly, Latvia is a democratic country. No one was sent away in the 1990s, everyone living here who has learned the Latvian language and a little of the national history can get citizenship. In this sense, Latvia and Estonia are similar

and differ from Lithuania, where a relatively mild resolution of the problem, inherited from Soviet times, was proposed. Anyone who wants to become a member of society can do that. Of those people who feel alienated, but continue to live here, no one wants to emigrate to Russia or Belarus. Just as in France or the UK, those who live in Latvia must respect its culture, language and identity of the country. Of course, Latvian was and will be the only state language. The illusions supported by some politicians and parties that Latvia will have two state languages and society will be made up of two communities are delusive, because this will never happen. This would lead to endless conflicts and would have a negative impact on society as a whole. Each person has the right to his or her own individuality and the opportunity to choose the extent of integration. A colleague in my party, who is currently an MP, Andrejs Judins says of himself: "I'm a Latvian of Russian origin." This is his choice, and he wants to be part of the Latvian nation. Another will say: "I am a Russian and live in Latvia." People should not simply know, but also use the state language. In this lies respect and integration in society. As far as mistakes are concerned, politics was not always consistent; to this day we have a very Soviet system of language segregation, starting with kindergartens: there are Russian and Latvian ones; the same applies to schools. In the early 2000s, we conducted educational reform, which provided that 60% of subjects in secondary schools must be taught in the national language. This has worked very well: Most young people now know Latvian, which was not the case during the Soviet era. But to say that we are segregating our children – these are old stereotypes. They should all learn together in compliance with the rights of ethnic minorities regarding their cultural autonomy, but without any division in the education process. A movement in this direction should have been begun earlier, delicately, but consistently.

UW: In the heat of pre-election debates with your competitor for the position of Mayor of

Riga, Nils Ušakovs, a representative of a pro-Russian party, on a Russian-speaking channel, you did not wish to switch to Russian. Was your decision motivated by the fact that the Russian-speaking population of Latvia would never master the state language if it doesn't hear it? Subsequently, the Russian language information resources of your country added fuel to the problem. Ušakovs, who referred to himself as "the Mayor of all residents of Riga" played on this against you. Ultimately, he won the election and you lost. Why did that happen?

People in Latvia are tired of crises, and the need for stability is palpable at every step. Of course, the last phrase can have any content. From 2009 until last year, when you look at results of elections to local governments throughout Latvia, stability is more or less a key slogan of victorious politicians. As voters think, things may not be better than they were, as long as things don't get worse. At the same time, people's perception of what is a modern city, is somewhat simplified. A city is not just pipes and municipal issues; it's also culture, investments, business, education, bureaucracy, corruption, and so on. People feel that it is necessary to mobilise for national elections, while local elections are less important. The pro-Russian Harmony Centre represented by Ušakovs did quite well in mobilising its electorate. His voters were more active than ours – the national-oriented ones. Of course, Riga's ethnic structure and many other factors have contributed to this.

The task of any democratic political party is the consolidation of all electoral groups around its own national democratic development programme. In my view, the negative role of Harmony Centre lies in the fact that it continues to operate through a scheme of contradiction and opposition, supporting the identity of its electorate on the basis of "we oppose" or "we and they". Harmony Centre and its predecessor, the more radical For Human Rights in United Latvia, focus on disintegration. While I say that society should have a single foundation (human rights, de-

BIO

Sarmīte Ēlerte is a politician, journalist and public figure in Latvia. In 1990–2008, she was Editor-in-Chief of the *Diena* (Day) newspaper. From 2010 until 2011, she was Minister of Culture in the second government of Valdis Dombrovskis. Ms. Ēlerte founded the Zigfrīds Meierovics Association for Progressive Change. In November 2007, together with Sandra Kalniete, she initiated the "umbrella revolution", a large-scale protest in Riga, demanding separation of the government from oligarchs, dissolution of the Saeima (the Latvian Parliament) and dismissal of corrupt officials. Then Prime Minister of Latvia, Aigars Kalvītis, was forced to resign. In early June she was the candidate from Unity, a national-liberal party, in the Riga Mayoral election, but lost to Nils Ušakovs, a representative of the pro-Russian party Harmony Centre and the former mayor, who was elected to this position for the second time.

mocracy, national state, language). Some politicians that supposedly "yearn for harmony" consider that keeping Latvians and Russians separate is the right thing to do. But I don't see any future in this. This will only lead to tension between citizens, which people are gradually becoming tired of.

UW: Nils Ušakovs is no longer a Soviet person. He is a young politician, speaks very good Latvian and is a Latvian citizen, but is building public relations with supporters based on outdated communist symbols. Why is this Soviet nostalgia being artificially supported?

What I say about consolidation is completely logical. Look at the identity of emigrants. Soviet mentality is its integral part. Until 2002, when Putin came to power, there were no celebrations in Latvia on May 9. When he decided that the Soviet Union had fallen apart too soon and its former republics have to be returned to the empire, he set a task of reviving the Great Patriotic myth in some places, and establishing a new one in others. This included partial vindication of Stalin, and had some impact on us. Russia does not hide its intent to develop its influence on former Soviet territories. There are more Russians living in London than in Riga, but they don't march along the streets there on May 9. You can live with your memories, but the revival of Victory Day celebrations are the core of the counteraction to social consolidation in independent states. Putin's Russia is still counting on political revenge in the geographic boundaries of the former USSR. ■

Defending Ukrainian at Odesa's Universities

College students in Odesa campaign against Ukrainophobia in local high schools

Odesa students protest against the opening of the Russian World Foundation centre at their university



Author:
Valeria Burlakova

“When you first enter the university, you have a lot of questions about corruption, studies, and sports. Some are answered immediately; others last through your school years. One issue bothers most students at the Social Studies Institute: why does the teaching staff of a state university that educates future elite political analysts, sociologists and diplomats include a person who barely recognizes Ukrainians as a people, let alone Ukraine as a state?” This question was posted to an online social network by Andriy Bondarenko, a student at Mechnikov National University (Odesa National University), one of the city’s most popular universities.

ONE-SIDED PLURALISM

Andriy has long accepted the pluralism of opinions at the university as an excuse for this situation. “Even after I met PhD students supervised by this professor who focus entirely on topics related to our

northern neighbour, even after I read his books full of hatred about all things Ukrainian, I kept telling myself, ‘this is democracy, a person has the right to think what he wants and express his thoughts’”, Andriy states.

The last straw, however, was when Hennadiy Hrebennyk, a Professor of History and World Politics in the Social Studies Department, participated in a Ukrainophobic event arranged by the scandalous Natalia Vitrenko’s Progressive Socialist Party at an Odesa hotel. The professor who educates future Ukrainian intellectuals was spotted together with a bunch of notorious promoters of the Russian World including Aleksandr Dugin, Volodymyr Kornilov and others.

“Hrebennyk is an ethnic Russian who moved to Ukraine and allows himself to speak against its integrity and disgrace the Ukrainian people. I don’t mind labour migration, especially highly qualified people coming to Ukraine, but I do mind people who try to ruin

something that took many years to build while working here,” Andriy says.

Other students at his university have noted the problem too. However, most are afraid to protest openly against Ukrainophobia for fear of being expelled.

Kateryna, a second-year student, was too afraid to even ‘like’ Andriy’s post on the social network, citing a fact of which all students at Mechnikov University are aware: the administration monitors the network. After someone posted a comment saying, “Not one subject, not one, is taught in Ukrainian” in a university group on the social network, the deputy dean entered the room after class and told the student group president to “tame the students”.

HISTORY OF UKRAINE IN RUSSIAN

Hennadiy Hrebennyk has long had a reputation as a Ukrainophobe at the university but only now have the students begun to protest against it. “He wrote an article entitled ‘Professor – is it good?’ 22 years ago. It was against the Ukrainization of education,” Kateryna adds. The article goes on to state, “We are leaving behind the ‘Odessa’ (Russian spelling of Odesa – **Ed.**) title of this university and the language all Odesites speak. We are removing ourselves from the glorious traditions of this brilliant centre of Russian science, losing our particular pride, losing our faces”. The professor of History and World Politics never switched from speaking Russian. “Nobody will make him speak Ukrainian,” Kateryna sighs. “And they would never fire him...”

This professor is not alone among the university staff. “Unfortunately, Hrebennyk is not the only

one like that here,” the students complain. “There are quite a few old professors here who are still living in the Soviet Union. They end every class with a minute of nostalgia about the past, criticism of the terrible bourgeoisie and interpretation of yet another of Marx’s ideas. Almost every professor has expressed Ukrainophobic sentiments at least once. Hennadiy Hrebennyk is particularly notorious. He speaks with contempt about Ukraine during his lectures on the history of foreign political doctrines. He talks about the unity of the Slavs and says things like ‘our Russian language’”.

In this environment, few dare to ask for education in Ukrainian at Mechnikov University. “We only had business Ukrainian and world history in Ukrainian in our first year,” a student says. “The professor who taught us history of Ukraine allowed us to vote which language to use just once. We chose Ukrainian”. However, he still began his course in Russian. When the university administration found out about the “protest sentiments” it told the student president to “deal with them”. “The student president told us that it was an instruction from above. Even after she chose Ukrainian as well”, the students said. After that, the protest abated. Overall, the students believe that even anonymous discussions can have negative consequences: the administration and professors know which students are concerned with the language issue.

BAD GRADES AND THE BATTLE FOR LANGUAGE

The policy of Odesa’s Mechnikov National University has repercussions beyond campus, as professors often moonlight elsewhere. A student at the Odesa National Polytechnic University stated off-record that Mechnikov professors teach all of the humanities courses at his college.

“Virtually every PhD student at Mechnikov University believes and hammers into the heads of students that Ukraine’s independence is a paradox and shouldn’t have happened”, says the student of the moonlighting lecturers. His university also has Ukrainophobes on staff. “When will you learn to speak normally? I’m fed up with this language”, he quotes Oleksi



Student Andriy Bondarenko is one of the few who talk openly about Ukrainophobia at the Odesa National University

Stopakevych, a Polytechnic University lecturer.

He claims that his request for the lecturer to speak Ukrainian earned him an F for a lab course in nuclear physics and the advice to “learn Russian”. “Students haven’t been expelled for similar pro-Ukrainian campaigns but some have quit on their own and transferred to Kyiv universities to avoid language discrimination”, the student notes.

Many of those campaigning for Ukrainian-language education at Odesa universities were born and raised in Odesa. “Some hardly know Ukrainian and speak surzhyk, but they want to learn it,” the student of the Polytechnic University says. “When the question of the language of education arises – although the students’ opinion is

during a lecture. “It was Religious Studies”, states a student involved in the conflict. “I asked the lecturer to speak Ukrainian. ‘Odesa is a Russian city’, she replied”. The student said that Odesa is a Ukrainian city with Ukrainians constituting 75% of the population. “Odesa is Russia so shut up!”, a Transnistria-born classmate said. That was the last straw. “The lecturer went to a university in St. Petersburg and comes from Russia. So, people from Russia and Moldova want to tell me, a native of Ukraine, that Odesa is not only a Russian-speaking city, but a Russian city? I punched him...” The university administration did not go public about the conflict: the student was not expelled but classes in Religious Studies are still conducted exclusively in Russian.

For every action, there is an equal and opposite reaction. This law is not yet in full swing at Odesa universities. However, Odesa students disrupted the opening of the Russian World Foundation Centre at the openly Ukrainophobic Mechnikov University. They raised red and black flags at the presentation of Vasyl Shklier’s book *Zalyzhenets* (The One Who Stayed), a historical novel about one of the episodes in the struggle of Ukrainian insurgents against the Soviet authorities in the 1920s. Most deal with these absurd and tragic situations with typical Odesa nonchalance. “I don’t care about Ukrainophobic teachers. I’ll just speak Ukrainian as a matter of principle”, says Yana, a philology student at Mechnikov University. ■

ALMOST EVERY PROFESSOR AT THE ODESA NATIONAL UNIVERSITY HAS EXPRESSED UKRAINOPHOBIC SENTIMENTS AT LEAST ONCE, STUDENTS CLAIM

rarely invited – Odesites say, ‘We are Ukrainians, too, and we understand everything, let’s study in Ukrainian’”. There are many Bulgarians in Odesa, and they often try to speak Ukrainian, he claims, but students from neighbouring Transnistria are the most proactive proponents of Russian.

Once the debate on the language of education at Odesa Polytechnic University led to a fight

¹ A mix of Ukrainian and Russian mostly spoken in rural regions

Subjugated Europe

Stalin's moves to establish communist governments in Central and Eastern Europe relied largely on local elements and tools already tested in the USSR

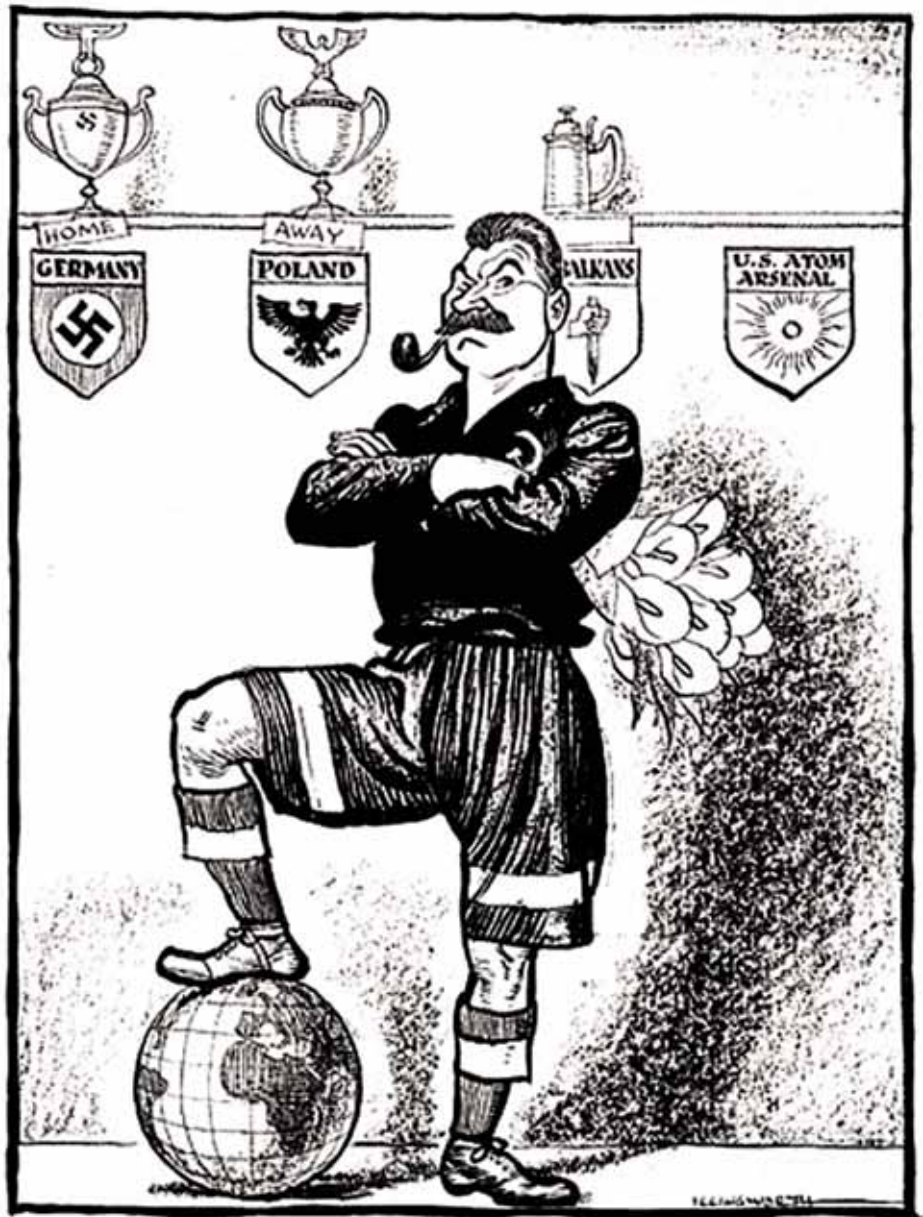
Author:
János Tischler, Budapest

"This war is not like the previous one. Now he who subjugates a territory dictates its political system. Everyone imposes his own system in the geographical territory where his army is located. This is how it is, and it cannot be otherwise," Stalin once told Milovan Đilas, a leader of the Yugoslav communist movement and later prisoner and victim of the system. The Soviet tyrant knew what he was talking about.

PRAGMATIC APPROACH

In 1949, the world communist camp finally took shape. That year, the People's Republic of China was proclaimed and the German Democratic Republic emerged. The states that Stalin had been eyeing (Bulgaria, Romania, Hungary, Czechoslovakia, Poland and the GDR with the exception of Yugoslavia and, after 1960, Albania) found themselves under the thumb of the Soviet empire.

However, despite Stalin's rhetoric, the future of Central and Eastern Europe did not seem to be set in stone. There was still some hope that these countries would be able to choose their paths independently without Moscow's guidance. However, one had to reckon with the fact that the Soviet Union had not only emerged from 25 years of international isolation but had also assumed a top position among the victors of WWII, with the Red Army controlling countries previously occupied by the Third Reich or connected to it. It would be a long time before Germany could fully restore itself, so the geopolitical void in the conti-



ment had to be filled by Anglo-Saxons and the Soviets. The question was only who would have more influence.

Communist parties which, with the exception of the one in Czechoslovakia, had been small,

illegal, or "sectarian" in the interwar period now became full-fledged political entities with great potential. At the same time, public opinion and political forces in these countries demanded fundamental changes,

modernization and a departure from the dramatic wartime past. Czechoslovakia, which was a bourgeois democracy before the war, was again an exception here.

The Soviet chief took a pragmatic approach to the future of the region occupied by the Red Army. Initially, he did not wish to give any freedom to communist leaders, many of whom were appointed by Moscow, including Mátyás Rákosi in Hungary or Bolesław Bierut in Poland, but he was flexible in his thinking. As he strove to keep his new trophies (the Baltic states, Bessarabia, Königsberg, Transcarpathia, and annexed Polish regions), he wanted to see how far he could go in his dealings with the Western allies. They agreed that the USSR had to be surrounded by sympathetic countries. On this issue, the Western leaders were partly helpless.

Stalin did not rush to Sovietize even those countries which he wanted to have under direct control, i.e., Poland, Romania and Bulgaria. At the same time, he wanted to have room for further expansion, so he ordered to have a semblance of parliamentarianism established in these countries. As a result, several communist parties, including that of Hungary, put together programmes that could be described as social-democratic. Moreover, the real social democrats were more radical than communists, who were initially kept in check by Moscow. As is known, the main difference between the two was that the former stuck to the foundations of parliamentary democracy, while the latter pursued complete power and the "dictatorship of the proletariat". To the communists, parliamentarianism was simply a means to an end.

According to Stalin's conception, the post-war continent had to consist of three parts: 1) non-communist – Western Europe, where Stalin constrained coup attempts by the strong French and Italian communist parties, and Greece, where he cut off assistance to communist guerrillas; 2) communist – Poland, part of Germany, Romania and Bulgaria; 3) middle ground where coalition-based political systems

would exist and the influence of communists would gradually rise – Yugoslavia, Finland, Austria, Hungary and Czechoslovakia.

The communist dictator tried to divert the attention of the Western allies from the second zone, so he initially made concessions in the third. For example, Stalin agreed to free elections and accepted the fact that, as a result, communists were removed from coalitions in Finland and Austria. This is how the Soviet policy was made to conform to the specific conditions in the region, while the Soviets withdrew in the face of stronger resistance.

THE LURE OF A "PEOPLE'S FRONT"

After the Second World War, political coalitions in the form of "people's fronts" sprang up across Europe, in both eastern and western regions. They emerged pursuant to decisions reached in Yalta whereby future governments would have to "widely represent all democratic population groups". The parties in these coalitions were partners and opponents at the same time, and none of them were able – nor in some cases willing – to rule on their own.

These coalitions emerged under pressure from great powers in line with international decisions and usually in the presence of foreign troops. Even when elections were held in a country, the new government also took the form of a "people's front". Coalitions came across as quite variegated. They were held together only by external forces, not by common interests. This, of course, played into the hands of communist parties, which seemed to be integral and disciplined "battle-ready companies". Communists maintained tension by taking advantage of "bourgeois" political forces which, due to their democratic structure, were easy targets. The Communists also employed the tactic of running crypto-communist parties which joined coalitions and recruited supporters from among the leaders of opposition forces, thus destroying them from the inside.

Meanwhile, due to the proximity of the USSR or the tactical



VICTOR. Western political cartoons about the expanding influence of Stalin's USSR after the Second World War

presence of the Soviet army, communists could not be removed from coalitions, even though they could have probably survived even so. Moreover, unlike the other parties, the communists knew why they needed a parliamentary majority: it was a way to seizing total control. For example, the Hungarian and Czechoslovak communist parties received orders from Moscow instructing them to destroy the coalition while at the same time keeping it intact.

A question then arises: why did opposition forces cooperate with the communists if they had suspicions, if not convictions, that the latter were trying to annihilate them? On one hand, opposition parties were encouraged to do so by the Western allies, as was the case with Ivan Šubašić in Yugoslavia or Stanisław Mikołajczyk in Poland. On the other hand, they had to do everything in their power to reduce the influence of the communists and urge the West not to support any party but theirs. Even so, most opposition members believed that despite unfavourable circumstances, they had to prevent the Communists from coming to power; they were afraid that if they did not cooperate with the communists, they would be supplanted by more pliant forces. ■

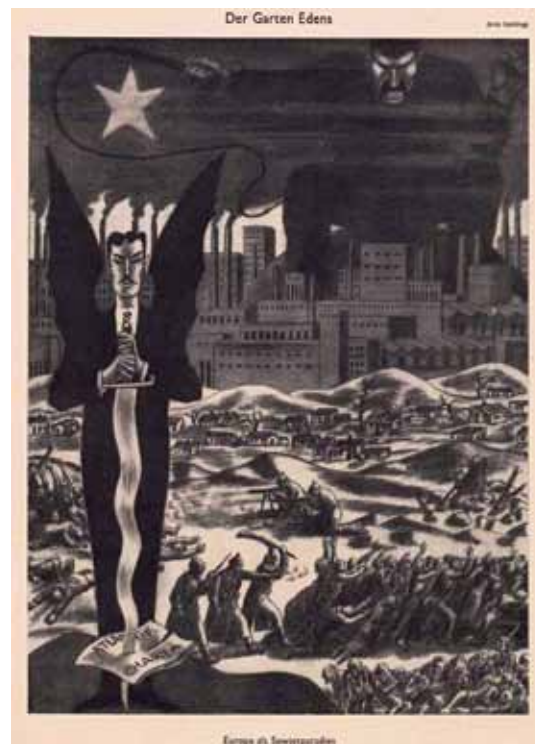
One thing that kept the opposition in Central and Eastern Europe from jointly resisting Sovietisation was a conviction shared by some parties (primarily social democrats, socialists and peasant parties) that they had more in common with the communists than with other opposition forces.

Initially, communist party leaders said plenty about the importance of close cooperation with other political forces. Statements to this effect were made, for example, by Władysław Gomułka in Poland, Klement Gottwald in Czechoslovakia, Georgi Dimitrov in Bulgaria and József Révai in Hungary.

Apart from Czechoslovakia, communist parties did not enjoy massive popular support and were unable to form ruling cabinets on their own. Stalin was aware that a government including communists could only be legitimate if it also involved other political forces. This element was crucial in view of the stance taken by the West. One advantage and, at the same time, flaw of the communist parties that emerged prior to the Second World War was that they had received support from the Soviet Union and were thus viewed as Moscow's henchmen. Therefore, they strove to somehow transform this image.

While the communist party had been legally registered in Czechoslovakia since 1918 and had more than one million real members in March 1946 and twice as many in May 1948, its counterparts in other countries were quite thin when they emerged from the shadows and entered the political arena. However, their membership soon experienced an exponential explosion: from 25,000 in 1944 to 500,000 in late 1947 in Bulgaria; from 20,000 in 1944 to one million in autumn 1948 in Poland; from 2,000 to 806,000 in 1948 in Romania; from 2,500 in late 1944 to 887,000 in June 1948 in Hungary.

This data shows that in Europe, which gravitated towards the left in the first post-war years, many people expected something new, and were eager to leave behind systems of autocratic power and "bourgeois" de-



mocracies that had been in crisis even before 1939.

The military successes of the Red Army and the victory of the Soviet Union over the Third Reich made a colossal impression on Europeans. Communist parties with their new radical programmes were seen as a viable alternative against a backdrop of "weighty" bourgeois forces when it was already clear, particularly in the cases of Ro-

mania, Bulgaria, Hungary and, in a way, Poland, that returning to the previous order was out of the question. The communists were indeed able to stir up the masses, primarily young people, to advance their causes. Their ranks swelled partly because many neophytes seized the opportunity to conceal their unsavoury pasts. In Hungary, former members of Ferenc Szálasi's national socialist Arrow Cross Party joined the Hungarian Communist Party en masse. Many converted to communism "in the spirit of the times", i.e. simply as a way of adapting to new circumstances.

RALLYING WITH MOSCOW'S BLESSING

According to Yalta accords, the countries of the region had to hold free elections because this was the only way to legalize their new governments. Government coalitions that were forged prior to the electioneering campaigns and primarily to facilitate them (hence their "temporary" status in a number of countries) were faced with a choice: 1) run together with the "people's front" even though other parties were able to nominate their candidates independently (this was the case in Bulgaria, Poland and Romania), or 2) run independently provided that members of the previous coalition agreed to maintain its pre-election format.

THE COMMUNIST GARDEN OF EDEN. A German caricature showing how the "dictatorship of the proletariat" was being established in Central and Eastern European countries

Czechoslovakia and Hungary took the latter path.

With some exceptions (such as in Hungary in 1945 and Czechoslovakia in 1946), the elections were held within an atmosphere of terror and intimidation and with large-scale falsifications. These elections could justly be pronounced illegitimate and invalid.

The communists tried to artificially boost their performance and were not averse to rigging election results. If a partner started to have doubts about the value of the coalition, they resorted to a wide range of coercion methods including arrests, forced emigration, and the stimulation of interparty rifts. For a while, there was still a need for coalitions, real or illusory.

The so-called governments of national unity that emerged as a result became puppets in the hands of the communists and eventually fell apart as the foundations upon which they rested crumbled. In Central and Eastern Europe, coalition governments were replaced with communist one-party governments (or fictitious multiparty systems involving satellite parties). It became clear in 1947-48 that a deep chasm now divided the victors of the Second World War, leading to open intimidation and ultimately the Cold War. Proof of this fact came from both sides of the conflict. On one side, the Americans launched the Marshall Plan as well as a containment policy to stop Soviet expansion beyond its sphere of "privileged" influence. On the other side, the Information Bureau of the Communist and Workers' Parties (Cominform) was established and began operation in autumn 1947.

The Kremlin could not allow any country under its control to accept the Marshall Plan, viewing it as a direct challenge. Moreover,



it would have dealt a blow to a Soviet sore spot: the USSR was unable to compete with the U.S. economically. Amidst escalating tensions with the West, the only scenario acceptable to Moscow was to rally satellite regimes around itself in order to keep them from falling for the U.S.'s enticements

and prevent departures from the Soviet model. This foundation was implemented in the Cominform-buro.

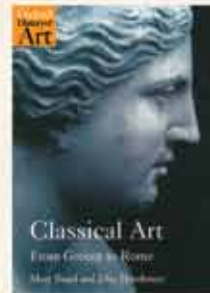
From late 1947 to the end of 1948, the communists seized power in Czechoslovakia, Romania, Bulgaria, Poland and Hungary. The task was made easier by the fact that they had controlled key power structures since late 1944 or early 1945. Further developments in these countries followed an almost identical scenario. A "dictatorship of the proletariat" was introduced, which meant the dissolution of other political forces. United workers' parties were created, allowing the communists to absorb social-democratic and socialist parties. The result was a single-party system with small satellite parties surviving in some places but always accepting the leadership of the Communists. Political representation essentially ceased to exist, elections turned into mere shows, and parliaments became pro forma institutions. In 1949-53, classical Stalinism with all its political and economic consequences began to reign supreme in the countries of "people's democracy". The relations between the Soviet Union and its satellite states saw some changes during this period. A serious crisis of this model was marked by mass protests in the GDR and Czechoslovakia in 1953 and in Poland in 1956, which culminated in the Hungarian Revolution in autumn 1956. ■



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Giving New Life to Old Traditions

Virlana Tkacz, an American theatre director with Ukrainian roots, talks about experimental and accessible theatre, culture on the edge, and the struggle to build an audience

Winter Night with carolers from the small Carpathian village of Kryvorivnia (2012)



PHOTO: K. KAVA (KLUZOK&VA)

Fire. Water. Night based on *The Forest Song* by Lesya Ukrayinka (2013)



PHOTO: VOLODYMYR KLUZOK

Interviewer:
Tetiana Teren

"New York's theatres revealed every aspect of our profession to us: you just have to work hard and learn a lot", recalls Svitlana Oleshko, director of the Kharkiv-based Arabesques Theatre and studio. She recently worked in New York with Ukrainian-American theatre director Virlana Tkacz, founding director

of the Yara Arts Group and a translator of poetry. During the group's twenty years of activity, Tkacz has introduced American audiences to top contemporary Ukrainian poets Serhiy Zhadan, Oksana Zabuzhko, Oleh Lysheha, Natalka Bilotserkivets and Viktor Neborak; singers Nina Matvienko and Mariana Sadovska; even carolers from Kryvorivnia, a small

village in the Carpathians. She creates something bigger than just Ukrainian theatre. Her plays involve actors of different races and nationalities speaking different languages. Past productions have featured Kyrgyz and Buryat rituals. Virlana Tkacz's plays are a fusion of various media: music, video installations, photography, literature and theatre. The Yara Arts Group's new play *Captain John Smith* is also multilayered, but with distinctly Ukrainian elements.

THEATRE FROM SCRATCH

Neither America nor Europe have theatre systems like Ukraine's where state theatres have permanent premises, casts and directors. This is too costly. U.S. theatres today are either commercial Broadway ones staging one play seven days a week, or they're non-commercial. Theatres are the biggest industry in New York. The city has realized that all other businesses can disappear but art will stay. Unlike Ukrainian artists, Americans do not wait for the government to support them. Art is supported by foundations and private sponsors.

The Yara Arts Group has to fight for every experimental play. But I think that's exactly why I keep doing this. I used to work at a commercial theatre; I was second assistant to director in *Amadeus*, a beautiful play. But doing one play all week is a killer for the actors and director, it's worse than working at a factory. With experimental theatre you start every project from scratch and use anything the world has to offer every time.

"Even a chair can become the text for your play – your imagination is all that matters," says Watoku Ueno, a Japanese-American scenog-

rapher and co-founder of the Yara Arts Group. The play is being formed the entire time I'm working on it. All of the interesting people, things and discoveries I make while working on it end up in the play in some way or another. It is important to make the play easy to understand for all. The language is not a barrier in this because there is also the language of eyes, hands, shoulders and legs. People of all nationalities understand it.

The experimental theatre La MaMa where we stage our plays started in a roofless building in 1961. Broadway theatres did not want unconventional plays, so one Ukrainian-American gave his basement to Ellen Stuart, a director who wanted to create a theatre. This was the first home of La MaMa. New art always has to compete for new space – whether on Facebook or at an abandoned factory, like GogolFest in Kyiv.

As a director, I'm always interested in the way traditions and history are passed from generation to generation. Preserving traditions is extremely important for the Ukrainian, Buryat, Kyrgyz and African cultures that I find the most interesting. The more I dig into them, the better I understand Ukraine. These cultures are different in terms of religion and history, but their commonality lies in their efforts to not simply preserve what exists already, but to keep developing themselves further.

OPENING UP TO OTHERS

It is important to realize that traditional culture cannot be set in stone. I am most interested in how new culture evolves out of older traditions. I have photographs where my grandmother, mother and I are all wearing traditional Ukrainian clothes. The pictures show very well how ethnic fashion changed over the centuries. This reminds me that traditional art is not stable. Some directors read books before they start working on a play. I travel and talk to representatives of the culture I'm interested in.

Ukraine has to open up to other cultures. Ukrainian culture will develop if tradition and

new artists enter into a dialogue. What are some ways to start and maintain this? I sometimes find an interesting poem or a carol, send it out to many artists and ask them to do something with it. It is important for me to not just direct a play but to take part in the creation of the atmosphere where Ukrainian culture is born. Ukrainian artists, too, advise me on what I can read or watch.

This time, I brought the story of 16th century British traveler Captain John Smith to Ukraine. It began when I found the first edition of Smith's memoirs from 1630 in a library. People always read the last part of his memoirs about his arrival in America. I read the whole book and realized that the story he told was very similar to Ukrainian ballads of that time. John Smith was a poor young British guy who volunteered to fight in the Anglo-French War. Then, he went to Flanders, Transylvania, Wallachia, and the most interesting part for me – Ukraine! In his memoirs, he mentioned Drohobych, Ostroh, Lutsk, Halych and Kolomyia, and wrote that no other nation was as welcoming as the Ukrainian people. American poet Bob Holman plays John Smith in this production.

UKRAINIAN AMERICA

We published a big book, *Modernism in Kyiv*, at the University of Toronto. But one person alone cannot explain Ukrainian modernism and say, the discoveries of Les Kurbas abroad (Ukrainian film and theatre director, b. 1887; along with several other directors, he formed the Soviet avant-garde theatre in the 1920-30s – Ed.). I began researching his work thinking that it wouldn't take me much time. I found just two books on Kurbas at the Columbia University Libraries, and my research is still in progress.

I worked with Gogol Bordello on Buryat plays. I met Eugene when he was sitting on the stairs in front of my home (Eugene Hütz, actor and lead singer of Gogol Bordello – Ed.). "I will work with you," was his greeting. We started having gatherings called New Nomads, For We're Not a

BIO



Viriana Tkacz is an American theatre director of Ukrainian origin and the founding director of the Yara Arts Group at the off-Broadway La MaMa experimental theatre in New York. She was born in 1952. Her grandfather Kość Kysilewsky founded a chain of schools for Ukrainian studies in the U.S. Viriana holds a Masters of Fine Arts from Columbia University. She has produced 25 plays including *A Light from the East*, *Blind Sight*, *Song Tree*, *Koliada*, *Twelve Dishes*, *Scythian Stones*, *Raven*, *Fire*, *Water*, *Night*, and more. She translates Ukrainian poetry into English with poet Wanda Phipps. The translations have been published in *A Hundred Years of Youth: A Bilingual Anthology of 20th Century Ukrainian Poetry*. Viriana is the co-founder of the International Les Kurbas Society.

Community at the Ukrainian sports club every Thursday. That's how Gogol Bordello started as a band. Hütz has his own views on Ukrainian culture. He is most fascinated with the Hutsuls (Ukrainian ethno-cultural group inhabiting the Carpathians in Ivano-Frankivsk, Chernivtsi and Zakarpattia Oblasts – Ed.). Eugene really wanted to become who he is today. Every artist has a dream. When our dreams intertwine, we come together and make good projects.

There is no such thing as a unified Ukrainian diaspora. The U.S. is home to Ukrainians who moved in the 1940s. They are

UKRAINIAN CULTURE WILL DEVELOP IF TRADITION AND NEW ARTISTS ENTER INTO A DIALOGUE

all around 80 now, and they mostly stay at home. Their children preserve Ukrainian traditions but are also part of mainstream American culture. Other Ukrainian immigrants have arrived recently. Each one of them creates a new Ukrainian-American culture. I recently worked with the "Shumka" Ukrainian dance troupe in Edmonton. They are the great-grandchildren of Ukrainians who moved to Canada in the early 19th century. They barely speak Ukrainian but the way they perform authentic dances is beautiful. It may be one of the biggest Ukrainian dance schools in the world. The group includes over 700 people. ■

Don't Wake the Neighbours

To really get the essence of a musician, you have to listen to him play alone without any special effects or the accompaniment of the band he plays on stage with. This is the most effective way, although many find it disappointing. Last weekend, Norwegian pianist Bugge Wesseltøft played a solo concert at the Tchaikovsky Music Academy – the conservatory in the heart of Kyiv. There was no room for disappointment that night.

Lately, Bugge has been coming to Ukraine more often than others. Last year he played a concert with a Norwegian band and American vibraphonist Mike Mainieri at the annual Jazz festival in Kyiv, which this year, is scheduled for October 26. He then performed at the Alfa Jazz Fest in Lviv. This time, he's playing in Odesa and Kyiv. In fact, it is high time this man is seen by everyone: Bugge is more legendary than most music fans can imagine. His name is already in encyclopedias of

Events

19-20 October

Overtonic
Little Opera House
(50, vul. Dehtiarivska, Kyiv)

Kyiv is about to host an unusual music event. Organizers are inviting everyone to the third festival of overtone music, dedicated to the oldest instruments invented and played by people, such as the Jew's harp, didgeridoo and more. Throat singing, otherwise known as overtone singing, is also on the programme: the audience will have the opportunity to learn and practice it. Overall, the festival space unites musicians, singers and the craftsmen who make overtone instruments. Everyone will be able to buy an instrument from craftsmen at the fair.



19-27 October

Molodist Filmfest
Ukraine Palace; Kyiv,
Zhovten and Kinopanorama
movie theatres (103, vul.
Velyka Vasylykivska; 19, vul.
Kostiantynivska and 19, vul.
Shota Rustaveli, Kyiv)

This year's international film festival will open with *Walesa. Człowiek z nadziei* (Man of Hope), directed by Andrzej Wajda. Its world premiere was at the Venice Film Festival. Austrian director, scriptwriter and producer Ulrich Seidl will be the special guest and present his full retrospective *Ulrich Seidl. Total Retrospective*. The competition programme will traditionally feature films by Ukrainian and foreign directors. One of them will win the main prize, the Scythian Deer.



20 October, 7 p.m.

Brazil Bossa Nova Quartet
Tchaikovsky National Music
Academy (1-3/11, vul.
Horodetskoho, Kyiv)

The energetic Brazil Bossa Nova Quartet will play a gig in Kyiv as part of its new world tour. Its magnificent bossa nova melted the hearts of the Ukrainian audience at concerts last year. This time, the musicians will play



a different programme of new songs by Brazilian singer Maucha Adnet to the accompaniment of Helio Alves on piano, Duduka da Fonseca on percussion and Ark Ovrutski on bass. The Kyiv gig, will culminate the band's tour of the Ukrainian cities of Cherkasy, Kirovohrad, Simferopol and Odesa.

The Doll World

The Kyiv International Exhibition Centre is preparing for the biggest show of handcraft artists in Eastern Europe. This weekend, October 18-20, it will bring together more than 350 Ukrainian, European, Japanese and American designers and artists of beadwork, embroidery, batik, patchwork and other hobbies as well as decorative art.

Part of the show is the contest of handmade dolls called Trendy Doll. It takes place twice a year, in spring and fall. This season's themes are the Legends of Ancient Greece and Alfa & Omega.

In addition to admiring exclusive dolls and handcrafts, visitors will have the opportunity to take part in workshops, attend interesting lectures, see fashion shows of clothes and accessories, and buy original handmade items.

The Kyiv International Exhibition Centre is at 15, Brovarsky Prospekt, Kyiv. The closest metro station is Livoberezhna



the future. The Bugge Jazzland label is widely referred to as the "next step" from the landmark ECM Records in mixing jazz and club music.

Before the concert, you dress nicely and spend more time in front of the mirror than you usually do when preparing to go to a public event. When you sit in the soft red chair of the Kyiv conservatory for Bugge's solo performance, you can't help but feel as if you are at home, in a comfy robe. Bugge played most of his concert as if it was 5 a.m. and he didn't want to wake his neighbours. For the deep low notes his grand piano purred like the Cheshire Cat. The drive was palpable in the tiniest details and pauses one could barely catch. His jazz standards sounded more like sets of tools in the spirit of the father of minimalism, Erik Satie, impressionist Claude Debussy, and the legend of Norwegian music, Edvard Grieg.

Except for a few passages, Wesseltoft's improvisation was restrained, matching the overall atmosphere of his performance.

Bugge then turned on his iPad and the gadget suddenly changed the sound of the grand piano. Then, he turned to his laptop and a

range of other electronic gadgets around it. For the next twenty minutes or so, the musician and composer turned into a DJ, nothing at all like Debussy or Grieg. "I was so afraid to play with electronic devices...What would the audience think?" he said at end of the concert. But it's hard to imagine Wesseltoft without electronics. Gadgets are his other self. After a standing ovation, he returned to the stage to play Henry Mancini's Moon River from Breakfast at Tiffany's. That was where all the above mentioned composers returned to his music, along with the atmosphere of the good old home robe.

Wesseltoft does not have a degree in music. He started playing music at the age of three, tried to get a degree twice but never did. When asked how this happened, he replies: "Nobody ever forced me to do anything. Not even my father (a jazz guitarist - Ed.)." Bugge is exceptional in this because in our time, even punk rockers have college degrees in music. He is just a talented guy with a bunch of deeper contexts and skillful hands. By the way, Bugge played in a punk band in his youth.

22 October, 7 p.m. —

Pasion de Buena Viŝta
Ukraine Palace
(103, vul. Velyka Vasylkivska, Kyiv)

Experience the rapid rhythms of Cuban nightlife and indulge in the exotic atmosphere of the Caribbean — one of the most popular Cuban bands, Pasion de Buena Viŝta, will be performing on Kyiv biggest stage. The troupe has the best dancers and vocalists who are well-known and appreciated in their native Cuba and all over the world. The special flavour of the Cuban lifestyle is presented not only through the powerful vocals and sophisticated performance of the dancers, but also through their colourful costumes. The harmonious combination of all these elements makes the show exotic and gives the audience the magic of a real Cuban night.



25 October, 12 p.m. —

PIANOBOY
Forsage Dance Club
(51A, vul. Harmatna, Kyiv)

Today, the magnetic vocals of Dmytro Shurov, one-time pianist for Okean Elzy and Zemfira and the leader of his own band, Pianoboy, coupled with the ambient sounds of his piano will turn the average grey fall night into a time full of vivid and unforgettable memories. The well-known rock pianist will play and sing his hit songs — *Vedma* (The Witch), *Etazhy* (Floors), *Kozhura* (Skin), *Miortvyje Zvizdzy* (Dead Stars), *Proŝtye Veshchi* (Simple Things), *Vselennaya* (Universe) and many others. After



playing with Okean Elzy, Es-thetic Education and Zemfira's band, Dmytro Shurov rediscovered himself in a solo career, for which his fans are endlessly grateful.

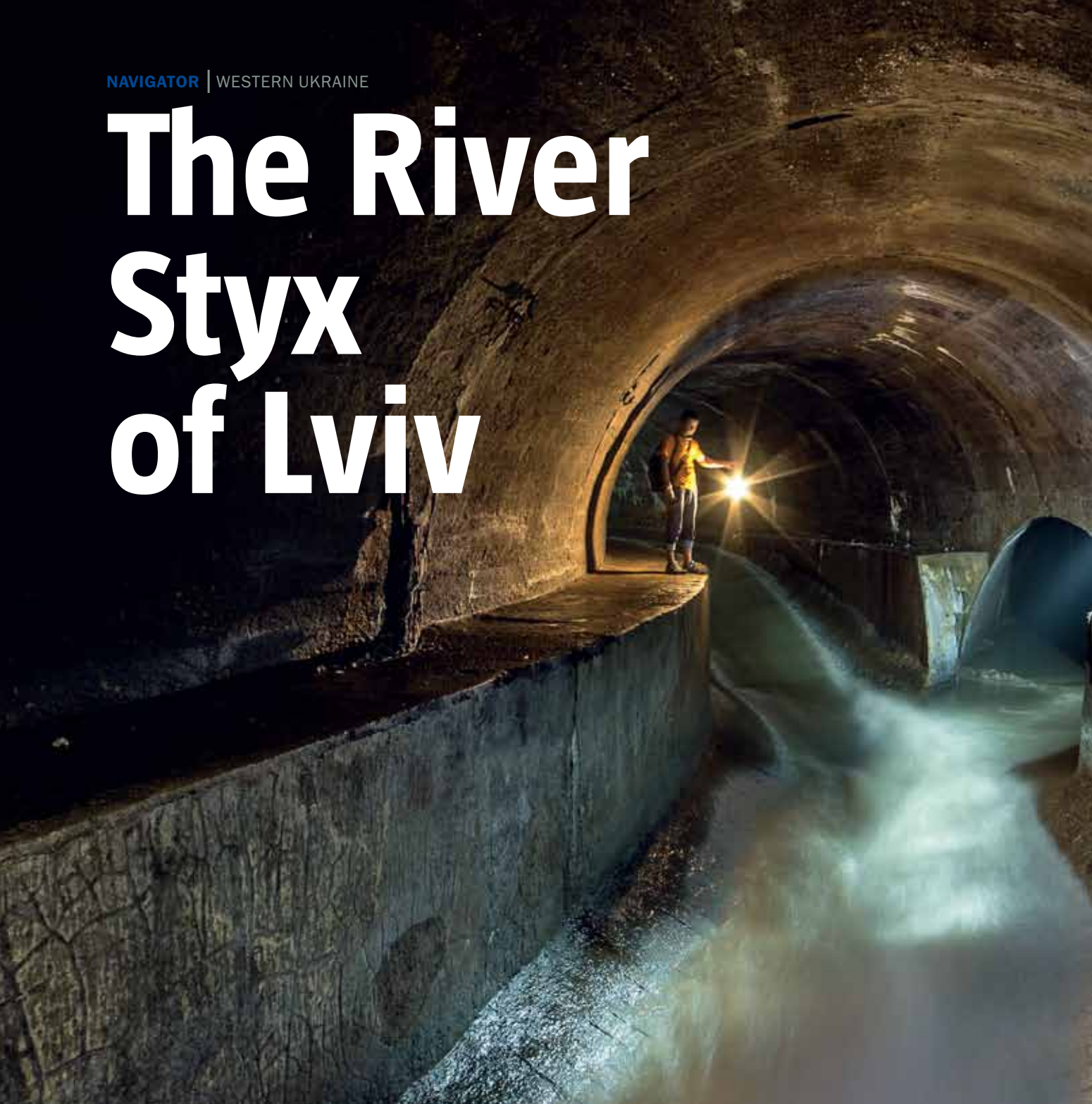
24 October, 6.30 p.m. —

Industrial Eden
Institute of Contemporary Art Problems
(18D, vul. Shchorsa, Kyiv)

Kyiv will soon host an art project. Its principal goal is to discover the factors that changed people's awareness after the Industrial Revolution. Influenced by technological and scientific progress, social mindset transformed into the desire to create a machine with a human mind. Over 30 artists will present their individual vision of utopias based on endless faith in technology. In addition to massive installations, documentary films, photographs and painting, visitors will have the opportunity to meet artists at discussions and roundtables.



The River Styx of Lviv





Once a major turbulent waterway of Lviv, the Poltva is now locked in a subterranean concrete tunnel. In addition to being the main channel, the underground labyrinth hides numerous Soviet military objects, bomb shelters and passageways to the basements of old buildings and churches

Article and photos by
Vladyslav Vozniuk

Virtually every city in Ukraine stands on a river that runs through the city centre. Lviv seems to be the exception. This is because its main river Poltva was diverted to flow under the city in a concrete tunnel back in the 19th century. Today, the only reminders of the once beautiful river are memories; Livyi Bereh – the Left Bank – a restaurant next to the Opera House, and a variety of souvenirs. The restaurant staff installed a web-camera on the concrete arch of the tunnel in which the Poltva now flows. This allows visitors to see Lviv's major waterway online.

In the early 19th century, the municipal authorities decided to lock the river in an underground collector to prevent the spread of malaria. This made the river part of the city sewage system: like most European cities, Lviv does not have separate drainage and sewage pipes.

We go to the underground collector where the old turbulent Poltva has flowed in the arched concrete tunnel since Austro-Hungarian times. Today, the Poltva is the key channel in Lviv's sewage system. During the Holocaust, the labyrinth of underground tunnels under the city was a hideout for the Jews who fled the ghetto. Local sewer worker and burglar Leopold Socha used his knowledge of the tunnels to hide the refugees for fourteen months. He also fed them – first for daily payment, and once they ran out of money – for free. These real events later evolved into *In Darkness*, a German-Polish-Canadian drama directed by Agnieszka Holland. The script was based on *The Girl in the Green Sweater*, the memoirs of an eye-witness.

In addition to the intricate twists of the tunnels – some of them long closed – the subterranean system has many passageways from the basements of old buildings and churches to the banks of the underground river. They are now walled-up. Add to these religious buildings with numerous basement corridors, the abandoned Soviet military objects and bomb shelters, and you will see an entire parallel world of Lviv – a whole new field for detailed research. Initially, the Poltva was the central river of Lviv, served as a castle moat and protected the Western Ukrainian capital from the north. ■

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