

# The Ukrainian Week

International edition

#3 (85) March 2015

Can Ukraine survive the next winter without Russian gas

Mobilization campaign: myths and reality

Reasons behind the sharp devaluation of the hryvnia



## CRIMEA: THE UNFINISHED WAR

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\* A civil EU mission is already operating in Ukraine. It has been sent in July 2014 in order to assist the police reform and strengthen the rule of law

\* A civil EU mission also operates on the state border between Ukraine and Moldova. Its objective is to provide border assistance to both countries

\* At present there are 18 active EU missions, including 5 military missions

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# BRANDING THE EMPEROR

Author:  
Yulia Oliynyk

**N**ot long before he was assassinated, Boris Nemtsov remarked that if Ukrainian pilot Nadiya Savchenko were to die in a Moscow prison, the blame would be laid directly at the feet of Vladimir Putin, meaning that personal sanctions and a trial at The Hague would await the Russian leader. This murder would not be forgiven. Today, the freeing of Nadiya Savchenko is growing in symbolic meaning.

Of course, no one knows what the specific intentions of the Russian President are regarding this young Ukrainian officer. But it's obvious that, with the murder of Boris Nemtsov, the ZAO *Siloviki* at long last deprived its long-standing protégé of a choice, having eliminated the once-almighty ZAO *Oligarkhi*. In one of his last interviews, Nemtsov described the situation in Russia thus: "The paranoiac isn't afraid of sanctions. He's afraid of losing power. And he's afraid of dying. And the paranoiac who's afraid of death will always be true to his clan, which means dependent on it. The *siloviki* know this. That's why they will continue to support the ordinary Russian's fantasy about their powerful president, the man who inspires these 'ordinary citizens' by making the whole world shake in fear, making it 'r-e-  
▶

PHOTO: AP

s-p-e-c-t' them. Just you watch us get up off our knees and give you what for! What's more, according to the rules of clans and packs, the *siloviki* have to continue to convince their protégé that he is great, messianic and chosen, because, after all, they spent so many years systematically working together to get to power.

In fact, ZAO *Siloviki* never stopped its activities, except maybe for a very brief period when it moved into the shadows. And even that was only to regroup, to prepare for revenge and to bring its own man to power. Maybe Putin wasn't the only candidate for the role of top dog, but fate would have it that, with the help of his own ZAO, the Petersburg lieutenant-colonel rose to the very pinnacle of the pyramid.

From the early 1990s, ZAO *Oligarkhi* was in control of the government in Russia. At that point, there was still talk of implementing reforms, instituting democracy and a free market, rendering private ownership inviolable, and guaranteeing freedom of speech. Boris Yeltsin had every reason to rely on his nouveaux riches and not to trust the new-old *siloviki*. But then reforms were derailed, two Chechen wars took place as well as a number of terrorist acts, and suddenly the line-up of forces dramatically changed—and with it, the national mood. The seeds of hatred and desire for revenge for being impoverished that had been sown much earlier were just waiting for the fresh rain of a myth of lost grandeur and an appeal to “get up off your knees.”

Vladimir Putin simply had to straighten out one unfortunate misunderstanding of the era of his predecessor. And here it's already 15 years that he, together with ZAO *Siloviki*, has been in power. This last year has been a difficult year, at best: the plan to occupy Ukraine through the criminal hands of Viktor Yanukovich failed; not only did efforts to tear the country apart using weapons fail, but also efforts to sow discord among the new forces in power in Kyiv; and, last but not least, a direct attack by the Russian army also proved a failure. The *siloviki* now have some serious challenges on their hands, ones that, so far, they have no response to.

One way out for them is to further consolidate their society

<sup>1</sup>Closed stock company in Russian

around the idea of a Great Russia and the Holy Mission to fight evil in the world, a role that is not currently being played by world capitalism but the USA. Every true patriot, from a biker to the president, should be dedicated to this idea. No desertion allowed. In the past year, Putin only kept growing with his inner circle, and in the end became their hostage. And that's the law of the ZAO *Siloviki* clan: You have to pay for the Emperor's Crown.

This state of being a hostage is not something that just emerged in the last year. Beslan. Nord-Ost. Anna Politkovskaya. Sergei Magnitskiy—all of these inexorably made the regime and Putin in particular authoritarian and repressive in the eyes of the western world. Meanwhile, the Kremlin's active, aggressive propaganda was busy brainwashing the territories of the former Soviet Union and its satellites, and raising an entire army of *vatniks*².

Russians have found themselves disoriented and frightened by the killing of Boris Nemtsov. They are struck by the wide range of answers to the question, “For whom was this convenient?” Every one can choose the answer that suits them best: from Ukrainian nationalists and “the McCains of the world,” to patriotic sharpshooters and Kadyrovites, from gaybash-

the presidential address. Not to listen to him and not to respond to him will be at our own peril.” Surely, those to whom this “appeal” is addressed are already preparing a response?

The one thing Russians are avoiding talking about now is this: The killing of Nemtsov and its consequences will make no difference at all to how things unfold in the Russian Federation. Just like the murder of Politkovskaya, Magnitskiy, Novodvorskaya, and many others. Because, in the depths of its heart, this is a society that fears change and does not want to see it. Unless maybe when a new “baron” comes to power and proposes a new “thaw” or “perestroika.” It's scary and strange to violate the existing order, even if it has an ever-stronger whiff of prisons. What for anyway? There's no reason to change. Every layer of Russian society, from top to bottom, wants to stay buried in its mythical values, even if they're in fact all different.

Meanwhile, the political elite in the US and Europe continue their dangerous game with Russia, stupidly demonstrating self-deception and a lack of understanding of the Kremlin's true aims. Events in Ukraine force them to at least admit to it publicly. With the killing of Nemtsov and the tenuous hold on life of Nadiya Savchenko, there remain even fewer options and desire to maneuver.

Will the West really shake hands with a murderer? It did so after Politkovskaya, and after Magnitskiy. Will it do so after Nemtsov? There's no doubt that the answer to that is yes. Those politicians will do everything they can not to recognize that Putin is a killer because Realpolitik demands that they continue to do business with him, talk to him, and shake his hand. And even this strategy has its limits, a line that, once they have crossed it, Chancellor Merkel and President Obama risk being added to history's “list of shame” of world leaders.

Whatever decision Putin makes regarding Nadiya Savchenko, he crossed his Rubicon on the night of February 27, 2015. That bridge has been burned and there is no way back. The only positive glimmer is the ghost of a chance that Nadiya will be released. After all, it's impossible to cross the Rubicon twice, let alone in the same direction. ■



## THE ONE THING RUSSIANS ARE AVOIDING TALKING ABOUT NOW IS THIS: THE KILLING OF NEMTSOV AND ITS CONSEQUENCES WILL MAKE NO DIFFERENCE AT ALL TO HOW THINGS UNFOLD IN RUSSIA

ers and anti-liberals to Putin and Medvedev. In short, it was good for everybody. Not for nothing did Gleb Pavlovsky, a pro-Kremlin pundit originally from Odesa, immediately present a subtle threat: “Whoever is driving somewhere, not just anywhere but towards Red Square, to kill a former Member of the Russian Government, the face of the opposition, under a street lamp and the Kremlin's surveillance camera, is engaged in a political demonstration. This is a statement to the country and to those in power that is no less powerful than

<sup>2</sup>Literally, cottonheads, meaning people who blindly follow their country's line no matter what

# Russia's Unholy War Against Its Best People



**Author:**  
**Leonidas Donskis,**  
**Lithuania**

I met Boris Nemtsov in Brussels during my term as a member of the European Parliament (2009-2014). Together with his friends and brothers-in-arms Mikhail Kasyanov and Gary Kasparov, he attended one of those countless seminars and hearings on the situation of human rights and civil liberties in Russia that the European Parliament and especially its liberal faction was organizing. He spoke with nonchalant dash, courage, ease, even playfulness – everything that was at odds with that sort of dramatic fashion in which the opposition folks and human rights activists are expected to send their message.

He appeared a bon vivant of the Russian opposition: amidst other dissenters and critics of the Kremlin, Nemtsov struck everyone as a person devoid of any sense of fear and insecurity. He had lust for life celebrating its every episode. People, who are in existential rush or who do everything to the full never being quite content with half steps and half measures, usually have a strong feeling of their mortality and vulnerability. This seems to have been the case with Boris Nemtsov. He spoke with courage and resolve, yet with the smile on his face, about war crimes and violations of law, both Russian and international, committed by the Kremlin. He was always unambiguously clear about Russia's war in Georgia as well as about Russia's aggression and war in Ukraine.

To put it plainly, however, Nemtsov, no matter how successful in his young days when he became vice prime minister of Russia under Boris Yeltsin (whose protégé and political disciple he was), was not a direct threat to Vladimir Putin and his regime in terms of popularity and ratings. Over the past years, Nemtsov established his reputation in the eyes of American and Western European policy makers as an embodiment of yet another Russia, rather than as a challenger of Putin's establishment. With all due respect and admiration, Boris Nemtsov, a bone fide defender of democracy and liberal values, was insufficiently popular in Russia to live up to the status of a real threat to regime and to the criminal state it has institutionalized. Instead, he was a living hope for the better times to come.

This means that Nemtsov may have fallen a prey to neo-fascist and revanchist forces unleashed by Putin. The two-minute hate sessions practiced on Russian TV channels loyal to the regime, have created the atmosphere of fear, paranoia, and hatred. Those forces may have become close to Victor Frankenstein's monster that gets out of control and does not obey his master anymore. At the same time, it may well have been a revenge for Nemtsov's long-standing fight against the Kremlin, or the last and successful attempt to silence

him before he published some eye-opening materials exposing the role of the Kremlin and the Russian military in Ukraine.

Whatever the case, Boris Nemtsov paid the highest price for his freedom and also for the ideal he cherished all his life, the ideal of yet another Russia. I knew the unforgettable Anna Politkovskaya whom I met in 2003 and who was killed in 2006. I felt that an epoch was brought to a close with her passing; I have the same feeling now. Boris Nemtsov's death signifies the arrival of a new epoch, and the world will never be the same.

True, we knew and understood how brutal the regime is and how dangerous it could be; yet it never occurred to us that the former governor and vice prime minister of Russia could be assassinated in the heart of Moscow. There was a feeling then that some characters, no matter how daring, would be left in peace and security for the sake of the show, as if to say that Russia is a truly "sovereign democracy" (to echo the pearl of Vladislav Surkov's demagoguery) – well, a travesty of democracy, but still, as one would have thought, something different

from overt tyranny and fascism. For now, this feeling is gone along with other hopes and illusions. The system proved capable of assassinating not only Politkovskaya or Natalya Estemirova, but Boris Nemtsov as well.

All in all, this is nothing other than Russia's unholy war against the best it has

– its courageous, fearless, and noble-spirited humanists and nay-sayers. Everything started with Piotr Chaadaev and the Decembrists (whose heroic uprising marks 190 years in 2015); everything culminated with the murder of another bunch of the best people of Russia, from the journalists Vladislav Listyev and Yuri Shchekochikhin, to the human rights defenders Anna Politkovskaya and Natalya Estemirova, and to the dissenting politicians Galina Starovoitova and Boris Nemtsov. Incidentally, we know that when Chaadaev was released from his home arrest and allowed to visit friends, once he was observed by a group of young literati with secret admiration. When Vissarion Belinsky who hosted the event began talking about young people in Russia, Chaadaev reacted with a brief remark: "And you still believe that there are young people left in Russia?"

Boris Nemtsov was a young person in the deepest sense of these words. He refused to get old in the sense of getting ready for a compromise for the sake of easy living. His murder is one more horrible blow to liberty, democracy, and decency in Russia. We will never forget Boris Nemtsov whose name was an epoch and an unfulfilled promise of yet another Russia. ■

**BORIS NEMTSOV PAID THE  
HIGHEST PRICE FOR HIS  
FREEDOM AND FOR THE IDEAL  
HE CHERISHED ALL HIS LIFE –  
OF YET ANOTHER RUSSIA**



# Kyiv – Crimea: the State of Uncertainty

Over the past year, Ukrainian authorities have failed to learn their Crimean lessons, leaving the return of it to "children and grandchildren"

A year is enough to reflect on what happened in Southern Ukraine in the spring of 2014, and to draw conclusions. However, the current government is reluctant to deal with the facts. Firstly, the Crimean mistakes are often repeated in the war in the East: the same strategy of non-action, waiting, handing initiative to the enemy and responding reactively, not proactively to the opponent's steps. Secondly, many of Ukraine's current leaders are not personally interested in investigating the Crimean events, because they were involved (and instrumental) in the defeat. Thirdly, it is not really the best time now since, as the Crimean Tatars leader Refat Chubarov said, to solve the Crimean issue, you need to save Ukraine first, and Ukraine's future today is being decided in the East.

Nevertheless, even if investigating personal responsibility of individual leaders can wait till better times, we need to analyze the mistakes right away, in order not to replicate them. Today, a trend can be observed to justify Ukraine's defeat in Crimea by the suddenness and the unexpectedness of the Russian military intervention. Some state pathetically that "nobody could expect that Russia would attack

**Author:**  
Ihor Losev

Crimea, occupy and annex it." Maybe, nobody wanted to expect it and to notice the obvious?

Many analysts (including the writer of these words) kept warning about the threat that came true in 2014 ever since Ukraine gained its independence. Analytical intelligence has been published, which described step by step how the intervention would proceed, how Russia would establish military control over



## MANY ANALYSTS KEPT WARNING ABOUT THE THREAT THAT CAME TRUE IN 2014 EVER SINCE UKRAINE GAINED ITS INDEPENDENCE

Crimea, and how it would attempt to destabilize the South and East. Everything happened as predicted. Unfortunately, all those people giving warnings were not heard any better than Cassandra in the ancient Greece crying out: "I can see Troy in flames!"

One did not have to be a genius to understanding these things, since everything was on the surface. Already 60 years ago, when the Crimean oblast of the RSFSR was transferred to the Ukrainian SSR, Young Life, the Magazine of Ukrai-

nian Plast Youth published in New York and Detroit (Issue 2, 113, May 1954), wrote: "...In the future, a situation may occur when we will have to defend Crimea, which is now part of the Ukrainian territory, from enemy's assault." Russia, time and again, demonstrated by its actions what could be expected from it: in 1991-1994, numerous provocations in Sevastopol and Crimea on the edge of an armed conflict with Ukrainian law enforcement agencies; in 1994, deterioration of relations and concentration of the Russian troops at the Ukrainian border, followed by the easing of tensions, luckily for us, due to the war in Chechnya. Then, Meshkov's "initiatives" in Crimea, bringing once again two countries to the brink of a clash...

Later, Putin began "probing Ukraine with a bayonet" (as Lenin put it talking about the proper handling of the bourgeois Europe), arranging a provocation with the Tuzla Island in the Kerch Strait. Of course, it was not about a 1 km stretch of sand located between Ukrainian Crimea and Russian Taman peninsula. Ukraine was tested for its ability to resist.

That was one of the first rehearsals of the "Russian Spring 2014." After Russia's attack on Georgia in 2008, only the lazy did not write and say that Ukraine would be the next object of aggression. But Kyiv kept "not expecting"...

For the future of Ukraine and for its security, it is very important to investigate the events of the late February and early March of 2014, hour by hour, and to examine the acts and omissions of all state officials involved. This must be done after the war, but for the time being, it is important to have at least a general idea of the course of events leading to the annexation of Ukrainian

ALIENATION CHRONICLES

2013

**December 2** The State Council of the Autonomous Republic of Crimea convenes an urgent meeting and calls on Viktor Yanukovich to "restore public order"

**December 12** A former MP for the Party of Regions Vadym Kolesnichenko announces the establishment of the "self-defense" groups that are to go to Antimaidan in Kyiv



2014

**January 21** Crimean MPs asks Yanukovich once again "to restore order in the country" and to prevent "extremists" from seizing power

**January 27** The General Meeting of the Association of Local Governments of the Autonomous Republic of Crimea and the City of Sevastopol resolves to create "volunteer corps" in Crimean regions

**February 23** In Sevastopol, during a pro-Russian rally, separatists "decide" not to transfer taxes to Kyiv. Businessman Alexei Chaly is pro-

claimed the new "mayor" of Sevastopol

**February 26** Outside of the Crimean Parliament building, rallies of thousands of supporters of the united Ukraine and of pro-Russian separatists are held. Some clashes occur

**February 26** The State Council of Crimea tries to convene to discuss the resignation of Anatoliy Mogilev's government and the situation in Crimea. The quorum is not reached, only 40 out of 100 deputies are present in the session room

**February 27** Gunmen seize Crimean government and Parliament buildings

**February 27** Crimean deputies at a closed meeting set the date of the "referendum" on Crimea's autonomy for March 16. Sergei Aksenov





Crimea by Russia. Because this course of events poses a lot of painful questions. Why were the post-Maidan authorities, when faced with the Russian attack on Crimea, confused and helpless, timid and indecisive? But were they conceived as anything different during the Maidan? We all remember that great crowd of people and the figures on the stage, who had nothing to say to the people, except for the hackneyed slogans that they could remember from the Orange Revolution. They obviously (as quite a few eyes noticed) did not know what to do. Their plan was simple: if a million Ukrainians come to Maidan, Yanukovich will panic and flee. Then again, they would be able to distribute government posts, establish control over financial flows, appoint their own people, that is, to do

**UKRAINE WILL BE NEXT:** This was the cover of *Tyzhden*, the Ukrainian-language partner of *The Ukrainian Week*, following the Russian aggression on Georgia in 2008

everything that they could do well and enjoyed doing.

When Yanukovich did not panic and flee, the "leaders" of the revolution started showing signs of concern: when will he leave? Or at least make concessions? The time slowed down. If not for the clashes on Hrushevsky Street and the radicalization of the protest, everything could have ended nowhere, with the opposition leaders surrendering to the owner of the golden toilet. The ordeals that subsequently began in Crimea were much harder, and entirely of a different nature. In this case, the then opposition leaders had to deal not with a puppet, but with the master. What could have been the response to this formidable challenge by the representatives of the rubberstamp opposition accustomed to comfortable life? A cozy parliamentary seat, MP immunity from any prosecution, regular exercises in eloquence on TV, and vacations on exotic islands...

The futile tactics of the people from the stage of Maidan were continued in Crimea. The only order that Ukrainian troops on the peninsula obtained from the Kyiv authorities in a month was as follows: "To stand and not to provoke!". And so they stood, until all the Ukrainian military bases in Crimea were surrounded by the Russian army. They surrendered Crimea, but they refrained from provocations... At the same time, Ukrainian government-controlled media kept tirelessly telling us how heroically the Ukrainian military surrendered to the Russians, singing the national anthem. By the way, the aggressor at first acted cautiously and timidly, waiting for the reaction of the Ukrainian side. When APCs of the Russian Black Sea Fleet based in Sevastopol moved to the administrative center of the Crimean autonomy, they stopped at every Ukrainian traffic

police checkpoint and presented documents. When they saw no reaction on the side of Ukrainians, they went ahead, boldly and brazenly. They did exactly what they were allowed to do by the Ukrainian authorities. Ukraine's military forces were paralyzed not by Moscow's actions, but by the prostration of the Kyiv government, which bears the main responsibility for what has happened.

The Russian troops took the building of the Supreme Council of the Autonomous Republic of Crimea, the Council of Ministers and other buildings in Simferopol, without firing a shot. No one showed resistance. Later, the notorious FSB Colonel Igor Strelkov aka Girkin, according to his own words, with his armed companions, shepherded the deputies of the Crimean parliament to vote for decisions required by Moscow, including the announcement of the "referendum."

Valentin But, a Crimea writer and an eyewitness of the events, is right when he insists that these developments were not inevitable: "... Despite the almost total degradation of the Ukrainian army, Crimea still had enough combat-ready units, which, if given timely orders, could have effectively stopped the disastrous developments by taking control of the administrative buildings and major infrastructure objects... In a modern war situation, decisions have to be taken very quickly. Minutes or hours at the most divide defeat from victory. Delays of days and weeks meant only one thing: defeat. This is why, after waiting quite a bit to make sure that there would be no resistance, Putin began methodically to inundate Crimea with Russian troops. Crimea was surrendered. The war in Donbas and the implementation of Putin's plans for "Novorossiya" followed.

becomes the "Head of the Parliament of the Autonomous Republic of Crimea"

**March 1** Sergei Aksenov, the self-proclaimed "Head of the Council of Ministers of Crimea" appeals to Putin to help establish "peace and tranquility" on the peninsula. With Putin's blessing, the Russian State Duma adopts the law that allows sending troops to Crimea

**March 2** Russian military without insignia ("little green men") start the blockade of the Ukrainian troops. Some

commanders of the Ukrainian Armed Forces and Navy defect to the enemy

**March 6** The Russian fleet starts blocking Ukrainian ships in Donuzlav bay



**March 8** Crimean women rally against the war and Russian occupation, for peace and unity of Ukraine  
 March 11 The "State Council" of Crimea adopts the "Declaration of Independence of the Autonomous Republic of Crimea and the City of Sevastopol"

**March 15** Russian assault troops land from helicopters near the village of Strilkove (Arabat Spit, Genichesk District, Kherson Oblast)

**March 16** The "referendum" takes place in Crimea. According to organiz-

ers, the turnout is 89.5%, according to independent estimates it is 32%. The highest voter turnout is observed in Sevastopol: 123%.

**March 18** During the storm by the Russian invaders of the photogrammetric center in Simferopol, warrant officer of the Ukrainian Armed Forces Serhiy Kokurin is killed

**March 18** Acting Supreme Commander Oleksandr Turchynov and acting Defense Minister Ihor Tenyukh allow the military in Crimea to use weapons

A year has passed since the surrender of Crimea. What has been done to return the peninsula to Ukraine? Practically nothing. The Ministry for Crimean Affairs still does not exist in Ukraine, while the Russian Federation has one. Ukrainian officials mention Crimea less and less often, unlike Obama, Merkel, Cameron and Komorowski, who use every opportunity to remind Moscow that it has annexed a foreign territory. Meanwhile, Ukrainian president Petro Poroshenko does not mention Crimea at all in the Strategy for Sustainable Development of Ukraine until 2020, causing discontent among Crimean Tatars, in particular. Prime Minister Yatsenyuk stated that the problem of Crimea will be solved "by our children and grandchildren." So, the official Kyiv decided to stay clear of this issue.

In the meantime, Moscow is strengthening its position on the peninsula, bringing it daily to the common Russian standard, training the "new converts" to be afraid of the FSB in the situation when any careless word may result in charges of "extremism" and a jail term. People are scared and try not to talk to strangers. Against this background, the statement made by the Russian representative to the United Nations Vitaliy Churkin that recently some German sociological agency conducted a survey in Crimea to discover that 93% of the local population support what Churkin called the "reunification of Crimea with Russia," sounds rather touching. In totalitarian states, any sociology is pointless, because it is very difficult to find out what people really think, since their honesty is often blocked by their self-preservation instinct. Moscow maintains a certain level of material wealth on the annexed territory, paying good money to the military, state employees and pensioners. However, Russia can afford



The aggressor at first acted cautiously and timidly, waiting for the reaction of the Ukrainian side

to do so only, so to speak, on a share basis with the official Kyiv. The Russian money in Crimea would have long become scrap paper with which little can be purchased if the Ukrainian government did not ensure the supplies of food, electricity, gas and water from mainland Ukraine, because for Ukraine Crimea is a peninsula, while for Russia it is an island. Without the help of Ukraine, Russia would not be capable of solving the logistics between this "island" and the rest of its territory: building a bridge to unite the two shores of the Kerch Strait would be difficult, expensive, and technically fantastic. Using ships from the ports of Novorossiysk and Tuapse would also be expensive and inconvenient, plus, a whole fleet would be needed, not to mention a major reconstruction of the ports of Kerch, Feodosia, Yalta, Yevpatoria, and Sevastopol. To ensure the minimum food supplies to Crimea, at least 500 truckloads of food every day are required. The maximum capacity of the Kerch ferry is 90 truckloads. This means that there is an urgent need for help on the side of Ukraine. The official Kyiv respects the needs of the aggressor. According to Crimean in-

siders, about 1,000 trucks enter Crimea via Perekop daily to make sure that the Crimean group of the Russian Armed Forces is not starving... At the same time, traffic for ordinary citizens between the peninsula and the mainland Ukraine has been interrupted, increasing the distance between the Crimeans and the rest of Ukraine in the human dimension. The representatives of the Crimean Tatar Mejlis said on Social Country TV station (former Black Sea TV station, now broadcasting from Kyiv): "Our elders will understand the economic blockade of Crimea, but they will not understand the breach of human relations."

The issue of returning Crimea to Ukraine heavily depends on the effective and principled policy of Ukrainian authorities, the rate and success of economic and administrative reforms in the mainland Ukraine, the clear strategy of the country's development, and the ability of the Kyiv government to accumulate the forces and resources required to resist the aggression in Donbas. So far, they have not given a reason even for a cautious optimism. ■

2014

**March 18** The Agreement on the Accession of the Republic of Crimea to the Russian Federation is signed in Moscow. The Security Service of Ukraine institutes criminal proceedings against all "Crimean signatories"

**March 18** The Ministry of Foreign Affairs of Ukraine voices protest against the recognition by Russia of the illegitimate "Crimean Republic"

and the signing of the annexation agreement

**March 20** The Russian Duma ratifies the agreement on "the accession of Crimea" almost unanimously: only Ilya Ponomarev votes against it, while four MPs abstain

**March 24** Ukraine's Acting President Oleksandr Turchynov signs a decree enacting the National Security Council's decision on the re-

deployment of the military and law enforcement agencies from Crimea to other regions of the country

**March 27** A meeting of the UN General Assembly adopts a Resolution in support of the territorial integrity of Ukraine. This date may be considered the beginning of the official recognition of the occupation of Crimea

**April 4** The withdrawal of Ukrainian troops from Crimea is completed





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# Andrii Klymenko:

## “One of Ukraine’s most important tasks is to ensure that sanctions for Crimea and Donbas are not separated”

Interviewed  
by Anna  
Korbut

**A**ndrii Klymenko, an expert at the Maidan of Foreign Affairs think tank and Editor in Chief of the Black Sea News portal, has just returned from Washington where he presented his report on Human Rights Abuses in Russian-Occupied Crimea at a discussion initiated by Atlantic Council and Freedom House. He spoke to *The Ukrainian Week* about why an international strategy to return Crimea is necessary and what implications the ongoing transformation of the peninsula into a huge Russian military base will have for the Black Sea and Mediterranean region.

**Crimea on the international radar.** We basically made two presentations on March 6 in Washington. One was for representatives of the White House, State Department, US Congress, editors of several important publications as well as heads of well-known US think tanks. That one was behind closed doors. The second presentation was pretty much the same and open to mass media. Overall, Americans have a deeper understanding of the situation in Crimea and Ukraine compared to Europeans, except for probably Poland, the Baltic States and some countries of the Northern Europe. I told them that Putin and his puppets are implementing five techniques to crush human rights in Crimea that are quite closely intertwined. One thing they all have in common is the fact that not only are beyond international law, but beyond Russian legislation as well. This will make it very difficult for the world community to find ways to resist them. Literally days before the presentation of our report, Alexey Pushkov, Head of the Foreign Affairs Committee of the Russian Duma, stated clearly in the media

that human rights in their Euro-Atlantic interpretation mean nothing to Russia’s values.

**Human rights abuses in Crimea.** Russia uses five techniques to that end, including coercion to quit Ukrainian citizenship and accept Russian citizenship; forcing disloyal population off the peninsula; cynical disregard of the rights of the indigenous people – the Crimean Tatars; establishment of an information ghetto, and expropriation of property.

**Forcing disloyal groups off the peninsula** is related to the fact that Putin is creating a giant military base in Crimea. We have been saying this for the last six months, and now, finally, we see intensifying discussions of this on the international level. This threat was initially underestimated. Later, when we said that Russia potentially transported 100,000 servicemen and nuclear weapons to Crimea, everyone realized that this is not about merely a naval base, but strategic air and missile forces. They have Iskanders, Russia’s mobile ballistic systems, with rockets that can reach the new US missile defence base that is being built in Romania. Six new frigates and six submarines, and new destroyers will be put into operation over the next two years. The 11 airports that existed in Crimea during the Soviet Union are undergoing complete renovation; their top-tier runways can receive any aircrafts. A gigantic military base is being established in the centre of the Black Sea. This changes strategic and geopolitical balance not only in the Black Sea region, but also in the Black Sea-Mediterranean area where Asia, the Middle East and North Africa meet. I think that the world has now started thinking about how to react to this. One crucial principle in this

process is that there cannot be a disloyal population in a military base. These include Crimeans who do not want a Russian passport, proactive citizens, members of NGOs, journalists, Crimean Tatars and representatives of religious communities that do not belong to the Russian Orthodox Church of Moscow Patriarchate.

**Why are Crimean Tatars particularly important?** They are organised, not only in terms of ethnic solidarity, but because they live in compact communities.

15 independent media and editorial offices have left the peninsula, as have NGOs that receive international funding, since the annexation. All religious organisations had to re-register in the Russian jurisdiction by March 1. But the Russians are reluctant to register the Ukrainian Orthodox Church, the Ukrainian Greek Catholic Church, the Roman Catholic Church or a range of protestant and Jewish communities. So these are all likely to have to leave soon.

An emerging information ghetto. All means of communication with Crimea have been liquidated: There is no radio, TV channels (they are still available via satellite), landline communications or mobile operators from Ukraine there. Because of this, contacts and exchange of information has shrunk greatly. Russia started laying its own fibre-optic cable across the Kerch Strait last spring to cut off the one of Ukrtelecom.

I totally oppose the principle promoted by the President of Ukraine: build a success story in the mainland Ukraine and Crimeans themselves will ask to be returned to the fold. I wonder how they will do that from a super-militarised region after population replacement. Plus, I have asked social psychologists how long it takes to change the

**BIO** **Andrii Klymenko** is an economist, Director of the Tavia Institute for Regional Development (TIRR). Under his leadership, a group of TIRR researchers developed the first strategy for Crimea for the years of 2005-2015, aiming at turning the vector of Crimea’s economic development in the European direction. Mr. Klymenko is currently a member of the Maidan of Foreign Affairs think tank supervisory board and Editor in Chief of the Black Sea News portal



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mindset of someone who, say, supported the Maidan in Kyiv and returned to the current Crimean environment. They give it three to four months.

**Expropriation of property.** Under the Russian legislation, nationalisation provides for monetary compensation to the owner whose property has been confiscated for public or infrastructure purposes. In Crimea, according to our sources, property is being blatantly expropriated. About 400 large state-owned facilities have undergone that. The last two months have seen massive expropriation of private property – approximately 300 facilities. And I don't mean kiosks, but the equipment of mobile operators, bread-making plants and their retail chains, transport infrastructure and shipyards, bus stations, car enterprises and energy supply companies.

**Can Ukraine demand compensation for the damage?** Theoretically, yes. But Ukraine is not doing a good job on this. Of course, the government should sue Russia for expropriating Ukrainian property in Crimea in international courts. Officials claim that some files have been submitted already. But we did not find them in the courts' public databases. Ukraine's official estimates of the damage done by Russia at UAH 1tn seem ridiculous. According to our estimates, this property could be worth USD 1tn or more. The assets in question include Chornomornafogaz (Black Sea oil and gas drilling

company) including offshore oil and gas reserves, plus its expensive equipment, seaports, public resorts, objects with 40–50 hectares of land on the coast, wonderful vineyards and cognac plants, palaces and monuments. The way Russia treats private property in Crimea has shocked the international community – that is exactly the reaction Ukraine needs to act effectively. The problem is that it doesn't.

**On the strategy to return Crimea.** What I'm going to say now may sound like blasphemy, but Crimea is more important than Donbas. If you somewhat cynically look beyond the lost lives and victims of the fighting in Eastern Ukraine, similar conflicts have taken place in the post-WWII Europe. But there have been no annexations. If Europe turns a blind eye to the seizure of Crimea, it means that everyone can do whatever they want. This ruins the entire system of international relations in the post-WWII world, based on the principle of territorial integrity and sovereignty. We know how two earlier annexations ended. When Argentina tried to annex the Falkland Islands, the British Fleet kicked it out. The attempt of Iraq to annex Kuwait ended with Operation Desert Storm a month later. Unless the international community and Europeans understand that Crimea must immediately be returned to Ukraine, they will send a message that any country, particularly those with nuclear arms, can take part of their neighbour's territory.

One of the most important tasks that Ukraine faces is to ensure that sanctions for Crimea and Donbas are not separated. But I don't see this issue being raised in Ukrainian foreign policy. We are currently trying to achieve this – first and foremost with the countries that are our allies.

Right now, we need an international strategy for the return of Crimea – a document, in which the Ukrainian perspective would be in line with that of authoritative American and European think-tanks, which could influence their policy-makers. My impression is that our Cabinet of Ministers has zero intention to struggle for Crimea's return in the short-term. The President is restricting himself to declarations, but at least he is saying something.

On the third day after the annexation, Putin decreed the establishment of the Ministry of Crimean Affairs. Nothing like this has been created in Ukraine to date. Meanwhile, new problems related to the change of citizenship, first and foremost, will emerge and mount every day and every month. They cannot be resolved with just one law that has been passed recently. An executive body is neces-

## FORCING DISLOYAL GROUPS OFF THE PENINSULA IS RELATED TO THE FACT THAT PUTIN IS CREATING A GIANT MILITARY BASE IN CRIMEA

sary to regulate the hundreds of new issues.

We need a state strategy for Crimea's return. It must be comprised of public and, of course, classified sections. But one must be developed, and that is only accomplishable once a special executive body is set up.

Crimea experts and activists in "political exile" have adequate cooperation among themselves. I'm only afraid of one thing: any group of "political emigrants" inevitably goes through conflicts at a certain point. We should prevent this. I'm not saying that something like this has begun – so far, it hasn't. I'm just offering words of caution. This once again proves that an executive agency around which all organisations and activists will gather is an absolute must. ■

# David Kramer:

## “We have an obligation to help Ukraine defend itself”

On March 6, the Atlantic Council and Freedom House held the discussion of human rights abuses in the Russian-occupied Crimea. Following the event, *The Ukrainian Week* spoke to David Kramer, one of its initiators, about how visible Crimea is a year after annexation internationally, how seriously the threat of its militarization is seen in the West, and why Barack Obama is so reluctant to provide effective support to Ukraine.

**U.W.:** How much is Crimea on the international radar right now? We sometimes hear it mentioned in official statements, but is there any practical, strategic attention to it, rather than declarative?

I would say that Crimea has fallen off the radar. It is not even mentioned in the latest Minsk Agreement, nor was it mentioned in the September one. There seem to be very few people who are raising the issue of Crimea. Having said that, State Secretary Kerry raised it before the UN Human Rights Council on March 2. Ukraine's Foreign Minister Pavlo Klimkin raised it during his visit to Japan. President Poroshenko has talked about it.

But we all need to do a much better job of reminding people that the Russian invasion started with Crimea. The crisis had started much earlier, however.

**U.W.:** The Atlantic Council report brings up a number of serious cases of human rights abuses that have been taking place in Crimea since the Russian invasion. How often does this kind of information come up in the international political and media space, and how noticeable is it?

Crimea has become a much more restricted area where collecting information is getting far more difficult. When I was still with the Freedom House (Mr.

Interviewed by  
Anna Korbut



Follow this QR code to see the “Human Rights Abuses in Russian-Occupied Crimea” report

Kramer left it in November 2014 to join the McCain Institute as Senior Director for Human Rights and Human Freedom – Ed.), Damon Wilson from the Atlantic Council said that he had an idea of putting together a special report on the human rights situation in Crimea.

The plan is to present this report in Europe. We think it's critically important. The presentation in Washington was part of the strategy to raise awareness of this issue and to ensure that Western leaders don't let this issue slip off of the radars. Since, as I've said before, Crimea is not mentioned in the Minsk Agreements, it is critically important that we remind



**BIO**  
**David Kramer** has been the Senior Director for Human Rights and Human Freedoms at the McCain Institute since November 2014. He previously served as President of Freedom House (October 2010 – November 2014) and US Assistant Secretary of State for Democracy, Human Right and Labor (2008-2009)

Russia that the sanctions will stay in place as long as Russia occupies any part of the Ukrainian territory, including Crimea.

We did not recognize the absorption of the Baltic States into the Soviet Union for decades. Then, when the Soviet Union collapsed, they joined NATO and the EU. The same policy should be maintained towards the annexation of Crimea by Russia.

**U.W.:** Andriy Klymenko, the expert of the Maidan of Foreign Affairs, who compiled the report represents the expert and civil society community. How about the Ukrainian government? Do

you know of any attempts by Ukrainian officials to seek advice or assistance from the international community in terms of finding ways to support the oppressed population in Crimea? Have you seen any strategic plans to that end from the official Kyiv?

President Poroshenko raised the issue of Crimea recently, saying that normalization of relations with Russia would be possible after Ukraine regains control over Crimea. In that sense, the Ukrainian government has done its part.

But the problem about Crimea is that Russia's aggression in the Donbas has been stealing a lot of attention both of the Ukrainian government and the international community. It means that not enough attention is focusing on the situation in Crimea, which is a very serious one for Crimean Tatars in particular, as well as for ethnic Ukrainians or anyone who does not want to take Russian citizenship.

**U.W.:** In addition to human rights violations, Crimea is turning into a militarized zone with massive population replacement with Russians underway. Is that being discussed as a strategic threat among international policymakers?

Philip Breedlove (US European Commander of NATO Allied Command Operations – Ed.) raised this issue recently when he talked about the military threat that is being prepared by Russia in Crimea. There is a growing concern in the West over the deployment of nuclear weapons in Crimea. There is a significant increase in the number of Russian troops there, and that is a great strategic military concern that is drawing attention.

The US State Department is focusing more on the human rights situation. And again, the fighting in Eastern Ukraine is diverting attention, which is obviously part of the Russian design to steal the West's attention from the developments on the peninsula.

**U.W.:** Is the weak interest for the issue of Crimea a result of ineffective or no efforts to keep it on the radar by the Ukrainian authorities or more of an

### international consensus in de facto treating the annexation as a fait accompli while struggling to freeze the conflict in Eastern Ukraine?

I think it's a matter of the ability of the leaders who are responsible for the region to focus on so many things at once. It's a matter of resources and personnel, but also part of the Russian strategy. Russia wants the issue of Crimea to be seen as a fait accompli, and part of the purpose behind the movements in Eastern Ukraine is to make people forget about Crimea. We shouldn't let the Russians have us fall into that trap.

**U.W.:** Looking broader at the Ukrainian issue: we now see increasing support for helping Ukraine more decisively in the American political establishment. Do you think it could push President Obama to act more effectively?

I hope it will. I fear it will not, however. The problem with taking these actions is very much on the President's shoulders. The State Department supports the provision of military assistance

to Ukraine. The Pentagon and people in the National Security Council do, too. The problem is the President of the United States. He has been very stubborn in his refusal to do the right thing.

I think we have an obligation – a moral and strategic one, as well as one based on the 1994 Budapest Memorandum – to help Ukraine defend itself and its territorial integrity as we pledged we would do when we signed it.

It is also a matter of stopping Putin. If we don't stop him in Crimea and Eastern Ukraine, the risk is that countries under Article 5 protection will be next, and that will cause a major crisis.

**U.W.:** What is holding President Obama back? Is he trying to avoid confrontation with the EU or afraid of pushing Putin to escalate the conflict?

The Europeans for most part, with some exceptions of Poland, Baltic States and some others, are not in favor of arming Ukraine. Germany is opposed to it.

But unity with the EU should not be the goal here. It should be

the means to accomplish the goal, and that should be to get Russia out of Ukraine. That includes providing military assistance to Ukraine.

Obviously, I haven't asked him about it directly, but Mr. Obama seems to fear that it could result in the escalation of tension with Russia, and of getting lured into another military conflict by providing weapons and getting deeper into it.

**“RUSSIA WANTS THE ISSUE OF CRIMEA TO BE SEEN AS A FAIT ACCOMPLI. WE SHOULDN'T LET THE RUSSIANS HAVE US FALL INTO THAT TRAP”**

But if you look at the US Congress, a huge bipartisan majority, including Democrats and Republicans, favor the provision of military assistance to Ukraine. And yet the President refuses to do so. I find it hard to understand. I also find it to be a huge mistake on Mr. Obama's part. ■

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# Villains' Last Refuge

## Why the Maidan didn't win in the Donbas

Author:  
Denys Kazanskyi

**W**hen in December 2013 Kyiv saw the rise of protest movement, Ukraine's eastern regions remained silent. Not that anyone expected anything different. Ever since the 2004 Orange Revolution South-Eastern Ukraine has been known as a reactionary province loyal to Viktor Yanukovich. So it wasn't the silence of the pro-Yanukovich regions that was surprising, but the unusual protest activity of Dnipropetrovsk and Zaporizhzhia: when at the end of January the locals began taking regional administrations by storm it became clear that Yanukovich's authority was crumbling even in his strongholds. This spelled the end of the regime.

Sparks of discontent flew in Luhansk and Donetsk too. But, unlike in other regions, they failed to ignite the flame of popular uprising. The protest movement in the Donbas simply was not strong enough. The ruling party and state apparatus on the contrary was stronger than anywhere else. In those revolutionary days the Donbas became the last refuge of the villains, one that they guarded with zeal.

This is not to say that Donetsk and Luhansk completely ignored the EuroMaidan. Shortly after the students' protest in Kyiv was violently dispersed on November 30, little "Euromaidans" sprung up in many cities all over the country, Donetsk and Luhansk being no exception. Granted, they weren't nearly as populous as the ones in Kyiv or Lviv, yet they sent considerable ripples through the media. The local press covered the rallies near the Donetsk Regional Administration building and this example inspired the supporters of the European integration throughout the country.

Gathering near the Taras Shevchenko monument, the protesters in Donetsk did not put up tents. Looking at modern-day pictures of Donetsk it beggars belief that this used to be the gathering spot for patriotic citizens for years,

or that there even could have been any pro-Ukrainian rallies at all. The Euromaidan-supporters stayed near the Shevchenko monument 24/7 in shifts. At night their numbers dropped to just a handful, with hundreds gathering in the afternoons. Some, however, were adamant that rallying in Donetsk was a pointless exercise. They went to Kyiv to support what they felt (and rightly so) would be the decisive rally for this revolution.

At first the authorities completely ignored the protest in the streets of Luhansk and Donetsk. Perhaps the officeholders thought that the strange and very unusual for these parts phenomenon will somehow dissipate on its own if left alone. It didn't. People would not leave the streets in Kyiv, nor were they going to in Donetsk. The events in the capital constantly put fuel in the fire of the protest. So eventually the authorities decided to take drastic measures.

Much like in Kyiv the "January 16 dictatorship laws" were the catalyst for violence causing uproar in the society, which met repression from the government. In response to the lawlessness in the Parliament the Donetsk opposition activists started the AutoMaidan and organized a car rally to Viktor Yanukovich's residence in Kalynkyne-2 village. Naturally, Yanukovich was not there at the time, but the event aimed at getting the message across through the media. This was unprecedented audacity for Donetsk.

The reaction followed immediately. Local officials began panicking and decided to thwart AutoMaidan in the bud, so they immediately got thugs involved. On the 19th of January 2014 during another AutoMaidan rally a gang run by Horlivka crime boss Armen Sarkisian used their cars to block the cars of AutoMaidan. The activists called traffic police, which did arrive but did not interfere, watching from the side.

From that day onwards the Donetsk activists were subjected to regular attacks. After the escalation in Kyiv and the first deaths followed the government decided to

The Donetsk EuroMaidan predominantly consisted of local intelligentsia. The citizens that ended up facing attacks by outright criminals lacked any combat skills and simply didn't stand a chance



shed its mask of democracy and launched full-on repressions. As per usual, the latter were enacted by thugs. They were ordered to terrorize the EuroMaidan in Donetsk, and this had the desired effect. The protesters were threatened and assaulted, they had eggs and paint thrown at them. And each day fewer and fewer people turned up to protest until, eventually, there was practically no one left.

The activists were up against it from the very beginning. The Donetsk EuroMaidan predominantly consisted of local intelligentsia. The citizens that ended up facing attacks by outright criminals lacked any combat skills and simply didn't stand a chance. Thugs tossed brilliant green dye even at women and the elderly; they knew full well they wouldn't be punished. By that time the situation in the country heated up so much that small clashes and beatings were going unnoticed, the lawlessness in Donetsk paled

into insignificance with what transpired in Kyiv.

The Donetsk Euromaidan has been thrashed by thugs. Using their own version of the Blackshirts the government managed to suppress the protest in the Donbas. In Febru-

possessed the critical mass too large for the government's repressive apparatus to cope with.

The Ukrainian Donbas fell victim to the historic defeat of the Russian lobby in Ukraine at large. Retreating from Kyiv, the Moscow-

within the state with its own ideology based on a blend of soviet conservatism and tribalism. Donetsk and Luhansk residents were being persuaded for years that they must always support "their own" at elections, no matter how bad these candidates were. At the same time, the common citizens of Western Ukraine were made out to be the cause of all the trouble for the Donbas residents. Such blatant populism resonated with the population of destitute worker towns presenting a convenient myth that the westerners were the ones living off the benefits earned by the mining and metallurgy workers of the East.

For the Donbas, the protests in Kyiv from the word go were made out to be machinations of the West directed against Russia and all those who sympathize with it. The Party of Regions-controlled media aptly set one part of Ukrainian citizens against the other without even providing any new information, but simply regurgitating same old attitudes that were firmly instilled in



**ANY CRITICISM DIRECTED AGAINST THE DONBAS PLUTOCRATIC ELITES WAS PRESENTED TO THE PUBLIC AS ATTACKS AGAINST THE DONETSK AND LUHANSK POPULATION**

ary when the Yanukovich regime was on its last legs, no methods were off bounds. The officials felt they were losing grip of their power and were prepared to take utterly despicable and criminal measures. The opposition in Donetsk faced tough and organized resistance and was out of its depths. A bunch of enthusiasts were up against the criminal powerhouse that was no stranger to resolving things through violence.

Based on how the government was seemingly putting fuel to the fire of protest in Kyiv by stepping up the repressions, conspiracy theories began to emerge. Some still believe that attempts to disperse the Maidan were provocations, a cunning plan by the opposition to discredit Yanukovich. In reality the representatives of Donetsk clan acted in Kyiv the only way they knew, the way they were used to. But while in the Donbas such methods did have the desired effect and managed to suppress the protest, the protest in Kyiv

backed Donetsk criminal clans vented their anger on the opposition supporters of the region they saw as their rightful territory. The spring's brutal suppression of rallies in support of Ukraine's territorial integrity in the East, violent attacks on the peaceful protesters in the centre of Donetsk were nothing other than revenge for the Maidan and the ignominious retreat from Kyiv.

It must, however, be noted that the reprisals against the opposition in Donetsk and the attacks on activists had the support among the considerable portion of the local population, which not only failed to step in to defend the protesters, but actually approved the brazen lawlessness against them. Without this approval suppressing the demonstrations in the Donbas would be as difficult as it turned out to be in Kyiv.

Through years of reign in the region the Donetsk clans managed to create a practically separate state

people's heads and became stereotypes. Any criticism directed against the Donetsk and Luhansk plutocratic elites was presented to the public as attacks against the Donetsk and Luhansk population. The latter as a result of such manipulations naturally took the side of "their own".

The Donbas is so used to setting itself apart from the rest of Ukraine, so used to politicians speculating about its exceptional significance that it simply followed a predetermined path. In the conflict between the government and the people it took the more convenient side, supporting which seemed to warrant the more comfortable outcome. And when the Donetsk criminal clans were defeated the residents of the Donbas took it personal.

Unfortunately, nobody in Ukraine managed to get through to the people and explain the error of their ways and the dangers such a choice posed. ■

# Hennadiy Moskal: “Everyone realizes that members of the Party of Regions are the ones responsible for what is going on in Donbas”

Interviewed  
by Stanislaw  
Kozliuk

**T**he *Ukrainian Week* spoke to the Head of the Luhansk Oblast State Administration, about administration of his territory, lustration in the oblast police and pro-Russian sentiments among the locals

**U.W:** The Verkhovna Rada passed the Law on the Creation of Military-Civil Administration, designed to simplify the administration of the oblast, last year. What does it actually change in practical terms?

We have waited far too long for the President to sign this law. It was well overdue. This document is like our Holy Bible here. It will actually return administrative control over the oblast, something that we lacked badly. The Budget Code has seen changes which allow the oblast administration to exercise the powers of the oblast council provided that the latter is absent or not functional. That would not have happened if vice prime minister, Hennadiy Zubko, had not come here and seen the situation on the ground. Luhansk Oblast council has dispersed itself; this was a precedent in the history of Ukraine. They did this deliberately. Its members knew perfectly well that they had all the powers, particularly about staff and finances, while we didn't. So we were left with nothing, with our hands tied, with wars, shootings, ruined schools, churches and buildings, the dead and the wounded.

**U.W:** What powers will this law give to oblast administrations?

There are three kinds of military-civil administration: for settlements, counties and oblasts. Many MPs actually lamented that I wanted unlimited powers here; that I had virtually become a Pinochet and the leader of a Severodonetsk junta. They were probably

concerned that I alone would be in charge of the Luhansk land – which is of no use to anyone anyway. I explained that we cover villages, towns and cities. We don't manage land parcels.

This law is extremely important for Luhansk Oblast. The reason for this is that as soon as there is fighting in a town, the first to flee in a car with his family is the head of the town council, followed by the local deputies, then medical attendants, teachers and school directors. The only people left in the town are regular people, who have no vehicles and nowhere to go. The next people to flee are entrepreneurs. They are afraid of Grad and Tornado rockets, or mines, and won't deliver goods to towns under fire. This causes a humanitarian catastrophe. Our administration consistently sends food to such towns. In addition to this, there is a problem with medicines. There is a shortage of medics. It's great if there is a military unit nearby with doctors or a medical battalion. We ask them for help. But the military are also not fully equipped.

**U.W:** How many such problem settlements are there in Luhansk Oblast?

On the settlement level, there are about twelve. I don't know how many there will be tomorrow or the day after tomorrow. Military-civil administrations will be subordinate to both the Head of the Oblast State Administration and the Anti-Terrorist Operation command. The President will appoint their heads, and the heads will in turn put together the military-civil staff. The powers of village, settlement and city councils will be transferred to them. The head will determine the number of personnel and receive funds to meet the needs of the settlement. Absolutely all services and functions, from the locals' birth to

death, will be managed by these bodies.

County military-civil administrations will be in three counties: Stanychno-Luhansk (in the battle zone), Popasna (almost entirely in the battle zone) and Novoaydar (the war covers part of it, including the infamous Shchastya town). We will not introduce military-civil administrations in other counties. Actually, it can be set up in two cases: when the county council is not functioning or when it is necessary to ensure public order and safety. We must find a balance between the military and civilian aspects. Unfortunately, we have certain problems and the locals don't know how to behave with servicemen.

The establishment of an oblast military-civil administration is possible in the absence of a functioning oblast council. But the recent law grants us additional powers. In my view, it is something between peace and war. Part of the powers granted by this law to military-civil administrations comes from martial law. The military-civil administration can restrict traffic on certain streets and territories, prevent entrance into the city, ban the sale of alcohol and weapons, confiscate the latter, even if acquired legally, and ban large-scale events, if they pose a risk to life.

**U.W:** What about curfew?

The military-civil administration establishes restrictions for being out on the streets and in other public places during certain periods without relevant documents. We determine the lists of such documents.

**U.W:** How is police lustration in Luhansk Oblast progressing?

There are very few policemen left here. I would say not more than 10% of the workforce that was here prior to the occupation. As for cleaning up the police? Show me how to do this. Sergeants, warrant officers and officers did not cooperate with Yanukovich. As far as I'm concerned, the fact that they went to serve Ukraine after the occupation is the best way to prove their loyalty to their oath of allegiance. Those facing criminal proceedings should be examined by the internal security, the Ministry of internal Affairs and the Prosecutor's office, not us.

I wonder how I can lustrate those who have left occupied territo-



ries. They have left all of their property, including apartments and cars, there. Life has stripped them of everything. Some are guarding checkpoints in cold and rain for UAH 2,500. Some live in dormitories, others in rented apartments with families, others stay with family and friends. Some have nowhere to live, and some have nothing to eat. I think that they have been punished by all this enough. In my view, even if somewhere deep down they sympathised with the Party of Regions, now this word combination only drives their sugar levels and blood pressure up. Everyone realizes that members of the Party of Regions are the ones responsible for what is going on in Donbas. I would like those conducting lustration to experience this path first, and then get down to lustration.

**U.W:** How intense are pro-Russian sentiments in the region?

I can't say that they have disappeared. The Party of Regions has been spreading just one ideology from 2004 to 2014 here. We are on the border with Voronezh, Rostov and Belgorod Oblasts. Do you think that it is possible for pro-Russian sentiments to disappear? Obviously, not. On some territories they are off the scale, while declining in others. I would not say that even Lviv, for example, is free of this. It too was part of the Soviet Union at some point.

**U.W:** How can these people be integrated into Ukrainian society? Is it possible at all?

It is impossible to integrate some of them. At the same time, there are citizens who understand everything. I believe that the youth must be integrated. A child is brought up by grandparents and parents. We have to do the opposite: take the child to see Western oblasts, then come back home and educate his or her parents. For example, we wanted to take the local children for New Year and Christmas holidays, and asked all FSU countries for help. None, other than the Czech Republic, responded. Unfortunately, we also had a problem with passports, so it didn't work out. Instead, all of Ukraine's western oblasts responded. They are taking in our children as we speak. Three groups have already holidayed in the mountain village of Nyzhnye in Western Ukraine. The psychological barrier has been overcome. Sometimes, we run into utterly comic situations. We asked the locals in Novotoshkivka, a village in Luhansk Oblast, to give us their children so that we could take them on holiday, we could evacuate them. And no one allowed their sons or daughters to come with us. Neither do they themselves want to go. This is because most have never been outside their town. They tell us "We'll never see them again; they will be used as organ donors!" This is funny the first or second time you hear it, but not when you are hearing it over and over again.

**U.W:** Did the Party of Regions offer any assistance?

There are none here, they all fled. I chased off those who didn't. For instance, I arrived in one county and found 75% of the county council there were Party of Regions members. I shouted at one at their party activist meeting. I pushed them out of the council hall another time. And when I went there for the third and fourth time, there were no Party of Regions: they vanished. Of course, some tried to convince us that they were loyal to Ukraine. I suggested that they gather the mass media and small rallies where they would publicly hand in their Party of Regions cards. No one did it. So I don't really believe them.

**U.W:** Is it expedient to conduct elections in the battle zone?

Absolutely not! It was ridiculous when all election districts on occupied territory were abandoned and just a handful of people elected an MP. How can he represent the entire region when most of its residents couldn't get to the polling stations? This should not happen again. There should not be elections in areas where there is on-going fighting. Village, settlement and county council members can be elected in areas where there is no war. To hold such election for the oblast council now is, in effect, to capitulate. We would thus show that we, the unoccupied parts of the oblast, are not Luhansk Oblast. That cannot be allowed. Constitutionally, the territorial integrity of Ukraine has not been divided. The separatists did this, not the Constitution. There are Ukrain-

**AS SOON AS THERE IS FIGHTING IN A TOWN, THE FIRST TO FLEE IS THE HEAD OF THE TOWN COUNCIL, FOLLOWED BY THE LOCAL DEPUTIES**

nian citizens living on occupied territories, who have the right to vote. They cannot be deprived of this right.

**U.W:** Do you believe in the peaceful resolution of the conflict in Donbas?

I cannot believe otherwise. I do not believe in the military solution. ❏

# At an Impasse

The initiative to invite peacekeepers to the Donbas seems like a desperate move in the situation when traditional means of deterring the creeping Russian expansion have failed

It has been a few weeks since the “Normandy format” meeting of the heads of states in Minsk and the signing of the road map for implementation of the previous Minsk accords signed back in September. The subsequent developments demonstrated that the agreements aren't quite working: fighting continues, including the use of heavy weapons. The withdrawal of heavy equipment is constantly either delayed, or imitated, the process of exchanging prisoners is on hold, additional terrorist forces are being deployed in the areas adjacent to the confrontation line and more equipment is crossing the state border from Russia. Statements on part of the OSCE, the EU or the Merkel-Hollande duo, or even the United States are yet to be backed up by any kind of effective measures in terms of punishing the violator of the Minsk agreements, even after such a blatantly obvious violation as the offensive operation to pressure Ukrainian forces into retreating from the Debaltseve area.

This saw the transformation of approach towards resolving the Donbas crisis by the parties involved. Now not only the EU is pushing to freeze the conflict to hold further advancement of the Russian/terrorist troops, but Ukraine as well. Meanwhile the terrorists and the Kremlin behind them, seeing that the West is reluctant to act in support of Ukraine and to give adequate response to the violation of agreements, are taking an increasingly aggressive stance. Russia and even the self-proclaimed republics no longer seek the recognition of the fact that their territory is not controlled by Kyiv. Instead they are raising the stakes setting the ever-growing demands in return of them stopping the attacks:

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**Kramar**

from agreeing to economically support these territories to allowing them to take part in the comprehensive constitutional reform of the country in order to lay the foundations for a quasi-civil war now on the entire territory of Ukraine.

## PEACEKEEPING BARRIER

On February 18, the National Defense and Security Council adopted an official address to the UN and the EU regarding the deployment of peacekeeping missions on the territory of Ukraine. During consultations at the UN Security Council in New York the Ukrainian Foreign Minister Pavlo Klimkin has said that “this initiative will by no means discard the Minsk accords. On the contrary, it is an irreplaceable tool for implementing these accords and for restoring peace. This will be the real crash test for the UN's commitment to peace and stability”.

The theme of the United Nations peacekeeping mission emerged due to the fact that the OSCE mission in the conflict zone turned out to be absolutely incapable of controlling the ceasefire and adherence to the agreements. However, the 70-year experience of the UN demonstrates that its peacekeeping contingents can be efficient only provided that certain conditions are met: either there needs to be genuine interest of both parties in stopping the hostilities, which allows the peacekeepers to keep minor spats and misunderstandings under control; or there needs to be the peace enforcement scenario where the peacekeeping contingent includes a powerful state capable of forcing into peace the side breaking it up.

Additionally, the conflict of interest between the world superpowers that happen to be permanent members of the UN Security Council complicates the situation further. History knows only one example when peacekeepers acting under the UN mandate were successfully used during the Cold War. It is the peace enforcement in Korea where the North Korean regime had at least one million Chinese “volunteers” from the regular army of the communist China with the support of the Soviet aviation and instructors. Incidentally, the current conflict in Donbas has much in common with that war, while the DNR and LNR (Donetsk and Luhansk People's Republics – **Ed.**) have rather a lot in common with DPRK. The 1950-1953 Korean war, however, stands out by the readiness of the United States to take active part in defending Korea and the decisive stance of President Harry S. Truman, whose name is often associated with the effective response to the Soviet expansion in the form of

## EU Police Mission Deployment mechanism



**1** Ukraine has to address the EU with the respective demand for the decision to send the mission to be taken;

**2** The EU is to receive the UN mandate, however, missions to Macedonia in 2003 and Libya in 2011 were sent without said mandate

• A civil EU mission is already operating in Ukraine. It has been sent in July 2014 in order to assist the police reform and strengthen the rule of law

• A civil EU mission also operates on the state border between Ukraine and Moldova. Its objective is to provide border assistance to both countries

• At present there are **18** active EU missions, including **5** military missions

the Deterrence Doctrine. In contrast, today's US President shows no readiness to such action. On top of that, the peacekeeping mission of the United States and the allies in Korea was granted the UN mandate almost by accident. At that time it was Taiwan that occupied China's place, while the representative of the Soviet Union instead of vetoing the resolution simply boycotted the Security Council meeting. Moscow never made that mistake again and shouldn't be expected to.

The head of the Russian Federation Parliamentary Committee on Foreign Affairs Aleksey Pushkov already went on record saying that "Kyiv will not be able to push the UN into sending peacekeepers to Ukraine without circumventing Russia. Such decisions are taken by the UN Security Council. Without our consent this is impossible." That being said, Moscow has not explicitly opposed the very idea of deploying peacekeepers. For instance, the Russian Duma Speaker Sergei Naryshkin opposed the idea of deploying peacekeepers only in the terrorist-occupied territories and along the state border with Russia. While the head of the Federation Council Committee on Defence and Security Viktor Ozerov even stated that Russia may actually agree to the deployment of peacekeepers only on the existing line of confrontation with the Ukrainian forces, not along the border with Russia or in the occupied territories of Donbas.

It appears that Moscow hasn't quite realized that at this point Kyiv is morally at peace with idea of Abkhazia scenario for the occupied territories of Donbas and is prepared to abandon the plans to regain control over them. Therefore the Kremlin is still counting on Ukraine backing away from the peacekeeping initiative once it becomes clear that chances of deploying peacekeepers on the occupied territories or along the state border with Russia are slim, as opposed to deploying them along the current confrontation line. For instance, the head of the Russian State Duma Committee on Defence Vladimir Komoyedov showed genuine surprise that Kyiv is in favour of the idea to deploy peacekeepers along the line of confrontation, saying that in

this case Kyiv will completely let go of Donbas.

However, the Russian-proposed scenario of reintegration of Donbas to Ukraine as a destabilizing factor, an uncontrolled financial burden and part of the larger plan of nationwide federalization is far less acceptable for Ukraine than the actual separation of these territories. In addition, the effective monitoring of the confrontation line can decrease the danger of further Russian expansion. Deputy Head of Ukraine's Presidential Administration Valeriy Chalyi emphasized that Russia, as the aggressor-state, cannot be allowed to partake in the UN peacekeeping mission. However, even if the peacekeeping contingent included Russian units, this, perhaps, wouldn't be the worst-case scenario, as it would make it harder for the Kremlin to avoid responsibility for the actions of the militants, forcing Russia to take formal responsibility for peace.

There are two kinds of peacekeeping operations: monitoring missions and operations involving peacekeeping forces. Petro Poroshenko stated that for Ukraine "the best format is the European Union Police Mission". The EU has sent its peacekeeping missions without the UN mandate only twice: to Macedonia in 2003 and to Libya in 2011. But it is unlikely that the EU will risk deploying its "blue helmets" along the very dangerous confrontation line in Donbas. German Foreign Minister Frank-Walter Steinmeier has already made it clear that stable truce supported by all sides of the conflict is the necessary condition for sending a peacekeeping mission to Ukraine.

Unless the West shows real interest in the idea of deploying a peacekeeping mission, or takes decisive measures in the near future to support Ukraine and to increase pressure on Russia enough to force the Kremlin to give up the idea of furthering its offensive, Moscow's agreement to freeze the conflict by using peacekeepers and to establish the demarcation line is not to be expected.

In such a case there is ever growing possibility of the Russian occupation expanding deeper into

## UN peacekeeping missions (Blue Helmets)

### Deployment mechanism:



- 1 A country asks the UN for a peacekeeping mission;
- 2 The UN Secretary General provides assessment and report on the situation in the country;
- 3 The UN Security Council issues a resolution on the numbers, participants, objectives and the term of the mission;
- 4 The UN General Assembly approves the budget and resources for the peacekeeping operation;
- 5 UN member-states are requested to provide personnel for the peacekeeping mission

### Motivation for deployment:

- prevent conflict escalation and expansion beyond the country borders;
- stabilize conflict following ceasefire;
- create an environment conducive for parties to reach long-lasting peace;
- assist in reaching comprehensive peace deals;
- and lead states or territories through transition period to a point where they get a stable government



### Functions of peacekeepers:

- disarmament;
- demining;
- reform of defence sector;
- protection of human rights and assistance in their observance;
- support, recovery and expansion of the state authority;
- assistance in social and economic recovery and development;
- assistance in elections



- Since 1948, the UN launched **69** peacekeeping operations
- More than **3,000** Blue Helmets were killed on duty during peacekeeping operations
- There are currently **16** active peacekeeping missions in the world

the territory of Ukraine, which with the continued inaction of the West and the improving weather conditions may transform into an all-out offensive. In that case all this peacekeeping initiative can amount to is leverage to demand western support in arms supply in case there is no real commitment to guarantee control over the fulfillment of "peaceful resolution".

## ECONOMIC ISOLATION

In the short and medium-term prospect, Ukraine would suffer from regaining control over the Russian-occupied territories of Donbas. This would require not only making concessions to do with Constitutional amendments and the de-facto suspension of the Euro-Atlantic integration process that are both humiliating and dangerous for the future of the country.

It is also about the more trivial factors. It would be much easier to overcome the budget deficit issue if the hostilities in Donbas are to stop, and yet without the need to support the region economically, let alone to restore it. Preventing the political counterrevolution of the pro-Moscow forces inside the country would be much easier without the votes from the occupied territories. The threat of such counterrevolution is now increasingly high considering the deepening economic crisis in the country which is expected to only get worse throughout the course of 2015.

The authorities in Kyiv are currently taking the course of strengthening the blockade of the Donbas territories beyond Ukrainian control, as well as cutting other avenues of their financial support. Such a strategy is not publicized and its manifestations tend to be justified by objective circumstances, but it is becoming ever clearer nonetheless. Recently the Minister of Fuel and Energy has stated that the debt of the uncontrolled territories had reached UAH 7.5 billion for natural gas and UAH 3.5 billion for electricity. Due to this fact the National Regulator for State Energy and Public Utilities adopted a decision to suspend payments to energy-generating enterprises on the aforementioned territories.

On February 18, a comprehensive list of all energy-generating facilities located on the occu-

pied territories that are no longer eligible for state financing has been adopted. The list includes the Starobesheve and Zuivska thermal power stations and four wind power stations. Similarly, February 18 saw the suspension of natural gas supply to the terrorist-controlled areas. Representatives of Ukrtransgaz, a state-owned operator of Ukraine's gas transit system, explain that gas supply to the zone of hostilities has been stopped due to critical damage of infrastructure caused by the fighting. In response the Russian Prime Minister Dmitri Medvedev instructed his government to "come up with proposals to cover the natural gas demands" of the self-proclaimed republics.

And so, as of February 19, 3 p.m., Gazprom added new natural gas reception points Horlivka and Platovo located at the stretch of the Russian-Ukrainian border not controlled by Ukraine. The daily volume supplied through them is 12mn cu m, or around 360-370mn cu m per month, which is worth UAH 3-3.5 billion according to the current price set for Ukraine.

At present Gazprom is cover-

within the frameworks of the supply deal signed with Ukrinterenergo in December 2014.

At the same time Russian officials are showing serious concerns regarding the strengthening blockade of Donbas by Ukraine and even hinting that ceasefire should be viewed as dependant on the economic support from Kyiv. The head of Parliamentary Committee on Defence Vladimir Komoyedov declared: "ceasing the artillery fire is just one aspect, but the people need to live on somehow, to receive wages, pensions". According to him, if Ukraine imposes the regime of complete economic lockdown of these territories, it will become impossible for the occupying forces to provide the population of Donbas with all the necessities.

## AGGRESSION COURSE

In these circumstances, unless the West takes effective measures, the situation will most likely develop into further offensive by the "Armed Forces of Novorossiya" deeper into Ukraine in order to destabilize the situation and try to imitate "civil war". The maximum objective is to fuel a quasi-civil war on the entire territory of Ukraine, and at the minimum – to finally create the puppet state Novorossiya in Ukraine's southern and eastern regions. The "Deputy Commander of the Staff of the DNR Militia" Eduard Basurin already threatened to unilaterally withdraw from the Minsk agreements at any suitable time under the pretext of "shelling of DNR army positions".

Another occurrence supporting the likelihood of this scenario being realized in 2015 is the recent flurry of media activity by the fugitive ex-president Viktor Yanukovich and his former prime minister Mykola Azarov. Yanukovich declared: "as soon as I get the opportunity, I'll return and do my best to help ease the life for the population of Ukraine". Meanwhile Azarov offered the initiative to create "the government in exile", as a "representative body that will deliver to the public an alternative point of view and come up with concepts for the development of the country... joining all forces capable of resisting this anti-Ukrainian regime in Ukraine". And, perhaps, arriving under the

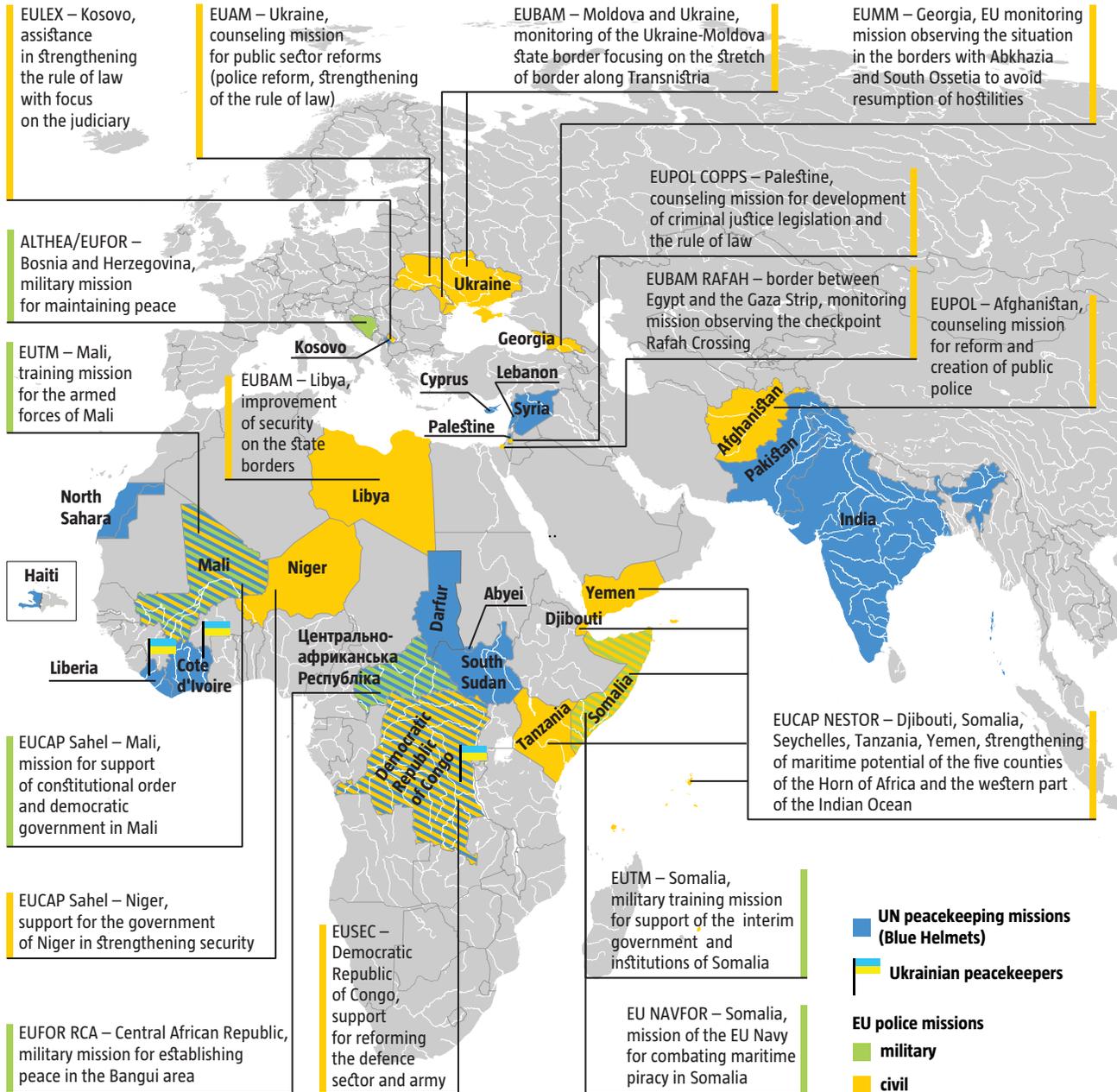


## UNLESS THE WEST TAKES EFFECTIVE MEASURES, THE MOST LIKELY SCENARIO IS FURTHER OFFENSIVE OF THE "ARMED FORCES OF NOVOROSSIYA" DEEPER INTO UKRAINE TO DESTABILIZE THE SITUATION AND TRY TO IMITATE CIVIL WAR

ing this supply out of the prior advance payment by Ukraine's Naf-togaz. Therefore in order to stop subsidizing gas supply for the terrorists, Ukraine must stop the practice of advance payment to Gazprom, which effectively means not purchasing Russian gas altogether. The 3.1bn cu m currently stored in underground gas storage facilities should suffice, provided the winter colds are behind.

There are similar problems with the Russian electricity supply to the terrorist-controlled areas via the electric power transmission line "Peremoha-Shakhty". Currently the Russian supplier InterRAO is counting the energy

# Peace be upon you

flags of the "Armed Forces of Novorossiya" to take direct control of the territories it seizes.

The supposed large-scale general mobilization (purportedly more than 100,000) declared in the self-proclaimed republics on February 11 can become the formal cover for the most combat-ready units of the Russian regular

army invading under the "rebels" banner. In this case Russia will not need to openly carry out full-scale invasion. First of all, it will not be able to send a 200-300,000-strong army without carrying out at least partial mobilization on its territory. Russia has only so many combat-ready units, and some of them are

needed in other regions of the Russian Federation. Instead an army of 150-200,000 personnel, more than half of them Russian regular troops, can become a potent enough force to carry out a number of strategic advances into the most critical areas of confrontation followed by rapid headway deeper into the territory of Ukraine. ■

# Oiling Your Sled in Summertime

## How Ukraine can survive the next heating season without Russian gas and coal

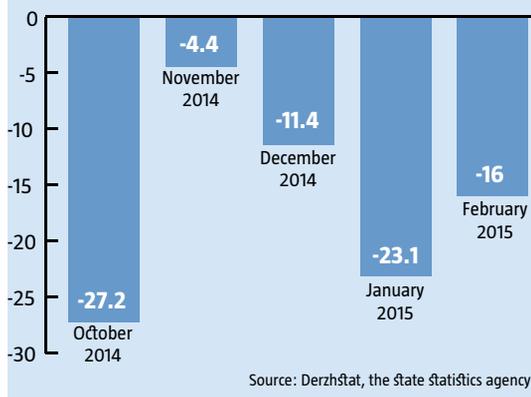
Author:  
**Oleksandr Kramar**

**W**hen Naftogaz stopped delivering natural gas to the occupied territories of the Donbas, Russia used it as the latest excuse to once again confront Ukraine over the blue fuel. Gazprom has been supplying Russia's proxies with gas against the advance paid by Naftogaz, reminding Ukraine once more how readily it drops any commitments given half an excuse. To resolve the situation, Brussels held a trilateral meeting on March 2 involving the EU Energy Commissar and representatives of Ukraine and Russia. But the only outcome was a postponement of the issue.

The gas supplies paid for in advance by Naftogaz as part of the winter package that operates until March 31 were supposed to be delivered by Gazprom in volumes that were clearly specified by the Ukrainian side to clearly designated reception points. Payments for gas to territories occupied by Russia's proxies were supposed to be negotiated separately and the delivered volumes reconciled separately as well. The Russian side continues to claim that its deliveries are based on the contract with Naftogaz, so that, as before, it continues to tally it up as debt, subject to billing at any time that is convenient to Gazprom.

This means that 2015 and the 2015-2016 heating season will most likely be a prolongation of the gas—and more extensively, energy—war between Ukraine and Russia. The analysis presented here shows that Ukraine is quite likely to survive this even if it completely stops buying Rus-

Gas consumption decline during 2014-2015 heating season vs 2013-2014, %



sian gas after the current winter package comes to an end. At the same time, for this potential to turn into a real result and to avoid complaints about the short timeframes like those heard this past year in August and September, it's time to start preparing Ukraine's power industry now for

**THERE ARE NO REAL OBSTACLES TO PROPERLY UPGRADING AND DIVERSIFYING UKRAINE'S COGENERATION INDUSTRY, UNLESS THERE IS SABOTAGE**

a possible blockade on the part of the Russian Federation.

### SKIDDING SAFELY THROUGH 2014-2015

Total domestic consumption of gas from December 1 through February 28 this year was 14.95bn cu m: 6.65bn cu m for residential use, 4.1bn cu m for cogeneration, 3.87bn cu m for industrial purposes, and 0.32bn cu m for state entities. Moreover, in-

dustrial entities and cogeneration plants went over their limit of 1.3bn cu m. Had they not done so, total consumption would have been down to 13.7bn cu m.

Fortunately, dire predictions that the country would be in collapse in the energy sector this past heating season proved wrong for a number of subjective and objective reasons. For one thing, the winter was unusually mild for the second year in a row. Gas consumption went down during this period partly because industrial and cogeneration users improved discipline and began to aim for the established caps, while household users and state entities significantly cut back on their consumption as well.

Still, industry and the cogeneration sector did not manage to stay within the limits they were given. For instance, they consumed 3.87bn cu m and 4.1bn cu m from December 1 through February 28, rather than staying within the caps set for this period, 3.27bn cu m and 3.49bn cu m. In part, this was because of a shortage of domestic coal, which had to be compensated for with natural gas. Otherwise, the level of excessive use of natural gas did in fact go down. Over October-November 2014, consumption was 7bn cu m, with the most excessive consumption appearing in November, despite the fact that there was a major decline in industrial production by then.

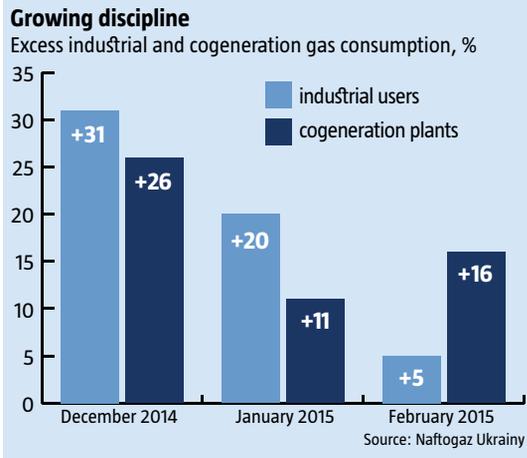
At the beginning of December, Naftogaz Ukrainy published exhaustive information about the limits on natural gas consumption by region and by category of consumer. By tightening discipline, excessive consumption really was brought under control. For instance, over-cap use in the

first 10 days of December was 34%, whereas by February it was down to 5%. The fact that Ukraine stopped supplying gas to the Russian-occupied parts of Donbas as of February 18 made a huge difference, of course. In February alone, this saved nearly 100mn cu m of gas, and at least as much will be saved by the end of the heating season.

Meanwhile, more gas was being delivered than anticipated because of additional supplies coming in from the EU, while the fact that the war in Donbas did not go into high gear meant that Russia wasn't about to tear up its "winter package" contract with Ukraine. Indeed, imports grew in January and February to 1.5-2 times what they had been in November and December. While during the first half of the heating season, October 20, 2014 through January 10, 2015, gas stocks in Ukraine's underground storage system shrank by more than 6.1bn cu m from 16.75bn cu m to 10.6bn cu m, between January 10 and March 1, they only went down by 2.4bn cu m, to 8.2bn cu m.

The most noticeable reduction in the pumping of gas from storage tanks was in February: over Feb. 1-21, 2015 1.1 bn cu m were pumped out, compared to 2.1bn cu m during the same period of 2014, which was also a relatively mild winter. During the last 10 days of February as the weather grew warmer, Ukraine stopped supplying gas to the territories in the Donbas under Russian control just as deliveries from the Russian Federation sharply increased to prevent the delivery of supplies paid for in advance by Naftogaz to occupied Donbas. The juncture of these factors made it possible by February 25 not only to stop pumping gas stocks but even to begin replacing them in the underground storage system, which allowed stocks to be replenished by 105mn cu m by March 1.

As temperatures remain relatively high and winter package supplies from Russia continue to be delivered, by the end of the heating season, Ukraine will likely be able to continue to simply store incoming supplies of gas. All the more since deliveries from Slovakia, Poland and Hungary increased as of March 1, so



that even if Russia were to stop or reduce deliveries to a minimum, no more than 0.5-0.7bn cu m will have to be pumped from the gas storage system in March.

### CHECKING THE OUTLOOK FOR 2015-2016

Even though Ukraine managed to get through this year's heating season without excesses and predictions of an energy collapse in March proved wrong, the issue of next year's heating season is far from resolved. The thing is that in 2014, the gas storage system was actively being replenished with Russian gas until mid-June, which gave Ukraine sufficient stores that peaked at 14bn cu m on June 15, 2014. Meanwhile, Ukraine still hasn't signed a summer package with Gazprom for 2015, so it will have to arrange for this only based on reverse deliveries from the EU and savings on some of the natural gas extracted domestically from May to September. Based on what happened this past year and recent trends, it's possible to assess the potential balance of natural gas for the next heating season.

Domestic production in April-October 2014 was 11.6bn cu m, while consumption during that same period was 13.0bn cu m, a shortfall of 10%. But at that time gas was actively being consumed in occupied Donbas where significant industrial output was still being produced over April-June 2014, that is, prior to the start of large-scale conflict and the blockade of Russian proxy-held territories. As it happens, the volume of industrial output in other parts of Ukraine was also below 2014 lev-

els in 2015. This means that not only can domestic extraction over April-October completely cover domestic demand, but it could even provide a small surplus of 0.5-1bn cu m for storage.

If conditions are right, the potential import of natural gas via Slovakia at a throughput rate of 40mn cu m/day over April-October 2015 could reach 8.4-8.5bn cu m. By the end of October, the Polish pipeline could supply an additional 0.6-0.8bn cu m by the end of October 2015. Despite its considerably higher throughput rate—3.2-3.3bn cu m, this past April-October—political obstacles such as Budapest's playing up to Moscow, it's hard right now to anticipate more deliveries from Hungary.

In short, using reverse pipelines from Slovakia and Poland, and at least partly from Hungary, and providing that domestic extraction is higher than domestic consumption over the warm seasons by about 0.5-1.0bn cu m, even without supplies from Russia, the stock in Ukraine's underground storage system should be

## INDUSTRY AND THE COGENERATION SECTOR DID NOT MANAGE TO STAY WITHIN THE GAS CONSUMPTION LIMITS THEY WERE GIVEN THIS YEAR

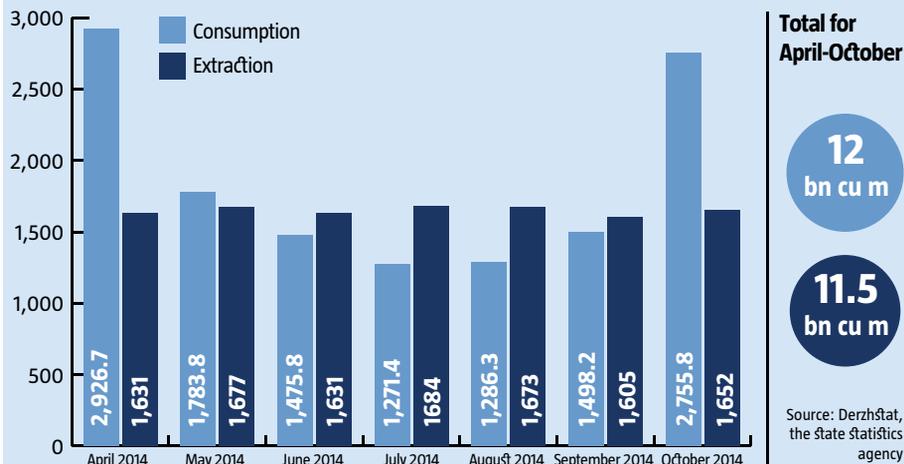
about 18bn cu m by the beginning of November 2015. That's more than the 16.1bn cu m that the country had on November 1, 2014.

If consumption is kept within the caps set this year for industry and cogeneration use for a potential saving of 2.2bn cu m, occupied Donbas remains unserved, saving 0.8bn cu m, and residential gas rates are raised substantially so that household consumption is kept down or partly replaced by other fuels for a possible saving up to 1.5bn cu m, total consumption should go down even further in the next heating season. In this way, Ukraine has the potential not only to get through the next heating season without further purchases from Gazprom after the current winter package expires, ▶

**Hot times**

Over April-October 2014, the shortfall of domestically extracted gas to cover consumption was only 10%. During the same period of this year, current trends towards reduced consumption and the closure of deliveries to occupied Donbas suggest that Ukraine might not only cover current consumption with domestic natural gas but might even be able to add to its stocks in the underground gas storage system (GSS).

Extraction and consumption of gas over April-October 2014, mn cu m



but also to enjoy a surplus of 7.0-7.5bn cu m.

**CUTTING OBSTACLES DOWN TO SIZE**

All these resources will be very much needed, especially as the assessment is based on a mild winter similar to the 2014-2015 one. Since Ukraine has seen

mild winters several years in a row now, the chances of a much colder one in the next heating season are growing. A second risk is the threat that Russia will sharply cut all gas transit through Ukraine to prevent the accumulation of stores, especially along the Slovak branch. In 2014, Gazprom already cut

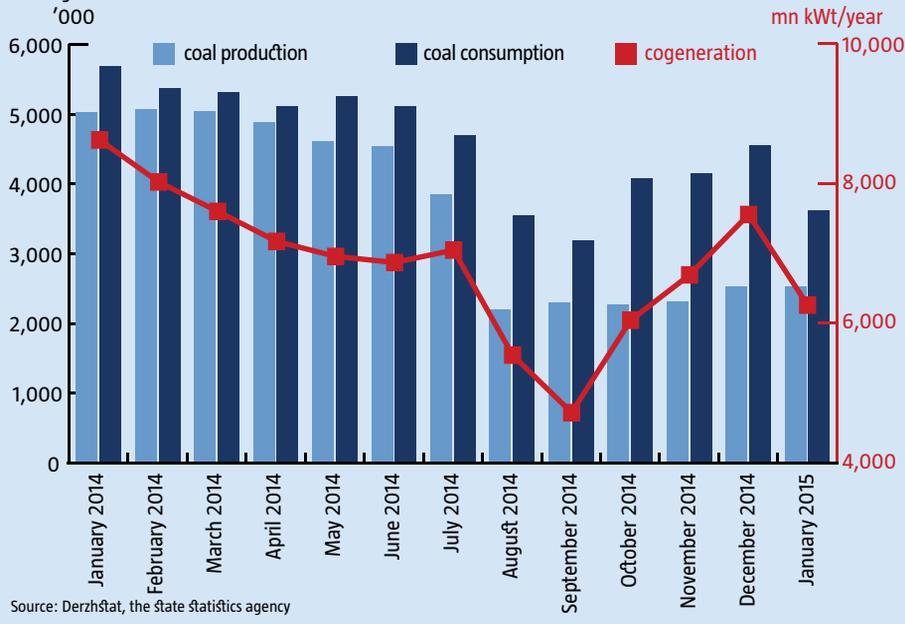
back transit through Ukraine to 62bn cu m or barely half of the 121.3bn cu m it delivered to the EU. Should transit supplies through Ukraine be further cut to 50bn cu m, as predicted, 15-16bn cu m of which will be reverse-flow, the proportion of Ukraine's gas delivered via Ukraine's gas transit system could fall to 25-30% of net Russian gas supplied to the EU next heating season. This increases the risk that Gazprom will cut deliveries through Ukraine altogether in order to increase the shortfall on the European market, which would be enough to put an end to reverse deliveries to Ukraine, yet not catastrophic in terms of covering EU demand for natural gas.

All these potential risks demand that Ukraine use preventive measures to firstly ensure the maximum volume of gas coming via reverse-flow from the EU in Q2, without waiting for possible price reductions in Q3 2015. In the end, the surplus of 7.0-7.5bn cu m calculated earlier here is more than enough to compensate even for a complete halt in reverse-flow supplies from the EU during the five-month heating season, which requires 6.5-7.0bn cu m.

But for such a reserve to become a reality Naftogaz and the Government even now need to increase their efforts with industrial and cogeneration consumers to stop going over the established caps. One step that should help in this is Bill №2214 "On changes to certain laws of Ukraine to stabilize the financial state of NAK Naftogaz Ukrainy," which has already passed first reading in the Verkhovna Rada. But the Government also needs to improve the system of carrots and sticks: incentivizing by raising gas rates—and penalizing with fines for going over the limit in the form of double or even triple rates and, in the case of repeat violations, a temporary interruption of gas deliveries altogether.

**Achilles' Heel**

All the coal stations in the country's TES (cogeneration plants) operate on anthracite, the coal that is least available to Ukraine now. Unless they are reconstructed, the country's cogeneration industry will remain an Achilles' heel for Russia to pressure its energy industry, constituting a national security threat in the next heating season.



**CLEANING RUST OFF THE RUNNERS**

The urgent need for these measures is especially obvious when looking at Ukraine's export-oriented gas-hungry chemicals industry. The latest data provided

by Naftogaz Ukrainy shows that above-limit use of gas this past winter was highest in Rivne and Cherkasy Oblasts, where the chemicals giants RivneAzot and CherkasyAzot belonging to Dmytro Firtash's Ostchem Holding are located. Comparison of the first three weeks of December, January and February show a growth trend in excessive use for these two oblasts, rising from 75% and 63% in December to 151% and 83% in January, and to 156% and 87% in February.

The other component that needs economic incentives in Ukraine already this year is domestic gas extraction. In 2014, Ukraine extracted 20.5bn cu m of gas, but whereas private companies that were able to sell the gas at market prices increased output by 18%, to 3.3bn cu m, state-owned companies either maintained previous levels or actually cut back on output.

Two more problems that need resolution are coal supplies, as they is the main alternative to gas in the short term, and power generated at cogeneration plants.

### SETTING UP A RELATIVELY CLEAR TRAIL

Still only at the discussion level although it needs an explicit action plan already now, and not in August or September, is upgrading the coal-firing stations at Ukraine's TES or cogeneration plants, as well as community and agency boiler houses that work on black coal, which is in shortage outside the Customs Union and occupied Donbas. If work is begun in March and not July-September, then by November-December 2015 Ukraine has enough time to mobilize the necessary resources, using targeted programs and credit programs from European and international donors, to re-equip coal blocks and furnaces to work on coal grades that are readily available in Europe and elsewhere in the world prior to the next heating season. Specialists say that about 5-7 months are needed for this task and almost token investment on the part of domestic power companies—at most a few billion hryvnia.

Ukraine also needs to already be preparing its transport infrastructure to receive several million tonnes of imported heating

coal both by rail from the EU and by sea through its ports.

Finally, the Government needs to approve and publicly announce a principled policy decision that states that neither electricity nor coal will be imported to Ukraine from Russia or Russian-occupied Donbas starting this summer—regardless of their country of origin.

There are no real obstacles to properly upgrading and diversifying Ukraine's cogeneration industry. There's also enough time, unless there is sabotage on the part of officials at state and community agencies or at private power companies. This is primarily with reference to DTEK, a huge cogeneration conglomerate owned by pro-Russian oligarch Rinat Akhmetov, who, for commercial reasons as well, continues to supply coal from his mines to Russia's proxies in occupied Donbas. This makes it extremely urgent that proper state oversight over the activities of DTEK be established ASAP and/or the company's power-generating assets nationalized as strategic to national security under the current circumstances.

Meanwhile, diversification of nuclear fuel has been quite dilatory this past year as most of the country's atomic energy stations (AESs) are supplied with fuel rods from Russia. Cooperating with western suppliers in this would not only improve Ukraine's ability to withstand the Kremlin's power blockade, but would actually strengthen interest in its fate among influential western businesses, which could then lobby their governments to provide more effective support to Kyiv.

Ukraine also needs to take immediate steps to upgrade and develop its trunk and inside power lines in buildings to make sure that emergency breakdowns during the next heating season don't get in the way of at least partial diversification of sources of power to residential users. Above and beyond that, the extremely uneven increases in rates for residential electricity and gas planned for this year—50-60% for power and 190-350% for gas—will make electricity the cheaper utility to use, even from an economic point-of-view. ■



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# The Revenge of the Money-Grubbers

The government's ineffective response to the sharp devaluation of the hryvnia constitutes a threat to the national security of Ukraine

The last week of February made headlines as the country experienced its latest “cardiac arrest.” panic hit the money market when the hryvnia plunged to its lowest ever against the dollar. This led to mass hysteria among Ukrainian consumers, finger-pointing at NBU Governor Valeria Hontareva, PM Arseniy Yatseniuk and President Petro Poroshenko, and a swirl of apocalyptic rumors about what would happen further with the beleaguered national currency. Within a few days, the hryvnia had bounced back from UAH 40/USD, but by then store shelves across the country had been emptied of flour, sugar and other staples. What’s going on on Ukraine’s domestic currency market and what happened to cause this extreme spike in the hryvnia?

The Ukrainian Week previously wrote (**Tracing the Fleeing Capital in Is. 2(84) Feb. 2015**) that, as long as capital continued to flow unimpeded across Ukraine’s borders and the current imbalance was not only not being dealt with but continued to be covered by the printing of more money, the hryvnia would continue to lose value under the current Administration. And such spikes would continue to appear from time to time. Nothing much has changed since then, meaning that there is still no basis

for the devaluation process to stop. However, some trends have emerged that make it possible to look at the problem with the hryvnia from a somewhat different angle.

## BLAME THE CENTRAL BANK?

When the public panics over sharp increases in the exchange rate, people start to spread ridiculous rumors to explain the reasons for the devaluation and to look for scapegoats to blame for what is going on on the currency market. One of the myths is that the depreciation of the hryvnia has been caused by speculative behavior on the part of selected domestic banks that are supposedly being refinanced by the National Bank of Ukraine and are then buying hard currency with these credits in order to later sell it on at a higher rate and this is affecting the exchange rate.

This is simply not true and flies in the face of official statistics (**see Refinancing myths**). The balance of stabilization credits issued by the NBU to financial institutions peaked in June 2014 and has been steadily falling since then. Yes, there was a slight increase in December-January, but this did not affect the overall trend. As to bonded credits, typically OVDP or internal government bonds cannot have an impact on the currency market as the main volumes are issued for a single day, mostly overnight.

**Author:**  
**Lyubomyr Shavalyuk**

Yet another point: the value of assets in the domestic banking system declined 38% in dollar terms in 2014, that is, by US \$22.3 billion, which means they actually grew 22% in hryvnia terms. Moreover, hard currency liabilities shrank US \$22.1bn, of which US \$11.4bn were deposits in foreign currencies that were withdrawn from the banking system by individuals, businesses and other organizations. In other words, if commercial banks were not restricted by NBU regulations that strictly limited the amount of net hard currency positions—assets minus liabilities denominated in foreign currencies—and wanted to make money on the dollar exchange rate, then they would have increased their hard currency assets in absolute terms or relative to their liabilities. This never took place and is not currently taking place. In short, the sharp spike in the hryvnia exchange rate cannot be blamed on speculative activity on the part of the country’s financial institutions.

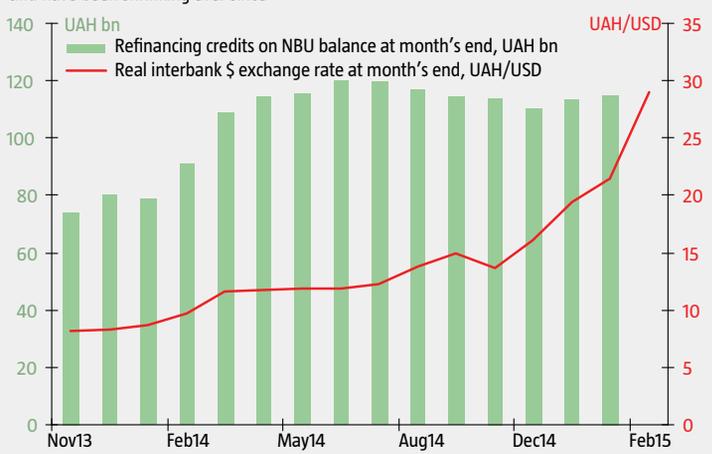
## BLAME THE EXPORTERS?

One of the other “explanations” given for the steep devaluation of the hryvnia is that exporters are not bringing hard currency earnings into Ukraine for the products that they make here. There are two points to note here. Firstly, the parent companies of domestic exporters really do hold their hard currency earnings abroad in order to bring them in and convert them at the most convenient moment. But the legal limit for doing so is normally 90 days, and the minute this three-month period expires, the hard currency starts entering the market in a normal fashion, that is, every day sees earnings for good exported 90 days before. In short, the market takes care of its own.

Secondly, there are cases when the earnings never do return to Ukraine. On one hand, this is the problem of capital flight via transfer pricing that Ukraine has been confronted with for years. It’s not something that appeared or disappeared recently, so the balance of forces on the currency market is essentially

### The refinancing myth

Volumes of stabilization credits issued by the National Bank of Ukraine peaked in mid-2014 and have been shrinking ever since



unchanged, meaning that this factor has not influenced the hryvnia exchange rate. Of course, if Ukraine were to deal with this problem by, say, adopting proper legislation about transfer pricing, then downward pressure on the hryvnia would certainly be reduced significantly and might even disappear altogether.

On the other hand, the devaluation of the hryvnia means that the production share of income will shrink and this means that a greater share of income can be left abroad, which exporters might certainly take advantage of. It's a simple-enough scheme. If the market price of a product is US \$100 and its production cost is UAH 600, then when the exchange rate was UAH 8/USD, the manufacturer sold the product at cost, or for US \$75, to an offshore company, which then sold it for at the market price and left US \$25 profit on its own account, money that never returned to Ukraine. When the hryvnia was UAH 30/USD, the manufacturer could sell the product to the offshore company for only US \$20, which covered cost, and US \$80 out of every US \$100 remained abroad.

So some have decided that this is what is going on currently in Ukraine, reducing the supply of hard currency on the market and causing the hryvnia to depreciate. However, if this were the case, prices for exported goods in dollar terms would be noticeably reduced. To some extent, this is actually happening (see Exports derailed), because Ukraine's exports became cheaper by 8.6% in December, compared to December of 2013. However, this shrinkage did not reflect the devaluation of the hryvnia, more properly reflecting the decline in prices for raw materials on global markets. In short, this factor is also not having much of an impact on the currency market in Ukraine.

### EXPORTERS: FALLING VOLUMES

Still, the export of goods really is in decline and so are hard currency earnings from it. This is less the result of declining prices and more a reflection of the volumes being exported. A number of factors are at work here. First of all, with the loss of control over part of Donbas, there was a formal reduction in certain export commodity positions. Derzstat, the state statistics agency, re-

ports that in QIV 2014, Ukraine exported 86% less natural coal and 83% less coke. This is not necessarily the equivalent of reduced output levels. Quite simply, having taken control over the mines, DNR and LNR militants can, and sometimes do, sell the output to Russia—and even to Ukraine. They are then paid partly in hard currency, certainly in cash, but this hard currency never appears on the domestic market, although it would have been more than welcome. At best, it is moving through the black market, but even that's not certain.

Second, the war is having many different consequences, one of which is a decline in exports of oil and petroproducts, and power, amounting to 93% and 44% in QIV. What Ukraine earlier exported has become critically necessary for domestic needs during the current energy crisis. This has also resulted in declining exports and the consequent reduction in hard currency earnings.

Third, exporters are likely holding back some of their ready products in order to get more for them, at least in hryvnia terms. This means that wheat, barley and maize exporters, representing the main grains grown in Ukraine, cut volumes by 16% in QIV, equivalent to nearly 2 million tonnes, although last year's harvest was bigger than in 2013.



## IT IS QUITE PROBABLE THAT THE MAIN FACTOR BEHIND CAPITAL FLIGHT IS YANUKOVYCH'S COHORT

Fourth, products whose main market was Russia have also seen export volumes decline seriously, including machinery, equipment, processed foods and so on. Possibly this is partly a reflection of the severe devaluation of the ruble and reduced buying power among Russian consumers. However, the hryvnia depreciated further and sooner than the Russian currency. At the same time, some of the traditional exports may be shipping unofficially through the two proxy republics, LNR and DNR and so are not reflected in official Ukrainian statistics, just as their currency earnings are not showing up on the domestic currency market. Like it or not, exports to Russia continue to decline at an accelerating pace: in 2014, the average decline was 34%, but in October it was

48%, in November 50%, and in December 63%. The Kremlin clearly is increasing its trade blockade against Ukraine and has a clear action plan along with a clear expectation of the eventual results.

Notably, the National Bank has very little control over any of the factors affecting the decline in hard currency earnings through the export of goods from Ukraine. It can only restrain by setting up non-tariff barriers, which is exactly what it is doing today. Still, in the longer run, this kind of tactic is fruitless, which means that, in order to get real results, to stabilize both exports and the currency market, the NBU absolutely needs to work hand-in-glove with the Cabinet of Ministers. Right now, this is lacking.

Let's not forget about the IMF. In most situations of this nature, the Fund has recommended devaluing the national currency of those countries it is assisting. At the end of summer 2014, rumors circulated that the recommended level was UAH 20/USD. This level of devaluation made sense. But when the hryvnia plunged to UAH 35-40/USD in February, the four- and five-fold depreciation in 18 months looked like it could not possibly meet IMF recommendations in any way. At least, there was no precedent for this. Hence the panic in February, the result of nothing more or less than deeply negative trends that the current government has not been controlling in any way.

### THE EFFECT OF AN OLD ILL, CAPITAL FLIGHT

There is one more reason why the hryvnia depreciated so sharply, one that is not only confirmed by statistics but over time, and that is capital flight, as mentioned above. The main factor driving hryvnia depreciation is hidden in the country's current account balance. In 2014, the deficit was USD 8.4bn, after a surplus of USD 18.6bn at the end of 2013. But who's taking capital out? At first glance, it looks like it's mostly nervous foreign investors. However, investors flee only to a certain point: when the national currency becomes too cheap, trading it for dollars becomes unprofitable because of the risk of a rebound with the inflow of speculative capital. And so the trend tends to wear itself out and the non-residents calm down. In Ukraine, however, the dynamic with the hryvnia seems

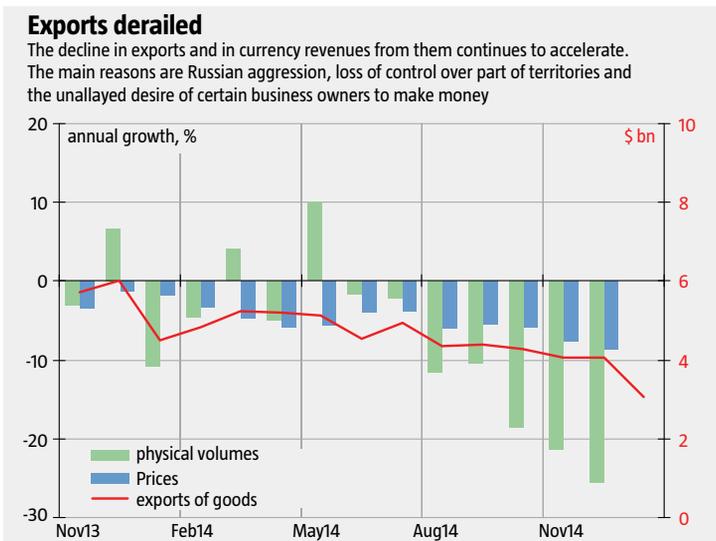
to be having the opposite effect: capital flight keeps growing...

Individuals are not able to take money out of the country. As prices rise, their incomes go to more basic needs, such as food, clothes, utilities and healthcare. For objective reasons, they won't be buying many dollars and will not be hiding them under their mattresses or taking them abroad. Statistics confirm this, as for the 11 months since the government changed, the volumes of outflow of hard currency from the banking system was relatively small: USD 317mn.

But there is one more possibility: capital could be taken out by Ukraine's oligarchs, in addition to the method of transfer pricing. Most of them registered their assets abroad at one time and now they are moving their shares from their foreign pockets to their domestic ones while moving their hard currency from domestic pockets to foreign ones. It's quite possible that they are so scared by the tectonic changes in the domestic political landscape that they have been moving their money out, regardless of the exchange, whether it's profitable or not. This is precisely the kind of trend that could last a long time, until they feel that their influence has stopped diminishing and their assets are no longer under threat. The problem is that the oligarchs are being aided and abetted in this by financial institutions, especially the so-called pocket banks in each financial-industrial group (FIG). Here is where the main blame lies for the depreciation of the hryvnia: with the depository corporations—for which the NBU should be punishing them severely.

**THE REVENGE OF THE MONEY-GRUBBERS**

Yet it's quite probable that the main factor behind capital flight is Yanukovich's cohort. Whereas Ukraine's other oligarchs are predominantly motivated by money, that is, the fear of losing their capital and the desire to protect it, then those who formed the previous regime are motivated primarily by revenge, which Russia is spurring in exchange for political asylum. This can be seen in the regular and very much scripted appearances of ex-tax minister Oleksandr Klymenko, ex-premier Mykola Azarov and ex-president Viktor Yanukovich in the media although they are physically absent from Ukrainian territory. In one of his last in-



terviews, Yanukovich announced that he was looking for a chance to return to Ukraine and to “initially lead a protest movement and then get involved in protecting those who have found themselves in this situation.” Not finding such an opportunity, he is currently “sending people to Ukraine and monitoring the situation.” As if to say that as soon as the opportunity arises, he will do so.

These words indicate that Ukraine's “Ancien Regime” is actively preparing for a counter-revolution with the help of the Kremlin. Unfortunately, they have plenty of economic leverage to succeed. For starters, they own large businesses in Ukraine to this day. The problem is that a big chunk of it continues to enjoy the monopolist status the previous regime gave itself while in power. These assets continue to generate profits and every month, every week, every day, banks continue to convert these profits into hard currency and move it abroad—most likely to Russia, where Yanukovich and Co. make use of it. Where exactly has little impact on the hryvnia exchange rate. This particular trend will continue as long as these Ukrainian businesses belong to the old regime, and will keep working and earning them profits.

Most likely the Kremlin is using its exiles to shake up the economic situation in Ukraine. It's clear that export dynamics in relation to Russia and Russian gas supplies are not the only leverage Russia is making use of, but they are among the main ones that influence money markets in Ukraine. And should the exiles prove successful, Russia can promise them the throne again. In this

situation, the higher the dollar, the more effort Yanukovich and his cohort, as well as Russia itself, will continue their ruinous course. Nor will they stop until they either lose all their instruments of influence or simply fail altogether. This is a war of attrition. And however low and odious it seems, Ukraine's history has plenty of other such examples.

So, Ukraine and its leadership absolutely must understand that reality and seriousness of this problem. This is something civil society can and must assist and support it in, joining forces against an external threat. This is the only way to find a way to overcome the threat, which will be the basis for stabilizing the currency market. Until that happens, downward pressure on the hryvnia will continue unabated.

This means that demanding the dismissal and even punishment of Hontareva, Yatseniuk or Poroshenko will only make sense if they show by their actions that they are playing into the hands of Yanukovich and the Kremlin. Judging by the latest interviews with the NBU governor, Hontareva is evolving very quickly and strongly, rising to the challenges facing both her and the country. But since the reasons why the hryvnia is depreciating lie largely outside the competency of the central bank, her ability to affect this process successfully is very limited. She needs strong support from either the Cabinet of Ministers or, as Anatoliy Hrytsenko suggested, the National Security Council. The question is, are other agency heads evolving as quickly as Hontareva at their institutions? The question is, of course, rhetorical. ■

# The New Greece in the East

On March 11 the International Monetary (IMF) approved a new bail-out for Ukraine. Worth USD 17.5 billion over four years, the first USD 5bn was delivered on March 13. It has also released its financial plan for the country. We have pored over it and have found it wanting in several key areas.

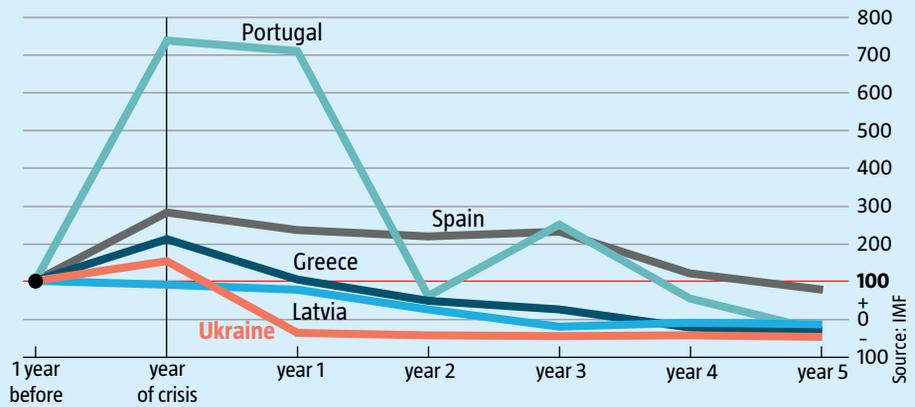
The first is what the IMF expects will happen to Ukraine's budget deficit. It expects the "primary" budget deficit (which excludes interest repayments) to disappear entirely by next year, "setting debt on a firm downward path". Is that a lot to ask?

Last year the primary deficit of the government and Naftogaz, the state gas company, was -6.9%. That is pretty big (Portugal had roughly the same budget deficit in 2009). But as the first chart shows, the IMF is asking for some tough reforms. It shows what happens to the budget deficit when a crisis hits (the first year is the one before the crisis). Five years following the crisis, the budget deficits of the four highlighted countries fell as the effects of the crisis wore off. When a country falls below zero on the chart, it is running a primary budget surplus. Greece and Portugal saw especially big falls. The IMF expects Ukraine to achieve a Greek level of adjustment, that took four years, in just one. And its predictions for economic growth are wildly optimistic.

What form will this austerity take? Cutting the massive deficit of Naftogaz, the state gas company, should save a lot of money. Naftogaz has a big financial black hole (5.7% of GDP last year) because it sells gas to Ukrainians far below the cost of importing it. Rampant corruption made this even worse. The IMF, however, expects Naftogaz's deficit to shrink to nothing by 2017. Raising gas prices is one way of do-

## Hyper-austerity

Primary budget deficit/surplus as % of GDP, 1 Year before = 100



ing this. In a fortnight's time, retail gas prices for households will rise by 284%. New estimates suggest that to reach market levels, some consumers will soon see price rises of over 200% in dollar terms.

Where else will the adjustment come from? The IMF does not want taxes to increase much and wants spending cuts to carry the burden instead (see second chart). For instance, spending on unemployment and disability insurance will, by 2017, have fallen by about 30% from its 2013 level. That is not great news, especially since the IMF also expects unemployment to hit 11.5% this year (up from 7.3% in 2013). In other words, there will be less money to distribute among more disabled and unemployed people.

Nonetheless, the financial plan argues that "compensatory measures to protect the most vulnerable are being stepped up". The plan forecasts that:

Total spending on social-assistance programmes will reach 4.1% of GDP in 2015, an increase of 30 percent compared to 2014... In addition, unemployment benefit spending will rise by 15%.

This sounds great. But on closer inspection that does not seem quite right. The statement does not say whether these increases are inflation-adjusted or not. That is really important, since Ukrainian inflation rate has now reached over 30% a year.

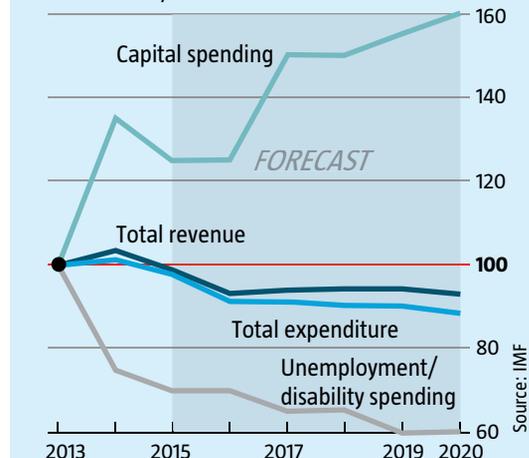
So what will actually happen? Figures elsewhere in the document show that it is indeed a 30% rise in nominal terms. Spending on social programmes will hit 4.1% this year, but that is only a rise of 0.3 percentage points from last. (And the government's own budget currently expects it to fall by 0.1 percentage points.) The IMF's projections show that the proportion of GDP spent on overall social benefits will fall from 21.1% in 2014 to 18.4% next year.

There are some bright spots. Government capital spending, for instance, should rise. But overall it all looks rather painful. That is the inevitable result of the West trying to rely on the IMF to prop the economy up. The fund's board could not have approved the bail-out had they thought that the fund would lose money. That is why they are insisting on such austerity. And IMF funding is limited to budgetary support: it cannot offer the long-term investment that Ukraine desperately needs. Organisations such as the European Union and America should be doing that, but so far they have taken a back seat. But without a much bigger, long-term investment programme, Ukraine's economy will continue to flounder. ■

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## Where will the money come from?

Change in government spending/taxation as % of GDP, 2013=100



# Let Bygones be Bygones

Attempts to keep the Russian market by making concessions in implementing the EU-Ukraine Association Agreement may prevent the Ukrainian economy from turning to new markets

Following the meeting with the Russian Minister of Economic Development Alexey Ulyukayev in early March, European Commissioner for Trade Cecilia Malmström announced that she supports the resumption of trilateral talks between Brussels, Kyiv and Moscow to once again try "to find ways to address the concerns expressed by Russia, within the flexibility provided by the EU-Ukraine DCFTA." According to sources, Ukrainian and European sides both agreed that it is impossible to further postpone the implementation of the FTA, but they do not rule out possible amendments to the implementation.

However, earlier experience shows that Kyiv does not benefit from the Association Agreement-related compromises with Russia. On September 12, 2014, an agreement was reached between the representatives of Ukraine, EU and Russia in Brussels that in exchange for postponing the implementation of the economic part of the Association Agreement until 2016, Russia will refrain from introducing restrictions on Ukrainian goods. Ever since, customs statistics have not shown any positive effects of this "compromise." To the contrary, the exports of Ukrainian goods to Russia in the first two months of 2015 (USD 0.6 bn) shrank almost threefold compared to July–August 2014 (USD 1.7 bn), the two months preceding the Brussels agreement, and compared to January–February 2014 (USD 1.6 bn). It is unlikely that even if the economic part of the Association Agreement had been implemented without delay (in November 2014) and Moscow had cancelled preferential custom duties for Ukrainian goods in response, Ukrainian exports to Russia would have dropped much more.

Ukraine is being pushed out of the Russian market as a result of both objective and subjective rea-

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**Oleksandr Kramar**

sons. The objective factors include Russia's long-term strategy of import substitution and the recent ruble devaluation that reduced the purchasing power of Russian consumers, as well as the fact that many companies in the Donbas are going out of operation due to military hostilities. The subjective factors include the ongoing undeclared trade war waged against

served until the start of 2016, the share of Russia in Ukrainian exports will have dropped to 10-12% by the end of 2015. In reality, the share of the Russian market in Ukrainian exports has shrunken to 10.1% during the first two months of this year.

The postponement of or amendments to the implementation of the economic part of the Association Agreement cannot change the long-term trend whereby Ukrainian producers will lose the Russian market. The minimum that is required to keep it is complete surrender in the form of the complete cancellation of the economic part of the AA and the beginning of Ukraine's integration into Putin's Eurasian Union, which is not acceptable to either Kyiv or Europe. Any other concessions will not force Russia to stop its discrimination against Ukrainian suppliers. Thus, any efforts to achieve another "compromise" seem to be just the attempts to turn a blind eye to the reality, refusing an effective compensation package, which the Ukrainian



## EARLIER EXPERIENCE SHOWS THAT KYIV DOES NOT BENEFIT FROM THE ASSOCIATION AGREEMENT-RELATED COMPROMISES WITH RUSSIA

Ukraine, despite the "compromise" made in Brussels in September 2014, as well as the voluntary withdrawal of a number of Ukrainian suppliers from the Russian market through its unpredictability and unreliability. *The Ukrainian Week* predicted earlier (*On the Road to Total Divorce* in Is. 1(83) Jan. 2015) that if the current trends in bilateral trade are pre-

The share of exports of Ukrainian goods to the Russian market at

**10.1%**

today is comparable to that to Turkey at

**7.7%,**

China at

**7.4%**

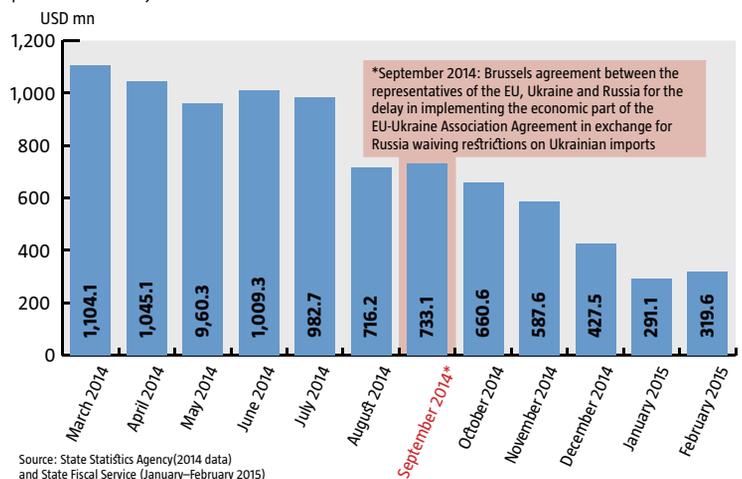
or Egypt at

**6.7%.**

The prospects of the Russian market, however, are much less promising, taking into account its political dependence on the Kremlin

### Mission impossible

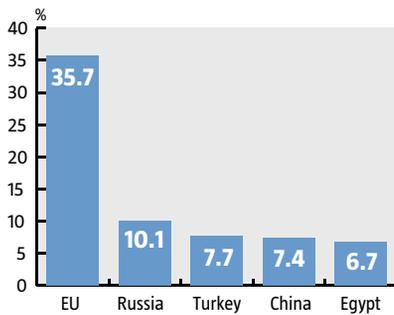
Monthly dynamic of Ukrainian goods exports to Russia proves that Kyiv's and Brussels' attempts to preserve the Russian market for Ukrainian exporters by delaying the implementation of the AA economic part are unnecessary



Source: State Statistics Agency (2014 data) and State Fiscal Service (January–February 2015)

### Groundless claims

The volume of Ukrainian exports to Russia no longer gives it the grounds to claim to be Ukraine's main market



Source: State Fiscal Service

economy badly needs today from the EU.

At the same time, Moscow's continued Moscow's attempts to blackmail Kyiv or Brussels after three and a half years of permanent trade wars no longer have any grounds. Ukraine no longer depends on trade and economic relations with Russia. Instead, both future and present of the country depend on redeeming the inevitable losses on this market by finding new niches both on the European market and on elsewhere in the world.

Meanwhile, the "compromise" games send a dangerous message to Putin, encouraging him to continue pressure on Ukraine and the EU in order to make them freeze the economic part of the AA, and subsequently have them cancel it altogether. The earlier Moscow gets a clear message that the economic integration and association of Ukraine with the EU is a fait accompli (and this requires the full ratification of the Association Agreement and its dynamic implementation), the more it is likely to abandon this issue.

Instead, Ukraine needs more efficient support from its European partners that would offset the unavoidable loss of foreign exchange earnings and jobs through the final breach of trade and economic relations with Russia. This support should not come from attempts to preserve preferential terms in trade between Ukraine and Russia within the CIS FTA Agreement, but in promoting increased exports of competitive Ukrainian products to the EU. It should also include the EU-sponsored microcredit programs and consultations provided to Ukrainian small and medium-sized producers, giving them information on how and where they can sell their products in the EU and what is required to do so.

In order to increase Ukraine's exports to the EU and elsewhere and attract new investment, incentives from Brussels are also required, as well as its

control over the implementation of European standards and harmonization of Ukrainian laws with the European framework. Much more important support on the side of the EU would be to encourage European manufacturers to establish production facilities in Ukraine to make their parts and components here, against the guarantee of European institutions, their governments and the government of Ukraine. In fact, at the current hryvnya rate, the average salary level in Ukraine today is nearing that in the not-so-rich countries of Asia, and is lower than in China. At the same time, Ukraine has a number of obvious advantages compared to remote Asian countries.

As a matter of fact, the volume of Ukrainian exports to Russia since the beginning of 2015 is equivalent to only 28.3% of Ukrainian supplies to the EU during the same period. In this way, its increase by 20-25% could almost completely offset the loss of even all of Ukraine's exports to Russia.

The analysis of the current customs statistics published by the State Fiscal Service reveals the reduction in the number of Ukrainian product groups for which the Russian market remains the main one, as well as a significant diversification of exports of even those products that until recently were focused almost exclusively on the Russian market. In terms of foodstuffs, these now include beef (USD 4.8 mln; hereafter, unless otherwise indicated, the data is provided for January–February 2015) and pork (USD 3.7 mln since the beginning of the year), frozen and canned vegetables (USD 3 mln), cocoa paste (USD 5 mln), salt (USD 3.7 mln) and wine (USD 2.7 mln). Russia still gets the largest share of Ukrainian exports of ceramic products, perfumes, household chemicals, paper, wallpaper, packaging containers, labels, printed matter, and certain types of building materials (gravel, chippings, and clay). However, the manufacturers of all these products work mainly for the domestic market, the demand on which is much more important to them.

Russia remains a large and almost the only importer of Ukrainian aluminum hydroxide (USD 74.4 mln), which currently accounts for 1/8 of all Ukrainian exports to Russia. However, it is unlikely that Russia will refuse the imports of this material. The exports of mechanical products still depend mostly on the Russian market. But even these goods, whose exports amount to hundreds of millions or billions of hryvnias per month, have more diversified market outlets. ■

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# Fear of Mobilization: Myths and Reality

An inside look at how the army is being formed

Author: Dmytro Lykhoviy

The minute every new round of mobilization goes into full swing, the Kyiv district recruitment offices (DROs) get endless letters from “well-meaning” residents hinting that, supposedly, this or that bad neighbor is avoiding the draft, while this other alkie/druggie/hooligan needs to get a call-up notice, go to war and straighten out his life or at least do penance.

Too many Ukrainians still perceive the army as a penal system, meting out punishment, not to distant Russian militants, but to those being called up to serve. “The way things are right now, no point in my joining the army” is the position of most reservists. Unfortunately, starting with the first round of mobilization a year ago, the many wrong steps taken by both the government and military leadership have been changing the broadly patriotic mood and desire to defend their homeland to growing skepticism and distrust in the purpose of joining the Armed Forces of Ukraine.

## MANY ARE CALLED, FEW SHOW UP

Before the fourth mobilization began, General Headquarters gave the DROs a clearly defined objective: to provide a far better quality of call in 2015 than the previous year. One of the key criteria was ensuring the proper level of professional skills and training among reservists being mobilized into the Ukrainian Armed Forces. The plan was that only experienced individuals with those military occupational specialty (MOS) needed by the given army unit would be put “under the gun.”

It turned out that to mobilize 1,000 men into the army, they

would need to issue nearly 40,000 calls, numbers that recruitment offices said they had no means of vetting, realistically. Instead, they had to be satisfied with simply taking whoever wasn’t hiding from their local recruitment office and had normal results from their physical.

But the numbers have not been good. In March-April 2014, 70% of Kyiv reservists ignored the call to show up at their recruitment office, by the second round, 80% ignored it, and by the third round 90% were no-shows. Today, starting January 20th with the fourth round, 95% of reservists in the capital are not showing up—at least, that’s what our sources at the Kyiv Municipal Recruitment Office registration and mobilization department tell us.

These individuals are not draft dodgers as such. These are reservists to whom notice to appear before the DRO has not even been delivered for any number of reasons: they may have gone abroad or be hiding on their balcony during mobilization, or they may simply live at a different address, be on a business trip, and so on. Poor efforts and even sabotage on the part of business owners, local officials, residential services and so on, who are also authorized to deliver DRO notices to individuals, are all part of the problem. And it’s virtually impossible to hold any of these 95% “evaders” responsible in any way.

“Because of the insufficient numbers of trained reservists who are not avoiding being mobilized, the General HQ of the Ukrainian Armed Forces has left only two criteria for recruiting men: normal health and the desire to defend Ukraine,” admits Valentyn Kozhukhovskiy, acting Military Commissar of the Kyiv recruitment office. So Ukraine’s army is taking in



men who never served before and never studied in a military college, and is retraining reservists who are financial specialists to fill officer positions in intelligence platoons.

## 2014 VS 2015: THAT WAS THEN, THIS IS NOW

Nevertheless, the quality of the new troops joining the UAF in the

fourth mobilization has considerably improved in quality, compared to 2014—and on a number of levels.

As one reservist reports, “I was awakened at 06:00 on a Friday morning in March 2014 by a phone call. The call was an automated message from, say, the Darnytsia DRO crisply stating: ‘According to Presidential Decree, you are to appear at your DRO at 09:00 this morning...’

camouflage, ‘Belukha Mountain’ soviet underwear of the type worn during the civil war. At first, we had to sleep without pillows, blankets or mattresses on bare hardcase beds, covering ourselves with our pea jackets. Some of the men were clearly suffering from infectious TB, some even had epilepsy. We were torn without any warning from our families, our jobs, our businesses, our cities, and our farms.

not just in ours, incidentally—remained very tense for a few more days until higher command allowed some half-legal breaks to “recharge” and instituted “open house” days.

“Getting the battalion combat-ready took less than three weeks, after which we were dispersed with substandard equipment to a number of checkpoints. Some were sent directly into the conflict zone...”

That was last year. Today, the mobilization process is quite different. Those who are called up are not sent directly to military bases but go to boot camp in Yavoriv, Rivne, Desna, and other places for basic training. Over the course of a month, they revive long unused skills or learn new military specializations. Those who are mobilized generally don’t get to the conflict zone directly or quickly. And some don’t get there at all. The military barracks smell just as rank, but the men get contemporary camo, Canadian boots, and completely different quality ammo than last year. The same is true of the food—all of it is thanks to the efforts of the Defense Ministry, volunteers and western donors.

### INFORMATION WARS: BAD NEWS, GOOD NEWS

Why don’t reservists know about this? Because, for the entire duration of this armed conflict with Russia and its proxies, there has never been a comprehensive approach to building awareness among the general public and shaping the national mood. The information offices of the Defense Ministry have been swamped with useless “soldierly” clichés from the past. “MinStets,” the newly-formed Information Ministry headed by Yuriy Stets, has also proved hapless, along with the main state media with a similar remit, the National Broadcasting Company. Private media operate strictly based on corporate interests, chasing after cheap sensationalism, while some, like the free rag “Vesti,” quite openly provide the enemy with ideological ammunition.

Ironically, even those media that praise the noble feats of Ukraine’s fighters and offer the highest degree of frontline coverage for public consumption are ▶



PHOTO BY UNIAN

There was no draft notice and no physical. ‘We were given our objective and our timeframe: do it—yesterday. And we couldn’t do anything else,’ said recruitment officers.

“That same evening, we were driven by bus to the First Separate National Guard Tank Brigade in Chernihiv Oblast. We were issued uniforms, boots,

“Most of us thought this was just a 10-day training tour. By the end of the first week, our unit had a real drunken mutiny, complete with an attempt to storm the arsenal. The terrified district recruiting officers called out by the brigade commander to explain the situation ran as fast as their legs could carry them. The situation in the military barracks—and

also doing the country a disservice. War is a tragedy, at times hellacious battles take place, and even during supposed ceasefires, Ukrainian soldiers are getting killed. Heroes should be honored. But readers, whether it's intended or not, are left with the impression that serving in Ukraine's Armed Forces is one unending stream of "blood, sweat and tears," a daily hell that only a miracle will bring you back home alive from. What nobody hears about is that not all of those mobilized are directly involved in the conflict and combat losses are actually only 0.5-1.0% of the total number of military personnel!

Positive statistics are not the only good news the domestic press is not promoting. According to law, anyone who is mobilized continues to have a right to their job and is supposed to be paid the average salary for that enterprise or organization. While in the UAF, depending on their position, mobilized reservists are paid UAH 2,100-4,500 (USD 95-205) a month, an amount that is doubled while they are on active duty in the conflict zone. That is, if someone who works as a civilian is called up, they get two sets of pay simultaneously, in addition to annual vacations and additional cash benefits.

What's more, soldiers are regularly sent home, to handle "social and domestic matters," on a sequenced rotation that covers up to 30% of units at a time—over and above the annual 30-day vacation! Many are being deeded small parcels of land by their local governments as well. And of course, there are the benefits of being a veteran of the ATO and combat. If a soldier is wounded, compensation is provided, in line with the individual's disability. And if a soldier is killed, the family is given a one-time UAH 609,000 (ar. USD 27,000) benefit.

All these social benefits add considerable weight to the individual's honorable duty to defend the homeland. Who is responsible for informing Ukrainians everywhere about this aspect of going to war, not just reporting on its obviously terrible sides? Why are material incentives not being included with the

## EXPERT OPINION

**Larysa Voloshyna, psychologist:**

The first wave of mobilization, whose term is now running to an end, was a strange psychological cocktail of three main groups, each of which had problems with feeling motivated and psychologically prepared to serve in the military.

The first group was those who had enlisted in the Ukrainian Armed Forces during peacetime and, having made the decision to dedicate part of their lives to military service, they proved psychologically unprepared for the dangers of war or for the need to recognize their opponent as an enemy. The second group was the volunteers, who consciously made the decision in a storm of patriotic fervor but weren't prepared for the structure and order of an unreformed, still largely soviet, army. The third category were those who had never expected to link their lives with trenches and barracks and saw their own mobilization as the result of force or fatal circumstances. Each of these groups adapted to military realities in its own way. So, especially at the beginning, it was easy to see misconduct, nervous breakdowns, desertion and so on. This type of behavior demonstrated just how enormous the psychological stress was, largely the result of lack of motivational readiness.

The current mobilization is bringing individuals into the army who are already aware of the dangers and are mostly making a conscious choice. They are moderate, responsible and careful, so their expectations of the military system, will be much higher than those of the volunteers who were ready to "find their guns in battle" or of those who "didn't agree to this" when they signed their contract with the Armed Forces.

The exigencies of the first months of the war are in the past. Now is the time for systematic psychological work with both the newly enlisted men and those who are returning to civilian life after serving their terms... some 50,000 individuals.

moral aspects by the domestic press?

**MAKING SILK PURSE OUT OF A "SEPARATIST'S" EAR**

Ukraine is unlikely to win this war if military reform is not undertaken in parallel to the ATO,

**THE MOBILIZED MEN GET CONTEMPORARY CAMO, CANADIAN BOOTS, AND COMPLETELY DIFFERENT QUALITY AMMO THAN LAST YEAR. THE SAME IS TRUE OF THE FOOD**

including the mobilization component. The Main Administration of Defense and Mobilization Planning at the General HQ has finally begun to talk about call-

ing journalists, not to carry a rifle, but to be press officers attached to military units—what's called embedding.

The issue of a single State Registry of Reservists has also been raised at last, an area that is currently in disarray, as there is no unified system for electronic tracking, just rolodexes kept at DROs. The penalties for violating the law on military services are minimal, so an entire army of reservists isn't registered in any recruitment office, which means it can't be mobilized. Reservists are only tracked at certain enterprises, so people are genuinely surprised that someone has brought them a call-up summons at work and they are expected to get permission from their DRO to go abroad or to move to another city.

The recruitment system itself needs serious reforming and streamlining, as it currently offers the perfect soil for corruption to flourish, while the stream of meaningless paper trails, often just pulled out of the air, drowns what is most important: actual work with recruits and reservists.

For instance, should DROs have an in-house psychologist? Of course, they should. But it was only during this fourth mobilization that such a position began to appear on district recruitment office staffing lists. Moreover, considerable time needs to pass for a checkmark in an HQ report to turn into a proper working unit: this psychologist needs to be a real professional, not just a serviceman who was given the position "because you're our guy" when other positions at the DRO were cut. This psychologist also has to talk to every individual who is being mobilized and their professional assessment should weigh just as much as the assessment of the doctors who carried out the physical.

In the end, the Ukrainian Government and Armed Forces have to understand one thing. No amount of super-modern lethal weaponry supplied by the West will effectively repel Russia if no one is able to use those weapons, or if those handling such weapons behave inappropriately and have no idea what their mission is or why they are even there. ■

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# Nearest Recruiting Station

**T**he *Ukrainian Week* spoke with Colonel Serhiy Halushko, Deputy Head of Information Technology Department of the Ministry of Defense of Ukraine, about practical aspects of the mobilization campaign.

## **U.W.: At what stage is the mobilization today?**

Mobilization is a huge set of nationwide measures involving not only the Ministry of Defense, but public institutions, such as the Cabinet of Ministers of Ukraine, regional and local administrations, etc. Today we are in the fourth stage of partial mobilization, which was launched on March 18, 2014. It started on January 20, 2015, will last for 90 days, and includes two phases. As a result, nearly 50,000 people will be conscribed. The number of conscripts in the fourth stage of mobilization mentioned earlier was slightly higher but it has been adjusted to meet the actual needs of the troops, the capacity of training centers, and our ability to provide the military with everything they need. In this way, the first phase of the current stage is almost complete, by more than 90%. This means that people have been notified, have had medical examinations and completed other selection procedures at the recruitment offices. They are at the training centers and courses for retraining today. At the same time, we proceed to the second phase of mobilization measures, which are more specialized in terms of human resources, and more limited in number. During the first phase people were mobilized primarily to the combined arms units of the ground troops. Now they are also drafted into other service arms, such as Naval Forces, Military Police of the Armed Forces, etc., which have more specific requirements for personnel. In this phase, there will be a significant percentage of those who have already served in the relevant units or have related experience, as well as volunteers. The lists have already been generated, preliminary interviews held, and we can be sure that no one will be drafted in a hurry without preparation to such units. If

Interviewed  
by  
**Bohdan  
Butkevych**

necessary, the state will be ready to hold the fifth and sixth stages of limited mobilization this year (in case of escalation in Eastern Ukraine or if our country faces other threats of direct military aggression). Since Russia is building up its military muscle on a daily basis, sending trains of military equipments and marching columns to Ukraine to support the terrorists, we just need to have adequate resources to stop the aggressor.

**U.W.: What about the moods of the conscripts? We hear opposite views ranging from optimism ("this draft is only for professionals or those willing to go to the front") to decadence ("they draft farmers who do not want to fight"). Are there many volunteers who want to join the army at this point?**

As of the beginning of March, the number of volunteers out of all conscripts was 5,700 or over 10%.

About 4,500 have already passed medical examination, were found fit for service, and are now in the army. Last year, there were more volunteers, naturally, but this is quite logical, since those who wanted to defend the country and serve in the army right away, literally stormed the recruiting offices from the first day of mobilization and did not wait for the fourth stage. However, in the second year there are still a lot of people who go to the army on their own initiative. Recently, a group of drafted officers in one of the training centers demanded to be sent to combat units immediately, because their training period was increased. Of course, the more they learn, the better soldiers they become, but the guys already want to perform real tasks. Overall, this stage of mobilization is much better than the previous ones. Note that no major recruitment cam-



PHOTO: ANDRIY LOMAKIN

campaign had taken place since after the Chernobyl accident in 1986, and until last spring. So recruitment offices simply had no necessary experience when they faced the current campaign last year. Plus, the time pressure was huge. And very few people at the local level could understand last year what exactly was going on and how the situation could evolve. The biggest mistake was to draft people from one region or town to the same military unit. In some cases, this had a very negative impact on the moral and psychological state of the units, since the civil life mode was transferred to military service. Now, this practice is discontinued, and conscripts are evenly distributed to all military units based on what kind of people these units need. In this way, conscripts find themselves in combat teams with sound army discipline, where they are dissolved, in a good sense. The impact of civil life is smaller there. It is very important that the system of conscripts training was changed and is still changing, many instructors al-

ready have experience of fighting in the Donbas and know for what they have to prepare the soldiers. The training time was increased, which means that people will not be sent to the front after three or four weeks of short and ineffective organizational training. But the most urgent question is junior and mid-level commanders, since combat training and discipline in a company are the responsibility of the company commander, and not Commander General. And finally, much fewer people are now hiding from the draft notice.

**U.W.: What about food and material support of the conscripts? Again, some say that everything is fine, while others report that the soldiers nearly starve...**

A lot depends on the unit commander or the training center. Speaking of food, which is supplied by commercial subcontractors, commanders always have the right and even the duty to require proper food quality and compliance with the quality and nourishment requirements. Of course, there are some unscrupulous businessmen and unit commanders. This is why different units get different meals for the moment. But let's not forget that the cost of meals for soldiers has not changed since 2008 and is about 17 hryvnias per day. The total cost, including the cost of preparation, is 35 hryvnias. Obviously, it is very difficult to ensure high-quality meals at the current prices. We know that the Cabinet of Ministers is planning to revise these figures to adjust them for inflation. As for the material supply, the terms of sending conscripts to military units have been adjusted based on the schedule of new uniform supplies by manufacturers. That is, each conscript is provided with a uniform, either locally made or coming from humanitarian supplies, say, Canadian. We now have a Volunteer Board at the Ukrainian Ministry of Defense headed by Yuriy Biryukov, and a dedicated Deputy Minister has been appointed, to ensure that quality standards are complied with. These people are doing their best to minimize the supplies of poor-quality uniforms to the troops. I must state that no recruitment office or commander has the right to demand that conscripts buy uniforms with their own money. We encourage

anyone who has such information to inform us, and we will react accordingly.

**U.W.: Are those drafted a year ago being demobilized, as per schedule?**

Preparations for military discharge go along with the mobilization. At the end of this week, a meeting will be held at the General Staff to finally solve all the organizational issues about the functions of HR departments, finance departments and recruitment offices, what military transport agencies will provide transportation, and so on. The General Staff is now drafting a manual for the ex-servicemen, detailing all the information on the documents and procedures necessary to apply for all payments and benefits provided by the state, and stating what they have to do at the recruitment office, what their rights to resume work are, and so on. This manual will help people in general to exercise their rights: everyone has to know what to demand from a state official. I cannot tell the exact date when everyone

## UNTIL LAST SPRING, UKRAINE HAD SEEN NO MAJOR RECRUITMENT CAMPAIGN SINCE AFTER THE CHORNOBYL ACCIDENT IN 1986

will be sent home, because it doesn't exist. On March 18 last year, we only started to send out draft notices, but the peak of mobilization was in the second half of April. The demobilization schedule will depend on the arrival of new conscripts from the training centers. Actually, it is the key factor for demobilization, for who will defend the country, if we just send everyone home at the same time? Besides, a bill was submitted recently to extend the term of job preservation for the conscripts to 18 months after the draft. This makes sense, since a soldier returning home has the right to take a vacation, rather than going back to work immediately. Many people have been wounded and treatment could take months, not days, for them. They have to complete their treatment in military hospitals, and only then retire to the reserve, while the state has to guarantee the preservation of their employment. ■





# Catching Up With the Future

**D**iners browse menus and order food, show presentations to partners while having an afternoon espresso, and call a taxi at Ebony, a restaurant in Dubai, from interactive tables that look more like giant tablets. Grammarly finds and corrects mistakes in English texts written by students, writers, journalist and businesspeople all over the world. A new device called Petcube enables you to watch your pet, talk to it through a mobile app and play with it with a laser ray when you're not at home. "In the future, I will live at pet shelters, so everyone will have a chance to play with rescued animals, and maybe adopt one of them," says a voice from a little steel cube in a good-quality promo video in English. Software developed for a huge European bank automates its loan-issuance decision making process. One thing all these innovations have in common is Ukrainian developers.

When most Ukrainians think of IT business, they picture hi-tech future, stylish offices, and windfall profits. This is hardly surprising: an average salary in most IT-companies in Ukraine ranges from USD 500-600 for beginners to USD 3,400-4,000 and more for experienced specialists and project managers, compared to around USD 100 for a doctor at a public hospital or USD 300-400 as an average salary in a big city. IT-firms offer good working conditions and an opportunity to move to a European country, Canada or the United States. Since most of these firms are branches of Western companies or work with Western clients, their US dollar or euro-denominated income makes them ever more attractive in the eyes of employees and more competitive internationally given the plummeting hryvnia. Can these companies drive Ukraine's economy, as is widely assumed? Can the IT business, as it is now, turn Ukraine into a regional leader in innovative technology in the foreseeable future?

## BRAIN DRAIN

Ukraine has been a leader in exports of software since 2007.

Country Profile 2015, an analytical publication by the American Chamber of Commerce, quotes Yevhen Sysoyev, a managing partner at AVentures Capital, projecting that the export of software will grow from USD 2bn in 2013 to USD 4bn in 2016. DOU.ua, a website that covers IT industry in Ukraine, estimated the expansion of staff in top 25 IT companies in Ukraine at 34.9% in August 2012 from August 2011, 17.9% in August 2013 from August 2012 (many blame the slowdown on the Yanukovich regime under which business owners and specialists saw no prospects in Ukraine and were slowly leaving the country), and 15.8% in July 2014 from August 2013, despite even the political turmoil and the war in the East. The number of new vacancies shrank 17% from August 2013 to July 2014, however.

The problem with outsourcing is that what resides of it in Ukraine is mostly salaries that local specialists spend on the domestic market and their experience (many experienced IT-professionals eventually leave Ukraine to work abroad). Most outsourcing service providers have their head offices in Western countries, so taxes and intellectual property rights remain there. This is somewhat similar to outsourcing in China. Most European and American product companies have their manufacturing and compilation facilities there, but brand value and image, added value of the product, as well as reputation rest with the Western brand owner, not the Chinese subcontractor.

Meanwhile, the domestic Ukrainian market is too underdeveloped. According to IDC, an analytical firm, IT services produced for it amounted to USD 320mn in 2013. The domestic market for IT services shrank 40-50%, while the outsourcing market grew 20-30% in 2014. This is partly due to a serious slack in demand or availability of funds to invest into customized solutions and software products in both private and public sectors in Ukraine. Meanwhile, when Ukraine does not implement it and other countries do, it loses

**Authors:**  
**Anna Korbut,**  
**Vasyl**  
**Zadvornyi**

competitiveness. "The IT industry is an important, independent economic factor as an 'enabler,' or driver of other sectors: As a cross-section technology, the IT industry has become indispensable, especially to Germany's showcase industry, the automotive sector," says Ralph Haupter, Board Chairman of Microsoft Deutschland, in an interview for International Trade News. According to Mr. Haupter, IT not only generates economic growth but can solve social problems by providing equal growth opportunities through individual education; improve the balance of work and private life by providing flexibility at work; simplify administrative processes, or offer better quality of healthcare. However, IT solutions and technologies should be used and promoted properly to achieve that, Mr. Haupter concludes.

Ukraine is seriously behind even its Eastern European and CIS neighbors in that respect, although the infrastructure of the future will largely be shaped by what countries currently invest into computers, mobile connection networks, internet-infrastructure and other communication channels. According to IDC, an analytical firm, IT spending per person is USD 53 in Ukraine compared to USD 90 in Belarus, USD 108 in Kazakhstan, USD 278 in Poland and USD 522 in the Czech Republic. Ukrainians will hardly start spending more on IT products unless the economy begins to grow again.

The developers of Skwibl, a tool for easy interactive communication between designers and their clients, completed a program at Eastlabs, a Kyiv-based accelerator, before heading to Australia seeking an international launchpad for their product through ANZ Innovyz START, an Australian accelerator. "Our participation in the program was extremely useful given how big and design and technology savvy the Australian market is," says Tetiana Protasova, member of the team behind Skwibl. The basic tool is free to use but extra tools will be available for a monthly subscription. For now, ▶



this would hardly be an option in Ukraine, a 40-plus million market, due to the lack of money or culture of intellectual product consumption.

The war, coupled with political and economic instability, is pushing outsourcing companies to relocate their offices to Ukraine's quieter neighbours on a massive scale, causing huge brain drain. "I think four people from my former team of five have left Ukraine in the past year," says Oleksiy, a long-time IT-specialist. "Two went to Poland, one to Germany, and one to Canada. They do not start their life from scratch in a foreign country: companies create comfortable living conditions for them from day one of emigration." Most of the people who leave are experienced specialists.

At the same time, many lament the declining qualification

of IT specialists in the past few years. When the "software rush" only began, it lured people with degrees in mathematics and similar fields. "Such specialists have well-fit thinking, logic and technical approach," Ihor Lushchyk, a developer at Datamart Llc, comments. "Today, many people come from completely different fields. This is not always good. They can do simple things from the beginning and numerous companies, especially outsourcing service providers, hire them." Eventually, however, they gain narrow skills, and that affects the quality of their work in the future. They will also hardly be able to create something innovative or unique. "That's why we are now seeing a slight slowdown in this. And it is likely to get worse," Ihor concludes.

Interactive Restaurant Technology developed by the Kyiv-based Kodisoft company at Ebony, a restaurant in Dubai

Ukrainian developers of Petcube are doing a crowdfunding campaign on Kickstarter to expand their project



Despite all this, outsource companies are extremely important for Ukraine: they create jobs and give people expertise, as well as a sense of stability.

### IN PURSUIT OF INNOVATIONS

Product-oriented startups are mushrooming in Ukraine but few become really successful. The ones that have managed to bring a new product to the market are mostly based in the United States and pay taxes there. Indeed, it is easier for a Western market-oriented startup to have its head office in the US or Germany than in Ukraine or Russia. This will continue until Ukraine's domestic or regional market becomes big and dynamic enough to offer attractive prospects to startups and products. Another critical factor that reveals actual progress in the industry and business is the number of R&D centers operating in a country. These require huge investment that does not necessarily pay off soon. Even if Ukraine has no spare money to invest into R&D, it can create an attractive climate for investors that can do that. Israel has a government program to encourage the opening of R&D centers through tax incentives, government guarantees and opportunities to promote innovations. In the United States, business representatives begin to search for their future talents in universities. They do so by funding R&D centers, giving grants to talented students, and holding annual conferences where potential tech-stars can meet with their future employers. The universities, in turn, are interested in inviting business professionals as lecturers: this adds to their prestige and increases the value of their education. In Ukraine, outsourcing companies are mostly luring talented professors from universities, leaving few enthusiasts to educate and motivate young geeks.

The ACC's Country Profile points at three main challenges for Ukraine's IT-industry this year: the war in the East, the deficit of qualified specialists, and corruption that scares off new investors. Eliminating the first one is difficult indeed. The other two, especially corruption, are only a matter of political will and strategic thinking. ■

# Doing IT in Ukraine



Author:

Emmy Gengler, co-founder at Softjourn

Ukrainian engineers have a good reputation all over the world for being creative, not afraid to give their opinion, not sitting back and waiting to be told what to do. Many international firms have established offices in Ukraine, and have helped spread the word about their experience in the country. Many Ukrainians, that left the country, have developed a reputation as excellent engineers and co-workers.

I have been working and investing in Ukraine for close to 19 years. Aside from this last year, with its own challenges, every location has its nuances for running a business, and many things have changed over the years. What I would like to see more of is increasing cooperation between the IT industry and the government by developing and making it more transparent in terms of taxes. Additionally, there should be more cooperation in terms of changes in education at the university level. The education base is excellent in Ukraine, and many universities have improved their computer science courses, but more improvements could be made across the entire system. Some of the options include adding more practical computer courses in the sought-after languages or the possibility for students to gain more credits for work experience in lieu of time spent in the classroom.

Many cities in Ukraine have excellent universities. A lot of graduates look for opportunities to grow their career in and around where their families are, where they went to school, etc. Ivano-Frankivsk, for instance, is one of the cities that provide excellent quality of life (Softjourn's development office is located in Ivano-Frankivsk while the head office is in California – Ed.). Companies that operate there can provide tech people with opportunities for growth.

Given the conflict in Eastern Ukraine, those tech companies which were located in the conflict area

have relocated to other cities. Service providers and development companies elsewhere are certainly staying put and are growing in their current cities. Many IT-companies working in Ukraine experienced growth in 2014, despite the challenging situation.

However, almost all IT-companies which are able to, are putting in place contingency plans for their company's operations and for that of their clients, which often includes opening offices in neighboring countries such as Poland, Bulgaria, etc. At the same time, this enables companies to grow as well as provide assurances that their operations can start up in another location more easily, if they end up in an office in Ukraine for some reason.

There are many software product companies in Ukraine that develop products for the local market, as well as the international one. Product companies have been around for years and it is also not unusual for a service provider to have their

## THE BASICS TO GROW THE ENTREPRENEURIAL ENVIRONMENT HAVE ALREADY STARTED IN UKRAINE

own products. Many entrepreneurs are generating a lot of ideas and developing their own web or mobile applications. These applications do not require a lot of capital to build, so the start-ups can self-fund their development to at least get them to a point of growth. Additionally, there are a number of private equity firms in Ukraine which open up capital to start-ups; the capital may come from Ukraine or international groups. Also, to help entrepreneurs refine their ideas into fundable ideas or to help them organize their idea in to a business which they can fund themselves and grow it, there are a number of organizations providing training, ongoing seminars, mentors, and weekly conferences. The basics to grow the entrepreneurial environment have already started and we can expect that all three pillars needed to grow startups - ideas, capital and support - will continue to expand in Ukraine. ■

# Oleksiy Skrypnyk: "All Ukrainian IT companies understand that outsourcing is not a panacea"

*The Ukrainian Week* spoke to Oleksiy Skrypnyk, Samopomich party MP and former Director General of ELEKS, one of the largest Ukrainian IT companies, about the role of the government in the development of IT industry, problems in the sector and the ability of Ukrainian companies to produce their own high-tech products

**W**hen we talk about IT in Ukraine, we mean mostly outsourcing, that is, working for foreign clients. However, if we look at China or India, a No1 country for outsourcing, we can see an interesting phenomenon: they have a very large domestic IT market, that is, the state and commercial companies commission a lot of IT products. In Ukraine, a rough estimate of the last year's profits in the sector was USD 2bn, of which the domestic market accounted for hundreds of millions of dollars. These were mainly government contracts, and 50% of their amounts were probably bribes. **In fact, Ukraine still had several companies that specialize in using IT sector for money laundering until recently.**

**The role of the state in developing the IT industry is a complex question.** I would divide it into several issues, because it conceals a whole layer of problems. Firstly, until recently, nobody paid attention to IT, so nothing hindered our development. Secondly, there was no domestic market as such to stimulate the sector. Thirdly, the government did not think at all about what to do with the IT industry.

**The best example among the European nations is probably Estonia.** This is the case when the state, realizing that IT may become a driver for its development, is doing two things at a time: firstly, developing the country, and secondly, developing the IT sector. The development of the

Interviewed  
by Olha  
Vorozhbit

domestic market, contracts and transparency are the most important things where the state could be helpful, because the preferences that existed earlier were good for nothing.

**If we look at the scope of the Ukrainian market for IT outsourcing, we can see that we have several important areas.** Primarily, it's service, often in the form of talent leasing, that is, when the brains of talented people are "leased out." Secondly, it's projects where companies bid in tenders, win projects, and do serious things. Thirdly, it's the development of unique products. For instance, in Ukraine there are already enough game studios that create serious games and content. Not many people know about them in Ukraine, but they are well-known abroad. There is also the freelance sector, which today operates in the shadows, so it is hard to make estimates in this area. By my count, it accounts for at least 30-50% of the official market. There's a rather large range of companies working for the international market. There is also a smaller amount of firms focused on the domestic Ukrainian market. Recently, many companies have become involved in military products, such as drones, weapons, and tablets. Anything that the Ukrainian army may need.

As for their interaction with the state, taxes, etc., most companies have employees registered as private entrepreneurs and working for them as freelancers de jure. Today, companies can pay about 40% as total tax per full-time employee (previously up to 58%). Private en-

trepreneurs pay 5% in tax, plus additional 3-5% for administrative costs. Any employer will thus opt for 5%. The government's task is to harmonize taxes to make it profitable for IT businesses to pay them. There are many areas where officially declared salary can be very beneficial. For example, this is what Georgia did during the crisis of 2008, when they substantially reduced taxes, which helped to drastically increase the flow of cash into the budget. Unfortunately, we don't have such mechanisms. It



takes courage to make radical steps that, in my opinion, would have increased significantly the level of tax revenues, at the same time improving the cooperation with the representatives of the IT industry.

**Another major Ukrainian problem is the lack of copyright and intellectual property protection.** That is why, when it comes to selling copyright, such deals are not governed by the Ukrainian law. People go either to Cyprus or to other countries just to abide by the English law. They understand that if a deal is not in the jurisdiction of Ukrainian courts, the agreements will be implemented.

However, **companies still have their residence here, because Ukraine has cheap, smart, and educated professionals.** This was a major incentive for a company having no capital at all at the beginning, like the one that I managed before being elected to the Parliament, to grow from two to a thousand employees. Unfortunately, the state has never helped me, but only interfered.

Today we can see, especially given the fact that we are in a war,

that customers are insecure, with many companies fleeing abroad. If we look at the situation with large companies, they have already opened offices in Poland, Bulgaria, and Romania. And, interestingly enough, local municipal authorities there are asking companies how they could help.

**I think we need to completely change the vector of cooperation: the state must understand that business is the crucial element of its development.** In fact, business is what contributes to the country's development, and the officials' function is not to "fleece" businesses, but to increase their numbers. This requires a paradigm change in psychology and thinking.

**I know for sure that when a company has money, it starts working on R&D.** At first, there were no funds available for such work, so IT companies in Ukraine were engaged in outsourcing. One has to make money first. Everyone understands that outsourcing is not a panacea. Everyone wants to develop products. There are many outsourcing companies that later switch to produc-

tion. For example, MagneticOne from Ternopil, which develops products to facilitate logistics and automation of daily operations, has also switched from outsourcing to production.

The Silicon Valley was built with the investment of the US Department of Defense and thanks to the first contracts obtained by Intel and Hewlett Packard. Later on, the

## WE NEED TO COMPLETELY CHANGE THE VECTOR OF COOPERATION: THE STATE MUST UNDERSTAND THAT BUSINESS IS THE CRUCIAL ELEMENT OF ITS DEVELOPMENT

big money came, people wanted to reinvest it somewhere. Google earned its first million from the state to do research on search engines at Stanford University. **The US authorities realize that when a private businessman uses even those products that were created with the help of the state, it is better for everyone.** They are not afraid of giving technology into private hands, realizing that it is much more efficient than giving it to the state. If we look at all the technology parks and all the developments in the world in this area, we have to talk not about IT, but about biotechnology. Whereas in IT sector all you need is a couple of programmers and computers, biotechnology requires a laboratory worth tens of millions of dollars that would pay back in 10-15 years. Such things are not possible without the support of the government who realize their importance. The Lviv cluster has been operating for a long time now. We have launched the best IT-management program in Eastern Europe, that is, no Skolkovo can offer anything similar to what we have in UCU. In this case, we successfully interact with the municipal authorities and the state, although this is not the kind of support that we could count on in the West. The state at the municipal level realized that by helping us, it is helping itself. **The state has to provide support, while companies have to cooperate with it. At the confluence of such cooperation, successful projects can be developed.** ■

### BIO

**Oleksiy Skrypnyk** is Member of Parliament of the 8th convocation for Samopomich party. Born in 1964 in Lviv, he graduated from the Electrical Energy Department of Lviv Polytechnic Institute (now Lviv Polytechnic National University) in 1986; since 2008, he was senior lecturer at the Institute of Computer Sciences and Information Technologies of the Lviv Polytechnic. In 1991, together with his father, he founded ELEKS LLC. Oleksiy Skrypnyk is a member of Ukrainian IT Association and a member of the Supervisory Board of Lviv IT-BPO Cluster Association



# Lilly, The Hetman's Daughter

Yelyzaveta Skoropadska in art, politics and charity in some of the most tragic years of Ukrainian history

Author:  
Tetyana Ostashko

**F**amily and friends called her Lilly. Ukrainians, who during the Second World War were forcibly taken to Germany by the Nazis, called her "our Liza" and "our Yelyzaveta." A talented sculptor, secretary and assistant to her father, Hetman of Ukraine Pavlo Skoropadsky, and the leader of the Ukrainian Hetmanite Movement, Yelyzaveta Kuzhim-Skoropadska is still little known to the general public in Ukraine. She considered herself to be Ukrainian, same as her older sister Maria and brother Danylo. However, her national sentiments, according to her sister Olena Ott-Skoropadska, were stronger: "My sister Lilly... considered everything that was not Ukrainian to be of little value."

The second daughter of Hetman Pavlo Skoropadsky, the Hetman of the Ukrainian State in the turbulent 1918, and Oleksandra Skoropadska (nee Durnovo), Yelyzaveta, was born on November 26, 1899 in St. Petersburg. She was named after her father's aunt Yelyzaveta Myloradovych, the principal founder of the Shevchenko Scientific Society and a well-known patron of the Ukrainian educational movement.

"Lilly once told me much later," her younger sister Olena Ott-Skoropadska recalled, "that she always, even as a child, consciously felt herself Ukrainian. When the family moved in the summer months to our Ukrainian estates in Poloshky and Trostyanets, she always perceived it as a kind of a homecom-



Hetman Pavlo Skoropadsky with his daughter Yelyzaveta in Wannsee, 1933

ing." Yelyzaveta kept the memories of her life at her great-grandfather's estate of Trostyanets, with its old trees and romantic stories, for the rest of her life "as a wonderful dream."

In fact, in Chernihiv neighborhood, the children of Skoropadskys family immersed in Ukrainian environment, simply and routinely communicated with village children, and later learned the language by reading Ukrainian books. Yelyzaveta Skoropadska began studying Ukrainian as a small child, before even learning to write. She later started a separate notebook, where she would write down words and phrases, and much later, in Berlin, she astonished a famous Ukrainian scientist Zenon Kuzel by her precise knowledge of Poltava region idioms. Yelyzaveta made good friends with village children, and in winter, while in St. Petersburg, she exchanged letters with a few peasant girls, of course, in Ukrainian.

"Once as a child, I read a book about Ukrainian Cossacks, unfortunately I can't remember now what it was," Yelyzaveta wrote in her memoirs. "From this book, I still have one picture kept in my memory. A Cossack spent a long time in jail. The enemies tortured, insulted and mocked him. Then one day, a man came to him from the enemy camp and promised to set him free, if only the Cossack said one word, that he forsakes his God and his homeland... But the Cossack refused..." Yelyzaveta admitted that this Cossack remained for her throughout her lifetime an example of the great heroism and chivalry of Ukrainians. "I often pray to God that He never puts me in such situation," she wrote. "I imagine the terrible burden that would carry the soul of a man who forsook even for an instant the holiest of all... Betrayal for me is something terrible and, conversely, loyalty is one of the highest qualities and signs of human dignity."

The subtle nature of Yelyzaveta Skoropadska sought fulfillment in philosophical ideas and artistic images. History has preserved for us only some of her memoirs and notes about the

world around her. Most of her personal archive was destroyed during the Second World War, but some of her memoirs and essays have survived. "The soul must be spacious, so that thoughts can whirl in it like a wind in an open field," she wrote in her memoirs in 1932. "People open windows in their houses to let in fresh air and sunshine. Similarly, the soul must be opened to air and sunshine, and it should have no sickly, closed places. For it is a poison to the soul that brings death."

Another vivid memory is related to her choice of profession. Since childhood, Yelyzaveta dreamt of becoming a sculptor. "When we were young and lived in our estate in Poloshky near the town of Glukhov, we went with great enthusiasm to watch clay mines near the village of Poloshky... I cannot forget how good it was to see girls sitting and breaking off lumps of clay. Even better was to hear them sing Ukrainian songs. They sang in several voices. Their songs and the white clay..." Hence the desire to embody images in clay. "...As a child, I liked to mold all sorts of shapes," Yelyzaveta Skoropadska wrote. "My mother often said that when I grow up, they would have to find a sculptor to teach me. She drew very well and was an art connoisseur. She had many good books on art, and my sister Maria and I often looked inside when we were small. Parents always told us that when we grow up, we would go to Italy to see for ourselves the great works of the old masters."

Yelyzaveta Skoropadska, after getting home education, graduated from the state high school for girls with a gold medal. She got her vocational training when she studied sculpture at the St. Petersburg Academy of Arts under Maria Dillon, and resumed her studies in Berlin and Florence under the famous engraver Federico Andreotti in 1925. Her very first pieces of art promised a great success. In Berlin, the young sculptor had many orders for portraits. Her works in plaster and bronze appeared in exhibitions, and the German press gave them a good critique, stressing in



Yelyzaveta Skoropadska at work in her studio. Wannsee, 1926

the review the artist's talent. Yelyzaveta made sculptures commissioned in the Netherlands and Finland.

### A LIFETIME PROJECT

But the true calling of Yelyzaveta Skoropadska was the service of her homeland. Her spontaneously formed Ukrainian identity was beneficially influenced by her acquaintance, during her last year at high school in the city of Orel, with a young teacher, who was a convinced Ukrainian. Under her influence, Yelyzaveta learned about the Ukrainian liberation movement, and started a

## YELYZAVETA HEADED A CHARITABLE ORGANIZATION, THE COMMITTEE FOR FAMINE RELIEF IN UKRAINE, IN 1929

serious study of the Ukrainian history. She later wrote: "Only the sense of the accomplished duty and clear conscience have a value. Probably it is easier to lay down one's life at the time of a great excitement, to rush in delight into a battle or into a fire, than to live a life without waiting for glory, with joy and without complaints, to bear the cross that we must bear in everyday life." It is easy to see that these words were addressed to her father, Hetman Pavlo Skoropadsky. ▶

In her memoirs of the years 1917-1918, Yelyzaveta writes that for her family, the election of her father as the Hetman of Ukraine came as a great surprise. "During the revolution, we lived in St. Petersburg, and for a long time we did not hear anything from the father," she recalls. "There were no letters for several months. On Good Friday before Easter 1918, at the Gostiny Dvor there was a crowd and newsboys shouted the news. We heard something about a coup, Kyiv, some names, something about Skoropadsky. But we were so far from thinking about a coup associated with the father that we paid no attention... The next day, we actually read about Skoropadsky's coup, and were terribly surprised and worried... We bought all the magazines we could find, and all accounts were different, the details were controversial, but there was no longer doubt that a coup really took place. But no one knew what happened in reality..."

"The beginning of her father's Hetmanate in 1918 became a decisive event in Lilly's life," Olena Ott-Skoropadska recalled. "Her dear, adored father was the Hetman of Ukraine! She was full of romantic ideas – she was then 18 years old – and she saw in him the embodiment of her ideals." According to her sister, Yelyzaveta "happily jumped on the general mood of enthusiasm prevalent in Ukraine at that time to build a new Ukrainian Hetman state. The glorious past of the ancient times and the old hetmans again came alive for her in her father's person. Young and older gentlemen from her father's entourage admired Lilly: a young and beautiful Hetman's daughter and, besides, a true Ukrainian patriot. Lilly, from the beginning, became for the Hetman's supporters a kind of an icon and, in any case, the most beloved member of our family."

The fall of the Hetmanate in 1918 was perceived by Yelyzaveta as a personal catastrophe. Her family noticed that she looked detached and dry. But her ostentatious inner loneliness disappeared completely at Ukrainian festivals that took place in the Skoropadskys family or at the official Ukrainian events in Berlin, where Yelyzaveta could show her real charms. In ev-



Yelyzaveta Skoropadska. Villa La Bruyère boarding school. Lausanne, 1920

eryday life, though, she was very modest, "as a thin gray mouse." According to her younger sister Olena, "she did not give any importance to dresses." Usually, she wore skirts sewn with her own hands and knitted pullovers.

Yelyzaveta, with her "delicate features and Madonna-like hair", Olena recalls, was considered "the beauty of the family." In fact, she took after her mother, who was usually kind and restrained, all loved for her tender-



**YELYZAVETA SKOROPADSKA:  
"ONLY THE SENSE OF THE  
ACCOMPLISHED DUTY  
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A VALUE"**

ness. At the same time, Lilly felt herself to be a privileged daughter, since she was the only child to inherit her father's gray eyes, and sometimes he gently called her "my gray-eyed girl."

Yelyzaveta started to take part in her father's activities in

1928, after her brother Danylo graduated from the Higher Technical Institute of Berlin and started working as an engineer. Lilly took over the work that was previously done by her brother, primarily, the Hetman's personal correspondence. Besides, she assisted him with the publication of political articles, some of which were printed in Skoropadskys' apartment on a handpress. At that time, by her own admission, she was really happy, since she worked for the Ukrainian cause, for which she had a "real inclination."

From 1923, she worked at the Ukrainian Red Cross Assistance, which was also called the Ukrainian Refugee Assistance and was headed by her mother, Oleksandra Skoropadska. The main purpose of the organization was to assist the refugees who kept arriving in Germany. In 1929, Yelyzaveta headed a charitable organization, the Committee for Famine Relief in Ukraine. The Committee deliberately restricted its functions to material assistance to the starving, trying to provide to the whole of Ukraine. "Immediate material aid to the starving in the USSR is only possible if we completely separate the relief campaign from any political activity," a statement of the Hetman's government said. Yelyzaveta organized extensive correspondence, trying to involve more people in raising funds to help Ukrainians before and during the famine of 1932-1933. The fact that these charitable organizations were headed by the ladies from the Hetman's family encouraged women to take part in the Ukrainian charitable movement.

**TRIAL OF WAR**

During the Soviet-German war, the Hetman's daughter Yelyzaveta took care of the Ukrainian women deported to Germany for forced labor, visited their camps and tried to provide them with food and clothing. At the same time, Hetman Pavlo Skoropadsky tried to improve their living conditions, using his connections in German political circles. A close friend of Yelyzaveta, a well-known historian Natalya Polonska-Vasylenko, who during the Second World War moved

from Ukraine to Germany with her husband and escaped Soviet claws, wrote: "Our Liza" and "our Lyzaveta" is what the girls from Ukraine called her, and they waited for her visit as if it were a great holiday. They were so surprised to learn who she was... The fate of most of them was dark and terrible: they had to wash away their unwitting guilt of finding themselves in Germany in remote camps of Siberia... There they took with them the memory of "their Liza" as a ray of light that shined to them during their hard forced labor.

In 1945, on the eve of the Soviet troops' attack on Berlin, Yelyzaveta, along with her father, moved to Oberstdorf, where her mother Oleksandra already lived at that time, with her sister Maria and brother Petro. Yelyzaveta was the only witness to the tragic death of Pavlo Skoropadsky on April 26, 1945 due to a serious injury obtained during an air raid. After a long search for a Ukrainian priest, she managed to find a Greek Catholic confessor (Father Hryhoriy Onufriv), who held a service over the body of the Hetman in Bavaria, which had already been occupied by the Americans.

Later in her memoirs, recounting the hard circumstances of Pavlo Skoropadsky's funeral during the harsh times of war, his daughter Yelyzaveta recalled: "Who could have thought that my father, one of the greatest Ukrainian patriots, would be buried like this? Everything was so unfriendly, alien, and hopeless. Yet in those harsh times I had some comfort, and my heart became lighter. At the last minute, when the coffin was brought, a priest was found. I had a feeling that it was God Himself who sent him. Although he was not an Orthodox priest, he was a Ukrainian. I had a feeling that my father and I were not disengaged from Ukraine, and would never lose touch with it, no matter what happens. It was as if Father Onufriv expressed the sympathies and condolences of the Ukrainian people."

Later Yelyzaveta recalled that "all the work of my father in exile was focused on maintaining, developing and implementing,

when time comes, the idea of the great independent Ukrainian state." Her thoughts are the most convincing manifestation of the deep national feelings that the Hetman instilled in his daughter and the rest of the family. At the same time, they are an irrefutable proof of the falsity of Pavlo Skoropadsky's accusations of "being Russian," since they demonstrate that he was among the most prominent figures of patriotic statesmen in the modern Ukrainian history.

"When I think of my father, what I value the most is what he did in exile," wrote Yelyzaveta in 1945. "Some would say that it was a heroic act to go to St. Sofia Square in 1918 and to consciously take the burden of power and responsibility. This is true, but I would say that even more heroism, willpower and patience were required in order to not lose courage in exile and to keep the Ukrainian cause in clean hands."

Yelyzaveta Skoropadska-Kuzhim and historian Natalya Polonska-Vasylenko. Darmstadt, 1954



## AT THE HEAD OF THE HETMANITE MOVEMENT

From June 1945, Yelyzaveta Skoropadska resided in Oberstdorf. She was actively involved in political activities, contributed to the development of the Hetmanite movement among Ukrainian immigrants in Germany, and earned significant popularity in this path. In 1949, she married Vasyl Kuzhima, one of the active leaders of the United Hetman Organization and an ally to Hetman Pavlo Skoropadsky, who was close to his family. Lawyer by profession, in 1918 he was appointed Ukrainian consul in the Caucasus. After the establishment of the Bolsheviks regime in Ukraine, Vasyl Kuzhim immigrated to Germany. In Berlin, among Ukrainian émigrés, he was a welcome and respected figure. Along with Ivan Mirchuk, Dmytro Doroshenko, Oleksandr Skoropys-Yoltukhovsky and Volodymyr Korostovets, he belonged to the circle of political figures who often visited the Skoropadskys family in Wannsee.

The marriage of Yelyzaveta Skoropadsky, which lasted for only nine years, was a happy one. Besides the fact that she and Kuzhim were kindred spirits and found solace in Ukrainian social and political life, both loved to work. Vasyl performed accounting orders for German firms, while Yelyzaveta embroidered national ornaments on blouses for a Hungarian company. In summer, the couple traveled to the mountains and gathered berries and mushrooms, which they supplied to the best hotel in Oberstdorf.

In February 1959, after the death of her older sister Maria Skoropadska-Montrezor, according to the "Acts of heirdom of the Hetman power and the order of succession in our family based on the principle of seniority," Yelyzaveta Skoropadska took over the leadership of the Ukrainian monarchist United Hetman Organization. At the end of her life, she gave Skoropadskys' family archive, which was kept in her private quarters, to the Lypynsky East European Research Institute in Philadelphia (USA).

Yelyzaveta Skoropadska-Kuzhim died on February 16, 1976 in Oberstdorf (Bavaria). ■

**March 12 – 20**

**Francophonie Week**  
 Dnipropetrovsk, Zaporizhia, Kyiv,  
 Lviv, Odesa, Rivne, Kharkiv

The purpose of this international festival is to promote the French language as a language of communication, democratic values and human rights, as well as to popularize cultural diversity. A range of events will be taking place in seven cities of Ukraine. One of them is the exhibition of works by French caricaturist GABS who transforms the spontaneous ideas that occur to him when reading poetry into illustrations. Other events include the screening of films in French and a roundtable on "Multilingualism. The experience of the French-speaking world" that will involve international experts. The music part features the Swiss oratorio *Jeanne d'Arc au bûcher* (Joan of Arc at the Stake), which will be performed at the National Opera House in Kyiv.



**March 18 – May 31**

**The Space: Time Machine**  
 Atmosfera 360  
 (57/3, vul. V. Vasylkivska, Kyiv)

This huge project dedicated to the 50<sup>th</sup> anniversary of man's first venture into space, will allow everyone interested to see how it happened. Hundreds of rare objects that show the early days of the space age in progress will send you travelling into the past. Visitors can join the journey through key events and discover some of the most famous people in the science of space travel. The programme includes numerous film screenings, lectures, meetings with scientists and astronauts, excursions, workshops, premiers of spherical 3D films, and many more interesting things to discover.



**March 21, 7 p.m.**

**DakhaBrakha**  
 Kyiv Polytechnic Institute Palace  
 of Arts  
 (37, Prospect Peremohy, Kyiv)

The Kyiv-based world-music band widely known by the lovers of modern Ukrainian tunes will once again groove and melt the hearts of its fans with a magical blend of Ukrainian singing and Oriental rhythms. From the day it was founded in 2004 and to this day, the band continues its search for new folk motifs, travelling through the various regions of Ukraine. The authentic style of their singing and performance is framed with original sounds of Indian tabla drums, a Buddhist gong, maracas and other instruments. This blend is widely recognized as DakhaBrakha's go-to sound.



**March 21 – 22, 10 a.m.**

**Kyiv Food & Wine Festival: wine and poetry**  
 Lavra Gallery  
 (1, vul. Lavrska, Kyiv)

Kyiv will shortly host the second Kyiv Food & Wine Festival, which promises to be as successful as the first one. This year's event includes five zones, featuring various activities and events: a wine fair, a food market, the main stage, a lecture zone and a relaxation area. Visitors will have the opportunity to taste various kinds of wine, cheeses and other delicacies, learn more about wine making and simply take pleasure in a nice atmosphere and communication. All of this will take place on a background of soothing music performed by Ukrainian musicians.



**3 April, 7 p.m.**

**Lviv Jazz Orchestra. Jazz legends**  
 Kyiv Polytechnic Institute Palace  
 of Arts  
 (37, Prospect Peremohy, Kyiv)

Lviv jazz is a tandem of 45 musicians, who love experiment, and are praised for their professionalism and virtuoso performance. As part of the Lviv Jazz Orchestra, the performers travel from one jazz festival to another, gaining more and more fans. Their dynamic and unique jazz is imbued with the best traditions of the Duke Ellington, Count Basie and Glenn Miller orchestras, as well as of other legends of swing. This time, the



jazzmen will perform the greatest hits of Frank Sinatra, Louis Armstrong and Bobby Darin.

**April 16, 8 p.m.**

**Pianoboy**  
 Atlas (Yuništ)  
 (37-41, vul. Artema, Kyiv)

Joyful news for the fans of Dmytro Shurov, ex-pianist for Okean Elzy, Esthetic Education and Zemfira. He will shortly be playing as Pianoboy, his solo project, in Kyiv. Dmytro has long been working on it, and the project is gaining greater popularity year after year. Pianoboy's pieces, with lyrics written in Russian and English, are largely his own work, filled with sincerity and authenticity. The most common result of this is packed audiences and fans looking forward to more new shows.





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