

The Ukrainian Week

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Mainstream and opposition
political forces, their ambitions

Ministers of finance and
agriculture on taxes and land

Ukrainian Muslims
in the war

LAND AND BUSINESS



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www.ukrainianweek.com

Tel. (044) 351-13-00

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ТИЖДЕНЬ





BRIEFING

Storm clouds ahead for allies

Bohdan Butkevych

The low poll numbers of the current ruling duumvirate and the rather uncertain political backdrop have provoked a surge of ambition in their members. It is as yet concealed, but no less strong despite that. *The Ukrainian Week* looks at what the current party allies could transform into and which social forces they can rely on.

If we look at the Petro Poroshenko Bloc (PPB) in terms of the business circles that support it, the first thing that comes to mind is large Ukrainian monopolies, especially in agriculture, light industry, food processing, machine building and property development. There is no doubt that the owners of these businesses, including Yuriy Kosiuk, Oleksiy Vadaturskyi, Roman Matsola and Lev Partskhaladze, among others, will be right behind current President Petro Poroshenko until the bitter end. Mentally he originates from the same surroundings of more or less pro-Ukrainian business that gained its power less through its owners' outstanding managerial abilities than their proximity to government and almost unlimited access to the state budget.

PHOTO UNIAN

This business will need political "protection" under any circumstances. If the PPB starts to lose its footing, there is no doubt that their ambition and rudimentary desire to survive in their respective industries will be sufficient for a new political project. Or a change in the leadership of one that already exists. There is no doubt that Premier Volodymyr Hroisman has considerable political ambitions that go beyond being his current premiership on a short leash. If such an opportunity arises, he will do everything in his power to become the leader of a party. Either in the form of the PPB or any new party to replace it.

Another politician to look at is Yuriy Lutsenko, who now as Prosecutor General seems to have been given carte blanche to lock up corrupt officials – especially those who are unable to come to an arrangement with him – and who must have drawn the appropriate conclusions from his disastrous spell as Interior Minister under President Viktor Yushchenko. In addition, he has truly become both intellectually and emotionally stronger following his two-years in prison. Needless to say, he dreams of being selected by Poroshenko as a successor. Since Ukraine is nothing like Russia, a direct transfer of power is obviously out of the question. It would rather be the case that President Poroshenko officially endorses Lutsenko's candidacy. For example, after his own probable second term in office. Or even instead of himself, if the political situation in 2020 is completely unfavourable for him. A closer look at the current power structure makes one assume that Yuriy Lutsenko is the



THE LOW POLL NUMBERS OF THE CURRENT RULING DUUMVIRATE AND THE UNCERTAIN POLITICAL BACKDROP HAVE PROVOKED A SURGE OF AMBITION IN THEIR MEMBERS. IT IS AS YET CONCEALED, BUT NO LESS STRONG DESPITE THAT

only man capable of – if the situation so requires – maybe not competing with, but at least replacing Poroshenko in some way. The bottom line is that he clearly has such plans, although he is careful to refute these ambitions in interviews. As shown by the example of Poroshenko himself, who never spoke about his political plans either, such behaviour is the most effective. Those who shout about their political dreams rarely fulfil them, as all their opponents know in advance how to counteract them and who to attack.

Currently, no figures of equal ranking to the aforementioned are in evidence in the political or business stables. Borys Lozhky, Poroshenko's Chief of Staff until recently, is clearly not inclined, at least for now, towards a political future of his own. On the contrary, it seems that that he has taken great pleasure in returning to business. Vitaliy Kovalchuk, a founder of Klitschko's UDAR party and now an important figure on Poroshenko's circle, is a functionary who feels more comfortable in the role of "grey cardinal". Vitaliy Klitschko, who used to be the highest-rated presidential candidate out of the "Maidan opposition trinity", obviously regrets his decision to merge UDAR with the PPB, but now his hands are well and truly tied by his mayoral post in the capital.

Ex-premier Arseniy Yatseniuk also tries to stay noticeable after becoming a scapegoat (whether he fully

deserves this or not is another matter) for all the negative reactions to the economic decline of the past two years. The party he leads, People's Front, has plummeted in terms of public support and did not even run in the latest local elections. Yatseniuk retired into the shadow after his resignation for six months, but made a bright and emotional comeback with a speech this September at the Victor Pinchuk-sponsored YES forum which moved to Kyiv after the annexation of Crimea. He certainly does not see his current status of merely head of the People's Front as a normalcy for himself. And he will definitely attempt to storm the power Olympus once again. Therefore, his Yalta speech is yet another reminder of his political ambitions that have not faded. Whether his political ambitions will be realized hand in hand with the People's Front is an open question. So is the future funding for the project. By and large, apart from its long-time heavyweights Mykola Martynenko and Andriy Ivanchuk, there are no significant national-level businessmen in what can be treated as the patriotic-Euro-Atlantic party in the PF. Therefore, the party's resources directly rely on the proximity to power.

The influence of Oleksandr Turchynov who was, for a few months in 2014, Acting President, has plummeted as well. Contrary to Yatseniuk's case, however, Turchynov's loss of image has not been so dramatic. Moreover, he has gained the reputation of a decisive political with strong willpower. Ever since Turchynov acted as President in the role of the Verkhovna Rada Speaker right after the Maidan, his closet has become far more crowded with skeletons: the loss of Crimea, the start of war in the Donbas. Still, Turchynov has significant political capital. His current position as Head of the National Security and Defence Council is probably not enough to fit his power ambitions. Moreover, Turchynov has spent most of his political career in secondary roles at Yulia Tymoshenko's Batkivshchyna. Therefore, it only makes sense to expect that he could start a political game of his own. However, Turchynov's plans remain a mystery – all claims that this politician would like to take over Arsen Avakov's role as Interior Minister following a reshuffle were met with a categorical, although not very fiery, denial. After all, Turchynov is truly in an interesting situation: either de facto or de jure, he has managed to hold all of the highest positions in the country. It would seem that all the peaks have already been conquered. However, there is no doubt that his job in the National Security and Defence Council is not forever.

Speaking of concealed political ambitions in this faction, we must mention the People Front's Andriy Parubiy first of all. He already holds one of the highest posts in the state hierarchy – Speaker of the Verkhovna Rada. However, this will not stop him. A new generation of ambitious politicians is forming within the PF too. In particular, they are united under the banner of NGO Free People – Andriy Levus, Serhiy Vysotskyi and others.

Current Interior Minister Arsen Avakov, a representative of the People's Front, is rated among the three leaders in power by influence, yet that does not keep him from seeking more. This ambition refers less to political leadership and more to offices in the executive branch. In fact, the only office higher than his current position can be that of the Prime Minister. After his de facto omnipotent control over the law enforcement system, Avakov will hardly agree to anything less. ■

In a narrow niche

Andriy Holub

What the self-proclaimed democratic opposition to the current government wants and can achieve

The major “opposition” group includes Yulia Tymoshenko’s Batkivshchyna (Fatherland) and Oleh Liashko’s Radical Party. Since both parties are built around the cult of the leader, their party lines often oscillate depending on the leader’s moods and ambitions. Both leaders were once part of the same pool. But Liashko abandoned his meteoric career in Batkivshchyna after an erotic-tinted scandal. His expulsion helped him reveal not only his acting skills, but also managerial talents. Originally presenting himself as a flamboyant “truth seeker for the people”, he first became a laughing stock in the media, amongst experts and even colleagues, but with time he proved to be the one having the last laugh.

Liashko now leads a 20-strong parliamentary faction that has good chances of increasing its representation in case of a reelection. Polls confirm the party’s ranking at about 10%. Today, however, Liashko is facing a difficult choice. His party’s ranking has apparently reached its ceiling now. If he now sits on the laurels now, that would point to a parallel with the political fate of Russia’s political showman Vladimir Zhirinovskiy. He has held his ground for decades, but for that he has always been in secondary roles and renounced his own ambitions. To realize those, all he had to do was adjust his carefully elaborated persona.

If Liashko aspires for any management positions, he will have to change not only himself, but also his close circle of politicians with rather checkered reputations. If, however, he only strives to stay in his tried and tested comfort zone, he will encounter another serious obstacle in the face of Batkivshchyna.

Tymoshenko has her own challenges now, even though her story is very similar to Liashko’s. After Tymoshenko lost to Petro Poroshenko by a 40% margin in the latest presidential election, many wrote her off from serious politics. In the general election Batkivshchyna performed even poorer, hardly hitting the 5% threshold, and even this possible by putting many civic activists and Nadia Savchenko on the party list. During the campaign, Tymoshenko tried to with-

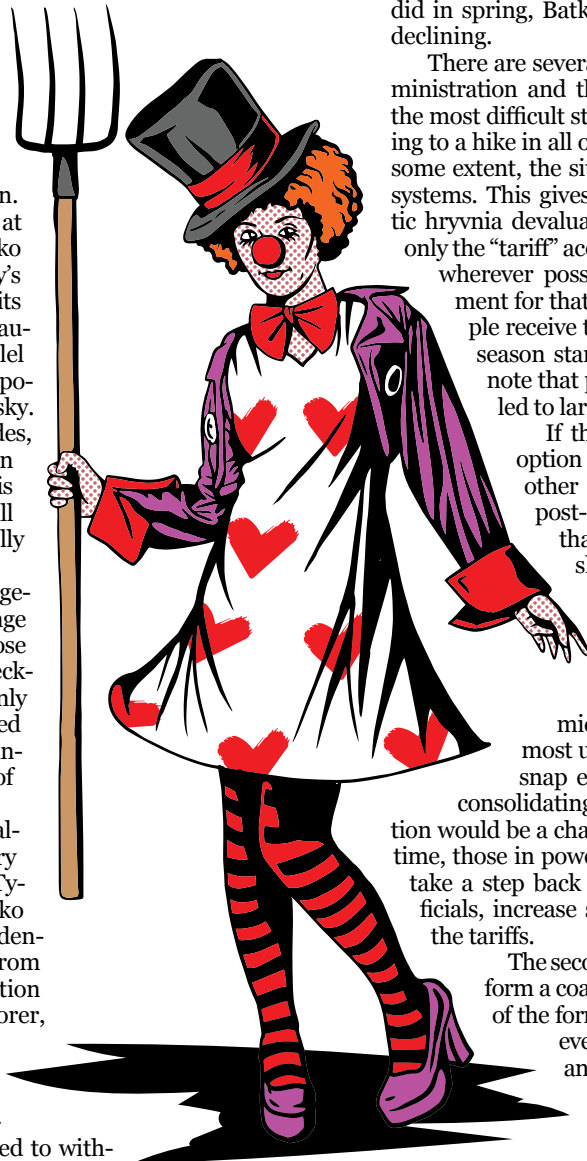
draw into the shadows, even contenting herself with the second place in her own party list (Savchenko was formally No1).

Today, however, pollsters believe Batkivshchyna to be the leader of popular preferences, ranking around 15–20%. If Ukraine had a snap parliamentary election, the party is seen as the main beneficiary. Yet, Tymoshenko’s persistent push for early election is a sign that her ranking, like Liashko’s, has reached the peak, and they can only increase it further at each other’s account. This significantly limits Tymoshenko’s options. If the power brokers manage to keep their positions, as they did in spring, Batkivshchyna’s peak ranking will start declining.

There are several reasons for that. Poroshenko’s Administration and the Government have already made the most difficult step (raised household gas prices leading to a hike in all other tariffs). They have stabilized, to some extent, the situation in the banking and financial systems. This gives reason not to expect another drastic hryvnia devaluation. This leaves Tymoshenko with only the “tariff” ace up her sleeve, which she tries to use wherever possible. The most convenient environment for that could come in November when people receive their swelled utility bills (the heating season starts in October). Still, social analysts note that purely economic protests have never led to large-scale social unrest in Ukraine.

If the tariff thing doesn’t fly, one other option is to join forces with Liashko and other opposition forces from within the post-Maidan camp. Batkivshchyna tried that in summer but was given the cold shower. At that point, Liashko’s party, encouraged by their good rates, proclaimed themselves to be an independent political force that is only ready to consider “offers to join the Radical Party.” Samopomich, whose ranking has remained almost unchanged since 2014, is also against snap elections. Under such circumstances, consolidating herself as the leader of the opposition would be a challenge for Tymoshenko. At the same time, those in power now in case of trouble can always take a step back and sacrifice some of the minor officials, increase subsidies once again, or even lower the tariffs.

The second option for Yulia Tymoshenko is to form a coalition with the Opposition Bloc made of the former Party of Regions members. However, none of the two camps will make any public arrangements, while cooperation agreements between party headquarters will not necessarily bring immediate tangible results. ■



New Donetskites

Denys Kazanskyi

How generations shift in the electoral field of the former Party of Regions clans

The word "Donetskite" took on a negative meaning in Ukraine as the Donetsk clan led by former Donetsk Oblast Administration head Viktor Yanukovich became stronger and started to aspire to power. Over the years, this negativity only accumulated, and by the end of 2013 the adjective "Donetskite" (not to be confused with a "resident of Donetsk") was almost a swear word.

However, since the start of the war in the Donbas, the word, strangely enough, has almost disappeared from use. It lost its relevance as Donbas natives lost their power and fled Ukraine en masse. A different, previously unknown word – "separ" [separatist] – replaced it.

So have those whom we called Donetskites really disappeared? Indeed, after the crushing defeat of the Yanukovich clan and the start of the war in the Donbas, the authority of people from the region plummeted. But they did not go anywhere, only retreating into the shadows for a short time before starting a new march on Kyiv. Although Ukraine does not control Donetsk and Luhansk at present, the Donetskites have stayed put and still play an important role in political life.

As before, the richest citizen of Ukraine is Donetsk oligarch Rinat Akhmetov. The Opposition Bloc (OB) faction in parliament is financed by him and contains people loyal to him. The co-leader of the OB, by the way, is Akhmetov's long-time partner Borys Kolesnikov, also one of the wealthiest Ukrainians, who still has a business in occupied Donetsk. Veterans of the "Donetsk Movement", such as Yukhym Zviatkovskiy, and the Luhansk clans of Nataliya Korolevska, Minister of Social Policy under Yanukovich, and Yuriy Boiko, ex-Minister of Energy under Yanukovich, are also present in the party.

Today, these people are actively thinking through their plans for a return to power. And, admittedly, they are doing everything right. At the very least, Opposition Bloc poll numbers are rising.

However, leading roles in today's Ukraine are being occupied not by veterans of the Party of Regions, but by a new wave of Donetskites. Relatively young, as far as politicians go, they are people from the Donbas that previously played bit parts or were totally obscure. They are currently rapidly gaining strength and influence, and under certain circumstances will even be able to force out their older counterparts in the future.

The new Donetskites are usually not associated with the Opposition Bloc and represent the new political forces that emerged after the 2014 revolution. A classic example of the new Donbass generation is 40-year-old Vitaliy Khomutynnyk, who Ukrainian journalists call the "rising star of the Ukrainian oligarchy".

Just recently, several investigations devoted to Khomutynnyk have appeared in the media. Each of them

recorded a sharp increase in the MP's influence and revenue since the triumph of the Maidan. Vitaliy Khomutynnyk hails from Makiyivka, Donetsk Oblast. He became leader of the Party of Regions youth organisation in 2001 and was first elected to parliament in 2002. At that time, Khomutynnyk was only 26 years old and remained in the shadow of his elder and more influential colleagues. His name was almost unknown in Ukraine.

However, Khomutynnyk's influence grew over the years. After the collapse of the Party of Regions (PoR), where the MP carved out a career for himself, it increased even further. In 2014, the Makiyivka native put himself up for election in a majority constituency of Kharkiv Oblast and won. In the opinion of local journalists, he was able to achieve such a result thanks to the support of Kharkiv Mayor Hennadiy Kernes, who moved to new party Vidrodzhennia (Renaissance) after the collapse of the PoR and led it to victory at local elections in 2015. In this party, a leading role is played by Vitaliy Khomutynnyk himself, who is a member of its political council and leads the parliamentary group of the same name. It is known to be associated with oligarch Ihor Kolomoiskyi.



IF LUHANSK AND DONETSK ARE NOT REINTEGRATED INTO UKRAINE IN THE NEAR FUTURE, THE DONETSK-LUHANSK CLANS WILL FINALLY LOSE THEIR FORMER MIGHT AND WILL NO LONGER BE ABLE TO LAY CLAIM TO POWER

In 2014, Khomutynnyk officially declared an income of US \$293 million. Despite the fact that he has been an MP for the last 14 years. In addition to these millions, he also has a yacht and a private jet, as journalist Khrystyna Berdyskykh discovered not too long ago.

This sudden prosperity came to Khomutynnyk for good reason. When the Donetsk clan lost power, the young "Regional" made friends with Ihor Kolomoiskyi. Today, Khomutynnyk is in business with the oligarch. In addition, the man from Makiyivka is most likely involved in customs fraud. Recently, journalists managed to photograph the screen of his phone, which showed messages to another of Kolomoiskyi's men – ex-Governor of Odesa Oblast Ihor Palytsia. They mentioned suitable amounts for bribes.

New Donetskites have also appeared in the president's orbit. In the Petro Poroshenko Bloc (PPB) faction today, there are several former "Regionals" from Donetsk Oblast. The most odious is Oleh Nedava, who has been linked to crime boss Yura Yenakiyivskiy (Yuriy Ivaniushchenko). Interestingly, Nedava is a ma-

jority constituency MP elected in a constituency not controlled by Ukraine. At the elections, he represented Vuhlehirsk, now captured by the militants.

According to numerous sources, Nedava continues to represent the interests of tycoon Yuriy Ivaniushchenko in Ukraine. Recently, People's Front MP Tatyana Chornovol stated to journalists that Nedava is helping Ivaniushchenko to retain control over the 7th Kilometre Market in Odesa.

Another influential "Regional" in the past and now a member of the PPB is Kramatorsk resident Maksym Yefimov, former deputy on Kramatorsk City Council. At the 2014 elections, Yefimov was victorious in the first-past-the-post Kramatorsk constituency. Then he joined the PPB parliamentary group. Curiously, despite remaining a member of that faction, he is essentially in charge of another party in Kramatorsk – Nash Krai (Our Land). The latter is mainly composed of former PoR members, but is controlled by the Presidential Administration. Poroshenko is trying in this way to pick up some of the former PoR electorate. And local elections in 2015 showed that Our Land did indeed manage to steal away some support from the Opposition Bloc.

This summer, another representative of Our Land, Stakhanov native Serhiy Shakhov, won a by-election in Luhansk Oblast. However, he only managed to do this thanks to massive electoral fraud. Almost all Ukrainian media outlets wrote about the numerous violations in majority constituency 114, but the Central Election Commission turned a blind eye, as tradition demands.

Shakhov's patron in parliament is his old friend Artur Herasymov, who is close to Poroshenko. In 2012, Herasymov attempted to be elected in one of the majority constituencies in Horlivka, where he positioned himself as a member of "Shakhov's team". Shakhov himself ran in Luhansk Oblast. Both lost to representatives of the Party of Regions, who it was virtually impossible to compete with at the time. However, a few years ago the finest hour of "Shakhov's team" came after all.

Things are not so rosy for those who it is now customary to consider fresh-faced Donetskites. For some time, young Yevhen Murayev from Kharkiv, who began to gain popularity after Yanukovych's downfall, was seen as the new figurehead and rising star of the former "Regionals". Nevertheless, after a while he left the Opposition Bloc faction and announced the creation of a new party project alongside another ex-Regional Vadym Rabinovych.

Obviously, in the future a phenomenon like an entire party of people from the Donbas will have no chance of success in Ukraine and will once and for all become a thing of the past. Today, we can already observe how the natives of Eastern regions are dispersing into various parties and projects. Moreover, if Luhansk and Donetsk are not reintegrated into Ukraine in the near future, the Donetsk-Luhansk clans will finally lose their former might and will no longer be able to lay claim to power. ■



Rent seeking on land

Oleksandr Kramar

How the status of land in Ukraine affects its owners and big agribusinesses



Uneven playing field. The lack of the land market deprives land plot owners of access to bank loans for machinery, seeds or fertilizers. They thus become uncompetitive compared to big agribusinesses

The issue of the land reform, especially of lifting the moratorium on the sale of farmland, remains one of the fetishes of Ukrainian political life. Politicians and experts reiterate the threat of land being "bought up dirt-cheap" from farmers in case the moratorium on its sale is lifted. However, in reality, for the second decade in the row the moratorium has served the interests of big agribusinesses: their owners can appropriate the lion's share of land income, while the real owners of the plots get next to nothing.

The lack of the land market puts the owners of land plots on uneven playing field compared to agricultural firms in terms of access to bank loans for machinery, seeds, or fertilizers. The farmers, who own the plots, cannot take a loan secured by land, and therefore usually cannot get the money necessary to cultivate it properly on their own. They also have no chance to sell their plots due to the moratorium. That leaves

them with the only option: to lease out the land on discriminatory terms to big agricultural firms, which are usually monopolists on the land lease market in some areas. Otherwise, if farmland stays idle for a long time, the plot owner may lose the right to it through the misuse of land.

The data of the State Statistics Bureau's Bulletin "Basic Economic Indicators of Agricultural Production by Agribusinesses" indicate that out of the overall costs incurred by agricultural companies for crop production (the total of UAH 156bn in 2015), only UAH 18.24bn was spent on the lease of land plots. The same year, the net income of profitable agribusinesses involved only in crop farming, amounted to UAH 109.4bn. In this way, out of UAH 127.7bn of income earned from the cultivation of Ukrainian land, its owners received only 14.3%, while 85.7% went to the holders of leasing rights — large agricultural companies.

UNREGULATED MARKET OF LAND LEASE RIGHTS

The right to lease today costs much more than the rent fee itself. This is not normal and suggests that the money is being plundered from peasants — the land owners. Land lease rights are assigned through the sale of corporate rights (i.e. the sale of the company that holds the lease rights under the relevant contract). The situation is so favorable of agribusinesses that for the last 15 years they have been actively opposing the introduction of the land market, which could undermine their monopoly and make them pay several times more to the owners of land plots. As is traditionally the case in many other areas of life in Ukraine, their own money-focused interests were covered by the pumping up of phobias amongst farmers and the population in general, as well as by lobbying the delay of the land reform at the legislative and executive branches, on the level of institutional capacity building and the launch of necessary instruments, especially the single state electronic land registry, in full scope.

As a result, the changes that could have been accomplished within three to five years, if such was the will of the lobby and elites, have never been realized till this day. Recent comments of officials in charge suggest that they are unlikely to become reality even by 2019–2020.

Truth be said, there has been some progress in terms of the land register. In 2013, its electronic version was launched. In 2015 users obtained access the e-database of land plot owners, the Public Cadastre Map.

This gives a number of benefits: one can find how accurate the information about a given land plot is; use the feedback function to enquire about inaccuracies. This year, the State Land Committee developed software to automatically exchange information on land plots between itself and the Ministry of Justice. With the human factor extracted, the process could become more accurate and less vulnerable to corruption. Also, disclosure of 100% of orders on management of lands has been introduced at the Public Cadastre Map to enable full public control over it.

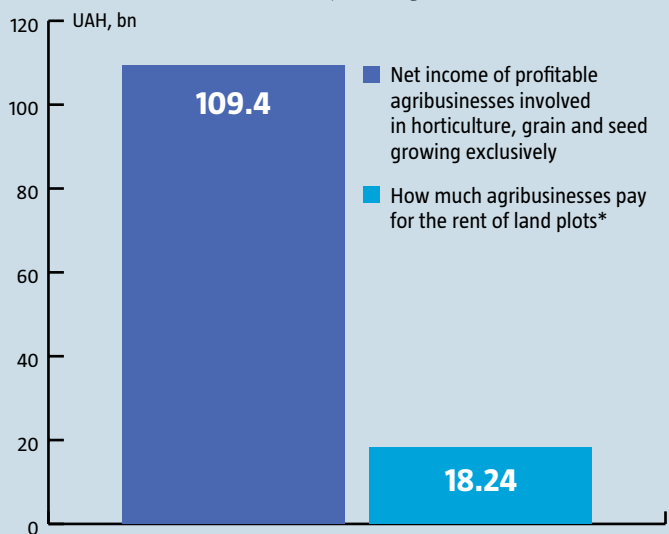
Yet, it is yet not enough for the state land register to fully perform its function. A number of mistakes have been made in the process of building it: the information on all land plots is not full; land cadastre information has not been uniformed; and new evaluation of farmland is badly needed.

The state land register is filled with data very slowly. In February 2016, the then Agriculture Minister Oleksiy Pavlenko said that the e-database was only 20%-full. According to the land geological cadastre, all lacking information on land plots can be gathered no sooner than in “2-3 years”.

Whatever the hurdles, 15 years after the first moratorium on land sale the head of the land geological cadastre claims that the state is not ready for the land market. The Minister of Agriculture says that there will be no votes in Parliament to support full launch of it. Instead, both offer alternatives.

The state geological cadastre department has suggested lifting the moratorium on the land that remains in public ownership first. Then, a few years later, do so with privately owned land plots, unless reasons come up to postpone it again.

Where is the land owners' money flowing?



*DerzhStat, the State Statistics Bureau, does not provide data on lease fees paid by profitable agribusinesses involved in plant growing separately. The above figure includes payments from loss-making companies who are involved in more than plant growing. In reality, the lease fees paid by profitable companies are way lower

Source: DerzhState bulletin on the basic economic indicators in agricultural production. Kyiv, 2016

The Ministry of Agriculture went further and offered a surrogate market instead of a full-fledged one: trading in lease rights and emphyteusis, instead of trading in land.

REDUNDANT OWNERS OF LAND PLOTS

A closer look at the arguments offered by the Ministry of Agriculture in favor of the surrogate land market leaves an impression that the initiative is rather a desperate attempt to adjust the imperative IMF requirements on launching the sales of agricultural land to the pressure from Ukrainian agribusiness lobbyists to preserve their monopoly on rent-seeking from land.

THE RIGHT TO LEASE LAND TODAY COSTS MUCH MORE THAN THE LEASE FEE ITSELF. THIS SUGGESTS THAT THE MONEY IS BEING PLUNDERED FROM PEASANTS — THE LAND OWNERS

Ukraine's effective land legislation does not allow free circulation of land leasing rights on farmland owned by someone else. Sublease by an initial lease holder is also only possible when the owner does not object that, and the contract specifically states so.

As a result, agricultural companies that hold leasing rights (after imposing long-term lease contracts on land owners on discriminatory terms) are unable to sell, exchange or donate these rights to anyone else. This limits their opportunities to monetize land and convert their ownership of leasing rights into hard currency.

The Ministry of Agriculture proposes to change this with a series of amendments in the Land and Civil Codes, and the Laws on Land Lease, State Registration of Immovable Property Rights and Their Encumbrances.

Art. 25 of the Law On Land Lease is to be complemented with the clause on leaseholder's right "to sell his land leasing right or to sublease the land plot." The clause on the compulsory mention of this in the lease contract is to be eliminated from Art. 8.

Further on, agricultural companies will be able to resell their land leasing rights to one another within the timeframe of the lease contract. For that, they will not have to sell the entire companies. Also, the leasing rights will be used as collateral for a bank loan.

When doing so, they will have to notify the owner of the deed (for instance, that his or her land has been subleased to a different company at a far higher price): The subleasee shall notify the land owner about his newly-gained subleasing rights within 14 working days after getting such rights registered with the state regulator.

If that happens, the law leaves virtually no opportunities for the land owner to terminate the inconvenient initial lease contract. Art. 30 of the Law On Land Lease mandates that the contract is only changed upon mutual agreement. If the agreement is impossible to achieve, the dispute is taken to court. Yet, Art. 32 of this law allows the lease rights holder to terminate contracts unilaterally, but gives no such opportunity to the owner – even through court (unless the lease rights holder violates contract terms).

This means that the land owner may have no chance to take his or her land back before the lease contract terminates – even through court and with the compensation of losses. In this case, the Law On Land Lease stands fully to the benefit of the land rights leasee.

Changes proposed to Art. 102-1 of the Land Code will make it impossible for the owner to transfer to anyone the land plot which is being leased based on the emphyteusis, i.e. the right to use agricultural land. This means that current land leasees will be able to impose on the owners emphyteusis with them and on their terms exclusively. Thus, agricultural companies will be secured from competition on the land shares that are currently leased out.

Emphyteusis, even though slightly different from land leasing right, is also subject to some of the changes, proposed by the Agriculture Ministry. The core remains unchanged, i.e. emphyteusis can be put out on tenders, sold, signed away and used as collateral in banks. Emphyteusis owner can lease out land plots. The agreement on sale of leasing rights and emphyteusis will be limited to the 50-year term. Every resale of emphyteusis will bring the land owner a "bonus" of 10% of the price at which the land plot was initially leased out.

International practices show that sales of land leasing rights or emphyteusis are used only in those countries, where land sales are banned. Yet, where there is no full-fledged free trade in agricultural land, there can be no proper trade in leasing rights.

The moratorium on land sales has created the environment for pushing down lease payment rates and redistribution of rent revenues from the use of land in favor of leaseholders.

The land market in Ukraine, even under its current conditions, would definitely be far more competitive than the lease market is. For instance, businesses could buy land for further leasing out in packs of plots. By contrast, leasees are only interested in huge amounts of it.

If the moratorium is abolished some day, land rental rates might increase sharply, while costs of land leasing rights might fall due to increased competition. Thus, if the trade in leasing rights is introduced now, agribusinesses, banks which lend to them, and political forces will find every way to lobby the moratorium on land sale for good: this is a matter of huge money.

Agribusiness and even banks, as well as the IMF, could well be satisfied with the introduction of the market of leasing rights and emphyteusis. 50 years, i.e. the maximum term of emphyteusis, will be enough to reassure investors and loan providers about profitability of the project. The right to sell leasing rights allows withdrawing the money invested into the project at any convenient moment, should the business situation or priorities change.

The benefit such a quasimarket for land use offers huge agriholdings is the lack of virtually any limits on the size of rented plots. If the proper land market were created and launched, it would most likely have size



FOR THE LAST 15 YEARS, AGRIBUSINESSES HAVE BEEN OPPOSING THE LAND MARKET, WHICH COULD UNDERMINE THEIR MONOPOLY AND MAKE THEM PAY SEVERAL TIMES MORE TO LAND OWNERS

restrictions (100, 500 or 10 million hectares), thus preventing the emergence of latifundias. Now, one can buy leasing rights for 1 or 10 million hectares for 50 years.

At the same time, trade in land use rights gives magnates an opportunity to earn hefty sums on acting as mediators between Ukrainian owners and foreign ultimate buyers of long-term leasing rights.

For Ukraine's future, however, it is important that land reform ends to serve the interests of land plot owners rather than a narrow circle of magnates or banks, as current initiatives from the Agriculture Ministry entail.

Meanwhile, most owners of land in Ukraine (they are often pensioners who received it after Ukraine got independence) know nothing of the nuances of market economy, stock market quotations or leasing right pricing. Therefore, this sector needs strict state regulation.

The Anti-Monopoly Committee should stop turning a blind eye to the fact that the market of land plots within every town or village is either monopolized or oligopolized by a handful of players. This means that the available regulator must interfere, or a new one must be created: a specialized one to set up minimum rent rates and the price of land tied to it in every administrative unit.

Otherwise, the lion's share of revenues will still be appropriated by a dozen or a hundred of families and agriholdings whose flourishing, helped by tax evasion and taking money offshore, will result in the impoverishment of more and more Ukrainians. ■

Taras Kutoviy:

«The state can be a proper owner only in exceptional cases»

The *Ukrainian Week* talked to Ukraine's Minister of Agricultural Policy and Food, Taras Kutoviy, about current problems facing the AIC, the large landholder lobby, and how to establish a land market.

Interviewed
by **Lyubomyr
Shavalyuk**

What are the Ministry's plans for key reforms in the farm sector?

— We've called our new AIC development strategy "3+5" and, so far, it's been discussed quite widely. Both agribusiness and the international community have given us positive feedback. The strategy includes three main objectives and a few smaller ones. First is progress with land reform. Second is transforming state support for the sector. Third is improving efficiency at state-owned enterprises and putting them up for sale. Other priorities include developing organic products, markets, rural areas and farming infrastructure, and shoring up the institutional capacity of the State Consumer Product Service.

We've prepared legislation for each of the three priority areas, because there are a number of transformations that need to take place. In order for them to succeed, laws have to be changed.

We've also launched our Reform Support Office. We hired young, ambitious specialists on a competitive basis and their work is being funded by donors—the EU, US and Canada—at market salaries. Right now, the Office is going through an internal audit. When the results become available, we plan to undertake comprehensive changes in the way the Ministry is organized.

How do you see land reform taking place?

— I'm ready to review a bill on the transfer of land designated for agricultural purposes. Together with our team, we propose introducing the right to lease land and to use it as collateral against bank loans.

Why have we decided on this formula rather than a broader, more comprehensive approach to resolve land issues? Because I think that this is the precise step that will gain support in the Verkhovna Rada. I joined the Cabinet from the legislature, where I chaired the related committee, so I have a pretty accurate sense of the mood among deputies: better that we take this small but significant step than to get caught up in something more ambitious and fail.

¹ The interview was done several weeks before the extension of the ban on the sale of agricultural land by Ukraine's Parliament on October 6.

The transfer of land leasing rights will open up a number of doors. Firstly, with this, the value of farmland can be established. Today, the main argument populists offer is that the minute land can be freely bought and sold, it will all be snapped up from Ukrainians for peanuts¹. Once leasing rights can be traded and it becomes clear that people are willing to pay 1,000, 2,000 or 5,000, nobody will be able to sharply drop the price, since buying land could never cost less than leasing it. Secondly, investors will have the opportunity to draw up long-term business plans. And even if they should suddenly decide to get out of the farming business, they will be able to do so relatively easily by simply selling off their land lease rights.

How will this affect the mandatory timeframe for land use leases?

— Right now, land leases are for a minimum of 7 years and a maximum of 49. I don't think that needs to be changed. Within this range of time, people decide for themselves what suits them. Then the picture looks something like this: rights to a 10-year lease on land in X Oblast costs Y, a 15-year lease is a bit more, and a 20-year one more again. So people then determine what term suits them best.

There is one important social issue, however. Many people live off their land shares. When they sell the right to lease it, they aren't selling the land itself. So whoever owns the lot continues to get paid for leasing it. Whoever owned the land and had the right to hand it down to heirs, continues to own it and has the right to hand it down. This can't be emphasized enough.

What changes do you anticipate in state support for the sector?

— The key change here is that we want to support agricultural SMEs with cash. We're talking about those farms that are working no more than 500 hectares [about 1,250 acres]. Today, 86% of farming enterprises fall into this category in Ukraine. Yet only 2% of them are companies that are using credits. Why? Because there is no collateral and the situation with land remains unclear.

There's been an innovation in state support that I initially only presented as a philosophical notion, but now it's close to being reality since the PM announced it publicly as the Government's position. We propose that 1% of gross production of agricultural products go for state support. Right now, this means UAH 5.5bn, the amount that will be directed at support for the AIC next year—provided that the Rada votes in favor. By comparison, in 2016, this line item was allocated only UAH 300mn. In short, we're looking at a radically larger amount of state support for agricultural producers, with an emphasis on SMEs. Within this framework, we »

Born in 1976 in Kyiv, **Taras Kutoviy** graduated from the National Academy of the Security Bureau of Ukraine (SBU), Vadym Hetman National Economic University in Kyiv, and the International Management Institute. He was elected to the VII and VIII Conventions of the Verkhovna Rada. During that time, he chaired the Agricultural Policy and Land Affairs Committee and was deputy leader of the Bloc of Petro Poroshenko (BPP) faction in the legislature. In April 2016, he was appointed to head the Agricultural Policy and Foods Ministry.

will be able to change the principles under which this particular market operates.

Over the years of independence, it's become clear that state support always ends up being a multiplier of corruption. What kinds of instruments for support should be used to prevent creeping corruption?

— First of all, policies should not be approved by commissions consisting of administration, tax and other bosses. These should be agreed at open farm conventions. Farmers know exactly who is working the land and who is subletting it, who is managing to earn something and who isn't. In other words, it's their decision to make, even if it takes rowdy discussions to make it happen.

Second, Polish experience has shown that you never provide assistance to a single pair of hands. You want to build a dryer? Here we have five farmers in the same county, so each will get UAH 2mn. Since for five to steal they would have to collaborate, this reduces the risk of corruption considerably.

Thirdly, projects need to be boilerplate, clear and understandable. This means that money will be allocated, for instance, for a dairy freezer or for a dryer, for storage units, etc. By helping farmers, we need to be raising the development of industry, such as machinery and so on. I don't want to offend the agricultural folks, but farm production is a business with low margins. It needs to be used in order to raise up the branches with intellectual and technological potential that can bring added value to seeding, machinery and even space technology. China, for instance, is now using drones instead of tractors to handle spraying. Hi-tech tractors have no one steering them because the machinery moves from point to point according to a map. All the tractor driver does is sit and watch that nothing goes wrong.

These kinds of projects will be handled in groups through transparent tenders. Maybe we'll give local producers of, say, dryers, preference.

Another instrument is credits. Why don't farmers borrow? Because they haven't got the initial 50-70% down payment that banks are demanding, in order to lend the remaining 30-50%. As a ministry, we could, without even touching this money, transfer it to financial entities, including state-owned ones, and say, for instance, here's the first installment for the farmers who will be identified at conferences. The bank's loan committees will then look over the prepared project proposals in detail and will partly invest in those projects—adding their share in the form of a credit. At that point, the state will have barely anything to do with the project, while the bank will worry about the state share allocated to the project as much as if it were its own. This promising mechanism will also be completely transparent.

Right now, the market is dominated by big corporations because they are in a position to lobby government agencies. You favor supporting growers, but ministers come and go, while the lobby lives on. How can the policy landscape be shifted in favor of farmers and ensure that support for them is long-term?

— In my opinion, when we talk about lobbying, it's about the system of special tax breaks for agribusiness. And yes, it's got a lot of distortions. By switch-



PHOTO: ANDRIY LOMAKIN

ing to direct support, we can straighten out those distortions. Of course, Big Business is going to insist on maintaining the special breaks. I also think that special regimens just for livestock farming are a very positive mechanism. If we don't manage to find funding for direct support of livestock farming, then dropping the special terms will be very painful for this sector.

As to lobbying... Why did I talk about 1% and not UAH 5.5bn to support farmers? Because this establishes the basic principle of state support. So that a broad cross-section of farmers is able to count on this one percent. So that we don't have a situation where the premier and the AIC minister are changed, and all support for farmers is cancelled, just like that. Today, people talk as though this is already happening. Perhaps, in time, when the state has more financial resources, we'll be able to set aside 3% for the AIC but the principle will stay the same.

If this happens, then we'll see really strong, influential farmers who won't let things roll back. When they see that they can get state support without paying bribes, when this assistance is not a worthless UAH 250 but UAH 2-3mn, when they can see that in cooperation with others can organize some infrastructural breakthrough, when they begin to sell grain, not directly from their fields but from cars and get an additional UAH 200-250 per tonne, any Government that comes along and wants to kill all this will face a powerful foe in the farmers. I'd like people to believe in this, start to live with it, and then not let it go again.

The third aspect of strategic policy in the sector is state enterprises. What kinds of reforms do you envision here?

— Up until now, all of the sector's state enterprises put together were losing money. Yet those who are against privatizing them say that this isn't a good time to sell state enterprises because of political and military tensions, it sounds strange. We had no war for the longest time and the same people were saying then that it wasn't the time to privatize. This makes me think that those who lobby against privatization are doing it for corrupt reasons: it's very convenient to sit at a state enterprise, manage it while having little or no responsibility, and report that it's not very efficient while redistributing cash flows.

We've submitted a list of 86 companies, of which 24 are under privatization bans, but I hope the Verkhovna Rada will drop those bans. They include UkrSpyrt, which makes spirits and alcohol; Artemsil, a salt maker; and the State Food and Grain Corporation of Ukraine (SFGC). Why have we decided this? Because that's normal world practice. The state can be an effective owner only in exceptional cases. Let investors pay taxes, grow the companies, and fight corruption, which they do far better than the state.

What are the ministry's plans in terms of preparing the necessary enterprises for privatization, that is, will you be cleaning up balance sheets and streamlining business operations?

— Of course. Take UkrSpyrt. The main personnel issue in this corporation is supposed to be decided at one of the upcoming Cabinet sessions. The main task facing us is to bring proper order to all of UkrSpyrt's plants. But the most important point is that, in order for the horilka companies that are the primary potential clients for privatization to show genuine interest in buying alcohol plants, they have to understand that there can't be any more bootleg liquor. This is the main thing we're working on right now.

Today, horilka sales in Ukraine are something like three times higher than the actual production of spirits. We need to shut down the grey market for horilka, and that's a complex matter that requires the entire government machine to get to work. The AIC Ministry and the director of UkrSpyrt are not capable of overseeing 64 distilleries across Ukraine. This has to be a joint effort with the police, the justice system, the inspecting agencies, and so on. Because if there is bootleg horilka, the folks making horilka now will all say they are against privatization and want status quo to be maintained. Once they buy up all the distilleries, it's a different ball game. They themselves will start shutting down the bootleg business in order to get a return on their investments, by pushing illegal competitors out using legal means.

I think we have what it takes to change the current situation. My personal benchmark, my internal ambition is for the privatization of UkrSpyrt to happen. In all the years of independence, no one has come even close to this. I want the privatization to get going and take place at the turn of 2017. Needless to say, resistance within the system is colossal. This kind of initiative ends up with all kinds of dirt being flung at the minister and the ministry doesn't have close to enough resources to even begin to cope with this information war. I understand that these dirty campaigns are going to get worse, but I'm pretty determined.

Of course, we also need to lift the ban on privatizing UkrSpyrt. All those who say that UkrSpyrt is a "megastrategic" asset for the state and that a monopoly on distilling spirits is a God-given boon, have no idea that in the world there are only two countries where the state monopolizes the production of spirits: Belarus and Ukraine. No other country does this. So, no matter what anyone says, this is a complete fallacy.

Besides, spirits are one issue. Another is the fact that most of the distilleries now are simply plants for producing bioethanol and mixtures, that they have enormous investment appeal. We shouldn't be selling maize for export but products that are in high demand.

In this context, yet another related issue is energy independence. Given the potential for plant growing, large-scale production of bioethanol should be a major component of all our energy strategies.

Basically, world prices for grain have been sliding since 2011 and this year is no exception. How much pressure is this putting on Ukraine's farm sector? What is the likelihood of widespread bankruptcies among agroindustrial businesses?

— The profitability of farming may be in decline, but agribusiness is still making money today, so it's not right to talk about bankruptcies because of the impact of falling world prices on corporate balance sheets. When you look at the reports published by public companies, it's obvious that there is still considerable profit being made. If we look at agricultural SMEs, however, prices are never great. The best is often the enemy of the good. Of course, everyone would like to be making more...

The other issue is diversification. Every company grows several different plants, among which there are the highly profitable ones that provide the overall profits for agricultural businesses. For instance, take a look at the breakthrough Ukraine has had with soy (one of the most expensive large-scale legumes — Ed.): the area sown with it has increased tenfold. Business knows what direction to go in.

**OUR NEW DEVELOPMENT STRATEGY
"3+5" INCLUDES PROGRESS WITH LAND REFORM,
TRANSFORMING STATE SUPPORT FOR THE SECTOR,
AND IMPROVING EFFICIENCY AT STATE-OWNED
ENTERPRISES TO PUT THEM UP FOR SALE**

If you talk to farmers, they will say, for instance, that they were growing corn at a loss and wheat saved them, and so on. Nature is a big help here. One grain likes more sunshine, another more moisture. So that if the right crops are rotated in and out, the year that one crop has a low yield means that another is way above norms. If farmers properly diversify their fields, they will always manage to be in the black.

What's going to be done with nearly 10 million hectares of farmland that remain in state hands?

— Right now, most of this land is under lease, some to state enterprises, some to the Academy of Agricultural Sciences. I would think of this land in the framework of the law that we are proposing. Why? For instance, a state company has farms and land on the basis of acts allowing perpetual utilization. We want to privatize this company, but we can't transfer these acts to it. Meaning that, in case of a change of owner, the act allowing perpetual utilization is annulled, without which the privatization value becomes radically lower.

When it's not clear what happens with the land after privatizing a state company and its assets, interest in the property is going to be understandably low. Investors need to know that, if a state agribusiness is privatized, they are buying an intact material asset, and the right to work on that land. When that happens, competition for state companies will be huge. ■

Locomotive in action

Lyubomyr Shavalyuk

What are the prospects for Ukraine's agro-industrial complex?

If you travel even a little around Ukraine, then you have probably noticed the changes in rural areas over the last few years. Fields are being aggregated, they are being worked seemingly according to schedule, the wheel tracks on them are even as seams, farm equipment is looking newer and more powerful, and in some villages, even the social infrastructure is being upgraded. These are visible signs and the result of development in the farm sector. This agricultural industry is the subject of high-level discussions, it is referred to as the engine driving the domestic economy, and great expectations are being placed on it. Why? Because the farm sector is making money: hard currency for the country, revenues for the budget, investment capital for the entrepreneurs, interest payments for the banks, and a slice of bread and butter for those living in the countryside.

ON TRACK OR SLOWING DOWN?

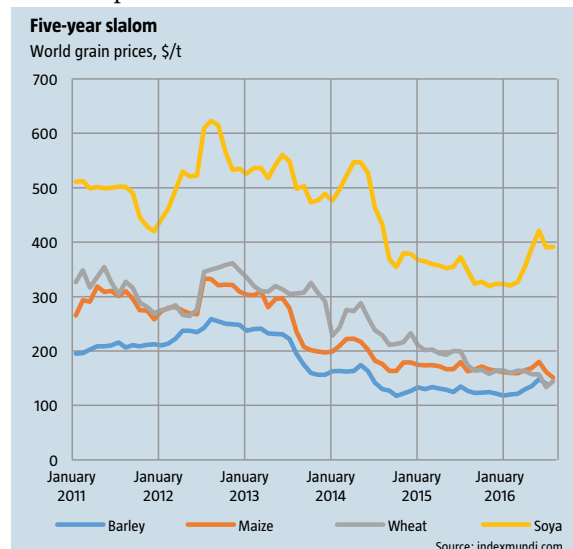
The question is whether this will continue or will agribusiness turn into a bubble of the type that has been all too common, both in Ukraine and elsewhere. To answer this question, it's important to understand what's going on with prices for farm products, financial resources for farming businesses, and the fundamentals of the industry itself. Let's start with prices. World prices for food have been sliding pretty much since 2011 (see Five-year slalom). According to IMF data, at the end of this past summer, the consumer price index for foodstuffs, a basket that includes grains, vegetable oils, meat, seafood, sugar and fruit, was 21% below its peak in April 2011. Although prices have risen 16% since the end of 2015, as the chart shows, this dynamic is not caused by those components of the basket on whose production and exports Ukraine specializes. For instance, the average price of wheat in mid-September was 22% below last year's average and maize was down 11%. In short, world prices are exerting downward pressure both on hard currency income that Ukraine earns from exporting agricultural products, and on the incomes of agribusiness in hryvnias and kopyiykas. It's hard to say whether a global situation that is disappointing for Ukraine's farmers will continue for long. But the fact that since the beginning of 2016 prices for some farm products have been quickly recovering suggests that things have pretty much bottomed out. Similar trends were seen in the late 1990s: over 1997-1999, the consumer price index fell by nearly a third and prices began to recover gradually and by discrete groups. The first to recover were prices for oil and other fuels—prices for farm products returned to pre-crisis levels only in 2005-2007, that is, on average 8 years after they fell. If this happens again this time—a slowdown in developing economies tends to support this hypothesis—farmers may have to suffer for a few more years. Given that land is Ukraine's global competitive advantage, the farm sector is not really under threat and it remains in the black, even if not by

that much. But if world prices for foodstuffs continue to fall, then some of the least efficient producers will have to leave the market—and, together with them, some of the least efficient grain-exporting countries.

However, Ukraine's growers have not been sitting on their hands. They began even earlier to switch to more expensive and more profitable products and are now doing rather well with them. In the last 10 years, territory sown with soya has nearly tripled: 15 years ago, it was barely even known in Ukraine. Sunflower has expanded 150%, among others because farmers have learned how to grow it efficiently. Today, the yields of nearly all grains are at least 150% higher than they were then and they continue to rise. The Agricultural Policy Ministry says that this year, record yields since the country became independent were seen among both grains and legumes: 43.9 centners/hectare. Although the domestic harvest was not quite as good as the peak harvest of 2014, farmers certainly aren't about to leave it at that.

LOGISTICS AND MARKET LOGIC

The other factor that can make the difference between success and failure when the global marketplace is down is the right use of logistics. Although the record crop was in 2014—63.8mn t of grains—the 2014/2015 marketing year saw only 34.8mn t exported. In 2015, the crop was smaller, 60.1mn t, but exports in the 2015/2016 marketing year were noticeably higher, at 39.5mn t. In other words, Ukraine's farm sector has developed solid logistical infrastructure in the last few years, which has made it possible to store grain while prices are down and sell it quickly the minute the price is right. The industry has learned to take effective advantage of the situation to maximize profits.



This opens the way to an understanding of the current financial standing of domestic agribusiness. According to Derzhstat, last year, farming, forestry and fisheries, among which farming dominates, earned record profits and demonstrated record profitability (see Positive trend). In the last two years, net profits at profit-making farm enterprises grew fivefold—despite the negative situation on world markets. The first factor was that part of the crop produced two years ago at an appropriate production cost was sold only last year.

The second factor was the devaluation of the hryvnia. Indeed, this time around, farm businesses took advantage of the logistics infrastructure to wait out, not so much the fall in world grain prices—even if a priori this was part of the original calculus, prices have not yet recovered while surplus inventory has been sold—, as the instability of the hryvnia at home, until such time as there was a more-or-less clear exchange rate in the context of a new macroeconomic equilibrium.

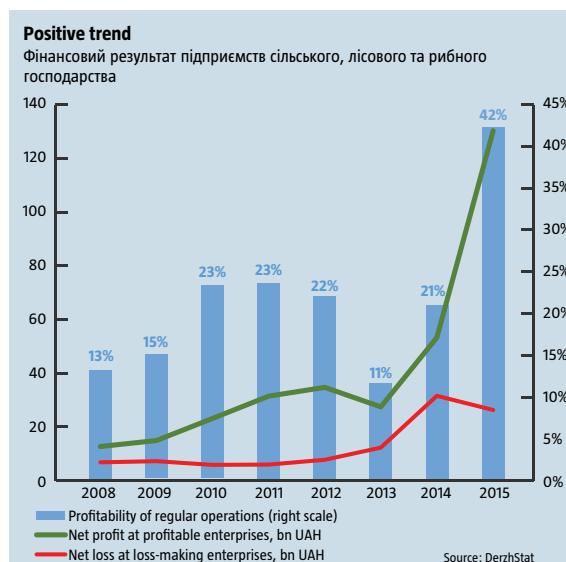
With prices for farm goods tightly tied to the dollar while part of the production cost remains hryvnia-based—wages, a small portion of the seed funds, depreciation of equipment purchased in the past, and so on—, profits were sky-high last year. Thus, the financial state of the industry is the best it has been for many years. And it's quite possible that it will continue to be so for many more years, as costs will climb while the devaluation of the hryvnia on such a scale might be the last such devaluation, so there won't be much purpose to holding back product.

GOOD NEWS, BAD NEWS

These super-profits in the farm sector have had a number of consequences, both good and not so good. Firstly, growers have begun investing actively. Last year, capital investment in agriculture rose 26.1%, to UAH 27.1bn, despite the fact that the country was still in crisis. By contrast, total capital investment in the entire domestic economy shrank 1.7%. In the first six months of 2016, capital investment in the sector skyrocketed 74.0%, compared to only 9.6% in the entire economy. That huge flow of cash to farming had to be spent on something, and so Ukraine is at a crossroads: if it is spent unproductively—on price wars for market share, yachts and expensive buildings for farmers, uneconomic purchases of components of the production cost—, this could all turn into a bubble, which will greatly cost the AIC in terms of development. Otherwise, the sector is set to continue growing apace.

Secondly, the super-profits being enjoyed by farmers have provided a solid basis to cancel the sector's tax breaks. Such a decision is timely, but it's not quite ripe, because the livestock industry will suffer a lot as a result. Furthermore, the proportion of large holdings among those enjoying these super profits is high, so the benefit for small and medium farmers could be limited. This means that the strong support for farmers initiated by the Ag Ministry should make it possible to eliminate this distortion.

Thirdly, international financial institutions are starting to more confidently provide credits to the sector. Despite a generally difficult situation in the bank sector, the NBU says that the agribusiness credit portfolio slipped 0.9% over January-July 2016, while the entire portfolio contracted by 4.6%. Needless to say, fundamentals such as the lack of a land market and the low quality of collateral, which make agribusiness less than attractive for banks to lend to, have not disappeared. But over the last year or two, a number of IFIs have begun to look for op-



portunities to finance agricultural enterprises and have been noticeably expanding credit portfolios focused on the industry.

It's clear that Ukraine's agricultural producers have spare cash today and will likely continue to have it for at least a few more years. The question is how much of a horizon they have to expand into, that this cash is placed to assist with. What about structural prospects? Much here will depend on the regulator, i.e., the state. The latter, through the Ag Ministry, has been initiating large-scale reforms, the main one being setting up a market for leasing land in order to resolve the country's land woes. Conceptually, this is the right decision. But the fact that the farm sector has a lot of spare cash right now means that the cost of leasing land could quickly become too high. This risk is something the state needs to anticipate. At the same time, a market for leasing land should untie the hands of the banks, which will then have access to a class of valuable, quality assets that can be used for collateral. Could this lead to an exaggerated boom of lending in the AIC—and eventually to problems for many companies who borrowed to expand and then discovered that the potential for growth was far less than the money they had borrowed?

The second reform is targeted support for SMEs in the farm sector. Judging from the concept that has been presented so far, this assistance is meant to help farmers fill those niches that are not being supplied today. This offers considerable potential for growth for at least a few years.

In any case, today agribusiness has money and the state seems to have good ideas for quality reforms and is ready to carry them out. This combination should foster sharp growth in the sector over the next few years. And the state, as the regulator, needs to control the situation so that this phase of acceleration is dominated by efforts to be efficient, not a dash for cash that threatens to cause a bubble and the inevitable crash. Some skeptics say that this is all just to turn Ukraine into Europe's farming arm with room for only 10-20 million Ukrainians to live comfortably. The hope is that the AIC will become the driver to pick up related sectors: heavy machinery, chemicals, fuels and so on. But regardless of this, Ukrainians need, above all, to take advantage of the God-given potential of their soil. Today, they have everything they need, to do so. ■

The fifth column's new front

Oleksandr Kramar

Pro-Russian oligarchs have begun a serious push to persuade Ukrainians that the only way to a better life is to renew “torn” economic ties with Russia. This flies in the face of facts on the ground

In a while, September 2016 could be recognized as the time when a new front opened in Russia's hybrid war. A huge campaign has just unfolded to “renew economic ties with Russia,” as a supposed panacea for Ukraine in its difficult socio-economic situation. Public opinion is actively being bombarded with a myth about how the economic crisis and the falling standard of living are the result of Ukraine's economy turning more towards the West.

But the claims being disseminated in the press are completely contradicted by facts. For instance, Ukraine lost the Russian market because of its association with the EU. Or Ukrainian manufacturers have no chance of making it on European markets and the reorientation towards EU markets is turning Ukraine's economy into a producer of raw materials. With the help of such statements, Ukrainian society, worn down by social problems, is being seduced by the promise of a “simple” solution: rejecting the policy of mutual sanctions and restoring trade ties with Russia—supposedly broken at Ukraine's initiative—could compensate the economic losses of recent years and restore the standard of living that Ukrainians had prior to the start of Russian aggression.

Initially, the press was warmed up with a series of announcements whose contents were in the tradition of Russian lobbyists among current and former Opposition Bloc members, such as Yevhen Murayev, Vadym Novinskiy, Yuriy Boyko, Oleksandr Vilkul, and Mykola Skoryk. Murayev's NewsOne channel has been busy spreading manipulated surveys among its viewers, promoting the opinion that “more than 75% of respondents want to restore economic relations with Russia.”

Meanwhile, other members of the previous regime have begun to join them, such as deputy leader of Vi-drodzhennia [Renaissance] Vitaliy Khomutynnik, who is linked to tycoon Ihor Kolomoyskiy; MP from the Volya Narodu [The Will of the People] deputy group Volodymyr Lytvyn, and Yakiv Bezbakh, an independent MP who represents another oligarch in the Rada, ex-president Leonid Kuchma's son-in-law Viktor Pinchuk. The ranks of those actively lobbying for a reversal of the country's direction towards Russia are regularly filled by people who had been quiet on this issue since the Euromaidan.

Pinchuk himself, judging by the activeness of Bezbakh and frequent reports on this issue on his television channel, ICTV, also became one of the main organizers of the so-called “International Economic Forum” at the Kyiv Hilton, right next to the main sponsors from the OppBloc. Taking place on September 21, the event came almost immediately after the Pinchuk-funded Yalta European Strategy or YES Summit, and was clearly a manifesto rejecting European integration and returning to the Kuchma era “multivectoral” policy, with a special accent

on restoring “vitaly important” economic ties with Russia.

The IEF gained its status as ‘international’ thanks to the fact that MEPs of clearly pro-Russian orientations, representatives of the embassies of Russian satellites in the Eurasian Union—Belarus, Kazakhstan and Kyrgyzstan—participated in it, alongside Ukrainian MPs, the deputy Minister of Justice, and department heads from the Ministry of Economic Development, the Finance Ministry, the State Fiscal Service, and a number of ex ministers.

According to one attendee, Romanian MEP Laurențiu Rebega said, “Ukraine is not moving towards economic recovery today. The time has come for the Government of Ukraine to restore ties with Russia. The old Ukrainian-Russian partnership, which has suffered since 2014, could offer a new way out of the crisis for the sake of a stable future and economic growth. This is the only thing that will pull Ukraine out of the general crisis it is in.”



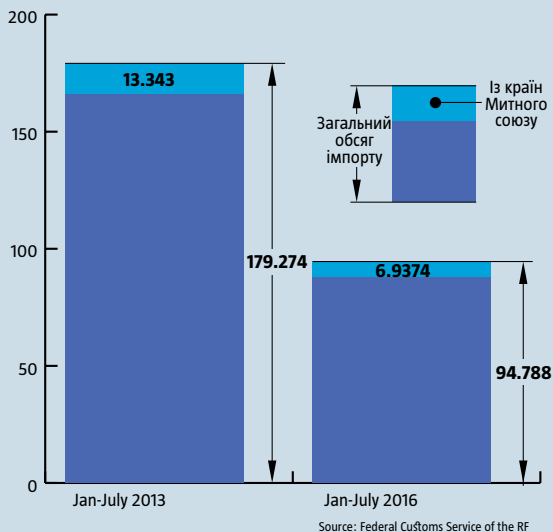
THE WAY TO IMPROVE THE SOCIO-ECONOMIC SITUATION IN UKRAINE LIES, NOT THROUGH POINTLESS EFFORTS TO TURN BACK THE CLOCK, BUT IN LOOKING AT OPPORTUNITIES TO REPLACE THE LOST RUSSIAN MARKET WITH NEW NICHE MARKETS IN EUROPE AND ELSEWHERE

Some old Ukrainian faces came out at the forum as well, such as Yevhen Chervonenko, once Viktor Yushchenko's closest confidant and a former minister of transport who owned a major trucking and beverages company called Orlan. “If we acted normal, dialog with Russia would be possible,” he said. “Europe doesn't need us and it's not going to let us enter its markets.” Another former Cabinet member, ex-economy minister Viktor Suslov claimed that Ukraine's economy was on a downward slid and was becoming a raw material economy, while Europe was putting pressure on Ukraine to export raw materials rather than finished products.

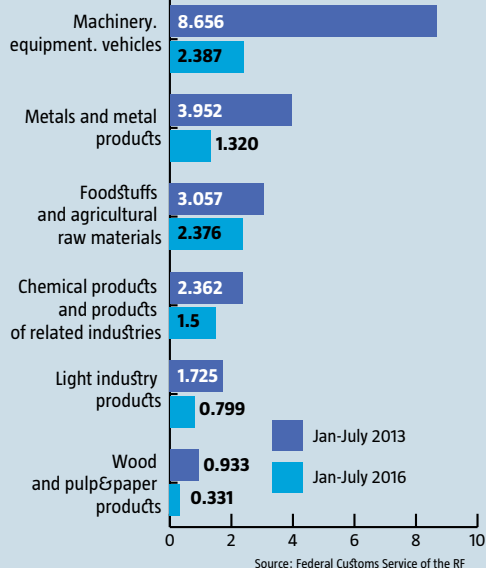
At the conclusion of the event, a resolution was passed stating that it was necessary to restore trade and commercial ties with Russia and addressed to the President, PM and VR Speaker. The basic message of the document was this: “Ukraine should espouse a multivectoral foreign policy approach and restore economic relations with traditional markets by setting up an inter-government group with Russia.” This was the initiative of that same Yakiv Bezbakh, who declared adamantly, “From an economic point-of-view, Ukraine cannot function normally without its traditional markets. We need to revive cooperation because that's our future.”

A crisis market

Imports of goods from select groups of countries and select categories to Russia, USD bn



Source: Federal Customs Service of the RF

Imports from CIS countries

Source: Federal Customs Service of the RF

MYTHS AND FACTS

In fact, statements about Ukrainian deliveries to Russia being cut back because of a “break in economic relations” after the Euromaidan or after the signing of the Association Agreement with the EU are a complete myth. Trade between the two countries has been falling apart for a long time as a result of objective processes that are either completely unrelated to the Revolution of Dignity or are only very indirectly related. In any case, there was never any “break” initiated by Kyiv, with the exception of MIC production.

And so no “miraculous effect” can be anticipated from restoring these ties, contrary to the claims of this fifth column and no panacea for the domestic economy, in fact. All that this really is, is a convenient slogan propagandizing the stereotypical thinking of certain elements in Ukraine’s population.

Ukraine’s suppliers were squeezed out of the Russian market as part of a long-term strategy of import substitution in the RF. In addition, because part of Ukraine’s manufacturers are stuck on Russian and post-soviet markets instead of looking for opportunities to compete on world markets for the last decades, they have understandably lost their competitive edge even in the Russian market. All this was compounded more recently by problems in Russia’s own economy and resulted in overall cutbacks in imported goods.

The objective reasons were compounded by various Russian-instigated trade wars that banned key Ukrainian products from its markets and eliminated those suppliers, the purpose of which was to force Ukraine to make concessions and eventually give up its sovereignty. All of this began long before the Euromaidan or the signing of the Association Agreement and were the result of Russia’s own hostile attitude to relations with Ukraine—a stick-and-carrot approach intended to reach key Moscow goals that relied on the stick more often than not.

And so the minimum that would be needed to change the long-term negative trends in Ukrainian-Russian bilateral relations would be complete capitulation by withdrawing from the Association Agreement and integrating into the Eurasian Union—something Ukraine would never agree to. Any other negotiations or concessions would do nothing to stop Russia’s discriminatory practices against Ukrainian imports.

FACTS ARE SUCH STUBBORN CREATURES

If we compare the volume of exports from Ukraine to Russia before and after the Euromaidan and the signing of the Association Agreement, we can see that the reduction in overall value was really striking, falling from US \$8.94bn in the first seven months of 2013 to US \$1.88bn in 2016. However, direct losses from Russian sanctions against Ukrainian producers, which might hypothetically be the subject of any negotiations, amounted to only a small fraction of this.

The greatest decline in exports to the RF was, in fact, from Donetsk and Luhansk Oblasts, Crimea and Sevastopol. In the first seven months of 2013, they constituted US \$2.44bn, while during the same period of 2016 they were only US \$0.32bn or about one eighth. However, these losses have nothing to do with a “breaking of economic ties,” but with Russia’s aggression against Ukraine. What’s more, the decline of US \$2.12bn from these oblasts to overall exports to the RF in this case was not as significant, as the decline of US \$8.2bn in all Ukrainian exports to all trading partners over January-July 2016, compared to the same period of 2013.

If we compare exports to Russia from Ukrainian territory outside of occupied Crimea and war-torn Donbas, over January-July 2016, they were worth US \$1.56bn versus US \$6.5bn over the same period of 2013. But most of that loss is not connected to “a break in economic links” between Ukraine and Russia, and so they cannot be compensated for even if ties are “restored,” the way the fifth column would have Ukrainians believe.

According to figures from the Federal Customs Service of Russia, all Russian imports in that time also declined by 50%, dropping from US \$179.3bn to US \$94.8bn. As prices for fuels and other resources that Russia relies on fell on world markets, consumer spending among Russians also went down as their purchasing power shrank, although prices on many of goods also

went down during this period. Even among Customs Union members, where there was ostensibly no “break in economic links,” imports to the RF over January-July 2016 were also down by around 50%, to US \$6.94bn, compared to US \$13.34bn in the same period of 2013.

In short, no matter what the circumstances, Ukrainian exports to Russia would have fell by nearly half during this period—more, in fact, since heavy machinery historically represented a larger share of exports. This is the item in imports to Russia from CIS countries that saw the greatest declines starting in 2013, when it plummeted from US \$8.66bn over January-July 2013 to US \$2.39bn.

If we exclude Ukraine from the CIS figure, then heavy machinery deliveries to Russia still fell by 67%, while deliveries from Ukraine fell by nearly 80%. This suggests that at least half of Ukraine’s losses over this period were the result of the overall situation with imports from post-soviet countries. The other half was largely the result of military activity in Donbas and the RF’s long-term strategy of rejecting certain categories of Ukrainian-made products, such as locomotives.

First of all, over January-July 2013, nearly US \$1.2bn of the US \$3.2bn of Ukraine’s exports to Russia was locomotives, more than half of them made in Luhansk and Donetsk Oblasts. By the same period of 2016, this figure was down to US \$45mn, and none of it came from the Donbas. Secondly, a steep and steady reduction of sales of Ukrainian locomotives to Russia was evident even before the AA with the European Union was signed and while the economic situation in Russia was still quite positive: over 2013, US \$450mn-worth less was bought than in the same period of 2011.

AND THE REST OF UKRAINE’S EXPORT INDUSTRIES

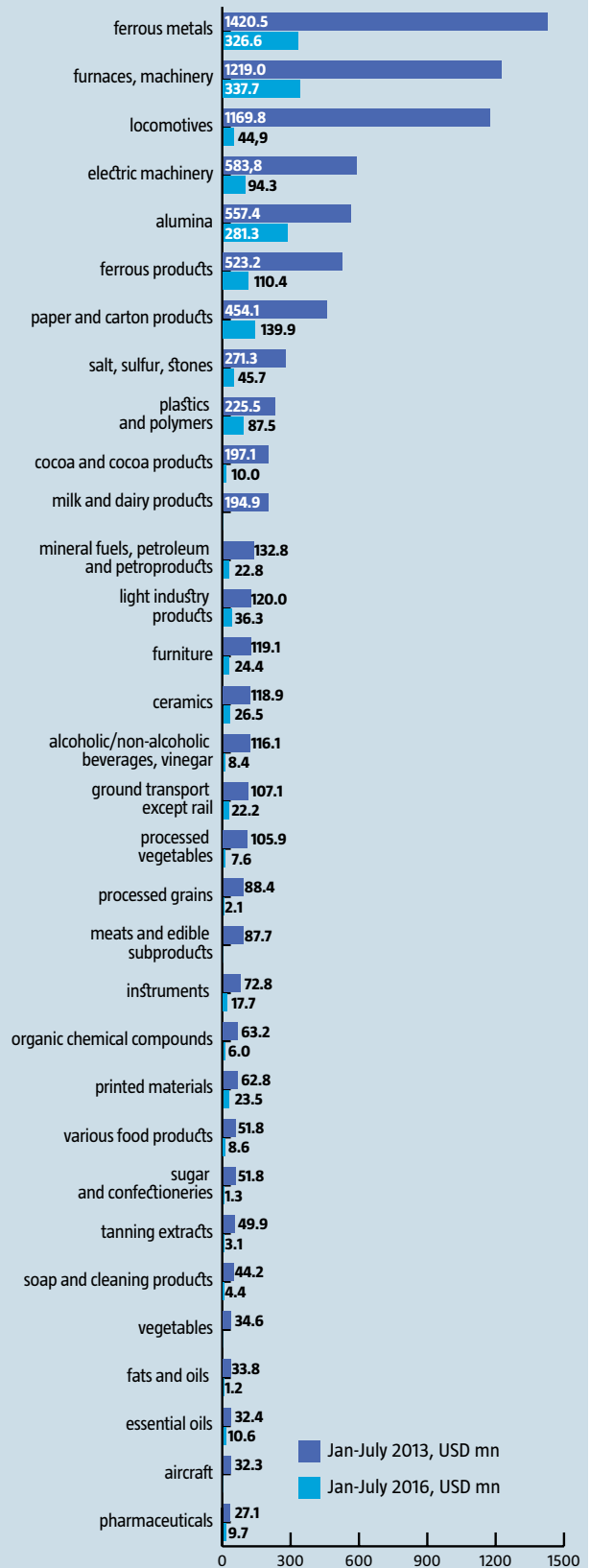
A similar situation can be seen with deliveries of Ukrainian metals and metal products to the RF (see Shifts in exports of select Ukrainian goods to the RF in recent years). According to DerzhStat data, 75% of all the cut exports of ferrous metals over January-July 2016 compared to 2013 was originally from Luhansk and Donetsk Oblasts and occupied Crimea. When these two factors are taken into account, it becomes obvious that the reduction of Ukrainian metal deliveries on the Russian market was not at all tied to a “break in economic relations,” but completely proportional to objective circumstances that also affected deliveries from other CIS countries whose ties to the RF hadn’t been “broken.”

In fact, foodstuffs were the one category where the loss of deliveries to the Russian market compared to other countries affected Ukrainian food processors the most and the least proportionally in the last three years. Over the first seven months of 2016 they were delivering 3% of what they had delivered in 2013: US \$51.8mn vs US \$1.75bn. On the other hand, Ukraine’s food producers have plenty of opportunities to compensate these losses by moving to other markets.

Cuts in Ukrainian deliveries of goods to the RF market in the vast majority of other branches either matched overall reductions of similar imports to Russia or reflected the cessation of trade from occupied Donbas and Crimea. The exceptions were Ukraine’s chemicals and light industries, where the losses were more significant.

If we exclude alumina, which is produced near Mykolayiv by the Russian aluminum monopolist for its own needs, deliveries of chemicals to the RF plunged from US \$520mn over January-July 2013 to US \$140mn in the

Shifts in exports of select Ukrainian goods to the RF in recent years



Source: Derzhstat, Ukraine's statistics agency

same period of 2016, down 73%, while total imports of chemical products to Russia over this period went down by only 33%. Here, too, however, the high concentration of enterprises in the Donbas and the lost of their competitive edge because of the growing cost of natural gas had an impact. And some products were affected by a specific ban, in addition to foodstuffs, from the RF coming into effect from January 1, 2016.

Deliveries of goods from Ukraine's light industry went down by 70% even though total imports of such goods to Russia went down 43%. In short, the option of a widespread improvement of Ukrainian deliveries to the Russian market is nothing more than wishful thinking—or a fiction designed to fool people into believing that it will somehow improve the Ukrainian economy.

THE MYTHS OF RUSSIAN GOOD WILL AND EU EXPLOITATION

This is not the first time The Ukrainian Week has concluded that any attempt to come to an agreement with Moscow in the framework of one “working group” or another will have no positive impact on Ukraine whatsoever. An example of the futility of this was the so-called “Brussels compromise” reached in September 2014, which postponed the economic part of Ukraine's Association Agreement with the EU by 15 months in exchange for Russia curtailing restrictive measures against Ukrainian imports. In fact, deliveries continued to be steeply cut, falling from US \$733.1mn in September 2014 to US \$464.0mn a year later. And once the economic part of the AA came into force, the decline actually slowed down, declining only to US \$341.7mn one year later, in September 2016. Even this was largely due to a ban on food imports to Russia after a Moscow embargo kicked in on January 1, 2016.

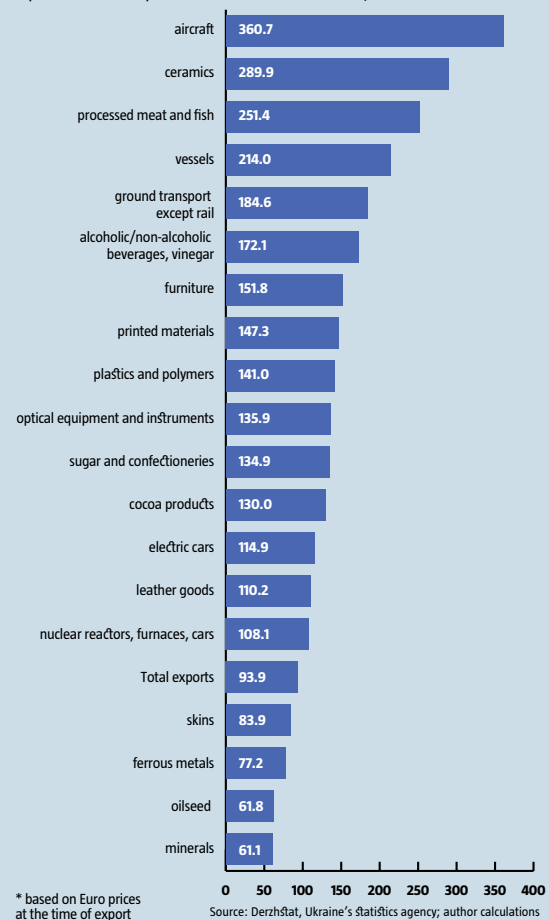
In light of all this, the attempts by the Kremlin's fifth column in Ukraine today to lobby the revival of economic ties could be a reflection of Moscow's loss of its traditional instruments for pressuring Ukraine through trade-based blackmail. It has simply run out of the means of applying such pressure on its neighbor. To a large extent, this is testimony of the fact that Russia has lost in its permanent trade war against Ukraine: it failed to achieve its objectives and its options for continuing the war have been exhausted.

This means that the way to improve the socio-economic situation in Ukraine lies, not through pointless efforts to turn back the clock, as the fifth column keeps proposing, but in actively looking at opportunities to replace the permanently lost Russian market with new niche markets in Europe and other promising domestic and foreign markets. Whining about Ukrainian products not being needed on EU or third country markets simply reflects the reluctance of pro-Russian business to change and become more flexible and adaptable. Those companies that want to and are putting the necessary efforts are gradually finding opportunities and niches in the European market. It may be happening more slowly than one would wish, but Ukraine is also integrating into the production cycles of leading translational corporations.

Certainly deliveries to the EU are affected by quotas and caps, but this mainly affects agricultural products, the “commodity-based” that the fifth column so likes to complain about. In other words, the EU is actually making it harder for Ukraine to export raw materials and is not setting up any obstacles to the delivery of most finished goods from Ukraine. Relations with the EU are the subject

Myths about raw material trends in Ukraine's exports to the EU

Exports of select UA products* to EU countries in 2015, 2013 = 100%



of a separate article, but the key elements can be briefly set out: Ukrainian exports to the EU shrank only 6.1% over 2013-2015, from €12.5bn to €11.73bn, mostly as the export of raw materials was reduced. For instance, mineral exports fell by 38.9%, oilseeds by 38.2%, and unfinished ferrous metals by 22.8%. Meanwhile, deliveries of aircraft rose 160%, processed meat and fish increased 150%, glass products 140%, shipbuilding products 110%, transport vehicles 80%, alcoholic and non-alcoholic beverages 70%, furniture 50%, instruments and tools went up 36%, sugar and confectioneries 35%, cocoa products 30%, electronics 15%, and other machinery and equipment 8%.

The fact that Ukraine's exports to the EU really are currently dominated by raw materials is a reflection of the reality on the ground long before the Association Agreement went into effect. But the outcome is the exactly opposite trend: active growth of deliveries of finished, mostly industrial, goods as deliveries of raw materials shrink.

Clearly, a certain part of Ukrainian “business” is hung up on “traditional markets” and the exploitation of outmoded soviet industrial facilities it took over long ago and is incapable of starting up or growing new businesses. None of this is related to the EU or the Association Agreement. In fact, these businesses would not even need to necessarily compete on European markets with European companies: it would be more than enough if they simply looked to Asian markets and competed in markets outside the European Union. ■

Speculations on the state budget

Lyubomyr Shavalyuk

Some interesting details about the national budget for the upcoming year

On September 15, the drop-dead deadline provided in the Budget Code, the 2017 Budget Bill was registered the Verkhovna Rada after having been approved by the Cabinet at an unscheduled session just days before. And so, the budget race was on. This is the perfect moment to analyze the country's main financial roadmap and for civil society and the public to debate its merits: what should be in it, and what shouldn't.

A QUALITATIVE BREAKTHROUGH

First of all, the Government deserves a medal. It did not take the bill back for revisions right after registering it in the legislature, the way its predecessors had done for the last few years. That's already a good sign. The overall impression is that preparations for the 2017 Budget have been going on for some time in a fairly systematic fashion: the budget resolution was passed back in June and, judging by the notices that appeared from time to time in the press, MinFin worked continuously with all the government agencies on the actual draft.

Most likely this budget bill was ready even earlier, along with a number of variations depending on how events unfolded, but the Government had to wait for the IMF to make up its mind whether to carry out a second review of the Extended Fund Facility (EFF) and issue the third tranche of Ukraine's credit. If its decision was positive, it meant that Ukraine would be able to use at least US \$3.5-4bn from the IMF and other international donors, enabling a positive outlook for next year. If things had gone the other way, based on current indicators, the country would have had to tighten its belt considerably in the last few months of this year, which would have had a negative effect on economic growth in 2017—and hence on 2017 budget figures.

On September 14, the IMF ended up making a positive decision, announcing that this was a kind of advance, exactly a day before the deadline for submitting a Budget Bill to the Verkhovna Rada. The Cabinet met the deadline, the process was launched, and short-term expectations based on the latest portion of foreign loans are positive. For this, the Cabinet deserves to be praised.

But let's not get carried away with its merits just yet. 2016 appears to have marked the end of the country's crisis and its sharp economic decline, so 2017 should be the first year of statistically significant growth since 2011. Or are we living in Greece? Yet this requires a completely different approach to putting together a budget—and far less time and effort spent on the process itself. When an economy is stagnating or in decline, there is no certainty where and when it will bottom out or in the tax base, so the Government has to look for various means to expand it, using measures that are



often questionable and artificial, to raise rates and fees, and increase tax pressure. When an economy is in a growth phase, things are very different: the tax base is predictable, budget revenues don't tend to decline, and no painful moves are necessary, such as spending cuts.

This leads to a number of conclusions. Firstly, the fact that the previous budgets were approved just before the New Year may have been embarrassing, but it was largely justified by the crisis and made it possible, to some extent, to establish the most realistic and freshest forecasts and indicators in the bill. This reduces the level of blame on the post-revolutionary predecessors, as well as the merits of the Groisman Cabinet. Secondly, since we're talking about a budget in a growing phase, its weak points will not be where to find revenues but how to most effectively distribute them across expenditures. This is what needs to be considered when analyzing the bill.

THE REVENUE SIDE

In the current Budget Bill, 2017 revenues are expected to be UAH 706bn, which is 17.3% more than was planned in the current year. Tax revenues, which con-

stitute 83% of all planned income, are expected to rise by the same amount. And this is the first spot where questions arise about how realistic the numbers are. If real GDP is expected to rise 3.0% and consumer price inflation 8.1% in 2017—GDP deflator-based inflation could be a slightly different figure—, this suggests nominal GDP in the range of 11–12%, although current inflation rates suggest that even this growth might not happen. On average, the tax base should grow approximately the same. So where will the 5-6pp difference, UAH 30–36bn, come from if the Government upholds its promise not to increase tax pressure? What is the likelihood of this turning into a hole in the budget in the end?

There are two possible answers to these questions. The first is simpler, but also somewhat superficial: either a simple mathematical miscalculation or putting bets on the best-case scenario. That's what happened in 2016: initially, nominal GDP growth of 14% was used, meaning 2% real growth plus 12% inflation, and a presumed budget revenue increase of 15%. When it turned out that the economy was growing more slowly than anticipated, the budget was saved by a somewhat unexpected devaluation of the hryvnia at the beginning of the year, which led to an average UAH/USD exchange rate of 25.3/1 for the first eight months rather than the projected 24.1/1 in the 2016 Budget—and it's unlikely to go any lower by the end of the year. This ensured higher than anticipated nominal GDP and made it possible to fulfill the planned revenue side.

Despite all this, talk about a possible failure to fulfill the 2016 Budget continued well into September, when the IMF issued a third tranche not entirely justifiably but based on all these discussions and the risks that had appeared on the horizon. If the 2017 Budget, put in the context of a steep decline in real inflation, also counts on something similar to happen and save it, then this will do no good because it simply sets up the real risk of macroeconomic imbalance: a rise in the budget deficit beyond the caps established in the IMF program, a new wave of devaluation and the accompanying rise in inflation, even if the wave is modest. If it was a mere miscalculation, then it would be good to correct it prior to the passage of the final version.

A second possible answer: the Government wants to increase revenues by improving tax administration. According to a number of top officials, this is one of the Cabinet's top priorities today. Still, there is an internal contradiction in this particular answer. Improving tax collection primarily means cutting the time businesses spend on accounting and reporting, and the money they waste on bribes. Most of the time, this doesn't represent a clear benefit in terms of increased budget revenues. If, however, it means eliminating loopholes that will result in increased VAT contributions, nominal GDP will also grow with these additional revenues as the shadow economy shrinks.

And so, improving tax administration increases revenues to the Treasury in proportion to the increase in nominal GDP, particularly that part that was in the shadows. Still, this does not explain the different pace of growth. Beyond this, is there any guarantee that, with better tax administration, the

necessary large sums established in the budget will be covered? Among others, the 2017 Budget Bill projects an increase in net VAT revenues from goods and services made in Ukraine by 33.9%. But this figure seems far too bold and will more likely be achieved because of increased taxes and a new wave of delays in VAT refunds to exporters—and not streamlined administration. So why divvy up the pelt of a bear that's still lumbering around in the forest? Hoping for a miracle again? Instead of making life easier for business, this will only lead to new problems for it.

GOOD NEWS, BAD NEWS

There is also no reason to talk about higher individual taxes and fees as a factor in the higher growth of budget revenues compared to nominal GDP. Tax rates are only going up significantly on goods subject to excise tax, which means excise revenues could go up 29.3% on goods made in Ukraine and 42.1% on imports. This step is nothing new, as it is part of the Association Agreement with the EU, according to which Ukraine is supposed to bring its excise tax rates in line with European ones over the course of a number of years. This is, in fact, the only significant increase if we ignore the fact that the special tax breaks for the farm sector was finally dropped, as its impact on revenues was seen already in 2016.

Instead, we should be talking about the decline in the tax burden in the broader list of taxes and fees: the reduction of rates, the provision of tax breaks and the cancellation of certain fees. In an entire slew of cases, these reductions are the first indicators of the end of economic decline, the period during which additional or increased payments were instituted. The AA actually establishes further gradual reductions in import duties for products made in the EU. At the same time, revenues from customs duties are supposed to grow 16% according to the Cabinet, although it's not clear exactly how. Could it be through better management of the Customs Service, the results of which are quite hard to predict, although it also represents enormous potential?

MOST LIKELY THE BUDGET BILL WAS READY EVEN EARLIER, BUT THE GOVERNMENT HAD TO WAIT FOR THE IMF TO MAKE UP ITS MIND WHETHER TO CARRY OUT A SECOND REVIEW OF EFF AND ISSUE THE THIRD TRANCHE OF UKRAINE'S CREDIT

Pensions will now be taxable, starting at 10 subsistence minimum incomes, not at three minimum monthly incomes, which almost amounts to canceling this tax, given how small the tax base for this group is. Starting in 2017, moreover, all individuals whose income is below 1.4 subsistence minimums—which includes millions who have two pay packets: a minimal official taxed one and the rest as cash in an envelope—, the state will be giving a social benefit worth 50% of the subsistence minimum. And this means, in fact, reducing taxes by this amount. Both of these innovations will result in reduced personal income tax revenues, although the 2016 Budget Bill says that they will grow by 14.2%. Once again, this

figure is greater than nominal GDP growth, which only raises more questions.

The well fees for extracting petroleum, natural gas and gas condensate are also being cut, so planned revenues will be reduced 31.1%, 22.2% and 15.5%. On the other hand, revenues from the transit of ammonia and the use of radio frequencies will nearly double as fees are raised on both, but this will still be a substantially smaller amount.

In the current Budget Bill, 2017 revenues are expected to be **UAH 706bn**, which is **17.3%** more than was planned in the current year

In short, based on current macroeconomic forecasts, it's doubtful that the revenue side of the 2017 Budget will be fulfilled. The current Government, which has criticized its predecessors for the unrealistic 2016 Budget, has embedded a similar little bomb in the upcoming budget. Perhaps its reasons for doing so are to pull up revenues to cover basic expenditures and the budget deficit dictated by the IMF cooperation program.

The problem with this is twofold. First, for a poor country to start with expenditures when drafting its budget is a mistake that has been made by just about all of Ukraine's Cabinets in the last quarter-century—and one that the previous Government under Natalie Jaresko tried to correct, but was unable to bring to its logical conclusion. Second, if the foundation of a budget is built on unrealistic revenue projections, in the best-case scenario, there will be constant stress and regular debates about sequestering. In the worst case, taxes will have to be increased and the deficit allowed to inflate, which will only lead to another break in IMF funding. Obviously, the paradigm by



THE PARADIGM BY WHICH THE STATE BUDGET IS DRAFTED NEEDS TO BE CHANGED. THIS YEAR, ALL THE NECESSARY CONDITIONS ARE IN PLACE TO ACTUALLY DO SO — EXCEPT FOR AN UNDERSTANDING OF HOW CRITICAL THIS IS AMONG THE COUNTRY'S LEADERSHIP

which the state budget is drafted needs to be changed. This year, all the necessary conditions are in place to actually do so—except for an understanding of how critical this is among the country's leadership.

RAISING EXPENDITURES TO REDUCE COSTS

The expenditure side of the 2017 Budget is UAH 775bn or 14.9% higher than planned for the current year. Taken in isolation from possible problems with tax revenues, this is a fairly modest indicator. Still, we're talking about a growth budget: the minute additional revenues appear, the army of pockets eager to take a cut grows in leaps and bounds. In published documents from the main budget spending managers that were submitted to the Finance Ministry in the process of drafting this budget, the number of requests or "wish lists" added up to UAH 1,084bn, of which the bill takes into account only

UAH 721bn in expenditures. The difference is equal to 50% of the budget.

This raises the idea of an "ideal" budget—which, of course, does not exist. If the state tries to satisfy everyone, there will never be enough money, but if it tries to economize as much as possible, then there will always be unhappy recipients. This is the choice that those drafting the 2017 Budget tried to resolve by allocating substantial sums to fund priorities while strictly constraining all the other expenditures. Maybe this is the right approach.

Among the top priorities in the 2017 Budget are: the 5% of GDP or UAH 129.3bn defense allocation, which is not a new item: a major increase in salaries for teachers and doctors, which is supposed to be the first step towards raising the prestige of these professions to finally attract real brains to the two sectors and revive education and healthcare in parallel with much-needed reforms; and a roadworks fund into which 26.75% of revenues from customs, excise and other duties related to petroleum products and vehicles will be directed. After all, good roads are probably the second best way after "chickens in pots" to improve political ratings: roadways are used by everybody and those who keep them in good condition are remembered for a very long time, which cannot be said about a pot of chicken. The fourth priority is the allocation of UAH 5.6bn in support to farmers, with a focus on small and medium holdings, which is of an order higher than previous support. With the appearance of mechanisms that can ensure the effective utilization of these public monies and prevent embezzlement and corruption, all four priorities are quite justified.

One final priority that can be observed across the board in the 2017 Budget is an increase in pay scales for certain categories of civil servants, such as personnel working for the courts, prosecutors and so on. As a result, these spending items have risen noticeably: the budget for the Prosecutor General's Office is up 41%; that for the Supreme Court is up 850%; the State Judiciary Administration's allocation is up 57%; the Constitutional Court's is up 63%, and so on. This rise in salaries is a very logical factor in reducing the temptation to engage in corruption—provided that the current lot of dirty-handed officials is immediately weeded out, along with the corrupt networks and legislative loopholes that allow them to appear

THE USUAL PITFALLS

The expenditure side has its weak spots as well, mainly related to social populism. Last year, when the second IMF tranche came in, the Government significantly increased social standards as of September 1 without waiting for December, when these raises were to go into effect according to the budget. Even without the third tranche, this year the new Government started amending the budget that have made the December pay rises more substantial than they were initially: the minimum wage has been raised 10.5% vs 6.9% in the initial 2016 Budget. But then it was faced with the problem of where to get the money to cover these expenditures. Next year, social standards will be raised twice again, in May and December, more than 10% altogether, but so far not any more.

This raises the question whether this policy has been well thought through. If we consider that 2015 was the year for eliminating all the economic distortions after the steep economic decline inherited from the previous regime and the Russian war, and the year of macrofinancial stabilization, then its indicators should be taken as the baseline for further calculations. According to Government forecasts, nominal GDP will be 31% greater in 2017 than last year, 83% of that due to inflation. By contrast, the minimum wage at the end of next year will be 45% higher than prior to September 2015, when it was UAH 1,218 and had stayed at that level for 22 months, that is, since before the fateful Euromaidan. In other words, the minimum wage is growing at 50% more than the pace of nominal, rather than real, economic growth.

However, all rate schedules for salaries in the public sector are tied to the minimum wage. And if the state starts handing out money to people without goods to back it, this will lead either directly to inflation, or to growing imports, a worsening balance of trade, the devaluation of the hryvnia as long as the exchange rate remains flexible, and indirect inflation.

Social populism is the fatal flaw of Ukraine's governments and no one seems to be able to get rid of it. Even Viktor Yanukovich's experience failed to teach anyone, when minimal wages grew 38% and average wages by 55%, yet none of it was backed by goods. And so production costs went up for domestic manufacturers, reducing the competitiveness of Ukrainian goods on foreign markets while import volumes skyrocketed. Since the hryvnia exchange rate was fixed, this meant that gold reserves rapidly disappeared and became one of the key reasons for the hryvnia's dramatic decline to one third of its 2013 value over 2014-2015.

That imbalance accumulated for a few years and led eventually to an economic collapse. Now, with the exchange rate flexible, imbalances caused by social populism won't accumulate but will immediately affect the currency market, either through growing imports or through a rise in direct demand for hard currency for personal savings. This will spill over into a permanent devaluation, which will give rise to inflation that will rapidly eat up those raises in wages and pension that Ukraine's Governments so stubbornly include in their budgets at the first opportunity.

The Groisman Government needs to understand that it cannot just hand out money because it feels like it. It can't hand it out when there are not enough goods and services on which this money will be spent. No matter how benign the intentions, if wages and pensions are raised with an economic foundation, they will end up being worthless, inflation will eat them up, and not only will they not improve the domestic situation, but they will make it worse, as expectations of inflation skyrocket and lead to the repeat dollarization of the economy.

A far more effective approach would be to spend that same money on roads, i.e., that same wage except for work laying roads, manufacturing gravel, sand and so on, or on corruption-fighting raises for judges, who won't reduce their levels of consumption but will stop using dirty money gained through bribery to pay for things and thus will not put upward pressure on prices. This lesson in economics needs to be absorbed

once and for all by those in power in Ukraine. And it's noteworthy that a flexible hryvnia exchange rate will foster this, because any imbalance won't accumulate for years, making it impossible to understand who is at fault when everything goes into collapse, but will immediately be felt on the currency market.

THE TIGHT SPOTS

Other than this main flaw that will continue to have a destabilizing impact on the macroeconomic situation in 2017, there are a few other Achilles' heels here. Firstly, servicing the national debt will rise to UAH 111bn, which is 12.4% higher than in 2016. The good news there is that this increase will be almost the same as nominal GDP growth, which means that economic will continue to pick up pace—depending on reforms, of course—so that the burden of these debts on the economy could begin to ease as early as in 2018. At that point, Ukraine will have the resources to pay off foreign loans that come due in 24-30 months.

Secondly, the state of the Pension Fund deficit is not entirely clear. For 2017, it's been set at UAH 156bn. If we look at what was planned for this year, UAH 145bn, then that's an increase of only 7.6%, meaning that the deficit will shrink slightly. But at this pace, decades will be needed to resolve the problem. The pension system desperately needs reform, an issue that became one of the stumbling blocks between Ukraine and the IMF, which held back the third tranche for over a year as a result. Something must be done about the Pension Fund deficit, but the

The expenditure side of the 2017 Budget is UAH **775bn** or **14.9%** higher than planned for 2016

figure in the 2017 Budget shows that the Cabinet intends to maintain status quo.

Thirdly, the notorious utility subsidies also raise serious questions. The thing is that UAH 40bn were allocated for them this year, a figure that is slated to rise by 26% in the 2017 Budget, to nearly UAH 51bn—a figure that is completely divorced from reality. For the first seven months of 2016, UAH 25.6bn went to cover these subsidies. A large portion of this was spent on natural gas that was half as expensive as it is now and subsidized utility rates that were considerably lower than they are today. In those few months that are left until the end of the year, just those households that already had a subsidy will require an amount that is 1.5-2 times larger, and that's not even counting new applicants for utility subsidies. How is it possible to allocate UAH 40bn for this year, let alone UAH 51bn next year? Of course, that's a rhetorical question. Word is that the IMF suggested that the Government provide subsidies on a more selective basis.

All in all, it has to be said that the 2017 budget has more that is positive than negative for the country and its people. Since Ukrainians are building a democratic state with a strong civil society, it would be pretty nice if the Government, as part of the budgetary process, allowed itself to explain the tight spots to the public and correct the flaws and errors raised, including the ones mentioned here. ■

Oleksandr Danylyuk:

"If people pay taxes, the state will reduce rates where possible"

The Minister of Finance spoke to *The Ukrainian Week* about the new blueprint for tax reform, the campaign against shadow economy, corruption at the customs, State Fiscal Service reform, and the 2017 budget.

Interviewed
by **Tetyana
Omelchenko**

What are the differences between the new tax reform blueprint and the two previous drafts developed last year? What were the key provisions of those drafts that made it impossible to adopt the reform in 2015, and what changes have been made to the new version?

— The reform draft has actually been approved, with only a few provisions not included in the final version. Last year, I was also involved in the process in the capacity of the Deputy Chief of Staff of the Presidential Administration and worked on the Tax Code amendments. So, I understand quite well where the problems are. Most importantly, I understand how the tax

office works and how the tax administration system functions.

Tax rates are not the main issue. It is the administration of taxes that determines corruption levels and affects the interests of investors. After all, when investors consider investing their money, they first of all study the Tax Code and consult legal and audit companies providing services to businesses in Ukraine.

We have reduced labor tax, and this is a positive move. But has this helped solve major business problems? No. Do businessmen argue about VAT rates? No. But almost everyone complains about the problems with VAT reimbursement, including kickbacks for such refunds. Of course, such abuses greatly discourage businesses. And this is just one of the most obvious examples.

So, the three main differences in this year's proposals are as follows.

First of all, we focus on solving the main problem of the business: we simplify administration. Secondly, this time we have no warring camps or different reform visions, we are working as a team towards a common goal. A work group has been established that includes representatives of the Parliament's Committee on Taxation, including its Chairwoman Nina Yuzhanina and other MPs, legislators of Bill No. 3357, business associations, community experts, and State Fiscal Service representatives. Of course, it was not always easy to compromise, but we have found solutions to all disputed issues and will deliver the results that the businesses are expecting. Thirdly, unlike last year, when the last tax reform was kept secret to the last, this time we made the process as open as possible from the very start, in order to take into account as many ideas as possible. We organized dozens of meetings and public consultations with businesses and community experts, and published draft updates on the official website of the Ministry of Finance and its Facebook page to encourage public discussion, so that absolutely anyone could make comments and suggestions.

What are the chances that the new tax reform will be approved this year and implemented in 2017? Will the Parliament become the biggest obstacle?

— I don't think that the Parliament will oppose it, they are quite positive about it. Only those profiting from it today will backpedal. The voting will show. Businesses need this reform badly. They will support us, especially as far as the elimination of the tax police is concerned. However, our bill does not cover the issue of dealing with the tax police and establishing the Financial Investigation Service. A bill on that has already been drafted, it is currently discussed with the ministries, and we are planning to submit it for the



Oleksandr Danylyuk, born in 1975 in Moldova, graduated from the Kyiv Institute of Investment Management and the Kyiv Polytechnic Institute. He earned his MBA from Kelley School of Business at Indiana University (USA). He started his career as a stock broker. Later, Danylyuk worked for three years with Baker & McKenzie projects in London and Moscow. He headed an investment fund in London. He also served as a supernumerary advisor to President Viktor Yanukovich and headed the Coordination Center for Economic Reforms. In July 2014, he was appointed Presidential representative in the Cabinet of Ukraine. In September 2015, he became Deputy Chief of Staff for the Presidential Administration. On April 14, 2016, he was appointed Finance Minister of Ukraine.

Cabinet's approval separately. After all, the tax police is just one of the tools used by the State Fiscal Service, and not the most efficient one. In fact, according to businesses, its role is rather negative.

I believe that the reform will be adopted. Of course, it also has anti-corruption provisions, which some people might not like. But there's nothing we can do for them. It's now time for real change.

Does the tax reform envisage reducing the overall tax burden on the economy and the rate of GDP redistribution through the budget?

— Our changes to taxation do not include the revision of rates. We use a different approach. We reduce the burden on businesses by streamlining administration. This will help businesses save both time and money.

Some might say that if the rates have not been revised, it is not a reform. First of all, we never called it a reform. It is designed to improve the administration and resolve the existing business problems. Secondly, we introduce practical changes that will have real impact on businesses. This is the most important.

Talking about the budget, I have always supported the idea of a "small state." That is, I lobby for the small but efficient state apparatus. I don't like it when funds are spent inefficiently to pay those who do not perform their functions or perform them poorly. So, our goal today is to optimize the state apparatus (and we carefully study all expenditures), identify inefficiencies, find resources and channel them where necessary. We have already identified the key priorities in the budget process and will allocate resources to the areas where they are most important today. These are defense, education (especially secondary), energy efficiency, infrastructure, and diplomatic service.

As for the other areas that are inefficient, they should undergo layoffs in order to increase wages. Take the State Fiscal Service (SFS), for example. After 30% layoffs, it currently employs 41,000 people, but I believe that its staff should be further reduced in order to increase salaries. Given the current level of salaries of the leading SFS inspectors, we can hardly hope to eradicate corruption. I am sure that every state agency should primarily look for its own resources. All and any optimization should be used to increase salaries. I would like to emphasize that the state does not have a huge vault, where it could find billions of hryvnia to dramatically raise wages for all. We have very limited resources!

You were the initiator of tax holiday for small businesses. However, according to the State Statistics Bureau, 56% of all individual entrepreneurs and most small businesses work in sales and repairs, that is, they don't produce any significant added value. Does it make sense to encourage small businesses working this way?

— It is necessary to look for various incentive mechanisms and see what works best. Today we have almost no small and medium businesses in Ukraine. However, it is exactly this sector that we should focus on. But there are some problems. It is always difficult for small businesses to enter even the Ukrainian market, not to mention the international one. The relative costs of market entry are disproportionate. Another disadvantage for small and medium busi-

ness in Ukraine is the lack of funding. Typically, banks would not lend to them, or only provide lending at very high interest rates. In the West, programs are available for business startups through venture capital. In Ukraine, there is no such thing yet. The only option is bank financing, but it is extremely risky and expensive. Knowing this, we have proposed a tax holiday tool. But we will also look for other approaches. It is very important for small businesses that all obstacles to registering a company are removed and reporting is minimized. After all, these are all additional costs and risks for businesses. This is exactly what we are doing.

Do you agree that most of the businesses operating in the shadows evade taxes not because they don't want to pay them, but because they won't survive if they do? The challenge to improving efficiency of business, in turn, is the lack of proper education, management skills etc. Will fighting shadow economy be successful in such environment, and how should it be brought to light under these conditions?

— Of course, it will be successful. As for going out of business, our tax rates are quite competitive compared to other countries. There are certain taxation models. We cannot say that the nation will go bust if we all pay taxes honestly. For example, in capitalist countries businesses operate successfully and pay taxes. The tax rate here is not important.

Unfortunately, our system allows for not paying taxes or paying the minimal rate. When it comes to small businesses (retail companies and stores), there is a lot of abuse there through the flat-tax system (also known in Ukraine as the simplified tax system – Ed.) Therefore, the flat tax should strictly perform its functions and prevent such abuses. I'm sure that the current laws allow for putting an end to some companies' abuses related to the flat-tax system.

Moreover, we should not forget that the taxes paid are allocated for pensions and the public sector. That is, we have to think about the economy, rather than trying to pay as little as possible. For example, many Ukrainians today make purchases over the internet (and these are gray deliveries) or go to the shops that sell counterfeit products and don't pay taxes.

Therefore, I believe that if we don't change the administration system to a fair one, entrepreneurs who want to work honestly will not be competitive. But this is the issue of not just rates, but also honesty. When the rules are the same for all, the model will work differently. If people pay taxes, the state will reduce some rates where possible. But now, until some of the pressing problems that I mentioned are not solved, doing this would be just irresponsible. Because today we have very realistic budget estimates. And we reject any experiments that sound too populist. We can't afford the risk of having a hole in the budget, and the government is accountable to pensioners and those receiving state subsidies and salaries. Our task is to make sure they receive those funds. Pensioners are not supposed to pay for the fact that we have an inefficient tax administration system.

The media quite often report that the state loses tens of billions of hryvnia through customs. For example, Kostyantyn Likarchuk mentioned about 20–50% of the

officially collected amounts, that is, UAH 50-100bn. Do you have any estimates of these amounts? What are they made of? Could they be paid to the budget and what prevents that?

— There are many factors. The major ones are illegal trafficking and corruption. Our customs are non-transparent and corrupt. As a result, even transit goods often bypass Ukraine. The scale of trafficking is difficult to assess, so I wouldn't believe the amounts mentioned by Likarchuk. Quite a lot of companies work honestly, especially big business and foreign companies. We have our own numbers concerning this issue. If we fight customs corruption efficiently, we could increase state budget revenues by about 40%. However, illegal trafficking at customs involves not only customs officers, but also SBU officials and border guards. In this situation, we do everything we can within the Cabinet powers.

What exactly?

— We have developed the "one-stop-shop" electronic system that can handle most customs issues (except for value assessment). Customs declarations can be submitted by email. After the goods arrive at the border, they must be examined within four hours. If any issues arise, a check by the bodies that initiated them must be carried out simultaneously within 24 hours. These checks must be performed at the time agreed with the filer, and cannot last longer than 24 hours. The process will be regulated by a number of indicators. If many goods are stopped unreasonably, such indicators will be changed. The electronic declaration system is not operating yet, but we are working on it.



UNLESS WE CHANGE THE ADMINISTRATION SYSTEM TO A FAIR ONE, THE ENTREPRENEURS WHO WANT TO WORK HONESTLY WILL NOT BE COMPETITIVE

Of course, this model is for the businesses that work transparently. As for the shadow businesses, anti-corruption procedures should be introduced to deal with them. Primarily, it is automatic distribution of custom declarations. Very often companies use the services of a specific inspector, after striking a hefty deal with him. An electronic system could break these ties, so that the inspector does not know in advance whom he will be checking.

Another new introduction is audio and video recording. The purchase of cameras will require significant funds, but this control method will pay for itself. "Mobile groups" have been launched (20 teams have been planned for). We wanted to create a supervisory mechanism for customs without any direct contact with them. So, we created an autonomous analytical center (with access to SFS databases), reporting to the Finance Minister. If any risks or abuse are identified at the customs, mobile groups are sent there that are allowed to stop vehicles even after they went through all the checks. We are also establishing a "pricing center," because one of the problems is discretionary value assessment, which gives room for corruption. We strive to minimize discretion by using world market reference prices as a benchmark. When we have full information

exchange with the customs services of the neighboring countries, abuse opportunities will be gone for good. Of course, cross-border smuggling will remain, but this is another issue.

You have mentioned SFS earlier. In 2016, there was a lot of discussion about the three-year SFS reform plan agreed with the IMF. How much of this plan has already been implemented, and what are the stumbling blocks?

— There are no stumbling blocks as such. But I would rather not discuss any abstract plans. What matters is not to what degree the plan has been implemented, but to what effect. It would be better to ask the business community, since they are the main indicator. The plan could be implemented almost in its entirety, but if businesses feel no relief... At the moment we introduce our proposals to it, because I am not satisfied with it. I believe that businesses have the right to see some changes already today. Everyone understands that the country has problems with SFS. We propose to take the tax databases out of the SFS control and give them to the Ministry of Finance. This is my principled position, and it is fully supported by the Parliamentary Committee on Taxation and Customs Policy and its Head Nina Yuzhanina.

Next, we plan to abolish the tax police and create the Financial Investigation Service (an analytical center employing a maximum of 2,500). This should happen in late autumn, and I hope for a positive outcome of its work. We are catalyzing the reform of SFS district units: there will be no audits there. Why wait another two years as per the plan? The layoffs currently taking place at the regional level will encourage people to switch to other work methods (namely, electronic ones). This will enable us to slightly reduce the staff in order to raise the salaries to other employees. It is necessary to speed up these systemic changes, because they will result in reduced pressure on business.

What is the motivation behind taking tax databases away from the SFS?

— Today, everything is administered via electronic systems. And we have several reasons to believe that at this stage the databases should not be held by the SFS. The most important of them is the conflict of interest. The SFS, if it operates as a service, should not have any temptations. By they do exist, and the SFS often cedes to them. Of course, we can try to make sure that they don't yield to temptations. But it's easier to solve the issue systematically. After all, there have been instances when the entire system suddenly "collapsed," and nobody except for the SFS could have access to it or verify it. There was also an electronic VAT system (for agribusinesses) that gave too many refunds. In fact, if someone "plays around" with those databases, they can hide anything there. Because when the system "collapses," all information is lost.

As the Finance Minister, I am responsible for the SFS work. But when we make a request for information from the database, we can only get it within two or three days. However, over this time it can be "adjusted." Therefore, we proposed to transfer all databases to the Ministry of Finance. We will maintain them in proper condition and not allow any non-transparent "adjustments" by the SFS. ■

Selling air

Syarhey Pulsha

What undermines the Lukashenka regime

When something extremely unusual happens, Belarusians say, "Something has died in the woods". In the evening on September 11, something very big must have passed away in the Bialowieża Forest. According to election results, two members of the opposition made it into the lower house of parliament – the House of Representatives. One is deputy head of the Belarusian Language Society, Alena Anisim, the other is Hanna Kanapatska, a representative of one of the leading anti-government political forces, the United Civic Party.

TEN YEARS WITHOUT THE RIGHT TO VOTE

There has been no opposition in the parliament of the "blue-eyed republic" [a nickname given thanks to its large number of lakes and rivers] since 2004, 12 years ago. The last more or less oppositional People's Representatives were elected in 2000, their term of office ending four years later.

And it ended with a bang: three MPs announced a hunger strike in protest against Alyaksandr Lukashenka's intention to hold a referendum on his right to run for the presidency as many times as he wanted (until 2004, presidential powers were limited to two terms). Their actions did not bring any results and Batka ("Father", a nickname for Lukashenka – **Ed.**) still held his referendum, but the way that the deputies left parliament was a nice gesture. Since then, no members of opposition have been allowed into the House of Representatives. Until now.

However, no one doubts that these new dissidents were not elected, but appointed. Elections to the Belarusian Parliament have not been recognised as free, fair, transparent and in accordance with OSCE standards since 1996, when Lukashenka dissolved the 13th convocation of the Supreme Soviet and instead created a bicameral structure for the legislative branch. This parliamentary campaign is unlikely to have been an exception.

Everyone is accustomed to the fact that Western observers from the OSCE Office for Democratic Institutions and Human Rights (ODIHR), the OSCE Parliamentary Assembly and the Council of Europe's similar structure first note "progress" after any elections in any country, and then proceed to criticism. The head of the OSCE Short-Term Observation Mission, Kent Härstedt, did not hide his disappointment at a post-election press conference. During the presidential vote in 2015, the OSCE released a list of recommendations for Belarusian authorities regarding what should be improved in the electoral process. None of them were fully implemented. The heads of the OSCE PA and PACE observation missions agreed with Härstedt and reeled off a long list of Belarusian electoral flaws: from the opaque method in which electoral commissions were formed to the way votes were counted, which was kept secret even from commissioners.

So why did Lukashenka let two opposition MPs into parliament?

It is all quite simple. As renowned Belarusian writer Viktor Martsinovich wrote on his Facebook page, "The economic situation is such that there is not enough money for a complete absence of the opposition in parliament."

THE FRIDGE IS STRONGER THAN THE TV

Over the past two years, Belarusians have fully experienced the economic crisis provoked by Russia's slump and cheap oil. It is no secret that the local "economic miracle" was reliant on processing cheap Russian "black gold" and endless financial subsidies and investments from Moscow. Even prior to the presidential elections in 2015, many remembered that Lukashenka had promised monthly wages equivalent to US \$1,000 by this date. In fact, the average was barely \$500 – the level promised for 2010.

Today, a monthly salary equivalent to US \$500 is considered extremely high. The majority earn US \$200.

An experienced Ukrainian reader will say "Ha! Our whole country lives on two hundred a month!" Indeed, this is nothing new for Ukrainians. But their prices cannot be compared to Belarusian ones: the latter are twice as high. A simple example: last week, I bought a bottle of Shustov cognac in Chernihiv for \$4 (84 hryvnias). In Minsk, the local version of the same product costs more than \$7.

THE DECLINE IN BELARUSIANS' LIVING STANDARDS IS EXPLAINED, AMONG OTHER THINGS, BY THE FACT THAT ALMOST ALL OF THE COUNTRY'S INDUSTRY IS TAILORED TO SUPPLYING RUSSIA

Entrepreneurs from Chernihiv that produce souvenirs previously found success trading at the Slavic Bazaar festival in Vitebsk. Even last year they brought two to three thousand dollars each home from there. This year, they sold US \$300 worth of goods, barely compensating their travel costs. They complained about the decline in Belarusians' purchasing power and were astonished by the prices. "How do you live here?" they asked locals in astonishment.

The record decline in Belarusians' living standards is also explained by the fact that almost all of the country's industry is tailored to supplying Russia. It is our main trading partner. Russia accounts for more Belarusian exports than the entire European Union. However, oil prices have crippled the Russian customers of Belarusian products. Last year, trade turnover between Belarus and Russia decreased by a third! Meaning that Russians are simply not buying what their immediate western neigh- ➤



Parliament under control. Two opposition MPs will not change the overall political landscape of Belarus

bour produces. And accordingly, Belarusian workers simply do not earn anything.

The denomination introduced by the government on 1 July 2016 has also had a fair impact on people's prosperity. They ceased to be millionaires: four zeros disappeared from banknotes overnight and the country also started to use coins for the first time since its independence. And habits do not change as quickly as the money does. There is a difference: would you like to spend 2 roubles or 20 thousand? Psychologically, the former seems like small change, especially in the form of a single coin. So Belarusians squander away their wages, which now amount to 300-400 roubles, just like in Soviet times.

For now, the population is hanging on thanks to previous "rich" years, eating through their stashes of foreign currency. According to the National Bank, at the beginning of the year citizens' forex savings alone amounted to US \$8 billion, twice exceeding the country's foreign and gold reserves. This is no longer the case: since the beginning of 2016, people have sold the banks a record amount – US \$1.5 billion. Usually, they would sell one billion over the course of an entire year. However, about the same amount was also purchased. Now, US \$200 million less currency is bought each month than is sold.

No wonder that 81% of Belarusians, according to a June survey by the Independent Institute of Socio-Economic and Political Studies, think that the country is in crisis. And citizens lay the blame for this (and, in essence, for the poverty of the population) directly on Alyaksandr Lukashenka (42.3%) and the government (35.6%).

The leader of Belarus is in a tough spot. Previously, he attributed all troubles to the "global economic crisis". Today, this excuse does not work: everyone can see that only Russia, Belarus and Kazakhstan are in crisis. That is to say, the countries with which he first built the Customs Union, then the Eurasian Economic one. Other countries are recovering or have long recovered. Even Ukraine, which is at war, will end the year with GDP growth, while in Belarus it will fall by at least 1.5%, according to forecasts from leading economic organisations.

The crisis cannot be blamed on "foreign enemies" either: after the presidential elections in 2015, Europe

lifted most of the sanctions on Belarusian officials and businesses. Old "enemies" have become friends.

Of course, Lukashenka would like to share responsibility for the failure of his economic policies with someone else. Just one problem: there is no one, since he "rules" by himself, all alone! Perhaps this is why he needs opposition in parliament.

"IF A FRIEND SUDDENLY TURNS OUT TO BE..."

Recently, relations with Russia truly resemble the Vladimir Vysotsky song: "Not quite a friend, not quite an enemy, but just...". No, the rhetoric still looks wonderful. Lukashenko stresses that the Russian Federation does not have any allies more dependable than Belarus. But notice that there is no more "brotherly love". Moscow does not have enough money for "love".

The recent scandal regarding payments for Russian gas showed this clearly. Minsk unilaterally decided: the price set by Gazprom is unfair. And started to pay for supplies at a "fair" one. As a result, a debt to the Russian gas giant arose first to US \$150mn, then US \$200mn. And it continues to grow.

Earlier, Gazprom would have written off that amount before even starting discussions with the Belarusian government on which price is fair after all. Currently, they are refusing to cancel the debt. And the Russians troll Belarusian officials by regularly refuting their statements that an agreement has been reached on a price for natural gas.

Even the "sacred cow" – military cooperation between Russia and Belarus – is under threat. Lukashenka has repeatedly asked his ally to sell him the S-400 and Iskander air defence systems. Moscow has persistently refused. As a result, the head of Belarus decided to independently strengthen the country's defensive capabilities and, moreover, has achieved considerable success. This year, Polonez multiple launch rocket systems – engineered in Belarus – entered into service with the Belarusian army. According to experts, the second generation of these weapons is comparable to the Russian Iskander in range and accuracy. Except that they are not configured to carry nuclear warheads.

The next move of the Belarusian defence industry, according to analysts, could be the creation of its own cruise missile. Military expert Andrew Parotnikov does not see this to be particularly difficult: Minsk has started to work closely in this area with Islamabad, which has created its own cruise missile based on Western models. Nothing prevents the "blue-eyed republic" from using the Pakistani design as a guide and fitting Ukrainian engines. Fortunately, Motor Sich is firmly established in Belarus and already produces them at the Orsha Aircraft Repair Plant.

In the grand scheme of things, of course, Lukashenka is living his worst nightmare. Russia is in deep crisis, and to raise "patriotic sentiments", it may require another "small victorious war" with the extension of the "Russian World". Perhaps, he is seriously afraid that the next target will be Belarus.

This is evident from how the rhetoric of official Minsk has changed over the past two years – since the start of the Russian invasion in Ukraine. Previously all parades emphasised the "combat brotherhood" between Minsk and Moscow, now independence is an increasingly important subject in speeches by top state officials. The ribbon of Saint George as a "symbol of the Victory" at official events has been replaced by a buttonhole apple blossom

flower with a ribbon in the colours of the national flag. Moreover, for the second year running on the eve of Victory Day there have been leaks of information about "recommendations" for local authorities not to use the black and orange ribbon at festivities.

This year, the pro-government Belarusian Patriotic Union of Youth (the equivalent of Komsomol in the Soviet Union) held a Vyshyvanka Day. In official media, it was positioned as a "first", although it had previously been organised with great success for three years by none other than the opposition. Indeed, Lukashenka himself surprised everyone this year by appearing in front of the cameras wearing this "nationalist" clothing.

The chauvinistic Russian media points out these trends with great dissatisfaction. Even the Belarusian branch of Sputnik got in trouble for not promoting the "Russian World" enough. However, Belarusian media analysts note that the local segment of the Internet is too small to have a critical mass of morons who will fall for crude pro-Russian ideas. Therefore, in order to stay afloat, Sputnik is forced to write, for example, about concerts from people it calls "nationalists", meaning rock musicians Lavon Volski, Zmitser Vaitsyushkevich and Siarhei Mikhalok. In other words, the things that people want to read about.

Of course, Lukashenka's "anti-Russian" and "nationalist" rhetoric only goes so far. What if the oil price goes up and Russia can free up some more money for "brotherly love"? While letting "nationalist" Anisim into parliament, at the same Lukashenka made a "Cossack" – his sparring partner for the 2012 presidential elections and supporter of the "Russian World" Mikalai Ulakhovich – a deputy in the House of Representatives. For balance, so to speak.

So, in relations with Russia, as before, Lukashenka is trying to balance firmly on the fence. But it is worth pointing out one telling moment: no one has mentioned the Russian airbase in Belarus that there were a lot of conversations about in 2012-2015. The issue is closed. And not in favour of Moscow.

"THERE IS NO MONEY, BUT HAVE A NICE DAY!"

Lukashenka has two ways to support the "Belarusian economic miracle", which is weakening by the hour. The first is obviously unrealistic – to start systemic economic reforms.

Lukashenko cannot do this by definition. Implementation of such reforms could finally put an end to his individual power. Lukashenka's system is paternalistic. In the eyes of propaganda, he personally pays salaries and pensions. And regulates prices by permanently freezing them. If he initiated a transformation, ranging from business freedom to private land ownership, the entire paternalistic system he built would crumble like a house of cards.

The second way is to support the existing economic model through loans. Russia is in crisis: it does not provide loans, does not write off debts and does not have any money for Belarus at all. A credit line from the Eurasian Fund for Stabilisation and Development, allocated to Minsk in March 2016, has contracted from the requested US \$3 billion to US \$2 billion and will be assigned to the country in tranches until 2018. Frankly, this money will never leave Moscow: it will be immediately spent on payments under previously taken obligations. "100% of the EFSF credit will go to repay loans taken out earlier," says former National Bank of Belarus head Stanislau Bahdankevich. And there is no reason not to believe him: it



Alena
Anisim



Hanna
Kanapatska

is not the first time the Belarusian authorities have used this kind of financial pyramid. For example, in 2015 Moscow lent Minsk US \$110 million to repay the interest on a Russian loan received in 2010. And in July of the same year, the Ministry of Finance coffers received a US \$760 million state credit from Russia for servicing and repaying loans previously issued to Belarus by Russia and the Eurasian Fund for Stabilisation and Development.

So one method remains – "cross-subsidisation". The EFSF requirements for Minsk entirely overlap with the conditions for reforming the economy of the "blue-eyed republic" that were formulated by the International Monetary Fund, European Bank for Reconstruction and Development and other Western financial institutions. But these funds and banks do not hand out money for "naked" reforms.

Therefore, Lukashenka must "sell" the elections to the West. This is the most likely explanation to why he finally let two members of the opposition into parliament. In theory, they will have little clout among the rest of the 108 deputies, but the elections will be seen as "progress". Against this background, it should be possible to get money from the IMF and the EBRD.

However, preliminary reports from international observers, as mentioned above, make this hope seem very illusory, even with Anisim and Kanapatska in parliament.

THE "MAIDAN" CAN WAIT

So far, despite the record decline in living standards and great difficulties in the economy, Alyaksandr Lukashenka is in control of the situation in the country. The international atmosphere contributes to this in no small way. Events in Ukraine seriously frightened the Belarusian people and Lukashenka secured himself a fifth term at elections in 2015 under the slogan "Anything but war".

DESPITE THE RECORD DECLINE IN LIVING STANDARDS AND DIFFICULTIES IN THE ECONOMY, ALYAKSANDR LUKASHENKA IS SO FAR IN CONTROL OF THE SITUATION IN THE COUNTRY. THE INTERNATIONAL ATMOSPHERE CONTRIBUTES TO THIS IN NO SMALL WAY

For Europe, Belarus remains an "island of stability" in a troubled region. The population is still more concerned about their own survival and maintaining the way of life they are accustomed to at the expense of the dollars that they stashed away in previous years.

It is possible that Lukashenka will be forced into economic reforms. After all, he certainly knows the real election results and not those drawn up by the Central Election Commission. This, above all, alongside the conditions for the country to receive money from the IMF and EBRD, as well as the inevitable activity of opposition MPs – even just two of them – will force the head of Belarus to take certain steps, at least in the economic field.

In any case, there are no signs of a Belarusian Maidan in the near future. According to the same June 2016 II-SEPS survey, the idea of achieving change through street protests is popular among only 14.7% of the population. However, it is worth paying attention to the trend: this is almost one and a half times more than in June 2015, and almost double the figure from June 2014. ■■

Referenda on responsibility

Michael Binyon

Across the globe voters have been rejecting government advice and using their votes as a protest in referenda. Is there a way to change this?



Not enough for victory. Viktor Orban got the endorsement of those Hungarians who turned up to vote in his referendum against the EU's refugee quota policy. But most voters ignored the thing completely

Is there anything more democratic than a referendum? It allows a government to consult the entire electorate on any major issue. It means that each citizen has a say on constitutional changes or decisions that will change a country's life. It produces a result that reflects the public mood more clearly than any decision taken by a small group of elected parliamentarians.

In fact, a referendum is far from democratic. It can be used by populists and dictators to destroy democracy. It is a blunt instrument that reduces complex issues to a simple "yes-no" question. It can paralyse government decision-making, and throw national policies off course. And, unlike parliamentary legislation, it is usually irreversible.

A referendum is a paradox. It is increasingly being used by governments reluctant to take responsibility for major decisions to shirk their duty. But it often produces results that make it much more difficult to deal with the outcome. The fact is that

whatever the question asked by a referendum, the answer is always the same: a punch on the nose for the government. Voters see referendums as a cost-free way of voicing protest, a wake-up call to express general discontent and a chance for the have-nots to thumb their noses at the establishment.

Three governments have recently found to their cost the disastrous result of entrusting a major issue to a referendum: Britain, Hungary and Colombia. In each case, the result was the opposite of what had been expected. In Britain's case, the referendum in June on continued membership of the European Union produced a clear majority for Brexit – a British exit from the EU. No one, including those leading the campaign to leave, foresaw the result, and neither government nor opposition had any plan on what to do next. The referendum produced the worst crisis in British political history for a generation, led to the resignation of the prime minister, a sharp fall in the value of the currency and massive

uncertainty over Britain's political and economic future.

In Hungary, the right-wing government of Viktor Orban was hoping to use a referendum to persuade voters to endorse its tough line with Brussels on taking in quotas of refugees. Orban received the endorsement he was seeking – with a vote of 98% rejecting the loaded question “Do you agree that the European Union should have the power to impose the settlement on non-Hungarian citizens in Hungary without the consent of the National Assembly of Hungary?” But most voters stayed at home, sensing perhaps that the vote was not really about migrants but intended to strengthen him in his quarrel with the EU. Because of the low turnout, the referendum was invalid – although the government proclaimed it as a political and moral victory.

In Colombia, the referendum on the peace deal with the Marxist FARC rebels produced even greater consternation. The government of Juan Manuel Santos has just spent the past four years negotiating a final end to the 50-year civil war and produced a settlement that promised to open the way to peace, general disarmament and the re-integration of the former guerrillas in Colombian society. A signing ceremony with the FARC leader was witnessed by the United Nations Secretary-General and world leaders. And then, a few days later, the deal was put to the people in a referendum. They voted against it.

Colombians and outsiders were shocked. Did this mean a return to war? Was the deal a step too far, especially for those who believed the rebel leaders should pay a price for the thousands they had kidnapped, tortured or killed? Could the result be ignored and the peace deal go ahead anyway?

The fact is that across the globe voters have been rejecting government advice and using their votes as a protest. In the age of general political rage, direct democracy is a risk. It is only dictators who can guarantee the result they want – and indeed plebiscites were a favourite device used by Hitler and Mussolini to show the world that they had nationwide support. After the death of President Hindenburg in 1934, Hitler held a referendum on the merger of the offices of chancellor and president, thus giving himself absolute power (unsurprisingly, some 90% voiced approval). He also held further plebiscites after re-occupying the Rhineland in 1936 and the annexation of Austria in 1938. Because of their misuse by the Nazis, plebiscites were banned in Germany after the war.

Even in democratic societies, referendums are an unreliable decision-making vehicle. Voters tend to use them as a receptacle for their grievances, as Mark Rutte, the Dutch prime minister, found earlier this year. He held a referendum on the economic deal between the EU and Ukraine. The treaty had been agreed by the government, ratified by all other EU states and was 2,135 pages long. The Dutch rejected it, not because they had read all the small print, but because they were railing against weak government, against EU dogma and against the eastward expansion of the union. Rutte called the result “disastrous”. Presi-

dent Putin was delighted and called it a “truly democratic act”.

By the end of the year there will have been eight major referendums. The next is Matteo Renzi's attempt to secure backing for his reforms in Italy. But the Italian prime minister has found a solid coalition lining up against him, largely put together by ambitious politicians trying to engineer his fall and their return to power. If he loses in December, he will probably lose office, and Italy's crucial economic reforms will come to a halt.

Referendums can work in small democracies with a tradition of consultation. Switzerland is the prime example. Every year voters are asked their views on dozens of issues. It seems to work well – though it has encouraged populists to take a hard line on issues such as immigration. It works less well in larger states: California attaches “propositions” to its presidential and congressional elections, and the results often lead to confusion and paralysis for the state government, which finds key policies rejected, especially on taxes and spending.

It is also clear that sensitive social questions rarely win approval if put to a referendum. No country has held a referendum on the abolition of capital punishment, as it would almost certainly be lost. It would also cause big social tensions if a referendum were held in Europe or America on whether a halt should be placed on the building of any more mosques; in the present climate that too would be lost. And the proposal by the present Australian prime minister to hold a referendum on gay marriage, an issue that caused him considerable difficulty during recent election campaign, suggests he is determined it should fail.

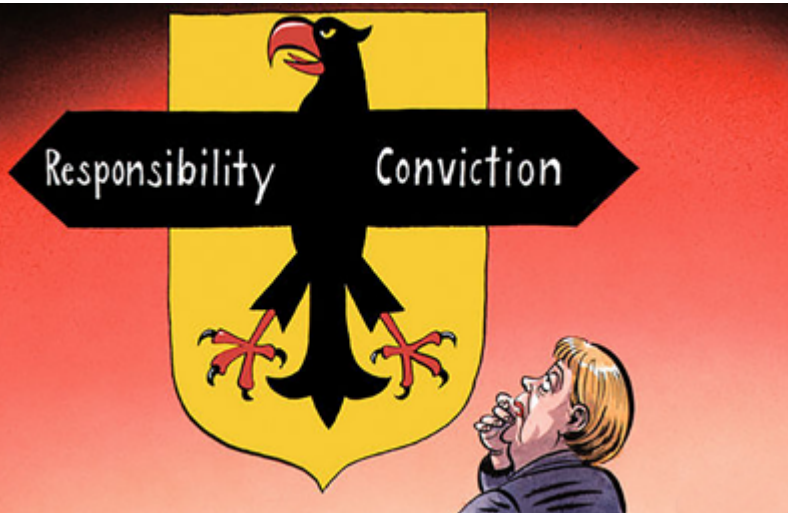
GOVERNMENTS ARE BEGINNING TO REALIZE THAT IT IS BETTER TO NOT HOLD A REFERENDUM IF YOU CANNOT LIVE WITH THE RESULT. FAR BETTER TO ENACT LEGISLATION, AND THEN SEE WHETHER VOTERS SUPPORT IT DURING A GENERAL ELECTION

If legislators run away from the decisions they are elected to take, they will find it hard to defy the result of a vote put to the people. Some British parliamentarians argue that the British parliament – which overwhelmingly supports continued membership of the European Union – could ignore the Brexit vote and refuse to pass the legislation needed to leave the EU. But that would cause a political furore and has been ruled out by Theresa May's government.

Sometimes referendums can be reversed by holding another one. Ireland and Denmark both changed their views after European legislation was cosmetically changed to mollify opponents and a second referendum was held. But this looks like a defiance of the people's will. The moral, governments are beginning to realise, is do not hold a referendum if you cannot live with the result. Far better to enact legislation, and then see whether voters support it during a general election than risk a procedure that can end up subverting rather than enhancing democracy. ■

A tale of two ethics

Why many Germans think impractical idealism is immoral



The phrases “ethic of conviction” and “ethic of responsibility” mean little to most English-speakers. In Germany the equivalent terms—*Gesinnungsethik* and *Verantwortungsethik*—are household words. Pundits drop them casually during television talk shows. Hosts use them as conversation-starters at dinner parties. The concepts draw on the opposition between idealism and pragmatism that runs through politics everywhere. But they also capture a specific moral tension that is “very German”, says Manfred Güllner, a sociologist and pollster. Anyone interested in understanding German politics, on anything from the euro to refugees, would do well to get a handle on them.

The terms come from the sociologist Max Weber, who used them in a speech he gave in January 1919 to a group of leftist students at a Munich bookstore. Germany had just lost the first world war. The Kaiser had abdicated, the country was in the throes of revolution and Munich was about to become the capital of a short-lived “Bavarian Soviet Republic”. Armed with only eight index cards, Weber gave a talk that would become a classic of political science. (“Politics as a Vocation” was published in English only after the second world war.) The lecture ranged broadly through history, but its main purpose was to curb the Utopian romanticism then gripping the ideologues fighting over the direction of the new Germany, including those sitting in front of him.

Weber described an “abysmal opposition” between two types of ethics. Those following their convictions wish to preserve their own moral pu-

rity, no matter what consequences their policies may have in the real world. “If an action of good intent leads to bad results, then, in the actor’s eyes, not he but the world, or the stupidity of other men, or God’s will who made them thus, is responsible for the evil.” By contrast, someone guided by responsibility “takes account of precisely the average deficiencies of people... (H)e does not even have the right to presuppose their goodness and perfection.” This sort of politician will answer for all the consequences of his actions, even unintended ones. Weber left no doubt about his sympathies. Ethicists of conviction, he said, were “in nine out of ten cases windbags”.

The prevailing view today, like Weber’s in 1919, is that “Germany has a surfeit of *Gesinnungsethik*,” says Wolfgang Nowak, who served as an adviser to Gerhard Schröder when he was chancellor. The postwar yearning of Germans to atone for their nation’s Nazi past through extravagant moral posing exacerbates the tendency. In general, the ethic of conviction is most prevalent among leftists and Protestants, and slightly less so among conservatives and Catholics, says Mr. Güllner.

Thus the Social Democrats, who view themselves as crusaders for social justice, often give the impression that they are not only “unable but unwilling” to govern, lest they bear actual responsibility, Mr. Güllner thinks. That may explain why there has been a Social Democratic chancellor for only 20 years since 1949, compared with 47 years under the Christian Democrats. Many of Germany’s most strident pacifists, meanwhile, are Lutherans. Margot Käßmann, the church’s former leader, dreams of Germany having no army at all. She disavows force even to prevent or stop a genocide.

But an ethic of conviction also runs through the centre-right, which since the 1950s has approached the European project as an end in itself, a way for Germany to become post-national and dissolve its guilt along with its sovereignty. In the process, Germans deliberately overlooked the fact that most other Europeans never shared this goal. Once the euro crisis erupted, many conservatives opposed bail-outs out of an ethic of conviction, argues Thilo Sarrazin, a controversial pundit. They wanted to decry rule-breaking by crisis countries as inherently bad—even at the cost of letting the currency zone unravel.

The ethic of responsibility holds that such stances are not merely impractical but wrong, and that what will not work cannot be moral. Those governing Germany have mostly been of this camp. In the 1980s millions of Germans marched against the modernisation of NATO’s nuclear arsenal, but Chancellor Helmut Schmidt let the mis-

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siles deploy, accepting the grim logic of deterrence. (His reward from his fellow Social Democrats was largely disdain.) In the euro crisis, Angela Merkel reluctantly agreed to bail-outs in order to hold the currency zone together.

TRANSPORTS OF JOY

That is what makes Mrs. Merkel's historic opening of Germany's borders to refugees on September 4th, 2015 so remarkable. "She galloped away with an ethic of conviction," says Konrad Ott, a professor of philosophy and author of a book on migration and morality. At the time this aligned her with a euphoric "welcome culture", as ordinary Germans volunteered to help refugees and the press celebrated the country's humanitarian example. Mrs. Merkel refused to put a numerical limit on accepting human beings in dire need, a position she still maintains.

But as predicted by ethicists of responsibility (in whose ranks Mrs. Merkel is usually found), the mood soon turned. Other Europeans accused Germany of "moral imperialism", the flip side of *Gesinnungsethik*. And many Germans felt that too much was being asked of their society. Some, in a development that would not have surprised Weber, turned xenophobic.

The history of the past year can thus be seen as Mrs. Merkel's attempt to return to an ethic of responsibility without betraying her convictions. This includes biting her tongue as she deals with an increasingly authoritarian Turkey, whose cooperation she needs to reduce the migrant flows, and other moral compromises. Max Weber would have found her dilemma compelling. Even someone with an ethic of responsibility, he said, sometimes "reaches the point where he says: 'Here I stand; I can do no other.' That is something genuinely human and moving." ■

Three-hit wonder

A co-founder of Twitter is betting he can revolutionise digital publishing once again

FEW feel as conflicted about the internet's descent into glib, 140-character tweets as Evan Williams. As a co-founder of Twitter, he has profited handsomely from the social-media firm's rise and remains its largest shareholder. Yet now his main project is to ensure that serious-minded, long-form prose will offset the torrent of tweets, often penned by twits.

Mr. Williams's latest venture, Medium, which launched in 2012, is a clean, elegant-looking destination for essays, open letters and "big think" pieces. It is trying to become the central hub for writing by the public at large, as YouTube is for amateur videos. Journalists, business executives and heads of state, including Barack Obama, have all published on Medium. When Amazon disagreed with a New York Times article on the e-commerce giant's apparently brutal work culture, a senior executive from the firm wrote a long retort on Medium. Small papers and digital-media firms, such as the Pacific Standard and The Ringer, are using it to publish content.

As in Hollywood, it is easier to sell a sequel in Silicon Valley. In 1999 Mr. Williams co-founded Blogger. The startup helped popularise the concept of blogging and the word itself by making it simple for people to post their musings without needing to code. After Google bought the company in 2003, Mr. Williams worked on a podcasting firm called Odeo that ended up launching a text-messaging service, which became Twitter. "Anyone who has changed the world twice, I would bet on a third time," says Jeff Jarvis, a professor of journalism at City University of New York.

Some venture capitalists have done so: they have joined Mr. Williams in financing Medium to the tune of \$130m, valuing it at around \$600m. Investors hope that Medium will be able to rival Facebook as a place for personal commentary and news discovery. "The world needs a hedge to Facebook," says Kevin Thau of Spark Capital, a venture-capital firm that has invested in Medium. (That view will have been boosted by a recent controversy over the social-media firm's censoring in

Norway of an iconic photograph of a naked girl in a napalm attack during the Vietnam war.)

The site certainly is not Facebook: Medium's sleek, minimalist look is heavy on blank space and has raised the bar for reading on the web. Users like its features, such as the estimated time an article will take to read, and one that shows which passages were highlighted frequently in an article, though Mr. Williams himself has some criticisms. "We were a little too precious about the design, engineering and who could write on the platform," he says, admitting that he probably rolled out new features too cautiously early on.

Medium has only just begun experimenting with how it will make money. One option is to take a cut of the subscription fees charged by publishers on its platform. So far it is working mainly with small firms, but eventually some bigger newspapers and magazines could sign on. Medium also has plans to make money by means of sponsored advertisements, where companies pay to promote posts they have written.

Yet to build a large advertising business, it will need many more readers. With 30m monthly users and a reputation cultivated mainly among coastal, tech-savvy elites, Medium is a long way from the scale of a Twitter, which has more than ten times as many users, let alone a Facebook, which has 1.7 billion.

For John Battelle of NewCo, a digital publisher that posts articles on Medium, the big question is whether the site's focus on lengthier prose leaves it vulnerable to short attention spans. Elsewhere online, stories are increasingly told with images, emojis and videos. Mr. Williams remains optimistic. Having trained people to express themselves in short, snappy quips, he believes they still have a "hunger for substance". This may be true, but whether it makes for a thriving business is an entirely different question. Plenty of newspaper and magazine bosses can testify to that. ■

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Split platform

Olha Vorozhbyt

How the Polish opposition is coping with defeat, abuse of power scandals and the new demands of disillusioned voters

When tens of thousands of Poles held protests against the Law and Justice (PiS) government in May, some people called this evidence of a strong opposition. Members of the ruling party, in contrast, criticised the reluctance of Civic Platform to accept the results of elections that were held in October 2015, six months previously.

In any case, prior to those elections the impending defeat of the now opposition Civic Platform (Platforma Obywatelska, PO) was considered quite obvious and almost a done deal. Fatigue from the long rule of one political force (PO governments had been in power for the previous eight years) was complemented by other factors, such as the "cassette scandal", while Ewa Kopacz – the successor to Donald Tusk, who had long been party leader and prime minister before his move to Brussels – obviously lacked the charisma and leadership skills of her predecessor. "Everyone knew that PO would lose, but most commentators thought it would be strong enough to form a coalition with the Polish People's Party and, perhaps, other left-wing forces in order to leave Law and Justice outside government. However, a serious blow to 'Platform' was Bronisław Komorowski's loss at the presidential elections", says Wojciech Szacki, Senior Analyst for Political Affairs at Polityka Insight.

Despite these political shocks, PO gained 24.09% of the votes, but PiS took first place at the elections. The failure of the United Left with a result that only just fell short of the election threshold (7.55%), as well as KORWiN and Razem (Together), gave Law and Justice an overall majority. "The election law is designed in such a way that the winner gets more seats than it would if there were more parties. Kaczyński's party won with a proportion of the votes no higher than PO four or eight years ago, but that result was enough to create a majority," says Szacki.

Some PO voters moved to PiS, but most, according to experts, switched to the party Modern (Nowoczesna), which got into parliament with the fourth-best result, behind the populist Kukiz'15. After the elections, this political force, whose ideologue is considered to be Leszek Balcerowicz, enjoyed more than 20% support, according to opinion polls. However, the potential of this young and still not very well organised party is now gradually fading and it could require a fresh start. Indeed, according to the analyst, it could become a good oppositional force with 10-15% that will join broader coalitions, although it will not be strong enough to counterbalance PiS.

After a difficult first few months after the elections, when PO continued to lose support, the last three have allowed it to recuperate and the party's ratings began to gradually increase. In an interview with conservative weekly *Do Rzeczy*, party leader Grzegorz Schetyna outlined a new ideological vision of his faction as a "liberal-conservative" force, which many analysts and commentators perceived



Risky negligence. The scandal around reprivatization of buildings in Warsaw involving PO city mayor Hanna Gronkiewicz-Waltz can deal a fatal blow to the party

as a positive and necessary step that would help make PO powerful enough to defeat PiS. Although more of the people who vote for PO consider themselves "leftists", Polish society as a whole has shifted slightly to the right in its electoral sympathies (according to a CBOS survey, right-wing views outweigh left-wing ones by 42% to 17%).

It would have been possible to speak about a potential "recovery" of PO just a few weeks ago, if it was not completely nullified by an incident involving deputy head of the party and mayor of Warsaw Hanna Gronkiewicz-Waltz.

The scandal that broke out a few weeks ago with renewed vigour actually has a long history and is associated with the reprivatisation of property in the capital. Pursuant to a law (the so-called Bierut Decree that is still in force), the state nationalised 90% of pre-war Warsaw. Landowners have the right to appeal to the authorities for a long-term lease of the property that once belonged to them, unless this is contrary to current urban planning. In the latter case, they have the right to ask for compensation (such a situation may arise if the relevant building now performs certain functions for the city, for example, as a school). According to Polish magazine *Polityka*, the most popular way to regain property was a request to annul an individual decision made by the communist authorities. The appropriate documents were sent to the Ministry of Infrastructure and then – with the cancellation confirmation – to the Warsaw mayor's office, which provided the long-term lease. If this was not possible, the local authorities had to pay compensation.

Since 1989, Warsaw has returned several thousand buildings to their former owners under long-term lease,

and 500 million zlotys (US \$130mn) in restitution had been paid out by 2013.

As the newspaper writes, the return of property or obtainment of restitution turned into a lucrative business for people not related to the previous owners, as well as the lawyers representing their interests.

Newspaper *Gazeta Wyborcza* published the first high-profile investigations of these violations. In April this year, the first material emerged that should have been a wake-up call for the mayor. *GW* journalists pointed out the link between the long-term head of the Warsaw Office of Property Management Jakub Rudnicki and lawyer Robert Nowaczyk, who reclaimed 50 locations in Warsaw for himself and his clients, including a building worth 160 million zlotys (US \$42mn) near the Palace of Culture. Following this case, Rudnicki resigned in 2012, and then himself made a claim to get back his family's old property. Allegedly, this operation was also unlawful.

After an audit of the Warsaw Office of Property Management by the Central Anti-Corruption Bureau, in April this year there was talk of fraud investigations started against several officials that were involved in restitution during Hanna Gronkiewicz-Waltz's mayorship. Critics accuse the latter of not paying attention to the illegal actions that accompanied reprivatisation over many years. This situation is very convenient for politicians from PiS, who seek to remove the PO mayor from office. This can be done through a referendum (in 2013 Gronkiewicz-Waltz survived a plebiscite that failed due to low turnout). Apart from such a popular vote, the government is able to directly appoint a commissioner for the city, although this seems less likely, as it requires more bureaucracy.

One way or another, the reprivatisation scandal has been a hot topic for Polish media since the end of August and a trump card for PiS against PO. However, it remains to be seen how the parties will deal with this matter, because, despite their fervour and demands for Gronkiewicz-Waltz to resign, it appears that PiS does not have a strong enough alternative for the top job in the capital city. According to Wojciech Szacki, if Hanna Gronkiewicz-Waltz ultimately resigns, this could deal a deathblow to PO.

Reprivatisation is not the first scandal to befall PO in recent years. Previously, the "cassette scandal" dealt a serious blow to the reputation of party, although it still considered to be more of an ethical issue than one connected with corruption. Members of the government of the time and businessmen can be heard on the tapes, which were recorded in several expensive Warsaw restaurants in 2013-2014. The recordings were published by magazine *Wprost* when their "consequences" could already be seen: in one of the conversations, Interior Minister Bartłomiej Sienkiewicz and head of the National Bank of Poland Marek Belka discussed the possibility of having the National Bank finance the public debt in the event of a serious financial crisis that could occur, according to Sienkiewicz, if PiS take power. Belka agreed to this, provided that Finance Minister Jacek Rostowski be dismissed and the law on the National Bank be amended. When the dialogue was published, both of these conditions had been met. In total, seven members of the PO government came under fire, as well as the marshal of the Sejm and Radosław Sikorski, who was foreign minister when the tapes were made.

Despite the relative maturity (compared to other post-socialist EU members) of Polish parliamentarism, it still lacks new faces and a decent alternative to current elites. The ideologies of PO and PiS are still formed by

politicians fostered by the Polish People's Republic. Modern was able to play on its freshness (despite its close ideological relationship with Leszek Balcerowicz), but lacked the strength to create a strong and durable structure. Modern was more a party for those who wanted to flee Civic Platform, sensing its weakness. As for PO's prospects, some analysts point out their young faces, such as the mayor of Poznań Jacek Jaśkowiak, former Deputy Foreign Minister Rafał Trzaskowski or MP Agnieszka Pomaska. However, their ideological vision deviates from the course recently set by PO: they lean more to the left. Certain commentators perceive them, alongside the best-known Polish mayor Robert Biedroń, as a hope for a future left or left-liberal party of a new type, as they are representatives of a new generation of politicians (Trzaskowski, for example, translated and distributed flyers for Solidarity while still at school, so had virtually no direct contact with the socialist regime). However, these people are not really a prospect for the immediate political future.

In the meantime, the "new" policies of current PO leader Grzegorz Schetyna, or his desire to eliminate internal opposition, have caused scandals within the party. In late July, three respected members were expelled from it: previous Mayor of Wrocław Stanisław Huskowski, former regional head of PO in Lower Silesia Jacek Protasiewicz and ex-MEP Mariusz Kamiński. Schetyna called for their membership to be rescinded for allegedly creating a "negative image of the party". In fact, the biggest factor was his rejection of the position of PO representatives in Lower Silesia, where he covertly negotiated for a coalition with PiS in the regional parliament.



SOME PO VOTERS MOVED TO PiS, BUT MOST, ACCORDING TO EXPERTS, SWITCHED TO THE PARTY NOWOCZESNA, WHICH GOT INTO PARLIAMENT WITH THE FOURTH-BEST RESULT

However, only Ewa Kopacz and Bogdan Borusewicz voted against the decision to exclude all three deputies (besides them, Trzaskowski was also against the removal of Huskowski's membership). Even now, Kopacz is still an important counterweight to Schetyna in the party. She effectively represents Tusk's grouping and, as wrote *Wsieci* columnist Stanisław Janecki, both are trying to politically destroy Schetyna by all means necessary. The journalist claims that politicians, businessmen and media representatives in Brussels are encouraged to put pressure on Schetyna to resign. Tusk asks to be involved in all of the party's affairs, in order to unsettle the current leader and push him to make even more errors. That is to say, according to Janecki, Schetyna should only be seen as a temporary chairman.

These two camps are today the largest influence groups in the party. They have two ideologically different visions of its development: liberal-conservative for Schetyna and more left-wing, social-democratic for Kopacz and Tusk. Both sides may have a point, as it is entirely possible that an overly sharp turn to the right would deprive the party of its stable centre-left electorate. At the same time, moderate Christian-democratic ideas would encourage the undecided and meet the needs of Polish society, which has recently moved slightly to the right. ■

Political music for four hands

Zhanna Bezpiatchuk

Who and what shapes the agenda of the ruling Law and Justice party



A shift? For decades, Poland has been moving towards a political system in which institutions stand above personalities. Today, this principle is not entirely inviolable

On ulica Adam Mickiewicz in Warsaw's Żoliborz District stands a nondescript two-story grey building surrounded by a transparent fence. It's possible to get pretty close to the building and by the entrance there's a structure that looks like a guard post. Except that no one pops out of the booth when strangers approach to ask them to show their ID.

This modest villa is where the leader of Law and Justice (PiS), Jarosław Kaczyński, lives.

Since October 2015 when this conservative political party won in the parliamentary election with more than 37% of the vote, this is also where the most important Polish policies have been approved. The second place where key policy issues are decided is ul. Novohradzka 84, PiS

headquarters. The list of locations where strategic management of the country takes place includes neither the presidential palace nor the office of the Council of Ministers. Today, the government system of Poland is united and cemented in the person of Jaroslaw Kaczynski although, formally, the properly democratic and constitutional mandate belongs, not to him, but to President Andrzej Duda.

Yet during the course of his first year in the presidency, Duda has unfailingly carried out the will of the “prezes” and has gained a reputation as the least independent president in the history of Poland. Duda has signed all the bills passed by the Polish Sejm without challenging their constitutionality, made the re-elected judges of the Constitutional Court say their vows in front of Kaczynski at six in the morning, and participated in the reburial of the “damned soldier,” Zygmunt Szendzielarz, who fought with the forest brotherhood against the communists.

The problem is that these partisans also attacked civilians, including Lithuanians and Belarusians. Today, the Polish government is promoting this controversial historical topic. The “damned soldiers” fought not only against the external communist enemy but also with those locals who were considered traitors—a subject that clearly appeals to the ideologists of historical policy in government and at least partly explains how Kaczynski himself and his inner circle identify themselves politically. To them, the “damned soldiers” not only fight external threats but also homegrown traitors.

“Kaczynski has managed to turn Duda into a government notary public,” says Jakub Majmurek, a journalist with *Krytyka Polityczna*. “Whatever propositions the president announces are adjusted according to the party line. Sometimes Duda’s speeches are more conciliatory than those of the PiS leader, but even at the rhetorical level, the president cannot be called the liberal face of PiS. Internal factions within this party are not based on ideological principles but on how much access they have to the government and to the ear of its leader.”

For more than two decades, Poland has moved towards a political system in which institutions stand above the personalities of those in power, and not the reverse. For instance, when the National Media Council as an independent governing body, fired Jacek Kurski, the head of PTV, Poland’s public television company, he went off to Novohradska 84. After this the NMC’s chair was called on the carpet and the decision was suddenly reversed. Kurski was allowed to keep working until October 2016, when a competition was called to fill his post. And he was allowed to participate as well.

On one hand, PiS is seen as a monolith. In public, there are no facts or even rumors about any kind of internal conflicts or battles at the highest level. The party has no “wings,” either, whether conservative or liberal. As one of the editors of *Gazeta Polska*, Wojciech Mucha ex-

plains, “You can look in vain for a liberal faction in PiS. This party has no politicians who concern themselves with liberal topics: abortion, euthanasia or same-sex marriage. Among PiS politicians, there is only a difference in accents on certain topics.”

As a political phenomenon, Law and Justice has no analogous party in Ukraine, either. Founded in 2001 by Lech Kaczynski, it mostly drew politicians from center-right forces from the 1990s: the Christian Popular Union, the Alliance of Right Forces and the Conservative Popular Union. It grew as a movement against “corruption, oligarchs and theft of state assets” and it was these “enemies” that PiS focused on while it was in official opposition to the ruling Civic Platform (PO). It was neither the establishment party nor the party of the nouveaux riches, nor the party of alternative youthful movements. The essence of its rightist ideology came down to building a “strong Poland based on essential Christian values” that could talk with Berlin as an equal, counteract Russia’s aggressive policies, and restore the Polish version of historical justice with regard to all of the most painful and controversial events: from the 1943-45 tragedies in Volyn and Halychyna to the Smolensk air crash in 2010.

Accordingly, conservative politicians within PiS are able to choose among a variety of thematic platforms those that appeal to them the most. The party has extreme conservatives who are promoting their versions of proper Christian values. The largest and most influential group of officials has made it their goal, now that they are in power, to restore the domestic economy, the Polish courts, the police, public media, the army, the civil service, education, and culture. But not all of their restorative reforms have had

CONSERVATIVE POLITICIANS WITHIN PiS ARE ABLE TO CHOOSE AMONG A VARIETY OF THEMATIC PLATFORMS THOSE THAT APPEAL TO THEM THE MOST

positive feedback from Brussels. There, some of PiS’s approaches such as the hasty revision of laws on the Constitutional Court, the civil service, public media, and internet monitoring are seen as threatening democracy. The result has been that members of the Council of Europe’s Venice Commission have begun to visit Warsaw more frequently. Among others, they have demanded that the newly-elected government respect and enforce the decisions of the Constitutional Tribunal.

Beside Christian conservatives and officials in PiS’s ranks, there are also populists. Their objective is to work with the most conservative and radically oriented elements among Polish voters. This is seen as necessary in order to prevent the emergence of radical populist parties in

the style of Hungary's nationalist party, Jobbik, in Poland. So far, this has worked.

Any party such as PiS that is strictly against corruption and the "thieves" in the ranks of its predecessors has to offer something more than expository rhetoric in order to gain the loyalty of voters. This kind of following can either be bought, as is typically done by dictators in commodity-based autocracies like Uzbekistan, or it can be attracted by moral arguments combined with effective socio-economic policies. For Poland, only the second option is a viable pathway. Thus, the previous and current actions of PiS are being scrutinized under a microscope by a liberal press that is extremely critical of the ruling party. Indeed, the heatedness of the criticism sometimes comes to a boil, with Polish journalists talking about an intellectual and verbal "civil war" between the conservative and liberal camps.

When PiS returned to power, it was able to avoid high-profile corruption scandals. Kaczynski's home in Zoliborz can, to some extent, be seen as a metaphor for Poland's current ruling elite and a moral argument: it consists predominantly of people of modest means. They cannot even imagine themselves the range of unwritten privileges and preferences that continue to be used, in circumvention and violation of the law, by those in power in Ukraine today.

Which is not to say that PiS has managed to completely avoid any hint of scandal over the past year. Adam Michnik's liberal-leaning *Gazeta Wyborcza* published an investigation of the links between current Defense Minister Antoni Macierewycz and Robert Luśnia, a secret service agent from communist times. The lustration court has shown that the latter was spying on his colleagues in the Youth Movement of Poland and the Independent Student Association during the 1980s. When the court handed down its ruling, Luśnia was the Sejm ambassador of that same political group as Macierewycz, the Catholic National Movement. Macierewycz ejected Luśnia in his parliamentary faction, but not out of the party. The years passed and now it turns out that the current Minister of Defense is part of the administration of Głos, whose leader is none other than Robert Luśnia. *Gazeta Wyborcza* journalists were able to show that, back in the 1990s, people who knew this politician and businessman had already suspected him of ties with the secret police. Macierewycz, on the other hand, claimed that he was not aware of anything of this nature in the past of his colleague of many years until the lustration court exposed the facts.

Antoni Macierewycz is not only the author of an alternate investigation of the Smolensk catastrophe that is supposed to prove, once and for all, that it was no accident, he is also the ideologue of the cult of "Smolensk martyrs." Thus, on the anniversary of the Warsaw Uprising of 1944, he proposed reading out the list of those Polish politicians who were died outside Smolensk. This was supposed to place the deaths of

the Polish elite in Russia with the insurrectionists of the Armia Krajowa who fought the Nazis, to restore a non-communist Poland. It was at that point that Polish traitors switched sides to the soviet communists and waited for their moment to enter Warsaw in the columns of the Red Army. According to this interpretation of history, the death of Poland's patriotic elite in the Russian forests was also convenient, not just for the Kremlin but to Poland's own defectors. And now it seems that the main national fighter against traitors has spent years doing business with one of them. Many Poles don't understand why Kaczynski continues to keep the odious Macierewycz in the defense post.

But this is not the end of it. Among the closest advisors of the PiS leader are other "interesting" individuals. For instance, his closest brother-at-arms since the very beginning of Polish transformation include Adam Lipinski, the head of the political office of the Prime Minister; Joachim Brudziński, deputy speaker of the Sejm; Marek Kuchczyński, speaker of the Sejm; and Mariusz Błaszczak, Interior Minister. They are called the "Common Ground Center" group, the one-time party of Jarosław Kaczyński that



WHEN PiS RETURNED TO POWER, IT WAS ABLE TO AVOID HIGH-PROFILE CORRUPTION SCANDALS. KACZYŃSKI'S HOME CAN BE SEEN AS A METAPHOR FOR POLAND'S CURRENT RULING ELITE AND A MORAL ARGUMENT: IT CONSISTS OF PEOPLE OF MODEST MEANS

was elected to the Sejm in the 1990s. Apart from them, the professorial duumvirate of Minister of Culture and National Heritage Piotr Gliński and Minister of Science and Higher Education Jarosław Gowin are following their own political path. Gowin, incidentally, was once part of the Civic Platform.

Yet another center of power has been formed around the Special Forces coordinator, Mariusz Kamiński. Although there is no formal liberal grouping in the ruling elite, neoliberal ideas are being promoted by the influential Minister of Development and a banker by profession, Mateusz Morawiecki. This 48-year-old politician, together with 46-year-old Minister of Justice and Prosecutor General Zbigniew Ziobro are seen as potential replacements for the 67-year-old Kaczyński as the next PiS leader.

But for now, the PiS boss holds the reins of power and leverage tightly in his hands. And all this is as it should be in a boss-based party like PiS, says Marek Troszczyński, a Polish political analyst and sociologist from Collegium Civitas.

For most Poles, the "four-handed piano playing" of Kaczyński and Duda is quite acceptable for now. According to an August poll by the Center for Public Opinion Research, the president is currently supported by 64% of Polish voters and Kaczyński by 47%. What's more, the ratings of the PiS leaders are rising, leaving them with a firm carte-blanche to carry on their policies. ■

Heorhiy Tuka:

"Local elections in Donetsk and Luhansk oblasts were untimely"

Heorhiy Tuka has been working for nearly six months at the newly established Ministry of Temporarily Occupied Territories and IDPs. He told *The Ukrainian Week* about his thoughts on the conflict over social benefits between the state and the IDPs and the campaign against illegal trafficking across the contact line in the Donbas.

Interviewed
by Andriy
Holub

The NGOs defending the rights of the IDPs are seriously dissatisfied with the new procedure for obtaining social benefit payments. What is your Ministry's position in this regard?

— I would like to point out that the IDPs registration and benefit payments are the responsibility of the Ministry of Social Policy. Nevertheless, I believe the truth is somewhere in the middle. Any radical views are mostly reserved for small groups. Of course, any official is a conservative to some extent, and this is normal. Very often, government officials are concerned about the issues of saving public funds. They know what state the budget is in. We aren't rich. Therefore, they try to avoid extra expenditures. Within their powers and in line with the law.

Do you interfere in these issues at all?

— A person receiving compensation from the state as an IDP (this refers to the lump-sum compensation for IDPs, not pensions or other social payments – Ed.) may not stay in the uncontrolled territory for more than 60 days. Whether or not an individual has exceeded this limit was previously determined by the stamp of the State Migration Service. Now this has been canceled. From day one, we've been trying to move away from any paper-based data carriers. All of this should be done electronically. In particular, everyone, an IDP or anyone else crossing the demarcation line, undergoes a uniform verification procedure with the State Border Service. And everyone should have their personal permit number issued by the SBU.

We proposed (and we can say that this procedure is already in beta) to automatically combine two databases: IDP databases of the Border Guards and of the Social Policy Ministry. This will help recording where the citi-

zens are and for how long they stay there. The initiative was welcomed by the NGOs, and the Social Policy Ministry has no objections. We hired some IT professionals, who have actually completed most of the work already.

I believe that the objections of some NGOs saying that people overstaying on the uncontrolled territory for over 60 days receive no benefits are not quite accurate. First of all, and this is critical, the compensations are only allocated to the internally displaced persons, and not to all citizens living in the occupied territory. The 60-day requirement is prescribed by the law. Neither the Cabinet nor the Ministry of Social Policy has the right to break it. So, in this respect I fully support the Ministry of Social Policy. There is a legal provision, and if you don't agree with it, you should appeal not to the state institutions and their officials, but to the authors of the bill: the MPs. However, does someone who lives in the occupied territory and comes here only once in six months as an IDP?

NGOs also criticize the habitual residence test. It involves possible surprise inspections by special commissions accompanied by security forces to check whether an IDP lives at his or her stated place of residence.

— I have worked with many IDPs. At the early stage of the implementation of the current procedure, there really were such objections. I would even call them not "objections," but "concerns." However, I talked to the IDPs from various areas of compact settlement after the process had been implemented. There might have been real problems somewhere, but I am not aware of them. Most of those to whom I have spoken see no problem here. This was done because the Ministry of Social Policy has a uniform mechanism of using the so-called commissions that can generally come to people's homes to find out where they are, who they are or whether they exist. These are the commissions that oversee social well-being of the people who have been allocated state assistance: large families, and low-income citizens, etc. These have been the commissions used by the Ministry for the verification procedure. In fact, the residence test was not one of their tasks. Their function is to actually come and make sure that a person is there. That's it.

You have mentioned the law. Some time ago you talked about the situations when the transportation of large cargoes across the demarcation line (which most people would call illegal trafficking) does not formally break any laws. And you could do nothing about it as the Head of Luhansk Oblast. Today you are in the Government, and the Cabinet has the right of legislative initiative. Are you working today towards any changes in this area?

— First of all, let me tell you about the phenomenon of smuggling in general. Like corruption, it exists in any »

Heorhiy Tuka, born in 1963 in Kyiv, graduated from the Sevastopol Machine Building Institute. He subsequently worked at various positions (from manager to CEO) in more than 10 private and public companies. In 2010, Tuka began his civil activity. In 2014, he founded and headed Narodny Tyl, the volunteer organization that has been helping to provide the necessary supplies to the ATO servicemen. From July 2015 to April 2016, Tuka headed Luhansk Oblast Military-Civil Administration. On April 29, 2016, he was appointed Deputy Minister for the Temporarily Occupied Territories and IDPs.

country of the world. Miracles don't happen. Even the powerful, wealthy and technologically advanced USA are still constantly fighting this on their Mexican border. This phenomenon happens when there are economic grounds for it. There is no such thing within the EU. However, before the European nations formed a community, cigarettes were smuggled into Western Europe. They were transported to Germany from Turkey or Poland, because there was a price difference to profit from.

In Ukraine, we have two options. The first one is to build a "Great Wall" equipped with electricity, machine guns and trained dogs. The second one is to remove economic prerequisites. Today in Western Ukraine we are witnessing the fight against cigarettes smuggling. One pack costs, say, \$1 on the Ukrainian side, and about \$10 on the other. Of course, many will be willing to earn a penny. If the margin were around US \$1 instead of US \$5–6, the issue would have been solved.

Now, let's go back to the demarcation line in Eastern Ukraine. Today, and we have just discussed this at the meeting, the crossing line is regulated by the order of the Headquarters of the ATC (Anti-Terrorism Centre), which sets the rules, but we have been instructed by the government to revise this document into a Cabinet resolution.

On the one hand, this will help bring offenders to justice, at least under the administrative code. On the other, our Ministry is trying primarily to push the economic ground from under their feet by adjusting the procedure.

Under the current procedure, any individual may carry a maximum of 50 kg of goods worth up to 10,000 hryvnia. We believe these restrictions to be inappropriate and irrelevant. We propose to let any individual carry at least 200 kg. Besides, the list of goods that can or cannot be carried is established by the SBU, which also issues permissions. However, if one wants to bring in water, notebooks or pencils, what does the Security Service have to do with it? This should be the responsibility of the Economy Ministry. The law enforcement agencies should only take care of the dual-use goods. They are plenty, and this is really their competence.

Currently, I cannot say that we have reached a complete understanding. In spite of our great personal relationship (with the SBU Chief Vasyl Hrytsak — Ed.), we still have certain opposition from this structure. I think we will overcome it.

Earlier, you advocated lifting the blockade of the occupied territories of Donbas. Have you changed your standpoint?

— Not at all. There are certain grounds for it. I cannot suddenly wake up one morning and change my mind.

First of all, while still working in Luhansk Oblast, I realized that something was not right. But I could not understand what the matter was. It was very difficult for me to explain why an individual couldn't carry 100 kg of cheese in his or her trunk, while at the same time border guards detained a boxcar full of electronics heading to the occupied territories with all necessary permits. This was something I could not understand. I also didn't understand how to explain this to the border guards who were required to comply with the restrictions. Neither did they. Because there is zero logic in this.

Secondly, upon returning to Kyiv, I started contacting international organizations. After communicating with people who have been studying various local con-



flicts in the world for 25–30 years, analyzing this experience and hearing advice, I realized that we have made a mistake. Two international structures rather convincingly explained it to me. So where is the mistake?

During almost any conflict (be it in Africa, in the Middle East or in Europe), a blockade is introduced at the stage of active hostilities. Sometimes by one side, sometimes by both sides. What happens when it starts? The living standards to which the population of the occupied territories is used steeply decline. So do the numbers of goods available in the stores and the cash revenues. This usually makes people unhappy with the leaders of the new local de facto authorities.

That is the moment when the parent state should gradually ease the blockade and allow the supply of everyday products, such as food. This is necessary to demonstrate: we are not blocking you out, you belong with us. We didn't do this. So what did we get? Today, the occupied territory is predominantly the ruble area, and no one is hungry or thirsty there, because all markets were instantly filled with the Russian products. Besides, there are quite a lot of Ukrainian citizens working on that side who receive their salaries in hryvnias and spend them on their everyday needs. They buy their usual sausages and water, only the Russian ones. That is, we finance with our hryvnias the manufacturers from the aggressor country. This has been the result of the blockade.

In 2016, the Ministry of Temporarily Occupied Territories was allocated UAH 10 million. What does the new draft budget provide for?

— When we talk about the budget of the Ministry today, we are in the process of asserting our demands. Compared with 2016, in 2017 the funding should be increased significantly (the draft 2017 budget released after the interview provides for allocating UAH 25.2 million to the Ministry. — Ed.), but compared with our real needs, I think this is not enough.

Let me explain, so that people don't get an impression that we are talking about some rocket science that

lacks funding. This month in Vienna, a representative of Azerbaijan spoke at a meeting of the OSCE Committee which I attended. He started his address by stating that the last camp for the internally displaced persons from the era of the Karabakh conflict was recently closed in his country. After hearing this, I immediately turned to our representative in the OSCE, asking him to organize a meeting with the Azerbaijanis, to exchange experiences, plan a trip, see for ourselves the mechanisms, and evaluate the pros and cons.

As soon as I said it, he continued his speech, which was a bucket of cold water. Solving this problem took Azerbaijan more than 15 years and over US \$6 billion. We have no such funds and, frankly speaking, I personally wouldn't like to wait for a decade and a half. We would rather resolve these issues as quickly as possible.

I am very pleased that the President of Ukraine during his last speech at the UN General Assembly raised the issue of the internally displaced persons. What is the problem? The thing is that most supranational institutions, such as the UN or the EU, mostly focus on refugees. The issue of IDPs is considered to be of secondary importance. The general concept is limited to allocating funds and resources for the short term, because these people are supposed to return to their homes. Realizing that Ukraine has no funds to implement housing programs for such a huge number of people, we started looking for international donors that could help us out. However, due to the above concept, most donors are willing to help solve the issue of refugees, but not of IDPs.

By the way, during the meeting of the OSCE Committee in Vienna, Switzerland raised the issue of adopting some Europe-wide instrument related to the internally displaced persons. Of course, we voted for it with both hands. We would very much like to believe that the international community will help resolve this situation as soon as possible. By the way, Europe today has officially 2.8 million IDPs, including 1.7 million in Ukraine. The readers should understand that the entire OSCE budget is just €170 million, €100 million out of which has been allocated to solve the situation in our country.

How do you assess the cooperation with the local authorities of Donetsk and Luhansk oblasts, specifically, with oblast heads Pavlo Zhebrivsky and Yuri Harbuz?

— We interact constantly. I am on friendly terms with Pavlo, sometimes we call each other on the phone several times a day. As for Yuri, we have normal working relations, we often cooperate fruitfully. After all, a considerable share of our ministry's work is associated with these two areas.

Information from the ATO headquarters suggests that the situation in the Luhansk area of the front line is more peaceful than near Donetsk. How can this be explained?

— I cannot be objective in this respect. You should rather address your question to the Main Intelligence Directorate of the Defense Ministry. However, the difference remains. It might be explained by the fact that in Luhansk Oblast, the demarcation line runs along a river. Cutting across it is not ruled out, but still any water barrier is a serious obstacle. Besides, we should be frank about the big differences between the populations of Donetsk and Luhansk oblasts. Both mental and politi-

cal ones. Luhansk Oblast in general is not Donbas, it is rather Slobozhanshchyna. Maybe this explains the lower intensity (of fighting. — Ed.). However, the escalation in mid-September was observed in both Donetsk and Luhansk oblasts.

Administrative subordination of some settlements along the demarcation line is still an open issue. One of the examples is the village of Zaitseve. How soon can it be resolved?

— This is outside our scope. There are two issues there. First of all, there are towns and villages which we no longer control, including Debaltseve. This is one issue, which is exclusively the responsibility of the Armed Forces of Ukraine. Secondly, there are settlements in

UKRAINE HAS NO FUNDS TO IMPLEMENT HOUSING PROGRAMS FOR A HUGE NUMBER OF IDPs. BUT MOST INTERNATIONAL DONORS ARE WILLING TO HELP SOLVE THE ISSUE OF REFUGEES, NOT OF IDPs

the so-called gray zone. According to regulations, they should be controlled by the central government. However, due to security issues, neither side controls them at the moment. There are even villages there with no local police inspectors or village heads. Previously, there was a lack of volunteers to head the military-civilian administrations in these areas. I don't know if this problem has been resolved. This is not an easy question, and there can be no easy solution to this, because, first and foremost, we have to think not about some formal signs (like the presence or absence of the village head), but about security levels.

In other areas, military-civilian administrations have been abolished, and civilian administrations restored. This means that the "old executives" often return to the office. How justified are such steps today?

— I believe that this is wrong, and I keep repeating this since the first days. Both I and Pavlo Zhebrivsky, by the way, believed and still believe that holding local elections in Donetsk and Luhansk oblasts (under the government control — Ed.) was untimely, and they shouldn't have been held. However, if the state declares the observance of democratic principles and if people voluntarily vote for such leaders... What can you do about it? We should work with the people and maybe explain them the inadequacy of their views. That's it.

How did the scope of your contacts with the President change after taking the new post?

— It decreased, for objective reasons. I never communicated with him "just to talk." I understand perfectly the heavy work commitments of the man, and neither I nor the President, frankly speaking, have time to just chatter about life. By the way, sometimes our fellow citizens don't understand this, when they just call and insist on meeting and talking. We always spoke about resolving specific issues. Today my competences are determined by the Cabinet. And in 90% of the cases, I resolve issues at the governmental level. That's why I communicate with the President much less nowadays. ■



PHOTO: ANDRIY LOMAKIN

Alan Aeschlimann:

“We hope that a commission for the missing persons will be created in Ukraine”

Interviewed
by Zhanna
Bezpiatchuk

At least a thousand families are currently looking for their relatives that have gone missing on both sides of the contact line in Eastern Ukraine. 96% of these missing are men, half of them not related to any sort of military service. This is the data provided by the International Committee of the Red Cross (ICRC) in Ukraine.

Some families have already gone through all circles of hell: from indifference and inaction of officials to re-burial of the unknown military whose identity even DNA tests failed to determine reliably. Hopeful, these families turn to the ICRC. The organization is engaged in looking for those missing. Mission Head Alan Aeschlimann speaks to *The Ukrainian Week* about how the families of those missing can exit the vicious circle and how to look for people.

What role does the ICRC mission play today when it comes to searching for the missing people on both sides of the conflict in Eastern Ukraine?

– In Ukraine people don't speak much about this issue. There are more discussions about detained persons than missing ones. At ceasefire there is normally release or transfer of detainees. Only at the end parties start looking at those unaccounted for and missing. Now the Red Cross is working on both issues in parallel. It is important to raise awareness about the plight of the missing. At least two thousand people are missing in Ukraine. We are speaking about the whole context - governmental and non-governmental sides. For each missing person there are two-three members of their close family. Every person also has extended family. In

fact, this is a large number of people who are affected.

The ICRC has been requested several times in Donetsk areas that are not controlled by the government to be present while retrieving bodies. It is the responsibility of the party controlling certain areas to gather the remains of dead people. On our side, we are able to provide some advice, support to manage the collection of the body. There are many nuances that could help to identify a person. We did this also in Luhansk and on the government-controlled side.

Does the ICRC get sufficient security guarantees and access in the territory controlled by the Russian and separatist forces?

– We have offices in Donetsk and Luhansk. We have daily activities across the frontline providing assistance to persons and localities. So, we have some security guarantees from all sides. When we organize field trips to Donetsk, to Horlivka, we send some notifications to all sides. If we don't get any negative feedback, we are going. We are doing this to get information if there is risk for our people. Sometimes there is shelling at some places. We don't want to expose our staff to danger.

The discussion is going on in Ukraine whether or not NGOs have to be granted the right to search for missing people independently or this right could be ascribed only to public authorities. The respective legislative initiative is being prepared. Meanwhile, relatives of the missing people point out that they receive real help only from NGOs and international organizations. The authorities mostly demonstrate inaction. What is your opinion on this issue?

– It is clear that the main responsibility is with public authorities, they have to lead a process. It is a very complex process, and there are many legal issues to it. In many countries it is the police who deal with criminal aspects of this problem. There are several institutions which are involved. In Ukraine, you have very strong and dynamic civil society organizations. In some areas they supplement the authorities and do a very good job. But this has to be done under the coordination of the authorities and under their umbrella.

However, it is important that the recovery of bodies, their management and identification are led by the authorities. We understand that families of the missing persons have huge anxiety, and for them it is necessary to speak to somebody. They meet officials and feel they don't receive enough information on the identification process. NGOs could compensate this for families by providing them with information of possible procedures and by sharing the empathy.

How would you assess the ICRC's cooperation with the SBU, the Ministry of Interior, the General Prosecutor's Office and other Ukrainian authorities? Do they help to solve the problems that you are tackling?

– I would say that we are very satisfied with this cooperation. There are still issues that can and should be improved. The first one is coordination of all authorities involved. There is no single authority in charge of the issue of missing people. The Secret Service is in charge of some missing people but not all of them. The Ministry of Defense is involved with regard to the missing members of the armed forces. We have to cooperate with the Ministry of the Interior sending them the information on identification. There is the Forensic Research Institute in Dnipro which is in charge of identification of bodies. The Ministry of Social Policy is involved in some cases with regard to pensions. The work of all these bodies has to be coordinated. This is important. At this stage the coordination has not been established yet. We hope that some kind of commission for the missing persons will be created in Ukraine.

Is there a need also in a registry of missing persons?

– It is important to have some registry where you have all information with regard to the missing people. Whether it should be public or not is debatable. Ideally, you need to have a consolidated list with Luhansk and Donetsk areas. It is clear that you might have bodies on one side of the conflict and the family living on the other side. So, it is important that you do not just say that a certain number of people are missing on the governmental side and a certain number - in Luhansk and Donetsk. These lists have to be put together.

If there is no consolidated information and precise figures, we can rely at least on the number of cases that the ICRC deals with.

– Speaking on behalf of the ICRC, there are 472 persons that contacted us. They are people who don't have information. So, they came to us. Some cases are very recent. The others have lasted since July 2014. There are some cases that we can solve because it turns out, for example, that a person was arrested. Sometimes the authorities inform us that the families have found their missing relative. We always get some cases closed and receive some new ones. Now we are launching the

Alan Aeschlimann has headed the International Committee of the Red Cross mission in Ukraine since May 2015. A Swiss citizen, he graduated from the University of Neuchâtel. Aeschlimann has been working with the ICRC since 1987, including in Iraq (1987–1988, 1992–1993), Angola (1988–1990), Peru (1991), Israel (1998–2000) and Ethiopia (2000–2003). He also served at the ICRC headquarters in Geneva.

additional campaign to inform people that we are working on this problem, and that they can contact our offices. We can help to work on consolidated lists of missing people and share them with the government, with civil society.

Is the procedure for the identification of temporarily non-identified Ukrainian soldiers efficient enough, from your point of view? Some relatives of the missing people say that even DNA tests do not provide certain results, so the relatives had to accept the identification results despite doubts. They are denied the chance to double check it independently.

– We are speaking in this case about mass casualties. It could be compared with the airplane crash. It is very specific. Usually countries are equipped for individual cases. When we have huge numbers of casualties like this, all countries face incredible difficulties. When Hurricane Katrina occurred in the USA, they needed some time to identify persons. There have been a lot of improvements in the past 10–20 years concerning technical issues. The methods that are used nowadays are more reliable. But it is necessary to cross-check. When the body is recovered, it is necessary to gather all the information on the site and to make a proper forensic examination of the remains. When all the information is collected, you confirm it with the DNA test. We know that some families had problems with that. We work with professionals to exchange the best practices and to try to bring some international experience. We trust public institutions here. Trust is important in this process. Trust on the other side of the conflict is also important when they send bodies for identification and get test results. I agree that it is a disaster when the body is sent to the family, and it turns out that it is not their relative.

Does the ICRC have unimpeded access to imprisoned people on the territories controlled by separatists in Eastern Ukraine, and in Ukraine in general?

– At the moment, we have no access to detainees in the areas not controlled by the government. This is something we are working on very hard. We hope that we will have such an access.

What is the main obstacle for this?

– It is a decision that a party takes to grant us access or not. We can just try to convince and show why it is important, and what kind of support we can provide to assure that people are treated with humanity and dignity. Since last October, we have participated in eight operations of release of detainees. We are visiting detainees in relation to the conflict on the government-controlled side. These are about 464 cases. But we don't have access to all of them. We are trying to get systematic access to all detainees from the government. ■

For Allah and country

Mykhailo Yakubovych

How various Muslim communities perceive the war in the Donbas

In summer 2014, I was in constant communication with my Muslim friend, who lived in a town in Donetsk Oblast. Indeed, separatist flags started to fly there back in May, and since then this deep "hinterland" of the self-proclaimed "Donetsk People's Republic" (DPR) has remained occupied territory. I wanted to know what was happening in the local Islamic community, how Muslims reacted to the events and what they expected. His messages helped me to become aware of things that it is hard for the media to find out about and better understand local attitudes.

Some Muslims, especially from the older generation, tended towards the Russian side – some mosques apparently even advocated separatist ideas, while other Islamic communities decided to bide their time. Others, realising that the conflict is here to stay, left the ATO zone. That is what my friend eventually did too.

Then many Ukrainian Muslims joined the ranks of the Armed Forces and volunteer battalions. For example, the Crimea squadron of the Dnipro battalion, which broke out of the bloody Ilovaisk pocket with their weapons in 2014, and other military units with soldiers who hid and often still hide their real names. Some have relatives who remained in Crimea or the occupied part of the Donbas, others just "didn't want to stand out". Even now, when it seems that many secrets are being unveiled, the public has a rather superficial knowledge of the "Muslim" element of the war. It is good that the names of such defenders of Ukraine as Adam Okuyev, Amina Okuyeva, Isa Akayev and many others are on everyone's lips; courageous Chechen fighter Isa Munayev, who died in February 2015 near Debaltseve, is also remembered.

Generally, Muslims have been greatly affected by the 2014-2016 conflict. And it is about more than the Ahat Jami congregational mosque in Donetsk that had its roof pierced by an artillery shell in August 2014. It just so happened that after Crimea, home to almost half of the entire Ukrainian Muslim community, the second largest Muslim region was the Donbas. Virtually every major industrial city in the Donetsk and Luhansk Oblasts has a mosque, if not several; the Spiritual Centre of Ukrainian Muslims operated there, communities of the Clerical Board of Ukraine's Muslims and the "Ummah" Spiritual Administration of Ukraine's Muslims were active, as well as other organisations, totalling around 50, most of which are located in the occupied territory. Up to one hundred thousand Muslims lived here – twice as many as in Kyiv, for example. A considerable proportion were Azerbaijanis and Kazan Tatars, as well as many students from Muslim countries. Moreover, for a certain time – from 1999 to 2004 – a Ukrainian Islamic University even operated in Donetsk.



Green, blue and yellow. For the Muslims who lived in the ATO zone, service under the Ukrainian flag was a matter of protecting their honour, as well as property

A CONSCIOUS CHOICE

Now, however, all this is history. Even before the ATO began, during the Euromaidan, two of Ukraine's Muslim leaders clearly expressed their support for changes in the country: first and foremost, Ummah mufti Said Ismagilov, and also Crimean mufti Emirali Ablayev (who, however, quickly discarded his pro-Ukrainian rhetoric under occupation). Sheikh Said Ismagilov was an active participant of the Euromaidan in Donetsk and Kyiv, and was later forced to leave his native Donetsk. Eight Ummah communities operate in the occupied part of the Donbas. Their public activities are somewhat limited, but they continue to gather the faithful for Friday and other prayers, schoolchildren and celebrate religious holidays. Last year, the new "government" tried to give the go-ahead to a "DPR Muftiate" (the mufti was announced as head of the Makiyivka-based "Unity" Spiritual Administration of Ukraine's Muslims, Rinat Aisin), but by and large no significant changes have been made to the jurisdiction. Obviously, Russian curators have advised local leaders not to bother ethnic minorities too

much, as long as they do not have active pro-Ukrainian views, in order to not spoil the already dark image the "DPR-LPR" have as islands of evil in Eastern Europe.

Even in the Russian Federation with all its love for strict control in the sphere of religion, Islam is dispersed across various centres, so it would be difficult to have a single "supervisor" for Muslims in the Donbas too. Of course, anything can happen: in places, separatists set up heavy artillery near mosques and sometimes they tried to re-register communities according to their new "legislation", but there was almost no direct evidence of closures. The only exception was the exposure of an "extremist Al-Ahbash sect" (a neo-Sufi movement) in May this year, when "DPR secret services" arrested several members of the "Donbas Muftiate" Islamic community and declared its literature "extremist". A "Republican list of extremist materials" even appeared along the lines of the Russian one, although much shorter, including just a few booklets.

Muslims, however, were not passive participants in the war. Many Donetsk residents and natives of other oblasts were at the front from almost the first days of hostilities. Muslims fought in the Aidar and Dnipro vol-

unteer battalions, the 93rd Brigade and other units. It is hard to give an exact number of Muslims in the ranks of the Armed Forces, because there are Ukrainian converts, Crimean Tatars and people from the Caucasus too, but even by summer 2014 volunteers were trying to get "halal food" for many units. Islamic organisations, especially Muslim communities that remained in the Donbas territory controlled by Ukraine, played a part too. In June 2014, an independent Crimea squadron was formed in the Dnipro-1 special police battalion; its soldiers took part in the battle for Savur-Mohyla and fought their way out of Ilovaisk. In the same year, two more volunteer formations were founded by pro-Ukrainian forces: the Dzhokhar Dudayev International Peacekeeping Battalion and the Sheikh Mansur Chechen Battalion. Both units, despite their relatively small numbers, participated in military operations in the Donetsk Oblast. They chiefly include people from the Caucasus, many of whom already had experience fighting against the Russian army.

Muslim fighters also joined the ranks of the Right Sector's Ukrainian Volunteer Corps (DUK). In particular, the Devlet Giray Reserve Unit, consisting mainly of Crimean Tatars and headed by Rustem Abliatifov, is on guard at the front as part of the DUK. Although Muslim fighters often understandably try not to publicise their personal information (especially those who have family in the occupied Crimea), they do not hide their Islamic identity. Corresponding insignia can be seen at positions, Islamic rituals are carried out and chevrons are made with crescent moons and Crimean Tatar symbols. Until recently, one of the roadblocks in the Donetsk Oblast even flew a large green flag with

WHAT TO FIGHT FOR

Which reasons prompted Muslims to go to war? Some responded to a call-up from the military, but most were volunteers without previous military experience. Although there is no consensus among Muslim authorities on whether it is worth fighting under the banner of a non-Islamic state, history knows many such cases. Even in Ukraine, the "Volyn Tatars" were a separate unit, protecting the property of large magnates, such as the Ostrozhski family. Such Islamic organisations as Ummah, led by Mufti Said Ismagilov, supported the participation of Muslims in both the Euromaidan and the ATO from the very beginning. Other religious structures, however, were more restrained, or, like some members of Muslim communities in the Donbas and Crimea, chose the side of the enemy. Some Muslims justified their participation in the war with the belief that the rights of the faithful would be violated if the Russian Federation occupied Ukraine; virtually every practicing Muslim in Ukraine knows what sort of bloody methods the Russian authorities use to fight their omnipresent "Wahhabis", especially in the Caucasus. For others, especially those Muslims who lived in the ATO zone, service under the Ukrainian flag was a matter of protecting their honour and property, which in a sense created grounds for armed jihad against the invaders. Other Muslim structures, particularly those with ties to Russia, either limited themselves to general rhetoric about supporting the territorial integrity of Ukraine or simply pretended (and continue to do so) that nothing is happening in the country. In the eyes of some Muslims, who believe in the creation of an ideal Muslim state in the future, the current conflict is a global geopolitical struggle and "not our war", participation in which is absolutely undesirable (despite this, many of them have left the occupied Crimea and Donbas). These, however, are a minority.

Many Muslims that took up arms to protect the state had personal spiritual explanations for this. "When the Maidan started, if anything I was sceptical about it. Then the annexation of Crimea, the war in the East... And then the time came, literally one moment when I packed my bags and went to fight," says Ukrainian Muslim soldier Abdurrahman (Anatoliy) from the Dnipro-1 regiment, who is now on guard at a checkpoint in the Donetsk Oblast. "What guided me? There is a story from the Prophet Muhammed: when a person is born, Allah puts the right ideas into them, then their parents, education and everything else changes them. Maybe what Allah put inside me kicked in: if your country and family is at risk, you have to go and fight." Another soldier in the same unit, Ukrainian Muslim Khalid (Oleksandr) says that the desire not only to protect his land prompted him to take part in the ATO, but also "to try to change people's ideas about Muslims and protect the country's citizens and their rights in the future".

Salim (Mykola) Sylych, a Muslim who was called up to the 93rd Brigade of the army in 2014 and participated in battles to liberate of many towns in the Donetsk Oblast, »

BEFORE THE ATO BEGAN, DURING THE EUROMAIDAN, TWO OF UKRAINE'S MUSLIM LEADERS CLEARLY EXPRESSED THEIR SUPPORT FOR CHANGES IN THE COUNTRY



No statistics. It is hard to give an exact number of Muslims in the ranks of the Armed Forces, because there are Ukrainian converts, Crimean Tatars and people from the Caucasus

says that the main motivation for him was to protect his family, "I can't imagine someone hurting my relatives. It's the duty of a Muslim to protect his family." According to him, local Muslims have helped out in many difficult moments. But, unfortunately, he has also seen some that showed sympathy for the enemy and now even fight as a part of their illegal armed formations.

Crimean Tatars and Caucasian Muslims (especially veterans of the Chechen wars) see current events as one of the stages for regaining their homeland. In this regard, we have to mention the Noman Çelebicihan battalion, which is behind the civil blockade of Crimea. Nonetheless, despite the best efforts of Crimean Tatar activists, the status of this unit remains more civil than military. The situation as a whole is understandable, as a special military unit based on ethnicity or – even more so – religion is quite difficult to fit into the structure of the Armed Forces or National Guard, especially in light of common stereotypes about Islam and Muslims (even patriotic ones).

CHAPLAINS NEEDED

Muslims have joined the fight in the rear too. Volunteers regularly organise support for soldiers on the frontlines. Demobilised fighters have collected and passed on significant assistance. Muslim chaplains have made an appearance in the armed forces for virtually the first time. Previously, Muslim chaplaincy predominantly boiled down to visiting places of detention, but now another priority is to support ATO participants. Indeed, the Military Chaplaincy Administration of Ukraine's Muslims, established with the

support of Ummah, regularly visits the ATO zone. Its head Murad Putylin underwent training at the Chaplain School of the Ukrainian Association of Professional Chaplains. In addition to the aid that chaplains bring to units, religious services are held right on the front line, particularly Friday prayers. Barely a few years ago, no one could imagine that in the near future not only convinced Christians, but also practicing Muslims and members of other faiths would stand side-by-side under the Ukrainian flag.

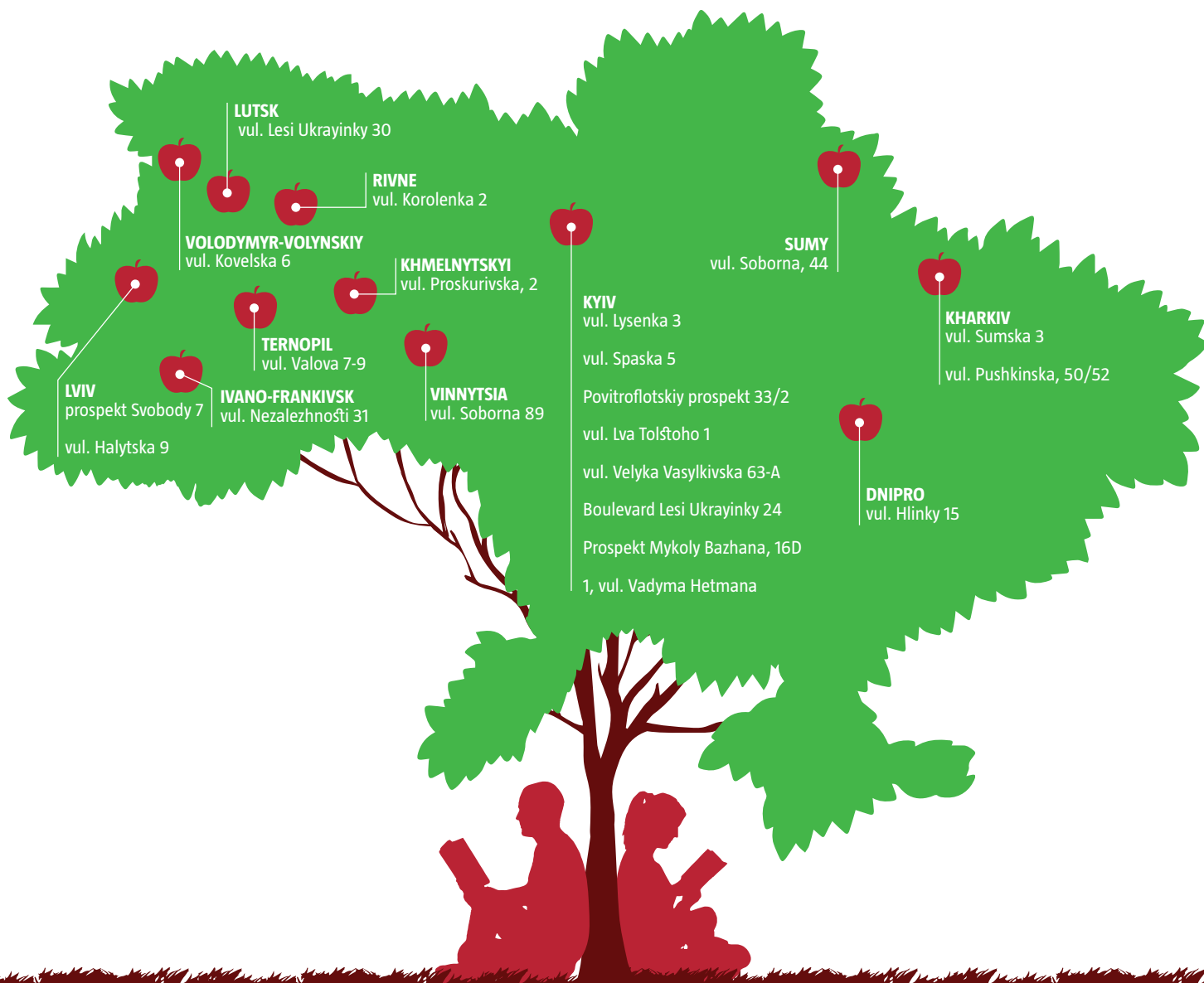
According to mufti Said Ismagilov, the need for military chaplains became acute in July 2014, when the first Muslim Artem Netrunenko (call sign Umar) from the Aidar Battalion died in the Luhansk Oblast; he was posthumously awarded a Third Class Order For Courage. "The question arose how to bury the defender of Ukraine, when all the mosques in the Luhansk Oblast were already under occupation, so it was dangerous for imam chaplains to travel in order to bury the dead according to Islamic rites. Then we decided that there should be a Muslim military chaplaincy to provide spiritual care to soldiers of the Islamic religion." Said Ismagilov also talks about the specifics of Muslim chaplaincy, "As Muslims are spread out across various units, it didn't make sense to assign an imam to two or three soldiers, so we decided to work in sectors. The imams go to see their faithful, each in his own sector, pray with them, talk to them, bring religious literature, visit hospitals, and organise burials according to Muslim rites in case of death. They work closely with Christian chaplains of various denominations to the extent that the latter help to distribute Islamic prayer books to Muslims. In war, we are all brothers – we do not discuss whose faith is better. We value and respect each other, taking each person for who they are."

However, as is often the case in our country, there are some problems here too. The organisation Ummah plays the most active part in assisting the military, but despite all efforts, the Council for Pastoral Care at the Ministry of Defence does not recognise its representatives due to the fact that it does not belong to the Ukrainian Council of Churches and Religious Organisations. According to Said Ismagilov, officers from the Ministry of Defence, citing internal regulations, report that they can only cooperate with organisations that are part of the Council of Churches. And since this is only the case for the Spiritual Administration of Ukraine's Muslims headed by Akhmed Tamim, chaplains who belong to other religious communities do not have a representative at the Ministry of Defence. Ironically, Crimean mufti Emirali Ablayev, who was condemned by both Mejlis leaders and even the World Congress of Crimean Tatars a long time ago for collaboration, has still not been formally excluded from the Ukrainian Council of Churches and Religious Organisations. Nevertheless, chaplains work at the front whether the Council accepts them or not.

How many Muslims have passed through the crucible of war? As already mentioned, no one knows the exact number, but there are at least one hundred, many of whom are still serving in the Armed Forces, National Guard and volunteer battalions. However, this phenomenon can be interpreted not only in an Islamic context: a Ukrainian civic consciousness is emerging with values that resonate in not only Ukrainian Christians, but also Muslims and members of other faiths. ■



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Through October 12**Classic Underground Contemporary****M17 Contemporary Art Center
(102-104, vul. Antonovycha, Kyiv)**

Classic Underground Contemporary is the open pre-auction exhibition of classic, underground and contemporary art works. The show displays 124 pieces by Ukrainian artists, including representatives of classic and contemporary schools. The selection ranges from Mykola Hlushchenko's *Last Snow*, Serhiy Shyshko's *Roses and Squills* and Davyd Burliuk's *Dedication to Marusia* to the *Rocky Shore* by the talented impressionist landscape artist Ivan Trush, Oleksandr Roytburd's *Gay Gothic* piece, *Borshch*. *Sour Cream* from Oleh Tištol and other appreciated artists. The entrance is free.

**From October 13****Neues deutsches Kino 2016****Cinemas in Kyiv, Kharkiv,
Chernivtsi, Dnipro, Odesa, Lviv**

As many years before, Ukrainian film goers once again have a privilege to check out a selection of the best German film premiers of the past year. This year's program includes shorts as well as feature films. Genres, too, vary from the Overgames documentary, *Der Staat gegen Fritz Bauer* (The State Against Fritz Bauer) drama to *Tod den Hippies!! Es lebe der Punk!* (Death to Hippies! Long Live Punk!) comedy and *Toni Erdmann* tragicomedy. A special feature of the 2016 film festival is a show of short films from Ukrainian director Serhiy Loznytsia.

**October 15-16, 10 a.m.—****Looking for Made in Ukraine****Kontraktova Ploshcha**

Quality new brands of Ukrainian clothing that take the local manufacturing to another level will feature at the 10th Looking for Made in Ukraine. The organizers promise an intense music program: the folk-rock TiK will headline on the first day, while Mike Kaufman-Portnikov, a well-known jazz pianist, will close the second day. A special program of the fair is specifically designed for children with various games, workshops and a hay maze. Nor will there be a shortage of food: the fair will offer a diverse street food court.

**October 16, 6 p.m.—****Diapason by Gedymin Grubba (Poland)****The House of Organ and Chamber Music (8, vul. St. Bandery, Lviv)**

As part of the Diapason International Festival for Organ Music, the talented Polish organist Gedymin Grubba will come to play in Lviv. For the Ukrainian audience, he will play pieces by world-renowned composers, including Bach, Mendelssohn and Reger. The festival itself is often referred to as the meeting point of European organ masters. The name actually fits it: the concert programs feature some of the best organ musicians from across Europe, including Croatia, Poland, Czechia, France and Ukraine. This is the sixth time that the organ music festival takes place in Lviv.

**October 21-23, 8 p.m.—****All Music is Jazz****Closer art center
(31, vul. Nyzniyurkivska, Kyiv)**

Contemporary jazz musicians from Ukraine, France, Germany and America will play in the All Music is Jazz festival to present jazz in a new format. Olha Bekenstein, the person behind the idea and the organizer of the festival, says that the goal is to show the urbanist rather than the romantic side of jazz. Therefore, apart from the purely musical aspect, the festival will include an educational component. It will feature Q&A sessions with the artists, workshops for young musicians and a film screening as a collab with American Independence Film Festival.

**November 2, 7 p.m.—****Great Classic. Shlomo Mintz and the Virtuosos of Kyiv orchestra****Ivan Franko Academic Drama Theater (3, Ploshcha Franka, Kyiv)**

The long-awaited event in the world of classical music is finally here: Kyiv's favorite chamber orchestra will perform together with the Israeli violinist and conductor Shlomo Mintz. His music career kicked off at the age of 11. He has since conducted the world's great orchestras and performed the best pieces by the legends of world classical music. Mintz's repertoire includes works by Bach, Mozart, Beethoven, Mendelssohn, Vivaldi, Paganini and others.



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