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THE RAZUMKOV CENTRE NEWSLETTER

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THE RISK OF THE CONFLICT SPREADING BEYOND DONBAS IS CONSTANT

There is a real risk of the conflict spreading beyond Donbas. It increases or reduces from time to time. However, this threat is constant, and the trend towards escalation is high. Any actions – either by Russia deliberately, or by Ukrainian flag-wavers – only promote the worst scenario.

There are many versions of further actions of the terrorist groups of Donbas, particularly in relation to the attempts to expand the areas controlled by them up to Crimea, or the expansion of Donetsk People's Republic and Luhansk People's Republic up to the administrative boundaries of Donetsk and Luhansk Oblasts. But the most important is that on the other side of the conflict, no one is going to adhere to ceasefire. Secondly, there are many reasons to believe that terrorists not only have no single control and coordination centre but not even several specific centres of influence, with which it would be possible to negotiate and reach some agreements. Thirdly, the Kremlin will hardly agree to keep this conflict within the defined borders. The prospect for this conflict significantly differs from others, such as Transnistria.

Now it seems that appropriate conclusions from the situation in Donbas have not been made, and the period of "ceasefire" is used inefficiently.

I would like to believe that something significant is being done now but the general public is not informed about it. It would be considered normal because we are in the state of war. However, there is very little reason to console oneself with optimism.



Co-director of Foreign Relations and International Security Programmes of the Razumkov Centre
Olesiy MELNYK

[Full text](#)



HOW TO CREATE A NEW UKRAINIAN ARMY

The possibility to provide consultative assistance on the military reform to Ukraine has been discussed for a long time. The issue of access to certain kinds of confidential information for the experts from NATO has long remained one of the main hindering factors. If this issue is resolved, the negotiation process will finally get under way.

The country may need experience of the military reform of other countries, including specific models implemented in various Western countries, as in each country and the approaches to problem solving are specific.

The main export item should be the principles as well as the method of development, which is common for all the army models in the West. Any army model which we would like to introduce should be adapted

to the Ukrainian context first. American and European experts also tell not to take their model but better learn how they have built it, and then to build the own one based on it.

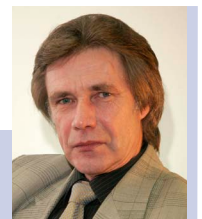
Taking the principles used by the West as a basis, we could learn a lot. Learn what are the stages of building a new army model, how to organise cooperation between groups, and how to develop this reform. We cannot expect just to take, for example, the Swiss model and blindly copy it in Ukraine. We will never build it like that.

Of course, the efficiency of working with Western experts first of all depends on political will as well as good attitude of the team that will develop this programme. Such reforms have not got through our bureaucracy yet – the main task is to get this process under way. For Western experts are coming to Ukraine not for the first time, and all the previous visits ended with the conclusion that we were not ready for military reform.

[Full text](#)



Director of Military Programmes of the Razumkov Centre
Mykola SUNHUROVSKYI



A NEW MODEL OF THE STATE SECURITY URGENTLY NEEDS TO BE DEVELOPED

– Could you assess the army's action strategy chosen by the military leadership? Why is it still a Counter Terrorist Operation (CTO), not an official war?

– We should understand that the strategy has been chosen considering not only the state of the army but of the entire security sector, which was dilapidated at the beginning of the conflict with Russia. The infamous 6,000 soldiers mentioned by Defence minister Tieniukh in March is a real number although only when it comes to immediate response forces, which at that time were fully equipped and staffed, and ready to move on the first order. Readiness of the rest of the units was significantly lower than normal.

The biggest problem was that we had no reserve units – or rather they were deliberately destroyed – which later will be called territorial defence. By the way, that is why the Ministry of Defence relatively quickly agreed to form volunteer battalions as their own respective base was simply cut up over the last four years, and this information was carefully concealed by the previous command of the MD and General Staff.

As to the CTO, I think until the open invasion of the Russian army in mid August, it was really a counter terrorist operation. It is clear that its difficulty was that the Armed Forces could not act against terrorists who were hiding among civilians as they are not designated for this. So, to call all that a military operation from the very beginning would mean to dramatically increase the number of victims among civilians.



In general, most mistakes in command were connected with well-worn bureaucracy and the lack of responsibility and initiative as in the army, there is still a rule “if you take initiative, you do it”. As a result, our forces always gave up initiative in combat operations, which cannot be allowed at all. We kept giving the enemy the opportunity to step back, regroup, and bring in reserves. All this meant more victims. However, the factor of betrayal should not be ignored, which was combined with the mentioned lack of initiative.

– Should Ukraine have fought for Crimea? Are those saying that we had nothing to fight with, and that giving it and the best weapons up in silence was the only way out right?

– 80% of the military personnel in Crimea were local contract soldiers, with whom the Federal Security Service of Russia and MID staff have successfully worked for several years. The number of those assigned to the Black Sea Fleet of Russia, by the way, has doubled in Crimea over the last three years. So, actually, three quarters of units there were unfit for action. I think that even if there was a clear order to shoot, they still would not do it. There is another important aspect. To shoot a person, one should overcome a certain psychological barrier; troops should be trained for this. The Armed Forces of Ukraine (AFU)

were not ready to shoot-to-kill at all, especially in Crimea. To shoot their neighbours and friends whom Russia had skilfully used for their raid. That barrier – not being ready to shoot – also existed when the Crimean epic had ended, approximately until the end of April when rivers of blood have started flowing at the Ukrainian side in Donbas. Of course, today it has already been overcome – the army, military volunteers, and volunteers know exactly where and why they are going.

– Could you assess the level of training of the Russian army compared to ours?

– It is not right to blare that it is impossible to fight against the Russian army. For trained contingent in Russia is not that big – 150–200K soldiers in the entire country. Mostly, they are paratroopers. Aviation and air defence are the only where Russia has absolute advantage. The average flying hours of a pilot there – 120 hours, and in Ukraine – 40 hours. However, our ground troops are fully comparable.

Huge losses of Russians can be explained by the fact that they have to fight not by themselves but together with the rabble from the so-called volunteer corps, not even with “men in green” but with some humanoids that are completely unpredictable and difficult to control. Hence the losses in regular units, not even mentioning the “friendly fire”. However, we should understand that our combat operations are conducted at the level of battalions – you either battle through, or you are ambushed. This is not even the brigade level.

– What should we do now? What are your suggestions?

– We should introduce the strictest liability for decision making, issuing orders, and providing conditions for their execution. For it is the support stage – technical, medical, welfare etc – where we fail. There are many losses because groups go on a combat mission without intelligence or commandant escort. Military training should be dramatically improved, which, thanks God, is now much more active in the AFU, National Guard of Ukraine (NGU), and volunteer units.

We should understand that what has been organised under the guise of territorial defence are just recovering reserve units for the AFU. However, a real system of territorial defence is badly needed, and it should be developed. Its existing battalions should be turned into regular military units. Full inspection and inventory should be conducted immediately, and then, a new model of state security should be developed, given current reality – and take it from here to reform all the security forces, including the AFU. Also, we should clearly answer this question – from what and how we are going to defend ourselves, identify our interests and the possibilities of defence. In this sense, it is necessary to establish the Special Operations Service. Not to be confused with special forces – I mean an authority which would manage informational, media, political, and cyber security operations to defend Ukrainian interests. A similar structure, for example, has been operating in Russia for many years.

We should understand that the Ministry of Defence will fail to carry out proper reforms in wartime because of the lack of resources. But corruption should have been fought, and the management system should have been restructured already. As well as the public sector's control over all the state systems, including the security system, should have been strengthened.

Full text

*Director of Military Programmes of the Razumkov Centre
Mykola SUNHUROVSKYI*

IF RUSSIA STARTS THE ARMS RACE, IT MAY COLLAPSE AS THE USSR DID

The statement of Russian Deputy Prime Minister D. Rogozin that until 2020, Russia would renew the weapons of strategic nuclear forces to 100% can lead to a collapse of the country, if the government does not provide a reasonable assessment of this programme.

In this statement, Rogozin simply presented one of the aspects of the Russian rearmament programme. What should Ukraine do in connection with this statement? This is the case when Ukraine does not have to respond because such a statement hardly needs response. This especially applies to statements that our officials are making – on the possibility of restoring the nuclear status of Ukraine.

All of this should have no impact on our military doctrine. We do not need to refer to Rogozin's latest statement. It is clear that Russia will continue resorting not only to military rhetoric but also to certain unfriendly steps towards Ukraine. In fact, Ukraine has already understood this and realised that it needs to seriously engage in its own defence. This is not only a current issue but a long-term one as well.

The other conclusion, which is already obvious for many – although we have tremendous diplomatic, political, and economic assistance, the issue of defence is primarily a responsibility of the Ukrainian government and society.

Now the Russians are not talking about the increased amount of nuclear stockpiles, and they do not go beyond the limits set in the international agreements.

The only aspect that in this sense may be of interest for Ukraine is that about 50% of missiles which are currently in service of Russia were either produced in Ukraine or are now under maintenance of the Ukrainian experts, or the prospects of their design depend on Pivdenne Design Bureau and other defence enterprises of Ukraine. This is the aspect which can become the subject of negotiation or blackmail by Russia.

Full text

*Co-director of Foreign Relations and International Security Programmes
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Domestic Policy

THE LAW ON THE SPECIAL STATUS OF DONBAS MAY LOWER THE RATING OF POROSHENKO AND HIS BLOC

– According to the recent data of the KIIS, Petro Poroshenko Bloc is leading in the election with the rating 37.1%. Do you think this trend will change during this month, or will the rating of the President's bloc continue to increase?

– In the case of Poroshenko Bloc, there was a crucial point. All the surveys were conducted before the laws on amnesty and the special status of Donbas. It is hard to imagine that the adoption of these laws can increase the bloc's rating. I can predict that, on the contrary, it will lower its rating. The other point – the period of trust has already passed. People need results and reforms. One can expect that the attitude towards Poroshenko and his party – as trust – can go down. However, I am still sure that Poroshenko Bloc will get the majority but how convincing it will be – the results will show.

– Oleh Liashko and his Radical Party ranks second in the ratings – 13.1%. Why do you think Liashko managed to increase his rating so quickly?

– This is an old disease of the Ukrainian society – to focus on names rather than parties. This problem is created by the leaders of those parties who work exclusively in their favour. The party's activities are almost invisible. Its activity can be seen only during the election campaign. I think there are only two parties whose voters do not focus on leaders – the Communist Party of Ukraine and, to some extent, Svoboda. The Radical Party is a totally emotional and incautious choice. Nobody knows what people Liashko will bring to the new parliament. I do not rule out that they may be the representatives of Chernovetskyi Bloc.

– Do you think “Hromadyanska Positcia”, due to the support of “DemAlliance”, will manage to get a better result than the KIIS predicts (9.7%)? For these data have been published before the consolidation of the parties.

– DemAlliance has always had low rating. Despite this party being active, it has not become popular. I am sure that Hrytsenko's rating is likely to remain – it will neither grow nor fall. The “Hromadyanska Positcia” has clear staff shortage, and at the stage of the election campaign, the party will need staff for campaigning and active political work at the headquarters. It is these people that DemAlliance will provide – they have active people but no rating. In turn, for DemAlliance this consolidation is the only way to make it to the parliament.

– The ratings of “Narodniy Front” and “Batkivshchyna” are almost the same – 6.4% and 6.1%. Do you think the parties will take each other's votes?

– I do not think that these two parties will compete with each other. They will rather fight for people who are still undecided. Moreover, we should understand that Poroshenko Bloc, Liashko's Radical Party, “Hromadyanska Positcia”, “Batkivshchyna”, “Narodniy Front”, and even Svoboda are of one ground. So here we cannot say that these two parties will compete against each other. The fact that Yatseniuk and Turchynov left “Batkivshchyna” will not play a major role during the voting. For Yatseniuk's and Turchynov's voters in this election will vote for “Narodniy Front” anyway. There will be competition but in a wider context than between two parties.

– The experts think that the only opposition party that stands a chance to make it to the new Rada is Serhiy Tihipko's “Sylna Ukraine” – as of 2 September, his rating was 7.8%. Thus, if there is opposition, it will be minor. Do you think Serhiy Tihipko will be able to suddenly get, as in 2009, a higher percentage than forecasted by social scientists?

– Since the Opposition Bloc will show insignificant results, I do not rule out that Tihipko will be able to get a higher percentage. I think, because of the voters of the Opposition Bloc. We should not think that opposition will be small. There are majority districts. I am sure that due to this, opposition parties will have much better results under the majority election system. By the way, deputies of the Party of Regions will act exactly according to this principle. Another important point is not to forget about the CPU. I think that the communists are still very likely to make it to the parliament. The voters of the CPU are the most active, and turnout among them is always the highest. Therefore, the real percentage rate of the CPU, I think, will be higher than sociology shows.

Full text

*Director of Sociological Service
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Andriy BYCHENKO*



WE SHOULD TALK NOT ONLY ABOUT RESTORING DONBAS BUT ALSO ABOUT FORMING NEW TOWNS

– Is it already clear how much the war in Donbas costs Ukraine?

– The estimates differ – they say \$2–5 billion, sometimes more but today it is not very rational to talk about it. All these estimates will be conditional. Direct losses from the ruining of enterprises, reduced production, the loss of contracts, because much of the population left Donbas and not all will return, is only one part that we can try to estimate. However, it is difficult to estimate the other part whose impact will not be less – I mean the ruining of the economic organism in general and infrastructure in particular. For bad roads and disruption of transport connections between different parts of Ukraine, undersupply of interdependent enterprises, destruction of bridges, driveways, and stations will dramatically affect the entire economic organism of Ukraine. Now, a lot of people psychologically fear the expansion of Russian aggression, and even if it calms down, the border areas will continue to live in fear and with negative expectations for a long time. Therefore, significant resources will be used on strengthening defence rather than capacity development and building, which can move Ukraine to European and global markets.

– Which economic sectors are developing in Ukraine now, despite the war, and which are experiencing recession?

– Mechanical engineering, heavy industry, and mining industry, in particular coal mining, were significantly affected by war. For a large proportion of mechanical engineering, metallurgy, and chemistry enterprises are located in the CTO area and areas uncontrolled by Ukraine. For example, we already cannot control a number of chemical enterprises in Crimea.

The agricultural sector is probably the only one supporting the economy of Ukraine now, in particular in terms of export. Now we can only say that the sectors connected with the agricultural sector continue to develop and support the economy of Ukraine. I think now there are many enterprises that make defence products, and receive proper funding and orders, which can boost their development.

Unfortunately, the majority of other sectors demonstrate negative indicators. The war problem and aggression go hand in hand with the Ukrainian economy being torn. They say that the devaluation of hryvnia occurred due to military operations but, in fact, it was only one of the reasons. There are many factors indicating that devaluation was caused by a number of internal contradictions – it connected not only with the war but also with domestic economic problems and the government unwillingness to carry out dynamic reforms. A number of enterprises working in the domestic markets experience significant difficulties due to the declining terms of trade and supply as well as reducing solvency of people and enterprises.

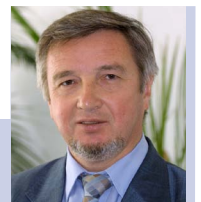
– How will the current decline of industry affect further development of the country?

– From January to August 2014, the industry fell by approximately 8%, compared to the same period last year. If we manage to stabilise the situation in Donbas, the decline of industry in Ukraine will be 8–10% this year. Clearly, there is a huge loss for the country.

However, here it should be mentioned at what level Donbas will be – if the ruined enterprises and infrastructure are not restored in 2–3 years, a low level of industrial production will remain in Ukraine. It will slow down the development of the entire economy. Although it is possible that the construction industry, connected with restoration works, can show positive results. However, a large proportion of the value added of Ukrainian producers will be allocated to the restoration of mines, chemical plants, metallurgy enterprises, and infrastructure of Donbas, which may hinder the development of civilian and humanitarian sectors.

Full text

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YURCHYSHYN*



DEPRECIATION FOREVER-2

Over the last months, Ukraine has gained a number of undeniable foreign policy victories.

The long-awaited ratification of the EU Association Agreement can become an important sign to foreign – and especially European – investors.

However, even more striking are domestic economic losses, especially in the monetary system. These losses may negate the development as well as Ukraine's prospects for European integration.

Business development, support of business competition, and promoting access to capital remains the basis of economic recovery and acceleration in Europe.

The actions of the Ukrainian government of the last years have been aimed in the opposite direction. In the economic sector, the government continues to practice and exploit the philosophy of restrictions and penalties, and this is obvious at first glance on the monetary system.

Allegedly to prevent depreciation, at the same time the government devaluates economic values in the

country in general, and washes out the grounds for the intentions of European integration.

Indeed, instead of fiscal easing and incentives, additional tax withdrawals and penalties (taxes “for the war”, on the purchase of currency, intentions to increase the taxation on property, deposit earnings, increasing arrearage of wages, accumulation of VAT refund arrears etc) are introduced. The result is deterioration of the financial situation and business closures, and decline in actual welfare.

However, Ukrainians will suffer the biggest loss from the unwillingness of the government (the central bank) to deal with the monetary sector.

One can only welcome the decision on abolition of the mandatory sale of 100% of the foreign exchange earnings for exporters. It will give the latter at least a minimal possibility of access to their resources and use them at their own discretion.

However, even brief existence of this regulation has created a problem of the lack of trust and showed the unwillingness of the government to listen to arguments.

For during the discussion of the possible introduction of such a measure, the expert community was almost unanimous that forced 100% withdrawal would not lead to stabilisation of the foreign exchange earnings for the country (even when increasing export) but will serve as an enforcement for shadow income from foreign trade.

Current decrease in the standard of the mandatory sale up to 75% will also hardly be efficient as exporters are already frightened by possible further withdrawals and will not hurry to show all foreign exchange earnings. So today the National Bank of Ukraine (NBU) should clearly declare (and, maybe, properly execute) the introduction of a moratorium on the increase of the 75% limit for exporters at least for the next six months.

The effectiveness of the NBU's influence on the behaviour of foreign exchange profiteers is questionable.



The NBU reported about coordination with major commercial banks to keep hryvnia within the range of 12.5–12.9 UAH per USD. However, already in a few days, this corridor was “broken”, and before the NBU managed to declare another ceiling increase, the latter “suffered” again.

Since the results of tenders on refinancing and foreign exchange auctions remain closed, the NBU's explanation about profiteers who can destabilise the monetary system at extremely low volumes of the interbank makes no sense at all.

A number of measures connected with people receiving funds from abroad, especially in terms of forced conversion of transfers in foreign currency into hryvnia, makes even less sense. The NBU hopes that with such restrictions and withdrawals it is saving the banking system, by “keeping” foreign currency in it.

In fact, the situation is closer to the opposite – the NBU increases popular discontent with the ability

of the central bank to protect its funds, and thus, further suppresses the banking system, and provokes further erosion of funds from the banks in general.

Now there is no other factors except exchange rate stabilisation, that could stop the outflow of deposits.

Although now it is absolutely clear that major imbalances emerge not in the cash market but in the interbank market, regulatory activities of the NBU are actually minimised there.

Instead, another meaningless decision to limit the purchase of foreign currency in cash at the level of 3,000 UAH for people is initiated. (I.e. when yesterday it was simply impossible to buy dollars as there were none, now everyone knows they also cannot buy any – now in the amount of \$200.)

In the current situation, the answer to the question “what to do” needs priority removal of the accumulated regulatory problems, understanding that this is as bad as it gets. So further withdrawal of funds cannot lead to financial stability.

When this material was being prepared, the results of the meeting of the state leadership with the representatives of the banking system was still unknown. So I would like to express the hope that the government realises that now the exchange rate destabilisation is indeed already critical and perhaps the most painful problem of the national security. Thus, the actions should meet the threats.

An important point should be added here. Even rather a systematic economic task – the Ukrainian government should attract foreign investment to Ukraine at any cost.

Despite possible short-term losses due to the low value of objects in crisis conditions, now it is more important to encourage efficient owners and entrepreneurs as well as demonstrate political will to introduce a transparent and open model of the Ukrainian economy.

Moreover, global and European capital can not only equalise the balance of payments (which is necessary to maintain exchange rate stability) but will also become the best defence against Russian aggression.

Full text

*Director of Economic Programmes
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HIGH COMPETITIVENESS WILL PROTECT UKRAINIAN PRODUCERS FROM THE PRESSURE OF RUSSIA

Russia is promoting an official doctrine that, allegedly, with the Free Trade Agreement with the EU coming into force, cheap European goods will enter Russia through Ukraine. However, this is not entirely true. For in the international trade, there are procedures of defining the country of entry of goods. So it is not a problem to prevent unwanted transit import. In fact, Russia's regulation on increasing duties for Ukrainian goods is a political factor. Russia wants to dominate and impose its terms not only on Ukraine but also on the EU.

During this year, the producers for whom Russia remains a partner should refocus on the EU. It is necessary to increase competitiveness so that no Russian restrictions would determine the direction of trade for Ukrainian producers. We should also

consider that very soon, Russian markets will not satisfy Ukrainian producers and consumers. The process of refocusing on other markets is long and painful. It is a known fact that, for example, the products of Ukrainian mechanical engineering are not in demand among the EU countries. Instead, they are in Russia. However, constant increase in competitiveness, updates, and quality improvement dominate in the world now. Thus, even the supply of products of mechanical engineering may lose its appeal over time even for Russian consumers. Ukraine should produce competitive goods rather than work conservatively.

Full text

*Director of Economic Programmes
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UKRAINE SHOULD MAKE EVERY EFFORT TO REDUCE THE DEPENDENCE ON IMPORTED GAS

– Kateryna, how has Ukraine's refusal to purchase gas affected Russia?

– Gas export is one of the key elements of the Russian energy policy, which has recently brought over \$60 billion, and is an important tool to promote political interests of the country at the international level. For example, in 2013, Russia's income from the sale of natural gas amounted to approximately \$63 billion, with one fifth of the foreign currency earnings – \$12 billion – provided by Ukraine.

Ukraine's refusal to buy Russian gas as well as a more rigid policy of the EU on the monopoly of Russia forced the latter to seek other ways of selling natural gas to preserve the sources of earnings. Indeed, on 21 May 2014, Russia and China signed the gas contract for 30 years for the amount of \$400 billion. According to the document, Gazprom PLC and Chinese company CNPC agreed to supply 38 billion m³ of gas annually from Eastern Siberia to China. The Russian president declared that the agreement was very profitable for the country.

– Will Ukraine be able to compensate for the loss of the Russian gas? How to prevent the risks awaiting us if it is not possible to receive reverse gas supplies in winter?

– The current situation in Ukraine's energy sector is quite serious both for the industries and ordinary citizens. Early this year, we have already heard a lot of forecasts on the possible ways to minimise the consumption of Russian natural gas. One of such options was reverse. However, now we can already confidently state that this scenario is not the most favourable for our country. In fact, European reverse is the supply of Russian gas crossing not the eastern but the western border of Ukraine (German company RWE is a buyer of the Russian gas). Since September, Russia has already reduced supply to Poland and Slovakia almost by half. The likelihood of the complete cessation of reverse is especially high in winter when it will be difficult to find available gas volumes in the European market.

The renewed construction project of the liquefied gas terminal in Port Pivdennyi has been recently considered an option for obtaining extra gas by next spring.

For Ukraine, the development of domestic production is necessary today. It may reach around 20 billion m³ annually.

However, the development of domestic production and construction of the liquefied gas terminal seem possible in the medium term while reverse supply is not that reliable. Respectively, the only possible option for reducing the risks of a shortfall in natural gas is reducing its use and energy conservation that should apply to everyone.



*Expert of Economic Programmes
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Kateryna MARKEVYCH*

– How real is the prospect of creation of the Eastern European Gas Hub (EEGH) to strengthen energy security of Europe? What is the role of Ukraine in this process? Can our country count on support of the EU, and how it will be provided?

– The main factor affecting the market price of oil is, first of all, the discount rate of the Federal Reserve System of the United States.

For several years, the trend towards the development of marketable platforms for gas trading at spot prices has been observed. This is mainly promoted by the willingness of the European energy companies to give up the formula approach to pricing as well as growth in trade of liquefied gas.

If Ukraine is ready to expand the volumes of its underground gas (LNG) storages up to 50–60 billion m³, the creation of the EEGH will be possible, which would allow to strengthen the energy security of Europe. However, this may be possible, first of all, with the support of the EU, and in the medium term of 5–7 years.



– What role do global experts assign to the coal generation and other energy sources today?

– High gas prices compared to coal prices make it loss-making to use in the electric power industry, encouraging active replacement of the gas generation with coal. The latter point dramatically contradicts all the environmental objectives of the EU but in the current circumstances, the countries use solely economic calculations – at current prices, gas is too expensive to use in the electric power industry, and the prices of carbon dioxide emissions, which should have adjusted the situation, have fallen to a historic low over the past year.

Future prospects for gas demand in the energy sector are associated with high uncertainty. Certain optimistic expectations of the market participants were also based on the prospects for nuclear power. It was expected that after the Fukushima nuclear disaster in Japan, which led to the closure of a number of old nuclear power plants in Europe and changes in plans of some countries on the development of nuclear powers, gas demand in the electric power industry would get a new boost. However, after a gradual shutdown of nuclear power plants has started, the lack of power supply has been compensated with operating coal rather than gas power stations.

Full text

FUNDING NAFTOGAZ CAUSES SIGNIFICANT LOSSES TO UKRAINE

– Is there a chance that Ukrainian and Russian parties will somehow resolve the issue of Russian gas supply? Or does the political nature of this issue promise that Russia is more likely to seek other opportunities not to supply it than find a real understanding?

– We should understand that for Russia, gas is primarily seen as a military and political factor not only in the relations with Ukraine but with the EU in general. Therefore, for Putin, military and political objectives concerning gas transportation and supply to Ukraine is a top priority.

Gazprom is only an element, i.e. a certain “force” of economic pressure on Ukraine and European countries. We cannot consider this issue only from an economic point of view. For there is no economy here. The objective is to make Ukraine sign unfavourable contracts and change its vector of political development using gas weapon. This is a strategic objective of Gazprom, set by the Kremlin.

For if Gazprom agrees to \$269, even debt, it will be an argument strong enough in Stockholm Arbitration. As it will be clear that the price offered before – \$385 or \$450 – is absolutely unreal.

What is the main goal of Gazprom now? To create some kind of scheme like RosUkrEnerho but its new interpretation, which will involve the forces close to the Ukrainian government. Thus, to restore the previous schemes to suck all the economic resources from Ukraine and get all of our elite on the “gas hook” so that Ukraine would simply cross out its way to Europe.

– We have not paid the debt to Russia, and we do not buy gas from Russia. However, we were a major gas buyer. Has it affected the financial system of Russia?

– Indeed, Ukraine has always been the second market after Germany for Gazprom. Ukraine used to pay Gazprom around \$12–13 billion for the consumed energy. Of course, it has severely affected the Russian budget.

In total, Gazprom has sold gas to Europe for \$40–50 billion, depending on the price situation and sales. So without these markets, Gazprom can neither exist as a company nor develop. In this regard, the Ukrainian market is one of the most important.

– **As to the gas price increase for the population – will this measure work to ensure the energy independence of Ukraine?**

– The key problem is the “black hole” – the National Joint-Stock Company Naftogaz. No matter price increases, this money will simply disappear, and the state will have to compensate for those billions. This year, 43 billion UAH of bonds have already been transferred to the founding fund of Naftogaz. Now, 20 billion UAH are planned to be transferred. Naftogaz is practically a stone pulling the country down to the bottom.

[Full text](#)

Director of Energy Programmes
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Volodymyr OMELCHENKO



ENSURING TRANSPARENT GAS METERING WILL INCREASE ENERGY CONSERVATION IN UKRAINE

To achieve gas conservation in Ukraine only through price increase on natural gas for households is impossible. However, it is naive to expect that this measure will change the country's gas balance.

First of all, the government should draw attention to the issue of transparency. Solving the issue of natural gas metering can change the situation dramatically. It is important to understand where the gas goes and what the consumers are paying for – then the price increase for this resource may be effective.



Now Ukraine has the highest level of undercounted fuel. In the conditions of the acute shortage of gas, our country is only 30% equipped with building-level heat meters in the houses. The schemes of the current balance are extremely complicated – it is not entirely clear how gas intended for the households is distributed. Improving transparency and installing appropriate heat meters will not allow such an expensive resource to disappear in an unknown direction.

The Ukrainian government should not count too much on coal supply from Russia. This matter can be negotiated with the northern neighbour but at the same time, alternative contracts should be signed. We should not forget that this may be a strategy of the Kremlin – to play for time so that Ukraine loses the opportunity to negotiate the supply of this energy resource with other countries, actually tightening the noose around its own neck. It should be noted that it is still unknown if there will be the supply of Russian fuel to Ukraine (4.6 million tons by the end of the year).

[Full text](#)

Director of Energy Programmes
of the Razumkov Centre
Volodymyr OMELCHENKO

ALONG WITH DONBAS, UKRAINE IS RISKING TO LOSE MOST OF THE COAL INDUSTRY

Most mines in the areas seized by pro-Russian militants in Eastern Ukraine are not working. Without markets, infrastructure, and state grants, the coal industry will die out in these areas.



Despite reducing the burden on the budget, in general, this is a negative situation since it brings greater risks than benefits to the energy security of Ukraine.

Before the outbreak of hostilities, in the overall energy balance of Ukraine, coal amounted to approximately 34%. Donbas provided 80% of it, which is a lion's share of all the coal in Ukraine. Now, around 60% of all the coal in Donbas is mined in the areas that Ukraine does not control. That is, in the conditions of the militants controlling these areas, the development of domestic coal industry in Ukraine is impossible – the entire infrastructure into which the coal industry is integrated is being ruined. In terms of economy, Ukraine will benefit from stabilisation of the situation in Donbas and restructuring of the coal industry. It is necessary to close unprofitable mines and attract investment to develop profitable ones – then Ukraine will have coal. This is the most profitable option for Ukraine.

[Full text](#)

*Director of Energy Programmes
of the Razumkov Centre
Volodymyr OMELCHENKO*

Society

IN THE ASSESSMENT OF THE LEVEL OF THEIR OWN WELFARE, UKRAINIANS USUALLY LOOK UP TO EUROPEANS

International NGO HelpAge International, jointly with the UN Population Fund, presented the index of the quality of life and well-being of older people around the world in 2014. Ukraine ranked 82nd, between Ghana and Morocco.

How can we explain such a low result of Ukraine?

The indicators of happiness, life satisfaction etc. are always a ratio of what a person has in reality to the level of his complaints and aspirations. Despite the low standard of living, Ukrainians are used to comparing themselves with Europeans so the level of our complaints is rather high. Therefore, by the indicator of life satisfaction, we may be ranked below any Third World country.

In the Baltic states, the standard of living is really high. Major changes have recently occurred in Georgia, and the fact they see prospects for their children and grandchildren instils confidence in older people. In Belarus, the Soviet model with all the social protection mechanisms has remained. Although the Belarusian youth is not quite happy about it, older

people are generally satisfied. As to Russia, the older generation did not experience such stress there, as it fell to many other post-Soviet countries whose people had always lived in a huge country and suddenly had to get used to a different life. Also, pensions are higher in Russia.



There is also an indicator that can be termed “life is good”. Most older people in Ukraine, looking at what is now happening in our country and comparing their life to the images of the life of Western pensioners, state that their life is not good. Although young people still hope that the situation will change, life will improve, and they will be able to remedy the situation, all that Ukrainian older people feel is despair.

[Full text](#)



*Director of Social Programmes
of the Razumkov Centre
Liudmyla SHANHINA*

Sociology

This issue of the newsletter presents some findings of the survey “Citizens of Ukraine on Security: Assessment, Threats, Solutions to Problems”, conducted by the Sociological Service of the Razumkov Centre on 5–10 September 2014.

Answering the question on the current situation in Donbas, the majority (57%) of the respondents believe that there is a war against Russia. The respondents blame

primarily the Russian government (40.4%) and, to a lesser extent, the previous Ukrainian government (V. Yanukovich and his circle) (24.2%). Although the new Ukrainian government was not ignored – 14.4% of the respondents blame it for this situation.

More information on findings of the public opinion polls conducted by the Razumkov Centre is available on the Razumkov Centre website <http://www.razumkov.org.ua>.

Which of the following definitions best suit to the current situation in Donbas? % of respondents



Who is primarily to blame for this situation? % of respondents



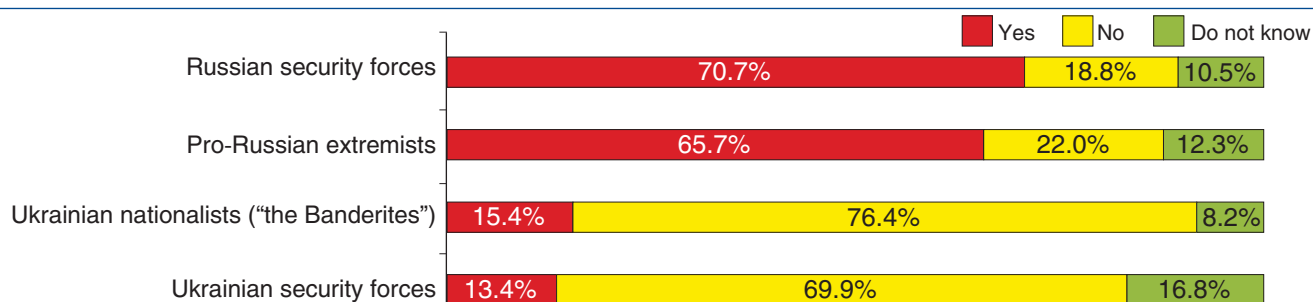
What is the cause of separatism in Eastern Ukraine?*

% of respondents



* Respondents were asked to name up to three acceptable answers.

Do you feel threatened by ...? % of respondents



News of the Razumkov Centre

MEETING WITH DIRECTOR GENERAL OF THE FOLKE BERNADOTTE ACADEMY (SWEDEN) SVEN-ERIC SOEDER

On 26 September 2014, the meeting of Director General of the Razumkov Centre A. Rachok and Deputy Director, Director of Political and Legal Programmes Y. Yakymenko with Director General of the Folke Bernadotte Academy Sven-Eric Soeder was held. At the meeting, they discussed the issue of establishing cooperation between the organisations, the first step of which will be the implementation of the joint project *"The Rule of Law in the Local Government in Ukraine"*.

MEETING WITH CHAIRPERSON OF THE INSTITUTE FOR STRATEGIC STUDIES (POLAND)

On 30 September 2014, the meeting of experts of the Razumkov Centre, in particular Co-director of Foreign Relations and International Security Programmes O. Melnyk and Leading Expert of Political and Legal Programmes V. Zamiatin, with Chairperson of the Institute for Strategic Studies Anna Szymanska-Klich was held. At the meeting, they discussed Russian aggression towards Ukraine and the impact of this situation on the European Union.



FINDINGS OF THE SOCIOLOGICAL STUDY "CITIZENS OF UKRAINE ON SECURITY: ASSESSMENT, THREATS, SOLUTIONS TO PROBLEMS"

On 7 October 2014, experts of the Razumkov Centre held a press conference *"Citizens of Ukraine on Security: Assessment, Threats, Solutions to Problems"*.

At the press conference, the findings of the sociological study of the Razumkov Centre were presented.

The press conference was held by –

- Oleksiy Melnyk, Co-director of Foreign Relations and International Security Programmes
- Andriy Bychenko, Director of Sociological Service
- Valeriya Klymenko, Expert of Foreign Relations and International Security Programmes
- Daryna Sokolova, Junior Expert of Political and Legal Programmes.

MEETING WITH EXPERTS OF THE SWEDISH DEFENCE RESEARCH AGENCY (FOI)

On 8 October 2014, the Razumkov Centre hosted a meeting with the representatives of the Swedish Defence Research Agency (FOI), in particular Senior Analyst Karl J.E. Norberg, Research Director Per G.F.

Westerlund, and Analyst Bengtom T. Malmlof. At the meeting, the Razumkov Centre was represented by Co-director of Foreign Relations and International Security Programmes O. Melnyk and Director of Military Programmes M. Sunhurovskyi. They discussed the military aspects of Russian aggression against Ukraine, and the problems of reforming the defence and security sector of our country.

MEETING WITH THE REGIONAL MANAGEMENT OF THE FRIEDRICH NAUMANN FOUNDATION FOR FREEDOM

On 8 October 2014, the Razumkov Centre hosted a meeting with the representatives of the Friedrich Naumann Foundation – Regional Director for Central, Eastern and South-Eastern Europe, Southern Caucasus and Central Asia Adam Rainer, Director of the Representative Office of the Friedrich Naumann Foundation in Ukraine and Belarus Miriam Kosmehl, and Project Coordinator V. Oliynyk.

At the meeting, the Razumkov Centre was represented by Director General A. Rachok; Deputy Director, Director of Political and Legal Programmes Y. Yakymenko and Co-director of Foreign Relations and International Security Programmes O. Melnyk.

They summarised the results of cooperation between the organisations in the prior period and identified priority areas for future cooperation. The most pressing problems of the current situation in Ukraine were discussed, in particular the prospects and expected results of the parliamentary election, military and international legal aspects of Russian aggression against Ukraine, and measures taken by the international community to deter the aggressor.

PARTICIPATION OF THE RAZUMKOV CENTRE EXPERTS IN THE INTERNATIONAL SECURITY CONFERENCE

On 9 October 2014, the experts of the Razumkov Centre – Director of Military Programmes M. Sunhurovskyi and Co-director of Foreign Relations and International Security Programmes M. Pashkov – attended the International Conference *"Challenges for the European Security Architecture: Ukrainian Context"*. The conference was held by the Diplomatic Academy of Ukraine, the National Institute for Strategic Studies, and NATO Liaison Office in Ukraine. In general, participants of the conference focused on seeking ways and mechanisms of conflict resolution in Europe, and effective responses to new threats and challenges for the European security.

At the conference, M. Sunhurovskyi presented the report *"Preconditions for Transformation of the European Security System and Ukraine's Place in It Against the Backdrop of Global Trends in the Security Environment"*.

UKRAINIAN CENTRE FOR ECONOMIC AND POLITICAL STUDIES
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