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THE RAZUMKOV CENTRE NEWSLETTER

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VIKTOR MUSIYAKA: ELECTION IN DONBAS IS IMPOSSIBLE UNTIL THE BORDER IS CLOSED

Ukraine has currently found itself in a very difficult situation — there is a war, a part of Ukraine is occupied, and it is difficult to say within which borders Ukraine will exist in a month. In such situation, it is impossible to conduct a full constitutional reform because the Ukrainian government does not have jurisdiction all over the country.

However, speaking of sections of the Constitution which need improvement the most, the priority issue is without doubt a judicial reform. If we want to make courts more independent, we should change the order and system of their organisation. The role of the president in the appointment of judges, rotation etc should be revised. I also think that the provision on prosecution should be moved from the separate section “The Office of the Prosecutor General of Ukraine” to the section on judiciary. The prosecution should become a prosecuting authority in a trial rather than a separate punitive agency in the service of the president. There are a lot of questions to the current state of constitutional execution of the judiciary.

The second point is decentralisation. It is necessary to provide for the enhancement of powers of the local government more clearly; this process should be combined

with the reform of administrative division of communities, which should be expanded. For if all communities are granted the same tax, economic, and other rights, they should be more or less equalised.

The third point — the section on the Constitutional Court should be touched. Clearly, this authority has reached the state of becoming a tool of the anti-constitutional coup. It is necessary to revise the status of the Constitutional Court, the way it is formed, and complement it with the citizen’s right for a constitutional complaint.

However, all the above cannot be considered a reform in the broader context. For it is impossible to conduct a full constitutional reform in the context of war and uncertainty of the Ukrainian government about its jurisdiction in some areas.

Chapters I, III, and XIII in the Constitution must not be changed. It is “General Principles”; “Elections and Referendums”; and “Introducing Amendments to the Constitution of Ukraine”.

Also, no provision on ensuring a special status of a temporarily occupied area can be included in the Constitution. In this case, final provisions should state that the provisions of the Constitution included in such and such chapters re-enter into force after the areas are freed.

Speaking of the Minsk agreements, the problem is that the provisions they include are unacceptable and cannot be implemented.

I cannot imagine how the election will be held in the occupied area in Donbas if the border is not closed and Russian troops are there. This is just impossible. Until the border is closed and the situation stabilises in the occupied areas in Donbas, the election will not be held.

So no special status of Donbas is possible as it is possible only after Russian troops leave Donbas and the border with Russia is closed.

Also, the chapter “Autonomous Republic of Crimea” must not be touched in the Constitution because it is our territory. As I have already said about the occupied areas, final provisions should state that the Basic Law of Ukraine in Crimea will re-enter into force after it is freed of occupants.

Speaking of reforming the country and fighting corruption, the work of the Appointments Commission on appointing head of the future Anti-Corruption Bureau is important. The good news is that as a member of the Commission, I have not experienced any pressure or attempts to influence. There was some technical discussion on the procedure and method of screening candidates within the Commission but I cannot say that someone pressured us from the outside.



When the Bureau was being created, we discussed the political will to really start the fight against corruption not for nothing. For it is clear that the Anti-Corruption Bureau will be engaged in the fight against corruption in high places. It is also clear that people in high places as well as those serving them are not very interested in this. So here we will see whether the president, in particular, really has political will for such a serious step. The matter does not end with the creation of the Bureau — this is just the beginning. If someone interferes with its work, everything will end at the creation stage.

[Full text](#)

Legal Research Fellow of the
Razumkov Centre Viktor MUSIYAKA



National Security and Defence

MILITARY CAPABILITY OF RUSSIA IS SIGNIFICANT BUT NOT UNLIMITED

We should understand that although Russia's potential is significant, it is not unlimited. However, Putin managed to convince both our leadership and many politicians in the West that one should not fight with Russia. Those waves of military training conducted last year, and brigades at the Ukrainian border. If we estimate the capacity of the transport infrastructure of Russia, it is clear that it just can not carry such amount of weapons. This is a bluff but Putin skilfully succeeded with the disinformation campaign. Moreover, military capability of Russia is aimed not only at Ukraine — in spring, it will be diverted to the countries in Central Asia. NATO troops will be partially withdrawn from Afghanistan; only a limited group of soldiers will remain

there. This will not be enough to prevent a planned spring attack of the Islamic State. Militants of the Islamic State have already been negotiating about this and a close alliance with the Taliban.

Moreover, among the Central Asian countries, there is also a fairly strong Islamic movement of Turkestan. We should bear in mind that these states are now undergoing the process of the change of elites, which overlaps long-standing conflicts on water resources, energy resources, land etc. So Central Asia is a powder keg that can flare up if a spark of Islamism gets there.

Actually, such scenario is not favourable to anyone — neither Russia nor China, for which Central Asia is one of the parts of its new Silk Road, or the U.S. that expect stabilisation of the region. However, when the U.S. and China have means to put this fire out, Russia has nothing but military presence. If there are no troops there, Putin risks losing the region.

[Full text](#)

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



EUROPEAN COUNTRIES ARE NOT READY TO CREATE A JOINT ARMY

Europe is only now beginning to understand that Russia will stop only where the West stops it. European countries themselves are not ready to create a joint army. It can be seen from the level of military expenditure there. Even in the crisis Ukraine is in, military expenditure is being cut.

The response to hybrid warfare is also belated. We should act simultaneously on all fronts — diplomacy, economic sanctions, military means, information warfare, and recovery of the economy of Ukraine, which is possible only through drastic reforms — all of this together can give some result.

However, Ukrainian requests for assistance, especially military, face controversy not only in Europe; uncertainty of the position of Ukraine itself on the conflict with Russia also plays its role in the West.

[Full text](#)

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

THE KREMLIN IS MAKING A CAPABLE ARMY OF SEPARATISTS

There is information that separatists in Donbas are conducting training that should turn them into a capable army. I think that what they will be able to learn is to coordinate the actions of some units or groups at most. I can hardly believe that the militants can create

a unified chain of command. Although it is their aim, and the Russian Federation is working on it.

Most likely, the Kremlin wants to create some "striking force" to attack further. Certainly, any strengthening of the enemy is a risk for a party defending itself so we should now begin to take measures in response, preferably asymmetric. First of all, we need to continue the attack on the diplomatic front. Sanctions against Russia should also be maintained.

Now the separatists are actively preparing for a new attack but when it will happen depends on several factors. For it is not enough to increase your strength — it is also necessary to prepare a network of agents in the areas you are going to enter. For this purpose, raiding and terrorist attacks are carried out in Odesa and Kharkiv. When the situation ripens, Russia and the militants will attack.

[Full text](#)

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



THE NATIONAL BANK OF UKRAINE LOST THE ABILITY TO CONDUCT MONETARY POLICY

The situation we now have with the exchange rate is not optimistic. The Central Bank has lost all the ability to implement monetary policy in Ukraine.

Instead of increasing control over the behaviour of commercial banks in foreign exchange and interbank markets, how banks use refinancing, and fund transfers, including overseas, the Central Bank makes only partial decisions that do not change the situation. So, a lack of control is a systemic flaw.

The Central Bank should restore confidence in its actions because now it is zero. It is necessary to start with full and complete control. If the National Bank continues to provide refinancing to banks, it should know exactly where it goes. If to pay out deposits, this

is good; if funds return to foreign exchange markets, this is bad. Clear and transparent use of funds as well as setting the same rules for everyone should be a priority. Thus, the situation can be stabilised.

[Full text](#)

*Director of Economic Programmes
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Vasyl YURCHYSHYN*



IF THE GOVERNMENT LOSES PUBLIC CONFIDENCE, NO REFORM WILL BE EFFECTIVE

First of all, the society expect positive change that should occur after the implementation of the declared reforms.

When assessing the work of the Cabinet of Ministers, it should be noted that the government managed to reach an agreement with the IMF on the loan. Despite a number of obstacles, this is certainly a success.

Despite all the difficulties, there was a heating season although in early winter, the term “rolling blackout” was repeatedly mentioned. There has been no increase in debt for gas or energy payments to Russia.

Also, we should bear in mind that the severity of bank bankruptcies was to some extent reduced. Yes, there are problems associated with constant refinancing of the central banking system; some banks went bankrupt but the largest ones still remain solvent. This allowed to prevent the domino effect in the expansion of bankruptcy of the banking system which continues to operate and ensures solvency.

There are also significant problems in the work of the Verkhovna Rada and the Cabinet of Ministers that should be discussed in order to continue correcting mistakes but it is wrong now to take the position “all is bad, all is lost”.



People voted consciously for the newly elected government, and it is highly undesirable for them to have critical level rankings now. The society have accumulated tiredness and disappointment from promises that are usually not supported with anything. Respectively, the confidence in the government is significantly falling, and if the confidence keeps falling, whatever good and right steps the government tries to take, they will not be effective.

[Full text](#)

*Director of Economic Programmes of the Razumkov Centre
Vasyl YURCHYSHYN*

THE IMF FUNDS CANNOT BE USED TO INCREASE PENSIONS OR SALARIES

The IMF loans are stabilisation funds generally allocated to support the country's balance of payments, i.e. to redeem external debts, support or pay for critical imports, and partly intervene to support the national currency. Sometimes, in agreement with the IMF,

part of the funds can be allocated directly to budget deficit. However, these funds are not used for individual programmes.

These funds cannot be used to increase pensions or salaries. Funds for pensions and salaries will appear if the economy starts working.

However, when the loan is received, we cannot speak of automatic economic recovery. The IMF tranche is the least necessary condition to be able to initiate some elements of the stabilisation policy in Ukraine. If it happens, we can hope than funds from other international investors will come in — for example, the World Bank and EBRD projects will open; maybe some private investors will look at Ukraine more confidently. Only if real reform steps are taken, we can expect other investors to come in, and the economy will really start working.

[Full text](#)

*Director of Economic Programmes of the Razumkov Centre
Vasyl YURCHYSHYN*



RUSSIA IS BECOMING POORER BY THE MINUTE

Sanctions have greatly affected the Russian economy. We can see it in virtually all the key macroeconomic indicators of Russia. Indeed, in the last year, capital flight, according to the official report of the Ministry of Finance of Russia, was already 151 billion USD. This year, according to the estimates of Russians themselves, Russia will lose another 110–130 billion USD.

When in early 2014 Russia's gold reserve was approximately 520 billion USD, it is now reduced to slightly more than 350 billion USD. Its amount continues to drop — that is why a slow devaluation of the ruble started last April and May. Now this reserve is being actively used



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to support the exchange rate. In particular, in the first two weeks of March, over 25 billion USD were spent on it.

Global oil price reduction also affects the strength of Russia. The OPEC experts did some interesting calculations. In the March report, they noted that oil price reduction by 1 USD a barrel deprives Russia of export earnings in the amount of 3 billion USD a year. If the oil price remains at 55 USD a barrel this year, Moscow will lose 135 billion in a year. This is almost 10% of the GDP.

These calculations by OPEC are perfectly justified. Given the above, if sanctions continue, the situation in Russia will deteriorate rapidly. Thus, the sanctions are working. No matter how Russians are trying to pretend it is not true, the figures speak for themselves.

Full [text](#)

Energy

CHANGING THE CONCEPT OF DEFINING RENT AS A CONDITION FOR STABILISING AND INCREASING THE AMOUNT OF PRODUCTION OF HYDROCARBONS IN UKRAINE

In 2014, 2.7 million tons of oil with gas condensate and 20.5 billion cubic metres of natural gas were produced in Ukraine. Compared to 2013, the amount of produced oil and gas condensate fell by 12.9%, and natural gas by 3.8%.

At the same time, the share of hydrocarbons produced by private companies amounts to only 1/9 for oil and gas condensate, and only 1/6 of the total production for natural gas. So the key players in the market still are mostly state-owned companies (Ukrnafta and Ukrhasvydobuvannia).

We have already noted that the change in the rent rate for state-owned companies initiated by the Verkhovna Rada of Ukraine on 2 March 2015 from 20% to 70% of the sale price of natural gas will take a significant share of income from the production of hydrocarbons, which has already caused a reduction in investment programmes for 2015 in Ukraine for all production companies without exception, and such global leaders as Shell and Chevron made final decisions to terminate production sharing agreements. In our opinion, in order to create conditions for stabilising and increasing domestic production of hydrocarbons and investment incentives, we consider it necessary to immediately start and by the end of the year finish the following —

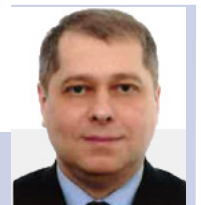
1. Change the concept of defining the rent for the production of hydrocarbons.

2. Develop and adopt a method of defining rent for the production of hydrocarbons (hereinafter — the Method);

3. As part of the development of the Method, develop and adopt a procedure for defining and accounting for the cost of production and primary processing of hydrocarbons;

4. Determine and vest appropriate powers in an independent expert organisation that performs calculations of rent payment rates and submits them for approval to relevant government agencies. The current situation with the use of rent in the oil and gas industry requires immediate professional response.

Full [text](#)



*Leading Expert of
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the Razumkov Centre Viktor LOHATSKYI*

RUSSIA WANTS TO MAKE UKRAINE PAY AN ARTIFICIALLY ACCRUED GAS DEBT

Ukraine should not rely too much on the European Union in the matter of gas agreements with Russia. Russia has its own position which is to make Ukraine pay an artificially accrued debt, which is not approved yet, and is considered in the Stockholm Arbitration. Moreover, there is ongoing blackmail with the discount, which Russia may or may not give.

The EU will hardly be on the side of Ukraine. It will be much easier for the European Union, together with Russia, to somehow force Ukraine to make some serious concessions, as it did when the so-called “winter package” was adopted.

During the Ukraine–Russia–the EU gas talks that took place in Brussels in autumn 2014, Ukraine insisted on amending the gas contracts of 19 January 2009. However, Russia did not settle for this.

Thus, despite the protocol signed by the parties in 2014, the contracts remain primary. Therefore, the following situation has now arisen — Russia can use these supplies of gas to actually occupied areas, which are not accounted but counted as debt for Ukraine,

for blackmail. They can record any amounts there, or they can supply nothing at all and say that they supply large amounts. This situation cannot be resolved with agreements alone, even with the help of the European Union.

This situation can be resolved with the help of the Stockholm Arbitration but the consideration of this case will last for 2 or 3 years. Another option, which is currently the only real one, is recognising part of Donbas as an occupied area.

Then, under the international law on infrastructure, including energy supply, the occupant will be fully responsible, and there will be no questions to Ukraine.

Full [text](#)



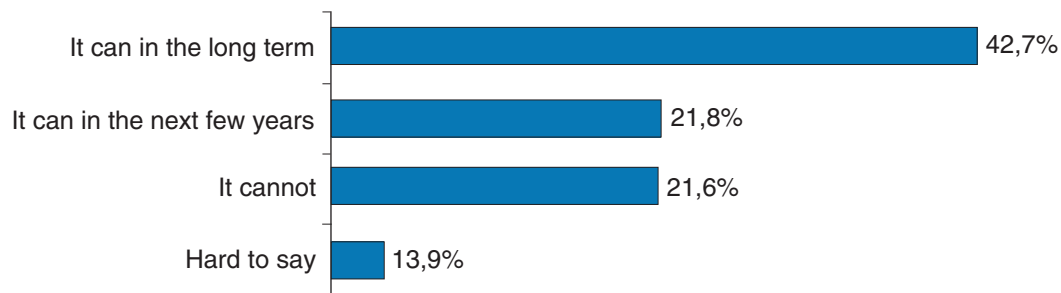
*Director of Energy Programmes of
the Razumkov Centre
Volodymyr OMELCHENKO*

Sociology

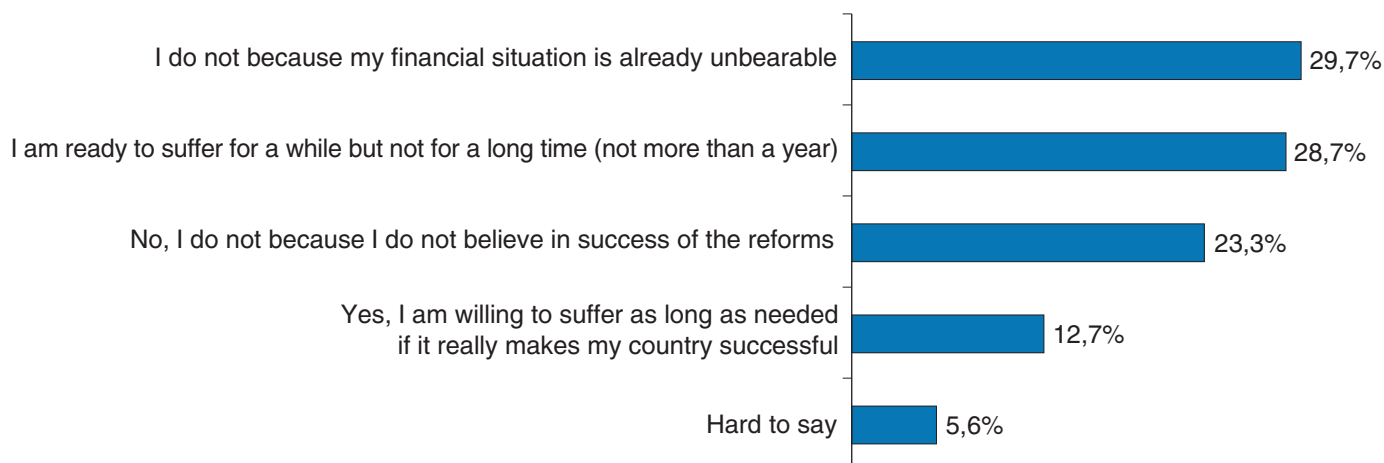
This issue of the newsletter presents some of the findings of the survey conducted by the Sociological Service of the Razumkov Centre from 10 to 12 March 2015 in all the regions of Ukraine except Crimea.

2,009 respondents aged 18 and over were interviewed. Sampling error — 2.3%. More information on the findings of the public opinion polls conducted by the Razumkov Centre is available on the Razumkov Centre website <http://www.razumkov.org.ua>.

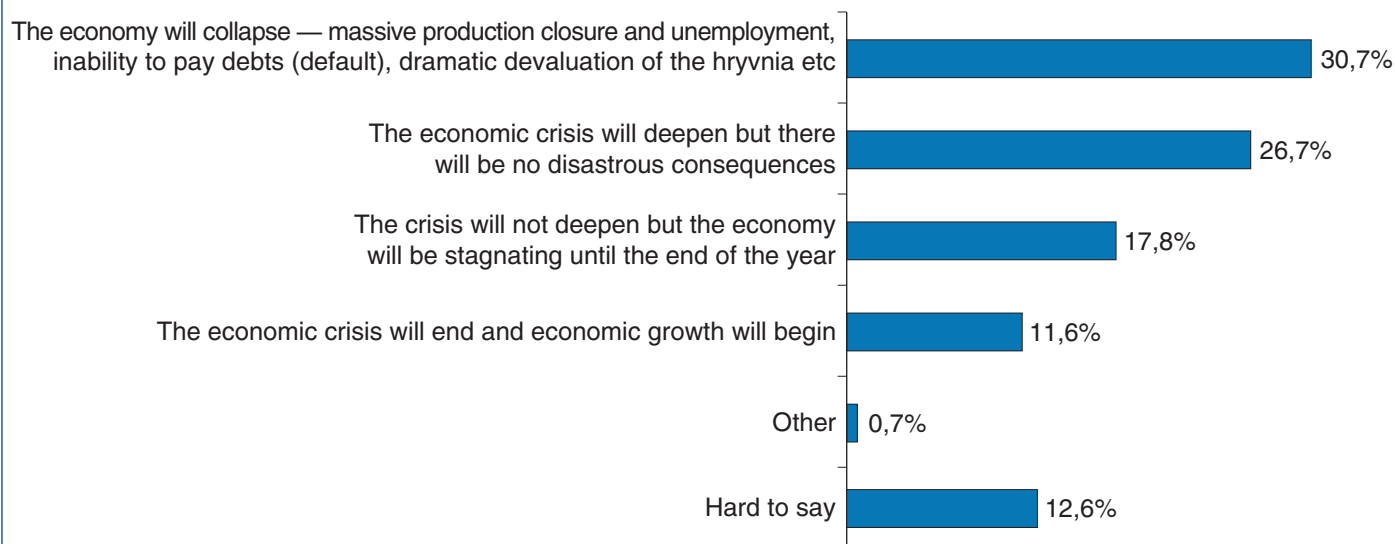
Do you think Ukraine can overcome existing problems and difficulties? % of respondents



The implementation of reforms is likely to lead to a temporary decline in the standard of living. you agree to suffer some financial difficulties? % of respondents



What do you think of the prospects for the Ukrainian economy in 2015? % of respondents



The Razumkov Centre News

ATTENDING AN INTERNATIONAL ROUND TABLE CONFLICT RESOLUTION — WHAT UKRAINE, RUSSIA, GERMANY, AND THE EU SHOULD DO



On 11–13 March 2015, in Germany (Berlin), an international round table *Conflict Resolution — What Ukraine, Russia, Germany, and the EU Should Do* was held by the Konrad Adenauer Foundation.

The round table was attended by representatives of the Konrad Adenauer Foundation, experts of the institutions of the European Union, and delegations of experts from Ukraine and Russia. In the discussion, the Razumkov Centre was represented by Deputy Director of the Centre Y. Yakymenko (the panel *Consequences of the Crisis*) and Co-director of Foreign Relations and International Security Programmes M. Pashkov (the panel *Determinants of the Crisis*) as speakers.

During the discussion, in the speeches, the experts of the Razumkov Centre touched upon the issues of the current state of the Russian–Ukrainian conflict, its regional and global consequences, and internal situation in Ukraine, and identified conceptual approaches to the prospects for Ukraine's relations with Russia.

At the above event, results of the projects of the Razumkov Centre *Prospects for Ukraine–Russia Relations: Conceptual Approaches and Practical Steps*, published in the journal *National Security and Defence* №5–6, 2014 (English edition), and *Ukraine 2015: Overcoming Challenges* were presented.



ATTENDING AN INTERPARLIAMENTARY CONFERENCE ON THE ISSUES OF COMMON FOREIGN AND SECURITY POLICY IN RIGA

On 4–6 March 2015, Co-director of Foreign Relations and International Security Programmes of the Razumkov Centre Oleksiy Melnyk attended an interparliamentary conference on the issues of common foreign and security policy, and common security and defence policy in Riga, Latvia. The conference was held within the Latvian Presidency in the Council of the EU.

In his speech at the seminar *Hybrid Warfare — a New Threat to European Security*, Mr Melnyk focused on the most important aspect of the hybridity of the conflict in Eastern Ukraine, which is the “hybrid” aggressor–peacekeeper — the President of Russia Vladimir Putin. This aspect should be considered when analysing real causes, identifying key players, and developing approaches to conflict resolution. According to Mr Melnyk, we should not expect any meaningful outcome of the negotiation until Putin is allowed to play the role of a mediator.

Currently, both in Ukraine and abroad, the position on unacceptability of a military solution to the conflict, i.e. violent counteraction to the Russian aggression, is dominating. Any attempt to object causes accusation of inefficiency and belonging to the “war party”. However, by avoiding calling a war a war, and not realising that armed aggression cannot be stopped without using force, it is impossible to form an appropriate strategy for winning the war

The video of the discussion is available [here](#).

ATTENDING A PRESS CONFERENCE THE NEED FOR CHANGE IN THE EU FOREIGN AND SECURITY POLICY IN RIGA

On 5 March 2015, Co-director of Foreign Relations and International Security Programmes Oleksiy Melnyk attended a press conference *The Need for Change in the EU Foreign and Security Policy*, along with Chairman of the Foreign Affairs Committee of the Saeima of Latvia Ojars Eriks Kalnins, Chairman of the Committee on Foreign Policy of the European Parliament Elmar Brok, and James Sherr. The press conference was held within the interparliamentary conference on the issues of common foreign and security policy, and common security and defence policy in Riga, Latvia.

The video of the press conference is available [here](#).

THE PRIORITY OF INVESTMENT ATTRACTIVENESS IN THE UK POLICY OF SUSTAINABLE ECONOMIC GROWTH

The article examines components of the British policy of economic growth, which is based on global strengthening of the country's investment position. The place of the UK in the system of international economic relations and its role in the EU was identified through comparative analysis of a number of macroeconomic indicators and components of international trade. The features of the country's foreign economic policy, aimed at overcoming the shortage of financial resources and increasing foreign capital, were examined. The factors and components of further attracting international financial resources were identified, which in the long term will have a positive impact on the investment attractiveness of the UK and ensuring sustainable economic growth and development of the country.

Read the full article: Markevych, K., Yurchyshyn, V. *The Priority of Investment Attractiveness in the UK Policy of Sustainable Economic Growth* / Kateryna Markevych, Vasyl Yurchyshyn // *International Economic Policy*. — 2014. — №2 (21). — p. 52-77.

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