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THE RAZUMKOV CENTRE NEWSLETTER

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THE WEST LACKS DETERMINATION TO DEMONSTRATE ITS MILITARY SUPERIORITY OVER RUSSIA

In his recent interview, Vladimir Putin emphasised on Russia possessing high-tech weapons ready for use in the case of a “threat” to national security.

Obviously, he spoke primarily of the Russian cruise missiles that hit Syria, and, according to the Russian leadership, served as the demonstration of the country’s high tech weapons. Analysts have already called this attack the most powerful firework for the Russian president’s birthday.

However, in the statement of the Russian president, I would point out not only the words about “high-tech weapons” but the presence of the will “to use it if it meets national interests of the state and Russian people”. I think this message is the most important.

In the confrontation between Russia and the West, the latter certainly has a significant advantage in both conventional weapons and technology. However, what the West is lacking is determination to demonstrate its strength. I am not talking about retaliation,

I am just emphasising that all the rhetoric is aimed at calming down Putin rather than giving him serious messages to which he should listen.

Putin, unlike Western leaders, demonstrates aggression at every suitable opportunity not only in word but also in deed. Furthermore, he is showing the willingness to conduct military campaigns in different parts of the world actively enough. In this regard, I would like to mention the words of the Russian president in the movie *Crimea. The Way Home* where he speaks about the willingness to use even nuclear weapon.

In my opinion, this is the main message of the Russian president directed to European leaders and, of course, the U.S. president. He uses blackmail and does it quite successfully. The most blatant statements are made towards Ukraine.

[Full text](#)

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



REVIVAL OF THE UKRAINIAN ARMY HAS BECOME POSSIBLE THANKS TO THE EFFORTS OF THE ENTIRE SOCIETY

Numbers can hardly describe the process that has recently occurred in the Ukrainian army. For experts, a significant increase in the number of troops is not a defining characteristics of the increase in its defence capability. As well as an increase in the military budget although the financial side of the matter is extremely important, leakproof defence is not possible without it.

The progress in the military construction in Ukraine was huge last year. The destroyed Armed Forces

managed to revive. The entire society backed them. At the beginning of the Russian aggression, they have taken a lion’s share of obligation to support the army, from basic necessities to military equipment. We truly have a people’s army. Our Armed Forces have undergone significant transformation. This happened not only through the efforts of the top command — they changed due to the threat that the country has faced.

Our army lacks a lot to be able to respond to all the challenges of our time. One of the main problems is our military leadership — grotesque general officers sitting at our offices. People who have discredited themselves on the front have not been held responsible. They should leave, and give way to the youth who proved themselves worthy. This largely depends on the commander-in-chief.

[Full text](#)

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



FROM THE VERY BEGINNING, THE CONFLICT IN THE EAST WAS INSPIRED BY EXTERNAL FORCE

The applicability of international experience to the conflict in Donbas is significantly limited by the factor that this conflict was artificially created. From the very beginning, it was inspired by external force, and the prospects for resolving this conflict largely depend on the kind of role that Russia will play in this story. A set of tools that can be used is quite universal, and it is provided in the infamous Minsk Agreements. They are

ceasefire, the withdrawal of opponents from the contact line, disarmament, and then transition to the political stage of settlement.

On paper everything looks quite good, unless you go into detail. One of such problematic points is that these agreements allow Moscow to interpret their points in their own way. This proves that it was allowed deliberately, and Ukraine was forced to accept such

terms under the pressure of both Moscow and Western partners. However, these terms are a time bomb which was put during the signing of the first and second agreements.

I think the first mistake that was made is the problem with the formalisation of this conflict as international. Nobody declared a war with Russia. Many confused such formulation of the question with the declaration of war against Russia. It is not like that. The state of war with Russia should have been stated at the national

and international levels in order to deprive Russia of the right to play the role of a mediator and a peacekeeper. Our government should have been more persistent to record, including in the Minsk Agreements, a clear definition who are these “foreign troops”. It should have been recorded that it is about Russian troops.

[Full text](#)

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

MILITANTS IN DONBAS MAY BECOME “PEOPLE’S POLICE”

By the end of the year, Ukraine intends to regain control over the border with Russia in the separatist raions of Donetsk and Luhansk Oblasts. Regaining control should occur within the fulfilment of the Minsk Agreements.

However, this is not part of Russia’s plan, and is not in line with its vision of resolving the situation in Eastern Ukraine. Russia will try to maintain control over the conflict, and reserve the possibility to escalate it at its convenience. Control over the border is one of the key elements to ensure such leverage on Ukraine since it allows to move manpower, equipment etc to Donbas.

The sequence of the implementation of measures provided by the Minsk Agreements does not allow Ukraine to demand regaining control over the border as a condition for holding the election in these regions. Western partners are pushing Ukraine to hold a local election in the separatist raions, and only then we will allegedly regain control.

However, we perfectly understand that without the withdrawal of foreign troops, disarmament of illegal military groups, and regaining control over the border, no normal democratic election is possible there. If we follow the achieved agreements, the armed groups of separatists will become the so-called “people’s police”. I think regaining control will look like a transfer of power to the same militants of the “DPR/LPR”, which would be proclaimed some “border guard”.

That is, officially, these forces will be Ukrainian but Kyiv will not be able to control them.

This is the scenario the Kremlin is working on now, and which, unfortunately, will be supported by Western leaders. This scenario provides holding a pseudo-election, i.e. legalisation of the authorities controlled by the Kremlin in Ukraine, forcing Ukraine to finance these areas from the state budget, in particular armed groups which are enemies to us.

[Full text](#)

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

THE KREMLIN WILL TRY TO ESTABLISH CONTROL OVER UKRAINE THROUGH THE LOCAL ELECTION

One of Russia’s objectives is the attempt to get control over Ukraine through the local election.

This applies to the election all over Ukraine, not only in the regions controlled by separatists. As to the local election in the so-called DPR / LPR, I regard them as such that cannot be held at all. Indeed, according to the agreements, they should be held under the laws of Ukraine. However, a law is not a piece of paper — it is a certain regime where the state ensures compliance with the law. If in these republics there are no parties that should participate in the election, no election campaign or law enforcement agencies that ensure the rule of law, no law can be discussed.

In the rest of Ukraine, there is an intense fight of the same agents of the Kremlin to get into local government (and if an early parliamentary election is announced, into the parliament as well) If Putin succeeds here, it will not make much sense to continue the military campaign. He will achieve his goals with more simple means as there is no reason to think that he has given up his goals in Ukraine.

If he does not manage to achieve his goals by peaceful means, non-peaceful means will be used. In this case, most likely, the renewal of intense hostilities should be expected.

Furthermore, if Ukraine is indeed forced to hold elections in the so-called DPR / LPR, the implementation of other highly controversial points will follow — the formation of local police and prosecution, amnesty for terrorists etc. Ukrainian society will not agree to this so escalation of the situation inside the country is possible.

If the election in Donbas is held, and “legitimate” authorities appear, nobody will prevent them from turning to Putin with an appeal to bring in troops — all the doors are open.

[Full text](#)

Director of Military Programmes of the Razumkov Centre Mykola SUNHUROVSKYI



Domestic Policy

DUE TO CONSTANT AMENDMENTS, THE CONSTITUTION OF UKRAINE HAS LOST ITS LEGITIMACY

Looking at the events around the draft Law On Amendments to the Constitution of Ukraine, the following paradox can be noted — the President of Ukraine Poroshenko and Western allies of Ukraine support amendments to the Constitution, and the experts in Ukraine oppose them.

Politicians want to end the military conflict in Donbas as soon as possible by political means when the experts see legal contradictions of the law on decentralisation and huge dangers that it contains.

Despite the fact that the Constitution was subjected to endless amendments by every president of Ukraine,

the Basic Law is not directly applicable yet. The Constitution of Ukraine is no longer legitimate. Therefore, a representative body should be created to develop a completely new Basic Law openly, involving the general public and experts, and adopt a new Constitution at a national referendum.

[Full text](#)

Legal Research Consultant of the Razumkov Centre Viktor MUSIYAKA



THE VERKHOVNA RADA WILL NOT CONSIDER SHOKIN'S RESIGNATION UNTIL THE POSITION OF THE LARGEST FACTIONS CHANGES

According to Chairman of the Parliamentary Committee on Preventing and Fighting Corruption Yehor Soboliev, 117 signatures to dismiss the Prosecutor General Viktor Shokin have been collected in the parliament.

There is criticism to the leadership of the Prosecutor General's Office from Ukraine's Western allies. However, there is the majority that voted for the appointment of this prosecutor general, and the basis of this majority is pro-presidential political force. I think that without

changing the position of the largest factions, this matter will not be submitted for consideration.

Full [text](#)

Deputy Director, Director of Political and Legal Programmes of the Razumkov Centre

Yuriy YAKYMENKO



Economy

CREDITORS HAVE NOT MADE A FINAL DECISION ON THE RESTRUCTURING OF UKRAINE'S DEBT YET

The agreement on debt restructuring is a long process designed until 1 December. The fact that the agreement is ratified by the parliament does not mean that it has entered into force. The decision of all creditors is needed. So far we have no clear picture in what format it will be eventually adopted. Russia flatly refuses to be part of this process.

Technical default is not the only question to Ukraine. There are also others — they are related to the course of reforms, and concern both economy and non-economic issues. Now the picture is ambiguous — there is no progress in fighting corruption; the bodies to fight it have not started working; the judiciary is not being reformed; the issue of decentralisation of the public sector remains in limbo; and the tax reform is not completed. There is an ongoing complex and controversial process, and even despite the fact that adoption of reform laws has intensified over the last months, there is no reason to believe that we are keeping to the schedule set by the IMF.

The IMF avoids straightforward assessments of how Ukraine is meeting their conditions. In general, however, the IMF has recently assessed the situation in our country quite well. During the Yalta European Strategy, which was held in Kyiv this year, there were positive messages concerning Ukraine. For example, Managing Director of the IMF Christine Lagarde said that the fund was impressed by the progress in reforms which Ukraine had achieved. Such statements do not give a sense that they may accuse us of non-compliance with the terms and freeze the tranche. Of course, there will be questions but this will not cause termination of funding.

Full [text](#)

Economic Research Consultant of the Razumkov Centre

Volodymyr SIDENKO



SAVING IN EXCHANGE FOR TAX REFORM

On the prospects and risks of reforming the tax system of Ukraine given the urgent need to reduce state expenditure.

The Minister of Finance in her recent statement on conducting tax reform in Ukraine noted that to implement it, the government would have to cut state expenditure by approximately 60 billion hryvnias.

How can such savings be reached? Previously it was expected to reach significant cost reduction through the system of public administration but these expectations still have not been met. Furthermore, it is obvious that cheap civil servants may cost the state a lot.

It is time to review what we are funding. More than half of state enterprises or enterprises with a significant state share are loss-making, and subsidised from the budget. We should determine to what extent various subsidies and privileges are economically justified for enterprises. The check should start with state monopolists — Naftohaz, Ukrnafta, Ukravtodor, and Ukrzaliznytsia. The state cannot abandon them, no matter how they work, but their financial activities remain loss-making and non-transparent. Similar enterprise should undergo an audit in terms of how they need subsidies in the current amount.

Furthermore, we should bear in mind such profit extension as privatisation. Unfortunately, for the past two years, privatisation has been stopped, and there was a

statement that it was transferred to the following years. Nonsense — since for privatised enterprises, incentives for efficient work would have emerged, and the state would have reduced its expenditure.

I would not start saving from the social sector. This sector is already in deep crisis. It should be considered how rational is the state expenditure, and how it meets real needs. Moreover, this analysis should come from economic interests of the country, and should not be politicised.

As to radical projects of the tax sector reform (accordingly to which, it is proposed to substantially reduce taxes, which will lead to a corresponding reduction of budget expenditure), it should be analysed how balanced and economically justified they are. If someone still has suggestions for radical tax cuts, he should simultaneously suggest for whom and how much state funding should be curtailed.

Full [text](#)

Director of Economic Programmes of the Razumkov Centre

Vasyl YURCHYSHYN



Energy

NAFTOHAZ HAS A GOOD CHANCE TO PROVE IN COURT THAT GAZPROM OVERPRICED GAS

The decision of the Stockholm Arbitration in the case upon submission of the company Naftohaz on overpricing Russian gas for Ukraine is likely to come out by the end of next year. In turn, Gazprom responded with a counterclaim where it states that Ukraine has not used the amount of fuel declared in the contract. The interests of Naftohaz will be defended by a Norwegian company. It has already won in court in the suits of the Czech Republic against Gazprom.

Russia has recognised that there is a circumstance that plays into the hands of Ukraine, namely the abolition of the take-or-pay principle (the buyer should pay even

if he has not used the amount of gas specified in the contract). I.e., Gazprom agrees that it is economically unviable for Ukraine to buy the amount of fuel provided in the contract. Thus, Kyiv gets even more chances. The contract states that the decision of the Stockholm Arbitration in this case shall be final.

Full [text](#)

Leading Expert of Energy Programmes of the Razumkov Centre

Viktor LOHATSKYI



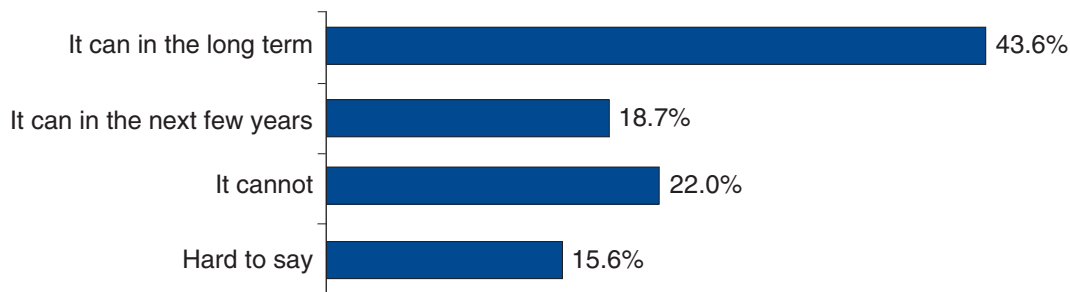
The study was conducted by the Sociological Service of the Razumkov Centre from 12 to 19 September 2015. 2,008 respondents aged over 18 in all the regions of Ukraine, except Crimea and the occupied areas of Donetsk and Luhansk Oblasts, were interviewed. Sampling error (without design effect) is less than 2.3% with a probability of 0.95.

The survey was conducted as part of the monitoring of the public attitude towards reforms in Ukraine. The study was conducted with the support of the Government of Sweden.

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>.

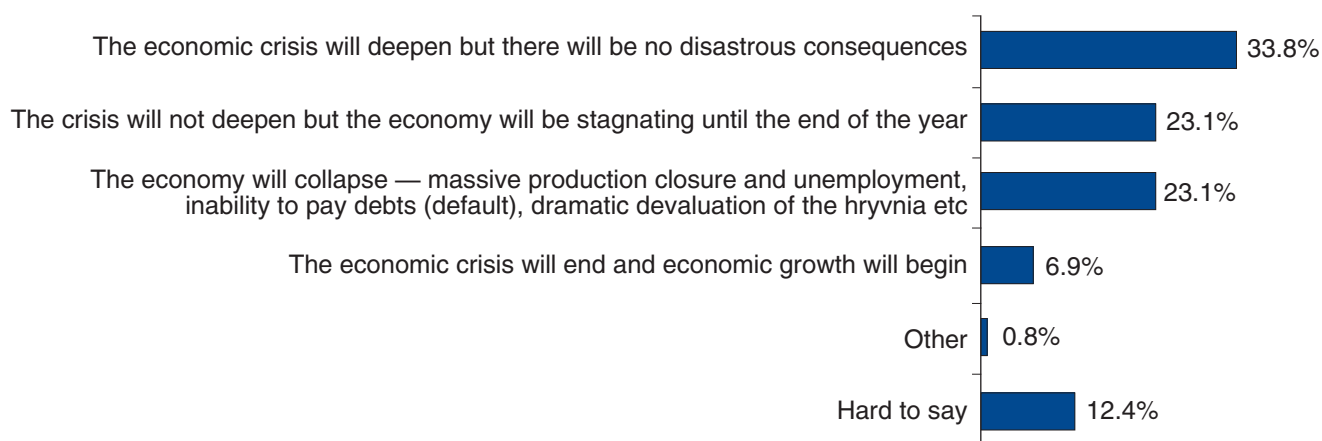
Can Ukraine overcome existing problems and difficulties?

% of respondents



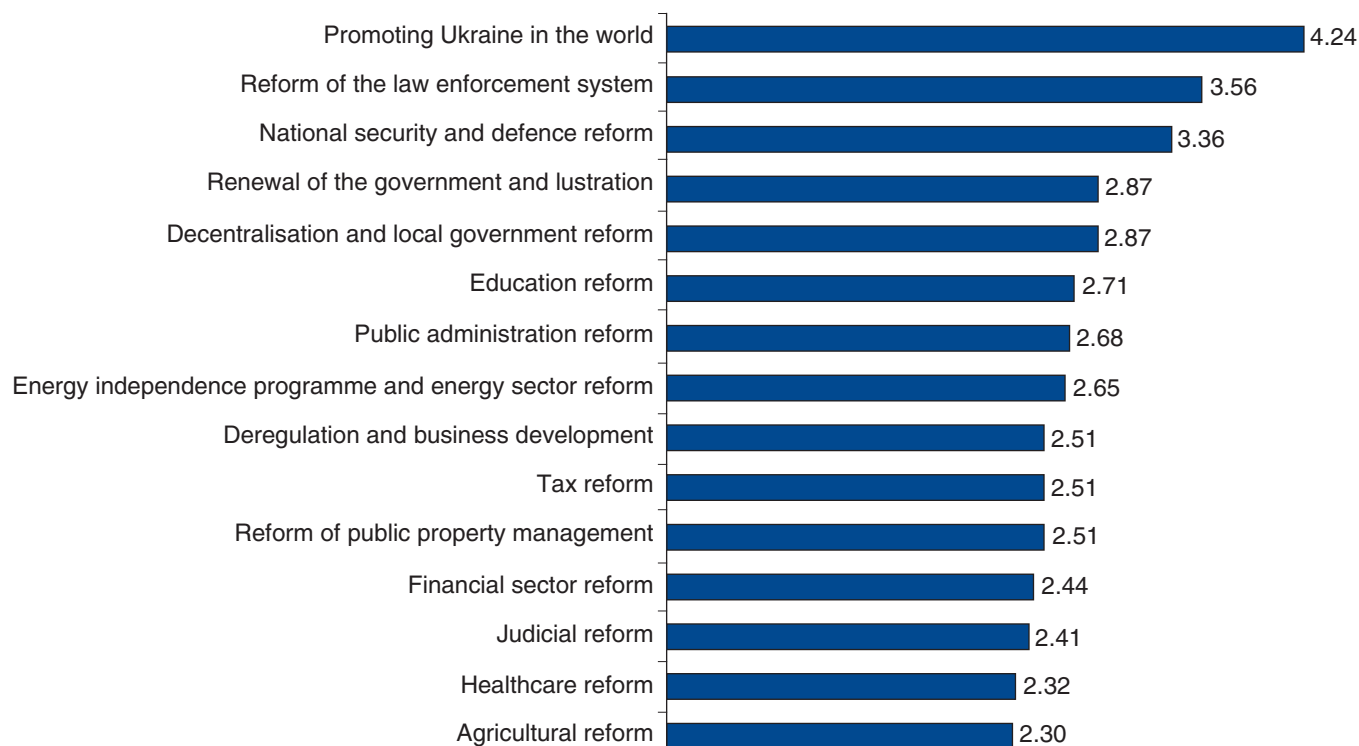
What do you think of the prospects for the Ukrainian economy in 2015?

% of respondents



Rating the course of reforms in Ukraine and the government's actions in various areas on a scale of 1 to 10, where 1 is no or almost no reforms, and 10 is most successful reforms.

average mark



PARTICIPATION IN THE FORUM POLAND–UKRAINE: SECURITY POLICY

Co-director of Foreign Relations and International Security Programmes of the Razumkov Centre Oleksiy Melnyk attended the Forum *Poland–Ukraine: Security Policy*, held by the Stefan Batory Foundation on 1–2 October 2015 in Warsaw.

The Polish–Ukrainian Forum gathered approximately 50 participants from the two countries — politicians, diplomats, independent experts, and journalists. During the two days of discussion, the participants discussed a wide range of issues concerning the security policy of Poland and Ukraine, and the state and prospects of bilateral relations.

The organisers of the meeting are going to publish a brief report based on the results of the Forum later. Obviously, the emphasis in the future publication will be put on one of the key points which the participants discussed — namely, the awareness of the need to strengthen the Ukrainian–Polish relations, which should be based not only on the presence of a common threat.

MEETING WITH THE FORMER PRIME MINISTER OF BULGARIA

On 13 October, the Razumkov Centre hosted a meeting with the former Prime Minister of Bulgaria (1997–2001) Ivan Kostov. From the Bulgarian side, the meeting was also attended by Ambassador Extraordinary and Plenipotentiary of Bulgaria in Ukraine Krasimir Minchev and Counsellor of the Embassy Zvezdomir Penkov.



The Razumkov Centre was represented by Director General Anatoliy Rachok; Deputy Director, Director of Political and Legal Programmes Yuriy Yakymenko; Director of Economic Programmes Vasyl Yurchyshyn; and Co-director of Foreign Relations and International Security Programmes Oleksiy Melnyk.

During the meeting, the participants discussed the experience of Bulgaria and Ukraine in conducting reforms that are necessary to implement the policy of European integration, the current sociopolitical and socioeconomic situation in Ukraine, the prospects of peaceful settlement of the armed conflict with Russia, and the restoration of the territorial integrity of Ukraine.

During the meeting, the matters of establishing cooperation between the Razumkov Centre and the Bulgarian Association Risk Analysis and Management Centre headed by Mr Kostov were also discussed.

ANALYTICAL REPORT DEBT: TIME TO TAKE AND TIME TO GIVE. GLOBAL TRENDS AND CHALLENGES FOR UKRAINE

Foreword

Among the main challenges of today, problematic issues connected with the state of public finance, its deficit, and accumulated debt can be identified. During the last decades of the last century — the period when many new economies were formed in the world — financial, currency, and debt crises were not rare in developing countries. At the same time, financial markets of developed countries seemed stable, and existing lending (and borrowing) mechanisms allowed the governments of such countries to accumulate resources in domestic and foreign markets rather actively on a virtually risk-free basis.

Recently, although the level of debt in the structure of the GDP of developed countries had often exceeded the appropriate level of developing countries, crisis risks for developed countries did not seem high. For it was considered that they had almost unlimited access to funding deficits.

Although debt crises were not rare, the growth of overall, state, and foreign debt continued because these crises were interpreted as accidents, caused simply by mistakes of certain market players rather than the result of systemic failures in the mechanisms of market regulation. In some cases, new borrowings enabled countries to implement successful transformations, create conditions for long-term sustainable growth but often debt complications grew into full-scale debt crises.

Ukraine, which has long relied on intense borrowing in international markets, also could not avoid debt issues, and recently fell into the range of the most problematic debt states that are at risk of a default. However, at various levels of the society, also including its leadership circles, there is a significant lack of understanding of factors and mechanisms of deepening debt issues, which has triggered various speculations on the needs of solving debt issues, and ways to prevent disastrous scenarios for the country's financial system.

The relevance of debt issues for Ukraine has significantly increased, and now it moved into the key (systematically significant) ones since the prevention of the country's default and restructuring of its excessive external debt is one of the main objectives of the government today. Therefore, a separate review is devoted to the analysis of certain risks that Ukraine is facing due to the restructuring of its external debt in September 2015.

*Anatoliy Rachok,
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12 October 2015*

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