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THE RAZUMKOV CENTRE NEWSLETTER

WE SHOULD NOT EXPECT ANYTHING FUNDAMENTALLY NEW FROM THE HROYSMAN GOVERNMENT

The main positives of the formation of the new government are the settlement of the protracted crisis and the chance to restore the legal capacity of the authorities. With the current environment in Ukraine, a deepening of the crisis could have more serious consequences. The formation of the Cabinet of Ministers means that the issue of early elections has been delayed.

From the political and economic standpoint this is also a positive step. This is a sign to our foreign partners that Ukraine has coped with the internal turbulence and is ready and willing to continue working on the agenda of European integration. Kyiv has showed that it can overcome crises, and the Ukrainian elite can reach compromises.

As for the make-up of the government: if you consider how it was formed and what we ended up with, it is clear that the crisis was triggered purely by political reasons. The issue is not about the performance and failures of the previous Cabinet of Ministers, but the ambitions, likes and dislikes of top ranking politicians.

That is why it is naive to expect something new from the new Cabinet of Ministers. This is very much a product of political compromise. Therefore one should not expect a breakthrough from the new government.

The activities of the new government are a result of the coalition agreement, the general political

agenda, and agreements with international partners and donors.

In this regard, the new Cabinet of Ministers will face the same difficulties as the previous one. One way or another it will be necessary to continue the policy of cutting expenditures and further increasing rates and fees. At the same time, as the government is new, the people will expect it to provide new and more popular solutions. The government is also expected to take steps to promote economic development. These are high expectations, and this is a rather difficult situation for the Cabinet of Ministers.

[Full text](#)

*Deputy Director, Director of Political
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HOW UKRAINIAN POLITICIANS ARE EXPLOITING THE DUTCH REFERENDUM

The results of the Dutch referendum will not lead to any substantive, major changes on the part of the Ukrainian authorities, as the Association Agreement with the EU is still in force, and the referendum will not affect this situation.

However, the results of this referendum could and should be an incentive for Kyiv to take more active and more consistent steps under the agreement.

There is no doubt that the choice taken by the Dutch will affect domestic political issues in Ukraine and will be used as part of the domestic political discourse and fight.

The referendum results will primarily be used and have already been used to criticize the authorities: its inconsistency, lack of implemented reforms,

corruption and other negative aspects that have led to such consequences.

The results of this referendum will be exploited by pro-Russian political forces. This will be done to weaken the pro-Western sentiments in society and eventually strengthen the pro-Russian ones. The goal being pursued is to seed doubt about the feasibility and desirability of the European choice for Ukraine, and this is particularly dangerous for the further development of Ukraine.

[Full text](#)

*Deputy Director, Director of Political and Legal Programmes of
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THE HROYSMAN GOVERNMENT CAN ACHIEVE SOME SUCCESS, BUT A BREAKTHROUGH IS NOT EXPECTED.

After the election of the Prime Minister Volodymyr Hroysman, he will be loyal to the President for a certain time, as he represents his political power. It should be remembered that he was appointed on the President's wishes. On the other hand, he is young and ambitious, and sooner or later he will feel constrained by these restrictions. Moreover, the work of the Government involves many nuances, which are unlikely to coincide with the vision of the President and his entourage.

Along with this, the appointment of Hroysman will enable early parliamentary elections to be avoided for several months, and subsequently everything will depend on the work of the Government. Currently we are seeing a loss of confidence in the authorities, including the President, Government and even local authorities.

We should expect the new Government to intensively work on Ukraine's association with the European Union, as well as the occupied territories of Crimea and Donbas. Some success may be achieved, but we are unlikely to see a breakthrough.

We should take into consideration the fact that this Government does not have 100 days or even a month for any shake ups. It has been thrown into a very difficult situation, and many things will become clear in the near future.

[Full text](#)

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National security and defence

BY AUTUMN 2016 A SERIOUS ESCALATION IN THE CONFLICT MAY OCCUR

The actions of the Kremlin in respect of Ukraine (Crimea, Donbas), geographical expansion and escalation of its activities in the international arena indicate that Putin has not abandoned his ambitious goals. I can only assume that the issue of Novorossiia has not gone away for good, and is likely to resurface and be implemented under a new brand.

Many experts, both domestic and foreign, agree that the Minsk process is a road to nowhere. Moreover, its goals and results as specified in the final protocol are destructive for Ukraine.

If you try to apply the events in Donbas to the time grid of political developments, then the nearest key events will be the consideration of the EU issue about the extension of sanctions against Russia (the sanctions relating to the annexation of Crimea are effective until June 23, with sectoral restrictions valid until July 31, and individual sanctions until September 2016), as well as the Russian State Duma elections in September. The preparation for these events largely determines the nature of the Kremlin's actions.

Regarding the upcoming elections in Russia, it is worth noting that according to Russian tradition, the winner is the party that has presented the voters with the

"gifts" they expected. Based on the content of Russian media, Ukraine would suit Kremlin and Russian voters very well indeed.

If the expected political success is hard to achieve, it may happen that Kremlin will employ a "harsh" scenario. Speaking of the Kremlin's readiness to take such a step, we should keep in mind the large-scale military training "Caucasus-2016" scheduled for August and held in immediate proximity to the borders of Ukraine.

In the above scenario, the attacks are expected to take place on several fronts simultaneously: not only via a direct clash of opposing forces, but also via the activation of the prepared agent network behind the lines, and the significant destabilization of the situation in Ukraine, resulting in riots in some regions.

[Full text](#)

*Director of military programmes
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CURRENTLY UKRAINE HAS TO COMBINE CONTRACT SERVICE WITH MILITARY CONSCRIPTION

Today Ukraine is creating a reserve of contract soldiers while maintaining conscription for military service.

In peacetime, it would be possible to consider various options for the development of the armed forces, but in the current circumstances military volunteers alone are not enough. The reserve must be created not only on a contractual basis, but also from among demobilized soldiers. To ensure a high level of defense, it is necessary to involve all resources.

The contract service provides a rather attractive social package, high-level combat training and modern weapons. This is the professionalization of the army.

It is obvious that the state has no funds to provide a comprehensive social package for the military. In such a context the state relies on patriotism. There is no way out. On the contrary, we must welcome the efforts of non-governmental organizations, which offer to support the authorities and are ready to engage in military and patriotic training and the formation of self-defense units.

[Full text](#)

*Director of military programmes at the Razumkov Centre
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UKRAINE WILL NOT BE ABLE TO SETTLE THE CONFLICT IN DONBAS WITHOUT THE RECOGNITION OF RUSSIA'S BELLIGERENCE

The previous day marked exactly two years since the acting President of Ukraine Oleksandr Turchynov declared the beginning of the anti-terrorist operations in the east of the country. At that time, the decision to launch operations and define them precisely as anti-terrorist was obviously the best solution.

At the same time, a month after the operations began, it became clear that this format, to put it mildly, did not correspond to the nature of combat actions in the East.

Following the inauguration of the President Poroshenko, the time had come when it was necessary to immediately change the format of the anti-terrorist operations and proclaim martial law in these territories. The newly elected President did not do it though. The next two months were the most encouraging, but in August 2014 Russia mounted an overt military invasion, and massive shelling began from its territories. The signs of overt Russian aggression became quite apparent.

Despite this, the President was unable to convert the ATO into a format that was consistent with reality,

into a format of defense of Ukraine against external aggression. In other words, into the format of war. Of course, this will not solve all the problems, but it will, at least, put an end to the absurd situation in which in wartime Ukraine wants to trade with Russia as if nothing had happened.

Summing up the two years of the ATO, the main thing we would like to draw attention to is that it is not too late to call a spade a spade, and to bring the formal side in line with reality. That is to fully recognize the Russian Federation as an aggressor and a state of war in the occupied territories. The anti-terrorist operation cannot last for years by definition.

[Full text](#)

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Economy

TO REFORM THE BANKING SYSTEM, IT IS NECESSARY TO CLOSELY COOPERATE WITH THE CABINET OF MINISTERS, THE NATIONAL BANK AND THE VERKHOVNA RADA

To reform the financial market, it is of primary necessity to stabilize the macroeconomic environment.

Retail deposits are gradually returning to banks. This is the basis for further action. If the banking system understands that the rules of the game are transparent and make it possible to achieve positive financial results, then loans to the real sector will be restored.

To implement the banking system reforms, it is necessary to closely cooperate with the Cabinet of Ministers, the National Bank and the Verkhovna Rada. However, there is ongoing confrontation in this power triangle. For example, the National Bank of Ukraine

sharply criticized the strategy for the development of the banking system up to 2020 drawn up by the specialist committee of the Verkhovna Rada. So there is a conflict of interests rather than mutual understanding.

[Full text](#)

*Director of economic programmes at
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ALTHOUGH THE HRYVNIA IS GAINING GROUND, UKRAINE CANNOT ABANDON ITS COOPERATION WITH THE IMF NOW

In the last few months the Ukrainian currency has been strengthening. However, in my opinion, there are no fundamental factors that enable us to talk about a systemic strengthening of the hryvnia.

Recently Ukraine has experienced a paradoxical situation: we have lived without IMF funds for almost half a year (accordingly, the funds of other international financial institutions are limited too), and the national currency has strengthened. However, it will be no

surprise if in a week or two the strengthening we see now will be replaced by a slight weakening of the currency. I think that in the coming months we will continue to observe complicated fluctuations of 30-50 kopecks. These are rather situational reactions to certain political and economic events.

We need funds from the IMF. Many countries and international institutions are observing how the country cooperates with the fund, including the way it implements the cooperation program. We cannot simply abandon the IMF funds, as this would mean that Ukraine is a weak country.

The cooperation may be discontinued when the economy actually starts to recover. Then the Government together with the fund has to make a corresponding declaration. In such a case the flow of capital to Ukraine may even accelerate, as it will become evident that the country has the resources to develop.

[Full text](#)

*Director of economic programmes at the Razumkov Centre
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THE UKRAINIAN GOVERNMENT MUST BE OPEN AND FAIR, EVEN IF IT IS NOT REQUIRED BY LAW

The primary aim of registering business in offshore financial centers is the minimization of taxes, but not necessarily criminal minimization. It is the use of different tax regimes in different countries in favor of business that is a normal activity. The requirement for such operations to be transparent may be put forward.

However, it is the moral and ethical aspect, especially if it concerns a state whose leadership has

announced that it is following a policy of transparency and integrity, which is of concern. The state leadership should set a positive example and not be privy to such actions, even if they are not criminal.

Full [text](#)

*Director of economic programmes at the Razumkov Centre
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HOW UKRAINIAN BUSINESS IS ACCLIMATIZING TO THE FREE TRADE ZONE WITH THE EU

The deep and comprehensive free trade area leveled 97% of tariffs on Ukrainian goods, and the average tariff on domestic exports declined from 7.5% to 0.5%. Instead, the EU imposed tariff quotas on 36 products, including poultry, dairy products, honey, cereals, flour, etc. This means that after fulfilling quotas, Ukrainian exporters will have to pay import duty. As little time has passed since the introduction of the DCFTA, it is too early to draw conclusions on the results, be they negative or positive. Although entrepreneurs have complained that Ukrainian business has gained only partial access to the European market, rather than free trade. The biggest problem is the quotas. According to the Ukrainian Cabinet of Ministers, the producers of sugar, poultry, honey, corn and flour almost completely fulfilled the quota in the first few months of this year.

According to the State Statistics Committee of Ukraine, in January 2016 the export of goods to European countries reached USD 950.9 million (46.5% of the total exports). Due to the decrease in the overall level of exports, in January the share of the EU fell by 11.7% from January 2015, although the EU market continues to rank first among exporters. The organic products market is quite promising, as are meat and dairy products (the EU imposed "zero" tariffs on such exports and did not apply any quotas).

A major obstacle to the positioning of Ukrainian goods on the European market is the price to quality ratio – bringing the quality level of domestic goods into compliance with European standards and in line with the price expectations of Europeans. Other obstacles include ignorance of the pricing system, the high costs of international logistics, the language barrier, the psychological factor that comes into play when expanding beyond one's region and the difficulty in finding new partners. The commercial restrictive factors are the lack of funds to study export markets and promote the goods and services.

Full [text](#)



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Energy Sector

THE MERGER OF GOVERNMENT AND BUSINESS IS ONE OF THE BIGGEST PROBLEMS IN THE UKRAINIAN ENERGY SECTOR

One of the biggest problems in the Ukrainian energy sector is the merger of government and business. It is about defending or representing the important interests of certain business groups. If it is impossible to get rid of this symbiosis, the anti-corruption efforts in this field will be wholly superficial.

Anyway, the new Government is a product of the same key forces of the previous coalition. Thus, there are doubts as to the ability of the new minister to change the situation. At least, in the near future.

At the same time, the current management of Naftogaz is more pro-European and reform-aimed than the previous one. Positive developments are also apparent in the company, in particular in respect of improvements in the Supervisory Board. Three foreigners with extensive experience in the oil and gas industry joined the latter, which will consist of five members, three of whom are independent, and two of whom will represent the interests of the state.

Transparency, particularly in respect of tariff formulas, is casting a shadow on the Ukrainian energy

sector. The current billing under the "cost-plus" principle has to remain in the past, because it, among other things, does not contribute to investments and the introduction of new technologies.



Another problem of the Ukrainian energy complex is that the fuel market is not transparent. This, in its turn, generates phenomena such as smuggling, the distribution of smuggled goods and lack of control, and, in addition, extremely poor quality fuel.

Full [text](#)

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Foreign Policy

THE REFERENDUM IN THE NETHERLANDS DOES NOT POSE A THREAT TO THE EUROPEAN INTEGRATION OF UKRAINE

In the nearest future, the EU will find a compromise in respect of Ukraine with due consideration of the interests of the Netherlands as well as the position of Ukraine and the EU.

The Dutch decision to continue negotiations under the Ukraine-EU Agreement will affect neither the European prospects for our country, nor the course of Ukraine: the Association Agreement was signed by the EU, and all the countries ratified it. Therefore, local compromises will be discussed associated with the Dutch referendum. Thus, we can assume that at an early date before the decision is approved, the temporary application of the Association Agreement will take effect.

In this situation there are two important points. Firstly, the referendum in the Netherlands does not stop or block Ukrainian integration, and is not a red light

for the Association Agreement. Secondly, negotiations should take place as the Prime Minister called a time-out to discuss this issue with the EU and Ukraine.

So it is obvious that this issue will be resolved in the Amsterdam – Brussels – Kyiv triangle. There may be various options, but I think that a solution will be found sooner rather than later, under due consideration of the interests of the Netherlands and the position of Ukraine and the EU.

Full [text](#)

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Social policy

PENSION REFORM MUST BE CONDUCTED IN TANDEM WITH COMBATING THE SHADOW ECONOMY

Last year, the Pension Fund spent about 265 billion hryvnias, of which 170 billion was from internal funds. Almost 95 billion had to be allocated from the budget, and thus paid for by the taxpayers.

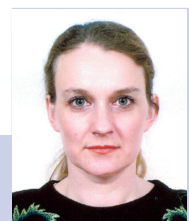
The Pension Fund runs to a deficit every year, and this is made up by the budget. Another issue is that we have some problems filling the budget. One of our main problems is the rapidly ageing population. This problem concerns not only Ukraine, but also many other European countries. However, in addition to the demographic problem, we also have an economic one. The fact that the number of people paying the unified

social tax is decreasing indicates that the shadow economy is growing. One of the elements of the fight against the shadow economy was supposed to be the reduction of the unified social tax rate. What effect will it have? So far there has been no visible effect. Therefore, the issue of pension provision cannot be solved through pension reform alone. A range of reforms are required, which would lead to employment creation, the exit of entrepreneurs from the shadow economy, and higher salaries.

The latest increase of the retirement age does not solve the problem of the Pension Fund deficit. The effect of the retirement age increase is short; besides, the more people work, the more the labor market is saturated. According to the International Labor Organization, almost every tenth adult is unemployed.

Full [text](#)

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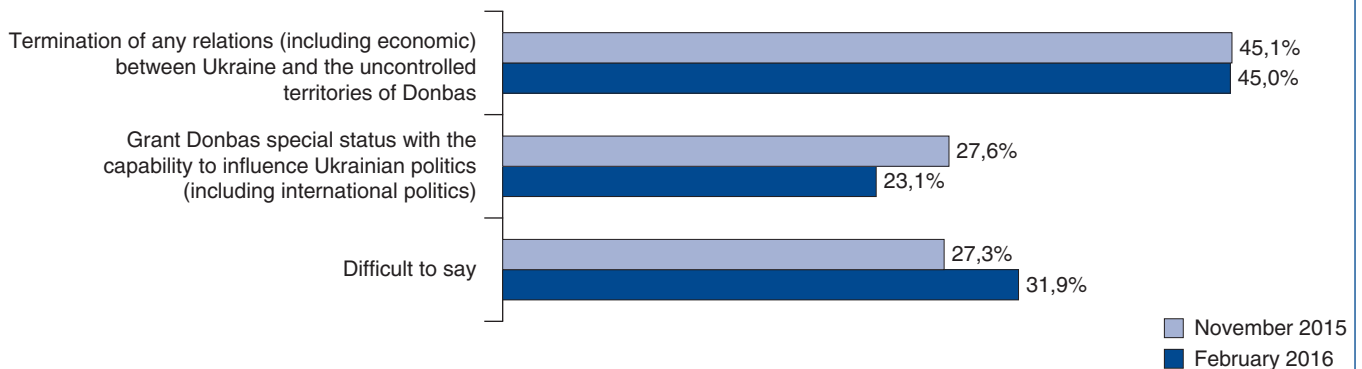
Sociology

The study was conducted by the sociological service of the Razumkov Centre on 19-24 February 2016. There were 2,021 respondents aged 18 y.o. and older, from all regions of Ukraine, except Crimea and the occupied territories of Donetsk and Luhansk oblasts, with the sample representative of adult population of the country by main socio-demographic indicators. Theoretical error of the sample (excluding the design effect) does not exceed 2.3% with probability of 0.95.

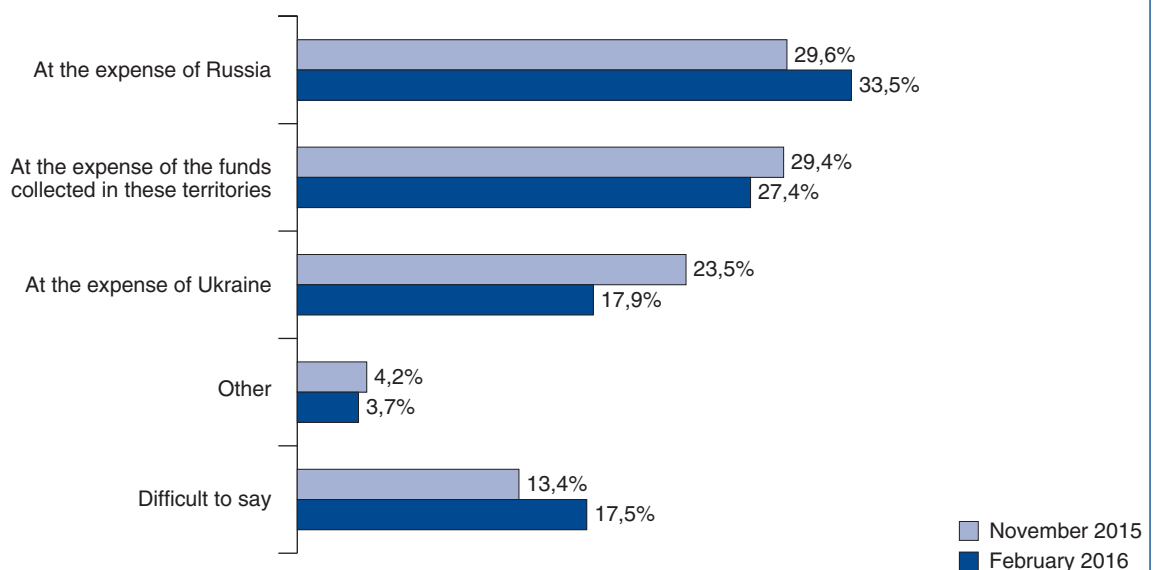
The theoretical sample error does not exceed 2.3% with a confidence level of 95%. For more details on the results of opinion polls conducted by the Razumkov Centre, go to our website at <http://www.razumkov.org.ua>.

What views and assessments regarding the situation in Eastern Ukraine do you agree with? % of respondents

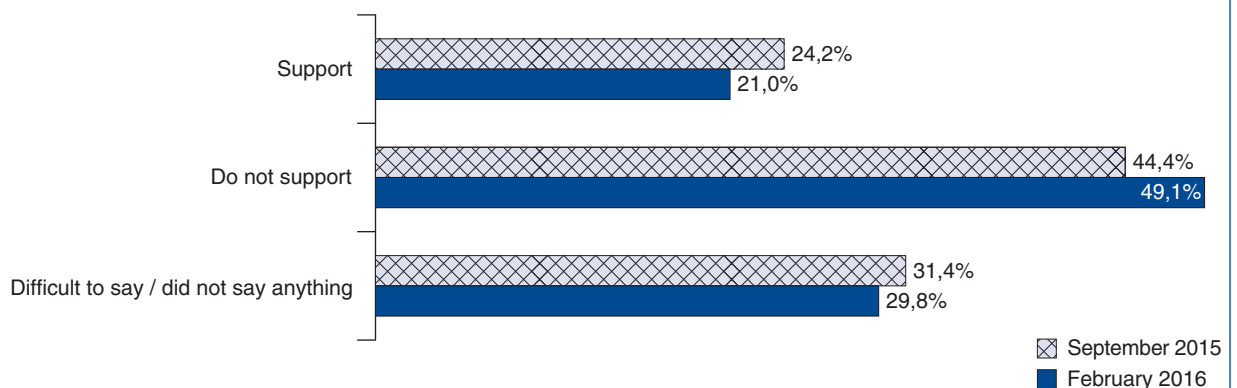
The coexistence of Ukraine and uncontrolled part of Donbas



If the territories of the so-called LPR and DPR are returned to Ukraine, at the expense of what funds do you think the destroyed infrastructure of these regions will be rebuilt?



Do you support the inclusion of this provision in the Constitution: "The specifics of local government in certain areas of the Donetsk and Luhansk regions are defined by a separate law"?



THE RAZUMKOV CENTRE GENERAL ASSEMBLY MEETING

On 12 April 2016, the General Assembly meeting of the Razumkov Centre took place.

It approved the following:

- the activity report of the Razumkov Centre for 2015, which is available at: http://www.uceps.org/upload/2015_Zvit_5_4.pdf
- the report of the Audit Committee of the Centre.
- the work schedule of the Centre and the budget for 2016.

A decision was adopted on whether to develop a new Strategic Plan for the Centre for 2017-2020 due to the near completion of the previous plan for 2014-2016.

PARTICIPATION IN THE THIRD INTERNATIONAL ENERGY CONFERENCE "THE INTEGRATION OF THE ENERGY SYSTEMS OF UKRAINE AND THE EU"

On 14 April 2016, the Director of Energy Programmes of the Razumkov Centre Volodymyr Omelchenko spoke at the Third International Conference "The integration of the energy systems of Ukraine and the EU".

In his speech, he stressed that the enhancement of real integration processes of the energy infrastructure of Ukraine with the EU networks can occur only through radical and consistent reforms of the energy sector of Ukraine. V. Omelchenko also stated that the integration of the Ukrainian energy infrastructure into the European energy space should be carried out through the regional energy platform of Central and Eastern Europe.



PARTICIPATION IN HEARINGS OF THE VERKHOVNA RADA COMMITTEE

On 15 April 2016, the Director of Energy programmes of the Razumkov Centre Volodymyr Omelchenko took part in the hearings of the Verkhovna Rada Committee on the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety "The Strategic Development of the Nuclear Industry. Problematic Issues". The following issues were considered at the hearings: the approval of the new Energy Strategy of Ukraine; the implementation of the state target economic program of the nuclear and industrial complex for 2016; the operation of a new model for the wholesale electricity market, and others.

PARTICIPATION IN THE ROUNDTABLE MEETING "THE PROCESS OF INTEGRATING UKRAINE INTO NATO"

On 14 April, Oleksiy Melnyk, Co-director of Foreign relations and international security programmes at the Razumkov Centre, took part in the closed roundtable discussions "The process of integrating Ukraine into NATO", which took place at the 9th Kyiv Security Forum.

The roundtable was attended by: the Deputy NATO General Secretary Oleksandr Vershbou, the Director of the NATO Information and Documentation Centre in Ukraine Natalia Nemelivska, the Deputy Minister of Defense of Ukraine Igor Dolhov, Ukrainian and foreign experts.

In his speech Mr. Melnyk gave his own assessment of the expected results of the next NATO Warsaw Summit for Ukraine, and possible trends and prospects for the development of the Ukraine-EU partnership.

EXPERT MEETING ON UKRAINIAN TAX POLICY

On 19 April 2016, an expert meeting on Ukrainian tax policy took place at the Razumkov Centre.

The meeting was attended by a Senior Lecturer from the Russian Institute at King's College London Dr. Mark Berenson, an expert in tax policy Ped Iryna, Director of the sociological service of the Razumkov Centre Andriy Bychenko, and a leading expert in social and gender programs at the Razumkov Centre Olga Pyshchulina.

The participants of the meeting discussed the problems and specifics of Ukrainian tax policy and the prospects for further reforms in this area.

PARTICIPATION IN THE ROUNDTABLE MEETING "REGISTRARS OF PAYMENT OPERATIONS IN CURRENCY EXCHANGE TRANSACTIONS: THE INTRODUCTION OF UNIFIED RULES FOR MARKET PARTICIPANTS"

On 11 April 2016, the Senior research fellow in economic issues at the Razumkov Centre Volodymyr Sidenko took part in the roundtable discussion "Registrars of payment operations in currency exchange transactions: the introduction of unified rules for market participants", organized by the Association Ukrainian Credit-Bank Union in Kyiv.

The meeting was attended by Ukrainian MPs, representatives of the State Fiscal Service, business associations and participants of the Ukrainian financial market, as well as independent experts in the above issues. The subject of the discussion was the elimination of disparities in state requirements for participants of the cash currency exchange market, considered in the context of compliance with the requirements of Section X "Competition" of the Association Agreement between Ukraine and the European Union, as well as the prepared draft law of Ukraine "Concerning the introduction of amendments to certain legislative acts of Ukraine on ensuring equal conditions for the provision of financial services".

PARTICIPATION IN THE ROUNDTABLE MEETING "IMPROVING THE WORK OF THE VERKHOVNA RADA OF UKRAINE"

On 20 April 2016, the Research fellow in legal matters at the Razumkov Centre Viktor Musiyaka took part in the roundtable meeting "Improving the work of the Verkhovna Rada of Ukraine: European standards and ways to ensure public confidence in the Ukrainian Parliament".

The participants of the event were the leadership of the Verkhovna Rada of Ukraine, Ukrainian MPs of the eighth and previous convocations, and Ukrainian and foreign experts.

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