



№8 (14 November 2014)

# THE RAZUMKOV CENTRE NEWSLETTER

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### THE NEW COALITION MAY FORM A CONSTITUTIONAL MAJORITY IN THE VERKHOVNA RADA

Speaking of the political outline of the coalition in general, the following is clear – since most parties which made it based on party lists belong to the pro-European mainstream in Ukrainian politics, the coalition should be of exactly the same nature. Any attempt of any party from this segment to form a coalition with any party or candidates representing the former government – Party of Regions – would be taken unambiguously negatively by the society. It will be simply a betrayal of those ideas people fought for at the Maidan, and it would be completely contrary to those things with which the parties ran for the election. Therefore, the coalition will be formed on the basis of political parties of this direction.

Speaking about the number of members of the coalition including FPTP candidates, the coalition could be sufficient for stable operation, i.e. consisting of 200–260 deputies permanently. The formation of a constitutional majority is possible. For, given the number of oppositional deputies, they are not

enough for blocking to prevent the formation of a constitutional majority.

It is already clear that the process of formation of the coalition will be neither easy nor straightforward because there are different levels of ambition of the political parties leading in the election. Ambitions related to the coalition to be formed based on precisely their suggestions and terms. This will be the subject of consultation between major players for some time, and only then, it will be clear which parties will join the coalition.

I think Batkivshchyna and Samopomich will join the coalition as it will be illogical for political forces declaring the same ideas not to join it, and give up the responsibility for activities of the government and opportunities to implement their programme goals.

*Full [text](#)*

*Deputy Director, Director of Political  
and Legal Programmes of the  
Razumkov Centre Yuriy YAKYMENKO*



### LIASHKO'S PARTY WAS LUCKY THAT THE PARLIAMENTARY ELECTION WAS HELD SO EARLY

Looking at Radical Party, we should mention personality of Liashko, who showed a very good result at the presidential election. It can also be said that, on the contrary, over the last weeks before the election, the rating of this party had been falling. So they were lucky that the election was held so early. This party was in demand at the level of slogans but in the long run, slogans alone are not enough. A voter wants to see these slogans supported with actions.

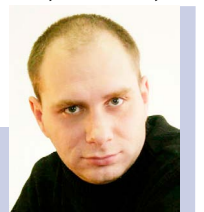
Speaking of Svoboda not making it, one should understand that its previous phenomenal results (in 2012) were voting results not only of their ideological voters but also of the voters protesting against Yanukovych's regime. It was these voters

who hoped that Svoboda would confront – if necessary, even physically – Yanukovych's regime. Now, when such a need has disappeared, only Svoboda's ideological voters remained. As we can see, despite fairly good results, this was not enough to make it to the parliament.

The falling rating of Batkivshchyna, compared to the previous election, can be explained by the fact that now it is a completely different political party. Now a significant number of candidates who were in Batkivshchyna, are members of the winning parties – they are both in Narodnyi Front and Petro Poroshenko Bloc. So, in fact, this rating has not disappeared. We can say that in total, if we take deputies who came out of Batkivshchyna, it has even increased. It is just that the most supported people from Batkivshchyna in this election were mainly in Narodnyi Front. The fact that Batkivshchyna in such form and circumstances has overcome the five percent barrier, I think, is more of a happy coincidence.

*Full [text](#)*

*Director of Sociological Service  
of the Razumkov Centre  
Andriy BYCHENKO*



## THE RESULTS OF PETRO POROSHENKO BLOC ARE CAUSED BY THE FAILURE OF THE HEADQUARTERS

Arseniy Yatseniuk's Narodnyi Front beat Petro Poroshenko Bloc because of the failure of the presidential party's headquarters. The team of Petro Poroshenko Bloc remained invisible so people voted personally for Poroshenko.

Poroshenko was able to get much better results but his big mistake was that his headquarters demonstrated nothing but the popularity of the President himself. Indeed, Poroshenko had a high level of public confidence, and this was the only basis for the decision of most voters whether to vote for Petro Poroshenko Bloc or not. So the voting results

are an achievement of Poroshenko's personal status rather than his party.

In turn, in the final weeks before the election, Narodnyi Front and Samopomich demonstrated a very positive dynamics of support, and their rating had been steadily increasing because, in addition to the leaders of the party, a team and new faces had been also demonstrated, that is why their results are not surprising.

[Full text](#)

*Director of Sociological Service of the Razumkov Centre Andriy BYCHENKO*

## National Security and Defence

### AFTER THE "ELECTION" IN DONBAS, THE LIKELIHOOD OF ANOTHER MILITARY ATTACK OF RUSSIA HAS INCREASED

Possible consequences of the "election" that was held in the part of Donbas seized by separatists should be assessed very carefully since it is another very serious step towards further escalation of the situation in Eastern Ukraine,

We should not create any illusions about the effect of the EU sanctions on the Russian policy in the short term. Despite the fact that, indeed, there is a certain indication that these sanctions are effective, they have not achieved the main goal – a change in the Russian policy. That is, so far the sanctions have a direct effect on Russian economy but a reverse effect is sometimes observed in the foreign policy. For Russia's actions are becoming more aggressive, and now hardly anyone can say that in the nearest future, Russia's foreign policy will change for the better only due to sanctions.

Now it is an indisputable fact that there are Russian troops in Ukraine. After the so-called election, the

likelihood of Russia's large-scale attack has increased even more. This can be done upon request of the so-called democratically elected government (in DPR and LPR) under the guise of the peacekeeping forces of Russia or receiving military assistance from Russia.

I think the most important thing is that the Ukrainian government and society do not console themselves with illusions or try to convince themselves and everyone around that now we are having a ceasefire. People are dying everyday, there are daily reports that the capabilities of militants are increasing, in particular through Russian voluntary troops and Russian weapons, to attack any moment. Most importantly, the other side is seriously preparing for the war. Russia may attack either soon or when it gets warmer next year, when the fields and the roads dry out.

Of course, the time frame is important but the key thing to remember is that the war or the prospects for further escalation both depend and do not depend on Ukraine. That is, the initiative remains with the other side, and whether we allow it to be a surprise for us again or are ready to prevent it, or give an adequate response, depends on us.

[Full text](#)



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

### RUSSIA NEEDS LAND ACCESS TO CRIMEA WITH UNLIMITED CONTROL

The election in the area uncontrolled by the Ukrainian government on 2 November instead of 7 December, as provided for by the Law of Ukraine, once again proves that the operation is being planned not in Donbas but in Moscow. The election in December was too late for Putin. He needs to make a corridor to Crimea right now. The continuation of peace talks under the scenario written in Kyiv did not and could not suit anyone. That is why the attacks have not stopped the whole time. Putin is trying to use this situation and move it to the hot phase – start (or imitate) an attack on several fronts, including Crimea. Already on new terms – not on the terms of the "special" status for Donbas but the risk of losses in Mariupol – he is planning to make Poroshenko sit down and talk, and achieve the implementation of the transit corridor to Crimea.

Russia's adoption of the previous "peaceful plan" is connected with the fact that they did not have

enough power to succeed in Ilovaik. Putin always uses a set of powers he needs at a given moment. He could have relied on our election – bring his people to the parliament and destabilise the situation in several towns. He also needed to regroup the forces in Donbas. However, he has not lost his face in front of the West, and distanced himself from direct accusations that this group is getting stronger with the participation of Russia. There are a lot of factors. The presence or absence of one part of a puzzle changes the whole picture.

[Full text](#)



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

From the interview about the prospects for attracting foreign investment to Ukraine.

– **How serious now is the fall in current investment activities in Ukraine? What incentives, in your opinion, could prompt investors to invest in the economy that is constantly weakened by the war?**

– It is an indisputable fact that investors will decide to invest only when the conditions are the most appropriate for them. Ukraine has now created not the best conditions for capital coming in. Moreover, the country is at war. Also, none of the foreign investors can tell where the hostilities will cease.

Now it is important to create an investment climate in Ukraine rather than just hold a powerful PR campaign. The main thing is that investors have confidence in the future. The systems of investment administration and protection from possible nationalisation should be improved. Also, the State Property Fund of Ukraine should conduct fair privatisation enabling new investors rather than oligarchic structures which have emerged over the years of Ukraine's independence.

Among the factors that can positively influence the decision of foreign investors are the IMF loan, a series of reforms, and the EU Association Agreement having been signed this year. The latter serves as a possible option for strengthening the "neighbourhood effect" of foreign direct investment coming in – increased investment from the neighbouring EU countries.

– **What sectors are the most interesting to investors, compared with the previous periods?**

– If to compare the sectoral structure of the current year, 2009 (the crisis year) and 2005 (a pre-crisis year), investment trends vary. However, there is a common trend – gradually declining investment in the industry and increasing investment in the service sector. There is significant investment in the financial and insurance markets – only in 2013, its share in general investment was 26.4%. This is despite the fact that last year, a number of banks with foreign capital left Ukraine. Of course, when industrial production has become unprofitable in Ukraine (lasting capital turnover in conditions of low profit margins, high risks etc), foreign direct investment is coming mainly into trade, construction, and the service sector. Actually, it will not create a new basis for the country's development, bring new technology or know-how to the Ukrainian economy, or change the structure of exports. Therefore, opening new supermarkets owned by a foreign investor (the share



of investment in the sector of wholesale and retail trade is 13% of all foreign direct investment) will stimulate the growth of imports as they will mostly sell imported goods. Thus, behind this investment, there is neither potential growth of exports nor a steady flow of foreign currency to Ukraine but rather the flood of imports.

– **Which categories of foreign investors show the greatest interest in strategic sectors, in particular energy?**

– In general, the following categories of foreign investors are represented in the energy sector of Ukraine – multinational corporations, institutional investors (including international financial organisations), and individual energy companies. Multinational corporations is the most common category of investors; they are long-term investors who can contribute to strengthening energy security in an environmentally sustainable manner. Among such corporations operating in Ukraine or intending to, there are already proven supermajors – ExxonMobil, Chevron, Shell, BP, Hunt Oil, Petrobras – the strength of whose position has not raised any doubts for a long time. Also, in November 2013, the Cabinet of Ministers of Ukraine signed contracts with Eni and EDF (the volumes of predicted investment over 4 billion dollars, the implementation period of 50 years) on the development in the Black Sea shelf. However, due to the annexation of Crimea, these projects have been frozen.

Among the institutional investors "caring" about the energy sector of Ukraine, there is the EBRD. It should be noted that as of 1 January 2014, the bank assumed the obligation of granting 8.7 billion euros for 321 projects in Ukraine. This fact confirms the interest of the international organisation in the energy-efficient development of the country on the basis of European principles. It should be noted that in 2013, the bank supported a 5MW solar power plant construction project in Vinnytsia Oblast (5.4 million euros, the company Rengy Development), Novoazovskiy Wind Farm (48.8 million euros, the company Vitriani Parky Ukrayiny), and a 18 MW biofuel power station construction project in the village of Ivankiv in Kyiv Oblast (15.5 million euros, the company EIG Engineering).

*Full text*



*Expert of Economic Programmes  
of the Razumkov Centre  
Kateryna MARKEVYCH*



## THE DEBT FOR RUSSIAN GAS WILL BE PAID FROM THE GOLD RESERVES OF UKRAINE

The payment of debt for Russian gas from gold reserves is a justified – and the only possible – step, given the economic situation in Ukraine.

An extremely low level of gold reserves increases the risk of devaluation and the risk to the balance of payments so it may adversely affect the investment attractiveness of Ukraine.

However, there is hope for the loan from the International Monetary Fund, and we have certain guarantees from the European Union. An appeal and an invitation to investors may be planned although in a state of political uncertainty and war, their interest cannot be high.

The current situation with gold reserves is not that critical for no large external payments, except for Russian gas, are expected for us until the end of the year and even early next year.

*Full text*

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



## RUSSIAN ECONOMY WILL NOT FAIL BECAUSE OF THE FALLING OIL PRICE

From the interview on the impact of the oil price on the budget of Russia.

**– Are disastrous scenarios for the Russian economy possible? The scenarios similar to those that happened for the USSR, in particular due to the oil price in the 80s, when due to economic collapse, the Soviet Union eventually collapsed as a state?**

I think that such disastrous forecasts are somewhat exaggerated. Now the Russian economy is stronger than it was in the last years of the Soviet Union. The Russian economy is integrated in the world economy and there are possibilities to sustain the Russian economy not only through oil. Now in Russia, as it actually used to be in the Soviet Union, the welfare of ordinary people and human values have not come first. The so-called “state interests” have dominated.

**– How will the falling oil price in the world markets affect the economic situation in Russia?**

If the current situation continues, it will certainly have a negative impact on Russian public finance

and devaluation of the ruble. For there is a pattern “expensive oil – expensive ruble, cheap oil – cheap ruble”, and we can see it now. Therefore, the impact will be significant.

**– What is the margin of safety of Putin’s Russia in economic terms?**

Social and political components and rigid centralised control system can keep Russia in the same state for quite a long time. Of course, the oil price combined with Western sanctions make a significant factor. However, again, Russia is integrated in the world economy. These sanctions will have an impact but no one will be interested in, as they say, the collapse of Russia. At least this applies to the next 3–5 years. Beyond that, the horizon is too far. The world is very dynamic. We can hardly expect now to be able to accurately predict the situation five years from now.

*Full text*

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

## UKRAINE LACKS INVESTMENT TO UNLOCK ITS SIGNIFICANT ECONOMIC POTENTIAL

The wage level in Ukraine is already inferior not only to Europe and to the U.S. but also to China, which is traditionally known for cheap labour. According to the data published by Time Magazine, an average Chinese worker earns approximately 450 dollars a month. In Ukraine, the average wage in September was 3,481 hryvnias, which is equivalent, even at the official rate, to less than 270 dollars.

Ukraine still has significant potential. There are opportunities for production as well as hard-working

and educated workforce. For example, a lot of Ukrainians software developers work for Western companies, which proves fairly high qualifications of Ukrainians. The only thing we lack is investment. If we manage to attract it, we can expect rapid recovery.

*Full text*

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

## THE FALLING WAGE LEVEL IN UKRAINE IS CAUSED BY A DECLINE IN PRODUCTION IN DONBAS

The main reason for increasing wage arrears in Ukraine as well as the falling wage level is due to the fact that most enterprises located in the area of the armed conflict are not working.

The decline in production in Luhansk and Donetsk Oblast is 25–30% when in other oblasts, production has even increased. So we can see that the dynamics is very uneven but major decline in production is in the CTO area. Therefore, the wage arrears perfectly

follow the dynamics of production and relate to the losses the country has suffered due to aggression. If we take a look at the structure of the arrears, we will see that its lion’s share is in Donbas.

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

## OPEC MAY LOSE DOMINANT INFLUENCE IN THE GLOBAL OIL MARKET

The Organisation of the Petroleum Exporting Countries (OPEC) will lose dominant influence in the global oil market due to the “shale boom” in the U.S.

The forecasted average price of Brent oil for the first quarter of 2012 fell to 85 dollars per barrel, from the expected before 100 dollars per barrel, and, most likely, the price will stay within these limits since, due to the dramatic fall of the oil price, major OPEC countries have reduced the prices on raw material supply, wanting to protect their market sectors, instead of production cuts, which could have supported the prices. Given this factor, OPEC will lose the position of a producer able to affect the dynamics of oil prices, and the U.S. are likely to take this position.

The growth of oil production in the countries that are not members of the OPEC – for example, in

Mexico and Brazil – will lead to the fact that oil supply to the world market may exceed demand, which in return will lead to a glut.

As to oil production in the U.S., it is at the highest level in 30 years, and shows stability in the production volume. For the country is actively expanding the production of shale oil, and can take a leading position in this area.

[Full text](#)

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



## THE RESULT OF GAS TALKS IN BRUSSELS IS HARDLY FAVOURABLE TO UKRAINE

The gas talks between Russia, Ukraine, and the EU resulted in the temporary success of Gazprom as it managed to defend the basic parameters of the 2009 contract and ensure the receipt of money for gas, when Brussels largely eliminated the risk of gas transit through Ukraine in winter.

For Ukraine, it was difficult to negotiate because of the pressure of Russia and the EU, as the Europeans are primarily interested in the guarantees of uninterrupted transit. Another factor that complicated

the situation was the expiry of mandates of the present European Commission – the officials wanted to leave after signing the agreement. Now Naftogas has to credit Gazprom with advance payment, and in conditions of the company's actual bankruptcy, these funds should be allocated from the reserves of the National Bank.

[Full text](#)

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

## RUSSIA IS INTERESTED IN FREEZING THE ENERGY CONFLICT WITH UKRAINE

Russia will continue using gas as a leverage in Ukraine, even after reaching an agreement during the trilateral Ukraine–Russia–the EU negotiation in Brussels.

Russia is interested in constant freezing of the energy conflict to be able to use the gas issue, depending on the situation. For all the 20 years of Ukraine's independence, the issue of energy was the issue of Russia's ban on Ukrainian attempts of European integration, reforms, or attempts to move away from the Russian influence. Russia cannot give up this leverage in Ukraine.

If Russia wanted to reach an agreement with Ukraine on commercial terms, as it is doing it with other countries, they could have partially restructure the debts, sign a new contract, or make amendments to the base price of the current contract. There are dozens of ways and opportunities to solve this problem.

However, even after reaching an agreement in the negotiations, it does not mean it will be fulfilled. After a week, some new statements and new terms may appear. It is obvious that Russia will not give up such a powerful leverage in the Ukrainian politics as the gas issue.

I should add that in the trilateral negotiations, Europe is interested in giving Ukraine a loan to pay

for gas supply since termination of fuel supply to our country will create problems for maintaining pressure in gas pipelines that ensure gas transit to Europe.

[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 14 October 2014 in all the regions of Ukraine except Crimea. 2,004 respondents aged 18 and over were interviewed. Sampling error — 2.3%.

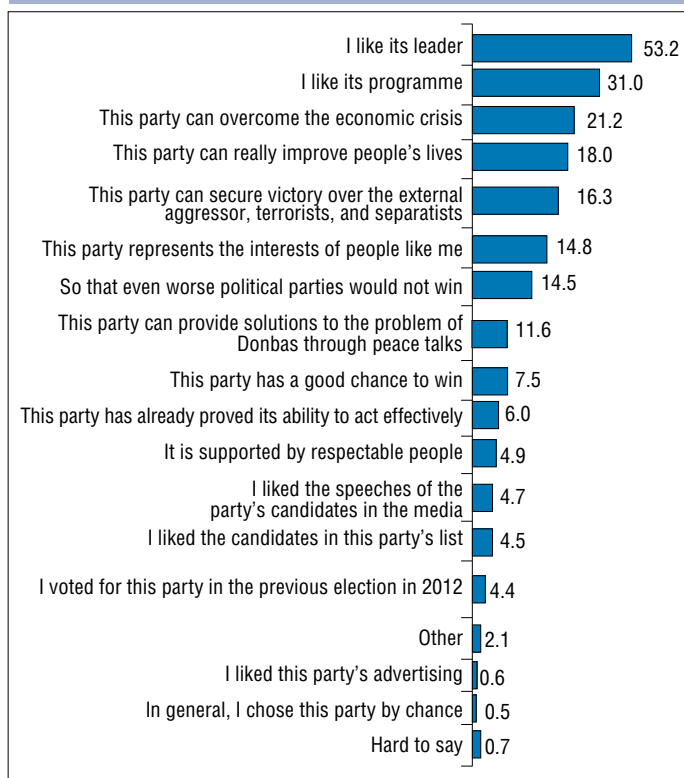
The survey was conducted as a part of the permanent project of the Razumkov Centre *The*

*Party System of Ukraine: Features of Functioning, Prospects for Development.*

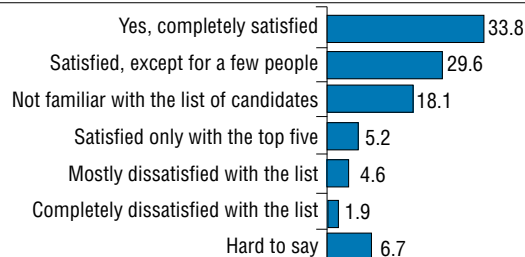
More information on findings of the public opinion polls conducted by the Razumkov Centre is available on the Razumkov Centre website

<http://www.razumkov.org.ua>

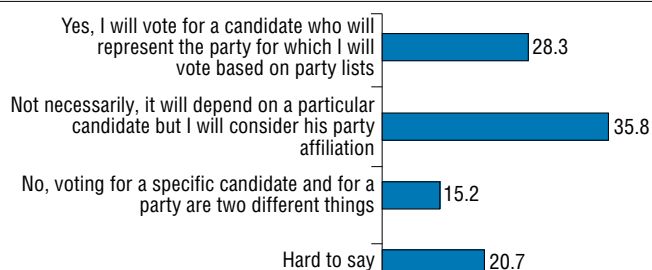
## Why did you choose this particular party? % of those who chose a party



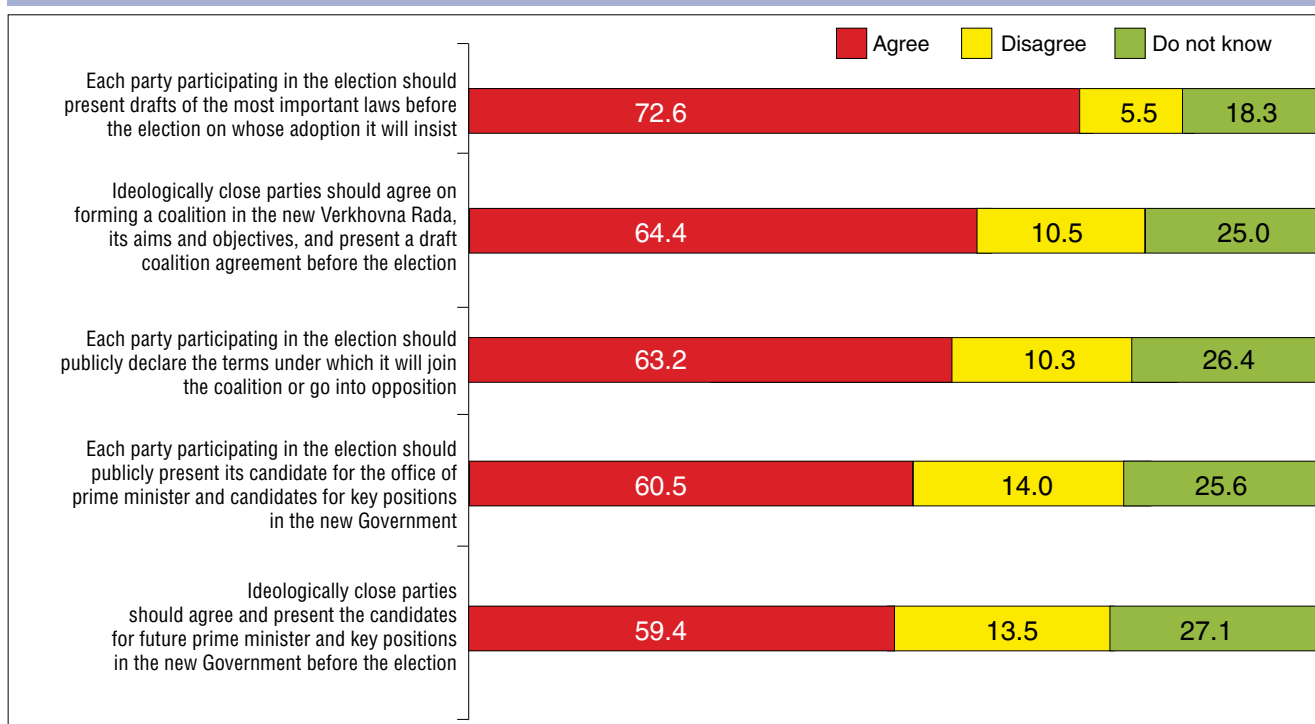
## Are you satisfied with the list of candidates of the party for which you would like to vote? % of those who chose a party



## In your FPTP district, will you vote for a representative of the same party as in the party-list voting, or not? % of respondents



## Do you agree or disagree with the following statements?





# The Razumkov Centre News

## **THE RAZUMKOV CENTRE IS HELPING THE PARLIAMENT'S POLITICAL PARTIES PREPARE A DRAFT COALITION AGREEMENT**

Upon request of the pro-European political parties that were elected to the Verkhovna Rada in the special parliamentary election, the Razumkov Centre was actively involved in the process of preparing the future Coalition Agreement. The Centre's experts joined the working groups that had been preparing draft sections of the Coalition Agreement on the issues of economic development, domestic and legal policy, energy, and national security and defence.

This is not the first experience of the Razumkov Centre to prepare coalition agreements for the Ukrainian Parliament – the Centre's experts were involved in drafting relevant documents in 2006, 2007, and 2014.

## **THE MEETING WITH THE MANAGEMENT OF THE REPRESENTATIVE OFFICE OF THE KONRAD ADENAUER FOUNDATION IN UKRAINE**

On 5 November, the Razumkov Centre hosted a meeting with Head of the representative office of the Konrad Adenauer Foundation in Ukraine Ms Gabriele Baumann. At the meeting, the Razumkov Centre was represented by Director General Anatoliy Rachok.

At the meeting, the results of cooperation between the organisations in the last year were summarised, and priority areas for future cooperation were identified. In particular, an agreement on joint implementation of an international project The Party System of Ukraine: Current State, Prospects for Development was reached. The project provides for cooperation between Ukrainian, German, and Polish partners in order to promote the development of effective and responsible political parties in Ukraine.

The participants of the meeting also discussed the pressing issues of the current situation in Ukraine, in particular preliminary results of the parliamentary election, the prospects for forming a parliamentary coalition and a new government, current situation in some regions of Ukraine due to Russian aggression and activities of the pro-Russian terrorist groups, and measures taken by the international community to deter the aggressor and stabilise the situation.

## **THE MEETING WITH AMBASSADOR EXTRAORDINARY AND PLENIPOTENTIARY OF POLAND TO UKRAINE**

On 14 November, the meeting of the representatives of the Razumkov Centre with Ambassador Extraordinary and Plenipotentiary of Poland to Ukraine Henryk Litwin was held.

At the meeting, the Razumkov Centre was represented by Director General Anatoliy Rachok and Deputy Director, Director of Political and Legal Programmes Y. Yakymenko.

The following topics were discussed – current socio-political situation in Ukraine, intensification of the international cooperation between Ukraine and the countries of the Visegrad Group, using practical experience of Poland in the process of European integration of Ukraine, and the prospects for cooperation between the Razumkov Centre and the Embassy of the Republic of Poland in Ukraine in facilitating these processes.



## **PUBLICATION UKRAINE 2014: SOCIOECONOMIC CRISIS AND SEEKING WAYS OF REFORMING**

This brochure continues the series started by the Razumkov Centre in 2013 with the publication Ukraine 2013: In-Between Elections and Options. In the publications of this series, the experts of the Razumkov Centre outline the risks arising on the way of Ukraine to European integration, economic growth and social welfare, analyse actions and intentions of government agencies and political parties, offer their vision of crisis and conflict management as well as steps that will contribute to improvement of the situation in different areas.

This publication contains articles on the pressing issues of the national economy. There are negative trends caused primarily by the delay in its restructuring and creating basic conditions for its sustainable development. The country's economy was significantly affected by Russia's trade restrictions, economic and energy pressure, and, finally, the open war of aggression and annexation of Ukrainian territories. In this situation, experts of the Razumkov Centre suggest, along with addressing the urgent problems of economic stabilisation, to draw attention to the prospects for economic development, and already prepare the country for drastic social and economic reforms, and full implementation of the EU Association Agreement.

*[Read the entire publication](#)*

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