



# Focus on Ukraine

January 16 – 22, 2011





**TABLE OF CONTENTS**

***I. Overviews of political events of the week.....3***

***II. Analytical Reference.....5***

*Political institution.*

***New minister of finance***

***Valeriy Khoroshkovskiy: premier to be?.....5***



## *I. Overviews of political events of the week*

**January  
17**

**Ukraine may appeal to the international court in The Hague if the talks with Russia on lowering the price of gas fall through, said Premier Mykola Azarov.** The premier hopes that the Ukrainian side will manage to reach an agreement with Moscow on the review of the current gas contracts.

**January  
18**

**Ukraine's Minister of Finance Fedir Yaroshenko tendered his resignation on his own volition.**

**Ukraine may agree to the establishment of a gas consortium for the management of its gas transit grid with the joint participation of the European Union and Russia, Energy Minister Yuriy Boiko announced after talks he held the day before in Moscow.**

Ukraine is demanding Russia guarantees to load its pipelines with fuel and it European partners to invest in the modernization of Ukraine's gas transit grid (GTG).

Boiko noted that EU banks that signed a memorandum on participating in this project have yet to show any initiative, which means reconstruction of the GTG is so far being financed by the Ukrainian side.

**The criminal case against Yulia Tymoshenko in the activity of United Energy Systems of Ukraine concerning the concealment of hard currency proceeds has been closed.** The Security Service of Ukraine (SBU) informed about this in connection with the decriminalization of the corresponding article of the Criminal Code of Ukraine.

**The Prosecutor General's Office will foster the treatment of Yulia Tymoshenko by international doctors in conjunction with Ukrainian doctors,** Press Secretary of the PGO Yuriy Boichenko informed.

He said ambassadors of EU countries, the U.S. and representatives of medical organizations appealed with such a request. The spokesperson of the PGO said such medical assistance is impossible without engaging Ukrainian doctors in the process.

**Former head of the SBU Valeriy Khoroshkovskiy was appointed Ukraine's new Minister of Finance.** The president's decree was made public on the official site of the head of state. Khoroshkovskiy is also a state advisor to the Customs Service of Ukraine. In June of last year Khoroshkovskiy was named an army general.

**January  
19**

**The Pechersk District Court questioned half of the witnesses in the case of former Minister of Internal Affairs Yuriy Lutsenko.**

During questioning Lutsenko asked that the hearing be put off due to



inflammation of his intestinal gland. Despite this, the court rejected Lutsenko's request and the hearing lasted 14 hours during which a first aid emergency unit was called 5 times.

The ex-minister's lawyers believe the hearing of the case is being artificially accelerated in order to pass down an accusatory sentence before the ruling of the European court. Lutsenko's lawyers expect exoneration in this case.

**The Batkivshchyna and Reform and Order parties decided to unite efforts for the upcoming parliamentary elections.** These political forces announced their intention of forming a common electoral list.

BYuT member Oleksandr Turchynov announced that Yulia Tymoshenko will be number one on the electoral list even while she remains imprisoned.

January  
22

**Opposition forces concluded an agreement on unification.** All members of the Committee for Resistance to Dictatorship and the leader of the UDAR party Vitaliy Klitschko signed the document on Sofia Square during a gathering of proponents of opposition parties on the occasion of the Day of Unity.

In the document it is noted that in order to overthrow the anti-people's regime and reinstate true rule of the people the authorized representatives of parties that belong to the Committee for Resistance to Dictatorship set formation of a majority in the Verkhovna Rada of Rada that will be capable of preventing usurpation of power and ensure the protection of the rights and freedoms of citizens as the priority task for 2012.

Among the signatories of the agreement are Oleksandr Turchynov, Arseniy Yatsenyuk, Oleh Tyahnybok and Vitaly Klitschko. The leader of the Front of Changes Yatsenyuk called upon Anatoliy Hrytsenko to return to the Committee for Resistance to Dictatorship and continue holding talks.

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## **II. Analytical Reference**

### **✓ Political institutions**

#### **NEW MINISTER OF FINANCE VALERIY KHOROSHKOVSKIY: PREMIER TO BE?**

On January 18, Fedir Yaroshenko tendered his resignation as Minister of Finance on his own volition, which President Viktor Yanukovych accepted the same day.

The head of state appointed Valeriy Khoroshkovskiy, who previously headed the Security Service of Ukraine (SBU), to replace Yaroshenko.

On January 19, Yanukovych appointed the acting head and former first assistant of the SBU Volodymyr Rokytskiy. Although a candidate for the head of the SBU has yet to be officially announced, the nature of events suggests that the promotion of Khoroshkovskiy may serve as springboard for further growth of his professional career.

*What can we expect from the new minister of finance?  
Will staff changes lead to a redistribution of power inside the ruling team?*

#### **Premier without a Cabinet**

Ex-Finance Minister Fedir Yaroshenko was essentially the right-hand man of Premier Mykola Azarov in the government, while all other ministers represented different groups of influence that Azarov had no control over.

Accordingly, the head of state did everything possible to keep Yaroshenko in his position and even threatened that he would step down from office if the minister of finance was sacked. The fact that this did not happen after January 18 is testimony to the inability of the head of government to play his own game, more so than Azarov's indifference to the destiny of Yaroshenko. After all, the minister's dismissal far too many months prior to the next parliamentary elections would be very inconvenient for the president as it would force him to urgently seek a

scapegoat for all the government's miscalculations.

In any case, after Khoroshkovskiy was appointed the new Minister of Finance, Azarov essentially lost his influence on the activity of his ministers that from now on will concentrate all the efforts on backing certain corporate interests. Accordingly, the situation in which the premier ended up after the reshuffling of staff on January 18 is hardly enviable. On the one hand, he has definitely lost control over the government's socio-economic policy, which was his main task as premier. On the other hand, he will be forced to account for all the past and future miscalculations of the government in this sphere. As a result, the role of Azarov will most likely have to take the brunt of all the people's negative opinions of the current government on his shoulders.



### ***Old methods in a new job***

While the dismissal of Azarov's last right-hand man as the minister of finance was unpredicted, the appointment of the former head of the SBU to this position was if not a surprise, then a totally unexpected move.

Be that as it may, there is a logical explanation for the president's decision. It is quite obvious that Khoroshkovskiy as the new Minister of Finance was given the task of establishing control over the budget flows for use during the parliamentary election campaign.

In other words, one can expect in the nearest days that pressure will be applied to businesses in order to increase budget revenues, which will be used to increase social payouts to certain categories of citizens prior to the next parliamentary elections. It is totally possible that the head of state chose Khoroshkovskiy for his tough modus operandi as former head of the SBU that he can apply in his new position.

Another matter altogether is that the effective siphoning of money out of

business into the budget will be problematic without control over two other key bodies in the government – the State Tax Service (STS) and the State Customs Service (SCS).

While the seat of the current head of the SCS Ihor Kaletnik, who has troubled relations with Khoroshkovskiy, has long been teetering on the edge and the possibility of his dismissal is quite high, the head of the STS Oleksandr Klimenko was not too long ago appointed to this position and is a direct protégé of the president's son who represents different group of influence.

Whether Yanukovich agrees to concentrate the main fiscal bodies in the hands of representatives of one group, which includes Khoroshkovskiy, is at this point unclear as this would go against the interests of representatives of his "family". One thing is for sure: in the coming months Ukrainian entrepreneurs should brace for intensification of administrative pressure on their businesses.

### ***One for all or every man for himself?***

The issue of Khoroshkovskiy's future career prospects of remains open. While the Ministry of Finance is far from the most attractive executive body to work in, being appointed its head cannot be called a demotion. In fact, quite the contrary: the appointment of Khoroshkovskiy to this position has strengthened his influence and that of his teammates.

The appointment of Khoroshkovskiy's former assistant Volydymyr Rokytskiy as acting head of the SBU points to this. If the latter is eventually appointed head of the SBU, Khoroshkovskiy will maintain his influence over this body

even in the position of Minister of Finance.

As a result, Khoroshkovskiy's group of influence to which oligarch Dmytro Firtash, Minister of Energy and Coal Yuriy Boiko and Minister of Foreign Affairs Kostyantyn Hryshchenko belong, will considerably strengthen their positions. Given the pro-Russian stance of this group, the increase in their roles may have serious consequences for Ukraine to the point of sacrificing national interests to get a lower price for gas from Russia's Gazprom.

Further, it cannot be ruled out that Khoroshkovskiy will play his own game.



One of the possible reasons he was appointed as Minister of Finance was to prepare him for becoming the next premier and gaining number on position on the list of the ruling Party of Regions. In order to successfully achieve this goal Khoroshkovskiy must not repeat the mistakes made by Serhiy Tihipko who was earlier prophesied a similar fate. At the same time, there is no sense in expecting that the seat of the premier will be changed in the nearest future and even Azarov's dismissal prior to the parliamentary elections is a major issue. A lot will be determined by to what

degree the ruling authority manages to minimize the negative attitudes of Ukrainians towards it over the next several months.

If Khoroshkovskiy does not become the next premier, it should not be ruled out that he will have more long-term ambitions of being nominated as a candidate for president in 2015.

Naturally, it is uncomfortable that such internal games are being played inside the corridors of the current ruling power without any hint of taking into account the interests of the majority of society.

### **Conclusions**

*As such, the dismissal of Fedir Yaroshenko as Minister of Finance and his replacement by former SBU head Valeriy Khoroshkovskiy has totally deprived Premier Mykola Azarov of control over his own government. While the premier will most likely continue to put pressure on business in order to increase budget revenues, it is not yet clear whether the president will agree to appoint Azarov's teammates to two other key fiscal bodies – the STS and SCS.*

*Besides that, while the intensification by the group of influence to which Khoroshkovskiy belongs after the staff shuffling on January 18 is glaringly obvious, the situation with personal ambitions of the former head of the SBU are thus far not quite understood. The next coming months will show what career objectives the new Minister of Finance will set for himself.*



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