



UKRAINE: Second-time premier reverses Orange policy

Wednesday, February 28 2007

SUBJECT: The first seven months in office of the Anti-Crisis Coalition (ACC) government headed by Viktor Yanukovych.

SIGNIFICANCE: The ACC is dominated by the pragmatic Party of Regions but it is led by a prime minister determined to reverse the 'Orange revolution' of December 2004, and it has left-wing elements, which it must take into account. A coalition with divergent priorities and supporters, its inherent disunity could lead to disintegration.

ANALYSIS: Three months of post-election stalemate produced two competing parliamentary formations last June: a 'grand coalition' of Our Ukraine and the Party of Regions; and a renewed 'Orange' coalition based on the previous government, comprising Our Ukraine, the Yulia Tymoshenko Bloc and the Socialists. However, the Socialists defected, joining Regions and the Communists in the new Anti-Crisis Coalition (ACC). The ACC nominated Regions leader Viktor Yanukovych as prime minister (see [UKRAINE: Yanukovych return settles political crisis - August 4, 2006](#)).

Regions is the largest party, but having only 185 deputies in the 450-seat parliament, it needs the 52-strong leftist caucus to hold onto power. In December, the Communists threatened to withdraw their 21 deputies; if they left, the coalition would fall.

The ACC is fissured:

- Regions business leaders ('oligarchs') still hanker after the grand coalition with Our Ukraine.
- Yanukovych and the Communists, but not the Socialists, are fiercely anti-Orange, backing further steps towards a parliamentary republic that would strip power from President Viktor Yushchenko.

Opposition forces. Our Ukraine formally joined the opposition in October, blaming the ACC for renegeing on the August 'National Unity Universal' agreement. In December, Yushchenko complained of poor relations with the prime minister, accusing Yanukovych of seeking revenge for the Orange defeat of Yanukovych's presidential bid (see [UKRAINE: Yushchenko rule holds out hopes for change. - December 29, 2004](#)).

This month, Our Ukraine signed an agreement with Tymoshenko to form a joint opposition bringing together 204 deputies. However, Our Ukraine's business wing remains uneasy, preferring a coalition with Regions.

ACC weaknesses. The ACC has purged the government of Orange supporters, bringing back such senior members of former President Leonid Kuchma's regime as Yuriy Boyko, Dmytro Tabachnyk, Nestor Shufrych and 'political technologist' Serhiy Levochkin. Other former Kuchma officials elected on the Regions list head key parliamentary committees. The ACC has set its sights on taking control of appointing regional governors, traditionally a presidential prerogative.

Ideological amorphousness has bedevilled both the first Yanukovych government of 2002-04 and his second administration. The government has been accused of being concerned solely with promoting its own business interests:

- **Left-oligarch strains.** The leftist caucus has denied the business wing control of five key ministries covering industry, transport and agriculture. The Socialists hold the transport and communications, interior, and education and science portfolios and the Communists agriculture and industry. The Socialists also control the State Property Fund -- albeit not a cabinet position.
- **Big business.** In December, the entrepreneurs' council that has existed for a decade was replaced by an investors' council attached to the cabinet. The two reflect inherent divisions between supporters and opponents of the Orange revolution: the old council favoured smaller entrepreneurs, while its replacement unites big business.
- **Economic policy.** According to the presidential National Security and Defence Council, the ACC has over-emphasised economic growth at the expense of structural reform and breaking up monopolies.
- **Image.** During Kuchma's decade in office, many competing centrist parties prevented the monopoly of power by any political force or oligarch group. By contrast, the 2006 elections returned just one party from the pro-Kuchma tendency -- Regions, which monopolises power in eastern and southern Ukraine and is dominated by the Donetsk clan. The ACC government is seen as largely representing Donetsk interests, according to a November opinion poll, and protecting major Ukrainian or Russian capital.

UKRAINE: Second-time premier reverses Orange policy - p. 2 of 2

- **Popularity.** High expectations and such unpopular decisions as raising utility prices are reducing ACC popularity: 34% of Ukrainians believe that the economic situation is worsening and 82% fear higher utility prices. Yet Yanukovich remains Ukraine's most popular politician: a February poll gave him 23.7%, compared with Tymoshenko's 18.9%. Yushchenko's popularity has slumped to 11%.
- **Gas.** In January 2006, ACC members opposed the gas deal with Russia, voting no confidence in the Tymoshenko government. In power, the ACC is upholding the same gas deal and the use of shadowy intermediary RosUkrEnergo. The 2007 gas deal was negotiated by Energy Minister Boyko in a non-transparent manner (see [UKRAINE/RUSSIA: Kiev avoids swingeing gas price rise - October 27, 2006](#)).
- **Corruption.** The incidence of manipulated value-added tax refunds rose in 2006, and they originate disproportionately from the Donetsk region (see [UKRAINE: Economy is set to perform poorly in 2006 - January 30, 2006](#)).

Lack of direction. The government appears populist, lacking a coherent strategy or programme:

- **Grain export restrictions.** In late September, the government introduced for the first time a licensing system for grain exports (see [UKRAINE: Kiev faces wheat shortage and sugar glut - October 2, 2006](#)). The government went about the measure in a confusing manner, without consulting grain exporters. It appeared to be a populist intervention in the economy, originating in the Communist-controlled Agriculture Ministry, driven by fear lest grain shortages push up bread prices and lead to a popular backlash (although higher utility prices are far more likely to reduce ACC popularity). The restrictions threatened to hold up Ukraine's WTO membership and lose international markets (see [UKRAINE: WTO entry is close but not yet secured - January 4, 2007](#)). They were rescinded on February 21 for wheat, barley and maize feed grains, but retained for exports of milling wheat.
- **Reopening previous privatisations.** This issue divided the Orange coalition in 2005, with Yushchenko and Our Ukraine opposed to, and the Tymoshenko bloc favouring, limited reprivatisation (see [UKRAINE: Reprivatisation is likely to be scaled down - June 24, 2005](#)). In the event, only one privatisation was revisited -- the disposal in 2004 to oligarchs Viktor Pinchuk and Renat Akhmetov of the Kryvorizhstal steel mill, which was resold for a much higher price to Mittal Steel. Regions has ruled out reprivatisation in favour of 'peace agreements' between government and oligarchs. However, this month, the Supreme Court ruled invalid the 1998 privatisation of Odesaoblenergo, a regional electricity distributor (oblenergo) that is controlled by the former pro-Kuchma United Social Democratic Party.
- **Current privatisations.** In December, parliament adopted a privatisation plan for 2007 by a bare minimum of 226 votes, with the president's backing. The plan covers fixed-line phone operator Ukrtelecom, the Odesa Port fertiliser producer and twelve oblenergos, and is expected to bring in 2.1 billion dollars, compared with only 55 million in 2006. Land privatisation begins in 2008, but this is likely to divide the ACC along ideological lines, with the Left opposed.
- **SEZs.** Special economic zones (SEZs) were abolished by the Tymoshenko government in 2005. The ACC is seeking to reintroduce SEZs that existed in Donetsk during the Kuchma era (see [UKRAINE: Fate of 2007 budget is still unclear - December 20, 2006](#)).
- **Taxation.** Corporate taxes are to be cut from 25% to 20% and VAT from 20% to 18%. The rate of tax collection, a particular target for the Tymoshenko government (see [UKRAINE: Poor economic performance raises concerns - August 8, 2005](#)), is falling.

CONCLUSION: The ACC government, an unstable alliance of oligarchs and the Left, has a poor record of incoherent policies, populist instincts and non-transparency that replicates the first Yanukovich government. It has focused more on taking revenge on its Orange opponents than on economic reform and has brought former Kuchma personnel back into positions of power.

Keywords: EE, RUCIS, Ukraine, Russia, WTO, economy, industry, politics, corporate, corruption, energy, fiscal, foreign trade, gas, government, legislation, opposition, party, policy, privatisation, regional, agriculture, election, electricity, food, manufacturing, prices, reform, steel, telecommunications, transport, utilities

Word Count (approx): 1226