

The Ukrainian Week

International edition

#4 (122) April 2018

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campaign for presidency

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interests in the EU

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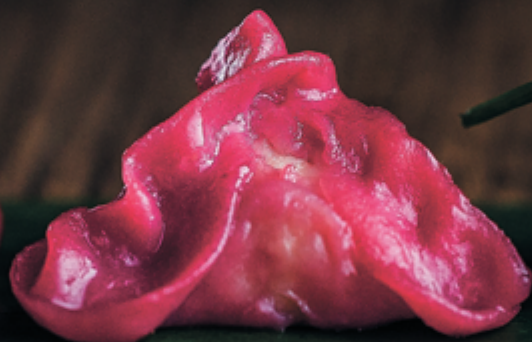
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The Ukrainian Week

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BRIEFING

War on the agenda

Dmytro Krapivenko

Up until 2014, the word “war” had been unanimously referred to World War Two in the minds of Ukrainians. This was partly driven by the impact of the soviet propaganda and stories from older generations. “Before the war and in the post-war years” was said by those who lived back in the 1940s. For the younger generations, this was history, even if relatively recent.

Today, we divide time into before and now, the latter referring to “during the current war”. We point out the hot phase of 2014-2015 and the subsequent years of very relative calm. We have entered the fifth year of our non-peaceful life following the occupation of Crimea. Timewise, this is longer than what soviet historiography described as the Great Patriotic War.

ILLUSTRATION BY NIKITA TITOV

Let's take other examples that are more recent. The war between Serbia and Croatia lasted four years while the conflict in Bosnia lasted three. Only two wars were longer than the current one between Russia and Ukraine in the post-soviet space where interethnic conflicts and Russian aggression have erupted since the 1980s. One was the 1992-1997 war in Tajikistan, the other was the Second Chechen War that lasted from 1999 till 2009 and was referred to as a "counterterrorist operation" in the official Russian interpretation.

This comparison shows the real scale of events in which part of society is involved while the rest perceives it as something distant, whether through geographical distance or personal indifference. "When will THIS finally end? SOMETHING has to be done about THIS", say those who are virtually tired of war. Unfortunately, this sentiment is quite widespread and not always inspired by hostile information influence. Ukrainian society retains a strong paternalistic habit. Therefore, the hope that someone will solve all of our problems for us is still there. The latest polls confirm this with high rates enjoyed by politicians offering

WE HAVE ENTERED THE FIFTH YEAR OF OUR NON-PEACEFUL LIFE FOLLOWING THE OCCUPATION OF CRIMEA.

TIMESWISE, THIS IS LONGER THAN WHAT SOVIET HISTORIOGRAPHY DESCRIBED AS THE GREAT PATRIOTIC WAR

magical solutions: Oleh Liashko who ran for presidency in 2014 under the "I will return Crimea to Ukraine" slogan remains in the top list of candidates preferred by the electorate.

There is always an explanation of why war is moved to the secondary place in the media and political space. Some believe that nothing is more important than fight against corruption. Others find it easier to speculate about utility rates and social benefits, while some opportunistically seek to fit into trends in the West and move the accents towards the protection of minority groups. It is harder for those in power to ignore the war. Still, some of them, too, demonstrate forgetfulness and deliberation good enough for the years of peace and carelessness. The Law on Deoccupation has come into effect but is yet to be implemented in the Donbas. The Law on National Security has yet to pass the Verkhovna Rada in the second reading. The border with Russia is not yet sealed, trade with Russia increases, and pro-Russian media keep working in Ukraine, even if covertly. It looks like Ukraine has not yet learned all the lessons of 2014: back then, all kinds of experts were screaming about tank assaults against Kyiv from the Chernihiv direction from desktops, while the government announced a construction of a colossal wall in response. That intention never materialized into anything more than a meme on the internet.

Truth be told, Ukraine has evolved significantly from the soviet society where the authorities purged big cities of the numerous world war invalids so that they stopped bothering others. A Ukrainian official will think twice before saying anything like "I didn't send you there" [the phrase was often used against Afghan war veterans back in the day]. Ukraine's Army

remains one of the most respected institutions in the country.

Still, this evolution has been incomplete. We have our own demons, including bus drivers who refuse to board the military for free as required by law, quite a few labor migrants working around Moscow and elsewhere in Russia, widespread unawareness of the Post-Traumatic Stress Disorder and the confusion of what it means to live with it, and a range of smaller problems.

Apart from the military, we have about 1.5 million of IDPs. Most have managed to somehow settle down in the peaceful part of Ukraine, yet they still don't feel like citizens with full rights. They can vote in national elections but are restricted in voting in the local ones, while the Parliament is in no hurry to deliver this right to them.

The war is a serious disease that ruins the entire social body. Careless treatment of this disease often has tragic results. Dealing with the symptoms and taking painkillers does not cure it. Ukraine's agenda is constructed in the wrong way. Politicians from all camps and a big part of the media insist that reforms are the first item on this agenda. It's a loophole for many manipulations. Even the Yanukovich regime used it quite frequently back in the day. "Shouldn't we fight against corruption when there's war?" Ukrainian demagogues who describe themselves as fighters for the renewal of the country often say. "Shouldn't we be changing the way healthcare, education and utility services work? Shouldn't we create good investment climate? What is the war for if not for reforms?" The war today is for survival, the rescue of the country and the nation, first and foremost. The rest is secondary.

What does it mean, putting war on top of Ukraine's agenda? It's when politics begins with the following questions: Are we prepared to face an enemy if it launches a full-fledged assault? What if the number of IDPs grows by hundreds of thousands? Is our interior space cleared of the enemy's agents? Are we prepared for new cyber-attacks? Do we have enough muscle to keep the information front protected? Are our diplomats prepared to organize a powerful support campaign in case of an escalation in the Donbas?

These are not the questions we often hear from our international partners and IMF representatives. Still, they are dictated to us by sound reason, or an instinct of self-preservation, if you will. Unless answered by every authority in charge – and there is no field that the war does not affect – they cannot leave us speaking calmly about reforms and accomplishments alone. Ukraine's Armed Forces are having regular drills and taking care of their reserves. But this is not enough.

Territorial defense should become not an amateurish project, but a prototype of a powerful guerilla army that can come into action if need be. All entities must be trained and every "number" must know his or her role if a full-fledged war breaks out. This is the key prerequisite for reforms and fight against corruption. And a key one for investment climate: nobody will invest into an unprotected country.

We have no reason to hope that things will somehow go away. The experience of Israel and many frozen conflicts shows that wars don't go back to hot phases where ammunition is kept ready for many decades. Easy solutions for these situations only exist on paper and in platforms offered by populists. ■

My mistake

Why we still fail to understand properly the nature of Vladimir Putin's regime

Philippe de Lara, Paris



A successful revanche. The modern Putin could surprise his younger self with the authoritarian changes that have occurred in his country

My deep sympathy for Ukraine and commitment for the Maidan revolution originated in the awareness of the persistence of the soviet system in Eastern Europe despite the collapse of USSR and of the communist empire. This persistence has been dramatically enhanced by the choice of continuity by Russia, the absence of any trial of communist crimes, the hold on power of the same ruling class through apparent changes, and of the same political mores: a blend of secret police and high scale corruption. But continuity between USSR and Russia goes deeper, it is entrenched in every corner of society. I suggest calling it “Sovietism”. It is not only a type of power or political culture but a civilization. I realized then Ukraine was committed not to a benign “transition” to democracy but to a long and painful liberation from the pervasive impregnation of Sovietism, not only in political institutions and habits, but in each soul, if I may say so. This ongoing liberation is a crucial process not only for Ukraine but for the whole world, it bears a universal significance like the flight from Egypt. The Fall of the Berlin Wall and the swift integration of former “popular democracies” into the EU spread the illusion that more or less the same thing would happen in Russia and post-soviet countries, that Russia was a “flawed western state” as Anne Appelbaum puts it.

THE TERMINAL STAGE OF SOVIETISM

All this became crystal clear for me when I discovered this country, five years ago, and I have nothing to withdraw to my writings since then, notably in this magazine. Except for one point: fully aware of the Russian danger, I underes-

timated its strength and sustainability. First, I believed wrongly that since the soviet system relied on the insulation of the Russian world from the rest of the world, globalization, circulation of people, of information, of investments would make sooner or later Sovietism unsustainable. Borders are open, people travel, so how could the Russian regime maintain a parallel world without an Iron Curtain? I thought, for instance, that the Great Patriotic War narrative could not resist the western narrative of WWII which is backed by ongoing quest for better knowledge and which is a cornerstone of memory and values in all democratic countries.

Second, Putinism, the ultimate stage of Sovietism, seemed too inconsistent to gain support in the long run. It is a common place that Putin wanders between various and incompatible visions and sources of legitimacy: is he the knight of “Christian Europe” or the czar of Eurasia, a pagan fascist or a pillar of the orthodox Church, the heir of Tcheka and Stalin or the guy who pretends to save Russia from the Bolshevik disaster, a pragmatic dictator or a mad warrior? Admittedly, his information warfare seduced segments of Western opinion who reject what Timothy Snyder called the “politics of inevitability” of liberal democracies: populists, people angry against the EU and/or American leadership, conservatives worried by the moral decay, and, last but not least, snobbish people who find it funny to flirt with authoritarianism and abjection to escape the boredom of liberal societies and the burden of understanding what’s happening to them. But his alternate project, unlike China’s, fails everywhere: Ukraine did not collapse, Russia

became the hostage of Iran and Syria in Middle East, China laughs at Putin's proposition of alliance, Crimea is a burden rather than an asset, the fast growth of military budget is not sustainable.

Third, the wide support of Russians to their revenge warrior sounds hollow. Genuine totalitarianisms created hysterical mobilization and dedication, people were really ready to die — and not only to kill their neighbor — for the cause. Putin's popularity is more akin to Caligula's or Maradona's than Stalin's. Mesmerized by official TV and the unending harassment by propaganda, the Russians are ready to buy any lie, but not to commit themselves to anything. All this could not last long. But it does.

A KEY TO UNDERSTANDING

How and where did my prediction go wrong? The most obvious answers are 1) the unrealistic but huge craving for revenge of a defeated empire, and 2) the idea that Russia's only strength is our own weakness: liberal democracies are exhausted by the untamed collateral damages of globalization, both impotent at the national level and unable to regain political initiative at regional or global levels. This is true alas — Germany's agreement to Nord Stream 2 is a pathetic example —, but not the end of story.

RUSSIA AND THE KREMLIN ARE A VAST REALITY SHOW. AUTHORITARIAN RULE AND SELECTIVE TERROR WALK HAND IN HAND WITH THE PRINCIPLE THAT EVERYTHING IS NOT WHAT IT IS BUT ANOTHER THING, CREATED BY SPIN DOCTORS

We still lack adequate concepts to understand the nature of Sovietism. This challenge is akin to Tocqueville's when, at the end of his *Democracy in America* (1840), he tries to articulate the insight that the future of democracy carries a special despotic potential: "I think then that the species of oppression by which democratic nations are menaced is unlike anything which ever before existed in the world: our contemporaries will find no prototype of it in their memories. I am trying myself to choose an expression which will accurately convey the whole of the idea I have formed of it, but in vain; the old words "despotism" and "tyranny" are inappropriate: the thing itself is new; and since I cannot name it, I must attempt to define it." At least Tocqueville was struggling with a remote possibility nobody had yet experienced. We are now equally baffled by something right under our nose.

I am trying to lift the veil on the mystery and found great help in works which confronted the same problems, notably by Tania Rakhmanova, Serhii Plokhii and, in France, Françoise Thom: her recent *Comprendre le poutinisme* deserves translation. But I am specially indebted to two writers to whom I would like to pay tribute: David Satter and Peter Pomerantsev. At first sight, their views seem unrelated if not incompatible, but one begins to understand Putinism once one realizes that Satter and Pomerantsev disclose two sides of the same coin. In *The Less You Know the Better You Sleep* (2016), Satter shows that Putin's rise to power is based on a series of murderous episodes: first, in October 1993, Boris Yeltsin, the hero who overthrew communism two years ago, staged a coup against the Duma which ended in a two days blood bath, and later buried the investigation on his responsibility in the slaughter by giving amnesty to the leaders of parliament, so that the Russian Tien An Men was quickly dodged, and a quasi-civil disguised in "consti-

tutional crisis". Satter recalls that 1993 was also a high tide year for the criminalization of economy which had begun with perestroika: 35 bankers were murdered that year. Second, in 1999, just after Putin's appointment as president of Yeltsin's government, four apartment bombings happened in various cities and served as a pretext to launch the second war in Chechnya. It has been proven since that one at least, in Riazan, had been staged by FSB. Third, in October 2002, the hostage siege at the Theater on Dubrovka in Moscow ended with the death of all the terrorists and of 130 hostages (out of 800), killed by a mysterious gas used by the FSB in the assault. The identity of the planners and perpetrators remains mysterious and a lot of evidences point at close connections between terrorists and FSB (see Satter, p. 102-106). Here is how Satter sums up this sequence: "Of all the dangers that hang over Russia, none is more menacing than the failure to demand answers to the mystery of how Putin came to power. (...) The criminality of the Yelstin period engendered a hunger for order, which, in the absence of moral content, led to banditry in the guise of state" (39, 79).

In *Nothing is True and Everything is Possible* (2014), Peter Pomerantsev observes Russia from a very different perspective. He describes Russians as a society of pretenders. Russia and the Kremlin are a vast reality show. Authoritarian rule and selective terror walk hand in hand with the principle that everything is not what it is but another thing, created by spin doctors, like Vladislav Surkov, Putin's personal advisor, mastermind of Kadyrov's tyranny and of the invasion of Crimea, but also writer of gangsta rock lyrics and novels, and "political technologist of all of Rus". Instead of simply oppressing opposition, as had been the case with 21st century strains, [the new type of authoritarianism masterminded by Surkov] climbs inside all ideologies and movements, exploiting and rendering them absurd, Pomerantsev writes. Its Moscow can feel like an oligarchy in the morning and a democracy in the afternoon, a monarchy for dinner and a totalitarian state by bedtime. The main deception in this deceptive world is that private property does not exist since any business can be "raided" by mafia, oligarchs, or corrupted tax officials, and legitimate owners are not protected by law. Bolsheviks dreamt of the "withering of law" but quickly retreated to "socialist law". In its post-modern way, Russia today has achieved the withering of law.

PUTIN'S MACHIAVELLIAN CREATION

The most expensive documentary ever produced in Russia, Plesen, tells that an undetectable lethal rot spore contaminates mankind since Moses. After the show, crowds rushed into stores to buy "cleaning rot machines". These machines were sold by a company who sponsored the documentary. Russian public sphere is pervaded by lie, but unlike the old-style soviet lie, it is not based on political propaganda but on credulity and bullshit (the concept of "bullshit", coined by US philosopher Harry Frankfurt, is more accurate here than "nonsense" or "rubbish"). People are conditioned to believe anything, but what they believe does not matter. At the turning point of Maidan revolution, when Yanukovich fled, a Russian "journalist" based in Kyiv told one night to a French colleague that American airborne forces had landed in Ukraine: "I can see from my window the US vehicles and paratroopers patrolling in Kyiv streets!" This could not be genuine fake news: too easy to check. It was just bullshit. Quickly unmasked, she did not try to explain or apologize, she just said that everyone has their own truth. Russian fake news on the MH17 case

is a good example: to cover up its responsibility, Russia invented not one but nine fake versions. They did not aim to impose a version of the facts, but to disorient public opinion, to drown the difference between truth and falseness in the flow of bullshit. The merger of propaganda warfare and bullshit is the distinctive mark of Putinism. One year after the Dubrovka disaster, Putin declared in an interview that the gas used by FSB was “harmless” and denied that it caused the hostage’s death. Now, facts were widely known at that time in Russia. Putin’s denial was not a lie, it was bullshit. Same thing with the denial of political assassinations: Politkovskaia, Litvinenko, Magnitsky, Nemtsov. Coverage does not have to be bullet-proof, just chatty.

People may have the impression that governing by selective terror, predatory economics and bullshit is a Machiavellian creation by Putin and his associates. Not at all. Satter and Pomerantsev insist that it spreads directly from the USSR of Brezhnev and Gorbachev. The USSR was already an authoritarian kleptocracy, and communist ideology had mutated into pretence and cynicism. People had to simulate and lie all the time. To survive in soviet times, elites as well as ordinary people learned to simulate. “We spoke several languages at the same time all the time. As if we were several persons at the same time”. They just kept the habit or rather exacerbated it in a delirious show (Pomerantsev often uses the word “delirium”, which is also the title of an earlier book by Satter). So, the choice to cover up soviet crimes and failure, and to conceive Russia as the continuation of soviet empire is not a choice at all. One cannot discuss with Russians, they lie all the time, Angela Merkel

reportedly once said desperately during the negotiations leading to Minsk accords. But the liars are trapped in the collective delirium. And by the same token, Russia’s ruling class is trapped in its own system: the withering of law has turned organized crime and corruption into the central regulator of business and daily life, its infrastructure, to parody Marx. That’s why the President and his circle do not know how they could leave the Kremlin someday. The minute they leave, they might lose everything, Pomerantsev concludes.

This framework may seem too general, infrastructural, confronted to the stakes of war, strategy, economic gambling, but it has practical bearings.

First, it is crucial to convince Western leaders of its relevance, to rule out from diplomatic thinking the mantra of “Mr. Putin as a pragmatic leader” (so popular among French diplomats). Second, we must realize that we are not that different from the Russians. By “we” I mean both Ukrainians and other Europeans. Russia is at the terminal stage of lawlessness and of bullshit delirium, but we suffer from less virulent forms of the same pathologies: 1) systemic corruption in Ukraine is more akin to corruption in normal states, like Greece or Italy than to the Russian kind, but it stems from the same soviet source, and the country is not immune to falling back in it. 2) In all democratic countries, conspiracy theories on all kind of subjects are flourishing. Credulity goes along with distrust towards all elites, politicians but also doctors, professors, etc. Populists parties may win in Ukraine and the European elections next year. We must take bullshit seriously. ■



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The Hapsburg Group: Old Europe at Yanukovych's service?

New details of the accusations against Paul Manafort reveal the side jobs of retired European high-ranking officials

Olha Vorozhbyt



PHOTO: REUTERS

He served the shortest term as Chancellor of Austria in the country's post-war history, although his entire professional life had been dedicated to his Social Democratic Party. Western media include him in lists of those who have advised authoritarian leaders, in particular the president of Kazakhstan, Nursultan Nazarbayev. Prior to the last parliamentary elections in Vienna, he advised his colleague, Social Democratic Party

chairman Christian Kern, to use the services of Israeli political strategist Tal Silberstein, which transformed the election campaign into the dirtiest in Austrian history. He first came to prominence in Ukraine as head of the supervisory board of the Sustainable Ukraine Foundation, run by former Prime Minister Mykola Azarov's son. Now, everything indicates that he led the so-called Hapsburg Group – a group of "super VIP" European politicians that Paul Manafort hired to whitewash the image of the Yanukovych regime in the West. All this is only a small detail in the biography of former Austrian chancellor Alfred Gusenbauer.

The charge against Paul Manafort, published on the website of the US Department of Justice, refers to the so-called third part of Manafort and Richard Gates' lobbying scheme in favour of former Ukrainian President Viktor Yanukovich. In 2012, Manafort hired a group of former "top-level European politicians" to voice positions that were beneficial to Ukraine in the EU and US. Informally, they were dubbed the Hapsburg Group, evidently bearing in mind the common history of the politicians' home countries with the Habsburg dynasty, although the spelling was changed a little.

According to Manafort, these, in his own words "super VIP" and "extremely influential", European politicians would be able to act informally, without any visible link to the then Ukrainian government. The group was managed by politician A, a former European chancellor who coordinated his efforts with Manafort. In order to hire these politicians, a non-governmental organisation was created that allegedly acted according to Manafort's instructions. The charge states that in 2013 or close to that time, the group, alongside politician A, went to Washington in order to provide lobbying services to politicians and congressmen there. So who are these politicians and did they have direct contact with Manafort and Yanukovich?

Since only two European countries have the position of "chancellor" in their governments, it does not require a lot of detective work. Although the document published by the US Department of Justice does not mention any names, media outlets around the world immediately began to report that the group of lobbyists was presumably headed by former Austrian Chancellor Alfred Gusenbauer. Subsequently, official confirmation was found in the FARA database (Foreign Agents Reg-

istration Act – a statute providing for the registration of all agents acting on behalf of a foreign state in the US). In particular, it contains information about former Republican congressman Vin Weber's lobbying company Mercury LLC, which appears in special prosecutor Robert Mueller's investigation as it was hired by Paul Manafort to provide services to the European Centre for a Modern Ukraine, a Brussels-based NGO. The main objective of the latter was to improve the image of the Yanukovich regime in the West, although officially it was presented under the guise of rapprochement between Ukraine and the EU. The centre was led by German Ina Kirsch. In particular, the Mercury LLC report for FARA states that the company decided to launch a series of awareness raising events and meetings with congressmen, representatives of think tanks and the media in order to highlight the work of the Ukrainian government towards joining the pantheon of Western democracies. Their speakers were representatives of the Ukrainian government and experts from the EU, including ex-president of Poland Aleksander Kwaśniewski, former Austrian Chancellor Alfred Gusenbauer and former Italian Prime Minister and European Commission head, Romano Prodi. These activities from Mercury LLC were commissioned by the aforementioned Centre in Brussels.

Gusenbauer, however, denies the allegations that he worked for Yanukovich's regime: "I was never involved in activities for Yanukovich or the Party of Regions," the ex-chancellor of Austria stated to the APA when the first suspicions and allegations came to light. In 2012-2013, he was allegedly interested in bringing Ukraine closer to the EU. He added that he had taken part in events in Paris, Brussels and Berlin, so that the EU would conclude an association agreement with Ukraine, but after it became apparent in 2013 that there was no perspective of this happening, he stopped working on it. Gusenbauer also said that his activities were "rewarded", but did not specify anything about the financial details. On the whole, it is difficult to disagree with the Austrian Chancellor when he says that he did not work directly for the Party of Regions and Viktor Yanukovich. He had direct contact only with the European Centre for a Modern Ukraine and the American lobbyist organisation Mercury LLC, although Manafort's charge also suggested that the "former European Chancellor" acted "in concert with Manafort".

The Austrian magazine Profil.at has calculated that in 2012-2013 Gusenbauer acted as a paid adviser at a minimum of 6-7 events in the EU. He participated in most of them alongside Romano Prodi and Aleksander Kwaśniewski. Indeed, on September 20, 2012, Gusenbauer, Prodi and others discussed the topic of "Ukraine on the road to European integration" at the Gartenhotel Altmannsdorf hotel. Gusenbauer was represented there as chairman of the Renner Institute, the political academy of the Austrian Social Democrats (leadership of this organisation was passed to the current head of the Social Democratic Party, Christian Kern, last December). As Profil writes, press releases on the institute's website reference a discussion between Gusenbauer and Prodi during this event.

In October 2012, Gusenbauer, Prodi and Kwaśniewski, as well as Günter Verheugen, former EU Commissioner for Enlargement in the Romano Prodi Commission, participated in a meeting initiated by the European

Centre for a Modern Ukraine entitled "Ukraine and the EU: Elections, Integration and Economic Prospects". It was organised by the German Committee on Eastern European Economic Relations and the German Council on Foreign Relations (DGAP) analytical centre. In November of that same year, three of the aforementioned politicians attended the conference "Ukraine: A Strategic Crossroads for Europe". The event was also covered by *The Ukrainian Week* in an article that suspected Gusenbauer of lobbying for Viktor Yanukovich (**see A War for a Neighbour's Ear at ukrainianweek.com**). Another event, according to Profil, took place the following March in Rome, and the same trio was again present. On 5-6 June 2013, Gusenbauer was in Washington, where he met American congressmen alongside representatives of Mercury LLC. Romano Prodi went to Washington in the spring for the same reason. In June, Gusenbauer moderated the discussion "Ukraine on the Road to Vilnius: Prospects for Signing an Association Agreement" in Brussels, in which Romano Prodi also participated. In September 2013, the three politicians met again to participate in a conference on Ukraine in Paris. The Renner Institute was an official co-organiser of this event.

IN 2012, MANAFORT HIRED A GROUP OF FORMER "TOP-LEVEL EUROPEAN POLITICIANS" TO VOICE POSITIONS THAT WERE BENEFICIAL TO UKRAINE IN THE EU AND US. INFORMALLY, THEY WERE DUBBED THE HAPSBURG GROUP, EVIDENTLY BEARING IN MIND THE COMMON HISTORY OF THE POLITICIANS' HOME COUNTRIES WITH THE HAPSBURG DYNASTY

Like Alfred Gusenbauer, Romano Prodi and Aleksander Kwaśniewski deny lobbying in favour of Viktor Yanukovich. In a recent interview referred to by The New York Times, Romano Prodi claims that he has never heard of any Hapsburg Group. "It was Gusenbauer heading the group. We made every effort to have peace in Ukraine," he commented. According to him, experts and ex-politicians met at various events and conferences, but later disbanded when it became clear that "a stronger relationship with the European Union was impossible".

Ex-president of Poland Alexander Kwaśniewski also rejected the allegations of collaborating with Manafort in the local press, saying that he had seen the latter only two or three times during his mission to Ukraine in 2012 and 2013. "At the time, he [Paul Manafort – Ed.] was an adviser to President Yanukovich, whom I also met, so it is natural that our paths crossed several times," commented Kwaśniewski.

In addition, journalists from Tagesschau.de questioned ex-European Commissioner Günter Verheugen regarding his links with the European Centre for a Modern Ukraine and possible remuneration for participating in events on Ukraine in 2012-2013. He also denies receiving fees for participating in them.

So far, the accusations do not reveal the names of those who Paul Manafort hired through intermediaries to whitewash the image of Yanukovich and his associates in the EU. However, it cannot be ruled out that this will happen sooner or later. It is likely that the "suspects" in the Hapsburg Group did not really know about their true "employers", except for, of course, the ex-chancellor. ■

Why Ukraine sells weapons

This helps upgrade the country's defense industry and drives reform in military export and import procedures

Volodymyr Zablotskyi



In 2011, Ukraine won a contract to supply 49 new T-84 Oplot-T tanks to Thailand. The Malyshev Plant in Kharkiv continued to stick to the contract even in the face of Russian aggression against Ukraine and, despite difficulties, delivered the last batch of vehicles to the client in 2017

The global arms market is very complex, but in the face of constant military conflicts, demand remains high and has a tendency to increase. Usually, even political allies are fierce rivals on this market. This can clearly be seen at international defence exhibitions, where potential sellers and buyers thoroughly examine each other's proposals and sign contracts.

Ukraine is no exception in this sense. It has almost always been in or close to the top ten countries for the export of weapons and military equipment according to world rankings by Stockholm International Peace Research Institute (SIPRI).

This is no accident or coincidence. Since gaining independence in 1991, there was no objective reason for Ukraine, with its powerful military and industrial potential, huge amount of military hardware, spare parts, ammunition and related services, not to enter the foreign market, which it did successfully and continues to do this day. At the beginning, this mainly involved selling off the surplus from arsenals inherited from the former Soviet Union, but then the pattern changed.

An example of this was the tank contract with Pakistan concluded for US \$650mn in 1996. It concerned the manufacture and supply of 320 new Ukrainian T-80UD tanks. The value of the contract was equal to the size of an average tranche from the IMF. It

gave work to the Malyshev Plant in Kharkiv and the opportunity to create jobs at dozens of contractors throughout Ukraine.

Also, it intensified applied military science. As part of the contract, Ukraine's tank producer had to resolve a number of technical issues, including the design of a complete closed cycle of production for tanks and other armoured vehicles in Ukraine that uses locally made components. Even domestic production of a 125-mm tank cannon was set up so that Ukraine would no longer be dependent on Russia in this area. In the end, all this contributed to the further development of Ukrainian tank construction and certain related areas of the defence industry.

The successful implementation of the tank contract in 1996-1999 helped support Ukraine's defence industry in difficult times and get a foothold on the Pakistani market. The quality and reliability of Ukrainian armoured vehicles, as well as flexible export policies, have created all the prerequisites for Ukraine to become a full participant in the Pakistani-Chinese-Ukrainian project to create the future Al-Khalid main battle tank for Pakistan, and the proportion of Ukrainian components in the vehicle has increased.

In 2002, a contract worth US \$100mn was signed to supply 285 motor and transmission units to Pakistan for Al-Khalid. The transmission system and unique tank diesel engine designed in Kharkiv are best suited to the requirements for operating Al-

Khalid tanks in the desert. The Pakistani military learned this while operating the Ukrainian-made T-80UD tanks. Still, Ukrainian manufacturers had to compete with world-famous companies from the UK, China, Russia, etc.

Ukraine has signed contracts to supply small landing hovercraft to Greece and China, patrol boats to Turkmenistan, border patrol boats to Uzbekistan, and so on. There have been frustrating examples too: for unknown reasons, the unfinished heavy aircraft-carrying cruiser Varyag was sold to China at scrap prices, but construction was nevertheless completed contrary to the terms of the contract and it was put into service as the aircraft carrier Liaoning.

In 2011, Ukraine won a contract to supply 49 new T-84 Oplot-T tanks to Thailand. The Malyshev Plant in Kharkiv continued to stick to the contract even in the face of Russian aggression against Ukraine and, despite difficulties, successfully delivered the last batch of vehicles to the client in 2017. Despite the information war against the backdrop of Russian aggression, Ukraine has finally ceased to be “a grey arms exporter for African dictators” since 2014 and is confidently improving its image. It has moved from selling off the remains of soviet-era hardware to exporting its own technology. Ukraine has strong positions in the export of several hi-tech military products to various regions of the world. These include new-generation air defence radars, mobile short-range ballistic missile systems Hrim, transport aircraft, anti-tank active protection systems and marine gas turbines, among others. This list includes contracts for the supply of light armoured vehicles, patrol boats, small landing hovercraft, a wide range of spare parts, small arms and ammunition, as well as repair and modernisation of soviet-made weapons and military equipment (aircraft, helicopters, armoured personnel carriers, etc.).

According to UkrOboronProm, the state-owned defense industry operator, Ukraine is today one of the leading players on the international weapons market and supplies various types of military and dual-use equipment to 68 countries around the world. Negotiations are underway with 83 more countries. The total order portfolio as of July 1, 2017, was worth US \$2,366mn.

UkrOboronProm plays the leading role in this. Regulatory procedures for special exports have been streamlined and the practice of involving well-known foreign companies in joint projects expands. In view of this, UkrOboronProm is constantly looking for new markets and calls for cooperation with private businesses. The increase in the participation of private manufacturers in the production of weapons and military equipment (up to 50% of the state defence order in 2017) is revealing, as are the qualitative changes – a growth in the manufacture of high-tech products with high added value. The latter shows the benefit for domestic producers of expanding relationships both among themselves and with foreign partners: this means the involvement of Ukrainian science, foreign partners, NATO trust funds, etc. Currently, 37 different defence projects (including four at the Sikorsky Kyiv Polytechnic Institute) are being implemented as part of NATO programmes and many of them have good changes in exports.

In April 2017, a defence hub was created in Ukraine to deepen cooperation between the private and public sectors of the defence industry. It brought together 583 enterprises, of which 134 are part of the UkrOboronProm and 40 belong to the League of Defence Enterprises, an association of Ukrainian companies, manufacturers and engineers of defence and dual-purpose equipment. The rest (409) are involved in work under the import substitution programme in 21 regions of Ukraine.

UkrOboronProm is implementing a strategy to reform the Ukrainian defence industry that involves the following steps: corporatisation, audit, clustering, comprehensive technology protection actions and the launch of the General Advanced Research & Development Agency (GARDA).

However, the defence industry depends on the development of the national economy in general. According to estimates from the Ministry of Economic Development, Ukraine's economic success amidst the loss of 20% of its industrial potential and 4% of its territory as a result of the Russian aggression shows that Ukraine has overcome the period when it had to survive the attack and complete reforms at the same time. Even an insignificant growth of GDP under such difficult conditions is a direct indication of Ukraine's transition to a qualitatively new stage of development.

According to experts, Ukraine's goal should be to reach the social, economic and financial level of EU countries. This means becoming an equal partner on the global market. This will require the involvement of all stakeholders – the authorities, researchers and business – to identify specific steps to introduce innovations and provide state support.

Another aspect is a high-tech breakthrough which should be accompanied by active public policy primarily aimed at expanding comprehensive partnerships in R&D, increasing investment interest of businesses (bringing the proportion of such business investment to 2/3 of total R&D funding) and strengthening their responsibility for the effective use of investments.

AN ASPECT OF TRANSFORMING UKRAINE'S DEFENCE INDUSTRY IS A HIGH-TECH BREAKTHROUGH WHICH SHOULD BE ACCOMPANIED BY ACTIVE PUBLIC POLICY AIMED AT EXPANDING PARTNERSHIPS IN R&D, INCREASING INVESTMENT INTEREST OF BUSINESSES AND STRENGTHENING THEIR RESPONSIBILITY FOR THE EFFECTIVE USE OF INVESTMENTS

At the same time, according to experts, alongside the reforms, UkrOboronProm requires further improvement of the existing regulatory framework. Changes are implemented too slowly to meet current demands. While the Tax and Customs Codes have been amended to streamline the import procedure for all Ukrainian defence enterprises without exception, at least 40 laws and bylaws are still waiting to be reviewed.

Above all, legislators should streamline the procedures for importing equipment, goods and products that are critical for the operations of the Ukrainian defence industry and are not yet produced domestically. In particular, this refers to the establishment of full-fledged ammunition production in Ukraine and the construction of factories under the auspices of the Ministry of Defence to manufacture components for ammunition, certain types of gunpowder and explosive materials. It is also important to pass the law On Military and Technical Cooperation and amend the 16.03.2016 Resolution of the Cabinet of Ministers of Ukraine On the procedure for the import, first delivery and use of goods specified in Art. 287.8 of the Customs Code of Ukraine for use in the manufacture of defence products.

In the legal field, legislative restrictions on the establishment of enterprises based at state-owned facilities should be removed; state-owned companies should transform into public joint stock companies; tools to restructure liabilities should be obtained; mechanisms for private capital to participant in JSCs applied; and the procedure for establishing joint ventures with foreign capital should be simplified. Taking this into account, along with the solution of purely economic issues, the trade of Ukrainian-made weapons and military equipment under the conditions of hybrid warfare makes it possible not only to boost domestic industry, but also to secure investment and new technologies for it.

An equally important component of this development vector is the ability to prevent certain forces from transforming Ukraine into a dependent, purely agrarian state, which threatens the decline of national industry, in particular the defence sector, and all the consequences that go with it. ■

The B-Yu-T rides again

As other candidates fumble to establish a footing, Yulia Tymoshenko is busy mobilizing resources for a third presidential run

Denys Kazanskiy

Barely a year remains to the first round of the next presidential election, which means that the heated phase of the election campaign is getting underway in Ukraine. This time, the race should be especially rough. For the first time in Ukrainian history, at least five candidates have about equal chances of making it into the run-off. The last poll published by KIIS at the end of March showed a significant rise in the ratings of populist politicians. In first place, as in all recent polls, is Yulia Tymoshenko with 24.6%. Oleh Liashko is in second place with 15.5%, and third is Anatoliy Hrytsenko with 12.5%. Both of their ratings have risen lately. President Poroshenko is currently only fourth with 9.8%, and close behind him are two pro-Russian claimants, Yuriy Boyko at 9.8% and Vadym Rabinovych at 9.5%. While Tymoshenko's lead keeps growing steadily, the differences between the other five are within the margin of error.

Meanwhile, the Poroshenko team thought for the longest time that its main objective should be to prevent Tymoshenko from making it into the second round and to bring in a more convenient rival for the president. Now it's facing a rather different challenge. If things continue as they are, Poroshenko himself might be the one who doesn't make it into the run-off.

Slowly but inexorably, Tymoshenko has been building up her ratings and moving towards political gold, the presidency. Yet her ratings today are nothing like what she had 10 years ago, when Viktor Yanukovych and Party of the Regions were her rivals. But today her rivals are also not the same. Public confidence in the old political guard has fallen considerably, and no one new has come to replace them. Rumors about the presidential ambitions of popular rock musician Sviatoslav Vakarchuk so far remain just talk. And even if he did decide to run, his



PHOTO: UNIAN

chances of winning are very poor. In order to win the presidential election, he would need a great team and an organization with reach across the entire country. Even the most honest and charismatic candidates cannot win the presidency by themselves.

This is where Yulia Tymoshenko is sitting pretty: her team and party are in excellent shape. Batkivshchyna has not only has viable branches in most oblasts, but factions in those oblast councils and in the municipal councils of large cities. This gives her both administrative “leverage” that, while it’s not on the level of Poroshenko’s, can still play a decisive role. All of Tymoshenko’s headquarters are already on combat alert. One year before Election Day, Batkivshchyna is actively engaged at the local level and is doing everything to ensure that its leader becomes Ukraine’s next president.

Tymoshenko herself has not changed her tactics and is in no hurry to increase her media presence. The same messages come from her lips on every channel, over and over again—unreasonably high utility rates, the thieving government, “impoverishment and genocide”—and so far this has been enough. Experienced Facebook users can laugh as much as they want at this primitive populism, but their votes are not the ones Tymoshenko’s team is counting on. Her rhetoric is aimed at completely different people: her target audience is pensioners and those approaching pensionable age with relatively low incomes. And Tymoshenko talks to them through the television set, not on social nets, which is why her approach is bringing results.

So far, all the best efforts of her rivals to knock Tymoshenko’s support down a peg or two have been without success. Nor have they been able to find anything especially incriminating against the leader of the pack, either. Over more than two decades in Ukrainian politics, Yulia Tymoshenko has managed to wriggle her way out of uncomfortable situations like a master and the latest scandal was no different. When the press began to report that Tymoshenko had paid Avenue Strategies Global LLC, a US lobbying firm belonging to one-time Trump advisor Barry Bennett, US \$700,000 to provide “strategic consultations” and lobby its interests, she immediately dropped the American lobbyists. Although this kind of practice is common around the world and is not something criminal, Batkivshchyna swiftly declared that the US \$700,000 was contributed by enemies of their leader on purpose to cause a scandal and that she herself knew nothing at all about such a “gift.”

“This is complete nonsense,” Batkivshchyna MP Ivan Krulko told journalists when the story came out. “Yulia Tymoshenko is being accused of all kinds of things. But a lot of rumors and myths are circulating about her that have no basis in reality. You shouldn’t take this kind of fake seriously. The closer we get to the election, who knows what people will come up with.” Meanwhile, Tymoshenko’s press service issued an open letter in which the Batkivshchyna leader officially notified the US company that its services were no longer needed.

“You know quite well that this contract was signed without my knowledge,” the letter stated. “Having looked at some of the details of the agreement, I must inform you that, under Ukrainian law, I don’t have the right to accept such an expensive gift. Once again, I’d like to thank you for your concern and inform you that it is impossible for me to work with Avenue Strategies, with whom a contract was sign in my interest, but without my knowledge or approval. Hoping for your understanding...”

An attempt to blow up a scandal over the alleged financing of Tymoshenko’s 2010 presidential run by Muammar Qaddafi proved equally ineffective. After this claim appeared in an Arabic paper, the Bloc of Petro Poroshenko (BPP) immediately tried to make hay out of it. MP Volodymyr Arieiev, who was previously elected to the Rada on the Batkivshchyna ticket, wrote a request to NABU to confirm whether or not Tymoshenko had received money from Qaddafi. However, even if this financing did take place eight years ago, proving anything is almost impos-

TYMOSHENKO HAS NOT CHANGED HER TACTICS AND IS IN NO HURRY TO INCREASE HER MEDIA PRESENCE. THE SAME MESSAGES COME FROM HER LIPS ON EVERY CHANNEL, OVER AND OVER AGAIN—UNREASONABLY HIGH UTILITY RATES, THE THIEVING GOVERNMENT, “IMPOVERISHMENT AND GENOCIDE”—AND SO FAR THIS HAS BEEN ENOUGH

sible now. And it’s unlikely that it would have much of an impact even so. Voters have notoriously short memories and events from so long ago don’t interest Tymoshenko’s base. In the 2000s, Tymoshenko made mistakes on a much grander scale. Take the corrupt machinations in the coal industry, which Tymoshenko had entrusted to Natalia Korolevska. Still, even these unpleasant episodes have been wiped clean from the memories of Batkivshchyna supporters.

The current Administration has far more problems on its hands than Tymoshenko right now. Given Poroshenko’s low ratings, Kyiv Mayor Vitaliy Klitschko and Premier Volodymyr Groysman might even consider the challenge. The KIIS poll showed that Groysman has more than 4% support already and by next winter, he could well pull up to the incumbent. If either Groysman or Klitschko decide to run, Petro Poroshenko’s chances of a victory will go down substantially.

What’s more, Poroshenko’s relations with Narodny Front (NF) are also falling apart. Talks about joining forces in the current coalition prior to the election have reached a dead end. And now rumors are circulating within BPP that the coalition partners could wrong-foot the president. According to insiders, NF leaders Arsen Avakov and Arseniy Yatseniuk are talking with Tymoshenko about supporting her candidacy. Both were previously on her team and part of her political bloc. Indeed, at one point Yatseniuk led the faction in her place while she was in jail. However, the only thing that the NF team might offer the most popular Ukrainian politician is more administrative leverage during the election. After all, the MIA oversees order at election polls, which means that, for Tymoshenko, Avakov is a very valuable ally. Other than this, NF is unlikely to represent much value for Tymoshenko, as the party’s ratings are nothing to brag about.

If nothing changes prior to the elections, and the chances of this are shrinking rapidly, Yulia Tymoshenko will most likely win. Time is in her favor. With every month, the current Administration can see its ratings sink, and so far the Poroshenko has not been able to reverse this trend. The only thing that might improve the standings of the team in power might be a major breakthrough closer to the finish line. So far, there’s little evidence of this kind of breakthrough and their opponents have plenty of reason to justly criticize the current government. ■

Civic passivity

The volunteer movement and civic activists have won the trust of most Ukrainians. Still, the number of people in Ukraine that join their initiatives remains small

Andriy Holub

Over the last four years, few politicians have been sparing with their compliments for active Ukrainians who are involved in social initiatives. At one time, President Poroshenko even had to apologise for his careless words about the role of volunteers in the first phase of the war against Russia. He stated that Ukraine could still be victorious without the contribution of volunteers. Following outrage in the media and on social networks, he said that without volunteers and the entire Ukrainian people, victory would be impossible. He apologised, although he noted that his words had been taken out of context. This was probably the only time when the president has apologised for his words or actions.

It has become a must for politicians to thank volunteers and express their gratitude to active citizens at the very least on Defender of the Fatherland Day and Ukrainian Army Day, as well as the anniversaries of protests and shootings on the Maidan. Now this is a part of the official ceremonies, equivalent to laying flowers in May at monuments to those who perished in the Second World War. Another trend is to emphasise the extraordinary self-organisation of citizens during the Maidan, which changed the mentality of Ukrainians forever.

THE IMPRESSION THAT MOST OF SOCIETY HAS CHANGED AND IS INCREASINGLY INVOLVED IN MAKING CHANGES, IS MOSTLY MISTAKEN.

A VERY SMALL PROPORTION OF UKRAINIAN CITIZENS ACTUALLY PARTICIPATE IN VOLUNTEERING, CIVIC OR CHARITY ACTIVITIES

Data from sociological surveys shows that Ukrainian society really appreciates the role of volunteers and civic organisations. In particular, volunteer organisations still maintain the best level of trust among citizens (+37%). Civic organisations also have a positive figure (+4%). The only two institutions in Ukraine that can boast the same results are the Church and the Armed Forces. The rest, including the media, are on the distrust side.

However, the impression that most of society has changed and is increasingly involved in making changes now, is mostly mistaken. A very small proportion of citizens actually participate in volunteering, civic or charity activities. According to the Ilko Kucheriv Democratic Initiatives Foundation, less than 7% of respondents stated that they were actively involved in civic activities in 2017 and 87% said they were not.

The data was obtained during a December 2017 poll. Young people consider themselves somewhat more active. However, their difference from the older generation within the national average is almost invisible: only 10% of citizens aged 18-29 called themselves civically active.

When asked about the development of civil society in Ukraine, the respondents are quite critical. Only 10% of those polled said that this level was high or very high. About

a third of them believe that it is average and over 45% said it was low or very low.

While there are often differences of opinion on politics and values between residents of different regions, views on civil society and its development are almost identical across Ukraine. However, there are some differences in personal involvement in civic activities by regions. The highest level is in the West (8.3%) and the lowest in the South (2.1%).

"If you compare the number of people involved in civic activities, it has not increased since 2012, despite the fact that civil society activity increased after the Revolution of Dignity. Social activists have simply doubled the time they spend doing work for the community, rather than involving more people," said Iryna Bekeshkina, director of the Democratic Initiatives Foundation, during a January roundtable in Odesa.

Is it possible to argue that impressions of large-scale changes in society have had little effect on the behaviour of citizens themselves? A partial answer to this question is given by the results of another DIF poll conducted more than a year ago.

Then, the sociologists suggested that respondents give two answers to each question: one about society in general and one about themselves. The answer was that they observe changes in society but see them to a much lesser extent in themselves.

Sociologists received the following answers to the question "Has the willingness of citizens to join civic organisations and initiatives increased in the last two years (as of late 2015 – Ed.)?": more than 50% saw an increase in society's willingness to change, but only 17.7% admitted similar changes in themselves.

Similarly, over 40% noticed an increase in other citizens' concentration on civic activities and only 13% in themselves.

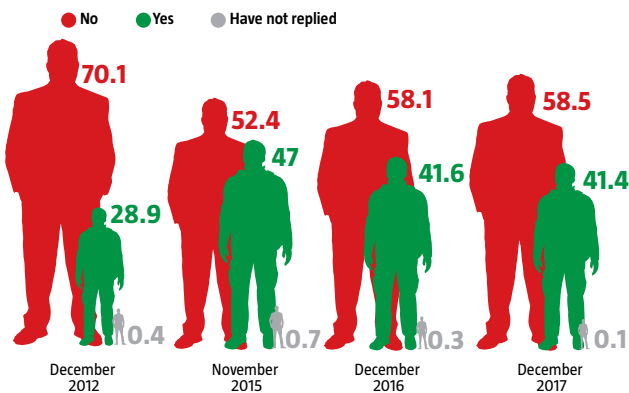
Sociologists recorded the same difference in perceptions of society and the respondents themselves for almost all questions in the civic activity block. In fact, the only exception was a question about increasing willingness to donate money to good causes. Here, a significant number of people have seen changes both in society (59.8%) and in themselves (41.1%).

Sociologists also focused on charity during a poll at the end of 2017. It revealed that this is the only type of civic activity that has undergone significant changes since the Maidan. In 2012, less than 30% of those polled had provided any sort of financial assistance to charity causes. In 2015, their number increased to 47%. In the past two years, the number of such people has decreased, but not by much: they still represent about 41%.

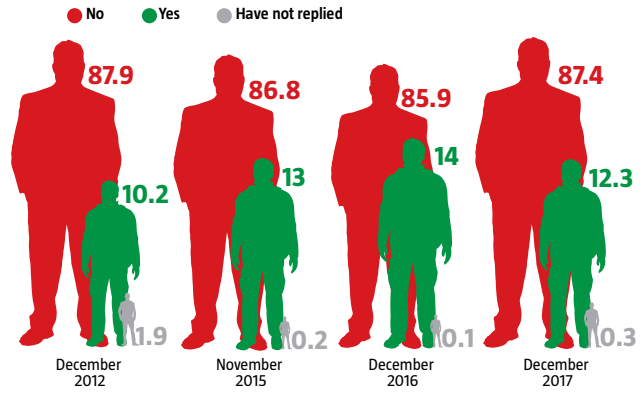
However, the structure of donations has also changed. In 2012, the majority were those who donated UAH 300-500 (\$11-19) a year. They made up 22.5%. In 2017, people who donated from UAH 1 to 50 (\$0.01-2) per year prevailed with

Visible trends

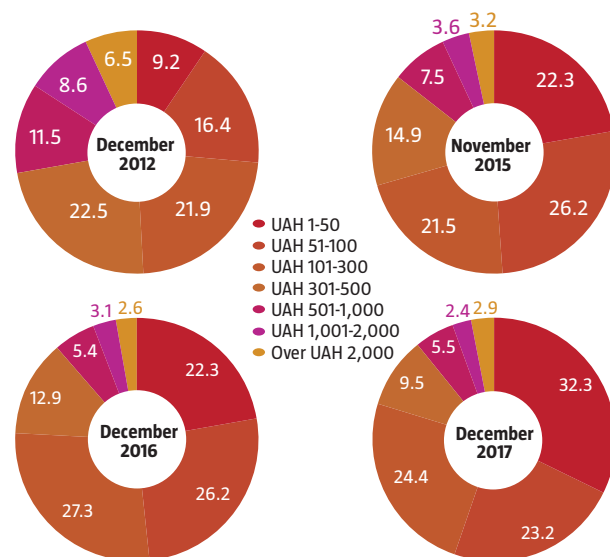
Have you donated money or material items such as clothing or food as charity to individuals or NGOs over the past year? (%)



Have you been involved in volunteer activities (doing social work for free) over the past year? (%)

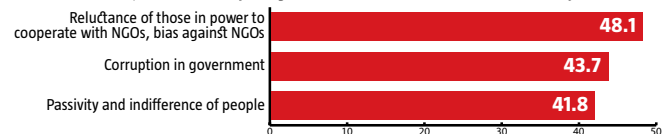


How much have you donated to charity over the past year? (%)

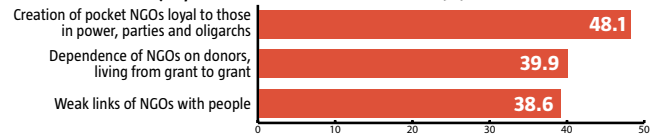


Survey of civic activists

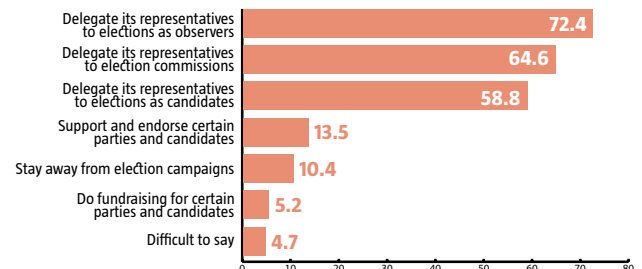
Three major issues hampering relations between NGOs and those in power (%)



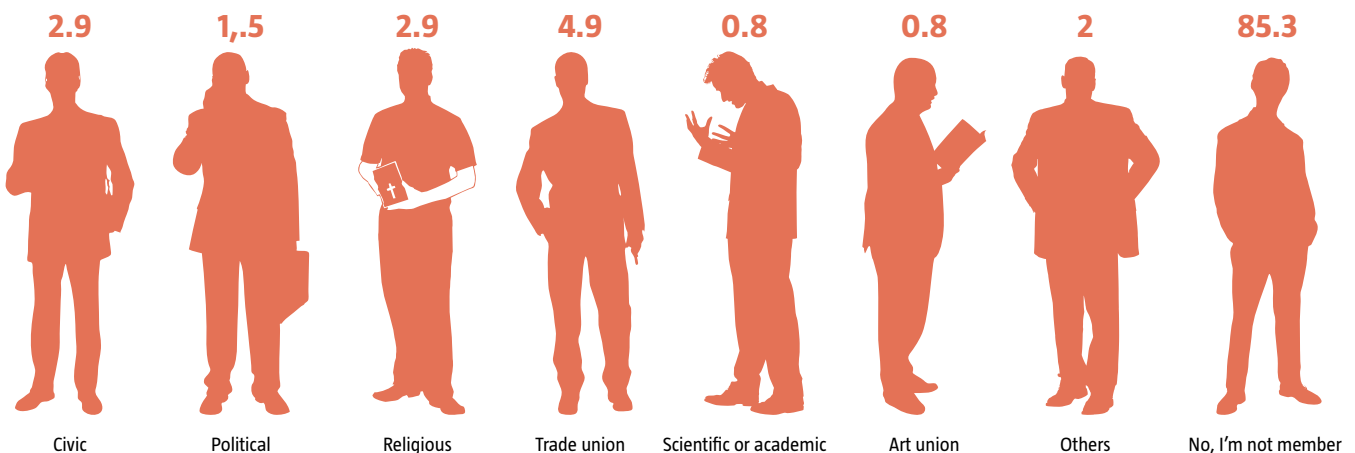
Three major problems in the NGO environment (%)



What role should NGOs play in the upcoming elections? (%)



Are you member of NGOs, associations or parties? (%)



Sources: Civil Society in Ukraine: Development, Activism and Charity, a survey by the Ilko Kucheriv Democratic Initiatives Foundation and Razumkov Center; 2017 Ukraine's Civil

32.3%. The proportion of those who donate UAH 300-500 fell to 9.5%. This means that the number of people who give at least a few hundred hryvnias a year to charity remains almost unchanged.

Another study by Corestone Group and GfK Ukraine from early 2018 offers a better understanding of these figures. Although it showed a much larger number of philanthropists among citizens (about 70%), the general pattern matches the findings of other polls. On average, respondents make the largest yearly donations to help the army (UAH 466 – \$17) and the smallest to alms and homeless people (over 70 UAH – \$2.70). About half of the country's population prefers the second type of donation. Electronic transfers for charity are also unpopular: "As for the most convenient ways to make donations, 50% of those polled indicated that they preferred to give cash, 34% to donate things and 19% to leave cash in a box. Only 9% said it was convenient to make a transfer through the bank and 6% an online transfer," the pollsters reported.

ACTIVISTS HAVE A GENERALLY POSITIVE ATTITUDE TOWARDS THE ASPIRATIONS OF THEIR COLLEAGUES TO BECOME POLITICIANS. THEY BELIEVE THAT IN THIS WAY POLITICS WILL IMPROVE IN QUALITY AND THEIR OPPORTUNITIES TO HAVE REAL INFLUENCE ON THE SITUATION IN THE COUNTRY WILL GROW

In other words, the increased readiness of individuals to give to charity in recent years was primarily through donations to people in the street. So far, the main change after the Maidan is that people are willing to spend money on social initiatives and activities, but not their time. Citizens have an idea of – a society that "has changed", but these changes have not yet reached the habits of its representatives.

In addition to a nationwide poll at the end of 2017, sociologists also interviewed the activists themselves. Representatives of 192 civic organisations took part in the study. They rate the development of civil society a bit higher than most citizens do. More than half (52.6%) consider it to be average, almost 29% low and less than 19% high.

The opinions of activists were divided as to the influence their organisations have on solving urgent problems. 49% consider this influence to be mostly or completely effective and 41% mostly or completely ineffective. Nevertheless, their assessment of the influence of civil society has changed significantly for the better in recent years. In 2013, only 8% of activists thought that civil society was sufficiently or quite influential – this number is now over 35%.

As far as active methods of influencing the government are concerned, activists mainly consider them to be interaction with the media (71%), the formation of associations between civic organisations (63%), appeals to the international community and global organisations (60%), public discussions on pressing social problems (58%) and delegating representatives of civic organisations to public office (54%).

In addition, activists have a generally positive attitude towards the aspirations of their colleagues to become politicians. They believe that in this way politics will improve in quality and their opportunities to have real influence on the situation in the country will grow. A significant number of them (almost 59%) expressed their readiness to delegate representatives as candidates for the upcoming presidential and parliamentary elections.

Whom would you prefer to join politics? A survey of activists (% of times mentioned)



Vitaliy Shabunin,
head of Anti-Corruption
Action Center

6.3



Oleksandr Solontai,
head of the Institute
for Political Education,
representative of Syl'a Liudey
(Power of the People) party

3.1



Viktor Taran,
head of Eidos Centre
for Political Studies
and Analysis

2.1



Taras Shevchenko,
member of the
Stop Censorship,
an initiative
for freedom of speech

2.1



Yaroslav Yurchyshyn,
Executive Director,
Transparency
International Ukraine

1.6



Nobody

4.2



**The respondent
indicated him/herself**

2.6

Society: New Challenges, New Tasks, a survey by the Ilko Kucheriv Democratic Initiatives Foundation and International Renaissance Foundation. November – December 2017

In addition, sociologists asked activists about the main problems in their field. The biggest one is the creation of puppet organisations by public authorities, political parties and oligarchs (48.1%). Other concerns include the dependence of organisations on donors (grantors) (39.9%), poor communication with the population (38.6%), lack of solidarity and conflict (28.5%) and a high level of ambition combined with inadequate qualifications, low knowledge and a reluctance to learn (27.2%). ■■

The new power superpowers

Clean power is shaking up the global geopolitics of energy



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A big shift. Since oil and gas are exhaustible and not available everywhere, they have often been rationed, to the benefit of an oligopolistic group of producers. Unlike hydrocarbons, renewable energy is potentially available almost anywhere

To enter Taft, two hours north of Los Angeles, you drive along the “Petroleum Highway”, past miles of billboards advertising Jesus. God’s country is also oil country. Spread over the sagebrush hills surrounding the town are thousands of steel pumpjacks (pictured), contraptions that suck oil out of the ground. They look like a herd of dinosaurs. Some Californians would describe the oil industry in the same way.

The oil produced at Taft is not produced by hydraulic fracturing, or fracking, as much of it is in Texas and North Dakota. It is so heavy it needs to be steamed out of the ground, in a process known locally as “huff and puff”. Yet Kern County, with Taft on its western edge, produces 144m barrels of oil a year, the second highest output of any county in America. Fred Holmes, a third-generation oilman and patron of the West Kern Oil Museum, says he is proud of the heritage, however much it irks local drivers of electric Tesla cars that the Golden State has such a carbon-heavy underbelly. “Oil is renewable energy. It just takes longer to renew,” he quips. He has built a giant wooden derrick at the museum to celebrate it.

In its heyday, oil was prized in southern California. The Lakeview Gusher, which blew on the edge of Taft in 1910, became as emblematic of a boom era as the gold rush farther north. Taft also played a starring role early on in the geopolitics of energy. In 1910 the American navy, worried about its dependence on insecure coal supplies, commissioned its first oil-fired destroyer.

Two years later President William Taft created the first naval petroleum reserve in Taft’s Elk Hills to guarantee supplies of oil in the event of an international crisis. It came into its own in the second world war, when production soared. The president gave the town, formerly called Moron, a better name.

After decades of declining output since the 1970s, America is now producing as much oil as it has ever done: **10m barrels a day** in November last year

Since then the geopolitics of energy—usually defined as the impact of energy flows on the power and influence of nations—has been mostly about the world’s thirst for oil. The efforts to secure it, safeguard its shipment, stop enemies from getting or keeping hold of it, and monopolise it if possible, loomed large in 20th-century history (see chart).

Since oil and gas are exhaustible and not available everywhere, they have often been rationed, to the benefit of an oligopolistic group of producers. Consuming nations have long felt that the scarcity of oil makes them more vulnerable. That is why, since the Arab oil embargo of 1973, every American president has seen the country’s dependence on imported oil as a weakness. Policies like the “Carter Doctrine” proclaimed by

the then president in 1980, which asserted the United States' right to use military force to protect its strategic interests in the Middle East, were aimed at ensuring a stable supply of oil.

This notion of scarcity is coming to an end, thanks to three big developments. The first is America's shale revolution, which has turned the country into the world's biggest combined producer of oil and gas (see chart). After decades of declining output since the 1970s, America is now producing as much oil as it has ever done: 10m barrels a day in November last year. It is making the country less reliant on imported oil, which has helped it shed a long-standing paranoia about such dependence. This could reduce the country's need to expend blood and treasure to protect supply routes from the Middle East. And it has added an abundance of oil and gas to world markets that has benefited energy consumers everywhere.

THE BEAUTY OF THE ENERGY TRANSITION, ENTHUSIASTS BELIEVE, WILL BE TO GIVE COMMUNITIES "SUPER POWERS" OVER THEIR ENERGY, NOT TURN COUNTRIES INTO ENERGY SUPERPOWERS

The second major change is taking place in China as it attempts to move from an energy-intensive economy to a more service-led one. Without choking off economic growth, in the past few years it has made staggering progress in moderating its demand for coal and oil, slowing the rise in electricity consumption, deploying gas and renewable energies and arresting the growth of carbon-dioxide emissions. It remains the world's biggest importer of fossil fuels, but its experience with filthy air and its concerns about over-dependence on imported oil have made it keener to harvest more of its own wind and sunlight. It also has by far the world's most ambitious plans for electric vehicles. Subsidies and a streak of energy authoritarianism have played a big role. But in its own way, China's energy transition has been as remarkable as America's.

These two developments play into the third, longer-term trend: the need to create a low-carbon energy system to fight climate change. The Paris agreement of 2015, though a milestone, still leaves a huge distance to travel before global warming can be stopped. To achieve that, trillions of dollars will have to be invested in wind and solar energy, batteries, electricity grids and a range of more experimental clean-energy sources.

This so-called energy transition has set off a global race for the best technologies and raised concerns about access to the rare earths and critical minerals needed to make the necessary hardware. As Francis O'Sullivan of MIT Energy Initiative, part of the Massachusetts Institute of Technology, puts it: "We are moving from a world where the value of the energy is embedded in the resource to where technology is the resource."

THE DEMOCRATISATION OF ENERGY

This special report will look at the energy transition from the perspective of America, the EU and China as well as petrostates such as Russia and Saudi Arabia. It will pinpoint winners and losers. It will argue that America is at risk of squandering an early lead, obtained by using natural gas and renewables to slash emissions, promoting clean technology and helping pioneer the Paris agreement. China is catching up fast. Saudi Arabia and Russia are in most obvious peril.

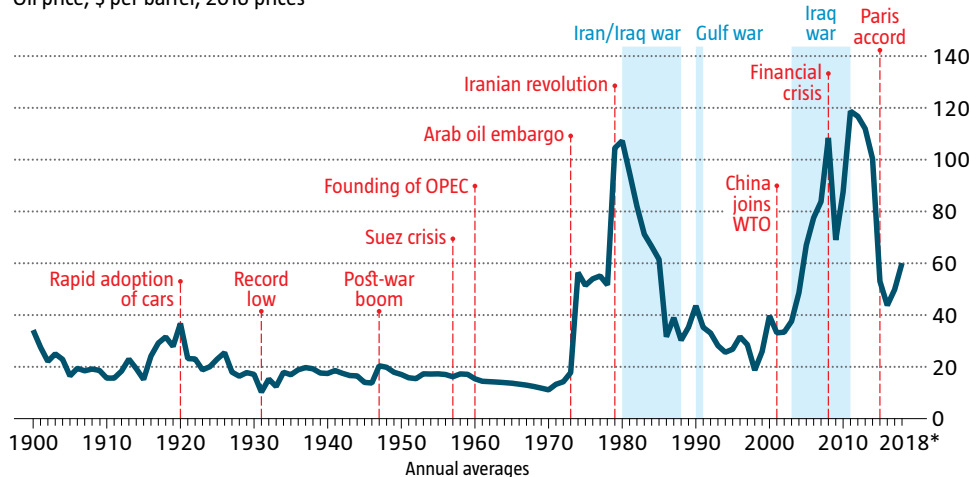
The past few years of growing American self-reliance and Chinese self-restraint have offered a glimpse of the foreign-policy implications of a new energy order. For America, some see it as a windfall, the title of a recent book by Meghan O'Sullivan of Harvard University. She says the shale revolution has helped temper predictions of American decline, made it easier to impose sanctions on adversaries, helped create a global gas market to ease Russia's stranglehold over Ukraine, and reduced tensions over China's pursuit of energy resources. She describes it as "a boon to American power—and a bane to Russian brawn".

That may be over-optimistic. Russia and the OPEC oil cartel have been surprisingly successful at cutting production to counter the shale glut. They have also turned towards China, which is pouring money into their energy infrastructure. Most important, American shale risks entrenching reliance on oil even more deeply in the global economy, with potentially perilous consequences for the climate. If America focuses too much on producing fossil fuels, it may lose sight of the need to develop cleaner energy for the future.

The geopolitical implications of the broader energy transition will be even more complex. When in January a global commission to study the geopolitics of clean energy was launched under the auspices of the Abu Dhabi-based International Renewable Energy Agency, the underlying hope was that such a development would make the world "more peace-

There she blows

Oil price, \$ per barrel, 2016 prices

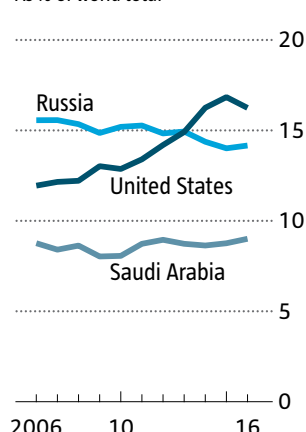


Sources: BP; Thomson Reuters; The Economist

*To February 20th

Pumped

Oil and gas production
As % of world total



Source: BP

ful, stable—and boring”. Champions of clean energy believe that boring is good. Unlike hydrocarbons, renewable energy is potentially available almost anywhere. Collaborative efforts to halt global warming could lead to open-source development and the sharing of technology. As power generation becomes more dispersed (examples include Germany, China and California), regions may become more self-sufficient in energy, a process labelled “energy democratisation”. In Africa and elsewhere, enhanced access to energy, via mini-grids and rooftop solar panels, could reduce energy poverty even as the global population is soaring.

David Crikemans of the University of Antwerp points out that from the Industrial Revolution onwards, energy transitions such as that to coal and then to oil have changed the world. This latest one could have equally far-reaching effects. “The [nation] state and central power supply go hand in hand. They need one another,” he writes. He expects decentralisation of the energy supply to boost the power of regions in relation to central authorities. The beauty of the energy transition, enthusiasts believe, will be to give communities “super powers” over their energy, rather than turn countries into energy superpowers.

Yet the transition has plenty of potential to cause geopolitical friction, too. The most obvious example is the challenge it will pose to economies that depend on petroleum. A new book, “The Geopolitics of Renewables”, edited by Daniel Scholten of Delft University of Technology in the Netherlands, argues that the clearest losers will be those blessed with ample fossil-fuel reserves and those who bet on oil for too long without reforming their economies. The book also notes that, whereas in the traditional energy system the main constraint is scarcity, with abundant renewables it is variability. This could be mitigated by cross-border energy trade, but that, too, could cause arguments.

As economies become more electrified, with “supergrids” to handle the additional power demand from urbanisation, electric vehicles and unimaginable quantities of data, the risks could multiply. Grid politics could replace pipeline politics. Ukrainian saboteurs, for instance, reacted to Russia’s annexation of Crimea by cutting off electricity supplies to the peninsula in 2015. Chinese investment in grids in Europe and Australia is also under scrutiny, on national-security grounds. And ever more electrified economies are at ever higher risk from cyber-attacks.

THE NEW POWER TOOL

It seems inevitable that the geopolitics of energy will develop into a contest to see which country can produce the most energy of its own, and which has the best technology. Miguel Arias Cañete, the EU’s commissioner for climate and energy, explains that, “We are on an irreversible pathway to renewable energy...those who don’t embrace the clean-energy transition will be losers in the future.”

The EU has set itself a clear goal to decarbonise all energy by 2050, and has appropriate market structures in place. That puts it in a strong position. China, too, is firmly committed to clean energy and boasts some impressive clean-tech entrepreneurs. America, for its part, has invented much of the world’s clean-energy technology; and the shale revolution has opened up vast potential supplies of natural gas that can generate electricity far more cleanly than coal, serving as a bridge to a lower-carbon future. But the country risks losing its focus. It is divided between fossil-fuel fundamentalists, mostly Republicans, and clean-energy enthusiasts, mostly Democrats, who cannot agree on the best way forward for the economy and for the climate. ■





PHOTO: STANISLAV KOZLUK

“In case of the meaningful UN mandate, Austria would consider playing its role in the peacekeeping mission in the Donbas”

Interviewed
by Yuriy Lapayev

The Ukrainian Week spoke to former special representative of the Austrian OSCE chairperson-in-office for the Transnistrian settlement process about options for the peacekeeping mission in the Donbas, the motivation for friendship between Austrian and Russian politicians, and about ways in which the experience with the Transnistrian conflict can be useful for Ukraine.

What are differences and similarities between conflicts in the Donbas and Transnistria?

— There are some similarities, especially if you look at the terminology being used. In fact, upon closer look, differences are more important than one without in-depth knowledge would assume. Histories or genesis of the two conflicts are very different. In Transnistria, the soviet army happened to be there long before the Republic of Moldova declared independence and Tiraspol decided to choose its own way. This is a big difference to be kept in mind.

In 1992, directly after the conflict, the cease-fire bilateral agreement between Moldova and Russia defined another big difference of the OSCE settlement process in Transnistria. This is reflected in the 5+2 format, where the sides of the conflict have open and uncomplicated exchange and are more or less treated as equals. Of course, there is a big difference in the Donbas situation and the Minsk Agreement, with interlocutors who would not talk to each other.

In the academic approach to mediation in general, beyond political terms, there is a notion of the ripeness of the conflict, of how

mature, how old the conflict is. The ripeness of the two conflicts is very different. In Transnistria, there was a long period of almost 25 years. Barely any progress happened in terms of resolutions. Only last November, for the first time in many years, we saw the agreement on five different issues. Those issues had been on the table for 10–15 years and had repeatedly been discussed. Only after that, the agreement became possible. That is also the difference compared to the Donbas, where we all hope it will not take 20–25 years to solve issues of immediate concern for the population. These are the needs of the population that are in the focus of our efforts, making the Donbas similar to Transnistria. We are working on how we can help people with access to social services and education, and have their rights respected, despite conflict and difficulties. In Transnistria, we have seen unexpected but substantial progress.

Despite the fact that it may seem hopeless, I hope we will see such a similarity in the Donbas. The biggest difference is that we do not see any indications of political resolution in the Donbas, where we still disagree in many ways on what is happening. While in the Transnistria, we are at least trying to exchange views on what the objective of our talks is. There are different political aspirations in Tiraspol, in the Republic of Moldova and in the international community, but it happens in any conflict. Another big difference is the role and attitude the Russian Federation has vis-à-vis regional contexts. In the Transnistria, the Russians have had an opportunity to be co-mediators finding solution between the parties to the conflict. Russia was interested in guaranteeing the

Wolf Dietrich Heim was born in Kirchdorf an der Krems, Austria, in 1967. He graduated from the Vienna University of Economics and Business in 1994 and worked at the Foreign Ministry of Austria after that. From 1997 to 2001, he was cultural attaché of the Embassy of Austria in Japan. From 2001 to 2003, he was deputy head of the diplomatic mission (minister-counselor) of the Embassy of Austria in Finland. In 2004–2006, he was deputy head of the Executive Secretariat for the EU. From October 2006 to August 2010, he worked as deputy inspector general and acting inspector general of the Foreign Ministry of Austria. From 2010 to 2015, he was Ambassador Extraordinary and Plenipotentiary of Austria in Ukraine. In 2017, he was special representative of the Austrian OSCE chairperson-in-office for the Transnistrian settlement process.

implementation of anything agreed. Basically, the Russians are playing the role ideal in their political conception. In the Donbas, it is very different because of different involvement there.

A large part of the population of Austria has no idea what is really happening in the Donbas and how serious events have been. Some have heard that 10,000 people were killed, but have no understanding of how severe the conflict has been and how dangerous it still is.

What are the key features of the 5+2 format? Can the same or similar format be used in Ukraine?

— I think 5+2 is a very specific format for the settlement of the Transnistrian conflict and mediation efforts. It would be wrong to assume this format could be transposed to other regional settings.

In the 5+2 format, there are two sides of the conflict, plus three mediators, the OSCE, Ukraine and Russia, and two observers, the EU and the USA, maintaining professional and serious engagement based on discussions, rather than philosophical excursions. This is one of the main achievements we are able to implement. The settlement process should be result-oriented. We do not meet to discuss what everyone feels like discussing. We engage on the more senior level and the 5+2 meetings take place only when we have a real target, close to delivery. At these meetings, we clarify agreements that have been prepared and built on the level of working groups. For other layers beneath, we have international partners, embassy representatives making sure the engagement is substantial.

Engagement of international partners is very important in these processes, and Ukraine has played a very strong role in the Transnistrian settlement of the last few years. We have repeatedly pointed out that what is happening has regional implications for Ukraine, when it comes to commercial and economic needs of the population. There are many perspectives and directions going towards Ukraine, in particular to Odesa region. Over the last few years, Transnistria has understood that Ukraine is the most important partner in many educational, social and economic projects. After universities in Tiraspol, many people consider studying in Odesa. We have found new solution for students graduating from universities in Tiraspol. Now, with the apostille from Chişinău, they can go for their studies in Odesa or any other European city. Solving the problems of youth, of the next generation, is the key to the settlement of the conflict.

The bilateral agreement had stopped the military phase of the conflict. Example of the successful resolution of the conflict directly impacts the level of engagement of the sides and is beneficial. Although, it is difficult to maintain a different format with other issues. In regard to any other issue, regional interests, economic, commercial or political matters, there is not the same principle of equality.

I think, the international community recognizes the Republic of Moldova altogether, respects its sovereignty and territorial integrity. And every year, at the Ministerial Council, 57 OSCE participating states point out that there is ground for the special status of Transnistria.

The government of the Republic of Moldova has been very slow in offering any kind of special status or concept of what could be done. For instance, it could be a regional status or regional autonomy, which is not unusual for many European countries. Of course, it is more difficult if such autonomy is born out of conflict. The trouble is for 25 years we have not had any draft proposals, any conceptions of special status that could be shared and discussed. Successive OSCE chairmanships, including Sebastian Kurz during his last-year visit to Chişinău and Tiraspol, have pointed out to our friends in Chişinău that there should be vision to which the political leadership could agree. Of course, this has been more difficult after the election of President Igor Dodon, because we have very different approaches. In case of Transnistria, the 5+2 format is the most acceptable approach to be continued. In December, at the Ministerial Council in Vienna, all the OSCE participating states reaffirmed that this is the only mechanism to resolve the conflict.

As for the OSCE, currently we have the Special Monitoring Mission (SMM) in the Donbas, and people are concerned with the lack of objectiveness and efficiency. In your opinion, what can be done to improve its activity?

— Let me start from the situation that the OSCE mission has in Moldova. The mission involves 50 people. The personnel performs a wide range of activities, well beyond political settlement and mediation efforts. There has been no military engagement, thus it has been much easier. There is also the Joint Control Commission (JCC) in Moldova, reminiscent of what we have in the Donbas. This is a joint military body serving for communication, control and verification. It regroups Moldovan, Transnistrian, Russian and Ukrainian officers. In the Transnistrian conflict, this Commission is usually quite helpful and constructive in solving issues of the military presence and peacekeeping forces. With regard to terminology, it cannot be considered as the UN peacekeeping mission, in which sides of the conflict do not participate in the settlement process. I think the OSCE is facing an immensely difficult task in Ukraine. I served as the UN peacekeeper in Cyprus 30 years ago. In many ways the challenge, the complexities and the engagement that we had in the 1960s and 1970s were not as complex and as dangerous, as they are in the Donbas.

The work of the OSCE mission observers is not always met with justified esteem. It is an incredibly difficult work. Observers face challenges much more complex than those in non-violent conflicts. Over the last years, we have never seen openly hostile engagement, and we realize it would be difficult to find a comprehensive political solution. This will be a challenge for many years to come. Still, in Transnistria, we are able to help and make lives of people in that area or in the wider region so much better, because we, in Europe, understand their rights.

The Council of Europe has been focusing on these rights to be respected whenever possible. These are commercial rights, rights for education, social interests and freedom of movement. This is something younger people are more interested in, because they are mobile and can make the difference between political narrative and their own abilities to shape future and make choices. Political slogans sound very Soviet-like and are different from their reality. Coming back to your first question, the population in Transnistria is almost entirely free to travel. They have passports and visa-free regime. We have organized close contact with the EU border services to verify that the procedures

applied are fair and match those of other European citizens. It is helping to assure there is no blockade against the Transnistria due to speculations in the media. After Moldova and Ukraine signed into the Association Agreement with the European Union, we can see that Transnistria is also interested in being part of such economic integration. We have heard from representatives of Tiraspol and even from Russian interlocutors that this is their interest. It would be very different in the Donbas because of geography and previous position of many locals in regard to this issue.

Let us get back to the problems of the Donbas. Currently, one of the most discussed issues is the prospect of deploying the peacekeeping mission. What do you think of the prospects of such a mission? Will it help resolve the conflict?

— I think that the properly conceived and clearly mandated UN mission could solve the conflict and lead to normalcy in the Donbas. What do I mean by “clear mandate”? This is something we know very well in the UN. Peacekeepers should be impartial. Certainly, no forces being part of the conflict should participate in the peacekeeping mission. In this context, the situation in Transnistria is actually very rare, as troops are referred to as

POSSIBLY, ONE OF THE INTERESTS OF EUROPE COULD BE STORAGE CAPABILITIES OF UKRAINE. UNDERGROUND STORAGE FACILITIES IN WESTERN UKRAINE HAVE THE CAPABILITY TO STORE THE ANNUAL CONSUMPTION OF COUNTRIES THE SIZE OF SLOVAKIA, HUNGARY AND AUSTRIA

peacekeepers there. For the Donbas, these forces should have the capability to maintain peace. In view of military engagement, heavy artillery and armored vehicles, these forces have to be rather robust to provide peace. The states participating in such efforts should be recognized by both sides as impartial and neutral, not only in terms of their behavior, but also in terms of the general perception, in terms of the policy of the peacekeeping country. In Europe, Sweden, Finland, Austria, Switzerland, and Ireland are perceived as such. Those countries have engaged in many parts of the world since 1960s. Knowledge of a Slavic language could also help, so Belarus might play that role in the Donbas. As for Austria, our government has highlighted that in case of the UN mandate meaningful for the whole region rather than for certain parts of the line of contact and commitment to re-establish administrative procedures and fair elections, Austria would consider playing its role in such a mission.

In your 2012 interview for The Ukrainian Week, you warned of negative consequences should the Ukrainian natural gas transportation system (GTS) be sold to the Russians. Recent events have proven you right. Now we have another threat in Nord Stream 2. What can you say about it?

— The Ukrainian gas transportation system is a priority in the political approach of many EU member states. As for individual economic actors and companies, the picture is slightly different. Austrian, German, French or Dutch businesses are playing an active role in the Nord Stream 1 and Nord Stream 2 projects. As for Ukraine, decision process is still going on. In my opinion, an international structure should be provided to make sure that the Ukrainian gas transmission system is functioning according to objective criteria. No European client or company should see the need to build other pipelines that are not essential. Although it is a little overdue as it should have been done years ago. Now, such an effort is urgent due to the political background, but the solution for the existing structure could be found in one or two years, which would be too late.

Possibly, one of the interests of Europe could be storage capabilities of Ukraine. Underground storage facilities in Western Ukraine have the capability to store the annual consumption of countries the size of Slovakia, Hungary and Austria. These are the opportunities that Nord Stream would never provide, and this is actually the strategic value of the Ukrainian GTS. It would be a shame to lose these opportunities. For Ukraine, it would mean loss of revenues, that is considerable, but it would also decrease security of the European gas market, and that is something we would rather not see happen.

European politicians, including Austrian ones, are often seen as supporters of Russian efforts to undermine gas projects and solidarity among EU and NATO countries. Do you know the reasons for this behavior? How can Ukraine overcome this problem?

— There are several factors, one of which is history. In Austria, we have very strong and positive memories of common history with Ukraine, namely its western regions. But we also had positive moments in our history with Russia. Looking back to Austrian imperial history, there were periods of alliances between the Austrian Empire and the Russian Empire. This history brings positive feelings towards the Russian Federation these days. Besides, there are many people respecting efforts of the soviet army in the liberation of Vienna and other parts of Austria during the Second World War. A large part of the Austrian population perceives those efforts as a positive development that has brought about the end of the Nazi rule. Nowadays, it is cultivated as the Russian achievement. Although, the Ukrainian Embassy and many others always point out that the soviet army at the time was not exclusively Russian. There were Ukrainian fronts and there was actually a disproportionately high presence of Ukrainian soldiers. There is also another aspect, as this year we commemorate 50 years of gas deliveries. Austria was the first Western country to have signed the treaty with the Soviet Union for the import of Russian fuel. People think gas deliveries have always been reliable. The presence of Russian businesses, especially in the financial sector, is quite important. In Vienna, there are many more Russians than Ukrainians. One can hear a lot of Russian in Austria.

Russia has had very different politics vis-à-vis Austria. I was shocked to see that Russia, so friendly and respectful of Austrian interests, can behave differently in its immediate neighborhood, where it is being disrespectful of the sovereignty of neighboring states. Russia is not shy to use means and instruments of the past. That is why, I am happy that we have very good visits on the high level between Ukraine and Austria. Lately, President Petro Poroshenko and Ukrainian delegation have visited Vienna, and now Austrians are preparing the visit of the Federal President of Austria to Ukraine. At the same time, we have high-level political engagement with the Russian Federation. We are trying to provide a platform for dialogue not only with Ukraine, but also with Syria and Iran.

There is always room for improvement of our bilateral relations with Ukraine. We have very good reporting about the situation in Ukraine. Some Austrian media take a lot of interest in the conflict in the East. Still, a large part of the population of Austria has no idea what is really happening in the Donbas and how serious events have been. Some people have heard that 10,000 people were killed, but have no understanding of how severe the conflict has been and how dangerous it still is. This is a serious challenge, we should remind people to look at the facts and to understand the background. In Austria, I am always surprised at how far away most people feel, despite the vicinity. Vienna is closer to Western Ukraine than to the western regions of Austria. The real challenge for Ukrainian diplomats is to share objective information about Ukraine. ■

The choice of the autocrat

How the re-election of Vladimir Putin revealed Russia's weaknesses and can benefit Ukraine

Maksym Vkhrov



Bread and circuses. The Polar Bear winter swimming club votes at a polling station in Barnaul, Russia

On March 18 Russia held its presidential election. Nothing unexpected happened: according to preliminary data from the Central Election Commission, the turnout was 67.4%. Of these, 76.6% voted for Vladimir Putin. It is difficult to establish how much these results line up with Putin's actual rating, as data from Kremlin sociologists does not inspire confidence. In any case, the Russians have accepted this result, so until at least 2024 they will live in a world constructed for them by Putin. Despite the mass vote rigging and illegal voting in the annexed Crimea, Putin's legitimacy is recognised by the international community as well. However, the immovability of the Putin regime is only superficial, as evidenced by the bustle behind the scenes of the electoral performance.

ANATOMY OF THE PERFORMANCE

The staged character of the Russian elections was obvious. According to the Russian media, the Kremlin followed the 70/70 formula, setting the goal of ensuring at least 70% turnout and at least 70% support for Putin. Implementing this plan was not so easy: the civic movement Golos [Voice], which monitored the election process, collected 2,927 reports of violations. They mainly concern using administrative pressure to ensure high turnout. There were many cases when people were obliged to report on how they voted by calling their supervisors or posting selfies from polling stations. A carrot was added to the stick. Fairs and festivities were held near voting stations and in places coupons were handed out alongside ballot papers for a prize draw offering smartphones, concert tickets, trips to Crimea, etc. The required result was also ensured by more traditional means: ballot stuffing, carousel voting and other falsifications right under the lenses of video cameras that were live streaming the vote. In order to create the impression of control over the procedure, the Central Election Commission voided results from five polling stations, but this did not affect the overall outcome.

In such a manner, the Putin regime has sufficiently prepared Russia for the dismantlement of democracy. Still, he does not feel confident enough to openly reject it by abandoning electoral formalities. This is not only about Putin's personal wishes. Like any dictator, he is a derivative of the interests of the Russian elite who are interested in preserving the status quo. These circles do not profess democratic values, but they are not ready to transition to obvious dictatorship either. This is not only out of fear of inevitable sanctions from the West, but also because of the lack of alternative mechanisms for constructing the legitimacy of Putin's authority.

Taking into account the purely nominal election campaign and the fact that the winner was known in advance, what happened in Russia in mid-March was more reminiscent of a referendum of confidence in Putin. If the Kremlin

PHOTO: REUTERS

can carry out such operations, this is evidence of the regime's sufficient power and the fact that Russian society is not an actor in domestic policy regardless of whether it is due to sincere loyalty, conformism or fear. At the same time, it also demonstrates the Kremlin's hidden uncertainty, as Putin's victories are organised in a sterile, totally uncompetitive political space.

Imitation of elections under non-democratic regimes carries out another important function – proving once and for all that there is no alternative to the unchanging ruler and demonstrating the insignificance and helplessness of his opponents. This function was performed by elections in the USSR, where the leader always won with a stunning advantage, just like in Putin's Russia. For 18 years in a row, the Kremlin has repeated a scenario in which candidates from the official (i.e. puppet) opposition comprised of the Communist Party and Liberal Democratic Party pretend to oppose Putin in conjunction with a situational selection of marginalised liberal dissenters. This backdrop of carefully selected political nobodies makes it easier to create the impression of a popularly beloved leader. The image of a "national leader" was strengthened by the Kremlin's politi-

ing to "unite with the patriots of Novorossiia" and liberate Ukraine from the "Nazi regime", he assembled an electorate that had not yet calmed down from the post-Crimean patriotic hysteria and demanded more than Putin was proposing. Sergei Baburin, a supporter of the 1991 coup against Gorbachev who was popular in the 90s and is now leader of the nationalist Russian All-People's Union, worked in tandem with Zhirinovskiy. He repeatedly visited Donetsk following the occupation of parts of the Donbas and made terrorist Igor Girkin one of his authorised representatives after becoming a candidate. Zhirinovskiy and Baburin converted the expectations of their electorate into a total 7% of vote (6% and 1% respectively), giving an outlet to the excess post-Crimea hysteria. In passing, they also scared respectable citizens with their brutal populism, mobilising them in support of Putin's "stability".

The most brilliant victory organized by the Kremlin for Putin was over the liberals embodied by Grigory Yavlinsky and Ksenia Sobchak. After the assassination of Boris Nemtsov in February 2015, Alexey Navalny claimed leadership of this camp, but he was not permitted to take part in the polls by the Central Election Commission due to his previous convictions. He called for the boycott of elections, de facto working against the liberal candidates. Still, they had no chance regardless of Navalny.

Yavlinsky's star faded about fifteen years ago, but even then he scored less than 6% at the 2000 presidential election. He was also prevented from taking part in 2012, but now, seen as a no-risk competitor, he was allowed to run and score 1% of the vote. Ksenia Sobchak's result was not much better at 1.7%. Despite her active civic engagement in recent years, for most Russians she remains a "spoilt blonde" – a glamorous, vulgar socialite from a TV show and the post-soviet version of Paris Hilton who was quickly reinvented as an opposition politician.

COLD WAR 2.0

The Kremlin has thus fulfilled its task and Putin entered another term without much trouble. Over the next six years, he will focus more on foreign policy while ignoring internal problems, which he has been openly neglecting since the occupation of Crimea. "Russia has an indisputable advantage over other countries, as it is governed directly by God. If this is not the case, it is unclear how it exists at all," he recently quoted Burkhard Christoph von Münnich, an 18th-century general in the Russian Empire. However, Putin's growing interest in geopolitics does not only come from his personal ambition to quickly write his name in world history. Another source is the purely practical calculations of the Russian elite.

For a long time, the loyalty of Russian society and its establishment has been insured by income from oil and gas. Part of it was spent on privileges for key social strata and a sort of "stability" for the rest. Now these resources are exhausted. In 2008, the Russian Stabilisation Fund was divided into the Reserve Fund and the National Welfare Fund. At the beginning of 2014, the Stabilisation Fund was worth about US \$90 billion. By the end of 2017 it had emptied and was shut down. Now the National Welfare Fund will be used by the government to cover the budget deficit. It is estimated that this should be enough for another four years, and then it will be time to tap into the foreign exchange reserves. Therefore, the Kremlin needs to look for a new model for keeping the population loyal. It seems that it will be based on an external threat.

THE RUSSIAN ELECTIONS ARE A USEFUL CASE STUDY. FIRST, THEY SHOW HOW MUCH AN AUTHORITARIAN REGIME RELIANT ON A RENT-SEEKING ELITE CAN DEGENERATE. **SECONDLY, THEY ARE PROOF THAT THERE ARE NO "FRIENDS OF UKRAINE" ON THE RUSSIAN POLITICAL SCENE**

cal strategists: this time Putin stood for election not as representative of Yedinaya Rossiya [United Russia] party, but "at the request of the working people", quite literally. Putin announced his intention to participate in the polls during a visit to the GAZ car factory in Nizhniy Novgorod, where the workers asked him to give them such a "gift".

THE ELECTORAL CORPS DE BALLET

"We participate in the elections while knowing the result, because Putin has a huge advantage over all of us." These words, said by candidate Boris Titov, are an epigraph to the entire election campaign in Russia. Titov himself, an employee of the Presidential Administration, was merely a dummy candidate and received 0.7%. However, the rest of the players danced their part in the same corps de ballet too. As usual, Putin's main sparring partner was the Communist Party of the Russian Federation, which, instead of the washed-up Gennady Zyuganov, put forward non-partisan businessman Mosel Grudinin, director of the Lenin State Farm near Moscow. The entire political legend of Grudinin was built around this enterprise portraying him as a saviour of his farm from the ruins of the 1990s, a modernizer and a builder of "communism" in one village with free housing, high wages and other benefits. Obviously, the Kremlin assigned Grudinin the role of a spokesman for social discontent before sinking the "red director" in the run-up to the election. This was not hard to do – 13 of Grudinin's undeclared bank accounts, including some in Switzerland, surfaced two weeks before the election. After an intense smear campaign on state television and the internet, Grudinin ended up with 11% of the vote, forcing those who were nostalgic for the soviet time to re-focus their hopes on Putin.

The radical imperial-chauvinist audience gathered around Vladimir Zhirinovskiy, another unchanging sparring partner of the Kremlin's resident. By promis-

Putin described this scenario in his latest address to the Federal Assembly, essentially presenting a renewed Cold War paradigm. It was then that he first talked not about succession, but about the oneness between Russia and the USSR, describing the collapse of the Soviet Union as a territorial loss for Russia itself. In addition, the theme of the nuclear war with the West returned to the Kremlin's official rhetoric: in one interview, Putin spoke in an eschatological tone, posing the rhetorical question "Why do we need a world with no Russia in it?" In the context of such apocalyptic rhetoric, a Russian Wunderwaffen was presented – the Sarmat intercontinental missile that allegedly has a nuclear engine, an unlimited range and an unpredictable trajectory while being invulnerable to any missile defence system. It is impossible to interpret this in any way other than a preview of a continued hybrid war and an escalated cold one. In addition, Putin's speech before the Federal Assembly was full of calls for unity and solidarity in the face of new threats. The official pre-election information was broadcast in the same tone. The common denominator of its content was encapsulated in a video that even leading Western media outlets turned their attention to. The essence was that neglecting the elections (i.e. not voting for Putin) would lead to a catastrophe: families would have to take in homosexuals, school education would cost millions and even elderly men would be taken away by the army. According to the plot, this was the nightmare of a common man who could not be bothered to go to the polling station in the evening. The main leitmotif of the official propaganda was formulated even more clearly by "head of the Crimea" Sergey Aksyonov: "This is not only our civil responsibility, but also our gratitude towards Russia, which saved our peninsula from the horrors of the civil war. Today, as in the days of the 'Crimean Spring', we need maximum mobilisation."

The first decree issued by Putin right after the election to call up reservists for military training is significant in this context. However, the Kremlin will most likely look for "small victorious wars" and hybrid conflicts that will not lead to open confrontation with the West. Russia is pushed towards this option not only by the depletion of its economic resources, but also its progressing military and technical obsolescence. Presenting the Sarmat rocket, there is a good reason why the Kremlin only showed an animation. Real rocket launches have not been going so well in Russia lately. In November 2017, a Soyuz-2 rocket exploded shortly after take-off, a Soyuz-U burned up in the atmosphere in December 2016 and overall there have been 11 accidents during or after rocket launches since 2010. The Zapad-2017 military exercises were also unsuccessful: a helicopter struck the audience, a fighter plane crashed and a bomber fell apart right on the runway. So the Kremlin will mainly hype up the Cold War 2.0 in the heads of the Russians themselves.

A LESSON FOR UKRAINE

As far as Ukraine is concerned, the Russian elections are an extremely useful case study. First, they show how much an authoritarian regime reliant on a rent-seeking elite can degenerate. It is likely that Viktor Yanukovich and Co. were preparing something similar for Ukraine. Secondly, it is proof that there are no "friends of Ukraine" on the Russian political scene. True, there were some differences between the candidates regarding the "Ukrainian question". While Zhirinovskiy, Baburin and Grudin in announced their intentions to annex the "LNR and DNR", Sobchak and Yavlinsky on the contrary insisted on ending

the war as soon as possible and returning the Donbas to Ukraine. But, in essence, these are only different versions of the Kremlin's plans: Zhirinovskiy continues to broadcast the dream of "Novorossiya" from Kharkiv to Odesa, while the liberals reproduce the present "peacekeeping" rhetoric of the Kremlin. "It is absolutely abnormal when, instead of constructive development between two close, brotherly countries that are actually parts of one people, a situation emerges like the one we are seeing today," Putin said in January 2018. "To quarrel with your nearest people and closest neighbour is really a huge tragedy. Both for us and for you," Sobchak said a few weeks earlier. "We should not allow politicians to drive a wedge between our brotherly nations," she specified on Matvey Ganapolsky's radio show.

But the true attitude of Russia's liberal opposition towards Ukraine comes to the surface on the topic of Crimea. While open imperialists such as Zhirinovskiy call the annexation of the peninsula a manifestation of Russia's historical right, Russian liberals have come up with a more

The Kremlin followed the 70/70 formula, setting the goal of ensuring at least 70% turnout and at least 70% support for Putin

sophisticated way to deny Crimea's return to Ukraine. Yavlinsky, Sobchak and Navalny all admit that the "referendum" carried out at the barrel of Russian guns was fake and illegitimate. However, they all unanimously insist that in order to solve the problem it is necessary not to return Crimea to Ukraine, but to hold another referendum there, only this time according to all international standards and even with the participation of Ukraine. Indeed, during her election campaign Sobchak tried to get official permission to visit the peninsula, but it is difficult to believe in her respect for Ukrainian sovereignty. Firstly, she intended to go Crimea as a candidate – even an opposition one – to urge the local population to participate in illegal elections organised by the occupying authorities. And secondly, Sobchak visited Crimea as a journalist in summer 2014 without asking for permission. It is not about Sobchak herself, of course, but the fact that "a Russian democrat ends where the Ukrainian question begins", even if today this democrat is criticising Putin.

In this sense, various subtypes of Russian imperialists who differed in everything except their contempt for Ukrainian sovereignty competed in the elections. This, as surprising as it may sound, is good news, because Ukraine's main historical task today is decolonisation and gaining independence from the former parent state. As the experience of the last four years shows, this process has been much faster in the context of Russian aggression, although at a much higher cost. Pro-Russian sentiment among Ukrainians has reached a historic minimum, nationalist rhetoric can be heard from the state's top dignitaries, de-communisation was completed without obstruction, de-Russification has been launched and an open pro-Russian position guarantees marginality, if not political death. The geopolitical position of Ukraine has also changed dramatically: thanks to Russian aggression, we have a chance to accelerate our integration into Euro-Atlantic political and security structures. In this sense, Putin is indeed one of the main drivers of Ukrainian decolonisation and the guarantor of Ukrainian-Russian non-brotherhood. So, things are moving in the right direction. ■

Nicolas Tenzer:

“Neither the president nor French ministers need to go to St. Petersburg in May”

Interviewed by
Alla Lazareva,
Paris



The Ukrainian Week talked to French political analyst Nicolas Tenzer about the diplomatic crisis between the West and Russia, the state of Franco-Russian relations, and the prospects for reviving negotiations in the Normandy format.

The Russian election went as predicted. However, the Skripal affair and, to a lesser extent incidents involving the Wagner Private Military Company and the conflicts in Syria and Ukraine, have pushed western governments to demonstratively distance themselves from Moscow. How long is this likely to last or will routine diplomacy take the upper hand again soon?

— Personally, I worry that economic interests will turn out to be more important than our obvious strategic priorities in the short-term prospect, without even talking about the moral aspects. In many European countries, pressure is coming from interest groups and individuals who are operating in the interest of the Kremlin to return to the negotiating table and to do business as usual as if nothing had happened, as if none of these horrible crimes have taken place, and as though our strategic interests aren't under serious threat. Some of these groups and individuals have access to the highest ministerial offices, so it means that the top leadership, President Macron and Chancellor Merkel, need to make it clear as soon as possible that there's no question of backing down.

We have the right to be amazed that this strong position appeared only after the poisoning of the Skripals. It was, without any doubt, an extremely serious crime, because it took place in a western country using prohibited weapons. But the war crimes in Syria and the invasion

of Ukraine should have been reason enough for a much stronger and concrete position towards Russia than what we have seen so far. And so we need to watch so that this tone remains as hard as possible, which I hope for, and goes as far as possible. It should focus primarily on the economy.

In general, we have to reject any strategic fallacies along the lines of “We need Russia to fight against terrorism.” It's high time the countries of the European Union stopped their economic projects with the Russian Federation. When I see how Hungary, Italy, Greece and Cyprus continue to lobby for a return to more active cooperation with Russia and for sanctions to be dropped, I worry that the EU might split along these lines, which is exactly what the Kremlin would like to see. Fortunately, Moscow has not succeeded in achieving this so far. But we have to be vigilant. There's a very real risk that this seeming pragmatism could win out.

In terms of Franco-Russian relations, we can see that, on one hand, President Macron refused to visit the Russian stand at the recent Paris Book Fair after the Skripal affair. On the other hand, Zakhar Prilipin, a Russian officer fighting in Donbas against the Ukrainian Army in one of the “DNR” battalions, participated in this Fair. This seems quite inconsistent.

— I doubt that the Elysée Palace or the Minister of Culture was informed about this invitation. Such details are often taken care of by lower-level bureaucrats who are quite uninformed about the bigger picture... There was a precedent of this kind in France not long ago, when some circles wanted to commemorate the extreme right-wing

writer Charles Mourras. The biographical note about him never even mentioned anything about his anti-Semitic rants. The presence of someone like Priliepin is certainly not a good sign for a cultural event of this level and Kremlin propaganda sources in France made good use of him. I do hope there is an internal query into this case.

At the same time, this precedent touches on a much broader range of questions that are beyond Franco-Russian relations. Some French intellectuals believe that art should be separated from political views. You, of course, noticed the debate around the re-issuing of Celine's anti-Semitic writings: the project failed because of numerous protestst. Remember Charles de Gaulle's position in 1945 when he refused to pardon the French writer Robert Brasillach, who was sentenced for collaboration and who even wore a Nazi uniform. At the level of principle, de Gaulle's decision was just. We cannot close our eyes to criminal political actions only because they were by a person who has literary talent. On the contrary, intellectuals ought to be held even more accountable for their deeds because they should understand the consequences much better.

President Macron refused to visit the Russian stand, but he plans to go to the economic forum in St. Petersburg. What are your thoughts on that?

— As far as I know, a final decision has not been made. But it would be a bad idea. Neither the president nor the French ministers need to go to St. Petersburg in May. To take part in this forum, let alone as an honored guest—which is precisely the crude trap Putin had in mind—would legitimize and strengthen his regime. Without even touching the moral aspect, let's consider it strategically: by agreeing to participate in the forum, we weaken our own position, whitewash the Kremlin and its aggression, and help deepen the rifts taking place in the European Union. If France participates in this event, what legitimacy can we claim in opposing the Italians, Greeks or Germans offering the policy of appeasement towards Russia?

Germany finally has a new Government and Angela Merkel can return to international politics. What do you think of the Normandy format, which involves Ukraine, Russia, France and Germany? How soon might these talks be revived and how likely are they to produce results?

— First of all, things are not so straightforward in Germany. Mrs. Merkel cannot do everything that she might like, whether in domestic or in foreign politics. According to the country's Constitution, its government is not equivalent to that of the presidents of France or the United States, or even the Prime Ministers of Great Britain or Canada. Moreover, she is politically much weaker now. A coalition with the SPD is very tricky because of that party's much more lenient, if not actually complacent, stance towards Russia. They have been promoting the Nord Stream 2 project although it would be a geopolitical catastrophe in terms of energy security for the EU and an unbelievable propaganda coup for the Kremlin if it were completed.

As to the Minsk accords, my position is split: On one hand, I'm more of a pessimist and I don't believe that under the current circumstances and with the Russia that we have, these accords can be fulfilled. On the other, withdrawing them altogether would be very problematic and risky, because the sanctions against Russia due to its invasion of a part of Donbas are legally linked to Minsk. In

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that sense, it's better to keep them in place, at least for now, even if they are impossible to fulfill. I also doubt very much that there is a way to replace the Minsk accords right now with some other document that would have the unanimous support of EU members. At the same time, I see that cooperation with the US, on one side, and France and Germany on the other is now intensifying. Let's hope that, with some more military pressure on Russia, the situation will improve. Without a credible threat, Moscow will not shift its position.

From time to time, we hear talk about the idea of a purely-European security system. The subject was even raised by Emmanuel Macron during his election campaign, albeit fairly offhandedly. What are the chances of such a project coming to fruition, given that the US seems less and less interested in European affairs?

THE WAR CRIMES IN SYRIA AND THE INVASION OF UKRAINE SHOULD HAVE BEEN REASON ENOUGH FOR A MUCH STRONGER AND CONCRETE POSITION TOWARDS RUSSIA THAN WHAT WE HAVE SEEN SO FAR. AND SO WE NEED TO WATCH SO THAT THIS TONE REMAINS AS HARD AS POSSIBLE AND GOES AS FAR AS POSSIBLE

— Pushing the issue of European security is a good thing and the EU has taken some steps forward in this area since November. You might say that the Europeans have finally become aware that they can no longer depend on US guarantees. Hearing Donald Trump's very damaging first comments about NATO, which he called "obsolete," certainly contributed to that. The Americans have since recovered. Still, it's true that the isolationist mood and calls to not intervene in the affairs of other countries have grown in the US, and this is not the first time. President Obama also showed this side, even his manner of expressing it was more sophisticated. NATO has been going through a rough time and has been looking for a new doctrine for some years now. However, we're not going to see any real European security in the immediate future. During its first phase, it won't have the objective of guaranteeing collective security, the way NATO does. We can't imagine that in the short- or medium-term a fully-functioning purely European army will appear, capable of protecting us in the face of a serious threat to one of the member countries or to attack externally on an enemy that is threatening us or our allies. The majority of European countries, including Germany, will not agree for some time yet to send off their armed forces to participate in a lethal operation abroad. And so, NATO is very important and is looking for a medium-term operational or even institutional rapprochement with the EU in terms of security. ■

Light at the end of the tunnel

Where Ukraine's banking system is moving

Lyubomyr Shavalyuk

The phrase, money is the lifeblood of an economy, maybe a bit hackneyed, but its essence is quite correct: just about everyone in a country depends on financial relations. And so if we want to change a country and its economy for the better, we have to reform both relations within the banking system and the financial infrastructure. This simple logic makes it quite clear why banking reforms are necessary, and why it, highly symbolically, was one of the first to be launched after the Revolution of Dignity.

Perhaps when the reform of the banking sector was planned, removing it from the clutches of the oligarchs was not an explicit priority. Perhaps the idea wasn't even on the agenda. But today it's obvious that the changes to Ukraine's banking system have not only brought more reliability, technology and efficiency, but also removed the lion's share from the influence of oligarchs. And this means the reforms have been successful even if they aren't yet completed.

COMPETITION FOR DEPOSITORS

There are a number of ways that the work of the banking sector and the reforms it is undergoing can be analyzed, but the most clarity is provided when looking at regulations that have been adopted or not adopted as part of the reforms. This kind of analysis is interesting only to a narrow circle of financial specialists, because the details of how banks work are too complicated for the average non-

NBU data shows that in 2017 the gross volume of hryvnia lending to individuals and business at solvent banks grew **16.2%**. The equivalent in foreign currencies went down **7.7%** but only because of restructuring and writing off of a portion of non-performing loans issued prior to the crisis

specialist to grasp. What's more interesting to most people is the qualitative changes in the operation of the banking system and what impact they will have on individual customers, especially ordinary people.

In theory, the basic function of a banking system is to turn savings into investments. How have reforms influenced the effectiveness of these functions? To start with, we can analyze savings.

Personal deposits, and, to a lesser extent, business deposits, are the basic funds with which the banking system operates. To lend money, the bank has to get money from somewhere and that means attracting depositors. Basically, financial institutions compete for people's savings, and how successful they are determines whether or not they can turn those savings into investments.

How successful have Ukrainian banks been in the competition for financial resources from individuals and businesses? How much has the situation changed since reforms began? The answer is reflected in a number of ways.

First is the question of trust. There's a huge segment of the population in Ukraine who remember the early 1990s, when soviet banks collapsed and their savings disappeared overnight. These people don't trust banks on principle and keep their savings "under the mattress." No reforms are going to affect them, because they still remember the huge losses they incurred. However, this segment is gradually leaving the economic arena, both numerically and in terms of its economic impact. Another segment of Ukrainians who don't trust banks suffered due to the bankruptcies of a large number of commercial banks in recent years and the memory is very fresh.

But if we look at the indicators for the banking system itself, the basis for confidence in domestic banks is probably the highest it's been in many years. Firstly, banks are properly capitalized: as of February 1, capital adequacy across the system is 16.25%, compared to a norm of 10.0%, and the highest it's been since the Revolution of Dignity. On average, banks have more than 1.5 times more capital than they need, although this is an average, meaning some are higher and lower. Banks are highly liquid (see Sitting on their money). At the end of January, they were holding cash and highly-liquid assets—NBU deposits, certificates of deposit or CDs, government bonds—worth nearly UAH 500 billion. This is the most for the entire history of Ukraine's banking system. So they have enough capital and liquidity to survive even a noticeable outflow of deposits and to let all those who want to take back their savings.

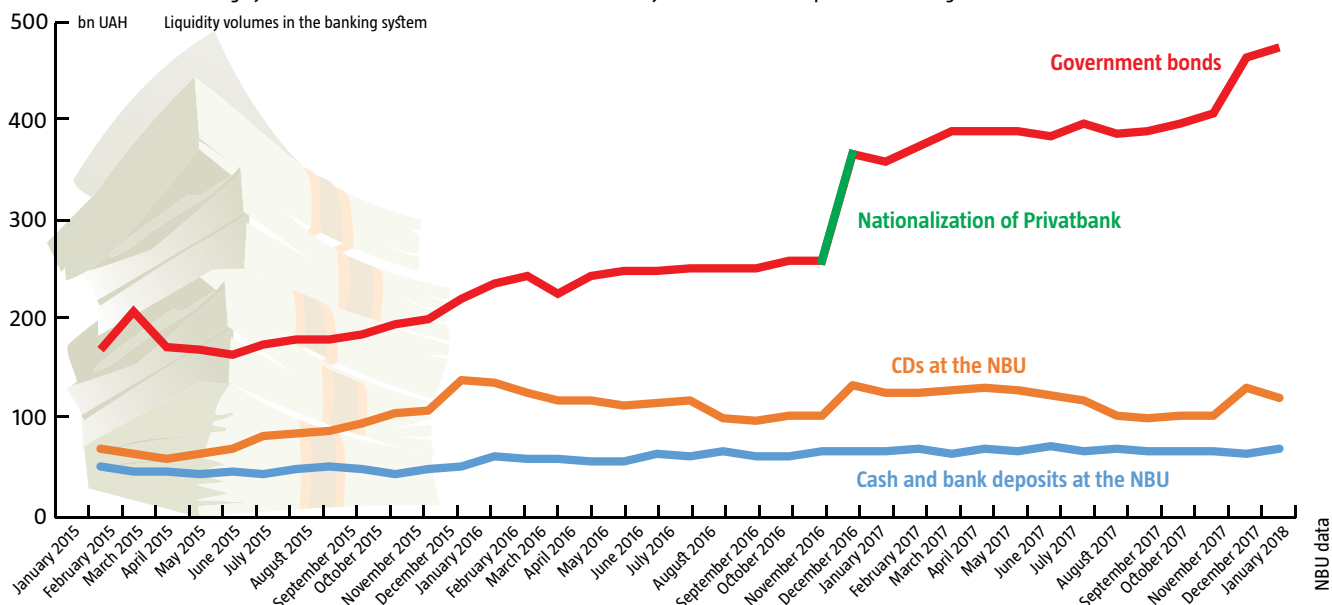
This may be the main factor that can restore trust in the financial system, but it's not the only one. For one thing, the crisis of 2014-2016 was passed without instituting a ban on the withdrawal of deposits, a harsh measure that limited depositor freedom during the worldwide financial crisis of 2008-2009. Secondly, the Personal Deposit Guarantee Fund has been slowly paying out all the depositors of bankrupt banks within the UAH 200,000 cap. This is important because it shows that the government is becoming more responsible. Finally, there is talk about gradually raising the guaranteed amount to €100,000, which is standard in most EU countries. This demonstrates both greater responsibility on the part of state and hopefully will build trust over time, although it will not ease the damage suffered by those who had accounts in bankrupt banks over 2014-2016. And so, even if trust in domestic banks is still relatively low, the conditions for this trust to rise are being put in place.

INSTRUMENTS AND INTEREST RATES

Second is the question of options for holding cash. In the past, the choice of instruments for savings was considerably larger: prices for land and property were on the rise, the stock market offered decent returns, and money could also easily be moved to a foreign account. In short, bank products were not especially attractive and Ukrainian

Sitting on its money

Ukraine's banking system has hundreds of billions of available hryvnias but can't expand its lending



banks had a much smaller share of the savings market. At the same time, the NBU, which was supposed to monitor the sources of incoming funds, turned a blind eye on many practices, so plenty of dirty money was circulating in Ukraine's banking system. As a result, the deposit base grew an astonishing 30-60% during certain years.

These days, the appeal of alternate instruments is questionable: neither real estate nor the stock market offer attractive long-term returns for the risks involved, while moving earnings abroad has become far more complicated. Moreover it matters little because financial monitoring has become far stricter and now very little dirty money manages to make its way into Ukraine's banking system—certainly not in the volumes it once did. Having been purged of bad banks and even worse practices, it appears that now, although the country is floating in money, dirty money cannot be moved offshore and it's almost impossible to get it into the banking system. Instead, it's finding its way to non-banking financial intermediaries: the number of pawn shops, called Lombards in Ukraine after a medieval banking system, and exchange points has mushroomed, and construction has skyrocketed: the volume of housing currently being built in Kyiv, as just one example, will have to be sold over the next few decades, based on current demand. For now, the banking system is closed to this money because it's been cleaned up, is operating according to new rules, and will no longer work with dirty money.

The third point is interest rates on deposits. On one hand, the higher they are, the more money people will put on deposits. But the other side of this coin is that this raises lending rates sky-high. Until not long ago, the domestic system had a considerable number of banks that simply vacuumed up cash: they offered huge interest rates, up to 40% in some cases, but then refused to return deposits because they were little more than financial pyramids. High interest rates on deposits also raised the risk of a poor-quality depositor base. Today, interest rates are much lower (see All together now)—last year many forms of deposits were down to their lowest rates in the history of Ukraine's banking system. On one hand, it seems that banks are no long-

er competing for savings, which has a certain logic, given their high level of liquidity. On the other, it suggests that deposits are significantly less risky and that, too, reflects on interest rates.

In short, the situation is such that, given all the positive and negative effects of reforming the banking sector, deposits have grown 9.7% in the past year, taking the impact of the exchange rate into account. This is well down from the 15-20% growth posted in the period between crises, which suggests that system could absorb far more domestic financial resources. They aren't higher because Ukrainians have been forming their opinions of bank reforms more on feelings than on carefully-analyzed judgments. Moreover, as long as there are huge volumes of corrupt cash in the country and until it can be reduced to a minimum or legalized, the domestic financial resources available to the country's banks will be artificially low. This is something all government agencies should be aware of and take the necessary steps.

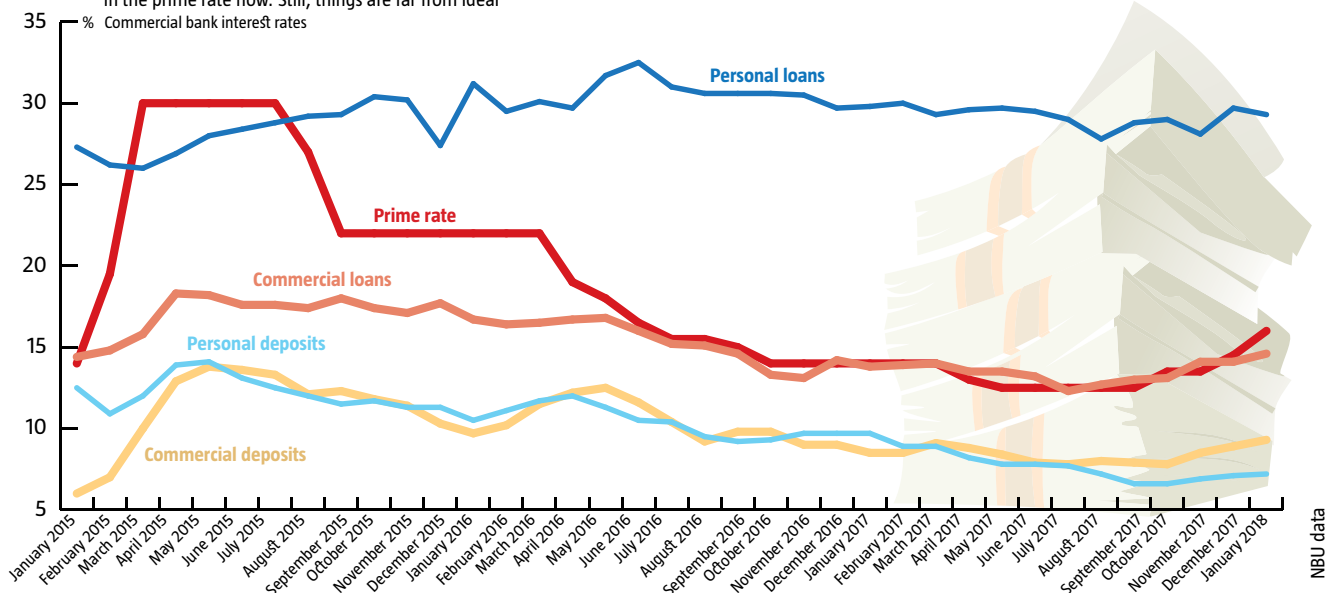
OPERATIONAL EFFICIENCY

Once they attract the savings of individual and commercial clients, banks can use this money at their own discretion. This is precisely where the hands of oligarchs were the most visible, for, when they attracted deposits, the banks always acted as clean as the driven snow. No one could say with certainty that something not quite above-board was going on—they could only guess because of the excessively high interest rates or because of little information coming from online financial forums. Has the effectiveness and security of banking operations changed since reform? Most definitely, and this can be seen in a variety of parameters.

Firstly, it's much more difficult to move cash abroad, especially in large volumes. A monthly cap of no more than a few thousand dollars from a given account has been instituted at all the most common channels for transferring money abroad. All large operations need to be documented to confirm that the money is legitimate and will be used for commercial purposes: export, import, investment, other types of financing, and so on. "Laundrobanks" or pock-

All together now!

With a much-improved monetary transmission mechanism, interest rates on loans and deposits are more responsive to changes in the prime rate now. Still, things are far from ideal



et banks that used to launder money and help transfer it abroad have met their Maker. For Ukraine's economy, this means that more money is staying at home and that, possibly, after a few cycles, more of it will get to SMEs.

Secondly, lending to individuals linked to a bank has been reduced to a minimum and almost eliminated. This was one of the key redoubts of the oligarchy. Previously, these pocket banks sucked in deposits, generally by offering sky-high interest rates, for one purpose only: to finance the businesses of their owners, especially abroad—effectively moving cash out of the country. The economy lost hundreds of billions of hryvnia in this way. More important than the fact that many of the conned depositors will never see that money again is the problem that these pocket banks were instruments for expanding the economic power of the oligarchs, which they later used to their own benefit against the country. In the end, this also meant that non-oligarchic SMEs, many of which had projects that were very appealing to potential investors, remained underfinanced and could not develop as rapidly as the potential of their ideas should have allowed. All of this is gone now, and with time, this factor will play a major role in the recovery and growth of Ukraine's economy.

Thirdly, internal control over banking operations was very weak. A large share of active operations, especially the issuing of loans, was, without exaggeration, a complete scam. Over 2005-2008, loans began to be widely issued without any confirmation of income, unjustified loans were issued to bank employees, "political lending" through acquaintances in state banks was common, collateral was documented but the financial institution was unable to recover it or to exercise its right to it through the courts. Many of these phenomena no longer exist, but their consequences remain a deadweight on the balances of many banks as non-performing loans. At the end of 2017, 56% of all corporate loans and 54% of retail loans were in this category.

Today, every bank is obligated at the time it issues a loan to assess the credit risk against a slew of criteria established by the NBU and if the potential borrower does not meet enough of them, the bank must set aside the necessary

reserves. It's simply inconvenient for a bank to lend to poor-quality borrowers, whether it's MPs who borrowed under previous Governments and don't want to return the money, or oligarchic companies that operate opaquely and in the red by moving all their profits abroad. Otherwise, the bank will have to cover these loans out its own pocket. The quality of lending has improved cardinally compared to the old loan portfolios. The one negative consequence is that there aren't as many highly qualified borrowers and statistically the pace of lending is now very low.

All these examples illustrate that, thanks to the reform of the banking sector, financial institutions have begun to manage their depositors' money far more effectively. In time, people will draw the necessary conclusions and confidence in Ukraine's banks will grow.

THE PUZZLE OF LENDING

And now for the last link in the main functions of banks: lending and financing economic growth. How much has changed here? Once again, the answer lies in several aspects.

First of all, banks have finally resumed lending after the break caused by the crisis of 2014-2016. NBU data shows that in 2017 the gross volume of hryvnia lending to individuals and business at solvent banks grew 16.2%. The equivalent in foreign currencies went down 7.7% but only because of restructuring and writing off of a portion of non-performing loans issued prior to the crisis.

Secondly, interest rates on loans are relatively low. Many analysts say that banks are supposedly not lending because credit is not accessible at such high interest rates, but that is simply not true. In 2017, the average interest rate for a hryvnia commercial loan went below 14%. This has happened only twice: in 2007-2008 during the lending boom that preceded the financial crisis, and in 2010-2011, when the economy began to recover after the crisis and the new Administration resolved, however briefly, relations with the IMF, which increased liquidity in the financial sector. Credit rates for corporate loans in hard currency were down to 6.1% in January 2018, a historic low. Of course, after the

huge losses of 2008-2009 and 2014-2015 when the hryvnia sharply lost value, there is a long list of restrictions that limit the expansion of hard currency loans.

Compared to the past, interest rates are very low, even if we take into account that they are primarily in hryvnia and have been slowly going up again in response to hikes in the prime rate. Why, then, with interest rates so low and huge volumes of free liquidity, we aren't seeing lending boom? The reforms to the banking system are why. As noted, today, borrowers are required to meet far stricter criteria compared to the free-for-all that dominated earlier, but these criteria are completely in line with European and world practice. There are three consequences of this.

(1) After banks were limited in their options to lend to linked individuals, the businesses of oligarchs lost a reliable source of funding from their pocket banks. It turns out that when they have to compete for resources like everybody else, such companies are too inefficient to easily do this. As a result, the capital that went to finance their businesses is now lying on the balance sheets of banks and waiting for better times. Statistics clearly confirm that a structural surplus liquidity has appeared in Ukraine's banking system.

(2) There are not enough quality borrowers. The theoretically ideal banking system cannot work effectively in a far-from-ideal economic environment. If the flaws of big business are its inclination to take their money offshore and to influence the government to get economic dividends—crony capitalism—, SMEs also have their issues: opaque operations, tax evasion, ineffective business models, and so on. In short, the reformed banking system is having a hard time finding the necessary quantity of qualified borrowers.

(3) Entire segments of Ukraine's economy are effectively closed to lending, because they have controversial issues that have not been regulated by law or by jurisprudence. This includes problems with collateral, which no bank will be able to seize from them if they stop paying off their debts, problems with bankruptcies, where assets may not easily be sold off to cover debts, and much more. Reforms have made the banking system begin to learn from the mistakes of the past and not hand out credits in situations where they have already burned their fingers before. No one would even guess that dozens of bills have been languishing in the Rada that are intended to protect lenders' rights, improve the mechanism of collateral, and so on. And no one intends to vote for them because many MPs have themselves borrowed left and right in the past, and have no desire to pay those loans off. For them, a properly functioning banking system means taking responsibility for their own misdeeds, which they will do anything to avoid. And of course, this brings the subject around to the judiciary system, whose ineffectiveness has led to many of the problems financial institutions suffer from. Unfortunately, that's another huge, popular theme that cannot be tackled here.

Understandably, these obstacles will gradually disappear over time. Enterprises will learn to meet the criteria for borrowing, and transparency and efficiency will become the norm in business—otherwise they won't be able to borrow. Sooner or later, the surplus liquidity in the banking system will find those who can make most use of it. And eventually the Verkhovna Rada will pass the legislation, even if it means waiting through a few more election cycles and a re-launch of the legislature until it is dominated by honest, responsible individuals, not the kind that are in it now. All of this needs time, although the first indications that there has been a qualitative shift are already evident »



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today: according to the NBU's latest Financial Stability Report, in QIII 2017, banks issued hryvnia loans worth UAH 11.5bn to private Ukrainian companies that are outside the 40 largest business groups. This was 49% more than all the other loans issued put together—and this is only the beginning.

NEW PROBLEMS ON THE HORIZON

Of course, the process of reforming the banking system has revealed new problems that are also not so easy to resolve. The main one is the domination of state-owned banks in the industry. At the end of 2017, the share value of state-owned banks was over 59% of the sector, and it managed to add another 6ppt in the year since the nationalization of PrivatBank. This problem, too, has a couple of components.

First is that governments are rarely good at managing businesses. This is particularly true of Ukraine, where thousands of state companies have had their assets stripped since independence and the government was left with only the paperwork. This leads to the logical risk that, with such a large share of the market, the state-owned banks will degenerate, even after reforms. To prevent this, the management of state banks must be changed, especially with the introduction of independent supervisory boards. This concept has been supported and promoted both by the National Bank and the Finance Ministry. But there are many who oppose it, especially in the Rada, because many politicians have used their political connections to take loans out at state banks that they had no intention of returning. This kind of “public assistance” for political activities will be paid for by Ukraine's taxpayers, because those banks

need capital and it's being provided at the cost of growing public debt. Plenty of politicians are reluctant to lose this milch cow and so Bill #7180, which is aimed at increasing the quality of management at state banks and its independence from politics, has languished for five months and two attempts to include it in the VR agenda failed. That's the kind of MPs Ukrainians have elected.

Secondly, the state banks carry a huge weight of non-performing loans. At the end of 2017, PrivatBank's loans portfolio consisted of 88% bad loans, while other state banks had 56%. By contrast, banks with foreign capital have 41% and Ukrainian private banks have only 27%. Public financial institutions were constantly drawn into “political lending” or lending to linked individuals, as happened with PrivatBank, which is why they have so many non-performing loans today—the result of oligarchic influence. Where in privately-held banks it was possible to clean things up, to remove them from the market or force their owners to write off bad loans and capitalize out of their own pockets, in the case of state banks the situation is more complicated. This kind of tumor needs to be cleaned out with skill and long-term treatment, for it will continue to create problems for a long time yet, getting in the way of the banking sector's efforts to renovate and work in a completely new way.

Still, whatever the problems of the banking system are today, qualitative shifts are already evident in the way it operates. They aren't strongly felt just yet, because the path to a system that works like quality clockwork or like the best models in the world is a very long one. But the path is the right one and the pace is strong. All Ukraine's banks need now is time. ■

A means, not an end in itself

Ukraine's banking system needs to be put to work serving the national economic interest

Oleksandr Kramar

In the last few years, the banking sector has gone through enormous transformations that have radically changed its face. And if we look back more than a decade, contrast between the oligarchic banking system of the late Kuchma and early Yushchenko eras, when state banks were atavistic throwbacks to the soviet past while foreign banks were relatively rare and had little impact on the overall system, is even more striking. Local oligarchs have left this scene, as they needed more money to capitalize their own banks with time. And this they could only achieve either through infusions from the government — Privatbank being the most recent example and, before that, Ukrgazbank — or through foreign parent companies, whether European or Russian. Ukraine has finally developed a basic immunity to oligarchic pocket banks and black holes, the textbook example being Privatbank, albeit at a considerable price.

Today, all of Ukraine's key banks are either state-owned — Privatbank, Oschadny Bank, Ukreximbank and Ukrgazbank — subsidiaries of European banks — Austria's Raif-

feisen-Aval, Hungary's OTP Bank, France's Credit Agricole, and Italy's Banca Intesa Sanpaolo — or subsidiaries of Russian banks: Alfa Bank and its recent acquisition, Ukrsofsbank, bought from Italy's Unicredit, Prominvestbank, the former state industrial bank now owned by Vneshekonombank, and Sberbank Rossii, Russia's state savings bank. This places Ukraine more and more in a general, Central European post-soviet trend, where most banking and financial institutions have been swallowed up by foreign entities. In Poland, for example, the state-owned share of banks is far higher than locally-owned private ones: 24% to 17%. In Romania, the contrast is far greater, with 8% state-owned banks vs 1% locally privately capitalized ones.

Unlike other Central European countries, however, the share of banks with foreign capital in Ukraine remains considerably smaller than in most post-socialist EU members and remains significantly smaller than the share of state-owned banks. Whereas foreign banks control less than one third of Ukraine's banking system today, in Poland they



control 59%, and in Romania or Czechia it's up to 90% and more. By contrast, here, the state-owned four major banks constitute 55%.

At the end of February, the Government signed on to the revised Foundations of Strategic Reforms of the State Banking Sector, which was prepared by the Ministry of Finance together with international financial institutions (IFIs). This means eliminating the differences between the Ukrainian banking system and banking systems in Central European countries. Among others, this strategy aims to reduce the state presence in the banking sector by half, to 24% by 2022 through partial or complete sale of state-owned banks, primarily to foreign banks. The expectation is that Ukrgazbank and Privatbank will be completely privatized by 2020 and 2022, either through sale to international strategic investors or through an IPO.

MinFin and the Cabinet are confident that this strategy in the banking sector will make the sector more profitable and more attractive to both foreign and domestic investors, which will, in turn, open access to additional financing at better rates and generate more revenues for the state budget. Restructuring is expected to generate up to UAH 160 billion of added value for the state, including nearly UAH 35bn in the shape of dividends and taxes, and over UAH 85bn from the sale of shares.

The question is, whether prioritizing such reforms in the banking system corresponds to Ukraine's broader national interest, both economic and political, which should focus firstly on fostering a strong domestic business sector and real economic sovereignty?

BARKING UP THE WRONG TREE

The measures contained in the Strategy are supposed to testify to the use of state banks to support SMEs. For instance, it states, "Improving corporate management will ensure healthy competitiveness among banks in the public sector, especially in micro, small and medium business." It further states that Oschadny Bank will "gradually shift the accent in its own operations from large corporate clients, such as state corporations, to mid-sized corporate clients and SMEs," while Privatbank's operations — prior to privatization? — "should be directed at building a limited portfolio of loans to legal entities that are known to be low risks, mainly by focusing on lending to SMEs." Ukreximbank is supposed to continue to mainly focus on financing export and import operations by Ukrainian companies because their options with private commercial banks are fairly limited.

Generally speaking, SMEs tend to depend more on bank loans than big companies do. Still, the results the Strategy anticipates by 2022 do not include the necessary priorities to help shape a powerful national SME sector. When we shift from the declarative portion of the Strategy to clearer indicators, it turns out that even at the level of a strategy there is an obvious bias towards supporting big business first and foremost.

For instance, of the UAH 440bn "additional resources available to lend to the corporate sector" that are supposed to appear as a result of carrying out this Strategy, only about a third, UAH 160bn, is planned to be lent to SMEs. Moreover, an additional UAH 240bn are supposed to be spent on "retail loans to support the consumer needs of Ukrainian households." In reality, this means stimulating the consumption of mostly imported durable goods, rather than industrial investment and the accumulation of capital by domestic business.

And take Ukreximbank, which is supposed to specialize in financing the export-import operations of Ukrainian companies, but is apparently planning to gradually stop serving clients with liabilities under UAH 100,000, or about US \$4,000, and to reduce its branches from 75 to 57. In other words, this is, once again, a distancing from the needs of small businesses, for whom bank loans are critical to support entering foreign markets.

The new strategy aims to reduce the state presence in the banking sector by half, to 24% by 2022 through partial or complete sale of state-owned banks, primarily to foreign banks

So the Government's current vision of a strategy for reforming the state-owned portion of the banking system is not oriented towards transforming it into an instrument for implementing much-needed national priorities, such as stimulating the emergence and strengthening of domestic businesses, especially SMEs, to aggressively grow their production volumes and export Ukrainian goods and services. It seems that the banking system itself is the goal, a thing unto itself, and so is maximizing its performance indicators, such as pre-tax profits — which, incidentally should be a bit more than €1bn based on an exchange rate close to what we have today —, the profitability of these financial institutions, which is around 18%, and "UAH 160bn of revenues in the form of dividends, taxes and the sale of stock."

What's more, people are once again talking about using the state-owned part of the banking system as a milch cow ■

to patch holes in the state budget meant for current consumption. All this is instead of directing the resources of the state-owned banks, which are now the largest, to spur economic growth by expanding and building up domestic business, especially SMEs.

THE IMPORTANCE OF LENDING

Nor does the Strategy provide for effective measures to stop the self-destructive tendency, which seems to be dominating the domestic financial market, of leaching credit resources that should be directed towards manufacturing and other commercial investment for consumers. This includes both through the government withdrawing capital by issuing domestic bonds to cover the budget deficit and through the lack of measures to ameliorate the situation when consumer lending is more profitable and becomes a priority for these banks. With their significant liquidity, these banks are focusing on buying state bonds and, if they do lend, they do so mostly for the consumption of goods that are not even Ukrainian.

THE STRATEGY FOR REFORMING THE STATE-OWNED PORTION OF THE BANKING SYSTEM IS NOT ORIENTED TOWARDS TRANSFORMING IT INTO AN INSTRUMENT FOR IMPLEMENTING MUCH-NEEDED NATIONAL PRIORITIES, SUCH AS STIMULATING SMEs, TO GROW THEIR PRODUCTION VOLUMES AND EXPORT UKRAINIAN GOODS AND SERVICES

This problem needs to be tackled immediately. Either public borrowing on the domestic market should be reduced altogether, or, if this is impossible, Ukraine needs to switch to the NBU directly buying up all domestic bonds in order to leave lending resources on the market. At the same time, both the Government and the National Bank need to find regulatory and fiscal instruments to reduce the profit and appeal of retail lending for banks and to increase its final cost to consumers. This should discourage both groups from a ruinous consumption that neither generates jobs nor support domestic business.

The extremely low level of accumulations and industrial investment that can be seen now cannot provide the necessary stimulus to the economy, let alone an impulse that might ensure the long-term average GDP growth of 10-12% a year that Ukraine critically needs. Only accumulation of capital of over 35% can offer a chance at structural revival and progressive economic growth. In most countries that have demonstrated sharp growth over the last century, it was almost always based on internal financial resources. Foreign investment and lending supported this dynamic after it was already in place.

For this to happen, the banking system has to become primarily an instrument to motivate individuals and businesses to grow their savings, to be responsible about how they invest them, and use them for growth, not consumption. So far, this has always been upside-down in Ukraine. In their pursuit of intermediary profits, bank managers and employees tried by whatever means they could to get people to borrow, often even closing their eyes at the applicant's unreliability. Meanwhile, the banks themselves became dependent on injections of external resources to feed this destructive habit. Right now this negative trend threatens to emerge in different circumstances, especially if the lion's share of the banking system ends up in foreign hands. That will make directing state policy at growing

domestic business much more complicated than it is now, while the banks are state-owned.

In fact, Ukraine's state-owned banks have accumulated an enormous portfolio of bad debt, over UAH 400bn worth, or over US \$15bn, which constitute 67% of all such debt in the banking system today. More than 90% of this bad debt held by state banks is in the corporate segment and enterprises. But this does not mean that state policy should aim to complicate the terms for lending to business, as happened in the last few years. Experts are already pointing out that, with a slew of complicated requirements that make it harder to issue a loan, Ukraine is already well ahead of other countries in the world, including its main competitors.

On the contrary, the process of growing credits to the manufacturing sector should be unblocked, while the procedures for seizing collateral, declaring bankruptcy and changing owners or selling off company assets to cover debts should be simplified for cases where the borrower cannot or will not service its debt, or shows no readiness to look for a compromise in restructuring that debt. Meanwhile, a slew of bills has been gathering dust in the Verkhovna Rada for years, all of which are intended to increase the level of guarantees for creditors.

In the interests of rapid economic growth and business, credits need to be as cheap as possible and to be issued in large volumes. At the same time, borrowers need to be highly disciplined, and bankruptcy or seizure of assets for those who cannot meet their obligations, need to be highly simplified. Only under these conditions will it be possible to count on steep economic growth, even should there be a massive wave of bankruptcies among less-successful entrepreneurs — something that is quite normal for capitalist economies.

State banks need to become an instrument for stimulating exports of goods and imports of technologies and equipment to spur growth in the SME sector. Cheap credit through state banks is important precisely for small and medium businesses that export their own goods or are at least undertaking projects to expand manufacturing.

Meanwhile, neither in the Cabinet nor in the highest political circles in Ukraine is there a clear plan for directing funds to the productive manufacturing sector of the economy, let alone the consistent implementation of such a plan. There is no strategy for strong credit and financing support for the development of domestic SMEs, which are far more dependent on loans but with whom private commercial banks are not prepared to work at the necessary levels.

Ukraine's nearly 2 million SMEs continue to be forced to borrow with great difficulty and at usurious interest rates. Meanwhile, their competitors in other countries are able to borrow at rates that are several times, if not an order of magnitude, lower. And so only a fairly small portion of Ukraine's SME sector today is involved in manufacturing.

Even worse, Ukraine's state banks are actively engaged in programs to promote products from other countries on the domestic market. For instance, Ukreximbank has a series of products aimed at SMEs like "Belarusian imports," under which the government of Belarus returns part of the loan interest to the borrower, equal to 2/3 of the NBU prime rate, but not more than 8% pa. Such loans are issued for the purchase of farm equipment, transport vehicles or new equipment made in Belarus. Meanwhile, similar products to promote Ukrainian equivalents on the domestic market, let alone on foreign markets, simply don't exist. ■

7 steps to a new bank strategy

The Cabinet of Ministers has revised its plans for a strategic restructuring of the state banking sector in 2018-2022

Oksana Markarova, First Deputy Finance Minister of Ukraine

In February, the Cabinet of Ministers approved revised principles for a strategic restructuring of the state banking sector over 2018-2022. These principles needed to be revised mainly because of the nationalization of PrivatBank. Not only did the takeover of PrivatBank increase the state-owned share of Ukraine's banking system to 55%, but it also raised the need for a thorough analysis of the new situation on the market and the options for developing the banking sector over the next five years.

MOVING ON FROM THE MOSTLY COMPLETED OLD STRATEGY

Since the previous strategy was drawn up and approved, we have managed to achieve considerable progress on most of its objectives. Under the leadership of Kyrylo Shevchenko, UkrGasbank has begun operating in eco-banking or sustainable banking and has managed to generate a substantial portfolio of eco-loans. With less than 0.1% overdue, these are already showing strong performance results and are making it possible to attract long-term cheap money in euros. UkrGasbank's troubled old portfolio is now down to 20% of what it was even as the bank's team is continuously being built up with well-known market professionals. UkrGasbank has become the first bank to attract independent members to its supervisory board and set up all the necessary subcommittees, which have begun to work according to best international practice.

Oschadbank is being transformed from an inefficient soviet-style savings bank into a proper modern bank thanks to the active efforts of Andriy Pyshniy and the bank's team. A total of 550 new-style branches have been launched while 1,300 of the older, inefficient ones have been significantly upgraded with better service. In addition, Oshchad24 online banking has been launched. Oschadbank has also made tremendous progress with its lending portfolio and is undergoing titanic transformations, from working actively with NPLs and undertaking four financial restructurings to filing the first, and hopefully successful, suit against the Russian Federation for the theft of Oschadbank assets in Crimea. Meanwhile, the bank has managed to completely change its philosophy of work and launched "Build Yours," a large-scale program of micro and small loans aimed at developing entrepreneurship.

Under Oleksandr Hrytsenko, Ukreximbank has reduced its branches to 36 in recent years, centralized all its processes, left the retail market altogether, for both deposits and loans, and begun to return to its core com-



A strategic task. As a shareholder, the state also needs to generate financial value and compensate for the budget funds that have been invested. This means partly or fully selling state-owned banks

petency: supporting import and export operations and participating in international financing programs.

All these steps have been noticed and have made it possible for both Oschadbank and UkrGasbank to start attracting capital from international financial institutions. In November 2016, Oschadbank signed a strategic memorandum with the European Bank for Reconstruction and Development (EBRD), while UkrGasbank signed one in November 2017 with the International Finance Corporation (IFC), a member of the World Bank Group.

Meanwhile, as part of the previous strategy, the Finance Ministry reduced its participation in the banking sector by withdrawing from the smaller state and quasi-state banks. Kyiv Bank was transferred to Ukrgasbank, the Land Bank was liquidated, Rodovid Bank has been slated for liquidation, and the Ukrainian Bank for Reconstruction and Development was sold through a transparent privatization tender to a Chinese strategic investor.

Still, December 2016 brought PrivatBank instead and the old strategy suddenly had to cover the biggest retail bank in the country while we worked on a new strategy. Because of this, a supervisory board was set up at the bank with predominantly independent members, who elected an independent chair, Turkish banker Engin Akçakoca. Within a year, this independent professional board together with the bank's management has shown good results, first swiftly stabilizing the situation at the bank and since then working on its development.

IMPROVING CORPORATE GOVERNANCE AS A STRATEGIC FOUNDATION

The old strategy required setting up supervisory boards consisting of a majority of independent members selected from among professional banking and financial specialists. Through the quality of their work both in oversight and in assisting bank management, the appointment of a supervisory board at PrivatBank and having a majority of its members be independent specialists at Ukrgasbank, demonstrated that independent boards are a mandatory component for any strategy to work. This kind of corporate governance makes it possible to put together a high-class management team, to approve quality policies and to reduce political influence at state banks to a minimum.

Various Governments have spent some **UAH 266.2 billion** over the last decade to prop up nationalized and state-owned banks. Every time this money went to forced capitalization rather than to developing the state banking sector

This philosophy of governance, which is supported by Premier Groisman and the Finance Ministry, is also being applied in the reform of corporate governance at other state enterprises. It provides assurance that lending decisions at the banks will be made strictly on a commercial basis and not for political reasons. Bill #7180, which establishes the necessary changes to extend corporate governance to Oschadbank and Ukreximbank, has already gone through complicated review involving all stakeholders over the past year. The bill is currently supported by the banking committee and has been placed on the VR agenda. I'm confident that it will be supported in the Rada as well.

CAPITALIZING BANKS AS THE GOVERNMENT'S FIDUCIARY DUTY TO TAXPAYERS.

Various Governments have spent some UAH 266.2 billion over the last decade to prop up nationalized and state-owned banks. Every time this money went to forced capitalization rather than to developing the state banking sector: UAH 12.4bn to Rodovid Bank over 2009-2011, UAH 13.3bn to Ukrgasbank over

2009-2015, UAH 3.6bn to Kyiv Bank, and UAH 155.4bn to PrivatBank.

The 2014 crisis was no exception. Because of the troubled portfolios that it led to, Russia's military aggression, the occupation of Crimea and parts of Donbas, the loss of the Russian market, incompatible lending practices and "political" lending, Oschadbank was injected with UAH 31.2bn over 2014-2017, Ukreximbank got an additional UAH 22.0bn, and Ukrgasbank a further UAH 3.8bn. This represents colossal public cost—money the government is spending to support the capitalization and liquidity of its own banks. This is the main reason why the new strategy is aimed at creating as much value as possible in each of these banks through a combination of future dividends thanks to improved operational profitability and income from the sale of some banks.

One of the anticipated results of implementing this strategy will be that banks in the public sector will be able to generate as much as UAH 160bn in value for the country, including nearly UAH 35bn in the form of dividends and taxes, and nearly UAH 85bn in the sale of shares. And this is only from standard banking activities.

In this way, even without any additional income that might come with successful suits against the former owners of PrivatBank, against the Russian Federation on behalf of Oschadbank and PrivatBank, and one on behalf of Rodovid Bank, we have set ourselves, the Supervisory Boards and bank managements the objective of bringing UAH 160bn to the budget over the next five years.

FINDING REAL SOLUTIONS TO THE PROBLEM OF BAD LOANS IN 2018

We had our own idea of how to resolve the issue of bad loans, but our proposal did not make it into the old strategy: at that point in 2016, we were unable to find consensus with the National Bank and our international partners about the need to systemically and swiftly regulate the troubled portfolios that had accumulated prior to 2014. Back then, the Ministry proposed setting up a special institution where state banks would transfer all these bad loans. This would have required a special law, which we had already drafted, to establish an agency that would take over all the state bank portfolios, and an independent supervisory board based on the principles that we have now enshrined in Bill #7180 that would temporarily be granted broad powers to foreclose. But this did not happen and so every bank has been busy trying to regulate its bad loans and sue borrowers on its own. Since then, the banks have achieved some progress, but are still far from done, precisely because, as we see it, there is no systemic approach to this problem.

That's why our new strategy clearly states that, unless the question of troubled portfolios is resolved, the strategy will be difficult to implement and it sets down the principles for this resolution. This most certainly will not be a bad bank—more than likely, at this stage, it won't even be a separate institution. We're talking about raising requirements of banks in order to resolve these issues in our quarterly KPIs. At the same time, we're setting up a platform—an independent committee, at say, the Financial Stability Council—where policies will be discussed and approved, not in relation to

a single bank, but system-wide. The structure of the committee and the mechanisms by which it will operate will be devised by the Finance Ministry with the support of IFIs over the next few months.

Such a platform will mainly work on borrowers who have chalked up debts at more than one bank, and so issues will have to be discussed in common. We tried to do this within the framework of the Law “On financial restructuring,” which provides a mechanism by which all banks who have the same problem borrower get together and handle the problem jointly.

When it comes to troubled assets, however, it is not just a matter of old portfolios. The Ministry of Finance has three main objectives with troubled assets at state banks:

- 1) to demand, as a shareholder, and encourage the banks to finally come to a decision on every problem loan in their portfolios that had accumulated prior to 2014 and to do so as publicly as possible;
- 2) to do the most to improve the state of affairs with both creditors’ rights and property rights;
- 3) to ensure the necessary corporate governance and processes so that banks don’t generate new bad loans in such volumes. This is where we present bank management and supervisory boards with specific KPIs for both old and new portfolios.

ACCENTUATING INDIVIDUAL STRATEGIES

Alongside work to revise strategic principles over the past year, the Ministry and the banks themselves were busy producing results that have had a significant impact on the final version of these principles. A strategy was drafted for PrivatBank and Oschadbank’s strategy was updated with the assistance of McKinsey, a global consultancy. Ukrgasbank’s strategy was also tested and approved. In addition, we carried out an analysis of troubled portfolios of three state banks with the assistance of the Promontory Financial Group and JICA, the Japanese International Cooperation Agency. After the draft strategy was presented to the portfolio VR committee in September 2017, it was actively discussed and rewritten for the following four months with specialists from the NBU, international partners, MPs, and the expert community. The result was a very clear vision of strategic principles for the four banks and properly detailed strategies for each of them, complete with specific goals and KPIs for management.

PrivatBank is the clear leader in retail banking in Ukraine, with a specific focus on the payment business. The main goal is to expand its retail portfolio and payment business, to rebuild a limited loan portfolio of low-risk loans to legal entities with an emphasis on lending to SMEs, and to strengthen the loan underwriting and IT platforms, as well risk management and control instruments. The goal is also to streamline pricing of assets and liabilities, and to restore the profitability of the bank, probably in 2018.

Oschadbank wants to preserve its position as the largest universal bank in Ukraine by introducing operational and commercial projects aimed at improving its efficiency and profitability. The bank will hold on to its strong market position in the corporate banking system and gradually shift its focus from major clients, including state enterprises, to medium corporate business and SMEs. In terms of its retail business, the bank will focus on promoting compatible credit and transactional products to its many clients and to expand its “Build Yours” program.

Ukreximbank will begin to focus most of its attention on financing export-import operations, including trade operations, by Ukrainian companies, for whom access to financing from private commercial bank is quite limited. To ensure the stable profitability, the bank will put together a detailed transformation plan what will include KPIs for the next five years and a plan for synergies with the Export Credit Agency (ECA).

Ukrgasbank will continue to develop as the main eco-bank in Ukraine, focusing on financing technology projects by corporate clients and SMEs that are connected to energy efficiency, renewable energy, resource efficiency, pollution reduction, and so on.

Based on these strategies, these four banks should see greater profitability and ensure return on equity over 12% by 2022.

REDUCING THE STATE PRESENCE IN THE BANKING SECTOR TO 24% BY 2022

Reducing the state-owned share will bring the Ukrainian banking services market closer to its European neighbors, improve its investment appeal and make it more efficient. We propose gradually reducing the state’s presence on the banking market from 55% in 2018 to 24% in the medium term. Ukrgasbank and PrivatBank are expected to be completely sold off in 2020 and 2022.

BANK INVESTORS ARE GENERALLY THE MOST CONSERVATIVE AND, BEFORE WE CAN EXPECT TO SEE THEM IN UKRAINE, IFIs AND PORTFOLIO INVESTORS ARE LIKELY TO COME FIRST. PLANS ARE TO ESTABLISH CONDITIONS TO ATTRACT MINORITY SHAREHOLDERS SUCH AS IFIs FOR UKRGASBANK BY THE END OF 2018, AND FOR OSCHADBANK AND UKREXIMBANK BY THE END OF 2019

We understand that bank investors are generally the most conservative and, before we can expect to see them in Ukraine, IFIs and portfolio investors are likely to come first. Plans are to establish conditions to attract minority shareholders such as IFIs for Ukrgasbank by the end of 2018, and for Oschadbank and Ukreximbank by the end of 2019.

The government will also avoid engaging in any initiatives that could lead to its share of the banking system expanding. Given this, there is no purpose to establishing any new state banks.

SUCCESSFULLY CARRYING OUT THE STRATEGY AS A SPUR TO ECONOMIC GROWTH

The government strategy in the banking sector is based on the goals of economic growth and on the state’s objectives as a shareholder in commercial banks. Among the main objectives in fostering economic growth are support for financial stability and easing access to loans and banking services. As a shareholder, the state also needs to generate financial value and compensate for the budget funds that have been invested. This means partly or fully selling state-owned banks.

Our strategy is the result of the efforts of many Ukrainian and international experts. It is a balance of ambitious and realistic goals. By implementing it, we will end up with a smaller and healthier public banking sector and growing competitiveness in the entire industry. This, in turn, should provide a good spur for Ukraine’s economy to start growing more quickly. ■

Disaster in the making

What the barbaric deindustrialisation of the occupied Donbas could lead to

Denis Kazanskyi



A lethal Yunkom. It is impossible to believe the conclusions of "DPR scientists" that the flooding of the dangerous mine will not affect environmental conditions

The government of the so-called Donetsk People's Republic (DPR) has announced its intention to flood the closed Young Communard mine (Yunkom) in Yenakiyeve by the end of this month. It would seem that this is routine news and should not surprise anyone. Over the last four years, mines in ORDiLO (Occupied Regions of Donetsk and Luhansk Oblasts) have been ruthlessly destroyed and flooded. According to the OSCE, 36 mines have been destroyed since the beginning of the conflict in the East of Ukraine and can no longer be operated due to flooding or complete inundation. But Yunkom is special. In 1979, nuclear tests were carried out inside it, so flooding could have unpredictable consequences for the ecology of the region. However, the "DPR" believes that flooding the nuclear mine will not put the population in any danger.

For obvious reasons, the inhabitants of the territories controlled by the illegal armed formations have no way to dispute this.

Much has already been written about the considerable deterioration of the ecological situation in ORDiLO due to uncontrolled and thoughtless flooding of mines. According to more data from the OSCE, there is currently no functioning drainage at all in some areas uncontrolled by Kyiv – from Yenakiyeve to Horlivka, around Pervomaisk and in parts of Donetsk, Makiyivka and Shakhtarsk. The concentration of pollutants in soils, in particular mercury, vanadium, cadmium and strontium, sometimes exceeds norms by 17 times in areas that have seen combat. According to Deputy Minister for the Temporary Occupied Territories Yuriy Hrymchak, studies published by Rus-

sian media outlets in 2017 indicate an eightfold increase in the level of salt in the water of ORDiLO. 80 sources of drinking water in the uncontrolled territory are now unfit for use.

But all this is a mild inconvenience compared to what may happen as a result of flooding Yunkom. After all, its depths are home to radioactive substances that were formed as a result of the nuclear explosion. Although the tests in the mine were carried out 40 years ago, today nobody knows exactly what the consequences would be if groundwater erodes the radioactive rock.

The sick experiments of the soviet government on its own citizens will long be a reminder of the “good old days”. The idea to arrange nuclear tests in one of the most densely populated regions of the USSR came to officials in the 1970s. According to official information, the nuclear explosion was carried out to degasify the coal seams. Yunkom had a bad reputation as a “gassy” mine in the Donbas and it was characterised by a high frequency of sudden methane and coal dust emissions during mining operations there. From 1959 to 1979, there were 235 gas emissions, 28 of which ended in the death of miners. Therefore, scientists decided to conduct an experiment in the mine to shake up the coal beds in order to free all the methane in them at once, so they would no longer pose a threat to life.

The explosion did in fact somewhat reduce the gas content of the mine. Despite this, the official justification of the experiment seems unconvincing. From the very beginning, it was clear that this was an unrealistic way to combat methane in mines across the whole country. It would be enormously costly and dangerous to arrange nuclear explosions at every potentially dangerous mine – the already unprofitable coal industry would never be able to pay back the expense. Any novice economist would say that it is cheaper to simply close down a dangerous mine than blow it up with an atomic bomb. Therefore, another theory that the nuclear tests were actually conducted for military purposes can be seen as more logical. All documentation related to the experiment was taken to Moscow at the time and is still classified, so today only the Russian intelligence services would be able to say for sure why it was all necessary. Due to the lack of documents, there is still no clear answer to the question of what is happening now deep in the mine and how the consequences of the explosion could continue to manifest themselves.

Not much is known about the details of the experiment. The nuclear device for Yunkom was manufactured in the closed city of Arzamas-16. It was installed in a chamber of a sloping mine opening at a depth of 903m between the coal seams. In order to prevent the release of gaseous products from the explosion, it was blocked off by 6-10m thick reinforced concrete bulkheads. On the day of the experiment, September 16, 1979, the inhabitants of the houses above the epicentre of the explosion were taken outside the village of Yunokomunariivsk, where the mine is located. The rest of the residents said they felt a strong underground shock, like during an earthquake.

The very next day, Yunkom returned to normal operations and the mining team went underground. The inhabitants of the village and miners were not informed about the details of the experiment and were not told anything about the nuclear explosion in the mine. But the information still got out through unofficial channels. People were only able to find out the details of the nuclear testing with the onset of Glasnost. It became public knowledge that the blast formed an oval chamber in a layer of sandstone that, according to scientists, now contains 95% of the radioactive products. This chamber was named the Klivazh [Rift] Site.

For over 20 years after the blast, the facility operated, but it was recognised to have no future during the restructuring of

the mines. In 2002, Yunkom was officially shut down and put into a dry closure regime. Subsequently, the Ministry of Coal Mining adopted a decision to continue pumping out the water in eternity, which nobody dared to reconsider until 2018. But by the end of April, the “eternal pumping” will be stopped by decision of the “DPR” militants. After this, groundwater will flood the Rift.

No Ukrainian government dared to flood the nuclear mine. By contrast, first the soviet authorities set up a new experiment in a region populated by 5 million people and now the “DPR” is going to flood the results of this experiment with groundwater.

The consequences of this step are difficult to predict. Even in 2011, when the author of this article investigated the Yunkom problem and spoke to inhabitants of the mining town, people expressed fears that the mine could be flooded and complained that the consequences of the nuclear tests have negatively affected their health. It is impossible to precisely calculate who in Yenakiyev has lost years of their life due to the radiation. It is the same as with the Chornobyl victims: some died soon after responding to the incident and others are still alive today. One thing is clear: it is impossible to conduct a complete study in an unrecognised “republic” led by an armed group of former chicken traders and multi-level marketing operatives. It is impossible to believe the conclusions of “DPR scientists” that the flooding of Yunkom will not affect environmental conditions.

THE CONCENTRATION OF POLLUTANTS IN SOILS, IN PARTICULAR MERCURY, VANADIUM, CADMIUM AND STRONTIUM, SOMETIMES EXCEEDS NORMS BY 17 TIMES IN AREAS THAT HAVE SEEN COMBAT. STUDIES PUBLISHED BY RUSSIAN MEDIA OUTLETS IN 2017 INDICATE AN EIGHTFOLD INCREASE IN THE LEVEL OF SALT IN THE WATER OF ORDiLO

“Groundwater will enter Hapurivka (a pond near the slag dump of the metal factory and mines 1-2), then the third pond, which will be very serious. It is drinkable and is now basically responsible for supplying water to Yenakiyev. Nearby there is a hydraulic mine that has been flooded for a long time. From all over the Donbas, poisoned waters will leak into Russia,” local residents shocked by the militants' decision to flood Yunkom have written on social media.

In the summer of 2017, the residents of Yunokomunariivsk dared to join a spontaneous “people's meeting” against the flooding of the mine. People were prompted to take this desperate and risky step under occupation by the real danger of radioactive contamination of the groundwater. They hoped that the so-called DPR government would hear them and decide not to turn off the pumps at Yunkom. But the “DPR” did not listen to the opinion of Donbas residents. Which is no surprise. People do not usually capture territories to do good for their inhabitants. Nobody will listen to people that have no rights. And the population of ORDiLO was deprived of all its rights in 2014, when armed gangs controlled by the Russian Federation seized power.

Unfortunately, Russia is the last hope for the inhabitants of Yenakiyev. Before the mine is flooded, there is still a small chance that curators in Moscow will put a stop to the barbarity of their underlings. After all, the radioactive waters could impact neighbouring Russian regions. In a situation where the population of Donbas is unable to find a solution, all they can do is hold out hope for the Russian Tsar in Moscow. But does he care about the suffering of some small people in the grey zone that the Kremlin officially calls Ukraine? Judging by the latest developments in Russia, this is unlikely. ■



PHOTO: ANDRIY LOMAKIN

Akhtem Seitablayev:

“I have set a line for myself beyond which an honest discussion of complicated matters turns into propaganda”

Interviewed by **Anastasia Levkova**

The Ukrainian Week met with Akhtem Seitablayev, director of *The Cyborgs*, *Her Heart* and *Haytarma*, to talk about contemporary Ukrainian film, about propaganda in movies, about what unites Crimean Tatars today, and about Crimea House in Kyiv, which Seitablayev has been running since early 2017.

You acted in Mamai and Bohdan-Zynoviy Khmelnytskyi, names that immediately tell us these were concept films that are significant for the historical thinking of Ukrainians. You also directed Haytarma and Her Heart [A Foreign Prayer in Ukrainian -- Ed.], films that look at key events in Crimean Tatar history. How much impact have the first two had on discourse on Ukraine's history? What messages about Crimean Tatars were

you hoping to get across in the other two?

— First of all, it's no secret that Crimean Tatars or Qirimli—I like that name a lot better—and Ukrainians have rubbed shoulders together for several centuries and they have many common events in their histories. And not only that, but we've taken a lot from each other, both in our way of life and in our language. Secondly, in terms of films and their subject matter, I'm a Ukrainian of with Crimean Tatar ancestry. I'm both a Ukrainian and a Crimean Tatar, so for me it's normal to at in movies about Ukrainian and Crimean Tatar historical events. I dreamt about the film *Haytarma* for a very long time. When we found financial backing, we did it. The same is true of *Her Heart*—this was my tribute,

mine as a Qirimli and as an individual whom the Universe has given such an instrument as cinema. I wanted to scream out loud about the tragedy of my people, but also for basic human values: about the safety of our children, the health of our parents, about rights and dignity, in my own language and living in my own homeland. That's why these movies are interesting to viewers in many different countries.

How much do you have to explain to foreign viewers when Haytarma or Her Heart plays abroad?

— Basically, I don't, although most viewers do ask, “Surely it wasn't like that?” When you start to explain to them, saying look, close to 30 different peoples were deported under the Soviet Union, 10 of them completely—

Akhtem Seitablayev is a Ukrainian filmmaker of Crimean Tatar descent. Born in 1972 in Uzbekistan, he came to Crimea when he was 17. He then studied in Kyiv, performed in a theater in Simferopol, and made his film debut in 2003. He has played roles in films about major historical figures such as *Mamai* and *Bohdan-Zynoviy Khmelnytskyi* and has made films about events in Crimean Tatar history, the best known being *Haytarma* and *Her Heart*. Seitablayev admits that historical and social themes that lie buried in the heart of society have interested him more than anything in the last few years. In December 2017, his latest film, *The Cyborgs*, about the defense of Donetsk Airport in 2015, was released.

among them the Qirimli. Then you turn around and ask them: “Do you understand what kind of country that was, if the foundation of its existence was built on the humiliation or destruction of entire peoples?” At The Hague viewing, with quite a few diplomats in the audience, the US Ambassador said that he had heard about this story, but long ago, and now, after watching my film, he understood the scale of the tragedy. I’m hoping that the film *The Cyborgs*, which will also soon play in a number of other countries, will be understandable to viewers. We have built the artistic structure of our story so that even foreign audiences will be able to understand clearly what was going on. So that they understand that we have an ongoing war with the Russian Federation and with some of the representatives of the occupied territories, yet it’s not a civil war, but a war of the soviet past with the civilized future. At least that’s how I see it. Maybe we will have to make some kind of prologue to *The Cyborgs*, to extend the titles, so to speak, so that people see what it started with, what kept it going, and what keeps it going, unfortunately, to this day.

Since Ukraine became independent, only the truly lazy had no complaints about Ukrainian filmmaking. When Ukrainian-made movies came out one or two a year, many were very disappointed both in its quality and its quantity. After all, we’re a big nation and we don’t even have our own film industry. The situation is now changing: more movies are being made and the quality is much improved compared to those made even in 2012. How much is this a reflection of state policy and financing or are there other reasons?

— A mess of problems made it difficult for Ukrainian cinema to even exist, never mind be of good quality. And now there is a series of things

that are helping us feel that Ukrainian cinema has begun to take steps to a rebirth. Of course, funding is a very big factor. People, including creative individuals, live every day and have to resolve everyday issues all the time. Not that many people go into the arts, because they knew that they needed to put food on their tables every single day. Slowly but surely, projects began to appear and funding was found. Gradually the state began to understand that culture is the backbone of a nation, the thing that keeps it all together. The products being made are more and less high quality, which is completely natural. Even with Hollywood, we only see the stuff that has made it through a series of filters, films that turned out to be interesting to viewers all over the world. It just doesn’t happen that only super high-quality movies are released. People need to understand that, on one hand, it’s very important that the state is supporting cinema, but on the other, it’s important to be prepared to accept that money is not the only question. One of our big problems is professionalism: there aren’t enough professionals because there was a huge failure in education. That’s why any attempt to improve Ukrainian cinema needs to be a set of solutions that includes professional development and expanding cinemas. There should be at least three times more than what we have today. After all, 60% of Ukrainians don’t have the option of seeing a movie in a theater. There aren’t enough in major cities, while in towns like Konotop, with a population of nearly 90,000, there isn’t a single movie hall.

Is it time to talk about some uniquely Ukrainian feature in our contemporary cinema?

— Hard to say. In the sixties and seventies, the films that were being made wove together the notion of

“poetic Ukrainian cinema.” Maybe our modern movies have something of that tradition about them. Sometimes people tell me that in *Haytarma* and *Her Heart* I supposedly continue this tradition. If that’s really true, that’s a real honor for me. I have watched a lot of Ukrainian films and quite a few are world-class masterpieces. I’m a Ukrainian of Crimean Tatar ethnicity and it’s natural that my orientation is, possibly even unconsciously, towards my Ukrainian heritage.

Have you determined for yourself that there is a point at which a film becomes propaganda? Are you worried about crossing that line?

— For sure, that worries me. Somebody once said that taste is a category of morality. That makes it hard to say where propaganda starts. I have set a line for myself beyond which an honest discussion of complicated matters turns into propaganda. I’m categorically against rah-rah patriotism, because it does a lot of harm to concepts like your flag, your homeland, and the country as a whole.

Does Ukraine have a lot of rah-rah patriotic films?

— A few, and they’re pretty bad. When people ask me, “Don’t you think your film is propaganda?” and I answer “If popularizing common sense is propaganda, then yeah.”

Do you consider yourself a maker of patriotic films?

— I don’t care to talk about myself like that. Maybe it’s just my own internal state and my need: to make movies about historical themes or about contemporary socio-political events. Thanks to the Almighty and my team, I’ve been able to make only those films that interest me in the last few years, films that I really want to make. I’d like to make a variety of films and I’ve worked in very different genres. I really love comedy, fantasy—and basically any quality movie. Movies in general. But it happened that *Backstreet Champions* was about social issues, then came *Haytarma*, *Her Heart* and *The Cyborgs*—and these are the themes that echo inside me the most right now. God willing, the next one will be *Zakhar Berkut*, and my dream is to do *The Battle of Konotop*. But I also really, really want to do a comedy.

What is it that unites modern Qirimlis? What is the basis of their identity?

— There's lots there. We have a common history—I prefer not to use the word “tragedy” here, but all the vicissitudes that we have undergone and are still going through. And a common language...

Most of us understand Crimean-Tatar and many speak it in their daily lives. Of course, if schooling took place in Crimean-Tatar in kindergartens, schools and universities, it would be fully functioning among us. Otherwise, it's just a language spoken at home. What also unites us is customs: the Qirimlis, if I may say so, have a strong tradition of upholding traditions. That's true of everyday life, such as in our cuisine, and in celebrations, both religious ones and folk feasts. A common struggle also unites us: unfortunately, the Qirimlis have had to prove their right to live in their homeland and their dignity for several centuries now. This

regardless of ethnicity and nationality. Mainly I'm thinking of young people and we've already achieved something in this direction. Every week, there are presentations of books, lectures, exhibitions and conferences. Sometimes we even put on a play. Moreover, it's all being born right here, not brought in from elsewhere. In addition to that, we are able to teach children: they can learn choreography and English, for example. Once we finish renovations, Crimea House will be able to offer a lot more options.

Is Crimea House intended just for Crimean Tatars?

— It was set up to work for the cultural aspirations of the displaced people. But I always make a point of stating that Crimea House's doors are open to everyone. It's there to tell everyone about Crimea, to raise the blind and to remind both those who are from there and those who

are not Crimean about it. For the first time in history, on Independence Day last year, we had a Crimean open-air event in the center of Kyiv, on Poshtova Plushcha. When you think of it, it's rather strange

that this was the first time in 26 years. It just goes to show how little was being done so that we would know something about each other. This is a real problem, because in all the years of independence, up until the second Maidan, everything seemed calculated to prevent us from knowing anything about each other. All this fear-mongering about Crimea and its never-satisfied Crimean Tatars, that they wanted to cut off this territory, to join Turkey... that Western Ukraine was filled with separatists, banderites, while the North was all Russian-speaking and wanted to join Russia, together with the East. We live in fear, one of the most powerful human emotions. And when a person is constantly in that kind of emotional stress, very little time and strength is left to think what kind of roads we're driving on, whether we live in a society that is based on the rule of law, or whether our parents are going through a dignified old age. Against this background, whoever is in power can take care of his own business without worrying that the public will start questioning why we are

living like this. If our kids live next to each other all their lives, go to the same schools, then to the same universities, sometimes fall in love with each other, and we keep telling them that Ukraine is a multi-ethnic country, that everyone should feel part of the whole, if every day we do something to uncover the beauty of this variety, then maybe there won't be any war. Perhaps the Almighty needed us to go through these tragic events so that we would finally learn to open our eyes, to hear and recognize one another, and tell our stories. This is one of the purposes of Crimea House and we are now doing what we're doing, engaging in the arts, for this to become possible. Culture is a powerful toolkit for stitching a country together and for us to tell each other about ourselves.

When Crimea House opens in Warsaw as planned, will it also be this kind of cultural hub?

— Definitely. The Poles have enormous institutional know-how and experience developing organizations. What's more, they are our nearest neighbors—possibly our most important ones—, and we have many common plans. I was at viewings of *Haytarma* several times in Poland and right now we've shared some dreams and plans for movies with our Polish colleagues. If something were to come up in the way of a joint project with Crimea House, that would be great.

Now that you're in charge of a government institution, how difficult is it to combine your creative side with being an official?

— Indeed, combining the two isn't easy. But it's mostly a question of your team, and in that sense I'm a very lucky guy. Both in filmmaking and at Crimea House, I have a terrific team. People's eyes are on fire and they're bubbling with creativity. At the same time, they understand not only WHAT's worth doing, but HOW to do it as well.

Where will The Cyborgs be showing in the next while?

— The Ministry of Information Policy, the Ministry of Foreign Affairs, our production team and the Verkhovna Rada Committee for European Integration have put together a program. Plans are to show *The Cyborgs* in Turkey, Poland, the Baltics, in France at Strasbourg, in the US and in Canada. ■

THE QIRIMLIS HAVE HAD TO PROVE THEIR RIGHT TO LIVE IN THEIR HOMELAND AND THEIR DIGNITY FOR SEVERAL CENTURIES NOW. THIS HAS FORMED A VERY STRONG BACKGROUND FOR CRIMEAN TATARS. IT LIVES IN EVERY FAMILY AND IN EVERY QIRIMLI

has formed a very strong background for Crimean Tatars. It lives in every family and in every Qirimli.

The British writer Lily Hyde, who wrote a novel called Dream Land about the repatriation of the Crimean Tatars, once said in an interview that oral history kept the Qirimlis together for a long time. What role has that played in your family?

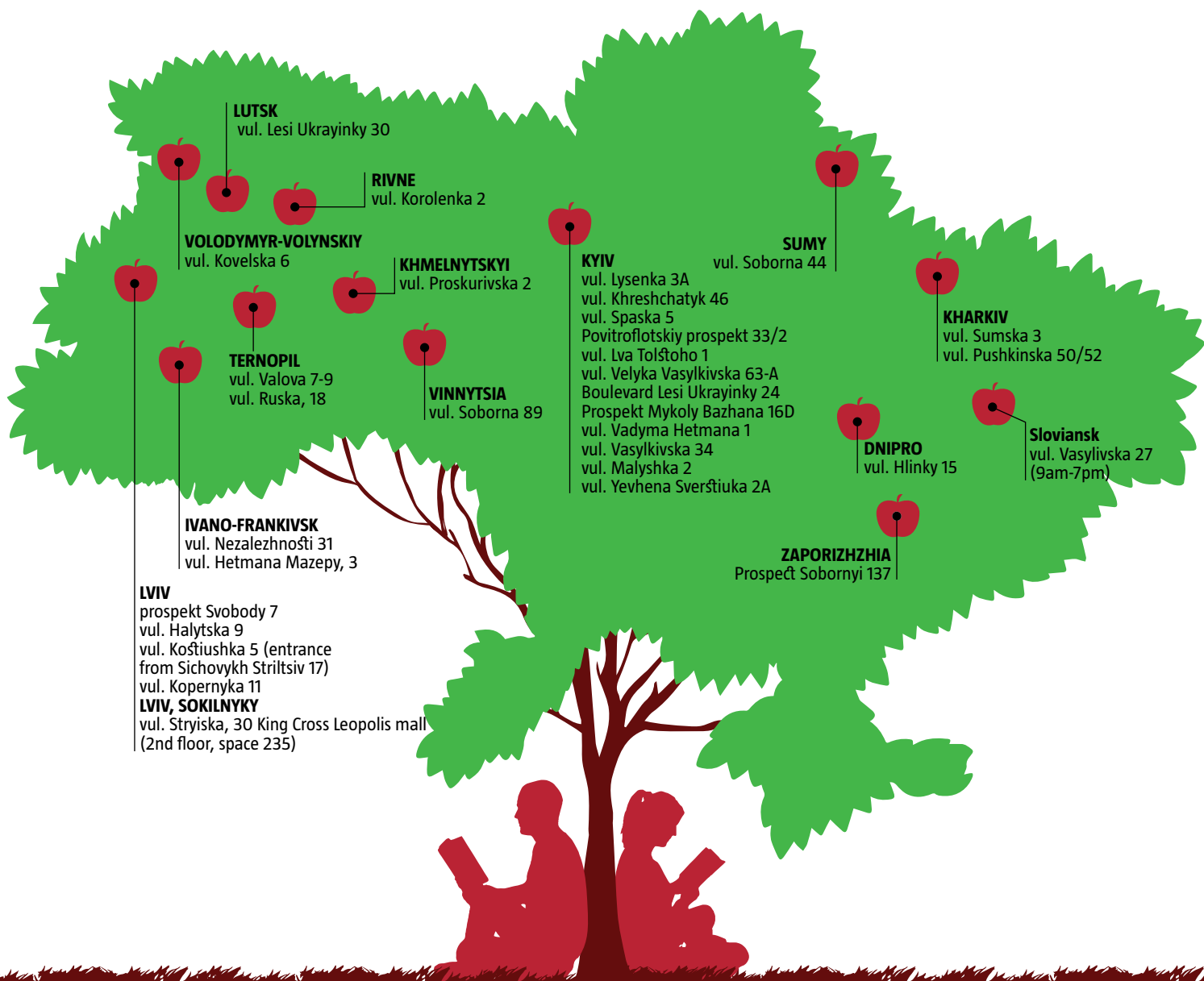
— Actually, quite a serious role. I heard about Crimea constantly, and about how we would return there one day. There was never any doubt when my grandparents or parents spoke of it that this would happen. No one ever said “If we return,” only “When we return.” Now I wonder where that confidence came from. But my parents believed it and we returned.

You are now director of Crimea House, a state enterprise that began to work after the occupation, meaning not that long ago. What would you like to see Crimea House develop into, in time?

— I'd like to see it turn into a cultural hub where new meanings can find life with doors that are open to all,



BOOKSTORES



LUTSK
vul. Lesi Ukrayinky 30

RIVNE
vul. Korolenka 2

VOLODYMYR-VOLYNSKIY
vul. Kovelska 6

KHMELYNYSKYI
vul. Proskurivska 2

TERNOPIL
vul. Valova 7-9
vul. Ruska, 18

VINNYTSIA
vul. Soborna 89

IVANO-FRANKIVSK
vul. Nezalezhnosti 31
vul. Hetmana Mazepy, 3

LVIV
prospekt Svobody 7
vul. Halytska 9
vul. Koščiushka 5 (entrance
from Sichovykh Striltsiv 17)
vul. Kopernyka 11

LVIV, SOKILNYKY
vul. Stryiska, 30 King Cross Leopold mall
(2nd floor, space 235)

KYIV
vul. Lysenka 3A
vul. Khreshchatyk 46
vul. Spaska 5
Povitroflotskiy prospekt 33/2
vul. Lva Tolstoho 1
vul. Velyka Vasylkivska 63-A
Boulevard Lesi Ukrayinky 24
Prospekt Mykoly Bazhana 16D
vul. Vadyma Hetmana 1
vul. Vasylkivska 34
vul. Malyska 2
vul. Yevhena Sverstiuka 2A

SUMY
vul. Soborna 44

KHARKIV
vul. Sumska 3
vul. Pushkinska 50/52

DNIPRO
vul. Hlinky 15

Sloviansk
vul. Vasylivska 27
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Ukraine, like you've never seen it before

How a volunteer project explores and transforms the country

Roman Malko



A maze of railways. Inspired by the narrow-gauge railway in Zakarpattia, the team has filmed them across Ukraine

Over a year and a half, they have travelled around half of Ukraine and collected hundreds of unique stories. Their subjects are authentic beehives, ferries, narrow-gauge railways and, of course, ordinary but special people who inspire others. Tourists are already following the routes of these expeditions while the characters shown in their vlogs encourage people to be active and make a change.

The original idea was to show Ukraine to the world. With time, it has transformed into something much more important. "People have already sent us dozens of messages saying that they've decided not to emigrate from Ukraine because of us," Ukraïner's team says. Some have said that they want to be featured in a story themselves, so they started to do something interesting, while others suddenly realised the true value of things they have been living next to for their whole lives after watching a video. The greatest significance of the project turned out to be the fact that it can bring together the country and people in it, as it unobtrusively and slowly but surely stitches together Zakarpattia and the Azov Sea coast, Poltava region and Polissya.

A STORY IN EVERY CORNER

The idea of the Ukraïner media project came from an impulse to show Ukraine to the world and tell some stories that may be interesting in a global context. In the process, it became

clear that Ukrainians themselves need to see Ukraine. "When we started to gather volunteers we were shocked with how many people came forward," says Bohdan Lohvynenko, one of the initiators of Ukraïner. "I've worked a lot in the media and thought that it was impossible to launch a media project with volunteers alone. So, to be honest, I didn't really believe in it. It seemed that most of the work would be done by me and a few more driving forces that were there at the start."

Now, Ukraïner is available on its online platform in seven languages. The original one is Ukrainian from which the material is translated into other languages. For each language, from 2 to 10-15 translators write texts and make subtitles for videos.

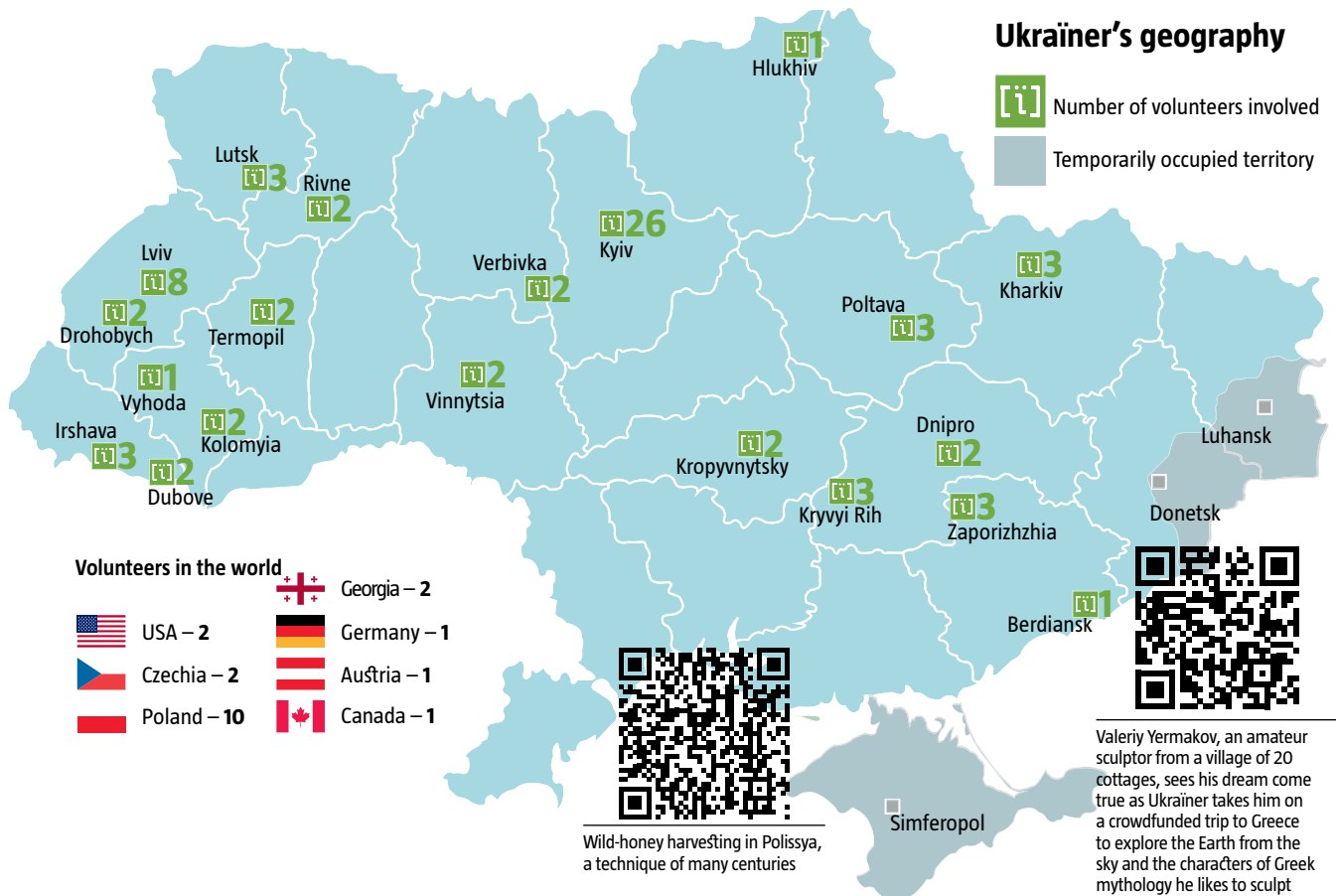
Generally, there is little information about Ukraine beyond politics and sports. Therefore, it is necessary to translate these stories. This is a kind of investment that allows foreigners interested in the country to explore what it's really like. In 2017, the project won a grant from Google and now advertises its materials in six foreign languages for free. In fact, Ukraïner is one of the first platforms found by a person searching for something about travelling to Ukraine. This is good because it is high-quality information. It does not yet cooperate with foreign media but the project team is working on it.

Ukraïner produces four or six new stories every month. Over 100 have been recorded by now, and about 40 have been released. This is because the project is made by volunteers who only work on it when they have time and opportunities, and because of limited resources.

Many ideas for new projects, subprojects are still waiting to be brought to life. Meanwhile, new formats are coming up. Some things are only posted on Facebook, others on YouTube, others still on the website. The team did not think everything through when making the website (there is no space to add anything else), so it will be redesigned, content will be added. Videos that are on Facebook will be added to the website. In addition, special sections will be developed. One is of the narrow-gauge railways in Ukraine. The inspiration came when the team was filming a narrow-gauge railway in Zakarpattia. The Polissya, Carpathian and Zakarpattian ones have already been filmed, so only Podilia remains. Another section the team is working on is river ferries across the country. Expeditions to Tavria, the Black Sea coast, Halychyna, Volyn, Dnipro Ukraine, Sloboda Ukraine and Zaporizhzhia are planned for the near future. This cycle will be complete, but the project will not come to an end.

The team has spotted enough interesting locations to film for several lifetimes. Meanwhile, the team is thinking about launching a crowdfunding campaign to try to raise money, because they want to do more, better and faster.

At the beginning, the volunteers managed to bring in four partners who immediately became part of the team. They



were companies that understood the importance of such a project and did not require any super performance figures, particular quantities or deadlines. They did not say that there should be a certain amount of videos or a certain duration of a video in a certain format. Thanks to this freedom, the team had an opportunity not only to create a unique product, but also to polish it and experiment in the process. When the crew went on the first expedition, it had no clue of the future format. By the third expedition it had changed a lot and is still changing. The current one includes a basic story (about somebody or several people, a phenomenon or

area), vlogs (backstage scenes) about the journey, meeting the character, first impressions about each other, the main video and a 360-degree video.

BEHIND THE SCENES

To date, about 200 volunteers from Ukraine and abroad have been involved in the project. Some work more actively, others less so, depending on their own possibilities. Everyone has their own motivation, but the main reason why they do it, according to Bohdan Lohvynenko, is the desire to explore and tell people something about Ukraine. "This is the primary desire of anyone who has ever travelled." Some like the material they get to work with. When the text about wild-honey harvesters in Polissya came out, there was a real battle between translators to take it. The editors who usually work in news or production companies get some creative freedom with this project. Plus the material is optimistic. This also attracts many people, because there is a lot of negativity elsewhere in the media.

A volunteer project struggles to compete with commercial publications and advertising agencies. It is hard to find a camera operator who will be interested in travelling and filming without the chance to make any money. Indeed, an expedition is not a holiday, as some might think, but rather exhausting work that lasts several weeks. You can truly relax emotionally, the volunteers say – several locations and a few characters a day, constantly meeting people is fantastic, but not for everyone.

The wake-up call is at 4am. The crew gets ready and travels to the location to film the sunrise. In Besarabia, an area in Odesa Oblast, the team had to get up at 3:30am. And back to base when it's already dark, at 10 or 11pm. Before going to



An old craft. Families in Yavoriv, a village in the Carpathians, make lizhnyky, the authentic blankets of wool

How Ukraïner works

1. Preparation



- Learning geography and ethnology of a region
- Looking for locations and developing a route
- Looking for characters and interviews
- Selection of crew members (two operators, photographer, journalist and producer)

2. Expedition

The team travels across a chosen region for 2-3 weeks searching for stories and locations that speak the most about it



3. Content

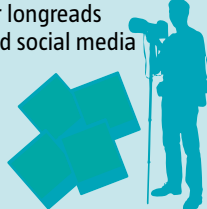
3.1. Processing of footage

- Selection of footage for video and text
- Designing the plan of publications



3.2. Photography

- Sorting and archiving footage
- Selection of photos for longreads and social media



3.3. Video

- Structuring and editing of the video footage
- Script writing
- Translation of subtitles into other languages
- Selection of music from an own database from Ukrainian musicians
- Color and sound correction, video animation and subtitling
- Creation of the story, video blog, 360 video and short presentation clips for the region or location



3.4 Texts

- Transcription of the video
- Editorial instructions for the texts
- Writing longreads
- Correction and fact checking with the editor, title
- Translation into six languages
- Writing texts for promo clips
- Writing texts for social media



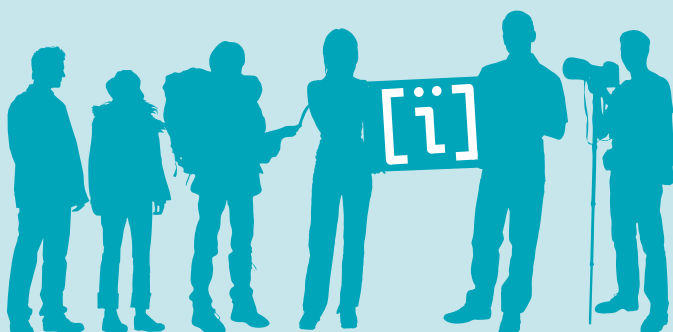
3.5 Website

- Designing website page
- Adding translations



4. Presentation

- Managing social media
- Screenings at festivals
- Presentations and events
- Managing the website
- Promotion on social media and search engines



bed, the camera operator still needs to download all the footage and sort it. This leaves four hours of sleep at best, and sometimes none at all.

Every expedition is planned very carefully. At the time of departure, everything should be scheduled by the day, if not by the hour. First, a route is drawn up, locations and characters are found. To do this, the crew speaks to government institutions, sifts through local media and gets friends involved. Plus the site has a permanent form where anyone can recommend a place.

When everything is more or less clear, the team posts an approximate map of the trip on the internet and people can write about some of the things that they wish to see about the region. Then the crew chooses the 20 most interesting from the 100-200 locations and characters to put together a three-week expedition plan. The region should be shown in a balanced way, from different angles.

The team does not only talk about authentic apiaries or ferrymen. It does other things too, like small cities and education. The expeditions are deliberately planned to jump from one end of the country to another – from Zakarpattia to the Azov Sea. Thanks to this, people who follow materials about their region automatically turn their attention to others. In the time it takes to get from Uzhhorod to Mariupol, the crew could actually already be in Madrid. It is very far away mentally, not to mention infrastructure and the media – the project works to efface that distance. There are already examples of people who are active in different regions and have met through Ukraïner to create new interregional projects.

CHAIN REACTION

On the whole, there are already quite a few examples of positive impact from Ukraïner. The volunteers understand that they hold a powerful tool in their hands. It seems like nothing special – you just tell someone else's story, but it has already encouraged some people to action. Also, the projects help change the focus in Ukraine's media environment. This is quite a big thing. When people understand the value of the land on which they live, the value of places nearby, then that land and those places have much higher chances of surviving and prospering. When the story of the narrow-gauge railway came out, people wrote: "I've lived next to it all my life, but didn't think it had such a background." Due to ignorance and misunderstanding, many valuable objects in Ukraine have been lost irretrievably.

Perhaps the most important point to realise is that in this way a record is being made of professions and crafts that are on their last legs, possibly for the last time. The same applies to disappearing villages. Ukraïner is basically archiving and documenting the current era. These materials will eventually be worth their weight in gold and they can be used in museums and libraries where visitors will be able to put on some goggles and see how Ukrainians lived 100 years ago.

This is not at all a level for volunteers. This work should be performed by the state, because it has more opportunities for that. But it is customary that the officials who are supposed to do this and are paid money for it are not too concerned with such trifling matters. Volunteers, in essence, are currently performing the functions of the state, and no officials have offered any kind of support during the last year and a half. The Ministry of Foreign Affairs and Ministry of Information Policy have made posts about the project on Facebook, but no specific cooperation with Ukraïner has come about yet.



The expeditions are planned to jump from one end of the country to another – from Zakarpattia to the Azov Sea. Thanks to this, people who follow materials about their region turn their attention to others

ACROSS BORDERS

When this article was written, Ukraïner was on one of its most unique expeditions – to Greece. It's a special story that goes beyond the project, but begins with it. During a trip to Poltava region, volunteers met Valeriy Yermakov, an interesting village sculptor and artist who makes strange sculptures, paints and lives in Panasivka, a village of 20 cottages.

THE IDEA OF THE UKRAÏNER MEDIA PROJECT CAME FROM AN IMPULSE TO SHOW UKRAINE TO THE WORLD AND TELL SOME STORIES THAT MAY BE INTERESTING IN A GLOBAL CONTEXT. **IN THE PROCESS, IT BECAME CLEAR THAT UKRAINIANS THEMSELVES NEED TO SEE UKRAINE**

He does not sell his creations because he believes that would be too small-minded, so he simply gives them to schools and museums, and has many sculptures in the middle of his own backyard.

The man has no degree in art and learned to draw from magazines – he had no chance to find models in the village to understand the proportions of the body. He is fascinated by the characters of Mykola Gogol, Greek mythology and planes – his dream was to look at the Earth from the sky. When he saw the quadcopter, volunteers say, his eyes lit up.

The meeting with Valeriy led to the idea of arranging his dream trip to Greece and making a film about it, but no travel agencies wanted to sponsor the venture. When the material was released someone wrote in the comments that the man had died. Subsequently, it turned out that this was a mistake and the sculptor was alive, so the volunteers decided to finish what they started. A post on social media with a proposal to support the project and take Valeriy to Greece worked miracles. Within three hours the minimum necessary amount of UAH 40,000 (US \$1,500) was raised, and UAH 100,000 (US \$3,800) somewhat later. By March 13, the artist was in Greece. ■

April 19, 19:00

Tigran Hamasyan
Ivan Franko Theater
(Ivan Franko Sq. 3, Kyiv)

One of the brightest jazz musicians, Tigran is about to deliver his virtuoso performance in Kyiv. Described as “phenomenal and irrepressible” by the Guardian, Tigran was recognized as the best arranger of 2016. His arsenal of awards includes prizes from some top jazz festivals from Paris to Montreux. His international acclaim came with the victory in the Thelonious Monk Festival. Tigran composes the music he performs at his concerts.

**April 19, 19:00**

Vienna Spring.
Maestro Kurt Schmid
International Culture & Arts
Center
(Aleya Heroyiv Nebesnoyi Sotni
1, Kyiv)

The fans of classical music don't have to travel all the way to Austria to savor the unique Viennese atmosphere. Kurt Schmid, a legendary conductor, composer and the founder of Wiener Strauss Gala Orchestra, will bring it here with the Kyiv Metropolist Orchestra. Known in the music world as the “Strauss of the 21st century”, Schmid will perform his best works at the Kyiv stage, as well as pieces by Strauss, Lehár and other outstanding composers.

**April 19 – 25**

French Spring 2018.
Pre-premier screening
festival
Kyiv film theater
(vul. Velyka Vasylkivska 19,
Kyiv)

Spring in Kyiv is not just about celebrating sun and flowers. It is also the time when Kyiv hosts the French Spring, one of the top cultural events of the year. This year's program offers a selection of new films from France. The five films in all genres from comedy to drama will feature life stories of different people, including family dynamics, a search of self and a struggle with personal emotions and hardships.

**April 20, 19:00**

Nino Katamadze and
Insight, Spring melody
International Culture & Arts
Center
(Aleya Heroyiv Nebesnoyi Sotni
1, Kyiv)

Yet another long-awaited concert by the charismatic Georgian jazz singer and experimenter Nino Katamadze and her Insight band bringing their new Spring Melody program to Kyiv. The musicians pledge to tell a “true story of grand and uplifting feelings”. Anyone familiar with the emotional intensity and philosophical content of Nino's songs can expect to fully enjoy this performance.

**April 20, 19:00**

Vivienne Mort
Zaporizhzhia Philharmonia
(Prospekt Sobornyi 183,
Zaporizhzhia)

The young Ukrainian indie rock band will perform in Zaporizhzhia as part of their tour for the new album *Dovid* [Experience]. The fans will hear 10 tracks from the new record and the songs they already know and love. The singer and songwriter stands out for her tender vocals, sincere performance and sophisticated lyrics. This makes Vivienne Mort's concerts packed and singing in tune with the band.

**May 15, 19:00**

Swan Lake
National Opera House
(vul. Volodymyrska 50, Kyiv)

Masterpieces, such as the *Swan Lake* ballet, can be watched over and over again. Accompanied by the symphonic orchestra, the Kyiv stage will host Matthew Golding, former principal of the Royal Ballet and Het Nationale Ballet, and Natalia Matsak, the principal of the National Opera of Ukraine.





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