

This publication intends to inform readers about the Ukrainian presidential election run-off scheduled for February 7, 2010. It reflects the views and opinions of The PBN Company's professional staff on issues of concern to voters, business and the international community. It is not a partisan publication and is not funded by any campaign, government or donor organization.

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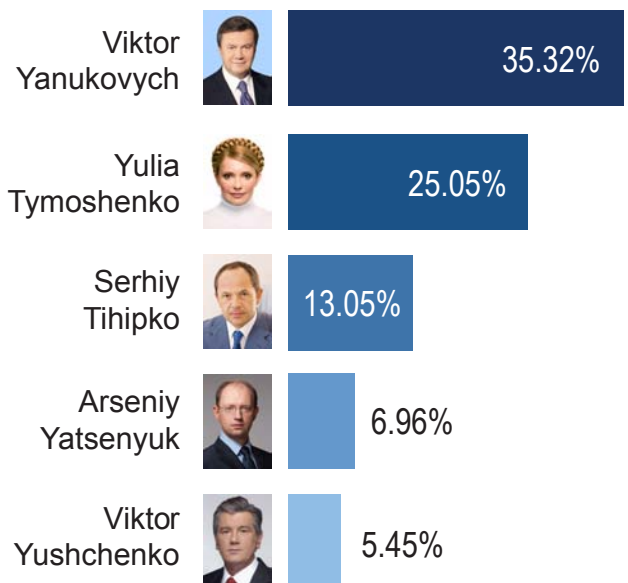
Former Prime Minister Viktor Yanukovich (left) and incumbent Prime Minister Yulia Tymoshenko (right).  
Photo: <http://www.focus.ua>

## Who Will Lead Ukraine?

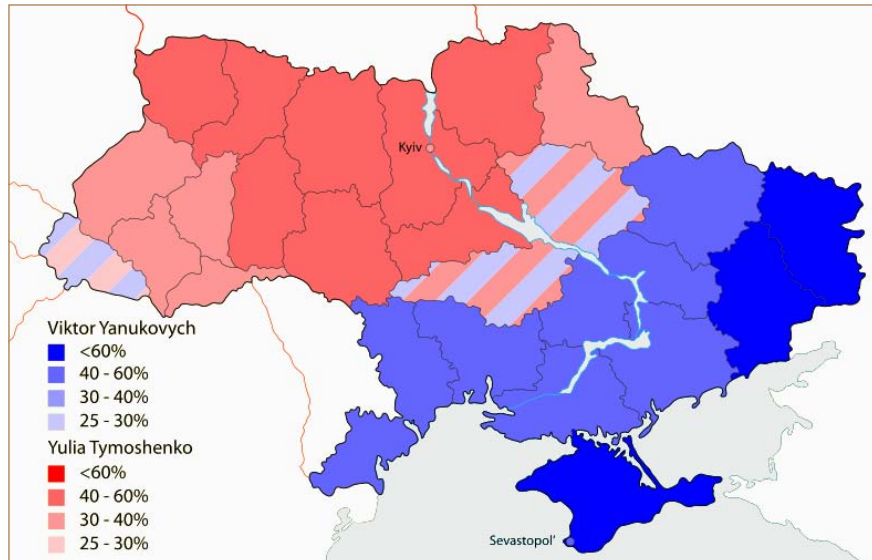
Ukraine's 33 million voters will go to the polls on Sunday, February 7 to elect a new president. The choice is between two of the country's most populist politicians – opposition leader and former Prime Minister Viktor Yanukovich and incumbent Prime Minister Yulia Tymoshenko.

Yanukovich and Tymoshenko finished first and second, respectively, among 18 contenders in the January 17 election. Yanukovich captured the plurality of support from 8.7 million voters or 35.32%. His constituency is comprised of urban dwellers and blue-collar workers from the heavily industrialized eastern and southern regions of Ukraine. Yanukovich also won the support of the pro-Russian Crimean peninsula. Tymoshenko finished second with 6.1 million votes, or 25.05%, carrying the support of voters in the central and western regions, as well as the capital city Kyiv. Three former central bankers rounded out the top five vote winners by splitting the liberal-reform and patriotic vote. Serhiy Tihipko took 3.2 million votes (13.05%); Arseniy Yatsenyuk captured 1.7 million votes (6.96%) and incumbent President Viktor

Yushchenko took 1.3 million votes (5.45%), finishing in fifth place. All three are looking toward possible pre-term parliamentary elections and stand good chances of heading political factions in the legislature.



## Who Will Lead Ukraine? (cont'd)



Author: Ivan Grichenko

In their run-off preparations, both Yanukovich and Tymoshenko are reaching out to their political competitors and seeking public endorsements and support. Opinion polls put Yanukovich 10 percentage points ahead of Tymoshenko. Of particular interest to both contenders is Serhiy Tihpko, whose voters hail mostly from urban central and eastern regions. For Yanukovich, these voters would solidify victory. For Tymoshenko, they would add to her base of support in western Ukraine and help her narrow the gap with Yanukovich, putting victory within reach. While Tymoshenko promised Tihpko the prime minister's job in exchange for his support in the second round, so far he has refused to take sides. Yatsenyuk and Yushchenko, whose voters are most likely to support Tymoshenko, also have not taken sides, suggesting to their supporters to vote "against all." This move has robbed Tymoshenko's campaign of the psychological momentum needed to mobilize her supporters ahead of the run-off to beat Yanukovich.

## Candidate Profiles

Yulia Tymoshenko, 49, is Ukraine's prime minister. Her energy, impassioned speeches and peasant-style hair braid make her one of the most dominant political figures in Ukraine. Called the "gas princess" for her intimate involvement in the gas transportation industry in the 1990s, from which she reportedly amassed a multibillion-dollar fortune, she served as deputy prime minister for energy issues in 2000 and won praise from voters and business for her reform efforts.

During the 2004 Orange Revolution, Tymoshenko allied herself with then-presidential candidate Viktor Yushchenko, and her rousing speeches rallied hundreds of thousands of protesters demonstrating on the streets for weeks against fraudulent election results. In 2005, Yushchenko appointed her prime minister, but the honeymoon was short-lived. He sacked her after eight months, with each accusing the other of corruption. She was appointed to the premiership a second time in 2007, after piecing together a parliamentary majority with Yushchenko allies.

Tymoshenko's policies have included compensation for depositors who lost Soviet-era savings, price controls on food and medicines, high social spending, and calls for review of murky privatizations during the 1990s.

Opposition leader and former Prime Minister Viktor Yanukovich, 59, hails from the Donetsk coal-mining region in eastern Ukraine. He is widely seen as representing the interests of big business, and his campaign benefits from the backing of Rinat Akhmetov, Ukraine's richest man. He received support from Russia in his 2004 presidential bid. Yanukovich was initially declared the winner of a rigged election, but subsequently lost the re-run of the poll to Viktor Yushchenko. Yanukovich made a political comeback in 2006, when President Yushchenko appointed him prime minister after "orange" parties failed to form a parliamentary coalition. The blunt Yanukovich transformed his image to become a more capable public speaker and a unified opposition leader. However, he left office in 2007 after his Regions Party and its allies lost a snap election to the "orange" parties.

## Candidates on the Issues

The election will define how Ukraine – a former Soviet republic of 46 million people wedged between the European Union and Russia – handles relations with its powerful neighbors, unblocks frozen IMF funds for its ailing economy, and guarantees investor trust and confidence. Despite fierce accusations and recriminations between the candidates in the run-up to

## Candidates on the Issues (cont'd)

the January 17 vote, public policy differences between Yanukovich and Tymoshenko are few and nuanced.

- Both have sought to balance improved relations with Russia with closer economic integration with the European Union. Tymoshenko wants to sign an Association Agreement with the European Union this year. Like most Ukrainian politicians, Yanukovich supports further integration with the European Union, but also wants a deal for Ukraine that creates jobs on Russian pipeline projects.
- Both support the 2009 agreement signed with Gazprom outlining natural gas supplies for 10 years. Tymoshenko wants to keep the agreement intact, but Yanukovich wants to renegotiate more favorable conditions, such as cheaper gas and higher transit fees.
- Both support cooperation with NATO, but oppose membership. Tymoshenko wants a referendum on NATO membership to remove it from the agenda and resolve the controversial issue among the populace. Yanukovich, who has warm relations with Moscow, is not opposed to the referendum.
- Both have a record of avoiding reforms and supporting policies to curry favor with their voting constituencies. Tymoshenko has pledged not to raise domestic gas prices for consumers, despite the fact that she agreed to this condition, which was stipulated by the IMF. Yanukovich prefers protectionism to market competition and WTO rules.
- Both believe that Ukraine, site of the world's worst nuclear disaster at Chernobyl, could increase its energy security through the development of more nuclear power stations. Tymoshenko wants to speed hydrocarbon exploration of the Black Sea shelf, while Yanukovich wants to modernize the coal industry in order to support the steel industry – Ukraine's main export and economic driver.
- Both say their aim is to fight poverty and improve living standards for ordinary Ukrainians through a generous state safety-net program. Tymoshenko wants to continue doling out state funds to special interests, particularly government workers, teachers and medical professionals. Yanukovich wants an across-the-board hike in wages and pensions.
- Both have promised to lower taxes and increase the minimum wage, pensions and social benefits. Tymoshenko pledges to cut VAT and offer tax breaks to importers. Yanukovich proposes cutting the VAT rate from 20% to 17% and the profit tax rate from 25% to 19%.
- Both want political stability with a loyal government and parliament. Tymoshenko is certain to hand pick a prime minister that will not outshine her and muster enough votes in the legislature for a majority. Yanukovich will call for pre-term elections to inject fresh blood into the legislature.

## EU-Ukraine Relations

Despite finishing fifth in the election poll, outgoing President Viktor Yushchenko's pro-European agenda should culminate in the signing of an Association Agreement with the EU this fall during the annual bilateral EU-Ukraine summit. While the agreement stops short of offering full EU membership to Ukraine, this breakthrough includes establishing a free-trade zone and outlines future visa-free travel for Ukrainians to EU countries, much like the path followed by Poland, Hungary, the Czech Republic, and the Baltic States before they gained EU membership. Given overwhelming voter support for closer EU relations, both Yanukovich and Tymoshenko are likely to embrace the move and will do their best to take credit for the breakthrough.

However, the pace at which Kyiv implements and moves forward on other EU agenda items, including the European Energy Charter signed in December 2009, remains to be seen and will require Kyiv to balance its relations with Brussels and Moscow. European desires for predictability and transparency in Ukraine's energy transportation systems originating on Russian territory and flowing to the EU are high on the agenda. Brussels has offered Kyiv billions in potential assistance and development funds to modernize its pipelines in exchange for transparency. However, that transparency would ultimately limit Russia's ability to use energy as a foreign policy instrument in both Ukraine and the EU. Ukrainian politicians historically have eagerly supplemented their incomes through kickback schemes tied to the transit of Russian gas through Ukrainian territory, thus it remains to be seen whether this practice will continue, or whether Kyiv will decidedly move closer to EU standards and expectations.

## Relations with Russia

Russian-Ukrainian relations have remained tense since the 2004 Orange Revolution, and President Viktor Yushchenko has taken an assertive approach to several thorny questions, including the transit of Russian gas destined for Europe, NATO membership, the withdrawal of Russia's Black Sea Fleet from Crimea in 2017, the Georgian-Russian conflict, and classifying the Stalin-era famine that killed millions of Ukrainians as genocide. Seeing the end of the Yushchenko presidency in sight, Russia finalized the appointment of its Ambassador to Ukraine, Mikhail Zurabov, on January 19 after a five-month delay. Both Yanukovich and Tymoshenko will upgrade bilateral Ukrainian-Russian relations to a more friendly footing.

Gas accords signed in January 2009 with Moscow will be high on Kyiv's agenda. Yanukovich stated that he wants a more equitable agreement than the one Tymoshenko negotiated with Putin. That accord pushed state-owned oil and gas monopoly Naftohaz Ukraine to near bankruptcy, a move many analysts believe was in the Kremlin's interest, and forced Ukraine to cover the deficit for Russian natural gas purchases with state budget revenues. That process became a vicious cycle that undermined Ukraine in the international community and among investors, as both wondered if the country could meet its monthly obligations to Gazprom.

Russia is likely to propose offers for Ukraine to join the Russian-Belarus-Kazakhstan customs union, which took force on January 1. However, Kyiv's WTO membership and potential free trade zone with the EU, which is expected to be signed in 2010, makes this notion of a four-nation customs union unlikely. Russia will postpone discussion on removing its Black Sea Fleet from Crimea in 2017, and could gain favor in Kyiv by offering significantly higher rent payments to the cash-strapped Ukrainian government.

Commercially, Russia's interests lie in merging and

acquiring distressed Ukrainian assets, particularly in the metals, chemicals, and energy sectors. The purchase of Industrial Union of Donbass (ISD), one of Ukraine's largest metals conglomerates, by SteelOrbis in January signals more Russian-Ukrainian deals in the near term. The balance between protecting Ukraine's national security interests and selling-off property and assets to a neighbor with significant reserves will be a key question for either a Yanukovich or Tymoshenko presidency.

## Lessons for the Future

While voters rejected President Viktor Yushchenko's bid for a second term, both his successes and failures have already left an indelible mark on the country. The most striking success of recent years is how democracy and democratic institutions have taken hold — during his presidency, Yushchenko presided over three free and fair national elections that demonstrated Ukraine's political diversity. While election results led to political gridlock, disillusionment, and an absence of reform, patient Ukrainians learned that voting out politicians who promised but could not deliver was not only in their grasp, but also an exercise of their civic duty.

Regardless of the February 7 election results, limited rule with imperfect checks and balances will continue. Media freedom is expanding, and political diversity is growing into new shapes and forms. During the past five years, however, Ukrainian expectations and achievements were high and memories were short. The global financial crisis hurt many voters who expected the government to become more pragmatic and more frugal. Instead, bickering and infighting prevailed, ultimately damaging the political prospects of all "orange" leaders. Ironically, the civic power that Yushchenko garnered to win the presidency in 2004 turned against him and his allies in 2010, ushering in a more pragmatic promise to fit the times.

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