

Ukraine's new government: compromise between the main Donetsk groups

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On 24 December, President Viktor Yanukovich appointed a new government headed by Mykola Azarov. The government's composition is the result of a compromise between the two main groups of oligarchs: the 'family', linked to the president's son Oleksandr Yanukovich, and the Rinat Akhmetov group. The 'family' has strengthened its control over the cash flows, which are of key importance before the presidential elections in 2015; meanwhile, Akhmetov's group has maintained control over certain economic sectors. The so-called RUE group (led by Dmytro Firtash and Serhiy Lovochkin) has lost much of its former influence in the government, but has retained its ability to influence the energy sector. The shape of the new government shows that Prime Minister Azarov's role has been significantly diminished by the appointment of Serhiy Arbuzov, a representative of the 'family', as first deputy prime minister, confirming his position as one of the key people in the country; and of Olena Lukash as minister for the government, who will also act as the cabinet's 'caretaker' on behalf of the president.

We must not expect the new government to introduce any significant changes to domestic policy, which is still being hampered by the lack of a stable pro-government majority in the Ukrainian parliament. In its foreign policy, Kyiv will try to continue the process of European integration, despite growing pressure from Russia, which is working to draw Ukraine into the Customs Union it leads. The fact that no-one in the new government has been given responsibility for European integration may portend a weakening of the Euro-Atlantic direction in Ukraine's foreign policy, but its shape will mainly depend on decisions taken by the Presidential Administration.

The new government

Mykola Azarov, who as a representative of the 'old' Donetsk bureaucracy has remained outside of the major oligarchic groups, has retained the portfolio of Prime Minister, but his office has come under the supervision of a newly appointed minister for the Council of Ministers, whose duties include 'monitoring the implementation (...) of the President's orders', and who is therefore dependent upon the President. Viktor Yanukovich's increasing influence is underlined by the assignment of this position to Olena Lukash, a trusted adviser

of his, who has also been named as the President's representative on the Constitutional Court. This increase in the head of state's control over the government falls within Ukraine's constitutional order, as this body is appointed by the president, and not parliament.

Of the four deputy prime ministers, only two (Serhiy Arbuzov and Oleksandr Vilkul) have strong positions; the other two (Yuriy Boyko and Kostiantyn Hryshchenko) will have no influence on the most important decisions. The first two are representatives of the major groups within the government, namely the 'family' and the Akhmetov group. The other two are related to the RUE group, which has clearly been weakened, although we cannot yet say that it has been marginalised entirely. As long as Serhiy Lovochkin remains the head of the Presidential Administration, this will be the RUE group's channel of influence on Ukrainian politics.

There are many indications that the government will actually be managed by Arbuzov as first deputy prime minister and the chief representative of the 'family'. This group currently controls the ministries of finance, revenue and taxes (newly created), energy, ecology and natural resources, agriculture and home affairs. In addition to the post of Deputy Prime Minister, the group led by Rinat Akhmetov (Ukraine's richest man) runs the following departments: economic development, infrastructure, regional development and construction, social policy, health and foreign affairs. The new defence minister should also be regarded as being close to this group, at the very least.

The ministers of education and justice (unchanged from the previous cabinet) are outside the 'system'. As yet, the new ministry of industrial policy is still vacant; it is most likely the subject of a dispute between the groups. A surprising step has been the creation of a Ministry of Revenue and Taxation, which joins together the State Tax Service and the State Customs Service, two institutions which are key instruments for affecting the economy. It seems that the aim is to make collecting the state revenues more efficient, and – above all – to strengthen the 'family' by introducing a new minister whom they can control into the government. Finally, we should point out the youth of the new ministers; most of them are under forty years of age.

A government of 'Donetsk compromise'

The scope of the changes in the government, both personnel and organisational (the removal of one ministry and the creation of two new ones), indicates that the new system is the result of a compromise, which may prove to be permanent. This compromise is between the two strongest business and political groups in Ukraine, which has been made within the more broadly understood 'Donetsk environment', which includes both of these groups.

Akhmetov, who is trying to limit the expansion of the 'family' into Ukraine's economy and politics, was able to block Arbuzov's appointment as Prime Minister, and has retained his strong representation in government. At the same time, however, he had to agree to the handover of full control over finance, mining and some aspects of energy policy to the

'family'. However, he still retains influence on other important sectors (notably construction and infrastructure). Both groups have also succeeded in marginalising Prime Minister Azarov, who in the previous government had four dedicated associates; in this one, he has none.

Prospects for the new government

The new government's effectiveness will depend mostly on how much Arbuzov and Vilkul, and the two most powerful oligarchic groups behind them, will compete, and how much they will cooperate. Any further expansion of the 'family' in the Ukrainian economy will cause an increase in tension between these groups. However, it seems that no significant changes in Ukrainian politics can be expected. The implementation of the most important legislative work will depend on the Party of Regions creating a stable majority in the Ukrainian parliament. A major challenge for the new government will be the deepening economic recession, which could increase social discontent and lead to protests. In foreign policy Kyiv will continue to seek to sign an association agreement with the EU and for the reduction of Russian natural gas prices without making any significant political concessions, despite pressure from Moscow to join the Customs Union. However, the deteriorating economic situation could lead to Kyiv accepting the Russian demands.