

END NOTE

UKRAINE'S IMAGE AGAIN SUFFERS AS KUCHMA THREATENS AGRICULTURAL REFORM

By Taras Kuzio

On 24 March, Leonid Kozachenko, deputy prime minister for agriculture from June 2001-November 2002 in the Anatoliy Kinakh government, was arrested on what are widely believed to be trumped-up charges, which he denies. Kozachenko faces up to eight years in prison for "abuse of power" (Article 364 of the Criminal Code) on charges that he deliberately lowered prices for the transport, storage, and loading of grain to ensure that exported grain was cheap in price. In addition, he faces 10 years for tax evasion (Article 212) related to charges that while working as the general director of Ukragrobiznes in 2000, he failed to pay taxes on shares he was given.

Ukraine has an extensive network of anticorruption legislation and presidential and parliamentary committees, but that legislation is selectively applied for political purposes. Yevhen Zhovtiak, an Our Ukraine deputy, said the Kozachenko "case is exclusively political." Ivan Tomych, head of the parliamentary committee on Agrarian Policy and an Our Ukraine deputy, has also protested Kozachenko's arrest.

By 2002 Ukraine had become the world's sixth largest grain

exporter, and the agro-industrial sector has been a driving force in Ukraine's rapid economic growth since 2000. But the shortage of grain this year, after severe frosts destroyed 60-70 percent of the winter crop, and the likelihood that bread prices will rise, has disquieted the Ukrainian leadership. A bread-price hike is the last thing President Leonid Kuchma wants on the eve of the 2004 presidential election, as it would damage the Viktor Yanukovich government's attempt to boost its popularity. Doing so is of paramount importance, especially as Yanukovich is a potential successor to Kuchma. Kuchma has personally asserted, "Our assignment is to prevent bread prices from rising." According to sources close to Kozachenko, reasserting control over the grain market is part of Kuchma's strategy to prepare a successor for next year's election.

Kozachenko's reform of agriculture, like Yuliya Tymoshenko's reforms of the energy sector in the former Viktor Yushchenko government, inflicted considerable damage on vested, corrupt interests. Kozachenko supported the liberalization of the grain market, the adoption of international quality standards, the introduction of commodity exchanges to ensure that farmers obtain a fair price, and increased market transparency and competition among buyers. For the first time, farmers and villages -- the bedrock of support for the opposition left -- obtained large financial inflows because grain traders bought directly from them, bypassing regional governors and government-owned grain elevators. Farmers finally began to obtain income based on the real market value of their products and not from government-manipulated and corrupt bodies.

Kozachenko's arrest is expected to be followed by presidential decrees reimposing Soviet-style state regulation on the grain market and the introduction of artificial price controls. As the cabinet pledges to continue agricultural reforms, Kuchma has stated his intention to revive the Soviet system of state contracts,

under which farmers are paid low prices. Kozachenko, who heads the Ukrainian Agrarian Confederation, accused the authorities in a 31 March statement of "restoring a command-management system over the agro-industrial complex."

The halt of agricultural reforms and re-centralization of the grain market will ensure that Kuchma's political allies continue to earn income from corruption in the agricultural sector at the expense of farmers. In return, the oligarchs and regional governors will likely be asked to donate a proportion of this "income" to Kuchma's chosen successor's presidential campaign next year. The authorities have long subjected honest businessmen to repression in an attempt at halting their financing of pro-reform opposition groups.

Kozachenko's arrest has again brought to light a problem besetting the transition process in Ukraine and elsewhere in the Commonwealth of Independent States, where the consolidation of a pro-executive oligarch class has blocked restructuring along market economic lines. The arrest is also further confirmation that the executive and pro-presidential elites are already divided and in panic, and will become more so as the 2004 presidential elections move closer. One hundred eighty-three of parliament's 450 deputies, including 24 from pro-presidential factions, have asked the Prosecutor-General's Office to ensure an objective investigation of Kozachenko's case. Meanwhile, 247 deputies, including an even larger number from the pro-presidential camp, supported the creation of an ad hoc commission to investigate the Ukrainian grain market.

The Union of Industrialists and Entrepreneurs, headed by former Prime Minister Kinakh and in alliance with Dnipropetrovsk's Labor Ukraine clan in parliament, have protested Kozachenko's arrest. Other protests came from the Ukrainian Grain Association, Agrarian Confederation, Corn Association, and Association of Farmers and Landowners.

The impact of Kozachenko's arrest and the reversal of reform in agriculture is likely to be three-fold.

First, Ukraine's poor international image will be further tarnished. Ukraine's commitment to uphold documents it has signed, such as the NATO-Ukraine Action Plan (which has a domestic reform component), will once again be shown to be questionable. Canada, which supports two agricultural projects worth \$13 million in Ukraine, has hinted that it might suspend further assistance because of the Kozachenko's arrest, a stance that led Ukraine to accuse Canada of "interference in its domestic affairs." Kozachenko is highly regarded by the Canada Board of Trade, international financial and grain organizations, and Western governments.

Second, Ukraine's hopes of attracting foreign investment will suffer. Foreign investors who began to slowly trickle into Ukraine in the last three years will again be scared off. Kempton Jenkins, president of the Ukraine-U.S. Business Council, believes that "reintroducing centralized control of the grain market would have a severe chilling effect on all foreign investors in Ukraine." The recent attempt to drive out five international agricultural companies who competed on the Ukrainian grain market is reminiscent of 1997, when the U.S. company Motorola withdrew from Ukraine after it had invested \$500 million in the cellular market. Motorola lost a tender for frequencies for the GSM-900 system to an unknown company, Kyivstar GSM. The chief executive officer of Kyivstar GSM was Yuriy Tumanov, the brother of Ukraine's first lady, Ludmilla Kuchma. Kuchma's daughter, Olena Franchuk, was also a director of the company. Ironically, on the eve of Kozachenko's arrest, Tumanov was appointed in February as Kuchma's special adviser.

Third, emerging private farmers and the agro-business sector will suffer a setback due to a shortage of funds. The agro-business sector, the engine of Ukraine's economic recovery since 2000, will be

negatively affected and fewer jobs will be created in this sector. Ultimately, the first attempt since the 1933 artificial famine and collectivization to raise rural Ukraine from its depressed and serf-like status is again being threatened.

The Kozachenko arrest is a reflection of the struggle at the heart of Ukrainian politics that will dominate the 2004 elections. Two business orientations exist among the rising middle class in Ukraine. One, represented by Kozachenko, seeks to support further market economic reforms and takes the national interest into consideration. The other, which has the support of the president, sees such reforms and transparency as a threat and seeks to block Ukraine's further economic transformation unless it suits personal and clannish interests.

Dr. Taras Kuzio is a resident fellow at the Centre for Russian and East European Studies, University of Toronto.