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# Rada Elections Outlook 2006

## The Princess, The Oranges, Or The Oligarchs?

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**Nick Piazza**  
+380 44 207 5030  
np@concorde.com.ua

The general outcome in the Rada elections in two weeks looks to be pretty much the only thing one can say with certainty about Ukraine's future government. Though it may be cliché 2005 was a year that changed the country and the way politics, political parties and campaigns work. The March 26<sup>th</sup> elections and the events that follow will for the most part set Ukraine's course for the next five years.

**2005: Breakout Or Bust?** What didn't we see in 2005? In 1H05 the revolutionary 'Orange' government led by Yulia Tymoshenko sent shockwaves through the country and abroad by promising to reprivatize hundreds of companies, however, her government's heavy-handed approach changed the way business is done in Ukraine. Moreover the country's measures to combat corruption began baring fruit. Then in 2H05 the wheels came off. When Tymoshenko's aggressive and disorganized policies began frightening off investors and infighting in the government led to corruption charges against Yushchenko's inner circle, the President fired the government, shattering the 'orange' camp. Burdened with huge expectations Yushchenko's new team has spent the last six months fending off political upheavals at home and fighting trade wars with Russia.

**Rada Elections 2006: A Three Dog Fight.** Ukraine has never seen a campaign season like this one. From the day the Rada opened from its summer recess political parties have been jockeying for position. No party has gone through a greater public metamorphosis than the Party of Regions. After losing the elections, frustrating Russia and losing the faith of his oligarch backers party leader Viktor Yanukovich looked like he was on a one way trip to Russian exile, until the Orange camp imploded. The new regions has reshaped its image and has Ukraine's richest man Rinat Akhmetov poised to become a Ukrainian Berlusconi. Meanwhile Our Ukraine has withered a bit, but has managed to survive. The greatest personality in this race, Yulia Tymoshenko, dwarfs the competition in terms of charisma and charm. The former PM is a media darling but, her party has made very little progress in eastern Ukraine, leaving Tymoshenko in third place with two weeks left until the elections.

**Building A Coalition.** The process of building a coalition to elect the government after the elections will certainly involve some strange twists and turns. However, if the 'orange' squad fails to find common ground look for the two largest parties to try to strike a deal with a third party only being included if necessary.

### Voter Support By Opinion Poll %

	Sofia Sociological Poll	SOCIS Center	Sotsiiovymir Center
Party of Regions	32.1	30.1	23.6
Our Ukraine	21.8	17.2	17.0
Tymoshenko Block	15.8	12.9	21.2
Socialists	6.6	4.5	4.3
Communists	6.1	2.8	3.0
Lytvyn Block	6.5	2.8	3.0
Pora-Reform & Order	1.6	2.8	3.4

Source: Sofia Sociological Center Feb. 20, 2006; The SOCIS Polling Center March 7, 2006; The Sotsiiovymir Center For Sociological Studies March 7, 2006.

## A Year Of Missed Opportunities?

If you have not been paying close attention, it might appear that Ukraine is going to hell in a handbag. Since the arrival of the 'orange' government in the spring of 2005 Ukraine has seen just about every type of crisis imaginable from sugar, to lighthouses, to meat and gas. The country has been through 1.5 governments and has been thrown into a 'cold' war with its northern neighbor Russia for energy supplies. However, several positive events also took place that are important in gauging how the country will fare in 2006.

### 2005 – Scared Straight

Possibly the key change that 2005 brought was the shift in the attitudes of Ukraine's largest business groups. The ruthless tactics of the Tymoshenko government were instrumental following the revolution in breaking with the old guard. With reprivatization as her calling card Tymoshenko sent Ukraine's wealthiest businessmen and ruling elite on 'extended vacations.' When her government's lack of respect for private property began to scare off investors and her feud with Yushchenko's inner circle led to corruption allegations against several members of Our Ukraine, the President sent her government packing. However, the message was clear the days of theft disguised as transfer pricing had come to an end. Since the beginning of 2005, more and more Ukrainian companies have come out of the shadows and are seeking to finance their Capex plans using foreign capital. IUD and SCM, two of Ukraine's largest and most notorious business groups have begun showing more profits and have either announced IPO plans (IUD 2007) or are preparing to.

### Corruption: Battle Lines Drawn

One of the government's main goals has been to put an end to corruption's strangle hold on the Ukrainian economy, and according to Transparency International's 2005 corruption index they have been somewhat successful. Since 2004 Ukraine has moved up 15 places to 107 on the organization's list. In contrast, another emerging market and G8 member, Russia has dropped 36 spots since 2004 and now shares 126<sup>th</sup> with another mineral rich country - Nigeria. In Ukraine's battle with corruption so far it seems the little things have made the biggest difference, the firing of a large number of government employees in 1H05, along with smaller measures including the installation of anti-corruption hotlines aimed at catching bribe-takers have, according to Transparency International's Global Corruption Barometer, made Ukrainians some of the world's most optimistic people when it comes to corruption with at least one third of the population reporting that they believe the situation is improving.

### Political Reform Or Pandora's Box?

In accordance with a law signed by the Verkhovna Rada on December 8, 2005, on January first Ukraine officially switched from a Presidential-Parliamentary to a Parliamentary-Presidential Republic. This was designed to make Ukraine less authoritarian, and more manageable by strengthening the abilities of the Rada. However, the timing of this move, on the heels of a bitterly fought presidential election that divided the country and on the eve of Rada elections, could not have been worse. Thus instead of being a stabilizing force, the political reforms threw the government and Rada into gridlock. Compounding the problem the Rada refused to appoint its allotted number of new judges for the constitutional court, effectively freezing the body that would solve constitutional questions of this nature. Thus, since January the government has only semi-functioned with all politically charged votes being put off until after the elections.

### Russia: A Major Pain In The Gas

On top of all the trouble at home, Ukraine's northern neighbor, Russia, spent the year trying to regain its sphere of influence in the region after losing out in the Ukrainian Presidential elections in 2004. If 1H05 was the 'orange' government's time of "crisis" (meat, sugar, gas), then 2H06 was war. Armed with its gas juggernaut Gazprom, Russia attempted to force its way back into Ukraine. Since the beginning of the year Russia has turned off gas supplies, banned meat and dairy products, and all but banned some types of metal and machinery. For its part Ukraine, answered by threatening to expel the Black Sea Fleet from Crimea and sieged a lighthouse controlled by the Russian navy. However, if by getting tough Russia hoped to bring Ukraine back into the fold thus far the plan has only blown up in their face. By cutting off gas Russia sent the EU into a panic and Europe has now put diversifying energy supplies at the top of its agenda. In Ukraine the gas cut put long needed energy reform and modernization in motion. As for meat and dairy Ukraine's Agriculture Ministry has said that it has no intention of signing a new contract with Russia on cheese and milk deliveries and will instead look to other markets, as several machine builders have already done. Even the Party of Regions which used closer ties with Russia as one of its main platforms chose to place less emphasis on their Russian connection when they saw how it alienated their supporters. However, how long this animosity last will to a large extent depend on the upcoming elections.

## 2006 Elections: A Three Dog Fight

The elections themselves look to be a pretty done deal. The Party of Regions has had a commanding lead in the polls since coming back from death's door after the firing of the Tymoshenko government however, if you look hard enough you can find a poll that has either of the other two parties in second place. Overall since the firing of the government in September the general trend seems to be that Regions continues to maintain the top spot at around 30% with Our Ukraine picking up ground to around 20% with BYT faltering slightly dropping off from about 16% in December to 14% in mid February. Look for Our Ukraine supporters (passive to this point) to show up on election day narrowing the gap with Regions. In addition, BYT will likely pull out all the stops in an attempt to draw in undecided voters. In any case, the new political reforms make the coalition process more important than the elections.

### A Brief Look At Ukraine's Big 3:



Party Of Regions Leader Viktor Yanukovich

**The Party Of Regions:** The party has gone through a radical transformation since 1H05, when most of its key members fled the country and the Party's leader Viktor Yanukovich was rumored to be despised by the party's elite who allegedly were plotting to abandon him. Yushchenko's firing of the Tymoshenko government brought both Yanukovich and his party back from the dead, however, this experience has changed the party. Many political insiders believe that this year's election is Yanukovich's swan song, with Ukraine's richest man Rinat Akhmetov picking up the reigns after the elections. A fact Akhmetov has not denied. Akhmetov is known to prefer the shadows, however, after being questioned by the Prosecutor General's office and having his estate in Donesk raided, Ukraine's richest man seems to have decided to take matters into his own hands. The party's stated goals following the elections are the simplification of taxes, especially for large businesses and several populist measures including intensive spending on healthcare. Regions has said that it plans to continue Ukraine's western course however, Yanukovich's veiled refusal to speak in the EU Parliament after Tymoshenko jumped at the chance did not help his or his party's reputation in the west. The party's business oriented nature could improve the effectiveness of the Rada, however, its traditional preference for backroom deals could hurt the country's attempts to stamp out corruption. Make no mistake, this is not the bumbling Regions of 2004, the party is much better organized and has established an identity of its own.



Our Ukraine members Viktor Yushchenko (left) and Yuri Yekhanurov (right)

**Our Ukraine:** The President's Party has found life at the top more difficult than they thought it would be. The country's problems with Russia, and lack of any major successes in their Euro integration plans have hurt the party's support base. However, the party's ability to make deals and find compromises has kept it afloat in the past, and Our Ukraine might be the most flexible party after the elections. It is conceivable that after the disastrous last few months Our Ukraine would be willing to deal with anyone that could promise some stability and not hamper the party's pro-western course. The low-key Yuri Yekhanurov has done a masterful job as PM by holding the country together during what could be described as Ukraine's most turbulent period since its independence, however, his party's ranks are filled with a younger generation of businessmen who often allow their personal interests to undermine the government's authority and its not clear how much say he has in the party. Our Ukraine's personal agendas were one of the key factors that led to Yushchenko's firing of the government in September. Several high ranking party members are allegedly connected to the shady RusUkrenergo gas deal. All of this baggage tends to divide and consume a great deal of the party's energy. One criticism that seems to constantly dog the President is that he is easily misled by his inner circle and is too

quick to compromise. That said this party and government have gotten a great deal accomplished against what at times seemed impossible odds.

**The Yulia Tymoshenko Block:** By far the most skilled in statecraft of the big three, Tymoshenko's fiery oratory and wit have tendency to make people either love her or hate her, and thus despite being the most active of all three candidates she has not picked up many new supporters. For the most part with BYT you get Tymoshenko and that is it, her supporting cast is weaker than the other two parties. However, in the end this may serve as her block's advantage, unlike Regions or Our Ukraine, BYT seems to have no internal power struggles or members who stick out like sore thumbs (Yanukovich, Poroshenko) and for the most part deals with all problems head on, guns a blaze. One of BYT's best weapons is former Security Service (SBU) Chief, Oleksandr Turchynov. During his time in the SBU Turchynov was able to gather a great deal of information on Ukraine's politicians and business circles, thus it is no coincidence that Tymoshenko is always able to break news on what the government is doing first (the gas deal with RosUkrenergo), and probably means that with just over two weeks to go until the elections Tymoshenko & Co. still have a few tricks up their sleeves. Though its rhetoric often shifts wildly BYT's strategic goals seem to be pretty constant. Be it a personal vendetta or real idealism Tymoshenko has made no secret of her wish to crush corruption and to knock big business down a peg by whatever methods necessary. BYT is not as privatization oriented as Our Ukraine. During her reign as PM Tymoshenko was considered very populist, however, she has pointed out that she was only fulfilling the President's campaign promises, and has insisted that if she returned to the PM seat she would do things differently. This remains to be seen.

**The Rest Of The Pack.** In a election where truly every vote is going to matter, it may be the smaller fringe parties that play a crucial role in deciding how coalitions and ultimately the government will be formed.

- **The Socialist Party:** The Socialists, lead by Oleksandr Moroz know how to pick a winner. Last time they teamed up with the 'orange' parties to bring Yushchenko to power, and for their help they were rewarded several key posts (State Property Fund, Interior Ministry). The Socialist stance on privatization is closer with BYT and Regions than Our Ukraine. However, any promise to allow the Socialists to keep their prominent posts in the next government might win their support.
- **The Communist Party:** This may be the last dance for the Communists, in five years most of their support base will be pushing up daisies. The Communists will be a bag without a handle for any coalition.
- **The Volodymyr Lytvyn Block:** Lytyvn is the slickest of the slick. Only a politician with his abilities could have such tight ties with the old regime, and come out of the revolution looking like the moderator between two groups of spoiled children. Lytyvn knows how important it is to hitch his wagon to a star, so look for him to jump on the bandwagon. Regions and to a lesser extent Our Ukraine will be able to work with Lytvyn. However, it will be hard for him to join any coalition that contains Yulia Tymoshenko.
- **The People's Opposition:** The People's Opposition lead by Nataliya Vitrienko, are mainly supported by those who think that Regions are not anti-Western or pro-Russian enough. This party may tip the scales in the coalition process if it can manage to beat the other two pro-orange parties it is contending with to stay above the 3% barrier.
- **The Kostenka & Plusha Block/Pora-Reform & Order:** All former "people's power" members. No doubt that either of these parties will be inclined to team up with either Our Ukraine or BYT. Pora-Reform & Order serve as the radical 'orange' wing and it is doubtful they would follow Our Ukraine into a coalition with Regions.



Yulia Tymoshenko

## Government Building - Possible Coalitions

**Operation Orange.** (Probability: Moderate) Until recently a coalition of Our Ukraine, the Tymoshenko Block (BYT), and another member of the former "People's Power" coalition the Socialists, seemed likely (giving them ~200 seats) with the only major hang-up being who would be PM. However, BYT said it would only be willing to join if the government would tear up the current gas agreement with Russia. The move caused talks to collapse with all sides saying they would only consider coalitions after the elections. Things look bleak for the 'orange' parties right now, but the other alternative, teaming up with Regions would be difficult for all the parties and would require a lot of fancy footwork to avoid disillusioning their parties' power bases. However, even if they do manage to get back together it will certainly be a shaky union, and this lack of stability will be preyed on by a more unified and powerful Party of Regions.

**The Judas Theory.** (Probability: Relatively High) Both the BYT and Regions are extremely flexible ideologically and Our Ukraine is known for its ability to reach political compromises, therefore given the current polls it is looking more and more likely that one of the former "orange" parties will forsake the other in order to gain or maintain power, especially when you take into account that Regions will likely be the largest group in the new Rada. In fact some analysts have suggested that some of the orange parties were trying to find excuses to side with Regions. Of the two possibilities it seems more likely that Our Ukraine could side with Regions to form a coalition. The parties have worked together in the past and Yushchenko does seem to sincerely want to bridge the bitter gap between east and west. Moreover Regions new look would not be as bitter a pill to swallow especially if Yanukovich agrees to a minor role. However, BYT and Regions seemingly have coinciding oligarch support and Yanukovich could be told to step aside to give Tymoshenko the premier's seat.

**The Empire Strikes Back.** (Probability: Low) A coalition of the Party Of Regions and the Lytvyn Block (~150 seats) would be a possibility were the orange parties to try to block Regions from power. Both Regions and Lytvyn have worked together before under President Kuchma. The Communists would be a tougher sell, as the CPU has said it was against blocking with any other party. However, stranger things have happened and Regions pro-Russian rhetoric and the chance to get back into power would surely be tempting for the Communists. In any case this kind of coalition looks unlikely first because they would all have to do really well in the polls to get enough seats, and secondly because this government would be viewed with hostility in the western part of the country and by the international community.

**The Trifecta.** (Probability: Not Likely) It is also possible that all three parties could form a kind of super coalition with all the major players playing a role. As logical as it may look on paper however, a government of this nature would be ripe for infighting and thus probably would not last long. If any two parties are able to form a coalition that is likely be what happens, as this will allow them to cut down on negotiation headaches.

**Let's Do It All Again.** (Probability: Not Likely) It's important to remember that under the current legislation, if the new Rada fails to form a coalition within one month or elect a Prime Minister one month after that Yushchenko can fire the Rada and call new elections. Depending on how close the elections turn out this could happen, however as things stand currently it looks as though compromises will be found.

## And The Winner Is...

The face of the coalition following the elections depends on how Tymoshenko does at the polls. A reunion of the orange government would certainly be a Hollywood ending and is the one most favored in most opinion polls. However, unless Tymoshenko's party has a really strong showing on March 26 look for the Party of Regions and Our Ukraine to form the next government with either the Socialists or Lytvyn's Block included if the two main parties fail to get enough seats.

Our Ukraine is not the same party that was instrumental in the Orange Revolution more than a year ago. Several of their strategic goals will remain in place (NATO, WTO, EU) but personal interests have weakened the party. Regions can offer Our Ukraine stability in the Rada and will calm the wrath of the Kremlin, two things the party desperately needs. In return Regions can facilitate their turn to the west by simplifying laws for their businesses and gain respectability in the west by teaming up with Yushchenko.

Tymoshenko is used to being in the opposition, but, her position will be substantially weakened as the other opposition parties (Communists, People's Opposition, Lytvyn) will be hostile towards her party. However, should Tymoshenko do better than Our Ukraine at the polls look for the return of a shakier but reunited orange coalition especially if the fringe orange blocks also do well on election day.

**Concorde Capital**  
3V Sportyvna Square  
2nd entrance, 3rd floor  
Kyiv 01023, UKRAINE

Tel +380 44 206 8370  
Fax: +380 44 206 8366  
www.concorde.com.ua  
office@concorde.com.ua

**CEO**

Igor Mazepa

im@concorde.com.ua

**Managing Partner**

John David Suggitt

js@concorde.com.ua

**Director, Equity Sales**

Peter Bobrinsky

pb@concorde.com.ua

**Equity Sales**

Marina Martirosyan  
Lucas Romriell  
Alexis Stenbock-Fermor  
Anastasiya Nazarenko

mm@concorde.com.ua  
lr@concorde.com.ua  
asf@concorde.com.ua  
an@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Metals & Mining**

Andriy Gostik  
Eugene Cherviachenko

ag@concorde.com.ua  
ec@concorde.com.ua

**Machine Building, Construction, Consumer Goods**

Olga Pankiv

op@concorde.com.ua

**Banking & Macroeconomics, Retail**

Alexander Viktorov

av@concorde.com.ua

**Oil & Gas, Chemicals**

Vladimir Nesterenko

vn@concorde.com.ua

**Politics**

Nick Piazza

np@concorde.com.ua

**Junior Analyst**

Polina Khomenko

pk@concorde.com.ua

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