

Zelensky vs. Akhmetov – a test of strength

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In November, an open conflict broke out between President Volodymyr Zelensky and Ukraine's richest businessman, Rinat Akhmetov. The main cause was Zelensky's signing of the so-called law on oligarchs. In response, Akhmetov's television channels, including the most popular one in Ukraine, began to ruthlessly attack the president and to promote his political rivals, in particular the former chairman of the Verkhovna Rada, Dmytro Razumkov, who had been dismissed a few weeks earlier and who until recently had been one of the key representatives of the ruling camp, a person with high public support. In response, Zelensky publicly suggested that Akhmetov was involved in an allegedly prepared state coup and that his entourage was dragging him into a war against Ukraine. Meanwhile the President's Office stepped up actions against his business.

It is currently impossible to predict how the dispute will end, but the main beneficiaries are other oligarchs, as the president is becoming increasingly dependent on their support (both in the media and in parliament) as he considers re-election. Zelensky's suggestions to Akhmetov can be seen as a kind of 'invitation' to him to negotiate his influence on politics. At the same time, a further escalation of their conflict (which is, however, less likely than a quiet compromise) could result in the destabilisation of the state.

Akhmetov's position under Zelensky

Rinat Akhmetov has been the richest businessman in Ukraine since the first decade of the 21st century. He built his position in the 1990s, initially operating in the criminal underworld and later through the privatisation of state property at discounted prices. Alongside Viktor Yanukovich, he was the main representative of the so-called Donetsk clan. After his victory in the 2010 presidential election, Akhmetov's assets grew further still. However, as a result of the armed conflict in the Donbas, he lost some factories and mines located in areas controlled by the so-called separatists, but this did not shake his position as Ukraine's most influential oligarch. In 2021, his wealth – according to various sources – was estimated at 7.6–11.5 billion dollars. The NV ranking shows that Akhmetov owns as much as 24% of the assets of the 100 largest Ukrainian businessmen (whose combined wealth is estimated at \$47.4 billion).¹ These assets are concentrated in the holding company System Capital

¹ 'Золота сотня 2021. Журнал НВ оприлюднив щорічний рейтинг Топ-100 найбагатших українців – повний список', НВ Бізнес, 6 November 2021, biz.nv.ua.



Management (SCM), which includes Metinvest (Ukraine's largest producer of iron ore and steel), DTEK (which has a dominant position in the thermal power industry and is an important producer of renewable energy sources) and Media Group Ukraine (including the television channel Ukraine and the TV news channel Ukraine 24). SCM companies employ approximately 300,000 people (see Appendix).

As a result of the 2019 elections Akhmetov for the first time failed to bring his own grouping into parliament, as the Opposition Bloc (which he directly funds) and Oleh Lashko's Radical Party were unable to cross the electoral threshold. Initially, he controlled only a few MPs from single-member constituencies and individuals from some groupings, such as Serhiy Taruta from Yulia Tymoshenko's Batkivshchyna. Gradually, however, he managed to secure the loyalty of a few dozen MPs from different groupings; this enabled him to block decisions he considered unfavourable to himself at key moments (for example, the appointment of Yuriy Vitrenko as energy minister in December 2020).

For a long time, relations between Akhmetov and the government remained normal. Akhmetov supported the state in its fight against the pandemic (for example, he purchased 200 ambulances), and

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in return gained influence over certain positions in the energy sector (for example, from April to November 2020, Olha Buslavets was acting minister of energy). Akhmetov's media also remained loyal to Zelensky's team. In this context, the most popular weekly political talk-show in Ukraine, Savik Shuster's *Svoboda Slova* (Freedom of Speech), and the news channel *Ukraina 24* (which has had the highest viewership among news TV channels since the closure of Viktor Medvedchuk's² media outlets in February) were of particular importance. And although representatives of the opposition supported by Akhmetov (including former prime minister Volodymyr Groysman and Oleh Lashko) were invited to his outlets, access was nevertheless provided for representatives of the ruling camp, and criticism of the authorities was rather mild.

Initiation of conflict

The conflict between Akhmetov and Zelensky began on 1 July, when the Verkhovna Rada passed the so-called bill on oligarchs at the first reading. This act introduced the legal concept of an oligarch and certain restrictions for such persons.³ On the same day, amendments to the Tax Code (commonly referred to in the media as the “anti-Akhmetov” law) were passed, including the introduction of a progressive tax rate on iron ore extraction, depending on the value of the IODEX 62% Fe CFR China index prepared by the Platts agency. Neither bill impacted Akhmetov alone. The provisions of the first bill are so vague that it may cover dozens of people (and not only those classified as oligarchs in the common meaning of the word). The second concerns all businessmen who own companies mining ore (Viktor Pinchuk, Vadym Novynskyi, Kostyantyn Zhevago or Ihor Kolomoyskyi). However, the biggest cost will be borne by Akhmetov. Although he (along with some other representatives of big business) tried to block the adoption of both documents by tabling a large number of amendments to them, the law on oligarchs was adopted on 23 September according to a special procedure, just as the tax amendments were adopted on 30 November. In both cases, the Servant of the People (SP) party would not have obtained a majority without the support of the oligarchic groupings in the

² S. Matuszak, 'Ukraine: pro-Russian TV channels closed down', OSW, 3 February 2021, osw.waw.pl.

³ S. Matuszak, 'An attempt to “deoligarchise” Ukraine – real action or a game of pretence?', *OSW Commentary*, no. 415, 15 November 2021, osw.waw.pl.

Verkhovna Rada (For the Future, part of which is controlled by Kolomoyskyi, and the Trust of agrobaron Andriy Verevskyi).⁴

Furthermore, in August Ukrzaliznytsia (state railways) raised the fee for transporting selected goods. This includes iron ore (by

6.5%). A 20% increase from January 2022 was also announced.⁵ The decision was motivated by the carrier's dire financial condition and is expected to provide additional revenue of 12 billion hryvnias (about \$450 million) by the end of next year. The Metinvest holding company (due to its size) will be most affected by these increases, but they cover the entire metallurgical sector, including the multinational ArcelorMittal, which is present in Ukraine.

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Akhmetov's attack...

Before the second vote on the bill on oligarchs, an informal meeting took place between Zelensky and Akhmetov, during which the president tried unsuccessfully to force the latter to promise not to block the adoption of the document. According to media reports, the conversation was very tense.⁶ On 7 October the chairman of the Verkhovna Rada, Dmytro Razumkov, was dismissed for attempting to sabotage the adoption of the law, which was interpreted by the presidential camp as an act in favour of Akhmetov. The conflict between Zelensky and Razumkov had been brewing for many months amid the latter's growing independence and his distancing himself from the president's team. Zelensky hoped that, after being dismissed, Razumkov would quickly retire into political oblivion. However, this did not happen. For most of Zelensky's voters, the dismissal was incomprehensible – Razumkov was one of the main faces and most popular politicians of the ruling camp after the president. He had appeared in Akhmetov's media outlets before, but after his resignation he started appearing in them almost every day, criticising those in power ever more harshly. Some polls indicated that a (hypothetical) party headed by Razumkov would cross the electoral threshold, and in a runoff of the presidential election he would be the only candidate who would beat Zelensky.⁷

In November Razumkov announced the formation of the parliamentary cross-party group Reasonable Politics, which included 25 MPs, 21 of them from the Servant of the People. Those elected from SP electoral lists cannot formally leave the grouping, as this would entail the loss of their seat, but they can boycott votes or vote against their grouping. The adoption of the 2022 budget was supported by only two Reasonable Politics MPs, while the “anti-Akhmetov” amendments to the tax code were not supported by any of them. This means that Zelensky's position, based on having a majority in the Council (formally, the Servant of the People faction includes 242 parliamentarians, with 226 votes needed to pass laws), will become increasingly unstable. Characteristically, despite full mobilisation, the SP cast only 210 votes in favour of the tax changes, and 215 votes in favour of the budget bill, with the remaining votes passed by the oligarchic factions Trust and For the Future, which de facto forces the government to strengthen their cooperation with them in parliament. After Zelensky signed the law on oligarchs on 5 November, Akhmetov's media greatly intensified their attacks on the president and his entourage. Former president Petro Poroshenko started to appear on Shuster's talk-show, as did

⁴ ‘Ахметов «мінус», Косяк «плюс»: Рада ухвалила податковий закон №5600’, Економічна правда, 30 November 2021, pravda.com.ua.

⁵ ‘УЗ підняла тарифи на вантажні перевезення: очікують отримати 12 мільярдів’, Економічна правда, 18 August 2021, pravda.com.ua.

⁶ Р. Романюк, Р. Кравець, ‘Президент країни ДТЕК. Як Ахметов розкитує Зеленського’, Українська правда, 29 November 2021, pravda.com.ua.

⁷ ‘Довіра до політиків та електоральні орієнтації громадян України (листопад 2021 р.)’, Разумков Центр, 24 November 2021, razumkov.org.ua.

highly trusted public figures from outside politics, such as Yevhen Komarovsky, a doctor very popular on social networks (nearly 10 million subscribers on Instagram) who speaks critically about Zelensky. On 22 November in Vilnius, Akhmetov most likely met with Groysman, former interior minister Arsen Avakov, popular journalist Dmytro Gordon and Komarovsky. It is difficult to say what the topic of the talks was, but it was a clear demonstration of the oligarch's political potential regarding Zelensky.

...and the president's counterattack

The support for Razumkov and the anti-presidential media campaign provoked an emotional reaction from Zelensky. On 26 November, at a press conference, he stated that he had received information about the possibility of a coup on 1–2 December. According to the president, the special services have a recording in which unnamed Ukrainian and Russian representatives discuss plans for a coup d'état and mention Akhmetov in this context. Zelensky expressed doubt that the oligarch was involved in the plot, but nevertheless stated that the businessman's entourage "is dragging him into the war against the president and Ukraine". Furthermore, he invited Akhmetov to the Office of the President so that he could become acquainted with the material of investigation. During the conference, which lasted several hours, the topic of Akhmetov returned repeatedly, and Zelensky accused him of interference in the political life of the country and of running a media campaign against the government. In turn, Akhmetov, in a press statement, considered these accusations absurd. On 1 December, when, according to Zelensky, the coup was supposed to have taken place, there was only a small demonstration in Kyiv (on the anniversary of the Maidan protests), during which no incidents took place.

In response to the criticism presented in Akhmetov's media, the government has begun to take measures aimed directly at the oligarch's business. Most serious was when on 14 November

” At Zelensky's press conference, Akhmetov was repeatedly mentioned, with the president accusing him of interfering in the political life of the country and of running a media campaign against the government.

a payment of 3.4 billion hryvnias (\$125 million) to the corporation DTEK was suspended (it was for electricity production from renewable energy sources, RES). Electricity grid operator Ukrenergo in early November issued Eurobonds for \$825 million to cover debt arising from so-called green tariffs (a mechanism that guarantees RES producers a price considerably higher than market for generated electricity) and transferred the funds to the state-owned company Guaranteed Buyer. The president of Guaranteed Buyer was ordered to pay the debt to all entities except DTEK (which owns about 23% of Ukraine's RES) and, when he refused, he was immediately dismissed, and the transfer to Akhmetov's corporation was stopped.⁸

In order to apply pressure on Akhmetov, the government has also started to use the law enforcement agencies. On 3 December, Prosecutor General Iryna Venediktova announced the "activation" of more than 200 criminal investigations linked to Akhmetov's businesses, and indicated that more could be forthcoming. There may also be a transfer to the Higher Anti-Corruption Court of the so-called Rotterdam+ case. This concerns the formula for determining prices for coal (adopted in 2016) which, according to the National Anti-Corruption Bureau of Ukraine, led to losses in the state budget of \$1.4 billion. The main beneficiary of the solutions adopted at the time was Akhmetov (his companies mine about 80% of Ukraine's coal) and the then president Petro Poroshenko, who purchased DTEK bonds through ICU (an investment fund associated with him).⁹ Currently, the case has been blocked for many months at the level of the prosecutor's office.

⁸ М. Топалов, 'Зеленський проти Ахметова: хто виграв бій за мільярди виробникам «зеленої» електроенергії', *Економічна правда*, 16 November 2021, epravda.com.ua.

⁹ И. Верстюк, 'Формула успіху: Навіщо Ахметов і Порошенко придумали Роттердам плюс – розслідування', *НВ Бізнес*, 2 June 2017, biz.nv.ua.

The state is trying to protect itself against the possibility of DTEK causing a crisis. The corporation has a monopoly position (about 70%) in thermal power generation which, although it is responsible for producing 30% of Ukraine's electricity, is crucial for balancing the grid at peak consumption. Meanwhile, coal stocks in power plants are at record lows for this time of year, and this could lead to an energy crisis¹⁰ in the coming weeks. It is difficult to assess whether this was DTEK's deliberate policy (stocks at state-owned power plants are even smaller), but the balance of power in the market allows the company to blackmail the government with threats of power cuts, which could have extreme consequences for the entire system. In order to prevent this, the Ministry of Energy has prepared a draft amendment to the Act on the Electricity Market, which provides for the introduction of temporary administration in companies from the energy sector if there is a threat to the electricity supply. It is not known, however, when this draft will be discussed in the Verkhovna Rada.

Outlook

Akhmetov's current conflict with Zelensky is not his first clash with Ukraine's head of state. The previous one took place in 2015 during Poroshenko's time in office and concerned electricity prices; it ended in a mutually beneficial compromise. Earlier disputes, however, were not so public in nature. The chronology suggests that the stimulus for the current conflict was the law on oligarchs, which caused irritation among representatives of big business, with image issues mainly at stake. Although Akhmetov remains a completely non-public person, he has so far seemed disinclined to enter into open confrontation with the government for all but financial reasons. Admittedly, it is possible that his official status as an "oligarch" will make it more difficult for him to gain access to foreign loans, which would pose a problem for Akhmetov (the debt of the SCM group amounts to 6.5 billion dollars), but it is difficult to say whether this will actually happen. It now seems that the conflict with the president has become personal.

In this situation, Akhmetov will probably systematically weaken Zelensky leading to him having diminished chances for re-election.

The media outlets he controls will

continue their attacks against the president and will support (in media and financial terms) opposition parties. The meeting with Avakov in Vilnius and inviting Poroshenko and Razumkov onto TV programmes may prove that the coalition of the 'old' elites and politicians who left Zelensky's environment is crystallising. Akhmetov may also – as has happened several times in the past – try to organise protests of workers or miners in order to put pressure on the government, or to trigger local electricity shortages.

Zelensky considered Razumkov's support and Akhmetov's direct media attacks on the president and his entourage as crossing a red line. His response during the press conference is unprecedented – so far no representative of the government has publicly referred to this oligarch in this way. However, the president has signalled his willingness to compromise, which can be understood as him wanting Akhmetov to cease supporting his (Zelensky's) political opponents. This is particularly important in a situation where Zelensky is considering re-election, and support for him and his party is progressively waning. In the next parliament, the Servant of the People party is not likely to have a majority, nor is it even known whether it will be part of a coalition, which would mean the end of Zelensky's power in its current form, even if he retains the presidency.

” Despite his actions against Akhmetov, the president is signalling his willingness to compromise, which can be understood as him wanting Akhmetov to cease supporting his political opponents.

¹⁰ S. Matuszak, 'Ukraine on the verge of an energy crisis', OSW, 10 November 2021, osw.waw.pl.

It is noteworthy that the other oligarchs have taken a wait-and-see attitude. Kolomoyskyi's television channels continue to pursue an information policy favourable to Zelensky, while Serhiy Lovochkin's and Viktor Pinchuk's channels remain neutral towards him. However, the president, who is currently creating his own media base, is becoming increasingly dependent on their information policy, and the progressive erosion of the Servant of the People grouping means that the oligarchic factions in parliament are gaining importance.

In the current situation, the most sensible solution for both the president and Akhmetov would be a settlement, but it seems that there are also emotional aspects in play, which make a rational assessment of the pros and cons difficult. A further escalation of the conflict would be devastating for both sides – it would complicate Zelensky's political plans and significantly weaken Akhmetov economically. More importantly, however, if one takes into account the set of instruments at the disposal of both the government (i.e. sanctions and, in extreme cases, the nationalisation of assets) and of Akhmetov (i.e. his overwhelming influence on strategic sectors of the economy, including metallurgy and thermal energy – especially during the heating season), such an escalation would destabilise the state. This would be a dream scenario for Russia, which is amassing considerable military forces and resources on its borders with Ukraine, and would be an argument for sceptical Western countries not to support Ukraine's de facto sovereignty.

APPENDIX

Rinat Akhmetov's main assets

Metinvest – the largest metallurgical holding in Ukraine. Akhmetov owns 71.25% of the shares, with 23.75% belonging to Vadym Novynskyi's Smart Holding. Metinvest has an integrated production chain consisting of iron ore and coal mines, ore beneficiation plants, coke-chemical plants, steel mills and companies specialising in sales. Steel (about 60% of domestic production) is the responsibility of the steel mills in Mariupol and Zaporizhia. Metinvest also has plants in Italy, the UK and Bulgaria. Ore extraction and enrichment is handled by the Ingutsk, Pivot and Central complexes. The United Coal Company (USA) and the Pokrovskaya mine are responsible for coking coal mining. Metinvest's coke-chemical complexes produce 66% of Ukraine's coke. In addition, the holding includes companies involved in the sale of metallurgical production and several repair facilities (including those in Kryvyi Rih and Mariupol).

DTEK is a holding company which accounts for approximately 70% of thermal power plants in Ukraine. It consists of companies involved in the extraction and processing of coal (responsible for 80% of all coal extraction in the country), electricity production (about 25% of consumption) and its distribution (45% of all transmitted energy). DTEK Naftogaz is the largest private gas production company (1.7 billion m³ in January–October, accounting for 11% of gas production in Ukraine). DTEK VDE, which comprises wind and solar power complexes, covers 23% of the renewable energy market.

Media Group Ukraine – includes national TV station Ukraine (the most popular channel, viewership – 12.9%), news channel Ukraine 24 (first place in this segment, viewership – 1.8%), as well as several thematic channels (including three sports channels), online TV platform OLL TV and newspaper and portal Segodnya.

HarvEast – an agroholding engaged in agricultural production – cultivates 123,000 ha (ninth in Ukraine).

Lemtrans – the largest private rail freight company in Ukraine, owner of over 20,000 wagons.

PUMB – the fifth largest bank in Ukraine.

Aska – the twelfth largest insurance company.

Aska Zhyttia – the sixth largest company in the life insurance market.

ESTA Holding – one of the main players on the real estate market, it owns several office blocks in Kyiv.

UMG Investments – a fund with an investment portfolio of over \$500 million.

Shakhtar Donetsk – the strongest football club in Ukraine next to Dynamo Kyiv.