



# **THE OLIGARCHIC DEMOCRACY**

## THE INFLUENCE OF BUSINESS GROUPS ON UKRAINIAN POLITICS

Sławomir Matuszak

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**OSW** |

CENTRE FOR EASTERN STUDIES

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# Contents

THESES /5

MAIN SECTORS OF BUSINESS ACTIVITY OF THE KEY UKRAINIAN OLIGARCHS /8

INTRODUCTION /9

RESERVATIONS /11

## I. THE EMERGENCE OF THE OLIGARCHIC SYSTEM AND ITS FORM IN 1991–2004 /13

1. The genesis of the oligarchic system /13
2. The formation of the clans /13
3. The beginnings of a system crisis /17
4. The Orange Revolution /20

## II. THE OLIGARCHS IN 2005–2010 /23

1. The orange ‘oligarchic democracy’ /25
  - 1.1. The business circles linked to the Party of Regions /26
  - 1.2. ‘Orange’ business /27
  - 1.3. The others /30
2. Tymoshenko’s conflict with the RUE Group /32
3. The attempt to form a grand coalition /32
4. The presidential election of 2010 /34

## III. THE OLIGARCHS AFTER VIKTOR YANUKOVYCH’S VICTORY /37

1. The key groups of influence in the state administration /37
2. ‘The family’ – an attempt at a new quality /40
3. The expansion of business linked to the Party of Regions /50
  - 3.1. Dmytro Firtash /50
  - 3.2. Rinat Akhmetov /53
  - 3.3. The other oligarchs /54
4. The other oligarchic groups /55
5. Other tendencies in the economy /58

#### **IV. THE OLIGARCHS' INFLUENCE ON FOREIGN POLICY /63**

- 1. The political interests of the oligarchs /63**
- 2. The economic interests /64**
- 3. The attitude towards integration projects /66**
- 3.1. Relations with the West /67**
- 3.2. Co-operation with Russia /69**
- 4. The primacy of individual interests /71**

#### **V. THE ADVANTAGES AND THE DISADVANTAGES OF THE OLIGARCHIC SYSTEM /74**

- 1. The negatives /75**
- 2. The positives /78**

#### **VI. POSSIBLE FUTURE DEVELOPMENTS OF THE OLIGARCHIC SYSTEM /80**

#### **SUPPLEMENT: THE OLIGARCHS' FORTUNES IN NUMBERS /83**

#### **APPENDIX /88**

- 1. Yanukovich's 'family' /88**
- 2. Akhmetov's group /88**
- 2.1. Rinat Akhmetov /88**
- 2.2. Borys Kolesnikov /93**
- 2.3. Vadym Novinsky /94**
- 3. The RUE Group /95**
- 3.1. Dmytro Firtash /96**
- 3.2. Valeriy Khoroshkovskiy /98**
- 4. The other oligarchs from the Party of Regions /100**
- 4.1. The Klyuyev brothers: Andriy and Serhiy /100**
- 4.2. Serhiy Tihipko /102**
- 4.3. Oleksandr Yaroslavsky /103**
- 5. Privat Group – Ihor Kolomoyskyi and Henadiy Boholyubov /104**
- 6. Other oligarchs /107**
- 6.1. Viktor Pinchuk /107**
- 6.2. Petro Poroshenko /108**
- 6.3. Kostyantyn Zhevago /110**
- 6.4. Oleh Bakhmatyuk /111**

## THESES

- The Ukrainian oligarchic system developed into its ultimate shape during Leonid Kuchma's presidency (1994–2004). Although this system has undergone some form of evolution, it appears to be very durable. Oligarchic clans emerged in the mid 1990s and would gain a dominant influence on the country's political life over the course of a few years. The Orange Revolution triggered a reshuffle among the oligarchs, but the system itself has remained unaltered. Representatives of big business still have a decisive impact on the politics and economy of Ukraine.
- Big business not only controls entire sectors of the Ukrainian economy and the electronic mass media—it also has a vast influence within political parties. It is often the case that the overriding goal of a given grouping's existence is to represent the oligarchs who sponsor it. A network of mutual connections exists between politicians and oligarchs. In some cases these connections are so durable that it is fair to say that oligarchic groups have been formed (consisting of businessmen, politicians and state officials who support each other). Representatives of big business are often much more important players on the Ukrainian political scene than the politicians themselves. One may risk stating that it is the interplay of the interests of the oligarchs that is the real mechanism which shapes Ukrainian politics. When giving their support for a given political grouping, representatives of big business are guided by nothing more than their own interests, and they do not identify themselves with the views of the political parties and politicians they are offering financial support to. If the political configuration changes, the oligarchs usually have no problems finding common ground with the new government.
- Although the oligarchic system does have some positive elements (for example, it contributes to pluralism in political life and the media), it needs to be stated that the overall influence of Ukrainian big business is harmful and hinders the country's development in both political and economic terms. The monopolisation of the key economic sectors has constrained competition and is one of the causes of the unfavourable investment climate in Ukraine. The dependence of most political forces on big business means that the government in many cases is guided by the interests of the oligarchs who are sponsoring it instead of the interests of their country; this often leads to multi-billion dollar losses in the Ukrainian state budget.

- The influence of the oligarchs on Ukraine's foreign policy is limited when compared to economic or internal policy. They do not seem to have a coherent strategy in external relations, but their actions resulting from their individual interests often have a significant impact on Ukraine's behaviour on the international arena. Sometimes their influence serves the Ukrainian national interest. However, where the interests of big business come into conflict with the interests of the state, oligarchs lobby (often successfully) for their own benefit.
- In some sectors (primarily metallurgy), representatives of big business are the main barrier to Russian capital expansion in Ukraine. Russian business is their key competitor on foreign markets. However, oligarchs are sometimes forced by the circumstances to sell their businesses, and Russian investors are often the only prospective buyers in such cases. Given the high degree of ownership concentration in the hands of relatively few oligarchs, it is very likely that Russia would take control of a number of Ukraine's strategic companies should an emergency situation arise (for example, the second wave of the economic crisis).
- When Viktor Yanukovich won the presidential election in 2010, representatives of one political grouping, the Party of Regions, gained strength to an extent unseen so far in Ukraine's history, and completely monopolised political power in the country. The coalition partners of the Party of Regions and opposition groupings have been marginalised to a large extent. The network of the groups of influence which emerged after the Party of Regions took power has remained essentially unchanged over the past two years. The government and the presidential administration have been divided between the RUE Group and the 'Donetsk clan', currently the two strongest groups.
- The emerging business of 'the family' – this term is used to refer to the people who are directly linked to President Viktor Yanukovich and his sons – is a new phenomenon. The political and economic expansion of 'the family' began shortly after Yanukovich took office as president of Ukraine, and gained momentum in 2011 and in early 2012. Although Yanukovich's political power is stronger than that of any other president in Ukraine's history, the financial strength of 'the family' is still limited.
- A further strengthening of 'the family's' position in business at the expense of other oligarchic groups is very likely to bring about a conflict between

Yanukovych and most representatives of big business. The consequences of this are difficult to predict. The concentration of huge political power in the hands of Yanukovych has already given rise to concern among oligarchs, including those who have so far formed his political base.

- It seems quite unlikely that a system resembling the Russian model, where big business is subordinate to the government, will be created. Yanukovych's main weaknesses are the limited number of people who he can see as unconditionally loyal to him and the strength of the other oligarchic groups. It seems that the most likely scenario for the development of the situation in the next few years (at least until the presidential election in 2015) will be the development of a compromise between the oligarchs and President Yanukovych. If this is the case, 'the family' would gain an important but not dominant position in the model of power and business in Ukraine.
- The political influence of those oligarchic groups which are not linked to the governing Party of Regions has lessened significantly since 2010. However, this has not led to any major ownership changes so far. Other groups have managed to keep their assets, although the government has taken some action aimed against their representatives. However, financial support from big business for opposition political parties has either ceased or been significantly reduced.

## Main sectors of business activity of the key Ukrainian oligarchs

<b>Rinat Akhmetov</b>	Metallurgy, media, banking, transport, conventional power engineering, insurance, retail trade
<b>Ihor Kolomoyskyi and Henadiy Boholyubov (Privat Group)</b>	Banking, media, metallurgy, oil sector, chemical industry, air transport
<b>Dmytro Firtash</b>	Chemical industry, gas sector, banking, titanium industry
<b>Viktor Pinchuk</b>	Metallurgy, media
<b>Serhiy Tihipko</b>	Financial sector, machine-building industry
<b>Kostyantyn Zhevago</b>	Metallurgy, machine-building industry, banking
<b>Vadym Novinsky</b>	Metallurgy, machine-building industry, shipbuilding industry, agriculture
<b>Oleh Bakhmatyuk</b>	Agriculture, food industry
<b>Andriy and Serhiy Klyuyev</b>	Metallurgy, machine-building industry, renewable power engineering
<b>Serhiy Taruta</b>	Metallurgy, media
<b>Petro Poroshenko</b>	Food industry, automobile industry, media
<b>Borys Kolesnikov</b>	Food industry
<b>Valeriy Khoroshkovskyi</b>	Media
<b>Tariel Vasadze</b>	Automobile industry, insurance

# INTRODUCTION

The oligarchic system, i.e. a system based on links between the newly formed big business and the political class, emerged several years after Ukraine regained independence in 1991. Although a similar phenomenon has also developed in other former Soviet republics, first of all in Russia, big business at present does not have such a strong influence on politics in any other Eastern European country as it does in Ukraine.

Representatives of big business in Ukraine, as in Russia, are commonly referred to as oligarchs<sup>1</sup>.

The oligarchic system, which took its final form during Leonid Kuchma's second term in office as president (1999–2004), turned out to be a durable phenomenon. The nature of the close links between the government and the oligarchs has not undergone any major changes either as a consequence of the Orange Revolution in 2004 or following Viktor Yanukovich's victory in the presidential election in 2010. Although certain reshuffles inside the political and business elites have already taken place and will happen in the future, it seems unlikely that anything will be able to change this system, at least in the medium term.

This text is aimed at presenting the network of connections existing between big business and politics in Ukraine and at pointing to the key oligarchic groups and the political forces they support. A definite majority of papers concerning contemporary Ukrainian politics as a rule disregard or deal with this subject very superficially, while **it is impossible to understand modern Ukraine without understanding a number of dependencies existing between the political and business elites there.**

Each Ukrainian oligarch has a different influence, which is not always proportionate to the value of their assets. The influence of some businessmen is limited to protecting their own interests within the sector of the economy in which they operate. Others have a much broader impact and this can be sensed across the entire country. This paper is focused on those representatives of big business who have a major influence on both the domestic and foreign policy of Ukraine.

<sup>1</sup> The term 'oligarchy' as a definition for business was coined in Russia, and was popularised by Olga Kryshatanovskaya, a sociologist from the Russian Academy of Sciences, in the mid 1990s. Oligarchs are representatives of big business who are able to influence the politics of a country for their own benefit owing to their assets.

This text has been divided into two parts. The general part outlines a brief history of the oligarchic system's formation in the 1990s, its development before and after the Orange Revolution and during the rule of President Yanukovich. One chapter is devoted to the impact the oligarchs have on Ukraine's foreign policy. An attempt to provide an evaluation of the impact of big business on the country's development and the possible ways the oligarchic system may develop in the future have also been presented. Some issues which deserve special attention have been discussed in separate frames.

The second part contains a description of the key groups and individual oligarchs in Ukraine: brief biographies of individual representatives of big business and the specifications of their assets.

This is not a historical work. The chapter concerning the emergence and the initial development of the oligarchic system in the 1990s was made brief for a purpose. It seems that there is no need to mention all the oligarchic groups existing at that time, except for the most important ones and those which still have a say in politics today. The processes and the key groups of influence existing within the timeframe from the Orange Revolution to Viktor Yanukovich's victory in the presidential election in 2010 are described in more detail. The period to which most attention has been paid is Yanukovich's presidency, i.e. modern Ukraine. The oligarchic system is a very extensive topic, so some issues have not been tackled at all (for example, the roles played by certain oligarchs in certain regions). Some issues have been outlined in a general way, such as ownership changes among the oligarchs in the 1990s and after the Orange Revolution. One exception is the period since 2010, which has been discussed in more detail.

## RESERVATIONS

- This work is based on commonly available materials (mainly on the Internet). Considering the fact that publication of sponsored texts – which are often aimed at discrediting political opponents and business competitors – is widespread in the Ukrainian media, despite the author’s best efforts and critical approach, in many cases it has been difficult to verify the credibility of the facts presented below.
- It is often impossible to clearly assess the assets owned by individual oligarchs, and percentage differences between the data published in various rankings of Ukraine’s richest people reach double digits. This is due to the problems with assessing the value of particular assets owned by the oligarchs (for more on this issue, see the supplement ‘Oligarchs in figures’).
- In some cases, and these are not rare, it is difficult to determine the owner of a given company. In other cases the ownership structure is quite transparent and does not give rise to any serious doubts. The latter concerns for example the corporation System Capital Management (SCM), in which Rinat Akhmetov’s assets are concentrated, and Viktor Pinchuk’s Interpipe and Starlight Media. Sometimes the ownership structure is transparent, as is the case with Group DF, which includes the key assets of Dmytro Firtash, but its owner’s self-reliance seems dubious. There are also cases where the structure is extremely tangled and impossible to follow. One example of this is Privat Group, which does not exist as a single legal entity, and it is not certain whether the numerous companies which are associated with this group are really controlled by it. In some cases the real owner of the business or company can be a different person than the one specified in the register as the formal shareholder. This in particular concerns ‘the family’, i.e. the group linked directly to President Yanukovich and also to his son, Oleksandr, and the businessman Yuriy Ivanyushchenko.
- The part of the report which carries the highest risk of inaccuracy is the one describing the period after Viktor Yanukovich’s victory in the presidential election, especially in those parts which refer to business activities linked to ‘the family’. On the one hand, there is no doubt that Yanukovich has been taking actions to strengthen his immediate political and financial base, which has been proven by a number of nominations he has made within the past two years. However, the available materials concerning this issue are mostly speculative and not completely trustworthy.

- The division into clans and oligarchic groups is to a certain extent a matter of convention, which is especially true about the recent period, during which the changes related to the expansion of 'the family' linked to Yanukovych have been taking place quite rapidly. In some cases, as with the cooperation between Akhmetov and Vadym Novinsky as part of MetInvest, the business connections are clear and durable. However, the connections existing between individual politicians and officials and certain oligarchs are often limited. Financial support accepted by a given politician does not always necessarily mean that this politician is a puppet in the hands of the businessman. Despite these reservations, the division into groups is useful and has been preserved in this text.
- Furthermore, in some cases the hierarchy within a given group is difficult to determine. This is especially problematic when attempts to analyse the dependencies inside the RUE group are made, where completely contradictory interpretations of relations existing between Dmytro Firtash, Yuriy Boyko and Serhiy Lyovochkin can be made and seem reasonable.
- Many actors present on the Ukrainian political scene are difficult to classify firmly as either politicians or businessmen. For example, Andriy Klyuyev, the secretary of the National Security and Defence Council of Ukraine, who was until recently first deputy prime minister, or Borys Kolesnikov, deputy prime minister and minister for infrastructure – they own considerable fortunes and at the same time hold prominent functions in the government. In other cases, the fortunes of politicians or state officials are formally registered as being owned by members of their families.

# I. THE EMERGENCE OF THE OLIGARCHIC SYSTEM AND ITS FORM IN 1991–2004

## 1. The genesis of the oligarchic system

The oligarchic system in Ukraine began to be formed immediately after the collapse of the Soviet Union, but it was finally established firmly in the second half of the 1990s, during the presidency of Leonid Kuchma. For this reason he is often referred to as the founding father of this system. It was already in the last years of the existence of the USSR, after *perestroika* began, that members of the Communist *nomenklatura* started amassing capital. When Ukraine gained independence, this capital enabled them to purchase industrial plants at low prices as part of privatisation. The first business groups (usually branded as clans) began to emerge during the period of the country's political and economic transformation. The factor which united these groups was either common territory or a common sector in which they operated (for example, the gas sector or metallurgy). The mutual dependence between representatives of business and politics was formed at the same time. Members of the state apparatus derived benefits from the support offered by businessmen, and in return they made possible or at least turned a blind eye to widespread violations of the law in the process of privatisation and doing business. The relations between representatives of business and politics also overlapped with the close links of both of these groups with the criminal underworld. The bitter struggle for influence in the mid 1990s resulted in a number of infamous murders of state officials (for example, of Vadym Hetman, a former head of the National Bank of Ukraine), well-known businessmen (for example, Yevhen Shcherban) and mafia bosses (Akhat Bragin).

## 2. The formation of the clans

Kuchma's rise to power in 1994 and – more importantly – the adoption of the constitution which set up the presidential system in Ukraine made it possible to organise the system of mutual dependence between politics and business which had already been forming. Clans based on regional industry, which is distributed disproportionately across the country, were established during the first term of Leonid Kuchma. Large heavy industry plants are concentrated predominantly in the two eastern regions, the Donets Basin (the Donets and Luhansk Oblasts) and the areas surrounding Dnipropetrovsk (mainly the Dnipropetrovsk and Zaporizhia Oblasts). The remaining industrial centres, such as Kharkiv, were somewhat less significant. The president, given his

extensive scope of authority, was acting as an arbiter between the emerging oligarchic groups. He managed to maintain the balance between the clans by backing certain of them against the others and to prevent the oligarchs from becoming independent of the government structures for a long time.

Three main clans were formed during Kuchma's first term as president:

- a. **The Donetsk clan** – whose business base was metallurgy. Rinat Akhmetov gained the position of the most important oligarch in the Donetsk group. This group also consisted of a number of sub-clans and subgroups, including the Industrial Union of Donbass (ISD) owned by Serhiy Taruta and Vitaliy Hayduk and the group controlled by the Klyuyev brothers, Andriy and Serhiy. Viktor Yanukovych, who was the governor of the Donetsk Oblast in 1997–2002 and the prime minister of Ukraine in 2002–2005 during Kuchma's second term, became the main political representative of this clan. Initially, Yanukovych did not play an independent role; he was rather in charge of fostering the interests of the businessmen from Donetsk. It was only when he gained the position of prime minister that his role began to grow. The Party of Regional Revival of Ukraine, which was established in 1997 and was renamed as the Party of Regions in 2000, has been the political base of the Donetsk clan.
- b. **The Dnipropetrovsk clan** – its influence was strongest during Kuchma's first term. This clan's significance reached its peak in the period when Pavlo Lazarenko was prime minister (1996–1997). Yulia Tymoshenko was his closest aide (see Frame 1). One of the main reasons why the Dnipropetrovsk group was so important was the fact that Kuchma himself came from the Dnipropetrovsk Oblast and had worked for many years in Dnipropetrovsk. Following the dismissal of the Lazarenko cabinet and Lazarenko's escape abroad, this clan fell apart into several groups, the most important of which was the one formed around Viktor Pinchuk (who is Kuchma's son-in-law). Later, Privat Group led by Ihor Kolomoyskyi and Henadiy Boholyubov would gain increasing significance, while the other circles would become less influential. Metallurgy was the main area of Pinchuk's activity. Privat Group was focused on the financial sector (banking). It is worth mentioning that a number of other influential politicians, including Yulia Tymoshenko and Serhiy Tihipko, were linked to the Dnipropetrovsk clan.
- c. **The Kyiv clan** – its pivotal figure was Viktor Medvedchuk, the head of the Presidential Administration during Kuchma's second term in office. This

group consisted of ‘the Kyiv seven’<sup>2</sup>; At present only the Surkis brothers, Hryhoriy and Ihor<sup>3</sup> are still active in this group of businessmen. When compared to the other clans the Kyiv group had a modest economic base (mainly operating in the energy sector, banking and media), but it was definitely the strongest in political terms. Its political strength was based on the position of Medvedchuk as Kuchma’s aide and on the influential Social Democratic Party of Ukraine (united), SDPU(o), which had its representatives in the Verkhovna Rada.

### **Frame 1. The rise and fall of Pavlo Lazarenko**

Lazarenko, who comes from the Dnipropetrovsk Oblast, may be recognised as a symbol of the first, unusually turbulent period of change in Ukraine after the country gained independence. In 1992–1995, he governed the Dnipropetrovsk Oblast – first as a presidential envoy and later as the governor. In 1995, he was nominated deputy prime minister, and was the prime minister of Ukraine in 1996–1997. At the same time, Lazarenko was a very active businessman. He was commonly perceived as the region’s greatest oligarch already at the time when he was the governor of the Dnipropetrovsk Oblast. When he held the post of prime minister, the corporation United Energy Systems of Ukraine (YESU) developed rapidly. In a short time YESU became Ukraine’s largest industrial and financial group and the largest private importer of Russian gas, while at the same time owning assets in various sectors of the economy<sup>4</sup>. YESU owed its growing significance to its patronage from Lazarenko, who was probably a hidden shareholder in this company. Its expansion led Lazarenko into conflict with many influential businessmen, including Yevhen Shcherban, who was murdered in 1996. Lazarenko’s position became so strong that it even put Kuchma at threat, who wanted to get rid of this inconvenient competitor. Lazarenko was charged with corruption, embezzlement of state property and the illegal transfer of money abroad<sup>5</sup>. The Verkhovna Rada cancelled his immunity in 1999. Laza-

<sup>2</sup> Киевская семерка, *Инвестгазета*, 10 March 2003, <http://www.investgazeta.net/politika-i-ekonomika/kyivskaja-semerka-144187/>

<sup>3</sup> In 1996–2000, Hryhoriy Surkis was the president of the Professional Football League of Ukraine and a deputy president of the Football Federation of Ukraine (FFU). Since 2000, he has uninterruptedly held the function of the president of the FFU. Ihor Surkis has been the president of the football club Dynamo Kyiv since 2002.

<sup>4</sup> Arkadiusz Sarna, ‘Ukraińska metalurgia: gospodarcze ogniwo oligarchicznego systemu władzy’, *Analizy OSW*, 1 May 2002.

<sup>5</sup> ‘Upadek Pawła Łazarenki’, *OSW, Tydzień na Wschodzie*, no. 127, 25 February 1999.

renko managed to escape abroad, but he was detained in New York, where he faced a court trial on charges of money laundering. These charges concerned a sum of US\$114 million which was laundered when he was prime minister<sup>6</sup>. In 2006, a court in San Francisco sentenced him to nine years in prison. The fall of Lazarenko put an end to the prosperity of YESU. The company was ousted from the gas market, and its assets were taken over by other business groups, one of which was Viktor Pinchuk's Interpipe<sup>7</sup>.

Lazarenko's case is interesting because no other oligarch of such significance has since fallen in Ukraine. However, the Lazarenko case would have probably not been worth mentioning if not for the fact that Yulia Tymoshenko, who directed YESU in 1995-1997, embarked on her political and business career by his side. Later she was elected to the parliament and acted as Lazarenko's deputy in his party, Hromada. In 1999, when it became clear that Lazarenko's fall was inevitable (and also to protect her own assets), Tymoshenko established her own party, *Batkivshchyna* (Fatherland), which she is still the leader of. The YESU case has been used against Tymoshenko in the past. At the beginning of 2001, she was arrested for one month on charges which included illegal gas export and tax frauds. The YESU case re-emerged in October 2011, when the Security Service of Ukraine announced that criminal proceedings had been launched against Tymoshenko. She was accused of burdening the state budget with the corporation's debts exceeding US\$400 million. Furthermore, the prosecution authorities are conducting an investigation into Tymoshenko's possible participation in soliciting the murder of Shcherban.

Initially, in the second half of the 1990s, the system which emerged in Ukraine was quite similar to the Russian system, where President Boris Yeltsin's authority was restricted by powerful oligarchs, such as Boris Berezovsky. However, when Vladimir Putin came to power in 2000, these two models became increasingly different. Putin managed to make big business subordinate to the government in several years. A milestone in this process was the state's takeover of the assets of Russia's largest oil company, Yukos, whose owner, Mikhail

<sup>6</sup> 'Pavlo Lazarenko is facing dirty money laundering charges', OSW, *Tydzień na Wschodzie*, no. 186, 8 June 2000.

<sup>7</sup> Arkadiusz Sarna, 'Ukraińska metalurgia: gospodarcze ogniwo oligarchicznego systemu władzy', *Analizy OSW*, 1 May 2002.

Khodorkovsky, was sentenced to nine years in prison<sup>8</sup>. This process in Ukraine moved in the opposite direction: the government was becoming weaker and weaker, and the oligarchs were gaining strength. A trial analogous to the Russian Khodorkovsky case has never taken place in Ukraine. On the contrary, Kuchma's position was essentially undermined in 2000 due to the 'Cassette Scandal'<sup>9</sup>, and he became more and more dependent on big business.

### 3. The beginnings of a system crisis

At the end of Kuchma's presidency, the decomposition of the clan system was more and more evident. However, this did not mean that the oligarchs' influence had weakened. As individual businessmen were gaining strength, the need to maintain regional bonds was lessening, while the need to protect individual interests was growing. The process of the disintegration of the clans was uneven. The Dnipropetrovsk group broke up fastest of all, the Donetsk clan remained most consolidated, but disagreements also started to emerge inside it. First of all, Akhmetov's conflict with Hayduk and Taruta (the ISD group) was escalating.

The process of legalising the fortunes of representatives of big business was also developing at a fast rate. Before that, their ownership was usually informal and was manifested through the distribution of shares among various representatives of a given group. Non-transparent structures and companies registered in tax havens were used very often<sup>10</sup>. However, the most powerful oligarchs began to gradually concentrate their assets in groups, such as Pinchuk's Interpipe or Akhmetov's SCM.

At this time, the RUE group also entered the scene<sup>11</sup>. Its name is derived from RosUkrEnergo, a company which was established in July 2004 to act as an

<sup>8</sup> Ewa Paszyc, 'Wyrok w sprawie szefów Jukosu – pyrrusowe zwycięstwo Kremla', *Tydzień na Wschodzie*, no. 398, 2 June 2005.

<sup>9</sup> The scandal was over recordings of talks from Kuchma's office made by his bodyguard, Major Mykola Melnychenko, which could suggest that the president was involved in the murder of Georgiy Gongadze, a journalist of *Ukrayinska Pravda*, who was linked to the opposition. The recordings were being published piece by piece and led to a severe internal crisis in Ukraine and Kyiv's partial isolation within the international community.

<sup>10</sup> Cyprus and some Swiss cantons, with the most liberal laws, were very popular. Александр Дубинский, 'Тигипко бьется за Кипр', *Экономические Известия*, 20 March 2012, <http://finance.eizvestia.com/full/tigipko-betsya-za-kipr>

<sup>11</sup> To avoid ambiguity, the term RUE refers to the oligarchic group, while the name RosUkrEnergo is used to refer to the gas trade agent company.

intermediary in gas imports to Ukraine from Central Asia and Russia (see Frame 2). At that stage, representatives of this group, the then head of Naftogaz, Yuriy Boyko, Kuchma's advisor, Serhiy Lyovochkin and businessman Dmytro Firtash, were playing rather limited roles in Ukrainian politics. This however was to change soon. RUE is believed to be the most pro-Russian group inside the Ukrainian political and business elite since its representatives have lobbied for Russian interests on numerous occasions. The view that Firtash is merely a figurehead, who only represents the interests of other people (not necessarily originating from Ukraine), is quite widespread<sup>12</sup>.

### **Frame 2. RosUkrEnergo and gas imports from Russia**

Gas trade with Russia and Turkmenistan<sup>13</sup> was one of the most profitable ways of doing business in Ukraine and Russia alike. The way of making money was simple. Instead of signing contracts directly with the state-controlled monopolies, Naftogaz and Gazprom, the services of intermediary firms were used. In 1994–2001, this function was performed by Itera company, and later, until 2005, by Eural Trans Gas. The incomes generated by their activity were transferred to the bank accounts of the government elites in both countries<sup>14</sup>. A new agent, RosUkrEnergo, was established under the aegis of presidents Kuchma and Putin in 2004. This company was registered in Switzerland. However, no concrete information regarding its ownership structure was available at first. Data on its shareholders became known only in 2006<sup>15</sup>. Half of the shares in RosUkrEnergo were owned by Gazprom, while the holders of the Ukrainian half of the company turned out to be Dmytro Firtash (45%) and Ivan Fursin (5%). It was later reported in certain media that the real owner of the shares held by Fursin was Serhiy Lyovochkin<sup>16</sup>. No hard evidence has been presented in this case, but it has been proven that Fursin and Lyovochkin have close business contacts<sup>17</sup>.

<sup>12</sup> Ukraine: Firtash Uses Crisis To Expand Into Banking, Wikileaks.org, <http://wikileaks.org/cable/2008/11/08KYIV2294.html#>

<sup>13</sup> Before the gas war of 2006, most of gas imported to Ukraine originated from Turkmenistan.

<sup>14</sup> Katarzyna Pełczyńska-Nałęcz, Iwona Wiśniewska, 'Rosyjsko-ukraiński kompromis gazowy', OSW, *Tydzień na Wschodzie*, no. 422, 5 January 2006.

<sup>15</sup> Владимир Бережной, 'Кто владеет украинским газом', *Известия*, 26 April 2006, <http://izvestia.ru/news/313258>

<sup>16</sup> Сергей Никонов, 'Хамодержавие или донецкие уже передрались', *ОРД*, 6 March 2010, <http://ord-ua.com/2010/03/06/hamoderzhavie-ili-donetskie-uzhe-peredralis/?lpage=1>

<sup>17</sup> Сергей Лещенко, 'Фирташизация Януковича', *Украинская Правда*, 12 October 2007, <http://www.pravda.com.ua/rus/articles/2007/10/12/4425697/>

It is believed that the head of Naftogaz, Yuriy Boyko, who has had close contacts with Firtash, was the person who came up with the idea of creating RosUkrEnergo<sup>18</sup>.

RosUkrEnergo reinforced its position as a consequence of the gas war between Ukraine and Russia in 2006. In addition to the exclusive right to act as an agent in gas imports (this time exclusively from Russia)<sup>19</sup>, Naftogaz and RosUkrEnergo established their subsidiary, UkrGazEnergo, which was to deal with gas sales to industrial recipients<sup>20</sup>. In 2009, following another gas war, RUE lost its function as an agent in gas imports (for more details of what later happened to RosUkrEnergo, see part II, section 2 and part III, section 3).

A specific model of political class emerged under Kuchma's rule. In this model, most politicians were clients of big business and represented its interests in the parliament and government. The oligarchs themselves also became politicians (as with the SDPU(o) and the Party of Regions).

In the final period of Kuchma's second term in office, one could observe increasingly strong tension in the system he had created. Following the unsuccessful attempts to extend the president's rule, it became clear that a different politician would take power in Ukraine in 2004 and would have very extensive rights as provided by the constitution. It was also obvious that, no matter who was elected, this politician would not be respected by the oligarchs to the extent that Kuchma had been. The election of a politician who would represent any of the groups posed a very serious threat to the interest of all the others.

The awareness of the need to secure the political base resulted in an increase of the influence of big business on the party system. In the parliamentary election in 2002, the parties which represented the oligarchic groups achieved very good results. A mixed electoral system applied at the time of the parliamentary election in 2002 (half of the seats were granted through the first past the post system and half through proportional representation). In most cases,

<sup>18</sup> Мустафа Найем, 'Семья RosUkrEnergo. Тайна отношений Фирташа и Бойко раскрыта', *Украинская Правда*, 5 July 2007, <http://www.pravda.com.ua/rus/articles/2007/07/5/4420882/>

<sup>19</sup> Ukraine giving up gas imports from Turkmenistan was one of the elements of the compromise following the gas war. Since 2006, Gazprom has bought Turkmen gas and resold it to Ukraine.

<sup>20</sup> Arkadiusz Sarna, 'RosUkrEnergo zwyciężcą „wojny gazowej”?', *OSW, Tydzień na Wschodzie*, no. 427, 9 February 2006.

local businessmen won in the single-member constituencies. They were formally independent but in fact they were willing to co-operate with the ruling camp<sup>21</sup>. Apart from the SDPU(o), the key groupings which represented big business were the Labour Party (the Dnipropetrovsk group) and the Party of Regions (the Donetsk group). The two latter parties entered parliament as members of the pro-presidential bloc For United Ukraine. Although this bloc received rather low support in the election (11.7%), the MPs from the single-member constituencies enabled it to form the largest faction in the Verkhovna Rada (175 of the 450 MPs)<sup>22</sup>.

The parliamentary election in 2002 also revealed another important phenomenon. The significance of people representing medium-sized business was growing. They centred around Our Ukraine, the bloc led by Viktor Yushchenko, which was the main opposition force. Our Ukraine clearly won the proportional election, with its level of support at 23.5%. It was, however, unable to form a coalition, because its results in the single-member constituencies were much worse. Unlike all the aforementioned groupings, it could not be said that Our Ukraine was an oligarchic bloc, since most of the parties which formed it had their own political manifestos (ideology). However, as its popularity was growing, Our Ukraine began to attract less influential (usually local) representatives of big business. Petro Poroshenko and David Zhvania were among them. These circles were gradually gaining strength as the presidential election was approaching and Yushchenko was among the frontrunners.

#### **4. The Orange Revolution**

It is possible to state many reasons why the Orange Revolution of 2004 broke out and was successful. The main reasons included the interests and actions of the oligarchs. The increasingly strong political influence and the problem with succession to the presidency caused representatives of big business to be more and more interested in introducing the parliamentary political system in Ukraine. Although most of the oligarchs had made their assets legal, it was feared that when a new president took power, major ownership changes could take place in big business. A reduction of the presidential prerogatives would essentially neutralise the threat linked to the election of a new person to this

<sup>21</sup> This is also interesting since similar voting regulations will apply during the parliamentary elections in October 2012.

<sup>22</sup> 'Верховна Рада України 4-го скликання', Wikipedia, 16 March 2012, [http://uk.wikipedia.org/wiki/Верховна\\_Рада\\_України\\_4-го\\_скликання](http://uk.wikipedia.org/wiki/Верховна_Рада_України_4-го_скликання)

post. Furthermore, more extensive competences for the parliament and government would make it possible for the oligarchs to participate to a greater extent in ruling the country, above all to influence the nominations of senior state officials. Before the presidential election in 2004, the ruling team made a number of attempts to amend the constitution. However, all of them were unsuccessful due to the lack of consensus over the details of the new system<sup>23</sup>.

The approaching election was also a problem for Kuchma himself and his closest aides. Although the Constitutional Court<sup>24</sup> had ruled that he could seek to be elected for a third term in office as president<sup>25</sup>, Kuchma did not use this opportunity because the level of public support for him was low. Another option was to indicate a successor, a variant which had been successfully put into practice in Russia in 2000. The successor would at best make it possible for Kuchma to influence the way in which the country was governed and at least give him a guarantee of security. The main problem was finding a suitable candidate – a person who would be acceptable to Kuchma and who would not upset the subtle balance of interests of individual oligarchic groups and who would have a chance of winning the election. Finally, the then prime minister, Viktor Yanukovich, became the ruling team's candidate. However, this was a consequence of inertia and not Kuchma's choice. The search for a more adequate person had lasted so long that Yanukovich as the leader of the strongest party inside the government team became, along with Yushchenko, one of the most popular candidates. Yanukovich, who represented the Donetsk clan and was closely linked to Akhmetov, was not a satisfactory candidate to other oligarchic groups. Despite their dislike of Yanukovich, most representatives of big business backed him in the election mainly because they feared the liberal reforms promised by Yushchenko.

Paradoxically, the fear of Yanukovich present among some oligarchs was one of the causes of success of the Orange Revolution at the end of 2004 since he would have extensive competences. When it became clear that the only way of putting down the protests against the forgery of the results of the presidential

<sup>23</sup> Tadeusz A. Olszański, 'Parlament Ukrainy nie zdołał uchwalić zmian w konstytucji', OSW, *Tydzień na Wschodzie*, no. 349, 15 April 2004.

<sup>24</sup> 'Sąd Konstytucyjny o dopuszczalności trzeciej kadencji prezydenta Kuczmy', OSW, *Tydzień na Wschodzie*, no. 335, 8 January 2004.

<sup>25</sup> The constitution of Ukraine provided that one person could hold the presidency for a maximum of two terms. The main argument of Kuchma's supporters for his running for presidency the third term in office was the fact that he had been elected for the first time in 1994, and the constitution had come into force in 1996.

runoff<sup>26</sup> was through the use of force, some representatives of big business chose a compromise with Yushchenko. One of these groups was ISD. Although this group originated from the Donetsk clan, its conflict with Akhmetov was escalating and it did not want him to become stronger. Kuchma also withdrew his support for Yanukovych at a crucial moment, when he did not agree to law enforcement agencies being ordered to use force against the demonstrators. The president agreed for the runoff to be repeated in exchange for security guarantees. The price for allowing a fair election to be held was Yushchenko's consent to a constitutional reform under which the parliamentary system would be introduced in Ukraine with, however, quite broad competences left for the president<sup>27</sup>. Yushchenko won the repeated runoff on 26 December 2004, with support at 52%. Soon thereafter, Our Ukraine managed to form a parliamentary majority since some of the MPs from the government camp change sides to join 'the Orange'. The 'Orange' government led by Yulia Tymoshenko was formed in February 2005.

<sup>26</sup> In the runoff on 21 November 2004, which was fixed, the election results were 49.4% for Viktor Yanukovych and 46.7% for Viktor Yushchenko.

<sup>27</sup> The constitutional reform came into force in 2006. This system resembled the one which existed in the 1990s in Poland, following the adoption of the Small Constitution of 1992. The president was in charge of the law enforcement sectors and foreign policy, and the government was responsible for the economy.

## II. THE OLIGARCHS IN 2005–2010

The Orange Revolution was not without reason branded a ‘revolt of the millionaires against the billionaires’<sup>28</sup>, since Viktor Yushchenko was supported by business circles of a lesser significance. During Leonid Kuchma’s second term the political system became so rigid that it limited the possibilities for medium-sized business to develop. For similar reasons Yushchenko was backed by the middle class, especially representatives of small business. Later, their support shifted to a great extent to the Yulia Tymoshenko Bloc, which in the parliamentary election in 2006 replaced Our Ukraine as the strongest ‘orange’ grouping.

As has already been mentioned, one of the reasons why the oligarchs supported Kuchma and later Yanukovych was their fear of thorough reforms. Later – during the election campaign, which was quite ruthless, the fear of revenge and accountability was added to that, especially since part of Yushchenko’s aides resorted to radical slogans during the campaign, such as “send the crooks to prison”. It could appear initially that the new team would indeed bring about real change. In April 2005, Borys Kolesnikov, a businessman and politician belonging to the Party of Regions, who at that time was the head of the Donetsk Oblast Council, was arrested for a few months on charges of the illegal takeover of shares.

### Frame 3. The Kolesnikov case

Kolesnikov was one of the most influential politicians from the Party of Regions and a business partner of Rinat Akhmetov. In November 2004, he took part in a congress in Sievierodonetsk<sup>29</sup> (Luhansk Oblast), where he backed the idea of creating an Autonomous South-Eastern Ukrainian Republic. Part of the victorious ‘orange’ team had a particularly bad perception of him. Kolesnikov was interrogated by the prosecution authori-

<sup>28</sup> This phrase is believed to have been coined by Anders Aslund, a Swedish political expert dealing with Ukraine. Jim Hoagland, ‘Ukraine’s lesson for Putin’, *The Washington Post*, 27 January 2005, <http://www.washingtonpost.com/wp-dyn/articles/A40072-2005Jan26.html>. However, Dmytro Vydrin, a Ukrainian political expert, claims that it was he to use this definition for the first time. Дмитрий Выдрин, ‘Революция без лидера – все равно, что секс без партнера’, *forUm*, 1 December 2012, <http://for-ua.com/authornews/2010/12/01/070343.html>

<sup>29</sup> This congress of representatives of regional governments was convened in response to the Orange Revolution and was an attempt from Yanukovych’s supporters to put pressure on the government in Kyiv.

ties in connection with this matter but was arrested for another reason. Borys Penchuk, the president of the Anti-Corruption Foundation and the author of the book entitled 'Donetsk Mafia: Anthology', made a report to the prosecution authorities accusing Kolesnikov of a raider takeover<sup>30</sup> of the shares in a shopping centre in Donetsk owned by Penchuk. Kolesnikov was arrested in April 2005. However, he was released more than three months later, in July, and proceedings against him were discontinued by the Attorney General's Office in 2006. A year later, Kolesnikov sued Borys Penchuk, accusing him of extortion. Penchuk was arrested in 2008 and was sentenced to eight years in prison (the penalty was later reduced by half) and confiscation of assets in October 2009<sup>31</sup>. When Yanukovych won the presidential election, Kolesnikov was nominated deputy prime minister in charge of the preparations for Euro 2012.

Another sign of change appeared in the first half of 2005, when Tymoshenko invalidated the privatisation of Kryvorizhstal, Ukraine's largest metallurgical plant. Kryvorizhstal had been sold to Pinchuk and Akhmetov by the end of Kuchma's rule for US\$800 million, a price which was seen as being significantly too low. This company was renationalised in October 2005, and the privatisation tender was held once more. Kryvorizhstal was sold to a foreign investor, Mittal Steel, for US\$4.8 billion. This was the largest sum in the history of privatisation in Ukraine so far<sup>32</sup>.

Tymoshenko did not intend to limit her actions to one company and announced that the privatisations of around three thousand companies would be invalidated. However, the oligarchs' fears that this was a beginning of the cancellation of all the other dubious takeovers of state-controlled assets proved groundless. In fact, the Kryvorizhstal case was unique, and it was mainly about punishing the most disgraced beneficiaries of the Kuchma regime, i.e. Pinchuk, (Kuchma's son-in-law) and Akhmetov, the main sponsor of the Party of Regions and Yanukovych. The negative stance taken by the West on taking away assets from businessmen was not insignificant<sup>33</sup>. A clear difference could

<sup>30</sup> This means the illegal takeover of all or part of assets, usually on the basis of forged documents backed with a bought court decision, not infrequently accompanied by threat or the use of force.

<sup>31</sup> Юлия Рябчун, 'Борис Пенчук оказался неусидчивым', *Коммерсантъ Украина*, 24 February 2010, <http://kommersant.ua/doc/1327358>

<sup>32</sup> Anna Górska, 'Sukces prywatyzacyjny ukraińskich władz', OSW, *Tydzień na Wschodzie*, no. 414, 27 October 2005.

<sup>33</sup> Arkadiusz Sarna, 'Ukraina: „Sprawa Achmetowa” – wojna z oligarchami czy kampania wyborcza?', OSW, *Tydzień na Wschodzie*, no. 406, 25 August 2005.

be seen already at that time between Tymoshenko, who was the key representative of the 'hawk' faction in the 'orange' team, who wanted to settle her scores with her political opponents, and President Yushchenko, who preferred a compromise between the government and business<sup>34</sup>. Tymoshenko's dismissal in September 2005 meant that no major changes would take place.

## 1. The orange 'oligarchic democracy'

Following the victory of Viktor Yushchenko, the following three political centres formed in Ukraine: (1) the presidential team along with the Our Ukraine party, (2) the Yulia Tymoshenko Bloc, whose leader held the post of prime minister for the greater part of the period in question<sup>35</sup>, and (3) the opposition among whom the Party of Regions played the key role. The amendment of the constitution which reduced the president's power and reinforced the government and parliament guaranteed that none of these centres would prevail over the others. The oligarchic groups supported either of these camps to various extents, sometimes shifted their support and – which was not rare – did not limit their backing to only one of them. None of these centres clearly outweighed the others, and this contributed to competition among them and the political parties. One effect of this system was a continuous, bitter political struggle, which later led to an almost total paralysis of the state.

The results of the parliamentary election in 2006 and of the early election in 2007 finally fixed in place the change in the map of influence from the key oligarchic groups which had begun with the Orange Revolution. The results of both elections were similar: the Party of Regions won, while the Yulia Tymoshenko Bloc received slightly lower support and remained the strongest grouping in the 'orange' camp. Our Ukraine achieved a much worse result, which was linked to a dramatic fall in public support for Viktor Yushchenko<sup>36</sup>.

The parliamentary elections sealed the key change which had appeared among the oligarchic groups after the Orange Revolution, namely the falling significance of the Kyiv clan. The SDPU(o), on which the clan's influence had been

<sup>34</sup> 'Kolejny dwugłos w sprawie reprivatyzacji', OSW, *Tydzień na Wschodzie*, no. 385, 17 February 2005.

<sup>35</sup> Yulia Tymoshenko was prime minister from January to September 2005 and from December 2007 to March 2010.

<sup>36</sup> In the election in 2007, the Party of Regions gained 175 of the 450 seats in the Verkhovna Rada, BYuT gained 156 seats and Our Ukraine gained 72. The other two groupings to enter parliament were the Communist Party of Ukraine (27 seats) and the Lytvyn Bloc (20 seats).

based, no longer had representatives in the Verkhovna Rada. The Surkis brothers maintained their influence in business, including football, but their role in politics had also significantly weakened. The case with Viktor Medvedchuk was similar: although he had not been marginalised completely (mainly owing to his close contacts with representatives of senior Russian officials<sup>37</sup>), his influence was incomparably smaller than it had been at the end of Kuchma's presidency, when he was commonly perceived as the second most important person in the state.

In 2006 and 2007, Ukraine was the scene of major political upheaval and frequent reshuffles in the government. Following the election of 2006, Viktor Yanukovich was prime minister for a year or so. From the end of 2007 to 2010, this function was held by Yulia Tymoshenko. At that time, the orange team was split completely into two camps, the pro-Yushchenko and the pro-Tymoshenko camps, which were fighting against one another.

### **1.1. The business circles linked to the Party of Regions**

A number of major business groups whose representatives originated mainly from the Donbass region could be distinguished in the Party of Regions. In this context it is worth mentioning the brothers Andriy and Serhiy Klyuyev, Vasyl Khmelnytsky and Valentyn Landyk. However, this party's policy was influenced strongest of all by the two oligarchic groups which were at the same time its major financial sponsors: the group centred around Ukraine's richest businessman, Rinat Akhmetov, and the RUE group. In many cases, the oligarchs linked to the Party of Regions held seats in parliament and used it to lobby for their own interests, and their position (especially Akhmetov's) was very essential for determining the party's policy.

#### **The Akhmetov group**

The business circles linked to Rinat Akhmetov were the principal financial base of the Party of Regions. In contrast to the preceding years, when Akhmetov had not been an active participant in political life, in 2006 and 2007, he took part in the elections and became an MP. Furthermore, almost half of the MPs from the

<sup>37</sup> According to Ukrainian media, Vladimir Putin and Dmitry Medvedev's wife in 2004 became the godparents of one of Medvedchuk's daughters; Тарас Козуб, Елена Галаджий, 'Медведчук возвращается в политику, чтобы бороться за Евразию', *Комсомольская Правда в Украине*, 22 March 2012, <http://кр.ua/daily/220312/330450/>

Party of Regions were people linked to Akhmetov<sup>38</sup>. Borys Kolesnikov, the head of this party's campaign, was believed to be Akhmetov's closest aide. The loss of Kryvorizhstal was not a serious blow to Akhmetov's business empire, which continued its expansion, for example in the power engineering sector.

## The RUE group

Following the Orange Revolution, representatives of another influential business group, RUE, also developed links with the Party of Regions. Members of this group had already performed significant functions in the state administration at the time of Kuchma's presidency (Boyko was the head of Naftogaz, and Lyovochkin was an advisor to Kuchma). However, they were linked to political forces unrelated to the Donetsk clan. They sought election in 2006 as representatives of other parties but none of them won a seat in parliament. It was only in 2007 that Boyko and Lyovochkin became MPs, this time as members of the Party of Regions. When Yanukovich was prime minister (2006–2007), Boyko held the function of the minister for energy, and Lyovochkin was the head of the prime minister's secretariat.

At that time, the group strengthened its position in business. As a consequence of the gas war of 2006, RosUkrEnergo became the only importer of gas to Ukraine, and UkrGaz-Energo, a company controlled by Naftogaz and RUE, was granted the right to sell 5 billion m<sup>3</sup> of gas to industrial recipients in Ukraine<sup>39</sup>, which ensured constant income to Firtash. At the same time, Firtash managed to take over part of the local gas distribution networks, known as *oblhaz*.

### 1.2. 'Orange' business

While since 2004 the business circles supporting the Party of Regions have not changed their political sympathies, the oligarchs' backing for the orange camp has been clearly less stable. The main difference between 'the orange' and the Party of Regions was the scope of business's influence on the policy adopted by a given party. This influence was definitely more limited in Our Ukraine, and even more so in the case of BYuT. This was partly due to the significantly

<sup>38</sup> Виктор Чивокуня, 'Янукович с Ахметовым получили билет на войну', *Украинская Правда*, 3 April 2007, <http://www.pravda.com.ua/rus/articles/4b1aaf6b37fef/>

<sup>39</sup> Алла Еременко, 'Реанимация «Укргаз-Энерго» = агония «Нафтогаза»?», *Зеркало Недели*, 1 April 2011, [http://zn.ua/ECONOMICS/reanimatsiya\\_ukrgaz-energo\\_\\_agoniya\\_naftogaza-78741.html](http://zn.ua/ECONOMICS/reanimatsiya_ukrgaz-energo__agoniya_naftogaza-78741.html)

smaller financial potential of the ‘orange’ oligarchs as compared to those from Donetsk. The personality of the leaders of these parties had an even stronger impact: Tymoshenko’s party clearly relied on its leader, while Yanukovych would always have to balance various interests inside his party.

Kostyantyn Zhevago was the richest businessman in the BYuT parliamentary club. His key assets were in the banking sector and metallurgy (iron ores). Another oligarch MP who belonged to BYuT was Tariel Vasadze, the owner of the UkrAvto Group, Ukraine’s largest car manufacturer<sup>40</sup>. The Buriak brothers, Oleksandr and Serhiy, who own the Brokbiznes bank, one of Ukraine’s largest financial institutions, were also BYuT members<sup>41</sup>.

Some support was also offered to the ‘orange’ camp by Ihor Kolomoyskyi and Henadiy Boholyubov (Privat Group). Capitalising on the conflict between the president and the prime minister, Privat was taking care of its interests and backed either Yushchenko or Tymoshenko, depending on its needs. It did not become engaged on either of the sides.

Our Ukraine received even less support from big business than the Yulia Tymoshenko Bloc. One of the most powerful oligarchs who backed Our Ukraine and Viktor Yushchenko was Petro Poroshenko, the owner of the Ukrprominvest holding<sup>42</sup>. In 2005, Poroshenko was the secretary of the National Security and Defence Council (NSDC), and held the post of the minister of foreign affairs for several months in late 2009/early 2010.

Representatives of the RUE group also had close contacts with Yushchenko’s camp. Yushchenko treated the support from this group as a way to become partly independent from the circles linked to Our Ukraine<sup>43</sup>. In 2006, Valeriy Khoroshkovskyi, the owner of the TV channel Inter, who was believed to be

<sup>40</sup> In 2005, Vasadze bought Warsaw’s FSO car factory; Danuta Walewska, ‘Tariel Wasadze: człowiek, który zbawił FSO’, *Rzeczpospolita*, 29 May 2006, [http://archiwum.rp.pl/artykul/618209\\_Tariel\\_Wasadze:\\_czlowiek\\_ktory\\_zbawil\\_FSO.html](http://archiwum.rp.pl/artykul/618209_Tariel_Wasadze:_czlowiek_ktory_zbawil_FSO.html)

<sup>41</sup> According to the National Bank of Ukraine (data as of 1 October 2011) Brokbiznes was ranked 14<sup>th</sup> in terms of assets owned in the banking system.

<sup>42</sup> Yushchenko is the godfather of Petro Poroshenko’s two daughters.

<sup>43</sup> One example of this was the discontinuation of the investigation by the SBU into the case of RosUkrEnergO shareholders following an intervention from Oleksandr Tretyakov, who was an advisor to Yushchenko. According to media reports, Firtash also allegedly paid for the Yushchenko family’s flight from the United States to the inauguration of Yushchenko’s presidency. Arkadiusz Sarna, ‘Atmosfera wokół RosUkrEnergO zagęszcza się’, *OSW, Tydzień na Wschodzie*, no. 439, 11 May 2006.

a business partner of Firtash<sup>44</sup>, was nominated by the president as deputy secretary of the NSDC. Later, from 2007 to January 2009, he was the head of the National Customs Service, and in March 2009 he was nominated deputy head and then head of the Security Service of Ukraine (SBU). Khoroshkovskiy, as an official of both the Customs Service and the SBU, was acting to the benefit of Firtash during his dispute with Tymoshenko and Naftogaz (see section 2 below). Akhmetov also had some influence in the Yushchenko administration. In 2007, Raisa Bogatyreva, who was linked to Akhmetov, was nominated secretary of the National Security and Defence Council.

Public support for Yushchenko fell rapidly during his presidency. When it became clear that he had no chance of being re-elected, some of the businessmen linked to Our Ukraine began to shift their support to Tymoshenko. This was the case with ISD controlled by Hayduk and Taruta, who had backed Yushchenko during the Orange Revolution, but later embarked on active co-operation with Yulia Tymoshenko. Due to the economic crisis in late 2009, Hayduk decided to sell his shares in ISD, which was taken over by Russian investors.

#### **Frame 4. Russian capital takes over ISD**

Ukrainian business was preventing Russian capital from expanding into Ukraine's most important branch of industry, metallurgy. The economic crisis of 2009 caused the Industrial Union of Donbass (ISD), which had excessive debts as a consequence of investments made in the preceding years, to be on the verge of bankruptcy. For this reason, Vitaliy Hayduk, who co-owned ISD, decided to sell his shares. At the end of 2009, 50% +2 shares were taken over by a consortium of Russian investors organised by the Swiss-based firm, Carbofer, in which Russia's Vnesheconombank held stakes. The deal concerned two steelyards in Ukraine and plants in Poland (Czestochowa Steelworks) and Hungary. This was the first instance when Russian business took over assets in the Ukrainian metallurgy sector<sup>45</sup>.

One person who contributed greatly to ISD's problems was its main competitor in Ukraine, Rinat Akhmetov. Apart from the business aspect, the

<sup>44</sup> Сергей Никонов, 'Как Хорошковский на госслужбе разбогател', *ОРД*, 20 May 2009, <http://ord-ua.com/2009/05/20/horosh/?!page=1>

<sup>45</sup> Anna Górska, Iwona Wiśniewska, 'Russian investors enter the Ukrainian metallurgy sector', *OSW, EastWeek*, 13 January 2010, <http://www.osw.waw.pl/en/publikacje/east-week/2010-01-13/russian-investors-enter-ukrainian-metallurgy-sector>

struggle between ISD and Akhmetov also had a political undertone. ISD supported President Yushchenko, and later Yulia Tymoshenko, while Akhmetov was the main sponsor of the Party of Regions. One of the problems ISD had was the lack of its own iron ore deposits. Ore mining in Ukraine is monopolised by MetInvest owned by Akhmetov, who capitalised on his position when competing with ISD. Taruta and Hayduk were forced to buy the more expensive raw material from Brazil and Russia<sup>46</sup>. Paradoxically, the infighting between the Ukrainian oligarchs contributed to their most dangerous competitor, Russian business, entering this market.

In 2010, more metallurgical assets were taken over by Russians in Ukraine: the Ilyich Steel and Iron Works in Mariupol and Zaporizhstal. However, the sale of the former was invalidated by the Ukrainian government, and Zaporizhstal was finally bought by Akhmetov (for more details on this subject, see part III, section 3). The expansion of Russian capital in Ukrainian metallurgy has been frozen since then.

### 1.3. The others

**Viktor Pinchuk**, one of the key oligarchs during Kuchma's presidency, withdrew from political activity and removed himself from the spotlight after the Orange Revolution. He did not run for a parliamentary seat in the election of 2006. He also decided to sell part of his assets which he did not see as essential for his business, such as Ukrsoobank, one of Ukraine's largest banks<sup>47</sup>, and kept his assets in metallurgy and the media. Pinchuk became increasingly engaged in supporting cultural projects (for example, the modern art gallery PinchukArtCentre) and promoting European integration, including holding annual YES (Yalta European Strategy) summits, a forum for meetings of politics and business representatives from Ukraine and the West.

Unlike Pinchuk, Privat Group was playing an increasingly important role in politics and was successfully lobbying for its own interests, regardless of who ruled the country. Privat was known for its extremely aggressive way of doing business. In 2008–2010, through dubious legal operations, Kolomoyskyi

<sup>46</sup> Anna Górska, 'Rosja–Ukraina: pogłębiona współpraca czy fuzja w metalurgii?', OSW, *Tydzień na Wschodzie*, no. 472, 22 February 2007.

<sup>47</sup> This bank was sold in 2007 for US\$2 billion to Italy's UniCredit Group, Елена Губарь, Александр Черновалов, 'Суммашествие UniCredit Group приобрел Укрсоцбанк за \$2,07 млрд', *Коммерсантъ Украина*, 6 July 2007, <http://kommersant.ua/doc/780617>

managed to take control of Ukrtatnafta, which owns Ukraine's largest refinery in Kremenchuk. As a consequence of actions taken by Privat, Russian shareholders, who formally held 55% of the shares, were forced out of the company.

### **Frame 5. The war over the Kremenchuk refinery**

Ukrtatnafta, a company whose key asset is Ukraine's largest refinery in Kremenchuk, was the object of what was so far the most widely publicised dispute between representatives of Russian and Ukrainian capital. The company was established in 1994 by the governments of Ukraine and Tatarstan (in the Russian Federation). In 1998, part of the Ukrainian stake was taken over by companies controlled by Russian businessmen. In 2007, Ukraine held 43% of the shares (they were managed by Naftogaz), while the Russian partner (the government of Tatarstan and the companies Tatneft, SeaGroup International and AmRuzTrading) owned in total over 55% of the shares. Furthermore, a 1.2% stake was held by Korsan, a company linked to Privat Group. In 2008, the economic court in Kyiv deemed the takeover of 18.3% the shares by SeaGroup International and AmRuzTrading illegal<sup>48</sup>. The shares taken away from these companies were bought by Korsan. In 2009, the court also ordered that the 28.8% stake held by the government of Tatarstan be taken away<sup>49</sup>. A year later, the court's verdict was upheld by Ukraine's Supreme Economic Court. These shares were also taken over by Privat, which – holding in total a 47% stake – began to control the management of Ukrtatnafta<sup>50</sup>. Of the remaining shares, 43% are held by Naftogaz and the other 10% by Tatneft.

In retaliation, Tatneft, the key supplier of oil for the Kremenchuk refinery, cut oil supplies. Privat could ensure alternative supplies. Since it controlled the management of UkrTransNafta (the operator of oil pipelines in Ukraine, which is formally state-controlled), it changed the direction of oil flow in Ukrainian pipelines and started supplying oil to the Kremenchuk refinery from Azerbaijan. This also caused a cut of supplies to the refinery in Odessa, owned by Russia's LUKoil, which had been using these pipelines.

<sup>48</sup> 'Суд подтвердил права государства на оспариваемые 18,3% акций „Укртатнафты“', *Зеркало недели*, 7 June 2008, [http://zn.ua/ECONOMICS/sud\\_podtverdil\\_prava\\_gosudarstva\\_na\\_osparivaemye\\_18,3\\_aktsiy\\_ukrtatnafty-53884.html](http://zn.ua/ECONOMICS/sud_podtverdil_prava_gosudarstva_na_osparivaemye_18,3_aktsiy_ukrtatnafty-53884.html)

<sup>49</sup> 'Суд признал незаконной покупку Татарстаном 28,8% „Укртатнафты“', *Новости Донбасса*, 19 March 2009, <http://novosti.dn.ua/details/77408/>

<sup>50</sup> Олег Гавриш, Андрей Леденев, '„Приват“ сконцентрировался на „Укртатнафте“', *Коммерсантъ Украина*, №37 (1085), <http://www.kommersant.ua/doc/1330369>

Although the seizure of the shares from the Russian shareholders has been discussed on numerous occasions at the time of meetings of the most senior Ukrainian and Russian officials, this issue has not as yet been resolved.

## 2. Tymoshenko's conflict with the RUE Group

As has been mentioned earlier in this text, representatives of the RUE Group formed the business base for both the Party of Regions and President Yushchenko. Tymoshenko saw RUE as a dangerous opponent because it supported two camps which were hostile to her and had great financial capacity. Tymoshenko was trying to block Firtash's main source of income – gas trade. To achieve this, she was making attempts to eliminate RosUkrEnergo as the agent in gas imports. This was difficult because in gas issues President Yushchenko *de facto* backed RUE by emphasising the need to maintain the continuity of supplies, while Tymoshenko wanted to change the system and get rid of the agent, even at the cost of another gas crisis with Russia. Prime Minister Tymoshenko achieved this goal on the occasion of the gas war between Russia and Ukraine in January 2009. However, Ukraine had to pay a very high price for this. Gas contracts signed by Naftogaz and Gazprom for the timeframe between 2009 and 2019 turned out to be extremely unfavourable for Kyiv due to the high price of gas set in them. However, these contracts excluded RosUkrEnergo as an agent, which Tymoshenko saw as a success, considering the upcoming presidential campaign. Gazprom also allowed Naftogaz to take over 11 billion m<sup>3</sup> of gas owned by RosUkrEnergo.

## 3. The attempt to form a grand coalition

The incessant political crises following the Orange Revolution, especially after 2006, posed a serious impediment to the oligarchs in doing business. The high costs they incurred in connection with the two campaigns preceding the parliamentary elections in 2006 and 2007 were also an important factor<sup>51</sup>, and President Yushchenko made another attempt at dissolving the parliament in 2008. Furthermore, a deep economic crisis began in Ukraine in late 2008. Since Tymoshenko had limited funds at her disposal, in her anti-crisis policy she directed state support to the businessmen linked to BYuT, and left the

<sup>51</sup> The estimated cost of election campaign which enables winning one seat in parliament ranged between US\$1 billion and US\$20 billion, depending on the constituency, Сколько стоит депутатский мандат?, Siteua.org, 14 November 2011, [http://siteua.org/Украина/311794/Сколько\\_стоит\\_депутатский\\_мандат\\_](http://siteua.org/Украина/311794/Сколько_стоит_депутатский_мандат_)

firms of the oligarchs from the Party of Regions with no support whatsoever. Therefore, part of the Party of Regions' financial base linked to Akhmetov wanted to reach a compromise with BYuT so as to improve the state's financial capacity and put an end to the political war by dividing the spheres of influence. Although the divides on the Ukrainian political scene between the orange and the white-and-blue<sup>52</sup> teams were very clear, the oligarchs linked to the Party of Regions had already shown that they were pragmatic as regards their alliances<sup>53</sup>.

Talks behind the scenes aimed at forming a grand coalition of the Party of Regions and BYuT began in 2008. A new draft constitution was prepared. It was supposed to introduce a new parliamentary system, where the president would be elected by the parliament. According to initial arrangements, Yanukovich was to become the head of state (with very limited competences), while Tymoshenko would keep her post as prime minister. An extension of parliament's tenure until 2014 was also planned<sup>54</sup>. The group centred around Akhmetov backed the compromise as it would guarantee political stabilisation for the next few years.

The compromise was opposed for obvious reasons by Yushchenko and the RUE Group, which had come into bitter conflict with Tymoshenko. A grand coalition would mean total defeat and the final loss of their business position for this group. The RUE faction succeeded in convincing Yanukovich that it was better to take the risk and take power as a consequence of the general election than to accept the presidency in a system where the real power would rest with Tymoshenko<sup>55</sup>. The breakdown of talks in June 2009 proved how strong an influence the RUE Group had on Yanukovich, while Akhmetov's connections turned out insufficient to push through a compromise.

<sup>52</sup> The official colours of the Party of Regions.

<sup>53</sup> A coalition of the Party of Regions and Our Ukraine was a scenario which was seriously considered after the parliamentary election in 2007. 'Preparing for the next drama', *The Economist*, 27 September 2007, [http://www.economist.com/node/9867554?story\\_id=9867554](http://www.economist.com/node/9867554?story_id=9867554)

<sup>54</sup> This draft constitution also included a number of regulations which would limit the freedom of speech and the independence of the judiciary and upset voting rules in parliament, thus leading to curbing the possibility to act for the opposition. Tadeusz A. Olszański, 'Ukraine: Coalition talks between the Tymoshenko Bloc and the Party of Regions break down', *OSW, EastWeek*, no. 97, 17 June 2009, [http://www.osw.waw.pl/sites/default/files/EastWeek\\_172.pdf](http://www.osw.waw.pl/sites/default/files/EastWeek_172.pdf)

<sup>55</sup> Сергей Лозунько, 'Нас прибут, но попозже', 2000, 19-25 June 2009, <http://2000.net.ua/2000/forum/puls/46691>

## 4. The presidential election of 2010

As the coalition talks ended in failure, the stakes in the presidential election grew significantly. Were Yanukovich to lose the election, this would most likely have spelt the end of his political career. If Tymoshenko won, she would gain complete power in Ukraine for the first time. The majority of big business preferred Yanukovich, believing that he would be a weak president, like Yushchenko. Tymoshenko was an independent player to a much greater extent. This raised fears among the oligarchs that, if she won the election, she could bring about fundamental changes in the ownership structures of the oligarchic groups, and even change the very nature of relations between business and politics. This did not, however, mean that it was easier for Yanukovich to conduct the election campaign. Tymoshenko managed to ensure adequate funding for her campaign and won the favours of the television media. Even the television channels owned by the oligarchs linked to the Party of Regions (see Frame 6) embarked on an information policy which was beneficial for Tymoshenko<sup>56</sup>. Despite all this, Yanukovich won the presidential runoff in February 2010, the difference between the support levels for them was three per cent. In the following month, he successfully caused the creation of a majority coalition in parliament with the Communists, the Lytvyn Bloc and some venal MPs from BYuT and Our Ukraine, and then the formation of a government led by Mykola Azarov.

### Frame 6. The oligarchs and the media

The media are a special example of the domination the oligarchs wield in the economy and which translates directly into their political influence. The media are not treated as ordinary business, but primarily as a tool to defend one's own interests. This has a direct impact on limiting journalists' independence, which is misused, especially in television. This was also evident during Yushchenko's presidency, when a channel's information policy would change depending on the relations between its owner and the government. Since the Party of Regions took and consolidated power, all the major stations have adopted a pro-government stance to various extents.

<sup>56</sup> This even affected the Inter channel owned by Khoroshkovsky (RUE Group), which was the most hostile to Tymoshenko. She backed businessman Kostyantyn Grigorishin, who demanded at court that the sale of Inter to Khoroshkovsky should be cancelled. The channel was not taken away from the oligarch, but Inter ceased its attacks on Tymoshenko., К. Усов, О. Довженко, 'Охота на «Интер»', *Зеркало недели*, 21 April 2009, [http://zn.ua/POLITICS/ohota\\_na\\_inter-56707.html](http://zn.ua/POLITICS/ohota_na_inter-56707.html)

Furthermore, the media are a very serious means of pressure on individual politicians and business competitors.

The degree of oligarchisation of the media is directly proportionate to the strength of their impact. The television market has been monopolised almost completely. The five channels with the highest viewership levels (Inter, “Ukraina”, 1+1, ISTV and STB) are owned by four people, of whom three are in the top positions on the lists of the richest people in Ukraine. Additionally, each of them has several thematic channels. The other oligarchs from Ukraine<sup>57</sup> and national television have practically no say. Owing to their connections in the government, the dominating oligarchs are able to prevent any attempts for other channels to develop, including the channels which have more independent teams of journalists. One example is the cancellation of the right to use the frequency with nation-wide coverage for the news channel 5 Kanal and the television TVi in 2010, as a consequence of which their viewership levels dropped to around 1%.

Big business is also predominant on the printed press market. However, this segment is not monopolised to such a degree by the representatives of the ‘four television tycoons’. This is so because the press market in Ukraine is poorly developed (there is a small circulation, which also means a weaker impact) and offers low rates of return. The situation is also similar in the case of Internet portals, the only difference being that – given their abundance – it is usually very difficult to track down their real owners.

The largest non-tabloid newspaper, *Segodnya*, is owned by Akhmetov. Furthermore, the company *Segodnya Multimedia* controls a part of the regional press, predominantly in the Donetsk Oblast. Pinchuk owns two of the few most significant economic magazines (*Delo* and *InvestGazeta*). Other major players on the media market, in addition to the four tycoons, include Petro Poroshenko, Vitaliy Hayduk and Serhiy Taruta. Poroshenko owns the news channel 5 Kanal and KP Media, which controls, for example, the influential weekly *Korrespondent* and the portal of the same name. Hayduk and Taruta are believed to be co-owners of Evolution Media Holding, which controls the *Kommentarii* weekly and Internet portal and the *WeeklyUA* magazine, and Media Invest Group, which includes the economic daily

<sup>57</sup> Russian TV channels still have some degree of significance. However, their role has lessened significantly in comparison to the 1990s. At present, their audience figures are in single figures in terms of percentage.

newspaper *Ekonomicheskie Izvestia* and the weekly *Expert* dealing with business issues.

In contrast to television, Ukraine's press market and Internet have at least a few influential titles which are not linked (at least not in a visible way) with big business. Examples of these are the opinion-forming weekly *Zerkalo Nedeli* and the internet portal *Ukrayinska Pravda*.

As with other sectors of the Ukrainian economy, in some cases it is impossible to identify beyond all doubt the owner of a given title. Akhmetov's SCM controls Media Group Ukraine and *Segodnya Multimedia*, while Pinchuk's EastOne Group owns *StarLight Media*. In turn, it is very difficult to prove the formal ownership structure of the media assets which are believed to be connected to Kolomoyskyi. It is also not completely clear who owns U.A. Inter Media Group Limited, which includes Ukraine's most popular TV channel. Officially, it is owned by Valeriy Khoroshkovskyi, however there is a long-standing common belief that its real owner is Dmytro Firtash.

	<b>Rinat Akhmetov</b>	<b>Ihor Kolo- moyskyi</b>	<b>Viktor Pinchuk</b>	<b>Valeriy Khoroshkovskyi</b>
<b>TV</b>	Ukraina Football Football+	1+1 2+2 TET 1+1 Interna- tional	Novyi Kanal ISTV STB M1 and M2	Inter K1 and K2 NTN MTV Ukraine
<b>Newspa- pers and maga- zines</b>	<i>Segodnya,</i> <i>Salon Dona</i> <i>i Basa,</i> <i>Donetskie</i> <i>Novosti,</i> <i>Priazovskiy</i> <i>Rabochiy</i>	<i>Glavred,</i> <i>Profil,</i> <i>Telekritika,</i> <i>Izvestia</i> <i>v Ukraine,</i> <i>UNIAN,</i> <i>Gazeta</i> <i>po-kievski</i>	<i>Fakty</i> <i>i Kommen- tarii,</i> <i>Delo,</i> <i>Invest</i> <i>Gazeta</i>	

**Data:** based on information published on the companies' websites and in the press

### III. THE OLIGARCHS AFTER VIKTOR YANUKOVYCH'S VICTORY

Big business welcomed the introduction of the new parliamentary-presidential system as a consequence of the Orange Revolution. This resolved their problem with the strong presidential administration, which could have posed a threat to the oligarchs. However, the chaos and the incessant political crisis resulting from the amendment of the constitution turned out to be harmful and expensive to business. Furthermore, it did not guarantee a sufficient level of protection for their interests. As Yanukovich won the presidential election in 2010 and one grouping took complete power, the return of political stability was guaranteed. The government also managed to stabilise the macroeconomic situation in a relatively short time span.

In October 2010, the Constitutional Court repealed the political system reform of 2004. This gave President Yanukovich the same powers as had been vested in Leonid Kuchma. At the same time, an unprecedented process of the executive becoming dominated by representatives of one party and the oligarchic groups connected to it – the Donetsk clan and the RUE group – was taking place. The significance of the other political groupings and political parties was limited to a great extent.

#### 1. The key groups of influence in the state administration

Serhiy Lyovochkin was nominated head of the Presidential Administration which, following the amendment of the constitution, again became the pivotal decision-making body in the executive system, as it had been under Kuchma's rule. To maintain balance, Iryna Akimova – who was linked to Akhmetov – was appointed as his first deputy. Despite this, Lyovochkin has been successful at dominating the flow of information which reaches the president<sup>58</sup>. The National Security and Defence Council (NSDC), which was directed until February 2012 by Raisa Bogatyreva (who is also linked to Akhmetov) – despite the fact that it is vested with extensive powers under the constitution – became totally marginalised by the Presidential Administration. In February 2012, Bogatyreva lost her post as secretary of the NSDC and was replaced by Andriy Klyuyev, who had been the first deputy prime minister and the minister for

<sup>58</sup> Хара: 'Левочкин и компания ограничивают Януковича в информации', *Зеркало Недели*, 31 October 2011, [http://news.zn.ua/POLITICS/hara\\_levochkin\\_i\\_kompaniya\\_ogranichivayut\\_yanukovicha\\_v\\_informatsii-90610.html](http://news.zn.ua/POLITICS/hara_levochkin_i_kompaniya_ogranichivayut_yanukovicha_v_informatsii-90610.html)

the economy before that. This politician and entrepreneur originating from Donetsk is one of the key figures in the Party of Regions. He and his brother Yuriy form a separate group of interest, which is oriented primarily towards President Yanukovich. The fact that he has been put in charge of the NSDC may mean that this institution will be given more significance in the future, but now it is too early to draw such conclusions.

Until the end of 2011, most members of the government were linked to the Donetsk clan, which was predominant in the Party of Regions. It was only at the beginning of 2012 that the influence of 'the family' grew (see below). Prime Minister Mykola Azarov is an independent politician and does not represent any of the oligarchs. He belongs to the 'old Donetsk' group and the old nomenclatura, dating back to the 1990s. He seems to be devoid of political ambitions (mainly because of his age: he was born in 1947) and remains loyal to President Yanukovich. However, much seems to indicate that he will be dismissed and replaced by someone more popular after the parliamentary election (October 2012). Akhmetov's interests are represented in the government by Borys Kolesnikov, the deputy prime minister in charge of Euro 2012 and the minister of infrastructure, whose main task was to prepare Ukraine for the European football championship (and control of the budget of Euro 2012, the estimated value of which was US\$7.6 billion<sup>59</sup>). Bogatyreva, who following her removal from the NSDC was nominated deputy prime minister and healthcare minister, also represents Akhmetov's interests.

Initially RUE group's influence in the government was much weaker than in the Presidential Administration, but it grew in two years. In 2010, Yuriy Boyko was nominated energy minister, and this allowed him to take control of the gas sector, which was of primary significance for Firtash's interests. For two years, one more person linked to Firtash held a senior position outside the government. This was Valeriy Khoroshkovskiy, who was the head of the Security Service of Ukraine between 2010 and 2011. In February 2012, he was nominated first deputy prime minister.

<sup>59</sup> Николай Туманов, Сколько стоит Евро-2012, *Комментарии*, 15 April 2011, <http://smi.liga.net/articles/2011-04-15/763142-skolko-stoit-evro2012.htm>; during the four years of preparations, the state spent 41.7 billion hryvnias; 'За четыре года подготовки к Евро-2012 государство потратило 42 млрд. грн.', *Дело*, 13 March 2012, <http://delo.ua/ukraine/zachetyre-goda-podgotovki-k-evro-2012-gosudarstvo-potratilo-42-m-174744/>

It may be stated generally that the RUE group gained much more influence than could have been expected on the basis of its position in the Party of Regions, which is much weaker than that of the Donetsk group. The reason why Yanukovich agreed to offer such a disproportionately large number of senior state positions to Firtash's group was the need to distance himself from the Donetsk group, and first of all from Akhmetov. Firtash in financial terms is much weaker than Akhmetov and relies to a much greater extent on state support in his business. Furthermore, the RUE group was opposed to the idea of a grand coalition being formed by the Party of Regions and BYuT, and it finally persuaded Yanukovich to break off talks, while Akhmetov wanted a compromise with Tymoshenko, which would have led to Yanukovich becoming a president with very limited power.

The other political groupings which form the government coalition are of little political significance. Serhiy Tihipko, the leader of the party Strong Ukraine, who had received the third highest support in the presidential election of 2010, was nominated deputy prime minister in Azarov's cabinet, but his influence on the actions taken by the government is limited<sup>60</sup>. Talks on Strong Ukraine joining the Party of Regions began in 2011. In March 2012, Strong Ukraine was dissolved, and its leader, Tihipko, was nominated deputy president of the Party of Regions<sup>61</sup>.

The situation is similar with the coalition partners of the Party of Regions in parliament – the Lytvyn Bloc (People's Party) and the Communist Party of Ukraine. As Yanukovich and the Party of Regions have been becoming more powerful, these two groupings have been gradually turning into satellites of the predominant coalition partner. Volodymyr Lytvyn, who is the parliamentary speaker, still has a rather extensive ability to take action, but his People's Party depends financially on the Party of Regions<sup>62</sup> and, with the present low level of support, he has little chance of entering parliament following the next

<sup>60</sup> Tihipko, who came third in the presidential election, began to be seen as a serious future competitor to Yanukovich. When he joined the government, he was put in charge of preparing and conducting unpopular reforms (including the tax code and the pension system reform), which resulted in a sudden decline in public support for him.

<sup>61</sup> Ольга Куришко, Сергей Сидоренко, 'Партия сыграна', *Коммерсантъ Украина*, 19 March 2012, <http://www.kommersant.ua/doc/1895908?isSearch=True>

<sup>62</sup> According to some sources, the main sponsor of the Lytvyn Bloc is Vasyl Khmelnytsky, an MP of the Party of Regions and a less powerful oligarch, Мустафа Найєм, Сергій Лещенко, 'Орбіти уряду Миколи Азарова', *Українська Правда*, 13 March 2010, <http://www.pravda.com.ua/articles/2010/03/13/4859050/>

election. The Communists have some more autonomy. They have several positions in the government and state administration<sup>63</sup> and will take part in the election as an independent party.

In addition to subjugating his coalition partners, Yanukovich also succeeded in marginalising the opposition almost completely. This became possible because Yulia Tymoshenko was imprisoned in August 2011, and the other politicians representing the opposition had no clear strategy for action. Another equally important reason was the fact that representatives of big business had reduced their financial support for *Batkivshchyna* (the key grouping in the Yulia Tymoshenko Bloc) and the parties which had emerged following the breakup of *Our Ukraine*. Part of the oligarchs who had been elected as MPs from the *BYuT* lists, following Yanukovich's victory, either joined the Party of Regions (for example, Tariel Vasadze) or formally still belonged to the opposition but significantly reduced their financial support (for example Kostyantyn Zhevago).

The balance of power which emerged a few months after the presidential election proved to be quite durable, and the government reshuffles carried out as a consequence of the state administration reform in late 2010 (including the reduction in the number of deputy prime ministers and ministries) have only made it more entrenched<sup>64</sup>.

## 2. 'The family' – an attempt at a new quality

The growing significance of the people who have personal connections with Viktor Yanukovich and his family is a new phenomenon in Ukrainian business. Some analogy to this can only be found in Kuchma's relations with his son-in-law, Viktor Pinchuk<sup>65</sup>. However, later, neither Yushchenko nor Tymoshenko managed to build up a loyal business support base of their own<sup>66</sup>.

<sup>63</sup> For example, Vasiliy Tsushko was initially nominated minister for the economy, and later became the head of the Anti-Monopoly Committee of Ukraine.

<sup>64</sup> 'Ukraine's President balances out groups of influence', *OSW, EastWeek*, no. 159, 15 December 2010, <http://www.osw.waw.pl/en/publikacje/eastweek/2010-12-15/ukraine-s-president-balances-out-groups-influence>

<sup>65</sup> The difference is that Pinchuk was already one of Ukraine's most powerful businessmen before he married Olena Franchuk (Kuchma's daughter) in 2002.

<sup>66</sup> Yushchenko also made such an attempt, but the influence of his brother, Petro, was very limited in both business and political terms.

Yanukovych has been a political representative of the Donetsk group since the mid 1990s. He was however to a great extent dependent on the Donetsk oligarchs, first of all Akhmetov. Although Yanukovych already in 2006 managed to partly reduce this dependence (the RUE group, which did not belong to the Donetsk clan, became the second most influential faction inside the Party of Regions), co-operation within the Donetsk group has not encountered any serious problems since his victory in the presidential election.

When Yanukovych became the president of Ukraine and the constitution was amended offering him extensive competences, he made an attempt to create his own business and to base it on the people he trusted most of all: his sons and little-known politicians who were loyal exclusively to the president.

Yanukovych managed to accumulate some assets already before his presidency<sup>67</sup>. His fortune is incomparable to those of the most powerful oligarchs, but no completely trustworthy information concerning this issue is available. Reportedly, Yanukovych at that time held stakes in fuel and property development firms, predominantly based in the Donetsk Oblast, which were controlled by Anton Pryhodsky, an MP from the Party of Regions, and Rinat Akhmetov. Yanukovych's interests were represented by his sons: Oleksandr, who is in charge of business, and Viktor, who since 2006 has been an MP representing the Party of Regions<sup>68</sup>.

The topic of 'the family' and its expansion was not mentioned in the Ukrainian media for many months. It is still raised almost exclusively in independent Internet portals which support the opposition. Little reliable information is available, so it is difficult to assess the scale of this phenomenon. In turn, it is relatively easy to track the increasing influence of 'the family' in the state administration. Serhiy Arbuzov, who was reputed to have been the personal banker of the Yanukovych family, was appointed as the president of the National Bank of Ukraine in late 2010. In turn, Oleksandr Klimenko, who is

<sup>67</sup> Сергей Гармаш, 'Тайны семейного бизнеса Януковича', *Остров*, 21 March 2007, <http://www.ostro.org/articles/article-1030/>

<sup>68</sup> Oleksandr was the deputy general director of Donbassnefteprodukt, and Viktor junior was the deputy general director of BK-Engineering, a property development firm which built large shopping and residential buildings in Donetsk and co-operated with Embrol-Engineering, which was owned by Anton Pryhodsky, an MP from the Party of Regions. Сергей Гармаш, 'Тайны семейного бизнеса Януковича', *Остров*, 21 March 2007, <http://www.ostro.org/articles/article-1030/>.

believed to be a man of Oleksandr Yanukovych, became the head of the State Tax Service in November 2011.

In late 2011 and early 2012, people linked to ‘the family’ were put in charge of the key law enforcement agencies. Vitaliy Zakharchenko has been the minister of internal affairs since November 2011, and Henadiy Reznikov became the head of the State Special Communications Service<sup>69</sup> in December 2011. They are both believed to be connected to Oleksandr Yanukovych. Ihor Kalinin was appointed as the head of the Security Service of Ukraine and Dmytro Salamatin as the minister of defence in February 2012. These two nominations are also commonly viewed in Ukraine as being a reinforcement of ‘the family’, although the biographies of these officials do not indicate that they have been linked to Yanukovych or his sons for a long time<sup>70</sup>.

Although the aforementioned functions are important, considering that over two years have passed since Yanukovych was elected president, it is still difficult to claim that ‘the family’ has gained very strong influence. Control of the law enforcement agencies may turn out to be very important in a crisis situation<sup>71</sup>, but these services have played a much lesser role in the current politics of Ukraine than in other countries in this region (especially in Russia and Belarus), although they have been used (especially since 2010) for harassing political opponents and for raider practices.

It is clearly more difficult to determine the real influence ‘the family’ has gained in business. Economic issues are supervised by Oleksandr Yanukovych and Yuriy Ivanyushchenko, an MP and a member of the Party of Regions. ‘The family’ is currently the most aggressively operating group in Ukraine. Both Ivanyushchenko and Oleksandr Yanukovych have been accused by part of the

<sup>69</sup> The State Service for Special Communications and Information Protection of Ukraine was made separate from the Security Service of Ukraine in 2005. Its main tasks include securing classified information. It is also in charge of the security of the government’s communications.

<sup>70</sup> Kalinin and Salamatin have connections with Russia. They were both born outside Ukraine: Kalinin in Russia, and Salamatin in Kazakhstan. Kalinin worked for the KGB from 1984, and later for the SBU. Salamatin settled in Ukraine as late as 1999. He is the son-in-law to Oleg Soskovets (deputy prime minister of the Russian Federation in 1993–1996). However, there are no grounds to state that the pro-Russian faction in the Ukrainian government has been strengthened due to their nominations. Cf. Юлия Мостовая, ‘Эх ты, ксивушка моя богатырская!’, *Зеркало недели*, 10 February 2012, [http://zn.ua/POLITICS/eh\\_ty\\_ksivushka\\_moya\\_bogatyrskaya-97141.html](http://zn.ua/POLITICS/eh_ty_ksivushka_moya_bogatyrskaya-97141.html)

<sup>71</sup> Although it is an open question how these agencies will behave in this kind of a situation.

media and opposition politicians of using law enforcement agencies to take over businesses from other entrepreneurs<sup>72</sup>. Ivanyushchenko has assets in the coal, machine-building, food and agriculture sectors and in retail trade<sup>73</sup>. Recently, more and more information on his conflict with Yanukovych's older son has been appearing in the Ukrainian media.

### **Frame 7. The mysterious Yura Yenakievskiy**

Yuriy Ivanyushchenko, who is commonly known in the media as Yura Yenakievskiy, over the past two years has had the reputation of being a grey eminence in the Ukrainian ruling class. In 2010, he grew from being an anonymous MP to one of the key figures in the Ukrainian economy. In 2011, *Korrespondent* weekly placed Ivanyushchenko second after President Yanukovych in its annual ranking of the 100 most influential Ukrainians<sup>74</sup>. Ivanyushchenko had never been mentioned in this ranking before.

Ivanyushchenko comes from Yenakieve, the hometown of Yanukovych, which has given rise to speculation in many publications that he is a childhood friend of the president<sup>75</sup>. This is, though, rather unlikely since Ivanyushchenko is nine years younger than Yanukovych. According to his official biography, he was working between 1981 and 1996 for the Coke Chemical Plant in Yenakieve, and later he ran the companies Alvi-Invest and UGK-2000. In 2007 he was elected to the Verkhovna Rada from the list of the Party of Regions although he does not belong to any political party<sup>76</sup>.

However, it is suspected that in fact Ivanyushchenko was involved in more special operations. In 2010, the media published a copy of a note concerning Ivanyushchenko, which was reportedly made by Russian military intelligence (GRU). According to the note, Ivanyushchenko led a squad of killers,

<sup>72</sup> 'Янукович и Иванющенко используют УБОП для рейдерства' – Томенко, *Газета.уа*, 22 November 2011, [http://gazeta.ua/ru/articles/politics/\\_yanukovich-i-ivanyuschenko-ispolzuyut-ubop-dlya-rejderstva-tomenko/406043](http://gazeta.ua/ru/articles/politics/_yanukovich-i-ivanyuschenko-ispolzuyut-ubop-dlya-rejderstva-tomenko/406043)

<sup>73</sup> 'Рассекречена бизнес-империя Юры Енакиевского', *Комментарии Запорожье*, 24 March 2012, <http://zr.comments.ua/article/2012/03/24/124108.html>

<sup>74</sup> 'Топ 100', *Корреспондент.net*, accessed on 16 March 2012, <http://files.korrespondent.net/projects/top100>

<sup>75</sup> '2 место Юрий Иванющенко', *Корреспондент.net*, accessed on 16 March 2012, <http://files.korrespondent.net/projects/top100/2011/1254829>

<sup>76</sup> 'Иванющенко Юрий Владимирович', *Партия Регионов официальный сайт*, accessed on 16 March 2012, [http://www.partyofregions.org.ua/ru/deputy\\_faction/deputies/show/586](http://www.partyofregions.org.ua/ru/deputy_faction/deputies/show/586)

active in the 1990s in Donetsk Oblast, who were responsible for a number of infamous murders (including the murder of Akhat Bragin)<sup>77</sup>. Ivanyushchenko sued the journalist who had disclosed this information. In 2011, the court found that Ivanyushchenko had not been linked to the criminal underworld in the past<sup>78</sup>.

A lot of information on Ivanyushchenko's current activity was published in the media throughout the whole of 2011. However, in most cases this material was very difficult to verify. Ivanyushchenko was reportedly given a sphere of influence in the Zaporizhia and Odessa Oblasts, where he took control of the ports and illegal business linked to them, including smuggling<sup>79</sup>. It is difficult to determine the credibility of this information. However, the high level of activity of the Security Service of Ukraine and other state control agencies in Odessa in 2011 could be seen as indirect proof of this. Ivanyushchenko has been mentioned on the occasions of numerous takeovers of companies in the machine-building and coal industries, but he himself has claimed that his family holds only a 21% stake in Odessa's Seventh-Kilometer Market. Ivanyushchenko's task was to ensure funds for the election campaign so that Yanukovych would become less dependent on funding from the RUE group, Akhmetov and the other oligarchs from Donetsk.

However, much seems to indicate that at the end of 2011 Ivanyushchenko came into conflict with the president (or his son), the reported pretext for which was his having been pushing through taking actions against Akhmetov<sup>80</sup>. The State Tax Service (directed by Oleksandr Yanukovych's trusted man) embarked on audits of transactions concluded by the business structures which were believed to be linked with Ivanyushchenko<sup>81</sup>. It was also

<sup>77</sup> Сергей Никонов, 'Простые хищные вещи', *ОРД*, 16 March 2012, <http://ordua.com/2010/03/06/prostyie-hischnyie-veschi/>

<sup>78</sup> Артем Скоропадский, 'Суд навел справку', *Коммерсантъ Украина*, 12 July 2011, <http://www.kommersant.ua/doc/1677368>

<sup>79</sup> Соня Кошкина, 'Именем Семьи', *ЛВ.ua*, 2 September 2010, [http://lb.ua/news/2010/09/02/63436\\_imenem\\_semi.html](http://lb.ua/news/2010/09/02/63436_imenem_semi.html)

<sup>80</sup> 'Источник: Янукович поссорился со своей „правой рукой“', *Росбалт*, 1 January 2012, <http://www.rosbalt.ru/ukraina/2012/01/17/934165.html>

According to another version, the conflict was between Ivanyushchenko and Lyovochkin over nominations to positions in the government as a consequence of the staff reshuffles in late 2011 and early 2012; '«Сливает» ли «семья» Юрия Енакиевского?', *Хвиля*, 6 March 2012, <http://hvylya.org/analytics/politics/20566-slivaet-li-semja-juru-enakievskogo.html>

<sup>81</sup> Сергій Щербина, 'Чому Юрія Іванющенка перевіряє податкова', *Економіческая Правда*, 22 February 2012, <http://www.epravda.com.ua/publications/2012/02/22/316622/>

reported that Ivanyushchenko had left Ukraine<sup>82</sup>. It seems however, that the conflict has been resolved and Ivanyushchenko has been granted 24<sup>th</sup> place on the electoral list of the Party of Regions. This guarantees him a seat in the next parliament.

A little more knowledge is available about the business of the president's elder son. Oleksandr Yanukovych is the owner of the All-Ukrainian Development Bank, and has some shares in the Ukrainian Business Bank, which was directed by Arbuzov between 2003 and 2010. Both of these institutions are of low significance for the Ukrainian banking system<sup>83</sup>. Furthermore, Oleksandr Yanukovych controls several property development firms. Reports have also appeared about his attempts to take over businesses on the electronic media market. He reportedly took over a small TV channel called Tonis (although he himself has denied this) and made a proposal to buy out the news TV channel, 5 Kanal.

The most widely publicised cases involving 'the family' included the government's imposition of quotas on grain exports and the activity of Khib InvestBud firm. The official reason provided for the new regulations was the need to protect the market from food price rises which could result from excessive exports. It turned out that a definite majority of the orders went to Khib InvestBud, a firm which had not previously been operating on the agricultural market. The company is 49% state-controlled, and the remaining stake is owned by shareholders from Cyprus and Russia, yet some Ukrainian experts have claimed that Khib InvestBud is in fact controlled by Ivanyushchenko<sup>84</sup>.

The Khib InvestBud story is a manifestation of both the strength and limitations of 'the family'. Khib InvestBud gained a very strong market position owing to state contracts and the withholding of orders for the other grain traders. However, it did not manage to take total control of grain trade, and the government under pressure from other firms operating on this market, which were supported by Western countries, the IMF and the World Bank, eventually had to lift the export quotas.

<sup>82</sup> 'Иванющенко уехал из Украины?', *Украинская Правда*, 5 March 2012, <http://www.pravda.com.ua/rus/news/2012/03/5/6960026/>

<sup>83</sup> According to data from the National Bank of Ukraine (as of 1 January 2012), the All-Ukrainian Development Bank was ranked 88<sup>th</sup> and the Ukrainian Business Bank was ranked 55<sup>th</sup> in terms of assets.

<sup>84</sup> 'Квоты на сахар получили заводы регионалов и знакомого Иванющенко', *Украинская Правда*, 19 July 2011, <http://www.pravda.com.ua/rus/news/2011/07/19/6400076/>

Ukraine's largest privatisation in recent history remains a mysterious case. A 92.8% stake in Ukrtelecom, the state-owned fixed-line telephone network operator, was sold for US\$1.3 billion in December 2010. The tender was won by EPIC, a little-known Austrian company, which had no previous experience in telecommunications. In this case, too, certain Ukrainian media suggested that the real buyer was 'the family', although no proof was presented to support this<sup>85</sup>.

Although it is difficult to assess 'the family's real influence in the economy, some facts provide grounds to suppose that this influence is not yet very great at the present stage. Its actions are rather focused on using the opportunities as they crop up and are not the effects of a well-thought out strategy. Furthermore, the greater part of the most profitable segments of the economy have already been divided among the existing oligarchs, and any attempt to enter these segments made by representatives of 'the family' would certainly provoke a conflict which would be difficult to conceal. It may be stated that most of the business 'the family' is running is of minor significance on the scale of the state. It is rather unlikely that Oleksandr Yanukovich's bank could become a major player in the banking sector in the immediate future.

### **Frame 8. The oligarchs and the banks in Ukraine**

The banking sector is one of the few branches of the Ukrainian economy to have a rather large share of foreign investors (39%). Out of the 177 banks operating in Ukraine, 56 have foreign capital, and 21 of them are 100% controlled by foreign capital<sup>86</sup>. Russian investors are especially active – the top ten includes as many as three banks with Russian capital.

The banking sector is also distinguished by a relatively low level of presence of the oligarchs. Out of the ten largest banks, which control in total 54.2% of the assets in the banking sector, only two – Privat and the First Ukrainian International Bank (FUIB) – are owned by oligarchs (see Frame 9). Although many of the other Ukrainian banks are controlled by oligarchs, these are medium-sized or small institutions and have no decisive impact

<sup>85</sup> Бондарь: '«Укртелеком» купили под окружение Януковича', *Дело*, 12 March 2011; <http://delo.ua/business/bondar-ukrtelekom-kupili-p-153780/>. However, this does not necessarily mean 'the family'. According to many sources, the person behind the privatisation of Ukrtelecom was Lyovochkin. Галина Каплюк, Альона Блохтур; '«Укртелеком» купив Львовчкін?', *Главком*, 12 March 2011, <http://glavcom.ua/articles/3159.html>

<sup>86</sup> Data from the National Bank of Ukraine as of 1 July 2011.

on the sector as a whole. The principal task for most of them is to take care of the business of a given entrepreneur.

The most powerful exception to this rule is Privat Bank owned by Ihor Kolomoyskyi and Henadiy Boholyubov. This is Ukraine's largest bank and one of the few which managed to survive the crisis relatively painlessly. While the entire sector had problems, Privat Bank generated a profit of almost UAH1 billion in the first three quarters of 2011.

The representative of big business who could play a great part in this sector is Rinat Akhmetov. In April 2012, information on the merger of two banks from the SCM group was made public – Dongorbank became part of FUIB. This merger gave FUIB ninth position on the list of Ukraine's largest banks. The bank's development strategy envisages that it will find itself in the top five by 2014. Furthermore, SCM owns a smaller bank, Renaissance Capital.

At present, it is unclear what the future of Nadra bank will be. This used to be one of the largest banks, but the crisis led it to such a difficult situation that it faced the possibility of being nationalised. In April 2011, as a consequence of an additional issue of shares, control of this bank was taken over by Dmytro Firtash's Centragas Holding.

The further development of the banking sector will depend primarily on the condition of the global economy. The banking system was especially severely affected by the crisis in 2009, and has been very weak ever since. It was only in 2011 that the situation began to gradually improve. Despite this, Ukrainian banks sustained a total loss of UAH5.6 billion in the first three quarters of 2011. They still have to deal with a great number of bad loans<sup>87</sup> and low confidence levels. The situation is additionally complicated due to the bad condition of the Western European banks which control part of the Ukrainian banks. Some foreign investors have withdrawn from the Ukrainian market, either partly or completely<sup>88</sup>. Others, including Commerzbank and BNP Paribas – which own large banks in Ukraine – are also

<sup>87</sup> According to estimates by the McKinsey consulting firm, bad loans make up 35% of the loan portfolio. Елена Губарь, 'Украину признали самой слабой', *Коммерсантъ Украина*, 9 November 2011, <http://www.kommersant.ua/doc/1811750?isSearch=True>

<sup>88</sup> The Swedish group Skandinaviska Enskilda Banken, which owns SEB bank, announced in November 2011 the sale of its network which offers services to individual clients. A similar decision was taken by Swedbank in September 2011.

considering withdrawing from the Ukrainian market; their chief problem in this is, though, the lack of investors who would wish to purchase the institutions they control. It is rather unlikely that a possible sale of banks by Western investors will lead to a 're-Ukrainisation' of this sector since it is difficult to indicate any potential buyers among the representatives of Ukrainian big business. For this reason, a further expansion of Russian banks is the most likely scenario. In 2011, Sberbank of Russia was especially active; it has tripled its assets over the past two years and has been rapidly developing the network of its banks in Ukraine.

**Frame 9. Ukraine's largest banks (in terms of assets) as of 1 October 2011**

	Name	Assets (in mil- lions of UAH)	Share in the banking system	Owner (key shareholders and the country of origin)
1	Privat Bank	141,363	13.7%	Ihor Kolomoyskyi and Henadiy Boholyubov (Privat Group, Ukraine)
2	Oschadbank	75,349	7.3%	state-owned
3	Ukreximbank	73,072	7.1%	state-owned
4	Raiffeisen Bank Aval	53,168	5.2%	Raiffeisen Bank International AG (Austria)
5	UkrSibbank	42,235	4.1%	BNP Paribas Group (France)
6	Ukrsocbank	39,619	3.8%	Bank Austria, UniCredit Group (Italy)
7	WTB Bank	36,661	3.6%	a subsidiary of Vneshtorg- bank (Russia)
8	Prominvestbank	35,279	3.4%	Vnesheconombank (Russia)
9	FUIB	29,278	2.8%	Rinat Akhmetov (SCM, Ukraine)
10	Alfa Bank	26,157	2.5%	Alfa Group (Russia)
11	Nadra	24,566	2.4%	Dmytro Firtash (Centragas Holding GmbH, Ukraine)

	Name	Assets (in mil- lions of UAH)	Share in the banking system	Owner (key shareholders and the country of origin)
12	OTP Bank	22,826	2,2%	OTP Bank (Hungary)
13	Finances and Credit	21,698	2,1%	Kostyantyn Zhevago (Ukraine)
14	Brokbiznes Bank	19,398	1,9%	Oleksandr i Serhiy Buriak (Ukraine)
15	Ukrgasbank	15,941	1,5%	state-owned
16	Kreditprombank	13,241	1,3%	mixed shareholding structure – Ukrainian and international capital <sup>89</sup>
17	Bank Forum	12,453	1,2%	Commerzbank (Germany)
18	Delta Bank	18,856	1,8%	Mykola Lagun (Ukraine)
19	Sberbank Rossii	15,118	1,5%	a subsidy of Sberbank Rossii
20	ING Bank Ukraina	10,843	1,1%	ING Bank H.B. (Holland)

**Data:** National Bank of Ukraine<sup>90</sup>

The situation is similar on the media market. Even if Tonis is actually owned by Yanukovych, and if 5 Kanal were to be sold, it would still be a long way from the creation of a media empire that would ensure independence from the oligarchs. The takeover of 5 Kanal would deal a painful blow to the opposition, since this is one of the two television stations which openly do not support the government<sup>91</sup>. However, its range and significance is marginal in comparison to the main channels, which are in the hands of Akhmetov, Kolomoyskyi and Pinchuk.

<sup>89</sup> Александр Дубинский, 'Кредитпромбанк пошел по рукам', *Экономические известия*, 6 October 2011, <http://finance.eizvestia.com/full/kreditprombank-poshel-po-rukam>

<sup>90</sup> Національний банк України, accessed on 19 March 2012, <http://www.bank.gov.ua/doccatalog/document?id=87230>

<sup>91</sup> Another opposition television channel is TVi, whose viewing figures are however even lower.; Natalia A. Feduschak, Yuriy Onyshkiv, Media expert: 'Only two TV stations still give viewers fair news coverage', *Kyiv Post*, 5 March 2010, <http://www.kyivpost.com/news/nation/detail/66674/>

Besides President Yanukovych's cautiousness –he wants to become independent from the oligarchs but at the same time to avoid coming into an open conflict with them – another factor which is holding back the expansion of 'the family' is the very limited number of reserve staff. There are few people who would be able to hold senior positions and who are at the same time fully trusted by Yanukovych. In turn, a greater openness towards new circles poses the risk of disloyalty in the future. The nominations of the head of the SBU and of the defence minister have proven how poor Yanukovych's staff base is. Neither Ihor Kalinin nor Dmytro Salamatin are linked to any major group of influence in Ukraine. They both owe their present positions exclusively to the president. However, taking into account their biographies so far, it is difficult to identify them as the president's trusted men.

### **3. The expansion of business linked to the Party of Regions**

Their extensive influence in the state administration has made it possible for the oligarchs linked to the Party of Regions to continue their expansion. Never before in the history of Ukraine have representatives of one region dominated the entire country to such an extent. This concerns both politics and state administration and business. Those who benefit from this most are above all the two key sponsors of the Party of Regions – Rinat Akhmetov and Dmytro Firtash. Although Akhmetov gained more through the takeovers and privatisations of state-controlled companies, Firtash achieved the greatest success when seen proportionally. The business of Firtash, which as a consequence of actions taken by Tymoshenko found itself on the verge of total collapse returned to flourish after the Party of Regions took power.

#### **3.1. Dmytro Firtash**

Firtash, with help from Energy Minister Yuriy Boyko, placed his men in the management structures of Naftogaz (Yevhen Bakulin became its Chief Executive Officer) and in the subsidiaries of Naftogaz, including Ukrgezvydobuvannya, Ukraine's largest gas producer, and Ukrtransgaz, a company dealing with gas transport.

Firtash managed to ensure that a number of decisions were passed which were beneficial for him. This made it possible to rebuild the position of RUE at a fast rate. At the beginning of 2011, the court rejected Ukrtransgaz's claim against UkrGazEnergo (a joint venture of NAK Naftogaz and RosUkrEnergo) for the collection of the debt at UAH861 million for gas transport services in

the preceding years<sup>92</sup>. The fact that the new management of Ukrtransgaz was loyal to Firtash probably had an impact on the trial. The passive stance taken by Naftogaz during the arbitration in Stockholm was even more important – this concerned the return of 11 billion m<sup>3</sup> of gas which had been taken away from RosUkrEnergo in 2009. In effect, the arbitration court passed a verdict which was favourable for Firtash’s company, and this verdict was confirmed by a Ukrainian court in late 2010<sup>93</sup>. This verdict meant the imposition of a very heavy burden on the state (the gas was worth approximately US\$3 billion), and the direct losses sustained by Ukraine due to the differences in gas prices between 2009 and 2011 reached around one billion US dollars.

Firtash could not regain his role as an agent in gas imports because Naftogaz and Gazprom had signed contracts for direct gas supplies, valid until the end of 2019. However, he successfully re-entered the Ukrainian internal market, including the most profitable supplies to industrial plants. In April 2011, the government cancelled Naftogaz’s monopoly over gas imports, and thus made it possible for Firtash to import gas directly from Russia. The National Electricity Regulatory Commission of Ukraine granted to UkrGazEnergo a five-year licence for the sale of up to 4.8 billion m<sup>3</sup> of gas annually on the domestic market<sup>94</sup>. For reasons which remain unclear, the gas was in fact imported not by UkrGazEnergo, but by Ostchem holding controlled by Firtash, which imported around 5 billion m<sup>3</sup> of gas in 2011. Part of this gas was used by the chemical plants owned by Firtash, and part of it was sold to industrial recipients in Ukraine. Firtash was able to buy gas at lower prices<sup>95</sup> than those offered by Gazprom to the state-controlled Naftogaz. The competition from Ostchem was one of the reasons for Naftogaz’s worsening financial problems. This has had a direct negative impact on Ukraine’s financial condition.

Firtash’s business activity was not limited to the gas sector. In 2010 and 2011, he bought a number of companies from the chemical industry specialising in the production of nitrogen fertilisers. As a consequence of the takeovers, Ostchem

<sup>92</sup> ‘Суд отменил взыскание с «УкрГаз-Энерго» в пользу «Укртрансгаза» 860 млн. грн., *Униан Экономика*, 13 January 2011, <http://economics.unian.net/rus/detail/73694>

<sup>93</sup> Ukraine was to return 12.1 billion m<sup>3</sup> of gas (11 billion m<sup>3</sup> of gas received and 1.1 billion m<sup>3</sup> as compensation).

<sup>94</sup> In September 2011, Firtash succeeded at obtaining a court verdict under which Naftogaz was excluded as a shareholder of UkrGazEnergo.

<sup>95</sup> Firtash claims that he imports gas from Central Asia. However, this would be impossible without consent from Russia, which since 2006 has successfully blocked the possibility of direct gas imports from other countries through its territory.

owns four of Ukraine's six largest nitrogen fertiliser manufacturers, including Stirol and the Severodonetsk Azot Association, and has thus become a near monopoly in Ukraine<sup>96</sup> and has gained a key position on the global market<sup>97</sup>.

The expansion in the chemical sector was economically feasible, because natural gas is the key raw material used for the production of fertilisers. Therefore, the rate of return of these plants is inversely proportional to the price of gas. Since Firtash has been able to buy gas at lower prices, he has also been able to ensure higher profits.

Yanukovych's rule has made it possible for Firtash to maintain his position in yet another branch, the titanium industry. Ostchem *de facto* controls the state-owned plant, Crimea Titan, although it is a minority shareholder<sup>98</sup>. Firtash, through his managers, also controls the largest state-owned companies in this sector, including Titan Ukraine. One vivid example of how Firtash is backed by the state was the decision passed by the State Property Fund of Ukraine at the beginning of 2012, which granted consent for a five year extension to Crimea Titan's lease of Ukraine's two largest plants dealing with titanium ore production and beneficiation, the Volnogorsky and Irshansky mining and metallurgical works. The monthly lease rent is around US\$200,000, while the estimated profit generated by only one of the works ranges between US\$150 and 200 million<sup>99</sup>. Firtash has also announced his plans to create a titanium holding, which would include the companies from this sector, where the state would only hold a blocking stake. Talks with the government concerning this issue are now underway.

Firtash has also acquired assets in other sectors of the economy; for example, he took over Nadra (one of Ukraine's largest banks) and the Nika-Tera terminal at Mykolaiv sea port, one of the functions of which is chemical production

<sup>96</sup> The plants controlled by Ostchem manufacture 100% of Ukraine's production of ammonium nitrate and over 50% of ammonia and carbamide.

<sup>97</sup> In 2000, Ukrainian exports accounted for approximately 12% of the global market of nitrogen fertilisers. However, as a consequence of the financial crisis of 2009, Ukraine's share decreased significantly to a level of approximately 3% in 2010; Наталия Белоусова, 'Химическая перезагрузка', *Укррудпром*, 27 April 2011, [http://www.ukrrudprom.ua/digest/Himicheskaya\\_perezagruzka.html](http://www.ukrrudprom.ua/digest/Himicheskaya_perezagruzka.html)

<sup>98</sup> The state owns 50% + 1 share in Crimea Titan, and Ostchem owns 50% - 1 share.

<sup>99</sup> Валерий Мазур, 'Сколько государство теряет на аренде титановых ГОКов', *Дело*, 3 February 2012, <http://delo.ua/opinions/skolko-gosudarstvo-terjaet-na-arende-titanovyh-gokov-173046/>

export. The takeover of this terminal was facilitated by actions taken by state administration agencies, which embarked on numerous inspections and thus paralysed the operation of the terminal<sup>100</sup>.

It is not entirely clear where Firtash got the money from for the takeovers. The Severodonetsk Azot Association alone cost US\$400 million. According to media reports, at least part of the funds was offered as a loan by Russia's Gazprombank. This gives rise to the question as to the degree of Firtash's independence. Given the financial support from the Russian bank and his past and present unclear dealings with Gazprom linked to gas imports to Ukraine, a significant part of Ukrainian experts believe that Firtash is the main figure in the pro-Russian faction among the Ukrainian elite. Furthermore, the dependence of the rate of return of chemical plants on price of gas has made RUE Group one of the key lobbyists for an agreement on changing the gas price to be concluded as soon as possible between Ukraine and Russia.

### **3.2. Rinat Akhmetov**

Yanukovich's rule has turned out to be equally beneficial for Ukraine's richest businessman. Since 2010, Akhmetov has focused on reinforcing his position in the two key areas of his activity – power engineering and metallurgy.

Akhmetov managed to prevent a further expansion of Russian capital (following the takeover of ISD) in the metallurgical industry. In 2010, two large plants – the Ilyich Steel and Iron Works in Mariupol (Ukraine's second largest metallurgical plant) and Zaporizhstal – were taken over by Cypriot companies, which most likely represented Russian investors<sup>101</sup>. In June 2010, Akhmetov managed to cause the invalidation of the sale of the Ilyich Steel and Iron Works – Prime Minister Azarov recognised the sale of this plant, which had been made a year before, as an attempt at an illegal takeover. In effect, the works were taken over by MetInvest, which is controlled by SCM. In July 2011, MetInvest bought a majority stake of Zaporizhstal's owner.

<sup>100</sup> Максим Гардус, Николаев; Александр Черновалов, 'Group DF вошла в порт', *Коммерсантъ Украина*, 29 September 2011, <http://kommersant.ua/doc/1783373>

<sup>101</sup> 'Rosjanie przejmują ukraińską metalurgię?', *OSW, Tydzień na Wschodzie*, no. 138, 9 June 2010, <http://www.osw.waw.pl/pl/publikacje/tydzien-na-wschodzie/2010-06-09/rosjanie-przejmuja-ukrainska-metalurgie>

In late 2011/early 2012, DTEK, which is owned by SCM, significantly strengthened its position on the power engineering market. DTEK bought controlling stakes in three power plant complexes (Zakhidenerho, Dnieproenergo and Kyivenerho) from the state as part of tenders. This takeover and the assets he already owned in the energy sector (Skhidenergo in the Donetsk Oblast) ensured Akhmetov control of approximately 30% of the electricity produced in Ukraine<sup>102</sup>. Furthermore, Zakhidenerho, which includes power plants integrated with the system used in Western Europe, will allow Akhmetov to control very profitable exports of electricity to EU member states. The tenders for electricity export to Ukraine's neighbours (including Belarus and Moldova) held by the state are usually won by firms which belong to DTEK, while state-owned companies and the other oligarchs (Kostyantyn Zhevago) are only given limited export possibilities<sup>103</sup>.

Furthermore, in November 2011, DTEK was granted a 49-year lease of Rovenkyantratsyt and Sverdlovantratsyt, companies which control Ukraine's eight largest coal mines, which ensured him a share of over 50% in the production of energy coal, which is used as fuel in power plants. Thus Akhmetov became independent from external suppliers –he now has an integrated production chain: from coal mining and enrichment to the production and distribution of electricity.

In addition to its spectacular expansion in industry, SCM has also embarked on activity in agriculture, a sector where it had not previously been. The Ilyich Steel and Iron Works, apart from the metallurgical plants, owned also 200,000 hectares of arable land and 100,000 pigs and cattle. Using these assets as a base, SCM and Smart Holding owned by Vadym Novinsky, Akhmetov's business partner, created HarvEast Group. This group, should adequate financial investments be made, may become one of the top players on the agricultural market in a few years' time<sup>104</sup>.

### 3.3. The other oligarchs

Contrary to the situation with the two aforementioned oligarchs, much less is known about the ways in which the other businessmen linked to the Party

<sup>102</sup> Approximately 50% of electricity in Ukraine is produced by state-owned nuclear power plants. There are no plans to privatise them.

<sup>103</sup> Юрий Винничук, Роман Иванченко, 'Ахметову знову віддали експорт електроенергії', *Економічеськая Правда*, 15 December 2011, <http://www.epravda.com.ua/publications/2011/12/15/309807/>

<sup>104</sup> 'Ukraine's largest oligarch enters the agricultural market', OSW, *EastWeek*, no. 181, 15 June 2011, <http://www.osw.waw.pl/en/publikacje/eastweek/2011-06-15/ukraine-s-largest-oligarch-enters-agricultural-market>

of Regions have been amassing their assets. This is the case because no major takeovers associated with Borys Kolesnikov or Oleksandr Yaroslavsky have taken place over the past two years. The media have regularly reported on large-scale scandals with members of the government involved, yet no hard evidence has been presented<sup>105</sup>. The most widely publicised case was the purchase of an oil rig at a price inflated by US\$150 million by the Ministry of Energy led by Yuriy Boyko<sup>106</sup>. It has also been speculated that Andriy Klyuyev as the first deputy prime minister has backed the activity of Livela, the company which was granted the right to import duty-free fuel to Ukraine, thus generating a loss of UAH3 billion in the Ukrainian budget<sup>107</sup>. Furthermore, Klyuyev has most likely used state support to develop his own business with solar power plants. According to information from certain media, EU funds for the improvement of energy efficiency have been spent on connecting Klyuyev's power plants to the power grid<sup>108</sup>.

Many doubts have also been raised about the way money was spent on the preparations for Euro 2012, especially given the fact that work was not usually preceded by tenders. It is very likely that only part of the information on scandals of this kind has been leaked to the media. Given the special characteristic of the Ukrainian business, where only part of business is openly declared, and great fortunes are deposited in accounts in tax havens<sup>109</sup>, positions in the government translate into real power in the economy.

#### 4. The other oligarchic groups

The two largest oligarchs among those who are not dependent on the Party of Regions are Pinchuk and Kolomoyskyi but the takeover of total political power by the Party of Regions has as yet not led to the economic positions of these two

<sup>105</sup> Very many publications on this topic can be found on the Ukrainian Internet. Here is an example of an article describing the best-known cases: А. Шалайский, В. Трегубов, 'Топ-7 схем облегчения бюджета', *Зеркало недели*, 29 December 2011, [http://zn.ua/POLITICS/top7\\_shem\\_oblegcheniya\\_byudzhetu\\_\\_reyting\\_effektivno\\_osvoennyh\\_sredstv\\_v\\_uhodyaschem\\_godu-94878.html](http://zn.ua/POLITICS/top7_shem_oblegcheniya_byudzhetu__reyting_effektivno_osvoennyh_sredstv_v_uhodyaschem_godu-94878.html)

<sup>106</sup> Ю. Николов, А. Шалайский, 'Вышка для Бойко', *Зеркало недели*, 27 May 2011, [http://zn.ua/POLITICS/vyshka\\_dlya\\_boyko-81790.html](http://zn.ua/POLITICS/vyshka_dlya_boyko-81790.html)

<sup>107</sup> Problems of refineries in Ukraine, OSW, *EastWeek*, no. 162, 27 May 2011, <http://www.osw.waw.pl/en/publikacje/eastweek/2011-01-19/problems-refineries-ukraine>

<sup>108</sup> Сергей Сидоренко, 'Украина предстала в новом свете', *Коммерсантъ Украина*, 8 February 2012, <http://www.kommersant.ua/doc/1868231?isSearch=True>

<sup>109</sup> The true scale of this phenomenon appears to be impossible to assess.

men being upset,. Some measures aimed against Privat Group were however taken in 2010<sup>110</sup>. This attack was so evident that speculations appeared in the media that Yanukovych was preparing the role of a 'Ukrainian Khodorkovsky' for Kolomoyskyi<sup>111</sup>. However, given the high level of corruption in the Ukrainian judiciary, Privat still had enough funds and influence to obtain verdicts which were beneficial for it. The attempt to deprive Kolomoyskyi of control of Ukrnafta, which is formally a state-controlled company, was unsuccessful. No real action has been taken to take Ukraine's largest refinery in Kremenchuk away from Kolomoyskyi despite the fact that Russia has been endeavouring for this. The only successful step was the prevention of the purchase of Ukraine International Airlines (MAU), which would have made Privat a total monopoly in air transport. All this indicates that after several months of confrontation, Kolomoyskyi managed to reach a compromise with representatives of the Party of Regions.

The government has also taken some steps aimed against Viktor Pinchuk. One of the reasons behind the criminal proceedings launched in 2011 against Kuchma was most probably an attempt to put pressure on his son-in-law. However, no information is available on possible concessions made by Pinchuk<sup>112</sup>, and the court decided to discontinue the case in December 2011. However, the fact that the measures taken against the representatives of big business who do not form the direct financial base of the Party of regions have been given up does not mean that such steps will not be taken again in the future.

### **Frame 10. The president, the party and the oligarchs**

It is not easy to draw the scheme of mutual connections between the government and big business which has formed since 2010. Since the present ruling class is very hermetic, information on the real relations between its representatives is strongly restricted.

It appears that the top position in the hierarchy is held by President Yanukovych, who has a decisive influence on both the ruling Party of Regions

<sup>110</sup> Алексей Педосенко, 'Донецкие пият бизнес Коломойского?', *Главком*, 15 September 2010, <http://glavcom.ua/articles/1704.html>

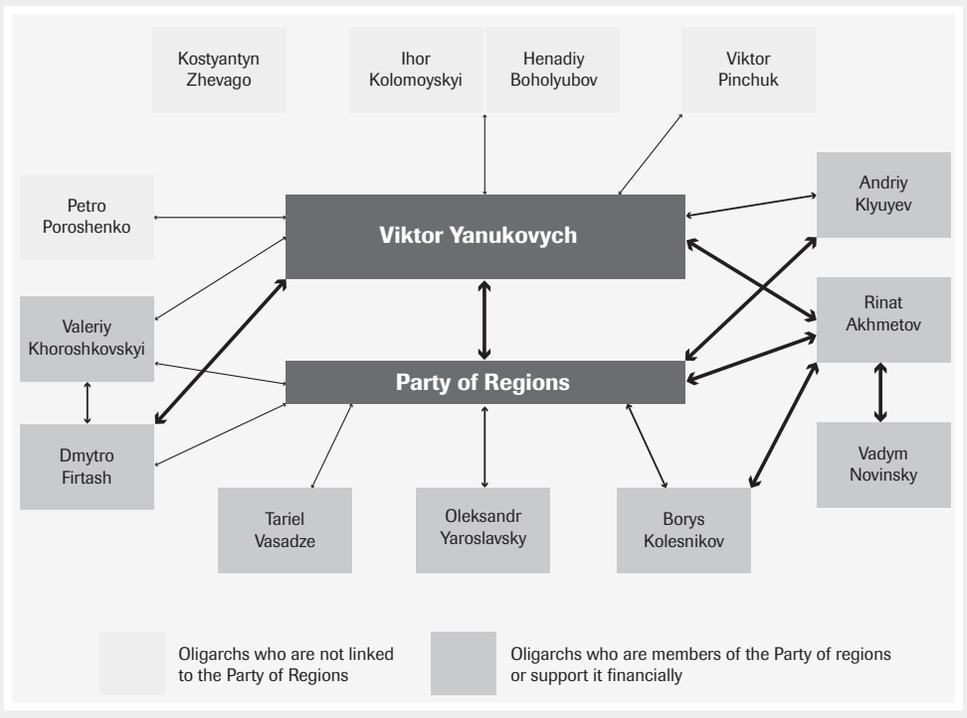
<sup>111</sup> Олег Полищук, 'Коломойского отправляют в эмиграцию', *Finance.ua*, 20 September 2010, <http://news.finance.ua/ru/~2/2010/09/20/210228>

<sup>112</sup> The fact that the TV channels owned by Pinchuk (whose information policy used to be relatively critical of the government) became more pro-governmental when the Kuchma case started may serve as indirect proof for this.

and the key businessmen. However, this is a bilateral relation – no proof has been seen as yet. As has been previously described, ‘the family’ is operating in the areas which big business is not interested in.

The Party of Regions is more a platform on which individual oligarchs strike deals than an independent and powerful centre of influence. Some oligarchs have either belonged to the Party of Regions from the beginning (Akhmetov and Klyuyev) or supported it, while formally remaining outside any political parties (Firtash). Others, like Vasadze, joined it only after Yanukovych won the presidential election. However, it is relations with the president which decide on the significance of a given businessman in the first place.

Oligarchs who are unallied with the ruling team form a separate category. Most of them have reached some form of compromise with the president (Petro Poroshenko even became a member of the government). Kostyantyn Zhevago is an exception, since he still belongs to the opposition<sup>113</sup>.



<sup>113</sup> It is difficult to put pressure on Zhevago, since his firm, Ferrexpo, is listed on the London Stock Exchange.

## 5. Other tendencies in the economy

Since the Party of Regions took power, a **noticeable increase in raider practices**, i.e. forced takeovers of other people's property, has been observed. This is done, for example, by forcing the owner of a firm to sell it for a price which is much lower than its real value or through forging notarised documents or buying judges. Raider practices are used primarily against Ukrainian businessmen, but this problem is also affecting more and more foreign investors. It is difficult to assess the scale of this phenomenon due to the dispersal of the materials concerning this issue and also due to the fact that most likely a majority of the illegal takeovers have never been made public. The high rate of development of this practice is proven by the number of complaints received by the Interdepartmental Commission on Combating Illegal Acquisition and Takeover of Companies<sup>114</sup>. While 75 complaints concerning raider practices were sent to it in 2010, this number reached almost 1,000 in 2011<sup>115</sup>.

It is also unclear whether the wave of raids originates from one source (the most likely culprit would be 'the family') or if other oligarchic groups linked to the Party of Regions are also acting in the same wave. Companies could also be raided in the interest of local governments, for example.

It seems that this problem does not concern the most powerful oligarchs who are not allied with the present ruling class, such as Kolomoyskyi or Pinchuk, or that it affects only to a very limited extent. However, due to tacit support from the government and a corrupt judiciary, smaller businesses are unable to counteract these practices. The situation of foreign entrepreneurs, even though they can expect help from their respective countries, is better only to a limited extent. In the opinion of Western diplomats, raider practices were used with regard to at least fifty firms from the EU, including Poland, at the end of 2011<sup>116</sup>.

The scale of this phenomenon is illustrated by the fact that even Kryvorizhstal, the largest Western investment in Ukraine, faced similar problems. Kryvorizhstal, which was taken away from Akhmetov and Pinchuk in 2005 and

<sup>114</sup> An advisory body to the Council of Ministers.

<sup>115</sup> Андрій Парубій, 'Лихі 90-ті повертаються', *Українська Правда. Блоги*, 28 March 2012, <http://blogs.pravda.com.ua/authors/parubiy/4f72e73bef10f/>

<sup>116</sup> Andrew Rettman, 'EU companies at risk of 'raiders' in Ukraine', *Euobserver.com*, 16 December 2011, <http://euobserver.com/24/114646>

sold to Arcelor Mittal, began to have problems soon after the Party of Regions took power. These problems were linked to accusations of a failure to perform obligations made during the privatisation. The management of Kryvorizhstal complained that the company did not receive the due VAT rebate and needed to undergo a larger number of inspections than usual. It was only a personal request from the French president, Nicolas Sarkozy, to Yanukovich, that helped a little, but even this has not put an end to the company's problems<sup>117</sup>.

### **Frame 11. Ukraine's ratings after two years of rule by the Party of Regions**

Ukraine has never been rated high in terms of the economy and the investment climate. The conflict between the president and the prime minister following the Orange Revolution and the economic crisis in 2009 only fortified this trend. The concentration of total power in the hands of the representatives of one political camp (the Party of Regions) after the presidential election in 2010 boosted the performance of the executive. One side effect of this was the deterioration in the evaluation of democratic standards in Ukraine – according to the Economist Intelligence Unit's Democracy Index, Ukraine fell from 53<sup>rd</sup> position in 2009 to 79<sup>th</sup> in 2011<sup>118</sup>.

The macroeconomic situation has improved as the country has been gradually overcoming the crisis, but this has not led to a better evaluation of Ukraine's economy, and some indices have even deteriorated. Ukraine is at the bottom of the list in almost all economic rankings, and it often is rated worst in the region.

Ukraine is in 163<sup>rd</sup> position in the Index of Economic Freedom, which is compiled by the Heritage Foundation in co-operation with the *Wall Street Journal*<sup>119</sup>. This is one of the worst results, comparable to that achieved by North Korea. The World Bank's Doing Business ranking places Kyiv in 152<sup>nd</sup> position<sup>120</sup>. The conditions in which foreign investors are forced to operate are not evaluated any better. According to the survey conducted by the

<sup>117</sup> '«АрселорМиттал»: им не простили «Криворожсталь»', *LB.ua*, 15 March 2011, [http://lb.ua/news/2011/03/15/88141\\_ArselorMittal\\_im\\_ne\\_prostili\\_.html](http://lb.ua/news/2011/03/15/88141_ArselorMittal_im_ne_prostili_.html)

<sup>118</sup> [http://en.wikipedia.org/wiki/Democracy\\_Index](http://en.wikipedia.org/wiki/Democracy_Index)

<sup>119</sup> Data for 2012. Country Rankings, accessed on 19 March 2012, <http://www.heritage.org/index/ranking>

<sup>120</sup> Data for 2012. Economy Rankings, Doing Business, 19 March 2012, <http://www.doingbusiness.org/rankings>

European Business Association<sup>121</sup>, the investment climate in the fourth quarter of 2011 was worse than at the time of the crisis in 2009. The main problems mentioned included numerous controls by various state agencies, which hinder doing business<sup>122</sup>.

The surveys reflecting the corruption levels show Ukraine in a similarly bad light. In Transparency International's corruption perception report for 2011, Ukraine was ranked 152<sup>nd</sup> (it had dropped from 134<sup>th</sup>)<sup>123</sup>. According to estimates by the International Financial Corporation (IFC), 10% of companies' incomes are in slush funds<sup>124</sup>.

In the World Economic Forum's competitiveness ranking, Ukraine is listed 82<sup>nd</sup> out of the 142 countries. However, it owes this relatively high position to the good evaluation of such areas as education or labour market efficiency. In turn, it was ranked 116<sup>th</sup> in terms of the development of the financial sector, 129<sup>th</sup> in terms of the goods and services market and 116<sup>th</sup> in terms of administration efficiency<sup>125</sup>. According to the rating agency S&P (BICRA)<sup>126</sup>, the Ukrainian banking system is among the weakest in the region, and has been classified to the highest-risk group 9 (out of a possible 10)<sup>127</sup>.

The **tendencies towards monopolisation and a concentration** of the oligarchs' activity in individual sectors, which had already been observed, have intensified over the past two years. Although it would be an overstatement to claim that the entire Ukrainian economy has been divided up among big business, important steps have been made to achieve that starting in 2010. Akhmetov has strengthened his dominant position in metallurgy (iron and steel) and electricity production, and Firtash in the chemical industry. Kolomoyskiy's

<sup>121</sup> The surveys are conducted among members of the association of foreign businessmen doing business in Ukraine.

<sup>122</sup> Юрий Панченко, 'Больше не привлекает', *Коммерсантъ Украина*, 21 October 2011, <http://www.kommersant.ua/doc/1842866>

<sup>123</sup> Corruption Perception Index 2011, accessed on 19 March 2012, <http://cpi.transparency.org/cpi2011/results/>

<sup>124</sup> Юрий Панченко, 'Рынок взяток показал рост', *Коммерсантъ Украина*, 2 November 2011, <http://www.kommersant.ua/doc/1808368>

<sup>125</sup> Ирина Ковальчук, 'Экономика Украины вернулась к докризисному уровню', *Сегодня*, 8 September 2011, <http://www.segodnya.ua/news/14286314.html>

<sup>126</sup> Banking Industry Country Risk Assessment.

<sup>127</sup> Леся Выговская, 'Украина попала в девятку', *Экономические известия*, 11 November 2011, <http://finance.eizvestia.com/full/ukraine-popala-v-devyatku>

position in the petrochemical industry and air transport has remained intact. The concentration of assets has been taking place either through the privatisation of state-owned companies or through sale of business by other oligarchs. For example, Firtash bought the nitrogen fertiliser factory in Cherkasy for US\$800 million from Yaroslavsky<sup>128</sup>. Characteristically, the Anti-Monopoly Committee of Ukraine did not make any reservations to any of the aforementioned takeovers.

Currently, Ukraine is scene to a game for two profitable branches of the economy: agriculture and the gas sector. **Agriculture is the last highly attractive section of the Ukrainian economy where the influence of the most powerful oligarchs is still relatively limited.** Considering the quality of Ukrainian soil and the country's climate, agriculture may potentially become one of the key branches of the economy. The Verkhovna Rada is likely to pass an act on land reform in 2012 and thus make it possible to trade in arable land for the first time since Ukraine regained independence. At present, the battle for the final form of this act is taking place behind the scenes. When the moratorium on land trade expires, which may happen already on 1 January 2013, the ownership of land, which is now being used informally, will be codified. Given the financial potential of SCM, one may expect that HarvEast will be playing an increasingly strong role. The business circles linked to Yanukovich will most likely make attempts to enter this market, as well.

Another promising area may be the **gas sector**, which is currently state-controlled. However, announcements concerning efforts to **reform and partial privatise** it were made regularly in 2011. The RUE Group is the natural candidate to take over the shares of Naftogaz, should they be put on sale (around 25%). This group currently controls this company anyway through its people. However, it is still an open question whether Yanukovich will agree to grant long term control of such a profitable sector to one group<sup>129</sup>.

The gas negotiations with Gazprom are the greatest impediment to the restructuring of Naftogaz. Gazprom, wants to be given control over the entire

<sup>128</sup> Андрей Самофалов, 'Дмитрий Фирташ высаживается в Черкассах', *Укррудпром*, 4 March 2011, [http://www.ukrrudprom.ua/digest/Dmitriy\\_Firtash\\_visagivaetsya\\_v\\_Cherkassah.html](http://www.ukrrudprom.ua/digest/Dmitriy_Firtash_visagivaetsya_v_Cherkassah.html)

<sup>129</sup> The plans to divide and privatise Naftogaz, which were announced by Yuriy Boyko (understood as being in the interests of the RUE Group), have been halted. It is possible that Naftogaz will be restructured in 2012, but too little is currently known to determine which group the changes will be made in favour of.

Ukrainian gas sector in return for reducing the price of gas. It is unclear whether Privat will be able to maintain control Naftogaz's subsidiaries operating in the oil sector (Ukrnafta and Ukrtransnafta) should Naftogaz be split up. It is also possible that the part of Naftogaz dealing with natural gas will be offered to RUE Group, and the part dealing with oil will remain under Kolomoyskyi's control.

## IV. THE OLIGARCHS' INFLUENCE ON FOREIGN POLICY

Since regaining independence, Ukraine's foreign policy has been based on manoeuvring between the West and Russia. Under Kuchma's rule, this was called a 'multi-vector policy'. The Orange Revolution changed very little in this respect – Ukraine, as had previously been the case, verbally declared its desire to join European and Euro-Atlantic structures, but was in fact doing little to achieve this. At the same time, it was consistently avoiding participation in any integration initiatives under the aegis of Russia. Ukrainian foreign policy in that period was seriously restricted in its success due to the endless conflict between the president and the government.

Yanukovych, once he took power and the constitution was changed, could act much more efficiently than his predecessors. However, the international situation has changed since Kuchma's times and Ukraine's room for manoeuvre has been reduced significantly. The USA, which had been an important 'vector' in Ukrainian policy in the 1990s, has significantly reduced its presence in the region. In turn, Russia has intensified its efforts to push through its integration projects (the Customs Union and the Eurasian Economic Community) and is putting more and more pressure on the government in Kyiv to make Ukraine join these projects. The process of establishing closer institutional contacts with the European Union, on the other hand (signing the Association Agreement), has been frozen due to the fact that Yulia Tymoshenko was sentenced to prison in 2011.

### 1. The political interests of the oligarchs

Contrary to what is the case with domestic policy, it is more difficult to track the role the oligarchs have played in the development of foreign policy in Ukraine. This is partly due to the low level of success of Ukraine's foreign policy and is partly an effect of the limited interest big business shows in this area. In particular, security issues have been given marginal attention by the oligarchs because they are not directly related to the economy. The official agendas concerning external relations adopted by the groupings which the businessmen support financially or are members of are of low significance and should not be used as the basis for making any conclusions<sup>130</sup>. As has been previously mentioned, the oligarchs treat the political parties as tools. The

<sup>130</sup> Andrzej Szeptycki, 'Grupy oligarchiczne a polityka zagraniczna Ukrainy', *Sprawy Międzynarodowe*, 2008, no. 2, page 74.

fact that Akhmetov was a member of the Party of Regions when this party's agenda included establishing closer relations with Russia did not mean that he was pro-Russian. Similarly, Petro Poroshenko's membership in Our Ukraine, which wanted Ukraine to join NATO, did not prevent him from investing in Russia.

## 2. The economic interests

While ideological issues play a minor role in the activities of big business, the situation is quite different in economic relations. The interests of Ukrainian business circles in this area are diversified. **For many oligarchs, especially those less powerful, the Ukrainian market is the most important, and they do not attach much significance to foreign relations, unless these relations result in increasing competitiveness on the internal market. In turn, for the richest businessmen, such as Akhmetov and Pinchuk, access to foreign markets is of key significance.** Ukrainian exports are strongly diversified, and it is difficult to indicate the predominant direction. Sales of goods to the three groups of countries – the CIS, EU and others – are distributed almost evenly, and in the case of metallurgy, which is the most important sector and one almost completely dominated by the oligarchs, the most significant countries are those which belong neither to the European Union nor to the CIS (see Frame 12).

As a result, the oligarchs' interests in foreign policy are diversified. As regards the less powerful businessmen, the protection of the internal market from imports, especially from the West, with which they are unable to compete without support from the state, is the top priority. In turn, the priority for exporters is ensuring as low as possible customs tariffs for their goods. It is worth noting that the EU, Russia and the other states are equally important in this context (albeit to different extents for different businessmen).

Over the past few years, the exporters have been more successful in pushing through their own interests. It was this group which lobbied most strongly for Ukraine's accession to the World Trade Organisation (WTO), which took place in 2008. In this case, Ukraine quite quickly carried out the necessary reforms, and the fact that WTO membership resulted in increasing competition on the Ukrainian market did not matter to the most important players.

## **Frame 12. Economic integration – the East, the West or a third way?**

Ukraine's difficulties in firmly determining the direction of its economic integration can be tracked by analysing Ukrainian exports. When all exports are considered en masse, it becomes clear that there is no predominant direction – 38% of Ukrainian goods are sold to CIS countries, 26% to the EU, and 36% to other countries. By way of comparison, 80% of Polish exports go to EU member states<sup>131</sup>. This trend can be observed when analysing the five largest sectors of the Ukrainian economy, which account for 91% of total exports. CIS countries clearly prevail only in the case of the machine-building industry, which generates 17% of total exports (see the charts below). In turn, in the case of three sectors – metallurgy, the agricultural and food sector and the chemical industry – which account for more than half of Ukraine's exports, the largest outlets for their products are countries which belong to neither the European Union nor the CIS (mainly Middle Eastern and South Asian countries). The oligarchs hold strong positions in each of these sectors and are interested in maintaining and expanding these outlets.

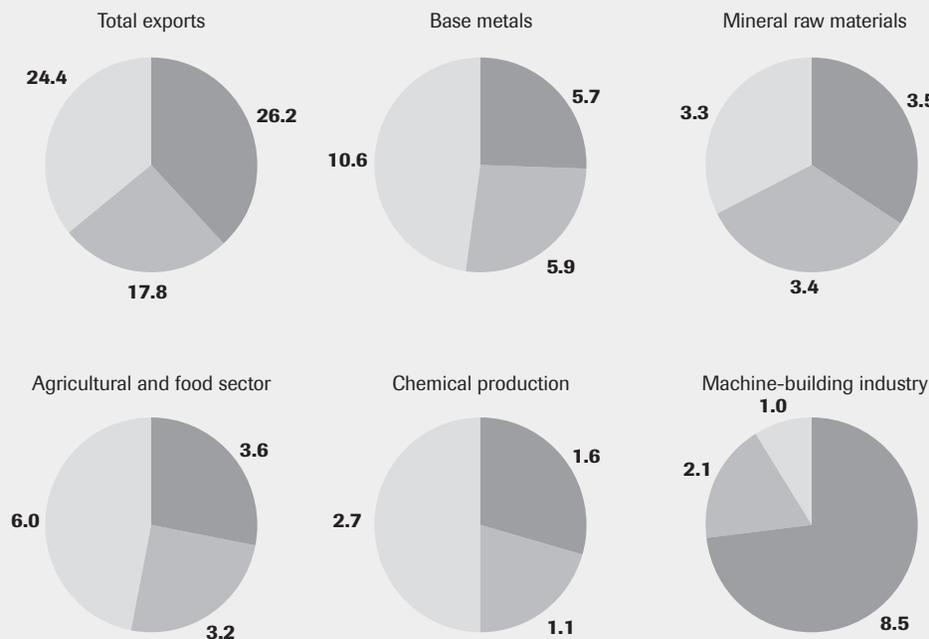
An analysis of exports reveals one more important phenomenon: from among the six countries with which Ukraine has a positive trade balance exceeding US\$1 billion only one (Italy) is a member state of the EU<sup>132</sup>. The DCFTA agreement, which will make the Ukrainian market more open, is unlikely to bring about a significant increase in Ukrainian exports to the EU, but it will certainly broaden Ukraine's negative trade balance.

<sup>131</sup> According to data from the Polish Central Statistical Office for 2010; [http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL\\_ch\\_handel\\_zagr\\_01-12\\_2010.pdf](http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL_ch_handel_zagr_01-12_2010.pdf)

<sup>132</sup> The other countries are Turkey, India, Lebanon, Egypt and Iran.

## Ukraine's exports in 2011 (in US\$ billions)

■ CIS countries ■ EU-27 ■ Other countries



Own calculations on the basis of data from the State Statistics Committee

### 3. The attitude towards integration projects

Due to the aforementioned **conflicts of interests, the oligarchs cannot be said to hold one common stance on integration processes in the region; this is true in the case of those initiated by Russia, and those regarding integration with the EU.** It appears that big business is satisfied most with the situation currently existing in Ukraine. The mutual permeation of business and politics, the ability to buy court verdicts and to adopt laws tailored to suit the needs of certain groups create perfect conditions for the rise of fortunes. In this context, there is no big difference between Akhmetov, whose business is relatively transparent, and Firtash. **The integration processes offered by the EU and Russia alike may bring about both benefits and threats to the special Ukrainian model of relations between the government and business, although they are quite different in nature.**

### 3.1. Relations with the West

The real balance of Ukraine's profits and losses resulting from the implementation of the Association Agreement (and in particular the DCFTA) is now impossible to assess because the document has not been published. Furthermore, the available materials concerning this issue are too vague<sup>133</sup>. However, it is highly likely that the DCFTA in the short term would lead to a significant increase in the imports of EU goods to the Ukrainian market, thus bringing more intensive competition to this country. Ukrainian entrepreneurs may be unable to cope with this competition. In the longer term, the implementation of the Association Agreement will be beneficial for Ukraine, because the introduction of EU standards and practices will contribute to a greater influx of EU investments and the modernisation of the country.

The DCFTA will undermine the positions of some oligarchs, such as the owner of UkrAvto, Taniel Vasadze (who once belonged to BYuT, and is now a member of the Party of Regions), and Valentyn Landyk (also an MP representing the Party of Regions), who owns Nord, a household equipment manufacturer. In turn, the DCFTA will not affect strongly most exporters, since zero or minimum customs duty is imposed on their products (mainly steel and mineral raw materials), and the DCFTA will not lead to a significant increase in their share on the EU market. It is possible to indicate the sectors in which Ukrainian business has great potential for increasing exports and could be competitive in the EU. This mainly concerns food products and the agricultural and food industry. However, in this case, the DCFTA offers no real trade liberalisation, and only slightly increases the export quotas.

<sup>133</sup> The cyclically published reports concerning this issue, depending on who the author is, are either usually focused on the positives (if these are analytical centres from the EU or Ukrainian pro-Western think tanks or list the threats and possible losses the Ukrainian economy will sustain, highlighting at the same time the benefits Ukraine will derive from joining the Customs Union (Russian think tanks). One example of the former approach can be found in the IFRI report entitled 'Ukraine at the Crossroads: Between the EU DCFTA & Customs Union', [http://www.google.pl/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CEoQFjAA&url=http%3A%2F%2Fwww.ifri.org%2Fdownloads%2Ffrnr11shumyloapiolaaapril2012.pdf&ei=Ah7XT-DeGo76sgak\\_uXcDw&usg=AFQjCNFqshQIeXk7mCod47Rg2gKiCHg5lw](http://www.google.pl/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CEoQFjAA&url=http%3A%2F%2Fwww.ifri.org%2Fdownloads%2Ffrnr11shumyloapiolaaapril2012.pdf&ei=Ah7XT-DeGo76sgak_uXcDw&usg=AFQjCNFqshQIeXk7mCod47Rg2gKiCHg5lw). In turn, the benefits of the Customs Union were described in a text prepared by the Eurasian Development Bank, 'Комплексная оценка макроэкономического эффекта различных форм глубокого экономического сотрудничества Украины со странами Таможенного союза и Единого экономического пространства в рамках ЕврАзЭС', [http://www.eabr.org/general//upload/reports/Ukraina\\_doklad\\_rus.pdf](http://www.eabr.org/general//upload/reports/Ukraina_doklad_rus.pdf)

**None of the oligarchs is interested in introducing free and fair competition in Ukraine, since this would mean a major change in the nature of their business activity. Nevertheless, the introduction of some elements of Western standards, especially the respect of ownership rights, is viewed by big business as being desirable.** Although no spectacular fall of any representative of big business has been seen over the past decade or so, present trends – and primarily President Yanukovich’s strengthening position –, are causing the protection of ownership rights to become a very up-to-date issue.

While the question of what benefits the Association Agreement could bring to the oligarchs is a debatable issue, it seems certain that **no representative of big business is interested in a further deterioration of relations with the West.** Some oligarchs have made investments in the West (for example, Akhmetov has metallurgical works in Italy and the United Kingdom). Furthermore, some of the companies controlled by big business are listed on Western stock exchanges (for example, Zhevago’s companies on the London Stock Exchange, and agricultural companies on the Warsaw Stock Exchange), and some are considering such plans (Akhmetov and Pinchuk). Even if businessmen are not engaged economically in EU member states, they often own real estate there<sup>134</sup>. For this reason a development of relations with the West which would see a repeat of the Belarusian scenario would be difficult for the Ukrainian business elite to accept. Possible political sanctions, such as visa restrictions for those businessmen who are at the same time influential members of the Party of Regions or the government would be very painful for them. Economic sanctions would be even more painful, although at present it is difficult to expect that the West could take such a step.

It needs to be emphasised that the development of relations with the EU over the past year or so is proof of the limited influence of big business on Ukraine’s foreign policy. Hardly any coordination of actions has been seen in such a vital area as economic integration with the European Union. When it became clear that the signing of the Association Agreement and the DCFTA would be blocked should Tymoshenko be sentenced, representatives of big business

<sup>134</sup> It is difficult to assess the scale of this phenomenon, but it most likely concerns almost all representatives of big business. At times, the media report on the purchases of the more expensive properties – for example Akhmetov’s apartment building in London for £136 million. Alex Hawkes, ‘Rinat Akhmetov pays record £136.4m for apartment at One Hyde Park’, *The Guardian*, 19 April 2011, <http://www.guardian.co.uk/uk/2011/apr/19/rinat-akhmetov-one-hyde-park>

made no attempt to avoid this scenario. Theoretically, the adoption of the Association Agreement alone, even if its provisions were not implemented, would strengthen the position of Ukrainian business in its dealings with Russia, since this would pose an additional impediment to Ukraine's joining the integration processes initiated by Russia. However, the failure to take action proves that the Ukrainian business elite is not aware of this.

### **3.2. Co-operation with Russia**

Russia is offering Ukraine a regional integration project, which is competitive to that of the EU, namely membership of the Customs Union of the Russian Federation, Belarus and Kazakhstan, and at further stages also of the Eurasian Union, where a common market based on the principles of the four freedoms – the movement of goods, services, capital and labour – would operate<sup>135</sup>. In addition to lifting customs tariffs, Russia offers lower prices for oil and gas (although no precise promises have been made in this context).

Russia is the most important country for Ukrainian business. The Russian market receives 29% of Ukraine's exports<sup>136</sup>. In contrast to the EU, to which Ukraine sells predominantly raw materials (for example, iron ores) and low-processed goods (steel), Russia is the main recipient of more sophisticated industrial products which are not competitive on the EU market. Although the trade balance with Russia is at a record-low for Ukraine (-US\$9.3 billion), this is mainly the effect of high oil and gas prices. This makes it possible for Moscow to put pressure on Ukraine by imposing restrictions (linked to customs or of other kinds<sup>137</sup>) on selected products. Given the fact that oil and gas account for almost 70% of Ukrainian imports from Russia and that Kyiv must buy them anyway, the possibilities for Ukraine to counteract Russian practices are very limited.

#### **Considering the degree of dependence and the number of ways Moscow could put pressure on Kyiv, representatives of Ukrainian big business are**

<sup>135</sup> Aleksandra Jarosiewicz, Kamil Kłysiński, Iwona Wiśniewska, 'Common Economic Space: another step towards integration focused on Russia, OSW, *EastWeek*, 15 December 2010, <http://www.osw.waw.pl/en/publikacje/eastweek/2010-12-15/common-economic-space-another-step-towards-integration-focused-russia>

<sup>136</sup> Data from the State Statistics Committee of Ukraine for 2011. [http://www.ukrstat.gov.ua/operativ/operativ2011/zd/ztt/ztt\\_u/ztt1211\\_u.htm](http://www.ukrstat.gov.ua/operativ/operativ2011/zd/ztt/ztt_u/ztt1211_u.htm)

<sup>137</sup> The ban on imports of cheese imposed on some Ukrainian manufacturers in February 2012 by Gennadiy Onishchenko, the Chief Sanitary Inspector of Russia may serve as an example of this.

**not interested in a direct dispute with Russia. They are even less interested in that because Russia is an important trade partner for most of the oligarchs**, including those for whom other markets are of top priority. Both Akhmetov and Pinchuk sell steel pipes for pipeline construction to Russia. Therefore, closer co-operation between Russia and Ukraine, especially a reduction of customs barriers, would be beneficial for the Ukrainian oligarchs. For this reason, Ukraine has been unsuccessfully making efforts to conclude a free trade zone agreement – with no exceptions – with Russia<sup>138</sup>. Despite all this, **Kyiv is unlikely to agree to join the Customs Union. The tariffs applicable in the area covered by the Customs Union are higher than the ones Ukraine was granted upon its accession to the WTO. The renegotiation of these tariffs would be very difficult and would be contrary to the interests of the exporter oligarchs.**

Another equally great temptation for Ukraine is the promise of lowering the price of energy raw materials, especially gas. In the second quarter of 2012, Ukraine paid US\$426 for 1,000 m<sup>3</sup> of gas, while the gas price for Belarus, which belongs to the Customs Union, was only US\$165. The prices are essential for industry, especially the chemical sector, the greater part of which is owned by Dmytro Firtash. Due to the high prices of oil and gas, Ukrainian plants are becoming less and less competitive.

Moscow has declared the possibility to reduce gas prices in exchange for Ukraine's accession to the Customs Union or for very extensive concessions, which would *de facto* mean handing over control of the entire internal gas market in Ukraine. For Kyiv to accept these proposals would result in a very serious restriction of Ukraine's economic sovereignty and would facilitate Russian business's expansion in Ukraine. Russia could manipulate the gas prices, thus backing the companies it controls.

The Ukrainian political and business elites are divided on this issue. On the one hand, there is a strong lobby (consisting predominantly of representatives of the RUE Group) for whom a reduction of Russian gas prices is a priority, no matter what expense this will entail. On the other hand, most Ukrainian oligarchs fear Russian competition. Ukraine has not satisfied Russia's demands so far, but it is evident that some politicians and businessmen (for example, Yuriy

<sup>138</sup> The free trade zone agreement now in force in the CIS area includes hundreds of categories of goods on which high customs duty rates are still imposed.

Boyko and Dmytro Firtash) see their own interests as more important than the interests of their state as a whole.

#### 4. The primacy of individual interests

While it is difficult to prove the thesis that the oligarchs are conducting a well thought out and consistent foreign policy, it is possible to indicate specific cases where the individual interests of certain businessmen had an impact (very often a negative one) on the actions taken by the state as a whole. This is due to the fact that **if the internal factor comes into conflict with state interests, the oligarchs (if they are able to) prefer to take care of their own interests.**

The clearest example of this was the imprisonment of Tymoshenko, which representatives of the RUE Group were intensively lobbying for. Given Tymoshenko's hostile attitude towards the members of this group, this move was understandable. The crisis in Ukraine's relations with the West was a side effect<sup>139</sup>.

If their business is at stake, **the oligarchs are able to successfully hold back any process of negotiations which they see as unfavourable for themselves.** One of the greatest problems during the DCFTA negotiations was the lack of consent from Ukrainian negotiators to lifting the customs duty on imports of used cars and household appliances. Most likely Taniel Vasadze and Valentyn Landyk were the people who impeded this process the most. Even the significant acceleration of the DCFTA talks in 2011 could not make the Ukrainian negotiators change their tough stance for a long time. Finally, the EU and Ukraine reached a compromise regarding imports and adopted regulations which can be seen as being favourable for Vasadze<sup>140</sup>.

The negotiations concerning the European Common Aviation Area (ECAA) were another example of sectoral integration with the EU being blocked for the benefit of the oligarchs' interests<sup>141</sup>. This is a bilateral agreement between the EU and a third state liberalising passenger flights. A country which accesses

<sup>139</sup> Although it is an open question in this case as to to what extent the actions taken by the RUE Group were inspired by Russia, for whom the prevention of Ukraine's economic integration with the EU was a top priority issue.

<sup>140</sup> Imports of used cars will be duty-free only at the present level (45,000 cars annually). When this level is exceeded, 10% customs duty will be automatically re-imposed. Furthermore, a very long (15 year) transition period will apply.

<sup>141</sup> European Common Aviation Area. In addition to the EU member states, it extends over Norway, Iceland and the Western Balkan countries.

the ECAA undertakes to implement the section of the *acquis communautaire* concerning air transport and allows flight operators from the EU to participate in internal flights in a given country. Negotiations with Ukraine regarding this issue commenced already in 2007 and are still far from being closed, and the announced date for the agreement to be signed has already been postponed several times. At present, only one low-cost airline (Wizz Air) operates in Ukraine, and its offer is very limited. Joining the ECAA would certainly cause a significant reduction in the prices of tickets for passengers, but this would also mean that Ukrainian carriers would have to compete with European airlines. The greater share of the Ukrainian air transport market belongs to the airlines controlled by Privat Group, which is beyond any doubt the key lobbyist for holding back the talks. Theoretically, the agreement would offer the opportunity for the Ukrainian airlines to expand across Europe, but Kolomoyskyi and the other carriers apparently prefer to protect their own market<sup>142</sup>. The existing situation is also beneficial for the government: airlines must obtain licences from state officials, while the ECAA provides the possibility to sign contracts directly with airports.

The activity of Vasyl Hrytsak, a businessman and an MP representing the Party of Regions, provides another similar example of successful lobbying. He owns EDAPS, a company which manufactures biometric passports among other things. Hrytsak was making efforts to cause the Verkhovna Rada to pass the document act in a form which would grant exclusive right to EDAPS. This was opposed by the Ministry of Justice. The adoption of this act is among the key conditions in the Action Plan for lifting the visa requirement for Ukrainians travelling to the European Union. As a consequence of Hrytsak's actions, the act was adopted with a delay, and thus Ukraine failed to complete the first stage of the Action Plan<sup>143</sup>.

It does not appear that these actions result from any broader strategy adopted by Ukrainian business circles, although they do have a real impact on the country's foreign policy. **It is difficult to classify the oligarchs as holding either pro-European or pro-Russian views. Any of their actions which could be interpreted as pro-Russian or pro-Western are rather by-products**

<sup>142</sup> Also in this case there is no proof that it was Kolomoyskyi who was responsible for holding back the negotiations.

<sup>143</sup> Rafał Sadowski, 'Moldova ahead of Ukraine in the queue for EU visa liberalisation', OSW, *EastWeek*, 15 February 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-02-15/moldova-ahead-ukraine-queue-eu-visa-liberalisation>

**of the implementation of their own interests than a conscious policy.** Kolomoyskyi has been blocking the ECAA in order to restrict the competition to his own business and not due to any ideology. It is equally difficult to prove the idea that the takeover of the Kremenchuk refinery from Tatneft, which was *de facto* a corporate raid effected by Kolomoyskyi, was a result of his anti-Russian views.

The case with Akhmetov is similar. The Ilyich Steel and Iron Works were taken away from Russians because of his desire to maintain the dominant position in Ukrainian metallurgy. The reluctance towards the integration projects initiated by Russia is based on the presumption that Ukraine would be the weaker partner in this relationship, and the Ukrainian big business would become dominated by the wealthier Russian oligarchs. Ukraine's rejection of the possibility to export Russian electricity using its power grids is another example of Russian projects being blocked. In this case, the most likely reason appears to be Akhmetov's interests; he intends to export his electricity to EU member states himself, and he would be competing against Russian electricity, which is cheaper than Ukraine's.

The example of Andriy Klyuyev, whose active and successful manipulation of the DCFTA negotiations made some EU officials believe that he is a pro-Western politician shows to what degree incorrect conclusions can be drawn based on one specific action. At the same time, Klyuyev, who is responsible for the election campaign of the Party of Regions, was intensively lobbying for the adoption of a new electoral code in a form which would facilitate the manipulation of the election results to a great extent<sup>144</sup>.

<sup>144</sup> To make the picture more complicated, Serhiy Lyovochkin, who is believed to be a pro-Russian politician, supported the electoral code which was closer to the European standards. Сергей Рахманин, 'Наблюдение за скрытым боем', *Зеркало Недели*, 11 November 2011, [http://zn.ua/POLITICS/nablyudenie\\_za\\_skryтым\\_boem-91382.html](http://zn.ua/POLITICS/nablyudenie_za_skryтым_boem-91382.html)

## V. THE ADVANTAGES AND THE DISADVANTAGES OF THE OLIGARCHIC SYSTEM

It is not easy to unambiguously evaluate the role the oligarchs have played in Ukraine. At first glance, their impact on Ukraine appears to be negative. However, when one compares the system which has formed in Ukraine to those existing in the other countries from the Commonwealth of Independent States area, the answer to this question is no longer so obvious. The 'oligarchic democracy', where none of the clans has been strong enough to become dominant over the others and in which the government has been only one of the few centres of influence (in some periods, not the most important one), can be recognised as a kind of pluralism, which has put Ukraine in a better light than Russia or Belarus. Even after two years of Yanukovich's rule, despite the obvious deterioration of democratic standards, Ukraine is still among the most democratic countries in the CIS area.

**An evaluation of the impact the oligarchs have had on politics and the economy reveals some benefits for Ukraine. The greatest benefit is the protection of Ukraine's economy from being dominated by Russian business. However, the negative consequences of the oligarchic systems, for both the economy and the political life of Ukraine, are more evident and ultimately definitely prevail over the positives.**

The evaluation is also difficult because the oligarchs do not form a uniform group. The oligarchs' political influence is also diversified and is by no means always proportionate to the value of their fortunes. Some of the richest Ukrainians do not participate in current politics and are able to protect (and develop) their businesses without becoming public figures and attracting the attention of the media. Some oligarchs (for example, Privat Group) are very aggressive and successful in their business, although their direct influence in the government is very limited. In turn, others derive their strength from their influential friends in the government. The best example is Firtash. His assets when compared to the richest oligarchs (Akhmetov, Privat Group or Pinchuk) are relatively modest, and his strength is mainly based on support and favourable decisions from the state<sup>145</sup>.

<sup>145</sup> This concerns both the present government and the administration of President Yushchenko.

## 1. The negatives

- The **dependence of the greater part of the political class on big business** is a typical feature of the oligarchic system. With the present rules of party financing, no political grouping is able to operate without being financially backed by the oligarchs. Furthermore, the oligarchs control the most popular TV channels and this additionally entrenches this dependence. To claim that politicians are puppets in the hands of businessmen would certainly be an exaggeration. The Ukrainian political system gives real power to the government. Both Kuchma and Tymoshenko showed great sovereignty, and Yanukovich is also making efforts to become independent from his business support base. However, a real change in the system of connections between politics and business would require very deep reforms. Meanwhile, there are no real candidates among the present representatives of the political class, including those from the opposition, who would be ready to carry out such reforms. The individuals who could give such hope (for example Anatoliy Hrytsenko) have been deprived of financial support and presence in the media, and have thus been successfully marginalised.
- Actions taken by Ukrainian state officials in an attempt to ‘pay back’ the financial support during the elections often lead to **the Ukrainian state sustaining multi-billion dollar losses, which the oligarchs benefit from**. This practice has been used by all administrations, but it has clearly intensified under Yanukovich’s rule. This is particularly evident in the case of the RUE Group. RosUkrEnergo won the arbitration in Stockholm, and furthermore, Ukrtransgaz decided to write off RUE’s significant debts. Many more scandals which have led to the state budget incurring enormous losses could be given as examples<sup>146</sup>.
- The oligarchs, guided by their own interests, are making quite successful attempts to prevent foreign capital from entering the sectors of economy which are of key significance for them. Special protection is offered to the metallurgical industry. **However, if necessary and if a good price is offered, the oligarchs do not mind selling their assets, and in such cases Russian capital is usually the only buyer**. The clearest example of this

<sup>146</sup> А. Шалайский, В. Трегубов, ‘Топ-7 схем облегчения бюджета’, *Зеркало недели*, 29 December 2011, [http://zn.ua/POLITICS/top\\_shem\\_oblegcheniya\\_byudzhetu\\_\\_reyting\\_effektivno\\_osvoennyh\\_sredstv\\_v\\_uhodyaschem\\_godu-94878.html](http://zn.ua/POLITICS/top_shem_oblegcheniya_byudzhetu__reyting_effektivno_osvoennyh_sredstv_v_uhodyaschem_godu-94878.html)

was the sale of metallurgical assets by ISD to Russians, who pose the strongest competition to Ukrainian business in this industry. Such transactions are also possible in the future. Unless Firtash manages to ensure supplies of cheap gas for his new chemical plants, he will in all likelihood decide to sell them; and Russian capital will be the only realistic buyer.

- The oligarchisation of the economy is among the main causes for the **very unfavourable investment climate in Ukraine**. As a consequence of the practices described in the preceding chapter, the level of foreign direct investments per capita in Ukraine is still low<sup>147</sup>, and the investments are predominantly limited to the financial sector, which contributes to the modernisation of the economy and the implementation of new technologies to only a small extent. The oligarchs are not the only ones to blame for the problems with foreign investments. Other serious impediments include the still high level of corruption and the low efficiency of the state administration. However, it is the lobbying from big business that seems to be the main reason behind these phenomena. Ukraine has always been a very challenging market for investors, but after two years of Yanukovich's rule, despite macroeconomic stabilisation, the situation has deteriorated further. The Ukrainian government has not taken any measures, so there are no grounds to expect that the situation will improve in this area.
- **The monopolisation** which can be observed in many sectors of the economy **is causing a restriction of competition** and this has negative consequences. The state allows certain businessmen to predominate in some areas (for example, Firtash in the nitrogen fertiliser sector), and, in addition to that, similar practices are used locally (at the level of districts and cities), with the participation of regional businessmen and with the aid of representatives of the state administration.
- In many cases, **the primacy of private interests over the interests of the state has negative results**. The clearest example of this is the prison sentence imposed on Yulia Tymoshenko, which the RUE Group managed to push through. As seen from the perspective of Firtash's interests, the

<sup>147</sup> According to UNCTAD, the level of foreign direct investments in Ukraine in 2005-2010 reached US\$45.5 billion. In the same period, US\$91.6 billion was invested in Poland, and US\$6.1 billion was invested in Georgia, whose population is ten times smaller than Ukraine's and which was scene of military conflict in 2008. UNCTAD, World Investment Report 2011, <http://www.unctad-docs.org/files/UNCTAD-WIR2011-Full-en.pdf>

elimination of Tymoshenko from political life has doubtless been beneficial, but this has had an extremely adverse impact on Ukraine's relations with the West.

- The fact that the oligarchs built their fortunes relatively recently, just a little more than a decade ago, means that a major part of them **see their business as temporary and they are attempting to maximise their profits and minimise the expenses.** In effect, most industrial plants have not been modernised since Soviet times and are becoming increasingly outdated. Even those businessmen who invest some money, such as Akhmetov, usually do it at the minimum level. Given the low political stability of Ukraine, this approach is unlikely to change in the predictable future.
- Even if the oligarchs see the need for comprehensive reforms to be implemented in Ukraine, they are successfully influencing the government so that the reforms are made primarily in those areas which are not linked directly to big business (for example, the pension system reform). In turn, in those sectors where the oligarchs have a strong interest, the reforms announced by the present government have been held up to a visible degree. The agricultural reform and the gas sector reform are good examples of this. Although both reforms are inevitable for further economic development, the conflicts of interests among the oligarchs are among the key reasons for the delay in their implementation.
- **The concentration of capital in the hands of a relatively small group of people is impeding the development of a middle class.** Big business lobbies for solutions which are favourable to itself, so when it is necessary to increase state revenues, this is usually done at the expense of the less powerful businessmen. This became especially clear following the adoption of the new fiscal code. Although the code was a positive move in itself, it imposed heavier fiscal levies primarily on small and medium-sized businesses. These have always had problems with operation in Ukraine, however, their owners formed an important part of the electorate of Our Ukraine and later of BYuT. The Party of Regions, whose financial base is big business and whose core electorate are manual labourers and public servants, has no scruples about imposing heavier burdens on the middle class. This is not limited to fiscal levies. Corporate raids and smaller businesses being forced to share their profits – are both trends which have intensified over the past two years and are impeding the development of a middle class equally strongly.

## 2. The positives

- The policy of restricting the influx of foreign investment – which big business has been lobbying for – apart from the obvious negative consequences, also helps **protect the country's economic independence from the expansion of Russian capital**. Although Russian capital is strongly represented in some sectors (for example the banking sector and telecommunication), Russians still have little to say in those areas which are believed to be the most important for the oligarchs. The Ukrainian refineries (Kremenchuk, Odessa and Lysychansk) serve as an example; they have been taken over by Russian companies and still have problems in Ukraine<sup>148</sup>. Although Tatneft was backed by the Russian state, it was unable to prevent the Kremenchuk refinery being taken away from it by Kolomoyskyi. LUKoil, which owns the refinery in Odessa, has also encountered problems due to aggressive moves from Privat<sup>149</sup>.
- Many oligarchs, especially the most powerful ones, have come a long way from being regional businessmen, often suspected of having links with the criminal underworld, to being patrons of the arts and sport. This trend was set by Viktor Pinchuk, who is the main sponsor of Ukrainian modern art and promoter of European integration since he organises the annual YES summits. Pinchuk is also the organiser and sponsor of the 'Ukrainian lunch', which takes place during the World Economic Forum in Davos<sup>150</sup>.
- **Where the state fails to fulfil its functions, the oligarchs often take its role**. Football stadiums were built partly for their own money by Akhmetov in Donetsk, by Kolomoyskyi in Dnipropetrovsk and by Yaroslavsky in Kharkiv. Such moves mean that the oligarchs are often definitely more popular in their respective regions than the local politicians, and a significant part of the residents see them as the 'city fathers'. Even Dmytro Firtash, who had shunned publicity for many years, in autumn 2011 assumed the function of the president of the Federation of Employers of Ukraine, which

<sup>148</sup> 'Problems of refineries in Ukraine', OSW, *EastWeek*, 19 January 2011, <http://www.osw.waw.pl/en/publikacje/eastweek/2011-01-19/problems-refineries-ukraine>

<sup>149</sup> The most glaring example was when oil supplies to the refinery in Odessa were cut off by Ukrnafta, which is controlled by Privat.

<sup>150</sup> In 2010, Pinchuk climbed to first place in the ranking of the world's main lobbyists for Ukraine compiled by the Kyiv-based Institute of World Policy, 'Виктор Пинчук возглавил рейтинг ТОП-10 лоббистов Украины', *Дело*, 21 September 2010, <http://delo.ua/lifestyle/viktor-pinchuk-vozglavil-rejti-145067/>

was supposed to help change his image of a businessman with suspicious connections into a representative of Ukrainian entrepreneurs. Despite these changes, it is still difficult to claim that Ukrainian big business has become similar to big business in the West.

- The influential oligarchic groups, whose interests each government must respect, also reduce the room for manoeuvre in foreign politics. **The opposition from the key oligarchic groups to a deeper integration with Russia has been among the main reasons why Ukraine has not decided to become seriously engaged in any integration project initiated by Russia.** This reluctance is caused mainly by the Ukrainian oligarchs' fear of competition from Russian investors. Each Ukrainian government is more restricted in their actions than, for example, the president of Belarus, who is less dependent on his support base. However, it cannot be ruled out that the opinion that it is necessary to reduce the gas price even at the expense of making considerable concessions to Russia will prevail in the coming months.
- Ukraine, despite the clear deterioration of standards under Yanukovich's rule, is still one of the most democratic countries in the CIS area. Although Ukrainian democracy is far from perfect, it still needs to be emphasised that so far all the governments have changed as a result of elections. **One of the reasons why this has been possible is the stance adopted by big business. The oligarchs do not form a homogeneous group and fiercely compete with each other, supporting various political groupings.** Although the oligarchs' funding of opposition groupings was seriously reduced in 2010, it is too early to prejudge whether this is a durable trend in Ukrainian politics.

## VI. POSSIBLE FUTURE DEVELOPMENTS OF THE OLIGARCHIC SYSTEM

- **It seems unlikely that President Yanukovich could decide to upset the balance between the two key oligarchic groups, the ‘Donetsk clan’ and the RUE Group, in the immediate future.** Beyond any doubt, Yanukovich will be strengthening ‘the family’ not only politically but also financially. The reinforcement of ‘the family’s position in business will lead to a conflict with one of the oligarchic groups sooner or later. The most vulnerable seems to be the RUE Group. Its strength is based on enormous political influence, but this group is relatively weak financially<sup>151</sup>. Firtash owes the business successes he has achieved over the past two years to effective assistance from the state administration. If this assistance ceases, his fall could come quickly. The situation with Serhiy Lyovochkin is similar. Currently he is among the key players on the Ukrainian political scene. Were he to be dismissed, however, he could easily face the same fortune as Viktor Medvedchuk. At the moment, there are not many signs this will happen, but ‘the family’ may become interested in deriving profits from the gas market. However, at present it is difficult to conclude whether Yanukovich will decide to risk open conflict with any of the oligarchic groups.
- Some observers of the Ukrainian political scene, **in connection with ‘the family’ gaining strength see the threat of Ukraine undergoing ‘Putinisation’<sup>152</sup>. This threat, however, does not appear to be real.** It is possible that authoritarian tendencies will be strengthening in Ukraine, and ‘the family’ will certainly continue to grow in power, but it still seems quite unlikely that Yanukovich will be able to make all the big business groups subordinate to himself within a timeframe of a few years. Although the situation existing in Ukraine over the past two years is at times reminiscent of Russia at the time when Putin took power, there are still a few fundamental differences between them. First of all, Yanukovich has a very limited support base. Putin used former KGB officers to strengthen his support base, while Yanukovich is relying on his friends from Yenakieve and the acquaintances of his son, Oleksandr, most of whom have limited

<sup>151</sup> It is in some respects similar to the Kyiv clan, who very quickly lost their political influence when the government changed.

<sup>152</sup> Тарас Кузьо, ‘Украине грозит путинизация СБУ, МВД и информационной политики’, UNIAN, 25 June 2010, <http://www.unian.net/rus/news/383668-ukraine-grozit-putinizatsiya-sbu-mvd-i-informatsionnoy-politiki.html>

competences to rule the country. It is also open to doubt whether a new regime could be based on the Ukrainian civil service, which is too corrupt and heavily dependent on big business. It is equally important that Yanukovych is unable to offer any ideology to the Ukrainian public, and the popularity he won by promising stability and order dramatically decreased only a few months into his rule<sup>153</sup>.

- To make big business subordinate, a solution similar to the Russian ‘Khodorkovsky case’ would have to be applied and this would mean real revolution in Ukrainian conditions. Some attempts to subjugate big business were made after the Orange Revolution (the re-privatisation of Kryvorizhstal), but they were unsuccessful. Furthermore, if representatives of all the groups felt really endangered by the excessive reinforcement of the president’s position, they would take decisive countermeasures<sup>154</sup>. For this reason, the speculations about the weakening position or even imminent fall of some of the most influential oligarchs, which frequently appear in the Ukrainian media, should be treated with a great deal of caution, since no tangible proof for this thesis can be found at present<sup>155</sup>.
- The deteriorating technical condition of the large industrial plants, which are among the oligarchs’ key assets, is a very serious threat to big business in the medium term. These plants are still predominantly based on Soviet technologies and are in need of modernisation. If the present policy of limiting investments and extensive business development is continued, **many of the plants (and probably even entire sectors) will not be able to come up against competition from developing countries in little more than ten years from now.** Such tendencies can already be observed in metallurgy and the chemical sector, and they will most likely advance.

<sup>153</sup> It seems that the arguments presented above are more reasonable than the frequently appearing statements that Ukrainians allegedly have an ‘anarchistic nature’, which reportedly could make it more difficult to introduce a more authoritarian regime in Ukraine.

<sup>154</sup> According to media reports, representatives of big business concerned about Yanukovych’s policy have already met for consultations. Юлия Мостовая, ‘Perpetuum-peredelum’, *Зеркало недели*, 20 January 2012, <http://zn.ua/POLITICS/perpetuum-peredelum-95998.html>

<sup>155</sup> In this context, Akhmetov and Firtash are mentioned most frequently. However, the facts prove something completely different. The statements made by Akhmetov and Firtash that they would not seek election as MPs in the election in 2012, which were to a certain extent forced by Yanukovych, may mean that their political influence has reduced, but this is far from certain.

- While future reshuffles among the groups of influence are possible (and will certainly take place), **there is still little chance that the model of relations between the ruling class and big business will change, at least in the medium term.** Even if Yanukovich loses power in 2015, there are no politicians who would be able to carry through such radical changes among his potential successors from the present opposition. Furthermore, the experience after the Orange Revolution has shown that those politicians who come to power carrying slogans of system change very quickly become part of this system.
- The threat that the second wave of the economic crisis could strike is a factor which even further complicates the process of making any predictions. There is no doubt that, should the crisis come, the economy will be affected very strongly, as was the case in 2008–2009. Ukraine still relies too heavily on exports of mineral raw materials and metal goods and the demand for these depends on very strong market fluctuations. It also has an extremely weak banking system. **If, however, the breakdown is deeper and lasts longer than the previous time, this may lead to radical changes in the economy,** including bankruptcies of a number of industrial plants. It is impossible to predict what influence such changes could have on the Ukrainian political scene.

**SŁAWOMIR MATUSZAK**

*Work on this text finished in June 2012*

## SUPPLEMENT

### The oligarchs' fortunes in numbers

The lists of Ukraine's richest businessmen, which are published cyclically both in Ukraine and abroad, illustrate how difficult it is to assess their assets. The percentage differences in the estimated assets of the richest businessmen can be well into double figures, depending on the ranking. For example, the fortune of Ukraine's richest man, Rinat Akhmetov, was US\$15.5 billion in 2011 according to calculations made by *Focus* weekly. According to the weekly *Korrespondent*, however, it was worth US\$25.6 billion. The assessments of the assets of individual oligarchs differ even more over a timeframe of several years. In 2009, *Forbes* assessed that Akhmetov's fortune was worth US\$1.8 billion, which placed him in 397<sup>th</sup> position among the world's richest, while in 2011 his assets were evaluated to be worth US\$16 billion<sup>156</sup>, which put him in 39<sup>th</sup> position. As has been described earlier in this text, Akhmetov has become significantly richer over the past three years, but the value of his assets has certainly not increased nine-fold.

Such vast differences result from the fact that in most cases it is difficult to assess the value of the assets owned by oligarchs in a reliable way. It is usually impossible to base the calculations on stock market prices since very few companies controlled by Ukrainian big business are listed on Western stock exchanges, and most of them belong to the agricultural sector<sup>157</sup>. The price paid for a plant during privatisation often cannot be relied upon, either, since it has been intentionally reduced to a lower level. In turn, the costs of takeovers of individual companies are frequently confidential, and press leaks are the only source of data, and these do not always necessarily reflect the true situation. It should also not be forgotten that in many cases (this especially concerns politicians and state officials) the assets are not revealed.

<sup>156</sup> Rinat Akhmetov, *Forbes*, accessed on 19 March 2012, <http://www.forbes.com/profile/rinat-akhmetov/>

<sup>157</sup> One exception is Kostyantyn Zhevago, whose company, Ferrexpo, has been listed on London Stock Exchange since 2007. Furthermore, a few companies from the agricultural sector are listed on the Warsaw Stock Exchange. In 2011, even a special index, WIG-Ukraine, which covers five Ukrainian companies, was created. 'WIG-Ukraine - pierwszy taki indeks giełdowy w Europie', *wp.pl*, 5 May 2011, <http://media.wp.pl/kat,1022947,wid,13376465,wiadomosc.html?ticaid=1e13c>

Despite these limitations, the rankings of Ukraine's richest people are useful. It can clearly be seen how quickly the oligarchs recovered from the crisis of 2008–2009. The oligarchic fortunes flourished after Yanukovich's victory. They also show to what extent assets are concentrated in the hands of the group of the richest businessmen. *Korrespondent* weekly assessed in 2011 that the fortunes of Ukraine's one hundred richest businessmen were worth US\$83 billion, of which as much as 70% (US\$57.9 billion) belonged to the top ten.

A comparison of the rankings for preceding years also reveals that the top positions remain unchanged. According to *Korrespondent*, since 2006 – when the lists of Ukraine's richest people first started to be published – the top five has been constantly formed by the same people: Akhmetov, the leaders of Privat Group, Pinchuk and Zhevago<sup>158</sup>. More reshuffles have been seen lower down the ranking, but these positions have also been occupied for years by the same businessmen, the rise of whose fortunes dates back to Kuchma's rule. Cases such as that of Oleh Bakhmatyuk, who created his empire in the agricultural sector after the Orange Revolution, are rather the exceptions which prove the rule.

#### List of Ukraine's richest people in 2011 (US\$ millions)

<i>Korrespondent</i>			<i>Focus</i>		
1	Rinat Akhmetov	25,600	1	Rinat Akhmetov	15,590
2	Henadiy Boholyubov	6,600	2	Ihor Kolomoyskyi	5,323
3	Ihor Kolomoyskyi	6,200	3	Henadiy Boholyubov	4,975
4	Viktor Pinchuk	5,900	4	Viktor Pinchuk	2,970
5	Kostyantyn Zhevago	3,200	5	Vadym Novinsky	2,683
6	Viktor Nusenkis	2,900	6	Kostyantyn Zhevago	2,675
7	Dmytro Firtash	2,250	7	Andriy Verevsky	2,200
8	Oleh Bakhmatyuk	2,200	8	Kostyantyn Hryhoryshyn	2,169

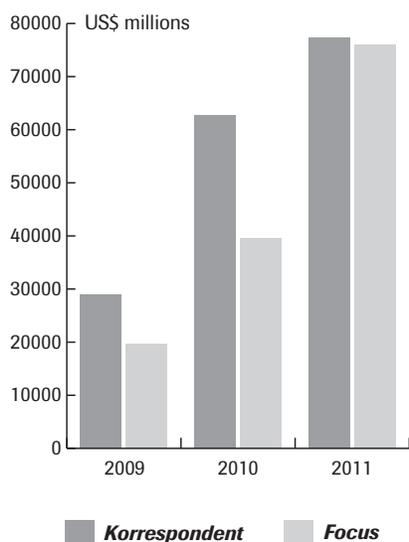
<sup>158</sup> 'Рейтинг самых богатых украинцев', *Корреспондент.net*, accessed on 19 March 2012, <http://files.korrespondent.net/projects/top50/2011#>

<i>Korrespondent</i>			<i>Focus</i>		
9	Oleksiy Martynov	1,520	9	Serhiy Taruta	2,126
10	Oleksiy Vadatursky	1,500	10	Vitaliy Hayduk	2,073
11	Yuriy Kosyuk	1,300	11	Yuriy Kosyuk	2,070
12	Oleksandr Yaroslavsky	1,200	12	Oleh Mkrtczyan	1,877
13	Petro Poroshenko	980	13	Dmytro Firtash	1,489
14	Ivan Huta	918	14	Oleksandr Shnaider	1,407
15	Serhiy Taruta	730	15	Eduard Shyfryn	1,407
16	Oleh Mkrtchyan	730	16	Oleksandr Yaroslavsky	1,403
17	Andriy Verevsky	716	17	Petro Poroshenko	1,193
18	Vyacheslav Bohuslayev	704	18	Vasyl Khmelnytsky	1,173
19	Valeriy Khoroshkovskiy	599	19	Oleh Bakhmatyuk	1,093
20	Leonid Chernovetskyi	556	20	Leonid Baisarov	1,060
21	Anatoliy Yurevich	548	21	Andriy Ivanov	1,015
22	Serhiy Tihipko	535	22	Leonid Yurushev	979
23	Mykola Yankovsky	522	23	Ivan Huta	939
24	Yukhym Zvyahilsky	504	24	Oleksiy Martynov	930
25	Vitaliy Hayduk	481	25	Andriy and Serhiy Klyuyev	901
26	Olha Nechytailo	476	26	Mykola Tolmachov	892
27	Ihor Dvoretzky	458	27	Oleksandr and Halina Gerega	891
28	Borys Kolesnikov	448	28	Oleksandr Savchuk	868
29	Yevhen Chernyak	447	29	Vyacheslav Bohuslayev	845
30	Georgiy Skudar	438	30	Serhiy Tihipko	796

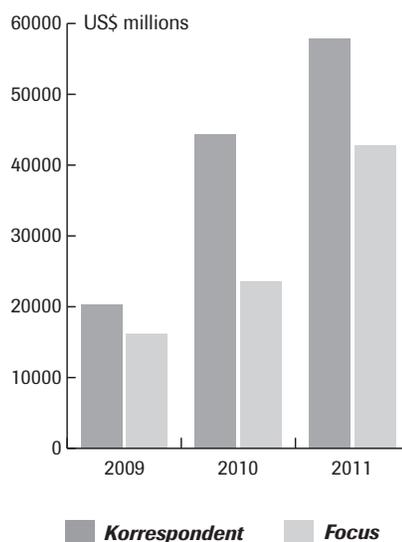
## List of Ukraine's billionaires in 2012 according to *Forbes*<sup>159</sup>

Global rank	Name	Assets (US\$ billions)
39	Rinat Akhmetov	16.0
255	Viktor Pinchuk	4.2
377	Ihor Kolomoyskyi	3.0
418	Henadiy Boholyubov	2.8
719	Kostyantyn Zhevago	1.8
960	Yuriy Kosyuk	1.3
1153	Petro Poroshenko	1.0
1153	Andriy Verevsky	1.0

**Changes in the assets of Ukraine's 50 richest people between 2009 and 2011 according to *Korrespondent* and *Focus* weeklies**

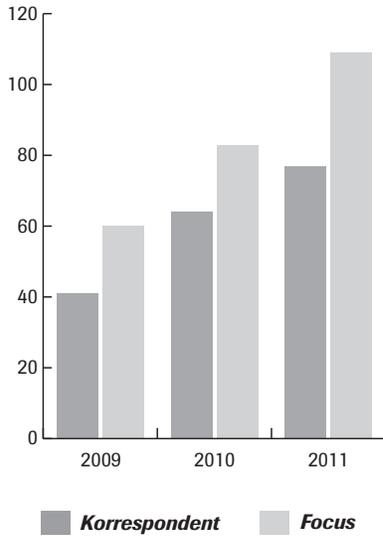


**Changes in the assets of Ukraine's 10 richest people between 2009 and 2011 according to *Korrespondent* and *Focus* weeklies**

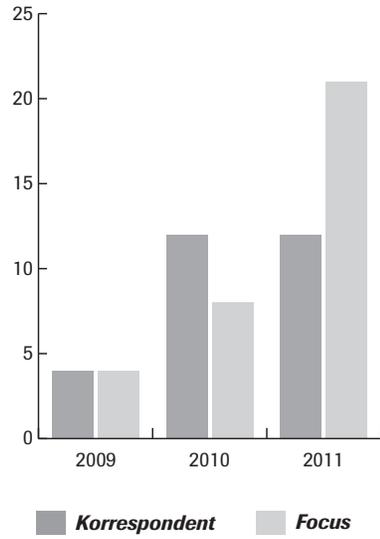


<sup>159</sup> The World's Billionaires, *Forbes*, accessed on 19 March 2012, [http://www.forbes.com/billionaires/list/#p\\_1\\_s\\_a\\_o\\_All%20industries\\_Ukraine\\_All%20states\\_](http://www.forbes.com/billionaires/list/#p_1_s_a_o_All%20industries_Ukraine_All%20states_)

**Number of businessmen whose assets are worth over US\$100 million according to *Korrespondent* and *Focus* weeklies**



**Number of billionaires in Ukraine according to *Korrespondent* and *Focus* weeklies**



## APPENDIX

### 1. Yanukovych's 'family'

The interests and the connections of the people who form the president's inner circle have been described in chapter III, section 2 of this text. The assets owned by 'the family' are still relatively modest as compared to those of the oligarchs outlined below. Furthermore, in most cases, media reports on the takeover of a given company by 'the family' are difficult to verify.

### 2. Akhmetov's group

This is definitely the strongest in financial terms and one of the most influential oligarch groups in Ukraine. The pivotal figure in this group is Rinat Akhmetov, Ukraine's richest businessman. Vadym Novinsky is his business partner in the steel industry. Another of his business partners, Borys Kolesnikov, the deputy prime minister in charge of Euro 2012, is reportedly also a member of this group. A number of Ukrainian politicians, including Raisa Bogatyreva (deputy prime minister and healthcare minister), Iryna Akimova (first deputy head of the Presidential Administration) and Rinat Kuzmin (deputy attorney general), are believed to have links with Akhmetov. This annexe provides an outline of only those members of this group who have a high position in business, i.e. Akhmetov, Novinsky and Kolesnikov.

#### 2.1. Rinat Akhmetov

He was born in 1966 in Donetsk. His father was a miner who had immigrated from Tatarstan. No proven information is available on the beginnings of his activity. In the first half of the 1990s, he was probably linked to Akhat Bragin (nickname Alik Grek), a leader of the criminal underworld in the Donetsk Oblast, who was the president of Shakhtar Donetsk Football Club<sup>160</sup>. The mid 1990s saw a violent struggle for influence in which a number of representatives of both the mafia and the political and business elite were killed<sup>161</sup>. Akhmetov's significance in the region started to grow after 1995, when Bragin was assassinated.

<sup>160</sup> Links between Akhmetov and Bragin were documented in the operational evidence of the Ministry of Internal Affairs, <http://www.youtube.com/watch?v=dA29BDRfCEA>

<sup>161</sup> Arkadiusz Sarna, 'Ukraińska metalurgia: gospodarcze ogniwo oligarchicznego systemu władzy', *Analizy OSW*, 1 May 2002.

In 1995, Akhmetov became a shareholder of the Donetsk-based Dongorbank to quickly become the business leader of Donbass by taking over more and more companies and plants, also in the metallurgical industry. Viktor Yanukovych became the governor of the Donetsk Oblast in 1997, and then close co-operation between the oligarch and the future president began. Yanukovych was the political representative of the Donetsk clan, first as the governor (1997–2002) and later as the prime minister (2002 – January 2005), while Akhmetov was the most important businessman in the clan. This was the time of the sudden expansion of Akhmetov's business, first of all in metallurgy but also in coal mining and electricity production. Akhmetov backed Viktor Yanukovych financially during the presidential election campaign in 2004. Following the Orange Revolution, despite the loss of Kryvorizhstal, Akhmetov reinforced his position as Ukraine's richest businessman.

Despite his enormous influence on politics at the district and then national level, the only position Akhmetov held between 1996 and 2006 was that of the president of Shakhtar Donetsk Football Club. He won a seat in the Verkhovna Rada as a representative of the Party of Regions (no. 7 on the list) in the parliamentary elections in 2006 and 2007, but he did not take an active part in parliamentary work. At that time, the paths of Akhmetov and Yanukovych began to gradually split, but this could not be called a conflict. Yanukovych, in his attempts to become independent from Akhmetov, started to rely to a greater extent on the RUE Group. His attempts to distance himself from Akhmetov became even more evident when he was elected president and started to build his own business base ('the family'). Despite repeated media reports on the escalating conflict between the president and Akhmetov<sup>162</sup>, it is difficult to point to any precise examples which could prove this. On the contrary, Akhmetov can recognise the two years of Yanukovych's rule as the best time in his business career, one sign of which is the entrenchment of his dominant position in the steel industry and power engineering.

## Assets

Akhmetov owns companies which operate in very different sectors of the economy. However, his power is based on three pillars: the metallurgical industry, power engineering and the media. The greater part of Akhmetov's assets are concentrated in System Capital Management (SCM), Ukraine's largest

<sup>162</sup> 'Во власти зреет конфликт между „семьей” и группой Ахметова', *Послезавтра*, 17 November 2011, <http://poslezavtra.com.ua/vo-vlasti-zreet-konflikt-mezhdu-semej-i-gruppoj-ahmetova/>

corporation, which was founded in 2000. It is estimated that SCM's assets are worth US\$22.8 billion<sup>163</sup>. Most of the firms which form the SCM structure are owned by SCM Ltd and SCM Holdings Ltd, which are registered in Cyprus; their sole shareholder being Akhmetov.

### ***Metallurgy***

The plants operating in the metallurgical industry are part of MetInvest Holding, where SCM has a 71.25% stake, while 23.75% belong to Vadym Novinsky's Smart Holding. MetInvest has an integrated production chain, which includes iron ore and coal mines, ore enrichment works, metallurgical plants and companies which specialise in production sales. The fact that MetInvest has its own ore mines ensures it access to cheap raw materials<sup>164</sup>.

MetInvest is Ukraine's largest iron ore manufacturer. The Ingulets works, Northern works and Central works all extract and enrich ore. The Komsomolskoye ore mine produces limestone, and Krasnodonugol is Ukraine's second largest coking coal mine. MetInvest also controls the United Coal Company, which has coal mines in the USA.

MetInvest owns factories which manufacture 40% of Ukraine's steel production: Azovstal, the Ilyich Steel and Iron Works in Mariupol, the Yenakieve Metallurgical Works and the Khartsyzsk Pipe Plant, which manufactures pipes for oil and gas pipelines. MetInvest also has metallurgical plants in other countries: Promet Steel (Bulgaria), Ferreira Valsider and MetInvest Tramelal (Italy) and Spartan UK (United Kingdom). Furthermore, the holding owns plants which support steel production: the Avdiivka Coke and Chemical Plant, Inkor Chemicals and the Kondratievsky Refractory Plant.

Skif-Shipping and the Danube Shipping Stevedoring Company are in charge of transporting the holding's products both inside Ukraine and for export. MetInvest-Ukraine, MetInvest-SMC, MetInvest-International and MetInvest-Eurasia sell the holding's production in Ukraine and abroad.

<sup>163</sup> Value at end of 2010 according to data from SCM <http://www.scm.com.ua/ru/business/overview/>

<sup>164</sup> Akhmetov also used this against his competitors from ISD, who - given the high ore prices offered by MetInvest - were forced to buy raw materials from Russia and Brazil: 'Тарута и Ахметов не поделили сырьё', *Trust.UA*, 23 February 2010, <http://www.trust.ua/news/22783.html>

## *The power engineering sector*

DTEK (Donbass Fuel-Energy Company) owns assets in the power engineering sector. These include three groups of plants dealing with coal mining and enrichment, and electricity production and distribution. The integrated production chain makes DTEK independent from external suppliers. The company employs over 100,000 people, and its income in 2011 reached almost US\$5 billion<sup>165</sup>. For comparison, the Ukrainian state budget revenues in the same year were at US\$43 billion.

Coal is mined by: Pavlogradugol, Dobropolyeugol, Sverdlovantratsyt and Rovenkyantratsyt (each of them owns several coal mines) and the Komsomol'skaya Donbassa coal mine. In mid 2012, DTEK bought three coal mines in Rostov Oblast (Russian Federation): Donskoy Anthracite, Sulinantratsit and the Obukhovskaya Mine, which are located close to the Ukrainian border, so as to ensure cheap raw material supplies.

DTEK also owns DTEK Naftogaz<sup>166</sup>, an oil and gas producer, and has a 25% stake in Vanco Prikerchenska. Coal is enriched by the Pavlogradskaya, Kurakhovskaya, Dobropolskaya, Oktyabrskaya, Mospinskoye and Obukhovskaya (this one is in Russia) coal enrichment plants. DTEK Trading is also in charge of coal trade, which is sold to both DTEK power plants and the other plants owned by SCM.

Electricity is produced by businesses consisting of several thermal power plants: Skhidenerho, Kyivenergo, Dnieproenergo and Zakhidenerho. The latter includes 'Burshtyn Island' consisting of power plants which are integrated with the EU's ENTSO-E, which makes it possible to export electricity to EU member states. The plants controlled by DTEK produce over 30% of Ukraine's electricity consumption. DTEK also intends to develop electricity production using renewable energy sources. The Wind Power company is planning to build wind power plants in the Donetsk and Zaporizhia Oblasts.

Electricity sales to individual and industrial recipients in Ukraine and electricity exports are handled by Servis-Invest, PES-Energougol, DTEK Power Trade, Kyivenergo, Donetskoblennerho and Dnieprooblenerho.

<sup>165</sup> О нас, ДТЭК, <http://www.dtek.com/ru/about-us>

<sup>166</sup> Not to be confused with the state-owned NAK Naftohaz.

## ***The media***

The electronic media assets are concentrated in Media Group Ukraine, which owns a television channel with nationwide coverage 'Ukraina', a regional channel 'Donbass' and two sports channels Football and Football+. It also includes the Internet portal tochka.net.

Akhmetov also holds a strong position on the press market. His holding, Segodnya-multimedia, controls one of Ukraine's largest dailies, *Segodnya* (with a circulation of 150,000) and the Internet portal segodnya.ua, as well as several local press titles in the Donetsk Oblast.

## ***Other assets of System Capital Management***

SCM also has a strong position in other sectors of the economy:

- In the financial sector, it controls the banks FUIB (Ukraine's 9<sup>th</sup> largest bank) and Renaissance Credit (114<sup>th</sup> position) and the insurance companies ASKA and ASKA-Life.
- In telecommunications, SCM controls the Astelit company, which owns a 45% stake in Life, the mobile network operator, and Vega Group, one of the major fixed-line telephone network operators.
- ESTA Group controls the real estate owned by SCM, including CUM in Kyiv and the Donbass Palace Hotel in Donetsk. It has also been reported that Akhmetov owns a large amount of real estate in Ukraine and abroad. In 2011, he reportedly bought a luxury flat in London for £136 million<sup>167</sup>.
- The Gornye Mashiny Holding deals with the production of mining equipment. The holding controls six plants in Ukraine and one in Russia. United Minerals Group Limited has three businesses which specialise in clay extraction.
- HarvEast Holding, which is controlled by SCM and Novinsky's Smart Holding (50% of shares each) is focused on the agricultural market. HarvEast owns over 200,000 hectares of arable land and 100,000 livestock. This

<sup>167</sup> Alex Hawkes, 'Rinat Akhmetov pays record £136.4m for apartment at One Hyde Park', *The Guardian*, 19.04.2011, <http://www.guardian.co.uk/uk/2011/apr/19/rinat-akhmetov-one-hyde-park>

holding was established in June 2011. At present, its development strategy is being devised and is to be presented in mid 2012. This holding stands a great chance of becoming one of the key players on the Ukrainian agricultural market.

- Furthermore, SCM owns the Parallel filling station chain and a chain of nearly 100 supermarkets called 'Brusnychka', located across eastern Ukraine, a chain of over 200 chemist's shops and several harbours at Sevastopol port.

## 2.2. Borys Kolesnikov

He was born in 1962 in Mariupol, Donetsk Oblast. He was believed to be Akhmetov's right hand for many years. Now he has his own independent business interests, although most likely they still co-operate closely. He has been the deputy president of Shakhtar Donetsk Football Club since 1998. In 1999–2001, he was the deputy head of the council of the Donetsk Oblast, and the head of the council between 2001 and 2006. He was elected to the Verkhovna Rada in 2006 and 2007 as a Party of Regions candidate (no. 10 on the list). Since March 2010, he has been the deputy prime minister responsible for Euro 2012. In December 2010, as a consequence of the administrative reform, he was also put in charge of the Ministry for Infrastructure. Owing to Kolesnikov's actions, Ukraine managed to make up for its delays in the preparations for the European Football Championships. This was possible mainly due to skipping public procurement procedures for most of the work. This provided ammunition for his critics to accuse him of abusing his powers on numerous occasions, including discrimination in favour of Altkom, a firm which is believed to be linked to him<sup>168</sup>.

### Assets

- Konti Group (co-owned by his wife), which controls four confectionery factories: in Donetsk, Kostiantynivka, Horlivka (Donetsk Oblast) and Kursk (Russia), which manufacture around 15% of the sweets produced in Ukraine.

<sup>168</sup> Тетяна Ніколаєнко, Сергій Лещенко, 'Хто заробляє на Євро-2012? Друга частина розслідування', *Українська Правда*, 19 January 2011, <http://www.pravda.com.ua/articles/2011/01/19/5805829/>

- Ukrinvest, a company operating in the food industry. It owns 20,000 hectares of land, grain silos and pig farms – with a capacity to breed 150,000 pigs – and abattoirs. The company’s products are sold in a chain of 70 stores named ‘Myasna Vesna’ (‘Meat Spring’). In 2011, this company accounted for 11% of industrial pork production in Ukraine<sup>169</sup>.
- Altkom, a group of companies which is probably linked to Kolesnikov (he himself denies this). In connection with the preparations for Euro 2012, Altkom was granted a number of lucrative contracts, for example, the construction of a runway in Donetsk (the contract was worth UAH1.8 billion) and the construction of Lviv stadium (UAH1.4 billion).
- Kolesnikov has admitted that he holds stakes in some of Akhmetov’s firms, adding the reservation, however, that these stakes are low. No details are available, though.

### 2.3. Vadym Novinsky

He was born in 1963 in Staraya Russa (Russia). In 1985, he graduated from the Leningrad Academy of Civil Aviation as an engineer. He worked in aviation between 1985 and 1991. His employers in the 1990’s included a company controlled by LUKoil. He has been active in Ukraine since 1999, when he established Smart Group. Between 2004 and 2007, he was the chairman of the supervisory board of Ingulets Ore Enrichment Works. Since 2006, he has been the president and the chairman of the supervisory board of Smart Holding. Due to him being a Russian citizen, he has not held any public functions in Ukraine and has not actively participated in Ukrainian political life.

#### Assets

Most of Novinsky’s assets are located in Ukraine. He owns Smart Holding, which includes plants operating in the metallurgical, shipbuilding, construction and agricultural sectors.

- Smart Holding is SCM’s business partner in metallurgy and agriculture. Novinsky holds a 25% stake in MetInvest and half of the shares in HarvEast.

<sup>169</sup> Цифры и факты, Компания АПК-Инвест, <http://www.apk-invest.com.ua/ru/about/number-facts>

- Smart holds a 54% stake in the British company Royal Petroleum, which owns oil and gas fields in the Poltava Oblast. This holding is also planning to build ten plants for fuel production using biomass (one factory is currently under construction).
- In the shipbuilding industry, the holding owns the shipyard in Kherson and the Black Sea Shipyard in Mykolaiv (the largest one in Ukraine).
- Kryvorizhaglostroy, a company which builds and repairs industrial premises. The plants controlled by MetInvest are its key clients.
- The holding also includes Smart-Nerudprom, which controls the plants which manufacture construction materials in Crimea and Zaporizhia.
- Balaklava Green is a holiday resort located around Balaklava, Crimea. Smart is also taking part in the preparations for the Ochakiv port construction project.
- It owns twenty Amstore hypermarkets.
- In the agricultural sector, in addition to HarvEast, Novinsky owns the Veres group of companies (which deal with fruit production and processing) and the arboriculture firm Vesna.

### **3. The RUE Group**

This name originates from the name of the company RosUkrEnergo (RUE), which was acting as an agent in Russian gas imports in 2004–2009. At present, along with Akhmetov, this is the most influential oligarchic group in Ukraine. It is commonly recognised that its members are: the businessman Dmytro Firtash, energy minister Yuriy Boyko, deputy prime minister Valeriy Khoroshkovskyi and the head of the Presidential Administration, Serhiy Lyovochkin. Although the media often use the term the ‘Firtash group’, it is difficult to determine the real hierarchy which exists among its members. Some believe that Firtash is the main player in this group, while others claim that he is merely a puppet in the hands of senior state officials. All the members of the RUE Group have earned the reputation of being pro-Russian politicians. This is not about ideology but rather about some unclear deals with representatives of Russian capital or open lobbying for Russian interests. It seems that since 2011, Khoroshkovskyi and Lyovochkin have become oriented directly towards

President Yanukovich and have been distancing themselves somewhat from Firtash.

The assets owned by Firtash and Khoroshkovskiy are outlined below. Lyovochkin and Boyko officially do not own any major fortunes. However, they are believed to have business connections primarily with Firtash and his partner in RosUkrEnergo, Ivan Fursin. According to media reports, Lyovochkin's sister is taking care of interests in Fursin's businesses<sup>170</sup>.

### 3.1. Dmytro Firtash

He was born in 1965 in w Bogdanovka (Ternopil Oblast). He graduated from the railway technical secondary school in Donetsk in 1984. In the early 1990s, he left for Moscow, where he started his business activity (food industry). Little is known about his activity at that time. Later on he was engaged in barter transactions with Turkmenistan: he exchanged food for natural gas, which he then sold to Ukraine<sup>171</sup>. In the early 2000s, he was Eural Trans Gas's representative for Central Asia. This firm was the key agent in the sale of gas from Turkmenistan and Russia to Ukraine<sup>172</sup>. In 2004, this company was replaced by RosUkrEnergo. Firtash was little known in Ukraine before 2006. His name was publicly mentioned for the first time when the media revealed the shareholders of RosUkrEnergo, which he has a 45% stake in (50% of the shares belong to Gazprom, and the other 5% to another Ukrainian businessman, Ivan Fursin).

Firtash has been distancing himself from direct participation in political life. He made an attempt to become an MP in 2002, but he was seeking election as a candidate of a party of marginal significance (Women for the Future), which did not pass the election threshold. After 2006, Firtash provided financial support to President Yushchenko and was among the key sponsors of the Party of Regions. This was one of the reasons for his bitter conflict with the then prime minister, Yulia Tymoshenko, who in 2009 brought RosUkrEnergo's status as an agent in Russian gas trade to an end. When Yanukovich won the election in 2010, Firtash managed to carry out a number of takeovers in

<sup>170</sup> Наталья Приходько, 'Лица новой власти. Консильери', *LB.ua*, 5 March 2010, [http://lb.ua/news/2010/03/05/30151\\_litsa\\_novoy\\_vlasti\\_konsileri.html](http://lb.ua/news/2010/03/05/30151_litsa_novoy_vlasti_konsileri.html)

<sup>171</sup> Фирташ, Дмитрий Васильевич, Генштабъ, 25 May 2012, [http://genshtab.censor.net.ua/wiki/Фирташ,\\_Дмитрий\\_Васильевич](http://genshtab.censor.net.ua/wiki/Фирташ,_Дмитрий_Васильевич)

<sup>172</sup> Владимир Бережной, 'Кто владеет украинским газом', *Известия*, 26 April 2006, <http://izvestia.ru/news/313258>

the chemical industry and thus gained the dominant position in this sector. He was able to purchase these plants mainly due to Russian loans<sup>173</sup>. Although he has not regained his role as a gas trade agent, his company, Ostchem, has imported gas directly from Russia and Central Asia for the needs of his chemical plants (4.8 billion m<sup>3</sup> in 2011)<sup>174</sup>.

Although Firtash is currently one of the best-known oligarchs in Ukraine, he is also among the most mysterious figures in Ukrainian business. In addition to strong connections with Russia, Firtash has hazy links with the organised criminal underworld. He admitted in a conversation he had with the US ambassador in 2008 that he had been given consent to start business activity (this probably concerned Eural Trans Gas) by Semion Mogilevich, a mafia boss, who is on the FBI's list of top ten most wanted fugitives<sup>175</sup>.

## Assets

Firtash's assets have been concentrated in Group DF since 2007. He has assets in the chemical and titanium industries, and in the gas and financial sectors.

- The chemical plants belong to Ostchem Holding, a company registered in Austria (90% of its shares are held by Group DF and 10% by Ivan Fursin). Ostchem controls plants which manufacture artificial fertilisers, including: the Sievierodonetsk Azot Association, the Nitrogen Fertiliser Factory in Cherkasy, the Nitrogen Fertiliser Factory in Rivne, Stinol corporation and the Crimean Soda Plant, and also the nitrogen fertiliser company Nitrofert in Estonia and JV Tajik Azot in Tajikistan. The plants controlled by Ostchem manufacture 100% of Ukraine's production of ammonium nitrate and over 50% of ammonia and carbamide.
- Ostchem Holding has shares in the Crimea Titan plant (50% minus 1 share) and the right to a five-year lease of the Volnogorsky and Irshansky mining and metallurgical works.

<sup>173</sup> Олег Гавриш, Александр Черновалов; Наталья Гриб, 'Всеобщее удобрение', *Коммерсант*, 7 February 2011, <http://www.kommersant.ua/doc/1580931?isSearch=True>

<sup>174</sup> 'Ostchem импортировала из Средней Азии 4,8 млрд. кубометров газа', *УкрРудПром*, 21 February 2012, [http://ukrrudprom.ua/news/Ostchem\\_importirovala\\_48\\_mlrд\\_kubometrov\\_gaza\\_iz\\_Sredney\\_Azii.html](http://ukrrudprom.ua/news/Ostchem_importirovala_48_mlrд_kubometrov_gaza_iz_Sredney_Azii.html)

<sup>175</sup> Roman Olearchyk, Neil Buckley, 'Ukraine's Firtash questioned over mafia ties', *Financial Times*, 2 December 2010, <http://www.ft.com/intl/cms/s/o/f75446de-fe40-11df-abac-00144feab49a.html>

- In 2003, Firtash established Emfesz, a company which used to be involved in gas distribution in Hungary (over 20% of the market share) and Poland. However, as a consequence of a series of lawsuits and an attempted hostile takeover, this company has lost its position and is now nearly bankrupt<sup>176</sup>.
- Firtash has admitted that he holds shares in oblast and municipal gas distribution firms (*oblhazes* and *mistohazes*), which control the networks of gas pipelines distributing gas to end users. This concerns majority stakes in at least several of the 52 *oblhazes* operating in Ukraine (including in the Zakarpattia, Volhynia and Zhytomyr Oblasts)<sup>177</sup>. Furthermore, he holds options which authorise the purchase of shares in some of the remaining *oblhazes*. He is also among the leading candidates for the takeover of state-owned shares in the 48 *oblhazes* and *mistohazes* which are earmarked for privatisation in 2012.
- In 2011, Centragas, a company registered in Austria (90% Group DF, 10% Fursin) bought Nadra Bank (Ukraine's 11<sup>th</sup> largest bank), which had been nationalised during the economic crisis in 2009.
- In 2011, Firtash bought the Nika-Tera port terminal in Mykolaiv Oblast. Now that he has a port of his own, it will be easier for him to export his chemical production to foreign markets.

### 3.2. Valeriy Khoroshkovskyi

He was born in 1969 in Kyiv. He was educated as a lawyer. He graduated from the Taras Shevchenko National University of Kyiv. His employers in the 1980's included the Arsenal factory and the zoo in Kyiv. Between 1994 and 1997, he managed two small companies, Veneda Ltd and Merks International.

He embarked on political activity in 1996 by joining the People's Democratic Party of Ukraine led by Valeriy Pustovoitenko, who was later nominated prime minister. Khoroshkovskyi was elected to the Verkhovna Rada in 1998. He sought election for the next tenure in 2002 as a candidate of a new party, Team of Winter Generation, which however did not manage to pass the

<sup>176</sup> Алексей Топалов, Ольга Алексеева, 'Фирташ вернул одно название', *Газета.Ru*. 9 November 2011, <http://www.gazeta.ru/business/2011/11/09/3827794.shtml>

<sup>177</sup> Игорь Маскалевич, 'Газопеределки', *Зеркало недели*, 4 November 2011, <http://zn.ua/ECO-NOMICS/gazoperedelki-90970.html>

election threshold. In the same year, he was nominated first deputy head of the Presidential Administration. In late 2002, he was nominated minister for the economy in Yanukovich's government but he resigned at the beginning of 2004 after a conflict with the then deputy prime minister, Azarov. Following the Orange Revolution, Khoroshkovskyi managed to find common ground with the new government. In 2006, President Yushchenko nominated him first deputy secretary of the NSDC, but Khoroshkovskyi resigned after a few months. He became the head of the State Customs Service in 2007. While holding this position, he came into conflict with Prime Minister Tymoshenko over the 11 billion m<sup>3</sup> of gas which had been confiscated from RosUkrEnergo. In January 2009, Yushchenko nominated Khoroshkovskyi first deputy head of the Security Service of Ukraine (SBU). After Yanukovich won the presidential election, Khoroshkovskyi became the head of the SBU. In February 2012, he was appointed as first deputy prime minister in the cabinet led by Azarov.

Although Khoroshkovskyi is seen as a member of the RUE Group, he still appears to be a relatively independent player, and his links with Firtash have weakened recently. His connections with Russian capital are unclear. Between 2005 and 2006, Khoroshkovskyi was the president of Russia's Evraz Group, one of the world's largest steel manufacturers<sup>178</sup>. Furthermore, Russia's Kanal 1 holds a 29% stake in Inter, the pivotal TV channel in Khoroshkovskyi's media corporation. Khoroshkovskyi does not conceal his political ambitions and is mentioned as one of the key candidates for the next prime minister.

## Assets

- His key asset is the U.A. Inter Media Group, Ukraine's largest media corporation. Khoroshkovskyi is the predominant shareholder and CEO of it. He bought it in 2005. U.A. Inter Media Group includes the TV channels: Inter, K1, K2, NTN, Megaport and MTV Ukraine, and the news agency Ukrainian News. Some media outlets have reported that Firtash is the real owner of Inter, but no hard evidence has been put forward to prove this<sup>179</sup>.
- Between 2004 and 2006 Khoroshkovskyi, disposed of most of his interests in other economic sectors. He sold his majority stake in Ukrsocbank

<sup>178</sup> Татьяна Ивженко, 'Евраз Group возглавил украинец', *Независимая газета*, 29 November 2005, [http://www.ng.ru/cis/2005-11-29/5\\_evraz.html](http://www.ng.ru/cis/2005-11-29/5_evraz.html)

<sup>179</sup> Мустафа Найєм, Сергій Лещенко, Олігархічні війни. Хорошковський як маска Фірташа? *Українська Правда*, 30.07.2008, <http://www.pravda.com.ua/articles/2008/07/30/3505053/>

to Viktor Pinchuk. He also sold his 0.93% stake in Evraz for US\$80 million in 2006<sup>180</sup>.

## 4. The other oligarchs from the Party of Regions

### 4.1. The Klyuyev brothers: Andriy and Serhiy

Andriy Klyuyev was born in 1964 in Donetsk. He graduated from the Donetsk Polytechnic Institute in 1986, with a Master's degree in Engineering in Mining. He was awarded a PhD in 1989. He was working at a mine between 1983 and 1986. Then, between 1986 and 1991, he was an academic worker at the Donetsk Polytechnic Institute. Between 1991 and 1994, he was director general of Ukrpodshipnik, a company in Donetsk.

In 1994, he began to work for the local administration, first as deputy head of the Donetsk Oblast council, and then as deputy mayor of Donetsk and deputy governor of Donetsk Oblast, when Viktor Yanukovych was the governor. He was elected to the Verkhovna Rada in 2002 as a representative of the Party of Regions. Between 2003 and 2004, he was a deputy prime minister in Yanukovych's cabinet. He won a seat in the Verkhovna Rada in the parliamentary elections in 2002, 2006 and 2007 as a representative of the Party of Regions. He held the function of deputy prime minister for energy between 2006 and 2007, when Yanukovych was prime minister for the second time. He was appointed deputy prime minister and minister for the economy in Azarov's cabinet. Following his dismissal from this function in February 2012, the president nominated him secretary of the National Security and Defence Council. Klyuyev is among the most influential politicians in the Party of Regions and a trusted man of President Yanukovych. In 2011, the media published materials suggesting that Klyuyev had been helping the president to hide his assets abroad<sup>181</sup>.

Serhiy Klyuyev was born in 1969 in Donetsk. He was educated as mining engineer. In 1992, he graduated from the Donetsk National Technical University. Between 1992 and 2002, he was working at different positions for Ukrpodshipnik, including as deputy president and the chairman of the board of directors. Between 2002 and 2005, he was deputy head of the Donetsk Oblast council.

<sup>180</sup> Променил "Евраз" на политику, *Ведомости*, 12.12.2006, <http://www.vedomosti.ru/newspaper/article/2006/12/12/117490>

<sup>181</sup> Сергій Лещенко, 'Офшорний дах для Януковича та Ключова', *Українська Правда*, 21 October 2011, <http://www.pravda.com.ua/articles/2011/10/21/6693989/>

He was elected to the Verkhovna Rada in 2006 and 2007 as a representative of the Party of Regions. At present, he is the deputy head of the party's parliamentary faction.

## Assets

The two brothers jointly control Ukrpodshipnik Group, which consists of tens of companies and firms, the most important of which operate in the machine-building industry and the renewable energy sector. Ukrpodshipnik has the reputation of being one of the most powerful financial and industrial groups in Ukraine. The structure of this group is not transparent. The estimated value of its assets ranges from US\$140 million<sup>182</sup> to US\$1.21 billion<sup>183</sup>.

- Holding Activ Solar builds solar power plants and is the leading solar energy producer in Ukraine. Although the Ukrainian media regularly claim that Activ Solar is owned by Klyuyev, the director of this holding has denied that its shareholders include investors from Ukraine<sup>184</sup>. Formally, Activ Solar belongs to a company registered in Liechtenstein. The power sector based on renewable energy is profitable because of the 'green tariff' setting special rates (five times higher than market prices) at which electricity produced by such power plants is bought.
- The Semiconductor Plant in Zaporizhia manufactures components for solar power plants. It is 75% controlled by Activ Solar.
- Ukrpodshipnik also has assets in the machine-building and metallurgical industries, which include: the Artyomovsk machine Building Factory 'VISTEC' (non-ferrous metallurgy), the Artyomovsk Non-Ferrous Metals Processing Works and the Konstantinovka Metallurgical Works.
- The Klyuyev brothers also probably hold a minority stake in Prominvestbank (the 6<sup>th</sup> largest in Ukraine), which is 93.84% controlled by Russia's Vnesheconombank.

<sup>182</sup> 'Сергей Ключев, Андрей Ключев', *Корреспондент*, <http://files.korrespondent.net/projects/top50/2011/1229140>

<sup>183</sup> 'Андрей и Сергей Ключевы', *Комментарии*, 17 February 2011, <http://gazeta.comments.ua/?рес=1297976487&сart=1297977858>

<sup>184</sup> Игорь Гошовский, Йоган Хартер: 'Солнце - тоже бизнес', *Инвестгазета*, 18 April 2011, <http://www.investgazeta.net/kompanii-i-rynki/jogan-harter-solnce---tozhe-161133>

## 4.2. Serhiy Tihipko

He was born in 1960 in Draganesti (Moldova). He graduated from the Metallurgical Institute in Dnipropetrovsk in 1982. In the 1980s, he was the head of the Komsomol's agitation and propaganda department in Dnipropetrovsk. Between 1989 and 1991, he was the first secretary of the Komsomol oblast committee. He became engaged in business in 1991. He was appointed CEO of Privatbank in 1992, but he left Privat Group a few years later to focus on his own business, predominantly in the financial sector.

Between 1994 and 1997, he was a monetary policy advisor to President Kuchma. In 1997, Tihipko was nominated deputy prime minister in the cabinet led by Pavlo Lazarenko and then by Valeriy Pustovoitenko (until 1999). Some time later, he was the minister for the economy in the government led by Viktor Yushchenko. He was the head of the National Bank of Ukraine between 2002 and 2004. Tihipko won a seat in the Verkhovna Rada in 2000 as a consequence of a supplementary election. He was elected again in 2002 and joined the pro-presidential faction For United Ukraine. Between 2000 and 2005, he was the president of the Labour Party, whose main sponsor was Viktor Pinchuk. Tihipko was the head of the Viktor Yanukovych campaign team in the presidential election of 2004, but he resigned when the Orange Revolution broke out and withdrew from politics until 2009. Tihipko ran for president in the 2010 election. He came third and established the Strong Ukraine party. In March 2010, he became the deputy prime minister in charge of the economy in Azarov's cabinet, and later in 2010, as a consequence of the administrative reform, he was nominated deputy prime minister and minister for social policy. He dissolved his party in March 2012 to join the Party of Regions, where he holds the post of deputy president.

### Assets

Tihipko is the founder and the predominant shareholder of the financial and industrial group TAS, whose main areas of operation are the financial sector (banking and insurance) and the machine-building industry.

- TAS Insurance Group and the Insurance Company TAS (life insurance) operate in the insurance sector and are leaders on Ukrainian market (5<sup>th</sup> and

2<sup>nd</sup> position in terms of assets, respectively)<sup>185</sup>. Tihipko has been making efforts to find a buyer for these two companies for several years now<sup>186</sup>.

- Currently, TAS Group controls only a small bank, TASKombank (67<sup>th</sup> position in Ukraine), while in the past Tihipko's assets had a much stronger position in the banking sector. However, in 2007, he sold his TAS-Investbank and TAS-Commerzbank to the Swedish group Swedbank for more than US\$700 million.
- In the machine-building sector, TAS jointly with Privat Group controls Dnirovagonmash and Kryukiv Rail Car, which manufacture passenger and freight rail cars, and the steel casting works in Kremenchuk.
- TAS is also involved in property development projects – the construction of residential and office buildings. Furthermore, this group controls a chain of chemist's shops and the 'Stolichny' reinforced concrete factory. It also manages an agricultural company, which leases 30,000 hectares of land with the Swedish investment company Kinnevik.

### 4.3. Oleksandr Yaroslavsky

He was born in 1959 in Mariupol (Donetsk Oblast). He graduated from the Kharkiv police academy and from the Kharkiv Institute of Food Science. He was working for Kharkiv's police in 1986–1987. Yaroslavsky started his business activity in the early 1990s. His career gained momentum after he married a daughter of Oleksandr Maselsky, a former governor of Kharkiv and deputy prime minister of Ukraine in 1992. In 2002, he was elected to the Verkhovna Rada as a representative of the Green Party. Although he is not currently active in politics, he has close contacts with President Yanukovich, although his relations with local representatives of the Party of Regions are strained<sup>187</sup>. At present, he is the most influential businessman in Kharkiv, Ukraine's second largest city. He is the president and the owner of Metalist Kharkiv Football Club.

<sup>185</sup> 'Рейтинг страховых компаний Украины за 3 месяца 2012 г.', *ForInsurer*, <http://forinsurer.com/ratings/nonlife/12/3/3/>

<sup>186</sup> Николай Максимчук, 'Павел Царук рискнул по-крупному', *Коммерсант*, 22 February 2012, <http://www.kommersant.ua/doc/1878478>

<sup>187</sup> 'Кернес vs Ярославский: кто же действительно „Король Харькова“?', *АТН*, 24 February 2012, <http://atn.ua/newsread.php?id=74379>

## The assets

Although Yaroslavsky is still mentioned in each ranking of Ukraine's top ten or twenty richest people, where his fortune is usually assessed as being worth over one billion dollars, he sold his key assets a few years ago. Yaroslavsky's stake in UkrSibBank (17.6%) was sold in 2006 to the French group BNP Paribas. In 2011, he sold the nitrogen fertiliser factory in Cherkasy to Firtash, reportedly for US\$800 million<sup>188</sup>. His present business activity is focused on the property development sector, in which he has two companies: Development Construction Holding and XXI Vek. He also owns the Ukrainian Mining Company, which produces gravel. Yaroslavsky's firms were entrusted with the implementation of projects as part of preparations for Euro 2012 (including the construction of the airport terminal in Kharkiv) and also the construction of other properties in Kharkiv, Kyiv, Odessa and other cities.

## 5. Privat Group – Ihor Kolomoyskyi and Henadiy Boholyubov

Privat is Ukraine's second largest financial and industrial group, after Akhmetov's SCM. This group is controlled by Kolomoyskyi and Boholyubov. In addition to these two oligarchs, who play the key role in this group, Privat also has a few minority shareholders, such as Aleksei Martynov. According to data published by the State Tax Service, Privat Group controls over one thousand firms<sup>189</sup>, but its structure is highly non-transparent. It is impossible to prove in many cases that the plants specified below are actually owned by Privat. The group's key assets are concentrated in the financial, fuel and metallurgical sectors, and also in the media and in air transport. The areas of responsibility are divided within the group in an informal manner. Kolomoyskyi is in charge of the energy sector, and Boholyubov is in charge of banking and metallurgy. Given the lack of transparency in the ownership structure inside the group, the assets have been described as assets of Privat Group.

**Ihor Kolomoyskyi** was born in 1963 in Dnipropetrovsk. He started his business activity in 1990, trading in computer software (although according to some

<sup>188</sup> Андрей Самофалов, 'Дмитрий Фирташ высаживается в Черкассах', *Укррудпром*, 4 March 2011, [http://www.ukrrudprom.ua/digest/Dmitriy\\_Firtash\\_visagivaetsya\\_v\\_Cherkassah.html](http://www.ukrrudprom.ua/digest/Dmitriy_Firtash_visagivaetsya_v_Cherkassah.html)

<sup>189</sup> Андрій Вишинський, 'Податкова офіційно визначила ФПГ', *Українська Правда*, 30 March 2012, <http://www.epravda.com.ua/publications/2012/03/30/320310/>

data, he was engaged in business activity already in 1985)<sup>190</sup>. In 1992, he and Henadiy Boholyubov established Privat Bank, which soon became Ukraine's largest bank. Kolomoyskyi has not participated in current politics, but – depending on his own needs – he has backed various political forces, mainly those from the 'Orange' camp. The oligarch has been accused on many occasions of aggressive behaviour in business and of using raider practices<sup>191</sup>. Criminal proceedings on charges of ordering contract killings have been launched against him twice. Kolomoyskyi has been the president of the United Jewish Community of Ukraine since 2008 and the president of the European Council of Jewish Communities since 2010.

**Henadiy Boholyubov** was born in 1962 in Dniprodzerzhynsk. He graduated from the Dnipropetrovsk Institute of Civil Engineering. In 1990, he became engaged in business activity with Kolomoyskyi. Unlike his business partner, Boholyubov shuns publicity and has consistently avoided any involvement in politics. Boholyubov, like Kolomoyskyi, is of Jewish background. He has been the leader of the Jewish community in Dnipropetrovsk since 1998. Owing to support from these two businessmen, Dnipropetrovsk will be home to Menora, the largest Jewish centre in Eastern Europe<sup>192</sup>.

## Assets

- Privatbank is the largest financial institution in Ukraine. Unlike many other banks, it survived the economic crisis of 2009 without problems and has generated profits every year since. In 2011, its profit exceeded UAH1.4 billion, while the entire Ukrainian banking sector generated a total loss of UAH7.7 billion<sup>193</sup>. This group also controls banks operating outside Ukraine: TaoPrivatBank (Georgia), Moscomprivatbank (Russia) and PrivatBank in Latvia.
- As regards the oil production sector, Privat holds 42% of the shares in Ukrnafta, Ukraine's largest producer of oil (2.5 million tonnes) and gas

<sup>190</sup> 'Коломойский Игорь Валерьевич', *Ліга.Досьє*, 20 April 2007, <http://file.liga.net/person/589-igor-kolomoiskii.html>

<sup>191</sup> 'Коломойский пользовался услугами рейдеров', *Минпром*, 27 February 2009, <http://minprom.ua/news/10541.html>

<sup>192</sup> 'Коломойский строит самый большой еврейский центр в СНГ', *Корреспондент*, 5 August 2008, <http://korrespondent.net/ukraine/events/544658-kolomojskij-stroit-samyj-bolshoj-evrejskij-centr-v-sng>

<sup>193</sup> Доходи та витрати банків України за 2011 рік, Національний банк України, [http://www.bank.gov.ua/control/uk/publish/article?art\\_id=84911&cat\\_id=87530](http://www.bank.gov.ua/control/uk/publish/article?art_id=84911&cat_id=87530)

(2.5 billion m<sup>3</sup>)<sup>194</sup>. Although the state-owned company Naftogaz holds the majority stake, it is Kolomoyskyi who really controls Ukrnafta. Privat also has 25% of the shares in the British company JXX Oil and Gas, which has fields in the Poltava Oblast. Privat also controls Ukrtransnafta, the formally state-owned Ukrainian oil pipeline operator.

- Privat controls Ukraine's largest refinery in Kremenchuk and two smaller and outdated refineries in western Ukraine: Naftokhimik Prykarpattia and the Halychyna refinery. Privat owns 1,500 filling stations in Ukraine, whose market share is approximately 25%<sup>195</sup>.
- Metallurgy is among the key areas of Privat's business activity. In contrast to the other Ukrainian oligarchs, the key assets of this group are located abroad. Boholyubov's Palmary Enterprise controls Consolidated Minerals (Australia), which accounts for 10% of global manganese ore production, and also Ghana Manganese and Nsuta Gold Mining (Ghana) and Felman Production ferroalloy works (USA). It also controls the Nikopol, Zaporizhia and Stakhanov Ferroalloy Plants. Furthermore, Privat holds stakes in the following ferroalloy plants: Feral (Romania), Stalmag (Poland), Zestafon (Georgia) and Alapayevsk Metallurgy Plant (Russia)<sup>196</sup>.
- Privat owns the airlines: Aerosvit, Dnieproavia, Donbassaero and probably Windrose, which handle around 60% of the passenger flights in Ukraine.
- Privat has stakes in local electricity production and distribution plants (oblenergo) in Poltava, Sumy, Chernihiv and Ternopil, and also 16% of the shares in Akhmetov's Dniproblenergo.
- Privat has one of Ukraine's largest media empires, which includes the TV channels 1+1, 2+2 and TET and a number of press titles and Internet portals, such as Glavred, UNIAN news agency, *Izvestia in Ukraine*, *Telekritika*, *Profil* and *Gazeta po-kievski*.

<sup>194</sup> Виробництво, Укрнафта, <http://www.ukrnafta.com/ua/business/production>

<sup>195</sup> Сергей Куюн, 'Кого накормит «Нафтогаз»?', *Зеркало недели*, 22 July 2011, [http://zn.ua/ECONOMICS/kogo\\_nakormit\\_naftogaz-84943.html](http://zn.ua/ECONOMICS/kogo_nakormit_naftogaz-84943.html)

<sup>196</sup> 'Геннадий Боголюбов', *Комментарии*, 17 February 2011, <http://gazeta.comments.ua/?spec=1297976487&sart=1297978459>

- As regards the chemical industry, the group owns the DniproAZOT chemical works. In 2009, Kolomoyskyi won the tender for the privatisation of Odessa Port Plant, one of Ukraine's largest chemical plants, which has an ammonia transshipment terminal. However, this transaction was not finalised because Tymoshenko invalidated the sale.
- Privat-AgroHolding, established in 2005, is one of the largest companies operating on the Ukrainian agricultural market. The holding includes 24 firms which lease in total 150,000 hectares of land.

## 6. Other oligarchs

### 6.1. Viktor Pinchuk

He was born in 1960 in Kyiv. In 1983, he graduated from the Dnipropetrovsk Institute of Metallurgy, where he was employed as a lab assistant. Later, he also worked as an engineer and academic worker for the State Research and Development Institute of the Pipe Industry in Dnipropetrovsk. He became engaged in business in 1990, when he established Interpipe Group. In the early 1990s, Interpipe participated in imports of natural gas from Russia and Turkmenistan, which were conducted by Itera. Pinchuk owed the rapid development of his business to a great extent to his relationship (which became a marriage in 2002) with Olena Franchuk, the daughter of the former president, Leonid Kuchma.

He was elected to the Verkhovna Rada in 1998 and 2002, and was a member and the key sponsor of the Labour Party. Since he had actively supported Kuchma's rule, he had some transitional problems after the Orange Revolution (for example, the invalidation of the privatisation of Kryvorizhstal). He was not elected MP in 2007, and has been absent from politics since then. Pinchuk is the greatest patron of modern art in Ukraine. He actively supports Ukraine's European integration by holding the annual summit in Yalta and the 'Ukrainian lunch' during the Davos forum. His wife manages the ANITAIDS Foundation. Pinchuk is of Jewish background. He is an honourable member of the Jewish community in Dnipropetrovsk.

#### Assets

Pinchuk's business extends primarily to two areas: metallurgy (mainly pipe production) and the media, both electronic and printed. His assets are

concentrated in EastOne Group. Along with Akhmetov's SCM, this is one of the most transparent groups in Ukraine.

- Interpipe Group is the world's fourth largest pipe manufacturer for pipes which are used mainly for oil and gas pipelines, the world's third largest manufacturer of railway wheels and a major manufacturer of ferroalloys<sup>197</sup>. It also owns the Nizhnedneprovsky Tube Rolling Plant, the Novomoskovsky Pipe Plant (Russian Federation) and the Nico Tube factory. Furthermore, the Dniprostal works are now under construction. It controls the Nikipol Ferroalloy Plant – the largest plant of this kind in Ukraine – jointly with Privat Group.
- Starlight Media Groups owns TV channels with national coverage, such as Novyi, ISTV, STB and QTV, and the music channels M1 and M2. Pinchuk also owns the newspaper *Fakty i Kommentarii*, the business weeklies *Delo* and *Invest Gazeta* and the quarterly *TOP 100*.
- In the financial sector, Pinchuk owns Credit-Dnepr Bank (26<sup>th</sup> position in Ukraine), Rossia insurance company, and has shares in Oranta, one of the largest insurance companies on the Ukrainian market. In 2007, his shares in Ukrsochbank were bought for US\$2 billion by Italy's UniCredit Group.
- Furthermore, Pinchuk owns Geo Alliance, one of the largest private producers of oil and gas in Ukraine.

## 6.2. Petro Poroshenko

He was born in 1965 in Bolhrad (Odessa Oblast). In 1989, he graduated from the law and international relations departments of the Taras Shevchenko University of Kyiv. He received a PhD in management in 2002.

He embarked on his political career in 1998, when he was elected to the Verkhovna Rada. Although he sought election as an independent candidate, he joined the Social Democratic Party of Ukraine (united), which represented the interests of the Kyiv clan. He became the leader of Solidarity party in 2000, and he joined Our Ukraine in 2002. After the Orange Revolution, he held the

<sup>197</sup> 'Пинчук сокращает своих сотрудников из-за НЗФ?', *Украинская Правда*, 6 September 2005, <http://www.pravda.com.ua/rus/news/2005/09/6/4391607/>

function of secretary of the National Security and Defence Council, but he was dismissed as early as September 2005 on charges of corruption.

Between 2007 and 2012, he has been the president of the board of the National Bank of Ukraine. He served as the minister of foreign affairs from October 2009 to March 2010. He was minister for the economy in the government led by Mykola Azarov until March 2012.

Poroshenko was among the closest aides of Viktor Yushchenko, with whom he also has private bonds; Yushchenko is godfather to Poroshenko's two daughters. Nevertheless, Poroshenko is able to find common ground with all the major players on the Ukrainian political scene. Although he found himself in a bitter conflict with Yulia Tymoshenko in 2005, he managed to gain her support in 2009, which was necessary for his nomination as minister of foreign affairs. Poroshenko's relations with the Party of Regions have also been amicable since 2010. Although Poroshenko was dismissed as minister of foreign affairs, Yanukovich offered him the position of minister for the economy in March 2012. Poroshenko accepted this proposal, without however stating his intention to join the Party of Regions.

## Assets

Poroshenko owns Ukrprominvest, which controls a number of firms predominantly in the automobile and food industries.

- Bohdan Corporation is among the key manufacturers of cars and trucks and the largest manufacturer of buses in Ukraine. It includes Cherkasy Autobus, assembly plant no. 1 (buses and trolleybuses), no. 2 (motor cars), no. 3 (trucks) and Bohdan Motors<sup>198</sup>. Furthermore, the corporation controls dealer networks, repair works and Bohdan transport company, which is engaged in forwarding.
- Ukravtozapchastina includes a plant for the production of tractors and other agricultural vehicles and also other car parts. The company also controls a chain of forty wholesale and retail sales points<sup>199</sup>.

<sup>198</sup> 'Богдан Корпорация', *Ліга.Досьє*, 4 August 2010 [http://file.liga.net/company/2060-bogdan\\_korporaciya.html](http://file.liga.net/company/2060-bogdan_korporaciya.html)

<sup>199</sup> Про компанію, Укравтозапчастина, <http://uaz-upi.com/company>

- ISTA is the largest battery manufacturer in the Commonwealth of Independent States<sup>200</sup>. The company has four factories in Dnipropetrovsk.
- Roshen Corporation is Ukraine's number one confectionery producer. The corporation has plants in Kyiv, Vinnytsia, Mariupol and Kremenchuk, and sweets factories in the Lipetsk Oblast (Russia) and Klaipeda (Lithuania).
- Leninska Kuznya builds ships of various kinds, with displacement of up to 5,000 tonnes, and manufactures metal and machine goods<sup>201</sup>. In 2010, Poroshenko bought the Sevastopol shipyard, one of Ukraine's largest. One of this shipyard's customers is the Russian Black Sea Fleet.
- The food company Ridna Marka, whose assets include the Radomyshl Beer and Beverage Plant, and the fruit and vegetable processing plant Kherson.
- Poroshenko also has assets in the media: 5 Kanal, which is the largest television news channel, and *Korrespondent* weekly.

### 6.3. Kostyantyn Zhevago

He was born in 1974 in w Iultin, Magadan Oblast (Russian Federation) and moved to Ukraine as a child. In 1996, he graduated from the Kyiv National Economic University. The same year he became the CEO of the company, 'Finance and Credit', which within a few years developed into one of Ukraine's largest financial and industrial groups. He was elected to the Verkhovna Rada in 1998 as a candidate from a single-member constituency. Zhevago has belonged to various political groupings, including the Regions of Ukraine, the predecessor of the Party of Regions. He won the parliamentary seat in the elections of 2006 and 2007 as a candidate of the Yulia Tymoshenko Bloc. Zhevago is currently the only representative of big business to have remained in opposition to the government. Although part of his business has encountered problems due to this (for example, the Security Service of Ukraine has audited his bank several times)<sup>202</sup>, his position is strong, because his main asset, the Ferrexpo corporation, is listed on the London Stock Exchange.

<sup>200</sup> 'Петр Порошенко', *Комментарии*, 17 February 2011, <http://gazeta.comments.ua/?spec=1297976487&sart=1297977646>

<sup>201</sup> Ленинская Кузница, ПАО Завод, <http://1201.ua.all.biz/>

<sup>202</sup> 'СБУ «накрыла» еще и банк Жеваго', *Зеркало недели*, 11 July 2011, [http://news.zn.ua/ECO-NOMICS/sbu\\_nakryla\\_esche\\_i\\_bank\\_zhevago-84220.html](http://news.zn.ua/ECO-NOMICS/sbu_nakryla_esche_i_bank_zhevago-84220.html)

## Assets

The Finance and Credit Group is formed by around sixty corporations and companies operating predominantly in metallurgy and the machine-building industry, and also in the financial and other sectors.

- Zhevago controls 51% of Ferrexpo, one of Ukraine's largest iron ore and steel manufacturers. Ferrexpo is one of the few Ukrainian companies which are traded on a Western stock market. In 2007, this company made its debut on the London Stock Exchange, where it is listed on the FTSE 250 index. Ferrexpo has the plants Vorskla Steel AG (Switzerland), Vorskla Steel (Denmark) and Skopski Legury (Macedonia), the Vorskla Steel factory, and the Poltava and Vostok-Ruda ore production and enrichment plants. Ferrexpo intends to continue its expansion outside Ukraine in the coming years<sup>203</sup>.
- The Finance and Credit Bank is one of the largest banks in Ukraine; in early 2012 it was ranked 14<sup>th</sup> in terms of assets<sup>204</sup>.
- The AvtoKrAZ Holding includes firms which manufacture means of transport, predominantly heavy goods vehicles and railway cars, and also sea and river ships. The Kremenchuk Automobile Plant and the Stakhanov Railway Car Building Works, which manufactures railway cars, are the largest plants controlled by AvtoKrAZ.
- Zhevago also has some assets in the power engineering sector, for example, Luhanskoblenerho and a combined heat and power plant in Bila Tserkva.

### 6.4. Oleh Bakhmatyuk

He was born in 1974 in Ivano-Frankivsk. In 1996, he graduated from the Institute of Economics and Law in Chernivtsi. Little is known about the early days of his business career. After the Orange Revolution, he was among the sponsors of the Yulia Tymoshenko Bloc, but he did not take an active part in politics. In 2005–2006, he was deputy head of Naftogaz. He bought controlling stakes

<sup>203</sup> 'Ferrexpo considers expanding out of Ukraine', *Financial Times*, 4 August 2011. <http://www.ft.com/intl/cms/s/0/4305e7a2-bde2-11e0-ab9f-00144feabdco.html>

<sup>204</sup> 'Дані фінансової звітності банків України, Національний банк України', <http://www.bank.gov.ua/doccatalog/document?id=102699>

in several *oblhazes* between 2006 and 2007, but later resold them to Firtash<sup>205</sup>. Bakhmatyuk is one of the very few Ukrainian oligarchs who have made big fortunes over the past few years.

### **Assets**

Bakhmatyuk's assets are mainly concentrated in the agricultural and food and the financial sectors. In 2011, he merged his two companies, Avangard and Ukr-land farming, to build Ukraine's largest corporation operating in the food and agriculture sector.

- Avangard Holding specialises in eggs and egg products. Its assets include nineteen hen farms, which in 2011 produced a total of 25 million hens, and six hen feed production plants. Furthermore, Avangard controls Ukraine's largest egg processing plant, Imperovo Foods in Ivano-Frankivsk.
- Ukraland farming leases the largest area of arable land in Ukraine (over 530,000 hectares). It breeds pigs and cattle, and produces sugar.
- Bakhmatyuk owns two banks: Finansova Initsiatyva and VAB (23<sup>rd</sup> and 24<sup>th</sup> positions in Ukraine). VAB was taken over in 2011, which gave rise to a conflict with the bank's previous owner<sup>206</sup>.

SŁAWOMIR MATUSZAK

<sup>205</sup> Игорь Маскалевич, 'Газопеределки', *Зеркало недели*, 4 November 2011, <http://zn.ua/ECONOMICS/gazoperedelki-90970.html>

<sup>206</sup> Руслан Черный, 'Конфликт вышел на свободу', *Коммерсант*, 14 June 2012, <http://www.kommersant.ua/doc/1958043>