



## **KEYSTONE OF THE SYSTEM**

### **OLD AND NEW OLIGARCHS IN UKRAINE**

Wojciech Konończuk

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## SUMMARY

- For the last two decades, oligarchs, or big entrepreneurs who have been able to turn their business prowess into powerful political influence, have been among the most important actors in Ukraine's politics. More than two years after the Maidan revolution, it is fully justified to say that the oligarchic system remains a key mechanism in Ukraine's political and economic life. While it is true that the influence of the formerly most powerful oligarchic groups has eroded during this period, no such group except for the Family, i.e. the oligarchic circle centred around former President Yanukovich, has been eliminated.
- The oligarchs have been able to hold on to their influence in politics and the economy thanks to a number of factors, among which two are particularly important: the weakness of the government in Kyiv, which is preoccupied with the war in defence of the country's territorial integrity, and the fact that the oligarchic groups still possess powerful instruments to defend their positions, including dominance of the media market and some strategic sectors of the economy. However, the main cause behind the persistence of the oligarchic system has been the decision, taken by some of the post-Maidan elite, to enter into informal alliances with the oligarchs. President Petro Poroshenko's group and the circle of the then prime minister Arseniy Yatsenyuk and his People's Front party have – independently of each other – entered informal agreements with different oligarchic groups. This has led to the creation of an important division in Ukrainian politics. That division persists despite the fact that Volodymyr Groysman, the new prime minister appointed in mid-April 2016, has close links to the president's camp. However, this is a purely tactical and therefore impermanent alignment, founded on the current needs of the two sides. The lesson from the last dozen or so years in Ukraine is that the oligarchs do not enter stable

alliances, and are flexible in choosing their allies. Their relations with one political party or another depend on the current political situation, and are subordinated to the overarching objective of preserving their business interests.

- As the 'old' oligarchs have preserved much of their influence, in parallel, new political-business groups have started to emerge around the Ukrainian leadership, which can also be termed 'oligarchic'. Thanks to their close links to the highest-ranking leaders of Ukraine, members of these groups have taken control over many important state-owned companies and have been trying to build up their own financial and business bases. Their efforts have been motivated by a deep-rooted, if informal, principle of Ukrainian politics, according to which political power also depends on the value of the business assets controlled by any given party. This mechanism has been practically identical to what was observed during Viktor Yanukovych's rule, although its scale is smaller, and it has been operating in the conditions of a deep economic crisis, with fewer assets up for grabs. The main resource of the newly emerging oligarchic groups consists in their close relations with the high-ranking leaders of Ukraine, and not in permanent control (ownership) of important enterprises or media companies. As a result, these groups are still weaker than the 'old' oligarchs and – in view of the chronic political instability in Ukraine – unlikely to consolidate their influence.
- The existence of the oligarchic groups, formed as a result of a pathological symbiosis between power and big business, remains one of the crucial obstacles impeding the modernisation of the Ukrainian state. The reforms implemented so far have been inconsistent and too slow, and have not undermined the oligarchs' position, one reason for which is that both the 'old' and 'new' oligarchs have proven skilful in hindering or delaying the reform process. In a country as weak as Ukraine, well-organised oligarchic groups with their own media and

substantial financial resources are still seen by politicians as desirable allies, and as a result they have become a permanent element of politics. The oligarchs are there because of the absence of strong state institutions, which, in turn, should be blamed on the weakness of a state ridden by systemic corruption and lacking an independent judiciary or efficient administration. Thus, the oligarchs have been the beneficiaries of all the shortcomings of the Ukrainian state. The success of any efforts to undermine their influence will depend primarily on whether Ukraine's present-day façade institutions can be replaced with institutions that are robust and independent – and that is the most important objective of the reform process.

## INTRODUCTION

The Ukrainian oligarchic system which formed in the second half of the 1990s has demonstrated extraordinary vitality and resilience, as well as a capacity to adapt to changing political circumstances. Irrespective of who is in power in Kyiv, the oligarchs invariably retain their status as key political players. In no other country in Europe (except for Moldova<sup>1</sup>) do oligarchs hold as much sway as in Ukraine. The purpose of the present paper is to describe the role and significance of the oligarchs in Ukraine two and a half years after the Maidan.

Oligarchy is not an exclusively Ukrainian or post-Soviet phenomenon – it has been known since the times of the first state organisms and political systems. Some characteristics of oligarchy are constant, whether it is the ancient world, certain modern-era Western European states, the Polish-Lithuanian Commonwealth, or Ukraine since 1991. According to Professor Antoni Mączak, a distinguished Polish historian who studied the phenomenon, oligarchy is primarily a system of state governance.<sup>2</sup> In an oligarchic system, an informal and limited group (or groups) operates whose members, the oligarchs, have created networks of interdependencies. Within those networks, they provide patronage and protection to their clients (politicians, communities, parties, etc.) in return for loyalty and for promoting their interests. As a result, whole pyramids of interdependencies form within a state (at both the central and the local levels), which resemble

<sup>1</sup> K. Całus, Moldova: from oligarchic pluralism to Plahotniuc's hegemony, *OSW Commentary*, 11 April 2016, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2016-04-11/moldova-oligarchic-pluralism-to-plahotniucs-hegemony>

<sup>2</sup> Professor Antoni Mączak's two major works on oligarchy as a system of power are *Klientela. Nieformalne systemy władzy w Polsce i w Europie XVI-XVIII w.* [Clientele. Informal systems of power in Poland and in Europe in the 16<sup>th</sup> to 18<sup>th</sup> century], Warsaw 2000, and *Nierówna przyjaźń: układy klientalne w perspektywie historycznej* [Unequal friendship: clientelist systems in a historical perspective], Wrocław 2003.



feudal relationships. The historical models described by Professor Maćzak may be helpful today in understanding the oligarchic systems in Ukraine.

It appears that the negative phenomenon of Ukrainian oligarchy has not been fully recognised in the West, and has therefore been ignored and remains poorly studied.<sup>3</sup> This may be due to difficulty in capturing and describing the phenomenon, which combines political as well as strictly economic and financial elements. A researcher studying oligarchy is often forced to rely on presumptions rather than hard facts. However, without unravelling the behind-the-scenes workings of the oligarchy, it is impossible to understand the real mechanisms at work in Ukrainian politics.

The purpose of the present paper is not to comprehensively analyse the Ukrainian oligarchic system, but rather to show how and why the oligarchs have been able to preserve their role and influence in the wake of the Revolution of Dignity. The first part is focused on the situation of the oligarchic groups that have existed for a dozen or so years, which we will refer to as the 'old' oligarchic groups for the sake of simplicity. It explains how these groups have established co-operation with the post-Maidan leadership, which was one of the reasons they preserved their political and economic positions. The second part describes the parallel process started in 2014, whereby people from the Ukrainian top leadership's inner circle have been building their own business bases. Their mode of operation, which mainly consists in taking control over state-owned companies in their own or their parties' interests, resembles the methods employed in the past, proving that the pathological mechanisms in Ukrainian politics are far from having been eradicated. The beneficiaries of this process will be referred to as 'new oligarchs' in the text, which is only a minor simplification.

<sup>3</sup> This is evidenced by the fact that not a single book has been published in English on the Ukrainian oligarchic system.

In the conclusion, this paper will try to answer the question of why de-oligarchisation, which has been called for and promised on many occasions, has not happened in Ukraine. The author's observations, especially about the persistently strong influence of oligarchic groups in Ukraine, lead to the conclusion that the effectiveness of Ukraine's reforms depends on the future of Ukrainian oligarchy.

In the title of this paper the oligarchs are referred to as the 'cornerstone', in order to emphasise that they are the strongest element in the dysfunctional system that has formed in Ukraine over the last two decades, and therefore one of the most important obstacles hindering Ukraine's efforts to exit the post-Soviet model. Unless this problem is solved, Ukraine will not be able to build an efficient state with well-functioning market mechanisms.

# I. OLIGARCHS IN THE SYSTEM OF POST-MAIDAN UKRAINE

## 1. The 'old' oligarchs (temporarily) on the defensive

Before the Revolution of Dignity, there were four major oligarchic groups and over a dozen smaller groupings in Ukraine. They never constituted a monolith, had contradictory interests, often got conflicted and backed different political parties. This was one of the key mechanisms safeguarding the specifically Ukrainian type of political pluralism.<sup>4</sup> The most important oligarchic structures prior to 2014 included:

- **the so-called Family**, led by Oleksandr Yanukovych, son of the then President. Until the Maidan, the Family had been the most expansive oligarchic group, which used thuggish methods to quickly acquire new assets;
- **the group of Rinat Akhmetov**, the richest man in Ukraine and until recently the most powerful oligarch whose influence extended into various sectors of the economy, ranging from energy (DTEK), metallurgy and the coal industry (Metinvest), to the financial sector (PUMB bank), the media (the Ukraina channel, one of the largest television stations in Ukraine), the agricultural sector (HarvEast) and telecommunications (Ukrtelecom);
- **the group of Dmytro Firtash** with influence mainly in the chemical and gas sectors (DF Group) and the media (the Inter TV channel, among others). Firtash, one of the most influential entrepreneurs during the rule of Viktor Yushchenko and then Viktor Yanukovych, is one of the Ukrainian oligarchs

<sup>4</sup> For more information, see: S. Matuszak, The oligarchic democracy. The influence of business groups on Ukrainian politics, *OSW Studies*, September 2012, [http://www.osw.waw.pl/sites/default/files/prace\\_42\\_en\\_o.pdf](http://www.osw.waw.pl/sites/default/files/prace_42_en_o.pdf)

who maintain very close ties with Russia. At the onset of his career he traded in Russian gas, and Gazprombank provided the loans to finance his expansion in the energy sector;

- **the group of Ihor Kolomoyskyi**, one of Ukraine's most powerful oligarchic groups since the 1990s, active mainly in the finance sector (PrivatBank, Ukraine's largest financial institution), the energy sector (Ukrnafta, the main player in the oil market), the chemical, metallurgic and transport sectors (MAU airlines), the media (the 1+1 TV channel and others) and agriculture (Privat Agro-Holding).

As a direct consequence of the Revolution of Dignity, the Family completely lost its significance in the Ukrainian oligarchic system as its leading members (including the Yanukovych family, the former deputy prime minister Serhiy Arbuzov, the former energy minister Eduard Stavitsky and their associate Serhiy Kurchenko) fled to Russia. At the same time Ihor Kolomoyskyi managed to expand his influence. He quickly entered an alliance with the new government and in March 2014 was appointed the governor of the Dnipropetrovsk oblast, his home region, and where most of his business assets are located. He managed to effectively stabilise this strategically important region in the direct vicinity of the Donbas, which, combined with his skilful use of anti-Russian rhetoric, substantially boosted his popularity and political influence.

The remaining two major groups emerged substantially weakened. Rinat Akhmetov, one of the main business beneficiaries of the Party of Regions' four-year rule, lost control of some of his assets in the war-torn Donbas, even though in the initial phase of the conflict he informally supported the so-called separatists in the hope that this would give him an instrument to put pressure on Kyiv and boost his political significance while also providing him with political immunity. Dmytro Firtash, on the other hand, was arrested in March 2014 in Vienna at the request of the FBI

and spent more than a year under home arrest until, in an unprecedented ruling, an Austrian court refused to hand him over to the United States. Since that time, he has been living in Austria, but his political and business interests in Ukraine continue to be curated by Serhiy Lyovochkin, an influential deputy, one of the leaders of the Opposition Bloc (a grouping of people formerly associated with the Party of Regions) and the former chief of President Yanukovich's administration. It should be noted that while the political importance of Akhmetov and Firtash declined in the aftermath of the revolution, they have not been expropriated.<sup>5</sup>

As a result, when social and political mobilisation was high directly after the Maidan and the country was ready to undertake painful reforms, the 'old' oligarchs found themselves on the defensive, uncertain about the future of their business interests. Their position was threatened by the programme for systemic repair of the state, envisaged in the Association Agreement with the UE, the IMF assistance programme and the coalition agreement concluded in late 2014, because their businesses had hitherto thrived thanks to corruption-based deals with the authorities and rigged public tenders and privatisations. The secret of the oligarchic business empires' success lay primarily in their relations with politicians and their parasitic exploitation of the state.

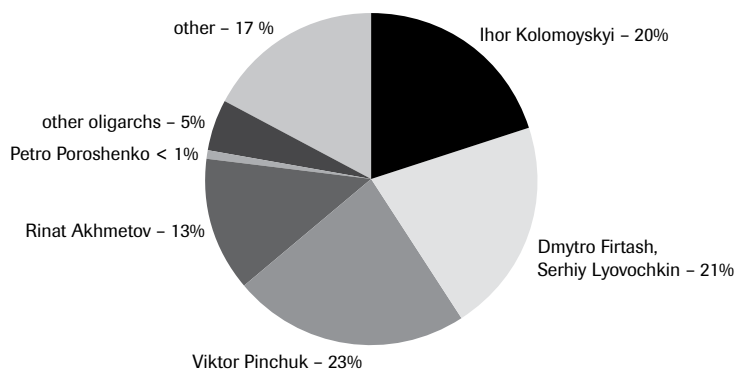
Yet despite the initial uncertainty and problems, the 'old' oligarchs managed to keep their status as important players in Ukraine's politics and economy.<sup>6</sup> Several factors contributed to this. Firstly, a de-oligarchisation of Ukraine that would have genuinely stripped the most powerful oligarchs of influence, including by prosecuting them, would have been difficult to carry out in the conditions of

<sup>5</sup> In autumn 2014 Firtash's DF Group lost control of the two titanium plants it had leased from the state.

<sup>6</sup> For more information, see: W. Konończuk, *Oligarchs after the Maidan: the old system in a 'new' Ukraine*, *OSW Commentary*, 16 February 2015, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2015-02-16/oligarchs-after-maidan-old-system-a-new-ukraine>

ongoing war with Russia. It would have inevitably led to open political conflict because of possible retaliatory action on the part of the oligarchs who controlled many sectors of the economy, and as a consequence would have seriously destabilised the internal situation. Secondly, the oligarchs' organisational strength and financial capabilities were in sharp contrast to the weakness of the central government bodies, which did not make for a coherent political camp and often had divergent interests. The oligarchic groups took advantage of these divisions. Thirdly, the oligarchs retained certain instruments to influence politics, including in particular over some deputies and control of nearly all major television stations. The channels owned by the four oligarchs (Ihor Kolomoyskyi, Dmytro Firtash, Viktor Pinchuk and Rinat Akhmetov) together control 77% of the Ukrainian market.<sup>7</sup> Finally and most importantly, the oligarchic system had entered an alliance with sections of the post-Maidan political elite, enabling the oligarchs to survive, remain in politics despite the weakening of their positions, and preserve much of their business influence.

**Chart 1.** The oligarchs' shares in Ukraine's television market (May 2016)



**Source:** Television Industry Committee

<sup>7</sup> Author's own calculations, based on figures from the Television Industry Committee (May 2016), <http://tampanel.com.ua/>

**Chart 2.** The oligarchs' shares in Ukraine's banking sector (April 2016)<sup>8</sup>



**Source:** National Bank of Ukraine

## 2. Co-operation with the new government

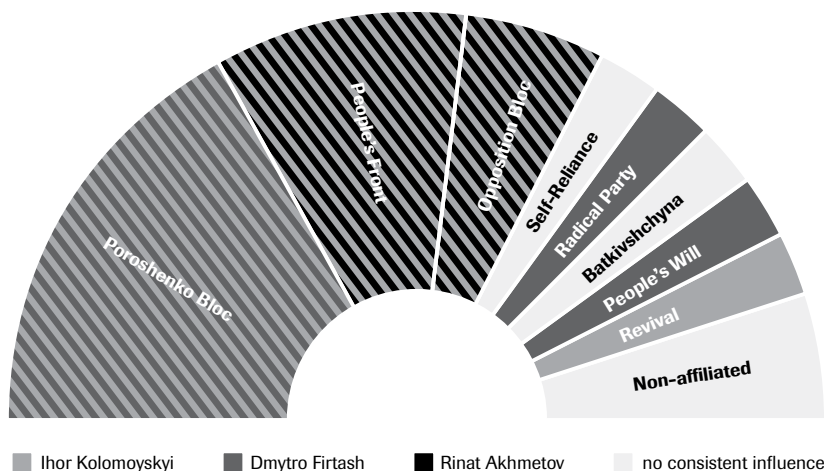
The parliamentary elections in October 2014, conducted under the restored 2004 constitution which weakened presidential powers while strengthening the *Verkhovna Rada*, marked a crucial moment in the oligarchs' struggle to regain political significance. Election campaigns in Ukraine are traditionally among the most expensive in Europe, each time costing hundreds of millions of dollars according to estimates.<sup>9</sup> In the conditions prevalent in Ukraine, it is the oligarchs who provide most of the funding – a fact that is one of the keys to understanding their role in the Ukrainian political system. All the major oligarchic groups entered the battle for seats in the new parliament, and

<sup>8</sup> Before 2014, the oligarchs' banks accounted for a much greater share of Ukraine's banking sector. However, the economic crisis caused a number of bankruptcies, and the banks affected included the Nadra bank (Dmytro Firtash), Finances and Credit (Kostyantyn Zhevago), and Financial Initiative (Oleg Bakhmatyuk).

<sup>9</sup> According to election experts quoted by the BBC, the total campaign spending by all Ukrainian parties ahead of the 2012 parliamentary elections amounted to US\$2.5 billion. С. Дорош, 'Виборча реклама: 20 млрд.гривень за любов народу', BBC, 11 October 2012, [http://www.bbc.com/ukrainian/politics/2012/10/121011\\_election\\_ukraine\\_advertising\\_cost\\_sd.shtml](http://www.bbc.com/ukrainian/politics/2012/10/121011_election_ukraine_advertising_cost_sd.shtml)

managed to place their people on the lists of nearly all major parties. While it is difficult to precisely gauge the influence that the oligarchs hold over individual political formations, an analysis of the *Verkhovna Rada's* activities during much of the present term suggests that Ihor Kolomoyskyi is particularly influential in Arseniy Yatsenyuk's People's Front, the Radical Party and the Revival party, while Dmytro Firtash has substantial clout in parts of the Petro Poroshenko Bloc (the former UDAR party of Vitali Klitschko) and the Opposition Bloc. Moreover, some of the Opposition Bloc deputies are controlled by Rinat Akhmetov whose business partner, the oligarch Vadim Novinsky, has been elected to parliament from the Bloc's list.

**Chart 3.** The influence of major oligarchs on political parties



In the parliamentary elections, the 'old' oligarchs reasserted their status as important 'stakeholders' in Ukrainian politics, and as a result the new leadership started to find them necessary. Subsequent developments demonstrated that what had happened was effectively a marriage between the oligarchic groups and sections of the political elite that came to power in the aftermath of the Maidan. The two centres of power in Kyiv, i.e. the camps of the president and the prime minister, entered informal



agreements with the most powerful oligarchs independently of each other, under which the politicians offered guarantees that the oligarchs' assets would be safe, in return for political and media support. The indications that this was indeed the case include the fact that Kyiv did not launch a single prosecution against any of the oligarchs, and did not even threaten to reverse the Yanukovich-era privatisations, which in many cases had been illegal and conducted solely in the oligarchs' interests. On the contrary, some oligarchic groups were even allowed to expand their holdings; for instance Akhmetov took over the Dniprodzerzhynsk Coke-Chemical Plant from the Russian Evraz company, while Firtash sought to take over a stake in the VOG filling station chain, one of the largest in Ukraine; and Inter, his television station, has had its licence extended.<sup>10</sup>

The actions of the Ukrainian leadership hardly reflected its initial rhetoric. For instance, in March 2015 President Poroshenko said: "De-oligarchisation is my key starting position. We are trying to introduce order in the country, and they are the chaos."<sup>11</sup> These words, however, were not followed by any real steps to actually curb the oligarchs' influence. Nevertheless, the deep economic crisis in Ukraine has caused serious problems for many of the oligarchic companies, some of which have been unable to repay their banking loans. Some were also adversely affected after their access to tenders and public procurement procedures, a steady source of great profits under Yanukovich, was cut off or restricted. Consequently, the wealth of most of the Ukrainian oligarchs has shrunk, as can be seen in the most recent Forbes ranking of the world's richest people.<sup>12</sup> While the accumulated assets of the

<sup>10</sup> А. Джумайло, Е. Хвостик, 'Владельцы Evraz сдали кокс', *Kommersant*, 28 August 2015, <http://www.kommersant.ru/doc/2797444>

<sup>11</sup> 'Порошенко об Укрнафте: Это не конфликт во власти, ключевое – деолигархизация', *pravda.com.ua*, 29 March 2015, <http://www.epravda.com.ua/rus/news/2015/03/29/535932/>

<sup>12</sup> Akhmetov's wealth is currently estimated at US\$2.3 billion, compared to US\$6.7 billion in 2015 and US\$16 billion in 2012. The value of assets held by Ihor

five wealthiest Ukrainians were estimated at US\$25 billion in 2013 (14% of Ukraine's GDP at that time), in 2016 this figure decreased three-fold to US\$7.1 billion.

One could point to many examples of how the new government failed to dismantle the arrangements, dating back to the Yanukovich era, that had been generating substantial profits for some of the 'old' oligarchs (even if it did not do anything to actively further those oligarchs' interests). For instance, deputies in Yatsenyuk's party long obstructed the amendment of the joint stock companies bill, as a result of which some oligarchs would cease to exercise control over important enterprises, in which they had been taking all the management decisions despite only holding minority stakes. When the bill was ultimately amended, Ihor Kolomoyskyi ceased exercising his long-term operational control over the energy company Ukrnafta, in which he had held 42% of shares (with the State Treasury holding 51%). However, for unclear reasons the government still permitted him to postpone the repayment of outstanding tax amounting to around US\$400 million. The People's Front was particularly active in defending Akhmetov's interests, which appears to confirm the existence of unclear links between this oligarch and Yatsenyuk. For example, for a year after the Revolution of Dignity the government was unable to lift the subsidies on electricity exports introduced in 2012, which had mainly benefited Akhmetov's company DTEK (the subsidies exceeded US\$100 million annually). On the positive side, some needed change did occur in the gas sector, which had traditionally been one of the most important sources of profits for the Ukrainian government elite and the oligarchs, after Ukraine first restricted and then discontinued gas purchases from Russia, and the government imposed greater transparency on Naftogaz and

Kolomoyskyi and his business partner Hennadiy Boholubov has not changed; the wealth of each of them is estimated at US\$1.3 billion. The wealth of Viktor Pinchuk has shrunk from US\$1.5 billion to US\$1.2 billion. The World's Billionaires 2016. [http://www.forbes.com/billionaires/list/#version:static\\_country:Ukraine](http://www.forbes.com/billionaires/list/#version:static_country:Ukraine)

adopted the fundamental new gas market law in April 2015, initiating the reform process in that sector.

The only major conflict between the 'old' oligarchs and the post-Maidan leadership (specifically the president) occurred after Poroshenko removed Kolomoyskyi from his post as governor of Dnipropetrovsk in March 2015 because of the oligarch's growing influence and his efforts to keep control of the profitable Ukrnafta company. The conflict has since been smoothed out, although Kolomoyskyi's growing political ambitions have nonetheless led to the arrest of his main aide, Hennadiy Korban, who had been in charge of building up UKROP, a new party that was quite successful in the local elections in October 2015. Yet Kolomoyskyi's business interests were not affected, and even though Korban remains under house arrest, there are many indications that the president (who controls the Prosecutor's Office) and the Dnipropetrovsk oligarch have come to terms.

In the aftermath of the government coalition crisis in the first months of 2016, and then the coalition's break-up following the exit of *Batkivshchyna* and Self-Reliance, the influence of the 'old' oligarchic groups increased. The Poroshenko Bloc and the People's Front, which even before could not fully count on the support of the remaining coalition members, entered an informal *de facto* coalition with three opposition parties: the Opposition Bloc, Revival and People's Will, all controlled by oligarchs. After many weeks of disputes, Yatsenyuk was ultimately persuaded to step down, and on 14 April the government endorsed a new government led by Volodymyr Groysman and supported by the Poroshenko Bloc and the People's Front. It has been possible to largely recreate the old coalition and thus end the government crisis because the interests of the Poroshenko and Yatsenyuk camps and the oligarchic fractions converged. None of these groups are currently interested in early elections, which would have been the only alternative if they had failed to reach an agreement. This appears to demonstrate again that there is a symbiosis, surprising at first

sight, between sections of the post-Maidan political elite and the 'old' oligarchic groups.

The new Ukrainian coalition and the Groysman government are weaker than the previous coalition and the Yatsenyuk government were, as they only possess a very slim majority in the *Verkhovna Rada* (227 votes, the necessary minimum being 226) and are internally unstable. A kind of internal opposition exists within the Poroshenko Bloc, i.e. a group of more than a dozen deputies who often vote differently from the rest of the faction (e.g. they voted against endorsing the government). This means that in future votes, the coalition will have to seek help of the oligarchic Revival and People's Will parties, which have 23 and 19 deputies respectively. Both are within the orbit of Kolomoyskyi's influence and voted to support the Groysman government, which suggests that there is indeed a parallel, informal coalition. In some votes the government may also count on the support of the Opposition Bloc and Oleh Lyashko's Radical Party, where oligarchic influence is also strong. However, each time the government will have to pay a price for the extra votes by offering concrete concessions to the oligarchs. This is how the weakness of the new coalition works as one of the factors conserving the old system and hindering reforms.

## II. NEW OLIGARCHS IN THE GOVERNMENT

While the ‘old’ oligarchs’ made successful efforts to preserve their influence in business and politics, as discussed above, the last two years also saw a parallel process whereby people with close links to the new top leadership of Ukraine strove to build up business bases of their own. This process has followed a pattern typical for each new administration in Ukraine – of taking operational control over the most valuable state-owned enterprises in order to control their financial flows and, usually, to profit illegally at the expense of the state budget.

After the Maidan, groups of trusted people formed around the then Prime Minister Yatsenyuk and President Poroshenko (himself an oligarch prior to taking power, albeit a less influential one). Those groups, comprised of politicians and large entrepreneurs with close links to them, set out to systematically expand their influence on key state-owned businesses. Some of their members have also tried to acquire ownership of state-owned businesses. While this process is far from transparent and has not been fully studied yet, it may be argued that sections of the new government elite have been effectively replicating the patterns of corruption that were prevalent in Ukraine under the previous governments. As in the past, control of individual ministries and state bodies, which are seen as political spoils, has been instrumental in taking operational control over business assets. Moreover, there are many indications that people representing the new leadership have taken over businesses (or stakes therein) formerly held by people associated with the Family.<sup>13</sup>

<sup>13</sup> After the Maidan, the new government waited for many months before taking any steps against business assets held by people from Viktor Yanukovich’s circle, and even then targeted only a small section of those assets. It would be difficult to find any explanation for this other than a secret deal that seems to have been struck between the ‘old’ and the ‘new’ elite, whereby the latter took over some of the assets in question in their own interest. In May 2016 Yuriy Lutsenko, the new prosecutor general, admitted that the prosecutor’s office had not prepared a single case against the Yanukovich regime’s officials and politicians.

It may seem disputable to use the name ‘oligarchs’ to denote the responsible people from Petro Poroshenko’s and Arseniy Yatsenyuk’s respective circles, as most of them are high-ranking politicians who nonetheless already held major business assets when they were elected to the *Verkhovna Rada*. Tracing their current business influence is possible (albeit only to some extent) thanks to reporting by the Ukrainian media and its journalistic investigations. Their operational model relies on using the power they possess as representatives of the state to expand their businesses and take control over the finances of the most profitable state-owned companies. Those activities are not part of public policy but belong in the domain of informal, behind-the-scenes dealings. The politicians in question are furthermore surrounded by powerful business people who used to be second-rank, less influential oligarchs during the Yanukovych era. Since the Maidan, their business interests have been thriving, thanks to their links to the new leadership.

This process is not yet complete. The following section will discuss what we know so far about the people from the political and business milieu of President Poroshenko and former Prime Minister Yatsenyuk (the latter has been able to remain one of the most important players in Ukraine’s political scene despite having stepped down as PM in April 2016, as will be demonstrated below). Given their *modus operandi* and business potential, it is only a minor simplification to call these people the ‘new oligarchs’.

## 1. The business-political circle of President Poroshenko

**Ihor Kononenko**, who had not been widely known before he was elected to the *Verkhovna Rada* in 2014, is one of the most influential people in President Poroshenko’s circle. He has been Poroshenko’s trusted man since they did military service together in the Soviet army in the mid-1980s. Kononenko has been Poroshenko’s business partner since 1992; for example he has served for many years as deputy CEO of Poroshenko’s Ukrprominvest holding, which groups together companies ranging from the Roshen sugar

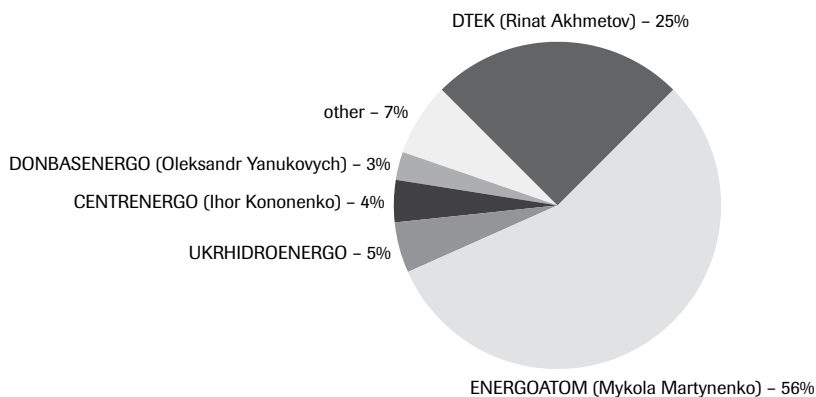
company to the Channel 5 television station. Both men hold shares in the International Investment Bank (Poroshenko has 60% of shares and Kononenko 14.9%) and in the Kraina insurance company (in which the president controls 49.9% of shares). Kononenko also has his own investment fund VIK and several industrial plants (including in Zaporizhia and Luhansk).

After he was elected deputy, Kononenko soon became a key figure (next to Yuriy Lutsenko) in the Poroshenko Bloc's parliamentary club, rising to the position of the club's deputy chair. In the local elections in autumn 2015 he was the party's chief of election staff. Over the last year, thanks to his status as the president's close aide, he has become one of the most influential figures in Ukrainian politics, which has also boosted his business influence. Several large state-owned companies, mainly from the energy sector, have found themselves in Kononenko's orbit, including Centrenergo, which produces 14% of Ukraine's total electricity, and has been tipped for privatisation. Kononenko has been influencing the energy sector through his close ties with Volodymyr Demchyshyn, the energy minister in Yatsenyuk's cabinet (who was replaced by Ihor Nasalyk in April) and Dmytro Vovk, chief of the energy regulator NKREKP, both of whom are the president's men and have previously worked in companies controlled by Poroshenko. A conflict with Kononenko was in the background of the widely publicised dismissal in February 2016 of Aivaras Abromavičius, the minister for economic development. The minister, who had been widely regarded as one of the main reformers in Yatsenyuk's government, directly accused Kononenko of corruption and of promoting his people to high positions in many important state-owned companies, including Naftogaz and companies in the metallurgy and chemical sectors, in order to control their financial flows. The stated, immediate reason for Abromavičius's dismissal concerned his refusal to accept the nomination of a Kononenko designee as deputy minister in charge of supervising Naftogaz.

Kononenko was also implicated in another high-profile resignation, that of deputy Prosecutor General Vitaly Kasko, who accused

Kononenko of interfering with the operation of the prosecutor's office as he stepped down in mid-February 2016.<sup>14</sup> Kasko said on that occasion: "The General Prosecutor's Office is a dead body in whose independence no-one believes (...), has ultimately become an institution ruled by a clique (*krugovaya poruka*) where any attempts at changing the situation from within are kept down." However, even those widely publicised resignations failed to affect Kononenko's position. In early March, his former assistant was appointed as deputy chief of the State Property Fund, where he will supervise the privatisation of Centrenergo, among other tasks.<sup>15</sup> Kononenko also has some influence in the Security Service of Ukraine, a fact that seals his status as one of the people with the strongest influence in Ukrainian politics.<sup>16</sup>

**Chart 4.** Shares of oligarchic groups in Ukraine's electricity market



<sup>14</sup> Ally of Ukrainian president accused of meddling in prosecution, Reuters, 25 February 2015, <http://www.reuters.com/article/us-ukraine-president-ally-idUSKCN0VY1RP?feedType=RSS&feedName=worldNews>

<sup>15</sup> Заступником голови Фонду держмайна призначений екс-помічник Кононенка, pravda.com.ua, 1 March 2016, <http://www.pravda.com.ua/news/2016/03/1/7100817/>

<sup>16</sup> As confirmed by the SBU deputy chief, General Viktor Trepak, dismissed in April 2016. 'Виктор Трепак: "Я передал в НАБУ доказателства тотальної корумпированності влади"', ZN.ua, 27 May 2016, <http://gazeta.zn.ua/internal/viktor-trepak-ya-peredal-v-nabu-dokazatelstva-totalnoy-korrum-pirovannosti-vlasti-.html>



**Konstantin Grigorishin**, a Ukrainian entrepreneur with a Russian passport, is another oligarch with very close ties to President Poroshenko. He started his career in the 1990s by selling metallurgic products to Russia, but nearly all of his business assets, worth an estimated US\$1.2 billion according to Forbes, are located in Ukraine.<sup>17</sup> Among other business interests, Grigorishin controls 75% of shares in Zaporozhtransformator, Europe's largest transformer manufacturer; 15% of shares in Turboatom, which manufactures steam turbines for thermal and nuclear power plants; Dneprospetsstal; and the Ukrriichflot holding which owns several river ports. Despite the crisis, most of these companies have been among Ukraine's most profitable businesses. Grigorishin moreover holds stakes in 9 out of Ukraine's 25 *oblgazes*, i.e. regional gas distribution companies,<sup>18</sup> making him one of the most important players in Ukraine's energy sector. He has been active in politics for the last dozen years or so; for example, he financed the Communist Party before 2012 and Viktor Medvedchuk's SDPU(u) party before the Orange Revolution. In the years 2008–2009 he was banned from entering Ukraine at the request of the SBU.

Grigorishin has been involved in business co-operation with Poroshenko for around ten years; for example the two men co-owned the Sevastopol dockyard (nationalised by the Russian government in 2015), control a six-hectare plot in central Kyiv, and tried to buy out the Inter television station together in 2007. Grigorishin's influence in the Ukrainian economy, especially the energy sector, increased after Poroshenko was elected president. In late 2014 Yuriy Kasich, who had previously worked for Grigorishin's companies, was appointed, at Grigorishin's recommendation, as the CEO of Ukrenergo, the state-owned electricity grid operator. He was dismissed several months later in the aftermath of a scandal that erupted after a company of Grigorishin's won Ukrenergo's

<sup>17</sup> <http://www.forbes.ru/profile/konstantin-grigorishin>

<sup>18</sup> He holds controlling stakes only in the Vinnytsia and Zaporizhia companies.

large tender for the supply of transformers, which according to market experts were redundant and sold at an excessive price. The close ties between Poroshenko and the Russian oligarch Grigorishin have been regularly criticised by the Ukrainian media, and the man himself was referred to as an ‘FSB agent’ by the then prime minister Yatsenyuk.<sup>19</sup> However, the oligarch clearly seems to feel that his position is safe; for instance, he put himself forward as a candidate to take the post of head of the presidential administration in late 2015. Grigorishin’s efforts to expand his business interests in the Ukrainian electricity sector also put him on collision course with Boris Lozhkin, the presidential administration chief who said in an interview that the oligarch “did not like the fact that I did not support his efforts to influence processes in the Ukrainian energy sector. I believe that the state is the state, and private business is private business.”<sup>20</sup> Since the beginning of this year, Grigorishin has been experiencing some legal troubles: an investigation into alleged tax evasion has been launched against one of his companies at the initiative of the interior minister Arsen Avakov, who is a member of Yatsenyuk’s party. In any case, it is quite incredible that Poroshenko still has not distanced himself from Grigorishin.

Poroshenko also has close links to another oligarch, **Yuriy Kosiuk**, the main stakeholder in Myronivsky Khliboprodukt, one of Ukraine’s largest agriculture and food concerns (360,000 hectares of agricultural land, producing mostly cereals and poultry), which is listed on the London Stock Exchange. Kosiuk’s assets are estimated at around US\$1 billion. The nature of his relations with the president is unclear, but they are probably based on the fact that large parts of both men’s business assets are concentrated in

<sup>19</sup> Страсти по Григоришину: олигарх оказался в российском розыске, Forbes.ua, 8 February 2016, <http://forbes.net.ua/business/1410530-strasti-po-grigorishinu-oligarh-okazalsya-v-rossijskom-rozyske>

<sup>20</sup> Interview with Boris Lozhkin, *Dzerkalo Tyzhnya*, 13 November 2015, <http://gazeta.zn.ua/internal/glava-administracii-prezidenta-boris-lozhkin-k-gos-sluzhbe-otnoshus-kak-k-sluzhbe-v-armii-.html>

the Vinnytsia oblast. Shortly after he was elected president, Poroshenko appointed Kosiuk as deputy chief of his administration, in charge of supervising the security and defence block. The nomination was quite surprising because the oligarch had no previous experience in that area. He was dismissed in December 2014 after facing mounting criticism over lobbying for his own company (with regard to VAT reimbursements among other things) and ignoring state defence issues. Nonetheless, Kosiuk seems to have maintained good contacts with Poroshenko, who has since appointed him as his advisor. In early 2016, the oligarch gave an interview in which he criticised the EU Association Agreement, arguing that it only benefited the European Union.<sup>21</sup> Kosiuk has a strong position in the Ukrainian agrarian lobby, which accounts for a quarter of Ukraine's exports and has been recently growing in strength.

The business interests of President **Petro Poroshenko**, who also used to be regarded as a (second-rank) oligarch before the Maidan, deserve separate attention. Poroshenko has not yet delivered on his campaign promise to sell all his businesses (except for Channel 5), which are worth an estimated US\$1.5 billion. The officially stated reasons concern the crisis and the unfavourable market situation, which have driven down the value of Poroshenko's companies, including the most prized one, Roshen (Poroshenko claims that he could sell the company for US\$3 billion, while Nestle has offered him US\$1 billion, which experts say is a reasonable market price). It was only in late 2015 that Roshen was put in a so-called blind trust with a Western investment bank. The company has expanded considerably over the last two years, and its revenues have increased. The small International Investment Bank controlled by Poroshenko

<sup>21</sup> For instance, Kosiuk said that Ukraine "had been cheated (...) this is no free trade area" because the EU has not opened its markets for Ukrainian agricultural products to the extent that had been expected. Юрій Косюк: «Зона вільної торгівлі з Європою це обман України», voanews.com, 17 January 2016, <http://ukrainian.voanews.com/a/yuriy-kosyuk-eu/3149549.html>

also managed to expand its holdings by as much as 85% in the first year of the president's term, despite the deep crisis affecting the Ukrainian banking sector.<sup>22</sup> However, it is difficult to pinpoint any specific measures taken by the government that favoured Poroshenko's business interests. The Ukrainian media, which thoroughly and critically observe his business activity, have also been silent about it. The greatest scandal in which the Ukrainian president has been implicated concerns the information that emerged about him from the Panama Papers in April 2016. The leaked documents showed that Poroshenko had registered a company called Prime Asset Partners in the British Virgin Islands to act as a managing holding for Roshen on 21 August 2014, i.e. after he had already been elected president. While the revelations delivered a major blow to his image and triggered criticism from some of his political opponents, the registration of a company did not in itself constitute a violation of any laws, and the president managed to emerge unscathed from the scandal.

## **2. The business-political circle of Arseniy Yatsenyuk and the People's Front**

The People's Front emerged from the general election in October 2014 as the second-largest parliamentary club with 81 deputies, and as a result its leader Arseniy Yatsenyuk was able to retain his post as prime minister (he had been first appointed as PM in February 2014). Even though he was forced out in April 2016, he managed to negotiate favourable conditions for his resignation and remains one of the most influential politicians in Ukraine. The main reason for this is because the Poroshenko Bloc has no alternative to co-operating with the People's Front. Indeed, the Front's influence in the Groyzman cabinet is even stronger than before.

<sup>22</sup> Банк Порошенко растет быстрее рынка, LB.ua, 11 February 2015, [http://economics.lb.ua/finances/2015/02/11/295223\\_bank\\_poroshenko\\_rastet\\_bis-tree\\_rinka.html](http://economics.lb.ua/finances/2015/02/11/295223_bank_poroshenko_rastet_bis-tree_rinka.html)

The foreign minister Arsen Avakov and justice minister Pavlo Petrenko have kept their positions, while other Front members have been appointed as the ministers for the environment and education and the deputy minister for European integration. Andriy Parubiy, one of the People's Front's leaders, is the *Verkhovna Rada* speaker, and Oleksandr Turchynov, the party's second most important person, has kept his job as head of the National Security and Defence Council.

The group of Arseniy Yatsenyuk's closest aides includes **Andriy Ivanchuk**, deputy chief of the People's Front parliamentary club and chair of one of the *Verkhovna Rada*'s most important committees, the committee for economic policy. The two men's acquaintance dates back to when they both studied law at the university in Chernivtsi in the early 1990. It was also at that time that they launched their first business projects together. Since then, their biographies have been intertwined. After Yatsenyuk started his fast-track political career in 2001, Ivanchuk became the curator of his business interests. While Yatsenyuk served as the minister for economy (2005–2006), Ivanchuk was appointed as deputy CEO of the state-owned Energy Company of Ukraine, which controlled power plants accounting for nearly a third of Ukraine's total electricity production. Later he became the chief of another state-owned company, the electricity exporter Ukrinterenergo.

When Yatsenyuk founded his own party, the Front for Change in 2009, Ivanchuk became its leader. In the new parliament, Ivanchuk, who like Kononenko had been little known to the public before, is one of the most influential persons. His duties include maintaining discipline in the party and managing contacts with big business. The Ukrainian media have repeatedly reported about Ivanchuk acting as the go-between for Yatsenyuk and the oligarchs, especially Kolomoyskyi and Akhmetov. It was Ivanchuk who in 2015 blocked the adoption of amendments to the joint stock companies bill which would have harmed Kolomoyskyi's interests

in Ukrnafta. By the way, Kolomoyskyi and Ivanchuk are business partners in a bioethanol manufacturing company.<sup>23</sup>

Ivanchuk also holds a number of other business assets, mainly in the foods, fuels, agriculture and solar energy sectors. However, the value of these assets is difficult to estimate. After the Maidan, he started to expand his influence into some state-owned companies, including Ukrspirt, Ukraine's largest alcohol manufacturer. According to the Ukrainian media, Ivanchuk had developed a large-scale scheme to smuggle Ukrainian alcohol, in which he allegedly partnered with Yuriy Ivanyushchenko, an oligarch with close links to the Yanukovych family.<sup>24</sup> Allegations have also been publicly levelled at Ivanchuk by the Odessa oblast governor Mikheil Saakashvili, who accused the oligarch of corruption on a massive scale.<sup>25</sup> However, that did not affect Ivanchuk's political position in any way. Meanwhile, Ukrspirt is being prepared for privatisation.

Ivanchuk has links to another oligarch, **Leonid Yurushev**, one of the least publicly known among Ukraine's major entrepreneurs. Yurushev started his career in the 1990s in the Donbas where he was a member of the criminal group led by Akhat Bragin (the then 'godfather' of Donbas), and has subsequently co-operated with Rinat Akhmetov and Viktor Yanukovych, among others. In 2009 he sold his Forum bank to Germany's Commerzbank and invested some of the proceeds in development projects in Kyiv (a luxury hotel chain). Currently Yurushev also owns a number of industrial companies, including in the rail car and transport

<sup>23</sup> Ігор Коломойський: Мої розмови пишуть Львовчкін з Пінчуком, pravda.com.ua, 5 March 2015, <http://www.pravda.com.ua/articles/2015/03/5/7060596/>

<sup>24</sup> Герои большого спирта, glavcom.ua, 29 October 2015, <http://glavcom.ua/publications/132247-geroi-bolshogo-spirta.html>

<sup>25</sup> Саакашвили оценил потери бюджета от олигархов в 5 миллиардов долларов, epravda.com.ua, 6 December 2015, <http://www.epravda.com.ua/rus/news/2015/12/6/571099/>

sector (Dizelnyi Zavod in Kryvyi Rih, Dneprovagonremstroy near Dnipro and Interlizinvest, one of Ukraine's largest private rail transport and forwarding companies). His wealth was estimated at US\$900 million in 2014. For several years Yurushev has been considered to be the main sponsor of Yatsenyuk's party, which Ivanchuk officially admitted recently.<sup>26</sup> Since the Maidan, companies controlled by the oligarch have won several lucrative public tenders, including the biggest ones organised by Ukrzaliznytsia (UZ), the Ukrainian railways. The latter company's deputy CEO between 2014 and February 2016 was Maksym Blank, who had previously worked as a manager in Yurushev's companies and who was accused of blocking reforms in UZ and preserving the longstanding corruption patterns in that huge company (UZ accounts for around 3% of Ukraine's GDP). In 2015 his company won a tender for the operation of duty free shops in the Boryspil airport near Kyiv.<sup>27</sup> Yurushev also runs some businesses jointly with Andriy Ivanchuk. The change of ownership of Kreativ, one of Ukraine's big agricultural and foods holdings (which manufactures plant fats among other commodities and holds around 30,000 hectares of land), was effected last year, probably in order to serve the interests of Yurushev and Ivanchuk.<sup>28</sup>

**Mykola Martynenko**, who co-chaired the People's Front before December 2015, is Arseniy Yatsenyuk's second most influential aide. He is a well-known figure in Ukrainian politics; from 1998 until the end of 2015 he served as deputy to the *Verkhovna Rada* (initially representing Yushchenko's Our Ukraine, and then

<sup>26</sup> Андрій Іванчук: Яценюк мені ніколи нічого не пропонував, pravda.com.ua, 9 February 2016, <http://www.pravda.com.ua/articles/2016/02/9/7098391/>

<sup>27</sup> А. Іванцова, Інфраструктура для олігарха Леоніда Юрушева, Radio Svoboda, 30 October 2015, <http://www.radiosvoboda.org/content/article/27335723.html>

<sup>28</sup> В. Стародубцев, Друзья Яценюка становятся миллиардерами-переработчиками, DSnews.ua, 7 September 2015, <http://www.dsnews.ua/politics/druzya-yatsenyuka-stanovyatsya-milliardderami-pererabotchikami-05092015105200>

*Batktivshchyna*), and from 2006 till the end of 2015 he chaired the Rada committee for the fuels and energy complex of Ukraine, one of the most important committees in the parliament. Keeping that post under three consecutive governments must have required considerable political skill, proving that Martynenko is a man who can come to terms with practically any government. Since 2011, Martynenko has been a member of Yatsenyuk's party. For the last few years he has been regarded as the main political 'supervisor' of Energoatom, the state-owned operator of all Ukrainian nuclear power plants which account for half of the country's total electricity output. In April 2015 Mykola Gordienko, the chief of the State Financial Inspection (PIF), publicly accused Yatsenyuk of having taken over and protecting the Yanukovich-era corruption mechanisms. He said that Mykola Martynenko was co-responsible for numerous irregularities and embezzlement at Energoatom, worth around €50 million. Gordienko estimated that the state budget had lost more than 7.5 billion hryvnia (around US\$300 million) as a result, also also pointed to irregularities in other state-owned companies overseen by Yatsenyuk's people (including Ukrgezvydobuvannya, the Ukrainian Railways and the Ukrainian Post), detected in the course of PIF checks.<sup>29</sup> He claimed that the government had been obstructing investigations into corruption schemes that existed under the previous government. The only result of these allegations was that the PIF chief was forced to resign and the affair was swept under the carpet. However, bringing the crisis under control was only possible thanks to an informal deal between the prime minister and the president, who controls the prosecutor's office.

In late 2014 the Czech press reported that Swiss prosecution authorities had launched an investigation against Martynenko,

<sup>29</sup> Документи Гордієнка: що відсторонений голова Держфінінспекції надав депутатам, pravda.com.ua, 8 April 2015, <http://www.pravda.com.ua/news/2015/04/8/7064163/>



who was accused of accepting a bribe of US\$30 million from the Czech Republic's Škoda JS in return for ensuring the company was awarded a contract for the supply of devices to Energoatom.<sup>30</sup> Martynenko resigned as deputy in December 2015 but the Ukrainian prosecutor's office has yet to interrogate him.<sup>31</sup> The chief of the National Anti-Corruption Office has publicly said that the prosecutor's office was blocking the transfer of documents concerning the investigation against Martynenko.<sup>32</sup> His business interests also extend to other state-owned companies, the largest of which include the Odessa Port Plant, a giant chemical company, and the United Mining and Chemical Company. How many companies Martynenko owns privately is not known. What we do know is that he owns Austria's Antra GMBH, one of the main importers of gas to Ukraine, which supplies gas to the Odessa Port Plant mentioned above.<sup>33</sup> The Ukrainian media have repeatedly accused Martynenko of corruption and of being Yatsenyuk's *de facto* 'treasurer', but these revelations have achieved nothing. Responding to the allegations, the oligarch said in a rare interview that the aim of the campaign to discredit him was to "destabilise the state" and "defend the oligarchs' interests".<sup>34</sup>

<sup>30</sup> Chef der ukrainischen Atombehörde soll in der Schweiz Geld verstecken, *Sonntag Zeitung*, 22 March 2015, [http://www.sonntagszeitung.ch/read/sz\\_22\\_03\\_2015/nachrichten/Chef-der-ukrainischen-Atombehoerde-soll-in-der-Schweiz-Geld-verstecken-30868](http://www.sonntagszeitung.ch/read/sz_22_03_2015/nachrichten/Chef-der-ukrainischen-Atombehoerde-soll-in-der-Schweiz-Geld-verstecken-30868)

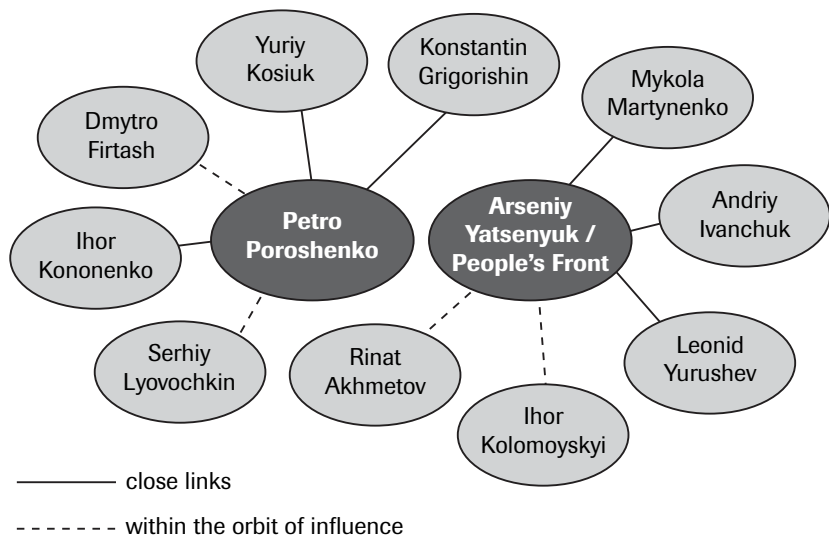
<sup>31</sup> С. Мусаева-Боровик, А. Самофалов, Ядерное обогащение Николая Мартыненко, *pravda.com.ua*, 9 November 2015, <http://www.pravda.com.ua/rus/articles/2015/11/9/7087675/>

<sup>32</sup> Артем Сытник: "Гарантии независимости НАБУ в законе соблюдены. Ответственность — на мне и моей команде", *ZN.ua*, 3 March 2016, <http://gazeta.zn.ua/internal/artem-sytnik-garantii-nezavisimosti-nabu-v-zakone-soblyudeny-otvetstvennost-na-mne-i-moey-komande-.html>

<sup>33</sup> Новый тренд. Частный бизнес осваивает импорт газа из ЕС, *Liga.net*, 4 March 2016, <http://biz.liga.net/all/tek/stati/3271195-novyuy-trend-chastnyy-biznes-osvaivaet-import-gaza-iz-es.htm>

<sup>34</sup> Мартиненко звинуватив у кампанії проти себе олігархів, *BBC*, 30 November 2015, [http://www.bbc.com/ukrainian/news\\_in\\_brief/2015/11/151130\\_vs\\_martynenko\\_statement](http://www.bbc.com/ukrainian/news_in_brief/2015/11/151130_vs_martynenko_statement)

**Chart 5. Links of the main oligarchic groups in Ukraine**



### III. THE DE-OLIGARCHISATION THAT NEVER HAPPENED

Several weeks before he stepped down as prime minister, Arseniy Yatsenyuk said: “We have managed to destroy the systemic, mafia-style corruption at the very top of government.”<sup>35</sup> A closer look at the situation in Ukraine’s politics and the economy, and at the relationships between the government and big business, shows that this is purely wishful thinking. The oligarchic system, which intrinsically involves corruption and informal ties between the oligarchs and the top tiers of government, did not disappear after the Maidan; it merely evolved slightly to adapt to the new political situation. The long-established main oligarchic groups started more or less close co-operation with the government elite, which needed their support and was at the same time too weak or lacked the political will to really undermine the oligarchs’ positions. It is true that most of the ‘old’ oligarchs emerged considerably weaker after 2014 (partly as a result of the economic crisis in Ukraine), no longer enjoy the same level of influence on the government, and cannot participate in public procurement on the same scale as before. However, they nonetheless continue to rank among the most influential actors in Ukrainian politics. As a result, despite some reshuffling, the oligarchic system again persisted, as it did in the aftermath of the Orange Revolution in 2004.

The post-Maidan oligarchic system is mainly characterised by a tactical alliance between the major ‘old’ oligarchs and either President Poroshenko’s camp or the group of Arseniy Yatsenyuk, i.e. the two strongest centres of political power in Ukraine. The oligarchs Dmytro Firtash and Serhiy Lyovochkin are among those who have built up close relations with the president’s circle, while

<sup>35</sup> Усі антикорупційні органи повинні нещадно боротися з політичною корупцією, - Арсеній Яценюк, Km.gov.ua, 21 February 2016, [http://www.kmu.gov.ua/control/uk/publish/article?art\\_id=248845249&cat\\_id=244276429](http://www.kmu.gov.ua/control/uk/publish/article?art_id=248845249&cat_id=244276429)

Ihor Kolomoyskyi and Rinat Akhmetov have associated themselves with Yatsenyuk's circle. This alliance benefits both sides. The government officials have gained the support of important deputies from the oligarchic groupings in the *Verkhovna Rada*, as well as informal sources of financing and media support (which was particularly important in view of the parliamentary and local elections). In return, the oligarchs were granted personal safety, protection for their businesses and the ability to continue lobbying for their business interests. Because of this forced symbiosis, the new leadership of Ukraine has chosen not to revise the Yanukovich-era privatisations, of which the oligarchic groups were the main beneficiaries.

As in the previous period, after the revolution the oligarchs again started exploiting their advantage over the politicians. In a poorly managed state with an ineffective and corrupt bureaucracy, they are the best-organised group that is also best-prepared to govern. They can afford to use expensive legal counsel or hire lobbyists, and they have at their disposal their own powerful television stations which have practically dominated the Ukrainian media market. Yet in order to ensure that their businesses are protected, the oligarchic groups constantly need to use tools only available to state authorities, which means that they have had to find some common ground with the political leadership. It should be noted in this context that the oligarchs do not have any constant allies among the political parties, but instead, enter temporary deals that are subject to revision depending on what is needed to safeguard one's interests at the given moment.

As a result of the 'old' oligarchs entering alliances with the political camps of President Poroshenko and Arseniy Yatsenyuk & his People's Front, a bipolar arrangement has formed within the oligarchic system, which translates directly into the balance of power in Ukrainian politics. Thus, the oligarchs' co-operation with the government has led to the formation of a specific type of

pluralism.<sup>36</sup> The ‘old’ oligarchs’ efforts to find protection for their business interests also contributed to this outcome – the co-operation between Rinat Akhmetov and Arseniy Yatsenyuk’s circle is a case in point: the oligarch’s interests in the electricity sector, in which he had been the dominant actor for many years, had come under threat as a result of the expansion of people with links to President Poroshenko, i.e. Ihor Kononenko and Konstantin Grigorishin, who were seeking to gain more influence in that sector.

This bipolar arrangement survived the change of prime ministers when Arseniy Yatsenyuk stepped down and was replaced by Volodymyr Groysman, President Poroshenko’s trusted man. After lengthy negotiations, Yatsenyuk was, however, able to resign on favourable conditions for his party and its business base. As a result, the balance of power that had formed over the last two years between the major political players and the oligarchy was preserved, although it can hardly have been said to become more stable. There is nothing to suggest that Prime Minister Groysman will be willing or able to change the rules according to which the system operates, especially since the new coalition only has a thin majority in the *Verkhovna Rada*, and in many votes it will have to look for additional support from the oligarchic factions – and pay the price for doing so. Another indication that the *status quo* between the government and the oligarchs will continue comes from a statement by Groysman who said that “the same rules should apply to the oligarchs (...), exclusively market mechanisms, no preferences (...). The position of the oligarchs should be as follows: let them take care of the country’s economic development and not interfere in [the government’s] affairs”.<sup>37</sup> Such an approach rules

<sup>36</sup> To some extent this resembles the situation after 2004, when some of the oligarchs threw their weight behind Viktor Yushchenko and others backed Yulia Tymoshenko, but at that time there also existed a third pole – the camp of Viktor Yanukovich and the oligarchs around him.

<sup>37</sup> Володимир Гройсман: Якщо придуть на обід Коломойський, Ахметов, Пінчук, Григоришин - тікати?, pravda.com.ua, 16 May 2016, <http://www.pravda.com.ua/articles/2016/05/16/7108560/>

out any radical action against the oligarchs, although it does display an intention to cautiously and slowly 'civilise' the oligarchic system. Given the current political context in Ukraine, however, that means that no change whatsoever will happen, and the situation which emerged after the Maidan will continue.

The processes which allowed the 'old' oligarchic groups to retain much of their former influence and the rules governing Ukrainian politics to remain unchanged overlapped with the emergence, in the aftermath of the Revolution of Dignity, of new political-business groups around the two major centres of political power in Ukraine. Since 2014, people from these groups have been able to take operational control over many of the most important state-owned companies. They have managed to gain control those companies' financial flows while *de facto* assuming no responsibility for those companies' performance, and have been able to take convenient starting positions ahead of the planned privatisations of many of the businesses in question, thanks to their control of the key parliamentary committees, ministries and state agencies. This is also one of the reasons why the main political players are currently not interested in early parliamentary elections. For the new government and its business backers, privatisation offers an opportunity to acquire lucrative business assets for a fraction of their real value because the economic crisis has driven the prices down. Moreover, they are in a position to manipulate the access of potential rivals to the privatisation procedures. And because there are few not-yet-privatised businesses left in Ukraine, the battle over who will acquire them is now entering a decisive phase, which will inevitably generate conflicts. The business base of the 'new' oligarchs, however, is considerably weaker than that of the 'old' oligarchs. The former usually do not own any major business assets, but merely manage state-owned property, and – crucially – do not control any of the major television stations, which are an important political instrument in Ukraine. The fact that the monopoly of the traditional players in the media market has not been overcome is another reason why the 'new' oligarchs

and the politicians associated with them have had to reach some kind of agreement with those who control the television stations.

The still robust oligarchic system and the Ukrainian leadership's inability and lack of political will to really challenge it have been directly affecting the reform process in Ukraine. After the Maidan, Ukraine found itself in a paradoxical situation – on the one hand, members of the new government are fully aware that they have to reform the system because that is what the people (and the West) expect, and is objectively necessary in view of the fact that the post-Soviet economic and political model has exhausted its potential. On the other hand, however, they are unable to consistently pursue reforms because they themselves are products of the system.<sup>38</sup> Most of the leading politicians who have been in power in Ukraine since 2004 were shaped in the 1990s and have already held high state offices in several previous governments. It can therefore hardly be said that a new political elite has come to power in Ukraine and, as a result, what the country gets is adaptation and adjustments instead of earnest attempts at structurally changing the situation.

The fragmentary reforms carried out so far have not curbed oligarchic influence to any significant degree. Even the positive solutions adopted by the *Verkhovna Rada*, which should have undermined the oligarchs' clout, have been watered down or delayed (for example, there have been attempts at delaying the start of the anti-corruption institutions' operations, and the introduction of public financing of political parties has been postponed until 2017). Thanks to the President's control of the General Prosecutor's Office, it has been possible to effectively thwart some inconvenient investigations. Neither has any substantial deregulation of the economy taken place, which could have created the right

<sup>38</sup> M. Seddom, Washington's Man In Ukraine Can't Stop His Country's Corrupt Cronies, *BuzzNews*, 21 October 2015, [https://www.buzzfeed.com/maxseddom/washingtons-man-in-ukraine-cant-stop-his-countrys-corrupt-cr?utm\\_term=.oxMXzvm40#.maQrmG1Ao](https://www.buzzfeed.com/maxseddom/washingtons-man-in-ukraine-cant-stop-his-countrys-corrupt-cr?utm_term=.oxMXzvm40#.maQrmG1Ao)

conditions for the development of small- and medium-sized enterprises and undermined the preferential conditions on which the oligarchic businesses operate. The experience of the last dozen or so years proves that the oligarchic economic model cannot provide a viable alternative to an effectively functioning market because it cannot create stable sources of growth. On the contrary, the oligarchs, who have taken over entire economic sectors, have been mainly interested in maximising their profits and have cared little about the development and modernisation of their businesses. As a result of this extensive and anti-development economic model, none of the big business-dominated sectors of the Ukrainian economy has undergone any modernisation.

More than two years after the Maidan, the new government has yet to deliver on one of its key promises – to strip the oligarchic groups of influence as part of a deep reform process. While the highest-ranking members of the Ukrainian leadership regularly re-assert their commitment to de-oligarchisation in their policy statements, little is being done to actually achieve that goal. Given the scale of their observable lack of political will to do anything to that end, one should presume that the oligarchs will keep their influence as long as the current balance of power in Ukrainian politics prevails. Some more or less serious conflicts may emerge between the government and individual oligarchs, but this will not affect the system in any significant way.<sup>39</sup> Moreover, even if a snap election were to be held in the coming months, it would be very unlikely to lead to a qualitative change in the *Verkhovna Rada* and elevate parties free of oligarchic influences to power. That is because, faced with costly election campaigning, each of the major political parties would need to reach for the financial

<sup>39</sup> Ihor Kolomoyskyi was therefore right to say that in the present conditions, “Ukrainian de-oligarchisation meant taking business assets away from some oligarchs and giving them to other oligarchs”. Игорь Коломойский: «Я не готов к тому, чтобы мне сказали правила и я стал по ним жить, а Кононенко - нет», LB.ua, 3 December 2015, [http://lb.ua/news/2015/12/03/322600\\_igor\\_kolomoyskiy\\_ya\\_gotov\\_tomu.html](http://lb.ua/news/2015/12/03/322600_igor_kolomoyskiy_ya_gotov_tomu.html)



and media support of the oligarchic groups, and would have to put the oligarchs' representatives in its election lists in return. In view of the general weakness of the state and the other, previously described instruments of oligarchic influence, this means that in the foreseeable future, the oligarchs will continue to act as important 'stakeholders' in Ukrainian politics, in which they hold a blocking package.

**WOJCIECH KONOŃCZUK**