

YEKHURANOV REFERS TO OLIGARCHS AS "NATIONAL BOURGEOISIE"

By Taras Kuzio

Once reviled by reformers, Ukraine's wealthy business oligarchs are now being described as a "national bourgeoisie" by top government officials.

After much controversy and debate, on October 24 Kryvorizhstal, Ukraine's largest steel mill, was re-privatized in proceedings that were transparent and widely praised. The Ukrainian media hailed the transaction as marking the "end of the oligarch era" in Ukraine (State TV Channel 1, October 24). In June 2004, Kryvorizhstal was sold to Viktor Pinchuk, son-in-law of then-President Leonid Kuchma, and Donetsk oligarch Renat Akhmetov for \$800 million. That tender blocked foreign investors.

Several companies were re-privatized this summer by the government of then-Prime Minister Yulia Tymoshenko. Kryvorizhstal's sale to the Dutch company Mittal Steel this week increased the price six fold to \$4.8 billion. An editorial in the Financial Times (October 26) described the re-privatization as being "achieved through a fair and open process."

Four days earlier the Ukrainian parliament had attempted to block the re-privatization. Some 257 deputies (out of 450) from the former Kuchma centrist camp and the left voted in favor of a non-binding resolution on the issue. Left-leaning political forces sought to keep Kryvorizhstal in state hands, and the head of the State Property Fund, Socialist party member Valentyna Semeniuk, resigned to protest the re-sale.

Throughout 2005 the Orange Revolution coalition has been sharply divided over the extent of Ukraine's re-privatization drive. As prime minister, Tymoshenko at one stage called for 3,000 re-privatizations. Yushchenko, and his new Prime Minister Yuriy Yekhanurov, support a minimum number of re-privatizations.

The Financial Times (October 26) backed the Yushchenko-Yekhanurov approach, writing, "Ukraine's review of past privatizations must be limited in scope, governed by transparent rules, and completed within a clearly stated, and very brief, time." Furthermore, the newspaper recommended that re-privatizations be limited to a few "well-managed" deals that could raise state

funds. More importantly, the re-sales should shift ownership away "from a small clique of oligarchs."

One test case could be the stalled re-privatization of the Nikopol Ferroalloy plant, which was also owned by Pinchuk. The Tymoshenko bloc recently issued a statement calling for its re-privatization from Pinchuk (Ukrayinska pravda, October 27). Yushchenko had earlier accused the Tymoshenko government of not remaining neutral in the Nikopol re-privatization, by siding with a Pinchuk rival, the Privat oligarch group.

The Financial Times recommendations would keep Kyiv from treating Ukraine's oligarchs in the same manner that Moscow treated Russia's oligarchs. A summer 2000 meeting between Russian President Vladimir Putin and Russian oligarchs led to an agreement whereby the government would not undertake any privatizations and the oligarchs would stay out of politics. Subsequent re-privatization deals have targeted those oligarchs who continued to play a role in politics, notably Mikhail Khodorkovsky. Yet the underlying system that had created the Russian oligarchy was never reformed. Russia's oligarchs continue to control three-quarters of the economy, and corruption has actually grown under Putin (Economist, October 21).

Yushchenko held his own summit with Ukraine's oligarchs in mid-October. He demanded that the oligarchs play by the rules of the game, contribute more to the budget by paying more taxes, end their corrupt practices, move out of the shadow economy, and repatriate their capital from offshore shelters (Ukrayinska pravda, October 14).

Yushchenko called upon the oligarchs to evolve from robber-baron capitalists to legitimate businessmen. "We should do everything so that the 'playing field' between the authorities and business is clear and well laid out," Yushchenko said (Ukrayinska pravda, October 14).

Prime Minister Yekhanurov went one step further. He lauded the fact that the "national bourgeoisie are sitting at the same table with the president. This is an attempt at instituting dialogue from both sides and moving towards each other" (Ukrayinska pravda, October 14).

Yushchenko sharply criticized the populist policies of the Tymoshenko government, which presided over plummeting economic growth. Yushchenko held out an olive branch to the oligarchs consisting of no mass re-privatization, an amnesty on capital flows out of the country, mutual trust, and positive government attitudes towards business.

For the oligarchs present at the meeting, their greatest fear -- which led them to oppose Yushchenko's candidacy last year -- was re-privatization. The meeting confirmed that there would be no further talk of re-privatization.

Pinchuk reiterated, "We need to end that talk about re-privatization!" (Ukrayinska pravda, October 15).

Nevertheless, there is still the possibility of a windfall tax on the largest of the fraudulently conducted privatizations in the Kuchma era. A one-off windfall tax would attempt to make up the difference between the low price paid and the real market value.

Yushchenko's meeting with the oligarchs did not completely follow the Russian model. Unlike Putin, Yushchenko never demanded that the oligarchs would stay out of politics. So far, Pinchuk is the only Ukrainian oligarch to declare that he would not seek re-election to parliament in 2006.

Other Ukrainian oligarchs remain politically active. Akhmetov is reportedly still a major backer of Regions of Ukraine, the oligarch party of the Donetsk clan. Hryhoriy Surkis continues to work with Viktor Medvedchuk through the Social Democratic Party-United, although the party's low popularity (currently 1%) makes it unlikely to win seats in the new parliament.

After the meeting with Yushchenko, Surkis commented that, during the Kuchma era, "Oligarchs as businessmen were usually described by society as practically an enemy of the people" (Ukrayinska pravda, October 15). Surkis can now rest easy, as he, alongside other former Ukrainian oligarchs, now belong to a "national bourgeoisie" courted by the Ukrainian president.