

Gas, corruption and non-transparency

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The Ukrainian owners of the shady gas intermediary that was established to supply Turkmen gas to Ukraine and Europe have been revealed.

The Russian newspaper Izvestia reported that Dmytro Firtash and Ivan Fursin together control 50 percent of RosUkrEnergo (RUE). Their shares are held through Centragas Holding and administered by Austria's Raiffeisen banking group. The other 50 percent share in RUE, owned by Russian gas giant Gazprom, is held through Arosgas, which along with Centragas is registered in Austria.

In July 2004, RUE replaced Hungarian-registered Eural Trans Gas (ETG), which had handled gas imports to Ukraine in 2003-2004. ETG had itself succeeded a company called Itera, another foreign-registered gas trader.

On April 26, Izvestia cited an audit of RUE by PricewaterhouseCoopers.

Another top-four international auditing firm, KPMG, had refused the job for fear of its reputation.

The Russian newspaper article's timing was no coincidence, nor was the choice of Izvestia, which is owned by Gazprom. The leak came days after the U.S. Justice Department had revealed it was investigating links between RUE and organized crime. The Izvestia leak was coordinated with Firtash going public to the Financial Times and The Wall Street Journal.

Both Gazprom and the Ukrainian authorities had long claimed that they did not know who the 50 percent Ukrainian shareholders in RUE were. State-owned Gazprom was being deceptive, as RUE had been established, like its predecessor ETG, with the personal support of Russian President Vladimir Putin and then-Ukrainian President Leonid Kuchma.

On March 1, 2005, Ukrainian President Viktor Yushchenko said he still hadn't received information about RUE's owners. This is curious, as on Jan. 31, Ukraine's Antimonopoly Committee announced that RUE had provided it with information about its owners. But, the AMC claimed this information was "confidential".

On Feb. 1 this year, Yushchenko said that, based on information supplied to him by the AMC and the State Security Service, "there is no Ukrainian structure behind the enterprise." This sounds like Yushchenko knew who the owners were, even though he denied it a month later.

The Ukrainian authorities could have demanded to know the Ukrainian shareholders at the gas talks held with Moscow in January, but they didn't, or at least said they didn't. How could Ukrainian negotiators fail to notice Firtash's involvement in the

gas deal struck with Moscow this past January, which resulted in gas imports to Ukraine doubling in price?

Since then, the Ukrainian authorities have been disinclined to find out who's behind RUE, lest the names reveal continuing tolerance of corruption in Ukraine's energy sector. Herbert Stepic, head of Raiffeisen International, said on April 24 that the Ukrainian and Russian governments "have always known who the owners are."

RUE predecessor ETG was reportedly run by top Kuchma advisor Serhiy Levochkin. Levochkin and Fursin were both in parliamentary speaker Volodymyr Lytvyn's election bloc, which failed to make it into parliament in the March elections. Lytvyn had been head of the presidential administration until becoming parliamentary speaker in 2004.

According to a report by the Internet site Ukrayinska Pravda, part of Fursin's 5 percent share in RosUkrEnergo goes to Kuchma. During Yushchenko's presidency, Kuchma has not been questioned for abuse of office or other crimes in which he was allegedly involved.

Widespread suspicion points to Kuchma being given immunity during negotiations in December 2004, possibly at the insistence of the EU. If true, Kuchma's immunity also came with a large unofficial 'pension' from RUE.

According to Ukrayinska Pravda, Firtash is the link between RUE and ETG. Firtash's main business offices (High Rock Holdings) are in Moscow and offshore Cyprus, meaning most of Ukraine's 50 percent share in RUE is run by a businessman from Moscow.

Firtash's business partner, according to Ukrayinska Pravda, is deputy head of Ukraine's state oil and gas company, Naftogaz Ukrainy, Ihor Voronin, who also played a role in the January gas agreement. Voronin, according to this same report, has ties to the Russian FSB and was the go-between in the Kuchma era between Russia and Ukraine in energy talks.

Voronin, one of the founders of RUE, was removed as deputy head of Naftohaz Ukrainy by the government of former Prime Minister Yulia Tymoshenko, only to be reinstated with the support of top Yushchenko advisor Oleksandr Tretyakov, his longtime friend. Voronin is also acting head of the newly established UkrGaz-Energo, a joint venture between RUE and Naftohaz Ukrainy.

In The Wall Street Journal, Firtash admitted that a company he had controlled once had as a shareholder Semyon Mogilevich's wife, whose shares he took over. Mogilevich is an organized crime fugitive from the FBI living in Moscow, where he has official protection.

Speaking in London, Firtash further admitted: "I have met Mogilevich a few times. But I have never been in any partnership with him and have never done any business with him."

Yushchenko expressed surprise at the Izvestia article and asked to see a copy of the PricewaterhouseCoopers audit. Why was Yushchenko surprised if he consistently defended the inclusion of RUE in the January gas agreement?

Why should one side of RUE be controlled by the Russian state (through Gazprom), while two little-known businessmen control the Ukrainian side? Ukraine has claimed that Russia forced RUE upon them while the Russian side said that Ukrainians proposed RUE.

Firtash, like many Ukrainian businessmen in 2004, supported both Yushchenko and his electoral opponent, Viktor Yanukovych, to ensure they came out on top, whoever succeeded Kuchma as president. These early ties to Yushchenko were confirmed when Firtash allegedly chartered a plane for first lady Katya Yushchenko's American-Ukrainian family to attend Yushchenko's Jan. 23 inauguration. The flight was arranged by Tretyakov, and the cost (\$270,000) was paid for by Firtash.

Many in Ukraine and abroad are dismayed at Yushchenko's lack of political will to clean up the energy sector as part of his promise to combat corruption.

Some see Yushchenko's former political ally Yulia Tymoshenko, widely regarded as a populist and an advocate of state capitalism in the West, as the only Ukrainian politician up to the challenge. Yushchenko appears reluctant to appoint Tymoshenko prime minister in an Orange parliamentary coalition, despite her bloc winning more votes than Our Ukraine.

But if Yushchenko is committed to taking Ukraine into NATO and the EU, this requires battling corruption. The most corrupt sector of the economy is energy – an area that Yushchenko has been ironically unwilling to touch.

We can only reach the conclusion that Yushchenko has not found the political will to reform the energy sector and has left in place the same corrupt schemes in existence under Kuchma.

The only Ukrainian politician willing to take this problem on is Tymoshenko. Perhaps it's time for the West to reevaluate its views toward her?

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