



UKRAINE: 'Orange' allies fight over economic policy

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EVENT: The government decided yesterday to postpone indefinitely privatising Odessa Portside Plant until divisions within the coalition over economic policy are resolved.

SIGNIFICANCE: Divisions within the coalition, after a two-month blockade of parliament by the opposition, are undermining the effectiveness of the government's economic reforms and struggle against corruption.

ANALYSIS: The 2004 'Orange Revolution' was fuelled by popular anger at the ruling elite's abuse of office under former President Leonid Kuchma. Battling corruption, separating business and politics, and reforming and upholding the rule of law are the three central policies Ukrainian citizens expect of Viktor Yushchenko's presidency, but there has been little progress in all three.

Three factors bedevil separating business and politics, namely:

- the big business presence within each group in the Orange coalition;
- different approaches from big business to their relationship with politics; and
- divisions within the coalition over how to deal with Kuchma-era abuses.

Business backers. Most 'oligarchs' backed both sides in the 2004 presidential election, Yushchenko and Viktor Yanukovych -- although Rinat Akhmetov plumped for Yanukovych. The Orange parties would not have succeeded without the financial, media and networking resources provided by their big business backers. Petro Poroshenko and Andrei Derkach made their two television channels available to Yushchenko.

Former Kuchma allies have maintained positions of power under Yushchenko. Since 2004, the Industrial Union of Donbas (ISD) and the Dnipropetrovsk-based Pryvat group have been openly aligned with the prime minister's Yulia Tymoshenko Bloc (BYuT) and Yushchenko's Our Ukraine (NU), respectively (see [UKRAINE: Pryvat-Yushchenko tie spoils anti-graft aim - August 28, 2007](#)).

- Some ISD leaders, notably Serhii Taruta and Vitalii Hayduk, have joined such state and government institutions as the National Security and Defence Council, the presidential secretariat and the second Tymoshenko cabinet, but have not run for parliament.
- Other businessmen have limited their connection to providing financial, advisory and other resources to a political party or the government, including Ihor Kolomoisky of Pryvat, who funded the NU 2006 and 2007 election campaigns, and RosUkrEnergco (RUE) co-owner Dmitro Firtash, who has financed both Yushchenko and Yanukovych's Party of Regions.
- By contrast, Akhmetov has been a Regions parliamentary deputy since 2006.

Approaches to politics. Those of Ukraine's oligarchs who are most opposed to Tymoshenko's policies, such as Akhmetov and former Naftohaz Ukrainy CEO Yuriy Boiko, see Regions as defending them from 'political repression', and hence opted to start running for election after the Orange Revolution.

Other oligarchs have either stayed out of parliament, resigned or failed to get elected. Interpipe CEO Viktor Pinchuk and Tas-Group CEO Serhiy Tyhipko have withdrawn from politics and did not run for parliament last time. However, in March, Tyhipko became joint head (with Tymoshenko) of the government's Council of Investors. The Dnipropetrovsk clan's Labour Party has disintegrated; in April, its remnants merged with Regions. The former Kiev clan's Social Democratic United Party failed to enter parliament in 2006 and did not run in 2007.

Orange divisions. On the Orange side, there have been persistent and deep divisions between Yushchenko and Tymoshenko over post-Kuchma policy:

- During the short-lived 2005 Tymoshenko government, they clashed over reprivatisation, immunity for Kuchma and whether to bring criminal charges against senior officials and the organisers of the 2004 election fraud. Yushchenko opposed Boiko's arrest in July 2005, for abuse of office at Naftohaz in 2002-04. He criticised Tymoshenko for not being interested in privatisation and preferring wholesale reprivatisation, which he opposed. The single exception was Kryvorizhstal, which had been sold in July 2004 for 800 million dollars to two Ukrainian oligarchs, with foreign bids excluded. It was reprivatised in October 2005, in Ukraine's only transparent privatisation, to a foreign company offering 4.8 billion dollars.

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- Following Tymoshenko's removal from office in September 2005, Yushchenko signed a memorandum with Yanukovych, to secure Regions' backing for Yuriy Yekhanurov as prime minister. It included an amnesty for election fraud and immunity for local councillors.
- Warm relations between Ukraine's business elite and the Yekhanurov government emerged in an October 2005 meeting, at which Yushchenko offered cooperative relations and an end to reprivatisations, in exchange for a vague promise from the oligarchs to separate business and politics, pay taxes and move economic activity out of the shadow economy and into the legal sphere. These agreements were reiterated at two subsequent presidential-business elite meetings in 2006 and 2007.
- In 2004, Yushchenko's election campaign included the pledge to charge oligarchs a one-off surcharge (as an alternative to reprivatisation) to make up the difference between the knock-down prices of enterprises privatised under Kuchma, and the 'market' price, but this was later forgotten. The surcharge was to have been used to pay back depositors in the Savings Bank (Oshadbank) who lost their savings in the 1993 hyperinflation, a policy that he now opposes. Georgia successfully introduced an oligarch surcharge policy following the 'Rose Revolution'.

Since the 2007 elections, Yushchenko and Tymoshenko have continued to clash over business issues:

- **Privatisation.** The government's privatisation programme for 2008 (see [UKRAINE: Privatisation promises to be large scale - March 17, 2008](#)) includes 400 state-owned enterprises and is to bring 8.6 billion hryvnia (1.8 billion dollars) in budget revenue. Some was to be used to begin repaying the Oshadbank depositors, the first tranche being paid in January. In a reversal of 2005, Yushchenko now blocks Tymoshenko's privatisation programme. He uses socialist language to declare sectors of the economy central to 'national security' and so excluded from privatisation. The privatisation programme has been suspended by presidential decree, and he has prevented Tymoshenko from replacing the Socialist head of the State Property Fund.
- **Savings.** Privatisation has become hostage to the use of privatisation receipts to repay Oshadbank savers, a policy that has boosted Tymoshenko's popularity. Yushchenko's national security arguments are a pretext -- in 2007, Yushchenko supported privatising the Odessa Portside Plant (OPP), but his aim now is to stop privatisation revenues going into the budget. OPP was to have been privatised this week, but this was postponed after Yushchenko issued instructions to the prosecutor-general and Security Service to launch criminal proceedings against Tymoshenko government officials.
- **Gas.** Yushchenko and Tymoshenko have been at odds since 2005 over corruption in the energy sector. Tymoshenko has opposed the use of non-transparent intermediaries, such as RUE, while Yushchenko supported them during the 2005-06 Yekhanurov government and in the recent gas negotiations with Russia.
- **Energy exploration.** The government recently cancelled an exploration licence that was awarded last October to Houston-based Vanco in October 2007 by the outgoing Yanukovych government. Vanco has a small annual turnover of 7.5 million dollars, and unexpectedly beat the larger Shell-ExxonMobil joint bid. Tymoshenko has accused Yushchenko of betraying national interests in agreeing to the Vanco contract, exercising his presidential prerogative over energy and Ukraine's continental shelf. Akhmetov's Donbas Fuel-Energy Company is a Vanco partner.

CONCLUSION: The central demand of the Orange Revolution for the separation of business from politics has not been pursued by the Yushchenko administration. Different attitudes to this issue and macroeconomic policy generally are again dividing and undermining the Orange coalition, and may lead to a second Tymoshenko exit from government and her irreversible break with Yushchenko.

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