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OLIGARCHS WIELD POWER IN UKRAINIAN POLITICS

By Taras Kuzio

The leading Ukrainian magazine Korrespondent (June 12) published its annual list of wealthy Ukrainians. The most surprising new information was the estimate of Donetsk oligarch Renat Akhmetov's wealth. Akhmetov, the head of Systems Capital Management, is worth \$31.1 billion, making him the wealthiest person not only in the CIS but also in Europe.

This revelation comes on top of the highest real estate purchase ever recorded in Britain to Olena Franchuk, the wife of Ukrainian oligarch Viktor Pinchuk and daughter of former President Leonid Kuchma (London Evening Standard, February 26). The purchase was for 80 million pounds (\$160 million).

London is fast becoming a refuge not only for Russian but also Ukrainian oligarchs. Russian political exiles, such as Boris Berezovskiy, flee to London while Ukrainian exiles (Ruslan Bodelan) flee to Russia. This is testimony to the different approaches to money laundering and due diligence undertaken by the United States and the EU. In the U.S. former Prime Minister Pavlo Lazarenko was convicted and jailed in 2004 for money laundering \$120 million into the United States, \$40 million less than Franchuk paid for her new London home.

Four years of political instability in Ukraine have not damaged the ability of Ukraine's oligarchs to increase their capitalization during President Viktor Yushchenko's administration. Political instability has not affected the economy, which has continued robust growth; purchasing power is high and foreign direct investment is at record levels.

According to Korrespondent editor Vitaliy Sych, Akhmetov's estimated wealth has doubled in the past year because of three factors. First, he has publicly revealed for the first time the full extent of his wealth. Akhmetov's land in Donetsk alone is valued at \$1 billion. Second, Ukrainian oligarchs with metallurgical assets experienced fast growth due to high world demand. Third, Metinvest, a key Akhmetov company, merged with the Smart Group providing it with access to iron ore.

The total worth of the wealthiest 50 Ukrainians is \$112.7 billion, as much as two annual Ukrainian state budgets. Ukrainian oligarchs can be found in most factions, including the Socialists, in the 2006–2007 parliament.

The greatest concentration of wealth lies within the Party of Regions. This in itself is ironic, because the Party of Regions, like the Unified Russia party, has attracted a large proportion of former communist voters. Of the \$112 billion total assets of Ukraine's 50 wealthiest, \$35.4 billion or a third of the total is held by members of the Party of Regions.

The Party of Regions is uncomfortable about explaining why there is such a large concentration of oligarchic capital within its ranks. Akhmetov's wealth is \$1.5 billion greater than that of Russia's wealthiest oligarch, even though Ukraine's population is a third of Russia's and it does not possess the strategic raw materials, such as oil, gas, diamonds and gold, which are abundant in Russia. Russia's wealthiest 50 oligarchs only account for 35% of the country's GDP, compared with 85% of Ukraine's.

When asked about Akhmetov's extraordinary wealth, Party of Regions leader Viktor Yanukovich said, "If God gave certain individuals business talents, then what is most important is that this talent goes toward the greater good of the country and the people who live there." Yanukovich believed that, "these people bring budgetary proceeds and promote the economic growth of the country" (Ukrayinska Pravda, June 13).

Akhmetov entered parliament in 2006 in the Party of Regions. In 2005 he fled to Monaco because of fear that the Tymoshenko government would bring criminal charges against him, but he returned after these were blocked by Yushchenko. Other oligarchs either fulfilled their promises of separating business and politics by not standing for re-election to parliament (Pinchuk) or never running for parliament at all (Igor Kolomoysky).

Yanukovich believes that the large number of wealthy Ukrainians in the Party of Regions is not mere coincidence. "They entered the party out of their beliefs," he said, a statement that is hard to accept since the party is ideologically amorphous. Immunity from prosecution, defensive protection against Tymoshenko and access to government funds are three likelier explanations for their interest in entering parliament.

Akhmetov is in the Tymoshenko government's line of fire. One major factor in the government's cancellation of the October 2007 Vanco contract for Ukraine's Black Sea shelf oil exploration was the presence of an Akhmetov company as one of its four partners. The government also

seeks to “re-privatize” Dniproenergo, which Akhmetov purchased at a knock down price in August 2007. (That would involve nationalizing the company back from Akhmetov and privatizing it again.)

Ukraine’s oligarchs were never united as a group. Following Yushchenko’s election, they openly supported the orange camp.

Pinchuk (Interpipe) and Kolomoysky (Pryvat) are Ukraine’s second and third wealthiest citizens but with far less wealth than Akhmetov, at \$8.8 and \$6.6 billion, respectively. Both have continued to fund political projects externally: Pinchuk in Viche and Kolomoysky in Our Ukraine. Three Pryvat oligarchs in third, fourth and sixth places control \$17.7 billion.

Other oligarchs also supported the orange camp. Petro Poroshenko (\$1.12 billion [22nd place]) was an ally of Yushchenko from 2001 when Our Ukraine was formed, and his Channel 5 was one of only two television stations that gave coverage to the 2004 Yushchenko election campaign. Kyiv Mayor Leonid Chernovetsky (\$750 million [28th place]) backed Yushchenko in 2004 and has remained an ally.

The former head of the 2004 Yanukovych campaign, Serhiy Tyhipko (\$1.64 billion [17th place], who, like Pinchuk, left politics after the orange revolution, has returned as head of the Tymoshenko government’s Council on Investors. Another Pinchuk protégé, Valeriy Khoroshkovskiy (\$1.55 billion [18th place]), is head of the State Customs.

Meanwhile, Industrial Union of Donbas (ISD) oligarchs Serhiy Taruta and Vitaliy Haydiuk (worth \$2.37 billion each [11th and 12th]) are aligned with the Tymoshenko government. Konstantyn Zhevago (\$5.2 billion [fifth]), the first and only Ukrainian businessman to float shares on the London Stock Exchange for his Ferrexpo company, is a Tymoshenko bloc parliamentary deputy.

The separation of business and politics remains a long way off in Ukraine, even though it was one of the main aims of the orange revolution.