



UKRAINE: Pryvat-Yushchenko tie spoils anti-graft aim

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SUBJECT: President Viktor Yushchenko's alliance with the Pryvat group.

SIGNIFICANCE: A presidential alliance with Ihor Kolomoisky's Pryvat provides media and financial resources and the ability to take on the Donetsk clan, which favours Prime Minister Viktor Yanukovych's Party of Regions in the September general election.

ANALYSIS: Donetsk and Dnipropetrovsk have the largest concentrations of oligarchic clans in Ukraine; in each city, there are two clans competing for control:

- Donetsk is the base for System Capital Management (SCM), headed by Rinat Akhmetov (see [UKRAINE: Tycoon may yet become political leader - October 30, 2006](#)), and the Industrial Union of the Donbass (ISD), headed by Serhii Taruta and Vitalii Haiduk.
- Relations between the Dnipropetrovsk clans -- Interpipe, headed by Viktor Pinchuk, and the Pryvat group, headed by Ihor Kolomoisky -- are worse than those between SCM and ISD in Donetsk.

In the Ukrainian system, the business elite is rarely loyal to one party for long (see [UKRAINE: Business elite keeps clear of politics - July 11, 2007](#)). Under former President Leonid Kuchma, SCM and Interpipe invested in politics, in the Party of Regions and Labour respectively; only the former remains popular. In the 2004 elections, SCM and Interpipe openly backed Viktor Yanukovych; ISD and Pryvat backed both Yanukovych and Viktor Yushchenko.

Following the dismissal of Yulia Tymoshenko's government in September 2005, Yushchenko developed alliances with both ISD and Pryvat:

- The ISD's Haiduk was secretary of the National Security and Defence Council in 2006-07; its Oleksandr Chalyi is deputy head of the presidential secretariat.
- An alliance with Pryvat also emerged, in 2006-07.

Pryvat profile. Founded in Dnipropetrovsk in 1992, Pryvat has become one of Ukraine's largest oligarchic clans. Pryvat Bank is Ukraine's largest, with 1,600 branches.

Pryvat's poor relations with Interpipe became public in 2005, in their competition to control the Nikopol ferro-alloy plant acquired by Pinchuk in 2003. The Tymoshenko government claimed the privatisation had involved major legal infringements and should be repeated, but Yushchenko refused to support reprivatization. Pryvat saw the government as an ally in its struggle with Interpipe over Nikopol.

The Pryvat group is the least public of Ukraine's oligarchic groups, and Kolomoisky spends most of his time abroad. It has ten offshore bank accounts and companies in Cyprus, the Virgin Islands and Malta.

Pryvat's energy empire. State oil and gas company Naftohaz Ukrainy has 50%+1 of oil producer Ukrnafta's shares, to Pryvat's 42%, but Pryvat's influence over five of the nine supervisory board members gives it control. The chairman of Ukrnafta, Ihor Palytsia, who is running for parliament for the pro-presidential Our Ukraine-Narodna Samoobrona, was elected to head the supervisory board in January 2003, at Kolomoisky's behest. His principal adviser, Timur Novikov, is a member of Ukrnafta's supervisory board.

Since the January 2006 gas agreement with Russia, Ukrainian business has paid 106-108 dollars per 1,000 cubic metres of gas. Pryvat, through its control of Ukrnafta, has been able to secure a price of 60-80 dollars for the gas supplied to enterprises in its group, reducing its costs by 4 million dollars per month.

Kolomoisky has a poor business reputation among foreign investors in Ukraine. Pryvat's control of Ukrnafta has brought it into conflict with Cardinal Resources, a London-based PLC with a US subsidiary, Carpatsky Petroleum. Ukrnafta, with Pryvat's backing, is trying to prevent Cardinal from operating in the Carpatsky field and is opposing Cardinal's twin offers of a share buy-back and additional investment.

Yanukovych and Pryvat. Pryvat's relationship with the 'Orange' camp and its involvement in Ukraine's energy market have led to conflicts with the current prime minister, Yanukovych, over Ukrnafta.

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Dmitro Firtash, a principal figure in Russian-Ukrainian gas intermediary RosUkrEnergo, has switched his alliance from Yushchenko to Yanukovich's Party of Regions, working through Fuel and Energy Minister Yuriy Boyko. The alliance with Yushchenko enabled Firtash to gain a role for RosUkrEnergo in the 2006 gas deal, which was heavily criticised by the opposition Yulia Tymoshenko Bloc and led to a parliamentary vote of no confidence in Yuriy Yekhanurov's government. Now, only the return of a Yanukovich-led government after the September elections ([see UKRAINE: Rivals' business wings eye post-vote deal - June 18, 2007](#)) can guarantee RosUkrEnergo's continued position in the Ukrainian gas market. Yanukovich wants to reimpose state control at Ukrnafta by replacing Pryvat's board members with energy moguls close to Regions.

Pryvat's control of Ukrnafta is assisted by the need for 60% of shareholders to call a meeting to change the CEO. In October 2006, the number of shareholders required to call an EGM was reduced to 50%. However, Yushchenko has vetoed the change twice.

Our Ukraine and Pryvat. Pryvat and ISD developed a political alliance with Yushchenko and his Our Ukraine in 2005-06 during the Yekhanurov government, when Yekhanurov headed Our Ukraine. The Pryvat-Yushchenko alliance was negotiated through former senior presidential adviser Oleksandr Tretyakov and presidential secretariat head Viktor Baloha. Tretyakov and Kolomoisky have combined their media resources into one holding.

Tretyakov, whose involvement in the energy sector is of long standing, was dismissed in September 2005 amid corruption scandals in the presidential team ([see UKRAINE: Government crisis exposes internal problems - September 12, 2005](#)). That summer, the security service had ordered the arrest of former Naftohaz Ukrainy CEO Boyko (now energy minister) but was foiled at Tretyakov's intervention.

The Tretyakov-Kolomoisky alliance has eight of its people on the Our Ukraine-Narodna Samoobrona list for the September elections. Prominent is Palytsia, who is said to be providing a large proportion of the election funding.

Anti-corruption policy. In April, Yushchenko called for a radical renewal of Our Ukraine to prepare for the 2007 elections, removing businessmen associated with the September 2005 corruption scandal. The aim was to improve on the 2006 election result, when Our Ukraine obtained 10% less than in 2002. Petro Poroshenko, Our Ukraine's senior financier since its inception in 2001 and founder of Channel 5 television, was not included in the 2007 election list. Other senior Our Ukraine members, Roman Bezsmertny and Yekhanurov, were either not included or given marginal positions.

However, not all senior businessmen have disappeared from Our Ukraine-Narodna Samoobrona. David Zhvania financed the creation of former Interior Minister Yuriy Lutsenko's Narodna Samoobrona, which has formed a joint bloc with Our Ukraine. Tretyakov has also remained on the list.

In 2006-07, the leadership of Our Ukraine passed from Yekhanurov, who favours a grand coalition with Regions, to Vyacheslav Kyrylenko and Lutsenko, who are closer to Tymoshenko. The head of the presidential secretariat has similarly changed, from pro-Regions Oleksandr Zinchenko and Oleh Rybachuk, to a Tymoshenko ally, Baloha. In February, Our Ukraine and Tymoshenko reforged their Orange alliance after an 18-month split. These changes have led to the radicalisation of presidential policy towards the Yanukovich government, culminating in the April decrees to dissolve parliament.

Lutsenko's claim that Palytsia is on the election list as an energy specialist who may assist in cleaning up corruption in the sector has been ridiculed by the Ukrainian media.

CONCLUSION: Ukrainian oligarchs and energy moguls have switched alliances depending on who is in power. However, the new leadership of Our Ukraine-Narodna Samoobrona has re-emphasised the policies prominent in the 2004 elections of battling corruption and supporting small business and European integration. These policies are at odds with Yushchenko's courting of the ISD and Pryvat oligarchic clans.

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