For EU, money matters more than democracy

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President Viktor Yanukovych's administration pays close attention to the U.S. president and public hearings in the U.S. Congress, but brushes aside resolutions by the European Parliament. This is not surprising as the Socialists, European Parliament's second largest political group, forged an alliance with the Party of Regions until recently and blocked tough language in resolutions on democratic regression in Ukraine.

As with legislation in the US Congress (such as Belarus Democracy acts) and sanctions against Belarus it is the U.S. – not the EU – that has placed democratic values and tough regulations on capital flows ahead of doing business. Discussion on a visa ban list of 54 individuals in the Yanukovych administration has made its round at the U.S. State Department and is receiving serious attention.

If the Republicans win the U.S. presidential elections, expect tougher policies towards Yanukovych in place of President Barack Obama's Russia reset. It was the George W. Bush administration that pushed a reluctant EU into adopting tougher policies towards President Aleksander Lukashenko.

In contrast to the USA, business trumps democratic values for the EU.

In the last two years since Yanukovych was elected Ukrainian president, Hr 400 billion ($53.4 billion) was sent offshore by Ukrainian oligarchs and banks. This is more than the 2012 Ukrainian state budget of Hr 367 billion hryvnia (Ekonomichna Pravda, June 7). In the first two months of this year, another $87 billion was transferred to EU countries and British Commonwealth countries with tax preferences.

Where, you may ask, was the capital sent? The answer is to EU members and the British Commonwealth.

EU member Cyprus is the biggest offshore zone receiving the bulk of this capital – $51.5 billion (96 percent). Cyprus accounts for a third of foreign direct investment into Ukraine and yet is only the same territorial size as Chernivtsi Oblast.

Each year $1 billion of "Cyprus" FDI is invested into Ukraine while during the same period over $10 billion flows to Cyprus. Ukrainian oligarchs use Cyprus and other offshore zones (most of which are part of the EU or have links to EU members) to escape taxes, thereby starving the Ukrainian budget of funds. This, in turn, forces Ukraine to go cap in hand to the International Monetary Fund and Russian banks.

Every Ukrainian oligarch – whether he or she supports the authorities or the opposition – has shell companies in Cyprus. Indeed, the biggest exporter of capital from Ukraine is Igor Kolomoyskyy who sent $32.7 billion abroad in the last two years.

Kolomoyskyy leads the Ukrainian oligarchs in the number of shell companies that he has registered in offshore zones such as Cyprus (97); 25 percent of Privat bank is owned by a Cypriot company.

Kolomoyskyy was an "orange" oligarch. He provided financial support to nongovernmental organizations such as Pora (It's Time) in the Orange Revolution and financial support for Our Ukraine's 2006 and 2007 election campaigns. In the latter, Kolomoyskyy included some of his people in Our Ukraine-People's Self Defence list. In a 2009 interview in Ukrayinska Pravda, Kolomoyskyy said he would emigrate from Ukraine if Yulia Tymoshenko won the presidential elections.

Massive flows of capital to Cyprus could be halted if Ukraine annulled the Soviet era treaty with Cyprus on preventing double taxation. But, as Prime Minister Nikolai Azarov has said, this is not on the cards. Indeed, three orange governments under President Viktor Yushchenko could have also unilaterally annulled the treaty with Cyprus – but they did not.

The British Virgin Islands and former British colony of Belize received nearly $2 billion in capital flows from Ukraine the last two years. Other favorite offshore zones included the Marshall Islands, Maldives, Saint Kitts and Nevis and the Bahamas. Belize and the latter four are members of the British Commonwealth while the British Virgin Islands is under the authority of a Governor acting on behalf of Queen Elizabeth II.

The EU has historically had less stringent money laundering legislation than the USA. If Former Prime Minister Pavlo Lazarenko had sought asylum in the UK – not USA – he would have probably not been convicted as huge numbers of Russian and Ukrainian oligarchs own properties in Monaco, Nice, Vienna and especially London, while others own football clubs and businesses in Europe.

Ukrainian Prime Minister Mykola Azarov, right, waves prior to his meeting with Euruopean Union officials in Brussels on May 15. Taras Kuzio argues that the European Union will never impose tough sanctions on Ukraine because economic interests trump democratic ones.

After Vladimir Putin came to power in Russia in 2000 Britain experienced an influx of wealthy oligarchs. “Londongrad,” as London was called by journalists Mark Hollingsworth and Stewart Lansley, has experienced an influx of 300,oooRussians, Ukrainians and other nationalities from former Soviet states.
Lazarenko’s purchase of film star Eddie Murphy”s Californian mansion for $6 million was the same amount spent by Ukrainian oligarch Pinchuk to entertain 300 guests at his 50th-birthday party in the posh French ski resort of Courchevel New Year’s Eve in December 2011.

Lazarenko’s$6 million Californian home cost a lot less when compared with the $150 million paid by Viktor Pinchuk for Britain’s most expensive home five-storey Victorian house in Kensington complete with a huge underground swimming pool, gym, sauna and cinema. Lazarenko’s Californian mansion looks quite modest compared to the $220 million paid by Donetsk oligarch Akhmetov two years later for three penthouse apartments in London’s exclusive Knightsbridge.

Ukrayinska Pravda (January 19, 2012) reporter Serhiy Leshchenko writes that Lazarenko resembles an “unsuccessful pupil. The sums which dripped into his offshore accounts over the course of a year are now stolen in one transaction.”

Another case is President Yanukovych’s palatial Mezhyhiriya outside Kyivthat was built on the territory of a Soviet era mansion similar in geographic size to Monaco which was privatized by his 2006-2007 government. The palace is the largest building built by the Finnish Honka company.

Since elected to office President Yanukovych has spent millions on fittings, including $100,000 for each chandelier, hundreds of thousands of Euro’s on a bathroom and $10,000 on each table lamp.The Mezhyhiriya palace includes a 5-storey clubhouse, golf course, tennis courts, an underground shooting range, a bowling alley, private health centre, yacht mooring, and a heliport.

Mezhyhiriya resembles former Romanian dictator Nicolae Ceausescu's palace in its grandiose tribute to nouveau riche excess.

The official Ukrainian owner of Mezhyhiriya is Tantalit which is 99.7 percent owned by the Austrian Euro East Beteilungs.This is in turn owned by the British company Blythe (Europe) registered at 29 Harvey Street, London.

Another Britain registered company Highway Investment Processing LLP, registered in Cardiff, Wales, sold an oil drilling rig to Ukraine. In an open tender for a floating drilling rig two companies, Highway Investment Processing LLP and Falcona Systems Ltd, offered bids. The latter offered the rig at $410 million and lost the tender. An investigation by DzerkaloTyzhnia(April 24) newspaper found that the same people owned both shell companies (http://dt.ua/POLITICS/koruptsioneri_yanukovicha_vishki_boyka-100887.html).
In April 2011, Ukraine's state-owned ChornomorNaftoGaz oil company paid $400 million to buy the oil drilling rig from HighwayInvestment Processing LLP. The oil rig, named West Juno and produced by Keppel of Singapore, was sold to an undisclosed U.K company for $248.5 million on April 13, according to official company records.

Usually countries lease, not buy, oil drilling rigs for exploration purposes for reasons of cost and operational efficiency. Highway Investment was registered only two weeks before the fictitious tender and is a fictitious shell intermediary company intended to hike up the price. Ukrainian officials pocketed $150 million of government money in the fictitious tender. Ukrainian Energy Minister YuryBoyko, who has been accused of being behind the corrupt scheme, was referred to the FATF (Financial Action Task Force). In Ukraine, the drilling rig is known as "Boyko's tower." Surprisingly, Ukraine was removed from the FATF monitoring list in November of last year.

Ukrayinska Pravda's investigative reporter Leshchenko writes that at this address, "Russian-speaking staff explain that post-Soviet oligarchs and officials like using the UK as a cover for their dodgy income."Global Witness, a British NGO,points outthere is a "scandalous" lack of oversight and enforcement over company registration in the UK and a lack of checks on service companies, which act as nominee secretaries and directors for shell companies.

Global Witness call for the real owners of companies to be identified. Tom Mayne, a campaigner for Global Witness, said: "Not only are the regulations not strong enough, they are also not enforced" (The Sunday Times, June 17).

From Britain the trail of the owners of the Mezhyhiriya palace ends up in Lichtenstein, not in the EU but a member of the Schengen zone. Blythe (Europe) is owned by the Lichtenstein-registeredP&A Corporation Services Trust.

The US has always been more critical of corruption in energy business from Eurasia and its corrosive impact on not only economics, but politics in the region, than the EU for whom this is seen as common, accepted business practice and less important than ensuring the supply of gas - even as it destabilizes gas trade. Opaque Russian-Ukrainian gas intermediaries have enjoyed intimate business relations with Switzerland, Austria and other EU countries, and EU energy companies enable and facilitate the way they work.

President Yanukovych's administration does not accept European criticism of democratic regression, selective use of justice, corruption and lack of economic reformsin Ukraine seriouslybecause they do not believe the EU will impose sanctions that would hurt European economies. Cyprus, Lichtenstein, Monaco, France, Austria,Britain, and Commonwealth members continue to welcome capital from Ukraine with limited regulatory controls.

Ironically, the EU has more power over Ukraine than it has over Belarus against whom there are sanctions. In Belarus there are no oligarchs whilePresident Lukashenka's presidential residence is not owned by shell companies registered in the EU.

On the same day as Ekonomichna Pravda (June 7, 2012) published its report about huge capital transfers from Ukraine the British government announced it would be boycotting Euro-2012. It is not surprising that President Yanukovych has dismissed these boycotts because he believes the EU will never cut off its nose by imposing sanctions on Ukraine.

The EU- unlike the USA – prioritizes business relations over democratic values in Ukraine.

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