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Why Ukraine's future may hinge on its oligarchs

Though Ukraine's turmoil has centered on the standoff between the Yanukovich government and protesters, it's the country's business elites who may be key to finding a resolution.

*Чому майбутнє України може залежати від його олігархів
Хоча криза в Україні склалася на протистоянні між урядом Януковича і
протестуючими, саме бізнес-еліта країни, може бути ключем до
знаходження рішення.*

Економіка України, яка була нестійкою ще до початку протестів на Євромайдані, знаходиться під загрозою колапсу; Україна балансує на межі дефолту, - вважає кореспондентка The Christian Science Monitor Себра Ейрс. Однак, продовжує автор статті, за лаштунками стоїть купка найбагатших бізнесменів країни, контролюючих значною мірою обсяг виробництва України. Цей клан олігархів, враховуючи їхні економічні інтереси і тісні зв'язки з Президентом Віктором Януковичем, може зробити вирішальний вплив на закінчення політичних заворушень, міркує журналістка. Багато підприємств олігархів базуються на напівзруйнованих радянських заводах, на яких надзвичайно нераціонально витрачається енергія і які сильно залежать від державних субсидій. Посилення громадських заворушень на Україні поставить це фінансування під загрозу, зазначає журналістка. Степан Кубів, депутат парламенту від опозиційної партії "Батьківщина", висловлює думку, що деякі з впливових олігархів почнуть діяти тільки тоді, коли отримують тверді гарантії, що їхньому бізнесу нічого не загрожуватиме, якщо на зміну Януковичу прийде новий уряд, наводить думку політика газета.

<http://www.csmonitor.com/World/Europe/2014/0214/Why-Ukraine-s-future-may-hinge-on-its-oligarchs>



An opposition protester holds a shield depicting a self-portrait with his girlfriend, while protesters prepare for a rally in Kiev's Independence Square, the epicenter of Ukraine's current unrest.

Efrem Lukatsky/AP

Kiev, Ukraine

Three months into Ukraine's political crisis, the standoff between antigovernment protesters and the Ukrainian government shows no signs of abating. Opposition and ruling party lawmakers are at loggerheads over constitutional reform, a key political resolution that seems to be going nowhere.

Meanwhile, the country's economy, already staggering before the Euromaidan protests began, is at risk of imploding as Ukraine teeters on the brink of default.

But behind the scenes is a handful of the country's wealthiest businessmen, who control an enormous amount of Ukraine's economic output through their holdings in metallurgy, chemical production, and mining, and other industries. This clan of oligarchs, with their economic interests and close ties to embattled President Viktor Yanukovich, could be critical to ending the political turmoil.

"It's definitely time for them to act, they are personally losing money as this revolution continues," says Vadim Grib, the head of the private equity fund Tekt in Kiev. "We have no more time here."

Power behind the throne

Ukraine's oligarchs got rich during the privatization sales of former Soviet-owned industries and factories shortly after independence in 1991. The country's main industries of mining, metals, chemical production, and energy distribution were snatched up by individuals, who then reaped millions in profits.

Corruption and politics have always had a close relationship in Ukraine. The oligarchs have benefited for two decades from close relations with government officials, who have at times turned a blind eye to their activities in exchange for support. At other times, politicians have enabled their oligarch supporters to get richer through key government appointments and a lack of transparency in government contracts.

As a result, many of the oligarchs have remained loyal to President Yanukovich and the ruling Party of Regions.

Among the most influential of the oligarchs is Ukraine's richest man, Rinat Akhmetov. Like Yanukovich, Mr. Akhmetov is from the eastern Donetsk Oblast, and is considered to be the financial backer behind Yanukovich's political rise.

Akhmetov's fortunes are in the country's steel and coal mining industries, energy distribution, and banking. Forbes Ukraine estimates that he's worth about \$15.4 billion.

Akhmetov's financial support for the Party of Regions also secured him a loyal bloc of deputies in Ukraine's parliament, the Verkhovna Rada.

Another oligarch with considerable wealth and influence is Dmytro Firtash, whom Forbes Ukraine estimates to be worth \$673 million. Mr. Firtash's main interests are in chemical plants and media holdings, and he also has a group of loyal deputies in the Rada supportive of Yanukovich.

Since protestors took to the streets on Nov. 22, after Yanukovich backtracked on signing a trade and political agreement with the European Union, the pro-Yanukovich oligarchs have remained largely quiet.

One noticeable exception came in late January, when the protests turned violent during clashes between government riot troops and demonstrators, leaving at least four dead and dozens injured. Akhmetov broke his silence by issuing a statement, published on his company's website, urging an end to the use of force and calling for more dialogue with between Yanukovich and the opposition leaders.

And more recently, one oligarch – Petro Poroshenko, the owner of the Roshen confectionery company – stepped away from the others and openly supported the Euromaidan protests. On Feb. 9, Mr. Poroshenko told a gathering of an estimated 50,000 protestors on Kiev's central Independence Square, or Maidan, that the fall of the hryvnia's value proved that the economy "cannot function under such corruption."

"You have been robbed of 10 percent of your income," he told the crowd.

Another oligarch, Viktor Pinchuk, has been openly pro-European, although he has not shown support for the opposition leaders. His \$3.8 billion fortune has interests in metals and media, and he has ties with both Russia and the West.

Changing fortunes?

As Ukraine's economic situation grows more desperate – putting the oligarchs' fortunes at risk – many observers hope that they will step in and push Yanukovich to find a settlement with the opposition.

This week, the national bank reported a 13 percent drop in international currency reserves since January. Ukrainians panicked as the national currency, the hryvnia, decreased in value, and the international credit rating agency Fitch significantly downgraded Ukrainian sovereign debt.

There's another motivation for the oligarchs to act quickly: Many of the oligarchs' businesses – particularly in the mining, heavy industry, and energy distribution industries – operate in dilapidated, Soviet-era facilities that are extremely energy-inefficient, and heavily dependent on government subsidies. The 2014 state budget allocates 13.3 billion hryvnia, or about \$1.6 billion, in direct subsidies to the coal mining enterprises alone, according to Viktor Maziarchuk, an analyst at the International Center for Policy Studies in Kiev. That's about 3.6 percent of the entire 2014 budget.

An escalation of the civil unrest in Ukraine would put those funds in jeopardy if the economy deteriorates further.

Stepan Kubiv, a parliament member from the opposition Fatherland party, says he thinks some of the powerful oligarchs will act only when they get solid guarantees that their businesses will be safe if a new government replaces Yanukovich.

Ways out for Ukraine

The best hope for a political solution is a proposal by the opposition to revert the country to a parliamentary republic. The move, by reinstating a 2004 constitutional amendment, would strip the president of much of his power, redistributing it to the 447-seat unicameral parliament.

Yanukovich and the ruling party in parliament have agreed to consider the reforms, but in a detailed process that could last as long as six months, a path that opposition leaders caution would only inflame tensions on the street. Time, they say, is not on Yanukovich's side.

The United States and the European Union have said they are ready to help Ukraine with an economic aid package, but much depends on the Yanukovich at this point, Assistant Sec. of State Victoria Nuland said on Friday during her visit to Kiev.

Ms. Nuland made it clear that passing parliamentary reforms is part of the donor countries' expectations. "Nobody is willing to give economic support, from the United States or from the IMF or from Europe, to an unreformed Ukraine," Nuland told a press conference in Kiev on Feb. 7.

If the pending economic collapse isn't impetus enough for the oligarchs to urge Yanukovich to act, economic sanctions from the EU or US could be. Many oligarchs have close economic ties to the West, such as real estate, bank accounts, and other assets. The US has said that it has already revoked visas for several Ukrainian officials, but antigovernment protestors say economic sanctions would have more impact.

By using their economic clout, Ukraine's elite clan of oligarchs could pressure Yanukovich to find a political compromise quickly in order to save the economy, and their businesses, says Volodymyr Panchenko, the director of the International Center for Policy Studies in Kiev.

"The oligarchs could definitely change the situation, and it should be done this week," Mr. Panchenko says.