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# Ukraine on its Way to Europe

Interim Results  
of the Orange Revolution

edited by Juliane Besters-Dilger



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## Ukraine on its Way to Europe Interim Results of the Orange Revolution

### Introduction

While Ukraine under President Kuchma steered a political course that continually oscillated between the pursuit of rapprochement with the European Union and the unswerving loyalty to Russia, the Orange Revolution in November 2004 has unambiguously determined the future orientation of Ukraine: joining the European Union has become top priority, Ukraine is on the way to Europe.

Concepts such as "Europeanisation" or "European Integration of Ukraine" neglect the fact that, according to geographic and historical criteria, Ukraine has always been a part of Europe. But they are justifiable if one uses as a base a normative concept of Europe as conceived by the European Union (respect for human and civil rights, rule of law, division of powers, separation of church and state, parliamentary democracy, sovereignty of the people, open and pluralistic society, welfare state, etc.). The European Union has set up the European Neighbourhood Policy and has already been negotiating successfully with Ukraine for several years on the harmonisation of law, but there is a considerable gap between such a formal harmonisation and its translation into the practice of everyday life. The leadership under President Yushchenko wants to bridge this gap. Important tasks have been or still are the fight against corruption on all levels, the strengthening of media rights, the introduction of minimum standards of a welfare state, the encouragement of western investment, etc., and also the initiation of a certain change of the elites, since there is to date a clear continuity in this field.

This publication, which involves authors from five faculties of Vienna University, two other Austrian scholars, five specialists from Germany and one from Norway, is based upon the hypothesis that the rapprochement with the European Union depends on numerous cultural constants that shape Ukraine, and will only be successful if they are taken into consideration. In this context, "constant" does not mean that there is no possibility of change; it concerns in fact the non-material cultural heritage of a different age, which is still influential and can acquire new significance in new contexts. This heritage can hinder, but can also be conducive to the rapprochement with the EU.

## The Political Role of the Oligarchs

Heiko Pleines

### Introduction

Based on the classical definition of oligarchy, i.e. the rule of the few self-interested elites (see e.g. Ostwald 2000), the term "oligarchs" denotes, among other things, entrepreneurs who use their wealth to exert political influence. In this context, the concept of an oligarch is also closely associated with political corruption, and the term is primarily used in the analysis of formally democratic systems with authoritarian tendencies, such as those found in Latin America, South-East Asia and, since the 1990s, in eastern Europe<sup>1</sup>. In a narrower sense, which is how the term will be used here, the concept does not include politicians or civil servants who use their political influence to obtain control over (state-run) economic activities.

In post-Soviet Ukraine, the influence of the oligarchs has increasingly come to be seen as a central feature of the political system. When oligarchs succeeded in securing a pro-presidential majority in parliament in 2000 luring away opposition MPs, their power became evident. To the opposition, the oligarchs became symbolic of President Leonid Kuchma's corrupt and undemocratic power-grabbing strategies. Some of the central demands of the opposition protests at the end of 2004 therefore included the prosecution of the oligarchs and the separation of business and politics. These measures were understood as a precondition for the democratisation of the political system. In Ukraine as well as abroad, democratisation was perceived as an important component of the "return to Europe".

### The Rise of the Oligarchs

The economic rise of the first Ukrainian oligarchs at the beginning of the 1990s followed a largely uniform pattern. With the introduction of market-based reforms, a slew of entrepreneurs operating in a legal grey zone began to reap enormous gains. Most business activities consisted of trade and financial operations.

<sup>1</sup> For political-science research on oligarchs as politically influential entrepreneurs, see e.g. the literature survey by Hutchcroft 1991 and Pleines 2008a.

In both cases big gains were only possible with political support. Regulatory and inspection authorities turned a blind eye to the new entrepreneurs' activities. The national bank provided preferential credits. State enterprises became clients.

In the sphere of trade activity, metals could, for example, be purchased on the Ukrainian market at subsidised prices and then sold abroad at world market prices. The profit margin was as high as 900%. Another example of lucrative financial operations was the granting of central-bank credits to Ukrainian banks, which were charged far below the usual interest rate. Given that they passed on the central-bank credits to customers at the normal interest rate, the banks could essentially keep the entire interest income for themselves. They also often used the central-bank credits for speculation, which promised even higher profit margins (Puglisi 2003: 104-105). In 1995, the transfer of the formerly state-run natural gas imports to private firms became another main source of revenue (Pleines 2005: 23-26; Pirani 2007: 20-21).

Several of the new entrepreneurs used their profits from financial and trading activities to build industrial holdings. They took over state enterprises in the course of the privatisation process and their trading companies exploited their customers' debts during bankruptcy proceedings in order to bring them under their control. Here too, state support was indispensable. The privatisation process was in many cases manipulated by the state officials in charge of running them. The bankruptcy proceedings were also frequently steered in favour of the trading companies.

The oligarchs concentrated on sectors that were lucrative in Ukraine. First and foremost, these were the metal, oil and gas industries, as well as areas of the machine-building and food industries. The profitability of most of the companies nonetheless remained heavily dependent on preferential treatment by the state. Meanwhile, due to the legal dubiousness of a number of their business activities and corporate takeovers, the oligarchs remained vulnerable. As a result, many of the holdings were dissolved as quickly as they had emerged in the first place.

At this point, four developmental phases can essentially be distinguished with respect to the oligarchs' holding companies. From the end of the 1980s until the mid-1990s, the oligarchs acquired their start-up capital and their first company shares. In the second phase, which roughly spanned the second half of the 1990s, some of the oligarchs' holding companies disappeared when their political connections lost power; others managed to expand. The third phase, which began at the end of the 1990s, saw the stabilisation of the surviving holding companies. At the same time, the incipient economic upturn led to the rise of several new oligarchs. This led to the fourth phase, starting around 2002, when the oligarchs developed strategic preferences and invested in vertical integration and modernisation. Meanwhile a number of holdings became increasingly integrated into the

global economy<sup>2</sup>. As a result, the holdings of the oligarchs formed one of the most productive parts of the Ukrainian economy (Gorodnichenko 2008: 37). They started to enter the EU market not only as exporters but also as investors<sup>3</sup>. As a result, their economic interests were diversified away from Russia and they started to promote closer economic cooperation with the European Union<sup>4</sup>.

The fortunes of the oligarchs grew enormously. According to Forbes magazine, which in 2004 did not list a single Ukrainian billionaire, there were seven entrepreneurs with fortunes exceeding US\$1 billion in Ukraine in 2006<sup>5</sup>. In the same year the Ukrainian journals *Korrespondent* and *Kyiv Post* estimated that 29 Ukrainian entrepreneurs had amassed fortunes worth at least US\$200 million (*Kyiv Post* 2006: 4). Although their worth is difficult to calculate precisely due to cross-shareholdings as well as rapidly changing business cycles, it is nevertheless clear that a small group of very wealthy entrepreneurs has established itself in Ukraine. Most of them have political connections and thus meet the definition of oligarch. The journal *Korrespondent*, for example, counted 18 entrepreneurs among the 100 most influential people in the country in 2007 (*Korrespondent* 2007: 6-7). Table 1 provides an overview of the Ukrainian oligarchs.

The most prominent representatives, who were all identified as billionaires by Forbes, are Rinat Akhmetov with his Donetsk-based Holding SKM, Vitalii Haiduk and Serhii Taruta as representatives of the ISD-Holding, also headquartered in Donetsk, as well as Ihor Kolomoiskyi and Hemadii Bogolubov of the Dnipropetrovsk-based Privat Group and Viktor Pinchuk of the Interpipe Holding, which is also based in Dnipropetrovsk.

2 For an overview of the rise of the Ukrainian oligarchs, see Puglisi 2003, Pleines 2008b, Kowall 2006.

3 ISD has taken over major steel mills and shipyards in Poland and Hungary. Privat Group owns ferroalloy plants in Poland and Romania (but in Russia, too). Yaroslav-skyi invited the French BNP Paribas to become an equal partner in his business. Pinchuk runs a huge pro-EU campaign. In 2004, Khoroshovskiy resigned from his position as economic minister in protest of plans for closer economic cooperation with Russia.

4 For a concise analysis of this development see Puglisi 2008.

5 In 2008 these seven entrepreneurs were still the only Ukrainians listed by Forbes magazine (<http://www.forbes.com/lists/>).

Table 1: Ukrainian oligarchs in 2006 (in alphabetical order)

Oligarch	Holding / Parent Company	Main Areas of Business	Estimated Wealth (in bn US\$)
Akhmetov, Rinat	SKM (System Capital Management)	Heavy industry	11.8 / 7.2 / 4.0
Bohoinbov, Hennadii	Privat Group	Oil refining, metal industry, finance	2.4 / - / 1.2
Boiko, Volodymyr	Ilich Steel	Metal industry	- / 1.6 / -
Burjak, Serhii + Oleksandr	Brokbiznesbank	Finance	0.4 / 0.7 / -
Khmelnytskyi, Vasyi	Kiev investment Group	Real estate, local utilities	0.7 / 0.7 / -
Firtash, Dmytro	Group DF / RosUkrEnergy	Natural gas, chemicals	1.4 / 2.4 / -
Harduk, Vitalii	ISD (Industrial Union Dombas)	Heavy industry	1.7 / - / 2.0
Khoroshkovskiy, Valerii	Inter	Metal industry, media	0.9 / - / -
Kolomoiskyi, Ihor	Privat Group	Oil refining, metal industry, finance	2.8 / 6.3 / 1.2
Landyk, Valentyn	Nord	Light industry	0.2 / - / -
Pinchuk, Viktor	Interpipe	Steel industry	3.7 / 3.5 / 2.8
Poroshenko, Petro	Ukprominvest	Food, automotive	0.5 / 0.5 / -
Rodnianskyi, Oleksandr	1+1	Media	0.2 / - / -
Shpyh, Fedir	Aval (uniti 2006)	Finance	0.3 / 0.7 / -
Shobodian, Oleksandr	Obolon	Food	0.3 / - / -
Taruta, Serhii	ISD (Industrial Union Dombas)	Heavy industry	1.7 / 3.1 / 2.0
Tihipko, Serhii	TAS Group	Finance, insurance	0.5 / - / -
Vasadez, Tarek	UkrAvto	Automotive	- / - / -
Yankovskiy, Mykola	Stirol	Chemicals	0.4 / - / -
Yaroslavskiy, Oleksandr	Ukrstib	Finance, machine building, chemicals, construction	0.7 / 1.3 / -
Zhevago, Kostiantyn	Finansy i Kredit	Steel industry, machine building	1.9 / 1.4 / 1.0

Note: Regarding estimated wealth figures (if available), the first figure is from the Ukrainian journals *Kyiv Post*/*Korrespondent*, the second figure comes from the Polish journal *Wprost* and the third is from the American journal *Forbes*.

Sources: *Kyiv Post* 2006. The 30 richest Ukrainians. Special Insert, 29 June (identical to: *Korrespondent*. 2006. Top-30. 25 (214), 1 July); *Wprost*. 2006. Lista najbogatszych Europy. *Źrodkowiej i wschodniej* 2006. 36 (1238). <http://www.wprost.pl/ar/94648/100->

*najbogatszych w Europie. Źrodkowiej i Wschodniej* 7/1=1238; *Forbes Magazine*. 9 March 2007; *InvestGazeta*. 2007. Top-100 Rating lichshtih kompanii Ukrainy (supplement: *Biznes-Gruppy Ukrainy v 2007 godu*); *Korrespondent*. 2007. Top-100 samykh vliatelnykh ukrainsev. 32 (271), 17 August, 6-7.

### Exertion of Political Influence

As described above, connections with the political elites were a key to the oligarchs' success. In order to cement these connections, starting in the second half of the 1990s, most of the oligarchs became politically active themselves. They did not act collectively, however. Instead, they competed with each other for power and only seldom formed broad coalitions. Political influence was exerted by the oligarchs in three ways: first, they acquired mass media in order to obtain political access via the manipulation of public opinion; second, they developed informal networks with political elites; and third, they themselves took political office. The importance of the individual means of exerting influence varied among the individual oligarchs as well as over the course of time.

### Mass Media

Large-scale private sector engagement in the mass media began in the mid-1990s. However, it became apparent that reader and advertiser demand was insufficient to run large media concerns profitably.<sup>6</sup> Attempts to do so by oligarchs Vadym Rabinovych and Oleksandr Volkov failed at the end of the 1990s (Pleines 2005: 79-81). The only exception is Oleksandr Rodnianskyi, who owns a television station in both Ukraine and Russia in addition to running a successful production company. Scores of oligarchs have nonetheless integrated individual media companies into their holdings, as they see them as a means of political influence.

Television is the primary information medium for the Ukrainian population. Television networks with political coverage therefore offer the best access to public opinion. There are ten stations with over 2% of viewers for political news. Table 2 provides an overview of the stations and their owners. It appears that among the powerful oligarchs, only Pinchuk and, to a lesser extent, Akhmetov have managed to exert influence over nationwide news coverage to an appreciable degree. Pinchuk's stations account for 21% of viewers with respect to the

6 For the general situation of the mass media, see the contribution of Juliane Besters-Dijger in this volume.

news sector, and are thus on a par with the networks controlled by Rodnianskyi and Khoroshkovskyi. Accordingly, more than two thirds of Ukrainian television viewers see news programmes from stations that are controlled by oligarchs.

Table 2: Viewer share of television news channels 2007

Channel	Owner	Viewer share
Inter	Ukrainian-Russian Consortium (represented by Khoroshkovskyi)	22%
1+1	Rodnianskyi	20%
STB	Interpipe (Pinchuk)	9%
ICTV	Interpipe (Pinchuk)	7%
Ukraina	SKM (Akhtmetov)	5%
Novyi Kanal	Interpipe (Pinchuk)	5%
1. Kanal (Russia)	Russian government	4%
Era	Andrii Derkach <sup>1</sup>	3%
5. Kanal	Poroshenko	2%
UT-1	Ukrainian government	2%
Other	-	19.7%

Note: Viewer share for the first half of 2007.

<sup>1</sup> Andrii Derkach was supervisory board chairman of *Energoatom* and supported the *Socialists* until 2007, ultimately changing to the *Party of Regions*.

Source: GfK Ukraine (cited in: *Kommentarii* 29-30 [87], 27 July 2007, 21).

Of the newspapers providing political coverage, only four have a circulation of over 200,000 copies and thus achieve a broader impact. Two of these are owned by oligarchs: *Fakty i Kommentarii* (Pinchuk) and *Segodnia* (Akhtmetov) (Lukyanova 2006: 3, 5). In addition, the oligarchs control regional television stations as well as print media with lower circulation numbers. Both of these have a limited reach, but can be better tailored to specific target groups. Oligarchs with a strong connection to a regional insider network have thus sometimes managed to muscle into regional media quite effectively. SKM (Akhtmetov) publishes a number of regional newspapers in Donbas. The Privat Group (Kolomoiskyi, Bogolubov) controls a television station in Dnipropetrovsk. ISD (Haiduk, Taruta) publishes two well-known national economic journals, which target political and economic elites. The Privat Group additionally controls the UNIAN news agency. Numerous oligarchs also run websites, which tend to be aimed at a younger, well-educated audience (InvestGazeta 2007; Leschenko 2007).

### Informal Networks

With respect to Kuchma's presidency, it was assumed, at least since the end of the 1990s, that the oligarchs active in Ukrainian politics did not act individually, but instead formed regional clans that united economic and political actors<sup>7</sup>. Three distinct regional clans with influence on the national level in Ukraine emerged. The Dnipropetrovsk clan was represented in the economy by the Interpipe Holding of Kuchma's son-in-law, Pinchuk, and by Privatbank; politically, in addition to President Kuchma, the clan supplied several prime ministers. The Donetsk clan, whose economic footing rested upon the holdings of the Industrial Union of Donbas and System Capital Management, was in the political arena supported by the Donetsk regional leadership, and, with Viktor Yankovych, the former governor of Donetsk. The clan has also had a presence in national politics since 2002. The Kiev clan was economically fuelled by the "Dynamo-Kiev" group and primarily represented by Viktor Medvedchuk, who was appointed leader of the presidential administration in 2002. According to an analysis in the Ukrainian *InvestGazeta*, in 2003 nearly 50% of the economic elites came from these three regions<sup>8</sup>.

It is certainly true that the oligarchs who weathered the 1990s successfully began their careers in one of these three regions and received political support primarily from politicians from their regions. The close and opaque ties frequently involved elements of political corruption. However, the concept of the clan can also suggest a unity and continuity that did not exist.

Within the regional economic and political networks, there were continual power struggles as well as frequent power shifts. Yulia Tymoshenko, for example, an entrepreneur from Dnipropetrovsk, failed to overcome competition from her own region in the second half of the 1990s. While Pavlo Lazarenko, as a prime minister from Dnipropetrovsk, became her major political patron, the election of Valerii Pustovoitenko as the next prime minister from Dnipropetrovsk brought down her business empire (Pleines 1998: 126). With respect to regional unity among actors, the concept of the clan thus seems most applicable to Donetsk, where the regional actors have at least avoided public internecine squabbles and have refrained from forming coalitions with representatives of rival regions.

<sup>7</sup> For an overview of the political constellation under Kuchma, see e.g. Kuzio 2007, Kowall 2006 or Puglisi 2003.

<sup>8</sup> Individually: Kiev 26%, Donetsk 15%, Dnipropetrovsk 8%, Odessa 6%, Luhansk and Lviv 5% each. None of the remaining 20 regions of Ukraine has a share close to 5% (InvestGazeta 2003: 109).

At the same time, the example of Donetsk also demonstrates instability. Over the course of just one decade, the composition of the "regional clan" underwent three fundamental shake-ups. In the first phase, at the beginning of the 1990s, the directors of state-run large-scale enterprises dominated the clan and also occupied political positions. In the second phase the Scherban brothers emerged, who represented new commercial structures in the economy and took political positions themselves. Finally, the Industrial Union of Donbas (Haiduk, Taruta) and System Capital Management (Akhmetov), two industry holdings, entered into a tight regional insider network at the end of the 1990s with the help of the first autonomously created political elite surrounding Governor Viktor Yanukovych. The Industrial Union of Donbas seems to have distanced itself somewhat from the regional insider network during Yushchenko's presidency<sup>9</sup>.

Due to these reservations concerning the concept of a clan, the term informal network is used here. Regional informal networks do not necessarily have to contain all of the elites of a given region, nor do they necessarily have to remain stable over time. In Ukraine's case, the oligarchs under President Kuchma forged their connections in national politics with the aid of informal networks from their own region. At the end of Kuchma's term, however, the Kiev and Dnipropetrovsk networks lost their political power. Thus, after 2004 only Donetsk can be said to have a powerful informal network, which revolves around Yanukovych and Akhmetov.

But informal networks between oligarchs and politics, in which politicians support the economic interests of the oligarchs and in return profit financially from political corruption, are not only formed on a regional basis but also include connections between individual oligarchs and representatives from the executive branch responsible for their commercial areas of interest. A glaring example of this is the rise of Firtash after the Orange Revolution. The seizure of a monopoly position in Ukrainian natural gas imports was accepted by Yanukovych as well as Yushchenko. Both also supported the extremely opaque formation of the business connections and for a long time protected Firtash's anonymity as the majority shareholder of the RosUkrEnergo import company (Pirani 2007; Kusznir 2006).

9 For a detailed description of the Donetsk clan, see publications by Kerstin Zimmer. For a concise summary, see Zimmer 2004. A detailed treatment can be found in Zimmer 2006.

### Assumption of Political Office

In order to stabilise their connections to politics, many oligarchs also assumed formal political office. Of the five largest oligarch-owned holdings, which include all seven of the Ukrainian billionaires on the Forbes list of billionaires from 2006 to 2008, only the Privat Group has never had a formal presence in politics. Of the 30 richest Ukrainians identified by the Korrespondent and Kyiv Post in 2006, roughly half have held office in the legislative or executive branch in recent years<sup>10</sup>. Table 3 provides an overview of the political offices held by oligarchs.

Table 3: Political offices held by oligarchs

Oligarch	Member of Parliament (term, party)	Executive branch (term, position)
Akhmetov, Rinat	Since 2006 (Party of Regions)	-
Bohulubov, Hennadii	-	-
Boiko, Volodymyr	Since 2002 (pro-Kuchma factions; 2006-07 Socialist Party)	-
Burjak, Serhii + Oleksandr	Since 2002 (pro-Kuchma factions; since 2006 Bloc Tymoshenko)	-
Khmelnyskyi, Vasyi	Since 1998 (pro-Kuchma factions; since 2005 Bloc Tymoshenko; since Dec. 2006 Party of Regions)	-
Firtash, Dmytro	-	-
Haiduk, Vitalii	-	2000-2001 deputy Minister of Energy, 2001-02 Minister of Energy, 2002-03 deputy Prime Minister, 2006-07 Secretary of the National Security Council
Khoroshkovskiy, Valerii	1998-2002 (pro-Kuchma factions)	2002 deputy Head of Presidential Administration, 2002-2004 Minister of Economics, 2006-07 deputy Secretary of the National Security Council
Kolomoiskyi, Ihor	-	-

10 Because the constitutional reform passed at the end of 2004 forbids members of parliament from engaging in entrepreneurial activity, all of the oligarchs holding seats in parliament formally ceded their managerial responsibilities to authorised partners or asset managers.



Landyk, Valentyn	Since 1994 (pro-Kuchma factions; since 2006 Party of Regions)	1993-1994 deputy Prime Minister
Pinchuk, Viktor	1998-2006 (Workers' Party)	-
Poroshenko, Petro	1998-2007 (Social Democrats United, Party of Regions; since 2002 Our Ukraine)	2002-2005 Secretary of the National Security Council
Rodnianskyi, Oleksandr	-	-
Shpyh, Fedir	1998-2007 (Workers' Party; 2006-07 Our Ukraine)	-
Slobodian, Oleksandr	1998-2006 (People's Movement of Ukraine, 2002-06 Our Ukraine)	-
Taruta, Serhii	-	-
Timjko, Serhii	2000-07 (Workers' Party)	1997-1998 deputy Minister of Economics, 1999-2000 Minister of Economics
Vasadze, Tariel	Since 2002 (pro-Kuchma factions; since 2005 Party of Industrialists and Entrepreneurs of Ukraine, since 2006 Bloc Tymoshenko)	-
Yankovskyi, Mykola	Since 1998 (pro-Kuchma factions; Party of Regions)	-
Yaroslavskyi, Oleksandr	2002-2006 (after expulsion from Our Ukraine; pro-Kuchma factions)	-
Zhevago, Kostiantyn	Since 1998 (pro-Kuchma factions; Party of Regions, since 2006 Bloc Tymoshenko)	-

Note: All oligarchs from Table 1 are listed.

Sources: *Khro ye khto v Ukraini*, 2007. Kyiv: KIS; *Korrespondent* 2007. Top-100 samykh vliadatel'nykh ukraintsev. 32 (271), 17 August; Kyiv Post, 2006. The 30 richest Ukrainians. Special Insert, 29 June (identical to: *Korrespondent*, 2006. Top-30. 25 (214), 1 July).

While the oligarchs as part of the regional informal networks rallied around President Kuchma until 2004, things changed after Yushchenko was elected president. Several oligarchs with close ties to Kuchma, such as Pinchuk and Yaroslavskyi, withdrew from politics. The Donetsk informal network revolving around Yankovych and the Party of Regions thus established itself as an inde-

pendent political power that particularly enjoyed the patronage of Akhmetov among the oligarchs. On the other hand, the entrepreneurs who had supported Yushchenko and Tymoshenko, namely Poroshenko and Slobodian, now acquired political influence and thus oligarch status. In addition, several oligarchs changed sides after the Orange Revolution, such as the Buriak brothers, Khmelnytskyi (who again switched sides in 2006) and Zhevago<sup>11</sup>.

As a result, most of the Ukrainian oligarchs found themselves in the Orange camp and thus in the parliamentary factions of the Bloc Tymoshenko or Our Ukraine after 2004. Over the course of the 2006-2007 parliamentary elections, the number of oligarchs in parliament dropped precipitously, however. While at the beginning of 2006 there were 12 oligarchs in parliament (eight of which belonged to Orange factions), there were 10 after the parliamentary elections (seven in Orange factions) and after the early elections in September 2007, only 8 remained (five in Orange factions).

This does not mean that the oligarchs' influence in parliament has waned. On the contrary, many oligarchs are now represented in parliament by cronies. For this reason Ihor Palysia, installed as chief of the Ukrnafta firm by the Privat Group, received a seat in parliament on the Our Ukraine list in the 2007 elections. Meanwhile, with Andrii Portnov the Privat Group also has a representative in the parliamentary faction of the Bloc Tymoshenko. Yuri Steis, a leading manager at Channel 5 television, which belongs to Poroshenko's corporate group, successfully ran in 2007 for Our Ukraine. Although Akhmetov himself ran again for the Party of Regions in 2007, he also promoted cronies to secure positions on the party list. In addition to managers from his corporate group, his former chauffeur, Volodymyr Maltsev, is now also among deputies in the Party of Regions faction. Ivan Myrnyi, the security chief for Firash, also entered parliament on the Party of Regions list (*Ukrainskaia Pravda* 2007; *Ukraine Intelligence* 2007; *Financial Times* 2007). The change in the electoral system from single constituency mandates to a mixed system and finally to fully party-list-based nominations promoted this development, as candidates in the lower section of the party lists were not scrutinised by the media and did not influence voters' decisions (Wolowski 2008: 41)<sup>12</sup>.

Having cronies in parliamentary seats gives the oligarchs a number of advantages. First of all, it enables them to retreat from public scrutiny. Second, it allows their parties to develop a less special-interest-oriented image (which was

11 A concise overview of the political role of the oligarchs since the Orange Revolution is offered by Puglisi 2008.

12 On the development of the electoral system see Harasymiw 2005 and Herron 2008.

especially important for Our Ukraine in the 2007 elections). Third, stepping out of the political arena permits them to run their companies themselves, as members of parliament are forbidden from participating in entrepreneurial activities since 2005. Fourth, they can diversify their political influence in that they can send their cronies to various political camps. This has become important since factions have regularly gained and lost power in the period after the Orange Revolution. On the other hand, the oligarchs can only control the behaviour of their political cronies to a limited extent. The cronies can be wooed by other political powers or decide to launch independent political careers. This also presents a problem from an analytical point of view, because it is not clear if political actors with ties to oligarchs are serving the oligarchs' interests or their own (or both). The oligarchs' influence in parliament is thus not only less direct, but more difficult to gauge.

### Public Assessment of the Oligarchs' Political Role

The large majority of the Ukrainian population saw the political system under President Kuchma before the Orange Revolution as indifferent to common people's interest, corrupt and dependent on oligarchs. In a nationwide opinion poll conducted at the end of 2003 these characteristics were the three most often chosen by respondents, all with approval rates of more than 80%.<sup>13</sup>

Five years later, more than 80% of Ukrainians still think that their country is "run by a few big interests looking out for themselves". Although people in many countries see their government as focused on the interests of a small minority, the Ukrainian approval rate for this view was one of the highest in the world at the time of the poll<sup>14</sup>. More specifically, about half of the Ukrainian population named the oligarchs as the group determining political developments in their country<sup>15</sup>. As a result of this view there is a very low trust in the government among the Ukrainian population. Only 20% claim that they can trust their na-

tional government to do what is right most of the time<sup>16</sup>. However, it has to be noted that the proportion of those seeing the oligarchs as the driving force in Ukrainian politics has decreased from over 80% to about 50%.

It seems that Ukraine's political and economic elites hold similar views. In interviews conducted with national and regional politicians, prosecutors, judges and business people<sup>17</sup> in spring 2008 a majority claimed that oligarchs determine Ukrainian politics, while hardly anybody considered them not to be influential<sup>18</sup>. When asked about the ways the oligarchs exert their political influence, a third refers directly and exclusively to corruption, often with the direct assertion that they "buy" politicians or laws. The proverb "He who pays the piper calls the tune" is cited several times. In addition, a tenth of the respondents refer to informal networks and clientelism, mostly using the term "clan" which was a common way of describing the political constellation during the Kuchma presidency. Several of the respondents also refer to the oligarchs as the "grey cardinals" of Ukrainian politics. This means, about half of the members of the political and economic elites interviewed refer exclusively to informal and illegal means of influence. Most of the other half are rather indifferent, either talking about a multitude of ways, the assumption of political office (without describing how office is gained) or giving no clear answer. Only 5% named (assumed) legal lobbying activities as major form of interest representation<sup>19</sup>.

16 For comparison: The Russian approval rate for this statement was 64%. Opinion polls conducted by WorldPublicOpinion.org from December 2007 until February 2008 (World Public Opinion 2008).

17 84 in-depth interviews conducted from February to April 2008 according to a detailed interview-guide by Kiev-based Socis in Kiev, Donetsk and Lviv. Data collected as part of project no 182628, located at the Norwegian Christian Michelsen Institute and funded by the Research Council of Norway. In one interview the questions on oligarchs were not asked. See the chapter by Åse Grødeland for details on the interview design and data.

18 42% saw them as determining politics. 27% described them as either equally influential as professional politicians or fully intertwined with the political elites. 10% argued that the influence of the oligarchs depends on the circumstances (mainly relating to the political issues concerned) and 4% saw them as not influential. 18% did not give a clear answer to the question. Nearly all of those who did not answer are either judges or prosecutors.

19 37% refer to corruption, 14% to several ways, 13% to informal networks, 12% to the control of parliamentary factions, 5% to the assumption of political offices in general, 5% to legal lobbying. One respondent named civic engagement and one (who had described the oligarchs as not influential) named no means of political influence. 11% did not answer. Two thirds of those who did not give a clear answer are either judges or prosecutors.

13 Opinion poll conducted by the Kiev-based Razumkov Center (10-17 December 2003, 2019 respondents, sampling error does not exceed 2.3%), quoted according to Gritsenko 2003.

14 For comparison: the Russian approval rate was 59%. Opinion polls conducted by WorldPublicOpinion.org from December 2007 until February 2008 (World Public Opinion 2008).

15 Opinion poll conducted by the Kiev-based Social Monitoring (16-23 June 2007, 1981 respondents, sampling error does not exceed 2.2%).

In summary, the interviews, though not representative, give a clear indication that the majority of Ukraine's political and economic elites sees the oligarchs as playing an important role in Ukrainian politics with the help of corruption and informal networks. Altogether only five respondents mention some positive aspects of the oligarchs' political involvement, either arguing that this promotes the general economic development of the country or pointing to their philanthropic activities<sup>20</sup>.

## Conclusion

Oligarchs, defined as major politically active businesspeople, play an important role in Ukrainian politics. However, this role has changed considerably since the Orange Revolution and these changes have an impact on the democratic and European perspectives of Ukraine. For an assessment of these impacts, it is helpful to distinguish between three levels.

At the level of policy aims, the fact that their holdings have remained largely untouched, although renationalisation was one of the major slogans of the Orange Revolution, reinforced the orientation of the oligarchs towards long-term business plans. This also means that they favour a stable economic environment, with secure property rights, and closer economic integration with the EU, which is a major export market and also a target of foreign investments. Accordingly, it has been argued that, although they are still pursuing their personal benefit, oligarchs now serve the public benefit with their more pro-market and pro-EU political stance (Puglisi 2008).

In power politics, the role of the oligarchs has changed most obviously with the Orange Revolution. While they all supported the manipulations of the Kuchma regime through participation in their respective regional networks and thus contributed to the creation of a single power centre with control over political actors and the media, since the Orange Revolution they have belonged to competing political camps and have thus contributed to political competition. As all major political factions have support from oligarchs, they partly neutralise each other and thus offer a safeguard against a permanent takeover by one political force. As a consequence, mass media are no longer subjected to one power centre and therefore can report diverse views.

At the same time, however, the effect of the oligarchs' political engagement is disastrous at the level of the political system. The problem is not that entrepre-

neurs are represented (or even over-represented) in parliament. In democratic theory, parliaments are not expected to mirror the social structure of society. In this context, members of parliament present specific interests of different societal groups rather than an imaginary common public benefit and are supposed to reach a compromise between conflicting interests. Accordingly, the problem with the political role of the oligarchs in Ukraine is that they present their individual, instead of collective (entrepreneurial), interests and, even more importantly, that they use undemocratic means to promote these interests. This undermines democratic decision-making processes and delegitimises the existing democratic constitutional order in the eyes of the public and of the political and economic elites. This disrespect for democratic rules displayed by the oligarchs also endangers the country's closer cooperation with the European Union, as the EU demands transparent and fair political processes.

For these reasons, the oligarchs want economic integration with the EU but not political integration. The offer made to Ukraine by the EU in summer 2008, comprising a free trade agreement but no membership perspective, may therefore satisfy most of the Ukrainian oligarchs. However, as power politics are no longer dominated by oligarchs, they are not in a position to dictate the foreign policy orientation of Ukraine. The long-lasting political stalemate, in which all major parties have at least twice gained and lost political power, may in the long term even promote acceptance of democratic rules, as the political elites learn that respect for rules best helps to preserve their interests once they have lost power. If oligarchs simultaneously learn that the best way to preserve their interests is to focus on business and not on politics, Ukraine may be ready to (re)integrate into Europe.

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<sup>20</sup> It is interesting to note that these respondents belong to different professional groups and come from different regions.

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