Behind Ukraine’s Energy Transition: Overcoming Key Challenges

Policy Brief
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Executive Summary

The remarkable reform of Ukraine’s gas market\(^1\) has numerous dimensions. The purpose of this paper is to elaborate on two major challenges – one Ukraine has almost overcome, another one Ukraine is still coping with.

From the outside perspective, the first challenge is high dependence on energy supplies from Russia. The lack of domestic energy resources has always motivated Ukraine to seek alternative sources of supply. The dependence rooted in the geographic location and Soviet legacy forced Kyiv into cooperation with Russia. However, it was the selfish behavior of the seemingly "friendly" neighbors, which provided incentives for political negotiations. A striking example is the contract of 2006, which provided for a complete monopoly of the intermediary RosUkrEnergo and the need to agree the gas price with Russia every year. In 2009, following another gas dispute, the Prime Minister Y.Tymoshenko signed a contract, which aimed to increase basic gas price to 450 USD per thousand cubic meters and was based on the "take or pay" principle, which blocked any attempts to change the volume of purchases.

Projects related to the diversification of gas supplies were unsuccessful until recently. Ukraine tried to participate in negotiations on supply from the Middle East, to build an LNG terminal and to explore unconventional gas reserves. Only after implementing the EU legislation in gas sector, it was possible to expand reverse flow supplies from Slovakia, Poland and Hungary.

Second challenge are oligarch groups, which impact decision-making and prevent the projects, aimed at increasing competition on the market, from realization. They can be defined as an internal threat to the expansion of gas supply. Oligarchs in Ukraine always played a significant role in the formation of policy. Due to their influence on almost every political process, Ukraine is suffering from corruption and non-transparent management.

Due to the fact, that Ukraine has had close relationships with Russian politics and business in energy sector, veto players were mostly Russians. The history of shadow deals and manipulative contracts allow evaluating their links to both Russian and Ukrainian policy-makers. For instance, despite RosUkrEnergo (RUE) was removed from gas trade between Russia and Ukraine, its co-owner D.Firtash is strongly connected with parliamentary faction of the Opposition Bloc (created on the debris of the former President V.Yanukovych Party of Regions) and owns over 70% of Ukraine’s gas distribution market.

Another mogul, I.Kolomoyskyi, remains a strong player in politics long after he was dismissed from the position of a governor of the Dnipropetrovsk region. Moreover, with Renaissance ("Vidrodzhennia") and UKROP parties Kolomoyskyi has owns representatives in Parliament.

Rinat Akhmetov, another "shareholder" in the Opposition Bloc, applied other types of political influence, like public protests and media. For instance, according to some media reports, his energy holding DTEK created a strategic plan for replacing the former Minister V.Demchysyn called "Krepost" ("Fortress"). The plan allegedly included miners' protests and media activity.

The Russian businessman K.Grigorishyn who was a sponsor of the Communist Party under Yanukovych, still benefits from procurement contracts of state-owned enterprises.

However, it was V.Yanukovych and his corrupt associates, known as the Family, who directly used political positions in the favor of own businesses. Back at that time, E.Stavytskyi as the Minister of Environment and later the Minister of Energy who coordinated the scheme to steal Mezhyhirya estate and obtain two dozens of licenses for affiliated oil&gas firm. S.Kurchenko, a frontperson for the Family group, made his fortune due to smuggling and selling LPG originating from Russia. Due to links with Yanukovych, brothers Klyuyev developed assets in renewable energy with strong support from the state, rooted in abuse of power. The Yanukovych family enriched itself during its four-year reign through energy subsidies, discretionary public procurement, embezzlement from the state, privileged privatization, fraudulent refunds of VAT to exporters, extortion, and corporate raiding.

Under the new President P.Poroshenko and the new government of V.Groysman, there is still much space for improvement. Oligarchy became much weaker. Still, there are many ways how Ukraine can improve its performance, including creation of more competitive conditions on energy markets and transparency. Gas market liberalization has to be advanced further in order to ensure competition, the same applies for other markets, including electricity one. Proper regulation and solid legislative base will promote Ukraine’s progress in overcoming major challenges ahead.
I. – Gas import diversification: opportunities lost and found

In Ukraine, goals of supply diversification and energy independence from Russia have never been more pressing than after 2005, when the government is change resulted in a new Russian external gas pricing policy. ‘Russian's gradual increase in prices’\(^2\), followed by 2006 and 2009 disputes, did automatically resulted in sustainable diversification and market opening policy. Despite some efforts taken in 2011 through 2013, it was only after the Revolution of Dignity and subsequent Russian aggression, that Ukrainian government shown provided real urgency impetus for diversification and gas market reform.

Despite the collapse of the USSR in 1991, Russian leadership has always cherished the hope for diversification of recreating a great empire and thus attempted to execute influence on the political process in Ukraine. Gas sales have been considered as another tool of pursuing the Russian foreign policy interest on the post-Soviet space. Indeed, Russian Energy Strategy defines the sector as a tool of both internal and foreign policy\(^3\). It is unfortunate, that Ukraine’s energy dependence from the aggressor was extremely high until recently. For some of the markets, e.g. nuclear fuel\(^4\), Ukraine just started passing the way to substitute the Russian energy supplies.

Emily J. Holland, PhD candidate in Political Science at Columbia University, argued why some states like Lithuania invest in costly strategies to wean themselves off dependence, while others, such as Ukraine, are unable to make cohesive energy security policy despite a pressing need. In her opinion, state energy policy and outcomes of international energy trade are driven by domestic level political capture, or regulatory corruption, that goes on below the surface of market transactions. Rather than a simple analysis of the trade-off between price and dependence, she argued that market choices are tied in with political choices on the domestic and international levels\(^5\).

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\(^3\) Energy Strategy of Russia by 2020, September 5, 2003, pp. 36-43
\(^4\) "Diversification of nuclear fuel supplies in the context of national energy independence", National Institute of Strategic Studies, 2014
\(^5\) Holland, Emily J, "Poisoned by gas: domestic networks and energy security strategy in Ukraine", Journal of International Affairs, Fall/Winter 2015, Vol. 69, Issue 1, p. 17
The illustration to this point of view may be the fact that until recently Ukraine had almost no other sources of energy supplies, except Russia. Ukraine’s energy policy has dramatically transformed after the change of government and Russian aggression against Ukraine.

According to Andrew Wilson, Senior Policy Fellow at the European Council on Foreign Relations, ‘Russia duly cut off the gas supply to Ukraine in June 2014, just after Poroshenko was elected president, in the middle of summer, when Ukraine’s reserves were impressively high. But big bills piled up. And any cut-off the following winter would, of course, be much more serious’.

Relations between the two countries in the energy sector has been evolving along with the changes in the political situation in Ukraine. For example, after Orange Revolution Russian energy policy toward Ukraine has dramatically changed. Indeed, since 2006, Gazprom’s strive to sell its gas to Ukraine at European prices lead to a progressive import price from 50 USD/tcm in 2006 to 250 USD/tcm in 2009 with prices changing every quarter according to a formula set in the 10 year gas contract with Gazprom.

In January 2009, Ukraine signed a new gas contract with Russia, which played significant role in Ukrainian-Russian relations and became a powerful leverage for the Russians. Under new contract, Ukraine had to buy gas for historically high price – 450 USD/tcm set as basic in the contract.

At the same time, price was only one of the mechanism of Russian pressure. ‘The main contract provisions include take-or-pay penalties, namely annual supply volumes were set at 52 bcm and the minimum take-or-pay level at 41.6 bcm, with an option to reduce this volume by 20%, if Naftogaz makes a request before July of the year that precedes the contract year. All gas, including gas for storage, has to be paid before the seventh day after the month of delivery; otherwise a pre-payment mechanism can be introduced, along with penalties’.

Ukraine had limited mechanisms to diversify supplies until recently. The sharp increase in

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gas prices in 2009, after the signing of supply and transit contracts with Gazprom, made Ukraine reflected on diversify import and reduce consumption. Despite this fact, Ukraine has shaped its energy policy actions towards ensuring energy independency only since 2014.

Chasing phantoms: first steps towards gas supply diversification

Some attempts to address gas import independency were made back in 2005. Indeed, Ukraine was thinking to join the Nabucco project. The Nabucco project provided for construction of a gas pipeline connecting the Caspian region, the Middle East and Egypt via Turkey, Bulgaria, Romania, and Hungary with Austria and further on with the Central and Western European gas markets. From the EU point of view, Nabucco should have presented an opportunity to diversify gas supply options and to reduce the EU's dependence on Russia\(^9\). In 2013, the project was officially canceled by a decision of the European Commission.

In 2005, there was another alternative project initiated - the White Stream pipeline, which would allow transporting Azerbaijani gas from the Georgian coast under the Black Sea to either Romania or Ukraine. White Stream would be ambitious (aiming at a 30 bcm capacity) and, as a sub-sea pipeline, expensive to build\(^{10}\). Ukrainian government was talking about this project till 2013 but, unfortunately, important steps toward new pipeline weren't implemented.

Following steps toward expanding gas imports were made in 2012 when Eduard Stavytskyi was the Minister of Energy and Coal Industry under the Yanukovych administration. For instance, the Adriatic gas corridor was aimed to link the gas transmission systems of three countries, allowing gas from Croatia to be transported through Hungary all the way to Ukraine. Under the plan, gas from the Krk LNG terminal, the Ionian Adriatic Pipeline (IAP)


\(^{10}\) Barysch, Katinka. "Should the Nabucco Pipeline Project be Shelved?", Transatlantic Academy Paper Series, May 2010, p. 14
pipeline, and, possibly, fields yet to be exploited in Croatia would, by means of the Adriatic gas corridor, be transported directly by the shortest possible route to potential customers in Hungary and Ukraine and could also be stored there. The project is in “standby mode” because of the fact that Krk LNG terminal is going to be build in 2020.

For guidance of Eduard Stavytskyi also was planning to build coal gasification plants. In particular, “Ukrainian Parliament adopted the Law “On the State Budget of Ukraine for 2012” in order to resolve the issue of state guarantees for the loans of the China Development Bank Corporation. According to agreement, China Development Bank Corporation will invest 3.656 billion USD under state guarantee for projects involving the replacement of gas with coal\textsuperscript{11}. Despite the fact, real steps weren’t made. Meanwhile, terms of contract expires in two months. Future of the project depends on the Government, which appears to be quite controversial because of possible changes in its leadership.

The Ukrainian market remains important for Caspian gas as well. Ukraine has good opportunity to import Caspian gas, in particular, through TANAP-TAP pipelines. Caspian gas could meet a market niche at the annual level of 5 bcm or even more. It can be delivered to the Ukrainian market through Bulgaria and Romania using existing pipelines. Roman Rukomeda, expert at Center on Energy and Economy, Hesen believes that thus the technical possibility for this step exists, but the real needs of Ukrainian gas consumption (including for the Caspian gas) are very much unclear as the growing economic crisis could significantly reduce gas consumption\textsuperscript{12}.

\textsuperscript{11} Ministry of Energy and Coal Industry, “The Verkhovna Rada adopted the law aimed at ensuring the funding of projects for coal-for-gas substitution”. July 31, 2012

\textsuperscript{12} Rukomeda, Roman. “Ukraine’s energy sector in 2014: New chances or lost opportunities?”, Caspian Strategy Institute, Winter 2014, Issue 6, pp.45-57
End of gas wars? Reverse flows and the new import balance

Also, the government under Yanukovych tried to negotiate with Europe about reverse flows. In 2012, Ukraine signed a Memorandum of Understanding for gas supplies from Baumgarten, which gave Ukraine an opportunity to start to import, for the first time in its history, very small amount of gas (0.06 bcm) from the German company RWE, via reverse flows through Poland, at a lower price than the gas imported from Gazprom. 

In 2013, Ukraine had been testing reverse gas supplies from Hungary and Slovakia. Ukrainian government expected to sign a contract for the supply of 7 bcm/a through Hungary and Slovakia, reducing import from Russia to 18 bcm. Slovakia believed to be the main reverse flow corridor from the EU to Ukraine. Starting from September 2013, the volume of imported gas from Hungary reached 15 million cubic meters per day. According to Taras Kuzio, Viktor Yanukovych is the most pro-Russian and neo-Soviet president to have been elected in Ukraine. Despite the fact, Ukraine started its reverse flows under Yanukovych government. 

These achievements says that, in fact, the government under Yanukovych have done first steps toward reverse flows. However, during the V. Yanukovych era, Ukraine position as an energy dependent state hardly changed. In 2013, Ukraine imported from Russia 25.8 billion bcm and that was 92% of its needs. In 2014, Russia’s Gazprom supplied 14.5 bcm of gas, and 5.1 bcm came from the EU, in 2015 the proportions reversed: the EU supplied 10.3 bcm, and Russia 6.1 bcm. This change is the result of effective action to increase the opportunities to import gas via reverse connections with EU member states, mainly Slovakia, as well as the favorable situation on the European gas market. Due to difficulties in relationships between Russia and Ukraine, there is no hope on cooperation in near future.

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14 Kuzio, Taras. The Crimea: Europe’s Next Flashpoint? November 2010
Trends in gas imports and dependency by source, 2013-2015

<table>
<thead>
<tr>
<th>Source</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<td></td>
<td>Imports, bcm</td>
<td>Share %</td>
<td>Imports, bcm</td>
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<td>Russia</td>
<td>25.8</td>
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<td>Price, USD/tcm</td>
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<td>Total consumption</td>
<td>50.3</td>
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<td>42.6</td>
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Sources: Naftogaz. Figures and Facts. 2016, Kyiv

It has to be noticed, that gas consumption in Ukraine decreased as well, mainly due to the decline of industrial output and the loss of control over part of the Donbass. Another reason why natural gas consumption in Ukraine decreased was increasing gas prices for households and industries. The National Commission for State Energy and Public Utilities Regulation has made a decision to raise gas prices for households 3.3 times starting from April 1, 2015. In a transition period, minimal volumes of consumption were set for the heating season 2015/2016 with a discounted price of 3,600 UAH/tcm (144 USD/tcm); consumption over the limits is charged with normal price of 7,188 UAH/tcm (288 USD/tcm). According to the Memorandum between Ukraine and International Monetary Fund, the price of natural gas for the households will raise until April 2017 to the level of cost of imported gas.

As for the industry, the prices are already market-based. In December 2015, Naftogaz decreased industry prices by 5%: depending on the terms of payment and volumes purchased, the prices vary between 5845 (234 USD/tcm)
and 6474 UAH/tcm (259 USD/tcm)\textsuperscript{15}. When the new government of V.Groysman started its work, energy tariffs has changed. According to the Resolution of Cabinet of Ministers of Ukraine, new single tariff to come into effect next month will be 6,879 UAH/tcm ($272). The outgoing two-tier system's winter pricing was 3,600 UAH/tcm for up to 1,200 cubic meters of gas, rising to 7,188 UAH/tcm for consumption above 1,200 cubic meters\textsuperscript{16}.

**Europeanization on the march: options for further diversification**

There are many different ways how Ukraine can decrease its energy dependency. Indeed, according to Decree of the President of Ukraine "On the Strategy for Sustainable Development "Ukraine – 2020", Ukraine plans to limit the share of single supplier to 30%\textsuperscript{18}. In the positive case, it will bring Ukraine an opportunity to reduce its gas dependency from Russia.

Since Ukraine started to import gas from Slovakia, it reflects about increasing the volume due to `large reverse flow`. This would have provided Ukraine up to 30 bcm of gas per year. Slovakia rejected this idea, however, claiming that there was a contractual problem with it. Eustream claimed that it would be impossible to establish a "large reverse flow" without consent from Gazprom Export, which exercises the function of virtual transmission system operator on the Slovakia-Ukraine gas border.

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\textsuperscript{16} Resolution of Cabinet of Ministers of Ukraine. "On Amendments to the Resolution of Cabinet of Ministers of Ukraine No. 758 of October 1, 2015" No. 315 of April 27, 2016

\textsuperscript{17} Åslund, Anders. "Why Ukraine Needs Market-Based Gas Prices". Vox Ukraine, January 17, 2015

\textsuperscript{18} Decree of the President of Ukraine "On the Strategy for Sustainable Development "Ukraine - 2020". January 12, 2015
Ukraine is still convinced over Slovakia's reluctance towards the idea of establishing a large reverse flow. In June 2015, then Ukrainian Prime Minister Arseniy Yatseniuk sent a non-public letter (the main parts of which were later disclosed by the press agency Reuters) to the European Commission, accusing Slovakia of illegal provisions in its contract with Gazprom, which supposedly prevented reverse flow to Ukraine on the main Brotherhood pipeline. The letter prompted a harsh reaction from Eustream, who claimed that Ukraine's accusations are irrelevant. There was another sign that despite positive developments, Slovakia's – Ukraine relationship remain tense\(^\text{19}\).

Marc-Antoine Eyl-Mazzega, Programme Manager for Russia at the International Energy Agency (IEA), suggests that further increasing gas import capacities to Ukraine from Slovakia to the system’s full potential is and will face challenges as the TSO Eustream has signed up to long term capacity bookings until the end of the 2020s with Gazprom involving ship or pay clauses (payment for total capacities even if not fully used). Should the capacity allocation be reviewed, Gazprom could in turn re-open the clause on the duration and volumes of its capacity bookings\(^\text{20}\).

It must be noted, that Ukraine made a significant step toward virtual reverse. In fact, in physical terms transporting Russian gas from the East to the West and at the same time bring European gas into Ukraine sounds absurd as it involves moving an indistinguishable commodity forth and back.

Ukrainian Parliament adopted the law "On amendments to the Customs Code of Ukraine regarding creation of preconditions for a new model of the natural gas market", which provides Ukraine with an opportunity to displace gas transported to the EU through Ukraine and gas supplied in the reverse direction, without physical cross-border shipments, through backhaul operations.

In June 2015, Ukrtransgaz signed the agreement with Hungarian FGSZ governing both directions of natural gas flows on the interconnector across the Ukraine-Hungary border.

\(^{19}\) Daborowski, Tomasz. "Difficult path towards gas partnership: Visegrad Group countries' gas cooperation with Ukraine", Visegrad Fund, p.9

\(^{20}\) Interview with Marc-Antoine Eyl-Mazzega. March 3, 2016
This is the first agreement of this kind between Ukrtransgaz and a neighboring European TSO. The European Commission believes this agreement will serve as a model for other agreements on interconnections between EU operators and Ukrtransgaz. Ukrainian company cannot currently fully cooperate with neighboring European TSOs because of their current arrangements with Gazprom. Despite the fact, Naftogaz believes that in the near future Ukraine will sign interconnection agreements with Slovakia, Poland and Romania.

To diversify gas import, Ukraine also was planning to supply it from Lithuanian LNG-terminal in Klaipeda through Belarus. Indeed, Ukraine asked Belarus to consider the transit of natural gas through its territory. Considering the fact that Belarus TSO is fully owned by Gazprom, the country refused to do it. Meanwhile, Lithuanian is going to build new pipeline to Poland and promises Ukraine to supply its gas through new pipeline.

Another way in which Ukraine can diversify its gas import is interconnector with Poland. Leading economic and energy analyst Mykhailo Honchar says: "We can expand gas imports through Poland and there is only one way how we can do it – build new interconnector. Meanwhile, last year we imported 16.4 bcm of gas from Russia and the EU combined, with capacities in 22 bcm. There is a question why we need to expand our sources of gas supplies?"

Furthermore, pipeline from Poland can bring Ukraine up to 8.3 bcm of gas per year, which is a half of Ukrainian imports in 2015. The advantage of the new project will be tight integration with the Ukrainian Underground Gas Storage (UGS) "Bilche Volytsya" (17 bcm) and "Oparske" (1.9 bcm). The project can create a very flexible system and provide opportunities for the European gas storage in underground storage of gas in Ukraine.

The integration of Polish and Ukrainian gas transportation system - is part of the North-South Gas Corridor, which will connect LNG-terminal in Swinoujscie with Central and Western Europe through individual countries and cross-border system. The aim is to create a

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21 Naftogaz, "Ukrtransgaz signs interconnection agreement with Hungarian gas transmission system operator FGSZ". January 5, 2015

22 Interview with Mykhailo Honchar, February 12, 2016.
flexible gas supply infrastructure in countries unite Western, Central and Eastern Europe, the Baltic States.

There are a lot different methods of gas diversification. However, Ukraine should rely solely on itself. Developing domestic production is the most practical means of ensuring energy independence, and Ukraine’s potential in this area is significant. Ukraine has enormous energy saving and energy efficiency potential. According to the Energy Policy Review of Ukraine published by IEA (International Energy Agency), energy efficiency deployment requires the right regulatory and institutional framework, fiscal incentives, awareness and available funding. An efficient market-driven tool are energy service companies, and Ukraine could become a leading market for ESCOs. The availability of funding is essential: the banking system needs to have instruments dedicated for supporting energy efficiency projects, and the EBRD is already very active in this area. Last but not least, energy efficiency needs to be a high policy priority, which must be translated into the institutional arrangement (at the government, regional and local levels), the staffing and the means dedicated to supporting deployment efforts. Energy efficiency is key to reducing the impact of higher tariffs on households, for the competitiveness of the economy, for job creation and energy security.²³

Mykhailo Bno-Airiiian, the Head of the department of Strategic planning and European Integration at the Ministry of Energy and Coal Industry (2015-2016) is convinced that the question of importing European or Russian gas it is the only question of business and the price but not of the politics and this is the main role and the main consequence of diversification. Talking about diversification ways, he mentioned that Ukraine turned its attention to Caspian region and to Middle East. Indeed, Ukrainian leadership had a meeting with leadership of Iran and tried to tell them that countries can co-operate in agriculture sector, because Iran is seeking for diversification of roods of supply of agriculture and Ukraine could give a hand for that.

LNG in Ukraine: myth or reality?

Another way to diversify gas import were the plans to build Liquefied Natural Gas (LNG) terminal in the Black Sea in 2009. 'The terminal is planned to be built at the Yuzhny port and commissioned in the period 2015-16.

At the same time, Ukraine needs energy independence and it could be bilateral co-operation because it facing with lack of energy resources.

Another source of diversification gas import could be Turkey. He said: "If we are talking about energy, the main thing is the possibility of co-operation, possibility of participation of Turkish companies in privatization process in Ukraine. We were discussing a question about the possibility of using Ukrainian underground storages and also we discussed a question of LNG, because historically we are very interested in getting LNG to Black Sea to Odessa". 

Its capacity is to be progressively raised from 2 bcm to 5 bcm and ultimately, 10 bcm/year (maximum extension to four tanks), with a cost estimated of EUR 1 billion to EUR 1.7 billion, with the first phase estimated at EUR 969 million. 

It has to be noted, that the government would have to invest about EUR 55 million and offer an additional EUR 121 million in guarantees via Naftogaz or Ukrtransgaz. Through the new terminal, gas-importing companies from Ukraine could be buying LNG from suppliers including the United States, Libya, Egypt, Algeria, Qatar and Azerbaijan. The estimated service cost for regasification could be USD 40/tcm to ensure quick return on investment.

However, there were challenges of crossing the Bosporus. Despite numerous negotiations, the position of Turkey remains reluctant. It claims that the passage of LNG tankers through the Bosporus is a problematic issue because of safety matters in the Black Sea strait, which is quite busy and narrow. Istanbul is a densely populated city while LNG tankers are considerably larger than oil tankers. In case of incidents, as Turkey argues, the consequences for the population and Istanbul would be disastrous.

\[24\] Ukraine Today, "Ukraine seeks new energy partners in Middle East". March 11, 2016

Margarita M. Balmaceda, Associate Professor in the Lohn C. Whitehead School of Diplomacy and International Relations, is convinced that these initiatives didn’t result from Yanukovych’s selfless interest in the future of Ukraine; more likely, they were a reaction to the sharp increase in gas prices by Russia from 2009 on. Nor have they been an example of transparency. On the contrary, some of the deals involving the (re)importation of gas to Ukraine have been monopolized by the country’s most politically influential businessmen26.

To diversify gas import, Ukraine also was planning to supply it from Lithuanian LNG-terminal in Klaipeda through Belarus. Indeed, Ukraine asked Belarus to consider the transit of natural gas through its territory. Considering the fact that Belarussian TSO is fully owned by Gazprom, the country refused to do it. Meanwhile, Lithuania is going to build new pipeline to Poland and promises Ukraine to supply its gas through new pipeline.

In June 2015, Ukrainian government signed a contract with the U.S.-based Frontera Resources Corporation. The parties agreed to cooperate in investing in the exploration and development of oil and gas in Ukraine, as well as the project of liquefied gas import capacity of American companies from Georgia. According to the contract, American company will start building LNG terminal in Odessa in the near future.

Shale gas revolution and Ukraine: lessons learned

Another important initiative concerns plans to ramp up gas production, including production of unconventional gas. In May 2012, Ukraine resolved its two first tenders for exploration and test drilling in the Yuzivska field in the Shell and the Oleska field in the Chevron. In January 2013, Ukraine signed a 10 billion USD, 50-year production sharing agreement (PSA) with Shell. The main goal was to produce from 3 to 5 bcm of unconventional gas by 2020 in Yuzivska field (Kharkiv and Donetsk regions),

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with best-case production scenario of 20 bcm by 2035.  

Yuzivska is a promising field with deposits of tight gas in non-porous sandstone formations. Its estimated gas reserves are 4.05 Tcm. The second gas block offered, Oleska field, extends over an area of 6,324 km$^2$ in the Lviv and Ivano-Frankivsk regions. Its forecasted shale gas reserves are 2.98 Tcm. This field had to be exploited by Chevron.  

In 2012, ExxonMobil won the competition for the development of Skifska field on the Black Sea offshore. In particular, ExxonMobil (40%, operator), Shell (35%), Austrian OMV (15%) and Nadra Ukrayny (10%). It has to be noted, that budget revenues from the project are estimated at 80-90 billion UAH.  

Despite the significant steps made, three aforementioned investors suspended their activity in Ukraine.  

Ukrainian experts explain this through oil prices drop and, consequently, the change in gas prices. Mykhailo Honchar in an interview with Deutsche Welle explained: under such conditions, expensive projects for the development of unconventional gas are less favorable than if it was under higher prices. Such plans are especially difficult to be implemented in the European countries with harsh environmental conditions set.  

Another reason relates to high taxes. Razumkov Centre experts believe that increasing in rent payments on gas production in July 2014 led to a drop in upstream activity, deterioration of the investment climate and as a result - exit of international energy giants from Ukraine. Despite the rent payment rates have been returned to previous levels, trust between the government and investors was damaged.

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28 Honchar, Mykhailo, “First steps towards into the unknown. The possibilities prospects of unconventional gas extraction in Ukraine”. Centre for Eastern Studies, No. 106, May 24, 2013, p.3  
II – Rise and fall: impact of oligarchs on Ukrainian energy policy

Article 13 of the Constitution of Ukraine states that the land, minerals, forests, waters, and atmosphere resources belong to the people of Ukraine, with their rights executed by the government. Despite this fact, energy sector, in particular upstream and trading segments, has always been a cause of scandals and corruption, rooted in high cashflows and therefore subject of the oligarchs’ interest.

Emily J. Holland, PhD candidate in Political Science at Columbia University, claims: despite energy policy and negotiations are routinely made at the highest level, in many states there are a number of domestic actors at a variety of levels who participate in both the energy trade and in policy formulation. She describes that these actors, who can range from corporate actors to warlords to energy industry insiders, are all potential veto players, whose agreement is necessary to change policies from the status quo.

The origin of veto players in Ukraine is the decision-making in the Soviet Union. In particular, any decisions on energy were made by Moscow, which means that Soviet republics didn’t have well-developed mechanism of internal planning. Along with Ukraine gaining independence, its veto players have just emerged. They were oligarchs or middlemen as products of primary accumulation of capital. With no or restricted competition, they became powerful in business but also in politics, having still one of most significant impacts. According to the ranking of the top 10 richest people in Ukraine, prepared by Dragon Capital and Novoye Vremia, 1/3 of them hold energy assets.

For two decades, Ukraine used to have a close oligarch relation with Russia in gas sector. In particular, corrupt business players purchased gas at low regulated prices and then reaped significant profits by selling it on free, competitive markets. These gas traders did not have large assets, but were dealmakers. They benefited from price differentials, i.e. of state-owned enterprise and of the free market.

31 Holland, Emily J. Poisoned by gas: domestic networks and energy security strategy in Ukraine. Journal of International Affairs, Fall/Winter 2015, Vol. 69, Issue 1, p.17
33 Åslund, Anders. Ukraine: What Went Wrong and How to Fix It, April 2015, p.27
One of the first gas schemes were created by Ihor Bakai. His concern Respublica was the first importing gas company in Ukraine, created in 1994. Only Respublica had a contract on gas import with Gazprom and special rights on payments for gas transportation with the Russian gas monopoly. When Leonid Kuchma was elected President, gas schemes have changed. According to the new policy, four companies received permission to import and trade Russian gas to assigned Ukrainian regions, namely UESU (United Energy Systems of Ukraine), Interpipe, Intergaz and Itera Energy. Furthermore, UESU - the company led by Yulia Tymoshenko - got most of the solvent regions. Dmytro Firtash played very significant role in gas business as well. After the dominance of UESU and Itera, affiliated with Tymoshenko, in mid’2000s his companies Eural Trans Gas and RosUkrEnergo became monopolist intermediaries in the Russian-Ukrainian gas trade, followed by expansion on domestic market. Firtash entered gas business in 1990s with the barter scheme between Ukraine and Turkmenistan, and his business empire has been growing because he has acted as Russian agent of influence and representative.

Firtash: a gas king decrowned?

Dmitry Firtash is owner of Group DF, a holding operating mainly in the chemical, gas and banking sectors. The billionaire, who made his fortune importing Russian natural gas and buying the related assets in Ukraine, was arrested in Vienna in March 2014 following the FBI request on charges of bribery.

Wojciech Konończuk, Head of the Department for Ukraine, Belarus and Moldova at OSW, says that influence of Dmytro Firtash, has shrunk since the Revolution of Dignity. He is convinced that Firtash was among those oligarchs whose assets had increased under Yanukovych’s rule. According to Konończuk, Firtash is perceived as the businessman who has links with Russia as he has traded Russian gas in co-operation with Gazprom for years.

34 Brehyaria, Svitlana, “Policy towards small and medium enterprises and the big capital”, Proceedings, No. 1, p.241

The main source of his capital was RosUkrEnergo, which was owned 50 per cent by Gazprom (formerly by Gazprombank), 45 per cent by Firtash and 5 per cent by his companion Ivan Fursin.

Creation of intermediary companies like RosUkrEnergo and Eural Trans Gas allowed Ukraine to import a gas "basket" comprised of gas of mainly Central Asian origin for ridiculous prices. This firm pays for gas from Central Asia at a lower price and from Russia at a higher price, and provides it to Ukraine at an average price of 95 USD/tcm. The agreement between Gazprom and RosUkrEnergo, which was signed in 2006, also provides for higher transit fee payments to Ukraine (in cash rather than in gas). Perhaps more troubling for Ukraine, the accord calls for the creation of a joint venture between RosUkrEnergo and the Ukrainian gas firm Naftogaz that grants the former one-half of Ukraine’s domestic market 36.

Marc-Antoine Eyl-Mazzega, the Programme Manager for Russia at the International Energy Agency (EIA), says that creation of RosUkrEnergo showed the links between Russian and Ukraine. Indeed, that ruling elites of both countries then had a joint interest in opaque schemes37, as the profits generated were "reinvested" into political support. Despite home arrest of Dmytro Firtash in Vienna on 12 March 2014, the oligarch still controls a significant stock of assets in the energy sector of Ukraine, namely regional gas companies controlling 75% of gas distribution market. Moreover, the state as owner of distribution networks did not require any rent fee for using these assets and thus discourage major investment in infrastructure upgrades38.

Until 2015, regional gas companies have had a dual nature, serving both as suppliers and DSOs (Distribution System Operator). This fact made them actual monopolists on the local level. The Gas Market Law adopted in April 2015 provides for their unbundling, i.e. legal separation of DSOs and supplying assets to allow other suppliers use distribution networks and therefore compete for end-consumers. Discussions are still underway on trade (1998-2009).” PhD diss., Doctoral School of Sciences Po, 2011, p.15

36 Jim Nichol, Steven Woehrel, Berner A. Gelb, “Russia’s Cutoff of Natural Gas to Ukraine: Context and Implications”, CRS Report for Congress. February 15, 2006


the procedure of leasing the state-owned networks and the related payments.

First attempt to re-establish control over distribution grids were made in 2009 by the Tymoshenko government as it tried to withdraw gas pipelines from regional gas companies (oblgazy) of Firtash and other businesspeople and transfer them to the newly created company Naftogazmereshi, which would be executing the function of gas distribution.

After the Yanukovych rise to power, the government liquidated Naftogazmerezhi. Moreover, the Azarov government has obliged the Ministry of Energy and Coal Industry to grant oblgazy the right to operational management of state assets. Following this, the State Property Fund almost completed public sale of shares in regional gas companies and left in the hands of the state only blocking stakes (25%). The government now controls only 3 of over 40 oblgazy, which are scheduled for privatization in 2016.

Under the Yatsenyuk government, Ukraine adopted the new Gas Market Law, which provides for unbundling of supply and distribution functions of the DSOs. Also, it prohibits the use of gas distribution networks without the economic rights of ownership, only on fee basis. The government has prepared a draft resolution, which aims to put these networks under the management of Gaz Ukrainy (subsidiary of Naftogaz). Furthermore, “the government canceled the resolution No. 770 from 2012”\(^{39}\), which enabled operational management of regional gas companies over the networks. According to the document, regional gas companies must pay for using state gas distribution networks. At the same time, the issue of audit which parts of the distribution networks are owned by either the state or oblgazy (following new construction or major upgrade made by DSOs) hinders establishing the new model of management.

It has to be noticed that Dmytro Firtash also has links with the current Government of Ukraine, according to the Insider, Ukrainian website \(^{40}\). Indeed, the Austrian press has reported that Firtash and the politicians Sergiy Liovochkin, Petro Poroshenko and Vitali

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39 “The government decided to return Naftogaz distribution networks to the state”, Economichna pravda. October 12, 2015

Klitschko met in Vienna in late March 2014. According to this point of view, the main purpose of their meeting was to set the conditions on which Klitschko would withdraw from the presidential race and leave room for Poroshenko. Since the Klitschko’s party UDAR supported Poroshenko for presidency and became part of the Poroshenko Bloc party list, the Ukrainian media have suggested these agreements could be true41.

However, main political investment of Firtash is believed to be the Opposition Bloc – a party comprised of leftovers of the powerful Party of Regions, which lost its legacy after the Revolution of Dignity and ousting of V.Yanukovych. In this political project, Firtash is believed to be co-investor with the other oligarch R.Akhmetov. Ukrainian media argues that Opposition Bloc is leaded by different financial group. For instance, behind Opposition Bloc is not only Firtash, but Boris Kolesnikov and Sergiy Liovochkin. Furthermore, the media resource published the names of MPs, which have a links with oligarchs business groups. Indeed, Vadym Novinskyi is known as a middleman who represents Dmitry Firtash 42.

According to Oleksiy Haran, political analyst from the National University of Kyiv-Mohyla Academy, Firtash supported not only the Opposition Bloc. He argued that Firtash a few years ago also supported the Regional party and UDAR, which leaded by Vitali Klitschko. He also noticed that it hard to say whether he currently supports UDAR or not43. In the interview for New York Times, Firtash admitted: “When you ask me the question, ‘Can I influence politics?’ I don’t know how to lie, so I’ll tell you: Yes, I can influence politics. I am not a politician, but I have certain influence”44.

Also, Firtash still controls assets in other Ukrainian industries, namely chemicals and telecommunications. Some companies, such as Ostchem, the country’s largest chemicals, gas and energy holding, has significantly suspended their activity. In June 2015, the National Bank of Ukraine announced insolvency of Nadra Bank, which was owned by

43 “Firtash’ comeback to Ukraine: not an Eldorado, but not a prison”, Deutsche Welle. November 26, 2015
Dmytro Firtash. At the same time, the Prime Minister of Ukraine A.Yatsenyuk (2014-2016) announced that chemical companies, such as Rivneazot and Cherkassazot (part of Ostchem) will be nationalized\textsuperscript{45}. Firtash also lost his assets in titanium industry. Indeed, PJSC "Ukrainian Chemical Products" lost control over two mining processing complexes (MPC) in Irshansk and Vuglegirsk. Both state-owned enterprises have been under lease of Firtash companies. Due to the Crimea annexation, he also lost assets there - Crimea Titan and Crimea Coda Plant. Nevertheless, D.Firtash continues to be an active player in the Ukrainian energy sector and politics through regional gas companies, chemical plants and television (in particular, via the Inter Media Group controlling one of most popular TV channels). According to the MP Sergiy Leshchenko, Firtash exploits his media assets to promote puppet politicians in Ukraine. He has agents of influence in many factions of the Ukrainian parliament, notably the Opposition Bloc as well as among people around Kyiv's mayor Vitali Klitschko \textsuperscript{46}.  

\textbf{Ihor Kolomoyskyi: a rebel preparing for battle?}

One of the most influential oligarchs in Ukraine is Ihor Kolomoyskyi. He is co-owner of Dnipropetrovsk-based Privat group with variety of assets in banking, airline, energy, media and financial sectors. Business of Kolomoyskyi and partners (Hennadiy Boholyubov being major one \textsuperscript{47}) is not actually consolidated in a group, but is rather a set of different enterprises with roots in tax heavens like Cyprus, BVI etc.  

According to Anders Aslund, Senior Fellow at the Atlantic Council in Washington, Ukrnafta, Ukraine's main oil-producing company, is the most problematic asset with mixed ownership (the government owns a controlling stake and companies of Privat group own 42 percent). Although the state has the majority of shares, Privat has controlled Ukrnafta's management,

\begin{itemize}
  \item \textsuperscript{45} "De-oligarchisation in Ukrainian way: Firtash suffered the most", Tyzhden.ua. June 8, 2015
  \item \textsuperscript{46} Leshchenko, Sergiy, "The Firtash octopus. Agents of influence in the West", The Eurozine. September 15, 2015
  \item \textsuperscript{47} Konoriczuk, Wojciech, "Oligarchs after the Maidan: the Old System in a 'New' Ukraine", Centre for Eastern Studies No.162, February 16, 2015, p.4
\end{itemize}
successfully leveraging its activity in the interest of Kolomoyskyi\textsuperscript{48}. For a long period of
time, Kolomoyskyi was selling oil and gas condensate to affiliated companies under low non-competitive prices. For instance, in 2014 Ukrgasvydobuvannya lost 660 million UAH because of selling oil and gas condensate under low prices for Privat group. According to analyst estimation, loss of profits on the sale of one ton of Ukrainian oil was about 116 USD \textsuperscript{49}. He made his fortune due to blocking the auction, where energy products were selling. Moreover, he was blocking the shareholders’ meetings to avoid payment of dividends and didn’t pay taxes to the state budget. Only starting from 2014, after changing in the leadership of the company, Ukrgasvydobuvannya has been started to pay taxes to the state budget \textsuperscript{50}.

One of the most significant steps to deny Kolomoyskyi’s control over Ukrgasvydobuvannya was adoption of the law, which aimed to reduce the quorum required for the shareholders’ meeting of joint-stock companies, from 60% to 50% + 1 share. The oligarch structures have been able to disrupt these meetings to avoid change of management and dividends payment \textsuperscript{51}. The management of company has changed in July 2015. Indeed, Mark Rollins was elected to be new CEO of Ukrgasvydobuvannya. Along with such changes, the company had a debt to state and shareholders. Moreover, Naftogaz accused Ukrgasvydobuvannya of dividends debt \textsuperscript{52}. Surprisingly, in October 2015, Ukrgasvydobuvannya has been started to pay dividends to state budget. Despite the fact, the company still has a debt to state and shareholders 10, 2 billion UAH and 2,5 billion UAH respectively \textsuperscript{53}.

Another important thing, which has been damaging the Ukrainian budget, was Kolomoyskyi control over other parts of the value chain, including oil transportation and refining. One of the recent disputes is the case of government challenging the cost for storing state-owned oil at 3 refineries owned by Privat (in Kremenchuk, Nadvyrna and Drogobych). Indeed, former CEO of Ukrtransnafta (oil shareholders’ meeting of joint stock enterprises with state-owned majority interest”. March 19, 2015

\textsuperscript{48} Åslund, Anders. Ukraine: What Went Wrong and How to Fix It, April 2015, p.198

\textsuperscript{49} “Kolomoyskyi earned over 660 mln UAH on the single auction for sales of Ukrgasvydobuvannya oil”, Dzerkalo tyzhnia. March 29, 2014

\textsuperscript{50} “Ukrtransnafta started paying dividends to the state”, Dzerkalo tyzhnia. October 1, 2015

\textsuperscript{51} Law of Ukraine “On amendments to Article 41 of the Law of Ukraine "On joint stock enterprises" on the quorum of

\textsuperscript{52} “Ukrtransnafta failed to fulfill commitments in payment of dividends – Naftogaz”, Ekonomichna Pravda. September 3, 2015

transmission system operator) Oleksandr Lazorko, who was affiliated with Kolomoyskyi and fled abroad after dismissal, agreed to overcharged storing fees. In March 2015, Ukrtransnafta supervisory board decided to dismiss Lazorko from his duties as Chairman of the Board of Ukrtransnafta. The new government and the regulator also increased the transportation tariffs to ensure full cost recovery as refineries and traders of the Privat group used to benefit from lower tariffs.

As other Ukrainian oligarchs, Ihor Kolomoyskyi executes influence on political process in Ukraine as well as decisions made in energy sector. Indeed, his leverages included his position as the governor of Dnipropetrovsk region, between March 2014 and March 2015, where he had been instrumental in preventing the spread of the separatist movement and fighting from nearby Donbas⁵⁴. Kolomoyskyi still has links to most of political groups. According to a study of the Ukrainian Institute of Analysis and Management of Policy, in the 2015 local elections, the Privat group went to the polls in several "columns". UKROP (Ukrainian Association of Patriots) party as core political "asset" of the group ranked 6th in the All-Ukrainian dimension (on average, about 9% of the vote), and has overcome the barrier in 14 regions (with Dnipropetrovsk as stronghold). The sphere of influence also includes the Renaissance ("Vidrodzhennia") party with a group in the Verkhovna Rada and representation in six regions (with dominance in Kharkiv), as well as smaller regional "projects" and "franchises". Therefore, the aggregate rating of Privat group political investments is comparable with the results of major parties like the Poroshenko Bloc. The affiliated politicians have partnerships to create or join local coalitions with the other winners of the local elections – Batkivshchyna, Svoboda, Samopomich, Radical Party, etc⁵⁵.

Also, Kolomoyskyi had a meeting with Yatsenyuk and Poroshenko. According to the media, Kolomoyskyi wanted to solve problems regarding to Ukrnafta management and financial stability of company. Moreover, he asks Poroshenko to terminate the case against the former head of Ukrtransnafta Oleksandr

⁵⁵ Ukrainian Institute for Analysis and Management of Policy, "The new political balance in Ukraine: who will control the Ukrainian regions after the local elections", September 9, 2015
Lazorko and Gennady Korban. The source of Ukrainian Pravda, key news website in Ukraine, argued that result of the visit of Kolomoyskyi was the compromise about Yatsenyuk preservation as Prime Minister - to counterbalance Poroshenko. According to sources, Kolomoyskyi has promised to Yatsenyuk to support for the fight to stay as the Prime Minister\textsuperscript{56}.

It hard to say that Kolomoyskyi doesn’t have any links with Ukrainian government because of the fact that he still meeting Ukrainian politicians. Furthermore, his deliberation with politicians were partly successful, which means that Kolomoyskyi might proposed something instead or might have blackmailed them.

**Rinat Akhmetov: no more a phantom menace?**

Rinat Akhmetov, who has assets in steel, coal, electricity, banking, and telecommunication industries, has been Ukraine's richest man by a big margin since 2000. His wealth is comparatively easy to assess, since he uses normal and transparent corporate structures, and estimations of his fortune illustrate the decline of Ukraine’s tycoons wealth. In January 2013, Forbes ranked him the 26\textsuperscript{th} richest man in the world with a fortune of 22.2 billion USD. In October 2014, by contrast, Forbes lowered its estimate of his wealth to 10.4 billion USD. Akhmetov also suffered losses because about half of his business empire is located in the occupied territories of Donbas, where several of his coal mines and steelworks stand still\textsuperscript{57}. In terms of energy assets, Akhmetov owns the biggest private energy company in Ukraine - DTEK. It was established in 2005 as a vertically integrated enterprise and is an association of various companies from coal mining to power generation. DTEK owns three large Ukrainian coal-mining companies: DTEK Pavlogradvugillia (ten mines), DTEK Dobropilliavugillia (five mines), DTEK Mine Komsomolets Donbassa and it owns also five coal preparation plants, located in the Eastern Ukraine. Also, in 2015 he controlled over 70%

\textsuperscript{56} “Kolomoyskyi asked in Kyiv for Lazorko and Korban, Yatsenyuk promised support”, Ukrainska Pravda. March 10, 2016

\textsuperscript{57} Åslund, Anders. Ukraine: What Went Wrong and How to Fix It, April 2015, p.30-31
of thermal generation, having shares in Zakhidenergo, Kyiv, Skhidenergo, and Dniproenergo. Furthermore, Akhmetov has assets in gas production, namely shares in Naftogazvudobyvannia. He also is a co-owner with Russian Lukoil of Vanco Prykerchenska. Except gas and thermal assets, his DTEK in 2012 has launched the first wind turbines of the Ukraine’s largest wind farm Botievo58.

Meanwhile, Taras Kuzio, academic and expert in Ukrainian political, economic and security affairs, explains that Ukraine after the Orange Revolution and Ukraine after the Revolution of Dignity are very different places for Akmetov. In 2005 he fled to Monaco to one of his many luxurious palaces in the EU and remained there until the government of Yulia Timoshenko was removed in September of that year. Today, he does not wish to flee to the EU because of potential difficulties he could face. Kuzio is also convinced that oligarchs in Ukraine and Eurasia are loyal to themselves rather than being patriots of their state; nevertheless, it remains a mystery why Akhmetov has not followed Taruta and Kolomoyskyi in keeping a lid on separatism. Ukrainian oligarchs would surely prefer to live in a democratic Ukraine integrating into the EU than in either a Ukrainian separatist enclave such as Moldova’s Transdniestria or annexed by Russia 59.

Despite the war in Donbas, DTEK still produce coal in the territory occupied by separatist forces and Russian troops. However, there is still lack of coal supply, which has eventually led to decline of thermal generation and rolling blackouts during heating season in 2014-2015. In this difficult circumstances, the then-Minister of Energy and Coal Industry Volodymyr Demchyshyn accused DTEK of inflating prices and monopolism, making a decision to cover the deficit through importing electricity from Russia. At the same time, government faced with the protest of miners from different regions in Ukraine, which came to Kyiv to support resignation of the Minister. According to journalist investigation, DTEK created a strategic plan for replacing Demchyshyn, called “Krepost” (“Fortress”). As was mentioned by the journalist and today MP Mustafa Nayyem, DTEK created well-defined plan of miners’ protests, which would finally


achieve the resignation of Demchyshyn. However, DTEK denied any accusations about this plan. Also, according to Wojciech Konończuk, Akhmetov himself was interrogated by prosecution authorities in connection with the suspicions of financing separatism in the Donbas. He noticed that at present, nothing seems to indicate that this could be a beginning of the end of Akhmetov’s business empire, but – of all the major oligarchic groups – he has the least political possibilities to lobby for his interests.

Rinat Akhmetov had an influence in Donbas through humanitarian aid. According to the information on the website of humanitarian center of Rinat Akhmetov, during 640 days of operating, humanitarian center has provided around 8 million of food sets. Sergiy Kaplin, Ukrainian MP, argued that due to such actions Akhmetov tried to ensure political support among Donbas inhabitants in the future elections. In the framework of political influence, the weekly Dzerkalo Tyzhnia has reported, citing an anonymous source, that Ukrainian President Petro Poroshenko approved an idea of Viktor Medvedchuk, a mediator in the peace talks who is linked to Vladimir Putin that Akhmetov and Boyko should become the new heads of Donetsk and Luhansk. Poroshenko discussed this with Akhmetov and Boyko, who gave their preliminary consent, according to the paper. Ukrainska Pravda later cited a source from Poroshenko’s administration, who confirmed that talks with Akhmetov and Boyko took place. As for Akhmetov and Boyko, they have neither confirmed nor denied these reports.

Influence on political situation also took place on the Parliament level. Indeed, he supports the Opposition Bloc, which consists largely of alumni of Yanukovych’s old political party, and is thus widely viewed as responsible for the deaths of Euromaidan protesters in early 2014. Some exerts convinced in similarity between Kolomoyskyi and Akhmetov, because both still maintain outsize influence in the political world; their massive, ill-gotten gains allow them to sponsor two or three seemingly

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60 Nayyem, Mustafa. “Rinat Akhmetov blackmails the state (document)”, Economichna Pravda. April 14, 2015
61 Konończuk, Wojciech, "Oligarchs after the Maidan: the Old System in a 'New' Ukraine", Centre for Eastern Studies No. 162, February 16, 2015, p. 4
antithetical political parties at a time. Furthermore, Akhmetov, the same as Kolomoyskyi had a meeting with politicians, namely Arseniy Yatseniuk and Petro Poroshenko.65

The Family and associates: the harder they fall?

On February 7, 2010, Yanukovych won the presidential elections with 49 percent against Yulia Tymoshenko's 45 percent, with the balance voting against both candidates.66 Yanukovych was one of the most corrupted presidents, who have a links with most of oligarchs, notably Rinat Akhmetov, Dmytro Firtash, and Andriy Klyuyev. Furthermore, with involvement of his sons and their friends as financial backing (revenues from property taken from other businesses and corruption schemes) a new oligarch structure has emerged. This political-criminal syndicate known as the Familly, included Eduard Stavytskyi, Mykhailo Zlochevskyi, Sergiy Kurchenko and Klyuyev brothers as cronies.

Anders Aslund, Senior Fellow at the Atlantic Council in Washington, argued that Yanukovych created a "capitalism in one family". He convinced, that during the Yanukovych precedency there was a top clan of oligarchs. For instance, the Donetsk top businessmen Akhmetov and Klyuyev each led one oligarch clan. The gas trader businessman Firtash headed the third oligarchic group, which controlled energy portfolios. Klyuyev became the Deputy Prime Minister and Akhmetov's business partner Borys Kolesnikov also became the Deputy Prime Minister responsible for Euro 2012 and soon for infrastructure projects. The apparent purpose of this government was to restore oligarchy and facilitate the enrichment of the oligarchic actors close to Yanukovych.

Eduard Stavytskyi, who is in the wanted list now, made his career due to serving Yanukovych directly. It was him who implemented the scheme to steal Mezhyhirya (Yanukovych palatial residence near Kyiv — Ed.) in 2007 and who planted in Yanukovych's mind the "complex of impunity and unlimited wealth". His great career starts after

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66 Åslund, Anders. Ukraine: What Went Wrong and How to Fix It, April 2015, p.80
Yanukovych win in the elections, when Stavytskyi became the Minister of Environment and then the Minister of Energy. One of the most notable ‘achievements’ in energy sphere was the fact that he managed to obtain two dozen permits for development and subsequent production of oil and gas for Golden Derrick LLC, a firm affiliated to Stavytskyi. Following the fall of the Yanukovych regime, a search conducted at Stavytskyi residence after he fled the country discovered a collection of watches, some of which cost over 600,000 USD, diamonds, 42 kilograms of gold, and 5 million USD in cash.

Eduard Stavytskyi was placed on Interpol most wanted list, but according to the reports received Israel citizenship, which gives him an opportunity to hide from justice.

Sergiy Kurchenko, a 30-years old billionaire, made his money due to selling cheap gas and LPG. Indeed, the generated profits were immediately reinvested into purchasing different assets, including the Ukrainian Media Holding and a football club. In 2013 VETEK group of S.Kurchenko bought 99.6% of the Odessa refinery from Lukoil. According to Aslund: “He was key to the procurement scams. His chain of influence was made up of hundreds of fake Ukrainian companies and dozens of offshore firms, which worked on the principle of terrorist cells, divided into small groups from state banks via questionable loans, like using the Odessa refinery to get two loans from the VTB Group worth 300 million USD and 370 million USD”.

It was him who was a frontman for the Family group of the former Ukrainian President Viktor Yanukovych. Viktor Chumak, a senior Ukrainian lawmaker and the former head of the parliament’s anti-corruption committee, said that everybody in Ukraine knew that he (Kurchenko) was the wallet to pay off Yanukovych.

Kurchenko controlled a little company Lidergaz, which profited from the discount gas supplies originating from Russia. Reuters investigation showed that Kurchenko’s Lidergaz acquired gas from companies run by Firtash, which had originally bought the gas at below-market prices from Russia. “It started in

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67 “Yanukovych’s embezzler is now a citizen of Israel”, Euromaidan Press. November 20, 2014
2012 and finished in July 2013. This was all about a few big deals in which the money was made," said the former Kurchenko executive. One of the most profitable businesses was the sales of LPG imported under illegal schemes, i.e. without paying import duties and taxes. Sergiy Kurchenko made his fortune not only in energy sector but also as owner of FC Metalist and more than 50 media brands. Currently, after he fled to Russia, different political groups started to fight for his energy assets. Based on the fact that almost all his assets have been seized by the courts (as pledge for the debts or arrested, it’s hard to consider him as a major player and influential person in Ukraine. Moreover, after his patrons were ousted from power, Kurchenko has hardly the previous influence on current situation.

Mykhailo Zlochevskyi, the former Minister of Ecology and Natural Resources and Deputy Secretary of the National Security Council, remains a successful businessman in upstream sector. Abusing his profitable position as Minister, he was directly involved to issuance of licenses for gas and mineral resources in favor of associated companies. He remains owner and final beneficiary Burisma Holding, one of major private producers of oil and gas in Ukraine. Zlochevskyi is also known for having a luxurious 4.5-hectare residence outside Kyiv, owned through a private company. Forbes Ukraine estimates his overall fortune at 156 million USD70.

Moreover, Zlochevskyi was included in the list of Ukrainian politicians under sanctions imposed by the European Union in 201471. Furthermore, British government froze US 23 million USD of his funds kept in the UK banks, having unblocked the accounts later. In the early 2016, Zlochevskyi achieved removing the seizure of his property and unfreezing accounts in England. Ruslan Bortnyk, Director of Ukrainian Institute of Analysis and Policy Management, claims that oligarch has avoided sanctions because of links with Joe Biden72. At the same time, despite being a fugitive, he remains influential through his businesses still present on the market. Indeed, in February 2016 Burisma Holding bought 70% of shares of oil and gas company KUB-Gas73.

70 “Ukraine: Fugitive Former Ecology Minister Zlochevsky ‘Owns Fashion Store in Kyiv’”, OCCRP, August 10, 2015
As for Klyuyev brothers, they made fortune due to developing renewable energy assets with strong support from the state, rooted in abuse of power. Both have started their political career in 2000s as representatives of Donbas industrial circles, with close connection to Yanukovych. For instance, Andriy Klyuyev was a deputy chairman of the infamous Party of Regions and appointed to key positions after Yanukovych came to power. First as the First Deputy Prime Minister, later as Secretary of the National Security and Defence Council, and finally as Head of the Presidential Administration during final days of the regime, he served as one of most close associates of Yanukovych and is believed to be the man behind actions to oppress opposition and civil society movements, including the EuroMaidan. His brother Sergiy Klyuyev was a member of parliament since 2006. In September 2013, Sergiy Klyuyev bought Tantalit LLC for 146.6 million UAH, which leased the luxurious residence in Mezhyhirya to Yanukovych.

One of the major assets of Klyuyev brothers was Activ Solar, a company in the renewable energy development and engineering. With key positions in power, they used a range of government and regulatory incentives, including feed-in tariffs, research grants, guarantee for loans, zero import duties, preferential long-term lease agreements for making their lucrative business.

Polysilicon production and solar power plants, developed by Activ Solar in Ukraine, had to become such in 2013, when a framework agreement on power engineering was concluded between Ukraine and China, with the latter to finance construction and development of RES projects. Investigation by the Insider portal revealed a link between Greentech Energy LLC, Ukrainian company, which has signed an agreement on alternative power engineering with Chinese SINOSURE, and several companies of the Activ Solar group.

After the Revolution of Dignity, most of Klyuyev assets were lost due to annexation of Crimea (where majority of solar stations were built) or taken over by the partner China-based company CNBM. In February 2016, the holding of Klyuyev brothers has been started.

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74 Valuliuk, Oleksiy, “Old new mistakes of MPs, or new Klyuyevs”, Ekonomichna Pravda. September 25, 2015
bankruptcy procedure due to a semi-milliard debt. Under Yanukovych, political corruption reached a peak, almost developing into “capitalism in one family”. According to Transparency International (TI), Ukraine was ranked 144 out of 177 countries in 2013 Corruption Perceptions Index. Effective destruction of this system after the Revolution of Dignity continues, with most of the stolen assets frozen or arrested.

Konstantin Grigorishyn: a winner among losers?

Konstantin Grigorishyn, the Russian businessman who was a sponsor of the Communist Party under Yanukovych, made his fortune selling metallurgy products from Ukraine to Russia in the late 1980s. Eventually, he became a big trader in the metals market of post-Soviet space as final beneficiary of Energy Standard Group, which owns several energy-engineering assets in Ukraine, he aims to maximize profits in the electricity sector.

With the new leadership of Ukraine, Grigorishyn was considered as the oligarch who benefitted from procurement contracts of state-owned enterprises.

Namely, he appeared in the spotlight of a scandal related to procurement of energy transformers. According to journalist investigation, the National Energy and Public Utilities Regulatory Commission (NEPURC) allowed Ukrenergo (electricity system operator) to procure transformers, produced by ZTR plant owned by Grigorishyn, for overestimated price. It must be noted that price (4 billion USD) was twice overestimated and that 2 billion USD had to leak in the “right” pocket.

Ukrainian experts argued, that Ukraine was replacing one to five transformers each year but not 37 as it was initially envisaged and even not 27. Following the media resonance and accusations of corruption, the initial tender was cancelled, and the NEPURC approved a


77 Konstantin Grigorishyn. The World's Billionaires. Forbes.
new investment program for Ukrenergo, reducing the spending for the transformers tender to 2.1 billion UAH\textsuperscript{78}. Later, on March 2016 Ukrenergo signed the contract with ZTR for the supply of transformer equipment for a total of 928.5 million USD. These amount is 1.1 billion USD less than the expected cost of purchase\textsuperscript{79}. It’s hard to believe that Grigorishyn almost sold transformers for overestimated price without political support.

According the Prime Minister Arseniy Yatseniuk (2014-2016), the Russian businessman controls about 20 officials of the Ministry of Energy and Coal Industry. In addition, he accused Grigorishyn of controlling several members of the NEPURC and Ukrenergo\textsuperscript{80}. Later, Yatseniuk emphasized that Grigorishyn is involved in funding anti-Ukrainian political forces and cooperates with the Federal Security Service of the Russian Federation\textsuperscript{81}. The reason why Grigorishyn is a powerful player on Ukrainian energy market is that Grigorishyn made advised some people to Ukrenergo. For instance, in 2014 Yuriy Kasich was appointed as a head of Ukrenrgo. From October 2014 he has been a chairman of the Board of Chernigivoblenergo, controlled by Grigorishyn. Furthermore, German media resource Spiegel has published an article, where was described a links between Poroshenko and oligarchs, namely Grigorishyn\textsuperscript{82}. However, in the first half of 2016, no reports indicated strengthening of Grigorishyn positions in politics, and his enterprise even complained on too tough conditions on equipment tenders.

\textsuperscript{78} Yurii Nikolov, Oleksii Shalayskyi. ”Live in a Grigorian way”, Nashi Groshi. July 15, 2015
\textsuperscript{79} ”Ukrenergo” purchased from Grigorishyn equipment for almost a billion, Economichna Pravda. 25 Mar 2016
\textsuperscript{80} ”Grigorishyn controls about 20 officials of Energy Ministry, - Prime Minister Yatseniuk”, Censor.Net. November 20, 2015
\textsuperscript{81} ”Russian oligarch Grigorishyn steals Ukraine’s money and supports its enemies, - Yatseniuk”, Censor.Net. January 20, 2016
\textsuperscript{82} Bidder, Benjamin, ”Filz in der Ukraine: Die zweifelhaften Poroschenko-Connections”, Spiegel Online. August 3, 2015
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