

How Ukrainian oligarchs view economic integration with the EU and Russia

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The negotiations between Ukraine and the European Union on the Association Agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) have reached the final stage. Russia is opposed to Ukraine signing this agreement. Ukraine's main oligarchs can neither push forward nor impede the conclusion of the DCFTA as on the whole it does not directly affect their interests. The signing of the agreement does not bring any visible profits for Ukraine's key export branches as the EU market is relatively open to Ukrainian goods due to the country's World Trade Organization (WTO) membership. However, it appears that oligarchs are considering the conclusion of the DCFTA above all in the context of their relations with Russia since economic integration with the EU will enable them to strengthen their position with regard to Moscow. At the same time the oligarchs are in majority opposed to Ukraine's membership in the customs union comprising Russia, Belarus and Kazakhstan (CU). It stems from fears that membership in the CU will in future lead to Russian business taking control over Ukrainian oligarchs' property.

The main oligarchic groups and their relations with power

After the presidential elections of 2010 the power structure similar to that under President Leonid Kuchma – with the strong position of the central administration, heavily influenced by representatives of big business (oligarchs) – returned. Two oligarchic groups – one of the metallurgy magnate Rinat Akhmetov and the second one of Dmytro Firtash, linked with the chemical and gas industry – must be seen as dominant, with Akhmetov having a more significant impact on the government and Firtash – on the presidential administration (see Appendix). The remaining groups have lost their political importance although they are still able to lobby for solutions favourable to them in particular business sectors. The Ukrainian government is trying not to infringe on the interests of particular oligarchs; reforms are introduced in a way that they affect big business to the smallest possible extent and their costs are shifted to small and medium-sized entities and society. In return for financial support the government enables big business to privatise on advantageous terms, gives them preference in lucrative tenders and limits internal and external competition.

The attitude to integration projects

The oligarchs usually do not become visibly involved in politics unless it has a direct impact on their economic interests. Therefore they are indifferent to most of the DCFTA's provisions which constitute above all a burden on the Ukrainian state. For big business the current situation in Ukraine is the most favourable as it enables the development of business activity through rather informal influences on the government. The vested interests of big business regarding access to Ukrainian exports to global markets have been secured by Ukraine's WTO membership obtained in 2008. From this point of view the entry into a deep and comprehensive free trade zone with the EU or the customs union with Russia restricts their freedom.

The oligarchs' attitude to these integration initiatives is shaped by the nature of their businesses. For Firtash good relations with Russia are a priority as the profitability of the chemical industry depends directly on gas prices, whereas Akhmetov may be perceived as the representative of owners of huge heavy industry companies (mainly metallurgic) which are export-oriented. Although Russia is an important recipient of Ukrainian goods, third countries are much more significant (mainly from the Middle East and Asia) and – to a lesser degree – EU countries where Russian companies are Ukraine's main rival. The situation is similar for cereal exports.

The attitude to the customs union

Good relations with Russia are important for the oligarchs and none of the groups is interested in direct conflict although the degree of their determination in avoiding them varies. At present, most oligarchs deem the Russian offer linked to Ukraine's membership in the customs union as unfavourable, it cannot however be ruled out that if Russia puts forward a genuinely advantageous proposal, part of the oligarchs would change their mind. Currently, Ukraine's entry into the customs union is practically incompatible with the country's WTO membership. Russia's possible preferential terms (lower gas prices, access to the Russian market) would not be likely to compensate for profits sacrificed which could have been gained due to WTO membership. For big business, access to global markets is of utmost importance as exports are the main source of its revenues. Furthermore, Ukraine's membership in a customs union dominated by Russia would probably quickly lead to Ukrainian oligarchs losing in competition with Russian companies (metallurgy, energy).

The attitude to the DCFTA

It seems that the majority of the oligarchs treat the association agreement with the EU above all as a way of blocking Russian integration projects and consolidating their political position with regard to Russia. Ukraine's WTO membership had a similar result. The signing of the DCFTA will not be of vital importance for the country's major export goods – metal and mineral products (50% of exports) as they stopped being subject to EU customs fees after Ukraine joined the WTO.

The conclusion of the DCFTA will hit smaller oligarchs, for instance the lifting of customs on used car imports means stronger competition for Tarel Vasadze, the owner of the AvtoZAZ car company. The situation will also be similar for light industry, for example manufacturers of refrigerating machines. For agriculture the agreement will not be especially favourable as it features only a slight increase in export quotas for a host of agricultural and agro-industry

products and opens up the market to EU competition.

The signing of the DCFTA has no implications for Firtash's interests; it could even be of advantage to him if it boosted exports of chemical goods to Western countries. The reluctance to sign the agreement is above all caused by the fear that it will lead to a fierce conflict with Russia.

At the same time none of the groups seems interested in implementing the part of the DCFTA concerning EU norms and standards. The introduction of free and honest competition on the Ukrainian market and the influx of foreign investments would pose a threat to the monopolistic position of the oligarchs.

Appendix

Main oligarchic groups

Rinat Akhmetov's group – linked to Ukraine's richest businessman Rinat Akhmetov. Deputy Prime Minister and Infrastructure Minister Boris Kolesnikov and First Deputy Head of the *Presidential Administration, Irina Akimova, among other figures*, are said to be associated with Akhmetov. The most important part of Akhmetov's business is metallurgy (the dominant position in Ukraine) but it also encompasses the majority of other sectors of business such as energy, the media, finance, telecommunications and agriculture.

Dmytro Firtash's group – Energy Minister Yuriy Boiko, the head of the Presidential Administration Serhi Liovochkin and the head of the Ukrainian Security Service Valeriy Khoroshkovsky are linked with this group. The bulk of Firtash's business focuses on the chemical industry – he has a monopoly position on the nitrogen fertiliser market. Through his managers he controls part of Naftogaz's sister companies (formally state-owned) such as Ukrtransgaz – the operator of the gas pipeline system and Ukrghazvydobuvannia. He also controls the titanium industry – owns Crimea TITAN and *de facto* controls the sector's remaining state-owned plants.