

The presidential “family” in Ukraine is developing its business base

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On 21 June the leading Ukrainian media holding UMH announced that it had sold 98% of its shares to VETEK, a company owned by 27-year-old businessman Serhiy Kurchenko. UMH owns dozens of newspapers, radio stations, internet portals, including such famous ones as *Forbes*, *Argumenty i Fakty*, *Komsomolskaya Pravda*, *Korrespondent*, *Dengi*, *Nashe Radio*, *bigmir.net*, *dengi.ua* and *korrespondent.net*. This transaction has been estimated to be US\$ 400-500 million. It is a further demonstration of VETEK's expansion. The company was established at the beginning of 2013 and its main areas of activity have so far been related to trade in petroleum products and liquefied petroleum gas (LPG). By observing the unusual (even by Ukrainian standards) dynamics of VETEK's development, one may be led to believe that this company is most likely a representative of the interests of so called “family” - an informal oligarchic group which is the business base of President Viktor Yanukovych's entourage and is mainly associated with Yanukovych's eldest son Oleksandr. This may be further demonstrated by the scale and directions of VETEK's expansion, mainly in areas of the economy where this would be impossible without the support from the highest levels of government. So far the “family's” business expansion has not led to an open conflict with the “old” Ukrainian oligarchic groups but, given its growing ambitions, this cannot be ruled out in the future.

VETEK – the rising star of Ukrainian business

VETEK was registered on 22 February this year on the basis of Gaz Ukraina 2009. Serhiy Kurchenko is the company's official founder and the head of the supervisory board. He was completely unknown to the public until the end of 2012 when his name appeared during the investigation into Gaz Ukraina 2009's interests, published then by Ukrainian *Forbes*. The investigation revealed that within several months the company had become one of larger importers of petroleum-based products to Ukraine and a force on the LPG market. The companies linked with Gaz Ukraina 2009 were charged with smuggling fuels, with tax fraud and with winning fixed tenders worth hundreds of millions of hryvnia for services provided to companies dependent on the state-owned Naftogaz. Among the factors thought to have contributed to Gaz Ukraina 2009's success were its links with the son of Ukraine's general prosecutor and Party of Regions MP, Artem Pshonka. In December 2012 Gaz Ukraina 2009 bought Metalist Kharkiv football club for US\$ 300 million. Its former owner, billionaire Oleksandr Yaroslavsky was in fact forced to give up the club he had established (the conflict was however not made public). The purchase of Metalist Kharkiv kicked off a series of

further spectacular purchases made by Kurchenko. At the beginning of March this year VETEK signed an agreement with Lukoil to buy 99.6% of the shares in the refinery in Odessa for approximately US\$ 300 million. Last year Kurchenko attempted to buy the refinery in Lysychansk, then owned by TNK-BP and currently by Rosneft. VETEK also purchased a network of 150 petrol stations in Ukraine and Germany. The company's special position may be further confirmed by the fact that it has been allowed as the only company, alongside the state-owned Naftogaz, to import gas from across the western border (VETEK has announced it has signed a contract for imports from Hungary worth up to 90 mln m³ a month). There are also rumours that the company has held talks with Gazprom about possible imports of Russian gas (up to several billion m³ a year). In May this year the company became the official investor in the construction of the Kharkiv Arena sports facilities for the basketball European championships which will be organised in Ukraine in 2015.

The expansive “family”

The phenomenon of the “family” - different groups and people connected with those holding power by private issues or business ties and having common interests within a larger group – is nothing new in Ukraine. However, under Viktor Yanukovych it has increased its economic scope and gained in political importance. The politicians who are considered to be part of the “family” make up one of the largest “representations” in the government (along with the Rinat Akhmetov group); the first Deputy Prime Minister is Serhiy Arbuzov whose mother is the president of the management board of VBR bank owned by Oleksandr Yanukovych. The expansion of the “family” in the world of business that has been underway for two to three years stems from his great ambitions. Following the presidential election of 2010 Oleksandr Yanukovych, who until then was a rather minor player and who did business with local development projects (the Donetsk company MAKO), started dynamically developing his business. The financial sector (besides VBR he also controls Ukrayinsky Biznes Bank and the stone coal industry) and the oil sector have become the main areas of his expansion. The companies which he and other representatives of the “family” control have started winning series of tenders organised as part of public procurement. They appear to be the largest supplier for the state-owned railway company (they covered a third of the railway company's public procurements between January and May this year). In the coal industry the “family” is seen as a rival for the Akhmetov group which had thus far been considered the undisputed leader in stone coal extraction. The “family” is also considered as one of the main players in energy sector, in the field of exploitation of new – including unconventional – deposits of natural gas.

Conclusions

Due to the how business is done in Ukraine one may be led to believe that Serhiy Kurchenko is not an independent businessman. Without political support it would not have been possible to build such a company from scratch with a turnover of billions of dollars which in times of economic recession is involved in takeovers for hundreds of millions of dollars, and this in sectors to which access is strictly regulated by the government (fuel and energy, the media). One may infer from the nature of the business conducted by VETEK and the speed

of its development that the company is one of the representatives of the interests of the “family” – Ukraine's most expansive oligarchic group.

The takeover of one of Ukraine's largest media groups by Kurchenko's company should be seen as the presidential bloc preparing for the presidential election in 2013, particularly since the fact the media sector in Ukraine is not profitable and is treated mainly as a political instrument. The “family”, as opposed to the other largest oligarchic groups in the country, has so far been deprived of its own important media and has attempted without success to take them over. The purchase of the UMH holding by VETEK does not however solve the “family’s” basic problem, that being the requirement to buy a large nationwide television station. Such a move could ensure strong media support during the election campaign in 2015. To date the business activity conducted by VETEK and the “family” has not clashed with the interests of the most powerful oligarchs in Ukraine and besides a prestige dispute with Oleksandr Yaroslavsky over Metalist Kharkiv it has not led to serious conflicts. However, the interests and ambitions of the “family” are growing and nearly all of the most valuable assets in the Ukrainian economy are owned by the “old” oligarchic groups. When these factors are taken into consideration, a further expansion of VETEK and other groups linked with the “family” may lead to open conflicts with other oligarchs.