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## Oligarchs in Ukrainian Foreign Policymaking: Examining Influences in Transnational Politics

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**Abstract:** In this research I argue that the oligarchic interests in Ukraine are key components in understanding how Ukraine’s leaders built the country’s foreign relations with the EU and Russia in the post-Orange revolution period, under the presidency of Viktor Yushchenko and in the first two years of Viktor Yanukovich, from 2005 to 2012. The uncertainty of the Ukrainian political transition put distinct constraints on its political actors and prompted them to rely on economic elites rather than voters to secure personal political gains, thereby opening the foreign policy decision-making process to the interests of oligarchs who stood behind the two presidents.

**JEL-Codes:** F 5, N 4, N 44, D 72, D 74, D 73, D 81, E 21

**Keywords:** Ukraine, oligarch, foreign policy, regime transition, uncertainty, Ukraine, Oligarch, Außenpolitik, Regimetransformation, Ungewissheit

“Ukraine is opening the European history of the third millennium!” – these words were ambitiously proclaimed by the newly elected President Viktor Yushchenko on January 23<sup>rd</sup>, 2005, in front of a crowd of half a million and the diplomatic corps from fifty-nine states.<sup>1</sup> Likening the Ukrainian Orange revolution of 2004 that swept him into power to the fall of the Berlin Wall and the Polish Round Table talks of 1989, Mr. Yushchenko asserted that Ukraine’s destiny lay within the European Union (EU). He pledged to “consistently and boldly” pursue this “national strategy” in foreign policy. However, once in power, despite multiple rounds of negotiations with his European partners, President Yushchenko and his team failed to secure EU membership prospects for the country and refocused on Ukraine’s complex relationship with the neighbouring

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<sup>1</sup> Promova Prezydenta Ukrainy Viktora Yushchenka na Maidani, in: Ukrayinska Pravda, 23.01.2005, <https://www.prava.com.ua/articles/2005/01/23/3006391/>, 19.12.2018.

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Russian Federation. Ukraine's foreign policy change so boldly announced against the backdrop of the Orange revolution inauguration never fully took off as anticipated.

In contrast, when the opponent of the *Orange* camp, Viktor Yanukovich, took office as the new head of state in 2010, he emphasized that his foreign policy for Ukraine would shy away from joining any global alliances. Rather, Ukraine would develop "equal partner relations with Russia, EU and the US".<sup>2</sup> His strong business and political connections to the Russian Federation and President Putin left little doubt in the minds of analysts as to where his foreign policy was heading – predominantly to the East, i.e. to closer relations with Russia.<sup>3</sup> Nevertheless, flying in the face of these expectations came a new foreign policy change. Almost two years later, much to the disappointment of his Russian colleagues who had placed high stakes on the Eurasian Economic Union, Viktor Yanukovich declared the unequivocal course towards signing the Association Agreement with the EU. He emphasized that "the project to unite Europe will not be complete as long as such large European states and nations as Ukraine remain beyond its borders".<sup>4</sup> He then declared that the year of 2012 would be "without exaggeration, a determinative year for our state... We have started a new level of relations with the European Union".<sup>5</sup>

But two weeks before the signature of the EU-Ukraine Association Agreement in November 2013, a new drastic and unanticipated foreign policy change had occurred. Mr. Yanukovich's government halted all preparations for the official signing ceremony and retracted on its commitments to enter into the agreement. Despite massive protests growing on the streets of Kyiv and other cities around the country, Viktor Yanukovich, contrary to public demand, did

<sup>2</sup> President Viktor Yanukovich's Feb.25 inaugural speech in parliament, in: Kyiv Post, 25.02.2010, <https://www.kyivpost.com/article/content/ukraine-politics/president-victor-yanukovichs-feb-25-inaugural-speech-60475.html>, 19.12.2018.

<sup>3</sup> For some discussion on this matter, see *J. Sherr*, Ukraine's New Elections: Watershed or New Stalemate?, in: REP Program Papers 2010/01, <https://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/pp0210ukraine.pdf>, 29.12.2018. Additionally, see *T. Kuzio*, Soviet Conspiracy Theories and Political Culture in Ukraine: Understanding Viktor Yanukovich and the Party of Regions, in: *Communist and Post-Communist Studies* 22, 2011, pp. 221-232.

<sup>4</sup> Yanukovich ne bachyt Yevropy bez Ukrayiny, in: *Ukrayinska Pravda*, 19.12.2011, <http://www.pravda.com.ua/news/2011/12/19/6849757/>, 19.12.2018.

<sup>5</sup> My prodovzhymo modernizatsiyu nashoyi krayiny, - novorichne zvernennia Yanukovycha, in: *Galinfo*, 01.01.2012, [http://galinfo.com.ua/news/my\\_prodovzhymo\\_modernizatsiyu\\_nashoi\\_krayiny\\_novorichne\\_zvernennia\\_yanukovycha\\_101723.html](http://galinfo.com.ua/news/my_prodovzhymo_modernizatsiyu_nashoi_krayiny_novorichne_zvernennia_yanukovycha_101723.html), 01.07.2018.

not sign the Association Agreement. He fled the country shortly thereafter, as the Euromaidan revolution opposing his regime engulfed Ukraine.

Why did these foreign policy shifts take place in Ukraine, and how are we to make sense of continuity and changes in foreign policy during these political transitions? In this paper, I argue that the volatile political setting characteristic of political transitions puts distinctly different constraints on political actors: they have shorter time horizons and thus seek not re-election per se, but political and personal benefits from actors in the system more orientated to the long-term. In this context, transitional leaders rely on political sponsors to provide them with a wealth of material, organizational and reputational resources (such as a safe exit, a personal remuneration, a party seat etc.). Ukraine at the brink of 2004 had a distinct group that fitted into this category – the country's oligarchs, some of the world's richest and very deeply imbedded in the political system of the country. I analyse the oligarchic interests in Ukraine as key components in understanding how the Ukrainian leaders built their foreign relations with the EU and Russia after the Orange Revolution. The changes in Ukrainian leadership during this transitional period led to the changes in their oligarchic connections. The new preferences of the oligarchs influenced the corresponding foreign policy changes that took place. By oligarchs, I mean industrial and/or financial magnates who control "sufficient resources to influence national politics."<sup>6</sup> Additionally, oligarchs are active in politics at the national level and they have business interests as their core activity.<sup>7</sup>

As for political leadership in Ukraine aside from the president, here other actors actively participated in the country's foreign policymaking process (e.g. the Ukrainian parliament Verkhovna Rada, the National Security and Defence Council, the Ministry of Foreign Affairs, and various international relations departments of sectorial Ministries, political parties etc.). While they exercised a certain influence, presidential powers dominated in the Ukrainian political system, so it remained the prerogative of the president to largely determine and implement key foreign policy orientations. This research will focus on two presidents following the Orange revolution – Viktor Yushchenko and Viktor Yanukovych.

Regarding the timeframe for the study, I explore the critical period when the transition after the Orange revolution generated specifically uncertain political conditions for political actors, and the country's leaders were particularly prone

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6 S. Guriev/A. Rachinsky, The Role of Oligarchs in Russian Capitalism, in: Journal of Economic Perspectives 19/1, 2005, pp. 131-150.

7 H. Pleines, Oligarchs and Politics in Ukraine, in: Demokratizatsiya: The Journal of Post-Soviet Democratization 24/1, 2016, pp. 105-127.

to resort to oligarchic support. By transition I mean “shift from one structure of government to another.”<sup>8</sup> “The transition phase begins before the formal or de facto collapse of a regime” when new political forces begin to mobilize, and it ends when “the new regime: no longer faces civil war or unrest at the level that threatens its existence; either a) establishes new, functioning institutions of government or b) reforms existing institutions to bring them into conformity with the new political values; c) achieves widespread diplomatic recognition; and d) gains membership in the IMF and the IBRD<sup>9</sup> and successfully negotiates a long-term loan from them (if required).”<sup>10</sup>

By 2005, the Ukrainian transition met criteria c) and d) from this definition. However, the reform of the existing institutions to reflect the revolutionary values of fighting corruption within political, bureaucratic and economic elites was largely missing during Yushchenko’s years. So, when Viktor Yanukovich took office on February 25<sup>th</sup>, 2010, the political transition was still incomplete in Ukraine. Yanukovich gradually consolidated powers through a set of electoral and constitutional reforms and through control of Rada by his Party of Region.<sup>11</sup> This authoritarian consolidation in 2012 ended the political transition for Ukraine and the scope conditions do not apply to this year and beyond.

In the rest of this article, I first briefly survey the academic research on the role of economic elites in the policy formation of Ukraine in the recent period as discussed by political scientists and economists. I then examine foreign policy changes introduced by President Yushenko and analyse how they impacted on the economic fortunes of his oligarchic sponsors and testified to his influence in the foreign policy of the country. I conduct the same analysis for Viktor Yanukovich, his oligarchic connections and his foreign policymaking. Conclusions summarize the findings of this paper and offer additional insights for further discussion on the topic.

<sup>8</sup> R. Francisco, *The Politics of Regime Transitions*, Boulder 2000, p. 42.

<sup>9</sup> IMF stands for International Monetary Fund, and IBRD is International Bank for Reconstruction and Development, a part of the World Bank Group.

<sup>10</sup> Francisco, *The Politics*, p. 42.

<sup>11</sup> For more, see M. Riabchuk, *Gleichschaltung. Authoritarian Consolidation in Ukraine 2010-2012*, Kyiv 2012 and P. D’Anieri, *Ukrainian Foreign Policy from Independence to Inertia*, in: *Communist and Post-Communist Studies* 45/3-4, 2012, pp. 447-456, here p. 448.

# 1 Policy Interests of the Ukrainian Oligarchs: An Academic Debate

The theoretical literature on the role of large business elites in political processes tends to hold a uniform view of their presumptive interests. Predominant economic models see large business groups as profit-driven rational actors who get involved in democratization in order to protect their own business interests.<sup>12</sup> Coase's theorem implies that new capital owners will require good institutions to get security for their property rights. J.A. Winters, for instance, stipulates that when it comes to politics, oligarchic actors unvaryingly pursue wealth defence, consisting of both property defence ("securing basic claims to wealth and property") and income defence ("keeping as much of the flow of income and profits from one's wealth as possible under conditions of secure property rights").<sup>13</sup> This approach treats oligarchs as a largely uniform group of actors who – under similar conditions – behave in comparable ways.

Indeed, in Ukraine, we observe a range of structural constraints that influenced economic elites in similar ways. For instance, the initial privatization after the collapse of the socialist order and with authoritarian tendencies under President Kuchma 1994-2005, equally pushed the Ukrainian nouveaux riches to seek legal indemnity, "krysha" (guarantees of non-intrusion from authorities into dubitable and everyday economic activities) and other colluding mechanisms with government officials. Further, certain economic conditions affected many Ukrainian oligarchs in comparable ways: domestic sources of privatization dried up by the early 2000s; no more hyperinflation was there to speculate on as compared to early 1990s; and a more developed banking system and monetary reforms were in place in contrast to the previous decade. Additionally, the global financial crisis of 1997 that hit Asian markets and spread to Russia and Brazil, did reverberate in Ukraine thereby exacerbating its fiscal policy deficiencies.<sup>14</sup>

Moreover, many oligarchs faced analogous challenges of (re)establishing markets for their post-Soviet products that either did not meet Western quality standards or were produced with outdated technologies and intense labour, making them less competitive in world markets. Some scholars, in view of these common political and economic challenges, consider the Ukrainian oligarchs as a

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12 E. Bartell/L.A. Payne, *Business and Democracy in Latin America*, Pittsburgh 1995.

13 J.A. Winters, *Oligarchy*, Cambridge 2011, pp. 6 f.

14 O. Petryk, *History of Monetary Development in Ukraine*, in: *Bank i Kredyt* 37, 2006, pp. 3-24.

group driven to orient themselves toward the same goal – internationalization and globalization of their business practices and diversification of their capital.<sup>15</sup>

Whereas we see many similarities in oligarchic behaviour under these conditions, some scholars of the contemporary Ukrainian economic elites prefer not to treat oligarchs and their interests as a uniform block.<sup>16</sup> Rather, they dissect diverse oligarchic business connections that have held varying positions on Ukraine's domestic and foreign policies. Discrepancies also exist in the way researchers evaluate the effectiveness of oligarchs in their ability to steer the Ukrainian state towards a particular political change. H. Pleines, for instance, argues that oligarchs are not the major power brokers in Ukrainian politics since they never determine who gains political power in the country. To be more precise, according to this author, these economic elites keep switching political camps in order to give additional support to an already winning political platform.<sup>17</sup> Dimitrova and Dragova, on the other hand, consider oligarchs as critical veto players, with extensive influence over the policy outcomes pertinent to their interest area, such as foreign policy, for example.<sup>18</sup> The authors also argue that the Ukrainian oligarchs strive to preserve the regulatory and institutional status quo, rather than usher in any pro-EU or other changes into the work of the Ukrainian government.

One way to analytically bring together these seemingly contradictory positions on the general role and scope of oligarchic interests in the politics of Ukraine, is to look not only at the profit-driven models of the oligarchic behaviour per se, but also at larger political conditions that shaped them. More specifically, in its recent history Ukraine saw two revolutionary events that fundamentally shook its political core: the Orange revolution of 2004 and the Euromaidan revolution of 2014. Such transitions of power from one regime to

**15** I. Melnykovska/R. Schweickert, Who You Gonna Call? Oligarchic Clans as a Bottom-up Force of Neighborhood Europeanization in Ukraine, in: Arbeitspapiere des Osteuropa-Instituts 67, 2008, pp. 1-32.

**16** V. Aviouckii, The Consolidation of Ukrainian Business Clans, in: Revue internationale d'intelligence économique 2/1, 2010, pp. 119-141; S. Kudelia, Society as an Actor in Post-Soviet State-Building, in: Demokratizatsiya 20/2, 2012, pp. 149-156; S. Matuszak, The Oligarchic Democracy: The Influence of Business Groups on Ukrainian Politics, Warsaw 2012.

**17** H. Pleines, Oligarchs and Politics in Ukraine, in: Demokratizatsiya: The Journal of Post-Soviet Democratization 24/1, 2016, pp. 105-127.

**18** A. Dimitrova/R. Dragova, Shaping Convergence with the EU in Foreign Policy and State Aid in Post-Orange Ukraine. Weak External Incentives, Powerful Veto Players, in: Europe-Asia Studies 6/4, 2013, pp. 658-681.

another are inherently characterized by political uncertainty that actors face in their political decision-making.

I approach the concept of uncertainty here from the viewpoint of cognitivism in international relations.<sup>19</sup> In this framework, uncertainty originates from ambiguity of information in the complex world of political and social interactions. In the face of these complexities, decision-makers are limited in their cognitive abilities to accurately perceive cause and effect connections of the context in which they are working. Thus ‘analytically’ uncertain, actors adopt cognitive shortcuts to arrive at necessary decisions.<sup>20</sup>

Along this line of reasoning, I posit that decision-makers are influenced by uncertainty in significantly more complex conditions of political regime *transitions*. With a regime change, the transitional uncertainty is different in type and degree from normal conditions.<sup>21</sup> It shortens horizons for political actors to the point where seeking to stay in the office is not a major guiding principle of their behaviour.<sup>22</sup> Not being able to calculate their re-election prospects under transitional uncertainty, political actors at the helm of the state are then primarily concerned with securing their personal and political fortunes during and beyond their initial term and not re-election. In order to achieve that personal and political security, they resort to support from individuals and groups whose projected political influence is deemed to be further-reaching than their own: political parties and other actors such as politicized financial-industrial groups and oligarchs.

Whereas the fortunes of re-election for politicians cannot be properly assessed during tumultuous transition, the interests of oligarchic sponsors are much more easily identifiable and thus more predictable for a political actor. In return for short-term “pork” and logrolling, these groups offer a politician a sizable financial support (legally or illegally channelled), a comfortable party seat after his term, or a guarantee of a safe exit without legal persecution if transitional turmoil increases.

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19 J.M. Goldgeier/P.E. Tetlock, Psychology and International Relations Theory, in: Annual Review of Political Science 4/1, 2001, pp. 67-92; P.E. Tetlock, Social Psychology and World Politics, in: Handbook of Social Psychology 4, 1998, pp. 868-914.

20 K. Iida, Analytic Uncertainty and International Cooperation. Theory and Application to International Economic Policy Coordination in International Studies Quarterly 37/4, 1993, pp. 431-457.

21 J.K. Jung/C.J. Deering, Constitutional Choices. Uncertainty and Institutional Design in Democratizing Nations, in: International Political Science Review 36/1, 2015, pp. 60-77.

22 N. Lupu/R.B. Riedl, Political Parties and Uncertainty in Developing Democracies, in: Comparative Political Studies 46/11, 2013, pp. 1339-1365.

The Ukrainian political system of the past twenty-five years has uniquely solidified the role of the oligarchs in the social, economic and political life of the country. Certain authors even resort to describing it as “oligarchy” and “piranha capitalism”.<sup>23</sup> Indeed, according to the Economist’s crony capitalism index, calculated as the ratio of billionaire wealth to the percentage of the country’s GDP, Ukraine ranked as fourth of all world states where most of the economy belonged to crony sectors, where oligarchic interests prevail. And Ukraine’s position did not improve in 2014 evaluation from the Economist’s same ranking of the country on this index in 2007.<sup>24</sup> In other words, by dominating most of the economic sectors in the country that generate domestic production, the Ukrainian oligarchs have been structurally inextricable to the foundational makeup of political system that affected their wealth defence interests.

Hence, in the transitional stage of political life of the Ukrainian state, i.e. from the inception of the Orange revolutionary movement to the authoritative consolidation under President Yanukovich’s regime that took place by 2012,<sup>25</sup> the politicians at the helm of the state were uniquely prone to rely on their oligarchic connections when it came to the formulation and implementation of government policies that affected their economic interests. As the political leaders ascended and descended the political power pyramid<sup>26</sup> they each brought with them a unique set of oligarchic connections linked to varying foreign policy preferences. By studying particular oligarchic interests connected to key political decision-makers in charge of foreign policy of the country during this time (from 2004 to 2011) we are able to identify the directions of foreign policy that the politicians were set to pursue.

My theoretical argument stands rooted in the tenets of poliheuristic theory developed by Alex Mintz and his colleagues in the field of foreign policy analysis.<sup>27</sup> This theory suggests that the most essential of such heuristics is rejecting

**23** O. Havrylyshyn, *The Political Economy of Independent Ukraine. Slow Starts, False Starts, and a Last Chance?*, London 2017; S. Markus, *Property, Predation, and Protection*, Cambridge 2015.

**24** Our Crony-Capitalism Index; Planet Plutocrat, in: *The Economist*, 15.03.2014, <https://www.economist.com/international/2014/03/15/planet-plutocrat>, 19.12.2018.

**25** Riabchuk, Gleichschaltung; D’Anieri, *Ukrainian Foreign Policy*.

**26** For further elaboration of the power pyramids in Ukraine as a neopatrimonial states, see H. Hale, *Democracy or Autocracy on the March? The Colored Revolutions as Normal Dynamics of Patronal Presidentialism*, in: *Communist and Post-communist Studies* 39/3, 2006, pp. 305-329.

**27** A. Mintz, *The Decision to Attack Iraq: A Noncompensatory Theory of Decision Making*, in: *The Journal of Conflict Resolution* 37/4, 1993, pp. 595-618; *Idem*, *How Do Leaders Make Decisions? A Poliheuristic Perspective*, in: *Journal of Conflict Resolution* 48/1, 2004, pp. 3-13; *Idem*,



any alternatives that harm actors' political prospects with domestic audiences.<sup>28</sup> Domestic political losses cannot be compensated by any other advantages – no matter how attractive – on other dimensions (military, etc.) of a decision alternative. Thus, because political actors are primarily concerned with domestic political costs, foreign policy decisions are inherently tied to domestic calculations.<sup>29</sup> With over 40 studies applying this theory to diverse FP decision-making processes, it has shown robust results concerning democracies and non-democracies, at state and local levels, and with diverse methodological approaches (experimental, statistical, formal analyses and case studies).<sup>30</sup> In other words, according to the poliheuristic theoretical assumptions, the political interests of oligarchs in Ukraine during the transition would be considered first and foremost, as they come from the key domestic constituency for transitional leaders.

## 2 Viktor Yushchenko and Oligarchs: Stable Interest in Russia and Beckoning to the EU

This section examines two essential aspects of the theoretical argument presented above. First, I evaluate the conduct of Ukraine's foreign relations during Viktor Yushchenko's presidency observing that there were only some readjustments towards Russia and programmatic changes towards the EU on the part of Ukraine. Second, I look closely at main economic activities of those oligarchs who were connected to the Orange political camp and trace the benefits that they enjoyed as a result of the examined foreign policies.

When it comes to Yushchenko's foreign policy, many disappointed voters and analysts commented on the lack of highly visible achievements in Ukraine-EU relations during President Yushchenko's term against the backdrop of his own presidential pronouncements in this regard. Whereas domestic political feuds along with the global financial crisis did add to Ukraine's uncertainty in political transition, it would be erroneous to equate the lack of desired foreign

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Applied Decision Analysis: Utilizing Poliheuristic Theory to Explain and Predict Foreign Policy and National Security Decisions, in: *International Studies Perspectives* 6/1, 2005, pp. 94-98.

<sup>28</sup> *Idem*, *The Decision*, p. 600.

<sup>29</sup> *Idem*, *Leaders*, p. 7.

<sup>30</sup> For a more detailed overview of the applications of the theory, see, for instance: *D. Brulé*, *The Poliheuristic Research Program: An Assessment and Suggestions for Further Progress*, in: *International Studies Review* 10/2, 2008, pp. 266-293.

policy outcomes for Ukraine (EU membership) with a lack of effort on the Ukrainian part.

Indeed, in some areas, the EU and Ukraine were able to achieve unprecedented progress. This included EU acknowledgement of Ukraine's status as a "market economy" in 2005 and a new agreement to substitute the 1994 Partnership and Cooperation Agreement and to spell out Ukraine's associated membership in the EU. The latter was brought up for discussion in 2007 and had seen over eleven rounds of negotiations by the end of 2011. It covered discussions on establishing a free trade zone between Ukraine and the EU that was initially linked to Ukraine's obtaining membership in the World Trade Association. Ukraine and the EU also held seven summits in six years of Orange presidency as opposed to seven summits in President Kuchma's previous ten years. The low-return foreign policy outcomes should be regarded as a result of EU-Ukraine interactions, rather than simply Ukraine's action or lack thereof.

On the part of the EU I observe some controversial positions on Ukraine's integration. For instance, in January 2005 the European Parliament lauded the achievements of the Orange revolution and urged the EU Commission to give Ukraine a "European perspective", "possibly ultimately leading to the country's accession to the EU."<sup>31</sup> But the Commission was far more concerned with the challenge of integrating newly accepted members and dealing with the global financial crisis than with providing Ukraine with any concrete membership language in any of its documents.

As for Yushchenko's foreign policy towards Russia, on the very first day in office, right after his inauguration, Viktor Yushchenko flew to Moscow in order to meet with Vladimir Putin. This showed that the Orange president placed a great priority on building a relationship with the Russian Federation. However, the actual format of the meetings and visits between the two statesmen changed. Indeed, one of the most widespread previous formats of presidential meetings between the Russian and Ukrainian top leaders had been the so-called "diplomacy without ties".<sup>32</sup> In these meetings the two state leaders would one-on-one settle any contentious sectorial issues during a more informal and relaxing time,

<sup>31</sup> *European Parliament, Results of Ukraine Elections: European Parliament Resolution on the Results of the Ukraine Elections – P6-TA-(2005)0009*, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P6-TA-2005-0009+0+DOC+PDF+V0//EN>, 22.12.2018.

<sup>32</sup> *S. Vidnianskiy/O. Horenko/A. Martynov/V. Pizkizhova (Eds.), Foreign Policy of Ukraine in Globalizing Conditions. Annotated Historical Chronicle of International Relations, 2004-2007*, Kyiv 2014.

reminiscent of how issues within the executive wings of the former Communist Party had been settled during the Soviet period.

Even though mutual visits to Kyiv and Moscow continued, the specific “tie-free” format was lost after the Orange revolution. Instead, in May 2005, the heads of the two states established a more formal body, the Yushchenko-Putin Committee of Cooperation, with sectorial subcommittees covering some corresponding areas of Ukrainian-Russian relations. However, the Committee was ineffective in swiftly addressing any issues that arose between the states through disagreement on the demarcation of state borders, objection to the Sevastopol Fleet participating in Russo-Georgian war of 2008 and others. Furthermore, the Committee’s work was sometimes used as a premise to postpone the personal meeting between the leaders themselves. In addition, the Committee’s meetings were too infrequent to solve a variety of situations and minor or larger conflicts that arose such as gas disputes of 2006 and the meat, milk and metallurgy trade wars and so forth.

At the same time the frequency of meetings between the heads of states diminished: Presidents Kuchma and Putin met a total of 14 times by the end of 2004, while after Yushchenko took power, Putin visited Ukraine as a president only twice – once in 2005 and once in 2006, skipping 2007 and 2008. However, the Ukrainian side continued to send representatives of all levels to Moscow with official visits.

Hence, in foreign relations of Ukraine towards Russia, there was no reorientation or a goal change in terms of how Ukraine envisioned its affairs with the Eastern neighbour. It aimed at “equal” and “mutually beneficial” relations and pursued these goals with mainly the same methods that generated the same non-verbalized foreign policy activities, such as negotiations, meetings, changes of key foreign affairs figures, and the signature of documents in regard to the same issues of energy, borders, trade or the Black Sea Fleet as before. The change in the Ukrainian foreign policy that did occur in this regard at the level of decreased effort put into the same means and methods of implementing unchanged foreign policy goals. In that sense, “the controversial elections of 2004 harkened an era of “Europe and Russia”” in conducting foreign affairs in regard to Ukraine.<sup>33</sup>

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33 N. Mychajlyszyn, From Soviet Ukraine to the Orange Revolution: European Security Relations and the Ukrainian Identity, in: O. Schmidtko/S. Yekelchik (Eds.), *Europe’s Last Frontier? Belarus, Moldova, and Ukraine between Russia and the European Union*, New York 2008, pp. 31-53, here p. 48.

Overall, in the context of these foreign policy changes, I find strong evidence that the Ukrainian oligarchs directly linked to the Orange leaders reaped financial benefits through Yushchenko's policy towards Russia and towards the EU.

First, Viktor Yushchenko's major oligarchic connections included his political ally and future Minister of Foreign Affairs (2008-2011), Petro Poroshenko.<sup>34</sup> Poroshenko's major assets are in food and the auto industry as well as media. His business constitutes 25 percent of the entire Ukrainian confectionary branch,<sup>35</sup> with main export markets in Russia, Kazakhstan and Moldova, but also in the EU members of Lithuania and Estonia, as well as in the US, with manufacturing plants in Ukraine, Russia and Lithuania. His TV channel, 5 Kanal, became a loudspeaker for the Orange revolution, broadcasting live coverage of the protests around the clock, which might have been an additional reason to dissuade President Leonid Kuchma's regime from cracking down on the protesters.

Poroshenko's main business and therefore political interests have been double-edged. On one hand, his major confectionary business exports are oriented, among others, toward Russia.<sup>36</sup> His other business in shipbuilding (Kyiv-based "Kuznia na Rybalskim" plant) and Sevastopol Shipyard thrives on favourable relationships with Russia as well, having had the Russian Black Sea fleet in the Crimea as one of its major shipyard customers (until the annexation of the peninsular and nationalization of the major enterprises in the Crimea by Russia in 2014-2015).

On the other hand, protecting the Ukrainian food markets from Russian competitors by not allowing the Ukrainian business to be consumed by Russian investors and owners has also been an important priority for Poroshenko's business as well. In the end, the most desirable balance for Poroshenko at that time was not to upset the favourable trade relationship with Russia, while looking to expand towards new markets in Europe and expand abroad.

Under Yushchenko's foreign policy, Petro Poroshenko reaped his own benefits by maintaining Ukraine's relations with Russia at the same level of goals and orientations: his confectionary business supplied 8,000 tons of sweets to

<sup>34</sup> Matuszak, *The Oligarchic Democracy*.

<sup>35</sup> Ministry of Economic Development and Trade of Ukraine: State Export Support. Roshen: Company Information, [http://www.ukrexport.gov.ua/eng/ukr\\_export\\_exporters/?act=view&id=58&country=ukr](http://www.ukrexport.gov.ua/eng/ukr_export_exporters/?act=view&id=58&country=ukr), 19.12.2018.

<sup>36</sup> Of particular note are the trade wars between Ukraine and Russia, and the 2013 "chocolate war" that exposed the vulnerabilities of Poroshenko's company, Roshen, to the pressure from the Russian government. For more, see for instance: *M. Polovetskyi*, *Rosiya rozvyazala torhiv-elnu viynu proty Ukrayiny*, in: *Ekonomichna Pravda*, 12.09.2018. <http://www.epravda.com.ua/publications/2013/08/12/389401/>, 19.12.2018.

Russia per month and collected a total of one billion USD in 2011.<sup>37</sup> On the other hand, Poroshenko, benefitting from more open economic relations with the EU, was able to gradually diversify his supply network including the Union, and by 2013 his products were being sold in 30 different countries.<sup>38</sup>

The second powerful oligarchic formation supporting and receiving favours from Yushchenko during his presidency was an infamous entity known as RosUkrEnergo (RUE). This controversial intermediary was set up in 2004 and until 2009 functioned as an exclusive importer of Russian and Turkmen gas to Ukraine.<sup>39</sup> The two equal stakeholders in RUE were the Russian state enterprise Gazprom and Dmytro Firtash, a Ukrainian oligarch (through his consortium Group DF). In effect, instead of direct Gazprom supplies to the Ukrainian state company Naftohaz, RUE extracted rents through artificially regulated prices, a mechanism which over a span of five years cost Ukraine 2,668 million USD in losses and eventually became a legal case matter in both Kyiv and New York.<sup>40</sup> Both T. Kuzio and S.Matuszak list Yushchenko's reluctance to press the investigation of illegality of RUE's deals launched by Yulia Tymoshenko as well as certain Firtash-connected appointments as clear signs of Yushchenko's involvement with RUE.<sup>41</sup>

Dmytro Firtash's major business interests are inextricably linked to trading in gas and the manufacture of nitrogen fertilizer. He held a near monopoly with four out of six Ukrainian plants in this industry. The profits from the nitrogen fertilizer business are directly linked to the prices of gas, since these fertilizers use it as a raw material. His firm *Ostchem* also had holdings in titanium ore production in the Crimea and through other partners he controls *Inter TV*, one of the most popular TV channels in Ukraine. In short, during the Orange regime, Firtash and RUE were intricately linked through their rent-seeking mechanisms to predominantly Russian influences. This is because this business favours strong connections between the buyer, i.e. the Ukrainian state and the supplier,

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37 A. Kramer, *Chocolate Factory, Trade War Victim*, in: *The New York Times*, 29.10.2013, <https://www.nytimes.com/2013/10/30/business/international/ukrainian-chocolates-caught-in-trade-war-between-europe-and-russia.html>, 22.12.2018.

38 Ibid.

39 A. Aslund, *Ukraine. What Went Wrong and How to Fix It*, Washington, DC 2015; M. Balmaceda, *The Politics of Energy Dependency. Ukraine, Belarus, and Lithuania between Domestic Oligarchs and Russian Pressure*, Toronto 2013; T. Kuzio, *Ukraine. Democratization, Corruption, and the New Russian Imperialism*, Santa Barbara/Denver 2015.

40 *Oborudky Firtasha obiyshlysia krayini v 70 milyardiv – Avakov*, in: *Ekonomichna Pravda*, 26.06.2015, <https://www.epravda.com.ua/news/2015/06/26/548408/>, 19.12.2018.

41 Kuzio, *Ukraine*, pp. 396 f.; Matuszak, *The Oligarchic Democracy*.

i.e. Russian Gazprom that supplied Ukraine with the ultimate product of its energy dependence, natural gas.

As the gas price rise continued throughout Yushchenko's term, according to Global Witness RUE reaped \$700 million in 2005 alone, whereas *Naftohaz Ukrayiny* accrued \$500 in debt.<sup>42</sup> This corrupt rent mechanism incentivized the continued flow of Russian gas, since Gazprom was doubly-interested in getting benefits both as a supplier and as half-owner of the intermediary that charged the Ukrainian government fees on the supplies. The bill ended up being dropped at the door of *Naftohaz*. Thus, RUE and Firtash received clear benefits from the continued flow of revenues through Ukraine's gas relations with the Russian Federation.

Ihor Kolomoiskyi was another Ukrainian oligarch who supported the Orange leaders. According to his own statements, he ended up contributing \$5 million to the Orange camp before the regime change. His financial support grew, however, once the Yushchenko team had been installed in office: in the parliamentary elections of 2006 and 2007, he personally contributed to "Our Ukraine" campaign (Yushchenko's party) a total of 40 million dollars.<sup>43</sup>

Ihor Kolomoiskyi's major business assets totalled \$2 billion in 2010, according to *Forbes* estimates.<sup>44</sup> He accrued most of his capital through Privat Group that largely invested in banking, the petrochemical industry, domestic airlines and media. The major foreign policies could also be deduced from a range of business interests Kolomoiskyi holds. Some key revenue producing assets under the control of Privat Group are located in the Southern parts of Ukraine, including three ferroalloy plants (in Zaporizhzhia, Nikopol, Stakhanov) and the Kremenchutsk oil refinery. Kolomoiskyi's foreign policy interests could be summarized as in general being oriented towards minimizing the Russian financial, business and political presence and pressure on Ukraine.

This oligarch also benefitted from the moderate foreign policy position of Ukraine towards Russia and strengthened cooperation with the EU during Yushchenko's presidency. Kolomoiskyi's banking business, Privat, was hit particularly strongly in 2008. Previously Privat Bank had been the largest Ukrainian bank with 20 million customers. It had a total of 56,270 million of Ukrainian

<sup>42</sup> Kuzio, Ukraine, pp. 402 f.

<sup>43</sup> M. Navem/S. Leshchenko, Ihor Kolomoiskyi: Yakscho prezidentom stane Tymoshenko, ya sebe bachu v v emhratsiyi...", in: Ukrayinska Pravda, 28.03.2008, <http://www.pravda.com.ua/articles/2008/03/28/3404080/>, 22.12.2018.

<sup>44</sup> Forbes Profile: #1941 Ihor Kolomoyskyy, in: Forbes, <https://www.forbes.com/profile/ihor-kolomoyskyy/#7118a0d751dc>, 01.04.2019.

hryvnia in assets in 2007 and was able to increase this to 87,520 million in 2008. However, in 2009 it only grew by 2,169 million, as compared to an increase of 31,250 million Ukrainian hryvnia the year before.<sup>45</sup> Thus, PrivatBank suffered a major blow as a result of the global financial crisis.

The necessity to follow clear financial regulations, in accordance with the Ukrainian law and best international practices, led Kolomoiskyi to initiate the transition of PrivatBank from being a Limited Liability Company to a Closed Joint-Stock Company in 2009. In this way, Kolomoiskyi's globalizing business was able to benefit from the newly favourable Ukraine-EU relations.

In sum, this examination of Viktor Yushchenko's connections to oligarchic circles shows that even though there was a protectionist stance as far as Ukrainian producers were concerned (e.g. Poroshenko), the major thrust of business relations was directed towards favourable trading and cooperation with Russia while at the same time seeking to expand their products into other, new markets. A foreign policy confrontation with Russia would have hugely disrupted the existing rent-seeking mechanism that connected the Ukrainian oligarchs and the Ukrainian politicians, whereas further trade liberalization with the EU was most economically speaking most favoured interest of the Ukrainian rich. Thus, based on their primary business interests and in their predominance, the Ukrainian oligarchs tied to Yushchenko were in favour of keeping a working and stable relationship with neighbouring Russia, whereas they were also increasingly interested in expanding into new markets, with the EU prominently on the horizon.

Indeed, President Yushchenko did not linger to implement foreign policies in suit of these oligarchic interests. My analysis of selected Ukrainian oligarchs shows their profits and losses due to Yushchenko's foreign policy changes vis-à-vis Russia and the EU, and confirms the proposition of this paper that during the transitional political period for the Ukrainian government, oligarchic interests did impact on its foreign policy behaviour.

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<sup>45</sup> Privatbank Financial Statements, <https://en.privatbank.ua/about/financial-statements>, 22.12.2018.

### 3 New Foreign Policy Changes and Viktor Yanukovich' Oligarchic Gains

Similarly to the structure of the previous section, this part of the paper examines two political aspects that characterized the early presidency of Viktor Yanukovich: the changes in his foreign policy and the economic interests of the oligarchic elites that aligned behind him and benefitted from the new dynamics of Ukraine's relations with Russia and the EU. Specifically, I will demonstrate how stable and intensified economic relations with Russia were much needed and profitable for Viktor Yanukovich's ally, Rinat Akhmetov. Relations with the EU, while promising economic rewards, were also laden with the risk of political pressure on issues of transparency and good governance that were less favoured during Yanukovich' initial years in office.

Taking over presidential office in 2010, Viktor Yanukovich promised in his inaugural speech that he would propose a new Foreign Policy Concept for Rada's review and adoption. A new document shortly followed: the Law of Ukraine 2411-VI "On the Foundations for Domestic and Foreign Policy" came into force on July 1<sup>st</sup>, 2010.<sup>46</sup> Importantly, this law also stipulated that one of the key foundations for Ukrainian foreign policy is "ensuring Ukraine's integration into the political, economic and legal space with the goal of acquiring membership in the European Union."

In fact, Yanukovich further underscored this point when he planned his first official visit as president to Brussels on March 1<sup>st</sup>, 2010. This move was reminiscent of the typical Ukrainian method of reassuring a partner of Ukraine's commitment to good terms. In a similar fashion, Mr. Yushchenko had made his first official visit to Russia, the potentially disturbed party in 2005. The importance of such a first official presidential visit is also evident in the fact that the Russian President Dmitry Medvedev – who met with Yanukovich only four days later – asked the Ukrainian President why the EU was the first on his list rather than Russia. Clearly, the symbolism of timing and the level of these official meetings was not lost on officialdom in Moscow and therefore must have been considered by the presidential team when Yanukovich's travels to the EU and Russia were planned promptly after his inauguration and in close succession.

Apart from exchanges in official visits and meetings, Ukraine also continued those means and methods that had been introduced or launched during the

<sup>46</sup> Zakon Ukrainy "Pro zasady vnutrishnyoyi ta zovnishnyoyi polityky" No 2411-IV from 01.07.2010, <http://zakon3.rada.gov.ua/laws/show/2411-17>, 22.12.2018.



Orange regime. My examination of the chronicled records of Ukraine-EU relations shows that EU questions in 2010 and 2011 were routinely handled by Prime Minister Mykola Azarov at the request of the President of Ukraine.

However, an unforeseen development in Ukraine-EU relations was caused by Ukraine's authoritarian domestic consolidation. Several high-ranking EU officials took a very strong position on the imprisonment of Viktor Yanukovych's rival, Yulia Tymoshenko in 2011. The tension grew to the point that eventually the EU made the continuation of the Association Agreement talks conditional on the improvement of the situation surrounding the case of Tymoshenko.

Yanukovych's response was evasive in this regard. He presented the matter as a domestically conducted act of justice, performed in compliance with existing Ukrainian law and therefore as something that held internal legitimacy in Ukraine. Therefore, he argued that it should not affect international relations between the two partners. However, at the end of 2011, the government failed to employ any new methods in foreign policy behaviour that would have adequately addressed the issue.

As for foreign policy towards Russia, Ukraine's relations with this neighbour during Yanukovych's term started with a huge culturally symbolic endorsement. The Russian Orthodox Patriarch Kirill came to Ukraine to give a special blessing to the new president in an elaborate ceremony that took place right before the inauguration itself, in the heart of the Ukrainian capital. In contrast, previously, under Yushchenko's term, it had been bemoaned by the Russian side that Patriarch Kirill's visits had been too unfavourably received by officialdom in Kyiv.<sup>47</sup>

Mr. Yanukovych himself visited Moscow on March 5<sup>th</sup>, 2010. During the bilateral meeting, conducted in extremely amicable terms, both presidents remarked on the new era in Ukrainian-Russian relations, ending the "dark streak" – as President Medvedev described the relations under the previous Ukrainian leader.<sup>48</sup> Other Ukrainian agency chiefs followed suit. The Ukrainian Prime Minister, the Minister of Foreign Affairs and the Minister of Education all forged cooperation through visits and document signatures in the first month of the new presidency.

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<sup>47</sup> See, for instance "The Open Letter to the Ukrainian President Viktor Yushchenko" by the Russian President Dmitriy Medvedev on 11.08.2009, <http://kremlin.ru/events/president/news/5158>, 26.12.2018.

<sup>48</sup> L. Harding, Viktor Yanukovych Promises Ukraine Will Embrace Russia, in: The Guardian, 05.03.2010, <https://www.theguardian.com/world/2010/mar/05/ukraine-russia-relations-viktor-yanukovych>, 22.12.2018.

These diplomatic efforts culminated in the single most important agreement that Ukraine concluded with Russia since the 1997 Friendship Agreement: the Kharkiv Pact.<sup>49</sup> This document was signed barely two months into Yanukovich's presidency on April 21<sup>st</sup>, 2010 and reverberated through Ukrainian politics at all levels. The pact foresaw the lease of the Sevastopol base to the Russian Fleet until 2042 at \$100 million a year, subject to automatic renewal every five years unless the parties were to inform one another of an intended change a year prior to the end of the lease. Further, the gas price was fixed at \$333 per thousand cubic metres of natural gas supplied from Russia at which point, Ukraine's gas payment was to be decreased by \$100 per m<sup>3</sup>, and if the existing price was lower than the \$333 level then it was to be reduced by 30 percent. The pact was ratified in Kyiv and Moscow on April 27<sup>th</sup>, 2010.

This agreement between the two states was of a remarkably high level. Against the backdrop of about three hundred legal acts signed by Kyiv and Moscow, the Kharkiv Pact stands out for its wide military, security and economic impact for Ukraine.<sup>50</sup> The text of the pact draws its legal foundations from the Friendship Agreements of 1997. And the advocates of Yanukovich's policy did not tire to point out to their opponents the historical continuity in how Ukraine had treated Russia in terms of the lease of the Sevastopol base.

At the same time, while the Kharkiv Pact proponents underscored continuity in Ukraine's relations with Russia, Yanukovich's foreign policy remained largely unmovable on several national issues. Among them was Ukraine's consistent and non-negotiable refusal to combine the assets of the Ukrainian Naftohaz and Russian Gazprom at the repeated Russian suggestion. Another non-negotiable position for Ukraine was the non-acknowledgement of the independence of the Georgian breakaway regions of South Ossetia and Abkhazia, propped by Russia.

But perhaps most importantly for Ukraine's economic and political position, during many visits that I traced in the Ukrainian foreign affairs chronicles of 2010 and 2011, the Ukrainian representatives time and again refused to negotiate the country's membership in the Russian economic project of the Customs Union that was designed to counterbalance the EU regional economic potential.

The Eurasian Customs Union was established on January 1<sup>st</sup>, 2010, prior to Yanukovich taking office and was composed of Armenia, Belarus, Kazakhstan

<sup>49</sup> For a full-text version of the Pact in two original languages, see: [http://zakon4.rada.gov.ua/laws/show/643\\_359](http://zakon4.rada.gov.ua/laws/show/643_359), 26.12.2018.

<sup>50</sup> Ministry of Foreign Affairs of Ukraine: A List of Legal Acts between Ukraine and Russia, <http://russia.mfa.gov.ua/ua/ukraine-ru/legal-acts>, 22.12.2018.

and Kyrgyzstan and Russia. The states did not levy customs on goods traded across their borders but did impose a common external tariff on all goods entering the Union. The Ukrainian authorities since Kuchma's day were leery of creating a customs union of similar format. They insisted on the free trade zone that would not penalize the flow of EU goods through its most extensive border. In this sense, the Ukrainian position was neither new nor changed and was strongly upheld throughout 2010 and 2011.

So, what were the oligarchic interests connected to Viktor Yanukovych and how did they benefit from his foreign policy positions during the two first years of his presidency? The corruption of Viktor Yanukovych and the oligarchic clan surrounding him has become the subject of many journalistic accounts in Ukraine. Some sources put Yanukovych's cumulative assets at \$16 billion, whereas there is evidence that he himself paid at least \$2 billion in bribes.<sup>51</sup>

Many of the oligarchic connections in Yanukovych's network coalesced around a political formation, the Party of Regions. V. Avioutskii claims that this party was created "in order to achieve a well-defined objective: Prime-Minister Yanukovych victory in 2004 presidential elections".<sup>52</sup> Most of the party control remained behind its indubitable powerholder, Rinat Akhmetov. Avioutskii further lists ten key oligarchs connected to Rinat Akhmetov and the Party of Regions, whereas Matuszak provides a more elaborate map of their connections to other political and oligarchic figures.<sup>53</sup>

I will use Rinat Akhmetov's business interests here mainly as a shorthand for a larger set of oligarchic political orientations that stem from the same regional and industrial foundation. The general basis for this is not only the fact that according to the analysis mentioned above Akhmetov's interests prevailed in most important political matters handled by the Party of Regions, but also that most of Yanukovych's oligarchic supporters were to a degree regionalized (Donetsk) and economically sectorial (metallurgy and mining in Donbass).

Rinat Akhmetov's major financial and industrial holding company, System Capital Management (SCM) was originally founded in 2000.<sup>54</sup> SCM is composed

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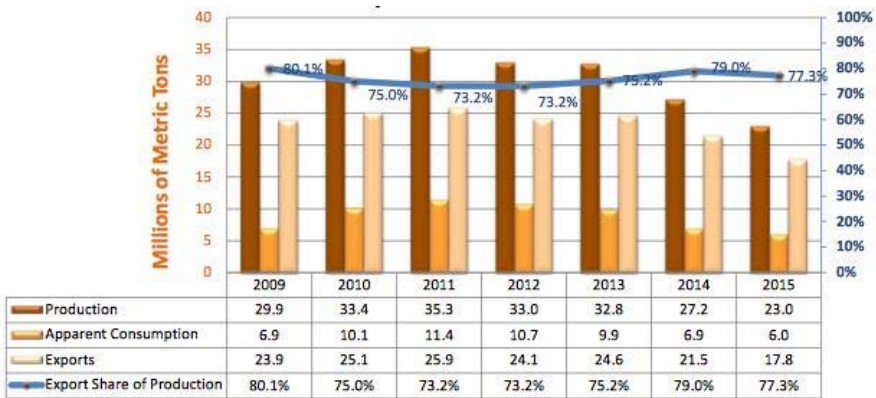
51 M. Tucker, Ukraine's Fallen Leader Viktor Yanukovych "paid bribes of \$2 billion" – or \$1.4 million for every year he was president, in: The Telegraph, 31.05.2016, <http://www.telegraph.co.uk/news/2016/05/31/ukraines-fallen-leader-viktor-yanukovych-paid-bribes-of-2-billio/>, 22.12.2018.

52 Avioutskii, Consolidation, p. 127.

53 Idem/Matuszak, The Oligarchic Democracy.

54 B. Forest, Shakhtar Fights to Survive in UCL, but Its Owner Is Even More Peril, in: ESPN, 18.10.2015, <http://www.espnfc.com/uefa-champions-league/2/blog/post/2664720/the-story-behind-shakhtar-donetsks-owner-rinat-akhmetov>, 22.12.2018.

of several dozens of subsidiaries, and by 2010 it was Ukraine's largest conglomerate accounting for roughly 8 percent of the country's GDP.<sup>55</sup> SCM's most prominent company, *Metinvest*, was also Ukraine's biggest domestic producer of steel by 2010, representing 40 percent of total iron ore output and 28 percent of Ukraine's total steel production.<sup>56</sup> It should be noted that the predominant part of such production in Ukraine (an average of 75.3 percent in 2009-2012) is heavily export oriented, since domestic consumption constitutes a much smaller part, as seen from the graph below.



**Fig. 1:** Ukraine's Export Share of Steel Production, 2009-2015. Source: US International Trade Administration, 2016 Report on Ukraine.

In practical terms, for Rinat Akhmetov's business both Italian, Turkish and Russian markets are key to making profits in this area. The largest problem for the industry in terms of the EU markets is that the steel sector is considered as one of the "sensitive" ones with the EU's strong protections towards Ukrainian products still in place throughout 2004-2009. In 2004, prior to the Orange revolution, Ukraine-EU agreement previewed an expansion of the existing quota to 606. 824 tons per year to accommodate for the EU enlarged member states. The EU quota was increased in 2007 on condition that the terms of such an agreement would expire once Ukraine became a WTO member.

<sup>55</sup> Deals of the Year: 2010 Metinvest, in: TFReview, 24.02.2011, <https://www.tfreview.com/awards/commodities/deals-year-2010-metinvest>, 01.07.2018.

<sup>56</sup> Ibid.

Once WTO status was achieved, Ukraine's steel exports to the EU did indeed see a remarkable increase: In 2007, the EU's share in Ukrainian steel export was at 17 percent, whereas by 2010 it constituted 24 percent.<sup>57</sup> This growth in the EU export share dynamic, however, should be set against the background of a general decline in steel exports in Ukraine from 28.2 million tons in 2007 to 23.8 million tons in 2010. Partially this decline was due to the effects of the global financial crisis of 2008. However, the decline was also observed even prior to that and is attributed to a combination of the drop in the world market prices and the rise in natural gas prices for Ukraine.<sup>58</sup> The latter was a result of many cyclic gas disputes between Ukraine and Russia in the autumn-winter seasons of 2005-2006, 2007-2008 and 2008-2009.

Thus, Ukrainian steel producers since 2009 had been operating at much more modest profit margins compared to previous years, and the production cost was the dominant factor in pricing by Ukrainian steel businessmen.<sup>59</sup> Indeed, for a long period, Ukraine's steel industry had enjoyed one of the world's lowest unit costs in steel production with cheap labour at only 7 percent of the final product cost.<sup>60</sup> But the rise in the material costs of production that was dependent both on cheap Russian gas and on the old Soviet model of raw-material intense technologies presented Ukrainian steel businessman with three major challenges in post-Orange years: the input prices needed to be stable, most importantly the prices for Russian gas; in the post-crisis environment of low profits, export shares needed to expand; and outdated technologies had to be modernized by attracting new investments.

These were the business interests of Yanukovich-linked oligarchs that translated into their foreign interests of Ukraine's dealing with international partners. Primarily, they dictated that relationships with Russia should be stable and uncontentious to the extent that Russian gas prices would not fluctuate as a result of geopolitical punishment for Ukraine's foreign policy behaviour not aligned to Russian preferences. Secondly, the relations with the Russian Federation figured prominently for Rinat Akhmetov's industry in the expansion of export shares, specifically after the global financial crisis that severely undercut

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57 V. Vlasjuk, Global Market and Steel Industry Development. 70<sup>th</sup> Session of the OECD Steel Committee Meeting, 13.05.2011, <http://www.oecd.org/industry/ind/47895059.pdf>, 22.12.2018.

58 ECORYS Research and Consulting, Global Analysis Report for the EU-Ukraine TSIA (Ref: TRADE06/D01), 30.08.2007, [http://trade.ec.europa.eu/doclib/docs/2007/june/tradoc\\_135010.pdf](http://trade.ec.europa.eu/doclib/docs/2007/june/tradoc_135010.pdf), 22.12.2018.

59 Vlasjuk, Global Market.

60 ECORYS Research and Consulting, Global Analysis.

the affluent Europe with its steel quotas<sup>61</sup> and drove global prices for steel products down to the detriment of the Ukrainian steel business. The investments from diversified financial centres, including Russia, were also of great interest to the major steel producers in Ukraine.

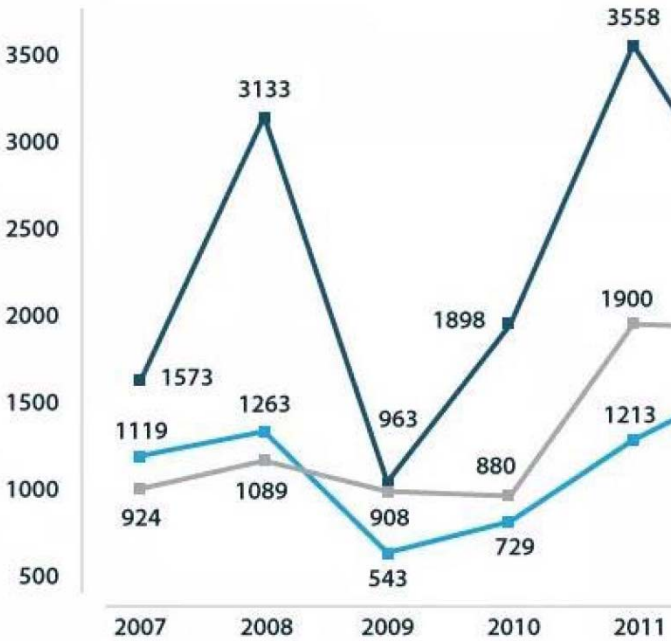
In brief, these three business strategies – stabilization of input prices; post-financial crisis export expansion; and modernization of production through new investments – dictated intensified and expanded cooperation with Russia for the transitional period of 2010 and 2011 during Yanukovych’s presidency.

In terms of the relations with the EU, the Ukrainian oligarchs had by 2010 seen some major benefits from the “market economy” status with the EU from 2005 and WTO accession achieved in 2008. But more aggressive movement towards the political integration with the EU and its transparency norms etc. could expose their rent mechanisms and require unfavourable changes in the conduct of these affairs. Hence, while expansion into the EU markets was also in Yanukovych’s oligarchic interests, it was not critical. Rather, the EU needed to be a stable partner and not a whip for changes in the political system where the oligarchs were reaping “krysha” and immunity benefits. Therefore, Yanukovych-linked oligarchs were interested more in maintaining open EU markets without having to follow a new set of rules for their domestic political gambits.

In this context, Rinat Akhmetov’s business benefitted from Ukraine’s foreign policy of a continued charted course with the EU, and stabilized relations with Russia. By the end of 2009, Metinvest exports to Europe plummeted because of the global financial crisis, although they had enjoyed a remarkable growth in the previous years due to the changed “free market” status and WTO accession.

The graph below shows that Metinvest sales in the EU were three times larger in 2008 than its sales in Russia. However, by the end of 2009, that gap had significantly closed as all sales declined and exports to the EU and Russia were at the same level (Figure 2). Overall Ukraine-Russia trade flows recovered fast, and by July 2010 levels already reached the pre-2008 levels, according to remarks made at the meeting of the Ukrainian and Russian Presidents celebrating the Day of Russian Fleet in Crimea. Hence, Metinvest pursued the Russian direction for its trade more vigorously in 2010 and 2011 than before.

<sup>61</sup> As a result of 2009 global financial crisis, the EU faced the deepest recession since 1930s and had the sharpest contraction of its GDP, by 4 percent, in its history. For more, see: Economic Crisis in Europe: Causes, Consequences and Reposes, in: European Economy 7, 2009, [http://ec.europa.eu/economy\\_finance/publications/pages/publication15887\\_en.pdf](http://ec.europa.eu/economy_finance/publications/pages/publication15887_en.pdf), 22.12.2018.



**Fig. 2:** Sample caption\_Rinat Akhmetov's Metinvest Exports by Region, in Million USD. Legend: Dark Blue=Europe; Light Blue=MENA; Gray=CIS. Source: Center for Transport Strategies, Kyiv, Ukraine.

Thus, by the end of 2011 Metinvest had almost tripled its exports to Russia, and in fact Metinvest Eurasia, its regional arm that started in 2008, expanded very quickly in 2010 and 2011. By the end of 2011, it had 24 warehouses throughout Russia, and had been growth “from zero.” The company earned an award as “The Best Sale Distribution Network in Russia” at the Moscow international metal industry conference in November 2012. The sales of sheet metal alone for Metinvest Eurasia rose by 27 percent in the first half of 2010 and by 45 percent in the first half of 2011. And its plans for 2012 were to increase these numbers by yet another 25 percent. Every year, Metinvest Eurasia added on average 21 new products to its sales on the Russian market. And more broadly, from 2010 to 2016, it offered Russian buyers a total of 146 new products.<sup>62</sup> All this growth

<sup>62</sup> Metinvest Global Offices. Official website of the Company <https://metinvestholding.com/ua/world-offices>, 22.12.2018.

should be evaluated against the backdrop of the Russian Federation itself being the world's fourth largest steel exporter.<sup>63</sup>

In addition to making profits and winning awards on the competitive Russian market which was already full of global steel players, Metinvest was able to successfully attract Russian capital for its own investment purposes. Thus, one of the world's deals of the year 2010, according to the Trade and Forfeiting Review, was the \$700 million pre-export finance that Metinvest attracted with the "rare" participation of Russian investors (Sberbank and Gazprom). The deal was remarkable both in terms of being one of the biggest structured transactions in Europe and Middle East in 2010 (according to MLA WestLC), but also precisely because of such syndication of the "Russian banking fraternity".<sup>64</sup>

To summarize, in this section I traced Viktor Yanukovych's foreign policy changes in 2010-2011 and argued that the oligarchic heavyweight behind the new president, Rinat Akhmetov was interested in maintaining the relationship with the European Union due to the profit trajectory that Ukrainian business elites had already experienced through the Ukraine's new 'market economy' status vis-a-vis the EU and the WTO membership. A more aggressive integration with the EU would have potentially threatened these oligarchs' domestic political rents by forcing them as politicians to be more transparent and abide by the rule of law that the EU promoted. This EU position was evident from the Union's pressure on Ukraine over the case of the imprisoned political rival Yulia Tymoshenko. Thus, the oligarchic elites pursued a more modest progress pace in Ukraine's existing policy course towards EU integration. As a result, the Ukrainian foreign policy towards the EU experienced only an adjustment.

On the other hand, the global financial crisis and unseen fluctuation of gas prices set by the Russian supplier, prompted Rinat Akhmetov to strengthen the connections to both Russian export markets, Russian capital and, more importantly, to secure gas prices. This necessitated Ukraine's pursuit of the foreign policy towards Russia that showed new and renewed efforts, means and methods of cooperation. My analysis of the profits and dealings of Rinat Akhmetov's business confirms that indeed, he benefitted from Yanukovych's foreign policies and even expanded on the tough Russian steel market.

<sup>63</sup> Steel Exports Report: Russia, in: Global Steel Trade Monitor, December 2016, <http://www.trade.gov/steel/countries/pdfs/2016/q3/exports-russia.pdf>, 22.12.2018.

<sup>64</sup> Deals of the Year: 2010 Metinvest, in: TFReview, 24.02.2011, <https://www.tfreview.com/awards/commodities/deals-year-2010-metinvest>, 01.07.2018.



## 4 Conclusions

Over the span of a decade, from 2004 to 2014, the Ukraine saw two major political transitions. At the same time, the country pursued seemingly opposing foreign policies, vacillating between closer ties with the EU to its west, and the Russian Federation to its east. Viktor Yushchenko, who took power after the Orange protests, was initially lauded as a great reformer, able to bring Ukraine into the fold of the European Union. Despite these expectations, no membership prospects were secured for Ukraine by the end of his term.

On the other hand, his opponent with long-standing Russian support, Yanukovich, often passed for an EU enthusiast once at the helm of the state and even went as far as to claim that “beyond EU, Ukraine has no other alternative”.<sup>65</sup>

As I set out to investigate the driving forces shaping foreign policymaking in Ukraine during these years, I posited that it was because these foreign policies were shaped in an uncertain post-revolutionary transitional political environment that we see seemingly contradictory outcomes in Ukraine’s relations with the EU and Russia. According to my theoretical proposition, volatile political settings in transition put distinctly different constraints on political actors: they have shorter time horizons and thus seek not re-election per se, but political and personal benefits from more long-term oriented actors in the system. These actors are able to deliver these political and personal benefits in a highly uncertain environment.

Ukraine’s oligarchs in 2004 were among the world’s richest, and most deeply imbedded in the political system of the country. Following my line of argument, I posited that because of a close link between the high-ranking officials at the top of the state to their oligarchic sponsors, the foreign policy of Ukraine in transitional years may reflect the interests of the party substitutes.<sup>66</sup> Foreign policy change is thus generated according to the new interests that transitional

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<sup>65</sup> President Viktor Yanukovich’s Feb. 25 Inaugural Speech in Parliament, in: KyivPost, 25.02.2010, <https://www.kyivpost.com/article/content/ukraine-politics/president-victor-yanukovychs-feb-25-inaugural-spee-60475.html>, 22.12.2018.

<sup>66</sup> “Party substitutes” is a term coined by *H. Hale*, *Why Not Parties? Electoral Markets, Party Substitutes, and Stalled Democratization in Russia*, in: *Comparative Politics* 37/2, 2005, pp. 147-166. It denotes those political actors that are able to outcompete political parties in delivering electoral goods and services (organizational support, material resources a ‘brand name/ reputation). I explore how oligarchs function as party substitutes in Ukraine elsewhere: *L. Zubytska*, *The Rise and Establishment of Oligarchs as Party Substitutes in Ukraine: An Assessment of Post-Revolutionary (Orange) Years*, in: *Ukraina Moderna* 25, 2018.

leaders pursue under the impact of transitional uncertainty. In conditions of stringent transitional uncertainty, political decision-makers consider first and foremost the interests of their political sponsors.

My empirical results show that transitional uncertainty combined with the interests of oligarchs in Ukrainian politics when it came to foreign policy. Viktor Yushchenko was tied to business elites who preferred economic connections to Russia to remain largely undisturbed, while EU markets were increasingly open to their products, and adjusted Ukrainian foreign policy by putting less effort into existing cooperation with the Russian Federation. As regards the EU, Yushchenko's goals were not different from his predecessor, President Kuchma, who had aimed for an eventual integration into the Union for his country. In line with oligarchic interests, Yushchenko changed the programme of Ukraine's foreign policy by adding new means and methods of pursuing the same goal. His failure on both counts – neither establishing friendly and mutually beneficial relations with Russia, nor getting clear prospects of EU membership for Ukraine – was not simply a misfit of goals and means, but rather a result of a complex interaction with these partners.

Similarly, Yanukovich had formed strong connections to oligarchic circles in his native Donbas prior to his tenure in office. The industrial base of this region and its oligarchs had been traditionally strongly linked to favourable economic relations with neighbouring Russia. But the global financial crisis and troubles with natural gas prices under President Yushchenko even further prompted these oligarchs and Viktor Yanukovich to seek improved and stable relations with the Russian Federation. This was solidified in the Kharkiv Pact between Ukraine and Russia in which Ukraine traded relative gas price stability for the prolonged stationing of the Russian Fleet in Ukrainian waters. On the other hand, with regard to the EU, the preference of Yanukovich-tied Ukrainian oligarchs was to continue favourable economic relations, but not to proceed with decoupling politics and their personal rents under the watchful eye of the EU. Yanukovich pursued the same goal that Yushchenko had, that is EU integration – albeit with a decreased effort in 2010 and 2011.

In conclusion, I have shown both in the cases of the first post-Orange President Yushchenko and his successor President Yanukovich who operated in transitional environments that their foreign policies were linked to oligarchic interests. Beyond this, the theoretical propositions in this paper are open for subsequent extensions and comparative applications to gain more understanding of foreign policymaking in thorny transitions which many countries around the globe so arduously undergo. Being open to further elaboration, the theoretical contribution of the current research may continue to grow and be of use to

both researchers and policymakers, and all those who strive to understand the entangled knots of political transitions in current global affairs.

## Bionote

### **Lidiya Zubytska**

native to Lviv, Ukraine, focuses her research on domestic factors shaping foreign policy choices in states undergoing political transition. In particular, she studies how party politics, economic reforms and social movements impact foreign policymaking in transitional post-Soviet states. She has co-authored publications on Russia's foreign policy quest for a unique place in the world, as well as on the role of regional organizations in the post-Soviet space. Lidiya Zubytska holds a Doctoral degree in Political Science from the University of Kansas, and a Master's degree in International Peace Studies from the University of Notre Dame. Prior to her academic path in the US, she taught at the Ukrainian Catholic University and worked on administrative reform in the Ukrainian government after the Orange revolution.



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