



# YEARS OF DISTRESS OF A NATION WITHOUT AN ELITE

**THE SPECIAL INVESTIGATION OF "THE UKRAINIAN WEEK"  
ADDRESSES THE FOLLOWING ISSUES:  
WHERE DID INDEPENDENCE COME FROM  
HOW THE COUNTRY WAS (MIS)APPROPRIATED  
HOW PUTIN SUBJUGATED KUCHMA  
HOW "PATRIOTS" ACCOMMODATED THE OLIGARCHY  
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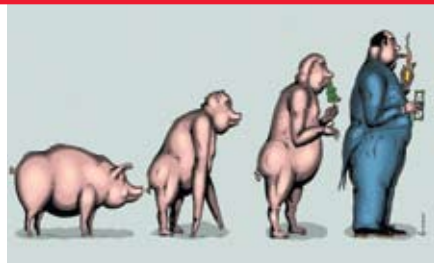
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THE OVERTHROW OF THE IDOLS.  
Protesters start to dismantle  
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PHOTO: VOLODYMYR PALIN



# The Lessons of Independence

**20** years is a significant stretch of time on the verge of the 20th and 21st centuries, packed with events. 20 years ago, former socialist and Soviet Union countries demonstrated their willingness to move towards democracy and the free market. Samuel Huntington referred to this period as the beginning of the third wave of democratization and the world literature picked up on this definition. Yoshihiro Francis Fukuyama described it as “the end of history” and final victory of liberal democracy in the world.

However, the countries in this region, which surprised the world in the late 1980s are now showing divergent results from the way they have chosen – or at least declared. Some, that embarked on transformations with a clear vision of the final goal and an idea of the steps that should be taken, have already joined key institutions of the united Europe, thus completing their return to where they belong. Others have seen despotism emerging from the ruins of the old regime. The rest, including Ukraine, are still en route, asking themselves and others for directions.

20 years is sufficient to look back, assess the path taken and provide answers as to where and why the country took a wrong turn. In the early 1990s, EU officials expressed the same skepticism about the prospect of the membership of Ukraine’s Western neighbours in the EU as they are doing about Kyiv’s chances to this day. Yet, within a few years Europe saw Central European governments and nations make the successful transition from dictatorship to democracy, that it is now focused on assisting in the integration of these nations into the European community.

Why has Ukraine failed? The short answer may seem too definitive, but unfortunately, we keep coming across evidence of its accuracy. The explanation lies in the fact the country’s development and potential is held back by its Soviet mentality, which includes stereotypes in the mindset and behavior that are typical of homo soveticus,

regardless of his or her social standing.

Irresponsibility, indifference towards the country, the inability to think ahead or strategically, greed, lack of initiative and a trend towards choosing the easy, often sneaky, ways are the sickness of both the elite (or rather, the “elite” of the establishment) and groups that are not related to power, but are striving to attain it.

Luckily, this is not a verdict so far. Such social symptoms can be cured, even if slowly, with the development of the economy and the middle class which relies on its own resources and is able to demand respect and appropriate actions from the government. However, in an aggressive geopolitical and geoeconomic environment, there may not be time for the slow start and evolution of society. It follows that the latter should be accelerated by conscious decisions: the establishment of rele-

dence of Ukraine as a subject of international law and the fulfillment of the declarations for re-integration into Europe made by each government in turn.

This concept includes economic competition; improvement in standards of living (in line with the UN Human Development Index which not only takes income into account, but also the development of education and culture, the protection of rights, as well as other aspects; the democracy of political processes; the transparency of government decisions, and the possibility of public control over them.

We searched for the answers to these questions, when examining the stages of Ukraine’s development. Each stage differs qualitatively from previous ones as regards relations within the establishment and society; a specific deciding trend is inherent in each, which impeded the state’s implementation of its own potential:

- Why were the unprecedented capabilities, which existed at the moment when independence was gained, not used in the process of state-building? Why were the hopes for the “huge economic potential” of Ukraine not realized?

- Why was “state-building” become a synonym for empty wandering in a circle and the emasculation of the notions of “national ideas”, “national interests”, and so on?

- How and why did control of the economy of Ukraine end up in the hands of several people? What are the dangers of the “oligarchic-lumpen” model?

- Who was interested in weakening the country and could have been behind the domestic and foreign policy scandals?

- What does the opposition need to justify the confidence of the people?

Having outlined the reasons, which lie in the basis of the indicated “braking” trends and having analyzed their nature, this knowledge can be used in the coming ten years for the adoption of the right decisions. Hence our research is directed towards the future, arising from the trends described in it, rather than the past. ■



## UKRAINE’S DEVELOPMENT IS BEING HAMPERED BY THE SOVIET UNION – STEREOTYPIC HOMO SOVIETICUS THINKING AND BEHAVIOUR

vant public institutions that would promote the responsibility of those in power, as well as legislative changes which would unlock the energy and creative potential of the nation rather than suppress it.

A closer look at how Ukraine got to where it is now will help outline the priority of the steps it should take, and what these steps are. The Ukrainian Week has launched Ukraine-20, a special project to search for answers to these questions.

It will focus on well-known, publicized facts which reveal the specific features and explain reasons why the country evolved as it did, what could have been done differently and what should be taken into account to avoid mistakes in the future.

This research determines the success of various moves and processes and evaluates the extent to which they affected the indepen-

# THE EVE OF INDEPENDENCE



## Independence by Intuition

For centuries, people have fought for the independence of Ukraine, but obtained it within the course of several years, when it became apparent that the Moscow center was incapable of maintaining the empire and the Soviet Union naturally became obsolete. Centuries of lack of statehood made themselves felt: neither the political establishment, nor the opposition had a clear vision of the steps, necessary for the consolidation of an independent, democratic and successful Ukrainian State. For this reason, in contrast to its western neighbours, in Ukraine, most of the actions of the government and its opponents were intuitive: they were based on the fact that independence was a distant goal, instead, it was necessary to take advantage of the favourable circumstance of the confusion within the leadership for the resolution of urgent issues:

- Striving to take over control of economic resources on its territory, the leadership of the Ukrainian SSR laid a foundation for the establishment of the new state's economic system; the curve towards "Group A" (heavy industry) in the structure of the economy created additional difficulties for conducting reforms.
- Taught by the experience of "hot spots", power structures were not in a hurry to suppress the actions of the people, which opened the possibility of putting pressure on the government.
- The speeches and strikes of miners and employees in other professions, as well as students' hunger strikes demonstrated the following: the nation was seeking changes and supported the idea of independence.
- The government was at a loss and was afraid of using force, so for the most part, simply went with the flow.
- The opposition did not have a clear plan of action, random people often forced their way into the leadership, thus it was unable to present the country with its own agenda.



# A Crisis of Incapability

Ukraine failed to take advantage of the opportunities offered by the collapse of the USSR. This can be blamed on the unreadiness of the counter-elite and shortsightedness of the political establishment

**T**he turbulent years of the overthrow of Soviet regimes in Eastern Europe and the collapse of the USSR – a time of quick decisions and realization of historical opportunities – offered several different scenarios for the transition to a new, post-Communist life. There were two basic means for the success of quick reforms, the establishment of democracy and economic development. The first was the unification of the political establishment and the opposition around independence. This is what happened in the Baltic States. In an interview with the Ukrainian Week, Vitautas Landsbergis, the Lithuanian Member of the European Parliament, succinctly pointed out their motivation: “We all wanted democracy to renew our independence”. The other anticipated a “velvet revolution”, similar to the one in Czechoslovakia or a successful roundtable between the government and the opposition, (such as in Poland and Hungary). According to their results, Communist political establishment was replaced by counter-elites. Other means, such as counting on a strong-hand policy, delayed reforms or attempts to pay off historical scores with neighbours, led to Communist dictatorship being replaced with a new despotism – with which George W. Bush scared Ukrainians in his infamous “coward” speech on 1 August 1991, Ukrainians as he tried to convince MP’s to drop their struggle for independence. Ukraine is always walking a fine line, both in terms of its independence, and many other issues. It has succeeded in avoiding the worst scenarios, but has failed to take full advantage of the opportunities presented during the collapse of the USSR.

In the late 1980s and early 1990s, the USSR suffered a slew of systemic crises, the most prom-



WE WON'T EAT;  
WE WON'T DRINK UNTIL  
WE ARE FREE.  
The student  
hunger-strike showed  
Ukrainians' willingness  
for independence

inent of which was the collapse of the Soviet economy, paralysis of the governance system and the expansion of the battle for power in Moscow.

The economic crisis forced both the establishment and the public, including all social classes

from intellectuals to the military, to look for new ways of survival. First autonomy, then independence, was seen as a tool for protection from these looming economic troubles.

The Soviet centrally planned economy had exhausted itself ▶

long before the 1980s - attempts to reform it had begun as far back as 1965. However, the then government had entrenched a basic contradiction in the reforms, combining such market regulators as profitability and income, with a deepening of centralization. For example, it set up 40 all-union ministries and agencies during 1965 -1985 which took 90% of all enterprises in the Ukrainian SSR under their control. This was command economy managed by government officials rather than business managers. We can see the consequences of this mentality in Ukrainian economic policy to this day.

Meanwhile, the structure of the economy of Soviet Ukraine was ill-balanced, where the share of industries working for the consumer market did not exceed 29% of total gross output, compared to 50-60% and more in developed countries. The rest of the economy was consisted of Group A enterprises, more specifically coal mining, metallurgy and mechanical engineering. Production plans for the Ukrainian SSR were drafted in Moscow. The distortion of the economy resulted in not only a shortage of goods, but also aggravated environmental, demographic and social problems.

Throughout the 1970s, FMCG products imported from the reve-

nues of oil and gas sold to the West partially removed the structural distortions of the economy. However, the influx of oil dollars came to an abrupt halt as a result of plummeting energy prices. In 1986, the USSR only earned 5 bn convertible rubles from the export of oil and oil products, compared to the previous annual 10-12bn. As a result, the country lost nearly 40bn convertible rubles in 1986-1988 alone.

The attempts of the USSR government to improve the situation by administrative means, by increasing output and improving its quality failed. Most types of goods remained uncompetitive.

Partial liberalization in the late 1980s also failed to resolve these issues. A cooperative movement was permitted under unfavourable conditions, including taxes amounting to 65% and up to 30 supervisory authorities. There were no mechanisms to support the production business, such as loans, or to control abuse of office, when small enterprises and joint ventures were set up around large state-owned companies for the purpose of selling off the latter's assets. Research-technical youth associations, established on the basis of Komsomol committees were yet another good way to siphon off the cash allocated for the party and Komsomol into what served as the

foundation for many oligarch empires of today.

The soviet administration was unable to find a way of overcoming the economic crisis. This angered the public, particularly since the ideology no longer played its mobilization role, while the Chernobyl disaster which the government tried to cover up and the unpopular war in Afghanistan undermined loyalty to those in power.

Moreover, the might of the Moscow core was shaken from within. The RSFSR government, led by Boris Yeltsin, strove to take power in the largest republic of the Soviet Union, which would have been impossible without the undermining of the all-union government. Ultimately, the RSFSR became virtually the first republic



## THERE WAS NO ELITE THAT WAS CAPABLE OF TAKING RESPONSIBILITY FOR WHAT WAS HAPPENING IN UKRAINE

in the USSR after the Baltic States to declare its sovereignty on 12 June 1990, more than a month prior to Ukraine's declaration.

New alternative union-wide organizations either did not exist or played a marginal role in politics. Unable to deal with the economic crisis and meet the growing hunger of all republics for cash and goods, the leadership of the USSR turned a blind eye to the attempts of local administrations to solve these problems on their own, until these efforts transformed into the construction of an economic basis for the independence of the republics.

Thus, the imperialistic kernel was unable to use all avail-

## How the USSR collapsed



**26 April 1986**  
The Chernobyl catastrophe. The government tries to hide information about the disaster and its consequences from the public

UKRAINE ●  
FSU ●

**11 March 1985**  
Mikhail Gorbachev is elected General Secretary of the USSR Central Committee of the Communist Party. He declares the need to speed up "socio-economic progress and reforms"



**26 July 1986**  
The Central Committee of the Communist Party passes a provision on the structure and governing bodies of the "civil and public system of the scientific and technical creative work of the youth" submitted by the Union Lenin Communist Youth Union. This allows nimble activists to build the first business entities, using Komsomol money

**28 May 1987**  
German pilot Mathias Rust freely lands his sport aircraft in downtown Moscow. Gorbachev launches the systemic purging of law enforcement agencies



**February 1988**  
Protests unfold in Stepanakerti, the administrative capital of the Nagorno-Karabach Autonomous Republic, and Erevan. Protesters demand independence for Nagorno-Karabach for subsequent joining with Armenia

**26 May 1988**  
The government passes the Law "On Cooperative Business in the USSR" to legalize the business of entrepreneurs which was previously banned but secretly operational



**June 1988**  
Abkhazian Autonomous Soviet Republic, a part of Georgia, applies to join the RSFSR





# Upper Volta with Missiles

The USSR failed to ensure fair living standards for its citizens

USA	Switzerland	Germany	USSR
<b>GDP per capita in the USSR lagged far behind that of developed countries</b> GDP per capita, 1985, USD			
 <b>12 532</b>	 <b>15 225</b>	 <b>10 708</b>	 <b>4996</b> (68th in the world)
<b>Cost of labor in the USSR was much lower compared to developed countries</b> Hourly rate for average employees, 1985, USD			
 <b>30</b>	 <b>30</b>	 <b>28</b>	 <b>0,59</b>
<b>USSR had super-low consumption and social expenditures</b> (77th in the world)			
 <b>8542</b>	 <b>6998</b>	 <b>5819</b>	 <b>2198</b> (77th in the world)



The property of one family in the USSR was worth 7,300 rubles compared to more than USD 30,000 in the USA



In 1987, the USSR spent 187bn rubles on social needs, including education, health care and so on, compared to USD 500bn from the federal budget alone in the USA



It cost the USSR a fortune to maintain civil service and party apparatus employees. The country had more than 300 union-wide ministries and central authorities and spent 20% of its GDP on the military, compared to 5% in the US, 3% in Germany and 4% in France

From the open sources

able leverage to influence the situation in its republics, particularly Ukraine. The conditions that emerged should have been taken advantage of, however the key players in Ukraine at that time proved to have been unready for this.

## THE POLITICAL ESTABLISHMENT: RUNNING FORWARD, WHILE LOOKING BACK

In 1990, the mindset of the ruling Communist elite in the Ukrainian SSR experienced a dramatic turning point. The 1990 election launched the ideological and political adjustment of the Communist elites to the new conditions of the erosion of the role of the Communist Party and the collapse of the union kernel. The following factors in the transformation of the political focus can be singled out:

1. The inability to overcome the economic crisis and to resolve military and political conflicts undermined the confidence of Ukrainian Communists in the USSR's omnipotence.

2. The protest campaign with hundreds of thousands of people filling city streets during 1989-1990 scared the "partocrats". In spring 1990, the country was in the throes of a wave of miners' strikes, which in contrast to those taking place in the 1960s, the government decided not to bring to a halt by force.

3. Glasnost revealed the truth about the crimes of the soviet regime, leaving many people disenchanted with Communist ideals.

4. In the early 1990s, some members of the Ukrainian Communist Party and governing elite felt that they had the opportunity to get even with the Kremlin for

**June 1988**

Massive NGOs "to support Perestroika" are established, which later developed into independence movements, in particular Sajūdis, the Reform Movement of Lithuania, the National Front of Latvia started in April and the National Front of Estonia launched in October

**28 July 1988**

The USSR Supreme Council issues a Decree "On the Procedure for the Organization and Holding of Assemblies, Protests, Rallies and Demonstrations in the USSR". An event is considered legitimate if it has been authorized by the Council's executive authority

**16 November 1988**  
Estonia's Supreme Council declares sovereignty



**15 February 1989**  
Soviet troops are withdrawn from Afghanistan



**26 March 1989**  
The USSR holds its first parliamentary election on alternative basis



**26 May 1989**  
Lithuania declares sovereignty



its arrogant attitude experienced in previous years – a “complex of offences” of the Moscow-based elite.

5. Most members of the highly-qualified Communist Party elite quickly realized the career opportunities that were available as a result of the expanding powers of republican bodies.

Thanks to this position of the Ukrainian establishment, it managed to pass a series of political and administrative acts to prepare Ukraine for independent life as a state. However, it did not become an administrative and political (national Communist) elite that would be able to launch the process of Ukraine’s separation from the USSR from the top, as was the case in the Baltic States. According to various estimates, people born and raised in the Soviet Union constituted 25 to 30% of the central political establishment. Their integration into the empire not only made them extremely loyal to the Kremlin, but also meant that the most talented and ambitious ones did not see their future in the Ukrainian SSR, but had Moscow in their sights. Therefore, the quality of personnel remaining in Ukraine was not on the same level as that the Baltic republics or even Transcaucasia.

As a result, the goals were much more grounded and directly linked to the interests of the ruling circles, who wanted to receive all necessary resources from the center but did not allow its interference in domestic, particularly commercial processes within Ukraine. In fact, back in mid-1991, the local elite was ready to accept a new Union Agreement granting the Ukrainian SSR expanded powers, including its own system of power and law enforcement as well as

# Ukraine in the USSR



From open sources

**29 July 1989**  
Latvia declares sovereignty



**23 August 1989**  
Lithuanians, Latvians and Estonians line up in a live chain called the Baltic Path on the anniversary of the Molotov-Ribbentrop Pact which served as the legal basis for the occupation of the Baltic States by the USSR army in 1940



**24 August 1989**  
Opposition leader Tadeusz Mazowiecki heads the Polish Government



**September 1989**  
Azerbaijan and Georgia declare sovereignty. In November 1989 Georgia's Supreme Council approves a declaration deeming the provisions of the Soviet legislation that run counter to the local laws ineffective on Georgian territory

**23 October 1989**  
Budapest declares the Hungarian Republic which replaces the Hungarian People's Republic. The Hungarian Republic identifies itself as a free, independent and law abiding democracy

**9 November 1989**  
The fall of the Berlin Wall: the Council of Ministers of the German Democratic Republic resolves to open the border with the Federal Republic of Germany and Western Berlin



**8-10 September 1989**  
The People's Movement of Ukraine for Reforms convenes for an inaugural congress

**28 September 1989**  
Volodymyr Shcherbytsky, the First Secretary of the Communist Party of Ukraine, resigns due to old age. He is succeeded by Volodymyr Ivashko and subsequently chairs the Supreme Council of the Ukrainian SSR



**17-24 September 1989**  
Chernivtsi hosts Chervona Ruta, the first Ukrainian music festival



the minimization of the economic influence of union-wide authorities on the decision making process in Ukraine. These two elements shaped most laws passed in 1990-1991 after the signing of the Declaration of Sovereignty of the Ukrainian SSR.

However, the power crisis in the USSR and the coup of 19-23 August 1991 considerably accelerated the collapse of the Soviet Union. The Ukrainian leadership then took the lead in the independent country and became responsible for the resolution of its economic, social, political and security problems. However, the new establishment failed or was incapable of coming up with an ideology for the building of a new state. For this reason, the "Baltic scenario" of the quick and successful establishment of a new country proved impossible for Ukraine. Moreover, the country had no counter-elites who could shape its vision of what the establishment should be, and replace it.

**COUNTER-ELITE: NEITHER PURPOSE, NOR UNDERSTANDING**

The growing influence of powerful individuals and organizations as an alternative to the party nomenclature affected the outcome of elections to councils at all levels, which were held on 4 March 1990. Yet, they only proved once more that the elites had not really changed.

Despite the fact that the majority of the Verkhovna Rada of the Ukrainian SSR was made up of partocrats or supporters of the USSR and a pro-Communist regime, 90% of the parliament changed and now included 25% or 126 members of the democratic human rights and patriotic camp. The latter won a majority in the

Lviv, Ternopil, Ivano-Frankivsk and Volyn Oblasts, and Kyiv.

With time, the Verkhovna Rada of the Ukrainian SSR split into two groups – the pro-Communist one was called "For a Soviet Sovereign Ukraine" or simply "Group 239", and the opposition – "Narodna Rada" (the People's Council).

On the one hand, "Narodna Rada" was referred to as the "moral majority" since it introduced clear demands for autonomy and in time, independence for Ukraine to the parliamentary agenda. Taking into account the fact that its sessions were aired live on TV and radio, parliament became a platform for the propaganda of national and state independence. Yet, there was no proper reliable counter-elite, capable of taking upon itself the responsibility for the state of affairs in the country. The 1990 election and the consequent party establishment process revealed an extremely negative trend, which would affect future processes in Ukraine – the leadership of opposition groups were largely comprised of representatives of the humanitarian sphere and those who came from agricultural regions, few of whom had managerial experience or proper background and qualifications for taking important economic and business decisions.

It was the managerial incompetence of the then opposition

leaders that often discredited the idea of Ukraine's democratic revival and the establishment of conditions for the mass plundering of state-owned assets in the first years of independence.

The worst consequence of all was that the opposition was run by many people who used the situation to their benefit while ignoring the everyday process of building the country. As a result, the opposition failed to either articulate the concept of an independent Ukraine or come up with a specific transformation plan.

Therefore, even though in the early 1990s the People's Movement of Ukraine consisted of more than 600,000 members and even more sympathizers, including quite a few intellectuals with a technical background and busi-

**IN MID-1991, THE GOVERNMENT OF THE UKRAINIAN SSR WAS STILL READY TO SIGN NEW UNION TREATY**

ness managers of all levels – even top managers, this element of the party was barely used. The leaders, who had grown used to conducting rallies, had no idea what they should do at each stage of state-building. They had nothing to offer those who wanted to work constructively.

All of this kept Rukh from growing into something similar to »



**22 January 1990**  
Ukrainians line up in a live chain from Lviv to Kyiv to commemorate the Day of Unity when the West Ukrainian People's Republic united with the Ukrainian People's Republic in 1919



**March-May 1990**  
Miners' strikes, demanding the resignation of Mikhail Gorbachev in addition to other political and economic demands

**March-May 1990**  
The Ukrainian SSR holds alternative-based elections to local councils

**24 November 1989**  
Massive protests force the Communist Party leaders in Czechoslovakia to resign. Negotiations between the government and the opposition, held on 28 November, result in a resolution to establish a new government and abolish the provision on the leading role of the Communists from the Constitution. Vaclav Gavel is elected President of Czechoslovakia on 29 December.



**15 December 1989**  
Massive protests begin in Romania. Nicolae Ceausescu, President and leader of the local Communist Party, is overthrown on 22 December and executed on 25 December along with his wife

**18 January 1990**  
The Azerbaijan Soviet Republic declares war on the Armenian Soviet Republic



**7 February 1990**  
The political monopoly of Communists ends in the USSR. The Central Committee votes to abolish Article 6 of the USSR Constitution "On the Leading Role of the USSR Communist Party"

**11 March 1990**  
Lithuania's Supreme Council passes an act on the revival of the national state, the Lithuanian Republic, that existed before 1940. Moscow does not recognize the act as legitimate and applies economic sanctions against Vilnius. The Republic's Government announces a moratorium on the act on 29 June 1990



**14 March 1990**  
The Assembly of People's Deputies elect Mr. Gorbachev as the first and last President of the USSR

Solidarity in Poland or the National Fronts of the Baltic States.

At the beginning of 1990, Ukrainian opposition forces did not have any groups which would raise the question of Ukraine's exit from the USSR. Even the program of Ukrainian Helsinki Human Rights Group didn't say anything about this, only mentioned the transformation of the USSR into a confederation. The provision about Ukraine's renunciation of the USSR appeared in the Narodniy Rukh Ukrainy (People's Movement of Ukraine, which only appeared in October 1990, while the vision of specific steps to be taken for this apparently never emerged.

The turning points that could have launched an all-Ukrainian independence movement were largely wasted. During the miners' strikes in the spring of 1990, the connection with Narodniy Rukh Ukrainy was, for the most part, declarative, although the two movements actively drafted slogans together, and virtually came to a halt on their conclusion. In October 1990, the Granite Revolution, a hunger strike arranged by more than 200 Ukrainian students, shook the country. One of the demands was that the signing of a new Union Treaty by the government of the Ukrainian SSR should not be allowed. The latter fulfilled only one demand though, which was the resignation of Prime Minister Vitaliy Masol. No-one controlled what

**WE HAVE WHAT WE HAVE.**  
Leonid Kravchuk won 60% of the vote in the first presidential election in Ukraine. He became President on 5 December 1991



happened to the rest of the students' demands. Eventually, 19 August 1991, the first day of the coup, served as a perfect demonstration of the oppositions' weak mobilization skills. According to the most optimistic estimates, only a few thousand people came out onto city streets.

All these examples mark a dangerous trend that has already haunted democratic forces in Ukraine for more than two decades. It is their inability to arrange continual work with the social groups who would support them and whom they could in turn represent.



**16 July 1990**  
The Ukrainian SSR's Supreme Council approves the Declaration of Ukraine's State Sovereignty

**July 1990**  
Mr. Ivashko leaves office and moves to Moscow to work for the party. Leonid Kravchuk is elected Chairman of Ukraine's Supreme Council

**October 1990**  
"Revolution on Granite" – the hunger strike of students, demanding the resignation of the leadership of the Ukrainian SSR and rejection of the Union Agreement



**24 October 1990**  
First amendments are made in the Constitution of Ukrainian SSR dated 1978 based on its Declaration of Sovereignty. They introduce the rule of law; put military service by citizens of the Ukrainian SSR under Ukrainian legislation; and name "the establishment of conditions to ensure the state sovereignty and economic independence of the republic" as the government's top priority

**7 December 1990**  
Ukrainian Republic passes the Law "On Local Councils of People's Deputies of Ukrainian SSR and Local Government". They act as the executive bodies of the government

**25 March 1990**  
Estonia's Communist Party announces its exit from the Communist Party of the Soviet Union



**26 April 1990**  
The USSR passes the Law "On the Segregation of Powers between the Union of Soviet Socialist Republics and Federation Entities" whereby the functions of USSR's "higher authorities and governing bodies" include defense, state security, and control of the armed forces, border security, internal and railroad military units

**4 and 8 May 1990**  
Latvian and Estonian Supreme Councils pass resolutions on the official declaration of independence. Following Lithuania's experience, both countries postpone the implementation of their declarations

**12 June 1990**  
The RSFSR approves the Declaration of State Sovereignty. It puts Russian laws above the union-wide legislation



**23 November 1990**  
USSR's Supreme Council delegates extraordinary powers to President Mikhail Gorbachev for the purpose of "maintaining order in the USSR"



**9 December 1990**  
Lech Wałęsa wins the second round of the presidential election in Poland





This can partly be explained by the inertness of society itself whose proactive members had been killed by soviet repression, while the “strong” peasants – a prototype of the middle class - had been exhausted by the famine. As early as 1991, when the question of Ukrainian independence was raised, 58–59% of our compatriots claimed that “as long as everything was okay in the country”, they did not care who was in power

By year-end 1991, a mere 5% of Ukrainians were members of political parties or civic and political movements, 3% took part in rallies and 2% were attending party meetings. Only 7% of those polled said that they could take measures if the government ruled against the interests of the nation.

The opposition of that time failed even to hold pre-term parliamentary elections although this was an integral element of the successful transformation of Central European countries. The new parliament could have been more disposed to conducting necessary reforms, but the opposition allowed itself to be lulled asleep with the allusions of the government regarding the necessity “to build the state together.” As a result, the Communist majority in the Verkhovna Rada of the Ukrainian SSR attempted to build an independent Ukraine and a market economy in the first three years of its independence – a kind of “mummification of soviet traditions.

The background, qualification and motivation of the key players in Ukraine’s struggle for independence in 1991 prevented them from shaping an integral vision of the already post-soviet

independent and democratic Ukraine and giving the relevant signals to the administrative apparatus. Instead, society, with virtually no elite, was unable to either insist on vital reforms or generate a social class, which could have acted as an ally to changes. This lesson from the first years of independence should be also learned by Ukrainian activists, currently striving for power. A mandatory element of success, both in exercising powers and developing the state, is a clear vision of changes of-

fered to the country, a specific step-by-step plan for their implementation, as well as firm and natural, rather than transparent and decorative links to social classes that are essentially the allies of market reforms, civic liberties, the impartiality of legal proceedings and a strong and sustainable state. These are the social groups that are joined together by the notion of the “middle class”. In the case of Ukraine, the middle class has developed not due to, but in spite of government policy. ■

**ATTRIBUTES OF THE ERA**



**17 March 1991**

Ukraine’s Supreme Council includes an additional question in the union-wide referendum bulletin: “Do you agree that Ukraine should be in the Union of Soviet Sovereign States on the principles of the Declaration on the State Sovereignty of Ukraine?”  
The local government in Halychyna, Western Ukraine, adds another item: “Do you want Ukraine to become an independent country which solves all domestic and foreign policy issues on its own and ensures equal rights for its citizens regardless of their nationality or religion?”  
70.2% of the population vote for the preservation of the USSR and 80.2% of Ukrainians support a union on the principles of the Declaration of State Sovereignty. The referendum in Halychyna finds more than 80% of those polled voting for Ukraine’s withdrawal from the USSR

**18 April 1991**

The Cabinet of Ministers is established in the Ukrainian SSR comprised of the Prime Minister, First Vice-Prime Minister, Vice-Prime Minister, State Secretary of the Cabinet of Ministers, state ministers and ministers of the Ukrainian SSR

**11 January 1991**

Lithuania experiences an overthrow attempt, inspired by Moscow. The Committee for National Salvation is established, declaring itself to be the only legitimate authority in the republic. 12 civilians are killed in a clash with Soviet troops



**9 February 1991**

84% of Lithuanian voters participate in the referendum. 90.4% of them voted for the independence of the democratic Lithuanian Republic

**3 March 1991**

A poll is held which finds that 73.6% of Latvians support a “democratic and independent Latvian Republic”

**17 March 1991**

Ukraine’s Supreme Council includes an additional question in the union-wide referendum bulletin: “Do you agree that Ukraine should be in the Union of Soviet Sovereign States on the principles of the Declaration on the State Sovereignty of Ukraine?”

**9 April 1991**  
The Supreme Council of the Georgian Republic declares sovereignty and independence from the USSR on the second anniversary of the tragedy in Tbilisi



**23 April 1991**

Based on negotiations between the administration of the USSR and union republics in Novo-Ogariovo near Moscow, a decision on a new treaty is made, but signing is postponed until 20 August 1991 as requested by the Ukrainian party

# The Right to Be Yourself



**W**hen empires crack, states emerge on their ruins, the emergence of which no one counted on. Remember the collapse of the Austro-Hungarian Empire, or even Yugoslavia. This also happened 20 years ago to the USSR. Was Ukraine's independence just a whim of destiny, the consequence of a combination of geopolitical circumstances, or a byproduct of the struggle for power between Gorbachev and Yeltsin? Or on the contrary, could it be the implementation of the internal logic of a nation's development, the general line that was sometimes lost under the pressure of external forces, but could not ultimately rise to the surface of the historical process?

To agree with the first view, it will be necessary to not notice or forget the unsuccessful experience of liberation struggles, the efforts of several generations of Ukrainian dissidents within the framework of various countries, the armed resistance against the soviet monster, and finally, without exaggeration, the evident or concealed dream of millions of Ukrainians that "We too shall rule, brothers, in a free land of our own", as the national anthem goes.

In addition, bearing in mind the favourable situation for Ukraine to gain independence, it is also impor-

tant not to forget major obstacles, which are no less significant, including very real might of the Soviet Union built on force and violence, with its army, militia and secret police, the indifference, even hostility of foreign players in the international arena who were terrified of an independent and unpredictable Ukraine; the numerous "fifth column" the carriers of a specific type of mentality, who see themselves as the agents of civilization and their opponents as barbarians and finally, the force of habit of a huge number of people who did not want or could not imagine a life, other than one behind barbed wire.

Independent Ukraine was built by the forces of several categories of activists, those looking in many different di-

**6 June 1991**  
Ukraine's Supreme Council passes a Resolution "On Transferring State-Owned and USSR-Controlled Enterprises Located on the Territory of Ukrainian Republic to the Jurisdiction of Ukrainian SSR"

**5 July 1991**  
Laws are approved on the establishment of the presidential office in the Ukrainian SSR

**27 May 1991**  
Soviet troops leave Czechoslovakia



**8 June 1991**  
A conflict unfolds in North Caucasus. The National Congress of the Chechen People declares the Independent Republic of Noxçiyazi, switching the country to dual power



**12 June 1991**  
Russia holds the first national presidential election in its history. Boris Yeltsin is elected President of the RSFSR. Aleksandr Rutskoi becomes Vice President.



**1 July 1991**  
The Warsaw Pact is officially terminated in Prague. Soviet troops leave Hungary

**29 July 1991**  
The RSFSR recognizes the independence of Lithuania



**19-22 August 1991**  
The August coup in the USSR: top officials led by Vice President Gennadiy Yanayev establish the State Emergency Committee but find themselves arrested within less than 72 hours







PHOTO: VOLODYMYR FALIN

**EAST AND WEST TOGETHER.** Representatives from all regions carry the blue and yellow flag from Independence Square to the Verkhovna Rada (1991)

reactions and even those with opposite priorities, goals, ideologies, and experience.

The first group was comprised of idealists who saw winning their country as the ultimate goal. In their view, other objectives would “take care of themselves”. Enthusiastic experts and intellectuals, who, until recently, had no intention of resisting the system even though they hated it, now accepted the national revival slogans equally enthusiastically.

The second group included yesterday’s soviet functionaries who quickly saw the prospects of career growth; the so-called red directors – the powerful and not so powerful managers who had the best knowledge of the ‘real sector’ of life, hoping to adjust it to their needs. They were amateur businessmen; recent heads of co-operatives, with unlimited appetites and ambitions; and representatives of the criminal world, who moved into business with their own specific ideas of the ways to run it. They all turned out to be closely connected by joint interests that subsequently grew into joint projects.

Also, there was a mass of simple Ukrainians, who believed in the sincere intentions of the newly-created elites despite the chaos and poverty, and were satisfied with the first speechmaking exercises of the President. This was easier than building a real democracy based on the real division of power, equal opportunities and competitive ideas, than transforming the economy which was limited to a handful of giant plants pro-

ducing defense products that no-one needed and fast-moving consumer goods that were unfit for use.

No-one or barely anyone thought about the fact that the declaration of independence was not the end of a long road, but merely its beginning. No-one or barely anyone remembered the well-known expression: “We have created Italy. The only thing to do now is to create Italians.” No-one, or barely anyone dotted the “I’s”, that to have a common state, language and culture are not the ultimate goal, but a tool for preparing a political nation for the purpose of consolidating such principles of society, such as integrity, dignity, education, readiness to accept new things, and as a consequence, its well-being.

Romanticism always bears a trace of irresponsibility. The new responsible and competent elites had nowhere to come from. That was a vicious circle: they had to be prepared based on the potential of the country but the leadership of the country was not interested in this.

Whether the ruling class realized this or not, it was diligently resisting the birth of a new generation and new type of players. On the contrary, it selected those who accepted the newly-established playing rules. To a certain extent, it tolerated some external expressions of patriotism and national awareness but in fact, from the very start, it followed its own internal logic and squeezed out all substantial expressions of anything Ukrainian to the margins of life.

Legal nihilism, failed expectations, the establishment of corporate capitalism typical of the third world, based on corruption and personal relations, and vice-versa, the hampering of the much needed economic reforms, as well as the lack of humanitarian and language policies – the concept of an independent Ukraine has absolutely no relation to all of these sins.

We can list wasted opportunities and recall wasted time as much as we want. We can search for and find someone to blame for the fact that the country is as far from the ideals of freedom and democracy on the 20th anniversary of its independence as it was in the late 1980s. Still, with a sober understanding of all sins and defeats, we can say that there is still a chance. Independence is not a hollow word as long as the current government does not totally give it away. Independence means that there is still a chance to reboot. In the final instance, it is a feeling of responsibility for the country as a whole, not as the separate province of an empire.

To everyone who now says that the Ukrainian project has failed, a recommendation to make one mental experiment: let him or her picture Ukraine as still being part of the USSR... the old one, with a Central Committee, Afghanistan, political labour camps. Or the new one, with a power hierarchy, Chechnya, and inter-ethnic clashes. Well, what do you think? ▣

**24 August 1991**  
The Supreme Council of the Ukrainian SSR approves the Act of the Declaration of Independence of Ukraine. The Verkhovna Rada, the Parliament of independent Ukraine, approves a Resolution “On the Departisation of Public Authorities, Institutions and Organizations”

**30 August 1991**  
The Presidium of the Verkhovna Rada bans the Communist Party and transfers its property to Parliament and local councils

**30 September 1991**  
The Cabinet of Ministers holds the first conscription to the Armed Forces of Ukraine

**1-3 November 1991**  
The local council of Ukrainian Orthodox Church led by Metropolitan Filaret (Denysenko) at the Kyiv-Pechersk Lavra votes for the Ukrainian church to become “fully autonomous and independent, i.e. autocephalous”. On 27 May 1992, opponents to the separation of the Ukrainian Orthodox Church arrange their own convention in Kharkiv to declare Volodymyr Sabodan as Metropolitan, not Filaret



**1 December 1991**  
92% of Ukrainian citizens support the Act of the Declaration of Independence of Ukraine in a nationwide referendum. Leonid Kravchuk wins the presidential election with 61.6% of the vote, followed by Viacheslav Chornovil with 25%

**12 December 1991**  
Ukraine’s Verkhovna Rada ratifies the Belavezha Accords

**20 and 21 August 1991**  
Estonia and Latvia declare independence from the USSR

**24-31 August 1991**  
Virtually all Soviet republics declare independence from the USSR

**6 November 1991**  
Boris Yeltsin chairs the reform-oriented Russian government. Egor Gaidar is appointed Yeltsin’s Deputy

**7-8 December 1991**  
Ukraine, Russia and Belarus sign the Belavezha Accords denouncing the 1922 Treaty on the Creation of the Soviet Union and establishing the Commonwealth of Independent States

**9 December 1991**  
Slobodan Milosevic is elected President of Serbia

**21 December 1991**  
Almaty hosts a summit where all FSU countries, with the exception of Georgia, Estonia, Latvia and Lithuania, join the CIS



# 1991-1994



## Lost Opportunities

Having fulfilled the minimum task of establishing an institutional foundation, which included setting up institutions and laying the foundation of the legislative basis for Ukraine as a state with a democratic political regime and a market economy, the then political establishment failed to determine a direction and come up with an efficient development programme, while the opposition failed to present society with a reasonable alternative.

The constitutional model did not contribute to the formation of a responsible government. Independence was not immediately followed by elections thus the structure of political forces in government authorities that was typical of the last years of the USSR remained in place

Managers of industrial enterprises – the so-called “red directors” and kolkhoz managers, who controlled economic resources affected strategic and tactical decision-making, unrestrained by any public or civil control

Looking for quick enrichment, this so-called establishment siphoned off the country’s resources while placing the burden of the resolution of social issues on the state budget, often demanding that “the printing presses are put into operation”, thus saturating the economy with a money supply that had no guarantees behind it

At the same time, the political forces that declared Ukraine’s independence as their goal and appealed to patriotism, failed to shape any appropriate alternative regarding either economic reforms or the state governance system. Moreover, their inertness disenchanting their potential supporters. Therefore, the opposition ended up with a limited electorate

The country never got its own “face” comprised of clearly defined goals, interests and concept about mechanisms for their implementation, either in domestic or foreign policy

A combination of these factors resulted in hyperinflation, impoverishment, the takeover of the economy by oligarchs and a political crisis



# Late Start

In its first years of independence, Ukrainian politics took the steps necessary for the creation of Ukraine as an independent country but never resolved the fundamental problems of its development

In theory and in practice, experts in post-Communist transformations believe that success is based on several key components:

- a clear plan of reforms to unlock economic initiatives of the public and give people access to free market resources and mechanisms rather than reforms conducted for the sake of reforms. In order to make a market work, it needs to have legislative environment based on the specific situation in the country, taking into account its comparative advantages and disadvantages.

- the establishment of a power structure, which would allow efficient decision-making and the implementation of decisions, including those that will have a (short-term) negative impact. At the same time, the government should have remained responsible to voters, which meant the prevention of a dictatorship, and legitimate, which meant having

the trust and support of the electorate.

- the existence within society of classes supporting reforms, would win from them and become allies in further transformations. These groups should have been numerous enough to provide nec-

**SIDE-BY-SIDE WITH THE "ROMANTICISTS" WERE THE "BIG PEOPLE", WHO PREFERRED TO MAINTAIN CUSTOMARY MEANS FOR RUNNING THE COUNTRY**

essary support in elections and to expand continuously, demonstrating the success of reforms, the ultimate goal of which was for society to gain from a new economic and political system.

- determination by the country of its distinctive place and role in the region and in the international

arena. This entailed the matching of desired goals with available resources, a search for allies, focusing foreign policy and economy on reinforcing the country's advantages and gaining resources to develop priority sectors within the country.

Ukraine is often said to have ended up in a more difficult situation than its neighbours because it was forced to solve issues arising in the process of establishing a new state at the same time as it was conducting reforms. However, if there had been a vision of what these reforms should have been, this detail would have been a virtue rather than a vice. The establishment of a new state meant a higher level of freedom in choosing what it would be. As a result, the Ukrainian elite was faced with the opportunity to build a country, which could make the best of its advantages and minimize the effect of its inadequacies, taking measures to offset them. In practice, though, it turned out that those in power failed to use even one component of success effectively.

## ROMANTICISM, SABOTAGE AND OPPORTUNISM

At first glance, there were plenty of programmes and visions. Back on 3 July 1991, the Verkhovna Rada of the Ukrainian SSR approved a government "Programme for Emergency Measures to Stabilize the Economy in Ukraine and Bring It Out of the Crisis." It was based on earlier platforms and concepts. During 1991, parliament passed 35 laws, including ones on private property, rent, entrepre- ▶

## No Strategy



**6 December 1991**  
The Verkhovna Rada passes the Law on the Defense of Ukraine and the Law on the Armed Forces of Ukraine. Parts of the Soviet army located in Ukraine are transferred to the jurisdiction of Ukraine



**13 December 1991**  
The establishment of the Presidential Administration in Ukraine

### EVENTS IN UKRAINE

**10 January 1992**  
The kupon-karbovanets is introduced as the Ukrainian currency

**January-February 1992**  
Approval of the state symbols of Ukraine including the anthem, the flag and the emblem

**January 1992**  
The Ukrainian government is forced to follow Russia's example in cancelling state price control without having an action plan in place for these new circumstances

### EVENTS ON POST-SOVIET TERRITORY



**25 February 1992**  
The State Duma of Ukraine, led by the President to develop strategic decisions, exists for nine months



**2 January 1992**  
Russia cancels centralized price control, based on the RFSSR Presidential Decree dated 6 December 1991, with other CIS countries following suit shortly thereafter



**12 January 1992**  
Ukraine and Russia enter into their first agreement on the division of the Black Sea Fleet

**14 February 1992**  
CIS Presidents sign a declaration on the principles of cooperation and enter into a treaty on the status of strategic forces



**3 March 1992**  
Former USSR troops begin to withdraw from Lithuania

neurship, banks and banking, commercial entities and others, that were crucial to the life of the country and laid a legislative framework for the transition to a market economy.

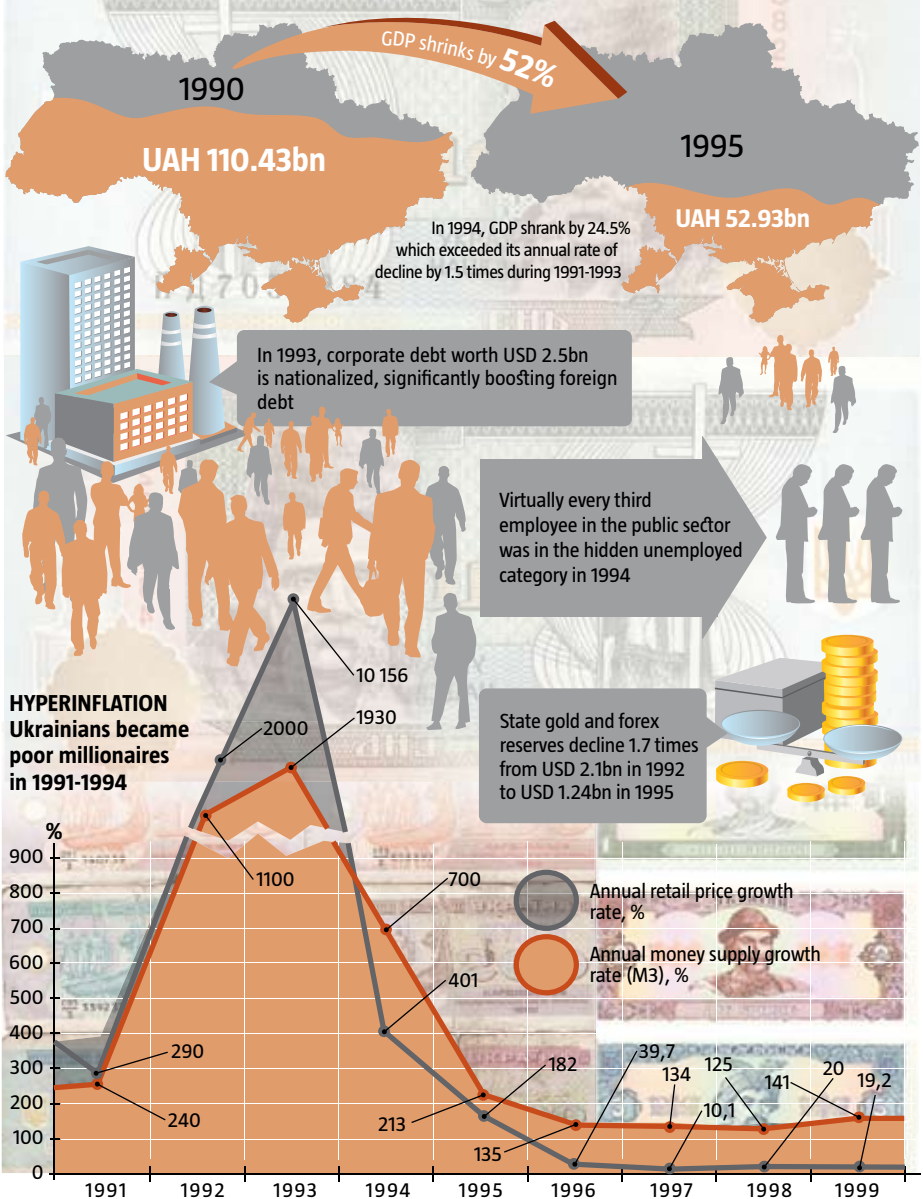
Although fundamental to the economic life of a new country, these decisions had one major drawback. The reasoning behind them was to separate Ukraine from the Soviet economic system, a system that ran counter to the interests and needs of an independent Ukraine, rather than to undertake serious reforms. Worse, the initiators of these reforms, both within the government and in the opposition, were caught up in a kind of romanticism that seemed to be the spirit of the times, based on the hope that Ukraine's rich natural resources would allow the country to switch to a modern market economy quickly and painlessly. The reality was that decision-makers at all levels knew next to nothing about how a modern economy operated. Moreover, the romantics were surrounded by many who had no interest in any changes, preferring to preserve their habitual lifestyles and the way things were run in the past. And sprinkled among them both were the usual shameless opportunists, for whom the new conditions represented an opportunity to gain unlimited wealth. Missing in all this were the people who were prepared develop serious programs and take responsibility for carrying them out, rather than explaining the reasons for failure.

**RED DIRECTORS**

The specific structure of Ukraine's economy determined the comparative power of one group within

**THE EFFECT OF WANDERING BLINDLY**

Ukraine was at its lowest level of socio-economic development in 1991-1994



**5 March 1992**  
The Law "On the Representatives of the President of Ukraine". They are appointed and dismissed by the President acting as his executive representatives in oblasts and regions. The system continues until 1994 when the hierarchy of executive council committees is briefly revived

**1 July 1992**  
The draft Constitution of Ukraine is presented for national discussion. The draft is not subsequently officially considered. Throughout 1993, the Constitution Committee drafts other versions which also remain untouched



**22 August 1992**  
The exiled leaders of the Ukrainian People's Republic (UNR) formally transfer their powers to Leonid Kravchuk, the President of Ukraine



**3 September 1992**  
Ukraine joins the International Monetary Fund, World Bank and European Bank for Reconstruction and Development



**21 March 1992**  
Tatarstan holds a referendum on sovereignty, with most of the population supporting the idea

**31 March 1992**  
All the republics of the Russian Federation, with the exception of Tatarstan and Chechnya, sign a federative treaty, dividing powers between the federal authorities of the Russian Federation and the authorities of its republics



**20 September 1992**  
Right-wing parties convincingly win the first parliamentary election held after the declaration of independence in Estonia



the establishment, specifically “the red directors”, which played a leading role in processes taking place in 1991-1994. “The production of the production means” reached 65% leaving only 35% for the production of consumer goods. In real prices, however, this proportion constituted 87 to 13 compared to 35 to 65 in Poland whose production structure was also considered to be distorted. The use of fixed assets was characterized by low-level technologies, high energy consumption and the wasteful use of resources during the production process. As a result, managers of Group A enterprises, more commonly known as the red directors and kolhoz heads, emerged as the leading players. One fact to note is that for the most part, making an enterprise more independent, particularly large ones, during the last years of the USSR, presented directors with the opportunity to make free with funds. Since the collapse of traditional relations within the USSR resulted in the problem of selling production, which could not be resolved at the expense of Western markets due to almost non-existent experience in foreign economic activities, and the poor quality or specific nature of the goods, many red directors resorted to selling off the assets of their enterprises to make a quick buck. In the meantime, they paid wages for their employees and covered other expenditures from the state budget since the enterprises remained state-owned.

The managerial elite felt completely confident in the Verkhovna Rada. MPs included 97 red directors and 35 kolhoz directors. They

skillfully used populism and nostalgia for past times when “the state provided everything” to get the support of dozens of their colleagues in the Verkhovna Rada from other segments of the party and soviet leadership and even representatives of Narodna Rada, the People’s Council that was in the opposition. The latter was unable to shape its own vision of economic issues and often followed someone else’s ideas.

**A STRATEGIC MISTAKE: THE NON-DISSOLUTION OF PARLIAMENT**

The continuation of this situation, comprised of a lack of strategy and the domination of short-sighted and selfish interests over national ones, was mainly a result of the postponement of the issue of a pre-term parliamentary election. In virtually all East and Central European countries, the first democratic elections, won by reformers, marked a transition from the soviet to the post-soviet period, allowing the accomplishment of a series of tasks:

- revive the elite. Indeed, as democratization and independence gained momentum, talented and patriotic professionals who had proved their ability to reach a goal, had the opportunity to get into parliament;
- increase the legitimacy of the government and clearly show the public which political forces undertook reforms and who should be held liable for the outcome, which increases the motivation for politicians; and
- ensure the sustainable support of reform-oriented moves in the Verkhovna Rada, while pre-

**CITATIONS**



**Expert talk**

“It took us a year to make people lose faith in our ability to run the state... I suppose only someone with hangover steals less than a carload in this country today,” said Ukraine’s Premier Leonid Kuchma on 18 November 1992

**On the nature of power**

“Ukraine has never been an independent state,” said Leonid Kuchma when he became Preme Minister on 13 October 1992. “Ukraine has been run as a province. Having declared independence, we have not yet managed to break free of the framework of provincial governance. Our politicians have to realize that power cannot be given or taken. Power is created.”



**On the essence of the problem**

“Having embarked on the path of independent development we have only managed to determine where to go in general terms,” said Ivan Pliushch, Speaker of the Verkhovna Rada, on 25 December 1994, “and even less about how to do it.”



**On basic approaches**

“We had an occupation administration and treated it as an enemy of the Ukrainian nation until 24 August 1991,” said MP Levko Lukianenko on 6 December 1991. “Since 24 August, we have had our own independent state in Ukraine. But it’s not complete. It has no army or border patrol. It’s no good: the Verkhovna Rada is extremely reactive, while the Government and local authorities are even worse than that. But these are now the attributes of our independent Ukrainian state.”

servicing the parliamentary filter against the introduction of purely lobbied interests, often abused by the uncontrolled executive branch.

The situation with each of the three above items left much to be desired in Ukraine. Prominent representatives of the then opposition would later recall that they wanted to support Ukraine in the first months of its independence, so they did not directly ask for things that could shake the boat. This was one of the major drawbacks of the then opposition, in- »



**13 October 1992**  
Leonid Kuchma is appointed Prime Minister



**11 November 1992**  
The National Bank of Ukraine and the Cabinet of Ministers of Ukraine issue a joint resolution to introduce Ukrainian karbovanets into non-cash circulation, thus establishing a single monetary system in Ukraine

**18 November 1992**  
The Verkhovna Rada delegates some legislative functions to the Cabinet of Ministers authorizing it to issue decrees on economic issues, which have the power of laws



**December 1992**  
Based on year-end results, inflation exceeded 2,000%



**25 September 1992**  
Azerbaijan and Armenia sign a ceasefire agreement



**1-15 December 1992**  
The 7th convention of the MP’s of the Russian Federation’s, at which Viktor Chernomyrdin is appointed Prime Minister. The conflict between the MPs and President Yeltsyn intensifies and results in a power struggle and firing at the Russian White House



**1 January 1993**  
The Czech Republic and Slovakia become independent sovereign states



herited by the political forces that grew from it: the inability to separate strategy, national interest and the existence of the state from the details of the development and specific political decisions that do not question the existence of the state, yet are called on to search for the best ways of its development.

Therefore, succumbing to cooperation with the government and dropping early elections or the availability of opposition from the agenda, in the eyes of the public, the democrats – meaning the opposition to the Communist Party of Ukraine – turned out to be no better than those in power. Ultimately, both the government and the opposition experienced complete public disappointment in 1993 when the decision to hold early elections was finally passed. The contextual leftist majority that resulted from these circumstances managed to choose a socialist speaker, while the structure of the parliament turned out to be too fragmented to support the uniform direction of reforms. President Leonid Kuchma, elected in 1994 on the same surge of disenchantment, used the situation to his own benefit turning the unstable Verkhovna Rada into a convenient sparring partner which could conveniently be blamed for the lack of change for the better. Moreover, many foreign observers remembered Russia where the conflict between the president and parliament ended in armed clashes. The MPs elected thereafter proved incapable of supporting liberal reforms. Explicitly or implicitly referring to this example, Kuchma was able to expand his powers.



THE EXTINCTION OF PROTESTS. Mass-Strikes of coal miners were slowing down. Trade Unions have bowed their heads to the “Red directors”

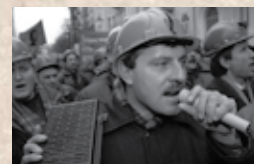
PHOTO: UKRINFORM

**SOCIETY IS READY FOR AN INTEGRAL POLICY**

During the first years of independence, Ukrainians were giving conflicting signals. According to surveys by the Sociological Institute at the Academy of Sciences of

**May 1993**  
The Verkhovna Rada discontinues the power of the Government to issue decrees having the power of laws as of 21 May

**7 June 1993**  
Donbas miners go on indefinite strike. On 17 June the Verkhovna Rada fulfills their demand to set a referendum to impeach the President and the parliament. After negotiations with Mr. Kravchuk, the Verkhovna Rada cancels the referendum two days before it was to be held and sets 27 March 1994 as the date for an early parliamentary election and 26 June for the presidential election



**21 September 1993**  
Leonid Kuchma resigns from the post of Prime Minister



**22 February 1993**  
The UN Security Council passes a resolution to establish a Military Tribunal for the investigation of military crimes committed on the territory of former Yugoslavia. This is the first Military Tribunal of this sort since the 1945-1946 Nurnberg Tribunal



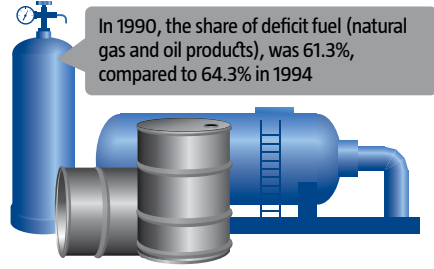
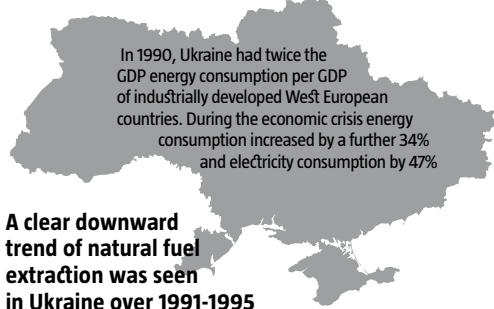
**25 April 1993**  
Russia holds a national referendum. Most participants express support of the President and opposition to early presidential and parliamentary elections



**19 September 1993**  
Leftists come to power in Poland, but continue reforms



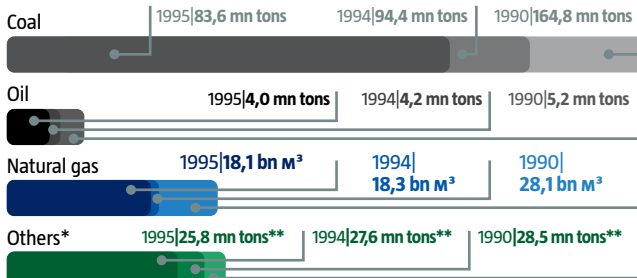
## THE ESTABLISHMENT OF ENERGY DEPENDENT



In 1990, the share of deficit fuel (natural gas and oil products), was 61.3%, compared to 64.3% in 1994

A steep rise in the price of oil, which is largely supplied by Russia, resulted in a gradual decline in oil refining. The amount refined in 1995 was only 16.9mn tons (14% less than in the previous year) including 11,5mn tons of raw material supplied by the customer. As a result, only 25% of the industry's capacity was used

**A clear downward trend of natural fuel extraction was seen in Ukraine over 1991-1995**



\*Natural energy resources \*\* Standard fuel

Ukraine, 22.1% of those polled in 1994 supported the socialistic style of development for the country, while 12.7% opted for the capitalistic way. 23.7% "supported both as long as they did not cause conflicts among themselves" which meant that they were ready to accept any scenario. 20% did not support anyone and 19.3% were unable to determine their own positions. Interestingly, this ratio has remained the same to the present time.

This proves that a reasonable plan of reforms and their proper implementation could have found a lot of supporters. They could later have turned into the nucleus of the middle class which is the platform for the stability

and development of a state in Europe.

### FOREIGN POLICY: ILLUSORY AND OBVIOUS THREATS

In the international arena, the attempts of the Ukrainian government to find its place in the region and the world faced at least three

## SO-CALLED DEMOCRATS HAVE EITHER QUARRELED OVER SOME SYMBOLIC QUESTIONS, OR PRACTICED THEIR ELOQUENCE

major barriers. Firstly, Ukraine fell victim to Western stereotypes, skillfully fuelled by Russian offi-

cial. The West saw Ukraine as an "unstable country with the third biggest nuclear potential in the world". Meanwhile, tactical nuclear weapons were removed to the Russian Federation in 1992 without any negotiations, while strategic weapons which Ukraine could neither afford to maintain nor use, became one of the major sticking points in attempts to establish contacts with the world. Negotiations resulted in the 1994 Budapest Memorandum, whereby nuclear states guaranteed security to Ukraine. Among other things, they promised to refrain from using any economic leverage (!). Still, Ukraine never made use of the options granted by the document, neither during the Tuzla conflict nor during the gas wars.

Secondly, Moscow played an ambivalent role. On the one hand, it was less aggressive and tough towards its neighbours under Yeltsin, in comparison to the years after 1999. Yet, Ukraine was dependant on energy supplies and the Ukrainian elite was unable to solve this issue. This resulted in powerful leverage for Russia. The Ukrainian Week is publishing a special report on energy and the way it affects the region.

Thirdly, Ukraine's Western neighbours made a definitive choice to join NATO and the EU. In the early 1990s, neither the government nor the opposition in Ukraine included European integration in the political agenda. It was not referred to as a series of decisions to be made. Therefore, in many issues concerning European integration, Ukraine finds

**22 October 1993**  
The Verkhovna Rada passes a Law "On the Status of War Veterans and Social Security Guarantees for Them", which for the first time, recognized the members of UPA, the Ukrainian Insurgent Army, as participants of military actions, fighting against the Nazis



**December 1993**  
The inflation rate exceeds 10,000%



**8 February 1994**  
Ukraine is the first CIS state to join NATO's Partnership for Peace programme

**March-April 1994**  
Ukraine holds a first-past-the-post election to the Verkhovna Rada, resulting in the election of 336 out of 450 deputies. The constituencies that fail to elect a representative hold a second round. A temporary leftist majority is formed with the Socialist Party's Oleksandr Moroz being appointed Speaker of the Verkhovna Rada



**2-4 October 1993**  
Clashes between the supporters of parliament and the president take place in Moscow, resulting in a state of emergency, the firing on the Russian White House and the leaders of the RF Supreme Council

**12 December 1993**  
Russia holds a referendum on the new Constitution of the Russian Federation with 58.4% of the population supporting it and elections to the Federation Council and Gosudarstvennaya Duma - the new legislative body of the RF. The Liberal Democratic Party of Russia led by Vladimir Zhirinovski won the most votes with 22.8%



**16 January 1994**  
Yegor Gaidar resigns from the Russian Government in protest against its "conservative policy"



itself at the level its Western neighbours underwent back in 1993.

**SHOCK WITHOUT THERAPY**

This set of circumstances determined the helplessness of Ukraine's movement in the early years of independence. Many researchers consider it to have been unfair to drag Ukraine into the shock therapy along with Russia, which cancelled price regulation in early 1992. This was a complete shock for the Russian economy, as well as the related economies of former union republics.

Instead, this fact is proof that the Ukrainian political establishment had zero understanding of economic processes and decisiveness in implementing a policy of its own. Even after the price shock, it took the government and the central bank until November 1992 to introduce the non-cash circulation of the kuponno-karbovanets, the first Ukrainian currency after the collapse of the USSR! Until then, the cash for settlements with the Russian Federation or CIS countries was literally transported in sacks. This indecisiveness was a result of both the individual features of the post-soviet elite as well as combined and institutional factors.

Red directors played a major role in this. They resisted bold moves preferring to not tilt the balance at their enterprises. The early 1990s saw large-scale and resonant strikes. Red directors just began to win over strike initiators with promises to pay and raise salaries. The burst of hyperinflation in 1993 was partly caused by the printing of money as a means to solve the issue of salary payment quickly and painlessly, thus flooding the economy with unsecured funds.

The muddled constitutional model, in turn, prevented the government from establishing clear responsibility for the implementation of the economic policy.

**ATTRIBUTES OF THE ERA**



The president appointed and dismissed the prime-minister, as well as the power and economic blocs of the Cabinet of Ministers with parliament's consent. So the governments looked more like teams comprised of different classes, rather than teams of like-minded people.

There was an attempt to mend the situation in 1992, with the appointment of Leonid Kuchma, a member of the red directorate, as prime-minister and authorizing him to pass decrees, that were the power of the law, without the approval of the Verkhovna Rada. On the one hand, this led to the elimination of many loopholes. Some of the documents from that time were still effective in the 2000s. On the other hand, the lack of control entrenched lobbyist interests into the documents, such as the decree on trusts or the resolution on the introduction of a fixed currency rate. ■



**July 1994**  
Yurym Zviagilsky, Acting Prime Minister of Ukraine, accused of financial speculation, flees to Israel




**10 July 1994**  
Leonid Kuchma wins the second round of the election and becomes President of Ukraine




**9 May 1994**  
A ceasefire is agreed in Nagorno-Karabakh



**14 May 1994**  
The Georgian government and Abkhazian insurgents agree to a ceasefire



**August-September 1994**  
Russian troops withdraw from the Central Europe. They leave Estonia and Latvia on 29-30 August, Germany on 31 August and Poland on 8 September



**11 December 1994**  
Large-scale military action begins in Chechnya. Troops of the Russian Ministry of Defense and Ministry of Interior enter the republic



З НАМИ БЛИЗЬКИЙ СХІД СТАЄ

ЩЕ БЛИЖЧИМ! ТЕНРАН

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DAMASCUS ДАМАСК

АММАН АММАН АММАН

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ТЕГЕРАН ТЕНРАН

ДАМАСК

АММАН АММАН

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Ліцензія серії АБ № 176835 видана Українським авіаційним регулятором від 25.11.2005 р.



ЛІВАН/LEBANON

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ІРАН/IRAN



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# 1994-1998



## Bagging the Country

**With a government that had no strategy for national development, economic reforms or European integration, and an opposition unable to offer reasonable alternative scenarios or exert pressure effectively on those in power, Ukraine ended up with an economy shaped by the logic of least resistance and quick profits. As a result, an oligarch system emerged, comprised of the following components:**

- Oligarchs used all kinds of tools including financial fraud, artificial debts and coercive pressure to grab or take under their control the juiciest, or at least potentially profitable objects, particularly steelworks and chemical plants that basically produced semi-finished components for other technological productions.
- This led to the subsequent distortion of the structure of Ukraine's economy.
- Meanwhile, other industries, including engineering, hi-tech productions that needed huge investment before they could even compete at foreign markets, food and textile industries were decaying. Even being swallowed by oligarch empires could hardly save them, since they turned into side businesses rather than central projects.
- SMEs remained neglected despite the favourable flat-rate tax system law passed in 1998. They had no access to cheap loans and real privatization, nor could they compete with oligarchs seeking control over medium-sized business, comprised of the food industry, farming, the hi-tech sector and others.
- The privileges lobbied by oligarchs for their businesses left gaps in the state budget. To cover them, the government increased tax pressure on businesses that had no such protection. This led to the inevitable decline of the investment climate in Ukraine.
- Ultimately, government decisions based on private interests rather than a comprehensive analysis of the situation were inefficient and often more troublesome than helpful.



# The Dawn of the Oligarchs

The late 1990s brought a system of governance to Ukraine that sent the country tumbling into poverty

**R**eforms means changing the behavior, means of interaction and the mindset of people. They require systemic and persistent efforts and need forces that objectively see the point in changes. Without this, people only care about their own interests as they see them. This leads to a society with no purpose, triggering processes inherited by mankind, since the beginning of time. Society stratifies into a general mass, overwhelmed with daily survival and a handful of lucky ones who found a way to make all available resources serve them. At the same time, the lucky ones are not always the smartest. They are rather the ones quickest to make use of their benefits, arising from a society without a purpose, such as connections to the movers and shakers, the skill to grab anything within the arm's reach, regardless of the interests of others and the ability to withstand a battle with the like.

Despite being part of human nature, the danger of this situation is that it leads to a distorted distribution of society's resources while curbing its potential. Those who could have used such potential were deprived of the opportunity to do so.

Ukraine faced this situation in the early years of independence as the government proved incapable of determining and implementing a comprehensive reform plan rather

**KUCHMA-DIRECTOR.**  
Leonid Kuchma tried to rule the country as a big plant



than fragmented measures. This was accompanied by the failure of the opposition, and particularly the democratic opposition, to follow the suit of reformers in Central European states in setting forth and implementing their plan. As a result, the situation was left adrift.

## A FAVOURABLE ENVIRONMENT

In the early 1990s, it looked as if the country would end up with only two most powerful economic forces. On the one hand, were the "red direc-

tors", i.e. the managers of big companies who had grabbed their enterprises and were using their business resources to exert pressure on politics. Leonid Kuchma, an offspring of this generation, first became Premier to be elected President later.

On the other hand, the nouveau riche, who gained their first millions and subsequently billions earned on scams that included the bagging of state-owned assets. One of them was a buzz word story of the Black Sea shipping company »

## Oligarchy Outlined

**17 March 1993**

Premier Kuchma's government passes a Decree on Trusts legalizing the opportunity to establish Ponzi schemes using people's contributions. The Decree is terminated on 26 June 1995 because of "drawbacks in the operation of trust associations"



**15 April 1994**

Ukraine signs a Free Trade Zone Agreement with the CIS which is, in essence, a profanity



**19 July 1994**

Leonid Kuchma becomes President of Ukraine



**20 July 1994**

President Kuchma, Premier Masol and Verkhovna Rada Speaker Moroz make a joint statement confirming the "objective need for coordinated moves by all powers" which is violated almost immediately, as the Verkhovna Rada does not support Kuchma's initiatives while the latter takes security structures and oblast heads under his control



**5 December 1994**

Ukraine, Russia, Great Britain and USA sign the Memorandum on Security Assurances in connection to Ukraine's accession to the Non-Proliferation of Nuclear Weapons Treaty (Budapest Memorandum)



UKRAINE

FSU

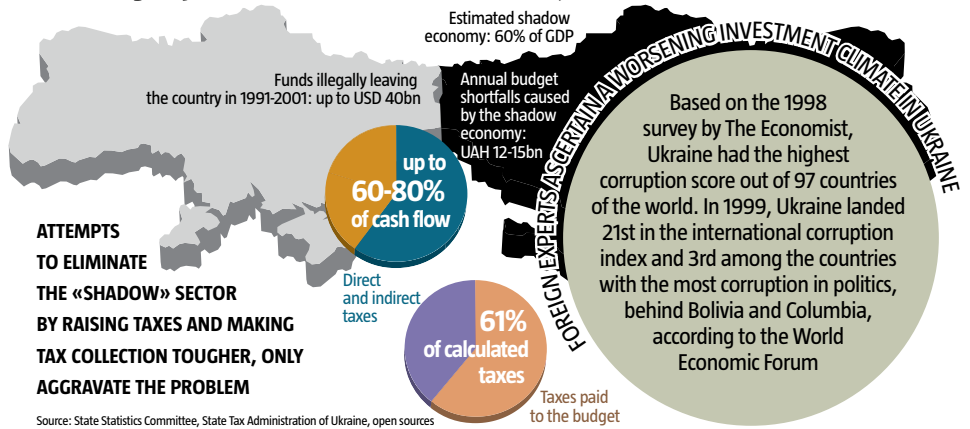
sale, which surfaced after it turned into a criminal case, while other such scandals were kept quiet. Others involved intermediary services in such deals or Ponzi schemes mushrooming after the special 1993 decree, of which the Moscow-based MMM became a trademark, followed by many similar Ukrainian companies, such as Ometa, which promised a 1,000% return on investment and lured nearly 12,000 participants, yet ceased to pay dividends in 1995.

Both groups were too numerous. They plunged into a tough internal struggle for access to resources and power, where the winner would be the strongest fighter that was best suited to live and act under such circumstances.

**INTRAGROUP WARS**

The roads to the status of an oligarch were diverse. They included influence on enterprises through control of critical resource supply, particularly gas or oil. Gas served as the foundation for Pavlo Lazarenko's business empire and brought smaller capital to less significant, yet no less cash-hungry, figures, such as Ihor Bakai in the early 1990s and subsequently after Mr. Lazarenko's fall, or Dmytro Firtash almost a decade later. But they were far from Mr. Lazarenko's scale of efforts or plans. Unlike most oligarchs, he was not simply building a business empire, but a system that allowed him to run industries

**Alarming expansion of the shadow economy** «Shadow» measures in 1998-1999



**THEY ARE THE ONES AT FAULT!**



**Leonid Kuchma:** I'm a happy man when the parliament goes on vacation



**SELF-APPRAISAL Pavlo Lazarenko:** I'm a manager, not a politician

and regions. This systemic approach was one of the tricks behind the quick progress and victory of his Hromada (Community) party in the 1998 election. And it was the ex-Premier's systemic approach that most scared both the newborn oligarchs and President Kuchma's circle. The fact that all these groups united to push Mr. Lazarenko out of the business and political arena was a precedent of sorts. After he fled, his opponents returned to their usual squabbles.

Another method of warfare was to entangle "victim" plant in contracts with firms and banks that would artificially turn it into a debtor. In the late 1990s, the media was rife with such stories that involved people and entities currently circling in the Privat Group's. The

businesses of Viktor Pinchuk and Kostiantyn Hryhoryshyn exploited their proximity to those in power and temporary unions with others. Eventually, Donbas ended up with a pact among the owners of companies and young businessmen of Donetsk origin who still avoid being asked about where they earned their first millions. They struggled to protect their monopoly in the region, keeping invaders, primarily from Dnipropetrovsk, away. Clashes between these groups were largely postponed until the beginning of the 21st century.

Some potential oligarchs, using government support, combined different methods to the dream status, including the provision of all kinds of financial and legal services (particularly access to offshore zones)

**28 December 1994**  
The Verkhovna Rada passes the Presidential draft law "On State Authority and Local Self-Government", redistributing authority, including control of the government in favour of the President, in its first reading. The Constitution has to be amended for the law to come into effect, but the President's supporters have a 2/3 majority in parliament. The battle surrounding this document leads to the political crisis in early 1995

**27 January 1995**  
President Kuchma issues a Decree "On Financial and Industrial Groups in Ukraine" establishing legal framework for businesses to unite into under the control of oligarchs. On 2 March 1995, the Verkhovna Rada vetoes the decree but it remains in effect until the President cancels it as an outdated document four years later, on 27 January 1999

**1 March 1995**  
Prime Minister Vitaliy Masol, inherited by Kuchma from his predecessor Leonid Kravchuk, resigns. He is replaced by Acting Prime Minister Yevhen Marchuk. Mr. Marchuk is dismissed on 27 May 1996 for the publication of his "platform" article labeled as "image making"

**17 March 1995**  
The Crimean disobedience ends. The Verkhovna Rada passes the Law on the Autonomous Crimean Republic confirming its status as an inseparable part of Ukraine, determining the status of its law enforcement agencies, and abolishing the office of president and a series of laws, which run counter to the Constitution of Ukraine. President Meshkov is forced to move to Moscow. According to Mr. Kuchma's memoirs, the crushing of the Crimean revolt is crushed with Boris Yeltsin consent

**8 June 1995**  
Leonid Kuchma and VR Speaker Oleksandr Moroz sign the Constitutional Treaty between parliament and the president "On the Fundamentals of the Organization and Operation of Central and Local Governments in Ukraine until the Approval of the New Constitution". Ukraine becomes presidential republic. The president and parliament set up a joint constitutional committee to draft the new Constitution



**1 January 1995**  
Austria, Finland and Sweden join the EU



**6 March 1995**  
Russian army commanders announce the establishment of total control in Grozny, the capital of the rebellious Chechnya

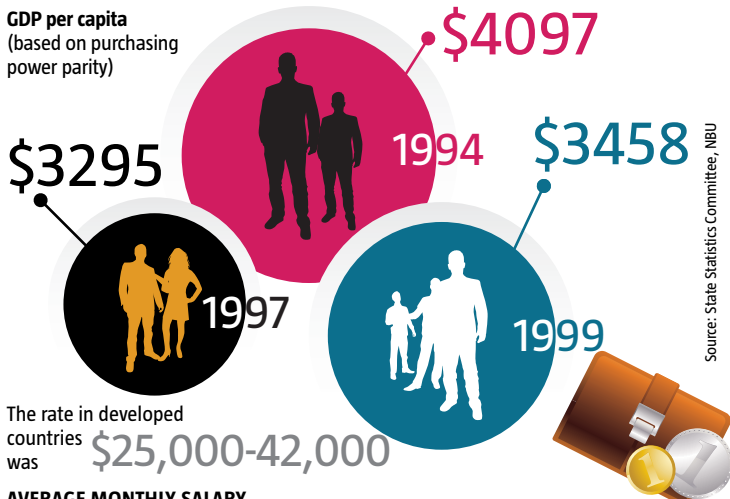
**26 March 1995**  
Seven EU-member states, Belgium, France, Germany, Luxembourg, Netherlands, Portugal and Spain, abolish internal border control and reinforce control on their borders with other countries





**THE HARDEST HIT BY INEFFICIENT ECONOMIES WAS THE WELFARE OF THE POPULATION**

**GDP per capita**  
(based on purchasing power parity)



Source: State Statistics Committee, NBU

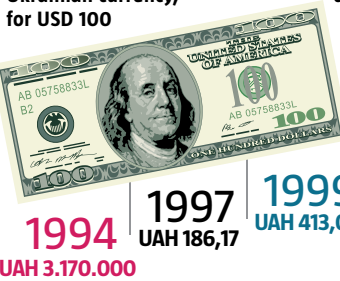
The rate in developed countries was \$25,000-42,000

**AVERAGE MONTHLY SALARY**

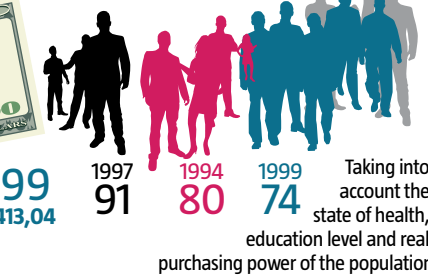


The meagre wages were paid sporadically, often with a delay of several months

**Official exchange rate of the Ukrainian currency, for USD 100**



**Official exchange rate of the Ukrainian currency, for USD 100**



Taking into account the state of health, education level and real purchasing power of the population

**CONSTRUCTIVELY OPTIMISTIC**



**Viacheslav Chornovil:**  
We have not won, but have not lost, either.

**DUBIOUS PROMISES**



**Viktor Pynzenyk:**  
We will devalue your dollar-denominated savings.

for a fee, expanding their market presence and struggling to take over power supply monopolies. Read more on such deals including, for instance, K7, the Kyiv Seven of Viktor Medvedchuk, the Surkis brothers, Bohdan Hubsy and others.

This leverage, used with the support of the national leadership (Dnipropetrovsk-based groups started off protected by Pavlo Lazarenko who, in turn, enjoyed the trust of President Kuchma; K7 found ways to the offices of both President Kravchuk and President Kuchma; yet the Donetsk group preserved their power in the region) left no opportunities for those struggling to protect their businesses.

**THE THREAT OF OLIGARCHIZATION**

The word oligarch has been a swearword ever since journalists borrowed it from their Russian colleagues to denote winners of the distorted competitions mentioned above. However, the protagonists of all these stories prefer to describe themselves as big national business. They sponsor and donate to projects and pay good salaries, at least to the top managers, who are often hired abroad, while regular workers do not count. After all, taking over companies on the verge (or over the verge) of collapse and swallowing them into their empires was not a Ukrainian invention.

Still, unfair privatization tenders, legal manipulations and the

**9 November 1995**

Ukraine is the first CIS country to become a full member of the Council of Europe. A Monitoring Committee is set up to supervise the fulfillment of Ukraine's human rights commitments



**11 March 1996**

The Constitution Committee approves the final draft Constitution. Mr. Moroz and some MPs on the Committee claim excessive power consolidation in the president's hands



**28 May 1996**

Pavlo Lazarenko becomes Prime Minister. Scams, based on monopolized gas supply by his Single Energy Systems, enjoy full government support



**28 June 1996**

The Verkhovna Rada approves the new Constitution of Ukraine after almost three months of debate and the "Constitution Night". The left wing of parliament protests against approving national symbols, drawing public attention to a "demonstrative" conflict. Kuchma uses this to pass provisions that make his role decisive in the system of power. To implement the Constitution, the VR needs to pass more than 50 other laws, of which barely half are passed in the coming years



**2 September 1996**

Ukraine introduces the hryvnia, its national currency. Karbovantsi are transferred into hryvnia at an exchange rate of 100,000 karbovantsi per 1 hryvnia, with no restrictions or confiscation



**9 June 1995**

The presidents of Ukraine and Russia meet in Sochi, Russia, to discuss the equal division of the Black Sea fleet, after which, Russia is supposed to buy out Ukraine's share



**14 June 1995**

Chechen terrorists attack Budionovsk, a town in the Stavropol'ski province. More than 10 terrorist attacks occur in Moscow, St. Petersburg and the Caucasus over a period of 18 months, killing tens and wounding hundreds of people



**30 July 1995**

Chechnya and Russia representatives sign a peace treaty in Grozny

**19 November 1995**

Former Communist Aleksander Kwasniewski wins 51.7% of the vote against Lech Walęsa in the presidential election in Poland. Kwasniewski takes the presidential oath on 23 December



**3 April 1996**

Russian and Belarus sign a Commonwealth Treaty



**30 August 1996**

Peace treaties are signed in Khasavyurt, Dagestan, on the withdrawal of Russian troops from Chechnya and the holding of democratic elections. The decision on Chechnya's status is postponed for five years



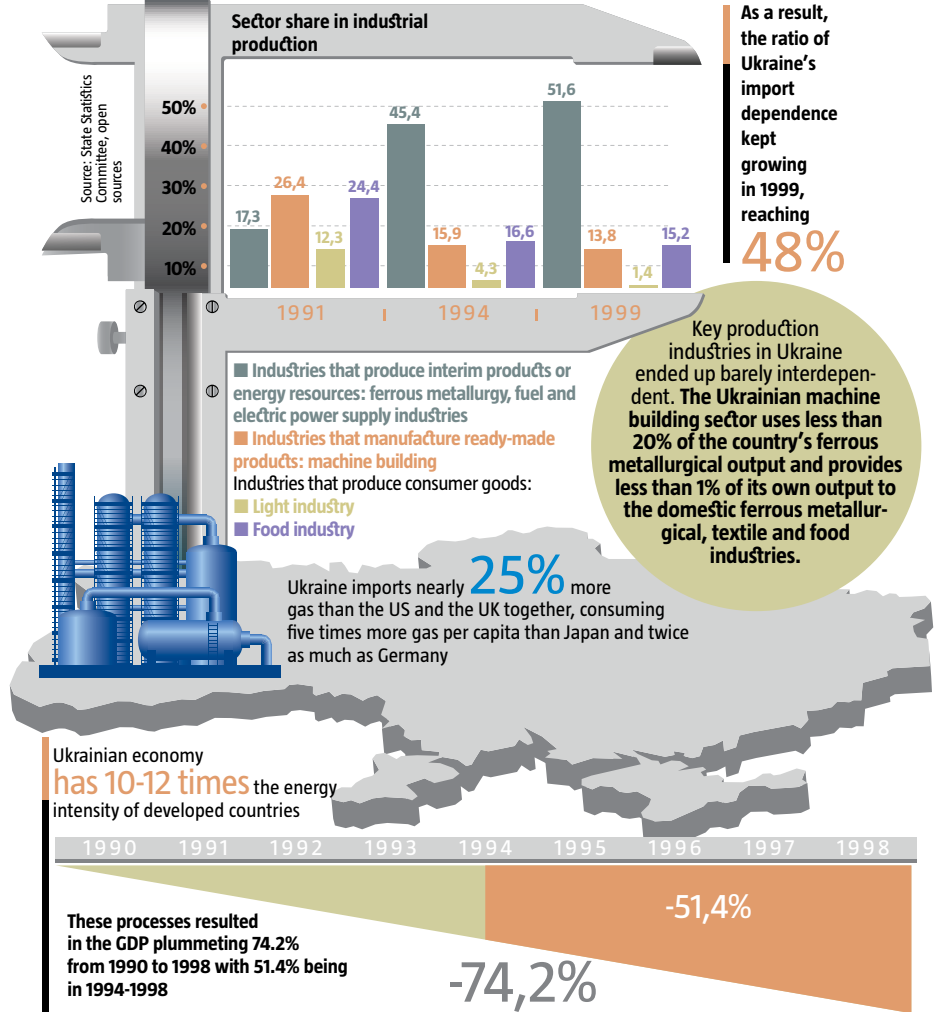
exploitation of connections in the government to take over highly profitable producers make the owners treat the prize they won as pirates. Instead of investing in development and making manufacturing more efficient, the new owners largely exploit them to their benefit. This practice is encouraged by the understanding that someone else can sooner or later use the illegal swallowing of the asset as an excuse to take it away. Therefore, oligarchs prefer to squeeze everything they possibly can from the company right here and then, rather than wait for a return on investment into modernization.

Moreover, this logic leads to motives for exerting selfish pressure on the government. For instance, growing fuel prices push plant owners to demanding the government to cut fuel prices no matter what, rather than investing in increased energy efficiency. The oligarch-dependent government cannot resist this strong pressure. Hence, the Kharkiv deals.

Oligarchs distort the economic structure, stifle initiatives and leave small ghettos for the middle class, especially small and medium business that generates up to 60% of GDP in other countries and, most importantly, provides new jobs and ideas for economic growth. Meanwhile oligarchs largely channel resources, both of their own and accessible public resources, to take over and maintain enterprises that generate quick profits, such as steelworks, chemical plants and so on. Yet, they keep others from ac-

## THE INEFFICIENCY OF THE ECONOMIC STRUCTURE CONTINUED TO GROW:

The share of technically obsolete contaminating productions and energy supply grew while hi-tech and consumer goods production shrank



**31 May 1997**  
Russia and Ukraine sign systemic Agreements in Kyiv "On Friendship, Cooperation and Partnership" and "On the Status and Terms for the Continued Location of the Black Sea Fleet of the Russian Federation Stay on the Territory of Ukraine"



**June 1997**  
Verkhovna Rada passes new legislation on value added tax and corporate tax. Numerous amendments introduced later provide privileges to companies and industries, the interests of which are lobbied in the government



**18 June 1997**  
Pavlo Lazarenko is dismissed from his post as premier. He establishes Hromada (Community), his own political party, in the run-up to the 1998 election



**9 July 1997**  
Ukraine and NATO sign the Special Partnership Charter in Madrid. Should there be any threat to the security of Ukraine, the latter can initiate "relevant consultations" with NATO



**10 October 1997**  
The presidents of Georgia, Ukraine, Azerbaijan and Moldova announce the creation of GUAM, Organization for Democracy and Economic Development at the Council of Europe summit in Strasbourg. The motivation is "to resolve economic problems more efficiently and ensure the operation of European-Asian transport communication"



**18 November 1996**  
Explosion of a residential building in Kaspysk, a town in the Dagestan Republic, where the families of border police live, killing 67 people



**2 April 1997**  
Russia and Belarus sign a Union Agreement



**23 May 1997**  
Russia and Belarus sign the Union Charter





cessing other industries on a fair basis. As they affect tender terms and determine playing rules in the economy, oligarchs make competition a lost cause. The small privatization of 1995 was one such example. During the course of one year, 90% of small and medium-sized enterprises switched from being state or community owned to privately owned, while more than 75% increased sales, gained new clients and created new jobs. Still, they got under the press of the tax machine, designed as a mechanism to use entrepreneurs to cover budget gaps that emerged as a result of inefficient management and the government's failure to channel oligarchs' money into the state budget.

According to many international institutions, Ukraine still has one of the worst business environments in Europe. This affects respectively the creation of new jobs, the development of the economy and the increased prosperity. Even the simplified taxation, accounting and reporting systems introduced in 1998 failed to make things much better. They improved the standing of small entrepreneurs, yet the whole economic system, including the structure of demand, access to loans and the behavior of supervisory authorities, distorted by oligarchs, was no longer able to use the potential and the energy of free business.

**KUCHMISM AND THE SWAMP**

Political events during 1994-1998 were largely shaped by the estab-

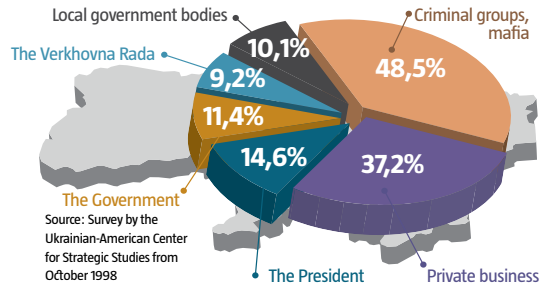
lished oligarch system. They are most often linked to the passing of the Basic Law and the establishment of Kuchma's dominance. All these things are interrelated.

Experts were most concerned about the "excessive concentration of power in the president's hands" in the 1996 Constitution of Ukraine. In fact, the president was authorized to unilaterally appoint and dismiss not only the prime minister, but also ministers and heads of local administrations. Enforcement ministers also had to report to him. Parliament was supposed to approve the prime minister and could pass a motion of no confidence in the government. Yet, politically fragmented, polarized and close to various oligarchs, all parliaments elected in Ukraine before 2006, failed to use their powers to the full extent.

Fragmented parliamentary factions result in inconsistent and unstable legislation that was typical of Ukrainian politics. This caused problems in creating a legislative background for necessary reforms and an advantageous argument in favour of the further consolidation of power in the president's hands. Kuchma's decrees acted as laws, thus encouraging oligarchization or providing privileges to some of the mighty of this world.

Mr. Kuchma used the disparities among oligarchs in his "divide and conquer" strategy that kept the players close enough to the president to fuel their interest in the game and the benefits it could give without

**WHO HAS REAL POWER IN UKRAINE**



considering the possibility of changing the rules or even the referee, and far enough away to keep them from the obvious competitive benefits that could spur the ambition to become referees themselves.

Journalists labeled this system "Kuchmism". The word was later widely used to denote the moderate authoritarianism in Ukraine in the late 1990s and early 2000s. It was not state enforcement and all respective agencies reporting to the president alone that kept Kuchmism alive. Virtually all oligarchs and other major political players, wittingly or unwittingly, co-authored the regime.

Anti-Communist and national movements failed to offer a counter-elite. Some of its members moved to serve the government and some struggled to be a constructive opposition, hoping to get their piece of the pie, but no-one offered the public a realistic alternative scenario.

The hopes for such alternative scenario arrived much later. But they were wasted, too. ■

**24 September 1997**

Verkhovna Rada passes a new election law, whereby 50% of MPs are elected by party lists with a 4% threshold, while the other 50% are elected in majority constituencies



**29 March 1998**

Ukraine holds parliamentary election in which 30 political parties and blocs participated, with 8 getting through to parliament



**7 July 1998**

After a long process of choosing the VR Speaker, The Farmers' Party of Ukraine's Oleksandr Tkachenko becomes the Speaker. According to speculation, the appointment is supported by Mr. Kuchma's advisor Oleksandr Volkov. By making the maverick Mr. Tkachenko Speaker of Parliament, executive power gains the opportunity of blaming its inefficient policy on a non-constructive parliament



**14 September 1998**

The Prosecutor General opens a criminal case against Pavlo Lazarenko charging him with the large-scale stealing of state-owned property



**17 February 1999**

Verkhovna Rada strips Pavlo Lazarenko of MP immunity. He flees Ukraine a week earlier, is arrested in Switzerland and extradited to the US

**23 March 1998**

Viktor Chernomyrdin resigns from his post as Chairman of the Russian Government. He is replaced by Sergei Kirienko on 24 April, who is nicknamed "Kinder Surprise" because of his youth



**17 August 1998**

Black Monday. Russia plunges into a deep economic crisis. The government announces a default on internal debt accompanied by alarming ruble devaluation. This hits Ukraine's economy as a result of its integration with the Russian economy and its dependence on orders from Russian counterparties



**23 August 1998**

Mr. Kirienko's Government resigns. On 11 September 1998, the Gosudarstvennaya Duma (Russia's Parliament) appoints Yevgeniy Primakov Government Chairman on the third attempt

# The Triumph of Ruins

The assassination of Vadym Hetman removed all barriers to the chaotic disbursement of the banking and financial sector in Ukraine and opened the way for the tycoon-controlled economy



**O**n 22 April 1998 Ukraine was rocked by the news of a heinous murder. Vadym Hetman, one of the most respected politicians and financiers of the time, was shot dead on the doorstep of his home in Kyiv. The alleged killer Serhiy Kuliiov, a member of Kushnir gang, the most notorious criminal group of the 90s, was arrested in 2002. A Luhansk court of appeal gave him a life sentence, yet the crime was never properly investigated to find the real truth. Those who ordered the killing never stood trial.

## THE STATESMAN

Notably, neither Mr. Hetman's foes nor ill-wishers ever doubted his great contribution to the benefit of independent Ukraine. When he joined the NBU, Ukraine's central bank, in March 1992, Mr. Hetman upgraded its organizational structure, computerized its banking processes, including setting up the inter-bank database which is still considered one of the best in Eastern Europe, initiated the research and design process to establish the Audit Chamber of Ukraine, and launched a complex mechanism for printing hryvnia, the new (at that time) Ukrainian currency. "Hetman was always more innovative than others," says Oleh Rybachuk, director of the NBU's external relations department and later the department for international relations over 1992 - 1999. "He decided that Ukraine should print hryvnia when it was basically still part of the Soviet Union. He decided to leave the ruble zone when other politicians didn't even dare mention it."

In 1993 Vadym Hetman left the central bank and focused on establishing the Ukrainian Inter-bank Currency Exchange (UICE)



as a public structure where the controlling stake could not be owned by just one entity and this is how it was for the rest of Mr. Hetman's life.

"Mr. Hetman was a pioneer in many ways," says Volodymyr Lanovy, a National Deputy of the 2nd and 5th parliamentary conventions and Economy Minister in 1992. "He founded new market institutions in Ukraine." Mr. Hetman was the first to offer ideas about the creation of a secondary stock market, a futures and currency market, and a bank market for precious metals in Ukraine. He participated in drafting all new banking laws which determined the structure and operation of Ukraine's banking system in compliance with market standards. Even if the bills had different sponsors, Mr. Hetman's proposals and amendments were often significant enough to critically change the documents' philosophy.

Vadym Hetman was a 100% true statesman, protecting the interests of the state – not his own – in all his actions, decisions and proposed laws. Unfortunately, this position often made him very inconvenient for the many partly criminal, opaque and mercenary Ukrainian economic and political elite of those times.

## MURDER MYSTERIES

The Prosecutor General of Ukraine claimed the now infamous Pavlo Lazarenko was involved in the assassination. However, the one-time prime minister had already been accused of so many crimes that this scenario looked doubtful. What is more, by 1998, the year of the assassination, he had been removed from office and the only political position he still had was as leader of the Hromada (the Community), faction in the Verkhovna Rada. Was it not coincidence that this was at the time of the surge in big-time war against the ex-premier's business empire, and besides, Hetman had never stood in Lazarenko's way?

Political scenarios also seem too unbelievable. The first assumption was that Hetman was killed in a struggle for a seat in parliament. Mr. Hetman lost the 1998 election in the 189th con-



### BIO

**Vadym Hetman** was born on **12 July 1935** in Snityn, a village in Poltava Oblast, Ukrainian SSR **1956** – graduated from the Kyiv Financial and Economy Institute and worked at various financial and administrative facilities in Zaporizhzhia Oblast. **1975** – was appointed First Deputy Chairman, Ukrainian SSR State Price Committee. **1987** – was appointed Board Chairman, Agricultural Bank of Ukrainian SSR (Ukraina bank since 1990), until **1992** when appointed Board Chairman for the National Bank of Ukraine. **1990, 1994** – twice elected to the Verkhovna Rada. **1997** – awarded the title of Best Member of the Parliament 1996 and the Best Financier 1997. **22 April 1998** – shot outside his house. On **11 July 2005**, Mr. Hetman was posthumously decorated with the title 'Hero of Ukraine'.

stituency in Cherkasy Oblast to Mykhailo Onufriychuk, the then First Deputy Information Minister, falling just 3.87% short of his opponent. He appealed against the voting results claiming that his opponent had been using illegal political technologies and administrative leverages against him. However, the pursued seat was not worth killing a man for. Another assumption was that those who ordered the assassination were trying to harass Viktor Yushchenko, who treated Vadym Hetman as his mentor, giving him a warning of sorts before the presidential campaign 1999. But they did not need to kill Hetman to discourage Mr. Yushchenko from running in the election – he was virtually pushed into big politics, so there must have been a legitimate way to convince him out of the running. Moreover, Mr. Yushchenko only turned into a threat for the circle of Leonid Kuchma after he resigned from the prime minister's office.

Mr. Hetman might have been removed to clear a path to the then public Ukrainian Interbank Currency Exchange. Yet, the change of its owners took eight years, which was too long to be seen a reason for the assassination.

When looking for criminal paymasters the best advice has always been to look for those who would benefit from the crime. None of the popular assumptions answer this question. It makes more sense to look at Mr. Hetman's role in Ukrainian politics of the time, rather than to analyse individual facts from his life or work.

Everybody who was familiar with Mr. Hetman noted two fundamental things. Firstly, he was a man of principle, reluctant to get involved in obscure deals or the creation of legislation loopholes for the purpose of stealing. One of many examples was his firm protest against the resolution of the Cabinet of Ministers to implement the so-called fixed hryvnia rate which resulted in massive currency outflow abroad and the expansion of the shadow economy, while also undermining the position of Ukrainian exports in the global market. Also, Mr. Hetman used his connections with the movers and shakers in virtu-

ally all political groups, supported by his great personal and professional reputation, to make sure that his viewpoint was always taken into account. He at least had the power to prevent the disbursement of the banking and financial system and crush many scams which damaged the Ukrainian economy.

Secondly, all his colleagues appreciated his skills concerning organizing resources and people. Mr. Hetman was the centre of gravity for many controversial, yet significant figures, such as Viktor Yushchenko, Oleh Andronov, Oleksandr Kireyev, Yuriy Liakh, Oleksandr Veselovsky and Ihor Mitiukov. Through cooperation they could have hidden their weaknesses and shown their strong points, had Vadym Hetman remained their mastermind, restraining their urges for reckless enrichment.

Mr. Hetman was the key figure in preventing the chaos which once loomed over Ukraine. In the late 90s, as the economy demonstrated some signs of recovery despite the Russian crisis, it was crucial what Ukraine's financial and economic policy would be in the future. There were two options: Ukraine could have had a well-thought out state strategy implemented through moves which had been tested by other countries, or a cocktail of decisions taken chaotically under the pressure of lobbyists working exclusively for their own benefit.

The first scenario gave Ukraine a chance to stop lagging behind, for what seemed like forever, and use its resources to get closer to EU standards following Central European states. If Ukraine had chosen this path, it would be much closer to the EU today. The other scenario allowed just a few people to keep generating their wealth quickly and recklessly, while weakening the country. The chaos of short-sighted decisions made to fit a certain situation and corrupt politicians who ignored strategic interests, made Ukraine very vulnerable to the exploitation of its resources internally and unfriendly influences from abroad. Ever since Vadym Hetman died, Ukraine has seen one of the worst models of a tycoon controlled economy unfolding within it. ■

# Ukrainian Oligarchs

The first steps



## RINAT AKHMETOV

*Currently owns assets worth an estimated USD 16-17.8bn*

**Mr. Akhmetov is the richest man in Ukraine and Peoples' Deputy in the Verkhovna Rada, from the Party of Region. More than 90 companies, directly or indirectly controlled by System Capital Management (SCM), the largest company in Ukraine, generate his revenues. SCM employs more than 160,000 people.**

Mr. Akhmetov was born on 21 September 1966 in Donetsk to a mining family. According to some sources, Mr. Akhmetov used to be a professional poker player during the Soviet era, while the mass media has also listed other illegal activities. However, Mr. Akhmetov appealed to the London court, which recognized this material to be libelous. In 1995, Mr. Akhmetov was among the founders of the Dongorbank that merged the assets

of some "Donetsk-born young people" who were not connected with the so-called red directors, the traditional Donbas elite at that time.

In 1996, Rinat Akhmetov became the President of Shakhtar (The Miner) football club after the death of Akhat Bragin, a criminal known as Alic Grek, on 15 October 1995. According to some sources, Mr. Akhmetov "inherited" both the football club, and the business structure of the deceased. Yevhen Shcherban, another visible figure in the region, was killed shortly thereafter. By the end of the 1990s, Mr. Akhmetov had in fact become the most powerful man in the Donbas region, having outrun other local groups, such as the Industrial Union of Donbas, Energo concern and so on. He squeezed entities controlled by Pavlo Lazarenko out of the region. Eventually, there was a change in power in the Donetsk Oblast. On 14 May 1997, Serhiy

Poliakov, Chairman of the local Oblast State Administration and Mr. Lazarenko's henchman, resigned. He was replaced by Viktor Yanukovich, supported by Mr. Akhmetov. Mr. Akhmetov only entrusted the most responsible positions to his closest family members. His wife Lilia is the Head of SCM CJSC Audit Committee, while his mother Nyakia chairs the company's Supervisory Board.

### MAIN STRATEGY

*According to some publications, Mr. Akhmetov's popular practice in the 1990s was to force people to sell their businesses. Later, the tycoon intensely exploited power leverage to promote his own interests. These included the privatization of state-owned companies thanks to connections in the government, budget privileges for his companies, particularly for his ore enrichment plants, and access to state-owned resources. Currently, Mr. Akhmetov presents himself as an entrepreneur that wishes to conduct "honest business".*



## IHOR KOLOMOISKY AND THE PRIVAT GROUP

*Owns assets worth an estimated USD 2.5bn*  
**His key allies include Hennadiy Boholiubov, Oleksandr Dubilet and Serhiy Tihipko**

For many people, the words "Kolomoisky" and "Privat" are synonymous. In fact, there is no group with this official name. However, there are several dozen various businesses that belong to the owners of PrivatBank Commercial Bank CJSC. Currently, the only remaining major shareholders and the bank's biggest partners are Mr. Kolomoisky with 45.01% and Mr. Boholiubov with 44.99%.

Each individual industry or business is under the supervision of one of the shareholders. Ihor Kolomoisky, who was born on 13 February 1964, plays a leading role among the partners. This status, in addition to the completely private lifestyle of his partners, makes him the only known representative of the Privat conglomerate.

In the mid 1980s, Mr. Kolomoisky and his friends began to import computers. Together with Hennadiy Boholiubov, he co-founded a company that imported office equipment from South-East Asia and another company called Sentoza. Oil trading was the business that boosted the development of Privat Group.

In 1992, four companies: Viŝt Ltd., Sentoza Ltd., Som Ltd. and Privat Intertrading CJSC founded a commercial bank, Privat Bank CJSC. Supposedly, the initiator behind the idea was Serhiy Tihipko. He was the bank's first CEO and worked there until 1997 when he was appointed Vice Premier. Mr. Tihipko sold his share, taking along part of the group's assets.

As concerns the majority of projects, the strategy of the co-owners of PrivatBank co-owners focused on portfolio investment and the highest possible revenues over the shortest possible term. To this day, the managers and staff of the iron and steel plants and ore mining companies once owned by Privat Group and subsequently sold to Evraz still recall their one-time owners, who completely ignored environmental and social issues at the plant, as a nightmare. Only the banking and food businesses that are part of the group, boast a long-term development strategy. The mass media has often accused Privat Group owners of raider attacks: they used to pick high-profit companies that were legally easy to seize due to gaps in the ownership structure.

The biggest scandals in the Group's history were between Privat Intertrading and two steel giants, the Dzerzhynsky Dniprovsky Steelworks and Petrovsky Dniprovsky Steelworks, stirred. The plants' payables to the Group brought them under its unofficial control. Although initially privatized by the ISD, Petrovsky Steelworks was acquired by Privat



Group shortly thereafter due to a complex situation regarding the supply of raw materials and the company's debts.

In the mid 1990s, Privat Group entered the ferroalloy business together with Kostiantyn Hryhorshyn. They acquired more than 50% of the Ordzhonikidze and Marhanets Ore Enrichment Plants. By the end of the 1990s, Mr. Hryhorshyn sold his shares in Bagleykoks and Dniprodzerzhynsk coke plants to Privat Group for a mere USD 30mn, who stated that he was threatened that he would be dealing with bandits if he didn't do so.

During the establishment stage, Privat Group enjoyed the political protection of Pavlo Lazarenko, the Head of Dnipropetrovsk Oblast State Administration, and President Kuchma. Later, Serhiy Tihipko became a public promoter of their interests in the governments headed by Messrs. Lazarenko, Pustovoitenko and Yushchenko.

Unlike many financial and industrial groups (FIGs), Privat Group has no political force of

its own. Just as in business, it gives preference to situational unions, considering them to be a more efficient and cheaper instrument to protect its interests.

The Group focuses on portfolio investment, getting the highest possible revenues over the shortest possible term, grabbing all it can lay its hands on, and placing its people at state-owned enterprises and government authorities to promote its own business interests.

### MAIN STRATEGY

*Privat Group uses the courts and the state registrar to gain control of profitable businesses, particularly those that have gaps in their ownership structure; conducts legal wars; gains control of companies by means of appointing "its own" administration while blocking meetings of shareholders; exploits the minority shareholder status of its business partners to force them sell their shares through court appeals, meetings of shareholders and so on; and places loyal people in government authority bodies to promote its own business interests.*





## VIKTOR PINCHUK

*Owns assets worth an estimated USD 3.3bn*  
**Mr. Pinchuk founded EastOne investment consultancy firm that provides support for new investment projects and the current portfolio covering more than 20 businesses and wide-scale projects including Interpipe, pipe and wheel producer; media resources, including STB, Novyi, ICTV, M1 and M2 TV channels; Fakty i Kommentarii (Facts and Comments), a Russian-language newspaper; and The Economy publishing house producing Delo (Business) and Investgazeta (Investment Newspaper), Russian-language newspaper and magazine; and the insurance business including a firm called Russia and others. His business empire covers Novomoskovsk Pipe Plant, Nikopol Seamless Pipe Plant, Nyzhniodniprovsky Tube Mill, Nikopol Ferroalloy Plant, and Credit Dnipro Bank, founded in 1993. Mr. Pinchuk also controls the Dniprovsky Railroad Car Repair and Construction Plant, Kherson Combine Plant, Aerosvit airline and other companies.**

Mr. Pinchuk was born on 14 December 1960 in Kyiv. His career began at large plants in Dnipropetrovsk rising all the way from a lab assistant at the Dnipropetrovsk Steelworks Institute and cold pipe cutter at Nyzhniodniprovsky Tube-Rolling Mill, to senior research assistant at the Research and Development Institute for Tube and Pipe Industry during 1981-1985.

### MAIN STRATEGY

*Mr. Pinchuk used favoritism, family connections at the top state level and power leverage to privatize highly liquid companies at knock-down prices and get official preferences during the implementation of his business projects.*

Mr. Pinchuk started his business in Dnipropetrovsk in 1990 with Interpipe, a research and investment group co-founded with Volodymyr Arshava, his first father-in-law and a friend of Pavlo Lazarenko, his own mother and wife. Before getting involved in intense steel trading, Interpipe had been a dealer for a gas company called Itera. For this purpose, Mr. Pinchuk set up Spivdruzhnist (The Commonwealth) corporation between Interpipe and Ms. Tymoshenko's KUB, an importer of Turkmen and Russian gas. After his commercial entities left the Commonwealth in 1995, Mr. Pinchuk switched to metallurgy, especially pipe production and selling, banks and the mass media. As a politician, Mr. Pinchuk first joined the People's Democratic Party (NDP) that was in power and supported the Labor Party later. His funding of individual projects, including the Team of the Winter Generation in 2002 and Viche (Assembly) in 2006 led by Valeriy Khoroshkovsky and Inna Bohoslovskaya, respectively, failed to meet expectations as none of the blocs crossed the 4% and 3% threshold in the parliamentary elections.

## PAVLO LAZARENKO

*Current assets: unknown*

**It is assumed that some of Mr. Lazarenko's assets are still in hands of the people loyal to him, linked to Gorky Agriculture Company OJSC, UkrAnt Consulting Ltd, Oranta Dnipro insurance company, Land Capital commercial bank and a group of mass media.**

Mr. Lazarenko was born in the Dnipropetrovsk Oblast on 23 January 1953 to a family of kolkhoz workers.

In 1984-1992, he was involved in party and administration work, mostly in the agricultural sector of the Oblast, then as Deputy Head of the Oblast Executive Committee.

In 1992-1995, Mr. Lazarenko was the Representative of the President in the Dnipropetrovsk Oblast and was appointed First Vice Premier in September 1995 staying in office until May 1996. From May 1996 till July 1997, Mr. Lazarenko was the Prime Minister of Ukraine.

People knew Mr. Lazarenko as a good manager during his years in the Dnipropetrovsk Oblast. After his short-term premiership, he was also known as one of the richest and most influential politicians in Ukraine who had an eye on the entire country, and a realistic rival to President Leonid Kuchma.

Most of Mr. Lazarenko's income supposedly came from supplying Russian gas to Ukrainian companies through Yulia Tymoshenko's United Energy Systems. He invested the funds into acquisitions or gaining control of companies and industries both in the Dnipropetrovsk Oblast, and all over Ukraine. Most

notably, he conducted a "business-war" for control of regional enterprises with Donetsk groups. Mr. Lazarenko himself used to say that he opened the door to big business for other Dnipropetrovsk-born tycoons including Viktor Pinchuk, Serhiy Tihipko and Ihor Koloimoisky.

Having resigned from the post of prime minister, Lazarenko headed The Yednist (Unity) parliamentary faction. In September 1997, he chaired the nationwide association Hromada (Community), established in 1994 by Oleksandr Turchynov, an ally of Ms. Tymoshenko; the latter became deputy head of Mr. Lazarenko's party. In 1998-2002, he was MP of the 3rd convocation and leader of the Community party that managed to cross the 4% threshold in the parliamentary election.

In February 1999, the Verkhovna Rada stripped Lazarenko of the immunity enjoyed by all members of parliament thus allowing the Prosecutor General to bring him to criminal liability. Later that same month, the one-time Prime Minister was arrested in New York airport carrying a fake Panamanian passport, attempting to enter USA illegally.

He asked the US government for a political asylum but instead of a warm welcome from the Americans, he faced a bouquet of charges, including the laundering of USD 280mn. The San Francisco court found him guilty of financial fraud in the amount of almost USD 5mn. In August 2006, Mr. Lazarenko was sentenced to nine years in jail and a fine of USD 10mn. He is currently trying to prove his innocence.



### MAIN STRATEGY

*Mr. Lazarenko used power leverage to get privileges for his companies.*





**MAIN STRATEGY**

*K7 used power leverage due to its members' close links to those in power to privatize highly liquid state-owned companies at knock-down prices; gain interest in profitable companies, especially oblast power supply enterprises; get tax benefits through joint ventures set up in the 1990s, and employ bill schemes in settlements with state-owned companies. K7's opponents and former business partners have informed the mass media about their businesses being grabbed out of their hands by group members.*

**K7**  
*Current assets: unknown*  
**The Kyiv Seven includes Viktor Medvedchuk, Valentyn Zhursky, Grygoriy and Ihor Surkis, Bohdan Hubsyky, Yuriy Karpenko and Yuriy Liakh who died in 2004**

This Kyiv-based FIG was supposedly set up back in 1989 by Valentyn Zhursky, a fairly powerful functionary in Soviet Ukraine and the Chairman of the Communist Party's Kyiv Executive Committee. Mr. Zhursky still chairs the Supervisory Boards at Dynamo Football Club CJSC, Slavutych financial and industrial concern and Ukrainian Credit Bank CJSC. K7's business background began in 1992 through offshore companies, such as Berly Management, New Port Management and Ometa 21st Century National Investment

Fund, a multi-profile joint stock company. Its branches included Ometa Trust, Ometa Invest, Ometa Inster and Ometa Private. These entities turned out to have other partners, such as Bohdan Hubsyky who used to be the Deputy Chairman of the Supervisory Board at Ometa Inster insurance firm with Grygoriy Surkis as Chairman of the Supervisory Board. Ometa founders included BIM, an international law firm set up by Ben Israel & Co law firm based in Haifa, Israel, as well as Viktor Medvedchuk, Grygoriy Surkis, Ihor Surkis, Valentyn Zhursky, Yuriy Karpenko, Bohdan Hubsyky and Yuriy Liakh - all K7 members. In 1992, the group's entities imported oil to Ukraine to sell it internally. In early 1993, Ometa 21st Century issued securities worth 400,000 karbovantsil with dividends reaching 1,000%. By the mid

1990s, nearly 12,000 people wanted to buy Ometa's shares. However, in 1995, the concern stopped paying out dividends. In 1994, K7's commercial entities set up Slavutych Industrial and Financial Concern, a closed joint stock company. The multi-profile company operated on the fuel, oil refining, grain, sugar, steel and other markets with Mr. Hubsyky as Chairman of the Board and Grygoriy Surkis as CEO. According to some sources, more than 2,000 major clients were buying oil products supplied by Slavutych in 1998. In 1997-1998, the company enjoyed VAT-free oil imports thus leaving a UAH 3bn shortfall in tax revenues in the state budget. The company was also granted a virtual monopoly to conduct settlement for Turkmen gas sold to Ukraine. As a result, Ukraine's gas debt increased by USD 243.6mn in 1994. K7's business grew and diversified. Slavutych Nafta, Slavutych Agro and Ukrainian Gas Complex CJSC began to develop individual profitable business lines, later joined by Dynamo Kyiv Football Club, headed by Grygoriy Surkis. Dynamo-Atlantic, a Ukrainian-American joint venture was also part of K7 with Ihor Surkis as a "supervisor" who managed the import and sales of huge shipments of alcohol and tobacco in Ukraine went through the company's books, duty-free. Although after the 1994 election, the newly-elected President Kuchma removed K7 from influence and power, it succeeded in returning closer to the country's administration in 1996, luring in the new president with its services. In 1998, K7 took the United Social Democratic Party of Ukraine under its control, thus guaranteeing its political protection.

<sup>1</sup>The Official currency in Ukraine during 1992-1996 preceding the hryvnia.

**ATTRIBUTES OF THE ERA**



All the materials are based on data from open sources

# 1998-2004



## The Failed Test

**Having consolidated power and gained control over resources, the oligarch-controlled regime in Ukraine faced systemic external pressure. The government only responded to some challenges from outside. If not for the Orange Revolution in 2004, Ukraine could have ended up under the complete external control of the Russian Federation**

- In 1998-2004, the government seemed to be “the most powerful ever,” said Viktor Medvedchuk, one of the major antagonists of the time. It was the era of a perfectly controlled parliamentary majority, large yet ineffective opposition, and a mass media dominated by the ideas imposed from above. Still, the oligarch system failed to use this resource to either develop the country or at least duly protect its interests and sovereignty.
- The first vulnerability of the system was corrupt scams for resource supply, privatization tenders or determining control over leading industrial plants. Under these circumstances, those who acted to please Russia got access to strategic enterprises and industries in Ukraine. Western investors did not rush to invest in an unpredictable and corrupt country thus offering zero counteraction to the promoters of Russian interests.
- Another weak point was human resources policy, based on favoritism and narrow corporate interests. Top government positions were ultimately held by people who not only worked to drag Ukraine into the Russian orbit, but also openly boasted about it.
- The third vulnerability was that the leaders of the oligarchic system lost contact with the people of its own country and sees no need for such contact. Even though they understood the true roots of the Kuchmagate cassette scandal rooted (from the very start, Leonid Kuchma himself spoke of the signs of the work of secret services, the origin of which he later named as being Russian), the Ukrainian government never did find the courage to start an honest dialogue with Ukrainian society. Instead, took the path of satisfying the Kremlin’s whims and at best, trying to soft-pedal them.
- Ultimately, the indicated “specific features” of the oligarch regime resulted in the state’s negative reputation in the world, thus limiting its maneuverability in responding to external threats and pursuing its own interests.



# The Wind from the East

The inability of the oligarch regime to withstand systemic pressure from abroad virtually led to the loss of sovereignty. It was only the response of society that saved the country

**V**ladimir Putin's ascent to power signaled the intent to reach his goal without selecting any tools. Russia's strategic documents clearly declared the revival of Russia's status as the leader in the region as the country's objective and listed somewhat harsh methods to reach that objective, from controlling transit and allocation of energy sources to aggressive information campaigns outside Russia. Ukraine was predictably in the spotlight of these plans. Moreover, 9/11 gave Russia and Western states a common ground in fighting terrorism, which causes many European politicians to think that Russia's value as an ally allows them to turn a blind eye to its violations of human rights and the imperialistic treatment of its neighbours. Especially, if these neighbours, particularly Ukraine, have themselves contributed to the confirmation of negative stereotypes about them.



## KUCHMA 2.0

In the late 1990s, Ukraine ended up with a classical partly oligarch, partly lumpen system. By mid-1999, 46.9% of Ukrainians found themselves on the verge of the poverty level. Against the background of Russia's financial crisis, Ukraine faced the risk of default, and this was not the result of its gross debt, but of its poor borrowing policy. In

2000, the sum of due debt repayment was equal to total budget revenues. However, the logic of the actions of the establishment was to open doors so that wealth would fall into the laps of their homeboys, ensure their immunity from responsibility and the overall suppression of competition in both business and politics. Strategically, this weakened the country to exter-

## Dangerous New World

**11 June 1998**

President Leonid Kuchma endorses Ukraine's EU Integration Strategy. It lists associated membership in the EU as the key foreign policy priority while becoming member-state of the EU is declared a strategic goal



**23 December 1998**

The Verkhovna Rada of Ukraine passes the Constitution of the Autonomous Crimean Republic putting Crimea under strict central control



**25 March 1999**

Viacheslav Chornovil dies in a car crash under circumstances that are a mystery to this day



**30 May 1999**

Kyiv elects a Mayor. Oleksandr Omelchenko wins the first round against Grygoriy Surkis, 76% against 16%



**24 August 1999**

The Kaniv Four is established, comprising Yevhen Marchuk, Oleksandr Moroz, Oleksandr Tkachenko and Volodymyr Oliynyk. They agree to nominate one candidate for the presidency. The candidate is Yevhen Marchuk, yet Mr. Moroz continues running in the campaign "on the demand of his party"



**Autumn 1999**

The presidential election campaign was noted for its "innovations", such as the concentration of economic and administrative leverages on the Social Security Fund, provocations using force, such as the assassination attempt on Natalia Vitrenko, and the involvement of Russian spin doctors. As a result, Leonid Kuchma and Communist Petro Symonenko make it to the second round. On 14 November 1999, Mr. Kuchma is elected for his second term as President

**1 January 1999**

Most EU countries switch to non-cash settlement in euro, with the putting into circulation of the common European currency scheduled for 1 January 2002



**12 March 1999**

Hungary, Poland and Czech Republic join NATO



**24 March 1999**

NATO launches the first air raid on Yugoslavia. The bombing lasts until 10 June



**9 August 1999**

Chechen fighters unexpectedly attack Dagestan. The Government of the Russian Federation resigns. The unknown Vladimir Putin is appointed Acting Prime Minister. On 16 August, parliament appoints him Prime Minister. Boris Yeltsin soon calls Mr. Putin his successor as Russia's President

**31 August 1999**

A bomb explodes in the Okhotnyi Riad (the Hunter's Row) underground shopping mall at Manezhnaya Ploshchad in Moscow, killing one woman and injuring 40 people



**4 September 1999**

Buildings begin to explode in Moscow and other Russian cities. During the period 4-16 September, nearly 300 people are killed and hundreds are injured. On 22 September, the Ryazan police find explosives in a local building. FSB claims this is a "training item." Explosions stop immediately thereafter.

PHOTO: OLEKSANDR CHEKEMENEV, UNIAN, UKRINFORM

nal influences. But, in the late 1990s, the government was more concerned with getting their president, Mr. Kuchma, re-elected, rather than the abovementioned problems. At that point, his rating was under 6%.

They used administrative leverage to ensure electoral support, forced public sector employees to vote “properly,” and made targeted handouts through a special Social Security fund, supposedly supervised by Oleksandr Volkov and the “bureaucratic” part of Mr. Kuchma’s circle.

The regime also took good care of protection by law enforcement agencies. The total number of employees at the Ministry of Internal Affairs was 434,000, exceeding that of the Armed Forces.

In 1998, the mass media faced huge pressure, particularly that of the opposition. Courts and force were used to achieve this, from multimillion court claims to the kidnapping and murder of journalists.

In 2002, “lists of topics” emerged in Ukraine, which became routine by 2003. Being a Russian invention, these were orders for the mass media about the issues they should cover. In fact, in the 1999 election and less so in the 1998 parliamentary election, spin doctors from Moscow began to work in Ukraine, supposedly invited by Viktor Pinchuk, Viktor Medvedchuk and Valeriy Khorosh-

kovsky, among others. Some of these spin doctors still work in the country. They were of little benefit to Mr. Kuchma, though. His victory was largely based on the failure of his opponents to provide a realistic alternative, hence the success of the “Kuchma vs Communist” scenario.

Yet, many looked to benefit from this triumph. There were several parallel campaign offices linked to the oligarchs close to Mr. Kuchma, and each tried to get a bite of victory. The common belief is that Viktor Pinchuk and Viktor Medvedchuk along with Hryhoriy Surkis from the so-called SDPU(o) (Social Democrat Party United) benefited the most from Mr. Kuchma’s victory. Each of them found a way to convince the President that they played a unique role in reaching the victory. For the most part, Pinchuk converted the President’s appreciation into business gains, while SDPU(o) aimed higher.

**‘YOU WILL SEE A NEW PRESIDENT’**

This quote from Leonid Kuchma’s speech in 1999 was supposed to signal the beginning of resolute moves.

In December 1999, the President did indeed make an unexpected move. He appointed Viktor Yushchenko, the then Governor of the NBU, as Prime Minister, and Yulia Tymoshenko as Vice

Prime Minister for the Fuel and Energy Complex. These types of appointments were typical of the counterbalancing system Mr. Kuchma used to keep forces within the establishment balanced. As soon as one oligarch group grew too strong, the President provided support to their rivals. Yushchenko was supposed to prevent default by negotiating debt restructuring, since the West trusted him. Ms. Tymoshenko was an expert in energy so her task was to get things in order in the field, where settlements for supplied energy were critically low, and possibly halt sector monopolization by the SDPU(o) group. On the whole, the govern-

**UNEQUAL DIALOGUE:** After Kuchmagate, at virtually every top-level meeting, the Russian party presented ever more demands and initiatives. Ukraine agreed to them



**22 December 1999**  
Viktor Yushchenko is appointed Premier while Yulia Tymoshenko becomes Vice Prime Minister for the Fuel and Energy Complex. The new government’s priority is to restructure foreign debt



**21 January 2000**  
A non-leftist majority is established in Ukraine. 255 MPs of all factions other than left-wing parties vote to replace VR Speaker Oleksandr Tkachuk with Ivan Pliushch at the Ukrainian House. Viktor Medvedchuk becomes First Deputy Speaker of the Verkhovna Rada



**March 2000**  
Russian-Ukrainian trade wars rage. The Russian Pipe Industry Fund initiates an antidumping investigation of Ukrainian pipe exports to Russia



**16 April 2000**  
The government arranges a referendum “initiated by the people.” It announces the participation of 81.5% of voters with an absolute majority supporting the idea of reducing the number of MPs from 450 to 300, restricting their immunity, introducing a second house of the parliament and expanding the list of grounds for impeaching parliament. However, these results are not implemented in Ukrainian legislation



**22 June 2000**  
The Government presents a draft law “On Electricity”. Energy market reform allows Ukraine to overcome barter schemes and raise the rate of settlement for electricity from 20-50% to 90%. The reform also abolishes more than 250 decrees granting unjustified privileges to certain enterprises and industries. The budget receives revenues to cover the debt in social benefits



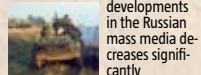
**16 September 2000**  
News surfaces of Georgiy Gongadze’s disappearance



**31 December 1999**  
Boris Yeltsin resigns pre-term from his post as President of the Russian Federation. Vladimir Putin becomes Acting President



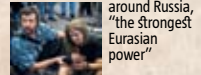
**29 February 2000**  
The federal army headquarters in Chechnya reports of taking all Chechen territory under control and “terminating the military phase of the anti-terrorist operation.” The coverage of Chechen developments in the Russian mass media decreases significantly



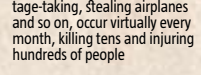
**26 March 2000**  
Russia holds a presidential election which is won by Vladimir Putin. He officially takes his post on 7 May 2000. On 17 May, Mikhail Kasianov, who is believed to be connected to oligarch Boris Berезovskiy, is appointed Prime Minister



**30 July 2000**  
The Foreign Policy Concept of the Russian Federation endorsed by Presidential Decree for the first time mentions the need to dominate its neighbours by creating “a belt of good neighbours” around Russia, “the strongest Eurasian power”



**8 August 2000**  
A terrorist attack in Moscow: a bomb explodes at the Pushkinskaya subway station, killing 13 people and injuring 100. Over 2000-2001, terrorist attacks including exploding bombs, hostage-taking, stealing airplanes and so on, occur virtually every month, killing tens and injuring hundreds of people



**12 August 2000**  
The Russian atomic submarine Kursk sinks during a training exercise. The entire crew dies





ment fulfilled the task. Moreover, the economy began to grow.

The fact that even relatively small changes for the better had a positive impact on the rules of the game, confirms the assumption that inefficient management based on an oligarch -controlled system remains Ukraine's biggest problem. Apparently, Mr. Kuchma realized this as his moves after winning the election were aimed at streamlining management to his vision of it.

In the first place, keeping the symbol of ineffective parliamenting, i.e. its left-wing leadership, no longer made any sense. Instead of looking for someone to blame the ongoing failures on, the reasons

for them should have been eliminated. For this, the Verkhovna Rada had to be loyal, i.e. "have a permanent majority" that would "carry joint responsibility together with the government", this is how the task was formulated by the Presidential Administration. The President failed to entrench this objective into legislation through the implementation of the results of the 2000 referendum to restrict parliament's powers, yet de facto gained control over the Verkhvna Rada. Vice Speaker Viktor Medvedchuk was supposedly in charge of the deal. He kept increasing his influence over the President, in part converting it into control of key industries. According to the information published in the media at that time, that was when the SDPU(o) group intensified its efforts to privatize oblast power supply companies. Control of such companies basically allowed the owners to dictate terms to both enterprises – energy consumers, and the state.

Sometimes, this led to sad curiosities, such as the case with the Kirovohrad and Kherson Oblast power supply companies controlled by a Slovakian investor linked to the SDPU(o) and Russian businessmen, simply refused to pay its debts to the energy market in 2003. Moreover, the leverages for such tricks ended up in the hands of people who openly

bragged about working to draw Ukraine closer to Russia.

**SPEED AND PRESSURE**

By the early 2000s, Russia saw the ultimate consolidation of Putin's regime. The Kremlin made its first attempts to get the establishment of the neighbouring countries under control to implement its project of re-integration on post-Soviet territory. Throughout 2000-2004, the Ukrainian government and the country itself encountered a series of blistering hits from the East, each taking advantage of the weak and corrupt nature of Ukrainian politicians.

On 16 September 2000, the world heard of the disappearance of journalist Georgiy Gongadze, followed by the shocking contents of the Melnychenko tapes, made public by Oleksandr Moroz on 28 November. Kuchma immediately announced that secret services were involved in the scandal but did not specify which service it was. His circle and the Russian media began to blame the deal on the West, implying that the scandal played into the hands of Premier Yushchenko. Yet Yushchenko, who never really wanted to go into politics, was not a strong enough player to have used the scandal for his own benefit. He was loyal to Mr. Kuchma going so far as to sign the letter rebuking the participants of the "Ukraine Without Kuchma" protest together



**28 November 2000**

Oleksandr Moroz reveals the Melnychenko tapes, mentioning, among other things, a possible contract for the murder of journalist Georgiy Gongadze



**14 December 2000**

Kyiv goes on an indefinite "Ukraine Without Kuchma" protest. On 27 December, the government disperses protesters on the pretext of the repair of the Maidan Nezalezhnosti (Independence Square). The protests continue until 9 September 2001, when the police and protesters clash in front of the Presidential Administration



**15 December 2000**

Chornobyl power station is finally closed



**15 January 2001**

Yulia Tymoshenko faces charges under three articles of the Criminal Code of Ukraine. On 16 January 2001, she is dismissed from the post of Vice Prime Minister to be put under arrested and sent to a temporary isolation cell in Lukianivska prison on 13 February

**26 April 2001**

Mr. Yushchenko's government is dissolved as a result of a no parliamentary confidence vote

**4 October 2001**

A Ukrainian missile accidentally hits a Siberia Airlines' Tu154 plane over the Black Sea, killing 78 people



**25 October 2001**

The Verkhovna Rada finally passes the new Land Code

**5 December 2001**

The first Ukrainian census finds that the Ukrainian population has shrunk from 52 to 48 million. The share of those who think of themselves as Ukrainians has grown 5% over ten years of independence



**31 March 2002**

Ukraine holds a mixed system parliamentary election. The government uses administrative leverage, manipulation and black PR. Yet, the pro-government Za Yedynu Ukrainu (For a United Ukraine) and SDPU(o) parties only gain 11.77% and 6.27% respectively. The Nasha Ukrayina (Our Ukraine) party gains the most votes by party lists ending up with 23.57%. However, by influencing MPs elected under the majority principle and taking advantage of the mistakes of Our Ukraine, the government sets up a loyal parliamentary majority

**October-December 2000**

The "Bulldozer" Revolution begins in Yugoslavia. The first "color" revolution in the region begins after the first round of the presidential election on 24 September as the opposition claims that their candidate Vojislav Kostunica has in fact gained more than 50% despite falsification by those in power. On 5 October, thousands of people gather for rallies in Belgrade forcing President Milosevic to resign on 6 October. The opposition coalition wins the December election. On 1 April 2001, Mr. Milosevic is arrested and extradited to the Hague Tribunal



**7 November 2000**

USA holds presidential elections. The winner is George W. Bush



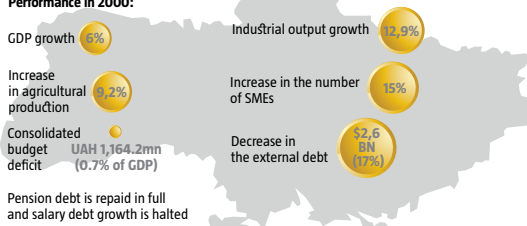
**11 September 2001**

The US experiences terrorist attacks. Terrorists steal four airplanes flying one into the Pentagon in Washington and two into the World Trade Center buildings in New York. Almost 3,000 people are killed. Russia's President immediately expresses support of Washington. On 7 October, the US and Antiterrorist Coalition countries embark on a military operation in Afghanistan

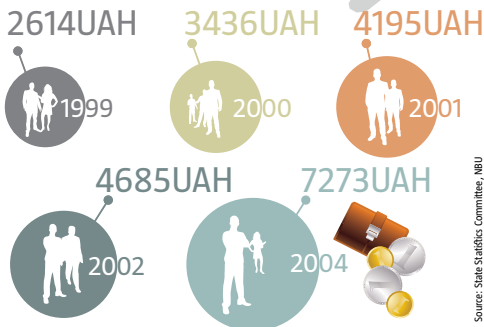


**REFORMS DO WORK**

Even the basic reforms implemented in 2000 had an immediate positive effect  
Performance in 2000:



**GDP PER CAPITA IN REAL PRICES**

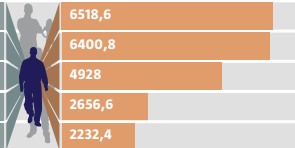


Source: State Statistics Committee, NBU

**AVERAGE MONTHLY SALARY, UAH**

1999	178
2000	230
2001	311
2002	376
2004	590

**SALARY DEBT, UAH MN**



**OFFICIAL HRYVNYA RATE, PER USD 100**

1999	413,04
2000	544,02
2001	537,21
2002	532,66
2004	531,92

with the President and Ivan Plushch, the VR Speaker, on 13 February 2001. Thus the West had neither the interest nor the capability to arrange it. Meanwhile, the outcome of Kuchmagate, i.e. the isolation of Ukraine's leadership from communication with world leaders, was perfectly in line with Moscow's expectations. After all, Mr. Kuchma has become more open recently, revealing that Major Melnychenko was linked to Russian secret services.

Meanwhile, Ukraine's collaboration with the West was hit again. Someone took the many hours long Melnychenko records to carefully select and disclose to American officials and investigative NGOs, such as the Center for Public Integrity, a conversation on the alleged potential sale of Kolchuha aircraft detection systems to Iraq. US and UK leaders were so furious that they even refused to sit next to Kuchma at the NATO Council meeting in November 2002. Relations between Ukraine and the West warmed up after President Kuchma's desperate efforts including the proposal to send Ukrainian peacekeepers to Iraq and passing of the Law "On the Fundamentals of National Security" on 19 June 2003 by 2/3 of MPs, declaring EU and NATO accession as Ukraine's goal. Medvedchuk who became Chief of Staff in June 2002 did everything possible to make any

mentions of NATO disappear from Ukraine's Military Doctrine thus remaining only a declared intent.

After all, Ukraine's multibillion gas debt allowed Russia to use the energy issue to gain control over Ukraine's gas transit system by means of establishing a consortium to manage the system. On 19 June 2001, Kuchma expressed his readiness to start negotiations on the privatization of the Ukrainian gas transit system with the participation of all interested parties, which included Ukraine, Russia and the EU, on a par basis. On 9 June 2002, a Statement "On Strategic Cooperation in the Gas Sphere" was signed. Among other things, the government had to draft a contract to create a consortium for running and developing the gas transit system with the subsequent involvement of the European party to upgrade the Ukrainian pipeline. Negotiations and the signing of technical documents lasted until 2004 but failed to bring the expected result.

The negotiations were accompanied by trade wars, with Russia implementing a slew of restrictions against Ukrainian trade items ranging all the way from large diameter pipes to caramel.

However, along with energy integration projects, Moscow was also offering political and economic ones. In February 2003, the establishment of a Single Eco-

**15 April 2002**  
News surfaces that Ukraine allegedly sold Kolchuha aircraft detection systems to Iraq. The scandal significantly strains relations with the US. The Kolchuha systems are not found in Iraq but Ukraine is forced to send a peacekeeping unit there to save its relations with Washington



**9 June 2002**  
Presidents Kuchma and Putin sign a Statement on Strategic Cooperation in the Gas Field, authorizing their governments to draft an agreement on the establishment of a consortium to run and develop the gas transit system "with the subsequent involvement of a European party". However, the subsequent negotiations come a dead end, as each country sees itself holding the controlling stake in the consortium



**27 July 2002**  
An airplane crash during the air show at Sknyliv military airfield in Lviv kills 77 people including 28 children



**21 November 2002**  
Viktor Yanukovich is appointed Prime Minister of Ukraine



**5 March 2003**  
The first draft "constitution reform" is presented and presented for "national discussion"

**19 June 2003**  
The majority in the Verkhovna Rada passes a Law "On the Principles of National Security" listing Ukraine's priorities as joining NATO and the EU



**August 2003**  
The new draft Constitution appears that will later be used as the basis for changes to the Basic Law on 8 December 2004. On 23 December 2003, parliament approves draft changes in the first reading but fails to do so in the second reading on April 2004, lacking six votes



**October 2002**  
The European Committee recommends the acceptance of ten countries into the EU, including Hungary, Cyprus, Lithuania, Latvia, Malta, Poland, Slovakia, Slovenia, the Czech Republic and Estonia



**23 October 2002**  
Terrorists take hostages at the Dubrovka theater in Moscow. On 26 October, a special police unit takes over the building. As a result, all terrorists die, as well as 117 hostages, of which 116 are poisoned by the gas used by the police



**4 February 2003**  
The Republic of Yugoslavia is replaced by the State Union of Serbia and Montenegro. Montenegro subsequently broke away 2006



conomic Space with Russia, Ukraine, Belarus and Kazakhstan was proposed. Kuchma, however, masked the position of Ukraine under the “in parts where it does not run counter to the Constitution of Ukraine” response, which in effect, defeated the purpose of the exercise. The response to the breakdown of strategically important initiatives was not long in coming. In September 2003, the Russians examined the speed and strength of Ukrainian and world reaction by attempting to artificially move the border near the island of Tuzla in the Azov Sea to their side.

While the Ukrainian leadership was struggling to avoid integration on Russian terms, the Presidential Administration, chaired by Viktor Medvedchuk, aided by ‘advisors’ from the Russian Federation, set about reviewing the constitutional model. Since President Kuchma refused to run for the third term, he could have been offered the premiership with expanded powers and the exercise real power. Yet, the draft reform was a double-edged sword. It offered a clearly non-viable system of interaction for government authorities including a conflict zone between the president and the government. This would have aggravated the administrative chaos in Ukraine and made it ever more vulnerable to external influence. Meanwhile, constitutional reform

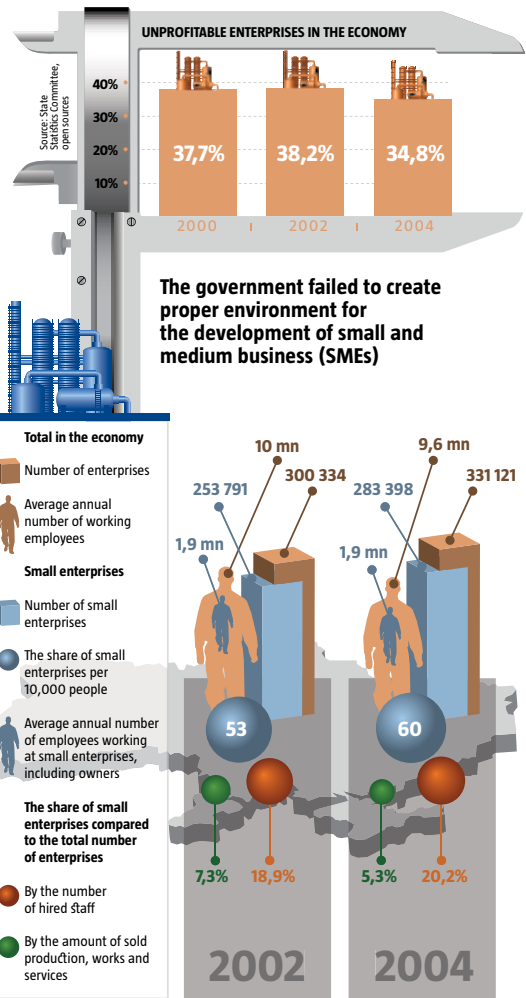
was being lobbied throughout the entire 2003 pre-election year. When it failed in April 2004, Kuchma’s circle had no room to maneuver for the promotion of a candidate of their own instead of Viktor Yanukovich. He became Premier in November 2002, most likely as a result of a combination of several factors. Firstly, Kuchma could have supported the Donetsk group as yet another counterbalance to the SDPU(o). Secondly, Premier Yanukovich’s past could easily be exploited by the Kremlin to increase pressure on Ukraine.

Although the reform was not implemented before the presidential campaign, it contributed towards the weakening of Ukraine. It was imposed on the winners of the repeated second round of the presidential election during the Orange Revolution, becoming one of the sources of conflict in Ukrainian government in 2006-2010 and leading to disenchantment in the Orange leadership and their subsequent defeat.

In actual fact, the Orange Revolution turned out to be the only chance to stop pressure from the East. It emerged that Kremlin leaders were not prepared for such developments and were obviously confused. For the first time in many years, developed countries expected positive changes from Ukraine. Ukrainian society had similar hopes. Unfortunately, this did not come to pass. ■

**DIDN'T GET AROUND TO IT**

Despite GDP growth, the disparities that prevented Ukraine from moving out of the poor country category were not overcome, but even aggravated



**September-October 2003**  
Russia and Ukraine get involved in a border conflict over the Kosa Tuzla Island. Russia begins to arbitrarily build a dam to join the island and the Russian shore thus changing control of the Kerch Channel. On 23 October 2003, after strong protests in Kyiv, Moscow halts construction 100 meters from the Ukrainian border post



**September 2004**  
Presidential candidate Viktor Yushchenko is poisoned with dioxin. The case is still under investigation



**31 October 2004**  
Ukraine holds the first round of the presidential election. Mr. Yushchenko gains 39.26% and his opponent Mr. Yanukovich ends up with 39.11%



**21 November 2004**  
The Central Election Committee announces the victory of Viktor Yanukovich on 24 November after the second round of the election, despite many violations witnessed by observers and exit poll results showing that Yushchenko is the winner



**21-22 November 2004**  
The Orange Revolution begins. Participants build a tent city at Maidan Nezalezhnosti and Khreshchatky, protesting against Yanukovich's illegal victory

**3 December 2004**  
The Supreme Court of Ukraine recognizes the invalidity of the result of the second round and sets 26 December as the date for repeated voting



**8 December 2004**  
Election legislation covering the key violation mechanisms is amended in exchange for limiting the powers of the President

**26 December 2004**  
The repeated second round proves Yushchenko's victory in the presidential election with 51.99% compared to Yanukovich's 44.21%

**23 January 2005**  
The inauguration of President Viktor Yushchenko



**2 November 2003 – 4 January 2004**  
The Rose Revolution in Georgia begins after the parliamentary election on 2 November as opposition leader Mikheil Saakashvili announces the victory of his party despite the officially declared result and demands a re-election. Georgians support his demand, attending rallies in their thousands. On 22 November, protesters take over parliament, which is trying to convene for its first session. President Shevardnadze resigns. Mr. Saakashvili gains more than 95% at the early presidential election on 4 January 2004

**14 March 2004**  
Russia holds a presidential election with Mr. Putin being re-elected for his second term in the President's office



**1 September 2004**  
Terrorists take hostages in a school in Beslan, North Ossetia, killing 330 of more than 1,100 people, including 186 children, and injuring more than 800 others

# The Energy (In)Security

Throughout all 20 years of the new history of Ukraine, schemes have been used for energy resource supplies, to the detriment of the country, but which made specific people much richer

**E**nergy security has never been a purely economic issue for Ukraine. On the one hand, the ill-balanced industrial structure with its dominating energy-guzzling production generates an extremely high demand for energy resources. On the other hand, Ukraine has been part of the geopolitical and geoeconomic distribution system of oil and gas flows ever since the USSR began to construct pipelines, seeking to win the largest share of the West European market during the Brezhnev era. Europe's energy dependence on the Soviet Union allowed it to use oil and gas leverage to exert political influence over the West. But it turned into a strategic defeat when plummeting fuel prices undermined the USSR's economy and speeded up its collapse.

Independent Ukraine could have used its portion of the soviet heritage for a geopolitical game of its own. Yet none of its leaders were able to think on such a scale. Instead, the country's leadership hurried to exploit the energy sector, specifically the transit of energy as a source of its own excess profit. Most of the richest Ukrainians earned their first billions in

the oil and gas industry. At the same time, the country is still ridiculously dependent on Russian oil and gas, reaching a level of 75-80%, extracting only 10-12% of the oil 20-25% of gas required on its own territory. The history of



**THERE WERE NOBODY TO THINK ABOUT ENERGY SAVING, DEVELOPMENT OF OWN RESERVES OR THE RECEIVING OF GAS FORM ALTERNATIVE SOURCES**

challenge in the 1970s and grew accustomed to it, introducing protection systems ranging from national reserves of energy supplies to the culture of energy efficiency. Future EU-member states followed the same path accepting high price as a given and in spite of them, managed to revive economic growth fairly quickly.

By contrast, Ukraine ended up in unfavorable circumstances during the early years of independence, which

the Ukrainian energy sector over the past decades is actually a sequence of alternating opaque scams.

## THE SHOCK AND THE MUDDY WATER

The increase of prices for Russian energy supplies came as a shock to all post-soviet economies mentioned in all publications about that time. Recollections of this became a mandatory attribute of materials from that time. The Western world survived the same

## ENERGY CONTROL

**At the end of the 1990s, the distribution of electrical energy was virtually controlled by one group. Total control over Ukraine's economy was only prevented by a conflict among the owners of oblast energy companies.**

### November, 1998

A group of off-shore companies, Court Holding, property of Konstantin Grigorishin from Russia, have accumulated majority interests in three and a considerable share of the stock of five energy firms, such as Sumy Oblenergo (58% of the statutory fund), Prykarpattia Oblenergo (59%), Chernihiv Oblenergo (51%), Kherson Oblenergo (25%), Kirovohrad Oblenergo (26%), Poltava Oblenergo (23%), Lviv Oblenergo (24%), and Ternopil Oblenergo (22%).

### 1999

Grigorishin bought 40% of the shares of the Poltava, Chernihiv, Sumy, Lviv, and Prykarpattia oblast energy companies; according to open sources, Grygoriy Surkis bought 35% in each. However, Surkis and Medvedchuk deny their involvement in oblenergo deals. Grigorishin's group also purchased from 1 to 40% of shares in 19 other energy companies, in an attempt to get a blocking stockholding and to influence the operation of these firms.

### February, 1999

Lviv, Poltava, Sumy and Prykarpattia oblenergos were incorporated as stockholders of Joint-Stock Commercial Bank Zeus (associated with the Surkis brothers).

### April 1999

Following the conclusions made by the Attorney General's office, President Leonid Kuchma commissioned the government to revise decisions concerning the transfer of the shares of Kirovohrad, Ternopil, and Kherson oblenergos to the control of Ukrainian Credit Bank (Grygoriy Surkis and Medvedchuk supposedly being its co-founders).



# Prosperity of Ukraine

hampered the making of strategically correct decisions. "Red directors" emerged as the most powerful lobbying group, since they were, in fact, running enterprises with the most excessive energy-consumption, thus suffered the most from the growing prices. With no reforms coming either from the government or the opposition, politicians replaced politics with the promotion of their own interests. This resulted in two trends that shaped the energy market in Ukraine for many years to come. Firstly, the supply of energy resources to large enterprises turned into one of the most profitable businesses. Secondly, this generated another type of business, i.e. services to red directors in the areas that were unattainable in soviet times, such as trade, financial transactions and so on. The intersection of these two trends offered great prosperity and virtually every oligarch of today was either directly involved in the energy supply trade or a patron of this business. The first half of the 1990s was characterized by the emergence of oil and fuel barons, gas monopolists and owners of oblast energy companies. Certain energy clans were established, that distributed quotas among themselves for received energy supplies and energy markets.

At that time, the Ukrainian gas sector was dominated by several powerful players. The first of them were the Respublika (The Republic) Corporation, headed by Ihor Bakai and In-

PHOTO: UNIAN

## May 1999

The Attorney General's office filed claims to the Higher Arbitration Court, demanding the annulment of sales agreements concerning the shares of Sumy, Chernihiv, Lviv, and Prykarpattia oblenergos, made in commercial tenders. The buyer companies refused not provide information concerning their experience in such operations and management in the energy sector.

## April 2001

The Slovak company Vychodoslovenske Energetické Zavody SP (observers pointed out its connections with Grygoriy Surkis and the Russian oligarch, Aleksandr Babakov) won tenders to buy 64 percent of the shares of Kherson, 51 percent of Kirovohrad, and 70 percent of Sevastopol oblenergos. The transaction totaled approximately a mere UAH 290mn.

## June 2002

Grigorishin and the SDPU(o) group split. Grigorishin cites his refusal to finance this political force as a reason, while observers believe that the real reason was the attempt takeover of Grigorishin's business by Surkis and Medvedchuk.

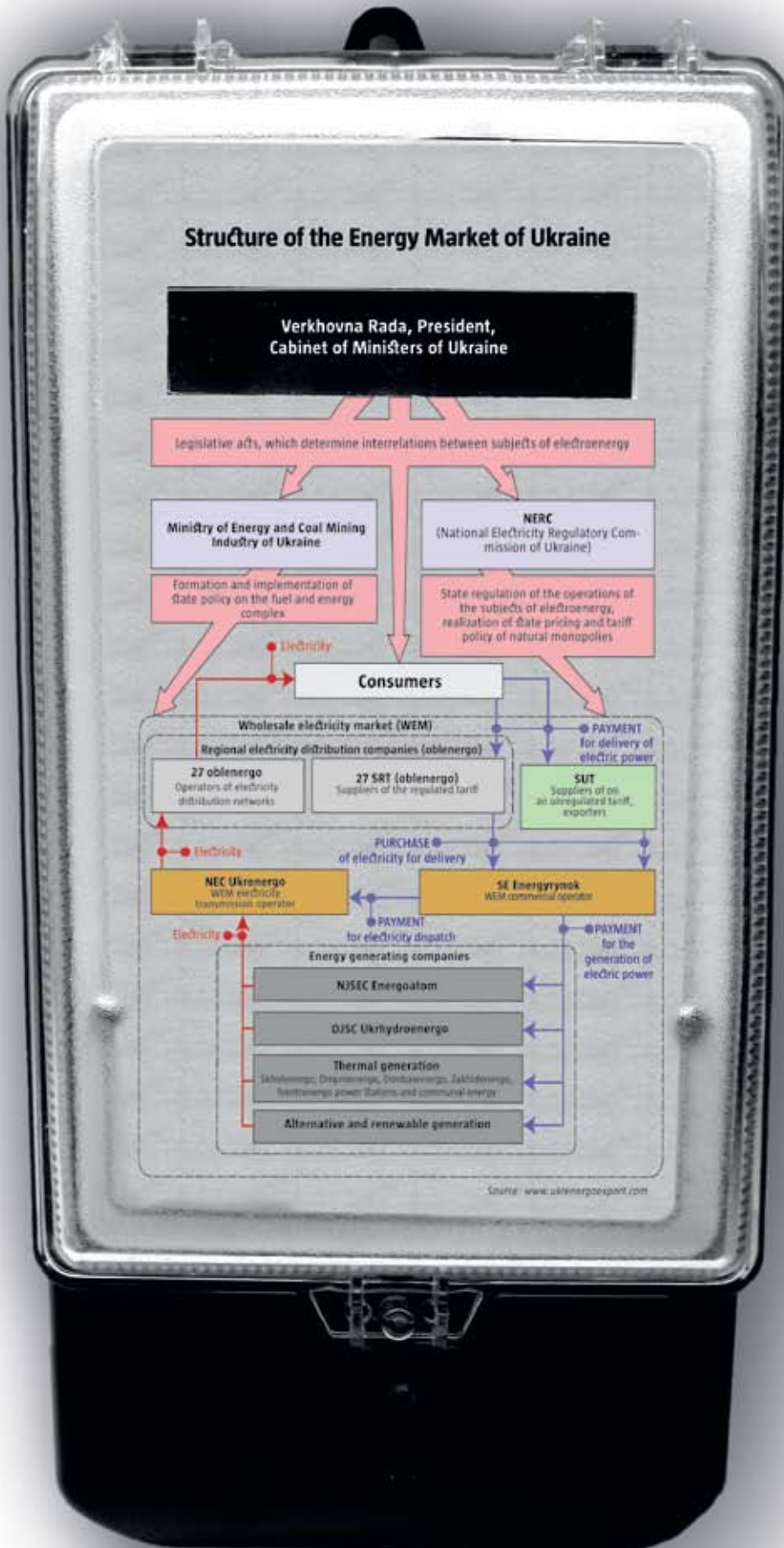
## October 2002

Grigorishin was detained by agents of Organized Crime Police Unit, only to be released later, due to "lack of evidence." He blamed his arrest on Grygoriy Surkis and Viktor Medvedchuk.

## November 2004

Grigorishin sold half of his shares (20%) in the Poltava, Chernihiv, Sumy, Lviv, and Prykarpattia oblenergos to Ihor Kolomoisky.

From open sources



tergas CJSC supported by Oleksandr Volkov, the then advisor to ex-president Leonid Kuchma. The Spivdruzhnist (Commonwealth) Corporation owned by the Tymoshenko family and Viktor Pinchuk was the second most powerful player on the market, and after the alliance collapsed, it turned into the PFK Single Energy Systems of Ukraine Ltd (YeESU). The third player was International Trade and Energy Resources Association (ITERA), a Russian-American corporation established in Florida in 1992. This was the most stable company and the one that Dmytro Firtash, who participated in barter schemes – gas in exchange for commodities, who at that was taking his first steps towards becoming an oligarch, chose to work with. Prior to this, Mr. Firtash used to do similar business with Mr. Bakai and for the most part, lived in Ashgabat until the early 1990s. In 1994, another player emerged called OL-gas, an industrial and financial company connected to Oleksiy Ishchenko, registered on 15 December 1994 in Kyiv as a closed joint stock company. Ukrasprom and RAO Gazprom owned 31% each of the company's shares, while the rest of shares were distributed between commercial OL-Bank and OIPetroleum System company, which is also a founder of the Russian-Ukrainian RUNO oil company based at the Lysychansk Oil Refinery.

When Pavlo Lazarenko was appointed Prime Minister in 1996, YeESU got powerful support and turned into a wholesale importer of Russian gas, supplying 9bn cubic metres of gas to nearly 70 companies in 7 oblasts. That was when the major war for gas unfolded. There was no-one to think about saving energy, developing Ukrainian gas resources or getting gas from alternative sources, other than Russian and Turkmenistan, which can only transit gas via Russian territory.

**TUG OF WAR**

The late 1990s to early 2000s saw the redistribution of the market, gas wars and tug of war by the strongest players. What is interesting, is that contacts in Russia were used to win back positions on the Ukrainian market. After a short period of being out of favour



with the new government, Ihor Bakai managed to sign a separate contract with Gazprom in 1995 determining his quota on the market.

In 1997, the political and economic climate changed abruptly as Mr. Kuchma changed his attitude towards Pavlo Lazarenko and his company. After Mr. Lazarenko's resignation, YeESU's rivals gained weight. Having refused to join the parliament, Mr. Bakai was appointed Chairman of the Board of Naftogaz of Ukraine National Joint Stock Company on 1 June 1998. The newly-appointed Naftogaz Chairman of the Board commented "The strongest one becomes the sheriff and puts things in order". In fact, though, someone sounding like Mykola Azarov on the Melnychenko tapes characterized Mr. Bakai's actions at Naftogaz as "dumb and stupid".

On 1 September, Mr. Bakai removed all existing intermediary traders from gas supplies. The only company left to fulfill the contract between Gazprom and the Ukrainian party was Naftogaz's subsidiary, the Gas of Ukraine Trading House. This decision hit Single Energy Systems of Ukraine and OLGas the hardest, leading to their decline. Moreover, the Russian Military Prosecutor initiated a case on abuse by YeESU when supplying gas to Russia's Defense Ministry at prices that were allegedly too high. The Tymoshenko family faced an investigation in Ukraine for smuggling currency and other things. But Ms. Tymoshenko hit back as soon as she became Vice Prime Minister for Energy, accusing Mr. Bakai of concealing Naftogaz's debt to Gazprom in the amount of USD 2.8bn. This

forced him to resign in March 2000. In addition, Ms. Tymoshenko approved legislation on the energy market to stop non-transparent barter schemes in the industry thus raising revenues from the power supply sector to the state budget.

### INTERNATIONAL SHADOW SCHEMES

In early 2001, Ms. Tymoshenko found herself behind bars and Yushchenko's Cabinet was dissolved in April. The only companies that got access to the gas market were only the ones linked to those in power. This was the time of secretive and opaque deals between the Ukrainian and Russian parties. As a result, some interstate intermediaries, such as Eural

to replace the intermediary with the no less mysterious RosUkrEnerg, which was set up in 2004. Gazprom owned 50% RosUkrEnerg, the remaining 50% being owned by a "Ukrainian party". It later emerged that the Ukrainian party was in fact Dmytro Firtash, a friend of Yuriy Boiko, the new CEO of Naftogaz, and the owner of Eural Trans Gas.

According to politicians from Yushchenko's circle, Mr. Firtash allegedly met with Mr. Yushchenko to discuss the preservation of RosUkrEnerg-based gas schemes in the heat of the Orange Revolution. To the surprise of many, the schemes were used after the Ukrainian-Russian gas conflict in early 2006 to supply gas from Russia and Turkmenistan. Essentially, this meant that to buy back-out the intermediary, the strategic energy relations of the country and huge cash flows that should have been channeled to the state budget, were given away. It was only possible to rid the market of RosUkrEnerg in 2009. At the same time, Ukraine ended up with one of the highest gas rates and lowest transit rates in Europe, accompanied by unequal liability terms. This was the outcome of the history of an energy dependent country where the government tried to cut gas prices using non-transparent schemes and gave temporary subsidies to the big business instead of providing predictable pricing, the systemic streamlining of energy consumption and searching for alternative fuel sources. This energy policy, or rather the lack thereof, weakened the country and made it more vulnerable to pressure and blackmailing from Russia. ■

## THE POWER SOUGHT TO REDUCE GAS PRICE USING NON-TRANSPARENT SCHEME

Trans Gas, and RosUkrEnerg, emerged on the market.

As Gazprom's management changed in 2001 and people from Mr. Putin's circle replaced the "long-time gas experts" in the company, ITERA was no longer an intermediary, supplying gas from Turkmenistan. It was replaced by Eural Trans Gas, registered in a small Hungarian town. Both Gazprom and Naftogaz claimed that it was a transitional entity which both companies would later acquire. However, when news surfaced about Eural's connections to criminal Semion Mogilevich, it caused an international scandal. Eventually, the companies decided

#### ATTRIBUTES OF THE ERA



# 2005-2011



## The Wasted Trust

The Ukrainian opposition, in its composition at the beginning of the 21st century, enjoyed support never seen before in the modern history of Ukraine and came to power thanks to massive public protests. Yet it failed to meet the nation's expectations. In spite of having plans to solve the most burning issues of society, the opposition never implemented them. Even the changes that were indeed made, failed to become irreversible.

The result of the 2010 presidential election was not so much a victory of those currently in power, but a defeat of the previous government that – for subjective or partly objective reasons - failed to meet its promises, rise above political and personal conflicts, and withstand temptations generated by power in a corrupt post-soviet country.

- The Orange leaders ended up with distorted priorities treating victory over their opponent partner as their top priority rather than the implementation of reforms declared during the campaign. To do so, they wasted the energy and efforts that could otherwise have been used to overcome corruption, restrict the influence of oligarchs, implement reforms and overcome resistance to reforms.
- The pursuit of “defeating (their partner) no matter what” pushed Orange politicians into unions with their ideological opponents and populist moves that undermined the economy, especially in the middle of the financial crisis, and aggravated the business environment.
- Internal squabbles also hampered resistance against external threats, including gas crises, trade wars and so on, and impeded European integration.
- After the revolution, its leaders virtually lost contact with the people. Parties continued to be the “fan clubs of their leaders”, as has always been the case in Ukraine, used as tools for bringing to power those who have the necessary resources, rather than as means to seek and support allies for reform in society.
- Meanwhile, social activists and NGOs failed to establish either an efficient partnership with the government or get it under their control.



# Revolution and Revival

The opposition failed to fulfill the task of society and eliminate the oligarch and lumpen system in the early 2000s. There is still hope for the emergence of a new counter-elite

Concerned about Poland's future after the left-wing party, essentially one-time communists, came to power in 1995, Adam Michnik labeled their comeback as the "velvet revival." Despite this, over the past five years, Poland and other Visegrád Group countries have experienced changes that made turning back impossible. By contrast, Ukraine's new government buckled down to "reviving" a comfortable soviet environment for themselves in 2010 passing new laws, changing its attitude towards journalists, grabbing and exploiting business to squeeze out as much profit as possible, flirting with the Kremlin whose goal is to gain control over Ukraine with the help of the Party of Regions, and trying to build some sort of multi-vector policy to abate the Kremlin's appetite where it overlaps with the personal business interests of those in power. Such a turn of events was virtually unpredictable at the beginning of the period analyzed below. However, it became the absolutely logi-

cal consequence of wasted opportunities by those whom millions of Ukrainians expected to finally turn Ukraine into a civilized country.

## HE WHO HAS MUCH WILL HAVE TO GIVE MUCH

In January 2005, it looked as if Ukrainians had finally managed to "get on the train to Europe," said a Belarusian opposition member. For the first time in the history of Ukraine, people looked into the future with optimism. According to surveys (by the Sociology Institute of the National Academy of Sciences hereinafter, unless indicated otherwise) in July 2004, only 17% of Ukrainians saw their social prospects in Ukraine compared to 70% who did not. In February 2005, 36% saw their future in Ukraine compared to 45% who saw it somewhere else. In August 2005, most Ukrainians thought of Ukraine as a truly independent state for the first time since 1991 with 49% vs. 37%.

President Viktor Yushchenko got a never before seen rating of

trust. In April 2005, 49% of those polled claimed they fully supported his policy and another 24% supported some of his moves. The cumulative share of his supporters reached 73% breaking all records in independent Ukraine. His team also enjoyed huge social support: 47% of those polled supported Ms. Tymoshenko's policy in April and another 25% supported some of her moves. Voting in the Verkhovna Rada showed how scared the one-time pro-Kuchma majority was, since virtually any proposal gained more than 300 votes in support. The first six months of the government being in power was the perfect time for virtually any changes. It implemented some, such as increasing maternity benefits and passed legislation on a single tariff network that entailed raising salaries regardless of positions, qualification and so on. The Stop Smuggling campaign increased revenues from customs duty. Also, the government passed a few more decisions that were helpful for the country. ▶

From the partnership to hatred

**VIKTOR YUSHCHENKO, 2005:**

"I trust her just like the millions of people do"

**2009:**

"Crisis sits on Hrushchovskoho str., on the 7th floor (which means in the office of prime-minister)"

**YULIA TYMOSHENKO, 2005:**

"Viktor Andriyovych Yushchenko is part of my team, which I love, I support and where I want to be."

**2008:**

"It is very pity that that man, I mean the president of the country, who I was standing behind on all the orange "Maidans"...decayed to such a level that it is embarrassing to mention his name."

## High Hopes Crushed

**24 January 2005**  
President Viktor Yushchenko appoints Yulia Tymoshenko Acting Prime Minister before his trip to Russia. Verkhovna Rada approves her as Premier on 4 February 2005



**21 February 2005**  
An EU-Ukraine Action Plan is signed. On 31 March, Ukraine introduces a visa-free regime for EU citizens



**11 March 2005**  
A new "Government and Business as Partners" format of cooperation between the government and business is launched. Based on their conclusions the President issues decrees on deregulation, accompanied by government resolutions. Reforms fade in the future as a result of conflicts between the President and the Government



**March-April 2005**  
The President begins to fulfill most of the social promises he made during his pre-election campaign, including the single tariff network, raised salaries, pensions and child birth benefits. Military service is cut to 12 months and Ukrainian troops are withdrawn from Iraq



**12 January 2005**  
European Parliament passes the EU Constitution but national referendums in some EU-member states, including France, do not support it



**March 2005**  
The Tulip Revolution in Kirgizia bringing in Kurmanbek Bakiyev to replace Askar Akayev's regime. The former is overthrown as a result of massive protests in spring 2005



**2 April 2005**  
Pope John Paul II dies



**August 2005**  
Hurricane Katrina hits the US causing the most damage in US history, hitting New Orleans the hardest



**Winter-Spring 2006**  
News surfaces of H5N1 bird flu spreading from Asia to Europe. Examinations show the panic is premature, but the speed of the virus spreading and the reaction of people remind us of how vulnerable humanity is in the face of possible pandemics

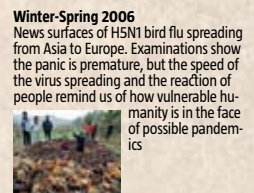
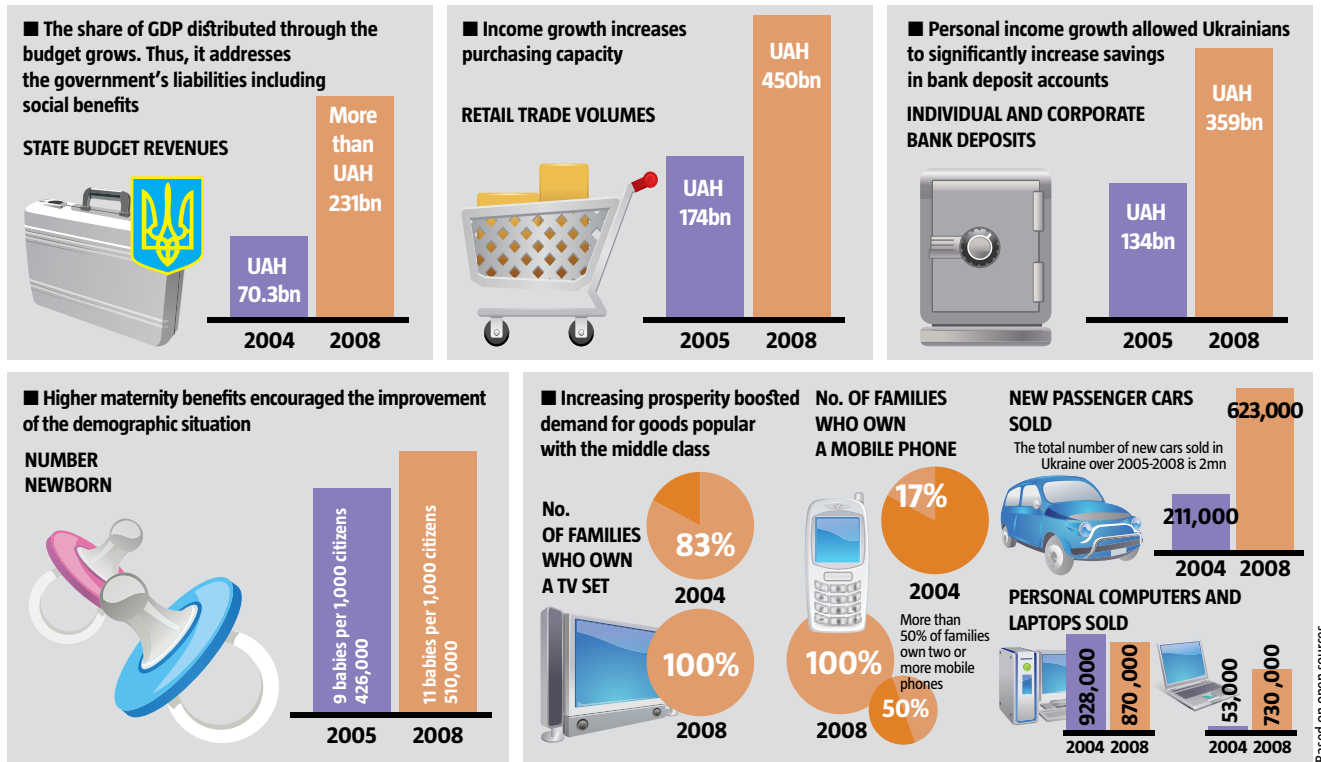


PHOTO: OLEKSANDR CHEKMEYEV, UNIAN, UKRAINFORM

# Pre-Crisis Improvement of the Quality of Life

Social reforms launched in 2005 boosted the purchasing capacity of Ukrainians. Pre-crisis 2008 indicators show considerable progress compared to 2005



However, the conflict between Mr. Yushchenko and Ms. Tymoshenko surfaced in spring. Later, the participants referred to it as “ideological, not personal” but eventually it led to the defeat of the entire Orange political campaign, the opposition of the early 2000s.

## THE CONFLICT THAT KILLED THE NATION'S HOPES

The conflict was multifaceted, becoming a reflection of virtually all the problems, leading to the sad conclusion that the Ukrainian elite of the early 2000s was not capable of responding to demands and expectations of the nation.

Firstly, the conflict of the powers of the Premier and the President infiltrated into the 2004 Constitution by Viktor Medvedchuk, the then Chief of Staff to President Kuchma, contributed to the collapse. This version of the Constitution came into effect on 1 January 2006 aggravating political opposi-

**April-May 2005**

Gasoline and sugar crises, that look like cartel conspiracies, hit Ukraine. The situation is dealt with within a month, but pushes Mr. Yushchenko and Ms. Tymoshenko to criticize each other in public for the first time



**16 June 2005**

The President, Prime Minister and the VR Speaker sign a Memorandum to Guarantee Ownership Rights and Ensure Legal Exercise Thereof, whereby Ukraine essentially abandons mass re-privatization



**8 September 2005**

The political crisis becomes public after the President's Chief of Staff, Oleksandr Zinchenko, resigns and gives a press-conference. Yushchenko dissolves Tymoshenko's Government and fires some people from his circle, who were accused of corruption by Zinchenko and Tymoshenko



**22 September 2005**

The President, the leader of the Party of Regions (PR) Viktor Yanukovich and Acting Prime Minister Yuriy Yekhanurov sign a Memorandum of Understanding between the government and the opposition. The PR votes in support of Mr. Yekhanurov's candidacy as Premier but uses the Memorandum as a "sign that the government has recognized their power" in PR campaigns



**3 June 2006**

Montenegro declares independence



**7 October 2006**

Russian journalist Anna Politkovskaya is assassinated



**30 December 2006**

Saddam Hussein is executed



**1 January 2007**

Bulgaria and Romania join the EU



**10 February 2007**

Vladimir Putin pronounces his Munich speech about resistance to the "unipolar world" and Russia's intent to implement the policy it believes necessary. "Mr. Putin has confirmed why NATO must expand," comments Karel Schwarzenberg, Foreign Affairs Minister of the Czech Republic





tion. The Constitution encouraged a premier who had his or her personal political ambition - which both Ms. Tymoshenko and Mr. Yanukovich, another Premier appointed by President Yushchenko, did - to consolidate economic leverage in their hands and de facto, head the executive branch.

Secondly, the entourage of both politicians played their part in the conflict. The President and the Premier blamed one another for business conflicts within their environment and degrading corruption scams. The fact that the conflicts were leaked to the public showed Ukrainians that the newly-elected politicians abided by something quite different from the laws they promised to the nation.

In fact, the way in which the political forces of both leaders were organized gave very little hope of institutional wisdom, i.e. the following of political reason at least, if not the commitment to election promises. The winning over of oligarch to their side, the inclusion of dubious individuals in their teams, the following of a strict hierarchy and the perception of parties exclusively as mechanisms for their own self-assertion - this was the legacy of the Kuchma-era that the Orange leaders were unable to transform. As a result, their circle often pursued their mercenary interests by playing on the Yushchenko-Tymoshenko conflict to get certain privileges. Similarly to the early

TOGETHER WE ARE MANY. Sincere impulses, a will for changes of orange Maidan is impossible to simulate on the "technological meetings"



1990s, people who were ready to share their energy, efforts and experience to help the government fulfill its Maidan commitments were often unheard and ignored. The leaders' teams had nothing to offer these people. One example was the "appeal to Ukrainians abroad" who would supposedly be invited to work at Mr. Yushchenko's Presidential Secretariat. Yet most of them never even got responses to their applications. Another example was BYT's projects, such as the Perfect Country initiative. It piqued the interest of experts, the middle class and local activists but faded after Ms. Tymoshenko presented yet an-

other brightly-wrapped populist toy, promising to pay back the debt to Savings Bank depositors known as 'Yulia's thousand', a professional army, the immediate annulment of mandatory military service and so on.

The third component of the conflict was the will of both parties to seek compromise with ideological opponents to beat their "cursed partners." The history of "compromises and betrayals for the sake of comfort" goes back to earlier times, when Ms. Tymoshenko met with Mr. Kuchma for a cup of tea before the ultimate destruction of Mr. Lazarenko, or part of Mr. Yushchen-

**24 October 2005**

93% of Kryvorizhstal shares are sold once again. Mittal Steel Germany GmbH pays USD 4.8bn, i.e. 2.4 times more than the starting price and 5.7 times more than the sum paid for the plant by Akhmetov and Pinchuk in 2004



**18 November 2005**

The Supreme Court of Ukraine cancels all criminal cases previously filed against Yulia Tymoshenko



**1 January 2006**

Amendments to the Constitution, restricting the powers of the president, come into effect



**4 January 2006**

Supervised by Yushchenko, a gas supply agreement is signed after a few weeks of conflict with Russia. Gas costs USD 95 per 1,000 cu m for Ukraine, as opposed to the USD 230 demanded by Gazprom. RosUkrEnerg becomes the gas supply intermediary. Msrs. Firtash and Fursin own 50% each of RosUkrEnerg



**26 March 2006**

A proportionate parliamentary election is held with a 3% threshold. The Orange BYT, Our Ukraine and Socialist Party gain 243 seats. On 6 July 2006, Oleksandr Moroz, the leader of the Socialist Party, switches to the opposition and joins the coalition of the Party of Regions and the Communist Party



**7 November 2007**

After five days of opposition protests in Georgia, President Saakashvili imposes a state of emergency and declares Russian interference in Georgia's internal affairs. Shortly after, Saakashvili wins a



convincing victory in an early presidential election

**10 December 2007**

Dmitri Medvedev is nominated as the presidential candidate from Yedinaya Rossiya (The Single Russia)



**21 December 2007**

Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Hungary and the Czech Republic join the Schengen Area

**23-27 January 2008**

The World Economic Forum in Davos states that the global economy is in financial crisis



**17 February 2008**

Kosovo declares independence



**2 March 2008**

Dmitri Medvedev is elected president of the Russian Federation. He appoints Mr. Putin Prime Minister shortly thereafter



ko's Our Ukraine party voted for the action plan of Premier Yanukovych, let alone the 'letter of the three' including President Kuchma, Premier Yushchenko and Speaker Plushch, against the participants of the Ukraine Without Kuchma protest campaign. The post-revolution flirting of Orange leaders with their opponents turned into the stairway leading the Party of Regions and their leader to power. The games included the Memorandum and Universal proposed by President Yushchenko to Mr. Yanukovych, hoping to bind him with promises which the latter broke without any qualms; Ms. Tymoshenko's party voting together with the Party of Regions to restrict the President's powers, as well as the preparation of amendments to the Constitution along with Mr. Yanukovych's team that would distribute power between the Party of Regions and BYT. All this merely reinforced the Party of Regions while weakening both Orange political forces.

The final component showed in the first months of 2005 when bright ideas of the election campaign were over and it was time to switch from PR to hard work that involved changing the economic and political systems. This was when the seamless operation was disrupted. The government embarked on populism, spending cash on things it could show to the voters as its achievement, ranging from social benefits to the reim-

**Self-esteem**

**OLEKSANDR MOROZ, 2007, ABOUT THE REELECTION**  
 "I WOULD NOT SAY THAT I AM SLOWPOKE"

bursment of Savings Bank deposits. The President got carried away with projects, the deadlines and cost of which raised eyebrows among journalists, politicians and voters, such as the Hospital of the Future, the Art Arsenal and so on.

Meanwhile, Ukrainians wanted the government to take care of social and legal issues. According to the Ukrainian Sociology Service as of October 2005, first and foremost, 50.2% of those polled expected the new government to stop price growth, followed by 28.8% wanting a tougher war on corruption and 25.3% expecting improvements in the quality of life.



**CADRE POLICY OF ORANGE VERY OFTEN RESEMBLED THE ANALOGUES FROM THE HISTORY OF THEIR PREDECESSORS**

The most certain way to guarantee growing prosperity and the elimination of corruption was to break the oligarch model of relations between society and the government and introduce a European system, based on supporting initiatives, investment and human development. Even tiny moves in this direction, similar to the ones Mr. Yushchenko's government had made back in 2000, including putting things in order in the energy sector and abolishing privileges for big business, and over the first months of 2005, including

simplified administrative procedures and cancelled unjustified tax privileges, had a palpable positive effect on the country. This proved that Ukraine was able to develop quickly if cleared of the oligarch-generated strains.

Curiously, on the eve of the establishment of their so-called democratic coalition, BYT and Our Ukraine had approved a specific and realistic action plan to move towards a civilized state that would have to be passed by the Verkhovna Rada and the Cabinet of Ministers. But they lacked political resolve for its implementation. To put it simply, the leaders lacked responsibility while party activists failed to be consistent and respect their commitments regardless of relations between the leaders' entourages.

Eventually, politicians lost their connection with society. Our Ukraine and BYT had to exist as environments for cooperation with the public, not as a mechanism to support their leaders. Alas, they failed to do this, since both parties barely differed from oligarch-controlled parties.

The public did not take long to respond. Compared to April 2005 surveys where 52% of Ukrainians thought the new government was better than the previous one, in August the number shrank to 37%. 9% of voters thought it was worse compared to the previous government in April increasing to 21% in August

**Today's norms of life**

**ANATOLIY BLYZNIUK, AT THAT TIME THE HEAD OF THE DONETSK REGION STATE ADMINISTRATION, 2011:**  
 "2,5 thousands UAH pro month provide a person with 100% biological norm of consumption"

**4 August 2006**  
 Viktor Yanukovych is appointed Prime Minister. On 3 August, Yushchenko initiates the signing of the Universal of National Unity by all parliamentary parties other than BYT, whereby the parties agree to implement economic reforms and make a European and Euro-Atlantic choice. Yanukovych violates the Universal in September 2006 claiming in Brussels



that Ukraine is not interested in joining NATO. In autumn 2007, the PR-led coalition fires all ministers from Our Ukraine

**January 2007**  
 PR and BYT amend the Law "On the Cabinet of Ministers of Ukraine", further restricting Yushchenko's power as President. With the cumulative 300 votes, they override the President's veto. Soon, however, the PR refuses to support the law on the opposition as demanded by BYT



**2 April 2007**  
 President Yushchenko issues a Decree to dissolve parliament after the PR-led coalition begins to lure opposition MPs to the coalition causing the threat of the emergence of a PR-controlled constitutional majority in parliament. Yanukovych and his allies do not recognize the Decree as legitimate. On 27 May, Yushchenko, Yanukovych and Moroz agree to hold early election as a result of the dissolution of parliament, with BYT and Our Ukraine MPs giving up their seats

**30 September 2007**  
 BYT and Our Ukraine-National Self-Defense win the early parliamentary election and the majority in the parliament by just two votes



**19 December 2007**  
 Tymoshenko's Government is established with 50/50 for BYT and Our Ukraine-National Self-Defense after a series of unsuccessful voting. Arseniy Yatseniuk is elected VR Speaker earlier



**July 2008**  
 Oil prices hit a record at USD 145 per barrel. The financial crisis knocks them down to USD 30 per barrel by December 2008



**8-11 August 2008**  
 The Russian-Georgian war unfolds. After the war, Abkhazia and South Osetia declare independence, which is immediately supported by the Russian Federation



**5 December 2008**  
 Moscow Patriarch Alexei II dies. Kirill Gundiyev is elected Patriarch in January 2009



**16 December 2008**  
 Barack Hussein Obama is officially elected President of the USA



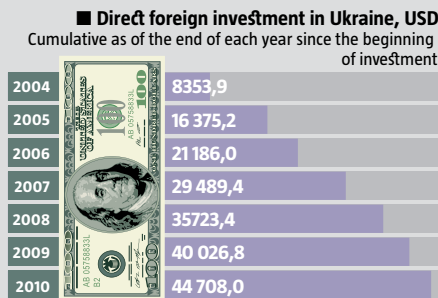
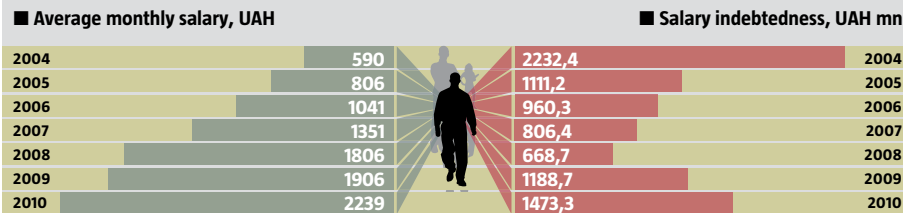
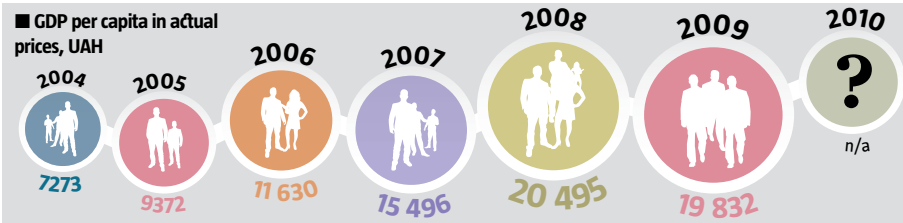
**April 2009**  
 The first news surfaces of the spread of H1N1 pig flu in the world



**1 April 2009**  
 Albania and Croatia join NATO



## IMPROVEMENT OF SOCIAL AND ECONOMIC INDICES



According to The State Committee of Statistics and NBU data

2005. The situation continued to worsen.

### THE EAST AND THE WEST ARE TOGETHER

From 2005 until early 2010, the spotlight was on the so-called split of Ukraine into the West and the East, yet another issue that various

sources are keeping a tight grip on. The split became one of the stereotypes of the perception of Ukraine although it is of a political rather than a social nature. Major diversities among regions exist in many European nations including Spain, Italy, and less so Germany or Poland. For the most part, skillful gov-

ernment policy, particularly the facilitation of the competition of all regions and their mutual integration, solves the problem.

Moreover, Ukrainians do not see the “splitting issues,” i.e. language, history and so on, as priority problems. According to a survey by the Democratic Initiatives Foundation and the Kyiv International Sociology Institute, conducted in April-May 2004, the majority of voters are most concerned about welfare (86%), criminal rate (49%), environment (36%) and morals (22%). The language and geopolitical issues, as the survey shows, are of less concern to people. Only 7% of Ukrainians are concerned about relations between the East and the West, and another 7% are worried about the use of the Russian language. According to the survey conducted by the Ukrainian Sociology Service in September-October 2005, only 10% of those polled were concerned about making Russian the second official language, making this priority 15th out of 19 alternative options.

Even with all the conflicts among politicians and regional stereotypes, Ukrainians would accept and understand the historical compromise formula used, among others, in Spain and Germany. According to the Razumkov Center, 51.6% of those polled, including slight regional variations, agree that they need to “come to terms with each other and think that nobody was

#### Winter-Spring 2008

Yushchenko and Tymoshenko actively accuse each other of corruption and acting to damage national interests



#### 2-4 April 2008

Despite the expectations, Ukraine is not proposed for joining the NATO Membership Action Plan at the expanded NATO summit in Bucharest. Among others, Germany and France speak out against this, under pressure from Russia



#### 25 May 2008

Kyiv holds early mayor and city council elections. Leonid Chernovetsky wins again due to the disunity of opposition candidates



#### August-September 2008



The conflict between Yushchenko and Tymoshenko intensifies. Yushchenko openly supports Georgia during the Georgian-Russian war while Tymoshenko is asking for an end to the conflict. BYT and PR vote jointly for a series of bills restricting the president's powers. Our Ukraine-National Self-Defense leaves the coalition that supports Tymoshenko's Government. Yushchenko issues a decree to dissolve parliament, but the latter refuses to implement it and fund an early election. A new coalition of BYT, Our Ukraine-National Self-Defense and the Bloc of Volodymyr Lytvyn is established with Mr. Lytvyn appointed VR Speaker

#### 7 April 2009

Protests in Moldova end the long-lasting rule of Communists, replaced by the opposition coalition



#### 1 December 2009

The Lisbon Treaty comes into effect



#### 1 January 2010

The Customs Union of Russia, Belarus and Kazakhstan comes into effect



#### April 2010

Sensational secret documents are posted on WikiLeaks

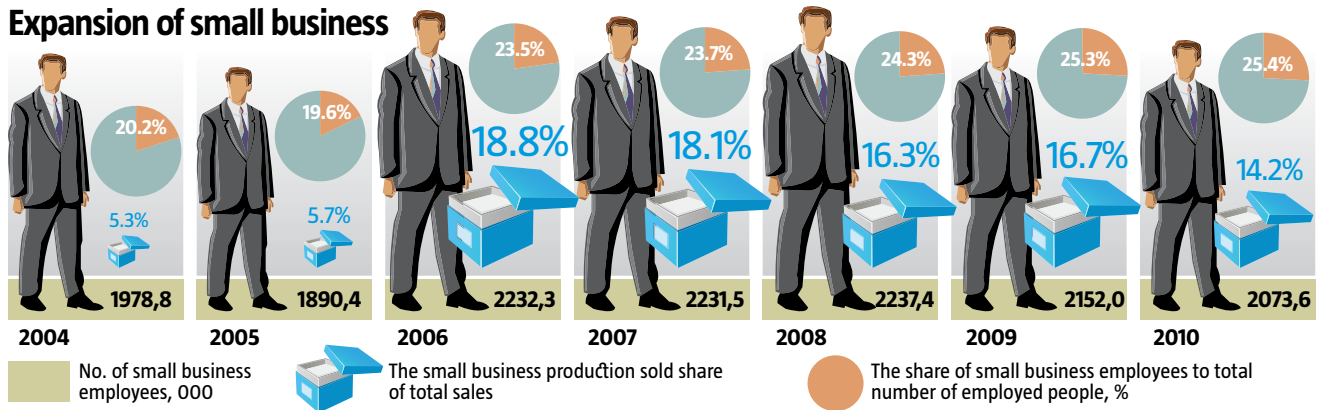


#### 20 April 2010

Oil spills in Gulf of Mexico, causing a large-scale catastrophe



## Expansion of small business



right or guilty” (in the wars and clashes that split Ukrainians). Only 29.7% believe that “the guilty should be punished, be it many years later.”

The “splitting issues” were rekindled artificially. In September 2004, Presidential candidate Yanukovich announced his intention to make Russian the second official language, introduce double citizenship with Russia and speculated on other issues which were supposed to increase his popularity due to the Russian-inclined voters. Obviously, this was the idea of his Russian spin doctors, who were involved in the campaign. With this, Mr. Yanukovich broke the long-standing moratorium on speculating on these issues in politics. The Party of Regions continued to speculate on these arguments until it came back to power in 2010. In 2006, when

the Party of Regions won the majority in Eastern and Southern local councils, it launched the “parade of regional languages,” with the councils declaring Russian the official language in their territories. The Prosecutor challenged these decisions, yet everyday speculation on the issues distracted both the councils and the public from solving really urgent local problems.

Notably, the “rocking of the boat” stopped almost immediately after Party of Regions came to power. As far as the status of the Russian language is concerned, there are more statements than action, while the provocations of pro-Russian organizations have been halted by law enforcement agencies.

Also, practice debunked yet another myth that brought about the revival of the white’n’blues, i.e. the

rumored collapse of relations with Russia. According to the Russian State Statistics Committee, trade flow between Ukraine and Russia grew from USD 20bn in 2005 to more than USD 35bn in 2008. Meanwhile, Ukrainian exports to Russia almost doubled going from nearly USD 7.5bn in 2005 to USD 15.7bn in the pre-crisis 2008. The subsequent fall, exploited by the Party of Regions resulted from the 2008-2009 crisis that hit both Ukraine and Russia, not the “destruction of traditional relations”.

### THE REVIVAL AND AN UNCERTAIN FUTURE

Once in power, the Party of Regions’ team set a goal of consolidating power and taking the country under control. It spent the first six months doing exactly this, including the establishment of a co-

#### Contra Rules

**VIKTOR YANUKOVYCH, BRUSSELS, 2006:**

“Ukraine’s government postpones the negotiations on Ukraine’s entry to NATO”

#### Unconscious breakthrough

**VIKTOR YANUKOVYCH, BRUSSELS, 2006:** “Ukraine is unfavorable to EU integration”

**December 2008 – January 2009**  
The second gas war starts between Ukraine and Russia. On 19 January 2009, Tymoshenko and Putin sign the current gas agreements. RosUkrEnergo is removed from the market. The gas it considers its own is withdrawn and the price for gas for the next ten years is supposed to be determined on the basis of a special formula. It turns out to be



one of the highest prices in Europe against a background of the lowest transit prices and asymmetric liability for incompliance with agreement terms

**May-June 2009**  
Yanukovich and Tymoshenko negotiate amendments to the Constitution, which are supposed to divide power in the country between BYT and PR. Ultimately, Yanukovich refuses to implement the agreements



**7 February 2010**  
Viktor Yanukovich wins the second round of the presidential election with 48.95% against Tymoshenko’s 45.47%. Crossovers help pro-PR forces in parliament to establish a majority that is loyal to the new President immediately after the election



**3 March 2010**  
Tymoshenko’s Government resigns. Mykola Azarov becomes Prime Minister. The Constitutional Court soon justifies the formation of a coalition on an individual basis although the same members of the Constitutional Court announced its unconstitutionality in 2008



**21 April 2010 poky**  
Presidents Yanukovich and Medvedev sign Kharkiv deals to extend the term for the location of Russia’s Black Sea Fleet in Sevastopol, Crimea for a further 25 years, in exchange for a discount in gas price to USD 100 per 1,000 cu m, without prior public discussion



**June-September 2010**  
Forest fires break out in Russia. Fire fighters fail to extinguish the fires in time due to inefficient forestry reform



**December 2010**  
Clashes occur at Manezhnaya Ploshchad in Moscow between people from the Caucasus and local citizens, provoked by Russian ultra-radical organizations



**19 December 2010**  
Belarus holds presidential elections. Mr. Lukashenko announces his victory with 79.67% of the vote. Opposition protests are violently crushed and leaders arrested



**1 January 2011**  
Estonia becomes the 17th member of the Eurozone



**24 January 2011**  
An explosion at Domodedovo airport in Moscow kills 36 people and injures 169





alition, making the Constitutional Court obedient, returning to the 1996 Constitution that brought the executive branch under the President's control, opening criminal cases against political opponents and testing mechanisms on local elections, which can be applied to guarantee a parliamentary majority that is loyal to the President after the 2012 parliamentary elections. Notably, the current government managed to present the reform plan in June 2010, within several months of getting its hands on the steering wheel, and this was done on the level of a series of slogans, not finalized documents. In practice, though, the reform slogans cover the mercenary interests of the groups in power. For instance, the so-called administrative reform put their representatives in various offices while the codification of tax laws made small business poorer and big business wealthier.

However, it would be unfair to say that the past five years have been a waste for society. The government has unexpectedly encountered a slew of troubles that would hardly have been there if they had won the 2004 election. Firstly, Ukrainians, being aware of their power, can organize resistance, as proven by the Tax Maidan, student protests and so on. Currently, these protests are individual and few, but they show a trend that is dangerous for the government,

proving that the Russian or Belarusian scenario won't work here. Secondly, reforms will eventually have to be implemented by those in power, not simply foisted onto society, and the logic of their actions will have to be explained. So far, this has been a drag for the government as every reform-oriented law is squeezed through under the victorious promises of the pro-PR blabbers but makes the situation worse for any group of society – this has a negative impact on ratings, bearing in mind the upcoming parliamentary campaign. Thirdly, the Russian Federation has turned out to be less friendly with the Party of Regions in power than in when it was in the opposition. The white'n'blues', protection of their own interests in foreign arenas has prevented the Kremlin from implementing its integration initiatives on the territory of the former Soviet Union.

2012, the year of parliamentary election and public response to yet another predictable attempt of the Party of Regions to ensure a loyal majority, will be decisive in many aspects. The first 18 months of the Party of Regions being in power have proved that it makes no sense to call on it to change – it will continue to act the way it is used to. Meanwhile, it is completely possible that Ukrainians will have their say and force the government to conduct the reforms that the country needs so badly. ■■

ATTRIBUTES OF THE ERA



23 June 2010

Anatolyi Makarenko, former Head of the State Customs Service, is arrested. He is accused of the illegal clearance of gas which RosUkrEnergo considers to be its own. Subsequently, more than 10 criminal cases are opened against members of the government and other officials of Tymoshenko's premiership



1 October 2010

The Constitutional Court rules that the 2004 Constitutional Reform is illegitimate, restoring the 1996 Constitution



31 October 2010

Ukraine holds local elections based on the new law, which provides for the return of the majority system for the election of 50% of Deputies and government control over the establishment and operation of election committees. As a result, the PR increases its presence in local councils



December 2010-April 2011

Ex-Premier Tymoshenko faces three criminal cases for the using funds received under the Kyoto Protocol for different purposes, purchasing ambulances and concluding gas deals with Russia on 19 January 2009. The government fails to convince the West and Ukrainians that the Tymoshenko case is not politically motivated



1 February 2011

The Verkhovna Rada amends the Constitution, postponing parliamentary elections to 2012 and presidential elections to spring 2015



February-March 2011

The Arab Spring unfolds, stirring protests in Tunisia, Egypt, Libya, Syria, and other countries. Tunisian and Egyptian rulers resign. Civil war begins in Libya.



Developments in Syria are also rapidly moving towards civil war

11 March 2011



A 9-point strong earthquake shakes Japan. It ruins Fukushima-1 nuclear power plant, resulting in the leak of radioactive materials

11 April 2011

A bomb explodes in a subway in Minsk, Belarus, killing 15 and injuring more than 200



2 May 2011



The US announces that Osama bin Laden has been killed

21 July 2011

The 30-year long US Space Shuttle programme comes to an end



# Tricky Balance

Only a force that relies on the middle class and a right-centrist ideology can pull Ukraine out of the oligarchs' vicious circle

**U**kraine has been a country of great potential for two decades now. Potentially, this is one of the most influential countries in its region; it has sufficient natural resources and is a leading player on key world markets (from agriculture to energy). It also has cutting-edge scientific research and plays the role of a powerful regional security factor. There is perhaps no need to list the human, natural and material resources which our country has and which give us hope that this optimistic picture may be real.

However, all this potential remains mere potential. Ukraine as a system lacks a fundamental success factor – effective cooperation between existing elements. The structure of governance, the organization of society and ways in which resources are distributed have led to an inefficient “oligarch” model: a handful of oligarchs make decisions and redistribute the national wealth, while most people are barely making both ends meet. The po-

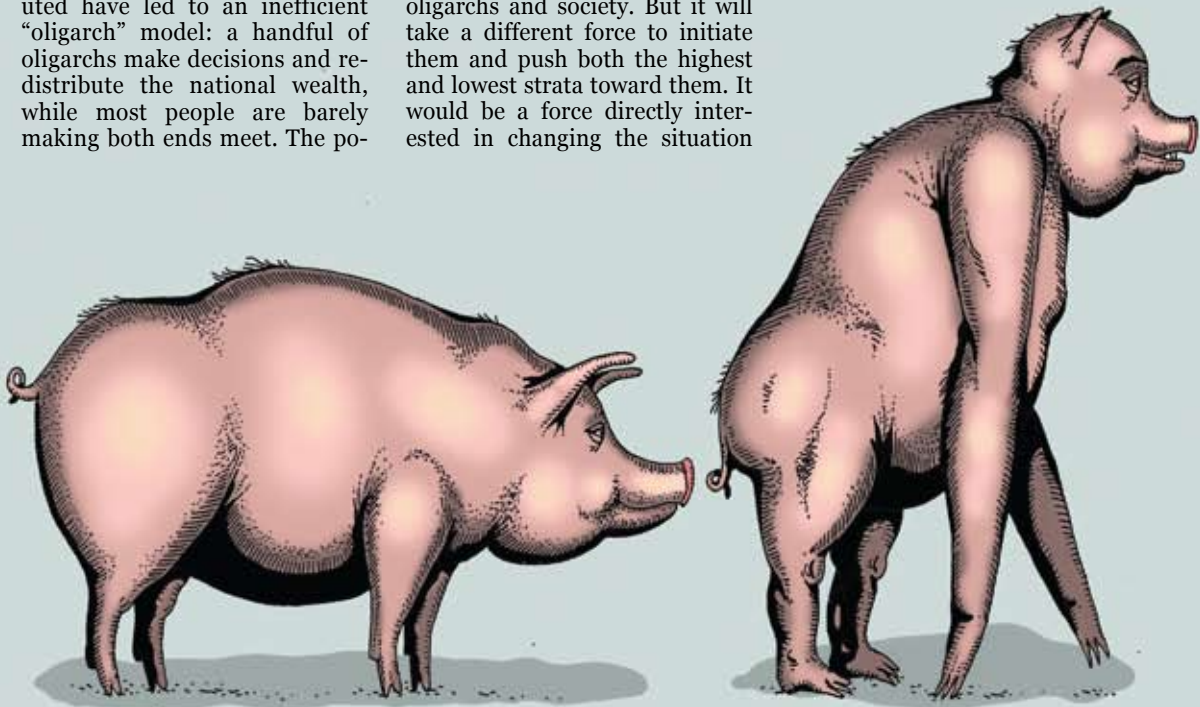
litical class is in cahoots with key oligarchs and has failed to offer the country a realistic strategy for a national breakthrough. Despite the accumulated protest potential, our society lacks an organizing force and an understanding of what the specific goal of transformation is or how to achieve it.

Consequently, the existing system may last for a long time – as long as it has enough resources or as long as oligarchs are able to withstand pressure from the outside without letting the country be swallowed by its neighbors. However, against the backdrop of a crisis both threats become very real and systemic changes will be needed for the country to continue being an independent player and exit stagnation. These changes will affect (moreover, require the involvement of) both oligarchs and society. But it will take a different force to initiate them and push both the highest and lowest strata toward them. It would be a force directly interested in changing the situation

and having resources to launch transformations.

## THE DARWINIAN MODEL

A society in which a group of oligarchs on the top monopolize resource distribution and crack down on the opposition (especially the organized opposition) and there is a large number of poor at the bottom who depend on the oligarchs and hope to obtain paltry scraps from them (while their attempts at self-organization are brutally repressed) is not a Ukrainian invention. This is a primitive social pyramid which emerges in communities where no force exerts a conscious and sufficiently persistent effort to establish a different state of affairs. This is how primitive tribes are organized. Similar pyramids





emerge among prisoners, army draftees or other people who find themselves in these types of situations.

Strikingly similar situations of “self-organization” in which the mind is turned off and primitive instincts rule can be found in the animal kingdom. For example, monkeys have a highly similar structure of “society”: they have their “oligarchs” and small fish who serve the former for a pittance. There are also average members – those whom the oligarchs keep in submission. Those who advance to the rank of oligarchs are not the smartest or even the strongest individuals – they are simply the most brazen, cunning and loudest.

The above system is primitive and stable in its primitiveness. Social sciences refer to this state as nonoptimal equilibrium. Lacking any powerful outside pressure or dramatic change of circumstances, this equilibrium may exist for a very long time. However, it has a fundamental flaw in that

it distributes resources in an utterly inefficient manner.

There is no shortage of signs that Ukraine’s current model is inefficient. The GDP per capita is about USD 7,000, which is near the bottom in Europe. On the UN human development index, Ukraine ranks 69 out of 169 countries. On the list of countries in terms of the conditions for operating a business as compiled by the World Bank, Ukraine ranks 145 out of 183, below all other European countries.

Around 7 million Ukrainians, approximately a fifth of the total population, are working as labor migrants abroad. According to surveys, over 46% of people are prepared to leave Ukraine in search of a job, while almost half of university graduates dream of finding a job outside the country. The flow of capital out of the country is an estimated USD 19

billion, which is nearly half of Ukraine’s annual budget.

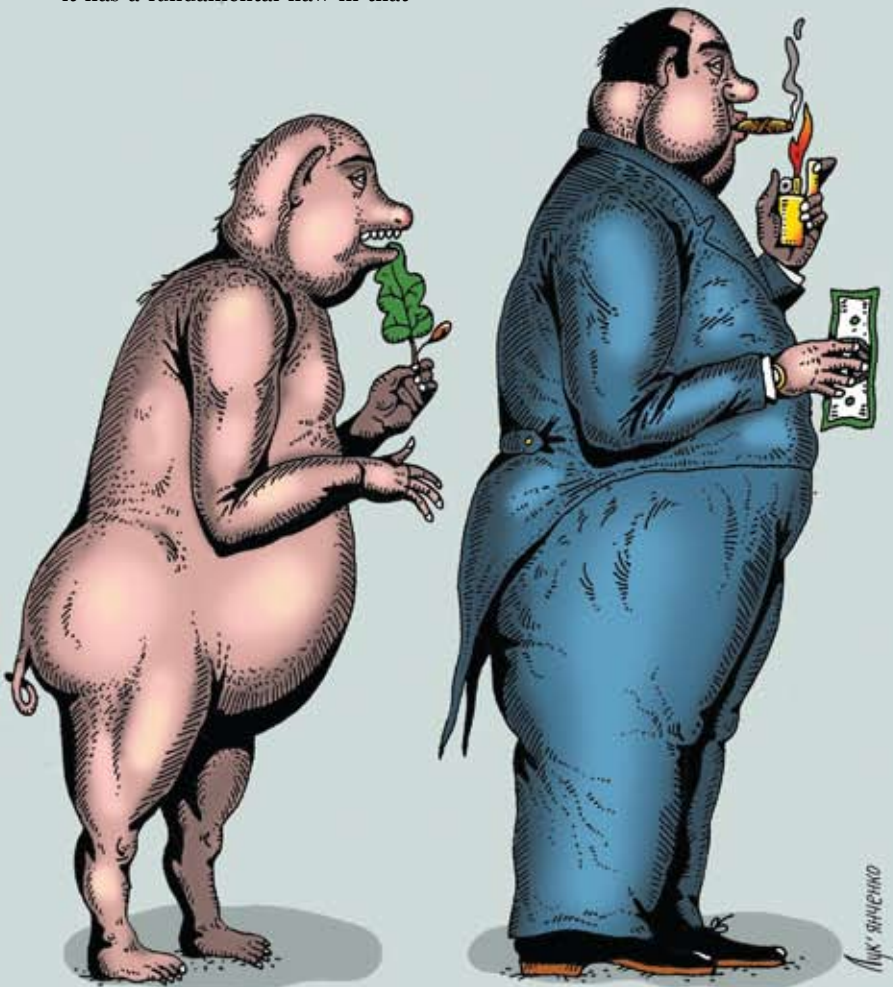
These sad statistics can be continued. The primitive, thoughtless model of society that has emerged in Ukraine is unable to secure progress and achieve the country’s potential. Moreover, it is even incapable of sustaining all its representatives on a minimally acceptable level. The oligarchy-centered economy simply lacks resources to this end. Fur-

## OVERCOMING THE PROBLEM OF OLIGARCHIC SOCIETY REQUIRES EFFORTS FROM THE SOCIAL CLASS THAT IS ON THE LOSING POSITION

thermore, oligarchs’ fear of losing their status is pushing them to clamp down on the sprouts of self-organization which would enable the society to figure out on its own the best way to provide for itself. There are good reasons to rank Ukraine as Europe’s least attractive country for doing business. Against this background, ruling party members sound especially cynical when they express outrage over people who, instead of “honestly” sweating here for peanuts at oligarchs’ enterprises, flee abroad to earn a living there or dare open their “own business.” Lurking behind these statements is a domineering baboon from the African savanna all worked up over a disobedient troop of monkeys.

### RETURNING TO THE HUMAN WAY

To overcome the problems of society’s primitive organization, the disadvantaged need to take action. There are two such groups. First, most people whom oligarchs have made dependent on their own good mercy and who are now on the verge of poverty. Left –wing parties and movements have traditionally pinned hopes of social transformation on them. However, they have proved almost everywhere their inability to resolve the problems they tackle. At its extreme – Marxist dictatorships (Bolshevism/Stalinism, Maoism, etc.) – this path led the led societies to an even deeper abyss: millions of victims of repressions ▶



and even worse backwardness. However, even in countries where the left evolved together with the community without questioning the foundations of the political order, they made a bad reputation for themselves. The noted scholar Robert Michels, who studied the way parties were constructed in modern societies, formulated the “iron law of oligarchy”: political forces, even on the left wing, which set the goal of overthrowing the oligarchic system turned into hierarchical structures themselves, while their leaders adopted the roles of their enemies. The only difference was the origin of their wealth: production, market domination or other economic activity vs. appropriations of contributions and donations for one’s benefit.

Organizations that defended the immediate interests of workers achieved greater results and eventually turned into trade unions and other such associations. They were even the core of a dominant British party and a powerful political force in continental Europe, one with which governments had to reckon. How-



ever, the reverse side of trade union growth is the quick spread of corruption among their leaders and their increasing distance from workers. In Ukraine this danger has materialized in full – the trade union movement can hardly play its natural role, because its leaders are members of the ruling party.

In these circumstances, the one stratum that suffers from oligarchs and still holds out hope is the middle class – people who can provide for themselves with their own business or qualified professional activity, own real estate, and ask the state for nothing more than the opportunity to freely develop their business.

People in this category profess values traditionally classified as right of center or conservative. Foremost among them are demands to be able to freely develop one’s own business in order to attract investments and create jobs. At the same time, this stratum is interested in having a strong state capable of laying down and defending the rules of the game. In comparison with big (and, all the more so, oligarchic) business, the middle class has far smaller resources, so it is the state’s natural ally in preserving its independence and keeping law and order. There is one condition though: the above conditions having to do with the business climate need to be met. But considering the advantage of development secured for the state by this stratum, the game is worth it.

Finally, it is the middle class that is most interested in stability, because it suffers the most from a crisis when one comes. Thus, traditional values, morality and civic rights and freedoms are a natural component of this class’s worldview and the foundation of a state capable of promoting these values.

Like any social group, the middle class needs political representation. Until now no party in Ukraine has been able to adequately formulate and, even less, realize in practice all of the above right-centrist demands for civilized development. Until a party of this kind emerges and comes to power, our country will have a primitive model with domineering oligarchs and a majority without a say. ■

## SOME OF THE THINGS THE PLATFORM OF AN EFFECTIVE UKRAINIAN CENTRIST PARTY SHOULD INCLUDE

### Support for Ukrainian values

- promoting the Ukrainian language, creating stimuli to spur the production of competitive Ukrainian cultural products and forming a unified information and cultural space;
- popularizing a truthful history of Ukraine in the world, including its culture and its European character.

### Stimulating small and medium business

- simplifying registration and permit-granting procedures and limiting the rights of tax and other controlling bodies that interfere with economic activity;
- creating market stimuli for small and medium business in all sectors geared toward competitiveness.

### Stimulating “demand for knowledge”

- channeling state investments and creating conditions to attract private investments in education, science and research;
- supporting (via targeted subsidies, tax breaks, etc.) science-intensive technology, inventions and cooperation between science, education and production.

### Removing oligarchs from power

- reforming the Antimonopoly Committee to make it independent of political influences and turn it into a leading mechanism in demonopolizing the economy;
- splitting up artificial monopolies, including cases when the concentration of power enables oligarchs to put economic and political pressure on the state;
- strict price and quality control for natural monopolies;
- expanding state and civic control over large-scale privatization and controlling investment commitments;
- reforming the electoral system – introducing open lists and making MPs responsible to their constituencies.

### Achieving equity of all subjects before the law and guaranteeing rights (including ownership rights)

- guaranteeing the transparency of the government’s purchases and investments and monitoring law enforcement;
- carrying out judicial reform: introducing a mechanism to make judges responsible and cross-monitoring in the judicial system; making all court decisions available to the public, etc.

### Increasing Ukraine’s economic independence and preparation for European integration

- a joint project with the EU to upgrade Ukraine’s gas transportation system according to the 2009 Brussels declaration
- realizing energy diversification projects;
- realizing a plan to force the adoption of energy-saving technology within several years; setting up a fund to support investments in energy savings; imposing fines for exceeding energy consumption limits;
- introducing European quality and technology standards.

### Increasing NGOs’ influence and the effectiveness of their leverage with the government

- fixing in law the mechanisms for NGOs to influence the government and the means to prevent “controlled civic society” from emerging in Ukraine;
- spelling out in laws the guarantees of interference-free investigative journalism.



# 20 Years of Balancing: What's Next?

The new elite must show the way to eliminating the oligarch-controlled model and discovering Ukraine's potential

**T**he model of society and the state that has emerged in Ukraine, better known as the oligarch and lumpen system based on the soviet Russian pattern is far from perfect. It significantly hampers the country's development and dooms most of its citizens to poverty. To break this vicious circle, the fundamentals of relations between society and the state must change radically.

## COMMON HERITAGE

Despite the fact that the Ukrainian economy was one of the most important elements of the USSR's economy, while Ukrainians reached top offices in the Soviet Union's establishment, these apparent benefits emerged as a weakness of the new country. Less than 30% of what was produced in Ukraine went to meet the needs of the consumer market. 95% of output was produced at plants under central soviet control, which were run directly by Moscow. The reforms implemented in the USSR brought extra powers to the directors of enterprises. Meanwhile, they gained no experience of selling their products in a competitive market and continued to enjoy administrative protection. This environment produced a class of "red directors" who could dictate their rules to the country's leadership and affect key appointments. At the same time, they preserved features typical of soviet directors, such as the lack of strategic thinking and the pursuit of their own personal benefit here and now.

The emergence of red directors and later the oligarchs, though, was not a result of the distorted economy and uncontrolled personal enrichment alone. No less important was the government that had no vision of the goal and mechanisms of transformation. Nor did it take any moves to encourage the public to search for a way out. Thus, the Ukrainian leadership did not opt for early election, which could have created the basis for the consolidation of political parties and at least some

formal arrangement of ideas into comprehensive programmes.

It made little sense to expect those in power to take steps they were not inclined to, such as holding an election that could lead to a change of power, or implementing reforms that would undermine opportunities for quick and uncontrolled personal enrichment. There was nobody in the post-soviet Ukraine that could force them to do this. The opposition, in the form that it was in at that time, was unable to offer a realistic transformation action plan, although there were plenty of projects. Nor was it possible to firmly ask those in power for answers. Later, they would say "those were hard times" to justify themselves. Nor could the opposition organize all those who were willing to help, including people capable of thinking systematically and acting consistently, nor could it duly support sporadic protests, such as miners' strikes or the students' granite revolution, and use these protests as a basis for pressuring the regime. The opposition proved to be cut off from its social foundation – millions of Ukrainians craving change. Perhaps, a more consistent and capable counter-elite may not have been able to emerge at that time in Ukraine, where the best people were chosen to reinforce the USSR's establishment, where memories of the Holodomor (forced famine) were still vibrant, and the conscience of the nation – the intelligentsia – was either killed or forced to serve the regime.

## STRENGTH AND FRAILTY

From then on, the new structure of Ukrainian society was shaped by sporadic factors leading to the establishment of the oligarch-controlled lumpen model. The leadership ends up being composed of "dominants", i.e. winners in a war with their own kind, surrounded by groups of retainers. At the bottom – the destitute "mass of people", forced to work at the enterprises of the dominating oligarchs for a sal-

ary that meets their "biological needs" as oligarchs and their friends like to express themselves. The mass of people have no chance whatsoever for ownership, proper reward for their work or opportunities to freely open and develop their own business. Any expectations from the state are in vain. In fact, a special feature of the Russian-Soviet type of the oligarch system is the intergrowth of oligarchs with the state and their interdependence. The mass of people, in turn, can hope for certain handouts. In this case, populism – namely promises, privileges, and anti-market actions such as pressure on business and so on, is the reverse side of the oligarch system helping those in power to gain votes in elections.

Such a system consolidates opportunities to manage the resources



**WITHOUT A RENEWAL OF THE ELITE, THE COUNTRY WILL EXHAUST ITS OPPORTUNITIES FOR DEVELOPMENT AND WILL BECOME A "RESOURCE APPENDAGE" FOR ITS NEIGHBOURS**

of the country and determine its key policies in the hands of a very narrow circle. However, the power in protecting the interests of those at the top reverts into a weakness in both domestic policy and the international arena. The state moves from one crisis to another facilitated by the ruthless exploiting of some industries and markets. Inflation, default and stagnation are frequently used words to denote processes in oligarchies. The showcase impunity of those in power alienates society and undermines the legitimacy of both the government, and the state. At the same time, the rigid administrative system, total corruption and poor image in the world make the country vulnerable to foreign influences. Ukraine has had a plenty of examples, socio-political and economic ▶



crises, as well as interference from Russia, whereby it barely escaped the loss of its sovereignty.

Fortunately, unlike the Russian model, Ukraine's is much more competitive, allowing several centers of influence. It has never depended solely on the resolve of the head of state. Also, Ukrainian society is not made up of the "mass of people" alone. The 2004 Orange Revolution demonstrated the ability of society to protect its rights effectively. But the success of such moves largely depends on the quality of the counter-elite they bring to power. The developments of 2005-2010 proved that the hope to leap over the abyss has not come to pass. The "elite" still has to catch up with society in terms of its progress.

### "BOURGEOIS NATIONALISM"

The need for a new elite has been debated from day one of independence. The question is where and how it can emerge. Some hopes are linked to competitive relations within the establishment. But going into opposition is an extreme step that most leading players are incapable of taking, particularly in the current situation. Moreover, what unites current groups in power is no more significant than that which separates them. Competition will be a good foundation for breaking down the governing monolith, but it needs an additional impulse. Given the quality of

life in Ukraine, this impulse could come from social protests similar to those that took place in Latin America, Bulgaria or Romania. But Ukraine lacks the forces that could help the organization of such protest. Trade unions are in a pitiful state, while a party that is concerned with the interests of the people simply does not exist. So if any social explosion was to occur, it would only be caused by the government itself, by reducing people to extreme poverty and despair. And even if this should happen, the question remains as to who will be able to replace the current establishment.

Meanwhile, without changing its elite, the country will exhaust its opportunities for development turning into a resource addendum for its neighbours, leading to consequences clearly demonstrated in Belarus. The country needs both "people of action", capable of specific actions, including protests, protection of rights and resistance to arbitrariness, and "people of thought", i.e. the intellectual elite, capable of showing the way to changes. The Tax Maidan, student protests and local protests show that Ukraine has the people of action but they are uncoordinated and justifiably do not trust politicians, therefore are not always able to organize interaction and ensure a positive result for their campaigns. However, without a well-thought plan of further action plan risks the recurrence of post-Or-

**WE WON'T GO HOME, UNTIL WE ADOPT A CONSTITUTION.** In the history of the well-developed countries were moments when elite united to create new rules of the game to be followed by everyone

ange Revolution problems, where the establishment has no critical mass of change-oriented people and the country will once again witness a lost opportunity.

The history of Central European states shows a way that looks natural and acceptable for Ukraine. Modernization in those countries has shown "bourgeois nationalism" in action with representatives of "national" movements, harbingers of change and intellectuals capable of creating a transformation plan, using the middle class as a foundation while the latter was developing and was ready to protect its rights, interests and profits in the manner that intellectuals searched for and found. Without the support of the middle class and small and medium business, no environment, capable of developing an efficient action plan for the country can be created. Neither the state, nor grant foundations will be able to replace national business, since their goals and scope are too different. Meanwhile, without realizing its real interests and opportunities to protect these interests, business will have to play a losing game of "compromise" with oligarchs, which is becoming ever more ruthless. This union has proved efficient for Ukraine's neighbours and will surely work for Ukraine, unless understanding of this and unification of the business and intellectual worlds does not come too late. ■



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