

# Ukraine: after the “Orange Revolution,” power returns to the oligarchs

Patrick Richter, Andy Niklaus  
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Nine months after the so-called “Orange Revolution” in Ukraine, its two leading figures have been plunged into mutual recriminations of corruption. On September 8, President Victor Yushchenko sacked the government of his erstwhile comrade in arms, Julia Timoshenko.

Nothing now remains of the Orange Revolution’s claims to stand for “democracy,” “liberty” and “against corruption.” The transfer of power at the beginning of the year—cheered on by the Western media and substantially supported by the US—has proved nothing more than a struggle for power within the ruling elite. For the mass of the population, Julia Timoshenko’s government meant rising inflation and rapidly sinking living standards.

Now, step by step, the levers of power are returning to the old oligarchs against whom the revolution was supposedly directed. Yushchenko has reconciled himself with his opponents of yesteryear and is now following the same foreign policy course as his predecessor Leonid Kuchma, moving closer to Russia. He now advocates Kuchma’s famous “see-saw policy,” whose pendulum has presently swung far to the east.

The narrow layer of oligarchs developed immediately after the collapse of the Soviet Union, acquiring the lion’s share of the former state enterprises. Due to the close, historically developed ties linking Ukrainian and Russian industry, Ukraine’s foreign policy was strongly oriented towards Russia. The Orange Revolution was supposed to deprive the oligarchs of power and create a new section of capitalists who orientated towards the foreign policy of the US, so establishing a powerful geopolitical player against Russia.

The US government has been the main loser in recent developments and could only with difficulty hide its disappointment over the failure of last year’s intervention. In a telephone call immediately after Timoshenko’s sacking, President George W. Bush urged Yushchenko “to stick to the principles of the movement” to which he “owed” his position. In particular, Bush said, he should keep his promise to “have no truck with the excesses of the past.”

Condoleezza Rice declared that what is being witnessed in the ex-Soviet republic is not unusual in the case of fledgling democracies. At worst, these are supposed to be teething problems that can be overcome with the right kind of political will. The Bush administration has promised that the president can count on its “very strong support” for the building of democracy in Ukraine.

After Timoshenko’s dismissal, President Yushchenko formed a pact with Victor Yanukovich, the man who had opposed him during the Orange Revolution, in order that parliament could confirm the appointment of Yuri Yechanurov as prime minister on September 22. Yechanurov’s election had previously failed by a narrow margin after Timoshenko’s “Fatherland” party had voted against him.

Yanukovich represents the interests of the Donetsk oligarchs, who are headed by Ukraine’s richest man Renat Achmetov. They control significant coal mining interests in eastern Ukraine, and maintain close relations with Russia. After his election, Yechanurov announced that his

success showed that “the east” of the country was now reconciled with “the west,” the centre of the Orange Revolution.

Among other things, the nonaggression treaty with Yanukovich’s “Party of the Regions” means that his supporters will no longer be persecuted politically and that there will be no further reprivatisations—i.e., the reversal of privatisations to the detriment of the oligarchs in favour of new owners.

There was widespread indignation concerning the guarantee that there would be no prosecutions for electoral fraud arising from last year’s presidential elections. This is what had ignited last year’s protests, finally leading to fresh elections and Yushchenko’s victory.

Moreover, it was agreed that the Party of the Regions would appoint the deputy prime minister and that Julia Timoshenko’s former confidantes would not be given any government offices. Yushchenko has thus brought back into the government the representatives of Ukraine’s two main oligarch clans—from Dnipropetrovsk and Donetsk—and is acting completely in the tradition of his predecessor, Leonid Kuchma.

Yechanurov, the new prime minister, is a close trusted friend of former president Kuchma, who served from 1994 to 2004. He acts as a contact between Yushchenko and the Dnipropetrovsk oligarch clan under the leadership of Kuchma’s son-in-law, Victor Pinchuk.

From 1994 to 1997, Yechanurov headed the privatisation of Ukraine’s former state enterprises. He is held responsible for many of the shady transactions that were carried out at the time when he created a number of oligarchs. He then became economics minister and in 1999 was appointed as deputy to Yushchenko, who was prime minister until 2001. After Yushchenko’s ousting as prime minister he was a parliamentary deputy in Yushchenko’s party “Our Ukraine.” In April this year, Yushchenko appointed him governor of the region around the most important Ukrainian industrial city Dnipropetrovsk.

Timoshenko’s sacking on September 8, after only seven months in office, was the peak of a fierce dispute over attitudes towards the oligarchs and to Russia. In the end, it took the form of increasingly ferocious recriminations about corruption, which threatened to plunge the whole regime into the abyss and inadvertently displayed the mentality of the old and new ruling powers; the egoistic interests of the different factions of the capitalist elite. Policies to overcome the social disaster that confronts the majority of the population, and promises which were cynically made during the Orange Revolution last year, no longer receive even a passing mention.

Timoshenko had taken the first initiative this summer, accusing those in Yushchenko’s immediate circle of corruption, in a bid to stop his rapprochement with the oligarchs and Russia. A veritable mudslinging match ensued.

Timoshenko opened the offensive in mid-June. One of her most important supporters, Alexandra Urchin, the head of the domestic secret service (SBU), threatened to launch an investigation into the gas company RosUkrEnergo, headed by a favourite of Yushchenko’s, Petro

Poroshenko, chief of the National Security Council. The accusation was that Eural Trans Gas, the organisation that had preceded RosUkrEnergo, had lost “over 1 billion US dollars” in business transactions between Russia’s Gazprom and Ukraine’s Naftohaz.

Timoshenko called RosUkrEnergo a “criminal enterprise” and warn unnamed confidantes of Yushchenko “not to replace the old schemes of the Kuchma government with new ones.” She accused the head of RosUkrEnergo of refusing to tell the government why the firm was “beyond the control of cabinet ministers.”

Following these pronouncements, Russian military prosecutors renewed an old arrest warrant against Timoshenko, although Interpol had only just dropped any further investigation of the accusations raised against her. Yushchenko also intervened and, according to Timoshenko, banned her from further interfering in the gas industry.

At the beginning of August, the SBU searched the business premises of Naftohaz and initiated criminal proceedings, the future of which is still unclear. Whereupon, Security Council head Poroshenko openly declared war on Timoshenko. He claimed the “SBU was itself a danger to the security of the state” and needed major revamping. According to Timoshenko, she was sacked by Yushchenko because she would not agree to the dismissal of SBU chief Turchinov.

For their part, Yushchenko and Poroshenko raised counteraccusations against Timoshenko. In reprivatizing the Nikopol Ferroalloy plant, she was supposed to have favoured the Private Bank, one of Ukraine’s most influential banks, and one of her most important supporters. Yushchenko accused her of exerting enormous pressure on the judges who had to decide on the reprivatization.

Timoshenko then turned the tables, accusing Poroshenko of trying to prevent the reprivatization in the interest of the owner of the steel plant, Kuchma’s son-in-law Viktor Pinchuk. In return, he had been promised the rights to a television channel. Pinchuk had bought the Nikopol Ferroalloy plant in 2003 for \$80 million, although according to Timoshenko it was worth over \$1 billion.

Ironically, the judges decided two days after Timoshenko’s sacking in favour of the reprivatization.

On September 1 and 2 the dispute escalated further. A close advisor to Timoshenko declared publicly: “There is nothing but corruption around Yushchenko.” The head of the presidential administration, Olexandr Sinchenko, cited the same grounds for his own resignation.

On September 8, Deputy Prime Minister Mykola Tomenko tendered his resignation just hours before the dismissal of Tymoshenko’s cabinet, saying that he did not want “to share responsibility with those people who have created a system of corruption.” Tomenko added that Poroshenko had created a parallel, “oligarchic” cabinet in Ukraine, obstructing the work of the lawful one.

After the sacking, Yushchenko continued to deepen the rift with Timoshenko. He accused her of exploiting her office in order to wipe out the debts of her previous energy business. She had previously headed “United Energy Systems,” allegedly leaving €1.2 billion in debts, which were wiped out in a February court decision. In the meantime, the state attorney has contested this judgement and announced he is reviving proceedings against Timoshenko, for which she had already faced custody in remand in 2000.

For her part, Timoshenko launched a new broadside, obviously in tandem with the Russian oligarch Boris Beresovski, who now lives in voluntary exile in London. Beresovski, who is presently at loggerheads with the Kremlin, implied he had supported Yushchenko financially in last year’s election campaign. Since foreign election campaign assistance is illegal in Ukraine, this could lead to impeachment proceedings against Yushchenko. Leonid Kravchuk, president before Kuchma, estimated Beresovski’s campaign donations at \$15 million.

The bitter mudslinging between representatives of the nouveaux riches

and various departments in the state apparatus is not over political principles—even less does it involve matters of liberty and democracy. It is a battle for influence and property, and related foreign policy orientations.

The factions around Yushchenko/Poroshenko and Timoshenko/Sinchenko represent different groups of interests, whose real shape is now being revealed in the present struggle for power.

Timoshenko/Sinchenko, the most radical opponents of Kuchma’s oligarch regime, represent a layer of the new social climbers, ex-oligarchs and entrepreneurs who want to get their hands on the property of the established oligarchs in the name of a “new beginning” and “fair market conditions.” In foreign policy matters, they endorse unconditional support for Washington. In their efforts to break open the former Soviet sphere of influence, they stand with Poland, Georgia and the Baltic states of Lithuania, Latvia and Estonia.

Timoshenko was once the richest woman in Ukraine. As a supporter of Pavel Lazarenko, who rose to be prime minister in 1998, she established her own energy empire, thereby crossing swords with then-president Leonid Kuchma and his son-in-law, the oligarch Viktor Pinchuk. She fell into disgrace and faced the danger of sharing the fate of Lazarenko, who had fled to the US and is now in jail for money laundering. Timoshenko was arrested in 2000 and held in custody in Kiev for six weeks. She was able to buy her freedom by disposing of large sections of her energy interests.

Yushchenko/Poroshenko represent a wing of the established oligarchs who want to loosen traditional links with Russia in order to strengthen their business relations with Western capital, but who generally proceed more carefully. They fear that too close a link with Russia means they will fall behind the international competition, aiming to retain the existing distribution of property while seeking the integration of Ukraine into the European Union, the World Trade Organization and NATO. Like the Eastern European countries or China, they want to become the champions and partners for massive foreign investments in the regions of the former Soviet Union and to take the leadership in breaking open these markets even further.

Yushchenko proved himself as an attorney of the oligarchs. As a central bank chief of many years and prime minister in 2001, he managed many crises, such as the 1996 introduction of a new currency, the grivna, and the 1998 collapse of the rouble. Poroshenko is a minor oligarch who owns a food company and the independent Channel 5 television station. He played an important role in bringing down Kuchma and, as head of the National Security and Defence Council after the Orange Revolution, formed a sort of shadow government.

Last year, the efforts to detach Ukraine from Russian influence united the Yushchenko and Timoshenko factions. More recently, growing Russian influence has driven them apart; the reason being the changed international situation.

On the one side, their most important ally, the US, is suffering an ever-deeper domestic and foreign policy crisis: the growing debacle in Iraq and in Afghanistan and the disaster of New Orleans have seriously damaged the authority and credibility of the Bush administration. On the other side, following the failed referendum in France on the European Union constitution, Brussels is no longer able to offer Ukraine a perspective for joining the EU. Instead, given the present uncertainties on the international energy markets, the EU, under the leadership of Germany and France, is relying on establishing closer ties with Russia.

Above all, the recently signed agreement on building a gas pipeline through the Baltic Sea, directly linking the German and central European gas network with Russia, is seen as an affront in the traditional gas/oil transit countries of Ukraine, Poland and the Baltic states. These countries had energetically supported the Orange Revolution in Ukraine and are seeking a similar “revolution” in Belarus.

In Uzbekistan also, hopes for a pro-American revolution have shrunk

since the ruler there, Islam Karimov, bloodily suppressed demonstrations against his regime this spring, seeking closer links with Moscow. He withdrew from the anti-Russian GUUAM alliance, comprising Georgia, Ukraine, Azerbaijan and Moldavia, complementing US troops that are stationed in Uzbekistan.

This changed situation has increased the relative weight of Russia and the established oligarchs, driving a wedge between the new elite in Kiev. This finally broke apart at its most vulnerable point—the question of what to do about the property of the established oligarchs.

The Orange Revolution, which mobilized the masses under the slogans “against election fraud and corruption” and “for liberty,” had also attacked the oligarchs and thus, at least indirectly, criticised the theft of former Soviet state-owned enterprises.

Immediately after the formation of the Timoshenko government in February 2005, this subject became the main point at issue with President Yushchenko. While Timoshenko wanted to reprivatise some 3,000 of roughly 20,000 former state enterprises that had been effectively stolen, Yushchenko insisted that only 30 enterprises be subject to scrutiny in an extremely complicated legal procedure.

Because both factions were not prepared to compromise, this question increasingly became a point of bitter dispute. With support from Moscow, the oligarchs began to put mounting pressure on the Timoshenko government.

One of the most important questions became the arrangements for energy supplies from Russia, on which Ukraine relies heavily. Timoshenko provoked a renegotiation of gas and oil deliveries, introducing an import tariff on Russian oil and drastically raising the transit charges for Russian gas bound for Europe.

The Russian oil producers, who control a major share of the Ukrainian petroleum market, reacted by drastically cutting supplies. They instigated “scheduled repairs” in their refineries; soon, long queues had formed outside Ukrainian petrol stations. Yushchenko intervened on the side of the Russian oil companies and duped Timoshenko, forcing her to make a public apology.

An intervention by Yushchenko also prevented a similar crisis in the gas industry. Russia had threatened to raise the price of its gas to the level of world prices, more than trebling the purchase price. In the course of negotiations, the US had rejected Ukrainian plans to make itself more independent of Russia by seeking gas supplies from Iran.

Similar crises developed on the food market, where the oligarchs reacted to Timoshenko’s plan to curb the smuggling of goods into the country by cutting the supply of meat and sugar, so that the prices of these products rose by at least a third, stoking up anger in the general population.

In view of these crises, which threatened to get out of control and which halved economic growth from 12 to under 6 percent, the pressure on Kiev grew from international business circles not to drive the reprivatisations too far.

The *Wall Street Journal* warned on June 30: “If Ukraine wants to attract foreign capital and claim first spot in the Western club of free market democracies, President Victor Yushchenko and his government would be wise to steer clear of the Russian model,” (meaning the expropriation of the oil billionaire Mikhail Khodorkovsky).

Jean Lemierre, president of the European Bank for Reconstruction and Development, said that if the Ukrainian government did not rein in Timoshenko’s list of candidates for reprivatisation, “they’d have no political credibility.... They should take the most obvious cases, but shouldn’t have too long a [reprivatization] list.”

In June, Yushchenko spoke openly on this question: “Only the most scandalous privatisations would be investigated and all other entrepreneurs should be given a guarantee that their enterprises are safe.” There should be “no fear provoked among the international investors” and “international investors should not be frightened off.”

In this way, Yushchenko sought to assure international capital that there was no danger to its existing business relations with the oligarchs—the present owners of the former Soviet state enterprises. Such fears had led to a crisis in relations with Russia, when, in a struggle for power, the Kremlin ensured that the oligarch Mikhail Khodorkovsky, at the time Russia’s richest man, was condemned to eight years hard labour and was relieved of several of his billions.

The fear is that any discussion of the oligarchs’ criminal appropriation of former Soviet state property might unleash forces that could no longer be restrained, placing in question the private ownership of the means of production.

The political crisis in Ukraine has peeled away the gloss of the Orange Revolution. It has revealed a regime that is not concerned with the interests of ordinary working people. In the last year, public sentiments were exploited simply to benefit one section of the ruling elite at the expense of another.

For working people, nothing at all has changed since the “revolution.” The social crisis has continued to intensify. Modest wage increases in the public sector have been eaten up by price increases, and the situation of pensioners and the health service continues to worsen. These problems can only be resolved through the socialist control of social wealth by the population, and not by replacement of one capitalist faction by another.

As one worker so appropriately summed up the Orange Revolution at the end of last year: “It is a struggle between millionaires and billionaires.”



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