Russian Economic Footprint in Ukraine

Since the annexation of Crimea and the beginning of the Ukrainian-Russian war in 2014, Russia has lost a significant part of its economic grip on Ukraine. However, due to the widespread use of offshores and hidden investment, it is not easy to estimate Russia’s economic footprint in Ukraine. This report offers an analysis of how Russia’s economic footprint has changed over the last decade; how Russia has exploited Ukraine's governance gaps to exact influence on Ukrainian society through media, political parties, government debt, and other political amplifiers; and the concrete steps Ukraine can take to mitigate and prevent the corrosive effects of Russian capital in Ukraine.

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The Centre for Economic Strategy is an independent research agency on public policy issues. The mission of the CES is to support reforms in Ukraine in order to achieve sustainable economic growth. The Centre contributes to the development of Ukraine’s economic growth strategy, performs an independent analysis of the most important aspects of national policy, and works on strengthening public support for reforms. It was established in May 2015.

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EXECUTIVE SUMMARY

Since the annexation of Crimea and the beginning of the Ukrainian-Russian war in 2014, Russia lost a significant part of its economic grip on Ukraine. However, due to the widespread use of offshore and hidden investment, it is difficult to estimate its actual economic footprint. This report looks into how Russia’s economic footprint has changed in the last decade, how Russia has influenced Ukrainian society through media, political parties, government debt, and other political amplifiers, and what Ukraine can do to mitigate the corrosive effects of the existing Russian presence.

The key findings are:

The trade between Ukraine and Russia has declined substantially. The country’s total imports from Russia had fallen from 18% of GDP in 2012, when it was at its peak, to 6% of GDP at the beginning of 2019.

The Russian corporate footprint has also decreased, but more gradually. Since 2009, the share of assets and the turnover of Russian companies in Ukraine have decreased from 5.6% to 2.1% and from 4.3% to 2.8% of total assets and total turnover, respectively.\(^4\)

The stock of Russian investment has remained relatively stable when looking at official data. However, it is important to note that official data significantly underestimates Russian investment in Ukraine. Our calculations show that when taking into account offshore investment, Russian investment into Ukraine is at least two times higher than the official estimates.

Russian influence has changed in the political and social sphere as well as in the economy. While a ban on the Russian media, social networks, and a church Tomos undermined Russia’s ability to influence Ukraine, some of the channels of its influence have remained intact. Russia is still able to support pro-Russian political parties or Ukrainian media being purchased by individuals close to Russia.\(^8\) \(^9\) \(^10\) Almost half of the Ukrainian

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\(^1\) Hidden investment here refers to the investment that comes either through offshore or that is registered on Ukrainian citizens that have connections to Russia

\(^2\) For the purpose of this paper, the company is defined as Russian if at least 25% of shares are ultimately owned by Russians.

\(^3\) Here and later all analysis excludes Crimea and occupied territories of the Donetsk and Luhansk regions.

\(^4\) Turnover of Russian companies, in nominal terms fell from $18 194 mln to $8 814 mln.\(^5\) Russian assets meanwhile have it increased slightly in absolute terms from $8 712 mln to $8 732 mln.\(^6\)


\(^7\) A decree of the autonomy of Ukrainian Orthodox Church by Constantinople, making it separate and independent from Russian Orthodox Church.


population still views Russia positively,\textsuperscript{11} \textsuperscript{12} likely distinguishing ordinary Russians from the Russian government.\textsuperscript{13} There is also a strong regional disparity with people in eastern Ukraine viewing Russia much more favorably than people in western Ukraine do.\textsuperscript{14}

The situation has also changed significantly in some critical industries. For instance, the banking sector is one of the most prominent examples of Russian capital outflow. There were 13 Russian banks in 2009 (3 among the ten largest); as of 2019, only 5 Russian banks are still active.\textsuperscript{15} \textsuperscript{16} \textsuperscript{17} In energy, one of Ukraine’s most notable achievements was that it stopped direct imports of Russian gas. However, the Russian presence remains significant and virtually unchanged in other critical sectors, such as metallurgy.

We believe that to address the corrosive effects of capital from Russia, Ukraine should first enhance the transparency of investment to be able to map the extent of Russian investment in Ukraine clearly. Also, we believe it is especially important to limit Russian investment in selected critical sectors such as media, energy, etc.; to limit investment by Russian state-owned companies and those linked to the Russian government by closing loopholes in sanctions in general, and, overall, to address governance gaps that facilitate the inflows of corrosive capital identified in this report.

1. OBJECTIVES

This paper studies the Russian economic presence in Ukraine. We conducted 30 expert interviews with policymakers, journalists, business and NGO representatives, and used quantitative data from the Ukrainian Service of Statistics, Orbis database, UN COMTRADE, and other sources.

This paper has several objectives. First, we try to estimate the extent of the Russian economic footprint in Ukraine. As our research shows, this is not always possible due to the widespread use of offshores by Russian capital. Thus another objective is to highlight the issues in mapping the Russian economic presence. Another important goal is to highlight Ukraine’s governance gaps and how corrosive capital from Russia exploits and exacerbates them. For this paper, corrosive capital is defined as: “capital that exploits and exacerbates weak governance in emerging democracies.”\textsuperscript{18} The overarching objective is to identify recommendations to mitigate and prevent the corrosive effects of capital from Russia.

\textsuperscript{11} See Appendix 3 for 10-year trends
\textsuperscript{17} CES calculations based on the data of National Bank of Ukraine and banks' financial statements.
2. GOVERNANCE GAPS AND CORRUPTION

Despite important reforms in recent years,19 Ukraine still faces challenges with the rule of law and governance gaps. As of 2020, the country ranks 72nd (out of 128 countries) in the World Justice Project Rule of Law Index,20 and 91% of Ukrainians consider corruption to be a severe problem.21 Poor governance and weak rule of law can have a significant toll on the economy: CES research shows that the state budget could gain $26.6 bln as a one-time gain and an additional $8.6 bln annually if governance and the rule of law are improved.22

More importantly, governance gaps and corruption make Ukraine vulnerable to foreign influence. A flow of corrosive capital can sway public decision-making to Russia’s advantage. In December 2014, according to Slidstvo.info, “Letograf IT” company, connected to the Russian Ministry of Defense, was selected to maintain the General Prosecutor’s Office’s IT systems. Journalists have found signs of corruption in this procurement. Security Service of Ukraine had warned earlier that Letograf’s access to sensitive information could endanger Ukraine’s national security.23 In 2017, Ukraine imposed sanctions against Letograf.24

Corrosive foreign capital can exacerbate problems with corruption and poor governance through cooperation with local actors, in this case, Ukrainian oligarchs, and create a vicious circle. Oligarchs influence public decision-making through political parties and media and have allegedly captured state institutions to gain undue market advantage. Media reports and investigative articles discussed below could be used as examples of such alleged behaviour.

One example is the “RosUkrenergo” company, linked to Ukrainian oligarch Dmytro Firtash.25 Before 2009, it acted as an intermediary between Ukrainian state-owned gas monopolist “Naftogaz” and Russian “Gazprom” and allegedly influenced the decisions of “Naftogaz”: e.g. Ukrainian pravda journalists claim that “RosUkrEnergo” might have siphoned $2 billion from “Naftogaz” in 2013, using its alleged connections to the government.26

Even after 2014, Ukrainian oligarchs have maintained a close connection with both state and private Russian capital either by having enterprises in Russia, doing business with Russian companies, or taking loans from Russian banks. For instance, experts mentioned in our interviews and Business Censor media reported that Rinat Akhmetov27 allegedly owns mines in Russia and, according to Ekonomichna Pravda report based on the

19 Such as Creation of National Anticorruption Bureau, Prozorro e-procurement system and simplification and digitalization of some of the public services.
27 Rinat Akhmetov is a richest person in Ukraine, with a fortune of $ 9.629 billion. Source: https://nv.ua/biz/markets/top-100-samvy-bogatyh-ukrainev-rewting-nv-i-dragon-capital-novosti-ukraine-50050784.html
official Russian government data, he may be purchasing Russian coal. The other examples are Viktor Pinchuk who, as Radio Svoboda journalists allledge, might supply pipes to Russia, and Oleksandr Yaroslavskiy who, according to UNN reports might have links to Russian oligarch Oleg Deripaska.

Such reported close connections to Russian oligarchs and government officials mean that the Kremlin may have leverage on Ukrainian oligarchs and, if needed, can pressure them to use their media and political links to promote Russia’s agenda.

At the same time, oligarchs may find it more profitable for them to pursue links to Russia than comply with Western standards of transparency and upholding of the rule of law. Some experts interviewed mentioned Ihor Kolomoyskiy as a possible example of a way that oligarchs may find cooperation with Russia to be beneficial. Kolomoyskiy had an anti-Russian stance at the beginning of the war with Russia in 2014-’15 but changed his views dramatically after an agreement between Ukraine and the IMF could have threatened his position. For instance, in the interview for the New York Times, Kolomoyskiy said that “we have to improve our relationship” with Russia. This shows how the uneven playing field and lack of the rule of law that grant influence to Ukrainian oligarchs also give additional power to Russia.

Thus, it is in Russia’s interests for Ukraine to remain corrupt, with weak governance and with powerful oligarchs. When institutions are weak, and officials are corrupt, it is easier for Russian and other foreign corrosive capital to promote external interests by making deals with local oligarchs, bribing officials, and abusing weak institutions. This creates a vicious cycle that undermines the rule of law and institutions even further.

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30 Viktor Pinchuk is the second richest man in Ukraine, his fortune is estimated at $2.310 billion. Source: https://nv.ua/biz/markets/top-100-samyh-bogatyh-ukraineve-retying-nv-i-dragon-capital-novosti-ukrains-50050784.html


32 Alexander Yaroslavskiy is among the top 20 richest people in Ukraine (16th place), with assets of $447 million. Source: https://nv.ua/biz/markets/top-100-samyh-bogatyh-ukraineve-retying-nv-i-dragon-capital-novosti-ukrains-50050784.html


34 Igor Kolomoisky occupies the 4th place in the ranking of 100 richest Ukrainians. His fortune is estimated at $1.480 billion. Source: https://nv.ua/biz/markets/top-100-samyh-bogatyh-ukraineve-retying-nv-i-dragon-capital-novosti-ukrains-50050784.html

35 Ihor Kolomoyskiy used to own Privatbank, the biggest bank in Ukraine that was nationalized in 2016. After nationalization Kolomoyskiy claimed that he is entitled either to compensation for nationalization or that the ownership of Privatbank should be reverted to him. IMF on the contrary insists on the adoption of law that prevents banks that were bankrupted from being returned to previous owners (dubbed as "Anti-Kolomoyskiy Law" in media). Source: LIGA. "Коломойский проиграл борьбу за банковский закон в Раде. Две плохие новости для олигарха," April 28, 2020. https://finance.liga.net/ekonomika/article/kolomoyskiy-proigral-borbuza-bankovskiy-zakon-v-rade-dve-plohe-novosti-dlya-oligarha.

3. OVERVIEW OF UKRAINE-RUSSIA RELATIONSHIPS AND MAIN ACTORS OF RUSSIAN INFLUENCE

Since Ukraine gained its independence in 1991, Russia has tried to maintain its economic presence in the country to keep its sphere of influence intact. It has used various instruments, most notably supporting pro-Russian politicians in Ukraine and leveraging Russian natural resources such as natural gas, to entice key power brokers and maintain the Ukrainian economy’s dependence on Russia. In addition, Russia attempted to entice Ukraine via numerous international organizations under Russian leadership: first the Commonwealth of Independent States (CIS), then the Common Economic Space, and finally the Customs Union.

Following Russia’s annexation of Crimea and aggression in Eastern Ukraine, some Ukrainian businesses canceled their business partnerships with their Russian counterparts. Ukraine, the EU, and the US imposed sanctions on Russia, limiting their economic cooperation. When Ukraine signed the Association Agreement with the EU in 2014, it became easier for Ukrainian businesses to trade with the block, thus allowing them to diversify away from Russia. Since 2011, export from the Commonwealth of Independent States (CIS) countries dropped from $2.6 bln to $0.7 bln, while imports dropped from $3.7 bln to $1.1 bln. In addition, many Ukrainian labor migrants that used to work in Russia moved to Poland or other EU countries instead as the EU granted visa-free travel for Ukrainians.

Russian actors in Ukraine can be subdivided into several groups with distinct objectives and various influence tools. Based on expert interviews, we have identified the following main groups of such actors, as well as their objectives:

**Russian government.** The Russian government is an actor that can use various direct tools to influence either the Ukrainian government or Ukrainian private- and state-owned companies. These tools include funding state-owned companies, funding the Ukrainian government, and imposing sanctions or tariffs on Ukrainian companies or products. Its objective is to keep Ukraine in its sphere of influence.

**Russian state-owned companies** (for instance, Sberbank, Gazprom, Rosneft) may be trying to make a profit while promoting the agenda of the Russian government as their general objective. This category includes both companies that are physically present in Ukraine (such as Sberbank) and those that confer economic influence through trade (such as Gazprom). Some of the experts interviewed estimated that this group constitutes around 90% of the total Russian footprint and is responsible for most of the negative impact of the Russian presence in Ukraine. State-owned companies have more leeway than private companies, as they can be subsidized by the Russian government, and can continue operating even if they are making losses. Experts interviewed suggested that Russian state-owned companies are most prominent in banking and nuclear energy.

**Russian private companies.** This is a very heterogeneous group, which includes small businesses as well as large companies, some connected to the Russian government and some that claim to be independent. Small
Russian companies are unlikely to pursue any ulterior motives except for making profits. In contrast, Russian companies with clear connections to the Russian government are likely to promote Russian interests, extort resources from Ukraine, and try to influence politicians. It is unclear whether Russian private companies with no apparent connections to the Russian government have any other objectives except for making a profit. Still, they depend on the Russian government’s decisions and might potentially be used as an instrument. A good example is “Alfa-Bank” – the only Russian bank that has increased its presence in Ukraine through its subsidiary “Alfa-Bank Ukraine.” Outside of banking, Russian private companies are also present in telecommunications (Kyivstar) and industry (in the past Mykolayiv Alumina Refinery Company allegedly was owned by Oleg Deripaska company). 41

Ukrainians with connections to Russia. Some Ukrainians may have close personal relationships with high-ranking Russian officials, and act in their interests. For example, Viktor Medvedchuk is a prominent Ukrainian politician who claims that he thinks that Russian President Putin trusts him and that Putin is a godfather of his daughter. 42 This group also includes individuals who are now Ukrainian citizens but allegedly had Russian citizenship in the past, such as Vadim Novinskyi, Pavel Fuks, Konstantin Grigoryshyn 43 44 45. According to the media reports, they may have assets in the energy, metallurgy, and banking. 46 47 48 Some of them maintain or used to maintain close relationships with high-ranked Russian officials. For instance, Vadim Novinskyi claimed that Viktor Chernomyrdin, former Russian Prime Minister and Russian ambassador to Ukraine, was “like a father to him.” 49 Experts interviewed agreed that while the influence of other Russian groups has declined in recent years, the significance of this group (especially Medvedchuk) has increased. They also indicated that the business of Medvedchuk and his associates could be used to promote the agenda of the Russian government. Another example is Dmytro Firtash, a Ukrainian oligarch who made his fortune on gas trade with Russia. 50 51 When arrested in Austria, according to Ukrinform reports he was bailed out by Vasily Anisimov. 52 According to “Ведомості” report, Anisimov might be a friend of Arkady Rotenberg, who is under sanctions

51 See Energy section for more details
both in the US and the EU. Russian influence is also conferred through Ukrainian business when, in some sectors, the value chain between Ukraine and Russia is inherently interconnected. For example, when Ukrainian companies have no buyers of their products other than Russians or require parts for their production process that can only be purchased from Russia. These companies may be influenced by their Russian counterparts, which may use this leverage to promote the Kremlin’s agenda.

4. POLITICAL AMPLIFIERS

The actors outlined above may have several reasons to influence Ukrainian democracy. These include keeping Ukraine in Russia’s sphere of interest; destabilizing the situation; decreasing the potential support of Western partners; increasing pro-Russian sentiments in society; restoring Ukrainian-Russian economic cooperation; lifting sanctions, and legitimizing Russian involvement in Crimea and Eastern Ukraine. They use diverse methods to achieve such objectives. Here, we discuss the most prominent examples.

4.1. POLITICAL PARTIES

One of the main goals of the Kremlin is to influence Ukrainian policy decisions. Therefore, supporting pro-Russian Ukrainian political parties is a direct way to achieve this objective. Before 2014, one of the largest political parties in Ukraine was the Party of Regions. Many journalists considered the Party of Regions one of the most pro-Russian political parties (along with the Communist Party of Ukraine). After the Euromaidan revolution, its leader and former President Yanukovych fled to Russia, where he is protected from extradition.

After 2014, many former members of Party of Regions joined the Opposition Platform Party that came second in the July 2019 parliamentary elections. Viktor Medvedchuk is currently one of its leaders. The Opposition Platform, to which "Novoe Vremya" magazine refers to as "pro-Russian" allegedly promotes the

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57 Some former Party of Regions members also joined other pro-Russian parties such as Opposition Block, "Nashi" but these parties did not gain any seats in the parliament.


Russian agenda in Ukraine, for instance, by spreading Russian messages (for instance, mediamonitoring of TV channels that officially are owned by Taras Kozak, who is an MP from Opposition Platform⁶², which was conducted by “Detector media” shows, that, in their opinion, these TV channels often push pro-Russian messages).⁶² Another example is that in 2019, Viktor Medvedchuk went to the economic forum in Vladivostok, Russia, where he expressed support for lifting EU sanctions against Russia: “The position of our party,” Medvedchuk announced, “is to abandon European sanctions against Russia and expect Russia to lift counter-sanctions.”⁶⁵

Russian public figures often publicly express their support for these parties and their representatives. For instance, before both the presidential elections and parliamentary elections of 2019 in Ukraine, Russian Prime Minister Dmitriy Medvedev held a meeting with the leaders of the Opposition Platform in Russia, where he spoke favorably of this party.⁶⁴

Moreover, party finance in Ukraine is not transparent. Analysis by Chesno shows that Ukrainian parliamentary parties received a total of UAH 1.9 bln in 2019 (around $70 mln).⁶⁹ However, a significant fraction of these funds comes from questionable sources, such as NGOs that do not have sufficient funds,⁶⁶ allegedly shady companies,⁶⁷ and private individuals who donate more money than they earn.⁶⁸ Lack of transparency in party finance enables both Ukrainian oligarchs and the Russian government to indirectly take advantage of the governance gaps in party financing and channel support for their preferred party.

All parties suffer from the lack of transparency in funding, and the Opposition Platform is not an exception. The party’s financial report shows that it was primarily funded by its leaders and the companies connected to them. According to the party’s financial statement, it received UAH 116 million (approx. $4.6 mln) in 2019.⁶⁷ However, the ‘Chesno’ civic movement claims that the party had failed to declare at least UAH 1.5 million spent on advertising in social media. In the same report “Chesno” mentions that the party received favorable coverage on those TV channels that are allegedly connected to its leader Viktor Medvedchuk.⁷⁰ Furthermore, the Chesno claims that some of the party funds came from small unknown companies, about which information is often not available online. According to Chesno, four companies donated a total of UAH 11.1 mln (approx. $0.4 mln) to the party. While one of these companies (“K.A.N. Development”) is a relatively

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large real estate company, other 3 companies are either working in more than 20 industries simultaneously or are registered at the same address as many other companies.\textsuperscript{71} These companies might be transition vehicles for money obtained from hidden sources, although we have not found direct evidence that these sources are from Russia.

Indirect support might also be present. Looking for an examples in media one could find that some of the party leaders allegedly have close business ties to Russia and, according to journalistic reports, at least benefitted somewhat from preferential treatment from Russia, which could not be explained by economic reasons.\textsuperscript{72} The experts interviewed for this report as well as “Radio Svoboda” journalists also suggested that Russia might be giving preferential treatment to the oil business, which is owned by Oksana Marchenko, a spouse of Viktor Medvedchuk.\textsuperscript{73} The experts interviewed for this report suggest that profits from this business could potentially be used to fund Medvedchuk’s political career.

4.2. GOVERNMENT-TO-GOVERNMENT LOANS

The Kremlin historically tried to influence Ukrainian politics using cheap state loans to increase Ukraine’s dependence on Russia and to pressure it into making pro-Russian foreign policy decisions. The most prominent case took place in 2013. The Russian National Wealth Fund offered to buy $15 bln in Ukrainian Eurobonds\textsuperscript{74} after a private meeting between Russian President Vladimir Putin and then Ukrainian President Viktor Yanukovych. Only $5 bln was purchased in the end. In conjunction, Russia also proposed a 53% discount on Russian natural gas.\textsuperscript{75} 76 This agreement now seems to be part of a package deal. Just weeks before this deal, Viktor Yanukovych announced that the government was walking away from the Association Agreement with the EU, after years of negotiations and just a week before it was supposed to be signed.\textsuperscript{77}\textsuperscript{78} This decision led to country-wide protests, culminating in the Euromaidan revolution, more than 100 people killed, and Yanukovych removed from power. As of now, Ukraine is still involved in a number of international legal disputes challenging the terms of the loan, whether it was legal, whether it was politically-driven and whether Ukraine has to repay it.\textsuperscript{79} As of April 2020, the UK court still has not made a final ruling on the matter.\textsuperscript{80}


\textsuperscript{76} For more details regarding Ukrainian-Russian gas trade see Energy section


Though the so-called “Yanukovych loan” is the most well-known case of a politically-driven loan from the Russian government and arguably had the most severe consequences, it is not the only case of such agreements between the Ukrainian and Russian states. Many Ukrainian presidents and prime ministers, including Yulia Tymoshenko and Leonid Kuchma, sought capital from Russia in times of economic crisis that, unlike funds from the IMF and Western countries, came without requirements of structural economic and institutional reforms.

The aggregate data on government debt from the Ukrainian Ministry of Finance shows that the share of Russian-owned debt both in total government debt and external debt remained relatively constant after 2013. The share of Russian-owned debt in the total debt decreased from 10% to 9.5%, while the share of Russian-owned debt in the external debt decreased from 5.7% to 5%. Such a relatively small decline is explained by the fact that the “Yanukovych debt” constitutes a large part of Russian-held debt. As Ukraine disputes the loan in the international courts, it is unclear whether and when it would be repaid. At the same time, it is important to note that the size of the Russian-held debt cannot be underestimated. Though residents of Russia cannot purchase Ukrainian government bonds, the Russian-owned companies can still purchase bonds if they are not residents of Russia. In addition, Ukrainian banks with Russian UBOs are able to purchase bonds: for instance, according to the Ukrainian Ministry of Finance, in 2019 Alfa-Bank was the seventh largest primary dealer by volume of buying of domestic bonds.

At the same time, the Russian share in the Ukrainian state-guaranteed debt dropped from 14% of the external state-guaranteed debt (or 10% of the total state-guaranteed debt) to 0% in 2020. However, once again, it is important to note that there is no data on who purchased some of the bonds of Ukrainian SOEs; thus the estimate could be imprecise. Nevertheless, this data show that the Russian-owned debt decreased significantly.

4.3. MEDIA

Before 2014, Russian TV Channels were popular among Ukrainians with a combined market share of 7% in 2006. Russian media content was also used by Ukrainian TV Channels and in print (such as websites, books, and magazines). In 2014, the Ukrainian government banned Russian TV channels (both state-owned and privately owned) and a large number of sites (including popular social networks VK and Odnoklassniki). Russian influence through media, however, has adapted and transformed. Before 2014, the main actor influencing Ukrainian public opinion through media was the Russian government (through state-owned

media that were popular in Ukraine). After these media outlets were banned, the direct influence of the Russian government was substituted by the influence of Ukrainian media-holdings with connections to Russia.

**Television.** While it is still possible to access Russian TV channels via VPN networks, experts interviewed disagreed on whether such practice is widespread. In 2018 and 2019, several Ukrainian news channels were allegedly purchased by the associates of Viktor Medvedchuk.\(^87\)\(^88\) According to StopFake media monitoring, these channels are among the most active in spreading Russian propaganda.\(^89\) According to some experts interviewed, media group, which is allegedly linked to Medvedchuk is currently more influential than the Russian channels were before they were banned. Most recent reports by journalists of “Schemes” TV programme, based on Medvedchuk’s personal financial disclosure declarations,\(^90\) show that Oksana Marchenko, Medvedchuk’s spouse, has a stake in three other TV channels: “TET,” “2+2,” and “1+1.” The last of these is one of the most popular TV channels in Ukraine.\(^91\) However, according to the statement of Medvedchuk’s lawyer, her share in these channels is small: less than 10%.\(^92\) However, it is often unclear who is the ultimate beneficiary owner (UBO) of a particular TV channel. The existing law stipulates that a UBO with more than 10% stake in a TV channel should be revealed.\(^93\) However, the law is often criticized for taking the declared UBO for granted and not requiring the National Council on Television and Radio Broadcasting to question the UBO and conduct additional research to potentially reveal the real UBO.\(^94\) Therefore, despite several journalistic reports, connections of the ZIK, NewsOne and 112 TV channels to Medvedchuk remain unproven.\(^95\) The new draft law “On media” introduces new restrictions on who can be the UBO of TV channels: only Ukrainian citizens.\(^96\) Companies that are registered offshore are not allowed to be a part of the ownership

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87 [Based](https://www.radiosvoboda.org/a/news-kozak-kunyp-zik/29999891.html) on the data from Ukrainian registries, available at Youcontrol, Taras Kozak is the ultimate beneficiary of 112 Ukraine, NewsOne and TRK New Communications (ZIK TV Channel). Taras Kozak is an MP from Opposition Platform Party, the same party as Viktor Medvedchuk.


90 "Перегляд Виправленої Декларації #bed4326c-8509-4b6b-85a3-5af26b1678b | ЄДІНІЙ ДЕРЖАВНИЙ РЕЕСТР ДЕКЛАРАЦІЙ," accessed August 31, 2020. [https://public.nazk.gov.ua/declaration/bded4326c-8509-4b6b-85a3-5af26b1678b](https://public.nazk.gov.ua/declaration/bded4326c-8509-4b6b-85a3-5af26b1678b)

91 "«Ти не один». Нововиявлений союз Коломойского та Медведчука (розслідування)," Радіо Свобода, accessed June 15, 2020, [https://www.radiosvoboda.org/a/schemes/30664541.html](https://www.radiosvoboda.org/a/schemes/30664541.html)


structure. However, we think there are a couple of issues with this draft law. First, Cyprus is not officially included in the list of the offshore. However, it is one of the most popular countries through which both Ukrainian and Russian companies channel investment. Therefore, many companies can still use this loophole to hide their true UBO. Secondly, we think that allowing only Ukrainian citizens to be UBO of TV channels is too restrictive and prevents constructive capital, for instance, from Western countries.

**Social networks.** Several experts interviewed suggested that sanctions led the Russian government to change its instruments from direct propaganda through its TV channels to indirect influence through anonymous messenger channels and other social networks. To achieve this objective, Russia utilizes both popular Western social media, such as Facebook and Twitter, and other apps such as Telegram.

Telegram is a messaging app that was founded by Russian entrepreneur Pavel Durov in 2013. There are no restrictions on Telegram operations in Ukraine and no evidence that it was intended as a tool for spreading Russian disinformation. However, research by Liga.net shows that Russian media, pro-Russian Ukrainian politicians, and other individuals connected to Russia set up Telegram channels to influence public opinion. The total reach of anonymous Telegram channels in 2019 was 166 million views, and a lot of these channels display connections through the reposting of each other’s content.

Meanwhile, Russia continues to use Western social media, such as Twitter and Facebook, to spread messages, using so-called “bots” – fake accounts in social media that are used to influence public opinion. For instance, in 2018, the Ukrainian Security Service identified approximately 400 accounts on Twitter, Facebook, and YouTube, that were to be used during the election campaign. Before the 2019 parliamentary elections, the activity of these bots increased substantially. Research by VoxUkraine analyzed more than 750,000 tweets by Russian bots. It shows that while there were almost no attempts to use bots before 2013, since then, their activity has boomed, never falling below 115 tweets a day. The management of these accounts is

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98 See Investment structure
99 Here, we use the definition of constructive capital as the capital that promotes markets and the rule of law, transparency and improves governance. To learn more on the constructive and corrosive capital see: https://www.cipe.org/newsroom/building-a-market-for-everyone-how-emerging-markets-can-attract-constructive-capital-and-foster-inclusive-growth/
allegedly centralized and connected to the Internet Research Agency – a known ‘bot factory’ in Russia that was allegedly used to influence also the 2016 US elections.\textsuperscript{106}

**Other media.** According to the analysis of the Institute for Mass Information, several Ukrainian websites, such as Strana.Ua, Vesti, promote Russian messages in their reports.\textsuperscript{107, 108} Vesti also had a printed daily newspaper, which was distributed widely for free. This shows that the proliferation of Russian influence spreads not only TV and social media but is also present in other types of media resources, such as online and printed media.

### 4.4. OTHER AMPLIFIERS

There are also other political amplifiers through which Russian capital can influence Ukraine.

**War in Donbas.** Before the war, Donbas was an important part of the Ukrainian economy, with coal production, metallurgy, and other commodities being heavily concentrated in this region. Moreover, companies located in the region depended heavily on trade with Russia, and some were integrated into the Russian supply chain. According to ex-Ukrainian Vice Prime Minister and Minister of the Economy, Stepan Kubiv, the occupation of Donbas and annexation of Crimea meant that Ukraine lost 10% of its GDP.\textsuperscript{109} The Kremlin controls the so-called Donetsk and Luhansk People’s Republic and provides funds, military supplies, and troops in aid. Some private Russian companies allegedly also use their resources and influence in Ukraine to support the Russian occupation of these regions. They may be aiming to maintain their economic interest (for instance, keeping their factories operational), as well as preserve the influence of the Kremlin. According to the expert interviews, even before the Russian military aggression in Donbas, Russian companies in Eastern Ukraine worked to improve the perception of Russia both among their workers and the general public.

**Church.** Orthodox Christianity is the dominant religion in Ukraine.\textsuperscript{110} Until the beginning of 2019, Ukrainian Orthodox Christians were divided between the Ukrainian Orthodox Church of Moscow Patriarchate and the Ukrainian Orthodox Church of Kyiv Patriarchate. The global Orthodox Church did not officially recognize the Ukrainian Orthodox Church of Kyiv Patriarchate until recently, and many Ukrainian Christians attended Moscow Patriarchate instead.\textsuperscript{111} However, in January 2019, the Orthodox Church of Ukraine was officially recognized as it received a Tomos (a decree certifying the autonomy of the Ukrainian Church, issued by the Holy Synod). Since then, the influence of Moscow Patriarchate has decreased, and roughly 600 local parishes

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(as of January 2020) defected to the Orthodox Church of Ukraine (out of roughly 11500 parishes). However, this influence has not fully diminished. The Security Service of Ukraine suspects individual churches of Moscow Patriarchate of discrimination, tax evasion, distribution of anti-Ukrainian content, and possession of illegal weapons. Most experts interviewed considered propaganda to be the most potent channel through which the Kremlin uses the church to destabilize the situation in Ukraine. The experts also agreed that the Ukrainian Orthodox Church of Moscow Patriarchate might be at least partly funded by Russia either directly or via Ukrainian businessmen affiliated with Russia. In 2016, in an interview for Espresso TV the then-secretary for the Holy Synode of Ukrainian Orthodox Church of Kyiv Patriarchate claimed that Vadim Novinskiy and Viktor Nusenkiw were at least partly funding Ukrainian Orthodox Church of Moscow Patriarchate.

4.5. SANCTIONS

Since 2014, Ukraine and Western countries have upheld sanctions against Russian companies that violated international laws and continued operating in Crimea or supported Russian aggression. Another effect of the sanctions was to keep the corrosive capital from Russia outside of Ukraine, to prevent its adverse influence on Ukrainian politics, economy, and society.

Most experts interviewed agreed that the sanctions are at least somewhat effective in limiting Russian influence. However, Ukraine’s power was limited compared to Russia’s. The majority of experts said that US sanctions were more effective. Experts disagreed on whether the EU sanctions are successful in achieving their objectives. Some said that these sanctions are effective (especially stopping Nordstream 2, terminating Russian membership in international organizations, and limiting access to credit). In contrast, others said they do not achieve much, as Russian companies can use offshores to avoid much of the restrictions imposed by sanctions.

In response to the international sanctions, Russia imposed an embargo on the imports of products from the EU, the US, and other countries that support the sanctions. Among the restricted products are fruits, vegetables, fish, dairy products, and meat.

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112 https://ukurier.gov.ua/media/files/2019-1-%D0%B2%D1%81%D1%96%20%D1%82%D0%BE%D1%80%D1%96%D0%BD%D0%BA%D0%B8.pdf
4.5.1. UKRAINIAN SANCTIONS

As of now, sanctions are imposed on 294 legal entities and 848 natural persons because of Russian aggression in Ukraine.¹²⁰ For example, Ukraine banned all Russian air carriers from flying to Ukraine, as they have flights to Crimea. In response, Russia prohibited all Ukrainian air carriers from using its air space.¹²¹ ¹²² Restrictive measures are also imposed on banks with Russian capital, deputies of the Russian State Duma, and selected officials of the Federation Council of the Russian Federation.¹²³ Russian and offshore companies are also banned from taking part in privatization.¹²⁴ Other restrictions include a ban on buying Ukrainian bonds by Russian companies, a ban on the export of certain military parts such as engines, and a ban on using specific Russian software (such as accounting software 1C).¹²⁵

There is a persisting inconsistency between the Ukrainian and the US sanction lists. In 2018, 40 Russian companies and 25 persons on the US sanction lists were not on the Ukrainian list, including some of the most influential Russian oligarchs as Oleg Deripaska, Arkady Rotenberg, and Viktor Vekselberg.¹²⁶ Even though the US found that these individuals are violating international law, the Ukrainian government did not put them under sanctions. Some experts interviewed suggested that if Ukraine itself did not impose sanctions, it may be more challenging to persuade Western countries to uphold the sanctions imposed on these individuals.

The experts suggested the following additional restrictions: imposing a limit on the market share that Russian companies can collectively own in the critical infrastructure, imposing additional tariffs on Russian goods, and greater scrutiny in the assessment of UBO in critical infrastructure and media. Some experts also suggested that introducing an embargo on energy imports from Russia would be particularly effective, though most doubt that any new sanctions would be likely.

4.5.2. EUROPEAN SANCTIONS

The EU sanctions limited access by some Russian banks and companies to the primary and secondary capital markets of the EU, forbade trade in military equipment and dual-use goods, energy-related equipment and technology with Russia.¹²⁷ Sanctions will be lifted after the complete implementation of the Minsk


¹²² If Russian air carrier companies refuse to fly to Crimea and pay the fee, the Council would consider excluding them from the list. Source: https://bit.ly/3mm5pAO


agreements.\textsuperscript{128} Meanwhile, the sanctions have continued to be extended for six month periods successively since July 1, 2016. They are currently effective until January 31, 2021.\textsuperscript{129} \textsuperscript{130} \textsuperscript{131}

The EU also freeze assets and banned visas for 175 persons and 44 entities.\textsuperscript{132} These sanctions are currently effective until September 15, 2020.\textsuperscript{133} Experts argue that these sanctions are not extensive enough, as they exclude many individuals that were integral to forming Russia’s policy towards Ukraine.\textsuperscript{134}

Finally, there is also a ban on imports of goods from Crimea and Sevastopol to the EU, on investment, and on tourist services. The export of certain products and technologies in transport, telecommunication, and energy sectors is prohibited to Crimean companies.\textsuperscript{135}

\subsection*{4.5.3. US Sanctions}

The US imposed individual and sectoral sanctions against those who are alleged to have undermined Ukraine’s security, stability, sovereignty, and territorial integrity or have misappropriated Ukrainian state assets. Sanctions also prohibit US business, trade, or investment in occupied Crimea. As of March 23, 2020, the United States imposed Ukraine-related sanctions on about 690 persons.\textsuperscript{136} Sectoral US sanctions apply to specific entities in Russia’s financial, energy, and defense sectors. They prohibit US trade related to the development of Russian deepwater, Arctic offshore, or shale oil projects and such projects worldwide in which specified entities have an ownership interest of at least 33% or a majority of voting rights. In June 2020, the US Congress has started considering new sanctions against Nord Stream 2 and companies that are alleged to have been involved in its construction.\textsuperscript{137}

\subsection*{4.5.4. Sanction Evasion}

Many Russian companies have, however, continued to operate both in Ukraine and Europe, finding gaps in existing sanction regimes to continue their business as usual. Based on the expert interviews, we have identified the following ways in which Russian companies and individuals can evade sanctions.

\textsuperscript{128} Minsk Agreements are set of measures agreed upon by the representatives of Ukraine, Russia and OSCE, signed in September 2014, aimed at stopping the war in Donbass.

\textsuperscript{129} “EU Sanctions Map,” accessed July 31, 2020, \url{https://www.sanctionsmap.eu/#/main/details/26/?search=%7B%22value%22%3A%22%22%2C%22searchType%22%3A%22%7B%7D%7D}.


\textsuperscript{131} Other measures include suspending the implementation of EU-Russia bilateral and regional cooperation programs, except for the projects dealing exclusively with cross-border cooperation and civil society.


\textsuperscript{135} “Євросоюз Продовжив На Рік “кримські” Санкції Проти Росії.” Accessed January 30, 2020. \url{https://www.sanctionsmap.eu/#/main/details/26/?search=%7B%22value%22:%22%22%2C%22searchType%22:%22%7B%7D%7D}.


Using offshores. The non-transparent ownership structure of a company allows it to hide its connection to Russian entities and individuals that are under sanctions. Cyprus, a known offshore haven, is the largest source of FDI in Ukraine. Other offshore jurisdictions are also popular.

Double/changing citizenship. Another way to avoid sanctions is to use different citizenship for travel or investing. Many smaller countries offer their citizenship for large-scale investors, and this could be used to avoid sanctions.

Rebranding companies. Some owners sell their companies on paper and change their brand while retaining control. Thus, they not only avoid sanctions but also evade the decrease in demand due to the boycotts of Russian goods.

Registering companies under the name of friends or relatives to avoid personal sanctions. When the individual sanctions are imposed on a person but not his/her family, the easy way to avoid sanctions for this person is to re-register the assets with members of their family or other close associates who are not under sanctions.

Lobbying to be excluded from the list. As sanctions lists are not permanent and can be amended, some Russian companies may hire lobbyists to be taken off from the sanctions lists.

Not reporting UBO or reporting UBO incorrectly. Though reporting UBO is mandatory in Ukraine, many companies fail to report or report incorrect, incomplete, or inaccurate information. The experts interviewed suggested that the penalty for failing to report UBO is not high enough and is not enforced effectively to prevent these practices. At the same time, in April 2020, the new law on anti-money laundering came into force aiming, among other things, at improving UBO reporting. However, since it has just came into force, it is too early to say whether it is effective in dealing with the identified issues.

Though the use of gaps to avoid sanctions is widespread, the experts interviewed identified several ways to address the challenge. The most effective way would be to identify the UBO through the servicing bank via financial monitoring procedures. Existing regulations stipulate that if a large transaction goes through the banking system, banks have to check on the UBOs and sources of money. However, these regulations were adopted just recently and it is not yet clear whether there are any loopholes in the new regulations. Experts interviewed suggested that this instrument generally works well. Additional banking regulations also exist for individuals identified as PEPs (politically exposed persons). The Security Service of Ukraine can also monitor the largest transactions, and transactions in critical sectors.

5. RUSSIAN ECONOMIC FOOTPRINT

The Russian economic footprint in Ukraine has been consistently declining since 2014. This has occurred due to several factors, including the introduction of several sanction regimes against Russian companies, a partial boycott of Russian goods, Russian occupation of parts of the Donetsk and Luhansk regions (where a lot of Russian companies were located), and the implementation of the Association Agreement with the EU, which shifted Ukrainian trade and working migration patterns from Russia to the EU.
However, the extent of this decline is not clear because the real ownership of companies is often obscured, as discussed in the previous section. Although Ukrainian law states that the information on UBO must be publicly disclosed, in 2019, 27% of the companies did not file their reports. Only 11% reported that their UBO was a foreign citizen (with the majority of these foreigners being citizens of Cyprus).139 The data on FDI both from 2010 and 2018 show that Cyprus is the number one foreign investor in Ukraine, closely followed by the Netherlands. The majority of these investments probably did not originate in these countries, but it is virtually impossible to obtain information on where it really comes from. The research140 141 shows that, very often, offshore investments are linked to corrosive capital.

5.1. CORPORATE PRESENCE

The Russian-owned company turnover as a share of the total turnover in the Ukrainian economy has been declining in the last five years, after reaching a peak of 4.6% in 2013. At the same time, the size of Russian-owned assets as the share of the total declined. Employment by Russian companies rose by 60% from 2010 to 2013 (from 1.7% to 2.7% of the total) and has been declining steadily since then.142

Russian economic presence in Ukraine is somewhat lower than the Russian economic presence in some of the Balkan countries. A report by Centre for Study of Democracy (CSD) prepared in partnership with several partnering local NGOs (using the same methodology) showed that in Montenegro, the turnover of Russian companies was much higher, reaching 25% of the country’s GDP at one point. In Serbia, this figure fluctuates around 10%. In Bosnia and Herzegovina, this figure is slightly lower than 5%, while in North Macedonia it is close to 0.143 An important distinction, is that while in the Western Balkans Russian economic presence remained relatively stable or increased throughout the period (2008-2016), in Ukraine, it decreased.

142 This figure includes both state-owned and privately-owned Russian assets
Most of the experts interviewed agreed that the impact of the Russian economic presence in Ukraine is at least partly negative, especially in media and in some crucial sectors such as infrastructure and defense, where either the share of Russia’s capital is significant or Russia can influence the managers of these companies either because of their pro-Russian attitudes or due to endemic corruption. Presence in media can be used to push a pro-Russian agenda. Having a considerable market share in defense or infrastructure means that Kremlin-backed entities could undermine these sectors, making Ukraine vulnerable to military aggression or weaker economically.

However, there is disagreement on whether all Russian capital has a negative impact. Some experts said that private Russian companies played a positive role in the Ukrainian economy, as they created jobs. Others noted that all companies, private or state-owned, played a negative role in Ukraine, as promoters of the Russian government agenda. The third point of view is that the Russian economic presence did not affect Ukraine. Even if Russia wanted to exert any influence, it would not succeed because of sanctions, public boycotts, and the success of Ukraine in the international courts, and corrupt officials that prefer making money over promoting Russia’s interests.

5.2. TRADE

Historically, it has been difficult for Ukraine to diversify its trade and move away from trade with Russia. At the end of 2018, Russia was Ukraine’s largest individual trading partner despite six years of trade restrictions imposed on both sides. Only at the end of 2019 did China overtake Russia as Ukraine’s largest trading partner. Russian imports to Ukraine made up 6.2% of GDP at the beginning of 2019, down from more than 17% in 2013.

Ukraine’s exports to Russia followed a similar pattern, peaking at 10% of Ukrainian GDP at the beginning of 2013 and declining to 2.8% of GDP at the beginning of 2019 (see Figure 2).

Figure 2. Trade with Russia as % of Ukrainian GDP

Figure 3. Trade deficit as % of Ukrainian GDP

Sources: Ukrainian Service of Statistics, UN Comtrade, CES calculations. Note: data for each year indicates data as of January 1st of that year.

Ukraine had a trade deficit with Russia throughout the decade, though it decreased significantly, from 10% of Ukrainian GDP at its peak at the start of 2001 to 3.4% at the beginning of 2019 (see Figure 3). As of 2018, most imports from Russia consisted of mineral fuels, oil, distillation products, and similar products (in 2019, this category constituted 58% of total imports from Russia or $4 bln). The second largest import category (nuclear reactors, boilers, machinery, and similar products) only constituted 6.9% of imports from Russia (or $479 mln). Ukraine’s exports to Russia are mostly comprised of iron and steel (21.5% of total Ukrainian exports to Russia, equivalent to $698 mln); inorganic chemicals, metal compounds, isotope (19.1% of total Ukrainian exports to Russia, equivalent to $618 mln); nuclear reactors, boilers, machinery, and similar products (14% of total Ukrainian exports to Russia, equivalent to $453 mln). Figure 4 shows the trade structure between Ukraine and Russia in more detail.

145 Note: here and in the following figures year indicates information on January 1st of that year and therefore reflects indicators for the previous year.
When Ukraine was a part of the Soviet Union, many of its production facilities were integrated into Soviet supply chains. Therefore, Ukraine has partly remained dependent, with Ukrainian heavy industry plants seeing both supply and demand coming from Russia.146 The experts interviewed suggest that such reliance is especially profound in machinery (including the production of defense-related products) and aluminum production.147

Ukrainian-Russian trade relations have always been linked closely to politics. There have been numerous cases when Russia had started “trade wars” due to foreign policy decisions made by Ukraine’s leadership. For instance, after Ukraine refused to join the Eurasian Customs Union in 2011, Russia imposed protective measures, at first banning the import of three leading cheese producers,148 afterward imposing a vehicle recycling fee for car exports.149

In 2014, Russia further imposed tariffs on Ukrainian products, terminated the Free Trade Agreement, and banned imports of Ukrainian agricultural and food products as well as raw materials.150 In response, Ukraine banned imports of the same products from Russia.151 Since then, Ukraine has also stopped trading military

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147 See metallurgy and coking coal section for more details.
goods with Russia, affecting 79 Ukrainian and 859 Russian medium and large-scale enterprises. In 2016, Russia continued its “trade war” by banning the transit of goods from Ukraine through Russian territory. In 2018, the list of prohibited products was expanded to more than 50 product groups, including machinery, agricultural products, and processed food items. Ukraine responded by imposing tariffs and bans on the same product groups and a special import tariff on gas oil and liquefied gas (LPG) from Russia, an embargo on Russian cement and plywood and pipelines.

In 2019, Russia banned the export of coal, oil, and oil products to Ukraine. This ban affected Ukrainian-Russian trade significantly, as the Russian diesel fuel, bitumen, and liquefied petroleum gas constitute 32% of the Ukrainian oil products market. In response, Ukraine prohibited Russian formalin, electric conductors, cans for canning, and electrical apparatus for switching or protecting electrical circuits. In 2020 Ukraine also introduced a special tax of 65% on electricity and coal imported from Russia.

Both Ukraine and Russia are members of the WTO. Ukraine submitted claims to the WTO against Russia regarding all of the measures mentioned above. However, none of them were sustained. Russia claims the trade restrictions are security measures, not shots in a trade war. Another Russian-Ukrainian trade dispute in the WTO was on measures imposed by Russia on the import of railway equipment and parts thereof. Initially, in 2018, the WTO ruled in favor of Russia. However, Ukraine appealed, and in February 2020, the WTO Organization upheld Ukraine’s complaint.

Though Russia’s trade restrictions hurt Ukraine’s economy in the short-run, some experts argue that they incentivized Ukraine to diversify its trade and, therefore, would have a positive effect in the long-run.

Data show that Ukraine’s geographical distribution of foreign trade has changed (Figure 5). In 2018, Europe accounted for 38.6% of exports, Asia for 31.6%, Commonwealth of Independent States (CIS) only for 16.1%. However, while Ukraine’s trade with Russia declined, trade with other regions did not grow enough to compensate, meaning that Ukraine lost a large part of its trade and did not gain much in return.


161 Europe includes all countries that are geographically located in Europe except CIS countries (all EU members + countries that are neither in EU nor in CIS such as North Macedonia).

Russia’s economic presence in the territories of Donetsk and Luhansk regions that are not under the control of the Ukrainian government is outside the scope of this report, due to a lack of reliable data. However, it is still noteworthy to point out the situation with illegal export from these territories. Some Russian companies allegedly continue to operate in the territories that are not under the control of Ukrainian government and continue supplying goods to the in government-controlled regions. For instance, the analysis by Liga.net shows that illegal export from these regions to Russia constituted around $200 mln, with the largest categories being agricultural goods, coal, and fuel. Ukraine continues to trade with these regions. Trade in coal deserves special attention. Since there were not enough deposits of hard-coal in Ukraine-controlled regions after the Russian occupation of parts of the Donetsk and Luhansk regions, Ukrainian companies continued importing hard-coal from these regions. Mines that produced such coal were often allegedly controlled by the leaders of the so-called DPR and LPR (Donetsk People’s Republic and Luhansk People’s Republic), and companies which transported the coal were linked to the allies of the former president Viktor Yanukovych. For instance, LIGA.net reports based on data from Ukrzaliznytsia that in 2016, 11.8 mln tons of hard-coal were imported from the occupied regions. Most of it was then processed in the Rinat Akhmetov’s factories. However, according to journalistic reports, the hard-coal from the occupied areas of Donetsk and Luhansk is transported not only to Ukraine but also to other countries. According to Liga.net, in 2016, 800,000 tons of hard-coil from these regions were exported to Russia; however, 73% of this was later re-exported to Russia.

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other countries such as Turkey, Italy, Estonia, Greece and Georgia.165 This is a problem as such export is illegal and does not go through the official channels and happens despite the sanctions and trade restrictions.

5.2.1. TRADE IN MINERAL FUELS

The EU has taken over a part of the Russian share of imports of mineral fuels and oil products. For instance, Ukraine stopped buying gas directly from Russia as the European price of Russian gas was and continues to be lower than the cost of Russian gas for Ukraine.166 Whereas in 2011, Ukraine imported mineral fuels and oil worth $20 billion from Russia, in 2018, the import of mineral fuels and oil from Russia declined to only $3.4 billion,167 and it is mostly oil. Total imports of Russian mineral fuels fell from 14% of Ukrainian GDP at the beginning of 1997 to just below 4% at the beginning of 2019 (Figure 6). The share of Russian imports in the total oil imports also decreased significantly between 2009 and 2019 from 50% to 32% in monetary terms or from 56% to 33% in natural units. Such decline could be at least partially attributed to the ban on the export of oil from Russia to Ukraine without special permits imposed by the Russian government (described in more detail above).

Figure 6. Trade flows in mineral fuels

Source: Ukrainian Service of Statistics, CES calculations. Note: data for each year indicates data as of January 1st of that year.

The import of Russian oil was considerable, especially before 2014. The latest uptick in the export of mineral fuels could be, in part, explained by the increase in oil prices and partly by the increase in the physical volume of oil imports from Russia since 2017.168


167 Total mineral fuel imports to Ukraine comprised $13.4 billion.

5.2.2. TRADE IN METALS

Metals are the only major trade category in which the trade balance with Russia is positive. Figure 7 shows the trade flows between Ukraine and Russia in inorganic chemicals and metals, including iron and steel, which constitute the largest trade in this category.

Figure 7. Trade flows in metals

Source: Ukrainian Service of Statistics, CES Calculations. Note: data for each year indicates data as of January 1st of that year.

Compared to the trade in mineral fuels, the trade in metals with Russia constitutes a relatively small percentage of Ukrainian GDP, with exports peaking at just below 3.5% of GDP at the beginning of 1997. Meanwhile, imports were highest at the beginning of 2009, reaching 1.5% of GDP. While exports have decreased from 3.3% of GDP to 0.73% of GDP, imports remained relatively stable, fluctuating between 0.5 and 1.5% of GDP between 1997 and 2019.

5.3. INVESTMENT

In the first decade after the collapse of the Soviet Union, Russian entrepreneurs started businesses and purchasing Ukrainian companies. It began during privatization in the Ukrainian energy and media sectors and was followed by heavy industry, and the financial sphere. Russian investors focused on some of the largest enterprises in Ukraine, having accumulated, at some point, a significant share in Ukrainian telecommunications, energy, and metallurgy.

However, according to official statistics, the Russian Federation has never been the biggest investor in Ukraine, as shown in Figure 8. Russia is only the sixth largest investor, after known tax havens such as Cyprus, the Netherlands, and the British Virgin Islands (BVI). It is unclear which share of Dutch, Cypriot, and BVI’s investment is of Russian, Ukrainian or Western origin. So we think that the official statistics should be used for the lower bound estimation of Russian investment in Ukraine.


To estimate the true amount of FDI that comes from Russia, both directly and through offshore companies, we used several data sources. We have found that a large portion of Russian FDI is reflected neither in Russian nor in Ukrainian official statistics but can only be observed when looking at data on investment projects, which takes into account investment by Russian citizens through offshores (Figure 9).


\[\text{Figure 8. FDI in Ukraine as % of GDP, selected countries}\]

\[\text{Figure 9. FDI from Russia, as % of Ukrainian GDP}\]

\[\text{Source: Ukrainian Service of Statistics, World Bank, CES calculations. LHS axis shows FDI (stock) as % of GDP, right hand side shows nominal investment in mln USD}\]
One of the data sources used is data from Monitoring of Mutual Investment database. This database includes a number of large scale investment projects in post-Soviet countries, including Ukraine, whose UBOs are Russian nationals. The investment projects are included even if the money was invested through offshores. According to this data, the Russian investment in Ukraine fluctuates between 6% and 9% of Ukrainian GDP. At the same time, according to both the Ukrainian Service of Statistics and the Russian Central Bank (they do not attribute the investment to the country of origin of UBO of the company), Russian investment in Ukraine is substantially lower at less than 3% of GDP. While the data from MIM database and Russian Central Bank is only available starting from 2009, we extrapolate the existing data assuming that it followed the same trend as the data from the Ukrainian Service of Statistics for those years. All these data sources show an initial fall of the investment stock as the percentage of GDP in 2014. While Ukrainian Service of Statistics data show that it remained low, two other datasets show that the investment has at least somewhat recovered since. As the Ukrainian Service of Statistics does not consider offshore investment as Russian, it could be the case that while the investment from Russia initially declined in the first year after the crisis, since then Russian companies have found a way to channel their money through offshores.

6. RUSSIAN PRESENCE IN KEY SECTORS

6.1. ENERGY

6.1.1. OIL

The largest Russian oil companies in Ukraine used to be Lukoil (private company), Rosneft (state company), TNK-BP (private until 2013), and Alliance Oil Ukraine (private company). TNK-BP owned 5% of Ukrainian petrol stations in 2009, but this number declined to 2.12% in 2016.\textsuperscript{172 173 174 175 176}

In 2014, Lukoil sold 240 of its Ukrainian petrol stations and six tank farms to a barely known Austrian investor AMIC, which according to the Deutsche Welle report allegedly might have connections to the previous...

\textsuperscript{172} “Трансформация Бизнеса АЗС.” Accessed May 21, 2020. \url{http://commercialproperty.ua/cp-articles/transformativa-biznesa-azs/}.
\textsuperscript{176} Here and later: the market share calculations (either by number of petrol stations or by sales) by CES based on the following sources:
https://www.ukrinform.ua/rubric-economy/2160454-shell-vistaviv-na-prodaz-17-zaprvoschik-ukraini.html ,
Russian owners.\textsuperscript{177} As of 2009, Lukoil owned approximately 4.5% of Ukrainian petrol stations.\textsuperscript{178} In 2019, AMIC owned about 3.08% of Ukrainian petrol stations. Thus, its market share has dropped only slightly.\textsuperscript{179}

As of 2013, Rosneft had 5% of market share in terms of sales.\textsuperscript{180} In 2016, its market share declined to between 2.8% and 3%.\textsuperscript{181, 182} Rosneft sold its petrol stations in Ukraine to the Swiss company Glusco Energy SA in 2016. However, some experts interviewed believed that Viktor Medvedchuk might be its real owner and LIGA.net allegeds, based on their sources, that Viktor Medvedchuk might be a real owner.\textsuperscript{183, 184} TNK - BP Commerce is still a part of the Ukrainian division of Russian TNK-BP (which has belonged to state oil company Rosneft since 2013). In 2014, Alliance Oil Ukraine, which had petrol stations in Ukraine in the partnership with Shell was bought by 'Independent Oil Company’.\textsuperscript{185} According to some media reports, such as RBK, Independent Oil Company that might be under the influence of Rosneft, as the head of Independent Oil Company Eduard Khudyaynatov used to be the head of Rosneft.\textsuperscript{186, 187} However, it is important to note that in 2016 the Russian court ruled that these companies should not be considered related.\textsuperscript{188}

As of 2009, companies linked to Russia owned 14.5% of Ukrainian petrol stations. However, when taking into account the most recent data available, this figure dropped to 8.1%.\textsuperscript{189}

It seems like Russia is more active in investing in petrol and oil trade with Ukraine, rather than investing in oil extraction in Ukraine. Russian investment in oil extraction was in consistent decline throughout the last ten years; however, even at its peak, it was negligible at 0.3 % of GDP. One notable exception is Pavel Fuks, a Russian businessman who also has Ukrainian citizenship. According to Ekonomichna Pravda journalists report he allegedly might own a 22% share in Ukraftburinnya, which as of 2016 was one of the TOP-3 largest

\begin{itemize}
  \item \textsuperscript{189} Given the lack of centralized data, the data was used for the last year available (2019 for AMIC, 2016 for TNK-BP and Glusco).
\end{itemize}
Some experts also emphasized the importance of diversifying energy usage from traditional energy sources such as oil and gas to alternative energy sources (such as solar energy), as there is no Russian monopoly in such sources. At the same time, others suggested that Russia has the most significant influence in oil and gas supply to Ukraine, which has allegedly received a number of oil extraction permits in recent years without taking part in formal auctions. However, Mr. Fuks himself denies links to that company. The Schemes TV program also reports that Viktor Medvedchuk’s family members might own a small share in Odesa transshipment complex, which receives oil after it is imported to Ukraine and stores it before further processing. However, the total combined share of Medvedchuk’s family in 4 companies of Odesa transshipment complexes relatively small, at only approximately 10%, according to the calculations by the Schemes TV program.

Experts disagreed regarding the influence of Russian capital in the oil industry: some said Russia has a much more significant impact in other sectors because the oil market is competitive, and Ukraine can buy oil from other sources. At the same time, others suggested that Russia has the most significant influence in oil because if it stops exporting oil, it will hurt Ukraine. Ukraine is dependent on Russian oil. Many oil refinery factories in Ukraine were bought in the 1990s (both by Russian companies such as Lukoil, TNK-BP, and Alliance group and Ukrainian oligarchs such as Ihor Kolomoyskiy). They, nevertheless, have either closed down or significantly decreased their production.

Some experts claim that Ukraine is still dependent on the imports of liquified gas and diesel fuel from Russia. Ukraine imports diesel fuel from Russian and Belarussian suppliers, also allegedly connected to Russia. The idea that the diesel fuel that Ukraine imports from Belarus is not actually Belarussian is further supported by the data from Belarussian Service of Statistics, which shows that imports of diesel fuel to Belarus was ten times own production. The data from Ukrainian service of statistics confirms this opinion: the Russian share of liquified gas imports increased from 26% in 2010 to 44% in 2019 (or from $8.5 mln to $271.7 mln). Some experts also emphasized the importance of diversifying energy usage from traditional energy sources such as oil and gas to alternative energy sources (such as solar energy), as there is no Russian monopoly in the alternative energy sources and such diversification would help to reduce Ukrainian dependence on Russia.

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6.1.2. GAS

Ukraine had depended on Russian-imported gas since 1992 when the two countries signed the first agreement on gas transit and supply. This dependency was used as political leverage several times.199 In 2005-2006, Gazprom halted the supply of natural gas after Ukraine refused to pay European gas prices. This conflict was resolved after an agreement was signed that separated the payments for transit and deliveries. The price was temporarily set at $95 per thousand cubic meters for a mix of Russian gas at $230 and Turkmen gas at $44.200 During this period, RosUkrEnergo, owned by Russian Gazprom and Ukrainian oligarch Dmytro Firtash,201 became an intermediary in the gas trade. RosUkrEnergo was responsible for transporting and reselling the Turkmen gas in Ukraine and Radio Svoboda journalists claim that the company might have extracted profits from price arbitrage.202

The next major gas crisis came at the end of 2008. On December 31, President Dmitriy Medvedev announced that the price of gas in 2009 would double to $450 per 1,000 m³. RosUkrEnergo had to pay off the debt immediately; otherwise, gas supplies would be halted. On January 1, 2009, Russia stopped gas supplies to Ukraine; on January 7, the transit of Russian gas through Ukraine stopped entirely.203 Later in January, Gazprom and Naftogaz signed a new agreement, and gas supplies and transit were resumed. In 2010, Ukrainian president Viktor Yanukovych and Russian president Medvedev signed the Kharkiv Accords to reduce gas prices by 30% in exchange for extending the lease agreement for the base of the Russian Black Sea Fleet in Sevastopol for 25 years until 2042.204

After the annexation of Crimea in 2014, Russia denounced the Kharkiv Accords and canceled the gas discount.205 206 As of 2013, Ukraine imported 12.9 billion cubic meters of natural gas from Russia, which constituted 92% of its natural gas imports.207 Ukraine refused to buy Russian gas after 2016 and switched to Europe’s reverse gas supplies to Ukraine.208 Russia repeatedly tried to prevent the switch. For example, in 2014, after the large-scale reverse from Slovakia to Ukraine, Gazprom limited gas supply to Europe. Though the attempts to stop the reverse were unsuccessful, Gazprom allegedly spent more than $5 bln trying.209


205 However, the 30% discount was in force only for the first quarter, after that the agreement stipulated that the price could change.


In 2017 and 2018, the Stockholm Arbitrage court ruled in favor of Ukraine. It ordered Gazprom to pay Naftogaz $4.63 bln for underdelivering to Ukraine, and it declined Gazprom’s demands to Naftogaz.\(^{210}\) The victory shows that Gazprom is not as successful in using gas as leverage on Ukraine as it was before. Whether the Kremlin will be able to use gas as leverage once again depends on whether it will be able to finish the Nordstream-2 project. If that project is completed, Russia will be able to threaten to stop the transit of its gas through Ukraine. Most experts interviewed agreed that it is highly unlikely that Ukraine would start importing gas from Russia in the same volume as before, citing the significant decline in local consumption. However, some experts said that it might be in Ukraine’s interest to start importing gas from Russia directly, but only if Russia offers better conditions than Europe.

Another significant milestone in the Ukrainian oil and gas industry is substantial reforms in Naftogaz that took place after 2014. In 2015, Naftogaz implemented corporate governance reform, formed an independent supervisory board, and attracted new staff for critical roles to address its political dependence.\(^{211}\) The reform of Naftogaz is generally perceived as successful both by Ukrainian experts and international observers.\(^{212}\)

Though there is significant progress in reducing dependence on Russia and Russia-connected individuals, when it comes to the trade in gas, Dmytro Firtash (described above) continues to retain significant control over many regional gas distribution companies. In 2015, Firtash had a share in 24 out of 39 regional gas companies according to media reports. As of 2019, he still allegedly have had a share in 20 out of 39 regional gas companies.\(^{213}^{214}\) In 2019, the Antimonopoly Committee of Ukraine fined Firtash’s company for allegedly overcharging consumer, abusing its monopoly position.\(^{215}^{216}\)

Some experts emphasized the importance of relying on free-market mechanisms when combatting the Russian influence in gas in particular and energy more generally. In a free market, Russia does not have an advantage, given its lower productivity and higher cost of capital. Therefore, under market conditions, it would lose to other countries. Ukraine has already relied on market mechanisms to reduce its dependence from Russia with success (for instance, buying gas from Russia directly but through reverse methods). It can continue to do so in the future.

### 6.1.3. ELECTRICITY

The existing Russian presence persists in energy distribution and nuclear energy fuel supply and maintenance of nuclear stations.


VS Energy is one of the largest private electricity companies in Ukraine. It used to control 9 out of 24 Ukrainian regional electricity distribution companies. Although officially the UBOs of VS Energy are German and Latvian citizens, investigative reports link it to the Russian businessman Oleksandr Babakov, who is under EU and US sanctions. Before 2019, VS Energy allegedly owned 68.3% of the shares in the Odesa and 94% of the Kyiv electricity distribution companies. Those stakes were later sold to the largest power and coal producer, DTEK, owned by the Ukrainian oligarch Rinat Akhmetov. Currently official registries available in YouControl suggest that the UBO of Odessa and Kyiv regional distribution stations is Rinat Akhmetov. As of 2020, VS Energy according to official Ukrainian SMIDA database owned shares in 4 out of 24 Ukrainian regional electricity distribution companies.

Another Russian businessman, Kostiantyn Grygoryshin, who also has Ukrainian citizenship, owns the company Energy Standard. He allegedly has stakes in the Vinnysia, Poltava, Chernihiv, and Sumy regional electricity distribution companies and the Luhansk energy union according to media reports and YouControl analytical system labels these companies as part of “Energy Standard group”, even though, according to the data from official registries the UBOs of these companies are either companies registered in Cyprus.

Viktor Medvedchuk also has connections to at least three regional electricity distribution companies. According to the “Schemes” TV programme journalistic reports, based on his latest personal financial disclosure declarations, Medvedchuk’s wife, Oksana Marchenko has stakes in Lviv, Prykarpattia and Zaporizhzhia regional distribution companies.

220 https://youcontrol.com.ua/contractor/?id=6514259
221 https://youcontrol.com.ua/contractor/?id=6514173
224 https://youcontrol.com.ua/contractor/?id=8512168
225 https://youcontrol.com.ua/contractor/?id=8295906
226 https://youcontrol.com.ua/contractor/?id=8350211
227 https://youcontrol.com.ua/contractor/?id=8325932
228 https://youcontrol.com.ua/contractor/?id=12597399
229 Medvedchuk personal financial disclosure declarations for 2019, https://public.nazk.gov.ua/declaration/bed4526c-8509-4ba6-85a3-3af2b61678b
Therefore, as of 2019, 19 out of 24 regional electricity distribution companies were at least partially owned by one of the Russian companies or individuals with the connections to Russia. In 2019, these companies held 75% of the total assets of regional electricity distribution companies and 75% of total revenue.

Experts disagreed on the extent to which Russian capital influences the electricity sector. Some said that owning local electricity distribution plants does not give Russians any political influence (or that it gives them much less leverage than Ukrainian oligarchs who own more regional electricity distribution companies). Others said that it still grants them some influence.

Ukraine gets more than half of the electricity produced from its nuclear power plants owned by SOE Enerhoatom. The sector is dependent on Russia in three ways: fuel supply, waste management, and technology for the production of nuclear fuel assemblies in Ukraine, exclusively for fuel of the Russian state company TVEL.

All 15 nuclear reactors that are currently active in Ukraine were produced in Russia. Three out of four Ukrainian Nuclear Power Plants (NPPs) send their nuclear waste to Russia. Only Zaporizhzhia NPP conserves its nuclear waste in concrete capsules to preserve in Ukraine. To break this reliance, Ukraine has been building a central storage facility for nuclear waste in the Chernobyl area for the past 15 years.

All 15 nuclear reactors that are currently active in Ukraine were produced in Russia. They were designed exclusively for fuel of the Russian state-owned company TVEL. However, from 2014, Ukraine has started to diversify its nuclear fuel supplies, substituting TVEL fuel with Western-manufactured reactor fuel supplied by Westinghouse. Currently, US fuel is used in the cores of six power units of two power plants. As of 2019, TVEL’s and Westinghouse’s share of nuclear fuel was almost equal.

In late 2019, Enerhoatom received an offer from Westinghouse regarding a preliminary feasibility study of the design and technology for the production of fuel assemblies in Ukraine, currently under consideration. If approved, Westinghouse

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231 Here we take into account both those regional energy distribution stations that are directly owned by Russian companies, individuals or individuals connected to Russia, and those that do not list Russian companies or individuals as their UBOs, but there might be an indirect connection based on the media reports, YouControl analysis or ORBIS database.


would be able to produce nuclear fuel in Ukraine, making it easier and cheaper for Ukraine to purchase it, thus helping it diversify from Russian-produced fuel.

Experts interviewed generally acknowledged that Ukraine has done a lot to address its dependence on Russia’s nuclear energy. Many also said that Russia had lost its leverage as it became easier for Ukrainians to switch to US suppliers. At the same time, many noted that diversification is a long, technical process. Some experts also emphasized the potential to increasingly use small modular reactors, as an alternative to traditional nuclear power plants, to decrease dependence on Russia in nuclear energy. Capital expenditure for small reactors is lower, yet their capacity is similar.241

Some experts interviewed emphasized the measures Ukraine has yet to take to reduce its energy dependence on Russia. These include continuing to pressure Russia to remove restrictions on transit through Russia to Ukraine from other counties, e.g., Central Asia, to remove restrictions on oil exports from Russia to Ukraine, and to move the point of gas purchase to the Ukraine-Russia border from the Ukraine-EU border.

6.2. BANKING

The Russian investment in the banking sector was the highest out of all the industries analyzed, especially at its peak in 2011-2014. Figure 10 shows that at its peak at the beginning of 2011, the stock of Russian investment into financial and insurance industries constituted 1.7% of Ukrainian GDP. In absolute terms, the presence of Russian banks has been decreasing since 2011, in relative terms, compared to the total bank assets, it peaked at the beginning of 2014. However, it had decreased significantly since, especially after 2014, reaching negative values in 2016 when many banks experienced losses. Anecdotal evidence and the fact that only 5 out of 13 banks survived the crisis, confirm this finding.

Figure 10. The stock of Russian investment in the finance and insurance industries,

Source: Ukrainian Service of Statistics, National Bank of Ukraine, CES Calculations. Note: data for each year indicates data as of January 1st of that year. % of GDP displayed on the left axis; mln USD is shown on the right axis. The methodology of calculating the stock of investment in the finance industry changed in 2015 by the Ukrainian Service of Statistics and the National Bank of Ukraine. Therefore, it is not entirely correct to compare figures that were calculated using different methodologies.

From 2005, Russian presence expanded in the Ukrainian financial sector. By 2009, there were 13 Ukrainian banks owned by Russian capital (including one owned by Vadym Novinskyy, who later received Ukrainian citizenship). The Russian Alfa-Bank (Russian private owner), VTB Bank (Russian state bank), and Prominvestbank (Russian state bank) were among the top ten largest financial institutions in Ukraine. According to expert interviews, before 2014, many Russian state-owned banks aimed to give loans to Ukrainian SOEs (including those in the defense sector) and large private companies to make them dependent on Russian credit and ultimately get direct access to the managers of these companies. For instance, in 2012, Deputy Chairman of the Board of Prominvestbank Vyacheslav Yutkin claimed that Ukrainian state-owned enterprises constituted more than 50% of the bank’s credit portfolio. Similarly, Vice President of Russian VTB Bank Maksym Stukharkiy said that it had given loans to state-owned companies in the defense sector in the past. Further, as of January 1, 2013, one-third of the debt of the Ukrainian state-owned railway enterprise Ukrzaliznytsia was due to Russian banks. According to the expert interviews, Russian banks were in a better position to give loans to Ukrainian state-owned companies, as they had more assets than Ukrainian banks, were supported by their Russian parent company, and therefore were able to issue more loans. After the 2014 crisis, some of the Ukrainian state-owned enterprises, including Ukrzaliznytsia, were not able to repay their loans. In 2019, Prominvestbank sold Ukrzaliznytsia debt to VR Capital Group; however, the court process concerning these loans is still ongoing.

Since 2014, the number of Russian banks operating in Ukraine has dropped dramatically. First, many Ukrainians withdrew their deposits from Russian banks for political reasons, and the banks became insolvent due to liquidity shortages. Second, Russian banks, as many other banks in Ukraine at the time, suffered from the ballooning non-performing loans fueled by the economic and financial crisis of 2014-15. According to expert interviews, Russian banks entered the crisis in a more vulnerable state as they were granting more loans in the foreign currency, which their clients were not able to pay back after a drastic devaluation of the Ukrainian hryvnia. Some such loans could have been given based on the political motives to the companies that were not able to repay them. As of 2017, all Russian state-owned banks were in the top-10 banks with the highest share of NPLs (non-performing loans) in Ukraine (95% in VTB, 72% in Prominvestbank, and 53% in Sberbank).

Third, in 2017 the National Security and Defense Council of Ukraine banned state enterprises from having accounts in five Russian banks (Sberbank, VS Bank, Prominvestbank, VTB Bank, BM Bank), as well as from borrowing from these banks. This legislation combatted the risk associated with large-scale loans by Russian state-owned banks to Ukrainian state-owned companies, as described above. This legislation also forbade

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these banks' shareholders to withdraw capital or dividends and transfer these funds outside Ukraine.247 The ban did not apply to payments, money withdrawals, and money transfers made by these banks' customers, so it hurt only the shareholders and not the customers.248 According to both expert interviews and former President Petro Poroshenko, the primary aim of these sanctions was to reduce the share of banks with Russian capital and, therefore, incentivize Russian UBOs to sell the banks.249 Experts interviewed generally agreed that these restrictions were effective in reducing the market share of Russian banks.

All these factors led to Russian banks either being liquidated or exiting the market.

As of 2019, there were only two banks with Russian state capital left in Ukraine: Sberbank and Prominvestbank. Their net assets were 44.1 bln UAH ($1.65 bln) in 2019, which is 3.2% of the total volume of net assets in the banking sector of Ukraine.250 The extent of business activities of both of these banks was very low.251 Some experts interviewed suggested that they de-facto might not be working anymore and merely looking for ways to exit and minimize losses. In March 2020, 99.7% of the Prominvestbank stocks were sold to the unknown buyer for 268.7 million UAH (approx. $11 mln).252 The stocks were sold under Ukrainian court order, without the consent of Russian Vneshekonombank that was the previous owner of Prominvestbank, to compensate for the losses of Ihor Kolomoisky's companies. Russian Vneshekonombank, the previous owner of the Prominvestbank, considers this sale to be unlawful and threatens to compensate for the losses of Ihor Kolomoisky's companies.253 The new owner of the bank has not received prior consent from the NBU, so the bank may be declared insolvent.254

Meanwhile, privately-owned Alfa-Bank remains one of the top ten banks in Ukraine in terms of its assets' volume. Experts interviewed noted that Alfa-Bank is the only Russian bank that has expanded its reach in recent years as it bought Ukrsotsbank in 2019 (which previously was owned by the Italian UniCreditGroup).255 Experts disagreed on whether the bank has a net negative or positive effect on Ukraine.

Table 1 provides an overview of the Russian banks that were present in Ukraine in 2009 and what has happened to them since. In 2009, 10 of 13 Russian banks (except Prominvestbank, VS Bank, Bank Renaissance Capital, the data for which is not available) owned almost one-tenth (9%) of all Ukrainian Banks. As of now, Russian banks have 7% of the market share.

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### Table 1. Russian banks in Ukraine

<table>
<thead>
<tr>
<th>Name</th>
<th>Ownership</th>
<th>Share in banking system assets in 2009 (%)</th>
<th>Summary of the current state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alfa-Bank</td>
<td>Private (Mikhail Friedman, Alfa Group)</td>
<td>3.997</td>
<td>Active, remains one of the top-10 banks in Ukraine (the 6th place) in terms of the volume of assets. In 2020, the market share in terms of assets is 5%.</td>
</tr>
<tr>
<td>VTB Bank</td>
<td>State-owned (majority state participation of the Russian Federation)</td>
<td>3.326</td>
<td>Was declared insolvent in 2018</td>
</tr>
<tr>
<td>Prominvestbank</td>
<td>State-owned (VEB.RF (ex-Vnesheconombank) - Russian state development corporation)</td>
<td>no data</td>
<td>99.7% of shares were sold in 2020</td>
</tr>
<tr>
<td>Sberbank</td>
<td>State-owned (Central Bank of Russia, Russian Ministry of Finance)</td>
<td>0.647</td>
<td>Active, market share of 1.8%</td>
</tr>
<tr>
<td>VS Bank</td>
<td>State-owned (Sberbank, which is owned by the Russian Federation)</td>
<td>no data</td>
<td>Was bought by Ukrainian businessman Serhiy Tigipko in 2017 and merged with Tascombank in 2018</td>
</tr>
<tr>
<td>BM Bank</td>
<td>State-owned (Russian Group VTB, Government of the Russian Federation)</td>
<td>0.351</td>
<td>Stopped banking activity in 2018 on its initiative</td>
</tr>
<tr>
<td>Bank Renaissance Capital</td>
<td>Private (Renaissance Holdings Management Limited, RHML)</td>
<td>no data</td>
<td>Was bought by Rinat Akhmetov’s ”PUMB” Bank in 2015</td>
</tr>
<tr>
<td>Energo bank</td>
<td>Private (National Reserve Corporation, A. Lebedev)</td>
<td>0.162</td>
<td>Was declared insolvent in 2015</td>
</tr>
<tr>
<td>Petrokomertsbank Ukraine</td>
<td>Private (V. Alekperov, Lukoil)</td>
<td>0.113</td>
<td>Was declared insolvent in 2016</td>
</tr>
<tr>
<td>Russian Standard</td>
<td>Private (Tariko Rustam, Russian Federation)</td>
<td>0.021</td>
<td>Active but was renamed “Forward Bank,” market share 0.14%</td>
</tr>
<tr>
<td>Bank Trust</td>
<td>Private (citizens of Russian Federation)</td>
<td>0.05</td>
<td>Was declared insolvent in 2016 and liquidated</td>
</tr>
<tr>
<td>PIN Bank</td>
<td>Private (VS Energy)</td>
<td>0.104</td>
<td>Active, market share remains small at 0.09%.</td>
</tr>
<tr>
<td>UNEX Bank</td>
<td>Private (Vadym Novinsky)</td>
<td>0.058</td>
<td>Active, as of 2017 market share at 0.049 %</td>
</tr>
</tbody>
</table>


6.3. METALLURGY AND COKING COAL

Russian investment in the metallurgy was negligible in the last ten years and fluctuated between 0.01 and 0.02% of GDP.\(^{257}\) Though Russians have purchased several metallurgical plants, they often failed to invest in them and subsequently sold them to Ukrainian companies such as Metinvest or closed down the plans. CES calculations show that the assets of metallurgical companies with Russian owners constituted 24% of assets of all large metallurgical companies in Ukraine in 2012. As of 2018, this figure stayed almost unchanged at 26%.\(^{258}\)

Many of the Russia-owned or controlled metallurgical and coking coal companies are located in the Donetsk and Luhansk regions, parts of which are not under the control of the Ukrainian government. For instance, RBK reports that the Russian businessman Igor Zuzin is connected to the Donetsk electrometallurgical plant, as he allegedly wrote a letter to the Russian vice Prime Minister, asking for his help to recover the investment into the plant.\(^{259}\) However, according to the official registries, available at YouControl, the UBO is a company from Cyprus.\(^{260}\) The Russian businessman Viktor Nusenkis, who, as Forbes alleges has close ties to the Kremlin,\(^{261}\)\(^{262}\) has established and, according to Ekonomichna Pravda report allegedly holds the Donetsk metallurgical plant, which owns 97.2% of Makiiv coking coal.\(^{265}\) Though, the Ukrainian official registries show that the UBO is a company registered in Cyprus, YouControl analytics module that allows to find the links between a company and its likely real UBO shows that plant allegedly is part of the Viktor Nusenkis group.\(^{264}\) According to Ukrainian intelligence agencies, the equipment of more than 20 plants (though not all metallurgical) from these regions was transported to Russia or severely damaged to ruin Ukrainian capacities.\(^{265}\)

However, some metallurgical plants and companies located outside of Donetsk and Luhansk regions are also controlled by Russian capital. Evraz Company (whose UBOs are Russian businessmen: Roman Abramovich, Oleksander Abramov, and Oleksander Frolov) controls several metallurgical plant complexes in the Dnipro

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\(^{257}\) Based on data from Ukrainian Service of Statistics and CES calculations.

\(^{258}\) Sources: financial data from financial statements of companies, YouControl. List of large metallurgical companies in Ukraine from Ukmetsalurigrum union. Wherever possible, companies that were located on the occupied territories of Donetsk and Luhansk regions were excluded from calculations. Calculations by CES. For this calculation, we did not consider "Metinvest" to be a Russian company. Though the majority shareholder in Metinvest is Rinat Akhmetov, it is co-owned by Vadim Novinsky, who though adopted Ukrainian citizenship, allegedly still may have Russian citizenship. If "Metinvest" is considered Russian, share of Russian assets in metallurgy in 2012 constituted 76% and 77% in 2018.


\(^{260}\) https://youcontrol.com.ua/contractor/?id=10482800


\(^{262}\) It is unclear whether he currently has Ukrainian or Russian citizenship.


\(^{264}\) https://youcontrol.com.ua/contractor/?id=8266226

In the past few years, Russian owners sold a large number of these companies. In December 2017, Evraz sold a 94.96% stake in the Yuzhkok coke plant to Metinvest, owned by Rinat Akhmetov and another Ukrainian oligarch Vadim Novinskyi, who also reportedly has Russian citizenship. According to the company’s report, the transaction value amounted to $65 million. The same year, Evraz also sold other non-core assets. In particular, the Ukrainian Sukha Balka mine, which was bought by Oleksandr Yaroslavsky. In 2018, Evraz also sold the Ukrainian Evraz-Dniprovy Metalurgical Plant (Evraz-DMZ) for approximately $106 million to Oleksandr Yaroslavsky.

Similar concerns are related to another company that has significant influence in metallurgy: Rusal (owned by Russian businessman Oleg Deripaska). Before 2017, Rusal owned Mykolayiv Alumina Refinery Company, which is the only plant in Ukraine that produces alumina, a raw material for aluminum production. In 2007, Rusal purchased the Zaporizhzhia aluminum production plant, the only plant in Ukraine that used to produce raw aluminum. Subsequently, the Zaporizhzhia aluminum production plant stopped operations, meaning that Mykolayiv Alumina Refinery Company became unable to supply its products anywhere in Ukraine, making it dependent on trade with Russia. However, Ukraine argued that Rusal did not fulfill its obligations as investors and re-nationalized 68% of the Zaporizhzhia aluminum production plant. Security Service of Ukraine claimed that Rusal had deliberately halted the operations of the Zaporizhzhia aluminum production plant, transporting the valuable equipment to Russia, acting in the interests of Russia. At the same time, Rusal managed to retain control over the Banysky quartzite deposit near Zaporizhzhia, supplying quartzite produced there to Russia.

283 Although later Rusal sold Mykolayiv Alumina Refinery Company to the Swiss company Glencore, it still remains dependent on trade with Russia.
According to Liga.net report Russians (namely, Aleksandr Katunin, former co-owner of Evraz) also own 50% of shares in the Industrial Union of Donbas (IUD) group (the other 50% belong to Ukrainians Serhiy Taruta and Oleh Mkrtchan) that owns several metallurgical plants in Eastern Ukraine.281 Though, the official registries from YouControl database only list Taruta and Mkrtchan as UBOs.282 Taruta acknowledged in the interview that part of the company was sold to Russians, suggesting that the real UBO is Russian state-owned Vneshekonombank.283 In 2010 Russians also purchased 50% of another metallurgical plant: Zaporizhstal, according to the LIGA.net report (the other 47% are owned by Metinvest company, connected to Rinat Akhmetov and Vadim Novinskiy).284 Though once again it is unclear who the ultimate UBO is (official registries suggest that the major shareholders are a Metinvest company, registered in Netherlands, a company from UK and 2 Ukrainian companies),285 experts interviewed for this report claim that as in the case with IUD, it might be Russian state-owned Vneshekonombank. Ukrainian Pravda journalists also reported back in 2010, that the Russian buyers of Zaporizhstal might have had connections to Vneshekonombank.286

Another Russian company that, according to the reports of “Novoe Vremya” magazine and registry data in the YouControl system287 owns several metallurgical plants in Ukraine (specializing in titan) is VSMPO-Avisma288, which is part of Russian state defense concern Rostec.289 It produces weapons for the Russian army.290 According to journalistic reports of Business.Censor, VSPMO-Avisma might use its presence in Ukraine to continue exporting to the US despite sanctions against it.291

Recent journalistic reports also link several large metallurgical companies to Viktor Medvedchuk. The Schemes TV program’s calculations based on Medvedchuk’s financial disclosure declaration292 shows that his wife has at least a 17% stake in Dnipropetsstal plant and almost 50% stake in Zaporizhzhia ferroalloy plant.293

281 https://project.liga.net/projects/isd/
282 https://youcontrol.com.ua/contractor/?id=17617162
292 Medvedchuk personal financial disclosure declarations for 2019, https://public.nazk.gov.ua/declaration/bd4326c-8509-4ba6-85a3-3a2fb61678b
The largest producer of coking coals in Ukraine is Pokrovs’ke coal mine. Though it previously belonged to the Russian oligarch Viktor Nusenkis, he sold it to the Metinvest holding in 2018. The transaction was valued at $714 mln and was the largest mergers and acquisitions deal in Ukraine in 2018.294

In addition to the physical presence of Russian metallurgical companies in Ukraine, some experts emphasized the dependence of Ukrainian metallurgical companies on trade with Russia: due to the interdependence of the supply chains between Ukraine and Russia, many of the Ukrainian companies are unable to sell their products elsewhere. The data from the Ukrainian Service of Statistics show that metallurgy exports to Russia have been decreasing since 2012.295 296 Such a decrease does not necessarily mean that Ukrainian metallurgical companies are investing in becoming independent from supply chains with Russia; experts suggest that it could be due to increased metallurgical production in Russia, meaning that it became more difficult for Ukrainian companies to compete in the Russian market, leaving them without sales and revenues.

The experts interviewed disagreed on whether the Russian influence in the metallurgy remains significant. While some say that Russia has a considerable influence, others say that with the occupation of parts of Donbas regions and the closing down of some of the metallurgical plants, this influence became much less potent and is much smaller than in other sectors, such as telecommunications and banking.

6.4. TELECOMMUNICATIONS

At least two of three critical Ukrainian mobile operators (Vodafone, Kyivstar, and lifecell) have links to Russia through their owners, ensuring the de-facto monopoly of Russian capital in telecommunications. If Vodafone still retains links to its previous Russian owners, companies with ties to Russia control 100% of the telecommunications market. If Vodafone is excluded, companies with links to Russia have a combined 63% market share. Kyivstar, which has the largest share of Russian capital, also has the largest market share (around half of the whole telecommunications market).297

**Kyivstar.** In November 2019, the Norwegian telecom holding Telenor sold its 8.9% stake in the Veon holding (parent company of Kyivstar) to Alfa Group (Russia) for $362 million. The current largest shareholder in Veon (and, therefore, in Kyivstar) is Alfa Group, which is controlled by Russian national Mikhail Fridman.298 As of 2019, Kyivstar had 50% of users and 48% of revenues.299

**Vodafone** is the only telecom operator that currently has no apparent links to Russia. However, in the past the company was called MTS or “Moscow Telecommunications Systems” and was part of “MTS Group”, which

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296 However, despite decreasing from 2012 to 2018, the export had somewhat increased in 2019.


also had presence in Russia. In 2019, it was acquired by the Azerbaijani NEQSOL from the previous owner, Russian billionaire Volodymyr Yevtushenkov. However, there was some disagreement among the experts interviewed. Most believed that it was a real transaction, but others thought that Russians still might maintain their influence on Vodafone. As of 2019, Vodafone had a 37% market share in terms of number of users and 38% market share in terms of revenues.

**life:cell.** Though initially shares of life:cell, which was previously known as life;:), were divided between Ukrainian oligarch Rinat Akhmetov and Turkish company Turkcell. Eventually, Turkcell bought 100% of the shares. However, Turkcell is partially owned (15.3%). by the Russian Alfa Group. As of 2019, life:cell had 13% of users and 13% of revenues.

Some of the experts interviewed said that the existing Russian presence in telecommunications has the most significant impact due to Ukraine’s resulting strategic vulnerability in this critical sector. Its companies have a high market share and can use this power to pursue adverse goals (such as collecting personal information and listening to private conversations). However, other experts argued that their only objective is making a profit, and therefore their presence does not have any negative influence on Ukraine.

### 6.5. OTHER SECTORS

**Chemicals. EuroChem** is a Russian producer of mineral fertilizers. In 2017, the Ukrainian Ministry of Economic Development imposed sanctions against the EuroChem group. EuroChem, in turn, announced the sale of its subsidiary in Ukraine in May 2018. Firtash is a Ukrainian oligarch who, as described in the sections above, might have benefitted from the gas trade between Russia and Ukraine and who allegedly, according to Anti-monopoly Committee of Ukraine controls a large share of the mineral fertilizers market (more than 35%). In addition, according to multiple media reports, for instance Russian magazine "Kommersant" since 2010, Firtash has been working with Arkadiy Rotenburg, a Russian businessman. Their cooperation,

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303 "Из России с Любовью. Кому Принадлежат Украинские Операторы.” Accessed January 30, 2020; [https://uij.me/2015/06/owners-of-ukrainian-operators/](https://uij.me/2015/06/owners-of-ukrainian-operators/).

304 "Из России с Любовью. Кому Принадлежат Украинские Операторы.” Accessed January 30, 2020; [https://uij.me/2015/06/owners-of-ukrainian-operators/](https://uij.me/2015/06/owners-of-ukrainian-operators/).


306 "€Eurohim" Ушел с Рынка Украины Из-За Эмбарго На Поставки Удобрений :: Бизнес :: РБК.” Accessed January 30, 2020; [https://www.rbc.ru/business/16/05/2018/5acf45039a794717991e53f8](https://www.rbc.ru/business/16/05/2018/5acf45039a794717991e53f8).


according to the report by “Business Censor” could have involved joint purchases of enterprises both in Ukraine and Russia and Firtash allegedly might have been purchasing ammonia from Rottenburg, at least up until 2016, at lower prices than the prices at which Rottenburg’s company sold ammonia to Ukrainian state-owned companies.\textsuperscript{310} In 2019, the Antimonopoly Committee of Ukraine ordered Firtash to reorganize his companies to break up his monopoly, but in August 2020 the court has cancelled this decision.\textsuperscript{311, 312}

Russia’s capital is also active in the agricultural, textile, manufacturing, and tobacco industries. Other sectors with some Russian presence mentioned by the experts interviewed include the IT sector, retail, hospitality sector, real estate, and illegal lottery business. However, its share in these sectors is lower. Ukraine is not dependent on it, and the sectors do not represent Ukraine’s crucial infrastructure.

To sum up, Russia’s maintains its economic footprint in critical sectors, despite the fact that its market share has decreased in most of the industries studied. While the share of Russian investments has decreased in the last ten years, Russia’s capital still has at least some influence, particularly in the energy, metallurgical, and oil industries. However, the experts disagree on the extent of this influence.

It seems that, generally, Russian capital departed from Ukraine during the last five years. However, in some cases, discussed in more detail above, such transactions seem to be illusory.

7. POLICY RECOMMENDATIONS

Overall, while Russian capital may have a negative influence on Ukraine in specific sensitive industries, this impact is exacerbated by corruption and challenges with the rule of law in Ukraine. To ensure that neither Russia nor Ukrainian oligarchs nor any other foreign country exploit gaps in governance, Ukraine must fight corruption, continue the reform of the judicial system, and improve the rule of law.

This analysis shows that the presence of Russian capital decreased in the last five years, yet it has not entirely left Ukraine and remains influential. On the one hand, trade between Ukraine and Russia has decreased significantly, and the Russian presence in some of the critical sectors has weakened considerably. For instance, the number of banks with Russian capital has dropped, and Ukraine stopped importing natural gas directly from Russia. Some of the metallurgical plants owned by Russian investors were either sold or went out of business.

Despite high-profile cases of Russian capital leaving Ukraine, however, statistics show that the decrease in the Russian footprint was not, in fact, as drastic. Several factors could be driving this. Moreover, nominal data on the Russian presence does not account for the fact that Ukraine experienced a significant economic downturn in 2014–15. This hurt both Ukrainian and Russian companies.

Many companies that appear to have been sold by their Russian owners in light of sanctions were only sold de-jure and remain under de-facto control of their previous owners. Moreover, while Russia has remained active in using political amplifiers, such as supporting pro-Russian political parties, church, and media, such...
actors’ overall influence has decreased. Since the beginning of the war, a pattern of cooperation emerged between Ukrainian and Russian oligarchs. For example, Ukrainian oligarchs buy assets from the Russians or help Russians maintain control over critical assets and thus avoid sanctions.

Overall, the data show that Russian influence has decreased in recent years. However, as discussed above, the data are often insufficient and unreliable and mask the true extent of the Russian presence. Moreover, Russian investment is often concentrated in crucial sectors of the economy (energy, banking, metallurgy, telecommunications). This means that improving our ability to estimate the Russian presence in Ukraine accurately is critical to the national security of the country. Though, as discussed above, the Russian presence in some of these sectors has decreased significantly in recent years, some Russian companies remain active. Moreover, the lack of transparency in offshore investment makes it difficult to assess the full extent of Russian presence. To address this and improve the understanding and risk assessment of the Russian economic footprint, Ukraine should consider the following:

1. **Improving transparency of party finance.** Although political parties are prohibited from taking money from foreigners, the entire process lacks transparency. Parties sometimes spend more than they declare, for instance, by receiving “free” favorable coverage in media. Or they receive substantial funds from small companies or individuals that could be used to hide the true origin of their funds. However, according to Ukrainian laws, a political party itself is not responsible for receiving funds from these groups. Instead, the donor has full responsibility.\(^{313}\) We think it is essential to improve the transparency of the party finance system by enhancing the enforcement of existing laws, making parties partly responsible for the donations they receive, and improving the monitoring of party expenses by the National Agency on Corruption Prevention. For instance, a party could be held responsible for accepting donations from the groups not allowed to fund political parties, rather than holding only the donors accountable. Also, the National Agency on Corruption Prevention should enhance the scope of its investigations by working with civil society and investigative media that analyze party spending. It should be noted that a portion of party spending is not reflected in the official party budget.

2. **Improving ultimate beneficiary reporting (UBO).** Reporting the UBO is already mandatory for companies in Ukraine, and companies that fail to do so or report incorrect information could be fined up to UAH 51,000 (approx. $2,000).\(^{314}\) However, this did not deter almost a third of companies from failing to report the UBO, and many other companies are likely to report incorrect data in 2019\(^{315}\) Some measures to improve the transparency of UBOs are already in place. For instance, the new law against money laundering (discussed in more detail in previous sections), which came into force in April 2020, gives banks more power to check UBO of their clients and report if UBO is listed incorrectly.\(^{316}\) It also substantially increased the maximum fine for incorrect information on UBO to up to UAH 135 mln (around $5 million).\(^{317}\) High penalties for inaccurate reporting is in line with the practices of European countries. For instance, in Slovakia, companies may be fined up to 2 million euros, and their business licenses could be revoked. In Poland, maximum fines reach up

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to 1 million euros, 10 million euros in Spain, 6.6 million euros for financial institutions in Hungary.\textsuperscript{318} We, therefore, support the idea behind this law. However, the critical factor in its success will be the implementation: whether the law will help to fight money-laundering and to keep Russian capital at bay or just increase the regulatory burden on Ukrainian businesses and financial monitoring actors. We suggest that government enforcement agencies undergo internal reforms and then cooperate with the other government bodies and non-governmental actors providing information on UBOs.\textsuperscript{319} For example, YouControl proposes to automate this process by gathering information from different sources (including the Ministry of Justice, the State Tax Service, the State Migration Service, the State Judicial Administration of Ukraine, the National Bank of Ukraine) and automatically cross-checking the information in these sources. CES suggests that the government should increase cooperation with such private initiatives. This would provide government agencies with more tools to identify UBO and increase the probability of identifying true UBO.

3. Continue implementing an anti-BEPS (Base Erosion and Profit Shifting) action plan to make investment more transparent. Many countries worldwide have started implementing the OECD 15 Action anti-BEPS action plan, and Ukraine is not an exception. The anti-BEPS action plan can help in identifying UBO as well as ensuring that FDI becomes more transparent. Ukraine has already passed a law that enables the free movement of capital;\textsuperscript{320} as well as laws on improving tax administration and eliminating technical and logical inconsistencies in tax legislation.\textsuperscript{321} However, some crucial steps still need to be implemented. According to Heike Buss, an adviser to the OECD Center for Tax Policy and Administration, the third and fourth actions of the Plan are now a priority for Ukraine: establishing rules for controlled foreign companies and countering the erosion of the tax base through interest payments.\textsuperscript{322}

4. Closing sanction loopholes. Russian companies found several ways of avoiding sanctions imposed by Ukraine, the European Union, and the US either by re-registering their parent company in a different jurisdiction or by de-jure selling and rebranding while remaining under the de-facto control of the same owners. CES suggests that the Security Service of Ukraine closely monitor all mergers and acquisitions involving large Russian companies and uphold sanctions against a company if it re-registers or if its sale was in effect not real. Besides, CES suggests modifying the Ukrainian sanctions list. It must include all individuals responsible for formulating Russian policy of the annexation of Crimea and supported conflict in eastern Ukraine as well as relevant companies that are registered in offshores but whose UBOs are prominent Russian oligarchs. Closing these loopholes is essential. It would ensure better enforcement of sanctions and prevent individuals, who have violated Ukrainian law and would use their businesses to promote the objectives of the Russian government, from operating in Ukraine.


5. Improving the availability and quality of statistics. While the Ukrainian Service of Statistics provides some data on trade and investment, the publicly available data is limited. For instance, the information is available either on investment by sector or investment by country of origin but not simultaneously. These limitations complicate access to information, for instance, on Russian investment in the energy sector. CES believes that open data should be available to everyone without the need to apply via the official Freedom of Information Request. Another issue is the quality of statistics. For example, the Ukrainian Service of Statistics and the National Bank of Ukraine severely underestimate the Russian investment, overlooking the investments channeled through offshore countries. CES suggests developing an approach that would ensure an accurate estimation of the extent of investment that is based on UBO.

6. Tightening regulations of Russian investment in sensitive areas such as media, churches, politics (including from offshore). CES believes that Ukraine has to tighten its restrictions on Russian investment in vulnerable areas such as media, defense, and church donations. The regulations must also ensure that the financials of such media companies are transparent, so make their origin clear. This can be done, for example, by granting additional authority to the National Council on Television and Radio Broadcasting to conduct further investigations on the UBO of TV and radio channels instead of merely accepting the declared information as accurate.

7. Passing a law on investment-screening mechanisms. CES thinks that to ensure Ukraine can monitor and prevent corrosive capital, it should pass legislation on investment-screening mechanism. A similar bill passed in the EU in 2019 stipulated that the EU members must check the origin of investment (above a certain threshold) in selected critical sectors. 323 Most countries monitor investment in the defense, critical infrastructure (such as energy and water supply, transport, telecommunications, media), and those industries that stimulate the technological competitiveness of a country. 324 In most countries, the Ministry of the Economy is responsible for monitoring investment. At the same time, in the Ukrainian context, given the challenges with the rule of law and corruption, implementation of an investment-screening mechanism requires balancing tradeoffs between protecting national security from corrosive investment and remaining open and attractive to the constructive investment. A 2020 draft law on investment screening proposed by the Ministry of the Economy stipulates the monitoring of investment in the defense industries and telecommunications. 325 At the same time, it does not outline the criteria for which investments warrant monitoring and the reasons why certain investments could be blocked. We believe that it may be necessary to expand the scope of monitoring from defense and telecommunications to include other critical sectors, as discussed in this report. At the same time, the criteria for investment monitoring and the reasons for blocking investment must be transparent and clear. For instance, the scope should be limited to aggressor states, offshore countries (as defined by the Ukrainian law), and countries under international sanctions (such as Iran and North Korea).


APPENDIX 1. METHODOLOGICAL NOTES

This report attempts to quantify the Russian economic footprint in Ukraine and examine whether and how Russia uses its economic presence to influence Ukrainian politics and society. The analysis looked at the total Russian corporate footprint, FDI, trade, and the Russian presence in critical economic sectors (energy, banking, metallurgy & coking coal, and telecommunications). This report’s primary focus is on Russian economic presence in the last ten years. Note that occupied territories of Donetsk and Luhansk regions and Crimea are excluded for consistency, as it is difficult to obtain accurate data from these regions after 2014.

Russia’s capital is subdivided into the following categories:

**Corporate footprint.** To estimate the Russian corporate footprint, we assessed financial and ownership statistics from private (such as the Orbis database), including corporate, and public databases in order to identify which Ukrainian companies are ultimately owned by Russian citizens or entities based in Russia. We limited the scope of research to the companies where Russians own more than 25% of shares. Overall, we found that there were 6,843 such companies. In order to ensure the accuracy of the UBO information, we identified 100 companies with the most highest average assets throughout the analyzed period and checked the UBO using various local registries, such as Ukrainian public records (UBO of Ukrainian companies that is available publicly), YouControl (a private Ukrainian analytical system that allows checking connections between different companies and individuals) as well as media reports. In some cases, the analysis showed a discrepancy between UBO data in the different datasets. In that case, additional research was conducted, using media and other public information. When estimating the final corporate footprint, the analysis gathered the data on the total turnover, assets, and employment of Russian-owned companies. The three types of corporate footprint were presented as a percentage of total turnover/assets/employment of Ukraine.

**Investment.** The analysis also looked at the stock of Russian foreign direct investment in Ukraine, both nominally and as a percentage of Ukrainian GDP. Analyzing investment that solely comes directly from Russia underestimates the extent of Russia’s FDI in the Ukrainian economy due to the high level of investment through offshore sources. Investment data from three sources were used: Ukrainian Service of Statistics, Russian Central Bank, and Monitoring of Mutual Investment database (MIM) produced and maintained by the Centre for Integration Studies of the Eurasian Development Bank. The former two databases include only investment that comes directly from Russia. However, the MIM database is composed of large-scale investment projects in other Post-Soviet countries, in which Russian citizens are involved (not necessarily directly). Therefore, it takes into account offshore investment. The available data was extrapolated to look at long-term trends in the MIM data, using the average difference between MIM data and the Ukrainian Service of Statistics data for the years when both datasets are available. CES assumes that the difference between the Ukrainian Service of Statistics data and MIM data (which is primarily attributed to the offshore investment) remained constant throughout the period. This assumption is not necessarily correct if, in recent years, Russians had more incentive to hide their investment. In that case, this approximation in the early periods is upwardly biased. We consider the estimate based on the MIM data as an upper bound of Russian investment in Ukraine and the Ukrainian Service of Statistics data as a lower bound. For the periods the existing data was extrapolated, the 95% confidence interval is shown.

**Trade.** This report has analyzed bilateral trade between Ukraine and Russia using data from the Ukrainian Service of Statistics and UNComtrade. The trend in Ukrainian exports and imports to Russia as a percentage of Ukrainian GDP was explored. Both the total trade volume and trade by sectors (for key sectors) were analyzed.
**Mergers and acquisitions.** The case-study method is used to analyze some major M&A deals that involved Russian capital. Both the acquisitions and sales of the companies by Russian capital are studied. While the focus was M&A in strategic sectors (such as telecommunications, banking, metallurgy & coal, and oil), some critical cases in the other sectors (such as fertilizers) are also identified.

Expert interviews with policymakers, journalists, representatives of the business, and NGOs were used to collect additional information about the Russian footprint in all four categories. In total, 30 interviews were conducted. The interviews aimed to collect additional information on the presence of Russian capital that cannot be gathered from the official statistics and gain a deeper understanding of how these key stakeholders view Russian capital.
**APPENDIX 2. DESCRIPTIVE STATISTICS**

Table 2. Regional distribution of assets, turnover, and employment of Russian companies in 2018 vs. 2010

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Assets in 2018 (th USD)</th>
<th>Total Assets in 2010 (th USD)</th>
<th>Change in Assets, times</th>
<th>Total Turnover in 2018 (th USD)</th>
<th>Total Turnover in 2010 (th USD)</th>
<th>Change in Turnover, times</th>
<th>Total Employees, 2018</th>
<th>Total Employees, 2010</th>
<th>Change in Employees, times</th>
<th>Number of Companies (2018)</th>
<th>Number of Companies (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cherkaska</td>
<td>120,856</td>
<td>20,019</td>
<td>5.057</td>
<td>173,879</td>
<td>18,053</td>
<td>8.652</td>
<td>4,250</td>
<td>828</td>
<td>4.133</td>
<td>35</td>
<td>38</td>
</tr>
<tr>
<td>2 Chernihivska</td>
<td>49,528</td>
<td>15,261</td>
<td>2.245</td>
<td>113,683</td>
<td>16,767</td>
<td>5.78</td>
<td>3,678</td>
<td>512</td>
<td>6.184</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>3 Chernivetska</td>
<td>9,289</td>
<td>9,911</td>
<td>-0.065</td>
<td>9,812</td>
<td>15,541</td>
<td>-0.275</td>
<td>299</td>
<td>317</td>
<td>-0.057</td>
<td>12</td>
<td>14</td>
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<tr>
<td>4 Dnipropetrovska</td>
<td>74,003</td>
<td>400,552</td>
<td>-0.815</td>
<td>110,801</td>
<td>369,679</td>
<td>-0.7</td>
<td>1,844</td>
<td>4,236</td>
<td>-0.565</td>
<td>76</td>
<td>89</td>
</tr>
<tr>
<td>5 Donetsk</td>
<td>282,879</td>
<td>132,619</td>
<td>1.133</td>
<td>222,056</td>
<td>17,852</td>
<td>11.439</td>
<td>3,606</td>
<td>1,256</td>
<td>1.871</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>6 Ivano-Frankivska</td>
<td>15,421</td>
<td>27,834</td>
<td>-0.446</td>
<td>18,052</td>
<td>19,379</td>
<td>-0.068</td>
<td>380</td>
<td>429</td>
<td>-0.114</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>7 Kharkivska</td>
<td>519,255</td>
<td>131,222</td>
<td>1.433</td>
<td>164,577</td>
<td>236,010</td>
<td>-0.305</td>
<td>5,536</td>
<td>2,754</td>
<td>1.01</td>
<td>104</td>
<td>150</td>
</tr>
<tr>
<td>8 Khersonska</td>
<td>245,959</td>
<td>120,980</td>
<td>1.033</td>
<td>147,876</td>
<td>139,539</td>
<td>0.06</td>
<td>2,766</td>
<td>3,444</td>
<td>-0.197</td>
<td>22</td>
<td>31</td>
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<tr>
<td>9 Khmelnytska</td>
<td>1,263</td>
<td>2,660</td>
<td>-0.525</td>
<td>1,633</td>
<td>2,830</td>
<td>-0.423</td>
<td>171</td>
<td>288</td>
<td>-0.406</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>10 Kirovohradska</td>
<td>152,646</td>
<td>28,638</td>
<td>3.632</td>
<td>105,023</td>
<td>9,110</td>
<td>10.309</td>
<td>3,569</td>
<td>497</td>
<td>6.181</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>11 Kyiv</td>
<td>2,500,459</td>
<td>4,764,905</td>
<td>-0.475</td>
<td>2,570,424</td>
<td>6,644,057</td>
<td>-0.613</td>
<td>18,552</td>
<td>22,220</td>
<td>-0.165</td>
<td>725</td>
<td>971</td>
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<tr>
<td>12 Kyivska</td>
<td>109,276</td>
<td>118,659</td>
<td>-0.079</td>
<td>127,778</td>
<td>111,404</td>
<td>0.147</td>
<td>1,014</td>
<td>1,065</td>
<td>-0.046</td>
<td>75</td>
<td>82</td>
</tr>
<tr>
<td>13 Luhanska</td>
<td>121,849</td>
<td>501,038</td>
<td>-0.757</td>
<td>58,353</td>
<td>1,727,186</td>
<td>-0.966</td>
<td>1,795</td>
<td>3,478</td>
<td>-0.484</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>14 Lvivska</td>
<td>19,505</td>
<td>23,628</td>
<td>-0.174</td>
<td>18,051</td>
<td>17,909</td>
<td>0.008</td>
<td>951</td>
<td>534</td>
<td>0.781</td>
<td>34</td>
<td>45</td>
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<tr>
<td>15 Mykolayivska</td>
<td>270,959</td>
<td>364,828</td>
<td>-0.257</td>
<td>433,828</td>
<td>677,192</td>
<td>-0.359</td>
<td>4,193</td>
<td>4,171</td>
<td>0.005</td>
<td>27</td>
<td>30</td>
</tr>
<tr>
<td>16 Odeska</td>
<td>197,841</td>
<td>135,818</td>
<td>0.457</td>
<td>1,895,184</td>
<td>452,214</td>
<td>3.191</td>
<td>4,062</td>
<td>3,327</td>
<td>0.221</td>
<td>94</td>
<td>114</td>
</tr>
<tr>
<td>17 Poltavska</td>
<td>89,923</td>
<td>215,552</td>
<td>-0.583</td>
<td>99,596</td>
<td>132,979</td>
<td>-0.251</td>
<td>1,969</td>
<td>1,165</td>
<td>0.69</td>
<td>44</td>
<td>38</td>
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<tr>
<td>18 Rivnenska</td>
<td>104,167</td>
<td>102,884</td>
<td>0.012</td>
<td>103,653</td>
<td>139,461</td>
<td>-0.257</td>
<td>2,378</td>
<td>2,681</td>
<td>-0.113</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>19 Sumski</td>
<td>222,990</td>
<td>29,179</td>
<td>6.642</td>
<td>87,057</td>
<td>72,451</td>
<td>0.202</td>
<td>6,834</td>
<td>2,625</td>
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<td>34</td>
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<tr>
<td>20 Ternopilska</td>
<td>189</td>
<td>1,012</td>
<td>-0.813</td>
<td>47</td>
<td>489</td>
<td>-0.904</td>
<td>8</td>
<td>16</td>
<td>-0.5</td>
<td>4</td>
<td>5</td>
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<tr>
<td>21 Vinnytska</td>
<td>30,852</td>
<td>39,202</td>
<td>-0.213</td>
<td>46,677</td>
<td>76,986</td>
<td>-0.394</td>
<td>569</td>
<td>1,048</td>
<td>-0.457</td>
<td>31</td>
<td>29</td>
</tr>
</tbody>
</table>
Table 2 shows the total assets, turnover, and employment in each region in 2010 and 2018. Kyiv is an outlier with more than 3,000 Russian companies. In comparison, the region with the second-highest number of Russian companies (Kharkivska oblast) only has 349 Russian companies. The high number of companies in Kyiv could be due to companies having their headquarters in Kyiv (and therefore registered in Kyiv). At the same time, their production facilities can be located in other regions. Therefore, the data on Kyiv does not necessarily reflect the Russian presence there.

Figure 11 shows the proportional change in the existing Russian presence in Ukrainian regions. There is no clear regional pattern in terms of change of such presence. The regions in which a Russian presence has declined the most in terms of assets are Dnipropetrovska oblast (Eastern Ukraine), Ternopilska oblast.
(Western Ukraine, Luhanska oblast (Eastern Ukraine), Zaporizka oblast (Eastern Ukraine) and Volynska oblast (Western Ukraine). The Russian presence has increased the most in Zakarpatska oblast (Western Ukraine), Sumska oblast (Central Ukraine), Cherkaska oblast (Central Ukraine), Kirovohradska oblast (Central Ukraine) and Chernihivska oblast (Central Ukraine). The disproportional increase in Russian presence in Zakarpatska and Cherkaska oblasts could be driven by the purchase of local regional energy distribution companies by Russian companies.

The distribution of assets in all years is skewed to the left, with the vast majority of companies having assets between 0 and 100,000 USD, with a small number of outliers with an extremely high level of assets. This is a typical distribution for data on companies’ assets (Figure 12).

Figure 12. Assets distribution (by year)

Source: ORBIS dataset, CES calculations
APPENDIX 3.

Figure 13. Attitudes of Ukrainians to Russia

Source: Kyiv International Institute of Sociology, CES calculations

Figure 13 shows the change in attitudes of Ukrainians toward Russia. The attitudes toward Russia were overwhelmingly positive before 2014 when more than 80% of Ukrainians viewed Russia as "good" or "very good". However, the attitudes began to change in 2014, dropping to an all-time low of only 30% of people having positive attitudes toward Russia in 2015. Since then, the perception of Russia has somewhat improved, with around 54% of Ukrainians having positive attitudes toward Russia in December 2019, which is still much lower than pre-2014 levels.