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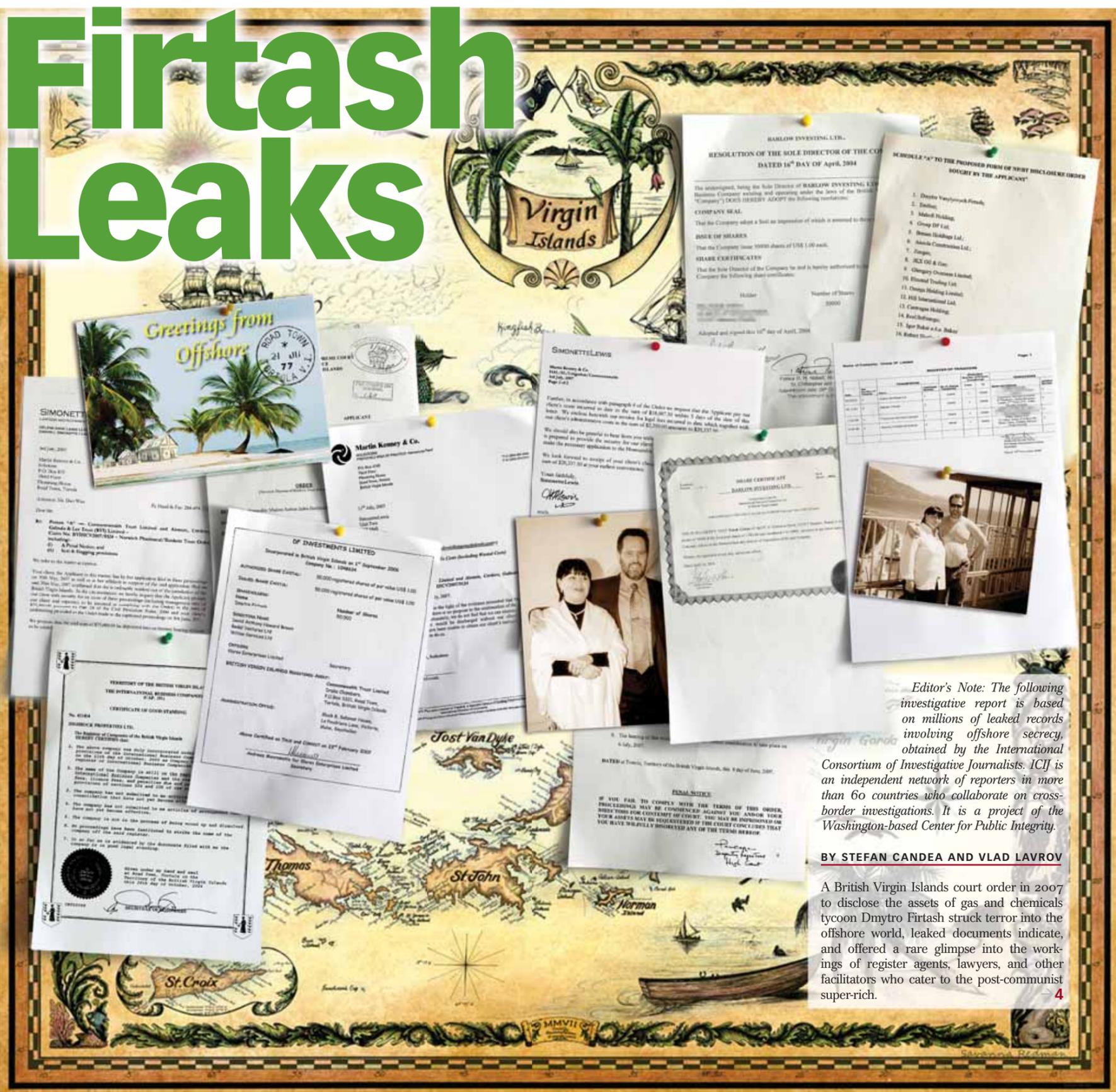
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June 14, 2013

# Firtash Leaks



*Editor's Note: The following investigative report is based on millions of leaked records involving offshore secrecy, obtained by the International Consortium of Investigative Journalists. ICIJ is an independent network of reporters in more than 60 countries who collaborate on cross-border investigations. It is a project of the Washington-based Center for Public Integrity.*

BY STEFAN CANDEA AND VLAD LAVROV

A British Virgin Islands court order in 2007 to disclose the assets of gas and chemicals tycoon Dmytro Firtash struck terror into the offshore world, leaked documents indicate, and offered a rare glimpse into the workings of register agents, lawyers, and other facilitators who cater to the post-communist super-rich.

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**CURRENCY WATCH**  
 Hr 8.15 to \$1  
 June 13 market rate



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# Nation praised for anti-human trafficking efforts, but more needed

BY CHRISTOPHER J. MILLER AND OKSANA GRYTSENKO

It's a story of bravery: A sex slave trafficked from Ukraine to a Montenegro brothel secretly calls her mother back home with a mobile phone that belongs to a male captor to tell her of the predicament she and others are in.

It is this call that leads to another, and another, and then another, until finally a U.S. lawmaker is speaking to the prime minister of the Balkan country, urging him to send in a Special Forces team to raid the brothel.

On an afternoon in January 2000, the team storms the house and rescues seven young Ukrainian women, including the one who had placed the phone call. One of the women had unfortunately already been re-trafficked to Albania. Nevertheless, it was a battle won in the global fight against human trafficking.

"But it shouldn't take a phone call from a congressman for police to act," says U.S. Congressman Christopher H. Smith (Republican from New Jersey), speaking to a group of government officials and aviation industry workers gathered in Kyiv on June 10 to learn about ways to identify victims being trafficked.

Smith was the one who placed the call 13 years ago that led to the rescue of those seven Ukrainian girls. He was in Kyiv to deliver the key note address at a human trafficking conference organized by the Ukrainian Chairmanship of the Organization for Security and Co-operation in Europe (OSCE), where he is a special representative on human trafficking issues.

About 21 million people around the world are involved in modern slavery, including forced labor, sexual exploitation or forced criminal activity, according to a 2012 International Labour Organisation report. A quarter of them are underage.

"There are some countries where a disproportionate number of people have been trafficked. Tens of thousands of women have been trafficked from Ukraine," Smith says.

Viktor Dubovyk, first deputy minister of internal affairs in Ukraine, adds that Ukrainian women in particular had



A woman stands behind the display window of the concept store "WomanToGo" at a shopping center in Tel Aviv on October 19, 2010 as part of a campaign to shed light on human trafficking in Israel. (AFP)

been trafficked to 57 countries worldwide. Ukrainian citizens are mostly trafficked to Russia and countries in Western Europe and the Middle East, Ukraine's police press service told the Kyiv Post. The problem is growing in recent years: police data shows 48 cases revealed in the first three months of 2013, while in all of 2012 there were 162 cases.

But Ukraine – long a notorious transit country, origin and destination of trafficked young women – has also stepped up efforts to combat the problem. It has carried out media campaigns, regulated private companies involved in recruiting Ukrainians to work abroad, provided in-kind and limited financial assistance to civil society organizations and adopted a national plan to combat human trafficking for 2012-2015, according to the U.S. State Department's 2012 Trafficking in Persons Report.

Furthermore, the Ukrainian government in 2011 prosecuted 135 trafficking cases under its Criminal Code, which prohibits all forms of trafficking and prescribes penalties of up to 15 years in prison, compared to 111 prosecuted in 2010 and 80 in 2009, according to the State Department report. Ukraine's government, using a different method-

ology, reported convicting 158 trafficking offenders in 2011, up from 120 in 2010 and 110 in 2009.

Human trafficking was named a priority area when Ukraine took over OSCE chairmanship for 2013.

"Combating human trafficking is very important to us," Ukrainian Social Policy Minister Natalia Korolevska said in January. "It will be raised at the highest European and international levels."

The latest step came during Smith's June 10 visit. Representatives from Airline Ambassadors International and the congressman trained some 30 members of the state aviation body, foreign and social ministry workers, as well as airline and airport employees to identify potential trafficking victims.

"We are all responsible for ending this dehumanizing crime, but the fact is airline, hotel and transportation professionals are in a unique position to identify potential victims to get them help," Smith told the group.

The workshop was the first of its kind on the European continent.

"I commend Ukraine for the work it has done today to focus attention on the 600,000 to 800,000 trafficking victims who are moved across borders each year and who could be rescued in transit if airline and other transpor-

tation personnel were appropriately trained and law enforcement ready to intervene," Smith said.

Nancy Rivard, president of Airline Ambassadors International, a non-profit affiliated with the United Nations, shared some of her personal experiences as a flight attendant identifying victims being trafficked.

While aboard a flight from the Dominican Republic in 2009, she noticed a woman traveling with two young children displaying strange behavior. Her subsequent notification to authorities eventually led to the discovery of a child trafficking ring in Boston that rescued 82 children who had been illegally brought to the U.S. from the Caribbean island.

"Flight crews and travel industry personnel are a front line of defense in combating the most horrific human rights issue of our century," Rivard said. "The singular action of training employees can prevent tens and thousands of human trafficking cases."

Still, Ukraine has plenty of room to build upon the improvements it has made in combating human trafficking.

The country does not fully comply with the Trafficking Victims Protection Act's minimum standards, the U.S. State Department's report states, "however, it is making significant efforts to do so."

A serious problem is the issue of government officials' complicity in human trafficking offenses. While Ukraine's government withheld statistics regarding investigations of public officials, civil society groups reported that "official trafficking-related corruption was a problem, including complicity of prosecutors, judges, and border guards."

Additionally, Ukraine's government did not conduct any anti-trafficking prevention campaigns to address the demand for commercial sex and did not fund NGO-provided services to trafficked victims, according to the report. The country's services available for child victims also remain "inadequate."

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# Ukraine will fight illegal takeovers



SERHIY ARBUZOV

In recent years, the phenomenon of illegal company takeovers has unfortunately reached a significant scale in Ukraine, greatly hindering the government's efforts to implement reforms designed to strengthen the economy and increase the flow of foreign investment.

In this regard, the Cabinet of Ministers has designated raidership as a strategic problem that must be eliminated as soon as possible.

Ukraine must become a country where investment hopes are realized, and one in which property rights are protected by the state.

Some experts have said this task will be difficult. In my opinion, dealing with this issue will not be as tough as they say.

The first step on the path to developing effective mechanisms to counter illicit acquisitions of business assets was the revival of the Interagency Commission for the Protection of Investors' Rights, Combat Illegal Acquisitions and Seizure of Enterprises. A similar body existed earlier, but it wasn't sufficiently effective.

I regret to say, however, that immediately after the commission's renewal, we received a great number of allegations concerning violations of investor rights. Among the recent high-profile cases were companies owned by foreigners.

We are currently radically revising our approach to building the organizational and personnel structure of the anti-raider body. This means personal responsibility being laid upon relevant ministers, and not their deputies, and centralizing control and management mechanisms to combat company takeovers by the most senior Cabinet of Ministers officials.

Equally important for the commission's effective work is the role of non-governmental organizations and representatives of business associations.

With a lack of clear government policies and legal mechanisms to oppose raider takeovers in recent years, the public and business communities have developed fairly effective non-traditional methods of fighting for their property rights. However, they often realize this is not possible due to corruption and the use of different kinds of assistance in the capture of enterprises.

In the short term, the situation has changed. The interde-

partmental commission should foremost develop an action plan that will have full legislative backing.

No less fundamental is the goal to develop a clear legal procedure for returning seized enterprises and business assets to their original owners.

Practice shows the vast majority of hostile takeovers are done with the assistance of judicial and law enforcement authorities.

The Cabinet of Ministers intends to take the initiative in this area and to amend the Criminal Code, which will clearly define the concept of raiding and outline the punishment for participating in such crimes. Accountability will be as harsh as possible. This will make it possible to bring to justice the organizers of such unlawful seizures, not just the actual perpetrators.

The government's educational awareness program for entrepreneurs will also play an important role. We must educate businessmen, especially beginners, on how to protect their assets, properly place and keep securities, intelligently allocate material assets and build relationships with minority shareholders. In addition, the government should maintain a near real-time communication channel with businesses that will operate virtually around the clock.

Plans are in place to launch an information portal dedicated to the work of the commission, where users can learn more about the committee, its composition, aims and objectives.

During our upcoming meetings with ambassadors of European states, we will discuss the issue of protecting investor rights and the related problems.

We furthermore intend to adopt and implement the best European practices. This process is already underway. As is commonly known, the European Bank for Reconstruction and Development actively advises the Cabinet of Ministers of Ukraine on how to effectively fight against corruption. This is just the beginning.

Raiding is not difficult to overcome. This simply requires political will – the will to protect the country's interests while building the image of Ukraine as a reliable economic partner. The current government has the will to do this.

Ukraine has to create the image of an investment-friendly country, to convince its citizens that it's safe to invest their money in a start-up, and most importantly, that it's a promising endeavor. I am convinced the business community will see the first results of public policies to counter illegal company takeovers in the near future.

*Serhiy Arbutov is the first deputy prime minister of Ukraine and head of the inter-governmental agency to protect investor rights, combat illegal acquisitions and company takeovers.*

## Improving the investment climate for Ukraine



JOCK MENDOZA-WILSON

Ukraine is making relatively steady progress according to the leading rankings, but many challenges remain to be addressed.

The World Bank's Ease of Doing Business 2013 ranked Ukraine at 137 of 185 countries – up 15 places from 2012 – while the World Economic Forum Global Competitiveness Report ranked Ukraine 73 of 144 – up 9 places from last year.

The challenge for Ukraine however, is to continue on this path and break into the Doing Business top 100 countries. It should also begin to close the performance gap on its neighbors, who are themselves continuing to reform and enhance their business and investment climates.

The World Bank highlighted three reforms completed in

Ukraine recently that made doing business easier:

Starting a business – Ukraine made starting a business easier by eliminating the minimum capital requirement for company incorporation as well as the requirement to have incorporation documents notarized.

Registering property – Ukraine made property transfers faster by introducing an effective time limit for processing applications at the land cadastre in Kyiv.

Paying taxes – Ukraine made paying taxes easier by implementing electronic filing and payment for medium-size and large enterprises.

Anecdotally, businesses are also saying that the automatic VAT payment process has sped up VAT refunds, but problems remain with some businesses experiencing delays in payment.

The new Custom Code introduced in June 2012 has also improved customs clearance, cutting it in theory from one day to four hours, and introduced digital declarations. These actions should help speed up the flow of goods at the border and improve supply chain integration for Ukrainian businesses, as well as facilitate increased trade.

→ 11

### Editorials

## Turn to the right

When the dictator of socialist Burma Ne Win asked his astrologist – one of the few men who dared counsel the despot – how to fix the wretched economy, he was obliquely told to “turn to the right,” as in, adopt market-based policies. There followed an incredible misinterpretation: Burma switched from left-hand to right-hand traffic overnight.

So far, Ukraine's authorities seem stuck driving down the middle of the road. Inconsistent and non-systemic reforms in customs and tax rules haven't placed the country inside the top 100 countries to do business in, according to the World Bank. Perhaps more worryingly, heavy-handed ideas, like a transaction tax on exporters and importers, or the car import duty hike that stifled sales, suggest interventionist instincts remain strong.

If the government wants to meet its immediate goals of achieving a minimum of 3-4 percent growth in 2014 and 2015, and raising the share of small and medium businesses from around 10 percent to 25 percent of the economy, more needs to be done. The system needs to be changed, not just greased.

Reducing the income tax from 25 percent in 2011, to 19 percent today (and possibly 16 in 2014) is great, but social expenditures still drive the tax burden to above 50 percent for employers. Likewise, reducing minimum capital requirements for company incorporation is an improvement, but few are ready to set up firms considering the mountains of red tape and corruption that would follow.

Ukraine remains one of the biggest social spenders worldwide, with 18 percent of gross domestic product going to pensions alone, not to mention the de facto subsidies for various utilities and services. But it's hard to see why: many of these perks disproportionately benefit the rich, are of poor quality, or require additional bribes to actually be delivered.

And it is not like Ukraine's supposedly helpless pensioners are just waiting to cash in their meager checks. Look at every market, bus stop or metro station in the country and you'll see them trading for a living. Freer market forces would help, not hurt, them.

Instead the government has turned on the spending tap, hoping to appease an increasingly disgruntled population. Expenditures rose more than 16 percent year on year in January-April, 2013, while revenues grew by less than five. To make up the difference, it is borrowing heavily on foreign markets, and saturating the local one with domestic bonds, which has taken its toll on lending.

Burma recently made global headlines by opening up its markets and freeing its imprisoned opposition leader; investment soon followed. There is a lesson in it for Ukraine.

## Do something!

Each morning many Kyivans start their daily round by taking a rickety elevator to the ground level of their building. That is, if the elevator works. They will then pass overflowing, smelly trash bins in their yard because the municipal garbage collectors don't come around often enough. Walking on the crumbling pavement, careful not to twist their ankles or trip, they arrive at a bus stop. Next they cram into outdated marshrutka minibuses that usually run hazardingly over capacity, while standing on one leg pressed against sweating passengers.

Those who live and work in the city center have the other challenge of getting there since most sidewalks are often lined with cars due to the lack of parking spaces.

Anybody wishing to lose their faith in humanity simply needs to look at online photos of parked cars in Kyiv parks. If there is a spot on the pavement, it will be used for parking. Only a patch of grass or a flowerbed free? They will invariably be used, too. A playground? Not a problem. A tree? If it's small enough to run it over, consider it done. A crosswalk or handicap parking space? Who cares, as long as there is enough space for one's over-sized sports utility vehicle.

In many countries, governments are motivating people to switch to public transport by making it more comfortable, accessible and efficient. Vehicle access to the city center is limited through fees charged to get in. They build bicycle paths and start bicycle sharing programs that allow people to rent a bike for short urban trips. In Scandinavia, these programs have long widely used, but are now spreading all over the world, from Chicago to Moscow.

But in Ukraine, these quality of life elements are missing, and barely part of the public debate to enact meaningful policies.

Official complaints and demands do work. Many persistent pensioners and energetic activists have proven this. It's time the rest of Ukraine takes a stand, too.

See something wrong or not working? Call your city administration and file a complaint. Go to your municipal and utility service provider and leave a complaint there. Buzz your district administration and demand action. You may not change the entire city in a day, but you can make that morning commute to work a little more comfortable for yourself and those around you, one patched pothole or mended elevator track at a time.

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# An 'unprecedented' asset disclosure

→1 It all began with a messy divorce. Maria Firtash, nee Kalinovska, the ex-wife of Firtash, felt cheated from a one-sided separation and decided to go after what she claimed she was due.

According to documents obtained by the Washington-based International Consortium of Investigative Journalists, she hired fraud buster Martin Kenny who secured a Norwich Pharmacal Order in June 2007 and forced Commonwealth Trust Limited (CTL), a register agent in the British Virgin Islands, to disclose all information so Kenny could search for Firtash traces.

Neither Firtash nor Kalinovska responded to requests for comment for this article.

Issued on June 8, 2007, the order stated that Ukrainian billionaire Firtash "fraudulently concealed" substantial assets from his ex-wife and set up at least two businesses through CTL, a British Virgin Islands company that regulators found had violated the islands' money-laundering laws and who banned it from taking on new clients, according to a cache of internal company documents leaked to ICIJ.

A High Court judge in the British Virgin Islands was convinced that Firtash had "secretly and fraudulently obtained" a divorce decree against her in Ukraine. The judge also said Kalinovska was seeking to "preserve her presumptive 50 percent interest in the very substantial assets of the subject marriage that have been fraudulently concealed from her by Mr. Firtash through various entities controlled by Mr. Firtash in numerous jurisdictions..."

The decision to allow Kalinovska's lawyers to go hunting for Firtash's assets was unprecedented for offshore jurisdictions, shocking local company registration officials who eventually managed to quash the order.

## Big picture, global impact

The vast flow of offshore money — legal and illegal, personal and corporate — can roil economies and pit nations against each other. Europe's continuing financial crisis has been fueled by a Greek fiscal disaster exacerbated by offshore tax cheating and by a banking meltdown in the tiny tax haven of Cyprus, where local banks' assets have been inflated by waves of cash from Russia.

Anti-corruption campaigners argue that offshore secrecy undermines law and order and forces average citizens to pay higher taxes to make up for revenues that vanish offshore. Studies have estimated that cross-border flows of global proceeds of financial crimes total between \$1 trillion and \$1.6 trillion a year.

The U.S.-based think tank Tax Justice Network estimates that \$21-\$32 trillion — of which \$9.4 trillion belongs to less than 100,000 individuals — has escaped the mainstream financial system, depriving nations of badly needed tax revenues.



A High Court order to disclose financial information related to oligarch Dmytro Firtash raised fears it could be "the beginning of the end for British Virgin Islands (as an offshore haven)" (UNIAN)

ICIJ's 15-month investigation found that, alongside perfectly legal transactions, the secrecy and lax oversight offered by the offshore world allows fraud, tax dodging and political corrup-

tion to the global offshore industry. As the top foreign investor into Ukraine, offshore Cyprus has put \$17.6 billion, or almost one third of all FDI inflows into the country. Furthermore, such offshore jurisdictions as British Virgin Islands and Belize invest heavily into Ukraine — with \$2.2 and \$1 billion, respectively. Much of this is suspected of being repatriated money.

In comparison, U.S. investment since independence in 1991 has been \$880 million.

The use of offshore havens by Ukrainian businessmen has massively distorted the nation's economy. According to the World Bank, Ukraine's income inequality, as measured by the Gini coefficient, where 1 symbolizes a country owned by one person, and 0 where everyone's income is equal, was 0.256 in 2010. This would make Ukraine one of the most egalitarian societies on earth, on par with Norway and Denmark, and ahead of France, Poland, Austria and even Sweden, according to estimates for the late 2000's by the Organization for Economic Cooperation and Development.

## Reaction to Firtash asset disclosure

When he learned of the 2007 order, Scott Wilson, the co-owner of CTL, was

tified: "I'm not even sure what that means (and if it means all records, I'm not even sure how we could comply), so if it means what it seems to mean, this is unprecedented. This would be a fishing expedition of the most extreme definition. Not only would compliance with such an order be the end of us, it would be the beginning of the end for BVI (as an offshore haven)."

Wilson concluded his e-mail message: "Frankly, I wouldn't expect something like this to fly even in New York and I am astonished that the judge is not tossing these guys out of his BVI courtroom."

Thomas Ward, his partner thought that "this is an amazing order. One wonders what the judge was thinking. I agree that this would be the end of us and the BVI — was this order issued by a BVI court? Boggles the mind!!"

Ward quickly grasped the gravity of consequences if the order was to be followed: "As Scott says, this would seem to mean the end of effective confidentiality on the BVI if a fishing expedition of such unbelievably broad scope is permitted...I agree that we must defend this aggressively and to the full extent possible."

Pushback was swift in coming. One scare tactic used by CTL against Kalinovska and her lawyers was to claim a huge legal bill of more than \$200,000. At the very beginning of the court trial, a CTL lawyer asked the judge to order Firtash's ex-wife to immediately pay \$58,675 to cover the offshore register's legal costs so far and put up security for another \$175,000 to cover its legal and paperwork costs going forward.

Email communications show the real legal costs were about \$5,000, and Firtash's personal lawyer Colin Mason even filed a complaint in the local court against the inflated costs asked by CTL.

The order was eventually quashed on July 18, 2007, but not before Mason got involved, flying to the British Virgin Islands to take part in the court hearings.

## About the project

Documents used to report this story come from a cache of 2.5 million files that cracked open the secrets of more than 120,000 offshore companies and trusts, exposing hidden dealings of politicians, con men and the mega-rich the world over. The secret records obtained by the International Consortium of Investigative Journalists lay bare the names behind covert companies and private trusts in the British Virgin Islands, the Cook Islands and other offshore hideaways.

These secret files show CTL had served as a middleman for an extensive list of shady operators around the world, including in Russia and the U.S. — setting up offshore companies for securities swindlers, Ponzi fraudsters and individuals linked to political corruption, arms trafficking and organized crime.

There's no evidence CTL engaged in fraud or other crimes. Records obtained by ICIJ indicate, however, that CTL often failed to check who its real clients were and what they were up to — a process that anti-money-laundering experts say is vital to preventing fraud and other illicit activities in the offshore world.

The documents show authorities in the British Virgin Islands failed for years to take aggressive action against CTL, even after they concluded the firm was violating the islands' anti-money laundering laws.

CTL co-founder Thomas Ward blames many of the firm's problems on "the law of large numbers." Anytime you form thousands of companies for thousands of people, he said, a few of them may be up to no good.

In a written response to questions from ICIJ, Ward said CTL chose its clients carefully and that it had no more problems than other offshore services firms of similar size.

"I regard myself as an ethical person. I don't think I intentionally did anything wrong," Ward, who has worked as a consultant for the firm since selling it to new owners in 2009, said in a telephone interview. "I certainly didn't aid and abet anybody doing anything illegal."

It was not until February 2008 — nearly five years after regulators first found CTL in violation of anti-money-laundering rules — that they took action that threatened to put the company out of business. They banned CTL from taking on new clients until it complied with anti-money-laundering regulations.

CTL was reinstated by regulators after it was bought out by a Dutch company, Equity Trust, in 2009, thus getting the ban on signing new clients lifted.

The domain part of Mason's e-mail address — Scythian.co.uk — is the company, Scythian, that was paying tens of thousands of dollars in donations to Tory Pauline Neville-Jones through Robert Shetler-Jones of Firtash's Group DF, according to the Guardian.

## Background

Kalinovska and Firtash were married between 2002 and 2005. In media interviews, and according to a 2007 investigation conducted by respected Ukrainska Pravda, she got →5

### SCHEDULE "A" TO THE PROPOSED FORM OF NP/BT DISCLOSURE ORDER SOUGHT BY THE APPLICANT<sup>1</sup>

1. Dmytro Vasylyovych Firtash;
2. Emfesz;
3. Maboff Holding;
4. Group DF Ltd;
5. Benam Holdings Ltd.;
6. Anzola Construction Ltd.;
7. Zangas;
8. JGX Oil & Gas;
9. Glengary Overseas Limited;
10. Elmstad Trading Ltd;
11. Omega Holding Limited;
12. Hill International Ltd;
13. Centragas Holding;
14. RosUkrEnergo;
15. Igor Bakai *et al.* Bakay
16. Robert Shetler Jones; and
17. Any trust settled by any of the foregoing persons (or in respect of which any of them are directly or indirectly beneficiaries thereof).

<sup>1</sup> The Companies referred to in Schedule "A" are described at paragraph 2.5 of the Written Submissions filed in support of this application.

As for Robert Shetler Jones, he is described at paragraph 22 of the Affidavit of Mrs. Firtash.

Mr. Bakay is described at paragraph 20 of the Firtash Affidavit.

A High Court in the British Virgin Islands ordered the disclosure of financial information of 16 companies and individuals. (ICIJ)

tion to thrive.

Ukraine is a major victim of capital flight and is a relatively huge recipient of money from offshore jurisdictions. According to a 2012 report by Tax Justice Network, Ukraine ranked 15th worldwide on a list of capital flight source countries.

The report added that Ukraine has contributed some \$166.8 billion

# Common law offshores favored by top oligarch

→4 Firtash started in business. They worked together in the early 1990's in Ukraine and Russia and also in Germany.

She initially got a divorce settlement of \$36 million, but felt cheated after learning her ex-husband was worth much more. In 2006, reputable Ukrainian newsmagazine Korrespondent estimated Firtash's assets at \$1.4 billion.

That same year Firtash set up Group DF Limited, months after he publicly admitted to owning a big stake in RosUkrEnergo, a monopoly gas supplier to Ukraine partnered with Russian gas giant Gazprom. Group DF Limited became the holding company for Firtash's vast interests in energy, chemicals and real estate.

Firtash has expanded his chemicals empire in Ukraine since President Viktor Yanukovich took office in February 2010. He unsuccessfully sued the Kyiv Post in London over an article from July 2, 2010 that reported "accusations of corruption and conflict of interest in the highly lucrative yet frequently non-transparent Ukrainian gas trade."

In recent years he ventured into philanthropic projects, notably funding the Cambridge Ukrainian Studies department in England and revamping the campus of the Ukrainian Catholic University in Lviv.

Today Firtash, 48, is worth an

estimated \$3.2 billion, according to Korrespondent's latest assessment conducted together with Kyiv-based investment bank Dragon Capital.

## A maze of offshores

Over the last decade Firtash has extensively used common law offshore jurisdictions to register his wide network of companies.

His maze of offshore holdings was so complex it seems the billionaire himself was at times confused. In early 2009, his Hungarian firm EMFESZ, a serious gas player, was sold for \$1 to an unknown company from Switzerland, RosGas.

The deal was done by Istvan Goczi, a director at the CTL-registered Group DF, who sold EMFESZ's Cyprus-based parent company Mabofi. Firtash terminated Goczi, but had to go to court to regain control over EMFESZ in February 2013.

Documents leaked to ICIJ also show that CTL was sitting on a treasure trove of information related to Firtash and entities related to Kyiv-born crime lord Semion Mogilevich, who earlier topped the U.S. Federal Bureau of Investigation's most wanted list. Some of the entities controlled luxury property, like the Three Musketeers Castle in France.

The data revealed that CTL had earlier handled company registrations for Group DF and DF Investments, both

belonging to Firtash, through Cyprus law firm Demetriades Shakos Pifanis. The person handling all incorporations was a senior partner at the law firm, Andreas Pifanis.

Pifanis didn't respond to a request to provide comment for this article.

Altogether ICIJ found that Pifanis had registered some 140 companies with CTL starting in 2005 and ending in 2009, in most of the cases using Annex Holdings as a director. Some of these companies were or are officially part of Firtash's group, some are unknown to the public.

Annex Holdings made headlines in 2005 when it paid a Washington, D.C. lobby contract for then-Ukrainian Energy Minister Yuriy Boyko, a close associate of Firtash. According to U.S. diplomatic cables, Boyko had helped set up Swiss-registered RosUkrEnergo and sat on one of its boards. He also wielded power-of-attorney control over Firtash's assets in the past.

An ICIJ investigation based on leaked documents also found that among the companies registered by CTL, two are linked to Mogilevich: Highrock Properties, established in 2000, but later re-named to Kemnasta Investments Ltd under lawyer Pifanis' supervision, and Barlow Investing Ltd registered on behalf of Mogilevich's former wife Galina Telesh.

Highrock Holding, a similarly named vehicle, was used both by Firtash and Mogilevich's associates or their former wives, according to the Financial Times.

U.S. State Department cables posted on the WikiLeaks website have reported that Firtash acknowledged to a top American diplomat "that he needed, and received, permission from Mogilevich when he established various businesses, but he denied any close relationship to him."

Internal CTL company documents also showed that it had set up Lacoste de Pratiel Ltd in 2006, a winery that is part of the famous castle Chateau d'Arricau-Bordes worth more than €3 million. The castle was listed as the property of Shetler-Jones in 2010, a supervisory board member at Group DF and its former CEO from 2007 to August 2012.

In a letter to the owner of CTL, Pifanis describes the nature of his business: "As I explained to you during our meeting we are involved in serious money transactions through the use of BVI companies."

In a later email he explains that Firtash is one of his biggest clients: "this Group is one of the largest Groups we administer, who have already bought from us few dozens of BVI companies that we bought from you."

Pifanis furthermore appears keen to please Firtash, and becomes agitated

## What is Norwich Pharmacal Order

What the Norwich Pharmacal Order means, according to CTL legal counsel, from internal documents leaked to ICIJ:

"The Norwich Pharmacal Order is a discretionary relief that in an appropriate case can entitle the Applicant to have the Court override either contractual or other duties of confidentiality in order to assist an Applicant who either knows that a wrong has been done to him but not by whom or knows by whom but cannot ascertain the extent of the injury without assistance from third parties (who may be themselves innocent of any wrongdoing) but who have information (which may have been obtained on a confidential basis) that would assist in discovering the identity of the wrongdoer or the nature and extent of the injury. (...) there can be no greater confidential relationship than banker and customer. However, in Bankers Trust -v- Shapira - ("the Banker's Trust Case") such an order was in fact made against a bank."

"Where an ordinary citizen comes knocking on the door then he cannot discover anything from Commonwealth, but where the Applicant is a person who can prove to the Court that there is a grievance, and injury, then the Court will grant the Order and third parties such as Commonwealth have very little ground on which to resist."

when things drag at CTL. One of CTL employee's, Shonia Matthew, told a colleague in a Dec. 7, 2006 email that she was threatened by Pifanis: "he once threatened he will kill me if he comes to BVI and since then I am handling his requests professionally and without delay... but at the same time no extra 'sweetness'."

Kyiv Post editor Mark Rachkevych contributed to this article.

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DANONE

## DANONE'S TERNOPIL STRAWBERRY CO-OP GROWS A FRESH CROP OF LOCAL JOBS



Pochayiv Lavra, the 400-year-old spiritual landmark, tops a 60-metre hill in the town of Pochayiv, Ternopil Oblast, 2 km from where the strawberry cooperative is located.

In a world wary of artificial colors, additives and ingredients, Ukrainian consumers might be pleasantly surprised to learn that the strawberries in Prostokvashyno products are not only real strawberries, picked juicy and fresh from the field, but that they are Ukrainian strawberries, many of which come from fields near Ternopil.

On June 11, Danone Ukraine, which produces Prostokvashyno products including milk, kefir, and cottage cheese, brought representatives of the government, farmers, NGOs and the media to the village of Losyatyn, in the Kremenetskyi district of Ternopil oblast to dedicate the first crop produced by the village strawberry cooperative as it headed from field to Danone's plant, where they will be used to create strawberry-flavored Prostokvashyno yogurt, zakvaska, and cottage cheese.

"Historically, innovation has been important to the way Danone operates, and it is a consideration in every decision we make," said Dario Marchetti, general manager of Danone Ukraine. "Creating a strawberry co-

operative was no exception. We based the farming technology on global best practices, using not just plants that would thrive in our climate and soil, but also a modern drip irrigation system that reduces water consumption and mulching film that creates a barrier that prevents drying of the soil and the emergence of weeds, he said.

Using fresh Ukrainian berries doesn't just improve taste – it improves communities as well. The strawberry cooperative allows village residents to stay home with their families instead of going abroad to harvest strawberries.

"We launched the strawberry cooperative to secure a stable supply of high-quality ingredients for our products, as well as to contribute to the well-being of the country's rural population," Marchetti said.

Making the cooperative a reality took part-



Dario Marchetti, Danone General Manager, celebrating first strawberry harvest at the cooperative in Losyatyn on Tuesday.

nerships and a significant cash investment, he said.

"We partnered with a respected international NGO – Heifer Ukraine – as well as the Danone Ecosystem fund and Dansource. Over the last three years we have invested over €4 million to create and develop agricultural service cooperatives in Ukraine. Our goal is to increase production and improve the quality of agriculture products, while having a positive social impact on Ukraine's rural residents," Marchetti said.

This year alone, 91 rural families benefited from being part of the cooperative by being able to purchase plants at wholesale prices this year, and 65 farmers received official seasonal employment. On average, each farmer earns the equivalent of €350 during a season. Marchetti said that the first phase of the project, to be completed in 2014, will involve a commitment of €2 million.

The June 11 event was accompanied with the official opening of a berry cooling chamber, the presentation of a refrigerated railcar, and a celebration of the harvest in the berry field.

The project was officially opened last June, but work has been ongoing since December 2011. Fields needed to be prepared, irrigation systems installed and a 0.4-hectare reservoir and well created. Equipment dedicated to the project includes a tractor, fertilizer spreader, sprayer, disc harrow, a power generator, and power scythes. A cultivator for weeding and dressing between rows was purchased as well. The first ten hectares of field were planted with the highly productive Polka variety



The first harvest of sweet Losyatyn strawberries will be dedicated to Prostokvashyno. Try our strawberries in delicious Prostokvashyno yogurts and desserts!

strawberry plants as a second ten-hectare plot was being developed.

"This year, we expect to harvest 150 tons of strawberries, which will be processed and used in Danone Ukraine products," Marchetti said. "Ultimately, we can help at least 500 private farmers increase their profits by integrating them into an agricultural service cooperative (ASC), where they will produce strawberries with the help of modern technology and based on the principle of wholesale distribution," Marchetti said.

He added that the project is part of the Losyatyn Milk Source ASC, which provides members with strawberry growing, storage and distribution services on a common field and on privately owned fields. Gradually, the cooperative plans to have 40 hectares under cultivation.

Some of the funds from the sale of cooperative's strawberries will be used to expand the joint plantings and to restore existing plantings, as well as to replicate the project in other communities.



## World in Ukraine

**Editor's Note:** World in Ukraine takes a look at Ukraine's bilateral relations with different nations. To sponsor this news feature, please contact the Kyiv Post's sales team at [advertising@kyivpost.com](mailto:advertising@kyivpost.com) or call 591-7788.

# Italian sports cars hot in Ukraine, but no gold mine

BY ANASTASIA FORINA  
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Despite entering the global automobile market almost a century after pioneers Germany and France did, today Italy is home to some of the fastest and most luxurious cars in the world.

First manufactured in the 1930s, the world famous Italian super cars Ferrari and Lamborghini only appeared on the Ukrainian market in 2007. And Ukraine was lucky to get them, as the number of Italian car dealerships has decreased by 31 percent since 2007, according to a survey released in April by Quintegia automotive market research company.

Lamborghini all-wheel-drive cars, best known for their sleek, futuristic design and powerful engine that can propel them to speeds of more than 300 kilometers per hour, were first sold here in that same year. However, sales of the sports car slowed to a crawl during the 2008 financial crisis and picked up only in 2012, according to Artem Botsvin, head of Lamborghini sales and marketing at Vipos auto group, the official dealer of both premium and luxury cars, including Audi, Volkswagen, Brilliance, Bentley and Lamborghini autos.

With business hindered by the global recession, the company has not made a profit, according to Botsvin. But it has broken even and is likely to get into the green soon, he adds.

"The new off-road Lamborghini Urus sports utility vehicle that is expected to appear in 2015-2016 will push up our (sales) by 4-5 times," Botsvin said, adding that despite a price of €300,000 demand for it is already high in Ukraine.

So far, 8-10 Lamborghinis are sold per year, according to Botsvin. "That is



An employee works on a Ferrari car in a company factory on Dec. 5, 2012, in Maranello. Ferrari cars have been available in Ukraine since 2011 with prices starting at €220,000 (AFP)

mostly due to the lack of tradition of owning sport cars in Ukraine," he said.

Stereotypes regarding Lamborghini also push away potential buyers in Ukraine, according to him.

"There are a lot of warped judgments that it's impossible to drive them on (Ukrainian) roads and that they cost millions," he said.

But a professional race track is

needed to give drivers the opportunity to experience the full capabilities of a Lamborghini, according to Botsvin. The one announced by officials to be built in Kyiv could thus boost sales.

The price for a Lamborghini ranges from €180,000 for a Lamborghini Gallardo to €250,000 for a Lamborghini Aventador model.

Importing and selling the legendary Ferrari cars on the Ukrainian market was even harder. The rear-wheel-drive cars, which reach speeds over 300 kilometers per hour, are best known for their numerous achievements in Formula One racing.

"We began attracting Ferrari in 2007, and it was very difficult at that time, as Ukraine was considered a wild market for Ferrari," recalled Genadiy Ovcharuk, general director of Redcar and Vipcar companies, Ukrainian official importers of Ferrari and Bentley, respectively.

In 2009, his company won a tender to open an official dealership here. Since it started distributing Ferrari in 2011, the dealership has sold about 20 cars.

"Ferrari is usually bought by the people who have already bought everything," he says. "It can't be used just as an ordinary means of transportation," he said. "The man who is buying a Ferrari usually has a number of cars he uses for going on business trips, etc., while he'll use a Ferrari to go to a restaurant on the weekend, for example," he says.

Like Lamborghini, Ovcharuk said many stereotypes exist about Ferraris. Most people believe they have only one purpose – to race. But the range of Ferraris is very different – from the sporty Ferrari California at €220,000, to the Grand Tourer model Ferrari



Genadiy Ovcharuk, general director of Redcar and Vipcar companies. (Pavlo Podufalov)



Artem Botsvin, Lamborghini head of sales and marketing at Vipos auto group. (Pavlo Podufalov)

Berlinetta, available for €319,000.

Even though prices are quite high in the luxury segment, dealers admit this kind of business is not one that brings a quick profit, due to the relatively low market volume in this sector in Ukraine. The specificity of Ukraine's market is what makes selling luxurious cars here possible. Ukrainians prefer the most expensive cars in the luxury car sector, and those sales amount to 40 percent of the dealership's total sales, according to Ovcharuk.

Moreover, a new wave of rich Ukrainians is appearing, according to him.

"Around five Ukrainian farmers have joined the list of the owners of luxurious cars in the last two years," he said.

At the same time, he said the stereotype about the high number of expensive cars in Ukraine is wrong. "The volume of the (luxury) automobile market is around 400 cars per year, while in big European countries it's several thousand per year," he said. Still, Botsvin said it's economically viable to combine the premium and luxury segments.

"Working just in the luxury segment makes no economic sense in Ukraine," said Botsvin.

However, running this kind of business is not only about profit for Ovcharuk. "Not everything is measured by money, it's about ambitions (to have it) as well," he added.

Kyiv Post staff writer Anastasia Forina can be reached at [forina@kyivpost.com](mailto:forina@kyivpost.com).

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# Italian ambassador sees synergy between countries

BY ANASTASIA FORINA  
FORINA@KYIVPOST.COM

Despite suffering heavily in the wake of the global financial crisis, Italy-Ukraine economic ties remain strong. The Mediterranean peninsula is Ukraine's third largest trading partner among European Union countries, after Germany and Poland, with bilateral trade exceeding \$4 billion in 2012.

In his interview with the Kyiv Post, Italian Ambassador Fabrizio Romano said the companies currently in

Ukraine would invest more, and others would follow, if only the regulatory and business climate would improve. Romano, 54, said he highly appreciates the recent improvements in Ukraine's legislation, including the adoption of a new Customs Code, but added that increasing fiscal pressure is holding back the full potential of relations between the two countries.

"The two industrial models (Italian and Ukrainian) are potentially complementary. I see a good possibility to increase both trade and investment," Romano, who is in Ukraine since 2012, said.

With around \$1 billion invested in Ukraine since 1991, there are more than 300 Italian companies officially operating in Ukraine.

But Romano notes that Italian-origin investments are strongly underestimated since most of them were made through foreign subsidiaries. "The real amount of Italian investment is about \$4.5 billion," he said.

The clearest examples is Italy's UniCredit bank, Italy's top investment thanks to a 2006 purchase of a Ukrainian bank for an estimated \$2 billion, which technically counted as a Polish and Austrian investment.

Nonetheless, the list of official investments is long, with financial group Intesa Sanpaolo, energy giants Eni and Sapiem, food and beverage companies Ferrero, Campari and Martini, construction materials firms Mapei and Zeus, textile and footwear maker Inblu, and Danieli in metallurgy.

Despite Italy posting a €564 million trade deficit in 2012, trade relations are catching up, according to Romano, given that the deficit halved from €1.1 billion 2011. Moreover, he pointed to a deep involvement of Ukrainian officials in developing bilateral relations.

"I always experienced, in my relations with authorities, a great interest in the Italian presence here, a desire to have more Italian entrepreneurs here investing and of course a desire of having seeing our trade balance grow," he says.

For example, Italian road builder

Fabrizio Romano, Italian ambassador to Ukraine, talks to the Kyiv Post at the Italian embassy on June 5th. He took the post in January 2012. (Anastasia Vlasova)



Todini recently won a €185 million tender to reconstruct sections of the Kyiv-Kharkiv highway – the result of a trade mission that took place in Kyiv and Odesa last summer.

On the flip side, there are still a number of issues that have a negative impact on Italian businesses and are pushing potential ones away, according to Romano.

"The problem number one Italian enterprises are experiencing in Kyiv is connected to VAT (value added tax) refunds and fiscal pressure," he says. "That's something that should be taken into consideration (by Ukrainian authorities). If the fiscal pressure increases (investors) will probably change their attitude," he adds.

He also pointed to Ukraine's request to renegotiate 371 tariff lines in the World Trade Organization as a "source of perplexity for Italian investors and traders."

The recent increase of import duties for some categories of motor vehicles has also become a source of concern for many EU countries, including Italy, according to Romano.

"We produce large range of motor vehicles, which are quite popular in Ukraine," he says, adding that the duties hit sales hard.

Meanwhile, Ukraine could learn from Italy's industrial experience. Whereas Ukraine's market is dominated by large companies, elements of the Italian model can be taken as an example, Romano says.

Italy became Europe's second largest manufacturer based on an industrial system of mostly micro, small and medium enterprises, according to Romano. This economic phenomenon is being studied by many countries worldwide, he added.

"There are more than three million firms in Italy (employing less than 10

people). Our structure may make it more difficult to expand on foreign markets, but at the same time it has more flexibility and creativity (than large corporations)," Romano says.

Regarding Ukraine's aspirations to join the European Union, Romano says Italy is supporting it and is actively involved in the process of Ukraine fulfilling EU requirements.

"Becoming a full member of the EU is a sort of a road map. You have to fulfill different conditions. At the moment we're working together with the Ukrainian government in order to fulfill the criteria and hopefully sign the association agreement in Vilnius in November," Romano says. "Italy is one of the founders of the EU and it was always open to a further development of it. So let's work on this road map, let's first sign the agreement," he adds.

Kyiv Post staff writer Anastasia Forina can be reached at forina@kyivpost.com

## Italy at a glance:

**Territory:** 301,340 square kilometers  
**Population:** 61.4 million (estimated for July 2013)

**Government type:** parliamentary republic

**Head of government:** President of the Council of Ministers Enrico Letta (since April 2013)

**GDP** (purchasing power parity): \$1.8 trillion

**GDP per capita:** \$30.1

**Main industries:** tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, ceramics

## Ukrainian-Italian economic relations:

**Trade:** \$4.042 billion on 2012

**Exports from Italy to Ukraine:** furniture, footwear, clothing and mechanical industry, particularly industrial machinery and construction equipment

**Exports from Ukraine to Italy:** metallurgy products (iron and steel and their products, such as tubes, rods and profiles), wood, agricultural products (sunflower oil, wheat, soya beans), skins, coal and gaseous hydrocarbons.

**Italy's investment in Ukraine:** \$1 billion

**Ukraine's investment in Italy:** \$0.4 billion

Source: ISTAT, CIA Factbook, state statistics

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June 13-30

## Euro 2012 photo exhibition

An exhibition titled Two countries, One Story, comprised of photos submitted by four major photographers from Ukraine and Poland, who were shooting the scenes of the Euro 2012 football championship in Ukraine, is on display now. On the championship's anniversary the public is invited to revisit the events of last summer, when four Ukrainian cities – Kyiv among them – hosted the football contest. Photos feature not only the brightest moments of football games, but also the emotions and behavior of the tens of thousands of fans who visited the event.

**Euro 2012. Two Countries, One Story (photo exhibition). June 13-30. Museum of Kyiv History (7 Bohdana Khmelnytskoho St.). Hr 15**



June 12-30

## Exhibition showcases Odesa art

The "Odeska Shkola" (Odesa School) exhibition shows Odesa art from the 20th and 21st centuries. It includes nearly 500 works of pictorial and graphic art, sculpture and video created by Odesa artists, such as Mykhailo Bozhiy, Valentyn Khrushch, Yuri Yegorov, Liudmyla Yastreb and Oleksandr Roytburg among others.

The exhibition includes personal and collective art projects as well as some historical projects using archival photos, documents, press cuttings and video from the current and past century.

The exhibit includes works from a number of periods, such as lyric realism, non-conformism, new wave, contemporary art as well as the "Non-conformism 2013" and "Fence Exhibition" special projects.

The showcase will include discussions, meetings with artists and concerts of Odesa musicians.

**Odesa School art exhibition. June 12-30. Mystetskiy Arsenal, 10-12 Lavrska St. Hr 50 (Hr 20 for students and pensioners)**



June 16

## Fast Film Festival

Fast Film Festival is a unique festival of movies shot during a single day. At 8 a.m. on June 15, the organizers will announce a theme to the festival's participants. The participants will have until 8 p.m. of the same day to shoot, cut and dub their shorts. Films must be from 10 seconds to five minutes in length.

One can see the films and winner's award ceremony on June 16 from 5 p.m. till 9 p.m.

**Fast Film Fest. June 16. House of Cinema, 6 Saksaganskoho St. 5 p.m. - 9 p.m. Free**



June 14-15

## Kyiv Fire Festival

Kyiv Fire Festival is a colorful fire and circus show performed by theater troops and solo artists from Switzerland, France, Hungary, Germany and post-Soviet countries. The festival lasts two days and features both daytime and evening programs. A grandiose fest opening with fire installations, a fire contest and pyrotechnical show on water performed by more than 500 artists will be held on June 14 at 8:30 p.m. During the daytime program on June 15 shows will be thrown on several stages. Contests, workshops and a souvenir fair are listed among other activities planned. The main show will start at 9 p.m., and will finish with a unique performance with fire and organ music from Sir Henry Hot.

**Kyiv Fire Festival. Rusanovskiy Channel. June 14. Free**

**Kyiv Fire Festival. Pechersk Landscape Park. Spivochko Pole. June 15. Hr 25**



June 15

## Mixed breed dogs festival in Kyiv

Dozens of homeless mixed breed dogs will be showing their talents and looking for new owners at Druzhby Narodiv Park on June 15. Dogs will be brought from the shelters. After enjoying the dog shows, dog-fashion and an award ceremony, visitors will be able to choose a pet to take home. Those who are not ready to adopt a new pet will be able to simply donate some edible gifts to the dogs they like best.

**Mixed Breed Dogs Festival. June 15. Druzhby Narodiv Park. 10 a.m.-3 p.m. Free**



June 14-16

## Transcaucasia festival

The Transcaucasia International Festival will entertain visitors with a photo exhibition, live performances and installations on June 14-16. The festival aims to demonstrate Ukrainian artists' vision and perception of the Caucasus. Movies from Armenia, Georgia and Ukraine will be screened at the festival.

A joint project by the 33A (Georgia) and Volosi (Poland) bands also will be presented at the summer stage in Mariiyskiy Park on June 15. The Transcaucasia Festival is a regular event, that also takes place in Poland, Portugal, the United Kingdom, the Czech Republic and Sweden.

**Transcaucasia Festival. June 14-16. Mariiyskiy Park. Free**

# PAYMENT SYSTEMS

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## Central bank pilots home grown payment system

BY KATERYNA KAPLIUK  
[KAPLIUK@KYIVPOST.COM](mailto:KAPLIUK@KYIVPOST.COM)

Ukraine's central bank started testing a new national electronic payment system this month that it says will bring it closer to the international standards used by such systems as Visa and MasterCard. But major banks are still waiting to see whether their concerns are addressed before they decide to use it.

In early June, the National Bank of Ukraine announced the launch of a four-month pilot project designed to upgrade an existing payment system that is in limited use. Ukraine's officials expect that the system eventually will

be an important player on the domestic payments market.

However, it seems that many upgrades still have to be made before that happens, particularly when it comes to the system's security.

The first prototype of the National Mass E-Payments System (NSMEP) was launched in 2000. The first NSMEP payment cards were issued in 2001, but commercial usage of the system did not start until 2004. Between 2008 and now, 58 banks and nine other institutions joined it, including state-owned postal service Ukrposhta.

But with NSMEP cards not accepted by regular card readers, the initiative was largely stillborn. Card owners were

forced to look for special terminals, making the process of withdrawing money and paying for services awkward and frustrating.

A total 9.5 million cards have been issued so far, of which 6 million went to clients of the USSR's savings bank Oshchad Bank to be able to withdraw a portion of their Soviet-era savings. By comparison, about 21 million Visa cards and 11 million MasterCards have been issued in Ukraine, according to Kommersant newspaper.

To make the system more viable, the central bank launched an overhaul. Inna Tiutium, deputy director of the department responsible for payment systems, says the NBU is introducing several major improvements.

The clearing house and processing center are both being enhanced, after which cards can be re-issued. The new cards will feature a regular magnetic strip and more secure EMV-chips, like those used by Visa and MasterCard. No details have emerged about the project's costs, though. The central bank didn't answer the Kyiv Post's information request by the time the paper went to print.

According to government statistics, up to 96 percent of card-based transactions from Ukraine-based accounts take place within Ukraine's borders, said UkrGazBank first deputy board chairman Stanislav Shlapak. That's why, he believes, "the core market for cards is the local market."

He said most card payments in Ukraine are routed through Visa and MasterCard sites located abroad, which means foreign companies are paid for services even on domestic transactions.

"Using NSMEP, banks will also be able to avoid making deposits abroad to ensure the inter-bank transactions on international payment systems' cards, despite the fact that most of the cards are served on the territory of Ukraine," Shlapak says.

The national payment system could also drive prices down for card payments, some bankers say.

"This system is intended to bring an additional player to the market, which will increase competition and possibly lead to lower rates. This, in turn, can reduce the cost of services for end-users – the cardholders," says Volodymyr Lavrenchuk, board chairman of Raiffeisen Bank Aval.

However, neither Raiffeisen Aval, nor other top private banks in Ukraine



Ukraine's central bank believes the National Mass E-Payments System could soon become a reliable alternative to Visa and Mastercard. (Courtesy)

have joined the national payment system. Usage of the previous version and its cards was too costly, Lavrenchuk explains. The bank is waiting to see the newly enhanced product to decide if it's worth revisiting the NSMEP.

According to the Independent Association of Ukrainian Banks, the NSMEP controls less than 10 percent of

accept cards of international payment systems, Patsuy says.

But the biggest concern is the system's security. "If the system is built without really strong – read expensive – data security, there is always the risk that that data could be stolen," Steven Parker, head of Visa operations in Southeastern and Eastern Europe, Russia and Central Asia told Kyiv Post in September 2012. "There's an exact correlation between how much you spend on a system and how secure it is."

"The reliability of Visa's and MasterCard's equipment, as well as the control of its stability, is supported by decades of international practice and experience. But it still remains to be seen how secure the NSMEP system will be,

considering the massive growth of turnover and the number of transactions," Patsuy said.

Experts from IAUB think that payment security with new NSMEP cards at automatic teller machines and POS-terminals will conform to international standards. It's such issues as the security of online payments that are still under question. However, UDAR lawmaker Olga Bielkova emphasizes that together with developing NSMEP, the NBU also should ensure a competitive environment on the national payment market. Among other things, banks should have the right to accept any cards issued by Ukrainian banks, and use the same fee structure.

Kyiv Post staff writer Kateryna Kapliuk can be reached at [kapliuk@kyivpost.com](mailto:kapliuk@kyivpost.com).

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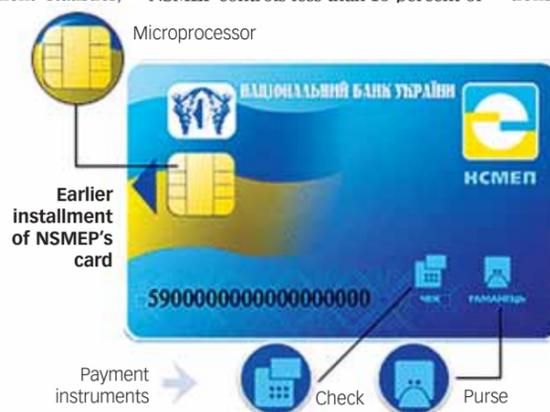
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card transactions at the moment, with Visa and Mastercard accounting for the bulk of the rest. According to IAUB, it would be more logical to use NSMEP cards in such cases as paying pensions, salaries or stipends for students, because they are designed primarily for payments inside Ukraine.

But there are plenty of disadvantages, too. "Key market players have already invested in the development of card businesses based on Visa and MasterCard products, and benefits to migrate over to the NSMEP cards are not obvious," says Valeriy Patsuy, head of the card business development department of First Ukrainian International Bank.

The cards cannot be used for payments abroad. And even at home, the potential for using them is currently limited because many terminals only

# E-commerce thrives amid tight regulations

BY SVITLANA TUCHYNSKA  
TUCHYNSKA@KYIVPOST.COM

When a relative asked Roman Khimich to help him sell his old M64 motorcycle, he was surprised to find out that these bikes are quite popular with European collectors.

"One man from Germany offered \$3,000. The problem was that he wanted to pay with PayPal only," says Roman Khimich, a finance blogger, describing the state of online payment systems in Ukraine.

But since Khimich lives in Ukraine he couldn't sell through PayPal, only buy. So he sold the motor bike to a local farmer for six times less.

PayPal, the online money transfer company owned by eBay, is an international market leader used by more than 123 million people in 190 countries and 25 global currencies.

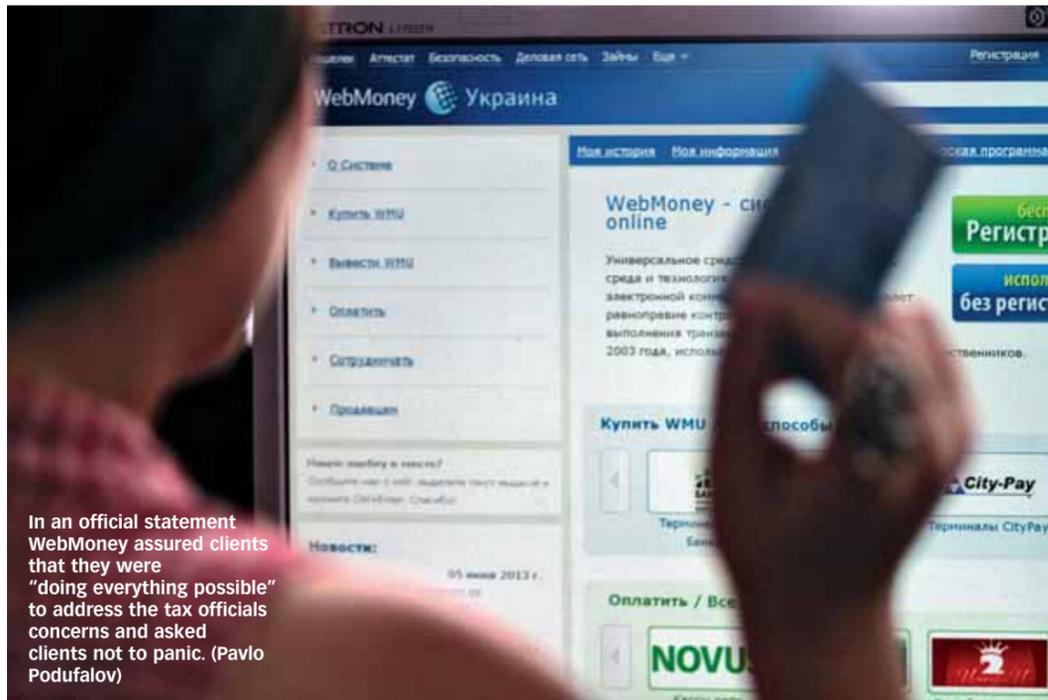
But Ukrainians can only use the system to only buy things because the company does not have an office in Ukraine and is not registered with the central bank, the NBU.

With PayPal largely unavailable, Ukrainians have few choices. Especially after WebMoney, PayPal's Russia-based competitor with 21 million users worldwide, came under heavy pressure in Ukraine.

On June 11, WebMoney's office in Kyiv was searched by tax officials, who confiscated several servers. According to a statement from the ministry of revenues and duties, they "established substantial violations of the law by WebMoney in Ukraine... Users of the system – internet shops, providers of services and entrepreneurs were hiding illegal financial operations," the statement reads.

The ministry froze Hr 60 million (\$7.5 million) in the firm's accounts.

Despite such problems and restric-



In an official statement WebMoney assured clients that they were "doing everything possible" to address the tax officials' concerns and asked clients not to panic. (Pavlo Podufalov)

tive legislation, the popularity of electronic payments in Ukraine is growing.

"According to our estimates, in 2012 the amount of people who buy products and services with electronic money grew by 10 percent," says Margarita Ormotsadze, a spokesperson for WebMoney's Ukraine operations.

Payments using e-money in Ukraine in January-March 2013 totaled \$63,000, up 96.9 percent from the same period in 2012, says Tetiana Kovalenko, deputy chief of the department of cashless payments at NBU.

However, experts say NBU statistics are the tip of the iceberg, as they only count systems that were

set up by Ukrainian banks and thus registered by the NBU as issuers of electronic money. According to law, only banks can be issuers of electronic money. These systems include MoneXy (Fidobank), MAXI (VAB Bank) and GlobalMoney (Oshchadnyi Bank).

Another option for payment systems has been to position themselves as a settlement system which deals with property rights and not electronic money. This is how WebMoney has been operating in Ukraine for more than a decade.

However, lawyers doubt the legal basis for such operations.

"As these e-payment systems accept payments for third parties and enable

users to transfer money between themselves, in my opinion, this proves that it is a money exchange, despite what they call it," says Anna Pushkaryova, senior associate at Lavrynovych & Partners.

And for such money exchanges, the company has to be registered with the NBU, adds Pushkaryova.

The last group of e-payment systems is the foreign companies who have not legalized their activity in Ukraine, thus offering limited services to their clients: PayPal, Moneybookers, Yandex.Money, MoneyMail among others. Their electronic transactions cannot be converted into hryvnias at Ukrainian banks.

Lawyers say the government is try-

ing to establish control over the market of online payments and e-commerce in particular. The most recent initiative by the NBU involves limiting the amount of monthly electronic money to \$3,000 per user. Other initiatives that are still pending include a requirement to provide the NBU with information on an e-commerce system's agents.

Experts and lawyers are sceptical about these efforts.

"The NBU is ignoring the fact that most of the electronic money that belong to residents of Ukraine are situated in the channels which are not under NBU's jurisdiction. The international laws that regulate this market are much more liberal than what the NBU suggests," says Khimich.

"The Ukrainian legal framework on e-money contains certain provisions substantially restraining the development of e-money, as compared to EU legislation," says Yulia Kyrpa, partner at Vasil Kysil & Partners.

She in particular mentioned requirements to "give special status to e-money issuers which must enjoy the status of a banking institution, which narrows down the circle of potential issuers."

Another restriction, according to Kyrpa, is the requirement for NBU approval of the rules of each particular e-money system prior to issuance of any electronic money by a bank.

"Such rules must include a detailed description of all transactions to be performed in the system, risk management and security instruments, template agreements with agents, operators," said Kyrpa.

To improve the situation, experts say it's best to cancel many legal limitations and to bring Ukrainian law in line with EU legislation.

Kyiv Post staff writer Svitlana Tuchyńska can be reached at [tuchyńska@kyivpost.com](mailto:tuchyńska@kyivpost.com).

## Ukraine reforms improving business climate

### →3 Further areas for reform

The biggest area of concern for domestic and international investors is the application of the rule of law, particularly when applied to commercial transactions. Here there is still much room for improvement to ensure the impartial resolution of commercial disputes. This area, where there is a lack of trust in the governance, transparency and impartiality of the court system, is where most investors, domestic and international, express concerns regarding Ukraine's attractiveness as an investment destination and where progress on reform is required.

The continued indebtedness of the banking sector, as a result of the high level of nonperforming loans following the crash in 2008, is also slowing the growth of small and medium sized business in Ukraine, as they simply cannot undertake meaningful investment without affordable access to finance. The government should look at the advice of the European Bank for Reconstruction and Development and others to develop capital markets in local currency to increase the funding

opportunities for Ukrainian business and in particular SMEs.

A final area of reform which I would mention is in the energy sector. Power generation requires major investment if the country is not to experience blackouts in the next couple of years.

According to the draft of the Energy Strategy of Ukraine until 2030, \$104 billion is required by 2030 to modernize existing facilities, build new power stations and upgrade distribution. Without market liberalization, it won't be possible to make these huge and necessary investments. Our energy business, DTEK, plans to invest \$20 billion over this period to upgrade its productive capacity.

Ukraine remains one of few countries in Europe which still has a regulated electricity market. The liberalization of the electricity market was announced 10 years ago. And only now things are starting to move forward. Last year the draft law of Ukraine on Operating Principles of the Electricity Market of Ukraine passed the first reading in parliament.

It is important, however, that parliament pass the draft law before its

recess. This will move Ukraine a big step forward in integrating with the European energy market and prevent the real threat of blackouts in a couple of years.

The draft law has received support of key international stakeholders – the Secretariat of the European Energy Community, the World Bank, the U.S. Chamber of Commerce and the European Business Association – and it will provide the legal grounds for liberalization, increasing transparency and bigger participation of consumers in the market. These are the necessary basic steps to bring investors to the sector.

Of course, a transitional period is necessary to make the reform efficient, but it is vital to tackle the challenge to bring tariffs to an economically justified level, and to get rid of cross-subsidization already now, while ensuring energy access for all by having an effective social protection system in place for poorer and vulnerable members of society.

### European Integration

SCM has always had a clear view of the importance of Ukraine's integration

into the European Union, and in particular the need to secure the Deep and Comprehensive Free Trade Agreement. We have been active in supporting this process and remain supportive of the government's objective of an agreement being signed in November.

We must be clear – signing the Association Agreement is not a zero sum game for trade with Russia or the EU. Russia will always be a vital trading partner for Ukraine, and business is fully supportive of developing improved bilateral trading relations with Russia and other neighbors to the East.

Signing the DCFTA and adoption of elements of the EU Acquis will give Ukraine the template for reforming its often outdated regulatory environment which governs business, and help it upgrade its institutional capacity. These factors have been repeatedly identified as being areas of weakness in terms of the country's investment attractiveness.

Adoption of EU regulatory principles should lead to an improved ease of doing business in the country, reduce risk and act in the medium

term to boost foreign direct investment – where Ukraine has for long lagged behind its Eastern European neighbors. Many countries are chasing the same investment euro or dollar in competition with Ukraine. Enhancement of the business climate and investment potential that the DCFTA would bring would significantly aid Ukraine's competition for these funds.

Changing Ukraine's business regulatory environment to meet European standards through the process of regulatory approximation will not be an easy task. Clearly it goes way beyond signing an agreement – this will be only the first step.

At the same time, Ukrainian business should not wait for the government to encourage reform and modernization. We have to take responsibility for our own development. I have worked in Ukraine for almost eight years, and in that time I have seen Ukrainian and international businesses acting as catalysts for change in Ukraine.

Jock Mendoza-Wilson is Director for International and Investor Relations of SCM Group, Ukraine's largest business group that belongs to Rinat Akhmetov.

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# Alegria comes to Kyiv on farewell tour



WITH ANASTASIA VLASOVA  
VLASOVA@KYIVPOST.COM

## Zhovkva, a town of ghosts and legends in western Ukraine

**ZHOVKVA, Lviv Oblast** – Like many who come from southern Ukraine, the western part of the country remains a mystery to me. It's a shame to confess, but I have never been to any of the Western cities except for Lviv.

So during a recent trip I decided to venture out of the city to visit Zhovkva, a small town of around 13,000 located 25 kilometers north of Lviv.

Tales of the 16th-century castle standing proud on a hilltop were extremely appealing for a young woman from the flat, southern steppes. Soon after arriving I saw that rumors of the town's beauty were true.

Legend has it that the famous Ukrainian Cossack leader Bohdan Khmelnytsky was born here. He certainly spent some of his youth in Zhovkva with his father, who belonged to the court of the Polish nobleman Stanislaw Żółkiewski, the town's founder. The hetman, or Cossack leader, obviously valued his childhood memories. When Cossacks under Khmelnytsky's rule were attacking Lviv, he forbade burning Zhovkva.

Żółkiewski founded the town in 1597 and fortified it to protect the Polish border from Tatar raids. But Zhovkva owes its beauty to Żółkiewski's wife Regina. Fond of Italian cities, she insisted on borrowing from the Renaissance urban planning ideas of Italian architect Pietro Cataneo in constructing the town.

Since the Italian Renaissance masters were inspired by the beauty and perfection of the human body in their works, one can recognize the human figure in the shapes and lines of Zhovkva. In this respect, Żółkiewski's magnificent castle is the town's head, the square in front of it is the torso, the Saint Lavrentiy Cathedral is its heart, the stalls a stomach and the streets that start from the main square, its hands and legs.

Żółkiewski didn't live to see Zhovkva prosper, however. The military commander was killed at the age of 73 in a battle against the Turks in 1620. His mourning widow had to sell all her treasures to buy her husband's head from the invaders and bring it home. It is still kept in the Saint Lavrentiy Cathedral.

You can almost feel the ghosts of those famous inhabitants following you through the town's streets and squares. Stones in the fortified city walls, that resemble skulls, as well as flocks of ravens add to the somber atmosphere.

Zhovkva was said to be → 13



The contortionists Mergen Ulziibuyan and Senge Oyun-Erdene of Cirque du Soleil rehearse a scene from Alegria on May 10, 2007 in Paris. Alegria is now on its farewell tour and will run in Kyiv on June 20-28, 2013. (AFP)

BY OLGA RUDENKO  
RUDENKO@KYIVPOST.COM

A radiantly dressed acrobat unrolls his body after a flip and easily lands on a flexible bar. A sad clown with a big red nose hugs himself with one hand, pretending he has company. An aerialist spins madly on a swing, preparing for a risky high-flying jump. The tricks of Cirque du Soleil are classics of circus art and are hardly unique. So what is the secret component that makes it so special?

"Cirque du Soleil is quality, quality and quality," says artistic director

Bruno Darmagnac, sipping his coffee in the hall of Premier Palace hotel in Kyiv.

Darmagnac arrived in Kyiv on June 2, two weeks before the rest of the cast, to start preparations for a series of shows on June 20-28.

In its second visit to Ukraine, Cirque du Soleil is set to perform Alegria (Spanish for "joy"), the company's signature show. The show was first staged 19 years ago and has toured the world ever since. Darmagnac has been its artistic director for the last two years.

"With Alegria, Cirque du Soleil has found its style," Darmagnac says. "This

December it is going to rest to give way for new shows. So it's the last chance to see Alegria."

Darmagnac admits that Cirque du Soleil, among the world's most popular circus acts, is not a circus in the classical sense. Animals are not a part of the performances, and its acts are always united by a story and theme. This is what makes Cirque du Soleil stand out from the typical circus troupe touring Ukraine.

Of course, that difference is reflected in the price, too. Tickets to Alegria start at Hr 420, which is about six times more than any local circus charges.

The shows will take place in Kyiv's Palats Sportu.

Twenty-two trucks, one and a half of which is filled just with costumes, will bring Alegria to Kyiv on June 17, three days before the opening night on June 20. "It's a big monster, yes," says Darmagnac.

In Alegria, the action is set in a kingdom that has lost its king, and each act is a chapter of a developing story, showing how the king's entourage and young generation fight for power.

The show is one of 19 currently running throughout the world under the Cirque du Soleil brand. Unlike → 14

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The newly constructed building of the Radisson Blu hotel in Alushta has 146 new suites ready for the upcoming tourist season. (Courtesy)

## Radisson Blu hotel opens in Crimea's picturesque Alushta

BY DARYNA SHEVCHENKO  
SHEVCHENKO@KYIVPOST.COM

Another Radisson Blue hotel managed by The Carlson Rezidor Hotel Group opened up in one of Ukraine's most picturesque places – Alushta, Crimea. The company claims boldly that it will take the region's infrastructure to a totally different level.

The first part of the complex opened in 2008, but it took five years to develop the full project, which includes a large Spa Shore Zone, three open swimming pools, a hotel beach line, four restaurants, and a set of seven conference and meeting rooms of different sizes that can hold more than 300 people.

"The last few years have shown that 30 percent of our guests are foreigners," says Natalia Belnachuk, the hotel's sales director. "They come here despite all the difficulties with transportation, but now we also aim to attract business groups," she said.

Prices fall in line with comparable offers in the region. A double room with breakfast included will cost some 199 euros during the high season, which drops to 149 euros per night in autumn and spring, and just 110 euros in winter.

While the list of positives is long,

the investors – Russian diversified company IFD Capital – does not expect to break even soon, with Hr 500 million invested in the project only during the second stage of construction.

"We expect to see our first profits in about 20 years," says Andriy Zaitsev, general director of IFD Capital's Ukrainian branch. "We counted Crimea's short tourist season (of just three months) and a 40-46 percent yearly occupancy rate," he explained. The hotel expects to see 60 percent of its revenue from room rentals, counting on long-stays, 30 percent from conferences and some 10 percent from other services.

A week long summer vacation in Radisson Resort & SPA, Alushta can be as expensive as an all-inclusive trip to Egypt or Turkey, with many short-comings in terms of local transport infrastructure.

But hotel representatives aren't worried. "The Black Sea is different and cannot be compared to a Mediterranean Sea or any other. It has its own coloring and spirit," says Fikret Yuksel, general manager of Radisson Resort & SPA, Alushta.

*Kyiv Post staff writer Daryna Shevchenko can be reached at shevchenko@kyivpost.com.*

# Favored residence of Polish king, Ukrainian hetman

→12 the favorite residence of Polish King John III Sobieski. According to legend, when a cradle holding the infant king was put atop of the sarcophagus of his great-grandfather Żółkiewski in Zhovkva, the cover of the sarcophagus cracked, symbolizing that a hero had been born to avenge his death. Under Sobieski's rule in the 17th century, Zhovkva experienced its most prosperous years.

World War I brought destruction to the town. The castle survived only to be soon converted into a prison for the NKVD, the secret Soviet police at the time. In 1951, the town's name was changed to Nesterov in honor of the Soviet pilot Pyotr Nesterov. In 1992 it regained its old name.

Over 400 years have brought numerous changes to Zhovkva, making the town an interesting wrinkle in western Ukraine's history. Nowadays, pubs stand next to the old cathedrals, cyclists fill the main square rather than sauntering Polish noblemen, and children play on the defensive walls where soldiers once fought.

Despite this, Zhovkva has kept its majestic spirit of old glory. It takes you from the present and throws you back into an era of noble knights and bloody battles – even if they are no more than legends now.

*Kyiv Post photographer Anastasia Vlasova can be reached at vlasova@kyivpost.com.*



The Polish nobleman's castle, one of the main attractions of Zhovkva. (Anastasia Vlasova)

**HOW TO GET THERE:** Take the bus to Zhovkva from Lviv Bus Station #2. Buses depart every 20 minutes and the fare is Hr 8.

**WHERE TO EAT:** Make sure to visit Tsukernia café (Ukrainian for "confectionery"), situated in Zhovkva's Vicheva Square in the very heart of town. Cakes are available for Hr 9-12, coffee for Hr 12-16.

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# Cirque du Soleil returns to Kyiv with signature show

→ **12** the newer exhibits, the almost two decade old Alegria doesn't feature any special effects, so it is the artists that have to create the spectacle: As many as 56 of them participate in the show, including six musicians, two singers and three clowns. The show's wardrobe counts over 600 pieces. Each is tailor-made for the particular acrobat and each mask is molded to fit a specific face.



Bruno Darmagnac, artistic director of Alegria (Anastasia Vlasova)

The troupe of Alegria is multinational, and one of the lead singers is Ukrainian, as are several acrobats. "They are very excited to perform here," says Darmagnac.

According to him, nationality matters when it comes to an audience's reaction to Alegria. While Austrians usually keep still during the show, Spanish people cheer and react very strongly. But Darmagnac struggles to remember where he saw a little girl with arguably the most endearing reaction.

"She came with her teddy bear, and she would sit him on her head to make sure he sees the show. Of course, people behind her weren't happy, but it was still very cute," he says, laughing.

While children's reactions are always precious, Cirque du Soleil shows are enjoyable for all ages, says Darmagnac. "The mix of theater and acrobatics – it works on everyone," he adds.

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Clowns from Cirque du Soleil perform during an Alegria show on Nov. 28, 2012 in Paris. The show features three clowns. (AFP)

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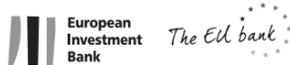
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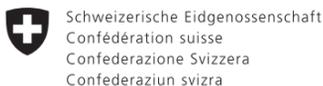
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- At least 2 years experience in the field of administration, preferably with international donor organisations
- Fluent in Ukrainian, Russian and English (German or French is an asset), good interpretation/ translation skills
- Basic accounting skills
- Stress resistance, flexibility, team orientation, excellent communication skills
- Very good computer literacy

The vacancy is a full time position until November 2014.

Afterwards, the employment quota will be reduced to a part-time position (50%).

For more information on the Swiss Cooperation Office and the Swiss technical cooperation program with Ukraine please visit the website [www.swiss-cooperation.admin.ch/ukraine](http://www.swiss-cooperation.admin.ch/ukraine)

The deadline for submission of applications is **June 30, 2013.**

Please send your detailed CV and motivation letter in English to the Swiss Cooperation Office's e-mail address: [kyiv@cdc.net](mailto:kyiv@cdc.net)

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