By Vlad Lavrov

In June 2007 Ukrainians in the capital, Kiev, received some shocking news. Serhiy Kalynovsky, the 22-year-old son of the Ukrainian oil tycoon Zynoviy Kalynovsky, had been sentenced for his involvement in a car crash that killed two people, including a police officer. According to witnesses, Kalynovsky was speeding in his BMW near 150 km per hour (93 miles per hour), when the accident occurred in May. Following the crash, Kalynovsky, dressed as a woman, attempted to escape the country on a charter plane to Israel. When his punishment was announced however, he was merely fined 34 hryvnias (US$7). It should be noted that in addition to his powerful father, Kalynovsky's mother, Maria Firtash, is the ex-wife of Dmytro Firtash — co-owner of RosUkrEnergo, the natural gas supplier in Ukraine.

Even in a country where dubious court decisions are handed down daily, this ruling was too much for citizens to bear. Both journalists and the public were outraged. There were repeated calls to attack the court and "lynch" the judge. Many prominent lawyers issued statements saying such a lenient decision was ridiculous — no matter how corrupt the system was. Later that day, however, the court issued an astonishing statement saying the ruling that had caused so much turmoil was actually related to another Serhiy Kalynovsky. The Kalynovsky case in which everyone was interested was still in progress, the court said.

In August, after public interest in the case had dwindled, the court released the results of forensic testing. According to the tests, which were verified by the Justice Ministry, Kalynovsky had been driving no more than 60 km per hour (37 miles per hour), exactly within the city speed limit, when the accident occurred. No one was surprised. The odds that Kalynovsky will face judicial proceedings are now very slim, especially given the fact that his doctors insist that he remain hospitalized abroad. Despite the turn of events, the story has received no additional coverage in the media.

The reason for this is simple: The subject of corruption, both grand and petty, is not something that sells newspapers. Ukrainians, as well as foreigners doing business in Ukraine, have come to believe that it is better to live with corruption than waste to time and energy fighting it.

"Corruption has become a customary characteristic of the Ukrainian society. … It is considered to be a part of everyday life and people consider it normal. It doesn't surprise people anymore," said Oksana Kuziakiv, chief executive of the Institute for Economic Research and Policy Consulting, a Kiev-based think-tank. She said corruption is not something that deters people from doing business with or investing in the country.

The latest survey of nearly 300 business leaders across the country, conducted by the Institute, revealed that corruption levels are climbing back to 2004 levels — the worst since the surveys began in 2002. At the same time, however, corruption fails to make it into the top 10 obstacles that businesses face in Ukraine. According to the survey results, corruption scores 15th, way behind such problems as "inadequate demand," "high tax burden" and "tough competition."

Kuziakiv explained that the current growth of Ukraine's economy is so lucrative that businesses have discovered they can earn considerable profits, even after paying the "unofficial fees" to the authorities. According to the State Statistics Committee, between January 2007 and July 2007 the gross domestic product grew by 7.2 percent compared to the same period last year.

Additionally, Kuziakiv said, the surveys she conducts have never shown any significant decrease in corruption. The only period of time when the figures went down at all was in April 2005, following the Orange Revolution when the new government headed by Yulia Tymoshenko stepped in and promised swift changes to the country's economic policies. "Old corruption schemes had broken down. …It was a period of uncertainty of what to expect from the authorities, how much to pay them, and whether it would help getting the desired result," she said.

The April 2007 survey showed, however, a keen awareness among people about how much each bribe should cost to be effective. Those surveyed also expressed a high level of certainty that the bribes paid would lead to the desired results. The average size of bribes paid to the authorities, such as tax administration, police, customs authorities and governments at the local and national levels, in 2007 equaled 4.4 percent of businesses' annual sales revenues, somewhat higher than last year's 3.4 percent, and a considerable increase compared to the 1.4 percent in 2005.

Kuziakiv said she cannot recall any specific anti-corruption effort, or any cases of whistle-blowing that had any serious resonance on the national level. Whistle-blowing, she explained, only makes sense when there is an impartial and trustworthy court system, which does not exist in Ukraine. “Here nobody would take such risks knowing that any court decisions can be bought,” she said.

It is not just the courts that can be bought, Kuziakiv added. The executive agencies and the legislative bodies all have their price as well. An example of this is the case of Regal Petroleum, a London-based private oil and gas company.

Since 1999 Regal had been working in Ukraine to develop two gas condensate fields in the Poltava region. The production was launched as a joint venture with a subsidiary of the state-owned oil and gas extraction enterprise Nadra Ukrainy. When the venture was dissolved in 2004, Regal was awarded the 20-year production licenses for the two fields. Regal’s former partner immediately disputed the decision, however. A series of lawsuits ensued and Regal was unsuccessful in defending its licenses.

In August 2006, Regal made a decision that was slightly unorthodox, to say the least. It made a deal with the British Virgin Islands-registered Alberry Ltd., owned by the Ukrainian citizen Dmytro Gelfendbeyn. In a statement to its shareholders, Regal described Alberry as a “partner who possesses the skills and experience necessary to lobby the relevant Ukrainian authorities and put forward the case.”

The terms of the deal, which received very little coverage in the Ukrainian media and went largely unnoticed by energy experts, were quite specific. Regal was to sell Alberry 15 percent of its shares in its Ukrainian operations for 100,000 pounds (US$201,885). Alberry was then to liaise with “all the relevant Ukrainian authorities … in order to establish the validity of the licenses.” The deal required that Alberry would deliver “a valid, effective and final judgment in favor of [Regal] by the Ukrainian courts” within 90 days of the purchase agreement. If Alberry succeeded, Regal would buy back the shares for 25.2 million pounds (US$50.9 million). If it failed, then Regal would buy back the shares for only 50,000 pounds (US$100,943).

Despite introducing Gelfendbeyn as “the director and owner of a consultancy business, which provides services to a large number of foreign oil and gas companies,” the energy analysts contacted with inquiries said they had never heard of him. Nevertheless, in December the Supreme Court of Ukraine ruled in favor of Regal and confirmed its licenses. According to the court decision, the plaintiff, a state company, simply withdrew its claims against Regal.

On May 10, 2007, the Financial Times suggested that Alberry might be linked to Nadra Ukrainy, the state company that was disputing Regal's licenses in court in the first place. For Regal, the deal seems to have worked out well. Recent reports in the Financial Times and the reputable daily Kommersant — Ukraine suggest that the company is considering selling its Ukrainian exploration assets to Shell, which reportedly is ready to pay more than 750 million hryvnias (US$150 million).

It is important to note that prior to the deal with Alberry, Regal, being a foreign investor, spent quite a deal of time appealing to the Ukrainian government and the president to protect its business interests. As of Dec. 31, 2005, Regal's total investment in Ukraine amounted to 155 million hrynias (US$31 million).

President Viktor Yushchenko launched what has been billed as a strong initiative to curb corruption in Ukraine. One of its main points is a mandate that all state officials disclose their and their family members' incomes. It is difficult to say how many times similar campaigns have been launched in the past as an antidote for corruption. Needless to say, none of them succeeded.

Ukraine Internal Minister Vasyl Tsushko was one of the top officials whose income disclosures was first made public. In 2006, Tsushko declared his income was 195,483 hryvnias (US$39,084). In addition, he disclosed owning a land plot, middle-sized apartment, garage and an old Soviet-built motorcycle. The same year the rest of his family earned only 504 hryvnias (US$101). In July he returned to Ukraine after spending 50 days in Germany in a private health clinic, where he received treatment for heart problems. The question of who paid the bill remains uncertain.