Issue

- In violation of both Ukrainian law and previously accepted OECD corporate governance standards, the Government of Ukraine (GOU) has taken illegal action by circumventing Naftogaz's Independent Supervisory Board and announcing the termination of the company's current management.

Message

- Naftogaz's Independent Supervisory Board must be allowed to function and make decisions without government interference, including decisions related to the future of the company's management.

- The maintenance of OECD corporate governance standards at Naftogaz is in the interests of both Ukraine and the United States.

- If GOU circumvents Naftogaz's Independent Supervisory Board and ignores the Board's authority, international financial institutions (IFIs) will withdraw their financial assistance to Ukraine.

Background

- IFIs have viewed the adoption of OECD corporate governance standards at Naftogaz as one of the most important tools for reforming the economy of Ukraine and natural gas sector specifically, since these standards allow for the most effective and transparent management of state-owned companies, as well as ensure insulation from political meddling and graft.

- Naftogaz was chosen as a pilot case for implementation of OECD corporate governance standards.

- GOU previously agreed to the adoption of OECD corporate governance standards for Naftogaz, selecting and appointing a highly professional Independent Supervisory Board for Naftogaz.

- As a result, the Independent Supervisory Board, together with the current management of Naftogaz, which has been supported by the Board, has been able to accomplish the following:

    - Removing corruption. These anti-corruption measures have been the most successful of any Ukrainian state-owned enterprise. Naftogaz now contributes 15% of all budgetary revenues, while in 2013 it drained $6 billion from the central budget.

  - Ending gas purchases from Russia. This has greatly reduced Russian influence and the Kremlin's leverage over Ukraine.

  - Winning the Stockholm arbitration process against Gazprom. This saved billions of dollars for Ukraine, led to significant changes in European gas markets, and helped increase Europe's energy security.

  - Fighting to prevent Nord Stream 2 and Turk Stream. Naftogaz, led by the Independent Supervisory Board and the current management of the company, has taken a leadership role in seeking to mobilize forces against Russia's dangerous pipeline projects.

- The results achieved by Naftogaz are critical for the entire economy of Ukraine. Naftogaz's financial contributions to the state budget provide funds for a substantial portion of the social and infrastructure projects currently being pursued by GOU.

- IFIs would not have provided Ukraine with financial and other forms of support in the absence of these results.

- GOU took illegal action when it recently announced a date for the termination of the company's current management.

- Ukrainian law unambiguously states that the authority to hire and fire executive managements, as well as set salaries and compensation packages, in joint-stock companies falls strictly to the Supervisory Board.

- Moreover, according to Ukrainian law, existing Supervisory Board members must pre-approve the selection of new Board members, including those being replaced.

- In addition to Ukrainian law, these actions are in violation of OECD corporate governance principles, which GOU had previously committed itself to with respect to Naftogaz.

- These developments indicate a desire among some within GOU to take direct managerial control of Naftogaz.

- This outcome would quickly result in the reestablishment of corrupt schemes in the natural gas sector, redirecting funds out of the company, away from the state budget, and into the pockets of individuals like Dmytro Firtash.

- If GOU succeeds in its efforts to take managerial control of Naftogaz, this will cause IFIs to revise or even cancel their assistance to Ukraine, throwing the country into financial crisis.