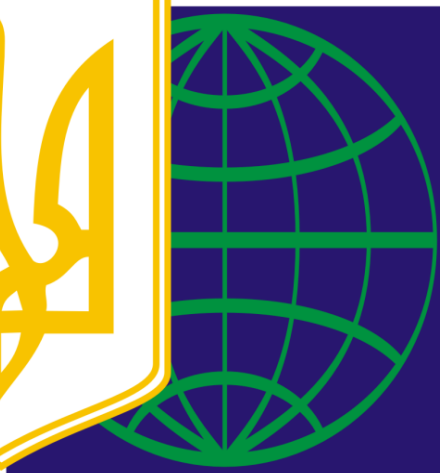


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UKRAINE – THE EUROPEAN UNION



KEY THEME ANALYSIS

THE CYPRIOT FINANCIAL CRISIS'S IMPACT ON RELATIONS IN THE EU-UKRAINE-RUSSIA TRIANGLE

In March 2012 the financial crisis in Cyprus with GDP constituting 0.2% of the Eurozone's overall GDP paralysed the banking system of the country and led to an on-the-brink-of-default economic situation. To overcome the crisis, the government of Cyprus decided to eliminate the second largest Cypriot bank – Laiki (Cyprus Popular Bank) with 80% of the deposits to be lost and the other 20% possibly to be paid in the future. Insured deposits amounting to less than 100 thousand euros and “good assets” will be transferred to the Bank of Cyprus. The state will receive from the EU and IMF a 10 billion euro loan with deferred payments for 10 years at 2.5-2.7% per annum.

More than half of the bank deposits in Cyprus are foreign capital, mainly Russian, Ukrainian and British with Russians owning a third of foreign deposits. About a quarter of foreign direct investment in the Russian economy comes from Cyprus, although, certainly, this is funds of Russian companies owned by people close to the Kremlin. Russia also uses Cyprus for smuggling weapons to Iran, China, Libya and Syria. There are also historical and cultural ties between the two countries: Cypriots take the orthodox creed, and the predecessor of the current president of Cyprus from 2008 to February 2013 Communist Dimitrius Christofias knew Russian and studied in the former USSR. Therefore, it is clear that the response of Moscow to the Cypriot events was a negative one. According to Russian President Vladimir Putin's spokesman, the Eurogroup and Troika's decision regarding a one-off bank deposit levy is “unfair, unprofessional and dangerous.”

Resorting to methods of pressure, on 28 March, at four o'clock in the morning, Vladimir Putin by phone ordered unscheduled military exercises in the Black Sea involving 30 ships of the Navy to demonstrate military power in the region and to avoid informational messages about losing Russia's outpost in the Mediterranean. The Russian leadership was vexed by the EU decision regarding the ‘haircut’ on deposits, taken even without consultation with them, explaining why Russia at first negotiating with the Cypriot delegation refused to restructure a \$2.5 billion euro credit provided by the country in 2011 for a period of 4.5 years at 4.5% per annum.

However, in early April 2013, after meeting at the Hanover Industrial Trade Fair with German Chancellor Angela Merkel, the Russian president said that at the request of the European Commission the loan repayment schedules for Cyprus were extended and the rate decreased to 2.5%, meaning that basically 10% of Cypriot debt to Russia

was written off. The EU Decision on Cyprus wreaked damage on Russian business and was taken without consultation with any non-EU actors. Thus, **the EU tried to independently solve the union's monetary and financial problems and deprive Russia of influence in Europe.** It is clear that this could not help but led to the deterioration of relations with the latter, including Russian-German relations. After all, European officials have been doing their best to weaken Russian influence recently, particularly by reducing energy dependence on it, including through the construction of terminals for liquefied natural gas, shale gas, etc. **De-offshoring of Cyprus will lead to the decline of its strategic partnership with Russia, and thus the latter's intensification of the reintegration projects in the former Soviet Union to strengthen Russian global competitiveness. One can assume that Europe will try to counteract this process.**

Ukrainian companies registered in Cyprus are also experiencing significant losses due to the introduction of the tax on and freezing of deposits. Cyprus is the largest investor in the Ukrainian economy, accounting for one third of all foreign direct investment in Ukraine.

On the other hand, de-offshoring will also bring political consequences, as long as it can be seen as expropriation of the ruling oligarchic class's capital in Russia and Ukraine. In this way, the financial and economic base of authoritarian political regimes in the former Soviet Union could be undermined. Thus, **the tasks of de-oligarchisation and democratisation, which could not be resolved through colour revolutions, will be recompensed by de-offshoring.**

As projected by the EBRD, Eastern European economies, including Ukraine, impacted by the events in Cyprus, will experience a decrease in FDI inflows due to the increase in economic and political risks, leading to slowing of their economic growth rates. The Cypriot 'infection' might also spread to the banking sector in these countries. Obviously, to overcome the crisis in the Eurozone and prevent repetition of the Cyprus scenario in other EU Member States, the latter should focus on 'internal' affairs in order to avoid fragmentation and disintegration and to strengthen the mechanisms for regulation of the single financial system. Until this is done, the idea of expansion will be treated with scepticism. Yet again, an active intervention of Russia in the business of post-Soviet countries will pressure European officials to take necessary countermeasures. Therefore, providing that Ukraine successfully meets the European Commission requirements regarding the signing of the Association Agreement and Comprehensive Free Trade Agreement, it has good European integration prospects, especially in view of a possible confrontation. However, given the recessionary trends in the EU economy, it should actively use the available current economic instruments for implementing national objectives in international relations, including through cooperation with Russia, leading world power the United States and new centres of power.

UKRAINE – NATO



KEY THEME ANALYSIS

AFGHANISTAN TEST

On March 25 2013 NATO Secretary General Fogh Rasmussen announced the possibility of a new summit on Afghanistan to be held this summer. Obviously, on the agenda of the meeting of Heads of State and Government of the member countries will be decisions on the new NATO mission in Afghanistan for the period after 2014.

It is known that the Afghan conflict settlement process was initiated by the Bonn Conference in December 2001, where it was decided to restore civil authority on a coalition basis under a transitional government, adopt a Constitution and hold free elections in Afghanistan. The Bonn agreement launched a nearly ten-year period of restoring peace in Afghanistan, a long process of creating a political framework within which civil power is to dominate and national interests are to prevail over religious or tribal differences.

Another milestone of this period was the second Bonn conference which took place 10 years later in December 2011. There a plan was developed to support Afghanistan in the post-conflict period for the next 10 years from 2015 to 2024. At the Bonn Summit the Transformation Decade Program in Afghanistan was announced.

Before that, at the Lisbon Summit in 2010 a strategy was adopted of transition of responsibility for security in the country to the Afghan National Security Forces by the end of 2014. Allied leaders agreed that the main role of NATO in Afghanistan after 2014 would be to continue Afghan personnel training, providing the Afghan National Security Forces with advice and practical assistance within the framework of a much smaller non-combat contingent to replace ISAF.¹

Implementation of this strategy was also discussed at the Chicago Summit in May 2012, during which 60 countries and an international organisation expressed their intention to participate in implementing the strategy.

NATO countries and partners involved in the mission of promoting stability and security in Afghanistan have expressed their willingness to contribute to training and equipping the Afghan National Security Forces (ANSF) after the completion of the transition process. In Brussels, in December 2012, at the meeting of foreign ministers of countries contributing troops to ISAF, it was decided to extend the current Trust fund project for the Afghan National Army (ANA) to provide support for the Afghan armed

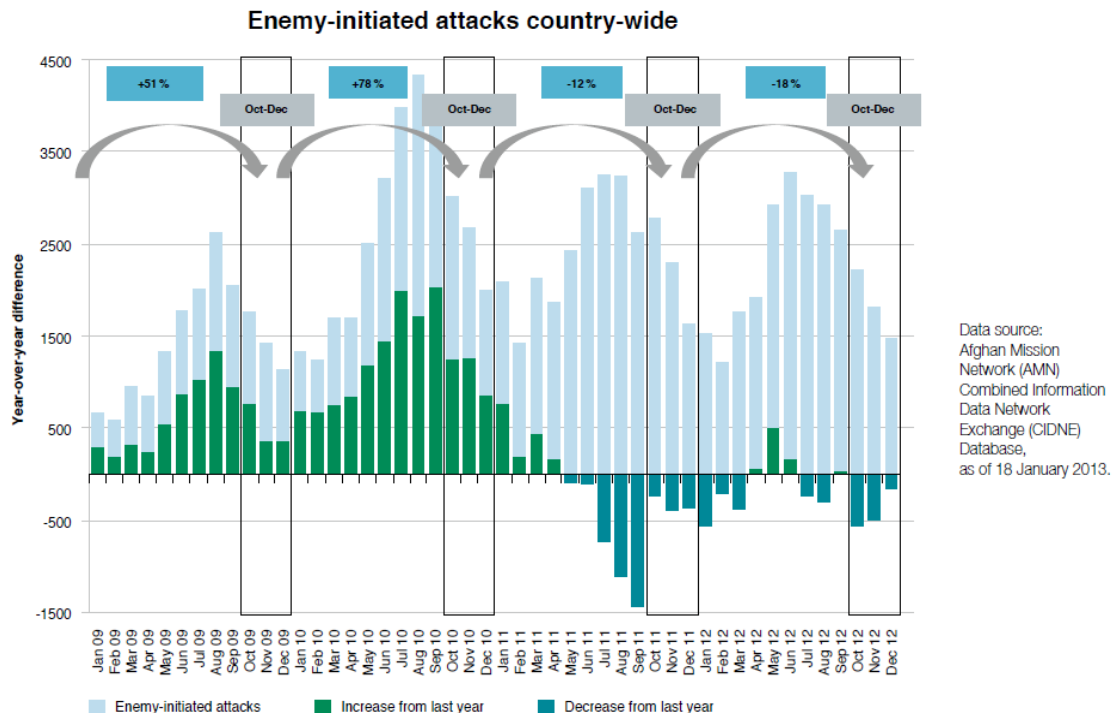
¹ Secretary General's Annual Report 2012. "Defence matters" [Electronic Resource] / Mode of Access:

[http://www.nato.int/cps/en/SID-1B5F0511-](http://www.nato.int/cps/en/SID-1B5F0511-48BB6CF5/natolive/opinions_94220.htm?blnSublanguage=true&selectedLocale=en&submit.x=8&submit.y=5&submit=select)

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forces after 2014. The ANA Trust Fund project will complement the efforts of the wider international community and will be an additional source of funding under strict accountability.²

So at the time – another summit on Afghanistan, which is to summarise implementation of the decisions taken at the aforementioned summits and meetings and adopt a withdrawal plan of NATO forces and the U.S. troops from Afghanistan and the ANSF support program after 2014.



As the ANSF combat capacity increases, the insurgency diminishes by itself: it is known that nearly 5600 militants laid down their arms and became law-abiding citizens through the Peace and Reintegration Program introduced by the Afghan government. Along with a decline in the local population's support for the rebels, recent polls indicate that public trust in the ANSF and confidence in their ability to guarantee security in the country remains extremely high. Over the past two years, the overall level of violence in the country has decreased significantly. In the first eight months of 2012 the level of violence across the country actually fell by 7% compared to the same period in 2011, and in 2011 the figures dropped by 9% compared with 2010.³

Ukraine also joined the Transformation Decade Program for Afghanistan. It is actively engaged in the planning of the new NATO-led mission in the "28+6" format (28 members and 6 partner nations: Finland, Sweden, Australia, New Zealand, Georgia and Ukraine), which will contribute to the development of optimal political and military decisions for the long term. The Ukrainian and Afghan sides expressed mutual interest in the preparation of military specialists at Ukrainian educational institutions, which is to become the foundation for the further strengthening of friendly relations between the two countries. The Government of Ukraine approved the draft of the President of Ukraine's decree "On Humanitarian Aid for the Needs of the Government of the Islamic

² Secretary General's Annual Report 2012. "Defence matters" [Electronic Resource] / Mode of Access:

[http://www.nato.int/cps/en/SID-1B5F0511-](http://www.nato.int/cps/en/SID-1B5F0511-48BB6CF5/natolive/opinions_94220.htm?bInSublanguage=true&selectedLocale=en&submit.x=8&submit.y=5&submit=select)

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³ Secretary General's Annual Report 2012. "Defence matters" [Electronic Resource] / Mode of Access:

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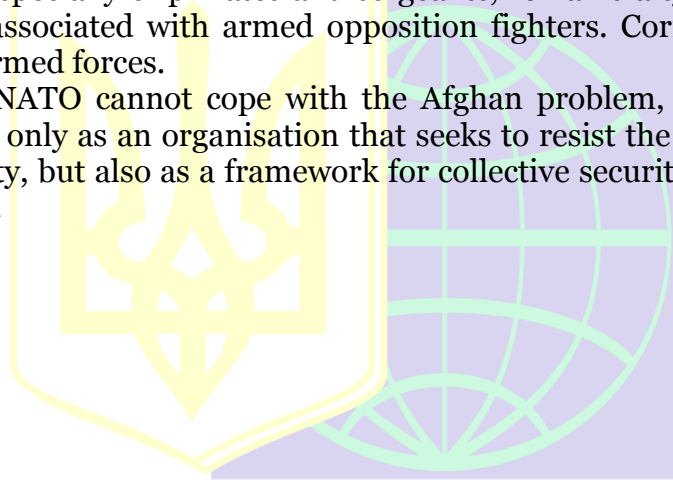
[48BB6CF5/natolive/opinions_94220.htm?bInSublanguage=true&selectedLocale=en&submit.x=8&submit.y=5&submit=select](http://www.nato.int/cps/en/SID-1B5F0511-48BB6CF5/natolive/opinions_94220.htm?bInSublanguage=true&selectedLocale=en&submit.x=8&submit.y=5&submit=select)

Republic of Afghanistan”. The draft decree is designed “to provide Ukraine’s assistance to the multinational effort in restoring and ensuring lasting peace and stability in the armed conflict-ridden Islamic Republic of Afghanistan.”

However, if discussing the problem of security in Afghanistan, it remains very complicated and unlikely to be resolved during the Transformation Decade up until 2024. Currently, small groups of Taliban and ‘Al Qaeda’ left in the country do not constitute its main threat. One way or another, they have shifted to the periphery of the military and political struggle in the country. The main threat to security has now become the power of local and regional warlords who filled the vacuum created after the overthrow of the Taliban regime.

This leads to a political rift of Afghanistan reverting to the pre-Taliban period when the internecine struggle of leaders of military and political groups drew the country into political and economic anarchy.⁴ The situation with the Afghan armed forces does not look better. Much of the old equipment is dismantled and used as spare parts. The lack of different types of ammunition is still felt. A large number of formations and units have a significant shortage of personnel; the dropout rate for recruits has reached 25%. Many soldiers have insufficient physical training. The army is composed of a large number of uneducated and illiterate soldiers (80%). There is discrimination on the basis of ethnic or religious affiliation among the military in the troops. Desertion, especially of privates and sergeants, remains a typical phenomenon. Some soldiers are associated with armed opposition fighters. Corruption has become widespread in the armed forces.

However, if NATO cannot cope with the Afghan problem, it will be at risk of losing its future not only as an organisation that seeks to resist the global challenges to international security, but also as a framework for collective security and defence of the Euro-Atlantic space.



⁴ Региональный и международный аспект политики Афганистана после свержения режима талибов.
<http://uchil.net/?cm=60446>

FOREIGN POLICY OF UKRAINE



KEY THEME ANALYSIS

THE MINISTER FOR FOREIGN AFFAIRS OF UKRAINE'S VISIT TO MOSCOW AND SETTING THE RUSSIAN-UKRAINIAN RELATIONS AGENDA

The end of March is marked by already traditional meetings of the foreign ministers of Ukraine and Russia, where the agenda of bilateral relations between the two countries for 2013 is being set and the annual plan of inter-ministerial cooperation is discussed. The key issues subject to discussion during the first visit of the Minister of Foreign Affairs of Ukraine Leonid Kozhara to Moscow on 28-29 March were: Ukraine's chairmanship of the OSCE, cooperation with the Customs Union, integration processes in the post-Soviet space, delimitation of the border in the Sea of Azov and the Kerch Strait, and the terms of presence and functioning of the Black Sea Fleet of the Russian Federation in Ukraine.

The main feature of this meeting, for the first time, was a clear formulation of the Ukrainian position and Ukraine's foreign policy priorities in solving the abovementioned problems by Leonid Kozhara. This unequivocal position makes the bilateral relations clear and facilitates constructive solutions to the problems. Firstly, it demonstrates the withdrawal of Ukraine from the policy of 'balancing' and a clear positioning in relation to both the Customs Union and the EU. Second, it deprives Russia of illusions of Ukraine's rapid engagement with the Customs Union. It will force Russia to build more realistic scenarios for its relations with Ukraine. Thirdly, a firm and consistent position will make the Russian Federation take into consideration the right of Ukraine to choose such integration projects as meet its own national interests.

Perhaps this positioning does not provide quick solutions, but it will get the sides closer to a mutually acceptable compromise and areas of common interest. One such area is the settlement of the Transdnistria conflict. For Ukraine it is nothing but a top priority of its OSCE chairmanship, because it not only affects the regional security issues, but also the interests of its own national security. The discussion of the Transnistrian issue during the meeting once again revealed the complexity of harmonising the interests of the key players involved in the settlement of the Transdnistrian conflict.

Finding a mutually acceptable model of relations with the Customs Union proved to be the most difficult and the most topical issue during the meeting in Moscow. The Ukrainian position this time was quite clear, firm and consistent, and therefore did not cause overt objections from the Russian officials. As Leonid Kozhara stated in an interview, "Ukraine is not interested in full membership of the Customs Union.

However, it considers a priority its economic relations with the EU. As of today European integration is defined as the number one priority and this is enshrined in law Ukraine cannot raise the question of full membership of the Customs Union”, said the Minister.

He explained that the present potential of relations with the Customs Union is developed primarily by stable relationships in the past, “that is, there is a prospect of expansion, but not the same as with the European Union”. “That is why relations with the EU, especially in the economic sphere, are a priority for Ukraine.”⁵

The second message voiced by the Ukrainian Minister concerned the finding of an acceptable model of relations between Ukraine and the Customs Union. Specifically Leonid Kozhara stated, “Our position is very simple. We want free trade zone with the Customs Union countries”.⁶

As a result of the meeting, the ministers agreed to speed up the solution of the key issues of the bilateral agenda on the principle of mutual benefit. For Russia, these are rearmament of the Russian Black Sea Fleet and exemption from customs duties for goods for the fellet. For Ukraine, it is delimitation of the maritime border in the Sea of Azov and the Kerch Strait. However, addressing these issues is far from reciprocal because the Russian side has always solved them at the expense of Ukraine and this strategy has always brought it a positive result.



⁵ Кожара: Україна не може бути повноправним членом МС, пріоритет - Євросоюз
<http://webcache.googleusercontent.com/search?q=cache:33FnLDWwQKEJ:www.u-e-p.eu/news/2013/march/kogara-ukrana-ne-moge-buti-povnopравnim.html>

⁶ Кожара сподівається на ЗВТ з Митним союзом і з ЄС у 2013 році.
http://www.bbc.co.uk/ukrainian/politics/2013/03/130329_lavrov_kozhara_moskva_sd.shtml