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## UKRAINE – THE EUROPEAN UNION



### KEY THEME ANALYSIS

#### **Regarding the Perspectives for Ukraine to Receive Macrofinancial Assistance from the European Union**

From the very beginning of the preparation of the EU – Ukraine Association Agreement, it was evident that the creation of a deep and comprehensive free trade area (FTA) with this organization is impossible without the conclusion of a complex document to combine the economic and political components making regular contact between Kyiv and Brussels in all mutually beneficial areas. Accordingly, the FTA could not become a plan “B” for Ukraine. However, the creation of such an area could provide our state with great opportunities for economic integration in order to draw European investors to Ukraine. However, the latter will make contact with Kyiv, first of all, after the creation of a favourable business climate in the state and after the implementation of all the necessary European reforms. At the same time, both Europe and the national officials understand that now our country cannot afford to realize the necessary reforms on its own because it has neither costs nor essential institutional prerequisites for this.

Accordingly, *on 19 April 2012 after the talks of the Minister for Economic Development and Trade of Ukraine Petro Poroshenko with the Head of the Mission of the European Union in Kyiv Jose Manuel Pinto Teixeira the parties announced that the European Union will be renewing the programme for budgetary support to Ukraine as soon as possible giving 160 million euros to “launch” the programmes of technical assistance in three areas: the support of the energy sector, the support of reforms, and the support of regional development.* However, this achievement cannot be considered as an absolutely positive one. Due to the inconsistent actions of the national authorities, Kyiv will receive from the Europeans only a quarter of possible costs: the proposed assistance of 610 million Euros quickly decreased to the declared amount because of the non-adherence of the country to European standards. In addition, the European Commission suspended the programmes of budgetary support for Ukraine because of “the inefficient allocation of funds”.

Summarizing the existing problems, one can say that in order to solve them Kyiv should make not only technical but also political steps, in particular, adopting the necessary laws (in social, judicial and administrative areas) under EU conditions. Otherwise, all the programmes may keep being revised until the government puts these areas “in order”. Nowadays the effectiveness of different projects to be currently funded is minimal. The evidence is the Ukrainian position in international ratings. For example, in 2011 Ukraine occupied the 145th place out of 183 in the international business simplicity rating. In the tax system simplicity rating (funded with the World Bank) our country occupies 181st place among 183 countries of the world.

Now Europe can give credits guaranteed exclusively by leading international institutions under the conditions if it receives tranches from these organizations by itself. Therefore, the benchmark, fixed by ***the Order of the Cabinet of Ministers of Ukraine № 184-r of 5 April 2012 on the approval of the plan of prior measures for the integration of Ukraine into the EU in 2012***, under which Kyiv is to get EU macrofinancial assistance until July this year, seems to be very vague. According to the document, by the end of that term the senior officials should finish the negotiations on signing of the memorandum of mutual understanding between Ukraine and the EU, and the loan agreement between Ukraine (as a borrower), the National Bank of Ukraine (as an agent of the borrower) and the EU (as a lender) in order for Ukraine to receive the macrofinancial assistance.

But now the IMF has declared that the prognosis for the economic development of the country for 2012 has been reduced from 3.7% to 3%. The Fund also considers that Kyiv cannot reach the growth rates of 5.2% declared by the Government last year. In addition, the escalation of the crisis in the European area has led to a significant drop in prices for metal which is one of the most profitable items in the Ukrainian budget. Currently, the IMF expects Ukraine to implement all agreed measures to restore the credit 'standby' programme frozen in 2011. It concerns the measures in the areas of fiscal consolidation, and reforms of the energy and financial sectors. In particular, the IMF insists on the increase of gas prices for the Ukrainian population by 30%, and for municipal thermal power enterprises (MTP) – by 56%. The Ukrainian party is unlikely to fulfill this requirement before the autumn parliamentary elections.

An inappropriate usage of costs was connected with the fact that instead of the realization of energy-saving programmes the authorities spent money on building power transmission lines connecting the solar power plants in Crimea with the state power system. Accordingly, now the IMF doesn't see the prospects in providing Ukraine with new funds.

Despite the fact that Ukraine's national debt is less than 40% of GDP, which is quite good in comparison with many European countries, the international markets remain closed for our state. Only significant foreign direct investment, along with growth in labor productivity, can help Ukraine to settle this problem. However, investors are not rushing to our markets. In addition, the EU reviewed its approach to the support of reforms in the CIS countries of the European region a long time ago. It declared the "more for more" principle within the "Eastern Partnership": it means that the biggest amounts of funding are allocated to the countries which have achieved the greatest practical results in implementing reforms.

That's why, now the country is, in principle, in an exclusive financial and political circle: if they wish to attract investors, government officials must comply with the IMF's requirements; if they want to get financial assistance from the EU, the leaders should speed up the implementation of all the necessary reforms. But in this case, the IMF also has the last word. Kyiv could receive the envisaged EU technical assistance in exchange for reform in the main social spheres that now is still far from full completion. So, Ukraine should hope for the loyalty of the Europeans to the Ukrainian officials that, first of all, is shown during the work on the Association Agreement. And only after that can one talk about technical assistance, or any other financial support from the West.

## UKRAINE – NATO



### KEY THEME ANALYSIS

#### NATO Strengthens Ukrainian Security Utilizing Old Ammunition

The invitation of the President of Ukraine Viktor Yanukovich to participate in the NATO Summit in Chicago in May 2012, as well as the continuation of cooperation within the international peacemaking operations of the Alliance (especially while reforming the military and administrative components in Afghanistan), demonstrates that this organization, despite the declared non-block status of our country and an exclusive pragmatism of relations of the parties, is still interested in Ukraine. And even if cooperation with NATO is frozen at political level, it is still very active at the military one. The whole point is not only that there is the necessity to realize the annual national cooperation programmes or to preserve the “open door” principle for the partners of the Alliance: the basis of relations is the necessary standards (in economic, social, military, humanitarian spheres) which should be reached by Ukraine in spite of its military orientation.

So, on 3 February 2012 the President of Ukraine signed the Law “On the Ratification of the Implementation Agreement between the Cabinet of Ministers of Ukraine and the North Atlantic Treaty Organization on the Logistics and Maintenance of the Utilization of Small Arms, Conventional Ammunition and Antipersonnel Mines PFM-1”. ***On 18 April 2012 in Kyiv the parties signed the Agreement between the NATO Maintenance and Supply Agency (NAMSA), the Ministry of Defense of Ukraine and the Ukrainian companies which utilize the ammunition, light weapons and small arms (LWSA) within the framework of the second phase of the Project of the NATO Trust Fund for utilization of portable air defence systems, light weapons and conventional ammunition in Ukraine.*** Under the “Partnership for Peace” Programme, NATO (with the financial support of the EU) plans to allocate about 25 million euros to utilize the old weapons and ammunition in Ukraine.

Within 3-4 years the parties have to utilize 76 tonnes of ammunition (including 3 million antipersonnel mines) and 366 thousand units of LWSA which can't be used in future and are dangerous for further storage. The destruction of the antipersonnel mines is planned to begin when the EU allocates the necessary funding in the second half of 2012. The main thing, agreed both by the foreign inspectors and national experts, is that the less old ammunition remains in Ukraine, the lower the risk of explosions and anthropogenic disasters. Indeed, among a huge amount of surplus ammunition accumulated in Ukraine, there are a lot of old units, or those which have not undergone the necessary preventive maintenance. In addition, it can't be used, and the longer it is stored, the more explosively dangerous it becomes. The inappropriate service and

storage of ammunition can be dangerous for the employees of the arsenal complexes and the inhabitants of the villagers located around the warehouses.

The ammunition will be utilized in the village of Grechany in the Khmelnytsky region, where the facilities for the utilization of weapons are situated, and in Kamyanyets-Podilsky where small arms are destroyed. In order to realize this project, the partners will involve the production facilities of the state enterprises “Ukroboronlizing”, “Ukroboronservis”, the State Enterprise Research and Industrial Complex “The Pavlograd Chemical Plant” and the test station of the State Scientific and Research Institute of Chemical Products. The United States will be the leading donor for the second stage of the project. It will also be supported with financial contributions from Germany, Switzerland, Turkey and Ireland. The EU will sponsor the utilization of the antipersonnel mines.

There are more than 420 thousand tones of such ammunition in Ukraine that's why one can identify several **advantages of such Kyiv – NATO cooperation**. *Firstly*, today Ukraine is very weak in a militarily respect and is unlikely to withstand the current pressure from the North by itself, so it should cooperate with NATO more closely. Although, in this case Ukraine can't hope for the common support of all the Member States, it may even prove its desire to “keep abreast” of the leading international standards and to execute the requirements of its Western partners. *Secondly*, the storage of this useless ammunition needs budgetary money and human resources which could be used more productively. In addition, the utilization of weapons will release the storage and other areas occupied by the ammunition. *Thirdly*, the agreements on the utilization usually envisage the allocation of resources to reclaim the soils, where the warehouses for the ammunition were situated.

However, if the democratic situation in Ukraine is deteriorating, it will negatively affect its relations with the Alliance, and, thus, the allocation of financial assistance to utilize the weapons. The last fact can simply impede the reform of the Armed Forces of Ukraine, as well as of the whole military and industrial complex of the state, because the budgetary funds will be allocated to maintain the old dangerous weapons. In addition, during the European Football Championship “Euro – 2012” the Alliance should also provide Ukraine with the expertise, support, and equipment to withstand biological, radiological and chemical attacks.

So, taking into consideration the importance of relations with NATO in terms of the allocation of necessary financial assistance, and the experience of carrying out reforms according to international standards, Ukraine will benefit from cooperation with this structure. The only thing is that such cooperation is strictly limited, and such limits are unlikely to be expanded under conditions when relations with the Alliance are deteriorating. That's why technical assistance will also be strictly regulated, indicating that currently cooperation with NATO resembles the beginning of the 1990's. It would be extremely difficult to raise it to a qualitatively new level, or even to return it to the one observed three years ago.

# FOREIGN POLICY OF UKRAINE



## KEY THEME ANALYSIS

### **The Success of the Visit of the President of Ukraine Viktor Yanukovych to the Kingdom of Jordan Gives Hope for the Successful Realization of Mutually Beneficial Projects**

In choosing partners in the Middle East, every state, first of all, tries to avoid finding itself in the vortex of consequences of the “Arab spring” which enveloped the region in 2011. It can negatively influence the international conjuncture of public relations with the different countries of this region. Kyiv has a real challenge in the multi-vector game in the Middle East which would allow it to keep good relations with all the actors and, at the same time, not to digress from its own priorities satisfying the economic and social needs of the country.

***The official visit of the President of Ukraine Viktor Yanukovych to the Hashemite Kingdom of Jordan on 16-17 April 2012*** became striking evidence of such a course. Indeed, this country is not without reason called a kind of a “diplomatic gate” to the Arab world. This is despite the fact that, firstly, the Kingdom of Jordan has never been among the new (Arab) centres of influence, and, secondly, has never had huge financial resources for the great games (or, precisely, for traditional eastern multilayer intrigues). Accordingly, balancing between the interests of its partners, Jordan has turned into the classic recipient country which, on the one hand, often mediates in various conflicts and receives the proper preferences for it, and, on the other hand, can successfully help other countries to establish social and economic relations.

At the meeting, devoted to the celebration of the 20<sup>th</sup> anniversary of the establishment of diplomatic relations between Ukraine and Jordan, the Heads of two states expressed satisfaction with the current political dialogue and confirmed the desire to strengthen the partnership promoting collaboration in all areas in future. The leaders positively appraised the work of the Joint Ukrainian-Jordanian Commissions on Trade and Economic, and Military and Technical Cooperation which are an effective mechanism for the further development of mutually beneficial cooperation. In addition, during the visit the parties signed several bilateral documents in the agricultural, investment, educational and other spheres in order to broaden the legal basis of Ukrainian-Jordanian relations.

Summing up the implementation of the agreements which had been reached during the visit of the King of Jordan Abdullah II to Ukraine last year, Viktor Yanukovych said that Ukraine is interested in cooperation with Jordan in the aircraft, space, engineering, electricity, transport, agricultural, military, scientific and technical areas.

However, taking into account that the revenues of the royal budget come from medical (the Dead Sea) and religious tourism, this country can hardly be called a significant strategic basis for Ukraine. In 2011 the trade turnover between the two countries amounted to just USD 473.8 million. It is significant that Jordanian imports

froze at the insignificant level of USD 25.2 million. On the other hand, Jordan is well subsidized by richer neighbouring countries, e.g. Saudi Arabia and Qatar. Diversifying foreign political ties Jordan is striving to get rid of the complete dependence on neighboring countries. Accordingly, there are a number of agreements in different spheres.

It was emphasized that **business** should play a great role in the further development of cooperational mechanisms between Ukraine and Jordan. Therefore, the permanent dialogue on the basis of business fora is really important, and the parties made an appropriate decision. One of the most effective mechanisms to intensify the economic cooperation between Ukraine and Jordan could be a bilateral Business Council of Ukrainian and Jordanian businessmen, and the Trading House "Ukraine – Jordan" – in the future, as a platform for regular communication and exchange of experience between the entrepreneurs of both countries. These themes became the most important at the Business Forum on 17 April this year. However, it is too early to expect significant investment from Amman: this country does not have enough resources and is, in fact, the poorest country among the eastern kingdoms, that's why it can cooperate with Kyiv only within joint projects.

The Ukrainian party offered Jordan diversified cooperation. Thus, **in the energy sector**, the negotiators discussed the construction of a nuclear power plant in Jordan if such a project would be implemented. As far back as 2007 King Abdullah II announced that Jordan planned to develop its own nuclear energy sector. Currently three companies are putting in a tender. One of them is from Canada, another one is a joint French-Japanese enterprise, and the third one is "Rosatom". The Ukrainians may become a subcontractor of "Rosatom" but only if Jordan finally decides to construct a nuclear power plant: it was found that the reserves of uranium ore in this country are less than was expected, and the risks of seismic activity also have not been determined. As a result, the parties discussed the construction of power plants which would work using alternative sources of energy – solar, wind and others. At the same time, Amman desires to diversify its "monodependence" on its large and unpredictable neighbor Egypt. The transit gas pipeline, which ensures the deliveries of raw materials to the kingdom, is periodically interrupted, which invariably provokes a temporary but almost total reduction in gas consumption for the domestic usage of the five million people living in the country. In addition, after the revolution and a series of governmental crises, parliamentary instability and the rise of the Islamist mood Egypt is trying to increase the price for raw materials for Jordan as much as possible. Accordingly, the Ukrainian proposals can be quite neat and, most importantly, timely.

The project on the construction of terminals to store grain, steel products, manufactured goods, food and agricultural products in the Jordanian port of Aqaba was announced as a promising part of cooperation **in the agricultural sphere**. Ukraine has every chance of becoming the number 1 supplier of grain to Jordan. It is expected that the parties will sign a forward contract on the supply of grain, according to which Jordan will pay 50% of the sum for the consignment of grain in advance. It is profitable to Jordan because it reserves this amount of grain and receives the guarantees of stability for its grain stock. It is also profitable for Ukraine because it gets a guaranteed market for national goods which are prepaid. Previously Jordan received the 'lion's share' of grain from Syria. In conditions of political instability in that country the grain supplies are not guaranteed and even impossible. Jordan decided to create a strategic stock of grain, and it needs a transshipment point for that. It was also stated that Ukraine can supply its cheese to Jordan instead of Russia, which had banned the exports of production of seven Ukrainian cheese makers because of claims regarding the quality of their products.

The countries also discussed the prospects of cooperation **in the aerospace sphere** where Ukraine is among the top five countries in the world. Jordan is a long-

time partner of Kyiv **in the purchase of Ukrainian arms**. It is interested in the creation of high-precision destruction weapons; engines for armored personal carriers; tanks to be used in hot conditions; systems of armored protection; improved Ukrainian radars of the “Kolchuga” class.

**The pharmaceutical project** is also very important for Ukraine because it does not produce enough medicine – only 40%, but the Jordanian Hikma Pharmaceuticals Plc., which every year exports medicine accounting for about USD 10 million to Ukraine, produces drugs of high quality that are required by Ukrainian consumers. Accordingly, the cooperation in this area is also very important.

The “educational agreement” only confirmed an interesting trend. Today 2488 students and PhD candidates from Jordan study in Ukrainian universities. Almost a third of Jordanian doctors have Ukrainian diplomas. At least, only this fact determines the orientation of the basic medical science in Jordan, and, therefore, the cooperation of states **in the educational area**.

That’s why there are quite positive trends of cooperation between the two countries. The success of the visit of the President of Ukraine Victor Yanukovich gives hope for the successful implementation of mutually beneficial projects.

