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Friedrich Naumann
STIFTUNG
FÜR DIE FREIHEIT

UKRAINE – THE EUROPEAN UNION



KEY THEME ANALYSIS

The EU's Boycott of Ukraine and its consequences.

While Angela Merkel was speaking on 10 May in Bundestag she pointed out that “people are still suffering from dictatorship and repression in Ukraine and Belarus”. Shortly after that, Ukraine had to practically cancel (to move to a later undisclosed date) holding the traditional Central European Forum, which was supposed to take place in Yalta. Démarches were expected to be made by European politicians during Euro-2012 including the refusal to come to Ukraine, openly avoiding Ukrainian officials, and making harsh statements, etc. Prime Minister Azarov's visit to Brussels turned out to be a manifestation of controversial positions. On the one hand, the EU was pressing for the necessity of refusing selective law proceedings, on the other hand, Ukrainian officials were asserting “the irrevocability of the Euro integration policy” and the flat out rejection of the EU's claims. Ukrainian public agents of all levels are conveyed the message about the necessity of reversion to democracy at practically every international meeting.

The position of the European Union follows the logic which was set as early as the 27-th of October last year, shortly after Yulia Tymoshenko's sentencing. It was then when the European Parliament passed the resolution “Concerning the current situation in Ukraine”. According to the norms and traditions of the EU, the resolution passed by the European Parliament is a guide or “philosophy” for the actions of executive power of the Union and the countries' members. In the Resolution the next step in Ukraine's European integration directly relies on their compliance with a number of demands.

Firstly demands were made concerning a “fair and impartial” trial against the opposition (Tymoshenko, Lutsenko, and others), as well as against current regime figures, who were arrested during this last year. Then, there were demands concerning fundamental reforms, first of all, a judicial one, and struggling against corruption instead of using power for political purposes.

Having ascertained the absence of progress in these fields, the EU acted in accordance with the issued documents. They restricted the number of contacts and appeals to Ukraine to urge compliance with demands to establish justice and develop institutions of democracy. During “informal” communication with the mass media, European diplomats point out that the situation will not change until changes are made in the position of Ukrainian leaders. “We expect to see something new in the actions of Kyiv” – that is the universal explanation of the EU position.

In fact, the Ukraine – EU relations are in a dead-lock: there will be no qualitative changes until there are essential changes in the internal policy of Kyiv. At present, initiatives in bilateral relations are still blocked; in particular the

ones concerning collaboration in the sectors which are important for both sides, firstly, the energy industry, but also EU programs that help the Ukrainian government.

Certain hopes for finding a solution are connected with the parliamentary elections – and possibly a change in alignment of forces in the Ukrainian Parliament. Practically all the political forces have declared the rejection of political repression on a legislative level. Nevertheless, these changes will only happen when free and fair elections can be held. Otherwise, relations will get increasingly worse. There are different scenarios of this worsening considered in the mass media – from personal sanctions against high-ranking persons to restricting collaboration with Ukraine in general. There is a problem concerning the sanctions – their introduction needs to be in compliance with procedure, particularly in determining specific offences made by specific people. On the other hand, **the EU's limited collaboration with Ukraine when it is under pressure from Russia to join the "Eurasian" reintegrating processes, threatens to substantially weaken Ukraine's position. Thus, the solution to the problem of crisis in Ukraine-EU relations will depend on the course and result of the parliamentary elections.**



UKRAINE – NATO



KEY THEME ANALYSIS

What can Ukraine expect after the Chicago NATO summit?

The Chicago NATO summit is an event which is symbolic enough for the Alliance. **Firstly**, NATO's anti-ballistic missile defense program named Euro-Pro is becoming increasingly more realistic.

Since NATO has reached a compromise in terms of the major placement parameters of the components of this complex, it is, nevertheless, likely to be created. Presumably, Russia, who consistently was criticizing the very idea of the placement of the Euro-Pro system in Europe, will have to take it into consideration too. Though the newly elected-old president of the Russian Federation, Vladimir Putin, is not taking part in the summit, an interesting tendency has arisen in the Russian mass media. Apart from the criticism of the placement of the Euro-Pro system in Europe, there is an opinion about the necessity of "granting Russia certain guarantees".

A different proposal is being made by high-ranking NATO officials, in particular, Secretary General of the Alliance Anders Fogh Rasmussen: Russia is invited to collaborate in creating the Euro-Pro system. It is obvious that talks are still to be conducted; however, the appearance of the very idea about "granting guarantees" and "acknowledging the inevitability" reveal that Russia will have to compromise, and accept the deployment of the Euro-Pro system, and be content with a certain formula, which will help Russia save face. However, Moscow will attempt to influence the position of NATO indirectly, in particular, through the possibility of preventing the Alliance from settling the situation in Afghanistan.

Secondly, looking back at the history of the Alliance, the NATO summit is probably the most representative one. There are nearly 60 state leaders taking part in it. The main issue – a way to insure stability in Afghanistan – doesn't only affect the interests of the countries neighboring Afghanistan. The point is that it is a potential source of instability in the region, where a number of conflicts are left unresolved (Indian-Pakistani, Tadzhik, etc.). Furthermore, there is a threat of escalation of conflicts remaining when taking the conversion of Afghanistan into one of the major sources of drug supply into consideration. These conflicts are connected with criminal activity (drugs, weapons and human trafficking) and attempts of various factions and ethnic groups to control the criminal activity.

On the other hand, if the civil war in Afghanistan resumes and the Taliban is victorious, then the country might turn into "a sponsor of terrorism", imposing a threat to the surrounding countries as well as the countries of Europe and North America. After the withdrawal of NATO military forces from Afghanistan the issues of helping the government of the country to maintain peace and stability remain, specifically, concerning training armed and police forces and collaboration with them. Therefore,

NATO is not likely to withdraw its forces from Afghanistan in the near future – and in any case will keep enough forces in the region for efficient intervention in the situation in this country. As far as these issues are concerned the positions of the countries of the region, and in particular, the former Soviet Central-Asian republics is important.

Not without reason, there was information disseminated in the Russian mass media under the general title “the allies of Russia are not going to the NATO summit” on the eve of the summit. ***Like Russia, the other CSTO members, in whose support the Alliance is interested, intended to ignore the summit.*** This includes Kazakhstan, Uzbekistan, Kirghizstan, and also Tadzhikistan. Demonstrating their solidarity with the Kremlin the leaders of the above mentioned countries had recently attended the CSTO summit in Russia, which was held practically simultaneously with the “informal” CIS summit. Greeting the CSTO allies, president Putin declared that quite a lot has been done in the decade of the organization’s existence. Still, there are great prospects of collaboration, specifically, concerning “coordination of actions on the international scene”. It is very likely that through the leverage of CSTO, EurAsEC, as well as the “Eurasian Union” in the future, Russia will influence the positions of Central-Asian countries in order to prevent expansion (or preservation) of NATO military bases on their territory. It is also likely that it will declare Central Asia “a zone of CSTO responsibility” where only Moscow will be able to make decisions about collaboration with the Alliance in this “zone of responsibility”.

Thirdly, and this directly concerns Ukraine, NATO makes it clear that military aspects is not the only factor that determines its attitude towards different countries, but it is also their values. Thus, in the declaration of the Chicago summit leaders member countries of NATO were concerned about selective law application in Ukraine and urged it “to solve the problems in the judicial system” and “to insure free and fair parliamentary elections in autumn of this year”. Alliance leaders consider collaboration with Ukraine through helping in realization of reforms within the framework of the Ukraine-NATO Committee and the yearly national program of collaboration. By the way, in the very first article of the National program for 2012 envisages “realization of a policy to strengthen democracy, insuring a government of law, protection of human rights and liberties, adherence to the principles of exercising state power based on its division into legislative, executive and judicial ones, principles of judicial independence, respect for the rights of national minorities, preventing the discrimination of a person because of political, religious, ethnic or other beliefs”, “holding free and fair elections”, and strengthening other democratic institutions.

The problems with the fulfillment of these obligations such as the expected delinquencies during the elections and the reluctance of Ukrainian leaders to compromise regarding selective legal proceedings casts doubt on the possibility of efficient collaboration with the Alliance. In particular, the representatives of the Ukrainian government announced the participation of the President of Ukraine in the summit, and stressed that Ukraine has its own suggestions concerning the regulation of the issues in Afghanistan. However, the weight of Ukrainian propositions will be insufficient to be taken into consideration by the international community as long as systematic observations addressed to Ukraine exist.

The fact that only the presidents of Poland, Romania and Afghanistan agreed to meet the president of Ukraine at the NATO summit is very telling. Additionally, the first two raised the same questions of Ukraine’s internal compliance to democratic standards, and only the president of Afghanistan raised the question of “infrastructure projects”.

Thus, one can ascertain: ***NATO will continue to develop as an organization of collective defense for its members and allies from whatever threat, regardless of the origin of the threat. The attainment of consensus in this question will make “NATO skeptics” such as Russia, look***

for ways of accepting the inevitable. The most important thing for Ukraine in its relations with NATO is overcoming internal obstacles that artificially restrict the prospects of integration.



FOREIGN POLICY OF UKRAINE



KEY THEME ANALYSIS

The CIS summit as unjustified hopes for V. Putin's mercy

The “informal” CIS summit (almost “pluralistically” at the same time as the CSTO one) has practically been the first foreign policy presentation of the newly elected president of the Russian Federation, Vladimir Putin. Despite the “informal” mode of the CIS summit, not a single leader of the 11 member countries in attendance found any reason to miss it.

In return, Putin openly drew attention to the major task of the Russian Federation strategy, at least for the term of his authority, in his speech at the forum as well as in his previous and following comments. The question was about “extending integration” on the territory of CIS according to the “free trade zone” – Customs Union – (EurAsEC) – “Eurasian Union” scheme. At the same time, the countries (and specifically Ukraine) have the “sovereign right of choice”. However, spokesmen of Russian government have repeatedly made the character of relations with Ukraine dependent on the “rightness” of this choice. In particular, Russian leaders were enunciating theses about “the defense of the Customs Union market” from Ukrainian sugar, cheese and other goods of Ukrainian origin.

Ukraine's attempts to compromise are constantly being rejected, and were made public by President Yanukovich as a result of the meeting with V. Putin. The formulae are invariable: the variant of “gentle” integration with the Customs Union presented by the “3+1” formula, or, as it was stated at the CIS summit – “sector integration”; consortium on managing the gas-transport system of Ukraine with participation of Ukraine, Russia and “EU” (in an unfixed format); putting into operation the free-trade agreement (in the meantime ratified only by Russia); deciding “the trade issues” (sustaining “trade wars” during negotiations and reanimation of International Committee that has not been gathered for more than a year).

Various options for these propositions have been proclaimed since last spring. However, the Russians have made it clear that they are not interested in any of them. In particular, the unacceptability of the “3+1” formula was announced in the mass media, referencing “Kremlin sources”, as early as at the end of summer 2011. In March 2012 this information was, in fact, confirmed by the vice-premier of Ukraine Valerii Chornohor. The suggestions to form a three-sided consortium on managing the gas-transport system are left without Russia's consideration.

However, on 18 May 2012, information about Russia “changing its position” on this issue appeared in the mass media.

Even after soothing statements from Ukrainian and Russian officials about trade conflict resolution, there's always new complaints regarding Ukrainian goods – either from the head of the Russian Consumption Supervision Hennadii Onyshchenko, or from the representatives of the associations of Russian manufacturers of corresponding goods.

Hereupon, ***the free-trade agreement becoming legal might turn out to be advantageous only for Russia.*** Interestingly enough, the previous version of the agreement, signed in 1994 did not become legal just because of a delay of ratification on the Russian side. The current edition, however, is ratified only by Russia. Prime Minister Azarov, as well as experts, pointed out the problems in its formulation while signing it – in particular, the possibility of having access to Russian market (first of all products of agriculture, sugar).

Thus, the CIS summit has turned out to be a demonstration, where members stated their positions on the eve of a new round of negotiations. Taking into consideration the history of the previous rounds and the example of the RF relations with other countries of CIS, in particular Belarus, which is still in the state of crisis – harsh pressure concerning extending integration is expected from Russia.

Considering the peculiarities of integration consolidation around Russia, Russian interest is obvious.

57% of votes in the Customs Union belong to Russia, and Kazakhstan and Belarus have 21.5% each. In addition to that, 87.97% of all the customs fees goes to Russian budget, Kazakhstan gets 7.33%, and Belarus – 4.7%. After all, the experience of Belarus participating in the Customs Union affirms that the Kremlin never refrains from its economic interests. The countries have been waging tariff wars, which finally ended up with Belarus' complete capitulation. At the same time the Kremlin is not fulfilling any of the generous economic promises made. It is important to note that although Russia is trying to convince Ukraine of the mutual advantage of economic collaboration, Gasprom raises the prices for blue fuel up to \$244 for a thousand m³, and Russia gave \$3 billion dollars to Belarus as anti-recession aid conditional on a title transfer of the remaining Belarus Beltransgas shares to Gasprom.

Similar “pragmatism”, ex facto contradicts RF strategic interests which is a warning for Ukraine against reckless economic integration. One could expect that ***Ukraine will be offered more favorable conditions, and their getting stricter will be delayed until Kyiv is dragged into the Customs Union.***

Presumably, Russia does not agree to this, because it is can't afford favorable terms for Ukraine.

Russia does not have enough funds to invest in building up new fields. Gasprom financial indices are far from getting better. At the beginning of 2012, Gasprom's debt reached \$46 billion, and it is expected to grow to \$48 billion in the near future. Moreover, World Bank experts anticipate that the average price of oil will be dropping—from 94.7dollars/barrel in 2012 to 88.5 dollars/barrel in 2015. At the same time the price of 1 barrel of Russian Urals oil, according to the forecasts of the WB, will be \$99.0 in 2012, \$95.5 in 2013, \$92.7 in 2014, and \$89.0 in 2015. In 2011 the former minister of finance, Oleksii Kudrin, admitted that the budget of the RF can be balanced only if the price is \$115 for a barrel. Half of the budget funds of the RF is profit from (mainly) oil trade and gas trade.

In return, increasing oil and gas prices pushes other states to look for alternative sources of energy, or new ways of extracting traditional energy resources. And the higher the prices of oil and gas the more profitable these alternative options become. During the nearest five - seven years, in spite of being too expensive comparatively to Russian gas, extracting schist, mine and other kinds of gas is likely to start. Deposits on the shelf will actively be researched and will begin to be exploited. On the other hand, using alternative sources of fuel, and propagation of hybrid electromobiles might lower demand for oil.

All this is narrowing the horizon in decision making for Russia. If social problems are added to the international, religious and other problems that violently surface in Russian society, then the regime just might collapse.

Thus, ***Ukraine should not expect any weakening during negotiations with the Russian Federation.*** Its resources are still much greater than those that Russia might get from the current partners in the integration, which in case of transition under Russian control might help to delay the crisis in Russia.

That is why the strategy of interaction with Russia needs to be changed. ***Instead of attempts to exchange the RF's economic preferences into "gentle integration", it is worth using international legal mechanisms.*** In particular, the issues of lowering high energy prices should be solved through the establishment of production efficiency and energy economy in the industry. This is the path that Ukraine must go down.

