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UKRAINE – THE EUROPEAN UNION



KEY THEME ANALYSIS

DESPITE THE WAR, UKRAINE CONTINUES RAPPROCHEMENT WITH THE EUROPEAN UNION

In August, Kyiv received three positive signals concerning its relations with the EU:

- 1) The EU officials said about good chances of Ukraine to get a decision on visa-free regime at the end of this year;
- 2) President of the European Commission confirmed the prospects of free trade area entry into force on January 1, 2016;
- 3) Western private creditors agreed to restructure Ukraine's debt and to writedown 20% of it. This decision became a positive signal to international investors and might facilitate prospects of attracting European and American capital.

On August 24, Petro Poroshenko visited Berlin to discuss the Russia-Ukraine conflict with Angela Merkel and Francois Hollande. **On August 27, Ukrainian President paid a visit to Brussels to meet senior EU officials** – besides the issue of de-escalation in Donbas, the counterparts discussed prospects of European integration of Ukraine. In Brussels, Petro Poroshenko met with the EU High Representative for Foreign Affairs and Security Policy Federica Mogherini, President of the European Commission Jean-Claude Juncker, President of the European Council Donald Tusk and Prime Minister of Belgium Charles Michel.

Petro Poroshenko and **Federica Mogherini** negotiated the prospects of considering assistance for Ukraine at the informal session of the EU Foreign Affairs Council to be held in Luxembourg on September 4-5. Ukrainian Foreign Minister Pavlo Klimkin informed via Twitter that in Brussels Petro Poroshenko reached agreement on joining efforts to combat Russian propaganda.¹ However, the EU has not demonstrated any impressive achievements in this sphere so far.

Jean-Claude Juncker and Donald Tusk noted **Kyiv's progress towards a visa-free regime**. Mr. Juncker assured that he would do his best "for the position of the European Commission to be as positive as possible." On August 17, Ukraine transferred to the EU a report on its progress; in September eight EU missions begin working in Kyiv to estimate the fulfillment of requirements for the visa-free regime.

European officials confirmed also the position of the EU that **on January 1, 2016 a free trade area between Ukraine and the EU should enter into force**. However, it should be noted that two EU member states with strong pro-Russian moods in government circles, namely Greece and Cyprus, have not yet ratified the Association Agreement and DCFTA between Ukraine and the EU. Petro Poroshenko and Jean-

¹ <https://twitter.com/PavloKlimkin/status/636976704393715712>

Claude Juncker agreed to jointly appeal to Athens and Nicosia with a request to speed up the ratification process.²

Moscow has already threatens to impose 'sanctions' (actually it is about embargo) on Ukrainian agricultural products if Ukraine-EU free trade area entries into force. However, such position is more harmful for Russia itself than for Ukraine, because of the following reasons: a) Decrease in Ukraine-Russia trade reduces Moscow's ability to influence Ukraine through the business environment; b) Reduction in economic ties makes Kyiv more and more independent from Moscow, while Ukrainian business refocuses on the European market; c) Russian agricultural 'sanctions' will provide Kyiv with an additional argument at negotiations with the EU on expanding the respective quotas. Ukrainian Prime Minister Arseniy Yatsenyuk has already declared his intention to appeal to the EU on increasing the quotas for Ukrainian agricultural goods due to the possible Russian embargo.³

On August 27, 2015 Ukrainian Government informed about successful completion of negotiations with private creditors on **restructuring the external debt**. The creditors agreed to write off 20% of Ukraine's Eurobonds par value, which is \$3.8 billion. The payment of remaining \$15.5 billion Eurobonds was postponed to 2019-2027. Thus Ukraine managed to avoid the default, and to fulfill the condition necessary for continuation of cooperation with the International Monetary Fund.

On the one hand, it is a considerable success, since previously creditors refused to write off even a part of Ukrainian debt. On the other hand, Kyiv agreed to increase the average Eurobonds interest rate from 7.22% to 7.75% per annum, despite the fact that the rate had been already high. To compare, Ukraine has to pay only 2.1% interest rate per annum for the loans under guarantee of the U.S. government, and 3% per annum for the IMF loans. Greece managed to persuade its creditors to reduce interest rates and to write off 52% of the debt.

Besides, the issue of Russian Eurobonds at \$3 billion remains unsolved. Moscow has refused to negotiate on their restructuring, demanding to pay fully in December 2015. It is clear that given the annexation of Crimea, destruction of Donbas infrastructure and losses at hundreds of billions caused by Russia to Ukraine, it is incorrect to talk about any Kyiv's debt to Moscow. However, Kyiv has a bit of time to legally classify its debt to Moscow as repayment of losses caused by Russia to Ukraine. If the EU does not see a formal legal justification, it will put a pressure on Kyiv demanding to pay Moscow, as well as it did in 2014 concerning Ukraine's 'debt' to Gazprom.

Kyiv should be more persistent at negotiations with the EU on financial aid. According to *Bloomberg* reviewers estimates, so far Ukraine received from the European Union only €2,21 billion, that is less than 1% of the amount spent by the EU to help Greece,⁴ which is four times smaller than Ukraine. Although Ukraine is not an EU member, but its commitments to the European values are much stronger than those of Greece, and Kyiv has reasons to expect more substantial assistance.

Positive signals received by Ukraine from its European partners indicate the existence of wide window of opportunities for cooperation, but Kyiv will be able to get use of it only if implements reforms and significantly increases investment attractiveness, for the EU is based not only on values, but on pragmatism as well.

² <http://www.president.gov.ua/en/news/ukrayina-zrobila-znachnij-progres-v-pitanni-zaprovadzhennya-35873>

³ <http://www.pravda.com.ua/news/2015/08/28/7079299/>

⁴ <http://www.bloombergview.com/articles/2015-08-21/europe-s-shell-game-with-ukraine>

UKRAINE – NATO



KEY THEME ANALYSIS

THE MAJORITY OF UKRAINIANS SUPPORT FOR THE NATO MEMBERSHIP, EVEN THOUGH THE ALLIANCE'S ASSISTANCE FOR KYIV IS NOT ENOUGH ACTIVE

In summer, Russia continued transferring heavy weapons to separatists, and the latter kept on shelling Ukrainian positions and tried to capture new areas, but **the issue of Western military supplies to Ukraine has not moved out of meter point.**

In late July, **Ukrainian President Petro Poroshenko urged Washington to provide Kyiv with 1240 Javelin portable anti-tank systems as compensation for Ukraine's refusal from a similar number of nuclear missiles.**⁵ Although such military aid would go in line with the spirit of U.S. security guarantees to Ukraine under the Budapest Memorandum of 1994, but the Obama administration ignored the appeal of Ukrainian President. Javelin MANPADS could be very effective weapon to protect Ukrainian positions under conditions of war imposed by Russia; but Washington preferred to transfer to Kyiv a field hospital for 3 thousand soldiers.⁶ That is really important equipment also, but still it would be better if Ukrainian army gets capacities to neutralize the enemy's weapons and thus to prevent human losses.

It is obvious that Kyiv has not managed to agree with the U.S. on the issue of **access to intelligence satellite data.** Otherwise Ukraine would not have to sign a commercial agreement with French *Airbus* to obtain online ultra-high resolution data of satellite monitoring. With that, it is planned that Ukraine will be able to obtain such data from *Airbus* no sooner than next year,⁷ while escalation may happen at any time.

The scale of military assistance received by Ukraine from its Western partners clearly contrasts with the amount of heavy weapons provided by Russia to its proxies in Donbas. Ukrainian experts inform that just in August Russia transferred to separatists about 150 battle tanks, 50 armored combat vehicles, 50 pieces of artillery, 32 multiple rocket launchers, and 250 trucks and 15 trains with ammunition.⁸ Russian side publicly acknowledged that from 30 to 50 thousand 'volunteers' took part in war against Ukraine in Donbas; they even created public association named 'Union of Donbas volunteers.'⁹ Actually, Russia has sent to Donbas the army, which is larger than armies of some NATO member states. It is obvious, that Ukraine cannot withstand such aggression with just field hospitals.

⁵ <http://www.wsj.com/articles/message-from-battlefield-ukraine-1438106297>

⁶ <http://ukrainian.voanews.com/content/amerika-ukraina-hospital-ato/2922523.html>

⁷ http://www.ukrinform.ua/ukr/news/ekspert_rozpoviv_pro_vikoristannya_suputnikiv_v_ato_2084169

⁸ <https://www.facebook.com/dmitry.tymchuk/posts/744091955719462?fref=nf>

⁹ <http://tass.ru/mezhdunarodnaya-panorama/2215105>

Barak Obama's stance is clear – he tries to finish his presidential term without further deterioration of relations with Russia. By the way, *Bloomberg* reported that in 2014 Obama administration recommended Ukrainian authorities to avoid military resistance with Russian troops, who were occupying Crimea.¹⁰ That fact does not dismiss the responsibility of Ukrainian government for the final decision; however, it tells us a lot about politics of the current White House team.

However, Kyiv could not be sure that Barack Obama's successor would be more inclined to provide stronger support for Ukraine. ***On August 14, one of the leading Republican contenders Donald Trump said: "I'd get along very well with Vladimir Putin." He also said that Ukraine "is more of a Europe problem,"*** to be treated by Germany. **The majority of other candidates, including Jeb Bush, Hillary Clinton and Joe Biden (if he runs), are set to more active assistance to Kyiv, including the supply of weapons; and Marco Rubio and Lindsey Graham even support Ukraine's accession to NATO.**¹¹ But no one knows for sure, which candidate will win, and what policy line the White House will choose after the elections.

So, Ukrainian diplomacy has an important task – to build relationships with all the leading candidates, and use all available leverages to keep the issue of assistance for Ukraine among key topics of elections.

Ukraine can count on U.S. military officials, the majority of whom make sober assessment of the Russian threat. ***Pentagon chief Ashton Carter named Russia the greatest threat, along with the "Islamic state," and promised to constrain it:*** "We'll have to constrain it. Both for the sake of our own security interests, and because we have important allies and friends in this region, and we have important obligations in NATO."¹² ***U.S. Army Commander General Joseph Votel*** called on to block Russia's use of hybrid warfare against Ukraine.¹³

Ukraine has to take advantage of the opportunities, created by two factors due to the Russian aggression: 1) Expansion of NATO presence in Eastern Europe; and 2) Positive attitude of the majority of Ukrainians to the idea of membership in NATO.

New Polish President Andrzej Duda said *Financial Times* that Poland and other Eastern European countries should become a real NATO wing, not a buffer, and that Alliance's permanent military bases should be deployed in the region.¹⁴ NATO Eastern European member states plan to hold a summit in November 2015 to jointly seek for an additional NATO security guarantees.¹⁵ Possible increase in NATO military presence near Ukrainian borders would become a positive factor in constraining Russia. Kyiv should join the security dialogue of the NATO Eastern European member states through the possibilities provided by Ukraine's distinctive partnership with the Alliance.

In summer, **the number of Ukrainians who support joining NATO raised to 63.9%.** Such position is predominant in all regions of the country, except for the East; but even in Donbas the number of NATO supporters raised to unprecedented 36.1%.¹⁶ **So Kyiv has all the reasons to pursue a policy of integration into NATO, thus implementing the will of the majority of Ukrainian citizens.** Kyiv should promote this issue to be included in the agenda of U.S. presidential candidates, who seek support of large Ukrainian and Polish communities.

¹⁰ <http://www.bloombergtview.com/articles/2015-08-21/u-s-told-ukraine-to-stand-down-as-putin-invaded>

¹¹ <http://us11.campaign-archive2.com/?u=9178eadd5cb04af7654189ab6&id=70c9531a4e>

¹² <http://ukrainian.voanews.com/content/carter-on-russia/2936101.html>

¹³ <http://sputniknews.com/politics/20150725/1025027922.html>

¹⁴ <http://www.ft.com/intl/cms/s/0/d6749156-410e-11e5-b98b-87c7270955cf.html#axzz3ilfiMdaF>

¹⁵ <http://www.wsj.com/articles/natos-eastern-members-plan-november-summit-to-demand-increased-security-1439815700>

¹⁶ <http://www.dif.org.ua/ua/publications/press-relizy/referenit-ukrainu-.htm>

FOREIGN POLICY OF UKRAINE



KEY THEME ANALYSIS

RUSSIA SABOTAGES MINSK II AGREEMENT, WHILE KYIV IMPLEMENT IT AHEAD OF SCHEDULE

On the meetings of August 3-4 and August 26-27, **Tripartite contact group on Donbas failed to come to the expected results.** Neither the agreement on demilitarized zone in Shyrokyne village, nor the withdrawal of heavy weapons of less than 100-mm caliber was signed. Ukrainian side demonstrated firm stance and did not agree to the demilitarization of strategically important area near the Mariupol city without reliable guarantees that separatists won't take back this area after Ukrainian forces withdraw. Kyiv did not also agree on separatist's version of heavy weapons withdrawal, which envisaged exceptions in strategically important areas and had no reliable mechanisms of verification.

On August 27, parties to the Tripartite contact group declared their willingness to provide ceasefire from September 1, but the very next day leader of the self-proclaimed 'Donetsk people republic' Alexander Zakharchenko said reporters about intention to defeat Ukrainian army and to capture all the territory of Donetsk region.¹⁷

Against the backdrop of mostly fruitless negotiations of the Minsk contact group and ongoing shelling of Ukrainian positions by separatists, on August 24, in Berlin, **Petro Poroshenko held talks with Angela Merkel and Francois Hollande.** The parties argued that Minsk process had no alternatives, and agreements should be implemented. The issue of **amending Ukrainian Constitution in part of its decentralization** was among the main topics of negotiations. It is probable that President of Ukraine urged Western partners in the need to postpone the final adoption of constitutional amendments for a period, when Russia fulfills its part of the arrangements.

Previously, the speaker of Ukrainian parliament Volodymyr Groysman assumed that constitutional amendments could be finally voted in September.¹⁸ But on August 31, after the Berlin visit, **President Petro Poroshenko said that final second reading of the draft constitutional amendments should take place at the end of the year and would "depend on the developments in eastern Ukraine and**

¹⁷ <http://novosti.dn.ua/details/258459/>

¹⁸ <http://www.pravda.com.ua/news/2015/08/20/7078491/>

whether Russia adheres to the Minsk agreements in the next months."¹⁹ Such change in terms improved the previous situation, when Ukraine's commitment to amend the Constitution was not conditioned by Russia's fulfillment of its obligations.

With that, it should be noted that revising of the Constitution is a sovereign right of the Ukrainian people; and the pressure of the EU and the U.S. is nothing but interference in the internal affairs of Ukraine. ***Such pressure was actually recognized by President Poroshenko in his address to the nation on August 31: "What would happen if the Verkhovna Rada did not vote for constitutional amendments? The fate of a pro-Ukrainian international coalition would be significantly undermined. Potential extension of economic sanctions that hurt the aggressor would not be on the table. The grim picture of having Ukraine struggling against the aggressor alone would become a real threat."***²⁰

Kyiv appreciates the support of its Western partners, but constitutional amendments should be adopted in accordance with the will and interests of the Ukrainian people. They should not result from Russian demands or Western blackmail (threatening to leave Ukraine alone without support against Russia's aggression may be actually considered as blackmail). Anyway, **the decentralization in its current version does not satisfy Russia** – at the beginning of July the spokesman for Russia's president Dmitry Peskov said that constitutional amendments should be agreed with the separatists.²¹ On August 29, this stance was repeated by Vladimir Putin in a telephone conversation with Angela Merkel and Francois Hollande.²²

Nevertheless, **on August 31, Ukrainian parliament voted in the first reading in favor of constitutional amendments regarding decentralization.** Ukraine dearly paid for that voting, which caused serious debates within the ruling pro-European coalition, protests and clashes outside the parliament building, and deaths and wounds of law enforcement officers. **Now the ball is in the court of the EU and the U.S., which have to do their part of job – to force Russia perform Minsk agreement.**

At the meeting with President of the European Commission Jean-Claude Juncker, on August 27, in Brussels, **Petro Poroshenko said that "there would not be any Minsk-3," thus hinting that the limit of Kyiv's concessions has been exhausted.**²³ Ukraine unilaterally fulfills all its obligations under the Minsk agreement, and it expects that the West will resolutely respond to Russia's ignoring its part of the arrangements, including the withdrawal of troops and restoration of Ukraine's control over the border. The first step Russia should do is to cancel separatist 'elections' scheduled for October 10 and November 1 in violation of Minsk agreement.

If Germany and France fail to persuade Russia fulfill its obligations, then the issue of Normandy format insolvency will arise. The newly elected Polish President Andrzej Duda has already offered to return representatives of the EU and the U.S. to the negotiating table, and to invite Poland and other neighboring countries as well.²⁴ Angela Merkel in absentia answered Andrzej Duda that Normandy format does not require replacement. Now Berlin has to prove in practice whether this is true.

¹⁹ <http://www.president.gov.ua/en/news/zvernennya-prezidenta-shodo-golosuvannya-u-verhovnij-radi-zm-35891>

²⁰ <http://www.president.gov.ua/en/news/zvernennya-prezidenta-shodo-golosuvannya-u-verhovnij-radi-zm-35891>

²¹ <http://interfax.com.ua/news/political/275505.html>

²² <http://kremlin.ru/events/president/news/50193>

²³ <http://www.president.gov.ua/news/mirnij-proces-povinen-mati-spravzhnij-ne-fejkovij-harakter-p-35874>

²⁴ http://www.pap.pl/palio/html.run?_Instance=cms_www.pap.pl&_PageID=1&s=infopakiet&dz=kraj&idNewsCom p=&filename=&idnews=224353&data=&status=biezace&_Checksum=-1050416627