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EU-UKRAINE-RUSSIA RELATIONS: PROBLEMS AND PROSPECTS

Today, relations between Kyiv, Brussels and Moscow are rather complex and contradictory. High degree of uncertainty, the credibility gap and conflict of interests are its main features. Contacts between the parties are burdened with ideological opposition, “frozen” conflicts, and competing integration projects in the post-Soviet area. The relations between the EU, Russia and Ukraine in political, economic, energy, security and humanitarian spheres are rather problematic. This situation creates additional risks for the European security, does not correspond to the parties’ interests and requires some joint measures and mutually accepted solutions to the issues on the agenda.

1. When considering the relations between the EU, Ukraine and Russia, one should note that there exists no “triangle” that could be institutionally formalised at the international level. Brussels, Kyiv and Moscow are not united by trilateral agreements. There are no relevant international mechanisms for cooperation or elements of common policy.

However, the parties are closely tied when it comes to political, economic, humanitarian relations and security sector, etc. This is caused by the process of geopolitical restructuring of the European space following the collapse of the “socialist camp” and the formation of two “centres of influence” on the European continent – the EU and Russia that have been implementing their fundamentally different integration projects in the post-Socialist (now, the post-Soviet) states. The EU pursues the policy of enlargement and/or creating a group of partner countries that would act on the basis of the European (Western) norms and standards. In the meantime, Russia has been pursuing an integration project of its own (the Eurasian Union) that would be governed by the rules and norms inherent to the state-centric political system of an “Eastern” pattern.

2. Analysis of relations in the “triangle” is especially important for Ukraine, which is directly influenced by the above-mentioned integration projects – the European and the Eurasian. It can be said without exaggeration that the choice of the integration vector will shape the country’s future. This is especially urgent given the sharp deficit of time, political and economic resources now experienced by Ukraine.

Analysis of relations in the trilateral format is also important for the EU and Russia, since it actually means competition of integration potentials of the European and the Eurasian projects, in which Ukraine has an important role to play. While for Russia, “losing” Ukraine means the final devaluation and complication of implementation of its integration project. For the EU, Ukraine’s choice of the Eurasian path is far less critical, however it might result in creation of a “managed democracy” at its border, with values different from the European, and therefore – halting the eastward expansion of the EU’s area of democracy, freedom and security.

3. Therefore, the competition of integration projects is crucial for relationship between the sides of the “triangle”. While implementing the Wider Europe, the European Neighbourhood Policy and promoting the Eastern Partnership Initiative, the EU is penetrating even farther into the post-Soviet region of the Eastern Europe and the Caucasus that Russia considers to be the sphere of its privileged interests. This is the key problem of relations in the EU-Ukraine-Russia format.

Russia and the EU see differently the essence and goals of integration processes in the post-Soviet space. The projects of Moscow and Brussels rest on different values and cooperation mechanisms. Namely, by contrast to the EU, the countries that belong to (or plan to join) integration structures led by Russia are not required to ensure the rule of law, defence of civil rights and freedoms, development of civil society, independence of the judicial system, fairness and transparency of election processes. Basic agreements made within the framework of unions pushed by the Russian Federation do not pursue development of democracy in the member countries.



4. As we noted, Ukraine is being influenced by integration projects of the EU and Russia. Now, the choice is especially pressing for Ukraine. On the one hand, the Association Agreement with the EU was initialled (although its signing and ratification remain doubtful due to internal problems in Ukraine). On the other – Russia does its best to get Ukraine involved in the Customs Union. After the election of Vladimir Putin, the Russian President, that pressure will only grow. It will apply not only to the Customs Union but also to the Eurasian Union, initiated by Vladimir Putin in his pre-election programme article. And in his inauguration speech on May 7, 2012, Vladimir Putin said: “...All of us should realise that the life of the future generations, the historic prospects of the state and our nation today depend on us..., on our ability to become the leaders and the centre of gravity for the whole of Eurasia”.¹ That course has already been formulated in one of the first Presidential decrees “On Measures to Implement the Russian Foreign Policy”.

5. Therefore, Ukraine is facing a choice of the priority line of integration. That choice goes beyond purely economic considerations. In fact, it is a civilisation choice for Ukraine, a choice of basic, fundamental values for its further development. Either Ukraine joins the EU project that unites European countries on the principles of democracy and rule of law, or becomes a member of Russia-led unions of post-Soviet countries with transitional economies, mainly authoritarian political regimes and numerous problems with democracy.

According to the Law of Ukraine “On the Foundations of Domestic and Foreign Policy” adopted by the Verkhovna Rada on July 1, 2010, the key element of Ukraine’s foreign policy is “ensuring the integration of Ukraine in European political, economic, legal space with the purpose of membership in the European Union”. Meanwhile, the modern Ukrainian history knows numerous instances of change of the strategic trajectory under the influence of the political situation.

6. The priority of the European integration is not an alternative to the establishment of mutually advantageous and equal partner relations with the Russian Federation in different sectors. The European civilisation choice of Ukraine, i.e., the choice of fundamental values, the strategic model of development should not be a geopolitical choice because Ukraine is not interested in a new geopolitical divide in Europe.

Ukraine is actually interested in Russia’s further development to focus on adopting the European values and standards in its domestic and foreign policy, and deepening and strengthening of integration with the EU. But now, such an option looks too questionable and remote in time.

The present situation in the EU-Ukraine-Russian relations requires joint efforts of the parties in search of the ways and mechanisms to minimise conflicts and develop common grounds for the establishment of productive, mutually advantageous relations by taking into account the interests of all sides of the “triangle” and ensuring sustainable development of all its member states – peace, security, protection of civil rights and freedoms.

The analytical report consists of six sections.

The first section analyses the specifics and trends of development of the Ukraine-EU-Russian relations in the political sphere.

The second section reviews the state and prospects of the parties’ interaction in the economic sector, problem factors hindering the development of trade and economic relations among Kyiv, Brussels and Moscow.

The third section outlines the problems of relations in the energy “triangle”. Issues of energy supply and energy security are examined in the trilateral format.

The fourth section analyses problems in the security sector, assesses the state of cooperation among the parties in provision of security on the European continent.

The fifth section examines the humanitarian aspect of relations among the parties, socio-cultural mutual influences and use of information and cultural projects as means of “soft power” in competition of the integration projects.

The sixth section carries general conclusions ensuing from the performed study and proposals aimed at enhancement of the efficiency of the EU-Ukraine-Russia partnership.

¹ Vladimir Putin took office of the President of Russia. – Web site of the President of the Russian Federation, May 7, 2012, <http://www.president.kremlin.ru> (in Russian).

1. EU-UKRAINE-RUSSIA: POLITICAL DIMENSION OF RELATIONS

The political aspect of relations in the EU-Ukraine-Russia triangle is primarily determined by geopolitical interests of the parties involved, their place and role in international politics as well as the level and nature of bilateral contacts. The latter is an important factor for development of relations between Kyiv, Brussels and Moscow. For instance, the present credibility gap in the EU-Ukraine relations has made Russia to increase pressure on Ukraine for the purpose of involving the country in Russia-led integration projects in the post-Soviet space.

At the same time, since the sides have different “weight categories”, bilateral relations (EU-Ukraine, Ukraine-Russia, EU-Russia) within such a “triangle” are unequal in their nature. Hence, the central element of this trilateral format are the relations between its key players – the EU and Russia. One of the main problems of these relations is the absence of exact formula of cooperation in the post-Soviet territory that is based on a common model of political and socio-economic development of the former Soviet countries.

But that does not mean that Ukraine should acquire a static position. The country has to independently define the model of its own “civilisation” development, be it the European or the Eurasian one. That is when external influences of the EU and Russia – different in nature, direction and ways of implementation – come to the fore.

Russia does not intend to join the EU, while Ukraine has officially proclaimed its European integration course aspiring to become a EU member. Therefore, democratic development and the rule of law are the determining factors in Brussels’ relations with Kyiv. Russia, on the other hand, in trying to create a centralised structure opposing the EU and other international centres of influence, applies economic and energy incentives to attract Kyiv.

This chapter deals with the nature and specific features of political relations at bilateral level as well as geopolitical aspects of cooperation in a “triangle” format.¹

1.1. EU-UKRAINE RELATIONS

According to the previous studies produced by the Razumkov Centre, European integration efforts under the Yanukovych team were rather ineffective, slow and contradictory.² On the one hand, the statesmen have regularly emphasised the priority of Ukraine’s European integration course, the perspective of becoming a EU member was formalised at the legislative level,³ and a number of steps were made to join the EU.

In particular, in the last two years, Ukraine and the EU have approved a number of cooperation programmes (budget support programmes on improving integrated border management, public administration reform,

reforms of the justice system, etc.). **Ukraine has joined the Energy Community. As part of the EU-Ukraine dialogue, the Verkhovna Rada of Ukraine has approved several laws, in particular, those related to information and justice sectors. The Association Agreement was initialled as well.**

Today, Ukraine continues to comply with the EU-Ukraine Association Agenda.⁴ The National Programme for Approximation of Ukrainian Legislation to Legislation of the European Union is underway. The National Plan to implement the Action Plan on EU Visa Liberalisation for Ukraine is also being executed. In April 2012, the Government has approved the Plan of Priority Measures of Ukraine’s European Integration for 2012.⁵

¹ See the article by James Sherr “Ukraine, Russia, Europe” in this issue of journal.

² See: 100 Days of the New Government: Which Way of Governing is Being Formed? Kyiv, 2010, pp.50-53. The first year of activity of the new ruling team: intentions, actions, and results. Analytical Report of the Razumkov Center. – National Security and Defence Journal, 2011, No.3, pp.47-48.

³ The Law of Ukraine “On the Foundations of Foreign and Domestic Policy” (2010), cl.2 Art.11.

⁴ The important indicator of effectiveness of the Euro-integration course of the new government is the implementation of the EU-Ukraine Association Agenda (AA). Nevertheless, the results of public expert monitoring performed by the consortium of non-governmental analytical centres with the assistance of International Monetary Fund show a slow and selective implementation of the AA priorities. According to the results of the IV report (January-October 2011) most of the priorities foreseen by the AA between Ukraine and the EU in 2011-2012 were being in a state of execution. Some significant progress was achieved only with regard to about 20 priorities (out of total 78) – primarily in security, economy, trade and visa liberalisation areas. See: AA: Public Expert Monitoring. Web site: <http://www.es-ukraina.blogspot.com>.

⁵ Decree of the Cabinet of Ministers of Ukraine No. 184 of April 05, 2012.



On the other hand, there exist at least two reasons to explain the absence of any ascending dynamics in Ukraine's relations with the EU. *Firstly*, the execution of the above-mentioned common documents is selective and slow (Annex "State of Execution of the Action Plan on Visa Liberalisation (APVL)"). The annual progress report on Implementation of the European Neighbourhood Policy in Ukraine stresses that in 2011 "Ukraine's progress in achieving important structural reforms and implementing the Association Agenda priorities remained below expectations".⁶ *The destiny of a new fundamental document between Ukraine and the EU – the Association Agreement together with a deep and comprehensive free trade area (FTA) – is hanging in the balance.*

Secondly, the internal political developments in Ukraine and certain external factors complicate the government's actions in the European direction.

Internal factors. Low efficiency of socioeconomic reforms and anticorruption measures, corrosive judicial system, estrangement between the government and society, insufficient institutional and resource capacity necessary to move forward in the European direction – all these elements refer to *internal* factors.⁷ Increasing authoritarian trends, democratic backsliding, politically motivated prosecutions of the opposition leaders and selective justice have caused a strong negative reaction from the EU leaders.

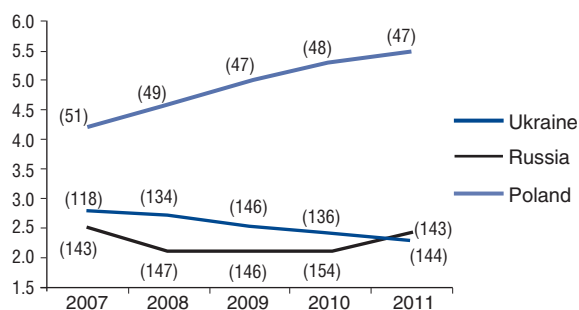
The conviction of former government officials – Yulia Tymoshenko, Yuriy Lutsenko, Valeriy Ivashchenko – has significantly impaired relations between Ukraine and the EU. Especially the case of the former Prime Minister Tymoshenko has generated an extraordinary response in the world: the leaders of the EU, US, Canada and other world countries, many reputable international organisations (OSCE, PACE, the Committee of Ministers of the Council of Europe, and international non-governmental organisations such as Freedom House, Amnesty International, etc.), the leading European political parties and famous statesmen have unanimously condemned the prosecution of the opposition leader.

The Resolution of the European Parliament (of October 27, 2011) and the PACE Resolution (of January 26, 2012) provide the evidence of a deep concern on behalf of the European community about the internal problems in Ukraine and especially the curtailing of democratic processes.⁸

Democratic backsliding in Ukraine has been rated by reputable international agencies. According to their estimates, the general level of democratic development has been reduced, political rights and freedoms of the citizens and freedom of the press – poorly ensured, and the situation in the sphere of combating corruption has worsened (Box "Ukraine's democracy as assessed by international watchdog organisations").

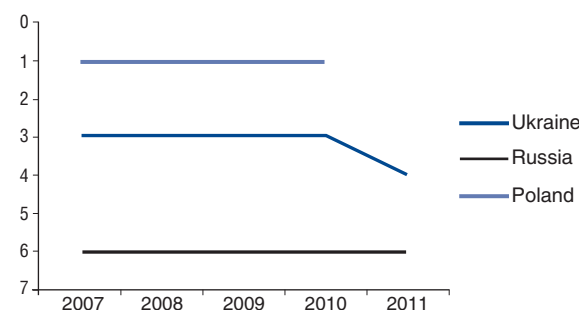
UKRAINE'S DEMOCRACY AS ASSESSED BY INTERNATIONAL WATCHDOG ORGANISATIONS

Corruption Perceptions Index*



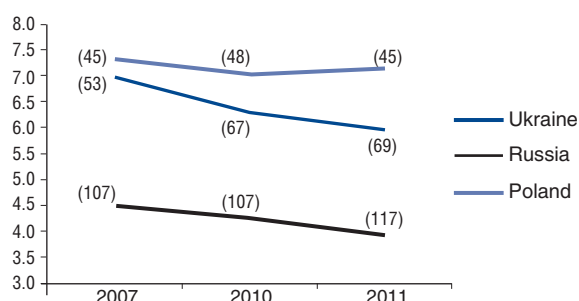
* Transparency International.

Political Rights Index*



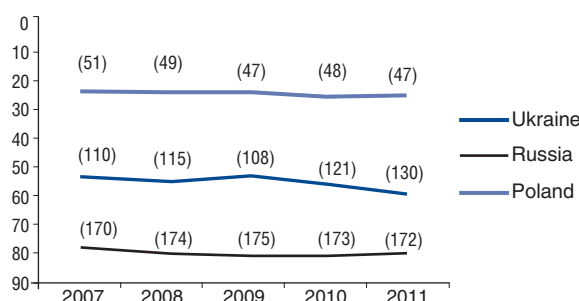
* Freedom House.

Democracy Index*



* Economist Intelligence Unit.

Freedom of the Press Index*



* Freedom House.

⁶ "Joint Staff Working Document. Implementation of the European Neighbourhood Policy in Ukraine. Progress in 2011 and recommendations for action" published by the EU Delegation in Ukraine on May 16, 2012. Web site of the EU Delegation: <http://www.eeas.europa.eu>.

⁷ On January 13, 2011 during the meeting with the EU Commissioner for Enlargement and Neighbourhood Policy, Štefan Füle, the representatives of the European Business Association have defined the number of problems of doing business in Ukraine. Among them are: corruption, imperfect judicial system, VAT refund, monetary and customs regulations, technical barriers to trade, absence of any steady dialogue between the government and business community. See: The European Business Association has informed the EU Commissioner Štefan Füle of the Problems of Doing Business in Ukraine. UNIAN, January 13, 2011, <http://www.unian.net>.

⁸ See: European Parliament Resolution on Current Developments in Ukraine (full text). – korrespondent.net., October 28, 2011, <http://www.korrespondent.net>; PACE Resolution in Ukraine (full text, as amended). – Tyzhden, January 28, 2012, <http://www.tyzhden.ua>.

The leaders of the EU and the European countries are rather strict in their assessment of the situation in Ukraine. Actually, the EU High Representative for Foreign Affairs and Security Policy, Catherine Ashton, in her declaration on behalf of the EU (as of October 11, 2011) gave Ukraine an ultimatum. The declaration stressed that the legal proceedings initiated against the opposition leaders could have “profound implications for bilateral relations between the EU and Ukraine, including the Association Agreement, our political dialogue and our cooperation in general”.⁹

The article by Foreign Ministers of the United Kingdom, Germany, Poland, Czech Republic and Sweden published in *International Herald Tribune* (March 5, 2012) was yet another “cruel diagnosis” for the actions of the Ukrainian authorities.¹⁰ The general attitude and disposition of the EU leaders were expressed by Foreign Minister of Germany, Guido Westerwelle, in one of his interviews: “Respect for fundamental European values such as the rule of law is the basic prerequisite for any further approximation of Ukraine with the EU. This shall also refer to impossibility of using the criminal law for political means”.¹¹

The progress report (2011) on Implementation of the European Neighbourhood Policy in Ukraine, says: “In the area of democracy and human rights there was further deterioration”. The European experts have recorded high levels of corruption in the country and expressed their concern with governmental attempts at restricting the freedom of associations and disrespect for the rule of law, etc.¹²

External factors. *First*, the EU’s focus on its own internal problems and internal development refers to external factors influencing Ukraine’s European path. The *second* are the negative impact of the global financial crisis, the Eurozone crisis, a complex financial and economic situation in several EU states – especially, in Greece and Spain. And the *third* important factor is Russia itself that is actively trying to keep Ukraine in its sphere of influence by involving the country in Russia-led economic and political and military structures (the Customs Union, CSTO).

Credibility gap in the EU-Ukraine relations. Lately, there have been growing trends indicating a credibility gap and exacerbation of conflict in bilateral relations between Ukraine and the EU, i.e., the Yalta Summit of Central and East European Leaders (initially planned to be held on May 11-12, 2012) was postponed after several invited leaders refused to attend. At the same time, in the beginning of May, the leaders of certain EU states (Austria, the Netherlands, Spain) decided to boycott the Euro-2012 championship in Ukraine. The German government was going to join them. As it was reported, the President of the European Commission,

José Manuel Barroso, also planned to refrain from taking part in activities dedicated to the final part of the championship in Ukraine.¹³

One may envisage the mentioned deeds and statements as a threat of international isolation of the Ukrainian government. The decision of the European leaders has been an unprecedented demarche in the history of EU-Ukraine relations posing a threat of further sanctions against Ukraine.

Calls for sanctions against the Ukrainian government have also been heard in the European political establishment. Wilfried Martens, the President of an influential European People’s Party (EPP) stated on April 26, 2012: “... in view of the escalation of political repression in Ukraine, the EU institutions have to formulate and implement a set of concrete and decisive measures against the Ukrainian regime”.¹⁴ Hence, a fundamental change in relations between Kyiv and Brussels can be observed here, which may result in the EU sanctions against Ukraine and its “euro-isolation”.

Therefore, there are reasons to say that – primarily due to internal political developments taking place in Ukraine – the contacts of Kyiv and Brussels are in “state of crisis”. That poses a threat to the whole complex of relations between Ukraine and the EU, and especially to the paused process of conclusion of the Association Agreement (including the DCFTA). Liberalisation of EU visa regime for Ukraine remains under question. Ukraine has been rapidly losing its competency and supporters in the European community, while distrust and scepticism toward Ukraine on the part of the EU states have been rising. If the situation continues, it might lead to the following: the “Eastern alternative” may replace the priority position assigned to relations with the EU.

1.2. UKRAINE-RUSSIA RELATIONS

The relations with Russia are of strategic importance for Ukraine’s foreign policy. In spite of all the difficulties and problems existing in relations between Kyiv and Moscow, the bilateral cooperation ought to be built based on the European norms and standards, parity and mutual benefits, transparency, mutual respect for sovereignty and take into account the interests of both parties. There is no alternative. **Good neighbourly relations with the Russian Federation are also one of the important conditions for Ukraine’s Euro-integration course.**

The very start of Victor Yanukovich’s presidency saw greater efforts being made to energise Ukraine-Russia relations at all the levels. A sudden change was observed in nature and tone of both political and diplomatic dialogue and informational support of bilateral relations.

⁹ See: Official Web site of the EU Delegation, October 21, 2012, <http://www.consilium.europa.eu>.

¹⁰ See: Sydorenko, S., MIA will be liable under the article. – Kommersant-Ukraine, March 06, 2012, <http://www.kommersant.ua>.

¹¹ Ukraine shall abide by commitment to a proper treatment of political prisoners – Minister of the Foreign Affairs of Germany. – UNIAN, April 25, 2012.

¹² See: Web site of the EU Delegation to Ukraine – <http://www.eeas.europa.eu/delegations/ukraine>.

¹³ According to data provided by mass media, all the EU commissioners go along with this position. See: EU Commissioners Will Not Take Part in Actions Dedicated to Euro-2012 in Ukraine. – UNIAN, May 03, 2012.

¹⁴ The President of the European People’s Party supposes that the EU shall take certain measures against the Ukrainian government. – UNIAN, April 26, 2012.

The whole range of activities carried out by the Ukrainian-Russian Interstate Commission was restored. During a series of top-level meetings a number of interstate, intergovernmental and interagency agreements related to different spheres were signed. The sides have managed – through the signing of the Ukrainian-Russian Land Border Demarcation Agreement – to solve a persistent problem that for many years had complicated the Ukrainian-Russian relations. Nevertheless, this “honeymoon” ended as soon as the gas issue have re-emerged.

One should note that Ukraine-Russia relations improved primarily because of major unilateral concessions made by Ukraine: (a) Kyiv’s official position not to seek membership of North Atlantic Treaty Organisation; (b) prolongation of the Russian Black Sea Fleet’s stationing in the Crimea; (c) refusal to independently interpret a number of historic events; (d) removal of the issue of ensuring the social and cultural needs of Ukrainians in Russia from daily agenda of bilateral relations; (e) allowing for Russia’s extending presence and influence in key sectors of the national economy; (f) Ukraine’s support for some of the Kremlin’s foreign political initiatives.

Nevertheless, these concessions did not change the attitude of the Russian political elite toward Ukraine, which considers the neighbouring country mainly as an object of its own geopolitical interests – particularly as an important element of its integration efforts. Concessions by Kyiv have merely strengthened Russia’s activity in the Ukrainian direction.¹⁵

In analysing the state and perspectives of relations between Ukraine and Russia the attention shall be drawn to the following problematic moments.

First. The “Russian scenario” of integration in the post-Soviet area is the main problem in relations between Kyiv and Moscow. Russia has been actively trying to involve Ukraine in the “integration triad”: the Customs Union – the Common Economic Zone – the Eurasian Union. The cooperation formula “3+1” proposed by Ukraine does not suit Russia in any way. This integration model does not make up for years-long efforts Ukraine has made in the European direction. Instead, it makes Ukraine a “junior partner” in Russia-led structures as well as impedes its independent decision-making on foreign policy issues.

Second. The Agreement between Russia and Ukraine on the Presence of the Russian Federation’s Black Sea Fleet in Ukrainian Territory¹⁶ could, in fact, be compared to a “time bomb” planted under the Ukrainian-Russian strategic partnership. The Agreement extending the terms of the Black Sea Fleet’s stationing in the Crimea till 2042 is an unprecedented asymmetric political and economic barter, since it provides with



economic preferences in return for major strategic geopolitical concessions from the Ukrainian side.¹⁷ The Agreement, however, has not resulted in any advantages for Ukrainian gas consumers as compared to those of the EU states. Following two years after the conclusion of the Agreement, the problems in “gas” relations between Kyiv and Moscow have only intensified.¹⁸

Third. Russia’s attempts to gain control over the key sectors of the Ukrainian economy. When taking into account different “weight categories” of the parties, the conclusion of a number of agreements in the energy sector, aircraft and shipbuilding industries, etc. may result in Russia gaining control over the key sectors of Ukraine’s national economy.¹⁹ (In this context, it is necessary to remind of proposals by the Prime Minister, Vladimir Putin, to merge the Naftogaz of Ukraine and Russian Gazprom and to join assets of Ukraine and Russia in nuclear power engineering, etc.).

Fourth. The issue of delimitation of Azov-Kerch water area is still unresolved. There is a threat that Ukraine would give up its own negotiation positions and allow for the joint use of the Kerch-Yenikale channel. Hence, Ukraine is likely to lose control over the “gate” to the Azov Sea and encounter serious economic losses.

Today, Russia conducts a tough and aggressive policy towards Ukraine for the purpose of strengthening the “pro-Russian element” in the country’s internal political processes and foreign policy by the following means: (a) actively using either political and diplomatic leverage or “energy” pressure; (b) exploiting the pro-Russian attitudes among a considerable part of political elite and citizens of Ukraine; (c) a large-scale humanitarian expansion through the *Russkiy Mir* project, the Russian Orthodox Church, etc.²⁰; (d) exerting influence on the European partners of Ukraine, especially the countries of “Old Europe”.

There are reasonable grounds to assume that the Russian policy towards Ukraine will only intensify following re-election of Vladimir Putin as the President of Russia.

¹⁵ See the article by Steven Pifer “Foreign Policy of Ukraine: Loss of Balance” in this issue of journal.

¹⁶ The document was signed at the working meeting of the presidents of Ukraine and Russia in Kharkiv on April 21, 2010. The Agreement was ratified by the Parliament of Ukraine.

¹⁷ See: First Year of Activity of the New Government: Intentions, Actions, Results... pp.50-51.

¹⁸ See: Chapter 3 of the report in this issue of journal.

¹⁹ See: Chapter 2 and the article by Kheifets, B. “Russia’s economic interaction with Ukraine and the eu states for the sake of modernisation: A corporate perspective” and Yurchyshyn, V. “Risks of involving Ukraine in the sphere of Russia’s economic interests” in this issue of journal.

²⁰ See: Chapter 5 of the report in this issue of journal.



The issue of joining the Customs Union will be first on the agenda of Russia's political and diplomatic dialogue with Ukraine.

The problems in Ukraine-Russia political relations are caused by different geopolitical orientations and different civilisation choices of the countries. Today, the relations are asymmetric and disparate in their nature. Ukraine makes a good deal of concessions to Russia. That is decreasing the perspective of any further concessions. The policy of Russia towards Ukraine is goal-oriented and well coordinated. The position of Ukraine regarding Russia-led re-integration efforts in the post-Soviet space will define the whole complexity of bilateral relations as well as their nature and specific features.

Ukraine's eastward integration is a risky and counterproductive exchange of its strategic national interests in return for tactic (and rather demonstrative) economic preferences.

The Ukrainian government should expect pressure from the Kremlin that will be large in its scale and unprecedented in its means. Thus, bilateral relations will be going through a difficult time.

The Ukrainian-Russian partnership, however, is not doomed to move along the descending path. As it was previously mentioned, there is no alternative but to establish a mutually beneficial and equal partnership. Thus, the main task is to jointly search for the mechanisms of resolving the controversial issues, build an effective cooperation model based on coordination of the parties' national interests and refusal to use coercive measures.²¹

1.3. EU-RUSSIA RELATIONS

The Partnership and Cooperation Agreement (PCA) that entered into force on December 01, 1997 set the legal basis of relations between Russia and the EU.²² Within the

framework of the Agreement, the leaders of Russia and the EU defined four "common areas" (economy, freedom, security, science). In May, 2005 the parties adopted a package of road maps for these four common spaces. **These "common areas" stressing the importance of strategic partnership between Russia and the EU have been adopted as an alternative to the European Neighbourhood Policy (ENP) that Russia refused to join.**

At the EU-Russia Summit held in June 2008 in Khanty-Mansiysk the official negotiations had started on a new framework agreement that was to replace the Partnership and Cooperation Agreement. Later, in 2010, the parties launched the Partnership for Modernisation and approved a work plan for its implementation.

The cooperation instruments has been formed: EU-Russia summit (twice a year), EU-Russia Permanent Partnership Council (at the level of relevant ministries), regular human rights consultations, meetings of the EU-Russia Parliamentary Cooperation Committee (several times a year), expert meetings, etc.

When speaking about the EU-Russia relations, one should note that the dialogue between Brussels and Moscow is complex and rather conflictual as well as complicated by a number of problems.

First. Russia has been carrying out the political and economic expansion in the CIS in order to re-integrate the post-Soviet countries under its own auspices and to counterbalance the EU influence on the continent. Thus, it views the EU's Eastern Policy as a threat to its national interests. Moreover, Russia has proclaimed a negative stance on the Eastern Partnership Initiative implemented by the EU.²³ The fundamental differences in values, interests and goals define the geopolitical competition between the EU and Russia and affect the state and dynamics both of the EU-Ukraine and Ukraine-Russia relations.

Second. The state of democracy in Russia, the rule of law, protection of human rights and freedoms, transparent and fair elections, etc. have been major sources of conflict between the EU and Russia. The relations between Moscow and Brussels were further complicated by the case of the ex-YUKOs heads Mikhail Khodorkovsky and Platon Lebedev. In May 2011 Catherine Ashton, the EU High Representative for Foreign Affairs and Security Policy, expressed deep concern over the ruling of a Moscow court, which confirmed their second conviction for fraud, but cut the 14-year sentence by one year.²⁴ Members of the European Parliament called for economic and visa sanctions against those involved.²⁵

Another high profile case was the case of Sergei Magnitsky – a partner at Moscow-based law firm Firestone Duncan, who in 2009 died in a Moscow detention facility as

²¹ See: Ukraine-Russia: From Crisis to Effective Cooperation. Analytical Report of the Razumkov Center. – National Security and Defence Journal, 2009, No. 4, pp.13-14.

²² From 2007 on the Agreement was extended until production and execution of the new one upon expiry of the 10-year period of validity.

²³ See: Ukraine-Russia: From Crisis to Effective Cooperation..., p.12.

²⁴ The European Union is Disappointed with the Conviction of Khodorkovsky. – BBC Web site, <http://www.bbc.co.uk>.

²⁵ The EU Threatens to Use Sanctions against Moscow for Conviction of Khodorkovsky. – GRIM-info Web site, <http://www.grom-info.net/news>.



a result of having been denied an appropriate medical care. On November 23, 2010 the Foreign Affairs Committee of the European Parliament approved the amendments to the Draft Annual Report on Human Rights in favour of the call for visa and economic sanctions against 60 Russian officials involved in Magnitsky's case.²⁶ The Ministry of Foreign Affairs and the State Duma of Russia considered these amendments as interference in Russian internal affairs.

On February 17 the European Parliament passed a Resolution "On the Rule of Law in Russia" in which it censured the situation regarding the second conviction of Mikhail Khodorkovsky and Platon Lebedev, the cases of journalists Anna Politkovskaya, Natalia Estemirova and Anastasia Baburova, arrests of opposition leaders, persecution of community activists, human rights defenders, intimidation of non-governmental organisations and mass-media.²⁷

But the Russian political elite perceives such actions on the part of the EU as political pressure and interference in Russian internal affairs. Russian President Vladimir Putin's decree "On Measures to Implement the Russian Federation's Foreign Policy clearly defined Russian position on the issue at that time. The document stressed the need to **"counter attempts to use human rights concepts as an instrument of political pressure and interference in the internal affairs of states"**.²⁸

The EU has been rather critical of the election campaign in Russia. On February 16, 2012 the European Parliament has adopted a Resolution "On the Upcoming Presidential Elections" in Russia stressing, inter alia, that the Duma elections of December 4, 2011 "did not fully comply with free and fair election standards and were marked by the convergence of the state and the governing party and by a lack of independence of the election administration, partiality of the media and state interference at different levels".²⁹

The following resolution of the European Parliament (March 15, 2012) criticised the presidential elections in Russia, which in its opinion "were not free and fair". However, on March 06, 2012 the President of the European Parliament, Martin Schulz, was concerned "that the electoral process lacked fairness". He drew attention to the fact that "most of the media clearly favoured one candidate".³⁰

Third. The approaches of the EU and Russia to enhancing security on the continent are fundamentally different. The EU leaders did not back the draft European Security Treaty proposed by the then Russian President Dmitry Medvedev in November 2009. Russia opposes NATO expansion eastwards as a threat to its national security. The Collective Security Treaty Organisation (CSTO)

founded by Russia has been an element of Russian anti-NATO policy. The Collective Rapid Deployment Forces have been also created within the framework of this policy. Moreover, the EU-Russia relations have been considerably strained by the US initiative to place missile defence system on the European continent. Russia sees the initiative as posing a direct military threat. The negotiations on this matter have reached a stalemate.

Fourth. Another irritant in the EU-Russia relations is the principal difference between their positions regarding the armed conflict between Georgia and Russia of 2008. Following the five-day war in Georgia, Russia has significantly increased its military presence in such pro-Russian enclaves as Abkhazia and South Ossetia, whose independence claims are not recognised by the EU states. **The approaches of the EU and Russia regarding the situation in other "frozen" conflicts (i.e. Transnistria, Nagorno-Karabakh) also differ.**

Fifth. The bilateral relations in the energy sector seem to be strained.³¹ The EU has been active in preventing Russia's efforts to monopolise the European energy market. Russian Gazprom now goes through negotiations with several European gas companies. The EU member states have strengthened some preventive measures against expansion of the Russian gas monopoly. The conflicting positions of the relevant parties have complicated the EU-Russia talks on changes in the EU's Third Energy Package.³²

Summing up, one should note that in relations between Moscow and Brussels the problem of democracy in Russia regularly stressed by the EU is not a fundamental one. It rather creates an unfavourable setting for further cooperation. The Russian political elite, which is building a "sovereign democracy" and has no intentions of joining the EU, sceptically perceives the EU criticism against Russia. Therefore, the main causes of tension are: a collision of two different centres of influence in the post-Soviet space; problems of ensuring security on the European continent; "energy" relations between the EU and Russia.

1.4. EU-UKRAINE-RUSSIA: PROBLEMS AND PROSPECTS OF RELATIONS

As it follows, the relations between Kyiv, Brussels and Moscow are rather complex and controversial. A number of problems, especially the geopolitical competition of the EU and Russia in the post-Soviet area, obstruct the trilateral format of relations.

The EU and Russia are trying to re-build the post-Soviet space in their own way. The post-Soviet countries, especially Ukraine, face the choice between two incompatible models of political and economic integration: the European model, which is based on democratic values and standards, the rule of law,

²⁶ The List of Guilty in Magnitsky's Death. – Samizdat Magazine, http://www.samlib.ru/k/kuznecow_d_j/magnitsr.shtml.

²⁷ Resolution of the European Parliament as of February 17, 2011 "On the Rule of Law in Russia". – Mediator Web site, <http://mosmediator.narod.ru>.

²⁸ Web site of the President of the Russian Federation. – <http://www.president.kremlin.ru>.

²⁹ The European Parliament Passed a Strict Resolution on the Russian Federation Related to Falsification of the Elections Results. – Gide Park Web site, <http://www.gidepark.ru>.

³⁰ Web site of the EU Delegation to Russia. – <http://www.eeas.europa.eu>.

³¹ See: Chapter 3 in this issue of journal.

³² The Third Energy Package provides for ownership unbundling. That means that the companies selling gas and electric power are not allowed to own transmission networks, since it results in the artificial price increase. The legislative package contains a separate stipulation that provides for application of these rules not only to the European countries, but also to the companies from the third countries operating in the EU (hence, the rules apply directly to Gazprom and limit its expansion).



political pluralism and liberal economy, and the Russian one that is authoritarian, state-centric and clearly dominated by Russia itself.

The EU, by introducing the concept of the Wider Europe, the European Neighbourhood Policy and the Eastern Partnership, happens to play the role of Russia's geopolitical rival in the post-Soviet area that poses a challenge to re-integration policy of Moscow.

Re-integration of the former Soviet countries according to the Russian scenario is a top foreign policy priority of Russia. Moscow considers this region as a zone of its "privileged interests". The basic documents – the Foreign Policy Concept of the Russian Federation and the Russian National Security Strategy until 2020 – define enhanced cooperation in a framework of the CIS among top priorities of Russian foreign policy. The same position has also been regularly declared in the annual Presidential Address to the Federal Assembly of the Russian Federation.

For Russia, the Customs Union is central to economic integration and the CSTO is a mechanism of response to military threats.³³

Surely, the re-integration policy actively pursued by Dmitry Medvedev will only further during the next presidential term of Vladimir Putin. In this context, it seems reasonable to refer to Mr Putin's article "New Integration Project for Eurasia – A Future That Is Being Born Today", where he outlined the plans for creation of the Eurasian Union.³⁴ Later, on April 11, 2012 when speaking before the Russian State Duma with the final report on the work of the government, Mr Putin said: "I believe that deepening integration in the post-Soviet space is the key task of the economy and Russian foreign policy, it is absolutely the key task, there is no more important task. Our future depends on it".³⁵

This course is distinctly formalised in the Presidential Decree "On Measures to Implement Foreign Policy of the Russian Federation" signed by Vladimir Putin on his inauguration day as the new President of Russia (May 07, 2012). The document determines the integration

of the CIS area as the "key foreign policy direction of the Russian Federation".

This Decree has entrusted the Ministry of Foreign Affairs and other executive authorities "to facilitate the strengthening of Eurasian integration within the Customs Union and the Common Economic Zone... to create the Eurasian economic union by January 1, 2015 due to the openness of these processes and allow other states of the Eurasian Economic Community and the Commonwealth of Independent States to join it as well as to ensure international position of new integration structures".³⁶

The Decree proves that the Russian will continue to exert pressure on Ukraine for the purpose of involving the country into the post-Soviet integration structures. The present government of the Russian Federation understands: a successful integration of Ukraine into the EU, on the one hand, provides an alternative to Russia's "managed democracy" and, on the other, it poses a threat to Russia's re-integration projects in the former Soviet Union (the Customs Union, Common Economic Zone, the Eurasian Union).³⁷ **The credibility gap in EU-Ukraine relations today is obviously turning into a powerful incentive for Russia to strengthen its influence on Ukraine for the purpose of involving Ukraine in Russia-led integration efforts in the CIS area.**

CONCLUSIONS

The main problem complicating the relationship in the EU-Ukraine-Russia triangle is the existence of two competing integration projects – the European and the Eurasian – aimed at the post-Soviet countries (including Ukraine) in the Eastern Europe and the Caucasus.

The choice to conclude the Association Agreement with the EU or joining the Customs Union of Russia, Belarus and Kazakhstan is also a "civilisation" choice for Ukraine. Thus, Ukraine now has a short period of time to finally decide on its "civilisation" development model.

However, such a choice should not be a geopolitical one. Ukraine is not interested in a new geopolitical divide in Europe.

The relations with Brussels and Moscow are strategically important for Kyiv. It is necessary to find ways and mechanisms to improve cooperation in these key directions. Common points of interest are to be found to develop contacts in different spheres – politics, economy, security, etc.

Trilateral format of cooperation, instead of producing conflicts, should create equal, mutually beneficial and effective contracts that promote socio-economic development for the parties as well as build trust and strengthen peace and security in Europe and on a wider geopolitical arena. ■

³³ See: Ukraine-Russia: From Crisis to Effective Cooperation..., p. 10.

³⁴ New Integration Project for Eurasia – A Future That Is Being Born Today. Izvestiya, October 3, 2011, <http://www.izvestia.ru>.

³⁵ See: Archive on the website of the Chairman of the Government of the Russian Federation. – <http://www.premier.gov.ru>.

³⁶ Web site of the President of the Russian Federation: <http://president.kremlin.ru>.

³⁷ See the article by Piontkovsky, A. "Ukraine between Russia and the EU" in this issue of journal.

STATE OF EXECUTION OF THE ACTION PLAN ON VISA LIBERALISATION (APVL) PROVIDED BY THE EUROPEAN UNION TO UKRAINE ON 22 NOVEMBER 2010

RESULTS OF CIVIC MONITORING*

Summary conclusions:

Progress of Ukraine on the way to visa free regime with the EU is uneven and disproportionate. Major legal acts within the APVL were adopted in May-October 2011, which proved to be the most productive period. Since November 2011 the pace of the APVL implementation has slowed down.

Having achieved considerable and notable progress in Block 2 (Illegal Immigration including Readmission) and a certain moderate success in Block 3 (Public Order and Security), at the same time Ukraine completely failed Block 1 (Document Security including Biometrics) and settled for rather modest advances in Block 4 (External Relations and Fundamental Rights).

In order to improve the situation and promptly enter the second phase of the Action Plan in the near future Ukraine should adopt at least three laws: (1) On Documents Identifying a Person and Confirming Citizenship of Ukraine, (2) On Preventing and Combating Discrimination and (3) On Special Agency on Anticorruption Policy. In addition, more than 10 relevant by-laws should be adopted; they would establish adequate working mechanisms for implementation of these and other, previously adopted laws.

What is APVL?

The Action Plan on Visa Liberalisation (APVL) presented by the European Union to Ukraine on November 22, 2010 is the document that contains the exhaustive list of conditions and criteria, performance of which by Ukraine, confirmed by the relevant bodies of the EU, will lead to cancellation by the latter of visa requirements for the citizens of Ukraine (regarding Schengen visas, i.e. visas for short-term trips – up to 90 days per six months)

APLV consists of 4 Blocks: Document Security Including Biometrics; Illegal Immigration Including Readmission; Public Order and Security; External Relations and Fundamental Rights.

During the first phase the following is assessed: adoption of laws and conceptual framework documents

(strategies, concepts), adoption of non-legislative acts (regulations, directives, orders) necessary for appropriate implementation of adopted laws, elaboration and adoption of planning documents (event plans, action plans) with specific executors and timeframes; signing and ratification of the necessary international agreements and conventions. During the second phase the quality of execution (implementation) of the previously approved legal regulations is assessed.




As of April 2012, Ukraine is in the first legislative policy phase. The first progress report on APVL Ukraine's implementation by Ukraine was released by the European Commission on September 16, 2011 and the second – on February 9, 2012. Passing to the second phase will require resolution of the EU, passed on the basis of the conclusions of the European Commission. Besides Ukraine, the Republic of Moldova implements the similar APVL at this stage.

Experts take into account that the Cabinet of Ministers of Ukraine has developed and has been implementing the National Plan (NP) on APVL (endorsed by the Presidential Decree on April 22, 2011). This document serves as a guideline for activities performed by central public authorities.

In addition to APVL and NP, the experts examined and reviewed the following official documents of the parties:

- The first and the second Progress Report on Ukraine released by the European Commission (published on September 16, 2011 and February 9, 2012);
- Two reports submitted by Ukrainian government to the European Commission in June and November 2011.

Indicators:

-  – Full implementation
-  – Implementation is underway
-  – Implementation did not begin or was blocked at the initial stage

* The monitoring was conducted by the public initiative "Europe without Barriers" with the support of the International Renaissance Foundation. (Short version as of April, 20 2012. Full, regularly updated version is available on the Web site "Europe without barriers" <http://www.novisa.com.ua/ua/monit1>).

Elements of the Action Plan on Visa Liberalisation (APVL)	Measures envisaged by the Government (according to the National Plan on Implementation of the Action Plan on Visa Liberalisation) ¹	BLOCK 1: DOCUMENT SECURITY, INCLUDING BIOMETRICS	Comments
1. Adoption of legal framework for issuing of machine readable Biometric international passports in full compliance with highest ICAO ² standards on the basis of secure identity management (civil registry and breeder documents) and taking into account adequate protection of personal data.	Submission of the draft Law on Documents Certifying Identity and Confirming Citizenship of Ukraine to the Cabinet of Ministers of Ukraine for further submission to the Verkhovna Rada of Ukraine according to the established procedure.	During the year 2011 due to uncoordinated position of the Cabinet of Ministers and particular central legislative authorities and interest groups in the Parliament, the set objectives were not achieved. Consideration of draft laws resulted in the presidential veto on the adopted law (October 22, 2011). A new draft Law On Documents Certifying Identity, Its Special Status, and Confirming Citizenship of Ukraine was submitted to the Verkhovna Rada on February 10, 2012 by the People's Deputies Konovaliuk, Moisyk, Berezhna (No. 10036). On February 15, 2012 the meeting of the Cabinet of Ministers considered and approved the draft Law on documents Certifying Identity, Confirming Citizenship of Ukraine and Authorising Entrance to Ukraine and Exit from Ukraine. On February 20, 2012 the specified draft law was registered in the Verkhovna Rada (No.10036 – 1). Since reasons which caused the lack of consolidated position of government and parliamentary majority on this issue are not eliminated, there is a risk of continued competition of two alternative and in some respects antagonistic approaches of government and the specified group of the people's deputies, which has a strong position in the parliamentary majority. In support of this – on March 20, the Council did not have enough votes (only 206 – “for”) for inclusion of the specified draft laws (No. 10036 and No.10036-1) in the agenda. Execution of this item is restricted by the need to adopt the Law on Documents Certifying Identity and Confirming Citizenship of Ukraine. Execution of this item is restricted by the need to adopt the Law on Documents Certifying Identity and Confirming Citizenship of Ukraine.	During the year 2011 due to uncoordinated position of the Cabinet of Ministers and particular central legislative authorities and interest groups in the Parliament, the set objectives were not achieved. Consideration of draft laws resulted in the presidential veto on the adopted law (October 22, 2011). A new draft Law On Documents Certifying Identity, Its Special Status, and Confirming Citizenship of Ukraine was submitted to the Verkhovna Rada on February 10, 2012 by the People's Deputies Konovaliuk, Moisyk, Berezhna (No. 10036). On February 15, 2012 the meeting of the Cabinet of Ministers considered and approved the draft Law on documents Certifying Identity, Confirming Citizenship of Ukraine and Authorising Entrance to Ukraine and Exit from Ukraine. On February 20, 2012 the specified draft law was registered in the Verkhovna Rada (No.10036 – 1). Since reasons which caused the lack of consolidated position of government and parliamentary majority on this issue are not eliminated, there is a risk of continued competition of two alternative and in some respects antagonistic approaches of government and the specified group of the people's deputies, which has a strong position in the parliamentary majority. In support of this – on March 20, the Council did not have enough votes (only 206 – “for”) for inclusion of the specified draft laws (No. 10036 and No.10036-1) in the agenda. Execution of this item is restricted by the need to adopt the Law on Documents Certifying Identity and Confirming Citizenship of Ukraine. Execution of this item is restricted by the need to adopt the Law on Documents Certifying Identity and Confirming Citizenship of Ukraine.
2. Adoption of the Action Plan that will contain timeframe for the complete transition to issuance of ICAO-compliant biometric international passports, including at Ukrainian consulates abroad, as well as the complete phasing out of non-ICAO compliant passports.	Adoption of the Action Plan on introduction of documents of Ukraine for travelling abroad with an electronic chip of biometric data and establishment of the national system of biometric verification and identification of citizens of Ukraine.... Elaboration of the programme for phasing out of documents for travelling abroad, the specimens of which do not comply with the International Civil Aviation Organisation (ICAO) standards (September, 2011).	Adoption of legal regulations is necessary for introduction of documents of Ukraine for travelling abroad with an electronic chip containing biometric data... (within a month after the adoption of the Law). Submission to the President of Ukraine of the draft Decree of the President of Ukraine amending the Decree of President of Ukraine dated February 26, 1998 No.153 On Diplomatic and Service Passports of Ukraine in connection with implementation of new specimen of diplomatic and service passports with an electronic chip containing biometric data (within a month after the adoption of the Law). Adoption of the Action Plan on introduction of documents of Ukraine for travelling abroad with an electronic chip of biometric data and establishment of the national system of biometric verification and identification of citizens of Ukraine.... Elaboration of the programme for phasing out of documents for travelling abroad, the specimens of which do not comply with the International Civil Aviation Organisation (ICAO) standards (September, 2011).	Execution of this item is restricted by the need to adopt the Law on Documents Certifying Identity and Confirming Citizenship of Ukraine. Execution of this item is restricted by the need to adopt the Law on Documents Certifying Identity and Confirming Citizenship of Ukraine. The programme for phasing out of documents for travelling abroad, the specimens of which do not comply with the International Civil Aviation Organisation (ICAO) standards was adopted by the Decree of the Ministry of Internal Affairs on September 20, 2011 No. 693. However, there is a need to adopt a legal regulation of a higher (governmental) level, since issuance of documents certifying identity does not fall within the exclusive competence of the Ministry of Internal Affairs.

¹ The National Plan to implement the Action Plan on EU Visa Liberalisation for Ukraine. Adopted by the Ukrainian Government on April 22, 2011.

² ICAO – International Civil Aviation Organisation



3. Establishment of training programmes and adoption of anti-corruption codes of ethics for the officials of any public authority that deals with issuance of international passports as well as domestic passports and other breeder documents certifying identity.	Issuance of a joint legal regulation on code of conduct of the officials who deal with the issuance of documents certifying identity (May, 2011).	The document was adopted by the joint Decree 319/149/145/145 of the Ministry of Finance, Ministry of Internal Affairs, Ministry of Foreign Affairs, Ministry of Infrastructure and the Main Department of the Civil Service of Ukraine on June 14, 2011.
	Elaboration of programme of training and improvement of qualification for officials whose functional duties include execution and issuance of documents certifying identity (June, 2011).	Training programme for qualification improvement for officials whose functional duties include execution and issuance of documents certifying identity was approved by the Ministry of Internal Affairs of Ukraine on June 21, 2011.
BLOCK 2: ILLEGAL IMMIGRATION, INCLUDING READMISSION		
Border management		
4. Adoption of all necessary measures for the implementation of the law-enforcement programme on State Border Development and Reconstruction for the period till 2015 and State Border Guards Service of Ukraine development concept for the period up to the year 2015, including a legal framework for inter-agency cooperation between the Border Guard Service, law enforcement agencies and other agencies involved in border management and allowing the Border Guard Service to participate in detection and investigation of cross-border crimes in coordination with all competent law enforcement authorities.	Continuation of implementation of the Concept of the Development of the State Border Guard Service of Ukraine until 2015, approved by the Decree of the President of the Ukraine dated June 19, 2006 No. 546 (during 2011).	The new Law of Ukraine on the Border Control was adopted on November 5, 2009. It was amended on December 2, 2010. During 2011 the government of Ukraine adopted 8 legal regulations aimed at due implementation of the specified Law. Lack of legislative provisions that would ensure sufficient opportunities for the Border Guard Service to participate in detection and investigation of cross-border crimes in coordination with all competent law enforcement authorities.
5. Adoption of the National Integrated Border Management Strategy and Action Plan for its effective implementation, that will contain timeframe and specific objectives for the further development of legislation, organisation, infrastructure, material resources, as well as sufficient financial and human resources in the area of border management.	Continuation of implementation of the State targeted law enforcement Programme "Development and Reconstruction of the State Border of Ukraine" until 2015, approved by the Decree of the Cabinet of Ministers of Ukraine of June 13, 2007 No. 831 (during 2011).	In general, creation of four-level system of management and response to changing conditions was completed: the Main service management centre, regional centres, border protection agencies service management centres, Border Guard Service departments service management centres. However the practical implementation of many measures, provided by the specified programme is significantly behind the schedule.
6. Establishment of training programmes and adoption of anti-corruption codes of ethics directly regarding border guards, customs and any other officials involved in border management.	Providing implementation within the Budgetary Allotment of the Action Plan on implementation of the Concept of Integrated Border Management approved by the Resolution of the Cabinet of Ministers of Ukraine of January 5, 2011 No.2-p (during 2011).	On October 27, 2010 The Government of Ukraine approved the Concept of Integrated Border Management, on January 5, 2011 – Action Plan for its implementation, documents were elaborated by involving experts of the EU (EUBAM), and implementation is underway.
	Issuance of legal regulation on code of conduct of the officials, whose functional duties include border management.	The document was approved by the joint Decree of the Ministry of Internal Affairs, Ministry of Foreign Affairs, Ministry of Finance, Administration of the State Tax Service of Ukraine, Main Department of the Civil Service of Ukraine No. 330/151/809/434/146 dated July 05, 2011.

Elements of the Action Plan on Visa Liberalisation (APVL)	Measures, provided by the government (according to the National Plan on Implementation of the Action Plan on Visa Liberalisation) ¹	Comments
Migration management		
7. Adoption of legal framework for migration policy providing for an effective institutional structure for migration management, rules for entry and stay of foreigners, measures for the reintegration of Ukrainian citizens (returning voluntarily or under the EU-Ukraine readmission agreement), monitoring of migration flows, fight against illegal migration (including return procedures, rights of persons being subject thereto, detention conditions, efforts to conclude readmission agreements with main countries of origin, inland detection of irregular migrants).	Submission of the draft Law on the Legal Status of Foreigners and Stateless Persons (revised) (May, 2011) to the Cabinet of Ministers of Ukraine for further submission to the Verkhovna Rada of Ukraine in accordance with the established procedure.	The draft Law was submitted to the Parliament on May 26, 2011.
	Providing supervision of the draft Law on the Legal Status of Foreigners and Stateless Persons (revised) at the Verkhovna Rada of Ukraine (till the Law is adopted).	The Law was adopted on September 22, 2011. It entered into force, http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=3773-17&c=1#history .
	Holding negotiations with the aim of conclusion of international agreements on readmission of persons with couriers of origin (transit) of illegal migrants (during 2011).	Amendment to the Agreement on readmission with the Russian Federation was approved (entered into force in 2008). Continuation of diplomatic efforts (with varying degrees of success) to conclude agreements with Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Belarus, India, Iran, Iraq, Sri Lanka, China, Afghanistan.
	Adoption of the Action Plan on Foreign Migrants' Integration in Ukraine and Reintegration of Ukrainian Migrants in Ukraine for 2011-2015 (during the first half of 2011).	Negotiations on processing of implementation protocols of readmission with the EU Member States are being held. By the Order dated June 15, 2011 No.653-p, the Cabinet of Ministers of Ukraine approved the Plan on Migrants' integration into Ukrainian society for 2011-2015.
	Adoption of the Decree of the Cabinet of Ministers of Ukraine on the procedure for a voluntary return of foreigners and stateless persons to countries of their origin and expulsion from Ukraine of foreigners and stateless persons (within a month after the adoption of the Law of Ukraine on the Legal Status of Foreigners and Stateless Persons (revised)).	The name of approved document and its content do not fully meet the planned ones, because the text of the approved document has only one paragraph (No.6) on reintegration of Ukrainian migrants in the Ukrainian society, which is the evidence of lack of planning work in this area. The relevant Law became effective in October, 2011. The draft act on the procedure for a voluntary return of foreigners and stateless persons to countries of their origin and expulsion from Ukraine of foreigners and stateless persons is at the stage of elaboration.
8. Adoption of the National Migration Management Strategy with the aim of efficient implementation of the legal framework in the sphere of migration policy and the Action Plan, which will contain timeframe, specific objectives, measures, results, performance indicators and sufficient human and financial resources.	Submission of draft Decree of the President of Ukraine on Adoption of the Concept of Migration Policy of Ukraine (during 2011).	Adopted. The Decree of the President No. 622/2011 was signed on May 30, 2011.
	Adoption of the Action Plan on implementation of the Concept of Migration Policy of Ukraine and submission of proposals on institutional reform in the field of migration management according to the established procedure (June, 2011).	Action Plan was approved by the Resolution of the Cabinet of Ministers of Ukraine on October 12, 2011. No. 1058-p.
9. Establishment of mechanism for the monitoring of migration flows, which will define a regularly updated migration profile of Ukraine, with data both on illegal and legal migration, and creation of bodies responsible for collection and analysis of data on migration stocks and flows.	Providing the creation of the unified national database for monitoring of migration flows in Ukraine (June, 2011).	The document is at the final stage of adoption. On September 9, 2011 the draft document was submitted for processing to the members of the Scientific and Expert Council of State Migration Service.
		The draft resolution on creation of the unified national database for monitoring of migration flows in Ukraine of the Cabinet of Ministers of Ukraine was prepared.



<i>Asylum policy</i>		
10. Adoption of legislation in the area of asylum in accordance with the international standards (Geneva Convention, 1951, New York Protocol) and the EU standards, that will provide grounds for international protection (including subsidiary forms of protection), procedural rules on verification of applications for international protection, and rights of asylum seekers and refugees.	Providing supervision of the draft Law on Refugees and Persons in need Of Subsidiary and Temporary Protection (registration No. 7252) at the Verkhovna Rada of Ukraine (till the Law is adopted).	Adopted on July 8, 2011, the law entered into force.
	Drafting of legal regulations necessary for implementation of the Law on Refugees and Persons in Need of Subsidiary and Temporary Protection (within a month after the adoption of the Law).	In the process of drafting and adoption. In particular, the Order of the Ministry of Internal Affairs (dated September 7, 2011, No. 649) On the approval of Rules for Processing of Applications and Execution of Documents, Necessary for Solving the Issue of Declaring a Refugee or a Persons in Need of Subsidiary Protection, Loss and Deprivation of Refugee Status and Subsidiary Protection and Cancellation of Decision on Declaring a Refugee or a Person in Need of Subsidiary Protection.
BLOCK 3: PUBLIC ORDER AND SECURITY		
<i>Prevention and fight against organised crime, terrorism and corruption.</i>		
11. Adoption of the comprehensive strategy to fight against organised crime with the Action Plan that will contain timeframe, specific objectives, measures, results, performance indicators and sufficient human and financial resources.	Submission of the draft Concept of the State Policy in the Sphere of Fight against Organised Crime to the Cabinet of Ministers of Ukraine for further submission to the President of Ukraine according to the established procedure (May, 2011). Submission of the draft Action Plan on Implementation of the Concept of the State Policy in the Sphere of Fighting against Organised Crime to the Cabinet of Ministers of Ukraine in accordance with the established procedure (within a month after the adoption of the Concept).	The document was approved by the Cabinet of Ministers on June 22, 2011. Finally approved by the Decree of the President of Ukraine on October 21, 2011 No. 1000/2011. Adopted by the Cabinet of Ministers on January 25, 2012.
12. Adoption of Law on Anti-Human Trafficking, Action Plan with the aim of efficient implementation of the State Anti-Human Trafficking Programme, that will contain timeframe, specific objectives, measures, results, performance indicators and sufficient human and financial resources.	Submission of the draft Law on Anti-Human Trafficking to the Cabinet of Ministers of Ukraine for further submission to the Verkhovna Rada of Ukraine according to the established procedure (May, 2011). Providing supervision of the draft Anti-Human Trafficking Law at the Verkhovna Rada of Ukraine (till the Law is adopted). Submission of the draft Law on Adoption of the National Anti-Human Trafficking Programme till 2015 to the Cabinet of Ministers of Ukraine for further submission to the Verkhovna Rada of Ukraine according to the established procedure (within a month after the adoption of the Law).	The Law was elaborated by involving international and domestic non-governmental organisations. The Law of Ukraine on Anti-human Trafficking was adopted on September 20, 2011. It was signed by the President of Ukraine. The Law complies with the relevant provisions of the Convention of the Council of Europe, but requires a set of additional decisions for provision of its functioning. On February 15, 2012 the Cabinet of Ministers adopted the Resolution on the Approval of the Concept of the National Social Targeted Anti-Human Trafficking Programme till 2015. This document determines the Ministry of Social Policy as the state customer of the programme. Thus this Ministry is responsible for the state policy on anti-human trafficking. On March 22, 2012 the Cabinet of Ministers adopted the National Social Targeted Anti-Human Trafficking Programme till 2015. The Law of Ukraine on Free Legal Assistance was adopted on June 2, 2011. It was signed by the President of Ukraine and entered into force.

Elements of the Action Plan on Visa Liberalisation (APVL)	Measures, provided by the government (according to the National Plan on implementation of the Action Plan on Visa Liberalisation) ¹	Comments
13. Adoption of legislation on prevention and fight against corruption and establishment of single independent anti-corruption agency; strengthening coordination and information exchange between authorities responsible for the fight against Corruption.	Submission of the draft National Strategy on Prevention and Counteraction to Corruption for 2011-2014 to the President of Ukraine according to the established procedure (May, 2011).	<p>The National Anti-Corruption Strategy for 2011-2015 was adopted by the Decree of the President of Ukraine on October 21, 2011, No.1001/2011 http://www.president.gov.ua/documents/4092.html.</p> <p>On November 29, 2011, the Cabinet of Ministers of Ukraine approved the State Programme on Prevention and Counteraction to Corruption for 2011-2015, which sets specific anti-corruption measures, executors and corresponding timeframe.</p> <p>The Law of Ukraine on Prevention and Counteraction to Corruption (No.3206-IV) entered into full force on January 1, 2012.</p> <p>The Decree of the President of Ukraine No. 33/2012 dated January 25, 2012 defined the procedure for organisation of carrying out a special verification of people who apply for positions related to the performance of functions of the state or local government.</p> <p>The Resolution of the Cabinet of Ministers of Ukraine No.16 dated January 11, 2012 established the procedure for storage of documents and use of the data specified in the declaration of property, income, expenses and financial liabilities, and information about opening foreign currency account.</p> <p>According to some experts such public order in some way contravenes the Law of Ukraine on Access to Public Information.</p> <p>The resolution of the Ministry of Justice of Ukraine No. 39/5 dated January 11, 2012 approved the Regulation on the Unified State Register of Persons who committed corruption. According to this Regulation, the Ministry of Justice of Ukraine from February 1, 2012 has formed and maintained the State Register of Corruptionists that is a part of the State Register of Court Decisions.</p> <p>Generally Ukrainian anti-corruption legislation does not fully comply with the GRECO and OECD recommendations and requires further improvement.</p> <p>There is a lack of determination in the issue of establishing a single independent anti-corruption agency. In February, 2012 the Ministry of Justice announced that the corresponding draft law had been submitted to the President. However, the text of the draft law has not been made public.</p> <p>As of April, 2012, referring to the last report of GRECO (item 9), the Ministry of Justice confirmed that the National Anti-Corruption Committee, the composition of which was approved by the President on March 16, 2012 can be considered the specified in APVL "Single and independent anti-corruption agency". Independent experts mostly disagree with this interpretation.</p> <p>It was approved by the joint Decree of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine on March 9, 2011, No.270</p>
14. Adoption of the national strategy for the prevention and fight against money laundering and financing of terrorism; adoption of law on the prevention of financing of terrorism.	Approval of Action Plan for 2011 on anti-money laundering or financing of terrorism (June, 2011).	
15. Adoption of a new National Strategic Programme on fight against drugs and the corresponding Action Plan; ratification of the Memorandum of Understanding with EMCDDA.	<p>Analysis of legislation in the sphere of fight against illegal trafficking in drugs, psychotropic substances and precursors, ...</p> <p>Improvement of state regulation in the specified sphere (July, 2011).</p> <p>Intensification of cooperation between Ukraine and European Monitoring Centre for Drugs and Drug Addictions in the framework of the Memorandum of Understanding between the Ministry of Health of Ukraine and the European Monitoring Centre for Drugs and Drug Addiction (during 2011).</p>	<p>The Concept of implementation of the state policy in the sphere of counteraction to spreading of drug addiction, fight against illegal trafficking in drugs, psychotropic substances and precursors for the period of 2011-2015 was approved by the Resolution of the Cabinet of Ministers of Ukraine No. 1808-p on September 13, 2010.</p> <p>Action Plan of implementation of the specified Concept was adopted by the Resolution of the Cabinet of Ministers of Ukraine No. 2140 dated October 22, 2010.</p> <p>On October 18, 2011 the Cabinet of Ministers of Ukraine approved the Concept on establishment of the system of monitoring of situation in the sphere of counteraction to illegal trafficking in drugs, psychotropic substances and precursors.</p> <p>The Memorandum of Understanding concluded between Ukraine and EMCDDA (January 28, 2010) does not need to be ratified by the Verkhovna Rada of Ukraine.</p>



16. Adoption of the relevant UN and the Council of Europe Conventions in the abovementioned spheres and on fight against terrorism.	Drawing up a list of international treaties in the sphere of fight against organised crime and terrorism to which Ukraine should accede and submission of the corresponding proposals (May, 2011).	Ukraine ratified all relevant UN and the Council of Europe Conventions and Protocols except one: UN Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition (2001).
Judicial cooperation in criminal matters		
17. Adoption of the legal framework on mutual legal assistance.	Providing supervision of the draft Law on Ratification of the Second Additional Protocol to the European Convention on Mutual Assistance in criminal Matters at the Verkhovna Rada of Ukraine (till the law is adopted).	Ratified on June 1, 2011.
18. Ratification of the Second Protocol of the European Convention on mutual legal assistance.	Providing supervision of the draft Law on Amendments to Certain Legislative Acts of Ukraine Due to Ratification of the Second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters at the Verkhovna Rada of Ukraine (till the Law is adopted).	The Law of Ukraine on Amendments to Certain Legislative Acts of Ukraine Due to Ratification of the Second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters was adopted on July 16, 2011. Entered into force.
19. Signing of Agreement with Eurojust	Holding negotiations with the aim of coordination of text of the Cooperation Agreement between Ukraine and the European justice body (September, 2011).	According to the Ministry of Justice, negotiations were completed and the agreement was initiated on December 8, 2011.
	Signing of Cooperation Agreement between Ukraine and the European justice body (fourth quarter of 2011).	Agreement was initiated (see above), preparation for official signing is underway, which is constrained by the arguments on the part of the EU about functioning of personal data protection system in Ukraine.
Law enforcement cooperation		
20. Establishment of due coordination mechanism between the relevant national agencies and common database which guarantees the direct access in the entire territory of Ukraine.	Adoption of common instruction on cooperation between the law enforcement bodies in the sphere of fight against organised crime (May, 2011).	Approved by the joint Order of the Ministry of Internal Affairs of Ukraine and Central Administration of Security Service of Ukraine on June 10, 2011, No. 317/235.
21. Signing of operational cooperation agreement with the Europol with special emphasis on data protection provisions.	Holding negotiations with the aim of coordination of the text of the Agreement between Ukraine and the European Police Office on Prompt Cooperation (September, 2011).	Negotiations are underway. Signing of agreement depends primarily on a positive assessment of functioning of the personal data protection system in Ukraine.
Data Protection		
22. Adoption of the corresponding legislation on the protection of personal data and establishment of independent data protection supervisory authority.	Providing supervision of the draft Law on Amendments to Certain Legislative Acts of Ukraine on Breach of Legislation on Personal Data Protection at the Verkhovna Rada of Ukraine (till the law is adopted).	The Law on Amendments to Certain Legislative Acts of Ukraine on Breach of Legislation on Personal Data Protection was adopted on June 2, 2012. Legislation on the personal data protection requires some modifications and amendments and the Ministry of Justice received the corresponding instruction of the government.

Elements of the Action Plan on Visa Liberalisation (APVL)	Measures, provided by the government (according to the National Plan on Implementation of the Action Plan on Visa Liberalisation) ¹	Comments
BLOCK 4: EXTERNAL RELATIONS AND FUNDAMENTAL RIGHTS		
<i>Freedom of movement within Ukraine</i>		
24. Revision of legal and regulatory framework of registration and de-registration procedures for Ukrainian citizens, foreigners and stateless persons who legally stay on the territory of Ukraine with the aim of avoiding unjustified restrictions or obligations of their freedom of movement within Ukraine in particular with respect to conditions for legal stay without residence registrations and measures taken in case of failing to register as well as on the liability of tenants.	Carrying out an analysis of legal regulations defining procedures for registration and deregistration of the place of residence or location of citizens of Ukraine, foreigners and stateless persons who stay on the territory of Ukraine....	<p>The State Migration Service elaborated and prepares to submit to the Verkhovna Rada of Ukraine the draft Law of Ukraine on Amendments to Certain Laws of Residence and Location of Physical Entities in Ukraine.</p> <p>The Verkhovna Rada registered the draft Law of Ukraine on Amendments to Certain Laws of Ukraine on Registration of Place of Residence and Location of Physical Entities in Ukraine (registry No. 9289 dated October 13, 2011). The provisions of the draft law were elaborated on the basis of the analysis of legal regulations, which currently define procedure for registration of place of residence and take into account recommendations of the EC and EEAS, contained in the assessment of Ukraine's progress in implementation of the first phase of the APVL.</p>
Conditions and procedures for issuing identification documents		
25. Revision of legal and regulatory framework with the aim of provision of the efficient access to travel and identity documents without discrimination, in particular as regards vulnerable groups.	Carrying out an analysis of the specified acts, which regulate issues of issuance of travel documents and documents certifying identity. Submission of relevant proposals on improvement of legislation in this sphere with the aim of ensuring equal access of all persons to mentioned procedures to the Cabinet of Ministers of Ukraine, if necessary (May, 2011).	The issue is being considered by the Ministry of Justice of Ukraine.
Citizens' rights, including protection of minorities		
26. Adoption of comprehensive anti-discrimination legislation, as recommended by the UNO and the Council of Europe monitoring bodies, to ensure efficient protection against discrimination.	Submission to the Cabinet of Ministers of Ukraine for further submission to the President of Ukraine of the draft Decree of the President of Ukraine on Adoption of the Strategy on Fight against Discrimination in Ukraine (May, 2011).	The strategy was elaborated by involving non-governmental organisations. The document is expected to be signed by the President. The document quite clearly defines the main objectives and principles of counteraction to discrimination in Ukraine. The drawback of the document is absence of specific mechanisms of counteraction to discrimination. Adoption of the Strategy does not exhaust the need of approval of comprehensive anti-discrimination legislation.
27. To actively comply with specific recommendations of agencies of the UNO, the OSCE/ODIHR, the Council of Europe/ECRI and international human rights organisations in implementing anti-discrimination policies, protecting minorities and fight against hate crimes.	Providing an active cooperation with the UNO, the OSCE, the Council of Europe on efficient implementation of anti-discrimination strategies of these organisations in Ukraine (during 2011).	A significant list of measures was registered which witnesses of active interaction of the state bodies with the specified international organisations. Meanwhile, independent reports on Ukraine's performance in this sphere are still rather critical which witnesses of lack of efforts and will require strengthening of cooperation.
28. Ratification of relevant documents of the UNO and the Council of Europe on the fight against discrimination.	Determination of list of international treaties in the sphere of fight against all demonstrations of discrimination to which Ukraine should accede and submission of relevant suggestions, if necessary (May, 2011).	Ukraine is a party to majority of international treaties in the sphere of human rights protection. On November 7, 2011 Ukraine signed the Convention of the Council of Europe on Preventing and Combating Violence against Women and Domestic Violence.
29. To clarify conditions and circumstances for the acquisition of Ukrainian citizenship.	Providing active spreading of information about legal basis for acquisition of citizenship of Ukraine (May, 2011).	This provision of the APVL has a lack of clear requirements, which causes difficulties in determination of degree of its implementation.

2. ECONOMIC RELATIONS IN THE EU-UKRAINE-RUSSIA TRIANGLE

Economic relations in the EU-Ukraine-Russia triangle comprise three interrelated dimensions:

Firstly – the level of institutional development to ensure compatibility of economies among partner states, stability and efficiency of their mutual economic relations, as well as the state of infrastructure, which quality has an impact on improving competitiveness and reducing costs related to the execution of economic agreements;

Secondly – the level of economic exchange, its dynamics and structure, together with the existing imbalances, asymmetries and conflicts of interests as well as the spheres of common interests;

Thirdly – the strategic vision of future interactions taking into account long-term development trends, changes of economic potential and a possible rise of political controversies.

2.1. THE LEVEL OF INSTITUTIONAL DEVELOPMENT AND INFRASTRUCTURE

The quality of state policy, including in the economic sphere, as well as the state's place and role on the international arena to a great, if not decisive, extent depend on the quality of state institutions and agencies, in particular – the quality of legislation, legal system and human rights, citizens' rights and freedoms (including the right to doing business), etc.

Institutional environment. The institutional environment in Russia and Ukraine is not perfect that substantially restricts opportunities to develop economic relations between the two partners and the EU. Such an environment impedes their effective involvement in international integration processes either in the European or the Eurasian directions.

Problems related to the quality of institutions in Ukraine and Russia are not just economic – they encompass wider, primarily *non-economic* aspects. The key factors, which have a negative influence on the competitiveness of Russia and Ukraine in this regard, are the following:

- extremely low standards of adherence to property rights, especially of those of minority shareholders;
- systematic mismanagement of public finances (misuse of public funds, irregular payments and bribes);
- lack of an independent and impartial judiciary system and effective judicial protection of interests.

These issues mostly affect the competitiveness indices of both countries which are calculated by international organisations and used as benchmarks by investors. Hence, the quality of institutions in Ukraine received 2.98 points, that is twice as low as the maximum index of the EU member states (6.06); in fact, the institutions in Russia were marked at a similar level – 3.08 points (Table “*The quality of institutions and infrastructure indices: Comparison of the EU, Russia and Ukraine*”).¹

The above problems are quite similar in the two countries, nevertheless, they are more evident in Ukraine: the Table “*Key Indicators of Global Competitiveness relating to the quality of institutions:*

The quality of institutions and infrastructure indices: Comparison of the EU, Russia and Ukraine

		DATA OF THE WORLD ECONOMIC FORUM: GLOBAL COMPETITIVENESS INDICES, 2011-2012 ¹		DATA OF THE WORLD BANK: GOVERNANCE INDICATORS 2009 ²					
		Institutes ³	Infrastructure ³	Voice and accountability ⁴	Political stability/ Absence of violence	Government effectiveness ⁴	Regulatory quality ⁴	Rule of law ⁴	Control of corruption ⁴
EU	Average score	4.60	5.08	1.15	0.73	1.10	1.19	1.17	1.07
	Maximum	6.06	6.35	1.56	1.44	2.19	1.82	1.94	2.42
	Minimum	3.32	3.37	0.54	-0.18	-0.13	0.62	-0.05	-0.13
Croatia ⁵		3.59	4.73	0.56	0.60	0.64	0.55	0.22	0.03
Russia		3.08	4.52	-0.95	-0.72	-0.28	-0.46	-0.77	-1.12
Ukraine		2.98	3.87	-0.06	-0.27	-0.77	-0.54	-0.73	-0.90

¹ Data of the World Economic Forum.

² Data of the World Bank.

³ On a scale from 1 to 7, where 1 means the worst standing, 7 – the best standing.

⁴ On a scale from -2.5 to +2.5, where -2.5 means the worst standing, +2.5 – the best standing.

⁵ Will join the EU on January 1, 2013.

¹ Sources: World Economic Forum. The Global Competitiveness Report 2011-2012. – Geneva: World Economic Forum, 2011, pp.18-19; Kaufmann, D., Kraay, A., Mastruzzi, M. The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues. – World Bank Policy Research, The World Bank, 2010; aggregated data on the EU – calculations of experts of the Razumkov Center.

Key Indicators of Global Competitiveness relating to the quality of institutions: Comparison of Russia and Ukraine

	Russia		Ukraine	
	Score*	World ranking**	Score*	World ranking**
Property rights	2.8	130	2.7	137
Diversion of public funds	2.4	120	2.3	126
Burden of government regulation	2.4	132	2.5	130
Protection of minority shareholders' interests	3.1	135	2.9	138
Irregular payments and bribes	3.1	115	2.6	134
Judicial independence	2.6	123	2.1	134
Efficiency of legal framework in settling disputes	2.8	123	2.3	138
Efficiency of legal framework in challenging regs	2.7	123	2.4	135

* On a scale from 1 to 7, where 1 means the worst standing, 7 – the best standing.

** Among 142 countries

*Comparison of Russia and Ukraine*² shows that according to the quality of institutions and other relevant indicators, Ukraine is placed lower than Russia in the world rating (an exception is the “burden of government regulation”).

Ineffective governance in both countries, insufficient quality of regulatory and legal environment that is inferior to those of the EU (even to the institutionally least mature member states), low level of adherence to the rule of law, which does not meet even the minimum requirements of the EU states, absence of any effective anti-corruption measures – all these factors significantly complicate the strategic orientation of Ukraine and Russia in Europe.

Sociological surveys conducted by the Razumkov Centre also show that the Ukrainian citizens and experts consider the internal institutional problems to be the main obstacle to economic cooperation between Ukraine and the EU.³

To that end, **if no significant institutional changes – aimed at strengthening the rule of law and protecting the business rights and improving the quality of governance – take place in Ukraine and Russia, their potential for international economic cooperation will remain limited.**

Ensuring the quality of institutions is of particular importance for Ukraine – which, unlike Russia, has officially proclaimed its European integration path. Following this path is a driver for the abovementioned changes, which are not crucial to the course towards the East (regarding its current state).

Infrastructure. The quality of infrastructure in Ukraine and particularly in Russia looks much better with regard to the EU: both countries exceed the minimum rate of the EU member states (3.37), with Ukraine marked with 3.87 and the quality of Russia's infrastructure not much lower than the EU's average rate (4.52 and 5.08 respectively).

Therefore, one can assume that the quality of infrastructure is not a major factor hampering the development of relations between Ukraine and Russia and the EU. However, this does not mean that the infrastructure of both countries needs no accelerated development.

2.2. THE EU-UKRAINE-RUSSIA: FEATURES OF BILATERAL RELATIONS

Since 1991, the EU's relations with Russia and Ukraine *formally* have been two almost parallel processes of creating institutions of mutual cooperation, albeit their *content* was not fully identical, and their *strategic orientation*, at least since 2000, has acquired an increasingly distinct character.

EU-Ukraine

The EU's economic relations with Ukraine, following the adoption of a *Wider Europe – Neighbourhood*⁴ known as the European Neighbourhood Policy (ENP) aim to gradually extend the mechanisms and regulatory standards of the EU's single market by introducing compatible and harmonised rules to Ukraine's national legislation – *acquis communautaire*. In the long-term, it is expected that **the four freedoms – movement of goods, services, capital and people – will extend to Ukraine.**⁵

In the short-term, it is about trade liberalisation after the creation of a deep and comprehensive free trade area (FTA), the national treatment for investment, the gradual liberalisation of legal labour migration (primarily for residents of adjacent regions, businessmen, members of EU cooperation programmes and projects), integration into transport, energy and telecommunications networks and into the European research area. The latter implies the creation of a compatible and interconnected infrastructure and a harmonised regulatory and legal environment in certain areas. Activities that aim to promote the transnational and cross-border cooperation at local and regional levels also play a significant role.

The decision of the late 2006 enabling the participation of the EU neighbouring states in the work of individual institutions and the EU programmes is important as well.⁶ In this context, one should especially mention the extension of the European Investment Bank's external mandate to Ukraine (as well as to the other neighbouring states) and the opening (full or partial) of 22 (out of 29) EU institutions and 23 (out of 31) current EU programmes in October 2007.

² Sources: World Economic Forum. The Global Competitiveness Report 2011-2012..., pp.306-307, 356-357.

³ Thus, among 12 negative factors in this sphere the role of the key factor was assigned to high level of corruption in Ukraine (35% of citizens and 70.9% of experts), high level of criminalisation of economic relations (31.9% and 35% respectively), while the insufficient level of development of modern technologies was noted by only 5.9% of citizens and 4.9% of experts, and low general level of economic development – by 17.9% and 17.5% respectively. The results of the national survey and expert survey are used hereinafter (both of March-April 2012). See: “The state and prospects of EU-Ukraine-Russia relations: Experts' assessments” and “Relations of Ukraine with the EU and Russia: Citizens' assessments” in this issue of journal.

⁴ Commission of the European Communities. Wider Europe – Neighbourhood: A new framework for relations with our eastern and southern neighbours: Communication from the Commission to the Council and the European Parliament. – Brussels, 11.3.2003, COM(2003) 104 final.

⁵ According to the latest interpretation, obviously, also the fifth freedom – freedom for movement of knowledge.

⁶ Commission of the European Communities. On the general approach to enable ENP partner countries to participate in Community agencies and Community programmes: Communication from the Commission to the Council and the European Parliament...



Officially launched in May 2009,⁷ the new EU's policy – Eastern Partnership (EaP) – have factually legalised the notion of “economic integration in the EU” for the Eastern Partner countries, including Ukraine.⁸ Such integration has become one of the four thematic platforms of interaction built on the basis of special 2-year work programmes. It should be noted that the Eastern Partnership Policy has been prioritising the Comprehensive Institution Building Programme for improving social institutions in partner countries.

EU-Russia

The EU's economic relations with Russia proceed from the fact of Russia's refusal to use the ENP format which, in its opinion, means a predominant modification of the Russian legal and institutional systems in line with those of the EU, rather than their mutual adaptation. Therefore, the goals of such adaptation are met by another institutional formation – officially adopted on May 10, 2005 – of four “common spaces”, including the Common Economic Space.⁹

The analysis of the adopted so-called “roadmaps” for the mentioned spaces shows that their content in many aspects coincides with the priorities set out in action plans for ENP implementation, including the EU-Ukraine Action Plan (February 2005). **The path towards a common economic space implies a future creation of an open integrated market between the EU and Russia,** reducing barriers to trade and investments, increasing sectoral cooperation in the spheres of telecommunication, transport, energy, regulatory standards and infrastructure development. The fourth “roadmap” also sets the goal of boosting contacts in the spheres of research and innovation.

By and large, the EU uses similar principles of interaction with the Russian Federation as with the ENP member states.¹⁰

However, it should be noted that the **real move towards formation of the Common Economic Space turned out in practice to be rather problematic.** At the end of 2008, the European Commission pointed out the following problems in economic relations: the Russian export restrictions; improper implementation of international sanitary and phytosanitary measures; burdensome procedures of the Russian airspace use; failure to establish energy partnership based on the Energy Charter; diverging approaches to energy security issues; problems of meeting the growing EU energy demand in future due to insufficient capital investments in Russia, etc.¹¹

The EU-Russia Common Spaces Progress Report (March 2010)¹² also addressed the protection measures

that Russia had been implementing during the global crisis (increased import tariffs, discriminatory transport tariffs, export duties for raw materials, new barriers to imports of pharmaceutical products etc.), disputes with natural gas transit countries posing threat to stability of energy supplies to Europe as well as withdrawal from the Energy Charter Treaty in the middle of 2009.

In addition, the EU problematically perceives the creation of the Customs Union of Belarus, Kazakhstan and Russia, which, in their opinion, could potentially prevent the start of negotiations on the FTA between the EU and Russia.

In the meantime, one should note that Russia's entry to the WTO may solve many of the mentioned issues.¹³

Ukraine-Russia

Economic relations between Ukraine and Russia institutionally present a complicated and controversial knot of mutual dependence and a conflict of interests, regularly leading to a serious aggravation of relations. **The main strategic conflict stems from Russia's efforts to make Ukraine change at any price its main integration trajectory from the European to the Eurasian one,** and to subordinate the domestic business activity in Ukraine to the Eurasian norms (or, rather to the Russian norms extended to the whole Eurasian space) with the purpose of transforming the Ukrainian economy into a privileged sphere of Russia's economic interests. In doing that, **Russia flatly opposes Ukraine's official position aimed at, firstly, prioritising relations with the EU, and secondly, – building relations in the Eurasian space in the 3+1 format.**

In this context, Russia demands from Ukraine:

- an accession to the Customs Union of Belarus, Kazakhstan and Russia and adoption of a package of documents related to an actual accession to the Common Economic Zone (CEZ) of the mentioned countries;¹⁴
- a refusal to conclude the Agreement on Deep and Comprehensive FTA with the EU and its replacement with negotiations in a multilateral format between the Customs Union and the EU.

Hence, **two different integration models – the European and the Eurasian – compete with each other. This competition seriously complicates relations in the “triangle” format and disrupts its focusing on strategic goals of common or, at least, mutually agreed innovative development.**¹⁵

⁷ Council of the European Union. – Joint Declaration of the Prague Eastern Partnership Summit, Prague, 7 May 2009, Brussels, 7 May 2009, 8435/09 (Presse 78); unofficial translation. – <http://eeas.europa.eu/eastern>.

⁸ The main content of the policy is outlined in the document: Commission of the European Communities. The Eastern Partnership: Message of the European Commission for the European Parliament and the European Council. – Brussels, December 03, 2008, COM(2008) 823 final.

⁹ Road Map for the Common Economic Space – Building Blocks for Sustained Economic Growth; Road Map for the Common Space of Freedom, Security and Justice; Road Map for the Common Space of External Security; Road Map for the Common Space of Research and Education, Including Cultural Aspects. – <http://ec.europa.eu>.

¹⁰ Russian Federation: Country Strategy Paper 2007-2013, p.6, <http://www.eeas.europa.eu/russia/docs>.

¹¹ Commission of the European Communities. – Review of EU-Russia relations: Communication from the Commission to the Council, Brussels, 5.11.2008, COM(2008) 740 final, <http://www.eeas.europa.eu/russia/docs>.

¹² European Commission. EU-Russia Common Spaces: Progress Report 2009, March 2010. – <http://ec.europa.eu>.

¹³ The conditions of Russia's accession to the WTO were ultimately approved in December, 2011.

¹⁴ *De jure*, Ukraine is a CEZ member, as Ukraine's leadership signed the Treaty Establishing CEZ in Yalta on September 19, 2003, and the Verkhovna Rada ratified it on April 20, 2004, despite reservations of “participation in the formation and functioning of the Common Economic Zone within the limits set by the Constitution of Ukraine”. – Official Bulletin of Ukraine, 2004, No.16, p.108.

¹⁵ 82.5% of experts believe that the highest interest of Russia in cooperation with Ukraine lays in withdrawal of Ukraine from the influence of the West; 68% are sure that the geopolitical competition between the EU and Russia mostly prevents the effective development of economic relations between them.

2.3. MUTUAL ECONOMIC EXCHANGE IN THE EU-UKRAINE-RUSSIA “TRIANGLE”

Economic exchange primarily takes the forms of trade relations, exchange of capitals (investments) and implementation of joint cooperation projects. Its efficiency to a great extent depends on the development level and structure of national economies of countries involved.

Trade relations

Mutual trade within the “triangle” shows a **positive long-term dynamics**, which, however, is sensitive to global crisis and world market fluctuations. This resulted in:

- a significant increase in Russia’s and, to a lesser extent, Ukraine’s shares of the EU-27 imports and exports; Russia has already become an important priority for the EU – both as a market for European goods (in 2010 – the 4th position among the importers from the EU) and a supplier of resources crucial for the EU (third among countries exporting to the EU) (Diagram “Ukraine and Russia in total exports outside and imports inside the EU”);¹⁶
- a significant increase in the share of Russia’s exports to the EU-27: while in 2000 it accounted for 47.1% of the total volume of Russian export, in 2010 the figure was 52.9%. At the same time, the share of Russia’s import from the EU-27 has somewhat decreased from 49.1% to 41.4%. The EU, however, continues to remain the main source of imports to the Russian Federation;¹⁷
- a sustained position of Ukraine (despite some losses) on the Russian market that, as compared to the early 1990s, is still looking solid: in 2010, Ukraine’s share of Russia’s exports was 5.8% (forth,

after the Netherlands, Italy and Germany) and of Russia’s imports – 6.1% (third major importer after China (17%) and Germany);¹⁸

- **consolidating the priority of the EU and Russian markets for Ukraine**, although their relative importance is constantly changing influenced by the energy price dynamics and domestic demand in Ukraine (Diagram “EU-27 and Russia in Ukraine’s exports and imports of goods and services”, p.26).¹⁹

In general, the trade sector shows a growing dependence of both Ukraine and Russia on the EU, at the expense of the relative decrease of interdependence between the two economies. However, such a decline is asymmetric and is not observed in the energy sector.

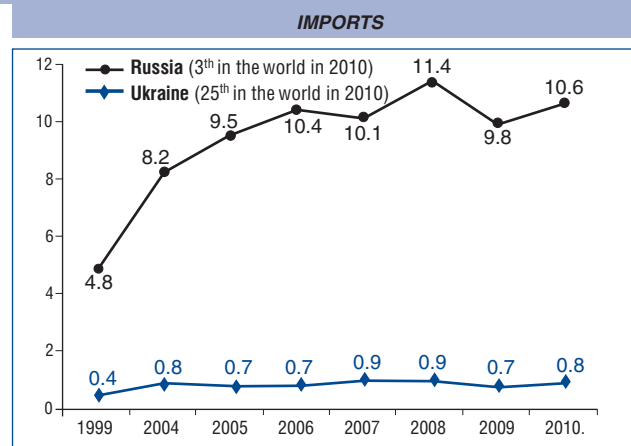
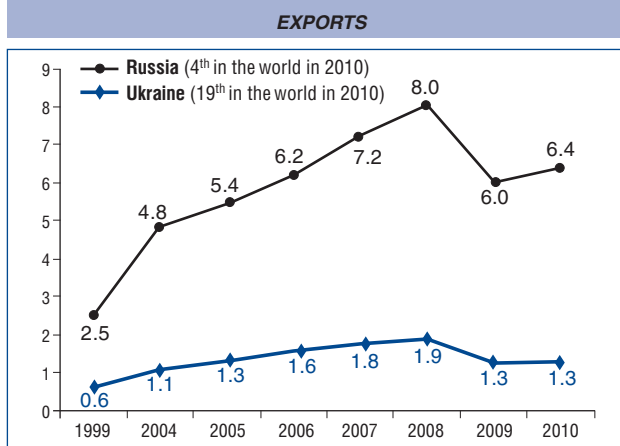
It should be noted that there exist a number of **serious disparities and structural distortions** in priority trade relations within the “triangle”.

First, trade flows are very far from being balanced in terms of value: the Russian trade with the EU in goods shows a strong surplus for Russia that in 2006-2010 ranged within €2.1-73.1 billion, while in trade in services the EU had a surplus (of €4.0-9.0 billion).²⁰

Ukraine’s trade in goods with the EU demonstrates strong disparity in favour of the EU: while in 2004 it equalled €2.1 billion, in 2008, it reached €10.5 billion, and only “thanks” to the crisis it fell to €6.0 billion in 2009 and €5.9 billion in 2010.²¹

Second, the geographic structure of Russian trade with the EU is rather asymmetric, with few countries dominating. Specifically, in 2010, the Netherlands accounted for 13.6% of the Russian exports, Italy – 6.9%, Germany – 6.3%, Poland – 3.8%, Finland and France – 3.1% each, United Kingdom – 2.9% (those seven EU countries together – 39.7% of total Russian exports),

Ukraine and Russia in total exports outside and imports inside the EU, total %



¹⁶ Composed on the basis of data: Eurostat. *External and intra-European Union trade: Monthly statistics*. – Issue No.8/2009, pp.25, 46-50; Eurostat. *External and intra-European Union trade*. – A statistical yearbook: Data 1958-2008, Luxembourg: Publications Office of the European Union, 2009, p.32; Eurostat. *External and intra-European Union trade*. – A statistical yearbook: Data 1958-2010, Luxembourg: Publications Office of the European Union, 2009, pp.31-32; Eurostat database: Extra-EU trade by partner; EU international trade in services: Exports, imports and balance by partner zone. – <http://epp.eurostat.ec.europa.eu>.

¹⁷ Calculated on the basis of data; Russia and the European Union member states. – 2011: A statistical book. – Moscow, Rosstat, 2011, Table 14.7.

¹⁸ The Russian statistical yearbook – 2011. – Moscow, Rosstat, 2011, Table 25.7, p.711.

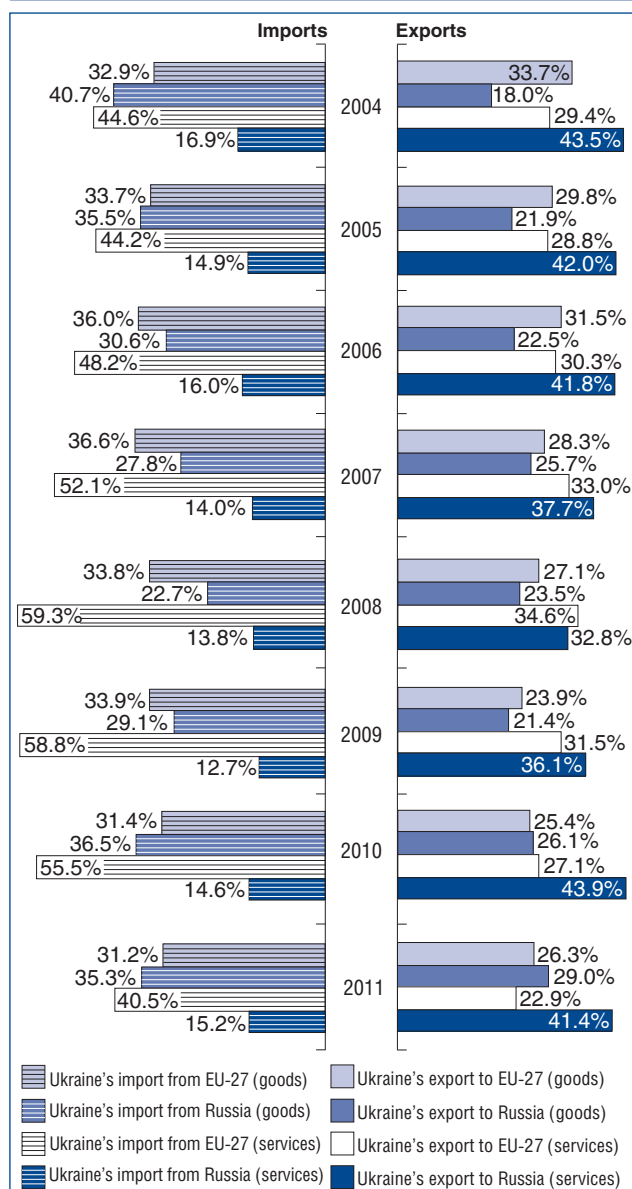
¹⁹ Sources: Geographic structure of the Ukrainian foreign trade in goods for the relevant years; Geographic structure of the Ukrainian foreign trade in services for the relevant years; Foreign trade of Ukraine in goods with the EU states for the relevant years. – State Statistics Committee of Ukraine, <http://www.ukrstat.gov.ua>.

²⁰ See: Eurostat database: Extra-EU trade by partner; EU international trade in services: Exports, imports and balance by partner zone. – <http://epp.eurostat.ec.europa.eu>.

²¹ See: Eurostat database: Extra-EU trade by partner. – <http://epp.eurostat.ec.europa.eu>.



EU-27 and Russia in Ukraine's exports and imports of goods and services



first of all, due to large-scale deliveries of Russian energy resources. In imports, Germany accounted for 11.7%, Italy and France – 4.4% each, Poland – 2.5%, United Kingdom and Finland – 2% each, the Netherlands – 1.9% (totally – 28.9 %).²²

Third, the current export and import structure of both Ukraine and Russia in trade with the EU,

reflecting the structural dynamics of their economies and evolution of the structure of demand for their products, **may hardly be termed adequate to objectives of the development strategies of both countries** (Tables “Structure of the EU trade with Ukraine and Russia”²³; “Categories of goods where the Russian presence on the EU single market is especially strong”, p.25).²⁴

Russia's trade with the EU and Ukraine. First of all, attention should be paid to the **exclusively raw-material export specialisation of Russia on the EU market (characteristic of underdeveloped countries)**. Say, in 2010, exports of new technologies to all EU countries made only \$412 million by the value of contracts and \$142.9 million – by the obtained export proceeds.²⁵

The goods delivered from the Russian Federation to Ukraine mainly represented by mineral products – first of all, energy resources (68.7%); among other goods, more or less significant shares belong to ferrous metals and products thereof (7.2%), machinery and equipment, electrical equipment (6.7%), chemical products (5.4%).²⁶ **Exports of technologies to Ukraine were miserly – \$28.4 million and \$15 million,²⁷ proving the very limited technology exchange between the two countries.**

Ukraine's trade with the EU and Russia. Ukraine is present on the EU-27 market with such goods as: iron and steel – 12.3% (second exporter in the world, after the Russian Federation), oil seeds and oleaginous fruits – 8.6%, oils, fats and waxes – 8.3%, cork and wood – 5.7%, metalliferous ores and metal scrap – 4.5%, coal, coke and briquettes – 3%, feeding stuff for animals – 2.1%.²⁸ **However, those items can hardly influence the national economic development strategy.**

The structure of Ukraine's exports to the Russian Federation is also far from being optimal, although, unlike exports to the EU, it comprises goods with higher added value: in 2011, Ukraine's exports to Russia were topped by ferrous metals and products thereof (20.6%), transport equipment (19.4%), machinery and equipment, electrical equipment (16.3%), mineral products (16.2%), chemical products (6.1%), prepared foodstuffs (5.4%).²⁹

Therefore, the increasing interdependence of economies among the separate parties of the “triangle” has no reliable structural basis, does not prioritise the development of advanced technologies, and, hence – does not reflect the strategic development prospects of either side in the “triangle”.

Mutual Investments

Mutual investments in the EU-Ukraine-Russia format show rather a strong long-term upward trend (Diagram “Direct investments from the EU-27 to countries of the world, Ukraine and Russia”, p.25).³⁰

²² Calculated after: Russia and member countries of the European Union – 2011..., Table 14.7.

²³ Sources: Eurostat. External and intra-EU trade. – A statistical yearbook: Data 1958-2010, op. cit., 44-45; Eurostat. External and intra-EU trade. – A statistical yearbook: Data 1958-2010, op. cit., pp.43-44.

²⁴ Compiled on the basis of: Eurostat. External and intra-European Union trade. – A statistical yearbook: Data 1958-2010, Luxembourg: Publications Office of the European Union, 2011, 58-75.

²⁵ Russian Statistical Yearbook 2011..., Table 21.37, pp.562-563.

²⁶ Commodity structure of Ukraine's foreign trade in January-December, 2011. – State Statistical Committee of Ukraine, <http://www.ukrstat.gov.ua>.

²⁷ Russian Statistical Yearbook 2011..., Table 21.37, pp.562-563.

²⁸ Eurostat. External and intra-European Union trade. – A statistical yearbook: Data 1958-2010, Luxembourg: Publications Office of the European Union, 2011, pp. 58-75.

²⁹ State Statistical Committee of Ukraine. Commodity structure of Ukraine's foreign trade in January-December, 2011...

³⁰ Source: Eurostat database: EU direct investment inward flows by extra EU investing country; EU direct investment outward flows by extra EU country of destination; EU direct investment inward stocks by extra EU investing country; EU direct investment outward stocks detailed by extra EU destination country. – <http://www.epp.eurostat.ec.europa.eu>.

Structure of the EU trade with Ukraine and Russia,
%

Commodity groups and SITC Codes*	EU EXPORTS				EU IMPORTS			
	to Ukraine		to Russia		from Ukraine		from Russia	
	2004	2010	2004	2010	2004	2010	2004	2010
Food, beverages and tobacco (0+1): <i>0 – food and live animals;</i> <i>1 – beverages and tobacco</i>	5.7	8.0	8.8	9.5	4.3	4.1	0.7	0.4
Crude materials (2+4): <i>2 – crude materials, inedible, except fuels;</i> <i>4 – animal and vegetable oils, fats and waxes</i>	1.9	2.4	1.8	1.6	18.6	25.9	5.1	2.5
Energy resources (3): <i>3 – mineral fuels, lubricants and related materials</i>	1.1	5.6	0.5	0.8	18.0	12.7	60.0	74.9
Chemicals (5): <i>5 – chemicals and related products, n.e.s.</i>	15.3	19.9	13.9	18.1	7.4	4.1	3.8	2.9
Machinery and transport equipment (7): <i>7 – machinery and transport equipment</i>	42.3	34.0	46.7	44.7	7.1	11.2	1.5	0.8
Other manufactured goods (6+8): <i>6 – manufactured goods classified chiefly by material;</i> <i>8 – miscellaneous manufactured articles</i>	32.1	28.4	26.6	23.6	42.4	37.9	13.2	8.6

* SITC – Standard International Statistics Division.

Note. Shown in italics are full official descriptions of sections in accordance with the 4th version of SITC 2008.

Categories of goods where the Russian presence on the EU single market is especially strong (2010)

EU EXPORTS TO RUSSIA			EU IMPORTS FROM RUSSIA		
Code SITC Rev.4*	Description	Share, %	Code SITC Rev.4*	Description	Share, %
<i>Russia is the main market</i>			<i>Russia is the main supplier</i>		
05	Vegetables and fruit	22.1	24	Cork and wood	20.8
09	Miscellaneous edible products and preparations	9.6	333	Petroleum oils and oils obtained from bituminous minerals, crude	33.6
29	Crude animal and vegetable materials, n.e.s.	13.8	334+335	Petroleum oils and oils obtained from bituminous minerals (other than crude); residual petroleum products, n.e.s., and related materials	40.4
64	Paper, paperboard and articles of paper pulp, of paper or of paperboard	10.7	34	Gas, natural and manufactured	20.3
			52	Inorganic chemicals	21.3
			67	Iron and steel	16.8
			68	Non-ferrous metals	16.3
<i>The Russian share is above average (6.4 %)</i>			<i>The Russian share is above average (10.6 %)</i>		
54	Medicinal and pharmaceutical products	6.9	32	Coal, coke and briquettes	22.8
57	Plastics in primary forms	7.4			
59	Chemical materials and products, n.e.s.	7.1			
69	Manufactures of metals, n.e.s.	7.5			
72	Machinery specialised for particular industries	6.8			
74	General industrial machinery and equipment	7.6			
75	Office machines and automatic data-processing machines	11.5			
752	including automatic data-processing machines and units thereof	9.6			
76	Telecommunications and sound-recording and reproducing apparatus and equipment	9.9			
78	Road vehicles	7.3			
84	Articles of apparel and clothing accessories	14.9			

* SITC – Standard International Statistics Division, 4th Edition.

A substantial outpacing growth of investment flows between the EU and Russia and, to a much lesser extent, the EU and Ukraine produced a **significant increase in**

Russia's and a moderate increase in Ukraine's share in the structure of foreign direct investment outflows (beyond the EU-27) of the EU countries. This shows a **gradual formation of a common investment space in the "triangle" on the basis of investment ties with the EU-27** (Diagram "Ukraine and Russia in total FDI flows...", p.26).³¹

In this connection it should be noted that Russia, **unlike Ukraine, in its investment relations with the EU acts not only as a big importer but also as an exporter of capital**. At the end of 2010, the total stock of foreign direct investments (FDI) from the EU in Russia reached €120 billion, and capital stock of Russia in the EU – €42 billion, i.e., capital outflow made 35% of the inflow, while for Ukraine, that figure was close to 16%.³² According to the official Ukrainian statistic data, FDI from Ukraine in the EU countries are miserly, at the end of 2011 – only \$6 517.5 million, out of which, \$6 342.1 million (97.3%) fell on only one country (Cyprus).³³

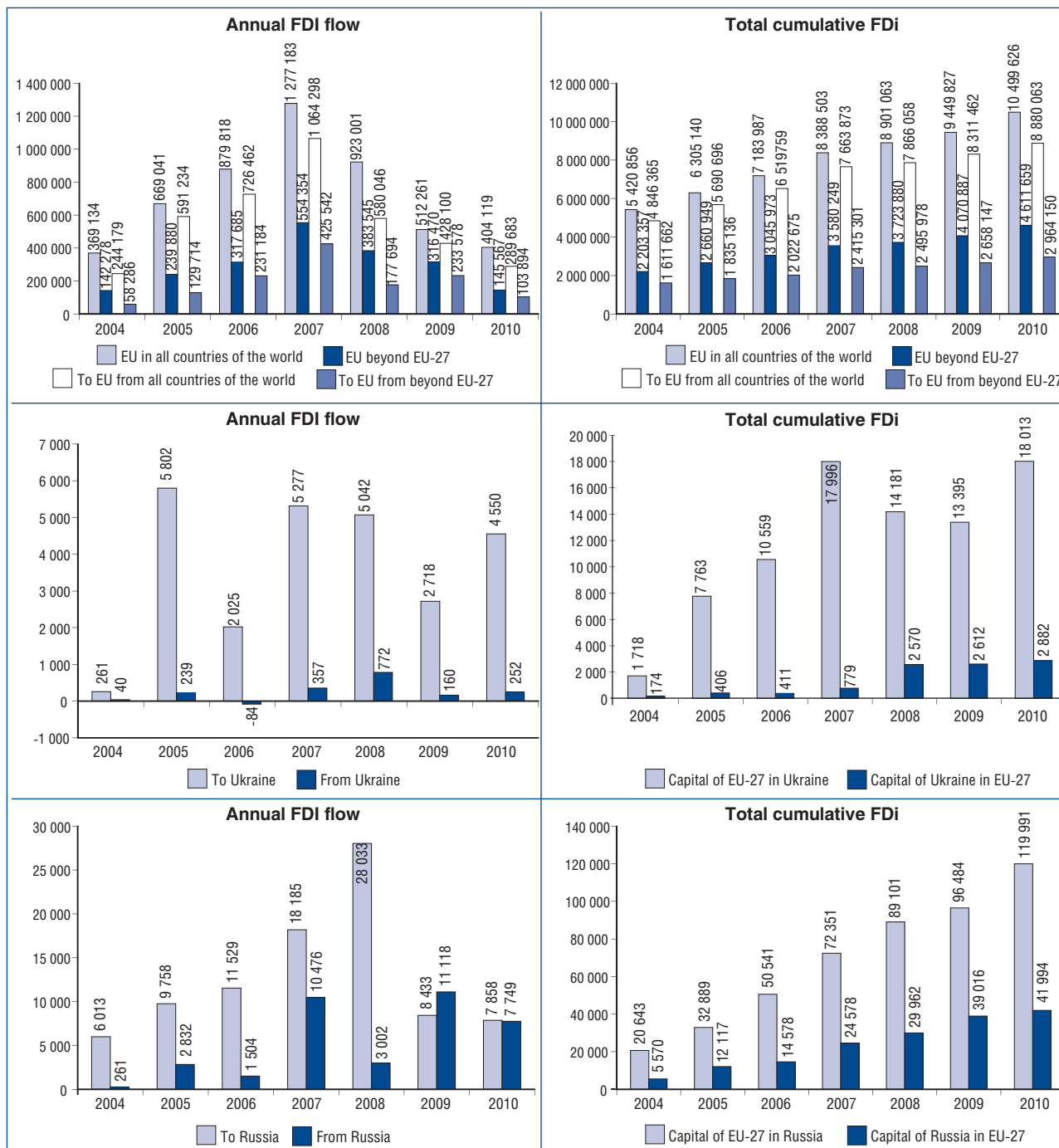
³¹ See: *Ibid.*

³² Calculated by Razumkov Centre experts on the basis of Eurostat data: EU direct investment inward stocks by extra EU investing country; EU direct investment outward stocks detailed by extra EU destination country. – <http://epp.eurostat.ec.europa.eu>.

³³ Direct investments (equity capital) from Ukraine in the economy of EU countries. – State Statistic Committee of Ukraine, <http://www.ukrstat.gov.ua> (in Ukrainian). It should be noted however that such asymmetry partly ensues from the secrecy procedures applied by the State Statistic Committee of Ukraine to foreign operations of Ukrainian oligarchs pursuant to the Law "On State Statistics", classifying the volumes of Ukrainian investments in Bulgaria, United Kingdom, Greece, Estonia, Spain, Lithuania, Luxembourg, the Netherlands, Romania, and the Czech Republic. Assuming that the same procedures apply to records of Ukrainian capital investments in third countries of the world, it may be concluded that the Ukrainian statistic data distort the true picture of the Ukrainian capital flows.



Direct investments from the EU-27 to countries of the world, Ukraine and Russia, €million



If total capital flows³⁴ (not only FDI) are taken into account, their volume will be much higher: the total amount of the Russian capital brought to the EU-27, in course of the year increased from \$13 930.1 million in 2004 to \$36 769.0 million in 2010 (i.e., more than 2.6 times), while investments of the EU-27 countries to the Russian economy rose, respectively, from \$25 577.0 million to \$61 477.5 million (2.4 times).³⁵ Similar

processes took place in Ukraine's relations with the EU, **but the Ukrainian statistics has no such data available.**

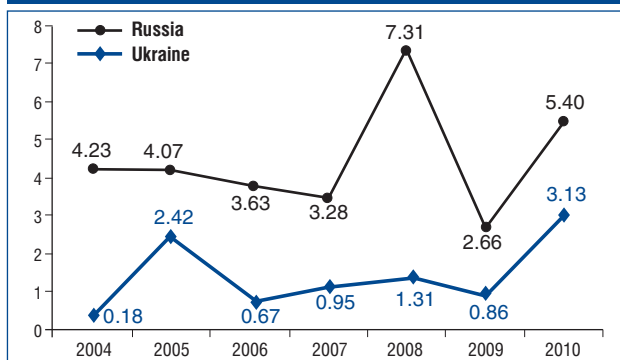
In terms of investment structure, both Russia and Ukraine evidently focus on the EU, while their mutual investment flows are statistically insignificant. This is much more important than the countries' trade share, since investments not only produce current competitive advantages for trade but also shape the future economic

³⁴ Relying on data cited for organisations that provided financial reports, without monetary and credit regulation bodies, commercial and savings banks, and RUR proceeds.

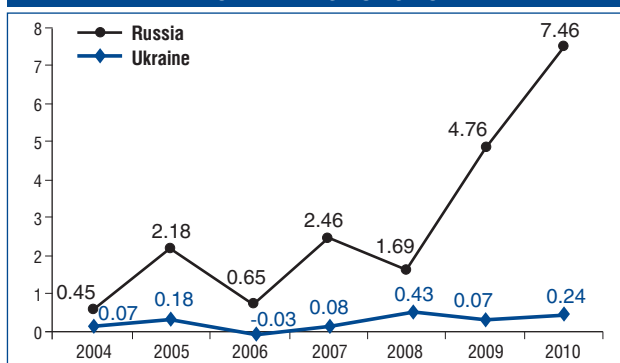
³⁵ Russia and member countries of the European Union ..., Table 14.12-14.13, pp.259-260.

Ukraine and Russia in total FDI flows* from/to EU-27, total %

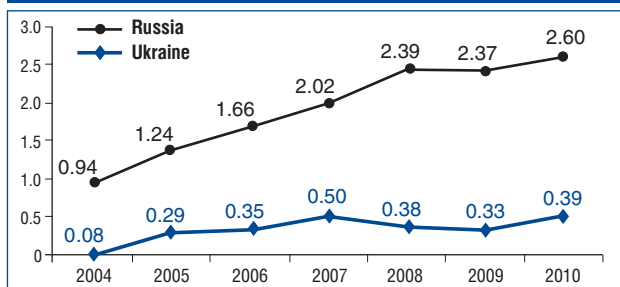
ANNUAL FDI FLOWS FROM EU-27



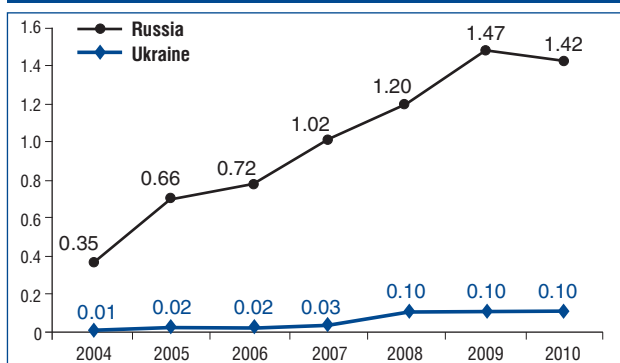
ANNUAL FDI FLOWS TO EU-27



CUMULATIVE FDI FROM EU-27



CUMULATIVE FDI TO EU-27



* Beyond the common EU market.

structure. According to the official data, the EU-27 is not just a priority for Ukraine but a dominating investment partner (Diagram “FDI inflows to Ukraine from Russia and EU countries”).³⁶

One should, however, be cautious about the data provided, since the presence of Russian capital on the Ukrainian market is largely concealed and, in fact, is much higher than reported by the official statistics.³⁷

Despite all the priority of the EU-Russia investment relations, we cannot but mention their “**hypertrophic nature and the lack of reliable structural framework to ensure stability**”. As well as trade flows, they show evident geographic asymmetry related to the concentration of major investment flows on a few priority partners. Thus, out of the total FDI from the EU-27 to Russia in 2010, 21.4% came from Germany, 9.7% – United Kingdom, 6.4% – France, 6.1% – the Netherlands (i.e., 43.6% in the aggregate from these four countries).³⁸

Noteworthy, in the structure of FDI stock from EU27 in Ukraine at the end of 2011, Germany accounted for 18.7%, the Netherlands – 12.3%, Austria – 8.7%, United Kingdom – 6.4%, France – 5.7%, and Cyprus – 32.1%.³⁹ Such an **unusually high, for a small country, level of investments in Ukraine leads to a conclusion that Cyprus plays an important role as a transit country for Russian capital flows to Ukraine**.

Inflows to Russia of all kinds of capital (direct and portfolio investments, other capital, including commercial and other lending) from the EU in 2010 were topped by United Kingdom (\$40 770 million, or 35.5%), the Netherlands (\$10 696 million, 9.3%), Germany (10 435 million, 9.1%), Luxembourg (\$5 374 million, 4.7%), France (\$3,702 million, 3.2%), and Ireland (\$2 557 million, or 2.2%). So, these six EU countries accounted for 64% of all foreign investments in Russia.⁴⁰ The Russian economy heavily relies on attracting foreign investment on the security of its future income from energy exports, which, in conditions of global financial instability, increases the country’s vulnerability to external risks.

On the other hand, in terms of all Russian capital invested abroad by the end of 2009, just five countries (Austria, the Netherlands, Cyprus, United Kingdom and Luxembourg) accounted for \$45 900 million, or 55.9% of the total stock of Russian investments, and with Switzerland and the British Virgin Islands – \$59 287 million, or 72.2%.⁴¹ This proves concentration of idle Russian capitals obtained from energy exports on investments in liquid financial assets in major financial centres. **Such investments introduce a strong element of instability rather than produce long-term structural economic dependence**, since they tend to flee with the earliest signs of financial instability or upon failure to receive expected return rate.

It is extremely important to note that **Ukraine occupies a rather modest position in terms of Russia’s investment abroad**: at the end of 2009, their stock equalled \$1 089 million (1.3% of all of Russian investments abroad), and in 2010, reached \$1 393 million

³⁶ Sources: Foreign direct investments in Ukraine; Foreign direct investments in Ukraine from the EU countries. Archives for different years. – State Statistic Committee of Ukraine, <http://www.ukrstat.gov.ua> (in Ukrainian).

³⁷ In part, it is a result of inflow of the Russian capital to Ukraine via offshore jurisdictions (including within the EU region), in part – a result of business management via formally Ukrainian holding companies that are closely affiliated with the Russian business, and in part – a result of the present state of the Ukrainian statistics.

³⁸ See: Eurostat database: Direct investment outward flows by main country of destination: Russia; Direct investment outward stocks by main destination: Russia. – <http://epp.eurostat.ec.europa.eu>.

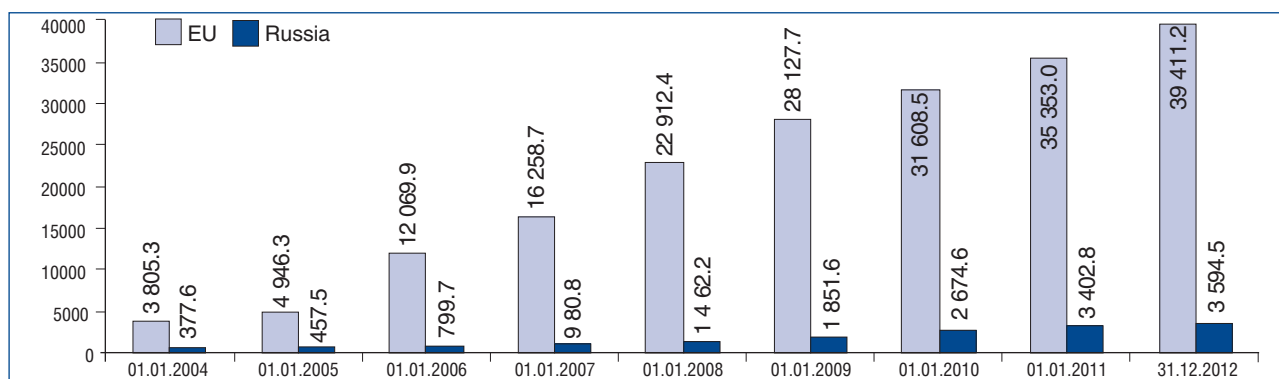
³⁹ State Statistic Committee of Ukraine. Foreign direct investments in Ukraine with countries the EU. Archives for different years...

⁴⁰ With the British Virgin Islands, that figure reached 66.1%, or 2/3.

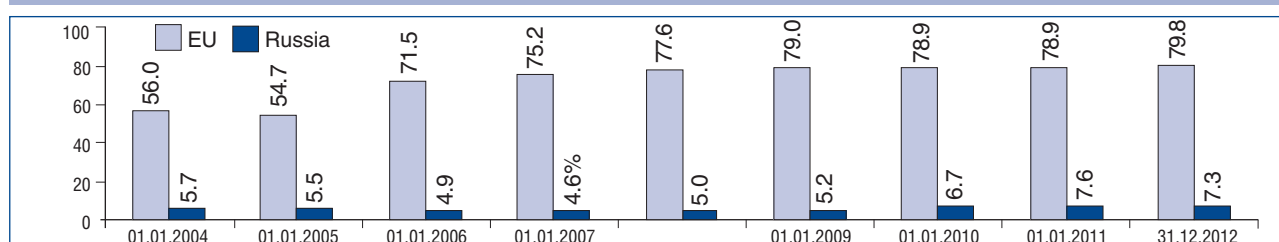
⁴¹ Russian Statistic Yearbook 2011..., Table 23.22-23.24, pp.680-681.



FDI inflows to Ukraine from Russia and EU countries
\$ million



EU-27 and Russia in cumulative FDI,
%



(1.4%). Ukrainian investments in Russia are of minor influence: Ukrainian capital stock in Russia at the end of 2009 made only \$199 million, and the \$578 million inflow in 2010 made only 0.5% of the total foreign capital inflow to Russia that year.

Therefore, in the investment sector, the “triangle” is asymmetric, inclined towards the EU-Russia axis, primarily due to the EU’s active employment of financial tools to gain ground on the promising Russian market and considerations of keeping Russian superprofits from energy exports abroad.

Concealed investment flows from the Russian Federation to Ukraine make an especially problem-hit area in the “triangle” investment space. In view of accumulation of significant investment potential in Russia resting on proceeds from energy resources (and used via state-controlled Russian banking and insurance institutions), this is fraught with erosion of Ukraine’s economic sovereignty in the areas of investment policy and shaping the structure of the economy.

Cooperation Projects

Major cooperation projects could theoretically become the basis for building economic relations in the “triangle” format. Nevertheless, the state of affairs in this respect is rather controversial.

For instance, the EU relations with Ukraine after the adoption of the Eastern Partnership policy tend to prioritise a project-based approach on the development of mutual economic ties through implementation of the so-called flagship initiatives: the Eastern Europe Energy Efficiency and Environment Partnership,⁴² a support project for small and medium business, etc. However, interaction with the EU still has a very weak innovative trend. For instance, four new projects with a budget of some €12 million presented by the EU on December 10, 2009, as part of the EU-Ukraine cooperation,⁴³ are of a solely institutional nature. There is still no talk of large-scale official involvement of Ukrainian researchers in European megaprojects aimed at concrete scientific and technological results of a breakthrough nature.

The agenda of the EU relations with Russia has recently seen a long list of joint sectoral cooperation measures – the so-called sectoral dialogue in 20 domains.⁴⁴ In the context of joint struggle with effects of the global financial and economic crisis, dialogue is underway on problems of the banking sector and securities markets, sustainable growth. Parameters of an enhanced early warning mechanism in energy supply were agreed. On the basis of a Memorandum signed in October, 2009, measures were taken to build partnership within the framework of the so-called Nordic Dimension in transport and logistics. Seven joint transborder cooperation programmes valid till 2013⁴⁵ are also underway with the purpose of promoting

⁴² Founded on November 26, 2009, in Stockholm at a conference of financial donors for development of energy efficiency projects.

⁴³ “Enhancement of Innovation Strategies, Policies and Regulation in Ukraine”, “Development of Financial Schemes & Infrastructure to Support Innovation in Ukraine”, “Support to Knowledge-based & Innovative Enterprises and Technology Transfer to Business in Ukraine”, “Joint Support Office (JSO) for Enhancing Ukraine’s Integration into the European Research Area (ERA)”. – See: EU-Ukraine Co-operation on Innovation: Launch of Four EU-funded Projects on Innovation. – EU Delegation to Ukraine, December 2, 2009, <http://ec.europa.eu>.

⁴⁴ Specifically: transport, industrial development and enterprise policy, regulatory policy on industrial products, space cooperation, information society, agriculture, fisheries, macroeconomic policy, financial services, energy, state procurements, environment, facilitation of trade, intellectual property rights, investments, interregional cooperation, statistics, macroeconomics and financial issues, health.

⁴⁵ Kolarctic/Russia (Finland, Norway, Sweden, Russia), Karelia/Russia (Finland, Russia), North-Eastern Finland/Russia (Finland, Russia), Estonia-Latvia-Russia, Lithuania-Poland-Russia (Kaliningrad programme), Baltic Sea Region (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Sweden, Norway, Belarus, Russia), Black Sea Programme (Romania, Bulgaria, Greece, Turkey, Russia, Ukraine, Moldova, Georgia, Armenia, Azerbaijan).

socio-economic and humanitarian development of regions on both sides of the border, environmental protection – with the total funding of €429 million.⁴⁶

At the same time it should be noted that the potential of sectoral cooperation between the EU and Russia is used insufficiently – not only because of the above-mentioned institutional problems of doing business in Russia but also due to toughening limitations and norms of state regulation of foreign capital access to specific strategic sectors of the Russian economy, growing reliance of Russia on the national capital for its economic development – as a result of specific geopolitical positioning of present-day Russia.

Russia's relations with Ukraine also increasingly present the policy of expansion and deepening influence and interdependence on the sectoral level. This primarily refers to the energy sector, where Russia put forward a number of initiatives actually pursuing merger of the two countries' energy assets or takeover of Ukrainian assets by big Russian companies (e.g., Gazprom OJSC and Rosatom state corporation).⁴⁷ It also pushes for: integration of *aircraft building industries* of the two countries;⁴⁸ cooperation in *infrastructure* development;⁴⁹ Ukraine's participation in the Russian *global satellite communication* system.⁵⁰

However, the development of such sectoral ties encounters serious difficulties caused by Russia's attempts to secure Russian domination at implementation of the mentioned joint projects and to leave Ukrainian participants mainly with a secondary, peripheral role. That is why the declared intentions mainly remain on paper or are confined to adoption of general declarative documents. More signs appear that **without Ukraine's accession to Eurasian regional associations (first of all – the Customs Union) Russia will not be ready to bargain for conclusion of sectoral agreements acceptable for Ukraine.**

2.4. STRATEGIC VISION OF INTERACTION WITHIN THE "TRIANGLE"

The prospects of development of economic relations in the Ukraine-EU-Russia "triangle" will strongly depend on a set of key conditions.

First, will the already drafted Association Agreement between Ukraine and the EU, containing, i.a., an agreement on a deep and comprehensive free trade area,⁵¹ be signed and ratified? At that, one should cherish no illusions that effectiveness of the new Agreement will draw Ukraine much closer to the status of

a candidate for the EU membership. According to some analysts, the EU policy towards Ukraine is dominated by a conservative approach, or the scenario of the "last frontier", in which, ENP well fits into the institutional framework of association, surely being a higher form of interaction than PCA, but much lower than association in the European economic area, and "is a practical alternative to membership".⁵²

Even if Ukraine's relations with the EU develop under the most favourable scenario, Ukraine will face the risk of finding itself in the outer concentric circle of European integration – loosely tied with the EU integration "nucleus", with minimal capabilities to influence European policy-making.

Ukraine's integration in the EU is complicated by numerous obstacles, not only of a "Ukrainian origin" (from the Government's true readiness to abide by fundamental EU principles to practical creation of a civilised market economy in Ukraine). Obstacles also exist on the European side. **In the conditions of the current internal crisis, the EU will hardly have the will (and capabilities) for further enlargement.**

Second, how will the EU relations with Russia evolve? The prospects of those relations now are related with negotiation of a **new agreement on strategic partnership**,⁵³ set to replace the 1997 Partnership and Cooperation Agreement. In case of its successful conclusion, new institutional capabilities may arise for development of economic cooperation. Some progress in that domain is evident. For instance, during the Russia-EU summit in November, 2009, mutual understanding was reached concerning the initiation of so-called **"Partnership for Modernisation"**, and talks on a possible status of association of the Russian Federation in the EU programme in the field of research and technological development were started.

Progress in the EU-Russian relations can **facilitate improvement of the Ukraine-Russian relations, too, – provided that Russia adopts and implements European values, norms and rules in its home and foreign policy.**

Third, will Russia and its President Vladimir Putin be able to convince the Ukrainian leadership to reverse the country's core integration vector through its accession to the Customs Union and CEZ, with prospects of membership in the Eurasian Union?

One cannot disregard some economic advantages for Ukraine associated with such an opportunity. Deeper integration of Ukraine with Russia and its partners

⁴⁶ Council of the European Union. Joint statement of the EU-Russia summit on cross border cooperation. – Khanty-Mansiysk, 27 June 2008, 11213/08 (Presse 191), <http://www.eeas.europa.eu>.

⁴⁷ For more detail see Section 3 of this Report.

⁴⁸ Establishment on a parity basis of a JV in Russia for full-scale cooperation in aircraft building involving the Russian United Aircraft Corporation and the Ukrainian State Aircraft Building Concern "Antonov". At that, Russia pursues "unification" (actually the merger) of the two countries' aircraft building industries for production of a series of aircraft (An-140, An-148, An-70, Tu-334).

⁴⁹ Projects of a bridge crossing across the Kerch Strait, Moscow-Kharkiv-Simferopol highway, a number of infrastructure facilities within the framework of preparation for Euro-2012 in Ukraine and Winter Olympic Games 2014 in Sochi.

⁵⁰ On August 11, 2010, the Intergovernmental Agreement of Cooperation in Use and Development of the Russian GLONASS Global Navigation Satellite System of May 17, 2010, was approved.

⁵¹ Many arrangements in this format were previously set out in the document titled the Association Agenda that entered into effect on November 24, 2009.

⁵² Kopyaka, V. Enlargement of the European Union and Ukraine – Kyiv, 2008, p.267-268 (*in Ukrainian*). The scenario of the "last frontier" opted for by the conservative part the EU political elites "tired" of enlargement is described as one of five approaches of the EU to future European integration. The other four: "long-term convergence" (a possibility of accession to the EU through gradual enlargement and deeper cooperation); a liberal approach with the idea of "partial membership" (limited participation in integration and institutional systems of the EU); "selective convergence" (use of the factor of political will of the EU with respect to a specific country); the concept of "Greater Europe" with the idea of "a common European economic space".

⁵³ Council of the European Union. Joint statement of the EU-Russia summit on the launch of negotiations for a new EU-Russia agreement. – Khanty-Mansiysk, 27 June 2008, 11214/08 (Presse 192), <http://www.eeas.europa.eu>.



in the Customs Union and CEZ could help Ukraine solve critical tasks of economic development, including:

- creation of markets of optimal size for hi-tech branches of economy (first of all, in aircraft building, defence industry), missing which their efficient development will be impossible;
- possibility of joint development of machine building and other processing industries in international cooperation, which will enhance their competitiveness;
- use of Ukraine's transit potential in East-West trade;
- possible diversification of the structure of export of services at the expense of scientific, technological, educational, engineering, construction and other services that now have a limited potential of access to the EU markets;
- a special resource – possible attraction of significant financial resources of the Russian Federation to critical sectors of Ukraine's economy on simpler terms,⁵⁴ compared to the conditions of investment from the EU.

However, at that, one cannot ignore serious risks for Ukraine, the most critical of them being the following.

Effective disruption of the entire system of arrangements about political association and further economic integration with the EU – with a highly probable period of a frost in relations not only in the short but also in the middle run. Quite probable serious impediment to Ukraine's access to the EU development programmes and funds.

The effect of cooperation within the Customs Union/CEZ area will strongly depend on the progress of modernisation of the economies and whole societies of that union. **One may hardly be sure of the success of those processes now.**⁵⁵

Quite probable erosion of pricing preferences at energy resources supply promised by Russia because of the general trend to the growing shift of the Russian extraction base to the areas where extraction and transportation costs are much higher. This will result in growth of domestic prices of oil, petroleum products and natural gas and remove grounds for preferential conditions of delivery to the Customs Union/CEZ member countries.

Accession to the Customs Union/CEZ seriously facilitates advance of the Russian capital to Ukraine's market with associated seizure of commanding heights in the sectors of particular interest for the Russian capital (some of them may be strategically important for Ukraine's future, e.g., aircraft building, pharmaceuticals and other science-intensive industries, energy, shipbuilding, communications, computer and engineering services), and associated subordination of their development to decision-making centres in Russia.

However, the main problem is that the main obstacles for Ukraine's economic development are now associated with the above-mentioned non-economic factors distorting the overall institutional basis for the country's functioning. No economic preferences obtained from Eurasian interaction will remove those obstacles. However, successful evolution towards

European socio-economic standards pursues solution of those development tasks vital for Ukraine.

Therefore, implementation of the Eurasian integration trend in its pure form would be a very controversial and risky option for Ukraine.

CONCLUSIONS

Low standards of the quality of institutions dealing with regulation of economic activity (first of all, unprotected ownership rights, dependence of the judicial branch on the executive one, spread of corruption, onerousness and inefficiency of state regulation of the economy) present the main obstacles on the road of development of efficient economic relations in the Ukraine-EU-Russia "triangle" and especially – in bilateral relations of Ukraine with the EU. In this context, three items are of particular importance.

First: Ukraine, by contrast to Russia, not only declared but also legislatively formalised plans of integration in the EU. Hence, it voluntarily undertook to raise the quality of its institutions to the European level.

Second: such commitments meet the national interests formulated, in particular, in the Constitutional definition: "Ukraine is a sovereign and independent, democratic, social, law-based state".⁵⁶ Hence, creation and establishment of democratic and legal institutions (in the broad sense) are the tasks for the state and society.

Third. Speaking about the choice of Ukraine's primary integration vector (towards the EU, or the Russian Federation and integration unions created on its initiative and under its auspices), one should keep in mind the different attitude of the EU and the Russian Federation to the quality, nature and substance of state and public institutions. This difference is value-based: the EU recognises and tries to establish the values of democracy, rule of law, protection of interests and rights of every citizen; for the Russian Federation, those values are of inferior importance, compared with the desire to secure geopolitical domination in the post-Soviet (and hopefully broader) space.

Therefore, having joined the Customs Union, Ukraine can get tactical gains, including the economic ones. However, this option involves risks of dilution of strategic prospects of innovative economic development. Establishment of the priority of European integration (on the condition of equal and transparent partner relations with the Russian Federation) offers no instant economic benefits to Ukraine. However, in that case it will win strategically: adopting European values, norms and rules, Ukraine will fundamentally raise its investment attractiveness and get a real chance of the national economy restructuring on a modern innovative basis (since the present innovative potential of the EU is much higher than of the Russian Federation).

Ukraine is naturally interested in the Russian modernisation to focus on adoption of European values and development of various integrational relations with the EU – up to a future establishment of common economic and political spaces with the EU. ■

⁵⁴ Due to adaptation of Russian investors to uneasy institutional conditions in Ukraine and the absence of language and cultural barriers (including the business culture).

⁵⁵ A public opinion poll revealed rather low support (a bit more than 1/3) for the suggestion that Ukraine's accession to the Customs Union can lead to deepening reforms in the social sector, introduction of decent standards in different sectors of life. Meanwhile, similar expectations from conclusion of the new agreement with the EU were reported by much more people – 54.2% of those polled.

⁵⁶ Article 1 of the Constitution of Ukraine.

3. EU-UKRAINE-RUSSIA ENERGY “TRIANGLE”: DEPENDENCY, INTERESTS, CONTRADICTIONS

The production and supply of energy from Western Siberia to Europe is performed using a single technological chain which connects Russia (production), Ukraine (transit) and EU (consumption) in an informal “energy triangle”. The most significant interdependence between the sides can be observed in the gas sector, since in the recent years about 100 billion cubic meters of the Russian gas were transported via Ukraine. These volumes make up over 70% of all volumes of gas exported from Russia and about 20% of the EU consumption volumes.

The sides of the “triangle” would have to be objectively interested in coordinating efforts on important issues in the energy policy (development of extraction facilities, transit security and energy supply, liberalisation of energy markets, consumer rights protection etc.). Such steps would facilitate the transition to a qualitatively new level of the European energy policy and a substantial improvement of an overall political climate in Europe.

However, in practice, during 2000-2011 no jointly coordinated efforts had been observed between the parties due to their contradictory interests.¹ As of today, the situation has not changed for the better. Especially for Ukraine, after the signing of the Kharkiv Agreements the corridor of opportunities for its traditional policy of manoeuvring between the energy spaces of the EU and Russia has narrowed considerably.

The declarative statements on behalf of the government officials have replaced the actual reforms of the national energy complex on the basis of the EU legislation to conceal their support of monopolistic formations established by merging business and government structures and using corruption schemes. Such a distorted energy policy results in stagnation of the energy complex and poses a critical threat to Ukraine’s strategic enterprises of being consumed by the Russian energy monopoly.

3.1. THE PARTIES’ POSITIONS IN THE “TRIANGLE”

The sides (EU, Ukraine, Russia) form their interests depending on their energy policy, social priorities, environmental conditions, geographic location and financial possibilities.

Russia’s energy strategy is based on huge reserves of hydrocarbons and other natural resources.

The EU develops its energy policy based on its own energy deficit, and advantages of its world’s largest markets and innovation potential.

Ukraine, while being somewhat more dependent on energy import as compared to the EU-27² has a broad market of energy products, transit opportunities, significant natural gas reserves, coal and uranium and a major energy saving potential which is, however, insufficiently used.

The interests of the EU and Ukraine concerning the regulation of energy markets coincide because of

similar problems caused by dependence on energy imports. Both sides are interested in reducing the energy intensity of GDP and creating a demonopolised “consumer market” with high level of competition between the suppliers. The following documents serve as the main regulatory mechanisms for implementing these interests: the European Energy Charter and the Energy Charter Treaty, Energy Community Treaty, the Third Energy Package³, the EU Plan “20-20-20”⁴.

Instead, Russia is interested in increasing prices for energy products by monopolising markets. Therefore, it seeks to establish a system of long-term gas purchase and sale contracts, prevents the development of spot trading in the gas market, blocks implementation of diversification projects, actively promotes new pipeline routes for export of hydrocarbons by Russian companies and resists the liberalisation of the European energy markets.

Russia’s withdrawal from the Energy Charter Treaty shows its reluctance to act in accordance with the European rules. The then President of

¹ Thus, in particular, an attempt to unite efforts of Germany, Ukraine and Russia in the major energy project – the creation of the consortium to manage the gas transportation system of Ukraine – eventuated in failures, that later resulted in construction of bypass gas pipeline “Nord Stream” and appearance of a politically motivated project “South Stream”.

² The degree of Ukraine’s dependence on energy import is about 60%; of the EU-27 – 54%. See details: Ukraine-Russia Relations in the Energy Sector: Status, Recent Development Trends, and Prospects. Analytical report of the Razumkov Center. – National Security and Defence Journal, 2010, No. 6, pp.61-62.

³ Regulations that determine the third stage of liberalisation process of electricity and gas energy sectors of the EU.

⁴ Till 2020, the EU foresees: a 20% reduction in EU greenhouse gas emissions from 1990 levels; raising the share of EU energy consumption produced from renewable resources to 20%; a 20% improvement in the EU’s energy efficiency.



Russia, Dmitry Medvedev, has put forward an initiative entitled “The Conceptual Approach to the New Legal Framework for International Energy Cooperation (Objectives and Principles)” that was intended to replace the Energy Charter Treaty. The initiative stipulates for a change of priorities outlined in the Treaty and was developed in the interest of vertically integrated companies disregarding the protection of consumer rights.

3.2. THE UKRAINIAN-RUSSIAN ENERGY RELATIONS: GENERAL CHARACTERISTICS

Since the early 2000s Russia has been making attempts to transfer cooperation with Ukraine in the energy sector to an exclusively bilateral format that implies minimising the impact of the EU policy and where it has a major advantage provided by its “energy power”.

Although the Ukrainian-Russian relations in the energy sector are somewhat specific, their current state and appropriate prospects of development should be assessed in the European context. This is related to the fact that a reliable supply of hydrocarbons to the EU states is possible only if Russia and Ukraine engage the EU in jointly solving the key transit problems.

The priority in the Ukrainian-Russian energy cooperation belongs to the oil and gas complex, since Russia occupies the leading positions in the world in terms of oil and gas extraction based on its huge reserves of hydrocarbons. In its turn, Ukraine is the largest gas transit country in Europe and one of the continent’s largest energy markets for Gazprom OJSC.

The nuclear energy sector plays an important role in bilateral relations, since, on the one hand, it forms the basis of the Ukrainian electric power industry, and on the other hand, it actually depends on nuclear fuel supply from Russia. Moreover, there exists a traditional interdependence between the nuclear power plants in both countries.

Russia’s energy policy towards Ukraine (disregarding which political forces rule in Ukraine) is tough, ambitious and consistent in terms of strategic goals. The Russian government actively exploits Ukraine’s energy dependence to have Ukraine in its sphere of interests and to influence the trajectory of Ukraine’s foreign policy.⁵

At the same time, the non-transparent schemes of gas supply to Ukraine, involving an intermediary RosUkrEnergo, became one of the main causes of vulnerability of the Ukrainian authorities to pressures from Russia and led to the signing of unfavourable gas contracts in 2006 and 2009. During 2005-2012 Ukraine saw the largest in Europe price increase for Russian gas. For this period the price

increased by almost eight times – from \$50 to \$425 per thousand cubic meters.

The most vivid manifestation of the Russian policy was the use of “energy weapon” against Ukraine in January 2009 to compel the country to sign the onerous gas contracts. Having adopted an unprecedented in the history of European gas markets decision to terminate gas supply to the Ukrainian GTS (in such a way putting at risk the supply of gas to Europe), Gazprom with the full support of the Russian government managed to impose on Ukraine the uneven conditions provided by the long-term purchase/sale contracts for 2009-2019 (hereinafter – the Contract), which was concluded on January 19, 2009 together with the contract on Russian gas transit for the same period.

Unjust contract terms led to a large annual budget deficit of Naftogaz, “depletion” of the state foreign exchange reserves and a critical dependence of the Ukrainian economy on Russian energy resources. **It means that following the “gas war” of 2009, Russia has gained an additional powerful tool of political leverage in Ukraine. One should note that the situation would not be that difficult had not the energy intensity of Ukraine’s GDP exceeded by almost two and a half times the relevant indicators of the developed countries and had it diversified its energy supplies.**

Immediately after the conclusion of “gas-fleet” Kharkiv Agreements in April 2010, that turned out to be a unprofitable deal for Ukraine, **Russia decided to increase its strategic advantage by proposing an acquisition of oil and gas assets, as well as nuclear engineering, nuclear fuel cycle and nuclear power generation on the basis of creation of joint ventures.**⁶ These initiatives have not yet been implemented in the format proposed by Russia – however not because they contradict Ukraine’s national interests, but because the Ukrainian government and the business fear to find themselves in an absolute economic dependence on Russia.

Instead in 2012 the Gazprom and the Naftogaz of Ukraine have reached an agreement to set up two joint ventures for coalbed gas production in Ukraine and the Palasa structure development in the Black Sea.⁷ The parties also signed a Memorandum of Understanding between the Ministry of Energy of Ukraine, the Naftogaz of Ukraine, the Ministry of Energy of Russia and TNK-BP Company on search and exploration of gas deposits of tight reservoirs.⁸ Moreover, in 2011 the Ministry of Energy of Ukraine approved the conclusion of an Agreement on Joint Activity between Chornomornaftogaz and Lukoil on the development of Subotinsky, Odesky and Bezimenne deposits in the Black Sea shelf.⁹

⁵ See: Ukraine-Russia Relations in the Energy Sector: Status, Recent Development Trends, and Prospects..., pp.2-48.

⁶ Russia and Ukraine can create a single gas holding. – Russian Newspaper, May 04, 2010, <http://www.rg.ru>.

⁷ Source: Press-release of the Press Centre of Gazprom OJSC, December 01, 2010. – Web site of Gazprom OJSC, <http://www.gazprom.ru>.

⁸ Alternatives of gas supply to Ukraine: Liquefied natural gas (LNG) and Unconventional Gas. Analytical report of the Razumkov Center. – National Security and Defence Journal, 2011, No. 9, p.41.

⁹ Lukoil and Chornomornaftogaz will carry out joint extraction of hydrocarbons. – Internet-source “Ukrainian Energy”, February 7, 2012, <http://www.ua-energy.org/post/16708>.

Based on the many years of practice of Ukraine-Russia energy relations, one can assume that the main goal of the Russian side in the concluded agreements is to block opportunities for Ukraine to attract investments in search and exploration from the third countries as well as to maintain Ukraine's monopoly dependence on hydrocarbon supplies from Russia.¹⁰

After the signing of the Kharkiv Agreements, the Russian-Ukrainian integration projects in the nuclear sector have intensified. The Agreement on Cooperation in Construction of Power Units 3 and 4 of Khmelnytsky NPP was signed at the governmental level. Ukraine's state-owned company Nuclear Fuel signed an Agreement on Construction of Factory to Produce Nuclear Fuel with the Russian Joint Stock Company TVEL for the purpose of gaining an opportunity to produce its own nuclear fuel. There exists a high probability that the execution of provisions of the signed agreements will be suspended for an indefinite period, *firstly*, due to the lack of interest on the Russian side to implement projects on construction of new nuclear units in Ukraine unless Russian enterprises play a dominant role. And *secondly*, Russia does not benefit from construction of a factory to produce nuclear fuel in Ukraine, because it would reduce the value added for nuclear fuel produced by Russian companies.

3.3. THE UKRAINIAN-RUSSIAN "GAS TALKS": INTENTIONS AND RESULTS

Following the signing of the Kharkiv Agreements, the "price discount" on natural gas, as the Prime Minister of Ukraine Mykola Azarov have finally admitted, turned out to be a fiction.¹¹ The contract conditions placed an additional burden on Ukraine's energy-intensive economy. That is why the Government had initiated a new round of negotiations with Russian partners.

Instead of applying legal instruments to revise the Contract, the Ukrainian government, however, made another strategic miscalculation of once again choosing a political format of resolving commercial disputes, which was completely contrary to the European practice. The Ukrainian negotiators were immediately drawn into a "losing" position, since Kyiv has never been able to oppose Moscow because of its substantially smaller "political weight".

The Ukrainian-Russian gas talks on the revision of the Contract that continue since the end of 2010 have so far produced no results. The explanation is that the Russian side has agreed to revise the terms of the Contract on conditions unacceptable for Ukraine:

Ukraine's accession to the Customs Union of Belarus, Kazakhstan and Russia and establishing a joint venture to run Ukraine's GTS, where Gazprom OJSC is going to exert strong influence leading to a gradual control over the whole domestic gas sector of Ukraine.

Choosing political concessions over legal measures of resolving commercial disputes, could be explained, *firstly*, by the lack of strategic vision of the European perspective, and *secondly* – by the influence that the business structures close to the government have on negotiation process. Both the Ukrainian government and the Business are aware that a legal claim against Gazprom would make it impossible to implement their usual "grey schemes" without the consent and direct involvement of Gazprom itself.

As soon as the Nord Stream pipeline was commissioned in November 2011 and the plans for implementing the South Stream project were made public, the Russian side increased its pressure on Ukraine. With an aim to persuade the Ukrainian government to join the Customs Union, Russia made several informational attacks threatening to suspend the use of the Ukrainian GTS after the completion of the South Stream unless Ukraine agrees to Russian terms.

The fact that the actual energy policy of Russia does not link the construction of the South Stream gas pipeline to Gazprom's participation in managing the Ukrainian GTS, is a vivid manifestation of informational manipulation. However, even if Ukraine agrees to the Russian terms, which are to create a consortium on the basis of the Ukrainian GTS, Russia will not refrain from implementing the South Stream Project.¹²

Delayed gas sector reforms, increasing financial risks and the growing influence of business interests in negotiations between Russia and Ukraine are the factors that, during 2012-2014, (at the time of political pressure from Russia) will place Ukraine at risk of not only losing control over its gas transport system, but also the national gas sector in general.

In such a scenario, the Russian companies would have an access to the main liquid assets of Ukrainian industry at a low price. The so-called "Belarusian scenario" in Ukraine may limit the state's sovereignty leading to unpredictable economic and political consequences.

3.4. EU-UKRAINE ENERGY DIALOGUE

Two documents important for implementation of the European energy policy and for the EU-Ukraine relations were signed in 2005: the Treaty establishing the Energy Community (TEC) and Memorandum of

¹⁰ In this context the practice of privatisation of the Ukrainian oil refinery plants by the Russian companies and situation around construction of the factory producing the nuclear fuel in Ukraine can be mentioned. See: Creation of strategic stocks of oil and oil products in Ukraine: current status, problems, search for solutions based on the international experience. Analytical report of the Razumkov Center. – National Security and Defence Journal, 2007, No.4, p.22; Nuclear energy in the world and in Ukraine: state and prospects of development. Analytical report of the Razumkov Center. – National Security and Defence Journal, 2008, No.3, p.27.

¹¹ According to information provided by Glavred, Mr Azarov, when speaking at the meeting of the Council on Issues of EU-Ukraine Cooperation in Brussels admitted directly that Kharkiv agreements did not help Ukraine to get discount for the Russian gas in any way. "No discount was provided indeed, it was a rent fee for the Black Sea Fleet location... It was kind of rest". See: The most interesting moment from the Azarov's speech in Brussels: About Tymoshenko and the strange scenario. – Glavred, May 16, 2012, <http://www.glavred.info>.

¹² See: Ukraine-Russia Relations in the Energy Sector: Status, Recent Development Trends, and Prospects..., p.27.



Mutual Understanding on co-operation in the field of energy between the European Union and Ukraine (hereinafter – the Memorandum). The main purpose of these documents was the gradual creation of a single European electricity and gas market that would operate and develop under the unified and harmonised rules between the EU and other European states interested in integration and liberalisation of their markets.

The Memorandum set the strategy for cooperation between the EU and Ukraine in the energy sector and served as a preparatory step for Ukraine's accession to TEC, which regulates the entire spectrum of activity in the electricity and gas market – from pricing to security issues and the formation of strategic reserves by member states.

Moreover, gas crises in 2006 and 2009 prompted the EU to reconsider the energy security situation in Europe, leading to the signing of the **Joint Declaration on the Reconstruction and Modernisation of the Ukrainian GTS** (Brussels Declaration).¹³ The Declaration laid out a “roadmap” for radical transformation of the gas industry on the principles of transparency, competition, security of supply and creation of attractive investment climate that would meet the requirements of the EU Directives.

For Ukraine, the Declaration became the first concrete step in the process of approximation of the Ukrainian gas sector to the rules and regulations of the EU member states. In case Ukraine implements the relevant reforms, the European financial institutions will assume the function of attracting an estimated \$3-5 billion investments (which is approximately four times less than the cost of the South Stream project) to improve the reliability of the Ukrainian GTS.

For that purpose, in 2010, the Parliament of Ukraine adopted the Law “On the Principles of the Natural Gas Market Functioning”, which was an important step to align the Ukrainian legislation with EU directives related to the energy sector. The law created legal mechanisms to settle some of the key issues related to the provision of an equal access to the Single Gas Transmission System and the separation of extraction, transportation, distribution and supply of gas.

In 2010 the Joint Project of EC-IAEA-Ukraine on Safety Evaluation of Ukrainian Nuclear Power Plants prescribed by the Memorandum was successfully implemented.

Ukraine's accession to TEC on February 01, 2011 became the main result of the current execution of the Memorandum tasks.¹⁴

However, the process of Ukraine's accession to the single energy space with the EU that is primarily dependent on implementation of the relevant legislation, did not lead to signing of the documents. The approximation period will take almost eight years

for Ukraine. Thus, the Government has to execute the main scope of work on implementation of legislation. The two sectors of the Ukrainian energy industry most in need of reform are oil and gas and electricity sectors.

Oil and gas sector. The improvement and qualitative implementation in oil and gas sector is stipulated by Law “On the Principles of the Natural Gas Market Functioning”, adopted in 2010. In April 2012 NERC approved the Procedure for access to the Single Gas Transportation System of Ukraine, developed to implement the EU Regulation 1775/2005. However, for full compliance with Directive 2003/55/EU, the Government and NERC have yet to approve a series of regulations aimed at enhancing competition and protecting consumer rights.

The most urgent issue on the agenda is the reforming of Naftogaz of Ukraine. The company with a non-transparent structure operating under the guise of state interests, is involved in redistribution of financial and material resources to the benefit of certain groups. It must be transformed into a modern business company with transparent environment for potential investors and a high quality of corporate governance.

Instead, the Government is postponing the Company's restructuring and has not fulfilled the commitment undertaken by Ukraine to establish the GTS operator as a separate legal authority that would not be dependent on Naftogaz of Ukraine. Without financial and legal independence the State Company Ukrtransgas cannot achieve financial stability and attract necessary investments to modernize major pipelines and underground gas storage facilities.

The Law “On Amendments to the Law of Ukraine “On Pipeline Transport” with Regard to the Reform of the Oil and Gas Complex” adopted on April 13, 2012 provides the Government of Ukraine with an exclusive right to restructure Naftogaz of Ukraine. The Law, however, is declarative in its nature and does not approximate the Ukrainian legislation to the EU rules and regulations.

Electricity sector. The Ukrainian legislation had to be brought into compliance with the Directive 2003/54/EU concerning common rules for the internal market in electricity before January 01, 2012. The Directive aims to liberalise the electricity market in three main directions: open network access, transparent and non-discriminatory tariffs, and a fully open market. However, a **Draft Law of Ukraine “On the Fundamentals of the Electricity Market”** has not yet been submitted for consideration to the Verkhovna Rada.

Neither had Ukraine advanced toward the EU standards in terms of creating an independent regulatory body.¹⁵ The draft law on energy regulator has

¹³ Declaration of March 23, 2009 was signed by the Government of Ukraine, the European Commission, the European Bank for Reconstruction and Development, The European Investment Bank, The World Bank.

¹⁴ In general, six reports on the process of execution of Memorandum were prepared during 2006-2012, where the results of annual EU-Ukraine energy cooperation were evaluated. See: Sixth joint EU-Ukraine report. – Internet-source “Ukrainian Energy”, March 27, 2012, <http://www.ua-energy.org>.

¹⁵ The National Commission for Regulation of Electroenergy of Ukraine was renamed to the National Commission for State Regulation in the Sphere of Energy. Nevertheless, the abbreviation remained the same – NCRE.

been considered with no positive result the Verkhovna Rada since 2007. Instead, following the Decree of the President of Ukraine “On the National Commission Exercising State Regulation in the area of electric energy” No.1059 of November 23, 2011, the Commission (NERC) is now subordinated directly to the President.¹⁶ This provision strengthens the political dependence of the Commission and does not comply with the EU legislation.

The implementation of Directive 2005/89/EU concerning measures to safeguard security of electricity supply and infrastructure investment requires changes to the Law “On Electric Energy”.

The Plan for the Implementation of Directive 2001/77/EU on the promotion of electricity produced from renewable energy sources (RES) in the internal electricity market had to be approved until July 2011. The Draft Plan was developed, but there has been no information on its approval.

One of the priorities of energy integration with the EU is to synchronise the Unified Energy System of Ukraine (UES) with the European Network of Transmission System Operators for Electricity (ENTSO-E). However, despite the urgency of the project, the approximation process, initiated in May 2006, have not produced any positive results.

Accession to the Energy Community has opened up new opportunities for Ukraine to integrate into the single energy space. The legal and regulatory compatibility of internal gas markets of Ukraine and the EU could increase competition and security of gas supply to national customers and the European states as well as to consolidate Ukraine’s negotiating position with countries-suppliers.

However, the implementation of the EU energy legislation in Ukraine has been largely simulated. Government-led corruption schemes prevail in internal gas and electricity markets, instead of ensuring competitive development and protecting consumer and investor rights.

3.5. EU-RUSSIA ENERGY DIALOGUE

The legal framework of the EU-Russian energy relations is outlined in the Agreement on Partnership and Cooperation between Russia and the EU (APC) signed in 1994. Over the past 10 years the EU-Russia Energy Dialogue initiated at the Joint Summit 2000 in Paris became the real mechanism aimed at the execution of provisions of the Agreement in the energy sector. The dialogue takes place through the work of thematic groups and high-level groups, as well as Permanent Partnership Council between Russia and the EU at the level of energy ministers. **The main aim of the Dialogue is to ensure energy security and to develop mutually beneficial cooperation between the business structures.** For that purpose, for instance, the parties

have established an Early Warning Mechanism to avoid energy supply disruptions.

Today, the Dialogue is carried out by four Thematic Groups, namely the Energy Markets and Strategies Group, the Group on Electricity, the Energy Efficiency and Innovations Group and the Group on Nuclear Energy. The parties have been paying much attention to opportunities for joint projects on construction of renewable energy generating facilities and preparation of the Roadmap of the EU-Russia Energy Cooperation until 2050, which concentrates on energy security.

At the same time, it should be mentioned that the format of the EU-Russia Energy Dialogue has not realized the full potential of relations between the parties. With every year they are becoming ever more formal and far from providing practical solutions to existing problems. This is primarily connected to the fact that **Russia, instead of integrating with the EU energy market, prefers to solve problems in a bilateral format with some EU countries.**

This policy line of Russia became particularly evident after the European Parliament and the Council of Europe had adopted a legislative package for the third stage of reformation process (liberalisation) of an internal gas and electricity market in the European Union (the Third Energy Package) in 2009. **The package restricts investments in the EU energy infrastructure from energy monopolies that fail to separate the functions of energy production, transmission and supply. It also poses a serious threat to the long-term strategy of Russia aimed at acquiring the EU energy assets and constructing new gas pipelines to decrease transit dependence on the neighbouring countries.**

The approval of the Third Package has sharpened the contradictions in relations between Russia and the EU, but did not prevent Russia from continuing its cooperation with some EU countries on the South Stream Project (that is Russia’s strategic priority). Russia tries to exploit the lack of energy policy coordination in the EU while imposing its own economically groundless and politically motivated project.¹⁷

The Nord Stream and the South Stream pipelines together with plans to enter into long-term contracts may make the European consumers even more dependent on the Russian gas. This situation poses a real threat to diversification projects and development of a competitive European energy market as well as it runs counter to the EU energy policy that puts consumer rights before companies involved in gas supply, gas transmission and gas production.

3.6. STRATEGIC INTERESTS OF THE PARTIES AND THEIR REALISATION

Strategic interests of the EU

After the Russian-Ukrainian gas conflicts in 2006 and 2009, the EU has concentrated its efforts on implementing diversification projects, increasing

¹⁶ The Decree on execution of the Law “On Introduction of Amendments to the Law of Ukraine “On Natural Monopolies” was issued (July 2011).

¹⁷ See: Ukraine-Russia Relations in the Energy Sector: Status, Recent Development Trends, and Prospects..., p.27.



competition in the gas market, integrating energy infrastructure and increasing renewable energy production.

1. In 2009-2010 the capacity of LNG terminals in the EU increased by 60 billion cubic meter or over 40%. The forecasts for 2012-2020 show the EU will become the most powerful “engine” of growth in world demand for LNG together with countries of Northeast Asia. It is assumed that in 2020 the EU energy consumption will increase by 50-70 billion cubic meters as compared to 2010.

2. The EU has intensified its efforts in creating the alternative sources of gas supply from the Caspian region through a Southern Gas Corridor which includes the following projects: Nabucco, Trans-Adriatic Pipeline (TAP), the Turkey-Greece-Italy Interconnector (ITGI), White Stream. Moreover, Romania is trying to develop LNG project to deliver the Azeri gas through Georgia (AGRI). Today Nabucco and TAP are the most realistic project among the others.

The Southern Corridor, due to the lack of resources in Azerbaijan, can fulfil its purpose only if the Trans-Caspian gas pipeline is constructed, attracting resources from Turkmenistan. The construction of this connecting pipeline has been delayed, since the issue of the Caspian Sea status has not been solved yet.

3. Volumes of natural gas traded on European spot markets have almost doubled and now make about 30%. In 2009-2010, the European energy companies used legal instruments to make Gazprom review their long-term contracts by taking into account the possibility to purchase a large share of gas at spot price. Currently, the EU is considering proposals to review the Russian price formation model for gas based on reference to oil products.

4. As soon as the Third Package was adopted, the EU implemented restrictions applied to investments from vertically integrated companies in energy infrastructure and strengthened its anti-monopoly measures. Thus, in September 2011, the EU has started an investigation into the dealings of European energy companies co-owned by Gazprom on the alleged abuse of monopoly power in Central Europe.

In the first quarter of 2012, the European Commission has ruled that the Gazprom-led consortium, Nord Stream, must allow the third-party access to NEL and OPAL gas pipelines. The decision aims to increase competition in gas markets and has an impact on the interests of Gazprom in the Nord Stream project.

5. Certain gas transmission pipelines are being integrated into a single gas transmission system of the EU. The purpose is to create conditions enabling the consumer to choose a gas supplier, to increase the reliability of gas supply through optimisation of the GTS operation modes and to reduce “gas dependence” of the EU on third countries.

The EU also implements measures to develop cross-border power supply lines in order to ensure the power supply from all the energy sources at the most competitive prices.

6. The EU states pay much attention to energy production from renewable energy sources. According to the EU’s 20-20-20 plan, the share of EU energy produced from renewable resources shall not be less than 20% by 2020. As of 2010, it equaled 11%. In 2000-2010, the consumption from the renewable energy sources in the EU increased by 4.7 times from 14.1 million tons to 66.9 million tons. *To compare:* only 0.3 million tons of energy produced from renewable energy sources were consumed in the post-Soviet countries in 2010.

Strategic interests of Russia

1. Russia is interested in gaining control over export routes for oil and natural gas in the East-West direction in order to increase revenues and consolidate its political influence on the European countries. For that purpose, it blocks the EU diversification projects and monopolises the hydrocarbons supply from the Central Asian states.

2. Gazprom assisted by the Russian Government takes measures to impede the liberalisation of the EU energy market in order to guarantee reaching the final consumer, to increase the share of Russian energy products on European markets and to have a monopoly over fuel prices. For that purpose Russia seeks to preserve long-term contracts and prevent implementation of the Third Package.

3. Russia tries to undermine the positions of Ukraine in negotiations with the EU and to withdraw Ukraine from the “production – transit – consumption” cycle by stepping up efforts to discredit the Ukrainian policy in the eyes of the EU. Besides, the Russian Government has been actively promoting the processes of merging gas and power generating sectors that would make it impossible for Ukraine to represent an independent and equal party in negotiations.

4. Gazprom effectively uses the discriminatory conditions of the Contract with the Naftogaz of Ukraine in order to establish control over Ukraine’s gas transmission system, gas market and, finally, forcing Ukraine to join the Customs Union.

5. Russia exploits Ukraine’s energy dependence and commercial interests of businesses close to the government to prevent Ukraine from integrating into a single European energy market and to preserve Ukraine’s monopolised and non-transparent gas and electricity markets.

Strategic interests of Ukraine

Ukraine’s strategic interests in the energy sector coincide with those of the EU and are primarily related to minimisation of negative political and economic consequences of its energy resources scarcity. Addressing this issue is the necessary condition not only for increasing the competitiveness of Ukrainian enterprises, but also for balancing the Ukrainian-Russian relations.

To realize its strategic interests in the energy sector, Ukraine should take the following steps.

1. To reform the energy sector on the legal basis of the EU’s Second and Third energy packages (liberalisation of electricity and natural gas markets)



that would attract investments in key energy sectors of Ukraine, reduce the country's dependence on Russian energy supply and consolidate Ukraine's political positions in negotiations with Russia.

2. To implement energy saving projects, develop energy saving technologies, use alternative types of energy, increase natural gas extraction (including non-traditional), construct an LNG terminal and diversify sources of nuclear fuel supply.

3. To revise the archaic practice of selling the Russian gas at the western Ukraine border. The European buyers should receive gas from Gazprom at the Russian-Ukrainian border, and the Ukrainian gas transmission operator shall enter into contract not with Gazprom, but with European companies. **It will facilitate the development of cooperation between Ukraine and the EU on transit issues and change the legal terms of Russian gas supply from bilateral to trilateral that will help eliminate the transit risks and meet the EU standards.**

4. To synchronise the Ukrainian GTS with the EU's gas transmission networks. This step will help to increase competition in the Ukrainian market, to negate the monopoly dependence on Russian gas supplies and to reduce gas prices for consumers. **Moreover, it will optimise the use of Ukrainian underground gas storage facilities as the key link for spot trade in Central European states.**

5. To enhance cooperation on a trilateral basis in order to address the European energy security problems within the framework of an Early Warning Mechanism and on the issue of extending the Energy Transparency Regime (ETR) to the entire energy production to consumption chain.

6. To maintain state ownership and state control over the gas transmission system of Ukraine until the end of reforms in the gas sector in accordance with the Second and Third Energy packages concerning the liberalisation of the EU energy markets. Achieving that, Ukraine will be able to involve the European or American companies in privatisation of the gas transmission system provided that the state owns the majority stake.

The creation of a trilateral gas transmission consortium on the basis of Ukrainian GTS does not correspond with Ukraine's interests, since it will consolidate Russia's monopoly over gas supply and transit with no guarantees from it to preserve current transit volumes. *Firstly*, Russia does not connect Gazprom's participation in privatisation of Ukrainian GTS with construction of by-pass pipelines. *Secondly*, this proposal contradicts the EU energy legislation, which does not allow the investments from energy companies from third countries that fail to legally separate energy production, transmission and supply operations.

7. Reducing purchase volumes of Russian gas from about 45 billion cubic meters in 2011 to 10 billion cubic meters in 2020 should be the main indicator of overcoming Ukraine's dependence on Russian energy supplies.

For that purpose it is necessary: to implement consistent structural reforms of the energy market in line with principles of the EU legislation; to significantly reduce energy intensity of GDP; and to increase the national natural gas production by attracting foreign investments. Ukraine could develop diversification projects aimed at integrating national energy systems into a single EU energy market, to construct terminal for receiving liquefied natural gas (LNG) and diversify the nuclear fuel supply to power generation plants.¹⁸

CONCLUSIONS

Today, energy policies of Russia and Ukraine are not compatible with the principles of reforming the EU energy market. In both countries the administrative methods of state governance dominate and the state (instead of improving market mechanisms of state regulation and liberalising the energy sector) together with certain private companies have a monopoly in energy markets. The existing contradictions make it almost impossible to achieve coordinated efforts between the sides of the energy "triangle" and increase risks for energy security in Europe.

Ukraine's accession to the Energy Community in 2011 provided the country with a powerful instrument of access to the European energy space. However, until now, Ukraine has not shown any ability to effectively use it.

The main barrier to integration of the Ukrainian energy sector is a systematic contradiction between the interests of the current government and public interests. The government is primarily interested in serving the needs of big business by creating conditions to receive monopoly rents through corruption schemes. The public interests, first and foremost, relate to formation of a transparent and competitive energy market operating under the legal regime. Ukraine's accession to a single European energy market is impossible without resolving this contradiction. ■

¹⁸ See: Ukraine-Russia Relations in the Energy Sector: Status, Recent Development Trends, and Prospects..., pp.31, 40.

4. SECURITY DIMENSION OF EU-UKRAINE-RUSSIA RELATIONS

Before the collapse of the so-called “socialist camp” Ukraine and Russia shared a common security system opposing NATO, the military-political alliance, which comprised most states of the Western Europe. Having gained independence, Ukraine, with regard to its geographical, historical and social factors, had to implement its foreign and security policy in the way of trying to develop cooperation with countries and organisations of the Euro-Atlantic and Eurasian space. This policy, however, has not always been successful and non-conflicting.

Having chosen the strategic course of European integration, the Ukrainian government now constantly faces challenges of preserving good neighbourly and partner relations with Russia. Kyiv's intentions to integrate into the European Union hinder the Kremlin's full implementation of its integration projects in the post-Soviet space. Russia sees the EU enlargement and NATO expansion in particular, as a threat to its national interests and, therefore, it perceives any steps Ukraine makes towards rapprochement, let alone integration with these unions, as hostile and contradictory to Russia's strategic priorities.

Ukraine's foreign and security policy, in general, and particularly in the European direction is characterised as being variable and inconsistent. Ukraine's regular demands for “pulses”, “signals” and “understanding” from the European and Euro-Atlantic structures as well as from the Russian side in reality cover up the lack of its own initiative and the inefficiency of its policy.¹ This policy resulted in the ruining of the main security element – the trust that partners used to have in Ukraine (relations among them also suffer from the same deficiency). But if the lack of trust in Ukraine is caused by its inconsistent policy and frequent cases of failure to follow the undertaken commitments, in relations between the EU and Russia it stems from a tough competition of persistent interests and policies.

Ukraine has continuously suffered from a security deficit due to its inability to ensure the appropriate level of its own national defence and the lack of reliable external guarantees. In the third year of Viktor Yanukovych's presidency the worst prognosis on Ukraine entering the “grey zone” of security now seems to be coming true. A number of controversial decisions in Ukraine's domestic and foreign policy led to a situation when its strategic partners either threaten to impose sanctions or take measures that represent sanctions *de facto*. And, today, Ukraine while having no external enemy that might pose a military threat to its independence, sovereignty and territorial integrity, also has no allies to rely on.

The threat of political isolation of the current regime will have an extremely negative impact on the national security. Cooperation with Ukraine could get reduced to technical and expert level, and making any constructive decisions at the political level would get too difficult or even impossible.

4.1. THE FOREIGN POLICY AND SECURITY POLICY OF UKRAINE: KEY PRINCIPLES, PRIORITIES AND CHARACTERISTICS

The key terms of contemporary foreign and security policy of Ukraine are “non-bloc policy”, “European integration” and “good neighbourly relations with Russia”. Speaking about the relevant constitutional provisions and requirements of the laws of Ukraine in general,² one can summarise the principles of its foreign and security policy as follows:

(1) **maintaining peaceful and mutually beneficial cooperation with members of the international community** on the basis of universally recognised principles

and norms of international law, avoiding dependence on certain countries, groups of states or international structures;

(2) **non-bloc status, which means a priority participation in the improvement and development of the European common security system**, continuation of constructive partnership with North Atlantic Treaty Organisation and other military-political blocs on all issues of mutual interest;

(3) **ensuring integration into the European political, economic and legal space with the purpose of acquiring the EU membership** while maintaining good neighbourly relations and strategic partnership with Russia, other CIS states and countries.

¹ Brussels should decide where it would like to see Ukraine – Gryshchenko. – Interfax-Ukraine, May 18, 2012, [www.http://interfax.com.ua](http://interfax.com.ua).

² Constitution of Ukraine, Article 18, the Laws: “On Fundamentals of National Security of Ukraine” (June 19, 2003), Article 6, 8, “On Foundations of Domestic and Foreign Policy” (July 1, 2010), Article 11.

Ukraine implements its foreign policy aimed at peaceful and mutually beneficial cooperation with all countries of the international community. It actively participates in activities of international organisations aimed at supporting peace and stability. Ukraine's contribution to nuclear disarmament, non-proliferation, fight against traditional and new challenges and threats is highly valued at the international level.

Ukraine is an independent sovereign state. However, in modern globalised world even superpowers recognise their dependence upon partners, that is why it seems difficult to imagine how the government of Ukraine may implement its own policy, "avoiding dependence on certain countries, groups of states or international organisations".³ Moreover, mutual dependence is considered by many experts as an element of preserving the sovereignty of states.⁴ **Therefore we would rather talk about avoiding excessive unilateral dependence that is particularly important in the context of relations with Russia, whose leadership has openly declared its aims and intentions, which may prevent the realisation of national interests of Ukraine.**⁵

Ukraine's compliance with a non-bloc policy implies, first of all, the refusal to join any military-political alliance. Meanwhile, the Government has declared its intention to participate in improvement and creation of the pan-European collective security system (the prospects of which are quite illusory.) "Improvement" of the system means the development of capabilities of the OSCE – an organisation which effectiveness has been doubted even stronger after the Summit in Astana.⁶ One of the countries that calls for such an improvement (excluding the interested representatives of the countries belonging to the governing bodies of the Organisation) is Russia, which still considers the OSCE as a mechanism for promoting its interests, and to some extent – as a counterbalance to the European and Euro-Atlantic structures.⁷ However, since the initiative of creating a "single indivisible security space from Vancouver to Vladivostok" has been actively discussed in expert circles and, if to consider the high interest of Russia, it is worth to develop a coordinated position by the Ukrainian side.

The legislation of Ukraine sets Europe as the key direction of its integration, which is considered as a priority of its foreign and security policy – that is the priority goal for the sake of which it is possible, if necessary, to yield benefits (at least temporarily) from realisation of other goals. **In practice – especially over the past two years – the main incentive for political decisions of the Ukrainian leadership has been to avoid tensions and preserve good**

relations with Russia, which adds little to promotion of the "priority" area, or even inhibits it.

The effective realisation by Ukraine of the principles of its foreign and security policy in relations with the EU and Russia could ensure non-conflictual relations and the appropriate level of national security only in theory (under good circumstances, or if appropriate conditions are created by the Ukrainian authorities). In fact, the Ukrainian state is in constant tension with the two other "sides of the triangle". In the absence of an open confrontation between East and West (characteristic of the Cold War) and an active development of cooperation between organisations and countries of the Euro-Atlantic community and Russia, **the Ukrainian government so far has failed to achieve a conflict-free cooperation simultaneously with both sides. Attempts to play on contradictions between Russia and the West also damage the state's policy.**

The main roots of these difficulties are internal in nature and are the result of political decisions that do not correspond to official declarations. The conflictual nature of the relations is conditioned by the following internal factors:

- lack of a clearly defined national security strategy and the policy for its implementation, which encourages Russia to use active measures to influence the strategic choice of Ukraine;
- the Ukrainian authorities fail to understand the importance of developing international relations based on common democratic values – along with the geopolitical and economic factors;
- ambiguity, variability of priorities, inconsistent realisation of security policy that undermines the confidence of European and Russian partners in the seriousness and sincerity of Ukraine's intentions, inhibits the development of partnerships and creates additional tensions when settling disputes.

The situation is further complicated by external factors related to problems in relations between Russia and the West, incomplete integration processes on the European continent, a special place of Ukraine in Russia's implementation of its foreign and domestic policy priorities of Russia, and the internal crisis in the EU.

Relations between Ukraine, Russia and the EU are characterised by temporary "warming" periods and intensive engagement interfered with long pauses and mutual demarches. For example, a short period of "rosy" expectations after the signing of Kharkiv Agreements with Russia was replaced with the period of "gas

³ Law "On Foundations of Domestic and Foreign Policy", Article 11.

⁴ In particular, energy interdependence of states, as well as other factors of interdependence may help reduce the probability of military conflict between them. See.: Kemp, G. Scarcity and strategy. – Foreign Affairs, vol.56, No.2 (Jan. 1978), p.396.

⁵ See.: Presidential Decree "On measures to Implement the Foreign Policy of the Russian Federation" No. 605 May 7, 2012. – <http://www.kremlin.ru>; Foreign Policy Concept of the Russian Federation. – The Programme of effective and systemic use of external factors for long-term development of the Russian Federation. – <http://www.blogs.pravda.com.ua/authors/kuzyo/4bec22fe3e992>.

⁶ Dmitry Medvedev: OSCE Summit in Astana showed low efficiency of the organisation. – News Agency NEWS.AM, December 7, 2010, <http://www.news.am>.

⁷ Russia is a world power with global influence on the processes taking place abroad, and global interests in the modern world. In this sense Russia is definitely the most interested party in active participation in any international organisation, whose statutory principles correspond to or at least do not contradict our national interests". See: Kosachev: I support the reform of the OSCE. – The official Web site of the United Russia Party, January 16, 2009, <http://www.er.ru>.



crises” and “cheese wars” used as a leverage to force Ukraine to make concessions to Russia. Even a slight speed-up of Ukraine’s European integration has given way to a threat of isolation and loss of European prospects for the years to come.

Thus, the strategic balancing, multi-vector or the non-bloc policy neither guarantees the security of Ukraine nor protects the country from being irreversibly drawn into Russia’s orbit of influence, or the so-called sphere of its “privileged interests”.

4.2. EU-UKRAINE RELATIONS

Ukraine’s cooperation with the EU in the foreign and security policy sphere (regional and international issues, non-proliferation, disarmament, conflict prevention, crisis management) is carried out in the following priority directions.⁸

1. Further rapprochement of positions towards regional and international issues, conflict prevention and crisis management; cooperation in enhancing the effectiveness of multilateral institutions and conventions, strengthening global governance, coordination of countermeasures against security threats and joint efforts to promote development through:

- intensification of consultations, dialogue and coordination in the areas of implementation of the European security strategy, and crisis management;
- common determination of capabilities and participation in the EU operations, exercises and activities related to the Common Security and Defence Policy (CSDP); development of interoperability of Ukrainian peacekeeping units and those of the EU; their participation in the EU Battle Group;
- cooperation in “5+2” format in settlement of the Transnistria conflict; continuation of cooperation with the Republic of Moldova on border issues;
- consultations on sanctions applied by the EU and Ukraine’s alignment with declarations and common positions of the EU Common Foreign and Security Policy (CFSP);
- development of military-technical cooperation, promotion of cooperation between relevant institutions of Ukraine and CFSP/CSDP agencies;⁹

2. Further development of cooperation in addressing common security threats, including combating

terrorism, illicit trafficking of weapons of mass destruction and illegal arms exports, by:

- accession to relevant international instruments and export control regimes and their implementation at the national level;
- improving the system of export controls;
- continuation of cooperation in achieving the objectives of the G-8 Global Partnership in all its aspects;
- improvement of standards of biosafety and biosecurity, safety of activities in the outer space, further development of cooperation in fight against illicit trafficking of arms and ammunition;
- cooperation to eliminate dangers associated with surplus weapons and ammunition.

Apart from cooperation in foreign and security policy, it should be noted that there is also another important area relates to human security – **cooperation on justice, freedom and security**.¹⁰ **Cooperation in this area should focus on the following priorities:**

- development of personal data protection;
- development of legislative and institutional base for migration management, fight against illegal migration, smuggling and human trafficking;¹¹
- practical implementation of international conventions on the status of refugees, fight against transnational organised crime;
- active visa dialogue, especially related to documents security, illegal migration, readmission, public order and security;
- further judicial cooperation on civil matters;
- development, implementation and improvement of strategies, legal base and integrated border management procedures;
- technical support of Ukraine’s demarcation process in cooperation with the relevant authorities of neighbouring countries;
- cooperation between the Administration of State Border Service of Ukraine and the European Agency for the Management of Operational Cooperation at the External Borders of the EU Member States (FRONTEX), including risk analysis and management;

⁸ Agenda of the EU-Ukraine to prepare and facilitate the implementation of the Association Agreement, 23 November 2009. – The site of the Verkhovna Rada of Ukraine, <http://zakon2.rada.gov.ua>.

⁹ Protocol to the Agreement on Partnership and Cooperation Agreement on basic principles of Ukraine’s participation in EU programmes (from November, 22 2010) – provides an opportunity for representatives of Ukraine to take part in EU programs, as an observer or a member of the Steering Committee of the programmes to which Ukraine contributes. Cooperation is envisaged with 20 EU agencies, including European Defence Agency (EDA), the European Institute for Research in Security (ISS), the EU Satellite Centre (EUSC), the European Police Office (EUROPOL), the European Cooperation Office of Justice (EUROJUST), the European Police College (CEPOL), the European Security and College (ESDC).

¹⁰ The EU-Ukraine Action Plan on Freedom, Security and Justice and the Plan of its implementation cover cooperation in 15 key spheres, including: immigration, asylum, border management, visa, document security, fighting organised crime and terrorism, money laundering (including financing of terrorism), fight against human trafficking, drug trafficking, corruption, judicial cooperation in civil and criminal matters. – The Web site of the Mission of Ukraine to European Communities, <http://www.ukraine-eu.mfa.gov.ua>.

¹¹ Agreement between Ukraine and Europol on strategic cooperation designed to promote coordination between Member States and Ukraine in preventing and combating any forms of international crime, signs of terrorist threats, human trafficking, drugs and other psychotropic substances, illegal migration. The agreement provides for exchange of operational information between the relevant services of MIA of Ukraine and Europol. – The Web site of the Mission of Ukraine to European Communities.

- cooperation between Ukraine and the European Commission and the Republic of Moldova, to assist with the matter of Ukraine-Moldova border control.

Military cooperation with the EU¹² is carried out according to priorities determined by the EU-Ukraine Association Agenda and Work Plan for Cooperation of the Armed Forces of Ukraine and Secretariat of the Council on the following priorities:

- extension of the military and political dialogue between the leadership of the Armed Forces of Ukraine and the Military Committee and the Secretariat of the Council;
- training of Ukrainian officers in the EU educational institutions;
- preparation for collective military exercises, as well as multinational peacekeeping operations;
- participation of Ukrainian military units in the EU Battle Groups in the formation of military tactical teams of the EU¹³ and in anti-piracy operation "Atalanta";
- use of Ukraine's airlift capabilities for the EU operations.

The report of the European Commission (EC) on implementation by Ukraine of the Association Agenda during 2011 outlined the active cooperation in foreign and security policy, including the restart of official negotiations on settlement of the Transnistria conflict in "5+2" format; progress in the demarcation of the common border with Moldova; inter-agency cooperation within Ukraine and between Ukraine and Moldova; the successful coordination of operations of the EU Border Assistance Mission to Moldova and Ukraine (EUBAM) of joint control of the border.¹⁴ **At the same time, the EU noted, in particular, the negative trend of reducing the level of Ukraine's support for the EU declarations on CFSP** (44% in 2011 against 89% in 2009).

Significant progress has been made in the field of justice, freedom and security to resolve the issues on the way to priorities established in the Agenda (improvement of legal and regulatory framework, creation of institutional capacity), but most measures are still far from being complete.

At the same time, the Report draws attention to the feasibility of developing appropriate strategy for implementation of the approved strategic documents providing for "time limits, specific goals, activities, results, success rates, as well as sufficient human and financial resources".

Based on the analysis of common priorities, goals, forms of cooperation between Ukraine and the EU, we can conclude that they are aimed at strengthening of security, stability, democratic values at the national,

regional and global levels. Much of the actions imply involving the neighbouring countries of Ukraine and the EU into a mutually beneficial cooperation.

Thus, it can be stated, *first*, that the further development of EU-Ukraine cooperation on foreign and security policy contains no threats to the interests of other states or legitimate regional and international organisations.

Secondly, the way the Ukrainian leadership perceives the strategic nature of the EU-Ukraine partnership does not reflect the reality (at least for the EU). Despite formal declarations, the European integration, in practice, is not a priority for the current Ukrainian government and that adversely affects the implementation and protection of national interests.

Thirdly, it is the domestic reforms, particularly in the security sector, that represent the main criterion of the seriousness of Ukraine's intentions to move along the European integration course.

4.3. UKRAINE-RUSSIA/CIS RELATIONS

The Ukraine-Russian cooperation in the security and defence sector goes on both in the bilateral (in line with the "Big Treaty", on the basis of annual interagency plans of the concerned ministries) and multilateral format (within the framework of cooperation with concerned CIS and CSTO structures).

Relations between the two states are asymmetric, due to external (geopolitical and economic potentials of the parties) and internal reasons (the ability to defend its interests). One of main signs of partnership critical for the profile and actions of the parties is presented by a clear idea of the national interests and a strategy of their attainment and defence, present in Russia and absent in Ukraine.

Bilateral cooperation with Russia takes place along the following lines:¹⁵

- meetings on the level of ministry and agency heads;
- exercises and training of troops (forces);
- settlement of issues of the Russian Black Sea Fleet stationing in the Crimea;
- settlement of border issues;
- defence industry cooperation;
- participation in preparation and conduct of joint operations (against drugs, smuggling, organised crime);
- mutual assistance and interaction at removal of aftermath of natural and technical emergencies.

The most controversial issues in the Ukraine-Russia relations include:

- conditions of stay and rearmament of the Black Sea Fleet; followed by the issue of rent for the Black Sea Fleet facilities in the Crimea;

¹² Summary for the IV quarter of 2011 about Ukraine – EU Cooperation in the field of defence. – The Web site of the MOD of Ukraine, <http://www.mil.gov.ua>.

¹³ From July 1 to December 31, 2011 the determined personnel and capabilities of the Armed Forces of Ukraine were on stand-by duty for the multinational task force EU HELBROC (Greece, Bulgaria, Romania, Cyprus).

¹⁴ ENP Country Progress Report 2011 for Ukraine and recommendations for implementation. – Web site of the EU Delegation in Ukraine.

¹⁵ By and large, Ukraine now experiences shortage of information on partnership with Russia in the security sector. The Ministry of Defence (MOD) that from 2005 annually releases the White Book on Defence is one exception. In particular, according to those publications, cooperation between the Armed Forces of Ukraine and Russia in 2005-2007 – during the rule of the "Orange team" – was more intense, meaty and useful for both parties than now. See: Web site of MOD of Ukraine.



- delimitation of the border in the Sea of Azov, the Black Sea and the Kerch Strait;
- merger of assets of enterprises of the defence industry (and other branches), which in the present situation means their takeover by Russian corporations and runs contrary to the interests of Ukrainian business elites.

WHITE BOOK 2011: THE ARMED FORCES OF UKRAINE (AN EXTRACT)

Cooperation with the Russian Federation's MOD was significantly increased. During the year, seven high-level meetings were held between the Ministers of Defence of Ukraine and the Russian Federation, in addition to the meeting of the Ukrainian-Russian Interstate Commission Subcommittee on Security issues. Within the framework of these activities, further exploitation of the take-off and land training system "NITKA" was undertaken, the foundations were laid for the involvement of Ukrainian enterprises in the disposal of ammunition, armament and material, and repairing and modernisation of the Russian Federation Black Sea Fleet vessels. The training of Ukrainian servicemen in the Russian Federation military educational institutions has also been introduced.

In 2011 after a long break, the Ukraine-Russia Naval Exercise of "Peace Fairway" was resumed and conducted. The Ukrainian Armed Forces airmobile unit took part in the operational-strategic exercises of the Russian Federation Armed Forces "Centre-2011". The Ukraine-Russia-Belarus exercise of mechanised troops in the "Shyrokiy Lan" range and bilateral exercise of Air Defence duty forces were successfully conducted.

After Vladimir Putin was re-elected as the Russian President, there are all grounds to expect a new wave of pressure on Ukraine. Russia demands from Ukraine a final choice of the integration track, promising various economic, political, security benefits in case of integration in the Eurasian space and openly threatening with huge losses and problems, if the Ukrainian authorities make a choice in favour of Europe. For that, it uses varied and tiered economic, energy, political, information and even church and religious tools of influence, both on the international scene and within Ukraine.

Ukraine – CIS countries. Analysis of Ukraine-Russia security cooperation will be incomplete without a look at Ukraine's cooperation with the CIS and the Collective Security Treaty Organisation (CSTO) – **given the dominant role of Russia and the importance of those organisations for the Russian geopolitical ambitions.** Ukraine now takes part in meetings of the Council of Defence Ministers of the CIS member states as an observer (not signing summary documents). Ukraine also takes part in some events (e.g., sports events, competitions of papers in the science of warfare, cooperation in the field of meteorological service and military aviation flight safety). **Events involving CIS countries in 2011 accounted for only 3.5% of all international cooperation of Ukraine's MOD.¹⁶ Meanwhile, such events provide an additional opportunity for bilateral meetings, contribute to the atmosphere of trust and cooperation between the defence agencies.**

Cooperation within the CIS in many respects duplicates the above-mentioned lines of bilateral cooperation. **In the security sector, more attention is paid to cooperation with CSTO – the "security core" and the most efficient integration project within the CIS, in which Russia plays the lead and dominant role.** CSTO strongly resembles NATO by its structure and lines of cooperation, although the two organisations have serious differences in most criteria of assessment of their efficiency.¹⁷

Some politicians and experts view cooperation with CSTO as an equivalent to partnership with NATO. In particular, according to Presidential Advisor, Oleksandr Kuzmuk, Ukraine should develop cooperation with CSTO on a par and after the pattern of cooperation with NATO.¹⁸

COLLECTIVE SECURITY TREATY ORGANISATION

The Collective Security Treaty was signed in Tashkent on May 15, 1992, by the CSTO member states: Belarus, Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan.

CSTO enjoys the status of an international organisation: in December, 2004, the UN General Assembly adopted a Resolution granting CSTO an observer status; starting from 2009, CSTO officially cooperates with EurAsEC, the International Red Cross Committee, OSCE. In some domains, cooperation takes place with the EU and the Shanghai Cooperation Organisation (SCO).

In March, the General Secretaries of the UN and CSTO signed a Joint declaration on cooperation.

The main lines of the CSTO activity include all-round development of political cooperation, perfection of military capabilities, countering international terrorism and extremism, illegal circulation of drugs, arms and other threats. Since 2004, joint exercises *Vzayemodiya*, *Kobalt*, *Rubizh*, operations against illegal migration *Nelehal*, anti-drug operations *Kanal* have been held.

The possibility of buying Russian arms and military equipment at preferential Russian domestic prices has long been seen as the main benefit for the Organisation members. However, in the conditions of inability of the Russian defence industry to meet the demands of its own Armed Forces, CSTO members contented themselves mainly with deliveries of old weapon systems and now increasingly buy arms from the EU and NATO countries.¹⁹

Use of Collective Peacekeeping Forces (CPF) may be a promising line of CSTO development. This was stressed, in particular, in the Joint declaration on UN/CSTO secretariat cooperation in 2010: "Further cooperation will aim to make a substantial contribution to addressing emerging challenges and threats encountered by the international community. Thus, we emphasise the importance of cooperation at different levels on issues related to international peace and security, in accordance with Chapter VIII of the Charter of the United Nations. This could include areas such as conflict prevention and resolution, counterterrorism, transnational crime, illicit arms trade, and prevention of and response to emergency

¹⁶ White Book 2011, Armed Forces of Ukraine. – Kyiv, MOD of Ukraine 2012, p.58.

¹⁷ See: Melnyk O. Ukraine in the regional and global security structure. National Security & Defence Journal, 2008, No.9, p.3-12.

¹⁸ Kuzmuk stands for participation in CSTO "as in NATO": Interview to BBC, July 14, 2010. – www.bbc.co.uk/ukrainian/in_ukrainian.

¹⁹ Kozyulin A. Central Asian states: development of armed forces and prospects of military-technological cooperation with Russia. – *Security Index*, 2007, No.3, vol.13, p.41-60, http://www.pircenter.org/in_Russian.

situations. As CSTO capacities in the area of peacekeeping evolve, we encourage operational cooperation, as appropriate, within the framework of United Nations arrangements”.²⁰

But while use of CPF in crisis spots around the world seems promising, their employment in the CIS under the dominant role of Russia makes countries of that region wary.²¹ So, Ukraine should keep the present format of cooperation with CIS and CSTO, escaping any initiatives that hinder its strategic movement to Europe and harm relations with other states.

Summing up, the following can be said. The Russian line of cooperation in the security sector is important for Ukraine to reduce tension in bilateral relations, strengthen regional security and confidence between the partners.

However, cooperation with Russia is not equal – either in terms of geopolitical ambitions or their backing with political, financial, economic resources.

The most promising for Ukraine may be cooperation with the Russian Federation on a bilateral basis and in separate domains (training of troops, defence industry cooperation), where Russia tends to abide by European standards.

The development of mutually advantageous cooperation is mainly hindered by the difference in interests of the political and business elites of the two countries.

4.4. EU-RUSSIA RELATIONS

The Partnership and Cooperation Agreement between Russia and the EU reads: “The Russian Federation is one of the most important partners for the European Union. A key priority of the European Union is to build a strong strategic partnership with Russia based on a solid foundation of mutual respect”.²²

Security aspects top the list of priorities on EU-Russia cooperation. Two out of four “common spaces” distinguished within the framework of the Partnership and Cooperation Agreement immediately deal with security issues, namely – the Common Space of Freedom, Security and Justice, and the Common Space of External Security.²³

Common space of Freedom, Security and Justice

The main goals of cooperation in the Common Space of Freedom, Security and Justice are as follows:

1. “Freedom” – encouragement of human contacts between the EU and Russia, facilitation of problem-free

legal border crossing and stay on their territories, as well as joint countering illegal migration and criminal transborder activity.

Priorities: facilitation of movement of people and readmission; border management; migration policy; refugee protection.

2. “Security” – enhancement of cooperation in combating terrorism and all forms of organised crime and other illegal activities.

Priorities: prevention of and combating terrorism; prevention of illegal use of documents (forged, stolen) for border crossing; combating transnational organised crime; all-out fight with money laundering; combating drugs (including production and dissemination of drugs and raw materials, as well as restriction of demand and reduction of effects); combating human trafficking; combating corruption; combating trade in stolen vehicles and cultural/historic values.

3. “Justice” – enhancement of efficiency and independence of the judicial system in the EU member states and Russia, development of the EU-Russia cooperation in the field of justice.

Priorities: enhancement of the judicial system efficiency; strengthening cooperation in countering criminal activity; development of cooperation in civil law matters.

Cooperation in the **Common space of Freedom, Security and Justice** is a key component of strategic partnership between the EU and Russia. **The main lines of cooperation include:**

Border management

In January, 2006, the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union signed the first working agreement with Russia. It envisaged annual meetings of their heads, regular meetings of experts in risk assessment, training, research and development, and possible involvement of the Russian border service in joint operations under the Agency’s auspices. A joint plan of the Agency cooperation with the Russian Border Service has been approved. Talks of enhancement of cooperation in the issues of migration and asylum are underway.

Combating illegal trade and organised crime

According to a strategic agreement of November 6, 2003, Russia actively cooperates with the European police service (Europol). A Letter of Intentions was signed with the European Police College on personnel training for law-enforcement bodies.

²⁰ Joint declaration on UN/CSTO secretariat cooperation. CSTO Secretariat, Moscow, March 18, 2010. – <http://www.geneva.mid.ru/.../digest-12-2010.doc>.

²¹ Russia acting through CSTO tries to monopolise peacekeeping activity in the post-Soviet space under the guise of CSTO as an international organisation. Meanwhile, inadmissibility of any involvement in forcible actions within CSTO member countries was stressed, in particular, by Uzbekistan. See: Uzbekistan is against CSTO becoming kind of a stick continuously hanging over politicians of sovereign states: After the President of Uzbekistan Islam Karimov speech at the CSTO Collective Security Council meeting, Moscow, December 10, 2010. – 12UZ information portal, <http://www.12.uz/ru> (in Russian).

²² Agreement on partnership and cooperation between the European Communities and their Member States and the Russian Federation (1997). – European Commission Web site, <http://www.ec.europa.eu>.

²³ Defined by a decision of the EU-Russia summit in Saint Petersburg (May 2003). The EU-Russia summit in Moscow (May 2005) approved the appropriate instruments for their implementation – Road Maps for the Common Economic Space. See: European External Action Service Web site, <http://www.eeas.europa.eu>.



In October, 2007, the European Monitoring Centre for Drugs and Drug Addiction and the Federal Service for Narcotics Traffic Control signed a Memorandum of Understanding facilitating exchange of information between the two agencies on countering illegal drug trade. In September, 2009, the EU and Russia began negotiation of an agreement on control of drug precursors, aiming to strengthen administrative cooperation in the sector.

The EU and Russia work together (with support from a few projects under the TACIS programme) in the fields of prevention of human trafficking and fight with money laundering and funding terrorism. Initiatives emerged also in fighting cyber crime. The EU and Russia hold regular consultations on countering terrorism.

Judicial cooperation in civil and commercial matters

In this sector, the EU and Russia hold informal talks. Russia is a party to 12 Conventions and Protocols of the Council of Europe on criminal issues (two more have been signed but not ratified). There are plans in Russia to enhance cooperation with the European justice agency (Eurojust).

The EU and Russia negotiate a new agreement, set to replace the current Partnership and Cooperation Agreement and carrying a separate chapter on cooperation in the field of freedom, security and justice.

Common Space of External Security

The main goal of cooperation between the EU and Russia in the Common Space of External Security is to create favourable external conditions for security and prosperity of the EU and Russia.

Common goals:

- enhancement of the leading role and efficiency of the UN, other international and regional organisations, first of all – OSCE and the Council of Europe;
- encouragement of dialogue and cooperation between the EU and Russia in the issues of security and crisis management on the international scene, first of all, in the EU and Russian border areas;
- promotion (on the basis of mutual benefit) of regional cooperation and integration processes, taking place on the basis of sovereign state decisions and playing an important role in strengthening security and stability;
- countering racism, discrimination, xenophobia and intolerance.

The Common Space on External Security encompasses cooperation of the EU and Russia in foreign policy and security, in particular, in Afghanistan, the Balkans,

the Middle East, Iran. **In addition to bilateral contacts, both parties work together with international institutes**, first of all, the UN, OSCE, the Council of Europe. **In many respects, their interests formally coincide** (peace-building in the Middle East, non-proliferation of weapons of mass destruction, peacekeeping).

At the same time, there are differences in positions, in particular, with respect to Kosovo's independence, the Russo-Georgian conflict, the EU's Eastern Partnership policy and Russian attempts to restore "areas of influence", the US intentions of building European TMD and an asymmetric response from Russia, Russian initiatives of building a European collective security system.

Generally speaking, the EU does not prioritise Russia in its external security – its priorities remain NATO and the US. For the EU, the main concern is its energy dependence on Russia, which gives a "strategic character" to its relations with Russia. For Russia, the EU is an important trade partner that accounts for over 50% of all Russian foreign trade, and a source of advanced technologies.

4.5. EURO-ATLANTIC FACTOR IN THE EU-UKRAINE-RUSSIA RELATIONS

The EU security policy is inseparably related with NATO. Exactly thanks to the Washington Treaty and, first of all, the US role in it, Europe had reliable collective security guarantees over decades of tough confrontation with the Soviet Union, which ensured conditions for its sustainable economic development, and finally – a victory in the Cold War.

Rapid changes in the international security situation in early 1990s gave an impetus to revision of approaches to the European security in the new conditions, in particular, prompted the EU to build a common foreign and security policy, and later – to start building its own crisis management capabilities. Ambitions and accusations of creation of a European rival to NATO yielded to pragmatic and constructive partnership of the two organisations. "Berlin+" agreements achieved in 2003 envisage the use of NATO forces for the EU operations.

There are grounds to speak about the strategic nature of partnership between the EU and NATO. Most European states are members of both organisations sharing common values, common ideas of challenges, threats and approaches to solution of security problems. The new NATO Strategic Concept stresses the special role of the EU in enhancement of the common security in the Euro-Atlantic space, notes to the unique importance of strategic partnership, the complementary roles in maintenance of global peace and security.²⁴ In its turn, the European Security Strategy and relevant provisions of the Lisbon Treaty admit NATO's primary role in the European defence and security.²⁵

²⁴ Active Engagement, Modern Defence. Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organisation (November 19, 2010), p. 32. – NATO Web site, <http://www.nato.int>.

²⁵ A Secure Europe in a Better World. European Security Strategy (12 December 2003), The Treaty on European Union (13 December 2007), Article 42. – the EU Web site, <http://www.europa.eu>.

Both organisations – NATO and the EU – term cooperation with Russia as strategic.²⁶ The history of Russia's relations with NATO saw periods of true partnership, cooperation and political dialogue, followed by a chill and complete stagnation. For instance, in mid-1990s Russia provided the largest contingent among partner countries for participation in a peacekeeping operation in Bosnia. Examples of aggravation of relations between the parties included the problems of Kosovo, South Ossetia, TMD deployment in Europe. Despite the many differences between Russia and NATO, the EU or separate members of those organisations, mutual awareness of the strategic importance of the partners, urgency of common challenges and threats, the need to join efforts (diplomatic, political, economic, military tools) remains a reliable basis for pragmatic cooperation and smooth solution of the problems.

Relations between Ukraine and NATO have the status of a distinctive partnership, specified in the NATO-Ukraine Charter, and occupy a special place in Ukraine's domestic and foreign policy. Partnership with the Alliance gave a strong impetus to democratic reforms, first of all, in the security and defence sector. Declaration of the non-bloc policy in 2010 marked the beginning of a new stage of NATO-Ukraine partnership, now going on mechanically, using the existing format of relations and in the conditions of uncertainty of the main goals and priorities of the national security and defence sector development.²⁷ Meanwhile, the expedience and mutual benefit of partnership has been declared at the top level by both sides and stated in the NATO Strategic Concept.²⁸

The five sections of the Annual National Programme (ANP) of NATO-Ukraine cooperation cover political, economic, defence, resource, security, legal aspects of reforms. Implementation of measures envisaged by the ANP contributes to strengthening the national security, democracy, rule of law, defence of human rights, market economy. **Therefore, for Ukraine, the development of partnership with NATO is also of exceptional importance, since it facilitates implementation of its strategic course of the European integration.**

However, for the first time in the history of Ukraine's relations with NATO, the three NATO summits in a row (including the Chicago Summit) saw no gathering of NATO-Ukraine Commission (NUC). This shows the agenda deficit – on the side of NATO, and the lack of political will – on the Ukrainian side to conduct an active dialogue. **Under these conditions, the only potentially achievable goal is to maintain the existing level of partnership and to expand Ukraine's participation in NATO-led operations.**

The current non-bloc policy of Ukraine, by depriving the country of any perspectives of NATO

membership and limiting its ability to ensure its national security – only through partnerships with other military and political alliances and its own very limited resources – is pushing Ukraine to participate in ghostly projects of “improvement and development of a European collective security system”, but in reality leaves Ukraine one-on-one with an incompatibly stronger Russia.

CONCLUSIONS

Proceeding from the formally set goals and priorities of the EU-Russia partnership, it may be concluded that not only it should not harm Ukraine's interests but, on the condition of successful achievement of the declared goals by the parties, will contribute to international and regional security and stability.

Additionally, the mentioned goals and priorities largely coincide with the goals and priorities provided by documents on cooperation of Ukraine with Russia and the EU,²⁹ which may and should be viewed as the basis for joining efforts in different formats for achievement of common goals.

On the other hand, the high intensity of the EU-Russia partnership (moreover, on the level of strategic partnership between Russia and the leading EU countries) leaves less room for Ukraine, turning it into a Russian contractor in joint European-Russian projects.

By contrast to Ukraine, Russia is a strategic partner for the EU, first of all, because of Russia's geopolitical role, its importance, on the one hand, as a leading actor opposing common global threats, and on the other – as a bearer of a strong potential of destabilising the situation in and around Europe.

Given all this, Ukraine is the weakest point in the EU-Ukraine-Russia triangle. Its only advantage may come from a sound and consistent state policy resting a strong public support.

Ukraine should build relations with key actors in the security sector on the European continent with account of the following factors: *first*, the strategic importance of Russia in the EU and NATO policy (possible influence of Moscow on the relations of the EU and NATO with Ukraine); *second*, the level of strategic partnership and relations between NATO and the EU (interdependence of cooperation with both); *third*, conflicts and community of interests of actors (avoiding involvement in disputes and conflicts). ■

²⁶ “We want to see a true strategic partnership between NATO and Russia, and we will act accordingly, with the expectation of reciprocity from Russia”. Active Engagement, Modern Defence. Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organisation, p.33.

²⁷ Inability to adopt the relevant strategic documents on security and defence for two years witnessed the low priority of those aspects in the state policy of the current authorities. The absence of such documents (strategies, doctrines, development programmes) not only rules out planned development of the security and defence sector but also effectively bars bilateral and multilateral international cooperation with NATO and the EU in the security and defence sector.

²⁸ Active Engagement, Modern Defence. Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organisation (November 19, 2010), p.32. – NATO web site, <http://www.nato.int>.

²⁹ Treaty of Friendship, Cooperation and Partnership between Ukraine and the Russian Federation of January 14, 1998; Partnership and Cooperation Agreement between Ukraine and the European Communities and Their Member States; Ukraine-EU Association Agenda to prepare and facilitate the implementation of the association agreement of November 23, 2009. – Verkhovna Rada of Ukraine Web site, <http://zakon1.rada.gov.ua>.

5. HUMANITARIAN DIMENSION OF EU-UKRAINE-RUSSIA RELATIONS

The humanitarian aspects of relations within the EU-Ukraine-Russia triangle are especially important, because when it comes to Ukraine's selecting the integration vector as a priority, the stress is mostly on valuable measures, such as democracy, supremacy of law, and the assurance of human rights and freedoms.

The advancement of a certain system of values is carried out mainly by tools of information and socio-cultural impact, which are currently considered to be "soft power" tools. The term "soft power" is defined as a country's ability to be actively influential through its culture, national values, political ideals and practices. The father of this term, Joseph Nye, wrote: "Seduction is always more effective than coercion, and many values like democracy, human rights, and individual opportunities are deeply seductive". Yet warned: "...attraction can turn to repulsion if we are arrogant and destroy the real message of our deeper values".¹

This section gives a brief characteristic of the understanding of human rights and freedoms and the practice of their protection in the EU, Ukraine and Russia, and of the socio-cultural interplay between these countries, the scope and intensity of which may affect Ukraine's choice of the integration direction.

5.1. EU-UKRAINE-RUSSIA: HUMAN RIGHTS AND FREEDOMS

The European understanding of human rights and freedoms is based on the **Charter of Fundamental Rights of the European Union of 2000**, which is actually the code of the main European and international documents on the relevant issues. The essence of this notion is worded in the Preamble to the document: "Conscious of its spiritual and moral heritage, the Union is founded on the indivisible, universal values of human dignity, freedom, equality and solidarity; it is based on the principles of democracy and the rule of law. It **places the individual at the heart of its activities**, by establishing the citizenship of the Union and by creating an area of freedom, security and justice".²

Based thereon, the EU requires from its countries – and from the countries expressing an intention to join the EU – an absolute adherence to the fundamental principles of a democratic state system and an assurance of the supremacy of law, first of all regarding human rights and freedoms. As Ukraine made an official statement of its intention to integrate into the EU, the aforementioned requirements also apply to it.

As for Russia and other countries belonging to, or intending to enter, the integration unions created by it, *first*, neither of these integration unions (including CIS) place strict requirements on its participants adhering to said principles.

Second, **Russia itself implements the model of the so-called "sovereign state", which is state-centric**, and chiefly focused on the consolidation of state institutions

(including law enforcement structures) inside the country, as well as the establishment of Russia as a "great country" on the international stage. Such a democracy provides not for a dialogue between the country and public society, but strict control by the state over public institutions, the support of loyal ones and the liquidation of those institutions, which do not agree with the official policy ("managed democracy").³

Therefore, the countries participating in the existing and future integration efforts under Russia's aegis have non-democratic, different authoritarian political regimes (this also concerns Ukraine).

They are primarily characterised by an imperfect and dependent judicial branch of government, law-enforcement bodies with a political nature (i.e., the lack of fair justice and protection of lawful interests and rights of citizens), curbs on free speech, peaceful assemblies and demonstrations, expanding corruption (including political one), a shadow economy and criminalisation, and above all – property polarisation of the society. The latter prevents the formation of a middle class in the aforementioned countries the most, and consequently the formation of civil societies and law-governed states.

Third, the Russian Federation is characterised by a considerable expansion of a religious (orthodox) understanding of dignity, rights and freedoms of people, which is suggested to be taken as a basis of their legal interpretation, and which comes down to the claim that "human rights cannot be superior to the values of the spiritual world".⁴

¹ See: Nye, J. "Soft Power" and US-EU Relationship. – Web site "Situation in Russia", December 2006, http://www.situation.ru/app/j_arpt_1165.htm.

² See: The solemn proclamation of the Charter of Fundamental Rights of the European Union. Nice, December 7, 2000. – <http://www.zakon3.rada.gov.ua>.

³ In this context the pre-election programme articles of Vladimir Putin are rather demonstrative, as he outlined the following three major tasks for himself as for the future Russian President: maintenance of social balance in the society by means of moderate economic policy, retention of the territorial integrity of the country, and protection of state sovereignty. See: Mezhyuev, B. Vladimir Putin's Soft Power. – *Izvestiya*, March 6, 2012, <http://www.izvestia.ru>.

⁴ See: The Foundations of the Russian Orthodox Church Doctrine on the Human Dignity, Freedom and Rights. – ROC Web site, June 26, 2008, <http://www.patriarchia.ru>. In particular, this document of the ROC was criticized by the Community of Protestant Churches in Europe (CPCE) because of stating the secondary nature of human rights against "spiritual values". See: Human Rights and Moral: Church and Time. – May 2009, <http://www.mospat.ru/church-and-time/120>. Instead, in June 2011 the sitting of the European Council of Religious Leaders approved Moscow declaration of "Human dignity advancement through the human rights and traditional values", which states that traditional moral values are usually more enrooted in the society than positive law, and may facilitate protection of human dignity. See: The Sitting of the European Council of Religious Leaders. – June 28, 2011, <http://www.rodon.org>.

Therefore, the prospects of democracy development in Russia seem to be rather bleak in the nearest future. On the one hand, the world has witnessed mass actions of civil disobedience in the Russian Federation lately, which have been particularly connected with the infringement of voters' rights during the presidential election. On the other hand, sociological surveys of public opinion show that **most of the Russian population are fully satisfied with the aforementioned "sovereign democracy"** (Box "Russian Citizens – About Democracy and Human Rights"⁵).

RUSSIAN CITIZENS – ABOUT DEMOCRACY AND HUMAN RIGHTS

Based on the Levada-Centre surveys, the number of citizens who state that authoritarianism and dictatorship have been established throughout 1999-2011 increased threefold (from 6% to 18% respectively). At the same time, the number of those who observe a development of democracy in the ongoing social and political processes in Russia increased almost fourfold (from 10% to 36% respectively), and constitutes the relative majority at present.

Only 19% of respondents (against 24% in 2005) believe that Russia needs the "western type" democracy, whereas **almost half (49% against 45% respectively) of all citizens is sure that Russia needs a "very special democracy that would meet its national traditions and peculiarities"**.

We may get a certain idea of the real degree of respect to human rights and freedoms, and their protection in the EU countries, Russia and Ukraine by analysing the European Court of Human Rights data given in the table "Selected judgements delivered by the European Court of Human Rights ...".⁶ Thus, in 2011, the court made 1157 decisions on claims from 48 European countries. Russia and Ukraine ranked second and third respectively (after Turkey) when the number of claims are ordered by country of origin. 987 decisions have been made in favour of the plaintiff. **Almost 23% of these decisions concern Russia and Ukraine.** Ukraine is the only country in the list in respect of which all court decisions have been made in favour of the plaintiff. Most claims from Ukraine concern delays in the essential consideration of cases by Ukrainian courts (66), infringements of rights to freedom and security (42), and the right to a fair trial (21).

Summing up the previous sections, we can state that the EU on the one hand, and Russia and Ukraine, on the other, not only understand democracy, human rights

and freedoms in a different way, but also protect them in a different manner. The difference is that human rights and freedoms in the EU countries as judged by the practice of the European Court of Human Rights in 2011 are much better protected (and infringed rights – dealt with better by national courts) than in Russia and Ukraine.

5.2. SOCIO-CULTURAL INTERPLAYS IN THE EU-UKRAINE-RUSSIA TRIANGLE

Even a brief survey of the flows of people, cultural and information products, scientific and other texts, etc. between the parties of the so-called triangle shows that this flow between the EU on the one hand, and Ukraine and Russia on the other, is much less active than the similar flow between Ukraine and Russia (excluding the flows of labour migrants).

The main factors underlying this difference are language barriers, mental differences, and most citizens' limited financial possibilities (and therefore, the limited affordability of high-quality cultural products and/or texts) as far as Ukraine and Russia are concerned, and the rather severe visa regime of the Schengen countries.

The surveys done by the Public Initiative "Europe Without Borders" show that the situation regarding the obtainment of Schengen visas by Ukrainians is being somewhat improved (Box "Ukraine on the visa map of the EU in 2011"). But the obtainment procedure remains rather difficult and long, which prevents most of those, who are willing and able, from visiting any of the Schengen countries for education purposes.

As was mentioned above, the effect of social and cultural impact as a "soft" power tool of a given country depends on its capacity to attract through its culture, national values, political ideals and practices (in other words, it may be called the positive international image of the country). This list may also be supplemented by the political will, clear ideological principles and resource opportunities to form and to advance this image in the international information, educational and cultural spaces.

Within the "triangle" the European Union is definitely the most capable of social and cultural impact. It also possesses the most resources, including financial and information ones. The Russian Federation also has been consolidate, its presence on the international stage and

Selected judgments delivered by the European Court of Human Rights concerning Russia, Ukraine and separate EU countries in 2011

Ranking	Country	Population, mln.	Total number of judgments	Judgments finding at least one violation	Violations								
					Lack of Effective investigation	Right to liberty and security	Inhuman and degrading treatment	Right to an effective remedy	Right to life	Right to a fair trial	Protection of property	Non execution	Lengths of proceedings
Total			1157	987	179	261	183	187	70	211	155	89	341
...													
2	Russia	141.838	133	121	58	68	62	58	53	40	26	18	13
3	Ukraine	46.829	105	105	7	42	15	9	2	21	8	2	66
...													
9	Germany	81.472	41	31	0	8	1	10	0	0	1	1	19
...													
11	France	65.312	33	23	1	1	5	6	0	11	1	0	2
...													
17	United Kingdom	63.200	19	8	5	1	0	0	0	3	0	0	1
...													
23	Spain	45.800	12	9	0	0	0	0	0	4	0	0	1

⁵ The source: Public Opinion – 2011, p.26, <http://www.levada.ru/books/obshchestvennoe-mnenie-2011>.

⁶ The source: European court of human rights: which countries get the most judgments? – <http://www.guardian.co.uk/news/datablog/2012/jan/27/european-court-human-rights-judgments>.

UKRAINE ON THE VISA MAP OF THE EU IN 2011



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Almost two years ago the Institute published the analysis of Ukraine's place on the "visa map of the EU".¹ The analysis showed a confident second position of Ukraine in the world (after Russia) according to the number of Schengen visas issued to the citizens with the share of 9% of the total number of Schengen visas issued in the world. What has changed since then?

This year the European Commission has published the official statistics of visas issued in 2011² much earlier than in previous years, which reflects a growing efficiency of its work. However, this year the methodology of submitting data to the official statistics has somewhat changed. According to the general data available on the official website of the EU, the category D visas (national), which traditionally constituted about 10% of the total number of the EU visas issued for Ukraine and a much larger share for Poland, has been removed. This year this category has been attributed to the general European statistics, which not only impoverishes some existing data, but also complicates the analysis when comparing the data with previous years. **However, we are still able to make a comparative analysis without the category D visas.**

2011 saw 1,103,391 Schengen visas were issued for the Ukrainian citizens, while in the previous year – 932,701 (excluding category D visas). This indicator still allows Ukraine to retain the second position in the world according to an absolute number of Schengen visas issued. However, the gap with China, which occupies the third position, is steadily decreasing: if 3-4 years ago the Chinese citizens received half as many visas as the Ukrainian, now the gap has been reduced to less than 10%.

At the same time Russia, which occupies the first position, has further strengthened its leadership by adding more than a million visas annually for the last two years. As a result, today the Russians receive more than 40% of Schengen visas in the world (two years ago, this figure did not reach 30%).

Index of annual "increase" in the number of visas issued in Ukraine is somewhat higher than the global average (18.3% compared with 14.4%, respectively). However, countries that occupy adjacent positions in the rating as a rule increase their performance even faster: Russia by 24.7% in 2011, China by 31.8%, Belarus by 35.1%.

According to the number of visa refusals (3.3%), due to the steady decrease in this index over the last few years, Ukraine has nearly reached the level that the EU admits as safe (3%). This factor will contribute to the formation of a positive attitude in the EU to the future issuance of visas. However, this factor does not act independently, but together with other no less important factors. Thus, almost zero visa refusals in Belarus does not guarantee any other privileges to this state, or all the more – a complete abolition of visas, given the current political circumstances.

The share of multiple entry Schengen visas in Ukraine (35.5%) seems significant and is three times more than 3-4 years ago. Still, the average figure is even higher (38.7%). Therefore neither the availability of the Visa Facilitation Agreement nor the declared role of a privileged partner (in the Eastern Partnership format) provides Ukraine with the "value added" in this issue. Russia and Belarus have the best index (over 45%). Only a modest figure of China may "rejoice" now (11.8%).

An interesting context of visa statistics emerges when trying to calculate the "density" of visas issuance – that is to determine the number of Schengen

visas issued according to the population size. Belarus is an undisputed leader according to this parameter (1 visa for 16 people), which is almost twice ahead of Russia (1 visa per 28 people), and almost three times ahead of Ukraine (1 visa per 41 people). Turkey according to this indicator is significantly behind (1 visa per 126 people), whilst for the Chinese population, trips to the EU remain almost inaccessible (1 visa per 1,316 people). The latter, however, does not deny an evident increase in Chinese tourists and businessmen in European countries – two years ago one visa accounted for 3,000 Chinese.

For Ukraine it should be taken into account that statistics of category C visas (Schengen) does not disclose fully the issue of visas accessibility, because the Ukrainians, unlike, for example, the Chinese, were issued a significant number of category D visas, that is, national visas of the EU member states, with the right for a short term visit to other Schengen states. Note that in 2010 the share of visas for Ukrainian citizens was about 17% of the total number of visas of the Schengen area.

Thus, the analysis of the available official data on issuance of Schengen visas shows the following.

More than a half of all the Schengen visas in the world are issued in Eastern Europe. What the Eastern European region tends to consider as the "Schengen wall" and condemn as an archaism, the EU sees as about 60% of visa statistics that forms its policy according to stereotypes on migration risks and significant financial income in the form of consular fees. Thus, the abolition of visas for Ukraine and for the whole Eastern Europe is interpreted in the EU mainly as unpopular step that will significantly change the existing status quo (even if the countries of the region achieve a visa free regime not as the group, but seriatim).

The Visa Code of the EU (enacted in 2010) caused a significant increase in the share of multiple entry visas (from 0-15% several years ago to 38% today). However, the official statistics makes it impossible to track how many of these visas are the long-term ones (from 1 to 5 years) and how many are the multiple entry, but short-term visas (with the duration term from several days to several months).

The dynamics of the Schengen visas issuance increase in their absolute and relative number the share of multiple entry visas and the level of visa refusals – all these elements have a small dependence on the presence or absence of the Visa Facilitation Agreement in relations of the EU with a particular country. High indices of growth in the number of visas issued (China) and a record low of visa refusals with the highest number of visa issuance per population (Belarus) suggest that positive results can be achieved without the Visa Facilitation Agreement.

Political climate between the EU and the third countries, the issue of democracy and human rights are sensitive factors for the EU, however they do not significantly affect the visa policy. This is clearly shown by the issuance of visas in Russia, Belarus and China.

Based on the existing trends we can forecast the following.

- **In 2012 Ukraine will be behind China according to the absolute number of the Schengen visas issued**, and will lose the second place in the rating of those "visa" countries, whose citizens travel most to the EU.
- Due to an apparently limited impact of the Visa Facilitation Agreement, the third countries might further lose an interest in signing such an agreement. In these conditions, the EU could maintain their interest (of those countries, which have not got such an agreement, but received a proposal from the EU – i.e. Turkey, Armenia, and Azerbaijan) only if it manages to present the signing of an agreement as the first and necessary step towards full abolition of the Schengen visas for this group of countries.
- **The political processes in Ukraine, whatever they are, do not significantly affect the current visa practices of the EU countries.** Visas will not become less accessible to ordinary citizens, even if the authoritarian tendencies continue to increase. However, further steps toward the abolition of visas may be compromised because they depend not only on the fulfilment of technical criteria, but on the overall atmosphere of relations and perception of the country. The issue of the rule of law, including the (in-)dependent judiciary system can become a stumbling block in the way of Ukraine.

• Since further liberalisation/abolition of visa regimes remains an unpopular policy in the EU and sympathisers of this policy are in the minority, **the success of further efforts depends on the systematic work with focus groups – the opinion makers in the EU, who influence the political decisions** as to establishing a critical mass "of visa-sceptics", who do not consider the visa regime as an effective instrument of migration control and/or do not see dangers associated with migration from the Eastern European countries and Ukraine, in particular.

¹ Sushko, O. Ukraine on the visa map of the European Union. – Dzerkalo tyzhnia, 18 September, 2010., <http://www.dt.ua>.

² Source: Official Web site of the European Commission, http://ec.europa.eu/home-affairs/policies/borders/borders_visa_en.htm.

Countries where the biggest number of Schengen visas is issued

	The whole world	Russia	Ukraine	China	Turkey	Belarus
Schengen visas issued in 2011	12 647 747	5 152 548	1 103 391	1 026 283	592 070	579 924
Schengen visas issued in 2010	11 060 261	4 132 614	932 701	779 122	522 667	429 132
Increase per year (%)	14.4	24.7	18.3	31.8	13.2	35.1
Refusals (%)	5.5	1.5	3.3	4.5	5.0	0.5
Multiple entry	4 887 470	2 439 656	391 396	121 329	219 273	262 469
Multiple entry rate	38.7	47.3	35.5	11.8	37.0	45.3
Share in the world	100	40.7	8.7	8.1	4.7	4.6
Number of inhabitants per 1 Schengen visa issued per year (2011)	-	28	41	1 316	126	16

in the aforementioned world environment since 2000. Unfortunately, Ukraine remains the weakest country in this sense. Apart from that, it is most disposed to the influence from Russia, which is conditioned by the “similarity factor” on the one hand, and growing pressure of the Russian Federation for the purpose of drawing Ukraine towards integration into the Russian sphere of influence – on the other.

The EU-Ukraine Relationship⁷

The actual policy of actively presenting Ukrainian culture (language, history) in foreign countries was officially launched as late as 2006, pursuant to the Decree of the President of Ukraine “On the Cultural and Information Centre at the Foreign Diplomatic Institution of Ukraine”.⁸ In pursuance of the Decree a List of foreign diplomatic institutions of Ukraine in which cultural and information Centres are created has been approved.⁹ The List (with amendments) generally provided for opening 29 Centres in 27 countries of the world.

At present there are information and cultural Centres, created within the institutions of the Ministry of Foreign Affairs, in 22 countries of the world – including 14 EU countries; that is in only a half of all EU countries.¹⁰ At the same time, the activities of these Centres are mostly aimed at the Ukrainian expatriate community and at the satisfying its language and cultural needs. **The task of representing Ukrainian culture and promoting Ukraine’s positive image in respective countries’ societies remains, in fact, underperformed.**

In 2009 the State Target Programme on Forming a Positive International Image of Ukraine for the period until 2011 was approved, and the Ministry of Foreign Affairs was appointed as the state’s programme coordinator.¹¹ **But the financing provided for the Programme did not match the scale and quantity of events.** Planned total expenditures from the state and local budgets for the implementation of the programme amounted to approximately UAH 232 million (\$29.8 million), including about UAH 70 million (or \$8.75 million) for 2010. To compare: in 2008 the Russian Federation spent over \$300 million on its image events, and the US used to spend \$1.5 billion. China spent \$6 billion on the formation of the country’s positive image in 2009.

The presence of Ukraine in the European information environment is limited. Ukrinform is actually the only state agency represented in the European Alliance of News Agencies (EANA). The state television and radio broadcasting company “World Foreign Broadcasting Company of Ukraine” – WRBC of Ukraine “Ukraine & the World” (whose activities, by the way, were about to end in 2011¹²). WRBC broadcasts mainly in Ukrainian (about 75% of the broadcasting time), and in English, German and Romanian. The Ukrainian version of *Euronews* was introduced only in 2011.

Ukraine is also represented abroad by the mass media created by Ukrainian communities in the countries of their settlement. As of the beginning of 2011, there were

1124 printed and electronic publications issued abroad. But in the absence of support from Ukraine itself, some publications had to stop their work (an example is the shutting down of the Ukrainian newspaper “New Life”, which used to be published in Slovakia since 1950).

Thus, the social and cultural impact of the EU on Ukraine and vice versa is minimal. In the first case that is in the result of a language barrier, in the second case mainly, through the **absence of a clear vision of ideological principles for the formation of Ukraine’s image within Ukrainian society and its promotion abroad.**

In fact, only one mass information campaign of an international scale was held during 20 years of independence: the campaign for the recognition of the Holodomor (Famine Genocide) of 1932-1933 as genocide against the Ukrainian nation. Through the campaign and the tragic nature of the Holodomor, we should confess that Ukraine and its people gained an image of victims (“post-colonial” and “post-genocide”), and this image was neither compensated nor balanced by an equipollent positive image of the nation; an image of a nation that was not always the victim in its long-lasting history, but also used to be the victor, builder, and creator of a strong culture, which the Ukrainians managed to form and preserve while being a part of several different countries.

The ideological principles of forming a positive image of Ukraine may be elaborated only after or simultaneously with the elaboration of generally acceptable principles regarding the formation of an integral Ukrainian political nation, a common Ukrainian civil identity, and Ukrainian citizens’ common vision of Ukraine’s present and future. At the moment we have the opposite: interregional differences in the Ukrainian society are becoming more apparent and deepen with every election campaign, as politicians actively use them in their political and clan struggle.¹³

Under these conditions Ukraine’s international image is formed spontaneously, but effectively by the current political practice of the country, the efficiency and quality of which leave much to be desired.

It appears to be impossible to avoid external information and socio-cultural impacts in the modern globalised world. The problem is the country’s (society’s) in ability to juxtapose its own high-quality media and/or cultural product to perceived negative impacts.

Ukraine, being at the centre of several different, directed information campaigns, is unable to represent itself properly in the world’s information space. Its image is mostly formed by the mass media of other countries (which are not always friendly and not interested in providing impartial information on the events and processes that take place in Ukraine).

The EU-Russia Relations

Since the beginning of the 21st century Russia is persistently trying to reassert itself as a “great country”, one of the world’s global centres, capable of impacting on the international agenda. Yet, Russia’s leaders consider the socio-cultural component of humanitarian policy as an important element of the country’s foreign political activity.

⁷ The chapter has been executed using materials of the Analytical Memo “Current State of Satisfaction of the Expatriate Community’s Language and Cultural Demands” (by Mazuka, L.). – The NISS Political Strategy Department, <http://www.niss.gov.ua/articles/548>.

⁸ Decree No. 142 of February 20, 2006.

⁹ Edict of the CMoU /Cabinet of Ministers of Ukraine/ No. 213 of April 19, 2006. It provides for creation of the said Centres at the diplomatic missions of Ukraine in the Russian Federation, France, Poland, Austria, Moldova, Belarus, Belgium, Kazakhstan, USA, Romania, Bulgaria, Georgia, Germany, Israel, Great Britain, Slovakia, Canada, Czech Republic, Italy, Portugal, Uzbekistan, Estonia, PRC, Greece, Turkmenistan, Hungary, Spain (added to the list in 2008), as well as at the General Consulates of Ukraine in New York, Munich, Istanbul, St. Petersburg (added to the list in February 2012).

¹⁰ Austria, Belgium, Bulgaria, Greece, Estonia, Spain, Italy, Germany, Poland, Portugal, Romania, Hungary, France, Czech Republic.

¹¹ Resolution of the CMU No.554 as of June 3, 2009

¹² See: The liquidation of the Ukrainian editorial office of the foreign broadcast is stopped. – ZAXID.NET Agency, June 1, 2011, <http://www.zaxid.net>.

¹³ See: Formation of Common Identity of Ukrainian Citizens: Prospects and Challenges. Analytical Report to the Razumkov Centre. – National Security and Defence Journal, 2007, No.9, page 3-31.



As was mentioned before, the Russian Federation does not intend to join the EU, and does not share all of its values and principles, but instead promotes its own cultural achievements, forms networks of cultural centres, and expands its presence in the European and world information space. Thus, in 2005, the first state-owned, continuously broadcasting English-speaking TV channel *Russia Today* was launched, with the channel having its own correspondents in all major capitals of the world and in Russia's regions. The channel's broadcasting covers all continents except for South America, and is provided in 32 languages ("The Voice of Russia").

In 2007 the Kremlin initiated a project, called "*Russkiy Mir*",¹⁴ under which a powerful ideological basis for the formation of Russia's image as a global civilisation phenomenon - a separate, unique and self-sufficient civilisation. A Foundation by the same name was created for the purpose of promoting the "*Russkiy Mir*" idea in the international cultural, information and educational spaces. It originally targeted Russian expatriate communities (compatriots), but became more extensive later on.

For the purpose of arranging and assuring the usefulness and coordination of efforts by different governmental departments and structures in 2006, the Federal Agency for the CIS, Compatriots Living Abroad and International Humanitarian Cooperation (*Rossotrudnichestvo*) was founded. The Agency is subordinated to the Ministry of Foreign Affairs of the Russian Federation, and conducts its activities through the representative offices or representatives in the diplomatic missions in 74 countries of the world. There are 83 divisions of the Agency, including 58 Russian centres of science and culture. It cooperates closely with non-governmental Russian and international organisations, including the Russian World Foundation, the Russian Culture Foundation, the International Council of Russian Compatriots, etc. (it has over 70 partner organisations, including such information partners as *ITAR-TASS*, *RIA News*, *Russia Today* and *TVC* TV channels, the *MIR* TV company, the radio station "*The Voice of Russia*", the journals "*Russkaya Mysl*", "*Russkiy Vek*", "*Russkiy Mir*" and others).

In general, the Russian Federation has a full set of effective instruments for the formation and promotion of the country's positive image in the cultural, information and education spaces in Europe and the wider world. Therefore it is not surprising that Russia transformed from a "unnecessary country" (Zbigniew Biezynsky) into a powerful world centre in the eyes of the international community within a rather short time period.

The Ukraine-Russia Relationship: Interplay Disparity

The relationship between Ukraine and Russian in the humanitarian sector traditionally remains rather affected by politics, and in recent days this disparity has grown insofar as it concerns the rights of the national expatriate communities on each other's territory. First of all, this concerns the "language" issue, and the activity of cultural and educational centres of Ukrainians in Russia, and Russians in Ukraine.

The asymmetric, inequitable nature of the bilateral relationship becomes the most apparent in the following:

1. While Ukraine increases the number of Russian cultural centres, human rights and other organisations of the Russian expatriate community, Russia liquidates the few similar Ukrainian structures.

At present, there are dozens of organisations in Ukraine uniting the representatives of the Russian expatriate community and/or Russian-speaking Ukrainians. Thus, the website of *The Rossotrudnichestvo Representative Office in Ukraine* gives a list of over 40 organisations of compatriots in Ukraine, 20 of which have international or all-Ukrainian status. The Register of organisations of Russian compatriots – participants of the system of the Coordination Council of Organisations of Russian Compatriots (CCORC), approved in April 2012, contains 130 organisations (including 13 all-Ukrainian ones, and 117 regional ones).¹⁵

Russian cultural centres operate in Kyiv, Lviv, Odesa, Rivne, Simferopol and other cities of Ukraine, and new centres are to be opened in Dnipropetrovsk, Kharkiv, and Yalta.

In the meantime, in January 2012 the Federal National-Cultural Autonomy of Ukrainians in Russia (FNCA UR) was finally liquidated pursuant to the decision of the Supreme Court of the Russian Federation. The preparatory actions for the liquidation of the Association of Ukrainians in Russia (AUR) were taken at the same time. Only a considerable negative public response in Ukraine and a rather harsh declaration of the Ministry of Foreign Affairs of Ukraine suspended this process.

The operation of the Library of Ukrainian Literature is still questionable¹⁶, as it has been under pressure of Russian law enforcement structures since 2006-2007: they carried out a forced "update" of the fund, during which certain publications have been withdrawn, most of which were periodicals of Ukrainian communities in Russia. On December 23-24, 2010 the searches confirmed by the Russian party were done; several dozens of books and periodical publications were taken for the purpose of psychological and linguistic expert examination, computer hard disks were withdrawn, and the library premises have been closed and sealed.

The aforementioned declaration by the Ministry of Foreign Affairs of Ukraine concerning the AUR states that such actions proved Russia's "prejudiced attitude to the Ukrainian expatriate community's activities, in spite of multiple assurances to the contrary at the political level".¹⁷

In this context it would be suitable to provide an assessment of the activities of Georgy Muradov, deputy head of Russian information and cultural centres *Rossotrudnichestvo*: "Such cultural centres are a very powerful instrument of power, when developed and built properly... Such centres around Ukraine will help make a real impact on the public consciousness in favour of pro-Russian moods".¹⁸

2. Educational activities became more active, but already initiated joint educational projects have an apparent pro-Russian nature. Thus, the intensification of Russia's impact on Ukraine's educational sector is accompanied by de-Ukrainisation of education within the country.¹⁹

During 2010 after a pause of three years two meetings were held of the Subcommittee for humanitarian

¹⁴ See: the article by Shanghina, L. in "*The dichotomy of Russkiy Mir for Ukraine*" published in this journal.

¹⁵ All-Ukrainian Coordination Council of Organisations of Russian Compatriots: Register of Organisations of Russian Compatriots: as of April 28, 2012 – ACCORC Web site, <http://www.vksors.org.ua/reestr-organizacij>. CCORC – Coordination Council of Organisations of Russian Compatriots.

¹⁶ Worked in 1918-1949.

¹⁷ Liquidation of the Association of Ukrainians of Russia proves the prejudiced attitude to the Ukrainian expatriate community – the MFA Declaration. – Interfax-Ukraine, May 18, 2012, <http://www.interfax.kiev.ua>.

¹⁸ Russian cultural centres created under the eparchies of the Ukrainian Orthodox Church bring up the pro-Russian political forces. – March 16, 2012, <http://www.religion.in.ua>.

¹⁹ See: Open letter of the Academy of Science of the High School of Ukraine to the President of Ukraine: Address of the Presidium of the Academy of Science of the High School of Ukraine to the President of Ukraine regarding the threats of destruction of humanistic and Ukrainian filling of the humanitarian education. – March 2, 2012, <http://www.osvita.ua>.

cooperation of the Ukrainian-Russian interstate commission.²⁰ The ministers of education and science of both countries agreed on plans of interaction between their departments. As the minister of education and science of the Russian Federation, Andrei Fursenko, said: "We returned to the normal system of coordinates".

Among the joint projects are the publication of textbooks on the natural and exact sciences, and the development of a methodical book for teachers of history of both countries. As Andrei Fursenko said, "We should create conditions for the youth to communicate, to have common books, and to be able to use the same textbooks, or at least the same materials during their studies".²¹

Another noticeable circumstance is that it was decided to involve specialists from EU countries in writing the textbooks on the natural and exact sciences. But the methodological book on history was planned to be written by Russian and Ukrainian specialists only.

The following situation is observed in the sector of higher education: at present there are six licensed branches of Russian higher educational establishments operating in Ukraine (including five in Sevastopol, two of which are located directly at the RF Black Sea Fleet facilities).²² There is an established practice of giving quotas for Ukrainian citizens' studying in the higher educational establishments of Russia (including at the cost of the Russian budget). By the number of students studying in the Russian higher educational establishments Ukraine ranks second after Kazakhstan. According to the information provided by Andrei Fursenko, in 2009/2010 over 7,500 Ukrainian students studied in Russia, including about 6,000 studying free of charge.²³

At the same time, there are no branches of Ukrainian higher educational establishments on the territory of the Russian Federation. Ukraine only gives small quotas for Russian citizens studying in Ukrainian higher educational establishments, as well as scholarships for Ukrainians residing in Tyumen.

3. The scope of Russian language application in Ukraine has been extending lately. Draft laws are introduced in Parliament regarding giving it the status of the second state language, while Russia reduces even the amount of Sunday schools, where the children of the Ukrainian expatriate community could learn their native language.

Russian and pro-Russian organisations consequently insist on giving the Russian language the status of second state language, basing their claim on the need to protect the language itself from the pressure of "forced Ukrainisation", and the protection of citizens' rights to receive information in their native language. The last time this issue was concerned was the sitting of ACCORC on April 12, 2012, participants of which supported the initiative of *Rodyna* and Kyiv municipal CCORC to address to the President

of Ukraine with the demand to fix the official status of Russian language in the Constitution of Ukraine.²⁴

In the meantime, we can evaluate the real state of affairs regarding the Russian language in Ukraine by the degree of its expansion in the information sphere of the country, particularly by the amount of printed publications. Based on data of the Book Chamber of Ukraine, Russian used to prevail considerably over Ukrainian in 2007 (during the "forced Ukrainisation" period), and in 2010 in the general annual circulation of fiction and periodicals (magazines, bulletins, newspapers). Ukrainian was used in the segment of school textbooks and tutorials for higher educational establishments. Instead, in 2010, if compared to 2007, the share of Russian-language publications of children literature increased twofold, from 33.3% of the general annual circulation in 2007 to 67.8% in 2010.

Before 2006, there used to be pretty many Ukrainian Sunday schools or classes in Russia offering Ukrainian language lessons.²⁵ Such educational centres were usually created by local Ukrainian communities, and were financed by local governmental authorities. But a new federal law on education transferred financing of general education establishments from municipal budgets to the administration of constituent entities of the Federation (regions, territories, districts). It resulted in the termination of financing, and consequently the liquidation of Ukrainian Sunday schools (classes). In April 2008 the Ukrainian Educational Centre at the comprehensive school No. 124 in Moscow was liquidated. Currently there are only three Ukrainian Sunday classes operating in Russia's capital. They are situated at the National Cultural Centre of Ukraine in Moscow, the state cultural institution "Library of Ukrainian Literature", and at the Department for International Cooperation and International Communication in the Palace of Youth's Creative Work (an experimental group for studying Ukrainian communication (group of studying Ukrainian language and literature)). One Sunday school continues to operate in West Siberia, in the City of Surgut, at the cost of parents and sponsors.²⁶

The expansion of knowledge of Russian as one of the languages of international communication is generally a positive phenomenon. But it may be positive only in case it is not used for a mass expansion of Russian culture in general, including its ideological components, and often it involves expanding these components first. Thus, the head of the Committee for CIS and relations with compatriots of Russian State Duma, Leonid Slutsky, recommended ratification of the Intergovernmental treaty on the cultural and information centres, and confessed that ratification would give an impulse to "mutual cultural penetration" and would create additional conditions for "Russian humanitarian expansion".²⁷ Such confessions prove that the Ukrainian-Russian relationship in the humanitarian sector can be hardly called a mutual relationship of parity. ■

²⁰ The first sitting of the Subcommittee was held on November 3, 2006, the second one – on June 14, 2007.

²¹ See: Riabchun, Y., Ukraine and Russia To Tell Common History. – October 28, 2010, <http://www.osvita.ua>.

²² They are: Institute of Economics and Law (branch of the Academy of Law and Social Relationship); the Crimean Branch of Novorosiiska State Marine Academy; Sevastopol Branch of St. Petersburg Humanitarian University of Trade Unions; Sevastopol Branch of Saratov State Social and Economic University; Branch of Moscow State University named after M.V. Lomonosov in Sevastopol; in Chernihiv - Ukrainian-Russian Institute - the Branch of Moscow State Open University. Russian State Humanitarian University is about to start its operation in Kyiv (with remote learning). See: List of branches of Russian higher educational establishments in the CIS countries. - Web site of the Ministry of Education and Science of the Russian Federation, <http://www.russia.edu.ru>.

Law On Remote Learning signed by the President of the Russian Federation on March 30, 2012. Ukraine has no similar law. EAST-UKRAINE LLC is the official partner of the said higher educational establishment on the territory of Ukraine.

²³ Tsybaliuk, A., Humanitarian Section: From Brakes Into Catalyst. – Weekly 2000, April 14, 2010, <http://www.2000.net.ua>.

²⁴ ACCORC New Initiatives. – April 28, 2012, <http://www.ukr.rs.gov.ru>.

²⁵ In St. Petersburg, Voronezh, cities of Tyumen Region, Khanty-Mansiysk and Yamal-Nenets Autonomous Districts.

²⁶ See: Bondarenko, A., How to Revive Ukrainian School in Russia? – *Ukrainskaya Pravda*: Historical Truth, February 2, 2011, <http://www.istpravda.com.ua>

²⁷ The State Duma is to create opportunities for "Russian humanitarian expansion" in Ukraine. – March 7, 2012, <http://www.correspondent.net>.

6. CONCLUSIONS AND PROPOSALS

The EU-Ukraine-Russian relations are a mix of partnership, rivalry and conflicts. The level and nature of those relations are determined by the geopolitical interests of the parties, their “weight” in the world and regional politics and specific features of bilateral contacts. Geopolitical competition of the EU and Russia in the post-Soviet space is the main problematic factor. Integration projects of Moscow and Brussels pursue different goals and rest on different values and cooperation mechanisms. Ukraine appeared in the focus of influence of those two projects, facing a difficult, but pressing “civilisation” choice.

Analysis of the state of the EU-Ukraine-Russia relations prompts the following conclusions:

1. Political relations of Brussels, Kyiv and Moscow are controversial and unpredictable.

1.1. Contacts of Kyiv and Brussels are now in a critical state, mainly due to internal political developments in Ukraine. This endangers all aspects of the EU-Ukraine cooperation.

1.2. Ukraine-Russia relations are asymmetric and unequal. Further concessions by Ukraine in relations with Russia are unlikely. Meanwhile, Moscow’s pressure intended to draw Kyiv into the Customs Union will grow.

1.3. The dialogue between Moscow and Brussels is complicated by a number of problems: geopolitical rivalry, critical attitude of the EU to the state of democracy in Russia, differences in opinions on regional security and settlement of “frozen” conflicts. Relations in the energy sector are also tense.

1.4. Extreme uncertainty is the main feature of relations in the EU-Ukraine-Russia triangle. Such a situation does not comply with the parties’ interests and calls for searching ways and mechanisms to improve cooperation, finding common points of interest between the parties in different domains.

2. Economic contacts of the EU, Ukraine and Russia do not meet the parties’ potential.

2.1. Low standards of the quality of institutions in Ukraine and Russia dealing with regulation of economic activity (first of all, unprotected ownership rights, dependence of the judicial branch on the executive one, spread of corruption, onerous and inefficient state regulation of the economy) present the main obstacles to development of efficient economic relations in the EU-Ukraine-Russia triangle (and especially in bilateral relations of Ukraine and the EU). Without relevant institutional changes, the potential of economic relations of the two countries will be limited.

2.2. Ukraine, having joined the Customs Union, could get tactical economic gains. However, this option

risks diluting the strategic prospects for innovative economic development and the country might get caught up in a trap of potentially negative economic, financial and political consequences of the Eurasian integration. European integration (on the condition of equal and transparent relations with Russia) offers no instant economic benefits to Ukraine. However, in that case the country wins strategically: adopting European values, norms and rules, Ukraine will fundamentally raise its investment attractiveness and provide with a real chances to restructure the national economy on a modern innovative basis (since the present innovative potential of the EU is much higher than that of Russia).

3. Energy dialogue of the parties is asymmetric and fraught with conflicts.

3.1. The Russian energy policy towards Ukraine stands out as being tough and consistent. The Russian leadership uses Ukraine’s energy dependence to keep the country within its sphere of interests. After signing of the “Kharkiv Agreements”, the corridor for Ukraine’s traditional policy of manoeuvring between energy spaces of the EU and Russia has substantially narrowed.

3.2. The Ukrainian authorities’ choice of political concessions, instead of legal settlement of the commercial dispute on the gas problem, is attributed to its lack of a strategic idea of European prospects and influence of business structures connected to the government and interested in preserving their “grey schemes” in relations with Gazprom.

3.3. The energy policies of Russia and Ukraine are inconsistent with the principles of the EU energy market reform, since administrative methods of state governance prevail in both countries, giving rise to corruption and unfair competition. The existing contradictions bar proper coordination among the sides of the energy “triangle” adding risks to the European energy security.

3.4. Joining the Energy Community gave Ukraine an opportunity for full accession to the European energy space. Provision of regulatory-legal compatibility of the gas markets of Ukraine and the EU can promote competition and security of gas supply and strengthen Ukraine’s position in negotiations with Russia.

4. Cooperation in the security sector has potential for development.

4.1. Ukraine’s security policy in general and in Europe, in particular, is variant and inconsistent. Ukraine is facing a deficit of security due to its inability to ensure an adequate defence by its own forces and the lack of reliable foreign guarantees. The non-bloc policy gives Ukraine no security guarantees and does not protect it from being shifted back into Russia’s orbit.

4.2. The EU-Ukraine cooperation aims to enhance security and stability, to promote democratic values on the national, regional and global scale. Further development of partnership between Brussels and Kyiv in the security sector does not threaten the interests of other states and international organisations.

4.3. Cooperation with Russia in the security sector is important for Ukraine. Meanwhile, relations with Russia are unequal in terms of geopolitical interests, financial, political and economic resources. Cooperation with Russia in some domains (military exercises and training, defence industry cooperation), where Russia tends to comply with European standards, may be the most promising for Ukraine.

4.4. The goals and priorities of Ukraine's relations with the EU and Russia in the security sector generally coincide, promoting joint efforts in different formats to achieve common benefits.

5. Socio-cultural aspects of relations are problematic.

5.1. Humanitarian, socio-cultural, people-to-people contacts of Ukraine with the EU are rather limited and unstable – in particular, due to the language barrier, strict visa procedures in the Schengen area, lack of Ukrainian translations of European authors and vice versa – translations of Ukrainian authors into European languages, poor work of Ukrainian ministries and agencies in charge of cultural, scientific and educational exchange.

5.2. Socio-cultural aspects of the Ukraine-Russian relations are overly politicised and concentrate mainly on subjects sensitive for societies of both countries: different interpretation of some historic events and figures, granting an official status to the Russian language in Ukraine, etc.

5.3. Humanitarian and socio-cultural aspects of the EU-Russian relations are complicated by different perceptions of democracy, the rule of law, human rights and freedoms. This affects not only bilateral relations but also relations in the “triangle”, where Ukraine has to make a choice between opposite “values”.

5.4. Ukraine's presence in the global media space is limited, so, the international community learns about the country from information sources of the third parties, not always friendly and ready to provide an unbiased coverage of events and developments in the country. This will further damage the international image of Ukraine.

The above conclusions let one speak about three possible scenarios of Ukraine's further shift in the “East-West” coordinates:

Preserving the *status quo* – Ukraine continues to pursue a non-bloc policy, staying in the “grey” zone between two integration groups (the EU and the Customs Union) and two collective security systems (NATO and CSTO). However, this scenario, limited by the lack of trust in the “new” Russian President and a favourable situation on the energy markets, **will not last long**. The growing pressure from Russia will further restrict

options for manoeuvre for the Ukrainian authorities, making them to take hasty and unreasonable decisions. In absence of any reliable security guarantees, huge risks will arise for Ukraine's sovereignty.

The Eurasian integration scenario will follow the developments under the previous scenario. Its implementation demands only Ukraine's consent and minimal efforts at the initial stage (accession to the Customs Union). Further move of Ukraine to CEZ and the Eurasian Union would be a technical matter. Russia is interested and will do its best to implement this scenario. This will make Ukraine a satellite country serving Russia's interests. The Ukrainian society will be unable to reach accord and remove tensions: its polarity will change from anti-Western to anti-Russian. This is fraught with a deep internal policy crisis, emergence of new dividing lines and a deteriorating security situation at the EU borders.

The European integration is an alternative to the two previous scenarios. Russia is not interested in it, but Europe (trying to widen the zone of security and stability) and the Ukrainian society (due to the prospects of adopting European standards of living) are. However, that scenario requires much greater political will, intellectual efforts and resources (including those of the EU) to implement deep systemic reforms in Ukraine. This scenario will be likely only in case a team of true reformers will come to power, who are not just ready for changes but able to make changes, to meet expectations of their supporters, despite the difficulties and resistance. The Ukrainian realities make “European integration” scenario very difficult to accomplish. Implementing this scenario will be conditional on: clear political definition and practical proof of the priority and irreversibility of the European integration trajectory; deepening of partnership with European and Euro-Atlantic structures, abidance by the principles of openness, good-neighbourliness and mutual respect in relations with Russia.

The European and the Eurasian development models have their pros and cons. However, the performed analysis gives grounds to say that strategically, European integration outbalances some tactical benefits of eastern integration. In political, economic, energy, security and humanitarian (socio-cultural) domains, moving towards the EU fully complies with Ukraine's national interests.

In order to avoid the development of scenarios unfavourable for Ukraine and to diminish problems and enhance the efficiency of the EU-Ukraine-Russian relations, the following steps should be made:

1. To solve domestic problems, to further Ukraine's political dialogue with the EU and Russia.

Domestic policy

1.1. To ensure exercise of state power on the principles of its division into legislative, executive and judicial, as provided by Article 6 of the Constitution of Ukraine. To create a legal mechanism of checks and counterbalances among different branches of state power, ruling out unconstitutional concentration of power in the hands



of one state body or official, dominance of one branch over the others (usurpation of power). To restore the legal status of the Verkhovna Rada of Ukraine, ensuring its independence in discharge of functions as the only legislative body in Ukraine.

1.2. To urgently solve the existing systemic problems of the national judiciary and to bring it in compliance with the European standards. To ensure true independence of the judicial branch, being the main and indispensable condition of fair justice. **To take legislative and other measures for legal rehabilitation of persons who, according to domestic experts and international organisations, faced selective justice and politically motivated judgements.**

1.3. To perform de-politicisation and reformation of the law-enforcement system. To pay particular attention to fulfilment of Ukraine's obligations to the Council of Europe concerning reformation of the Ukrainian public prosecutor's offices, now vested with excessive powers and functions, combination of which in one body is inadmissible from the viewpoint of implementation of principles of the rule of law and legitimacy (general supervision, pre-trial investigation, guidance of pre-trial investigation, supervision of pre-trial investigation and operational search activity, etc.).

1.4. To ensure free and fair parliamentary elections in 2012. For that, it is necessary, in particular:

- to change the election legislation by bringing all its key provisions in compliance with principles of democracy and the rule of law (with account of the Council of Europe recommendations set out in the PACE Resolution "Functioning of democratic institutions in Ukraine" (January 26, 2012);
- to ensure due organisation of elections (activity of the Central Election Commission, formation and activity of district and local commission);
- to take legal and organisational measures to ensure impartiality of the state authorities and local self-government bodies to the election process actors (parties, candidates for parliamentary seats).

Relations with the EU

Fulfilment of the above proposals of internal problem solution will help improve the situation with the initialled basic document – the Association Agreement. Exactly that way will ensure transfer from partnership and cooperation to political association and economic integration with the EU.

1.5. To ensure efficient attainment of the Association Agenda priorities, first of all, in such sensitive for the EU sectors as democracy development, the rule of law, protection of human rights and freedoms, civil society development, fighting corruption, etc. Against the background of uncertainty with the Association Agreement, fulfilment of the Association Agenda should be the main priority in the authorities' relations with Europe.

1.6. To step up fulfilment of the National Plan on Visa Liberalisation Action Plan implementation. First of all, to focus on the two most problem-hit blocks of the Plan – "Document Security" and "External Relations and Fundamental Rights". To speed up adoption of a number of relevant laws and regulatory-legal acts. To accomplish the first, legislative-planning phase of the Plan and to pass to the second one that envisages implementation of regulatory-legal acts adopted earlier.

1.7. To pay priority attention to meeting the EU requirements formulated in the Annual Report on implementation of the European Neighbourhood Policy in Ukraine, in particular: (a) to continue cooperation with the Council of Europe on the most urgent issues; (b) to provide for implementation of the constitutional reform involving all interested parties; (c) to take efficient measures of fighting corruption; (d) to solve the issue of transparency and accountability of management of public funds, using technical assistance of the EU in that sector; (e) to ensure efficient coordination and optimal use of financial and other assistance of the EU.

Relations with Russia

1.8. To wage a transparent, open, equal dialogue with Russia on the basis of international norms, rules and standards, steadily defending Ukraine's national interests, first of all, in the field of regional integration. To clearly and unambiguously inform the Russian side on the official level that integration in the EU is a consistent and irreversible course of Ukraine that rules out accession to the Customs Union. To ensure transparent dialogue with Moscow, avoiding covert dealings like the Kharkiv Agreements.

1.9. To facilitate by all means solution of long-standing problems in bilateral relations: (a) to make interstate documents on delimitation of the sea border between Ukraine and Russia; (b) to speed up demarcation of the land border; (c) with account of the national interests, to make additional agreement concerning the Russian Black Sea Fleet operation on the territory of Ukraine (e.g., agreements of movement of military units of the Russian Black Sea Fleet beyond the places of their dislocation, rearmament, rent); (d) to sign agreements on navigation, fishing, protection of the sea environment.

2. To further economic cooperation in the EU-Ukraine-Russia format.

2.1. To formulate and offer to partners of the "triangle" a package of **important scientific-technological projects** in the fields of new sources of energy and energy efficiency, environmental protection, medicine, information technologies, introduction of advanced technologies of the 21st century (nanotechnologies, biotechnologies, etc.) that should be implemented on a trilateral basis. For that, in particular, to partially open (on the basis of principles of reciprocity and equivalence) national scientific-technological programmes and relevant EU programmes for partners, regiment conditions of access to funding, protection of intellectual property and technology transfer.

2.2. To initiate trilateral discussion of **harmonisation of national standards, technical regulations and other technical norms** with a view of their priority orientation to the relevant EU standards and technical regulations. The latter should be taken as the basis for further formation of a single European technological space with the most favourable conditions for technological cooperation and trade in high-tech goods and services.

2.3. To put forward a proposal of drafting and conclusion of a trilateral **international agreement of cooperation and coordination of development of pan-European infrastructure facilities**, providing for expansion of possibilities for cooperation in implementation of a number of important pan-European high-tech infrastructure projects – in the fields of international transport infrastructure, modern telecommunications infrastructure and high-speed Internet, including for development of various forms of e-trade.

3. To promote improvement of trilateral contacts in the energy sector.

3.1. To speed up systemic reforms in the energy sector in line with obligations assumed by Ukraine when acceding to the Treaty Establishing the Energy Community.

3.2. To provide for a decrease in procurement of Russian gas from nearly 45 billion cubic meters in 2011 to 10 billion cubic meters in 2020 by implementing projects of energy conservation, development of energy saving technologies and alternative kinds of energy, increasing extraction of natural gas (including untraditional) and construction of an LNG terminal. Those measures should be taken into account in Ukraine's updated Energy Strategy.

3.3. To seek revision of the obsolete practice of sale of the Russian gas on the western border of Ukraine. European buyers should obtain gas from Gazprom on the Russian-Ukrainian border, while the Ukrainian gas transport operator should make transit contracts not with Gazprom but with European companies.

3.4. To further cooperation with the EU and Russia on the issue of enhancing NPP operation safety and to continue the *Westinghouse* programme on diversification of nuclear fuel sources.

3.5. To consider synchronisation of operation of the Ukrainian GTS with the EU gas transportation networks. To create mutually acceptable conditions for employment of idle capacities of Ukrainian underground gas storage (UGS) facilities by European companies. To ensure sound legal procedures of natural gas ownership protection in UGS.

3.6. To ensure that Ukraine's GTS is in state ownership until the gas sector is reformed in line with the EU legislation requirements. The reformation will open up possibilities for involving the European or the US companies in privatisation of GTS, on the condition of keeping the controlling block of shares in state ownership.

4. To further cooperation in the security sector.

4.1. In view of the European integration path chosen by Ukraine, to term and legislatively provide for partnership with European and Euro-Atlantic structures (EU, CSDP and NATO) as the priority line of cooperation in the security sector; to promote inter-agency and inter-programme coordination of cooperation with the EU and NATO.

4.2. To actively promote constructive partnership with NATO, viewing it as a catalyst for democratic reforms promoting national security, democracy, the rule of law, protection of human rights and market economy.

4.3. To seek wider participation of Ukraine in the EU and NATO-led projects and initiatives open for partner countries, to step up cooperation in the domains by providing access to transit of defence industry technologies;

4.4. To expand Ukraine's involvement in the EU and NATO operations, international exercises, especially by providing maximum political, logistic and resource support.

4.5. To propose to Russia to put forward a joint initiative of signing the Adapted Conventional Armed Forces in Europe Treaty by taking into account the increasing military potential of the member states and replacing the Russian peacekeeping contingent in Transnistria with a multilateral one.

5. To strengthen the humanitarian (socio-cultural) aspect of relations.

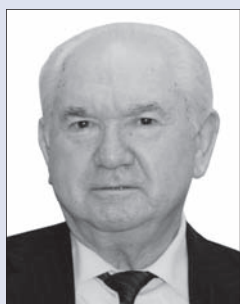
5.1. To expand cultural ties of Ukraine with the EU countries. For that: (a) to implement a programme of obligatory regular probation of teachers of foreign languages in the relevant countries; (b) to encourage translation activity in Ukraine, extending state support to it; (c) to change the practice of selection of works by Ukrainian artists (creative teams) for participation in international festivals, exhibitions, etc., ensuring its publicity, transparency and competitive principles.

5.2. Negative information flows can be opposed only by creating and promoting own high-quality information and cultural products: (a) to change the procedure of state funding of culture by introducing the practice of open and transparent competitions of cultural projects and obligatory public reporting of the Ministry of Culture about the expenditure of public funds; (b) to concentrate as much as possible resources for revival of the Ukrainian cinema as a powerful means of promoting of the country's image in the cultural and information space.

5.3. To seek de-politicisation of the Ukraine-Russian bilateral dialogue on humanitarian problems. For that: (a) to clearly inform the Russian side about the inexpediency of revision of the constitutional provisions concerning one official language in Ukraine; (b) to convincingly prove the absence of language discrimination in Ukraine and remove issues of protection of the Russian language from the agenda of bilateral relations; (c) to avoid politically sensitive historic moments and social myths of both countries in official bilateral communication. ■

EU-UKRAINE-RUSSIA: PROBLEMS, ACHIEVEMENTS, PROSPECTS*

UKRAINE SHOULD STEP UP THE EUROPEAN INTEGRATION VECTOR OF ITS FOREIGN POLICY



Oleh BILORUS,
*Chairman of the Committee
on Foreign Affairs,
the Verkhovna Rada of Ukraine*

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

The EU membership is the strategic goal of the Ukrainian state. The European integration course was legislatively set in the Foreign Policy Guidelines endorsed by the Verkhovna Rada of Ukraine in 1993. The Law of Ukraine "On the Foundations of Domestic and Foreign Policy" of July 1, 2010, speaks of the EU membership as the end goal of Ukraine's European integration.

Ukraine sees the process of European integration as a tool for systemic domestic reforms intended to draw our country closer to European standards, secure a decent place in the European economy and help the country become a powerful, advanced and high-tech state.

The Association Agreement is highly promising. Its signing is now the key strategic priority of Ukraine in relations with the EU. It rests on the principles of political association and economic integration and contains the provision for creating a deep and comprehensive free trade area. The Association Agreement will provide a new, deeper format of relations between Ukraine and the EU, going far beyond the limits of similar agreements once made between the EU with Central and East European countries.

The EU-Ukraine FTA will be an unprecedented step in the EU practice, since it will provide for liberalisation of trade not only in goods but also in services, and offer more favourable terms for capital and labour movement. The distinctive feature of the FTA is a comprehensive adaptation programme of the Ukrainian sectoral legislative and regulatory acts to the relevant EU standards. This will make it possible to largely remove non-tariff (technical)

barriers in trade between Ukraine and the EU and provide wider access to the common EU market for Ukrainian exporters and vice versa – for European exporters to the Ukrainian market.

One should not expect that the process of the European integration would be an easy task. Assessing the risks of establishing a free trade area with EU, one cannot leave unattended such problems as a possible drop in state budget revenues and curtailment of a number of social programmes, growth of consumer prices, growth of unemployment, decline of the Pension Fund revenues, growth of prices on raw materials and utility rates. All these risks, which may arise in the short-run, must be taken into account, and the necessary measures should be provided.

At present, there is also a significant potential for the development of sectoral cooperation between Ukraine and the EU, especially in the energy sector. Integration of Ukraine's energy market into the EU's was greatly facilitated by Ukraine's full accession to the Energy Community. Modernisation of the Ukrainian gas transportation system (GTS) and the gas sector reform with support from European financial institutions remain another key priority in the energy sector. Those efforts are intended to enhance the technical reliability of the Ukrainian GTS and to remove all economic and technical risks for an unimpeded transit of energy resources to Europe. Ukraine supports the EU initiative concerning cooperation on energy issues in the trilateral format EU-Ukraine-Russia.

Those strategic goals cannot be attained without Ukraine's achievement of European democratic standards, guarantee of human rights and freedoms and the rule of law. Our European partners have repeatedly criticised the situation concerning the rights and freedoms in Ukraine, and expressed their disappointment in the selective justice process in this country. Hence, the issue of European integration cannot be separated from fulfilment of Ukraine's commitments to the Council of Europe and completion of the PACE monitoring procedure.

Noteworthy, PACE resolution on Ukraine gave an impetus to step up the efforts in fulfilling Ukraine's commitments to that organisation. The Verkhovna Rada of Ukraine takes an active part in that process. On March 21, 2012, The Verkhovna Rada of Ukraine (with further preparation for the second reading) adopted the resolution "On the action plan to implement the Opinion No.190 (1995) of the Council of Europe Parliamentary Assembly On the application by Ukraine for membership

* Interviews were conducted in March-April 2012. The respondents are presented in the alphabetical order.

of the Council of Europe” and the PACE Resolution No.1862 (2012) “The functioning of democratic institutions in Ukraine”.

The Verkhovna Rada of Ukraine pays a great deal of attention to the development of the inter-parliamentary dialogue with the European Union, involving discussion of a wide range of internal developments in Ukraine and the EU, bilateral relations, key issues of international life. We hail intensification and deepening of inter-parliamentary cooperation, now taking place not only on the level of the Committee for Inter-Parliamentary Cooperation between Ukraine and the EU, made up from MPs of the third convocation, but also within the newly-established PA EURONEST.¹ Of particular importance for our state are the provisions in the founding documents of PA EURONEST on possible application of Article 49 of the EU Treaty to partner states. This opens up European integration opportunities for Ukraine.

Regarding the prospects of partnership between Ukraine and the EU, I can say one thing: the depth of European integration of our state entirely depends on Ukraine’s ability and resolve to make political, economic and legislative changes, which are necessary to meet the European Union membership criteria.

– What is your assessment of and prediction for Ukraine-Russia relations?

The Russian Federation, given the deep historic ties between our peoples, is and will remain one of the key political, economic and humanitarian partners for Ukraine. This factor results in the extremely high level of partnership between our states, but also in our divergent positions.

Present-day globalisation processes prompt the need of regional integration. Therefore, the main task of the Russian foreign policy is to strengthen its position on the international scene and enhance its geopolitical influence. Moscow persistently claims its leadership in the post-Soviet space and is interested in Ukraine’s full-scale involvement in integration projects under its auspices. Ukraine, in its turn, is interested in development of relations with both Russian partners and the EU states. Hence, the “geopolitical” dimension shapes the agenda and atmosphere of bilateral relations. In my opinion, all other disputable cooperation issues, including the “gas issue”, derive from Russia’s desire to increase its influence on Ukraine.

In relations with Russia, Ukraine prioritises conclusion and provision of a fully-fledged functioning free trade area within the CIS, which will remove trade barriers and increase trade volumes between the two states. I consider the potential of bilateral trade that in 2011 hit \$56 billion far from exhausted. It can easily reach \$100 billion. Huge prospects also exist in the fields of industrial cooperation, creation of international transport corridors, growth of energy exports, etc.

As regards Ukraine’s participation in the Customs Union, in my opinion, such a rigid form of integration is unacceptable for our country, since it means not only gradual transformation of the CIS into a supra-state structure, but also runs contrary to the Ukrainian Constitution and the Law of Ukraine “On the Foundations

of Domestic and Foreign Policy”, where the European integration is the main strategic foreign policy priority of our state.

I cannot but dwell on the inter-parliamentary dialogue between Ukraine and Russia, traditionally constructive and dynamic. It takes place in many sectors. Parliament leaders and national deputies regularly meet at the bilateral level and at international parliamentary forums. The Inter-parliamentary Cooperation Commission of the Verkhovna Rada of Ukraine and the Federal Assembly of the Russian Federation deserves a special mentioning: it provides systemic and target-minded legislative support for bilateral cooperation, and ensures control over implementation of the reached agreements.

The inter-parliamentary cooperation group that includes some 160 MPs from the Verkhovna Rada of Ukraine and 90 MPs from the Federal Assembly of the Russian Federation also demonstrates the importance of bilateral parliamentary dialogue for representatives of the two states.

Assessing the prospects of relations between Ukraine and Russia, I believe that the forthcoming years will see growth of the Russian political, economic and information influence in Ukraine, since the relations between the two states are, quite naturally, of strategic importance. The parties should find mutually acceptable and advantageous mechanisms of cooperation meeting national interests of both countries and promoting sustainable growth of trade and industrial cooperation.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

Examining Ukraine’s role in EU-Russia relations, one should take into account the specific features of these two international actors. The EU is a supranational structure with elements of sovereignty focused on a deeper internal integration, while the Russian Federation traditionally claims the role of a regional geopolitical leader.

Geopolitical balances are influenced by three key factors: deepening relations between the EU and the Russian Federation, domestic political situation in Russia, and stagnation of negotiations between the EU and Ukraine due to political developments in Ukraine. These factors will be a turning point in rearranging the tools of influence on the Ukrainian question in the context of relations in the EU-Ukraine-Russia triangle.

On this basis, let us consider the sectors where the “Ukrainian question” can influence the policy of the EU and the Russian Federation.

In the **economy sector**, Russia is the third largest trade partner for the EU, while the EU accounts for over 50% of the Russian trade and more than 2/3 of foreign direct investments in the Russian Federation. In this context, one should keep in mind that the EU is interested in Ukraine only as in a market for European goods at the time of economic difficulties in the European Union.

In its **foreign policy**, Russia presents cooperation with the EU as “a pillar of stability and prosperity not only in Europe but all over the world”, which in 2005-2011 was

¹ EU Parliamentary Assembly of the Eastern Partnership. The organisation includes members of the European Parliament and parliaments of Eastern Partnership countries. PA EURONEST was established in May, 2011.

backed with a number of agreements and programmes summed up under the title “Partnership for Modernisation”. At the same time, Russia makes use of the financial and political crisis in Europe to strengthen its influence in the key European countries and regions. Meanwhile, relations between the EU and Ukraine are close to the “point of no return”, while the Kremlin gives signals of “stability and predictability of relations between the two states”.

With the purpose of **regional integration**, Vladimir Putin during his premiership prepared a regulatory-legal framework to strengthen the Russian Federation within the CIS. This primarily refers to signing of the Agreement on a free trade area within the CIS, creating the Customs Union promoting the idea of a “Eurasian Schengen”. The EU Eastern Partnership, initiated at the Prague Summit on May 7, 2009, despite some achievements, in particular, a functional parliamentary dimension – PA EURONEST – has been not so active.

Therefore, it may be concluded that the EU and Russia maintain extensive ties with each other, and the “Ukrainian question” cannot have an influence. At that, Russia pays much more attention to Ukraine rather than to the European Union and has created enough tools for implementing its plans with respect to our country.

Ukraine, unfortunately, does not use geopolitical opportunities to become an actor rather than subject of relations in the Ukraine-EU-Russia triangle. In the context of integration processes taking place within the EU and the CIS, and a potentially deepening cooperation between these integration groupings in the foreseeable future, Ukraine’s passive foreign policy is fraught with danger of transforming our state into a grey buffer zone. To avoid such developments, the European integration vector in Ukraine’s foreign policy must be stepped up. ■

CLEARLY DEFINING OUR NATIONAL INTEREST AND FOLLOWING THE PRINCIPLES OF ECONOMIC PRAGMATISM



Oleksandr YEFREMOV,
Head of the Party
of Regions faction,
the Verkhovna Rada of Ukraine

– How would you assess the directions and prospects of Ukraine’s partnership with the EU?

Our law clearly defines European integration as a strategic goal of Ukraine. Therefore, the European vector remains a foreign policy priority of our country.

All political forces, even our opponents, recognise that it is the acting government that has made the most concrete practical steps on this way. It is shown by the end of long-term negotiations on the Association Agreement between Ukraine and the EU, in the framework of which, a free trade area will be created.

However, I want to emphasise the fundamentally important point: the acting government considers European integration not as the goal in itself, but as the most potentially effective way to build an economically strong and democratic state.

Performing the task of bringing the internal rules of life of our country into compliance with the European standards, we have a chance to modernise the national economy, to advance in overcoming technological backwardness and to attract foreign investment and technology.

This will give a possibility to create new work places, to improve the competitiveness of domestic producers and to expand our presence in such promising area of economic cooperation as the EU market.

We think that the main benefits of European integration in the political sphere are strengthening democratic political system, modernisation of legal framework to ensure transparency in national legislation, strengthening democratic culture and respect for human rights in Ukraine.

I would like to remind that the Verkhovna Rada adopted a new Law on Elections of MPs of Ukraine by constitutional majority of 366 votes for the first time in its history owing to the compromise of all parliamentary political parties. By common efforts we worked out and developed the rules for transparent and democratic election campaign. Fair elections will be a crucial step for our country on the way to the united Europe.

Another significant event that is a step towards humanising legal relations between a person, society and the state is the adoption of a qualitatively new Code of Criminal Procedure. It was elaborated within the framework of fulfilment of Ukraine’s commitments to the Council of Europe, taking into consideration the advice of leading experts. The experts emphasise that the adoption of the CCP immediately answers to more than a third of the comments contained in the Resolution No.1862 of the Council of Europe on Ukraine.

We approach the constitutional reforms, aimed at renewing clear balance in the public authority system, on the basis of transparency and democracy.

I would like to briefly remind of other steps that Ukraine is making towards Europe. A range of economic crimes were decriminalised within the framework of humanisation of legislative environment. Adoption of virtually new laws On Advocacy, On Prosecution, On Judicial System and On the High Council of Justice will radically change the legal system of the country.

Implementation of an action plan on visa regime liberalisation and finalising negotiations on the Common Aviation Area Agreement with the EU are among the next tasks.

We understand that the process of our European integration will take quite a long time. That is why I do not think that the implementation of common documents with the European Union will automatically solve all our problems. This is unprofessional and populist point of view. For example, the EU today is governed by 90 thousand standards. Any Ukrainian company, even if there is a political decision, needs years to achieve these standards. Meticulous work on revision of national standards is required. We will not be able to achieve this in six months or even in a year.

However, we are moving in this direction, step by step. Will the end-point of our movement be Ukraine's full membership in the European Union and when will it be possible? On the pages of such a serious publication, I would prefer not to make forecasts for such a remote prospect. Moreover, the world is changing very rapidly today and these changes cannot always be predicted.

Comprehensive answers to most of the questions about Ukraine's integration have been given by the Verkhovna Rada when on 20th March it adopted Resolution on implementation of recommendations contained in the PACE Resolution in the first reading. This is a comprehensive point of view on the performance of our commitments to the Council of Europe. Virtually the Parliament ensured that Ukraine would complete reforms in all areas of its life that would create grounds to pass to a new level of relations with the European Union.

I invincibly believe that, if one ignores the political environment, the Association Agreement between Ukraine and EU is already quite possible in the next year. The main thing is that Ukraine clearly identifies itself as an integral part of European civilisation. **The task of the government is to institutionally strengthen the European identity of Ukraine and to effectively take advantage of European integration opportunities to significantly improve the quality of life of our citizens and to strengthen the position of our country in the modern world.**

– What is your assessment of and prediction for Ukraine-Russia relations?

Certainly, in a difficult modern world Ukraine cannot afford to limit itself only to one foreign policy vector. Therefore, we expect to develop a strategic partnership with the Russian Federation, which has retained the role of the main trade and economic partner of our country and our historical ally. The solid foundation has been laid for this – last year the mutual trade turnover for the first time increased by half and totalled \$56 billion.

On the other hand, nowadays, there is an acute need for an international legal framework and bilateral commitments to solve the “gas”, “cheese” and other problems that hinder the development of export potential of our country.

We continue complex dialogue about the price of gas. In this field our partners demonstrate the ability to protect the interests of their country, which should be learnt by many national officials and politicians.

And we hope, that following the election campaign, our neighbours will minimise the role of a political component in bilateral negotiations on economic issues. Both of us have said too much. Now, it is time to gather the scattered stones.

Normalisation of relations with Russia will provide us with vast opportunities for economic development. We will get a reliable tool for increasing salaries and pensions and protecting our economy from the impact of a global financial crisis. Those \$6 billion, which Ukraine overpaid for the past two years according to “gas” agreements, could be used to improve social standards and regional development.

The issue of ratifying the Free Trade Agreement within the framework of the CIS is also being discussed in the political circles. According to some economists,

the practical implementation of the provisions of this document has the potential to bring 2% of additional GDP growth to our country.

However, I should note that we, the MPs of Ukraine, have not yet seen the text of the signed Agreement.² Therefore, there are no grounds for discussion on its essence. Specialists from the Government and the Presidential Administration are thoroughly analysing the document. This again clearly illustrates the thesis that each step of the acting Ukrainian government is based on pragmatism and national economic calculations. And only after we have studied the positives and possible warnings, the Agreement will be submitted for ratification to the Verkhovna Rada.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

A new round of a tough struggle for resources and markets has begun in the modern world; it is difficult to disagree with opinions of reputable experts. Every single state, at a different level, takes part in these processes. The only difference is in their role – whether one influences the formation of the modern agenda or is influenced by others, who are stronger.

Ukraine with its natural and human resources remains very attractive for major international players and, this time, we will not be able to sit on the fence. The logic of life makes us define clearly our national interest and follow the principles of economic pragmatism in relations with the outside world.

Ukraine is just one side of the “triangle”, the other two – are Russia and the European Union. The truth is, it is not a “love triangle”, nor should it be the “Bermuda Triangle” in terms of its geopolitical structure.

Ukraine's role in this balance cannot be overestimated as well as underestimated. **The real evaluation of our opportunities makes it appropriate for us to consider the role of a civilisation bridge between Russia and the EU and even more – between European and Eurasian spheres.**

Nowadays, the foreign policy of Ukraine is built on understanding the benefits of this role for our country. We abandoned leaning toward one or other partner and no longer speak to the world, while standing on one leg. **Pragmatic balance, self- and mutual respect – these factors allow us to compete internationally.**

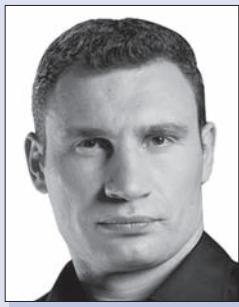
In particular, now, it is very important for us to activate cooperation both with Russian and European partners in the economic sector. Today, the experts consider creating a gas transportation consortium with the participation of Ukraine, Europe and Russia. In my opinion, this is the only way to keep the national gas transportation system in a working mode. Over the last two years, we have constantly demonstrated the willingness to seek mutually beneficial solutions that will secure the energy balance on the European continent. Unfortunately, we have not gone any further than discussions and proposals. I would like to see more attention to our initiatives on the part of both eastern and western partners. However, it would be wrong to limit the discussion only to the EU-Ukraine-Russia relations. Over the past two years, the Ukrainian diplomacy has made a breakthrough in cooperation with Turkey, China, India and Brazil.

² It is referred to the situation as of April 2012. (Editor's note).

There is a need to cooperate with the world leaders and, now, it is not only the EU or the US. It is China, India, Brazil, and Turkey that will determine the rules by which the world moves.

And we should remember that nobody, except ourselves – neither Russia, nor the EU, nor China – will build our country for us. Only the successful modernisation will provide Ukraine with a place in the world, which corresponds to its great potential. The national political elite should create conditions for the Ukrainian “sleeping tiger” to feel its strength and to finally wake up. ■

INTRODUCING EUROPEAN STANDARDS IN UKRAINE



Vitaliy KLYCHKO,
Leader of the UDAR Party

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

The potential partnership between Ukraine and the EU is determined, first of all, by the belonging of our country to Europe historically, mentally and geographically. That is why the thesis of returning to the “single European family” is more than a slogan. This is the essence of European integration, the ultimate goal of which is Ukraine's accession to the European Union.

The signing of the Association Agreement, on which the two parties have worked for more than five years, starts a new phase in our relations, since implementation of the Agreement will bring Ukraine closer to the EU, European living standards, will require adapting our legislation to the legislation of the European Union. Another issue is that due to inconsistent and illogical policy of the Ukrainian Government this Agreement will not be signed and ratified as quickly as Ukrainians would like it to. However, implementation of the Agreement is important not only for bringing Ukraine closer to the EU, but also for the Eastern Partnership, where Ukraine has long been a positive example of a democratic country.

I am sure that our economic, human, energy, transit and agricultural potentials allow Ukraine to be an important member of a united Europe and to be one of the regional leaders in the Eastern Europe. But to achieve this, the Ukrainian government should end selective justice and pressure on the opposition and remember about respect for human rights and the real fight against corruption.

Even today, in the conditions of crisis in relations between Kyiv and Brussels – provoked by the Ukrainian government, whose actions inside our country has pushed the investors off and created a comprehensive system of corruption – Ukraine's trade turnover with Europe is not less than with Russia (where a large proportion is the payment for Russian energy resources). It also shows the potential of our economic cooperation.

These issues can be solved only after the regime change, since the present regime, unfortunately, has lost the trust of Ukrainian citizens and European partners. For further integration it is necessary to remove obstacles on the way, first of all – to overcome corruption and to prove the liability of the government to the citizens.

All this needs not the declarative, but the real reforms: to create the economy of equal opportunities and eliminate unnecessary restrictions for business activity (both tax and administrative); to expand the mechanisms for public influence on the government; to conduct justice reform following the example of the Eastern Europe and Georgia; to extend the rights of local self-government and its provision with resources to implement these rights.

The fact that the EU and Ukraine support the dialogue confirms that Brussels does not identify Ukraine only with the acting government. We are an integral part of Europe, and we have to introduce the European standards in our country.

– What is your assessment of and prediction for Ukraine-Russia relations?

Relations between Russia and Ukraine have not been easy traditionally (regardless of the surname of the Ukrainian President). But the team of the acting President has repeatedly speculated on the issue of Ukraine-Russia relations and, in the elections of 2006, 2007 and 2010, it participated under the slogan to normalise and improve relations with Moscow.

Today, instead, we have a “cold peace”. The dialogue between the leaders of the two countries is not that different from what we could observe during the rule of the previous President. Information about new “trade wars” appears daily in the mass media: either on pipe, caramel or cheese. There is a lot of politics in this supposedly economic news. During the first months of his presidency, Yanukovich signed the Kharkiv Agreements, which gave the reason for Moscow to think that Kyiv would be ready to thoughtlessly surrender its national interests in the future. The appetite of Moscow has been growing and Kyiv is not ready to satisfy it immediately. After the “honeymoon” the pre-divorce period has started and now Ukraine is waiting for the moment of truth.

Firstly, a newly re-elected President, Vladimir Putin, will toughen up the Russian foreign policy. And the Ukrainian government, despite the attempts to show its power, is actually a colossus with feet of clay, because it does not have the support of the society. Russia is well aware of it and is trying to “squeeze” the maximum out of weakness of the Ukrainian authorities.

Today, shadow patterns (especially in the energy production) have outlived themselves in Ukraine-Russia relations. Russia has imposed favourable for itself conditions of energy supply on Ukraine and is ready to review its position only, if Ukraine gives up its sovereignty. This way is unacceptable for Ukraine.

Secondly, as it was noted before, following the inauguration of Vladimir Putin and during the time when Ukraine is facing a growing distrust in the West, the government of Russia will adhere to an assertive policy, especially in relations with the “near abroad”.

Thirdly, the economic situation in the world and in Russia does not give Moscow the possibility to hope for success of all the projects promised to Russians, both socio-economic and geopolitical. The only way to

demonstrate its success to the citizens is not only to create the cherished Eurasian Union in Moscow, but also to involve Ukraine in it. And here we can expect Russia's increased pressure on the Ukrainian authorities.

The proposal to resolve the situation is complex, but it cannot be avoided. Ukraine should conduct dialogue with Russia on equal terms and considering Ukraine's national interests. That means to preserve its independence and the European path, to propose specific, mutually beneficial cooperation projects and to reduce dependence on Russia, primarily by introducing energy saving projects and developing alternative energy sources. The European Union follows this line and Ukraine should act in the same way, too.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

Ukraine has been acting as an object for too long: the object of rivalry between Russia and the leading EU member states and, therefore, as the object of various policies and initiatives on the part of Russia that are difficult and unpredictable for Europeans to understand.

The role of the “Ukrainian question” in the EU-Russia dialogue is predetermined by many factors and, above all, the policy of Ukraine. If Ukraine's policy were to protect its national interests rather than the priorities of a business group “around the throne”, then the Ukrainian position would be strengthened. We would become a “subject” to European policy, if we act as a responsible party, which one could trust.

For example, when it comes to protecting the human rights, we must implement commitments undertaken during our accession to the Council of Europe over 15 years ago. We can count on the EU support in the energy sector, as soon as we begin to implement provisions of the Brussels Declaration 2009. If Association Agreement is signed and ratified, we would be able to use the benefits of economic partnership, which is impossible without political changes: holding fair elections, releasing the political prisoners, and terminating political repressions. ■

**DEFINING “BREAKTHROUGH”
STATE POLICY**



Andriy KOZHEMIKIN,
Head of
“BYuT-Batkivshchyna” faction,
the Verkhovna Rada of Ukraine

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

First of all, I would like to thank for the opportunity to appear on the pages of your prestigious publication.

The question being asked is the key to understanding the European prospects of Ukraine that concerns not only the Ukrainian politicians and authorities, but the world community in general.

One cannot leave “unnoticed” the fact that at times this issue lights up different Ukrainian media, depending on the sympathies or antipathies to those in power.

Twenty years of democratic reforms – or rather, twenty years of slogans about democratic changes – together with an era of multi-vector policy of Ukraine are coming to their logical end.

The first decade of our independence was accompanied by reflections about the role and place of Ukraine in global processes, however while proclaiming our European aspirations we have covertly welcomed and followed opaque political life of the “white-stone”.³

The political elite, which comes from the great and immutable past and has been brought up in the best traditions of the soviet mentality, perhaps, unconsciously or subconsciously, was unable to accept and understand the challenges Ukraine was facing at the turn of the century.

It seems that today, at the end of the second decade of Ukrainian independence, the demands of the society for prospects of partnership with the EU became more distinct that logically found a legislative evidence in the Law of the Verkhovna Rada of Ukraine “On Foundations of Domestic and Foreign Policy” passed on July 1, 2010.

Certainly, it is a pity that quite ambitious but realistic plans of Ukraine to achieve an associate membership in 2007, set in the Strategy of Ukraine's integration with the EU, were thwarted.

Today, it is important to draw attention to the statement, which the Western politicians continue to repeat – we should decide in what direction Ukraine will move in the future.

Our political party, as well as its leader, Yulia Tymoshenko, see that the only way forward for Ukraine is to join the family of democratic countries of modern Europe. This step is extremely important for our citizens, who in recent years have benefited from the European experience of life, where democracy, human and citizen rights are more than just mere words, since they form the basis of a modern living space.

Today, in this context, it is important to emphasise that our trade relations with the EU are equal to or even slightly exceed Ukraine's trade volumes with Russia.

The Final Statement and Recommendations adopted by the EU-Ukraine Parliamentary Cooperation Committee at XVIII meeting on February 20-22, 2012 should be mentioned too. The document says: “Taking into account the results of the 15th EU-Ukraine Summit” held in December 2011 in Kyiv, the EU recognised that Ukraine is a “European country with European identity, which has a common history and common values with the EU countries”.

And this means a lot.

³ Moscow is often called “white-stone” (Ed.).

– What is your assessment of and prediction for Ukraine-Russia relations?

First of all, it is important to understand that G-8 leaders see the return of Russia as the major player in world politics, and an important actor in solving urgent problems of global and regional scale.

Like most European politicians, I tend to think that equal partner relations between Ukraine and Russia are important for our country on its way to the EU.

When taking into account that Russia has an access to significant amounts of hydrocarbon resources and, in fact, has a monopoly on hydrocarbon supply to the Ukrainian market, and is ranked second in Ukraine's foreign trade turnover, our future relations become significantly important for both countries.

Thus, the level of strategic partnership achieved between the two countries is not only a tribute to modern political science, but rather the fact, which one should not only consider, but also take into account when shaping the course of our strategic actions regarding certain matters.

In implementing the European principles and norms into Ukraine's national legislation it is necessary, if possible, to take into account mutually beneficial and equal partnership with Russia.

We saw the results of such thoughtless distortions in international relations under the presidency of Leonid Kuchma and Victor Yushchenko.

The situation that is turned into political absurdity may actually "freeze" the country with its 46-million hard-working population, scientific, industrial and intellectual potential.

The "cooling" of relations between Ukraine and Russia, caused by obscure foreign policy of the President Victor Yanukovich and his team, who, trying to seize everything at once, have not taken into account the Russian interest in the Ukrainian market, and our team has repeatedly warned them about it.

Realising that "everything at once" policy will not work in the eastern direction, the government instead has started the multi-vector game, which now may result in complete isolation of Ukraine from the European political theater and slow down its progress on the way to a great European family.

It is clear that no breakthrough in Ukraine-Russia relations as well as in relations with Europe should be expected prior to inauguration of Vladimir Putin as the President of Russia.

The Ukrainian leadership should use this period to prepare for large-scale negotiations with Russia, including on the energy issues. The invite of Minister Yuriy Boyko to events dedicated to the start of the "South Stream" construction actually makes the current government a victim of its own energy game.

With no radical changes in the structure of the current government, team Victor Yanukovich can hardly expect Moscow's loyalty to Ukraine. Ukraine's failure to implement resolutions of European institutions and to comply with unilaterally assumed commitments to the EU is the way to nowhere – the road to Ukraine's isolation, and our team cannot allow that to happen.

Unfortunately, the Ministry of Foreign Affairs of Ukraine also shows no political will to help the incapable Ukrainian authorities act on the principle of political partnership and not to give up the national interests, when the Russian side expects them to.

Under these conditions, there will be no linear solutions. Therefore, it is necessary to prepare for a grueling political discussion with Russian leaders looking rather assertive and mobilised regarding Ukraine's national interests.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the "Ukrainian question" in relations between the EU and Russia?

It is difficult to define the EU-Ukraine-Russia relations, but clearly they do not represent the "triangle". In this case, "geopolitical competition" between Moscow and Brussels is a more appropriate term. Today, the proposals to create a free trade area, on the one side, and join the Customs Union, on the other, clearly demonstrate that.

The statement of Russian politicians and analysts about the inevitable drift of Ukraine towards Russia does not seem to be propaganda any more due to (a) actions of the current government, and above all, the President Victor Yanukovich, (b) uncompromising position of the Russian leadership regarding the reduction of gas prices, (c) Russia's increasing expansion, as promised after Putin's re-election as the President.

According to the latter, Kyiv's chances of rapprochement with Brussels decrease, and the probability of Belarus's scenario increases.

Therefore, only the united opposition receiving a convincing victory in the next parliamentary elections can prevent the collapse of democracy in our country and the sliding into the authoritarianism. As a result, for Ukraine to become an adequate international actor, the government structure should be reformed and a breakthrough state policy should be defined. ■

BUILDING RELATIONS ON THE PRINCIPLES OF EQUAL PARTNERSHIP AND COOPERATION



Volodymyr LYTVYN,
Chairman of
the Verkhovna Rada of Ukraine

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

I have always loved questions about "potential and prospects". They prompt answers like the potential is huge; the prospects are unlimited. Still, I have serious doubts if such a formula will be handy for the EU-Ukraine

partnership now and in the near future. Following loud declarations about Ukraine's "bright European future", typical of Ukrainian politicians in 2005, the EU-Ukraine partnership has actually been in the state of amorphous conceptual and temporal uncertainty, due to internal reasons on both sides. Those include institutional, structural, financial and economic problems and uncertainty surrounding the EU development strategy. One should add the long period required for normalisation and perfection of the political and judicial systems, slow implementation pace of the announced economic, structural and social reforms in Ukraine, etc.

One may object to claims that we came too close to initialisation of the Association Agreement resting on the principles of "political association and economic integration". I agree, that it is really an essentially innovative agreement going far beyond the limits of similar agreements once made between the EU and Central and East European countries. However, chances that 27 EU member states will sign and ratify the Agreement remain questionable (due to the above-stated reasons).

In this connection, it seems to me that a significant potential of the EU-Ukraine partnership, most probably, in years, if not decades, would be reduced to the level of a limited cooperation within the framework of the four freedoms of the would-be FTA+, planned political consultations on the problems of transformation of Ukrainian society and more active cooperation in the security sector, where Ukraine will play the role of a "junior partner".

Such a "formal partnership" may last for rather a long period of time and not depend on the progress in reforms and transformations in Ukraine, at least, not until the EU clearly sets its long-term development strategy.

– What is your assessment of and prediction for Ukraine-Russia relations?

I guess that this issue might be a subject of deep and thorough studies in Ukraine, including the Razumkov Centre, because for 20 years now we cannot work out a proper mode for establishing a predictable and upward development of Ukraine-Russian relations. The question is difficult to answer also because Russia is at the starting point of a new round of its development. Its political landscape, key figures and doers in the Kremlin will change soon.

President Putin will have to solve many tasks at a time. New challenges will demand a new policy from Russia. Putin's press secretary said recently that Vladimir Putin had a clear-cut development programme for the country – a plan for its "physical, spiritual and economic development". Hence, one may envisage the so-called "change of targets" in the Russian domestic and, partially, foreign policy, in particular, along the perimeter of the Russian borders.

My forecast for Russian policy on Ukraine is not too optimistic. While in previous years, it could be named as pragmatic, with time it will look more like a "rigid pragmatism". This is explained, first of all, by domestic

policy agenda of Russia itself, our own "diluted" strategy concerning the content and nature of building relations with the Russian Federation, and a chilly atmosphere in Ukraine's relations with the West, including the European Union.

At the same time, we cannot admit that Ukraine's relations with Russia enter a stage of intense political, informational confrontation, and economic cooperation acquires signs of concealed Russian pressure without direct involvement on the part of the Russian state. Especially given the fact that Ukraine's ability to compete with Russia will show a downward trend in key sectors of economy, investment capacity, scientific potential, social security of the population. Unless an adequate dialogue is provided, Russia, consciously or subconsciously, should be expected to slow down the pace of systemic reforms in Ukraine.

Ukraine's position within the CIS, in bilateral partnership with a number of post-Soviet countries, may also be devalued depending on a shift in the balance of power and influence in the region in favour of Russia.

However, I hope that common sense and a considerate approach will not pave the way for developments under such a discouraging scenario, since in the end, both Ukraine and Russia will lose from it.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the "Ukrainian question" in relations between the EU and Russia?

I am a strong proponent of leaving the "Ukrainian question" outside the EU-Russia dialogue. If the "Ukrainian question" becomes a priority in the EU-Russia dialogue, with time it may evolve into a modern analogue of the "Yalta agreements" on Ukraine. The more the parties stress the importance of the "Ukrainian question", the more damaging it is for Ukraine. That dialogue will be "defective", first of all, because the EU will wage the dialogue without clear strategy of its development and with little attention paid to its neighbourhood, while a consolidated Russia will come out with clearly formulated tactics of relations with Ukraine.

Hence, in such a triangle, negotiations may be required to coordinate political positions on key international issues, principles of equal economic and investment partnership and a detailed planning of cooperation on the entire range of security challenges.

The present state of relations in the EU-Ukraine-Russia triangle may be described as a "zero-sum game", a continuous balancing on the brink of national interests by each side of the triangle. At that, the two sides will always end up focusing on Ukraine, equally influencing each other, however with little counter influence exerted by Ukraine.

This is the case where the wise aphorism by [the Russian poet Alexander] Griboedov fits nicely: "Beware of masters, they // Will cause you trouble any day. // Of all the woes may God deliver us from both // From their love and their wrath". ■

SHOWING THE EU THAT UKRAINE IS READY TO ALIGN WITH THE EU STANDARDS AND VALUES



Borys TARASYUK,
*Chairman of the Committee
for European integration,
Verkhovna Rada of Ukraine*

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

I will try to put aside diplomatic terms and explain what the Association Agreement, free trade area and visa-free travel mean to a rank-and-file Ukrainian.

Although the **Association Agreement** is partly a political document, it clearly specifies the standards of democracy, human rights, fight against corruption, justice, freedom of speech and assembly that automatically, in case of its ratification and entry into effect, become Ukraine's commitments.

As regards **visa-free travel**, it is a practical issue sensitive for millions of Ukrainians travelling to the EU member states.

Ukraine's visa dialogue with the EU has been underway since 2008. The end goal is to introduce visa-free short travel for Ukrainian citizens to the EU. After the start of the dialogue, Ukraine achieved significant progress towards its goal. In particular, the Verkhovna Rada of Ukraine adopted a number of the necessary laws and legal international commitments in the fields of fighting corruption and personal data protection. Ukraine has secured the removal of the wording "in the long run" from the context of discussion on the end terms of introducing visa-free travel, instead, replacing it with a more ambitious wording "as soon as practicable". Of course, such wording was conditioned by Ukraine's successful implementation of the EU Action Plan on visa liberalisation, granted to Ukraine at the EU-Ukraine Summit in November, 2010.

As to the **free trade area**, I will stress that according to Ukrainian and foreign experts, an introduction of a deep and comprehensive free trade area between Ukraine and the EU will make it possible to raise the living standard of Ukrainians by 4.3% in the medium term and, in the long term, this figure will reach 12%. Should we seek this? Of course, we should. I do not even mention the benefits for the Ukrainian business that will obtain access to the most capacious EU market. Indeed, there are fears that Ukrainian products will not be able to compete on equal terms with high quality EU products. However, for me, as a consumer, this is very good, since in such conditions Ukrainian manufacturers will have to bring the quality of their products in compliance with the EU standards.

Now, on the **prospects** of our partnership with the EU. I will be frank, just a few months ago I had doubts about the sincerity of the country's leadership declarations of adherence to the European values and a commitment to moving towards the EU membership. Today, I am absolutely convinced that those declarations are untrue. They, in the EU, also understand that, as was shown in the article on Ukraine by five foreign ministers of the EU member states, which was recently published in the *International Herald Tribune*. They, in the European Union, are well aware that declarations cannot replace concrete actions.

Today, Ukraine is a country where the Constitution and laws are grossly and repeatedly violated, human rights are neglected, the rule of law is, in fact, absent and the opposition gets persecuted.

The country has practically reinstalled censorship, judicial arbitrariness, the leaders of the opposition forces are groundlessly put behind bars. According to corruption level, this country is at the top of international ratings alongside such countries as Kenya, Zimbabwe and Afghanistan. We scare the potential investors who wish to see normal, civilised and transparent rules of the game, namely, an independent judicial system, clear tax legislation, incorrupt customs, etc. Young people leave the country en masse: the inability to realise their potential at home and the lack of confidence about their future drive young specialists to seek fortune abroad. I am absolutely certain that such a country has no chance to be a full member of the EU.

Given the current realities, I see two possible scenarios:

1. "Pessimistic" (Belorussian). Yanukovich & Co fail to make the right conclusions from recommendations of the European Parliament and PACE, the opposition leaders stay behind bars, the parliamentary elections take place without their participation, the EU condemns the elections results as undemocratic. As a result, the EU turns its back on Ukraine, while Russia welcomes Ukraine in all Russia-led "formations".

2. "Optimistic". Before it is too late, the authorities not only make conclusions but properly follow recommendations and requirements of the European Parliament and PACE, opposition leaders are set free and are allowed to take part in the future free and democratic parliamentary elections. As a result, Ukraine gets the Association Agreement with the EU, which in itself is a colossal breakthrough and a step towards the EU membership.

However, despite my usual optimism, the "optimistic" scenario under the present authorities seems improbable to me.

– What is your assessment of and prediction for Ukraine-Russia relations?

Giving an affirmative answer to this question, I can say that I expect no fundamental change in Ukraine-Russia relations and no change in how Vladimir Putin, a re-elected President, treats this country. It is no secret that Vladimir Putin, as the Prime Minister, continued to exert influence on the Russian foreign and domestic

policy. One might say that his attitude towards Ukraine has been the same. I guess it would not be a surprise to anyone, if I say that Russia has not given up the idea of expanding and preserving an absolute hegemony in the post-Soviet space, and with Vladimir Putin's return to the presidency, I expect no serious change to take place in that respect.

As we see, the vassal system under the present authorities led by the current President Viktor Yanukovich has not produced any concessions from the Russian side. The present authorities – having signed the Kharkiv Agreements in 2010 that actually in a way betrayed the national interests by extending the presence of the Russian Black Sea Fleet in Sevastopol till 2042 – failed to “appease” Russia. Concessions from Ukraine were taken for granted by Moscow, and as the time has shown, these concessions were not enough.

Taking into account the Kremlin's position, it may be said that the only acceptable concession would be for Ukraine to surrender its independence and to cease its existence as an independent state. Only in that case Russia would satiate its appetite. We can analyse the situation by asking ourselves – what have the serious concessions by the Ukrainian authorities led to? Do we have cheap gas? No! We pay more than Germany and Italy, located much further from Russia than Ukraine. The Ukrainian rulers already speak of plans to buy the Russian gas from Germany!

Another question: can we name our relations as “good-neighbourly”? Unfortunately, not! In the recent months our relations have been overwhelmed by the so-called “trade wars” – such as the “cheese” conflict and Russia's dissatisfaction with the quality of the Ukrainian rail cars. I dare say that all those claims are part of Moscow's “encouragement” to make Ukraine join the Customs Union with Russia, and later – the Eurasian Union. Without Ukraine's involvement, those Kremlin projects will be vain. Given all the above, it is worth saying that the present authorities did not manage to build civilised and mutually advantageous partner relations between Kyiv and Moscow, contrary to their promises. So, I wish to stress again that Ukraine will continue to experience pressure from Russia. When the democratic opposition returns to power, we will reshape relations with Russia.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

I would prefer not to speak about “the EU-Ukraine-Russia triangle”. The so-called triangle is clearly seen in the gas relations and may also be viewed as the “producer – transit state – consumer” triangle, but in Ukraine's relations with the European Union, Russia has no official role. Some EU countries are trying to establish friendly relations with Moscow at the expense of Ukraine. The Kremlin, in its turn, often insinuates that affairs in the former USSR are Russia's prerogative, and it has “privileged” interests in that area.

Some EU countries view Ukraine through the prism of Russia, but this cannot be claimed for the European Union as a whole. Some influential EU states prioritise relations with Moscow in the post-Soviet space, but Ukraine, too, has its advocates in the EU. For those

states, Ukraine's interests and its desire to integrate into the EU coincide with their national interests. Furthermore, if we take a look at the so-called European Neighbourhood Policy (ENP) and its Eastern Partnership dimension, we will see that it does not encompass the relations with Russia, although, by contrast to Ukraine, Russia, along with the North African countries, are a perfect example of a “European neighbour”. Russia is not a European state that seeks the EU membership. Additionally, when Russia wants to talk to Germany, its “dials” Berlin, not Brussels. Russia prefers to separate relations with EU member states, not using the EU structures.

As we see, Ukraine is more active than Russia in relations with the European Union, and even during the visits by top officials of the EU member states, the EU integration is among the key issues discussed. I dare say that over the past two years the EU-Ukraine relations have deteriorated not because of Russia's unfriendly efforts but due to conduct of the present Ukrainian authorities. It is no secret that Ukraine is giving up its position in international ratings. Democracy is being curtailed in this country. It has nothing to do with Russia! Of course, a free stable and democratic Ukraine actively integrating into the EU structures is not in the Kremlin's interests. Such a neighbour can easily undermine the already shaky internal balance in the Russian Federation. And there will be no “buffer zone” that Russia has been traditionally trying to build around it. So, as I have already stressed, Russia will keep on trying to keep Ukraine within its orbit, but the current crisis in the EU-Ukraine relations does not depend on Russia at all.

We should show the EU that Ukraine is ready to align with the EU standards and values. Kyiv should prove that we are committed to defend our choice to be a member of the European Union, and despite all the pressure from the East, we will not give up that choice. It is us, who needs integration, not the EU, so, it is our task to keep the right balance in the so-called EU-Ukraine-Russia triangle. ■

STRENGTHENING EQUAL BILATERAL ECONOMIC RELATIONS



Ihor SHAROV,
Head of
the People's Party faction,
the Verkhovna Rada of Ukraine

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

European vector is the most promising vector of our political and economic development based on traditions, values and mentality of our citizens. According to opinion polls, in recent years, most Ukrainians have consistently preferred the European integration to other integration directions.

However, it is important to avoid turning this issue into a pot of gold at the end of the rainbow. The Ukrainian politicians should clearly explain to the people that European integration means bringing the living standards up to the European level. This cannot be accomplished without reforms that are in line with European standards.

There is a great threat that during such reforms (and some of them may be quite painful at early stages) the number of European integration supporters will decrease significantly. Obviously, the EU should not only demand reforms and respect for democratic values, but also guide Ukraine on its way to European integration.

For everybody in Ukraine it is clear that we would like the EU to be more active, for example, with regard to integrating the electricity and gas markets, ensuring the security of energy supply and hydrocarbons transit, advancing the investment support programmes on implementation of energy efficient technologies and use of alternative energy sources in Ukraine, strengthening relations in the field of immigration and visa issuance and ensuring the right to the freedom of movement for the citizens of Ukraine, etc.

It should be emphasised that even in the presence of numerous claims that the EU has to Ukraine, the Association Agreement between Ukraine and the EU has been initialled, and can be temporarily applied even before its ratification by national parliaments. This would help to start the actual process of creating a free trade area.

I am sure that the prospects of our cooperation deserve concessions on both sides. Moreover, this cooperation has a huge potential, both intellectual and economic. This concerns the traditional fundamental education, theoretical and applied science, and the profitable use of the geographical factor – in particular, in improving the transit of goods, enhancing Europe's energy security, efficient use of natural resources, food security in the region and nuclear safety, using Ukraine's industrial potential to intensify cooperation in, for example, the aerospace industry, high technology and military projects, etc.

We are aware of the fact that currently both Ukraine and the EU are undergoing hard times. Contradictions in our relations have intensified. However, as to the prospects, it is worth emphasising that all of them, to a great extent, depend on us only: the way we conduct ourselves in the European Community will define our prospects.

– What is your assessment of and prediction for Ukraine-Russia relations?

Russia has been and will remain a strategic partner of Ukraine. Historic, economic and humanitarian aspects of relations between the neighbouring nations has been the subject of profound studies. The unique element that is present in our relations can be compared with relations of, for example, Serbs and Croats, British and Irish, Poles and Germans, Czechs and Slovaks.

Another aspect: Russia was an empire for a long time dominated by totalitarianism and dictatorship. Nowadays, the imperial vector of development is still relevant for the post-imperial Russia: it is commonly known that empire needs an external enemy, and it is vital for it to expand. Ukraine is the closest, most desirable subject for such an expansion which, according to misconceptions of some representatives of the Russian elite, is also the easiest to achieve.

Whether we like it or not, Russia while having the energy resources, which are in global demand, would still be able to maintain its “imperial status” and be a global player. Unfortunately, this is a development path of little promise. Our country needs not only the will that we already have, but also the intelligence and technologies. We need to simultaneously develop all spheres of life across the country (in all the regions). We can prove to ourselves, to the whole world, and Russia an example of a successful transition of our society.

Of course, the sooner we drive away from the “cheap” energy, the faster we start the development. Cheap things are either bad, or a trap...

I am convinced that we need to strengthen equal bilateral economic relations. It will contribute greatly to overcoming both the imperial complex of Russia and our own inferiority complex.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

Economic and political integration between the EU countries means that these countries should make common decisions on various issues. Thus, the EU has developed a common policy over a wide range of sectors – from agriculture to culture, from the consumer rights to the competition conditions, from environmental protection and energy use to transport and trade. However, in foreign policy events are so swift-passing, and the interests of different groups of influence in the European Community are so diversified that the EU countries sometimes simply have “no time” to make a joint decision. For instance, it was the case during the “gas wars” between Russia and Ukraine.

Unfortunately, both Russia and the EU still have the political forces, which question the existence of an independent Ukraine. They are willing to name Ukraine a “failed” state, and then to remove the country from the map.

This is confirmed in the statements by some politicians from Russia and the EU.

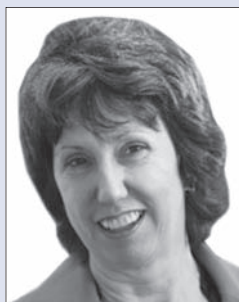
Ukraine, by showing its willingness and hard work, should make them respect the country. It should also preserve the seat on the European “chair”, instead of sitting on a “stool” that moves in different directions at someone's whim.

The “Ukrainian question” is important not only in terms of the “triangle” relations, but also as a critical element of bilateral relations between Russia and the EU. Why? Because, without Ukraine, Russia will never re-emerge as a full-fledged empire. It is Ukraine that may become that valuable link of external influence, pushing for development of the European democratic norms in Russia.

In any case, neither should the EU, nor Ukraine, nor Russia create artificial obstacles to cooperation with each other. Such a cooperation will contribute to positive transformation of our countries and help the EU in its policy of maintaining stability, peace and achieving economic prosperity in the region. ■

EU-UKRAINE-RUSSIA RELATIONS: INTERVIEWS WITH FOREIGN DIPLOMATS*

THE KEY TO MOVING FORWARD IN OUR RELATIONSHIP WITH UKRAINE IS IN KYIV, NOT BRUSSELS



Catherine ASHTON,
the High Representative of the
Union for Foreign Affairs and
Security Policy



José Manuel BARROSO,
President of the
European Commission

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

The EU is deeply committed to supporting Ukraine's reforms towards a functioning democracy governed by the Rule of Law, and with a vibrant market economy. Ukraine was the first Eastern Neighbour to start negotiating an Association Agreement with the EU, in 2007. Talks on a Deep and Comprehensive Free Trade Agreement (DCFTA), which is an integral part of the Association Agreement, were started the following year, following Ukraine's WTO membership. The Association Agreement and the DCFTA signify a robust offer of political association and economic integration with the EU, taking our relationship onto a new level.

We have now managed to conclude negotiations; the Association Agreement was initialised on 30th March. This is an important step. We will now be able to make public the substance of the Association Agreement so that it can be discussed among experts, including by civil society actors.

Political association needs to be based on shared values. These are of vital importance for the EU. The values of democracy, the Rule of Law and respect for human rights are what the EU has been built on. These values also form the body of our interests in our neighbourhood. The 2003 European Security Strategy stated the fostering of a ring of well-governed countries around the EU as a strategic goal. The review of the European Neighbourhood Policy, following the entering into force of the Lisbon Treaty and in the historic context of the Arab Spring, also introduced the more-for-more principle: we are ready to give additional support to countries demonstrating political will and practical commitment to reforms. These reforms are the practical demonstration of our shared values. Needless to say, the other side of more-for-more is less-for-less.

There are serious concerns over developments in Ukraine. In February 2010, we welcomed the holding of presidential election broadly in line with European standards. This gave hope that Ukraine was continuing her path of consolidating democracy, on which we had seen a very positive trend ever since early 2005. There was much to be hopeful about Ukraine.

Regrettably, since 2010, we have been receiving recurring reports of deterioration of the freedom of the media and of assembly. Concerns were raised over the independence of the judiciary following the 2010 judicial reform. The 2004 constitutional reform which was agreed as an effort to find a way out of the political crisis around the Orange Revolution was overturned by the Constitutional Court of Ukraine, after having been in force for over five years. Furthermore, the October 2010 local elections were broadly seen as representing deterioration from earlier elections. Since last year, we have seen criminal cases, which look politically motivated at worst and even at best are examples of selective prosecution, against former Prime Minister Yulia Tymoshenko, former Interior Minister Yuriy Lutsenko and other members of the former administration. Tymoshenko, Lutsenko and others are in prison. There are serious concerns over their health. We initially gave Ukraine the benefit of the doubt, hoping that developments which raised our concerns were isolated incidents. Now, they seem to have taken a systematic character, raising very serious doubts over Ukraine's commitment to our shared values.

Let me be very clear, signing and ratifying the Association Agreement and the DCFTA will not be possible unless Ukraine urgently addresses this stark deterioration of democracy and the rule of law. In the immediate term, this applies to the above cases of selective justice and politically motivated prosecution.

* Interviews were conducted in March-April 2012. The respondents are presented in the alphabetical order.

Solutions need to be found, enabling Mrs Tymoshenko, Mr Lutsenko and others to regain their freedom and fully participate in political life. It also applies to the importance of Ukraine holding parliamentary elections this autumn in line with international and European standards for democratic elections. Ukraine's intention invitation for a fully-fledged international election observation mission is very welcome.

Many EU Member States are also concerned over economic governance in Ukraine, including the business and investment climate. These concerns need to be addressed not only to build confidence, but to set the scan for the DCFTA. There are also a number of other issues which we would like to see happening, starting from – but not limited to – inclusive work on a comprehensive Constitutional Reform. As said, the September 2010 Constitutional Court decision raised serious questions. Ukraine needs a Constitution that reflects the broadest possible consensus among all political groups, from the government to the opposition, and which will stand the test of time. Constitutions are there to bring long-term predictability by setting sustainable basic rules for political life, understood by politicians, the executive, the courts and the public. They cannot be used for political tactics.

So – all in all, the prospects of the EU-Ukraine relationship could be very good. Sadly, we are now at a very difficult moment, and the key to moving forward in our relationship is in Kyiv, not Brussels. Our offer is on the table, as seen by the initialling of the Association Agreement. However, the value-base needed for political association appears absent. It is up to Ukraine to demonstrate political will by taking clear and concrete steps to reverse the negative trends we have seen since 2010.

– What is your assessment of and prediction for Ukraine-Russia relations?

The relationship between Ukraine and Russia is a very important one. Russia is Ukraine's neighbour and Strategic Partner. The two countries also share common history. Building a good and stable relationship is vital for both Ukraine and Russia. The EU has repeatedly said that Ukraine need and should not have to choose between the EU and Russia. Both are important. Geography does not change.

There are certain basic principles for good relations between two sovereign states. These apply very much to the Ukraine-Russia relationship as well. These relations should be based on respect for the independence, sovereignty, integrity and the legitimate interests of both countries. We have talked about this consistently with both Kyiv and Moscow.

It is not up to the EU to make predictions or assessments of the relationship between Ukraine and Russia. We believe that following the above mentioned principles, looking for mutual benefit and working based on one's own interests and values, this relationship can develop in a manner which strengthens positive dynamics in the region, which will be beneficial for Europe as a whole.

– How would you characterise the current state of the EU-Ukraine-Russia relations?

Russia is a strategic partner of the EU, and Ukraine is one of strategic importance. Both are our neighbours. The EU encourages good relations between our neighbouring countries. Good Ukraine-Russia relations are fully compatible with good Ukraine-EU relations. Even more,

they are beneficial for them. The EU's own relationship with Russia has been developing very favourably over the last years.

We follow developments in the relationship between Ukraine and Russia very closely. Energy relations are a key component in this relationship. Ukraine is a major importer of natural gas from Russia, and a transit country of gas flowing to the EU. Unfortunately, we have experience of problems in the energy relationship between Ukraine and Russia. This has affected the EU as well. The January 2009 gas crisis remains fresh in the memories of many Europeans. We were very pleased that a way out was found, through an agreement between Naftogaz Ukraine and Gazprom. This agreement increased transparency in the gas relationship between the two countries, even if there is further work to be done in this regard.

It is important that on-going talks between Ukraine and Russia on lowering the price for gas do not undermine Ukraine's compliance with Energy Community Treaty commitments, nor threaten the delivery of gas to Europe. We pay particular attention to this; Commissioner Oettinger has already expressed our readiness for trilateral talks with Ukraine and Russia. EU-Ukraine-Russia energy relations were also the subject of our last Summit with Russia, in December 2011. We made it clear that the ongoing discussions between Russia and Ukraine concerning the price and volumes of gas must not lead to a situation where deliveries of gas to the EU could be threatened.

The EU, Ukraine and Russia have a shared interest in ensuring that the chain from producer via transit country to clients in Europe works smoothly. In March 2009, the EU, together with International Financial Institutions, committed to support the modernisation of Ukraine's Gas Transit System (GTS), if Ukraine would implement necessary reforms bringing transparency into the energy sector. Restructuring of Naftogaz Ukraine is key in this regard, as it is also for balancing the budget. We are also open to ideas of a three-way consortium on the GTS, implemented in a clear, market-based manner.

While trilateral energy cooperation on mutually interesting terms is high on the agenda, the EU's relationship with Ukraine is in no way a function of its relationship with Russia. These are separate relationships. As said, our relationship with Ukraine is firmly rooted on a presupposition of shared values, aiming at political association and economic integration. The Union does not see the world in terms of zero-sum games, but through the lens of win-win solutions. Thus, our approach to Ukraine is not geo-strategically conditioned, and develops solely on the merits of the success of Ukraine's reforms and the quality of her democracy. This is a key point to keep in mind. ■



**UKRAINE SHOULD RESPECT
EUROPEAN VALUES AND NORMS**

Hans-Jürgen GAYMZET,
*Ambassador Extraordinary
and Plenipotentiary of
Germany to Ukraine*

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

Ukraine's partnership with the EU is still at crossroads. After the technical initialling of the EU-Ukraine Association Agreement, it needs to be signed and ratified by the parliaments of Ukraine and the EU member states. Benchmarks for the signing and ratification are, among others, free and fair parliamentary elections and addressing the problems of the rule of law which the President of the European Council, Herman Van Rompuy, and the President of the EU-Commission, José Manuel Barroso, stated at the EU-Ukraine Summit in December 2011.

The EU welcomes Ukraine's early invitations of election observers. But the decision of the Constitutional Court to cancel the right to vote in single member constituencies for Ukrainian citizens living abroad as well as the new election law enabling to stand for office both on party lists and in single mandate constituencies created uncertainty as to whether the law, adopted half a year before the elections, is just.

Ukraine, however, should also have respect for other European values and standards in order to move closer to the EU: the issue of human rights and the rule of law are central to politically motivated criminal cases against the opposition politicians. The conviction of Yulia Tymoshenko and Yuriy Lutsenko; the refusal to provide the appropriate medical treatment of Mrs Tymoshenko's health problems acquired while being in custody; new criminal proceedings against Tymoshenko and the recent convictions of the former Minister of Ecology, Georgy Filipchuk, and the former Defence Minister, Valeriy Ivashchenko, are the worrying signals in this respect.

The new Criminal Procedure Code of Ukraine, adopted by the bigger number of parliamentarians than were actually present during the voting, casts a shadow on this immensely important reform, as does the lack of progress in administrative reforms and in the fight against corruption. The administrative reform was meant to make the administration more streamlined and cost-effective. However, even when, at first glance, the number of personnel was reduced (or not increased, as in some cases), some officials today hold nominally lower positions with similarly high salaries as before. Likewise, the decision to allow state procurement with no open tendering shows low level of efficiency and cost-effectiveness as well as the presence of corruption at the same time.

However, since Ukraine is a European country, which highlights the importance of its European identity, I hope

that in the end, our common efforts towards a closer partnership will be crowned by success.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the "Ukrainian question" in relations between the EU and Russia?

The EU has bilateral relations both with Ukraine and with Russia that are defined by political and economic conditions in each country. The fundamental difference lies in the fact that Russia, contrary to Ukraine, is not interested in accession to the EU. Therefore, adaptation to the EU values and standards is much more important for Ukraine.

But the EU urges Russia, too, to adhere to fundamental principles of human rights, the rule of law and democracy. The EU-Russia human rights dialogue is a long established practice.

The EU is interested in good neighbourly relations between Ukraine and Russia and hopes for a mutually acceptable settlement of all outstanding bilateral issues (gas talks, sea border negotiations, Black Sea Fleet, etc.).

Regarding the question of the further orientation of Eastern Europe as such, Ukraine has, in my opinion, an important role to play. If it steadfastly follows a path of integration into the European structures, this would have a positive effect in Europe as a whole. In our view, the worst case scenario would be to return to a politically and economically divided Europe. The Association Agreement, the Free Trade Agreement and Action Plan for Visa Liberalisation are important steps to develop further integration of Ukraine into the European structures. I hope, Ukraine will show more effort, also with respect to democratic values and the rule of law, to make these steps workable. ■

**ROMANIA WILL STAND BY UKRAINE
IN THAT ENDEAVOR**

Cornel IONESCU,
*Ambassador Extraordinary
and Plenipotentiary of
Romania to Ukraine*

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

For any serious and objective observer it is obvious that EU-Ukraine relations are heading towards closer political association and gradual economic integration. It is needless to say that the EU wants Ukraine to be better connected to the European values, with common security and trade area at the heart of their partnership.

The recent initialling in Brussels (on March 30) of the Association Agreement (AA), including Deep

and Comprehensive Free Trade Area (DCFTA) is a major achievement for EU-Ukraine relations in 2012. It reflects the desire to take the association project further by creating a strong bond between two partners. The Association Agreement is the most ambitious agreement ever negotiated with a third country, thus paving the way for a comprehensive regulatory approximation and deep economic integration with the EU.

It would not be reasonable to conceal EU's major interest in seeing concrete advances with regard to the rule of law and the human rights in Ukraine. The judiciary, the business climate and the constitutional reform are just three of the key areas where further developments are expected. For this reason, a successful conclusion of the Association Agreement will require a renewed political commitment of Ukraine. Romania is convinced that Ukraine will do its best to perform these parameters.

We believe that Ukraine's commitment to act in the spirit of political association and economic integration with the EU will give first hand arguments for supporting the next steps leading to the conclusion of the AA, its signing and ratification. Therefore, complying with the EU and OSCE recommendations regarding the rule of law will be of great importance not only for Ukraine's image abroad, but also for the modernisation of this country, for the benefit of Ukrainian citizens.

The civil society is a key player in advancing the process of democratic transformation and for this reason the Ukrainian government should strengthen the dialogue with its representatives, for it will increase the democratic credentials of the reform process.

One of the efficient ways of complying with the European commitments undertaken by Ukraine is to continue the efforts of implementing the Visa Liberalisation Action Plan's provisions. Ukraine's performance will move forward the process of reaching all the required benchmarks, with the aim of getting to the final destination: a visa-free travel regime. Romania will continue to actively support this objective.

Another way of advancing towards Europe is to continue making progress in the field of energy cooperation with the EU. This includes Ukraine's active participation in the European Energy Community, according to its full-member status, as well as the implementation of the Second and Third EU Energy Package (cooperation over de-monopolisation of the energy sector, energy saving policies and diversification of suppliers, etc.).

Undoubtedly, the Eastern Partnership (EaP) is a valuable mechanism tailored with the proper tools for pushing on the process of political association and economic integration. We encourage Ukraine to play an active role and to fully benefit from the EaP platforms of cooperation.

By the same token, Ukraine has also an opportunity to participate more vigorously in policies with great potential for acquiring experience and knowledge in European-type development, such as the Strategy for Danube Region and the Black Sea Synergy.

On its part, Romania considers that Ukraine's place is in the European family. As a neighbouring country that

experienced the process of democratic transformation and EU approximation, Romania welcomes Ukraine's European aspirations and encourages its European choice.

We were one of the most active Member States supporting the completion of the Association Agreement negotiations and advocating for a strong language on the European perspective of Ukraine. Romania backs the process of Ukraine's political association and economic integration with the EU and is highly satisfied with initialling of the Association Agreement, which is a genuine achievement.

We consider that this Agreement sets a milestone in the EU-Ukraine relations, fostering a closer cooperation, based on shared values and commitments. It also marks an important step further in Ukraine's contractual relations with the EU and a tool to consolidate its strategic pro-European option. We hope the necessary conditions will be in place for its signature and the ratification and we encourage Ukrainian authorities to step up their efforts for a comprehensive reform process. Romania will stand by Ukraine in that endeavor. ■

IMPLEMENTING REFORMS REQUIRED FOR MODERNISATION OF THE STATE AND RAPPROCHEMENT WITH THE EUROPEAN UNION



José Rodríguez MOYANO,
*Ambassador Extraordinary
and Plenipotentiary of
Spain to Ukraine*

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

Ukraine's intentions to integrate into the European Union are the element of unity and consensus for all the Ukrainian people. The political forces represented in the Verkhovna Rada have also proclaimed their unity with regards to the European choice of Ukraine in the Resolution "On Recommendations of the Parliamentary Hearings On State and Prospects of Development of Economic Relations between Ukraine and the EU (Free Trade Area) and the Customs Union", adopted on May 19, 2011. We hope this spirit will help us strengthen cooperation between the political parties in a way that would facilitate the implementation of reforms required to modernise the country and its rapprochement with the European Union.

The only true thing is that the very process is not that easy and there may occur both rises and falls. For 20 years of its independence, Ukraine has progressed by far, having left behind the totalitarian system and centrally planned economy. Ukraine has taken significant steps towards its consolidation as that of a sovereign, independent and democratic country with market economy.

The European Union deems Ukraine to be the state with great potential and strength, which has got much to offer in the sphere of trade and economy and may as well serve as the bridge between the EU and other states of the Eastern Europe. That is why it is necessary for Ukraine to reform. The next challenge that Ukraine will meet on this way is holding of the free, fair and transparent parliamentary elections. Ukraine's perspective relations with the European Union will depend upon the readiness of Ukraine to meet this challenge.

Since the rapprochement with the European Union is the common aim of the Ukrainian society, it seems rather logical to take steps towards signing and subsequent ratification of the Association Agreement between the EU and Ukraine. Such an Agreement would become the most ambitious instrument ever offered by the EU to the neighbouring state. Accordingly, on several occasions, the EU has appealed not to use the selective criminal justice as an instrument of prosecution of opposition politicians.

The other important element of relationship of Ukraine with the EU is the Action Plan on Liberalisation of the Visa Regime. Some essential legislation steps are to be taken, that will further be used in the second phase of the Plan for the approval of basic provisions that will liberalise the visa regime.

The process of Ukraine's rapprochement with the EU is not an easy way. And Ukraine cannot change the way it has been moving along. So, I have to finally admit that the success of the process will depend upon political decisions of the Ukrainian Government aimed at satisfying the needs of the Ukrainian society.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

Both Ukraine and Russia are two important partners of the European Union. In the EU, they insist that these two countries should continue developing their political and economic potential and maintain good relations with each other in all the spheres.

Good relations between Ukraine and Russia in the energy sector are really important for the EU. The understanding between Ukraine and Russia in this area is the key to economic security of Europe.

Apart from the energy sector, good relations between the EU, Ukraine and Russia are important to counter new global security challenges, such as terrorism, nuclear proliferation, drug trafficking, piracy, human trafficking and environmental threats.

It is worth mentioning that both Ukraine and Russia play an important role within the framework of OSCE or in NATO's relations with its Eastern European partners.

It is important for Ukraine to maintain good relations with the EU without Russia's involvement. This relationship does not mean making a choice. Ukraine can make use of its strategic situation to improve relations with both Russia and the EU. The position of the Ukrainian government and the society is right as well – they consider Ukraine's rapprochement with the EU to be a foreign policy priority that would benefit to maintaining good relations with Russia and even enhance the potential of Ukraine's relations with Russia and other CIS states. ■

TRANSLATING THE DEMOCRATIC AND ECONOMIC POTENTIAL OF UKRAINE INTO BETTER FUTURE



Ivan POČUCH,
*Ambassador Extraordinary
and Plenipotentiary of
the Czech Republic to Ukraine*

– How would you assess the directions and prospects of Ukraine's partnership with the EU?

The EU-Ukraine Summit in December 2012 marked an institutional completion of what the EU and Ukraine set for themselves five years ago: to negotiate a new framework of relations based on political association and economic integration of Ukraine with the EU. While not directly tackling the issue of future membership, the Lisbon Treaty with its Article 49 made it abundantly clear that all European countries wishing to join the EU and meeting all relevant criteria may legitimately aspire to widen the ranks of its current members. This is an unquestionable guarantee that Ukraine as an important European country holds the key to its future in its own hands. Nevertheless, despite the major achievements culminating in the initialling in March 2012 of the Association Agreement including DCFTA, the new level of relations still remain at the crossroad and what follows next is disturbingly uncertain.

The reasons for the impasse preventing the seamless continuation of what was attained in March 2012 – to sign, ratify and ultimately implement the new agreement benefiting the Ukrainian nation – have been voiced by many EU leaders, most recently in the most succinct way by Foreign Ministers of Sweden, Germany, UK, Poland and the Czech Republic in their letter published in *International Herald Tribune*. They highlighted their concerns in a number of important areas, most importantly the failings of the justice system symbolised by criminal cases and trials against leading opposition representatives and the deteriorating state of democracy and respect for the rule of law. Yet, these are the core areas determining the pace of further steps.

Democracy, human rights and fundamental freedoms are easily understandable and fathomable symbols of how much the Ukrainian government is committed to European values. These values are non-negotiable. The European Union does not measure the “Europeaness” of any country by its geopolitical or geostrategic importance, let alone by the growth of GDP or by kilometers of pipelines. Those who argue that the *realpolitik* is prevailing factor in EU policy towards its neighbours and partners have miscalculated many times in the history. The “European perspective” is a political term – it entails moving closer to a political worldview of the EU, being incorporated in its single market and getting access to its well tested four freedoms of movement of people, capital, goods and services. It benefitted both members and partners. Yet, there is no shortcut to it, no way to circumvent what is the foundation the EU is based on.

This year will be crucial to prove wrong those voices claiming that Ukraine will never mature to practice full-fledged democracy. There are views that its Soviet history has put it on the orbit not compatible with European perspective trajectory, be it in political, moral or economic

terms. On display are doubts whether Ukrainian political class understands what the EU is all about and how to conduct partnership with it. The references to EU values for some in Ukraine may most of all resemble platitudes or obligatory words of political talk.

Yet, through it all, I believe that the historical process of democratic transformation of Central, South East and Eastern Europe and the sequential EU enlargement following the demise of communism and Soviet Union is irreversible, though far from finished. I notice with pleasure the desire and will of the people of Ukraine to rid themselves of the burdens of the past to translate the democratic and economic potential of their homeland into better future. The Ukrainian nation is part of the European family regardless of lacking for now of the institutional anchoring.

My countryman, Commissioner for Enlargement and Neighborhood Policy, Stefan Füle, has recently outlined what will determine the nature of the road ahead for EU – Ukraine relations. Apart from redressing the problems of selective justice he singled out the conduct of parliamentary elections, not just in terms of the voting process, but also in relation to freedom of the media and other fundamental freedoms. He also emphasised the EU will scrutinise constitutional reform and the quality of public dialogue on the Association Agreement too. His message is unambiguous. All EU countries hope his message will get across and give a renewed sense of strategic direction to both the EU and Ukraine and in a broader sense, to other Eastern Partners as well.

To his message I wish to add that building an open and pluralistic democracy is work in progress in many quarters of Europe. Even longstanding and well functioning democracies in Western Europe have not reached this stage of development straightforward and without recurrence of problems. What helps in progressing on this path is an active dialogue between the government and the civil society. This is the way to foster the democratic credentials of all decisions related to EU – Ukraine partnership and relations. We, Czechs, already know, beyond any reasonable doubt, that the EU *de jure* integrates countries, but *de facto* real people with their real lives. It remains to be seen whether Ukraine will embark on the path leading to its declared destination – the new quality of relations with the EU. The road sign pointing to the EU at the crossroad where we find ourselves at the moment is visible from distance and easy to understand. However, Ukrainians are the only masters of their fate and behind the steering wheel. We may only offer to share our experience from our own transition journey.

– How would you assess the current state of relations in the EU-Ukraine-Russia triangle and especially the role of the “Ukrainian question” in relations between the EU and Russia?

There is no formally institutionalised mechanism for developing cooperation and relations in the triangle EU-Ukraine-Russia. Methodologically, assessing the relations in the triangle overall has to be based necessarily on the quality of relations between individual entities of the triangle. It would therefore be inappropriate for me to assess the scope and quality of relations between Ukraine and Russia. Needles to say, it is in general political, economic and energy security interest of the EU to see the development of Ukraine-Russia relations be pursued in a way benefitting both nations fully respecting and reflecting stated strategic objectives of either of the two countries. As for the relations between the EU and Ukraine I have expressed myself in previous question.

Interestingly enough, in the question posed by authors Ukraine was “sandwiched” in between the EU and Russia as if to symbolise the bridge between Europe and Russia, or conversely the geopolitical prey seeking by both.

I am certain, it was not intended to insinuate this. Yet, in developing relations with Russia, the EU does not rely on any third party and inasmuch as I know the relations between the EU and Russia have been developed, in the least on the EU part, independently of the “Ukrainian question” for years and have a variety of mechanisms and instruments reflecting the stated goal of Russia not to join the EU. Some of those mechanisms enable the EU and Russia to maintain intensive political dialogue and practical cooperation on what the EU calls “a common neighborhood”. In other words, the EU demonstrates its openness and constructiveness to involve all relevant players in complex cooperation schemes in the Eastern Europe without giving any country the right to deny anyone else the preference of seeking closer relationship with the EU, including potential membership. In this sense, the platform of the EU policy towards Eastern Europe framed by the Eastern Partnership should be used, *inter alia*, as a springboard for the capability to conduct the concept of good neighbourly relations in the region, which remains important assessment criterion in measuring progress of countries on the path towards political association and economic integration with the EU. ■

UKRAINE HAS TO SHOW ITS FIRM COMMITMENT TO THE CORE VALUES OF COOPERATION WITH THE EU



Villy SØVNDAL,
Minister of Foreign Affairs,
Denmark

– How would you assess the directions and prospects of Ukraine’s partnership with the EU?

The EU has made an ambitious offer to Ukraine: an agreement on Political Association which includes a Deep and Comprehensive Free Trade Agreement. Denmark together with the EU attaches high importance to the cooperation with Ukraine – we view Ukraine as a partner of strategic importance. We also welcome the broad support the cooperation with the EU enjoys in Ukrainian society.

On 30 March the Chief Negotiators of the European Union and Ukraine initialled the text of the Association Agreement, which will include provisions on the establishment of a Deep and Comprehensive Free Trade Area as an integral part. However, Denmark and the EU have expressed serious concern about the politically motivated trials in Ukraine. We have made it clear that Ukraine’s performance, notably in relation to respect for common values and the rule of law, will be of crucial importance for the speed of its political association and economic integration with the EU, including in the context of conclusion of the Association Agreement. The upcoming parliamentary elections in October this year will test the health and viability of Ukraine’s democracy, not just in terms of the voting process, but also in relation to freedom of the media and other basic freedoms. It will also test the ability of opposition leaders to participate actively in the campaigns. It is essential that Ukraine demonstrates its firm commitment to the core values of our cooperation.

It is natural that Ukraine seeks good neighbourly relations with both the EU and Russia. ■

UKRAINE, RUSSIA, EUROPE



James SHERR,
*Director of the Russia and Eurasia Programme,
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State of Relations between Ukraine and the EU

The relationship between Ukraine and the EU has never been easy. Its default position is one of strain and, on each side, frustrated expectations. Paradoxically, these frustrations have been aggravated rather than assuaged by the *a priori* proposition that **Ukraine is a European state. Although the distinction between Europe and the EU is recognised in Ukraine, it is not always understood.** “Europe” is a geographical reality, but in every other respect, it is an idea with a variety of emotive and subjective connotations. The EU, in contrast, is a political-economic entity with a formal institutional structure and formalised norms, procedures and requirements. Yet to a broad spectrum of Ukraine’s elites, being part of “Europe” confers an entitlement to become, within some reasonable period of time, a member of the EU, and the thwarting of this expectation has generated bewilderment, bitterness and more than a discreet measure of paranoia.

What adds complexity to this picture is the fact that from the time of Leonid Kravchuk, two views of the EU have held sway in Ukraine. Although not mutually exclusive, they pull in different directions and create different types of irritation with EU policy, which operates on political and cognitive principles that are considerably at variance from both of these conceptions. To the once numerous supporters of Viktor Yushchenko (and a good many who, even in Ukraine’s Orange years, had no hopes for him), the EU was the political embodiment of a great ethno-cultural (and religious) civilisation, defined by heritage.

Yet **the EU does not define itself by heritage, but by values and standards**, which today apply to the conduct of business and public administration as much as to the conduct of elections, the quality of governance and the integrity of the legal system. For good or ill, the EU is also a multi-cultural entity. After 2005, Yushchenko demonstrated that he wished to join the Europe of 1905. That Europe no longer exists. Yet the EU which does exist has an acute awareness of the sovietised

norms which distinguish Ukraine from itself in nearly all of these respects.

The second Ukrainian view, and it is very much the view of President Yanukovich (not to say President Putin), is that the EU is essentially a geopolitical project designed to project influence, secure economic dominance and isolate alternative socio-economic models in Europe and Eurasia. In even more simplistic terms, the EU is regarded (as NATO is simplistically regarded) as a means of isolating Russia. From this perspective, the EU’s vaunted values and “criteria” are seen as having a secondary or entirely deceptive importance. The EU’s refusal to act upon these presumptive geopolitical interests and incorporate Ukraine when it wished to be incorporated drove Leonid Kuchma to distraction. Yanukovich’s response is similar.

Although these are old problems, the fact is that **Ukraine’s relations with the EU have never been on such a disastrously poor footing.** Yanukovich’s EU policy is dictated by his own internal priorities, and this fact is now understood by every government inside the EU. A majority of these governments now also understand that he will not be deflected from these priorities – neither for the sake of EU Association nor for the sake of Ukraine’s national and geopolitical interests. To be sure, few believe that he is even remotely interested in Ukraine’s incorporation into the CIS Customs Union. But the perception is gaining ground that he would rather be president of a Ukraine joining the Customs Union than *not* be president of a Ukraine joining the EU. On this basis, nothing can be done, and the business of Ukraine’s European integration has therefore ground to a halt.

Without doubt, there are additional factors, but they embellish this picture rather than alter it. For one thing, Yanukovich does not take the EU’s concerns at face value. He and his core advisers view the EU’s stance about his predatory and blinkered policies as a contrived way of disguising the real issue: division inside the Union between those who would sacrifice Ukraine on the altar of accord with Russia and those who regard Ukraine’s reintegration with Russia as the worst of all evils.

The picture is further embellished by the broader (and more accurate perception) that the Eurozone crisis strengthens every other impediment to further EU enlargement.

What this picture ignores is that the Association Agreement and the Deep and Comprehensive Free Trade Area, concluded after elaborated and painstaking effort, offer Ukraine many of the benefits of membership with few of its responsibilities. Ignorance about the benefits of Association extends right across Ukraine, and the democratic opposition is as ill-informed on this score as everybody else. For this, the European Commission is at least partially to blame. To date, only the British Embassy has published a concise, readable guide about the provisions of these accords in the Ukrainian language. For the vast majority of Ukrainians in a state of ignorance, “membership perspectives” mean everything and Association means nothing.

By concluding the Association Agreement and initialling it, the EU has made a very significant statement: the door is open, and Ukraine can walk through it as soon as it knows where it is going and where that door leads. Unfortunately, Yanukovich wants the door to follow him whilst he walks somewhere else.

Ukraine and Russia

Since the time of Ukraine’s independence, Russia’s fundamental state interest has been to diminish Ukraine’s independence. This interest has not diminished over the course of 21 years. The conviction that Ukraine’s separation from Russia represents a historical aberration has not diminished either, though the events of late 2004 and early 2005 presented a profound shock to Russian thinking and offered a significant potential to transform not only Ukraine’s development but Russia’s. The linkage between the two, which most disinterested observers would recognise on historical and cultural grounds, has been reinforced by Russian sentiment and policy. More than one prominent Russian liberal has taken the view that “Ukraine is part of my identity as a Russian”, and this view is no less firmly held by Russia’s *derzhavniki*. The view has also been reinforced by the failure of the Orange tandem to develop Ukraine’s *samostoyatel’nost’* and overcome the sovietised and clan-based culture of business and power, which in almost every sphere and every sense has demarcated Ukraine from the European order to which it seeks to return.

Therefore, it was not only natural but inevitable that Russia’s governing elites would view Yanukovich’s 2010 victory and his pre-emptive concessions on NATO, non-bloc status and the Black Sea Fleet as a homecoming: not in terms of juridical reintegration, but organic subservience to the country that in Russian historical consciousness has always been Ukraine’s “elder brother”. When Medvedev publicly informed Yanukovich that these steps were “only the beginning”, he pretended, and might well have believed, that he was providing “brotherly” counsel rather than presenting a threat. What is far from inevitable, indeed surprising, is that so tough a veteran of the Soviet culture of power as Yanukovich would fail to appreciate that Ukraine’s gestures of “good will” would have exactly this result.

To his credit, when it comes to what matters most to him – control of Ukraine’s economy – Yanukovich



shifted the main vector of engagement with Russia from conciliation to resistance within six months of coming to power. Yet in equally significant respects, he has undermined his own efforts and the capacity of the country.

First, by strengthening the patrimonial and opaquely personalised system of economic management, he has deprived Ukraine of the most effective counterpoise to Russian influence: European investment and integration, which can only develop on the basis of liberal market principles underpinned by property rights, judicial integrity and regulatory mechanisms that protect the independent entrepreneur and the citizen.

Second, he has continued to cede ground on the “civilisational” vector: the very ground on which Russia seeks to rebuild and re-legitimise its imperial suzerainty. Slavic identity and identity politics have featured as strongly in “Putinism” as geo-economics. During his first term in office, Putin sought to create a synthesis between pre-Soviet, Soviet and post-Soviet values on the basis of a “cultural code” distinct to the multinational, Russian people, and whilst this synthesis is highly problematic intellectually, it has an emotive and potent appeal for many inside the Russian Federation and for many now permissively described as “compatriots”. This “humanitarian” dimension of policy – and with it, the idea of *russkiy mir* – has acquired formidable institutional and financial support. Yet far from resisting this cultural assault, **Yanukovich** has often acted as its accomplice. In doing so, he has not only **undermined Ukraine’s capacity, but the foundations of the Ukrainian state.**

The threat to Ukraine’s integrity is now greater than at any time since the early 1990s. At the start of what must be seen, de facto, as Putin’s fourth term of office, the authorities in Moscow feel both strong and threatened. Their strengths lie in the Eurozone crisis, the incapacity of many of Russia’s post-Soviet neighbours and the *Realpolitik* of Gazprom, which has undermined EU norms in a number of new (and not so new) EU member states. **Moscow’s weaknesses lie not only in the disaffection of the new Russian middle class, but the precariousness of the petro-driven model of growth and the state-corporatist model that the current authorities have constructed.** What is telling about the decline of Russian gas exports to Europe (from 154 bcm in 2008 to 117 bcm in 2011) is not the sharpness of the gradient,



but that fact that during this time – a time of economic *contraction* in Europe – the EU's consumption of energy has actually been increasing. The Kremlin not only failed to anticipate the wave of street protests that has emerged since September 2011, it singularly failed to anticipate the revolution in unconventional gas, which has been transforming global energy markets and which, despite Gazprom's policy of bullying, bribery and stealth, is almost certain to advance at one tempo or another.

These trends give point to what always has been the dominant theme of Russian (and Soviet) policy: the creation of an environment abroad conducive to the maintenance of the country's system of governance (and its economic model) at home. In sum, the distinction between Russian internal and foreign policy is gradually becoming a distinction without a difference. Ukraine will not be able to withstand or counter this policy until it alters its own internal policy to its advantage. Yanukovich's policies are having the opposite effect.

For an ambitious power like Russia, this combined perception of strength and threat bodes ill for others. It creates every incentive to resolve outstanding problems conclusively whilst assets remain assets and whilst they can still be employed with impunity. Putin's return to the presidency is likely to be the prelude to measures designed to bring Ukraine back into the fold by any means necessary. A high-risk strategy demands a high-risk leader, and that combination is now in place.

The Triangle between Ukraine, Russia and the West

It is debateable whether such a triangle still exists. For one thing, the Obama administration has to a large degree dismantled it. Its "reset" with Russia, which despite atmospherics has been largely transactional in nature, has not been predicated on changes in Russia's policy in its own neighbourhood. Instead, it has focused on advancing such cooperation as could be realised on the basis of strictly defined national interests: transit to Afghanistan, the restoration of an agreed strategic arms control regime and productive, if limited cooperation in counter-terrorism.

Contrary to aspirations in Russia and apprehensions in Central Europe, the "reset" never signified a surrender of Russia's neighbours or recognition of its claim to a "sphere of privileged interest". Although attentiveness to this neighbourhood has waned under Obama's tenure, Russia is not the principal reason for this,

and despite Moscow's objections, the administration was the driving force behind NATO's programme of contingency planning for armed defence of the Baltic states; it has maintained a wide menu of cooperation with Georgia, and it has become an increasingly vocal critic of Moscow's human rights policy. The administration has also been steadfast in pursuing a missile defence programme less provocative, but more ambitious than that of its predecessor. For these reasons and others, not least the falling out over Syria, the "reset" has run its course. Putin's decision not to attend the G8 summit in Camp David and Obama's decision not to attend the Asia-Pacific summit in Vladivostok should persuade almost everyone that the warmth expressed in 2008 has turned to frost. Yet the change is unlikely to raise Washington's profile in Ukraine. To the contrary, it will only reinforce the priority that East Asia is acquiring in US policy.

The second reason to question the triangle's significance is the overriding preoccupation of the EU with itself. It should be obvious to everybody that until Greece found itself in crisis, the criteria for joining the Eurozone, whilst exacting in principle, had been upheld with astonishing laxity. Harsh lessons are being drawn, and these lessons are arousing resentment, not only between member states but within them. No one in these circumstances would dare suggest that pre-crisis laxity should be extended to Association Agreement – even though the criteria for the latter are markedly less stringent than those for adopting a common currency. The remarkable fact is that between the EU and a range of countries, Association Agreements and accession talks are being advanced with energy and vigour. Yet for principled, as well as practical reasons, the EU will not be prepared to do more for others than they are willing to do for themselves.

The financial crisis also has a marked bearing on the EU's terms of engagement with Russia. It deprives several channels of influence, notably the Eastern Partnership, of resources, and it remains to be seen just to what degree the mechanisms offered in Association Agreements can be adequately financed. Yet in other respects, the financial crisis has strengthened the EU's toughness. It has given a more practical edge to the Third Energy Package, which Russia rightly sees as a way of forcing its monopolistic energy companies to adhere to the EU business model – and its rules of competition – when they operate within the EU's jurisdiction. It has also induced even Gazprom's traditional partners to demand revisions to long-term "take or pay" contracts and search for alternative sources of energy supply. Measures to reinvigorate the EU's business model are already constraining the influence of Russia's own. This is a portentous development for a country whose principal strength is prolonging the life of outmoded practices. **When it comes to abandoning outmoded thinking, Russia's record is poorer than most.**

To those Ukrainians still interested in abandoning outmoded thinking, this picture is sobering but very far from gloomy. It provides not only incentives, but urgent reasons to alter cultures of business and of power. To those who wish to maintain these cultures, it offers only moral and material impoverishment. ■

UKRAINE'S FOREIGN POLICY: LOSING ITS BALANCE



Steven PIFER,
*Senior fellow at the Brookings Institution,
a former US Ambassador to Ukraine*

Two years into the presidency of Victor Yanukovich, Kyiv's foreign policy finds itself in difficult straits. Ukraine's relations with the European Union and the West in general are deteriorating. To the east, there is no sign that Moscow will pursue anything other than a hard-nosed bargaining approach, which is unlikely to change with Vladimir Putin's return to the presidency.

At the root of the problem lies a combination of democratic regression in Ukraine and two assumptions that President Yanukovich has apparently made regarding foreign policy: first, that Russia, following the April 2010 Kharkiv accords, would adopt a more charitable approach toward Ukraine, and second, that the European Union attaches such geopolitical importance to Ukraine that it would overlook Kyiv's turn away from democratic values. Both assumptions have turned out to be miscalculations and are leading Ukraine's foreign policy to lose its balance.

Ukraine's Foreign Policy and Balance

Developing an independent foreign policy has posed one of the key challenges for Kyiv since Ukraine reemerged as an independent state following the collapse of the Soviet Union in 1991. Ukrainian presidents have generally sought to strike a balance in their foreign policy relationships between the West and Russia.

Given the large space that Russia occupies on Ukraine's border, the long, complex history between the two countries, cultural links between Ukrainians and Russians, and economic ties that have continued since the end of the Soviet era, it is entirely natural that Ukraine seek a stable, constructive relationship with Russia. That is very much in Ukraine's national interest.

But Russia is not the easiest of neighbours. Ukraine since 1991 has worked to develop relationships with Europe, the United States and institutions such as NATO and the European Union. Many Ukrainians find the economic prosperity and democratic values of Europe attractive. Moreover, Ukrainian presidents have been motivated in part by a calculation that stronger relations with the West would translate into greater freedom of manoeuvre vis-à-vis Russia.

During his first term in office, Leonid Kuchma, the country's second president, showed himself to be an able practitioner of balance. Under his "multi-vector" policy, Ukraine in 1996 secured a strategic relationship with the United States supported by the establishment of the Gore-Kuchma binational commission. In 1997, Ukraine and NATO agreed on a distinctive partnership. To a significant degree, Kuchma pursued these out of concern about Russian policy toward Ukraine, and he used Kyiv's developing relations with the West to secure improved relations with Moscow. In May 1997, Ukraine and Russia concluded

a treaty that contained the unambiguous recognition of Ukraine's sovereignty and territorial integrity that Kyiv had long sought, and settled the remaining issues regarding basing the Russian Black Sea Fleet in Crimea. In the 1990s, a balanced foreign policy proved a success for Kuchma and Ukraine.

Yanukovich's Engagement of Russia

Victor Yanukovich took office as Ukraine's fourth president in February 2010. He and his senior advisers believed that bilateral relations with Russia had fallen to a dangerous low during the presidency of his predecessor, Victor Yushchenko. Ukrainian officials candidly stated that "normalising" the relationship with Moscow had to be Yanukovich's first foreign policy priority.

Yanukovich moved quickly to change domestic and foreign policies that had prompted the harshest Russian complaints. The Ukrainian government de-emphasised efforts to promote use of the Ukrainian language, ended the campaign to have the Holodomor recognised as genocide, and toned down its relationship with Georgia. As for relations with NATO, the Yanukovich government made clear that it sought neither membership nor a membership action plan.

Yanukovich met with Russian President Dmitry Medvedev in Kharkiv in April 2010, just two months after taking office. The Ukrainian side agreed to extend the Black Sea Fleet's basing lease for an additional 25 years to 2042, satisfying a key Russian interest. In return, Russia's Gazprom agreed to reduce the price that it charged Naftogaz for natural gas by \$100 per thousand cubic meters for the remainder of the ten-year gas contract concluded in 2009. Ukrainian officials praised the deal for significantly cutting Ukraine's energy costs. (Independent energy experts, however, questioned whether Kyiv could



have negotiated a better deal, perhaps without having to extend the Black Sea Fleet's lease. In retrospect, Yanukovich's team failed to foresee the rise in energy prices that later devalued the discount.)

Seeking Balance

From the beginning of Yanukovich's presidency, Ukrainian officials indicated that, while their first foreign policy priority would be improving relations with Moscow, Kyiv intended to do so in the context of a policy that pursued balance between Ukraine's relationship with the West and that with Russia. Senior Ukrainian officials made clear that, while eschewing membership in NATO, they sought a cooperative relationship. They stressed their interest in working with the European Union to conclude an Association Agreement, including a deep and comprehensive free trade arrangement (FTA), as the primary vehicle for Ukraine's integration into Europe.

Several developments in May and June 2010 gave evidence of Kyiv's desire for balance. The Rada voted by a large majority to approve the annual plan for military exercises in Ukraine, most of which involved joint training with NATO forces. Ukrainian officials rejected the idea of joining a customs union with Russia, Belarus and Kazakhstan, which they termed to be incompatible with an FTA with the European Union. They said that Kyiv had no interest in joining the Russian-led Collective Security Treaty Organisation. Western diplomats reported that the Ukrainian government was doing its homework to conclude an Association Agreement, working in a more serious manner than had been the case during Yushchenko's presidency. Some diplomats opined that Yanukovich, whatever his flaws, liked the thought of being the person who brought Ukraine into Europe.

By summer 2010, reports in Kyiv suggested that senior Ukrainian officials, including at Bankova, had become disenchanted with Russia's policies. They felt that Moscow had not responded with the kind of forthcoming approach that Kyiv had taken to solving problems in March and April. They questioned, for example, why Russia continued to pursue the South Stream gas pipeline, which would run under the Black Sea and circumvent Ukraine, when the Ukrainian gas transit system had excess capacity. South Stream, if constructed, would only take gas from pipelines flowing through Ukraine.

Yanukovich, Prime Minister Mykola Azarov and other senior officials in 2011 increasingly voiced unhappiness with Russia's position on the gas price. They asserted that the price – even with the discount negotiated the year before in Kharkiv – was too high and unfair. Gazprom, however, showed no sign of compromising. When Naftogaz in late 2011 stated that it would import only 27 billion cubic meters of gas in 2012, Gazprom cited the “take or pay” provision in the contract and said that it obligated Ukraine to take, or in any case pay for, 41.6 billion cubic meters.

Democratic Regression and Deteriorating Relations with Europe

Yanukovich was elected president in 2010 as the result of an electoral process that domestic and Western observers found to be free, fair and competitive. Some observers credited it as the best election process in Ukraine's history.

By 2011, however, Europe saw democracy in Ukraine as coming under increasing assault, and concern grew about the government's authoritarian tendencies. Some of the particularly troubling examples: widespread reports of inappropriate activities by the Security Service of Ukraine; the Constitutional Court's September 2010 decision to invalidate the constitutional changes approved by the Rada in December 2004; nationwide local elections in October 2010 that were seen to have significant flaws; and the

arrest and trial of former officials who had served in the previous cabinet, including former Prime Minister Yuliya Tymoshenko. In January 2011, democratic backsliding resulted in Ukraine becoming the first post-Soviet state to lose its “free” ranking from Freedom House.

These authoritarian trends have stressed Kyiv's relations with the European Union. The Tymoshenko case came to epitomise the problem of selective application of the law in Ukraine. Following her jailing in August 2011, some EU member-state parliamentary deputies announced that they would oppose ratification of the EU-Ukraine Association Agreement and FTA unless Tymoshenko was released. On the margins of a September conference in Crimea, Swedish Foreign Minister Carl Bildt, EU Commissioner for Enlargement Štefan Füle and European Parliament member Elmar Brok met for nearly two hours with Yanukovich and cautioned him on the damage that the Tymoshenko case was doing to EU-Ukrainian relations. Following the meeting, they believed that Yanukovich understood the problem and saw a path forward. As Yanukovich himself noted during the conference, the Rada intended to examine the criminal code with a view to eliminating outdated provisions. Eliminating the provision that provided the basis for the charge against Tymoshenko appeared to offer an elegant solution to her case. At the end of September, German Chancellor Angela Merkel reiterated to Yanukovich that the trials of opposition figures would hinder EU-Ukrainian relations.

The Party of Regions in October, however, chose not to annul the relevant article from the criminal code. Just a few days later, the court convicted Tymoshenko. Brussels and many EU member-states condemned the verdict, and EU officials postponed a planned Yanukovich visit to Brussels. In November, Lithuanian President Dalia Grybauskaitė and Polish President Bronisław Komorowski each met with Yanukovich and warned again that Tymoshenko's imprisonment would undermine EU-Ukraine relations.

Given the lack of Ukrainian responsiveness to EU concerns regarding Tymoshenko, a number of EU countries reportedly argued in favour of cancelling the planned December EU-Ukraine summit in Kyiv. As it was, the summit went forward, stripped of any ceremony. European Council President Herman Van Rompuy and EU Commission Head José Manuel Barroso met briefly with Yanukovich, did not sign the Association Agreement, and told the press that signature would depend on political developments in Ukraine, particularly Tymoshenko's situation.

The Risk to Kyiv

EU-Ukraine relations developed in a positive and business-like direction during the second half of 2010. That changed in 2011. By March 2012, they were, in the most charitable assessment, at a standstill and, in blunter evaluations, deteriorating. The March 4 New York Times published an article entitled “Ukraine's Slide” authored by Bildt, British Foreign Minister William Hague, Czech Foreign Minister Karel Schwarzenberg, Polish Foreign Minister Radosław Sikorski and German Foreign Minister Guido Westerwelle. The article noted that “developments in Ukraine in the last two years have caused us to question Kyiv's intentions with respect to the fundamental values that underpin both the [association] agreement and our relations in a broader sense”, and described the basis for “our growing concerns regarding the state of democracy in Ukraine”. Such a letter, signed by five foreign ministers representing a cross section of views within the European Union, should worry Kyiv.

In a March 20 response, Ukrainian Foreign Minister Konstantin Gryshchenko wrote that “Ukraine is committed



to European values". In an interview published in the April 2 *Dziennik Gazeta Prawna*, Yanukovich asserted that his government would "conduct the necessary reforms to strengthen democracy and the rule of law based on our shared values". The problem for Yanukovich and his government is that no one in Europe believes this.

Although the Association Agreement was initiated in a low-key meeting in Brussels on March 30, it faces major hurdles. As Van Rompuy indicated in December, the European Union does not intend to move forward with signature and ratification of the agreement and FTA until political circumstances in Ukraine change. There is no consensus among EU member-states to sign. The Association Agreement and FTA must be approved by each of the 27 EU member-states, and a number of member-state parliamentarians have made clear that they would oppose ratification until the internal democratic situation in Ukraine improves.

This endangers Yanukovich's professed goal of having a balanced foreign policy – at a time when the frustration of senior Ukrainian officials with Russia is readily apparent. The two countries' interests diverge on important issues. Take gas: why should Gazprom agree to cut what it argues is a price established by a valid contract? Instead, reports emerged in March that Gazprom was switching the route of gas in-transit to Europe from the Ukrainian pipeline system to the pipelines through Belarus, over which Gazprom had recently acquired control.

Yanukovich's Miscalculations

Kyiv has slipped into this uncomfortable position due to two apparent miscalculations by Yanukovich. First, he appears to have assumed that, if he extended the Black Sea Fleet lease and ended Ukrainian policies that troubled Russia, Moscow would reciprocate and offer Kyiv more than just the April 2010 discount on the price of gas. This assumption has turned out to be wrong. The Russians continue to take a hard-nosed bargaining approach with Kyiv and seek things that will be very difficult for Yanukovich to give. Gazprom wants control over the pipeline system that crisscrosses Ukraine, while the Russian government wants Kyiv to join the customs union.

There is little reason to expect Moscow to adopt a softer approach, particularly at a time when the Russians see that Ukraine's relations with the European Union and the West in general are in trouble. Does anyone believe that negotiations will become easier for Kyiv when Putin – who reportedly does not particularly like Yanukovich – is back in the Russian presidency?

Yanukovich's second miscalculation relates to how the European Union regards Ukraine. He seems to have believed that Europe would overlook – or at most react passively to – his policies of democratic regression, and he greatly overestimates the geopolitical value that the European Union attaches to Ukraine. He appears to believe that Ukraine matters more to the European Union than the European Union should matter to Ukraine, and that the European Union will turn a blind eye to Ukraine's democratic backsliding out of fear that, if the European Union does not embrace Ukraine, the country will fall back into Moscow's orbit.

Yanukovich's judgment on this also is wrong. He may have made this miscalculation in part due to Western statements rejecting the notion of a Russian sphere of influence. But for EU officials, as well as most member-states, the issue is less about geopolitics than values. Europe is clearly distressed by what is happening in Ukraine, and that extends beyond the treatment of

Tymoshenko (who appears likely to face further criminal charges). For many EU member-states, values are the same as EU interests when it comes to Ukraine, because they see a truly democratic Ukrainian state as a better, more stable and more transparent partner. Following the March 30 initialing of the Association Agreement, Brok stated: "The Association Agreement can only be signed and ratified once the Ukrainian government has created the necessary preconditions. This is the policy of all European institutions, and the European Parliament in particular. These preconditions include the compliance with basic rules for democracy and the rule of law. This includes putting an end to the persecution and imprisonment of opposition politicians, which is unacceptable and not in accordance with the rule of law. The opposition must have the right to take part in the election campaign with its leadership, under the same conditions in relation to the electoral law and the media".

Where there once was consensus in EU councils on working with Ukraine, the country now is increasingly viewed as a nuisance rather than an asset. This comes at an inopportune moment for Kyiv. Perhaps more so than at any time in the past 20 years, problems in the European Union, such as the eurozone crisis, are leading member-states to believe that the EU's attention must be focused inward. Some member-states do not want to see Ukraine draw closer to the European Union. For those states, democratic regression offers a reason to justify slowing the pace of EU engagement with Kyiv. And Kyiv's traditional advocates in the European Union – such as Poland, Lithuania and Sweden – show signs of tiring of the effort to support Ukraine.

All of this bodes poorly for Kyiv's ability to pursue its foreign policy. Instead of striking a balance of solid links with both Europe and Russia, Yanukovich's policies are producing the opposite.

Some analysts in the West question whether Yanukovich understands this. It is difficult to believe that he does not. EU leaders and senior officials have explained the problem directly to him. Other analysts question whether he cares, suggesting that he is so preoccupied with amassing political and economic power at home that he pays little attention to foreign policy and the costs of democratic backsliding. That does not seem consistent with the image of someone ever eager to meet with EU leaders and Barack Obama. And he may not have the luxury of not caring.

As Ukraine's relations with the European Union and the broader West deteriorate, Yanukovich will find his isolation growing and Kyiv's position vis-à-vis Moscow weaker. That will have consequences for what happens in Ukraine, including to the Ukrainian economy, which is accumulating energy debts that may prove difficult to sustain. For example, the European Union and the United States have at times in the past encouraged the International Monetary Fund to take a lenient approach when Kyiv failed to fulfil the conditions of its IMF programme. There is little sentiment in the West for that now.

At some point, Yanukovich will have to face the fact that he can have an authoritarian political structure, difficult relations with Europe and the West, and a greatly weakened hand in dealing with Russia, or he can return to a more democratic approach and have a stronger relationship with Europe and the West and a balanced foreign policy. If he believes that he can find a way to have an authoritarian system at home while achieving a balanced foreign policy, he risks making yet another miscalculation. ■

UKRAINE BETWEEN RUSSIA AND THE EU



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Some thoughts on EU-Ukraine relations were invoked by my participation in the international conference “Ukraine at the Crossroad” (Ottawa, March 7-8, 2011) that focused on that subject.

The relations between the EU and Ukraine have a long history. In my opinion, under the presidency of Viktor Yushchenko, the European Union did everything to repulse Ukraine. France and Germany refused to grant Ukraine not only a roadmap but also any kind of horizon for cooperation – first, an Association Agreement, then, the EU membership – that was so much needed to confirm the country’s European choice. The choice made by the Ukrainian people in 2004.

Beyond doubt, the European Union shaped its policy towards Ukraine under Moscow’s pressure. At least, German politicians did not even try to conceal that. Then, the Kremlin saw Ukraine as the main threat – not as a threat of NATO’s tanks crawling towards the Russian border but as a threat of irreversibility of Kyiv’s European choice, a threat of Ukraine’s “*success story*” on its path toward the European democratic development.

The European trajectory of Ukraine’s development would be a verdict for Putin’s regime, since a convincing demonstration of success on that path by the Ukrainian people, so closely resembling the Russians, would abruptly put an end to the philosophy of the sovereign democracy, Russia’s special path, “getting up off the knees” and to Kremlin’s other complexes and phantoms.

Even the success of Georgia – a country far less important to the Russian collective conscience (and a much less like-minded country for us than Ukraine) – has already been deemed as dangerous for Moscow. Just imagine how devastating Ukraine’s convincing success would be for Putin’s regime.

To be sure, **Moscow’s main strategic goal was to compromise and undermine the European choice of the neighbouring state.** This was done in different ways: internally, by influencing Ukraine’s domestic policy, and externally, first of all, through Germany.

Under Viktor Yanukovich’s presidency, the talks on Ukraine’s Association Agreement with the EU have finally reached the stage of initialling the document. To be precise, that agreement would have been priceless five years ago, at the onset of Viktor Yushchenko’s presidency.

And now, a problem arises, broadly discussed both in Ukraine and in Europe. Whether to ratify that agreement, to grant Ukraine an official association with the EU, disregarding what is going on in Ukraine’s domestic policy now (i.e. authoritarian trends of Yanukovich’s presidency, persecutions of his political opponents)? Or to freeze the agreement, in order to exert pressure on the present-day Ukrainian authorities?

There are different opinions on this matter in the Ukrainian opposition and in Europe alike. I personally suggest that the Agreement should be ratified and made effective immediately. It is an Agreement not with Viktor Yanukovich and not for Viktor Yanukovich. It is an Agreement about the future of the Ukrainian nation and the Ukrainian state, about the European trajectory of Ukraine’s development.

If the EU also wants to make a clear statement about its attitude on the current regime in Ukraine, it can be achieved by having an Association Agreement with Ukraine but simultaneously introducing something like the “Magnitsky list”, to include the persons immediately involved in persecutions of the opposition leaders in Ukraine. The Agreement is about Ukraine’s future – not today’s realities. More than that, it will be much easier for the Ukrainian civil society to change those realities under the framework of that agreement, and in the context of a legally established European choice of Ukraine.

I know that the Ukrainian opposition is divided on that matter. The abovementioned conference also discussed the ratification of an EU-Ukraine Association Agreement. My long-time friend, Borys Tarasyuk, did not agree with my point of view. In his opinion, the Agreement should

not be initialled, that Europe's refusal would exert serious pressure on Yanukovich's regime.

When it comes to my final position, it was formed when discussing these issues with my European colleagues. They mentioned an interesting motive, they said: "You know, we are afraid that if we were to ratify an Agreement now, overlooking all violations of human rights under Yanukovich's presidency, they, in Moscow, would think of it as a deliberate Russophobic move". In their relations with Ukraine they still keep on looking at Kremlin – how not to hurt, not to tease their valuable partner, Mr Vladimir Putin.

During Viktor Yushchenko's times, the European countries in fact betrayed a pro-European movement of Ukraine, the Orange Revolution. Even now, when the Association Agreement has been finalised, they turn their heads to Moscow – fearing the Kremlin will see it negatively, in a wrong light? Of course, it will!

Moscow is doing its utmost to disrupt the Association Agreement. I say again, Ukraine's success on the European path could have influenced the developments in Russia. Today, unfortunately, it is not going in the direction so much wanted by the Orange Revolution movement. Moscow has been making a tremendous effort to thwart such a development trajectory, and the EU has contributed to a large extent.

Russia has no foreign policy as such. It focuses on domestic propaganda tasks. Its foreign policy is about stirring up hysteria of hatred toward the West, and first of all, toward the United States reaching its climax in the recent months.

The authorities try to convince the people that they are surrounded by a mighty and dangerous enemy that wants to dismember Russia, to seize out its countless riches, to debauch its highest spirituality and so on. And Putin alone defends us from that deadly enemy. Repeating that rubbish a thousand times, the authorities themselves began to believe it. Recall Putin's speech at the victory meeting – he cried, and those were true, not glycerin tears. He cried telling that "they" wanted to deprive us of our sovereignty, but "we" won, "we" defended Russia. Before that, he called: "Let's die for Moscow!". In the world he invented himself, he fought against not someone like Zyuganov or Zhirinovsky, he against fought the global evil, the global turf war, first of all, against the US – and he sincerely believed in that.

This has an inevitable effect on the Russian policy in the post-Soviet space as all relations become embroiled in the global turf war. In 2004, Moscow interpreted Ukraine's elections as kind of doomsday, as the last battle between the forces of good and evil – between pro-American Yushchenko and pro-Russian Yanukovich.

The Kremlin sees the world only in such a framework and cannot realise that Viktor Yushchenko and Viktor Yanukovich are not pro-American or, respectively, pro-Russian presidents, but pro-Ukrainian politicians who stick to different opinions and look up to different social groups and clans. They are independent political actors in an independent state.

The same is true for all other "brothers" in the former Soviet Union. So many times Moscow, having divided



up the politicians of a neighbouring country into pro-American and pro-Russian, was making an effort to bring to power those allegedly pro-Russian ones, and almost immediately blamed them for being anti-Russian, as it is the case now with Viktor Yanukovich. Russia will not understand that there are simply no pro-Russian politicians, as it sees them, in the post-Soviet space.

The state TV cooked up an accusatory reel about Alexander Lukashenka who seemed to represent a brand of a pro-Russian politician. There also was a pro-Russian politician Voronin, later chanted as anti-Russian; the same happened to Kyrgyz and Tajik presidents.

There is a pathological misunderstanding that the neighbouring countries are not "zones of privileged interests" or objects of "domination in the post-Soviet space" (favourite terms of the Foreign Ministry) but independent actors in global politics.

We declare every new leader of a CIS state a pro-Western or "even more pro-Western", unaware that by doing so, we render a verdict on our own policy. Where are those "pro-Russian" political figures, expecting whom, we build sand castles of our new empire? Or maybe something is simply wrong with us and our policy and the presidents are just pro-Ukrainian, pro-Georgian, and pro-Belorussian?

The inability of Russia's political class to take seriously the independence of the CIS states, not formally, on paper, but internally, mentally; its striking deafness to the possible reaction from partners; a spiritual laziness that prohibits the ability to see itself from the other's perspective – all this gives rise to a self-evolving cycle of alienation and enmity in the entire post-Soviet space.

What can today's Russian "elite" offer to its former neighbours in a "shared apartment"? Nothing, but a pompous talk of its greatness, its historic Eurasian mission, the messianic imperial destiny of the Russian ethnos, and so on. But this is not interesting for anyone except ourselves. The utmost some neighbours are ready to do is to condescendingly listen to those fantasies in exchange for weighty financial subsidies.

The Russian political "elite", thievish and talentless, snobbish and cowardly, swinging between Courchevel and Lefortovo [a prison in Moscow – *Ed.*], will not understand that nobody in the post-Soviet space needs it as a teacher of life and the centre of gravity.

That is why the Kremlin will always have problems with Ukraine. Any new president of Ukraine will be



pronounced anti-Russian, because no president in Ukraine would obsequiously serve Moscow's interests – he would always have some interests of his own. They may be wrong from someone's viewpoint, they may be selfish, may reflect the interests not of the Ukrainian people as a whole but of specific clans or social groups – but they will never be 100 percent Kremlin's. Moscow won't understand that simple thing.

Putin's kleptocracy badly needs a big foreign enemy – the US – to satisfy its phantom imperial ambitions. And it needs neighbours that, in its model of the world, are US satellites. It will look at Ukraine from that perspective, unless the latter immediately and automatically agrees to all integration caprices of Moscow. That is why the relations will always be tense.

Where exactly will those contradictions be manifested? Of course, the economic component will play an important role, first of all, gas, because Russian leaders are not only bearers of neo-imperial complexes but also big gas traders.

I recall a phantasmagorical scene symbolic of today's state of the Russian-Ukrainian relations – a solemn inauguration of the North Stream, in presence of Vladimir Putin, former German Chancellor, Gerhard Schroeder and Gazprom's CEO, Aleksei Miller.

When asked why Ukraine pays for gas more than Germany does, Aleksei Miller began spouting off that one should not compare Ukraine with Germany, that Moscow has much closer relations with Berlin, greater mutual penetration of economies, closer strategic cooperation. But if the Russian leadership has much closer relations with Germany than why making all those claims of a some kind of unity of nations between the former Soviet states, of our common historic memory, of Russia's special role in the post-Soviet space!?

Yet in 1997, such a behaviour on the part of Moscow, not only in relations with Ukraine but toward the entire post-Soviet space, was stipulated in the notorious report "The CIS: A beginning or an end of History". (*Nezavisimaya Gazeta*, March 26, 1997). Since then, its recommendations run like a golden thread through endless years-long publications by "experts in 'the near abroad'":

"Coercion of Ukraine to friendship, otherwise – a gradual imposition of an economic blockade of Ukraine following the pattern of the US blockade of Cuba";

"Threat of a serious destabilisation of Georgia and Azerbaijan, backed with demonstration of Russia's resolve to go all the way, can prevent an ultimate exclusion of Russia from Transcaucasia";

"We proceed from the need and naturality of Russia's dominant role in the CIS supranational bodies. Otherwise, why should Russia insist on their creation?"

"Coercion of Ukraine to friendship", that brilliant oxymoron in Orwell's style, is a ruthless self-diagnosis of the psychological state of the Russian political class.

Coercion to love is seen in all legal systems as an extremely grave act, which carries a serious responsibility. In everyday human relations, coercion to friendship is a guaranteed invitation to hatred. But why such an evident

foolishness has been represented as a sample of state's wisdom when speaking about relations not among people but about relations among nations?

Either it is Russia, or the West – they keep on trying to impose a choice on its neighbours. This is an absolutely counterproductive and futureless statement of a problem. The CIS countries saw Russia's inability and, more than that, reluctance to help solve the problems they face. So one should not be surprised that they all seek to extend its interaction with the West. Who needs a country that can offer its neighbours nothing but *"coercion of Ukraine to friendship"* and threats *"to destabilise the situation in the Caucasus and Central Asia with active involvement of the Russian and Russian-speaking population in that process"*?

Maybe there would be some socially similar "brothers-in-mind" found in the post-Soviet space, if the Russian elite, while gasping from hatred to the West, offered a consistent Grand Anti-Western Ideological Project. But everybody knows well where the "elite" keeps its wealth.

And it appears that all that fuss has been designed, according to the authors of the notorious report, only *"to strengthen its position in political bargaining with the US and the West for Russia's integration in the civilised world"*.

But why on earth is Moscow so desperately, stupidly and hopelessly trying to hamper the natural and inevitable movement of its neighbours toward this "civilised world"?

It is a striking inability of the narcissistic "elite" stuck in its megalomaniac fantasies and ecumenical grievances to take a detached view from the perspective of its neighbours, whom it plans to include into a "zone of privileged interests", or its future partners in the "civilised world" whom it wishes to blackmail in the post-Soviet space.

The road to a *civilised world* is a 99 percent internal problem for Russia. It involves building a modern market economy rather than a kitty of the oligarchs, bureaucrats and St. Petersburg's KGB men; building a civil society rather than a hideous idea of "managed democracy".

It is a difficult road. But unless Russia builds it up, it will face marginalisation and breakup. The haughty Russian "elite", stupidly guzzling away national raw material resources, has no more than ten years left to dangle over an ice-hole of its phantom ambitions and anti-Western complexes.

For the second time over the past quarter of a century, that is, within the span of one generation, Russia gets impetuously involved in the vortex of breaking up of its ineffective political model – a blunt administrative hierarchy, a regime of no freedom.

But if the history of the Soviet Union was a Shakespearean tragedy of a global scale, the history of Putinism is the most vulgar and disgusting provincial farce. Putinism is the highest and final stage of a gangster *nomenklatura* capitalism in Russia, the natural final product of evolution of the "new class" after the breakup of the Soviet Communist system, forestalled by George Orwell in the famous conclusion of the "Animal Farm". ■

RUSSIA'S ECONOMIC INTERACTION WITH UKRAINE AND THE EU STATES FOR THE SAKE OF MODERNISATION: A CORPORATE PERSPECTIVE



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This article analyses the key trends and problems of economic cooperation between corporate structures of Russia and Ukraine, and their interaction with corporations of the EU. It notes that the Russian-Ukrainian cooperation needs to refocus on the tasks of structural and technological modernisation of the two economies. It examines opportunities for using the potential of the EU countries to widen those tasks and proposes some forms of their implementation.

The role of business in globalisation and regionalisation of the world economy

To present a true picture of international economic ties one needs to analyse the specifics of involvement of concrete business structures. When we speak about Russian gas deliveries to Europe that in 2011 exceeded 150 billion cubic meters, we mean concrete contracts of *Gazprom*, until recently – the monopoly supplier of Russian gas abroad. The picture of oil and petroleum product deliveries involving several Russian oil companies is more varied: *Lukoil*, *Rosneft*, *Gazpromneft*, *Surgutneftegaz*, *TNK-BP*. Such deliveries are made by joint efforts of national and foreign corporate structures engaged in transportation, storage, sale and processing of Russian oil and gas.

An increasing role of big companies in the global economy and politics has been observed since the last quarter of the 20th century. In 1970s, the emerging transnational corporations greatly stepped up liberalisation of domestic and international business activity, encouraged an impetuous transborder flow of capital and growth of the world trade. With time, the number of companies active at least in two countries substantially increased. According to international experts, in 2011, the number of such companies exceeded 87 thousand, and the number of their branches approached 800 thousand. In fact, one may speak about “corporatisation” of the world economy, exerting all-round influence on economic development, speeding up globalisation processes.

“Corporatisation” also plays an active role in the development of regional integration processes. Interests of separate business structures encourage informal integration initiatives in a specific region (“bottom-up” integration, or a *corporate integration*). Such an integration, alongside with investment interaction, acquires different forms (such as industrial and scientific-technological cooperation, outsourcing, migration of labour resources, interaction among regions, formation of temporary strategic alliances).

At that, organisation of international production, not related to investment, increasingly shapes the character of international production and sale chains. According to UNCTAD estimates, in 2010, transborder industrial production and outsourcing of services under contracts cost \$1.1-1.3 trillion, franchising – \$330-350 billion, licensing – \$340-360 billion, management contracts – some \$100 billion. Companies working without foreign direct investments all over the world employed some 18-21 million workers; their share in some sectors (electronic, clothing, shoemaking industry, production of toys) accounts for 70-80% of exports in some developing countries.¹

New forms of the global economy organisation and the growing role of business structures suggest building of an up-to-date model of relations between the state and separate economic factors by implementing the national foreign economic policy. That model is to ensure:

- national geopolitical and economic interests in relations with separate countries;

¹ World Investment Report 2011: Non-equity Modes of International Production and Development. – New York and Geneva: UNCTAD, 2011, pp.132-133.

- corporate development goals, including growth of profits, access to new technologies, markets, etc.;
- political and diplomatic support for separate companies, creation of non-discriminatory conditions for their exports and foreign investment expansion;
- removal of state protectionism of separate countries and protective barriers of regional associations for promotion of goods and investments, labour migration, etc.

Specific features of such model vary for each business. One of the main criteria is presented by the company's ownership structure that shows the degree of state's involvement in its management. Some means for harmonisation of corporate and national interests can be used in relations with companies where the state has the controlling block and that focus on national rather than corporate interests. The state policy in relations with private companies requires different means, although it has a number of specific features. In such quasi-market states as Russia and Ukraine, a huge role belongs to specific manual controls that sometimes can press corporate interests into the background.

The present-day realities, first of all, the global financial and economic crisis of 2008-2012, prompt a new look at the relations of the state and private business. *First of all*, this refers to greater state support provided to it in view of systemic risks. *Second*, the growth of state protectionism associated with the global financial and economic crisis required more active state involvement in promotion of interests of the national business abroad. *Third*, the decrease of financial resources of companies will cause search of new forms of support for corporate structures to encourage their involvement in structural and technological modernisation of economies at the new stage of technological development of the global economy.

Those tasks are high on the agenda for Russia and Ukraine. The EU states, now going through the deepest economic crisis in its history, also need serious modernisation.

Interaction between the Russian and Ukrainian business

So far, interaction of the Russian and Ukrainian business exerts little influence on structural and technological modernisation of both countries. Such interaction is stronger in the traditional key branches of the economy – ferrous and non-ferrous metallurgy, the energy sector, chemical and petrochemical industry, some sectors of heavy mechanical engineering and light industry. At that, despite the emerged deeper forms of interaction

associated with mutual investments (first of all, with big deals of Russian companies buying production assets in Ukraine), there have been no fundamental changes involving modernisation of the concerned production facilities. **For this, the activity of the Russian business is often criticised in Ukraine.**

One should keep in mind however that similar problems exist in Russia itself.² Due to the specificity of its formation at the initial stages of the systemic transformations, the business class in the post-Soviet space first of all seeks rapid profits and does not think of long-term modernising investments that can boost competitiveness. All those problems are automatically brought to Ukraine and other countries where the Russian business is active.

At the same time, one should note the modernising influence of the Russian business on the development of such sectors of the Ukrainian economy as mobile communications, financial and insurance services. Exactly in those sectors the Russian business, as well as in Russia proper, employed the received advanced Western technologies.

As of 1 January, 2012, nine banks³ with the Russian capital were active in Ukraine holding, according to the Association of Ukrainian Banks (AUB), approximately 15.5% of the Ukrainian banking system assets (and that percentage is steadily growing), 16.3% of the total credit and investment portfolio, some 10% of deposits of individuals and some 16% – of legal entities. Their aggregate capital makes approximately 14.5% of the aggregate capital of Ukrainian banks. This is not too much but Russian subsidiaries are backed by big Russian banks ready to provide them with significant funds at any time.⁴

This explains the positive assessments of the role of Russian companies in Ukraine, contributing to growth of the investment activity, GDP, budget proceeds and employment.⁵

Ukrainian investments in Russia seriously yield to Russian. For instance, at the end of 2011, the cumulative Russian investments in Ukraine totalled \$1 billion, Ukrainian – approximately \$238 million. The volumes of mutual direct investments are even lower (Table *Cumulative mutual investments of Russia and Ukraine*).⁶ Although the official statistical data are distorted by transit investments from holding centres belonging to Russian and Ukrainian citizens incorporated abroad, the cited figures evidently do not represent the potential of the two countries.⁷

Paradoxically, in some cases development of investment cooperation is encouraged by recurrent

² At Russian enterprises, the share of expenditures on research and development makes only 6% of their total expenses. Meanwhile, in such innovation leaders as Japan – 75%, the USA – some 70%, the EU countries – from 25% to 60-65%. At that, expenses of business structures are more than twice lower than also small, on the international scale, expenses of the state, while the situation in successful countries (in terms of modernisation) is just the opposite.

³ Sberbank of Russia, Vneshtorgbank (VTB), Prominvestbank (since 2009 owned by the Russian Vnesheconombank), Alfa Bank, Bank of Moscow (BM Bank), Petrocommerce-Ukraine, Energobank, Russian Standard, Trust.

⁴ Source: Zelensky, E. Russian bankers occupy Ukraine. – Minfin, 13 February 2012, <http://minfin.com.ua/2012/02/13/540219> (in Russian).

⁵ Levytskyi, A. Russian capital in Ukraine: The Kremlin will defend business, and business – the Kremlin. – UNIAN, 17 August 2009, <http://www.unian.net/rus/news/331434-rossiyskiy-kapital-v-ukraine-kreml-budet-zaschischat-biznes-a-biznes-kreml.html> (in Russian).

⁶ Source: data of the State Statistic Committee of the Russian federation, <http://www.gks.ru>.

⁷ Typical in this respect was the acquisition in 2008 by Evraz-Group of the Dnipropetrovsk metallurgical works, ore-dressing and processing enterprise Sukha Balka and a number of by-product coke enterprises through the purchase of the Cyprus Palmrose company for \$2.1 billion.



**Cumulative mutual investments of Russia and Ukraine,
\$ million**

	2005	2006	2007	2008	2009	2010	2011
All Russian investments in Ukraine, including:	516.0	329.1	810.4	1 097.9	1 198.3	1 089.0	1 001.4
Direct Russian investments in Ukraine	112.8	92.2	125.9	122.6	575.4	783.4	649.8
All Ukrainian investments in Russia, including:	64.7	94.5	179.5	167.3	142.1	199.0	237.5
Direct Ukrainian investments in Russia	38.8	59.1	85.6	73.0	77.6	62.0	78.2

Russian-Ukrainian conflicts. For instance, due to problems with caramel deliveries to Russia, the Ukrainian concern *Roshen* in 2001 bought the Lipetsk confectionary in Russia, and the *Conti* concern in 2004 – a confectionary in Kursk. Jointly with the leadership of Saratovskaya oblast, the Ukrainian *Motor-Sich* company is organising production of gas-turbine power plants and gas-turbine drives for compressor stations. Other manufacturers of the power engineering industry, too, plan to open production facilities in Russia.⁸

Speaking about informal interaction between Russia and Ukraine, one should note the high level of labour migration, mainly from Ukraine to Russia. Labour migrants are a source of serious financial revenues for Ukraine – as witnessed by the data of the net negative balance of transborder transactions of individuals in Russia and Ukraine that in 2006-2011 exceeded \$10 billion.⁹

The role of cooperation of Russian and Ukrainian corporate structures with the EU for modernisation of the national economies

Although deliveries of Russian hydrocarbons remain the basis for foreign economic ties between Russia and the EU countries, interaction in the processing industry was on the rise in 2000s. With the assistance of European companies, many advanced production facilities were created in Russia, which, *inter alia*, brought to the Russian economy advanced technologies contributing to its modernisation (Box “Cooperation between Russian and European companies”).

On the other hand, acquisition of assets of high-tech branches in Europe may be critical for modernisation of the Russian economy. The EU states account for 40-60% of the actual volume of all cumulative Russian direct investments abroad.¹⁰ Thanks to investments from the EU countries, production chains of Russian companies in oil refining and ferrous metallurgy are being completed, access to the European markets is facilitated.

In the recent years, the interest of Russian companies in innovative technologies possessed by European partners has been growing. One promising line is to acquire production facilities operating the required research facilities that can not only improve the available ideas but also generate new ones. This looks much more promising than acquisition of patents and licences, always attributed to the day before. Russian-based enterprises with their projects protected with existing licences and patents are a different matter.

⁸ *Motor-Sich* going to Russia. – Ukrudprom, 21 September 2009, <http://www.ukrudprom.ua> (in Russian).

⁹ Data of the Bank of Russia, <http://www.cbr.ru/statistics/?Prtid=svs>.

¹⁰ The reason for such divergence in assessments is that some EU jurisdictions provide preferential taxation procedures and are used by the Russian business for accommodation of holding centres possessing assets in Russia and often employed for transit of direct investments.

COOPERATION BETWEEN RUSSIAN AND EUROPEAN COMPANIES

European companies in Russia

Motor-car industry. Thanks to *Renault*, *Volkswagen AG* and *Peugeot S.A.* companies, modern car-making factories have been built in Russia.

Development of the motor-car industry promotes investment in associated production facilities. For instance, in 2009, *Stadco JV* producing automobile parts was commissioned in Vsevolozhsk. Total investments in that project are estimated at €208 million. The project involves companies *Gestamp Automocion* (67.5%, Spain), *Severstal OJSC* (22.5%, Russia) and *Stadco Ltd* (10%, Great Britain). *Severstal* and *Gestamp* launched a press-forming production facility – *JV Gestamp-Severstal-Kaluga*, producing body parts for the *Volkswagen* concern's enterprises situated in the same industrial zone. Parts will also be supplied for *PSA Peugeot*, *Citroen*, *Renault* (*Avtoframos*).

Pirelli company is building a metal cord production plant in Tolyatti. The total project value is €140 million. The biggest Russian car-maker *AvtoVAZ* plans to substantially expand cooperation with foreign suppliers. The first JV producing exhaust system was established in 2010 by *AvtoVAZagregat* and German *Eberspaecher* supplying products to world-known car-makers.

Railroad and rail carriage building. *Transmashholding* (Russia's biggest rolling stock producer) in 2011 sold 25% + 1 share to one of the world leaders in rail transport production – France's *Alstom Transport*. *Alstom* will supply to Russia 200 passenger electric locomotives for the 1,520 mm track, developed jointly with *Transmashholding*, and will further take part in technological and production cooperation with Russian companies. The main goals of cooperation include development, production and adoption of new equipment. For that, an engineering joint venture was set up – *Rail Transport Technologies LLC*. *Alstom* also plans to set up a JV with *Transmashholding* to produce haulage systems and other parts for the rolling stock on the basis of advanced technologies developed by *Alstom*. *Alstom* also wants to take part in organisation of batch production of a new family of passenger carriages, including double-deckers, and with time – in production of metro carriages, trams, electric trains.

Ural Locomotives JV, set up by *Siemens AG* and *Sinara Group*, also plans to produce modern electric locomotives. In line with the agreement, in 2011-2016, the JV on the basis of the Urals Railroad Machine Building Plant is to produce 221 two-unit freight electric locomotives.

Siemens AG jointly with *Aeroexpress LLC* and *Russian Railways* signed a memorandum of production, delivery and maintenance of modern Russian electric trains. For that, it is planned to create a JV in Russia (probably in Tatarstan) for production of new-generation electric trains *Lastochka* with the asynchronous hauling system of *Desiro Rus* series. That type of electric trains will be produced on the basis of Olympic electric trains, to be supplied by *Siemens* for *Russian Railways* in 2012-2013. By 2017, it is planned to achieve 80% localisation of production of those trains in Russia.¹

Aircraft building. European firms (French *Snesma*, *Thales* and *Mishelin*, Britain's *Dunlop*, German *Liebherr*, Italian *Finmeccanica Alenia Aeronautica*) alongside with American ones (*Boeing* and *Parker*) take part in development, production and marketing of the advanced regional aircraft *Sukhoi Superjet-100*, seen as the pilot project of revival of civil aircraft building in Russia. *Rostechologies* signed an agreement with Italian *Augusta Westland* for assembly of civil helicopters *AW139*.

Pharmaceutical industry. A new stage of the pharmaceutical industry modernisation using foreign investments was started, largely thanks to the policy of state procurement of medicines covered by social insurance, mainly by companies active in Russia. This prompted some leading foreign manufacturers to begin localisation of their production in Russia. In particular, one of the best-known manufacturers of insulin – France's

Sanofi-Aventis – in 2009 acquired over 50% of shares of the Russian insulin manufacturer *Bioton Vostok*. Thanks to those investments, *Sanofi-Aventis* will commence production of analogues of insulins and human insulins in Russia, with its 10 million patients suffering from diabetes mellitus, including *Lantus* (one of the key insulin brands in Russia), *Apidra*, *Insuman Basal* and *Insuman Rapid* insulins.

A similar move was made by another world leader in the branch – Danish *Novo Nordisk*, that accounts for up to 70% of insulin sales in Russia. In April, 2010, *Novo Nordisk* signed a contract of construction of a factory producing modern insulin preparations in technopark Grabtsevo, Kaluzhskaya oblast (225 working places, total investments – \$80-100 million). The factory construction, tuning and development will be gradual, within a few years, to ensure high quality of the produced preparations and unimpeded transfer of technologies and skills to the Russian side. The first production line is to be launched in December, 2012.

Other production facilities. World-known companies *Philips*, *Siemens*, *Indesit*, *Vestel*, *Candy* *Elletrodomestici* and others invested money in the Russian electronic and electrical industries, production of household appliances.

Using European capital, Russia created the advanced brewing industry; food processing, perfumery and other production facilities are booming. For instance, dairy businesses of the French *Danone* and Russian *Unimilk* companies in Russia merged together. World-famous *L'Oreal* invests €26 million (without equipment deliveries) in construction of a factory in *Vorsino* industrial park, Kaluzhskaya oblast. The factory will employ 300 workers, produce shampoo and other hair care products of *Garnier* and *L'Oreal Paris* brands. With time, they plan to organise production of the entire *L'Oreal* product line there.

Russian companies in Europe

In 2008, *Harvey Forester LLC* acquired 85% of shares of the Finnish *Pinox Oy*, whose technology it has been using to develop the logging equipment since 2005. After the companies' merger, production is to grow six-fold, while the prime cost will decrease by 30% thanks to metal structures' production in Russia. The deal will make it possible to boost sales of *Harvey* logging equipment on the European market, use the technology of bioenergetic machines with their subsequent sale on the Russian market (know-how) and in that way ensure stable operation and low procurement prices of component parts from direct suppliers in Europe and America.

Tractor Works machine-building holding in 2008 acquired 74% of shares of the German foundry *Luitpoldhutte AG* supplying component parts for motor vehicles. As a result, the holding got access to advanced European technologies and the world manufacturers – *Buhler*, *BHS Corrugated*, *Caterpillar*, *CNH*, *Copeland*, *Cummins*, *Danfoss Bauer* and *General Electric* – all clients of the acquired company.

In 2009, *Gazpromneft* company bought from *Chevron Global Energy* a factory producing oil and lubricants *Chevron Italia S.p.A.* in Italy. The enterprise, renamed *Gazpromneft Lubricants Italia S.p.A.*, turns out 25 brands of special hi-tech lubricants used, in particular, for drilling operations. Together with the factory, the company got a licence to use technologies of oil and lubricant production, and patent rights to the *Texaco* trade mark to sell products at the Italian market.²

S-Group company that belongs to the *Severstal* owner Alexei Mordashov as far back as August, 2008, acquired 38% of shares of the laser diode manufacturer, German *Innolume GmbH*, for €6 million. *Innolume* (as well as *OptoGaN*) was set up by Russian scientists who emigrated to the West. *Innolume* registered in St.Petersburg a subsidiary – *Innolum*, that will organise production of laser modules to be used in telecommunications. Meanwhile, laser chips will be produced in Germany. *Innolume* will also study employment of lasers in plastic surgery (fat burning) and photochemical therapy (treatment of cancer).

One of the first projects funded by *ROSNANO* state corporation involved establishment of a JV producing modern lighting systems. Its end products will include LED chips, lamps, and lighting systems comparable by their brightness with the best

world standards. That technology was obtained after the Russian private company *ONEXIM* acquired the German-Finnish *OptoGaN*, created by disciples of academician Zhores Alferov, Maksim Odnobliudov and Vladislav Bugrov, who emigrated from Russia. It ensures a record-low number of defects in heterostructures (multilayer semiconductor structures), so that devices on their basis work without losing efficiency at high current densities.

Heterostructure production facilities are situated in St.Petersburg, where the *Ottogan* group in 2010 acquired a big factory assembling electronic devices. In December, 2010, the first production line with the capacity of over 30 million packaged LEDs a month was commissioned. According to expert assessments, by 2013, the new JV will take 7% of the Russian and 1% of the world market of such products.³

ROSNANO and *Renova* agreed to set up a JV for production of solar modules using thin film technologies of *Renova's* Swiss daughter *Oerlikon Solar*. The funding will total 20.1 billion roubles. *ROSNANO's* contribution to the authorised capital will make 3.7 billion roubles. Furthermore, the Corporation will provide the JV with 9.8 billion roubles of borrowed funds. At that, *ROSNANO's* interest in the authorised capital of the joint venture will make 49%; *Renova* will hold 51% of the authorised capital and be in charge of the business development.

The factory producing solar modules will be located at the production site of *Renova's Khimprom* factory (Novocheboksarsk) and will turn out up to 1 million modules a year. On the basis of the JV, a big research centre will be created that will tackle the problem of raising the efficiency of solar modules in cooperation with the Ioffe Physical Technical Institute of the Russian Academy of Sciences. The solar power engineering market is booming all over the world. The main markets for the JV products will be in South Europe and Germany. *Avelar Energy Group* company (a member of *Renova*) professionally engaged in installation of solar modules across Europe will be in charge of sales. In the long run, up to 15% of the produced solar modules is planned to be sold at the Russian market.⁴

ROSNANO and Britain's *Plastic Logic* will build in Zelenograd the world-largest factory producing second-generation plastic displays. The factory will be fully owned by *Plastic Logic* that established in Russia *Plastic Logic CJSC* management company. *Plastic Logic* will retain a development centre in Cambridge (Great Britain), production capacities in Dresden (Germany) and headquarters in Mountain View (the USA). The enterprise will be opened in 2013-2014 in a special economic zone and will monthly produce hundreds of thousands new-generation plastic displays. The total project value is \$700 million.

Building on the first successful experience, *ROSNANO* in December, 2010, set up the European target fund of direct investments, to total 15 billion roubles (\$500 million). *ROSNANO's* partner, Austrian *Unicredit*, active in Europe, will consult the Fund at search and assessment of the investment attractiveness of European technological companies. The other partner will be Britain's *Fleming Family & Partners (FFP)* that will become the Fund's management company. *FFP* has vast experience of dealing in the world hi-tech sector. *ROSNANO* contribution will make \$250 million, the same amount will be raised from outside investors *Unicredit* and *FFP*.

The Fund will invest in active companies at the stage of pre-batch production, expansion of business or the market share. Creation of production facilities in Russia is the indispensable condition. The Fund is primarily interested in assets in the fields of energy efficiency, IT, electronics and medicine, where it will acquire not less than blocking shareholding.⁵

¹ Railroad agreements. – *Ekspert*, May 27, 2010, <http://expert.ru> (in Russian).

² *Gazpromneft* added fuel to Italy. – *Kommersant*, April 23, 2009, <http://www.kommersant.ru/doc/1159521> (in Russian).

³ *ROSNANO*, *ONEXIM* Group and Yalamov Urals Optical Mechanical Plant set up a joint venture to produce new-generation lighting equipment. – *ROSNANO*, <http://www.rusnano.com/Post.aspx/Show/15607> (in Russian).

⁴ *ROSNANO* and *RENOVA* group of companies signed an investment agreement on the project of creation of Russia's biggest production of solar batteries. – *ROSNANO*, <http://www.rusnano.com/Post.aspx/Show/18315> (in Russian).

⁵ Dziadko, T. To Europe for ideas. – *Vedomosti*, 27 December 2010, <http://www.vedomosti.ru> (in Russian).



Ukraine also maintains investment ties with the EU states. The volume of direct investments in Ukraine's economy from the EU countries as of December 31, 2011, totalled \$39.4 billion, which makes 79.8% of all investments in Ukraine. Similar to Russia, the direct investments' structure has a high share of offshore areas and associated jurisdictions. The main investor countries that account for almost 84% of the total investments from the EU are: Cyprus (32.1% of investments from the EU), Germany (18.7%), the Netherlands (12.2%), Austria (8.7%), Great Britain (6.4%), and France (5.7%). More than a third of direct investments from the EU came in industry. Recently, growth has been observed in investments in the financial sector, where the cumulative direct investments almost equal those in industry. Europeans also actively invest in real estate transactions, engineering, the sector of trade and community services. At that, investments from the new EU member states – Poland, Hungary, Romania – are scanty, by contrast to Ukrainian investments in those countries.

Ukrainian investments in the EU countries are much lower. By the end of 2011, they totalled \$6.5 billion, but they made 94.5% of all investments from Ukraine. Not last of all, this is related with insufficiency of financial resources of Ukrainian businesses and the Ukrainian economy in general, badly affected by the global financial and economic crisis.¹¹

Investment is affected by the EU protectionist restrictions on trade. Mainly to overcome those barriers, the Industrial Union of Donbas¹² (ISD) in 2004 acquired the Hungarian metallurgical company *Dunafer* for \$475 million with its debt of \$300 million, in 2005 – the Polish *Huta Stali Częstochowa* for \$374 million (with a debt of \$400 million). *Roshen* corporation had similar grounds to buy 100% of shares of the Klaipėda confectionary (Lithuania) in 2006.¹³ In 2011, *Vorskla Steel* company announced plans of construction of metal works in Záhony industrial park in North-Eastern Hungary.

There are modernisation projects, too. For instance, Sweden's *Ecoenergy* and *BiogasProm* plan to invest €700 million in construction of garbage disposal plants in Ukrainian cities. One plant recycling 170-200 thousand tons of garbage a year will cost €60-70 million.¹⁴

However, by and large, cooperation between corporate entities from Ukraine and the EU for the Ukrainian economy modernisation is much lower than

of similar cooperation between Russia and the EU. In this connection, Ukraine and Russia should join efforts to get greater effect from cooperation with European countries.

New lines of interaction of the Russian and Ukrainian business with the EU corporate entities

Improvement of the investment climate is the key precondition for intensification of corporate interaction between Russia and Ukraine and cooperation of their companies with those from the EU countries. Now, Russia and Ukraine are ranked rather low in ratings drawn up since 2003 by the World Bank and International Financial Corporation experts and released in *Doing Business* reports (Table "Ranking on ease of doing business...").¹⁵

As one may see from the data cited in the Table, the rankings of Russia and Ukraine in most domains of the rating go down, while many post-Soviet countries have achieved impressive success. More than that, Russia is already pushed by partners within the Common Economic Zone (CEZ) – Belarus and Kazakhstan. Having created better conditions for business, those countries became more attractive not only for foreign investors but also for Russian companies that began to register their headquarters there, because CEZ terms enable free movement of goods, capitals and manpower across its territory.

Both Russia and Ukraine spare no efforts to improve the investment climate. For instance, Russia plans to join top-20 countries with the best conditions for doing business by 2020, which, although looking like wishful thinking, will encourage the state to act in that direction. In particular, in its most vulnerable sectors, the following objectives have been set: (1) acceleration of new construction at the expense of reduction of the number of permissive procedures (from 51 to 7) and reduction of the licensing terms (from 423 to 53 days); (2) reduction of the terms of export and import clearance (from 36 days to 5-6 days), the clearance cost (from \$1 800 per container on the average to \$900), the number of executed documents (from 10 to 5 and fewer).

Ukraine commenced a serious tax reform. New opportunities will be provided to foreign and domestic investors by the Law on Industrial Parks expected to ensure – within 3-4 years from the start of creation of industrial parks – \$8 billion of investments and create more than 300 thousand jobs.¹⁶

Ranking on ease of doing business: Russia, Ukraine and some other post-Soviet countries in 2012*

	Russia	Ukraine	Belarus	Kazakhstan	Azerbaijan	Georgia
Overall quality of the business environment	120 (96)	152 (128)	69 (129)	47 (63)	66 (99)	16 (37)
Starting a Business	111 (33)	112 (101)	9 (148)	57 (40)	18 (96)	7 (36)
Dealing with construction permits	178 (163)	180 (107)	44 (84)	147 (119)	172 (162)	4 (42)
Protecting investors	111 (60)	111 (142)	79 (142)	10 (46)	24 (118)	17 (135)
Paying taxes	105 (98)	181 (174)	156 (175)	13 (66)	81 (136)	42 (104)
Getting credit	98 (159)	24 (65)	98 (117)	78 (48)	48 (21)	8 (48)
Trading across borders	160 (143)	140 (106)	152 (113)	176 (172)	170 (158)	54 (95)

* Note: in 2012, 183 countries were assessed. Cited in brackets is the country rating in the 2007 (181 countries were assessed).

¹¹ Noteworthy, by contrast to investments, Ukraine's foreign trade is more diversified. In total exports, the share of the EU countries in 2011 made 26.3%, in imports – 31.2% (in 2010 – 25.4% and 31.4%, respectively).

¹² In 2010, the Russian capital took over ISD.

¹³ Kononov, O. Outward FDI from Ukraine and its policy context. – Vale Columbia Center on sustainable international investment, http://www.vcc.columbia.edu/files/vale/documents/Ukraine_OFDI_Profile_Final_Nov_8_2010.pdf

¹⁴ Swedes will process Ukrainian garbage. – Investory, June 17, 2009, <http://investory.com.ua> (in Russian).

¹⁵ Source: Doing Business. 2007. – Washington: The World Bank, 2006, pp.119-162; Doing Business. 2012. – Washington: The World Bank, 2011, pp.77-139.

¹⁶ Industrial parks will create 300 thousand jobs, – Kaskiv. – LB.ua, March 23, 2012, <http://economics.lb.ua> (in Russian).

However, a realistic assessment of the situation prompts the conclusion that Russian and, especially, Ukrainian companies active in processing industries, so necessary for economy restructuring, will find it hard to withstand international competition and join the relevant international production chains, including with leading European companies. One should cherish no illusions: a company can take part in international division of labour only in the quality, in which it is wanted on the world market.

The probable lines of intensification of interaction between Russian and Ukrainian businesses that can strengthen their competitive positions vis-à-vis with European companies may include:

(1) **Cooperation in energy conservation.** Russia and Ukraine are distinguished for high energy intensity of their economies, 3-5 times higher than in the developed countries. Reduction of energy intensity by at least 20-30% can substantially improve provision of both countries with energy resources, boost their exports or reduce imports.

(2) **Development of alternative energy resources.** Acquisition and perfection of foreign technologies may be used to implement various projects of alternative energy resources in Russia and Ukraine. The new technological preconditions for that that appeared Russia were discussed above.

Huge prospects are offered by cooperation with the EU that in the new *Energy Road Map 2050* programme set the goal of raising the share of renewable sources of energy in the total generating capacities to 49% by 2030 and to 75% by 2050.¹⁷ At that, 8% of power generating units is to be equipped with CCS – carbon capture and storage devices.¹⁸

(3) **Participation of Ukrainian companies in projects implemented by Russian state corporations.** *Rosatom* services of NPP construction abroad is one of such domains. *Rosatom* has a backlog of orders worth more than \$20 billion. In 1-2 years, it may reach \$30 billion

NNEGC Energoatom, the operator of all active nuclear power plants in Ukraine, and Russian OMZ PJSC in 2010 agreed to cooperate in the key segments of nuclear power engineering development. What is meant is service maintenance of operational NPP equipment, promotion of Russian-Ukrainian cooperation in production of high-tech equipment for power engineering, coordination of plans of procurement of NPP equipment under bilateral business contracts.

In December, 2010, *Rosatom's* subsidiary (*Atomenergomash*) bought 92.7% of shares of *Energomashspetsstal*, the main producer of special steel in Ukraine. Those investments will let *Energomashspetsstal* break the monopoly of OMZ *Spetsstal* and get cheaper competitive products. Ukrainian companies in 2011 delivered \$140 million worth of

equipment for Russia's constructed and active nuclear power plants.

Ukrainian enterprises may be interested in *Rosatom's* new technologies of production of construction materials. In particular, *Rosatom* commenced production of advanced carbon fibre on a par with the world standards, necessary for creation of the new generation centrifuges. The carbon fibre is up to 10 times firmer than steel, and four times lighter. The new composite material is used by *Rosatom* in construction, power engineering and gas and petrochemical industry.¹⁹

Some prospects of modernisation are open up in connection with the plans of Russian state corporations interested in restoration of production cooperative networks that existed in the former USSR on a new technological basis. In aircraft building, this will be facilitated by the establishment of a JV by Ukraine's *Antonov* corporation and Russia's management company *United Aircraft Corporation – Sukhoi Civil Aircraft*. The JP will deal with *Antonov's* concrete projects (An-140, An-148, An-124 Ruslan), demanded both in the CIS and on the world market.

(4) **Closer cooperation with Russia and other CEZ countries in the field of railroad engineering, shipbuilding, power machine building, automobile production, etc.** CEZ accounts for more than 60% of the population, and its member states produce 85% of the GDP of the entire post-Soviet space.

On one hand, the establishment of CEZ imposes some limitations on such cooperation for third countries. In particular, border crossing procedures within it will be substantially streamlined, which is very important to ensure stability of cooperative shipments. On the other hand, Ukraine is already a WTO member, and Russia is to join it in 2012. This will produce new opportunities for deeper interaction on the corporate level.

(5) **Involvement of Ukrainian companies in implementation of large-scale innovative projects in Russia**, including the activity of a new type of innovative centres – *Skolkovo*, *EurAsEC High-Tech Centre*, etc.

There is also a number of other domains where the Ukrainian and Russian businesses can deepen interaction for modernisation of the two economies. Conflicts at the state and corporate levels should also be addressed. However, the need of expansion of Russian-Ukrainian interaction is apparent. At present, there are perfect preconditions for that, and they can even better be used jointly with the EU states. The economic crisis in Europe may promote such interaction, too.

One should also keep in mind that at least in the middle run, Ukraine will not be admitted in the EU. Meanwhile, participation in other regional interstate projects enhances its negotiating and practical potential for cooperation with the EU states. ■

¹⁷ Energy Roadmap 2050. – Brussels: European Commission, 2011, http://ec.europa.eu/energy/energy2020/roadmap/doc/com_2011_8852_en.pdf.

¹⁸ CCS technology is used to remove CO₂ from the gas flow, compress it, transport by pipeline and pump into underground beds for safe burial. This will enable the EU countries to reduce CO₂ emission by 80-95% by 2050, as compared to 1990.

¹⁹ Unrecovered innovative economy. – *Vestnik Atomproma*, January-February, 2011, p.14 (in Russian).

RISKS OF INVOLVING UKRAINE IN THE SPHERE OF RUSSIA'S ECONOMIC INTERESTS



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Attempts to involve Ukraine in Russia's sphere of economic (and political) influence continue. The arguments used most often to defend these attempts stress the unity of the "economic complex of the CIS" and the growing trade volumes between Russia and Ukraine – arguments which supposedly prove the irreversibility of the Russia-Ukraine integration process.

However, other arguments are ignored. Firstly, the increase in bilateral trade turnover does not always serve as an indicator of mutual economic and integration benefits. Secondly, a focus on the current state of trade relations can lead to disorientation regarding the real potential and benefits and thus perpetuate the inefficient mode of production and weak administrative structures in the economies of both countries.

Complex economic relations between Ukraine and Russia are further burdened by the process of so-called "rubleisation" of the Ukrainian economy, which refers to the expanding use of the Russian national currency (the ruble) in trade settlements and intentions to implement assets, denominated in Russian rubles, as a component of the country's foreign-exchange reserves.

Risks in Russia's macroeconomic environment

World experience shows that countries, having the intention to form a common economic space and strengthen mutual integration processes, must have mutually agreed institutions of public administration and a number of similar macroeconomic characteristics (to avoid or to minimise imbalances). First of all these are similar or equal production progress indicators, inflation, wage and budget balances, interest and currency features, etc.

Is there any evidence of "common" economic dynamics between Ukraine and Russia, and can Ukraine's involvement in Russia's orbit lead to a reduction in macroeconomic risk? The answer is no.

We can confirm that the **current economic situation in Russia** presents **risks of additional expenses** for Ukraine's macroeconomic environment. In particular:

Russia's economy remains **unstable and vulnerable to economic fluctuations** – in 2009 GDP fell by 7.8%. GDP growth in 2010-2011 amounted to 4.3% annually (Table "Some macroeconomic indicators of Russia"¹, p.88).

That is, at the end of 2011 Russia's economy reached its pre-crisis level. Ukraine, after the fall of GDP in 2009 by 14.8%, did not reach its pre-crisis level even at the beginning of 2012, the reasons for which include low demand on the Russian markets in general (and for Ukrainian goods in particular) as well as import restraints thrown up by Russia (the last such effort were the "cheese wars" of early 2012). Orienting Ukraine on this economy means an **increased risk of variability in external demand**;

- **Russia's economy in general has a low absorption level** compared to the EU countries – The country's GDP is approximately twice times smaller than Germany's GDP alone, and per capita income is several times lower than the corresponding indicator in the EU's developed countries.² **The Russian population's low purchasing power will not be able to stimulate economic growth - neither of its own country, nor that of partner countries (including Ukraine);**
- Russia is characterised by **high inflation risks** (and that for a country that claims leadership in

¹ Source: IMF World Economic Outlook Reports. – <http://www.imf.org/external/ns/cs.aspx?id=29>. Debt Trading Monthly – Credit Suisse, March 2012. Some indicators may be slightly different from those presented in the national statistics. International generalisation is chosen for correct comparison.

² Preliminary estimate of nominal GDP for 2011.: Russia – \$1,885 billion, Germany – \$3,629 billion; per capita: Russia – \$10.6 thousand, Germany – \$40.6 thousand; at PPP: Russia – \$16.7 thousand, Germany – \$37.9 thousand – Source: The World Factbook. – <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

the integration association). The average annual inflation rate is nearly 10%.³

This decreases both the **purchasing power** of the ruble within the country and the value of assets denominated in rubles, and increases the risks of long-term losses;

- **high interest rates**⁴ correspond to high inflation, and “expensive” money is an obstacle for post-crisis economic recovery, international financial and credit activity, and for preventing a shadow outflow of capital;
- although Russia has a mostly positive public budget balance and current account balance⁵, this is chiefly due to raw energy exports – in particular, high oil prices – that are exclusive benefits for Russia. However, the non-fuel deficit of Russia's federal budget in 2011 was approximately 10% of GDP,⁶ which indicates the weakness of the country's budget and macroeconomic stability.

Some macroeconomic indicators of Russia,
%

	2007	2008	2009	2010	2011
Real GDP growth	8.5	5.2	-7.8	4.3	4.3
Inflation (December-December)	11.9	13.3	8.8	8.8	6.1
General public budget balance, % GDP	6.0	4.8	-6.3	-3.5	1.6
Current account balance, % GDP	6.0	6.2	4.0	4.7	5.5
For comparison: Ukraine					
Real GDP growth	7.6	2.3	-14.8	4.2	5.2
General public budget balance, % GDP	-4.1	-7.1	-1.5	-2.2	-5.6

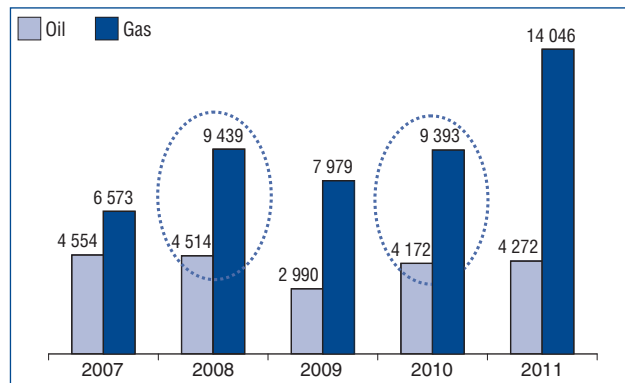
In general, currency upheavals between the two countries tend to increase in case of significant trade disproportions. In this context, the countries are almost opposites. Ukraine has a significantly negative trade balance with Russia. Thus, in 2010 Ukraine had a trade deficit with Russia of \$8.8 billion, and the estimated deficit for 2011 was \$9.5 billion. This deficit is largely caused by the extremely high cost of Ukraine's imports of Russian oil and gas (Box “*Macroeconomic cost structure of oil and gas imports to Ukraine*”; Diagram “*Costs of oil and gas imports to Ukraine*”⁷).

MACROECONOMIC COST STRUCTURE OF OIL AND GAS IMPORTS TO UKRAINE

The level of energy resources import in the GDP structure of Ukraine is almost the highest in the world: according to estimates its cost in 2012 will exceed 14% of GDP. If the average oil price increases to \$140/barrel, the cost of imports will increase up to 16% of GDP.

The estimation of cost indicators of the specified imports will be more complete if we consider relative indicators. Thus, “**part of commodity exports, which is spent to pay for gas imports has already reached the “critical” 20%** (cost of oil imports as a share of exports is relatively stable – 6-7%), that is one in five dollars, which Ukraine receives from exports, is spent to pay for imported gas.

Cost of oil and gas imports to Ukraine,
\$million



Under these conditions, given Ukraine's growing trade deficit with Russia, its structure, and the need for financing, **Ukraine has all the “characteristics” to become a chronic debtor**, which must borrow ever more money from Russia for settlements involving energy resources – some of which will be denominated in rubles. Therefore, if Russia manages to “convince” Ukraine that it is rational for Kyiv to keep part of its assets – including international reserves – in rubles, it will lead to **the country's increased indebtedness** in the future, **the loss of the most important strategic assets (transport routes, ports, etc.) and the strengthening of Kyiv's dependence on Moscow**.⁹

Dependence of the ruble on raw materials markets

As mentioned before, the most important component of deep integration processes is an attractive currency of a potential “leader” country. Although Russia has accumulated substantial foreign exchange reserves,¹⁰

³ According to experts, including Russian ones, over the next few years inflation will remain at a level of 6-8%.

⁴ Thus, since the beginning of 2012 in conditions of sufficient macroeconomic stability, the refinancing rate of the “Bank of Russia” was 8%. (in the II half of 2011 – 8.25%). – Web site of the Central Bank of the Russian Federation, http://www.cbr.ru/pw.aspx?file=/press/DKP/120409_105807/refi_rate_ta.htm.

⁵ Over the past 10 years, except for the crisis period.

⁶ Mau, V. Economy and politics in 2011: global crisis and search for new model of growth. – Problems of Economy, 2012, No. 2, pp.5-6.

⁷ Source: Commodity structure of foreign trade. – State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua>.

⁸ It is appropriate to remind the main features of the reserve currency. Often it is defined as a currency that is not only national money, but at the same time (according to the specific special arrangements) plays the role of money in the international currency circulation. It is a measure of value and price scale (in establishing the cost indicators), means of circulation (in trade in goods and services), and means of payment (in repaying debt obligations), resource of accumulation (in the creation of private and public reserves). The most important international reserve currencies include the U.S. dollar, the euro (formerly the German mark and French franc), pound sterling, Swiss franc, Yen.

It should be noted that central banks usually hold reserves not only in monetary funds, but in certain assets, primarily in government bonds, denominated in the respective currency. As for Russian assets, the **attractiveness of the Russian currency and government bonds (as reserves), denominated in the roubles is extremely low**.

⁹ The country may be interested in the **presence of certain “free” money of the partner country**, which, however, **is not related to reserves of the country**. This is a so-called **currency swap** – bilateral agreements and practice of exchange of a certain quantity of currency to promote mutual trade.

¹⁰ At the end of 2010 foreign exchange reserves of the Central Bank of Russia totalled \$ 444 billion, or approximately 30% of GDP. In 2011 the bank periodically carried out intervention, and although in some months foreign exchange reserves reached almost half a trillion (in August – \$ 496 milliard) at the end of 2011 they were \$453 billion.



which on the face of it seem to grant Moscow the possibility of a relatively independent monetary policy and a stable ruble. However, the truth is somewhat different¹¹ (Diagram “Exchange rate of the Russian ruble to the dollar and the euro”¹²). In particular, during the global financial crisis, the ruble exchange rate fluctuated substantially and generally fell from 24 to 36 rubles per dollar and from 34 to 47 rubles per euro. Significant losses of the ruble were recorded in autumn 2011 during the aggravation of the situation in Europe (even though, logically, European debt problems should strengthen the ruble).

Such high fluctuations are related to the fact that the Russian economy remains rather uncompetitive, with its high dependence on raw energy (especially oil) markets. In fact, the ruble exchange rate dynamics are inextricably linked with the cost of oil: **cheaper oil on international markets inevitably means depreciation of the rouble** (Diagram “The ruble exchange rate dynamics and cost of oil”).

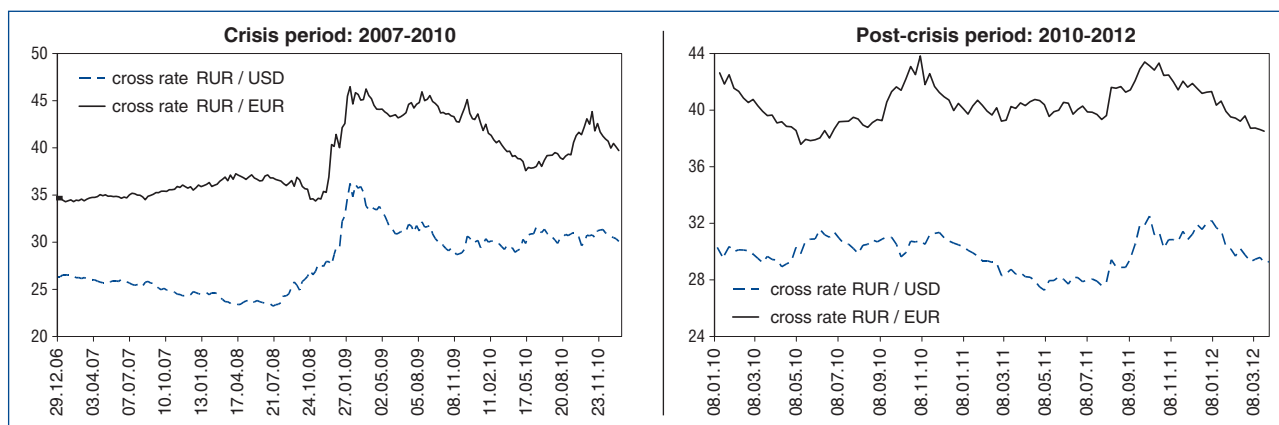
Moreover, the oil price impact is reflected not only in exchange rate dynamics. Thus, given the structure of Russia's financial markets – which are dominated by oil, other raw materials, and energy securities – a deterioration of the situation on the oil markets (i.e. a fall in prices)

will certainly affect the activities and the quotation of securities (that fill state coffers), which was especially evident in the pre-crisis and crisis periods of 2007-2009 (Diagram “RTS index and the cost of oil”, p.90). In fact, the price of oil determines the dynamics of other major financial indicators of the Russian economy, which often has no leverage to counter external negative pressure.

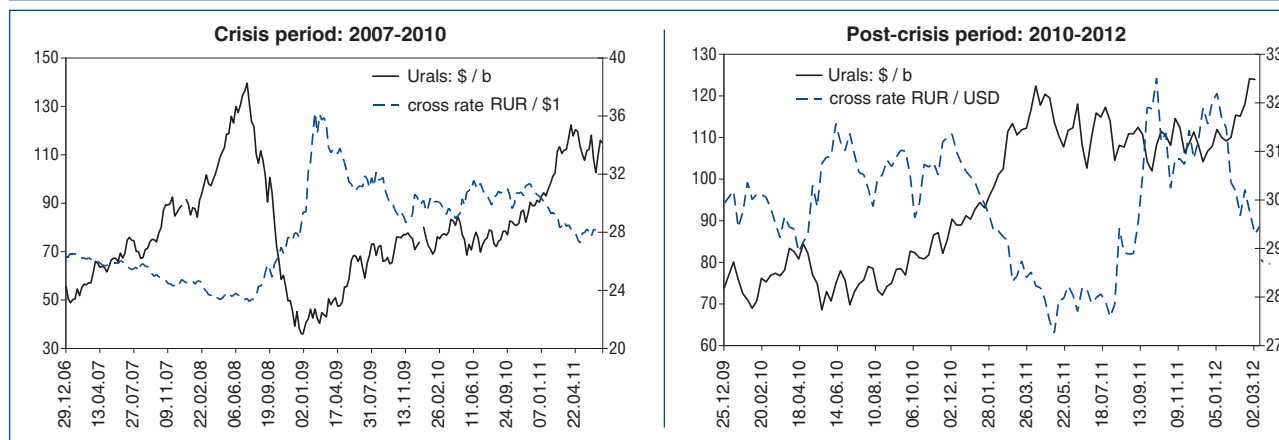
However, it should be noted:

- Russia does not have a monopoly position on world oil markets;
- **cost figures and quotes are formed on the external, international markets**, on which Russia's impact is extremely limited;
- Brent continues to remain the leading global price benchmark (in dollars) for crude oil;
- since world markets are interconnected, market value of oil in different countries will vary only by a stable “minimal” difference, all the while reflecting the global dynamics of a dollar. (Diagram “Market value of international Brent and Russian Urals oil”, p.90).

Exchange rate of the Russian ruble to the dollar (RUB/USD) and the euro (RUB/EUR)



The ruble exchange rate dynamics and the cost of oil

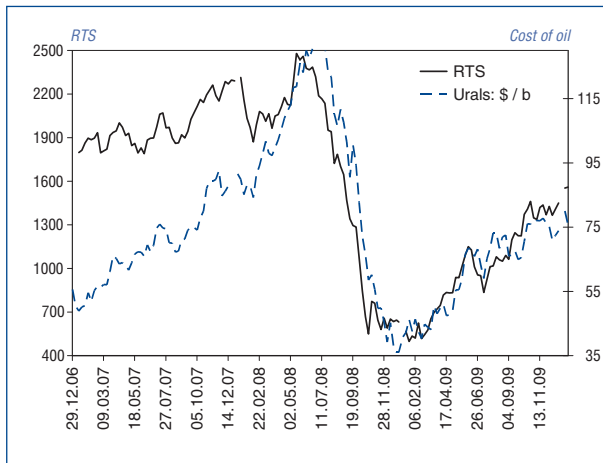


Note. An increase in the ruble-to-dollar exchange rate means the ruble's depreciation against the dollar, which affects the “asymmetric” dynamics of the following quotes.

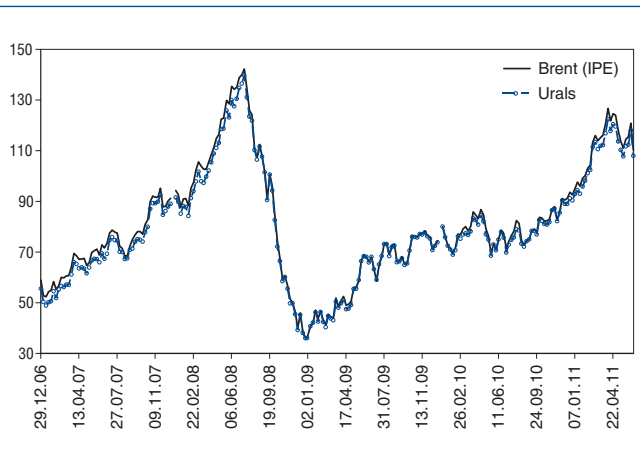
¹¹ The ruble is focused on a “basket” of major currencies – the dollar makes up 55% in the “basket”, and the euro 45%. This orientation creates the **illusion of a smaller dependence on external shocks** and lower exchange rate fluctuations. However, foreign exchange interventions cannot be carried out simultaneously against both international currencies, whose trends are opposite (appreciation of the dollar on international markets means an automatic depreciation of the euro). Therefore, **currency fluctuations remain high and in the circumstances of the current weak economy are completely determined by external markets.**

¹² Source: Exchange rate. – Web site of the National Bank of Ukraine, <http://www.bank.gov.ua>

RTS index and the cost of oil



Market value of international *Brent* and Russian *Urals* oil, \$/barrel



That final point has significant consequences for Ukraine. In particular, the statement that Ukraine will benefit from switching to the Russian market quotation of energy resources and paying for imports in rubles is false. On the contrary, for **Ukraine's economic environment, converting into rubles prices formed on international dollar markets will only increase the risks** associated with exchange rate fluctuations and possible additional adjustments, in part because parties can use different spot or cross rates, especially given the current high uncertainty on world oil markets and in the global economy) (Box "Some components of the oil shock for the global economy").

SOME COMPONENTS OF THE OIL SHOCK FOR THE GLOBAL ECONOMY

The current difficult situation on global oil markets is determined by political and military confrontations and conflicts in a number of oil-supplying countries and can cause a rise in world oil prices. An essential change from earlier times is that whereas price rises used to lead to a "simple" redistribution of benefits from importers to exporters, **today the macroeconomic losses are felt both by importers and exporters.**

Such losses in the global economy are due to multiple dependencies, in particular related to **capital flows**. So, firstly, an **increase in market values reduces the investment level**. Secondly, a weakening of investment incentives **generates conditions for withdrawing capital to a "safe haven"** (i.e. accelerated "capital flight").

Such a situation can currently be observed in Russia, where capital outflows are increasing in conditions of a seemingly stable political system and a favourable pricing environment on world energy markets. Thus, in 2011, which was a relatively successful year for Russia in which GDP grew by 4.2%, the budget surplus grew by 0.8% of GDP, average annual oil prices grew by about 15%, **capital outflows exceeded \$80 billion¹³**. It is a paradox of a kind: **in a favourable global environment, devaluation risks for Russia's national currency (the ruble) increase.**

The CIS countries' Free Trade Area: a call to integration

Russia puts considerable effort in strengthening of integration processes in the former Soviet sphere. Its latest initiative was a so-called Free Trade Area (FTA) of the CIS. However, the proposed instruments of its implementation have thwarted a seemingly positive opportunity for Ukraine. Firstly, this is due to the fact that the revised version of the Agreement is not a positive document for establishing a proper free trade area. In particular, it contains obvious contradictions, since it ignores the experience of formation and functioning of successful economic entities (Box "The significance of the regional integration experience"¹⁴) and contains some significant discrepancies restricting the trade terms for Ukraine (such as major exceptions to general import provisions for Russia, the absence from the Agreement of problematic issues related to raw materials and energy resources transit). In fact, the Agreement is aimed at restoring and strengthening the administrative structures of the CIS, where Russia will play a dominant role.



¹³ Source: Mau, V. Economy and politics in 2011: global crisis and search for new model of growth. – Issues of Economy, 2012, No.2, pp.5-6.

¹⁴ Learn more: Prospects, Benefits and Challenges for Ukraine to Participate in Regional Trade Associations. Analytical report of the Razumkov Centre. – National Security and Defence Journal, 2007, No.7, pp.14-18.

International practice shows that, after achieving certain preliminary results, the formation of a free trade area leads to a gradual growth in trade volumes subsequently and, then, to an economic integration. Thus, the current EU started with the European Coal and Steel Community (1951), within the framework of which first the mechanisms of cooperation, control, and conflict resolution were worked out, and only then a transition was made to the European Economic Community (1957) through a gradual expansion in the number of participants and a deepening of integration processes.¹⁵

THE SIGNIFICANCE OF THE REGIONAL INTEGRATION EXPERIENCE

The world already has extensive experience in observing the operation of regional trade (economic) agreements (RTA), and the losses and benefits of countries from participation in them. Thus, the systemic risks for public administration and economic policy include underestimating or ignoring these "rules of thumb":

- RTA success is associated with the presence among its members of a powerful leader (a developed country or a group of developed countries with established institutions that are members of the RTA directly or on which other member countries are oriented). Only in this case disparities in economic and technological development of member countries, as well as the preferences of individual participants will not lead to conflicts, and may be mutually neutralised;¹⁶
- A union of **exclusively "weak" countries** without a clear orientation on powerful developed economies **does not bring significant long term benefits**. Moreover, the preservation of relations within unions of "weak" countries is usually accompanied by increased inefficiencies or a deterioration of industrial specialisation indicators;
- Although most of the time countries creating a RTS declare an orientation on joint economic priorities and obedience to the principle of non-interference in the political problems of partner countries, the **internal (macroeconomic, social) problems of one country will be surely reflected on its partners** as soon as goods, services, capital, and labour begin to move freely within the region.
- Furthermore, *firstly* – strengthening of politicisation leads to the fact that decisions on economic policy will not always be rational or efficient. *Secondly*, in cases where the leader country has weak civil institutions, politicisation can lead to a neglect of the satellite countries' needs. *Thirdly*, an intent to solve all issues in the centre (i.e. in the leader country) will result in the weakening of ties between satellite countries. And *fourthly*, for the satellite countries a preservation of traditional (outdated) economic ties means a loss of prospects for development.

Regarding the FTA of the CIS countries, an "inverse" policy is being implemented. The **structure now being created has as its characteristic feature the introduction of significant trade restrictions**, which are (possibly) to be repealed in the future. However, these are illusory intentions. Because of the requirements for competition, and the needs to "support domestic producer", one **should expect the introduction of new provisions aimed at strengthening trade restrictions**. In other words, if the FTA starts off with exclusions and restrictions, as well as violations of procedural and regulatory conditions, then this area is no longer free and, in fact, is doomed to failure.

Integration projects involving unequal entities comprise, in fact, the **economic and political takeover of the satellite countries**, and not "mutually beneficial economic cooperation". We will specify only two of the drawbacks of the proposed FTA, both of which are fundamental for Ukraine:

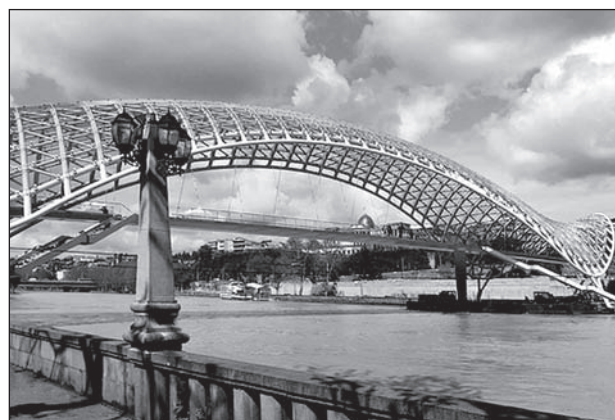
(1) Asymmetry (in favour of Russia, first of all) in the **fixing of export duties on a large number of products**;

(2) A discriminatory situation in what is for Ukraine a very important component: the "freedom of transit", because the provisions of the proposed Agreement on such freedoms **"do not apply to pipeline transport"**.¹⁷

These defects are not the only losses for Ukraine. However, they alone completely offset the potential benefits from participation in the Common Economic Zone of the CIS.

Russia's economy is characterised by an outdated production structure, low competitiveness, and a significant vulnerability to external shocks and a volatile environment. High inflation leads to losses of assets and purchasing power, and affects the incentives of investment and innovative development. Russia's major orientation on raw materials markets definitely influences the value of its currency, the ruble. Ukraine's economic orientation on Russia will not allow it to properly use the new configuration of world-economic relations, which is currently being formed in the global economy, the benefits of cross-border cooperation, as well as opportunities to strengthen competitiveness and institutions. Under these conditions, the benefits of involving Ukraine in Russia's orbit seem quite illusory, while the risks are real and quite significant.

Post-Soviet countries (the Baltic States, and later Georgia), which decided not to limit themselves to the post-Soviet partnership, not to preserve economic relations, not to seek access to "cheap" raw materials and not allow political concessions for temporary economic benefits, were able to build in a relatively short historical period states of a new type and succeed in introducing European values and developing competitive economies. Perhaps Ukraine should pay more attention to their experiences. ■



¹⁵ Important principles involved in the formation and activities of RTS are first the **absolute equality of all its members** and partner countries. Thus, from the beginning of the EU's existence, although the economies of Belgium or the Netherlands were significantly smaller than those of Germany or France, there were never issues of "priority" or greater "importance" of bigger countries positions compared with smaller countries. **Domination of a certain country was not discussed.**

¹⁶ World experience shows that for a country's long-term sustainable development, the significant factors are not only individual benefits for certain industries or products, but the presence of advanced intensive markets, which have stable demand and enlargement prospects.

¹⁷ See: Agreement on Free Trade Area, Article 7 "Freedom of transit", Clause 3. – UNIAN, 18 October, 2011, <http://www.economics.unian.net/files/1321777387.pdf>. At the same time, a future review of this provision is being proclaimed.

THE DICHOTOMY OF *RUSSKIY MIR* FOR UKRAINE



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One of the key “soft power” tools of the Russian foreign policy today is the idea of *Russkiy Mir* that has two components bearing the same name in the Russian language: the official, or the secular doctrine (the Russian world), and the church-religious concept, coming from Kyivan Rus (the Rus’ world).

By and large, the *Russkiy Mir* doctrine with its two components may provide rather strong ideological grounds to “gathering lands” in the post-Soviet space under Moscow’s auspices.

The development and implementation of the doctrine revealed two specific features. The first one is that the *Russkiy Mir* doctrine is used in Russia’s near and far abroad in different ways and with different goals.

In the “far abroad”, the doctrine indeed targets the Russian Diaspora (compatriots) and intends, *first of all*, to meet its cultural needs, *and only then* – to create pro-Russian social groups in one or another country (including the pro-Russian lobby).

In the “near abroad” (first of all, in Ukraine, Belarus and Moldova), the target audience and the goals of the doctrine are much wider. It targets not only compatriots and Russian-speaking citizens of those states but their entire society. And the doctrine is aimed not so much at satisfying their cultural and educational needs as at involving those states in Russia-led integration efforts.

The second feature: *Russkiy Mir* acquires not only historic and political, but also sacral meaning, when combining the secular culturological doctrine of the Russian world with its church-religious version – the Rus’ world (the latter concept stresses on the common historic roots of the peoples that came out of Kyivan Rus, their affiliation with the Orthodoxy religion, also adopted at that time with the first act of baptising to take place in Chersonese (Korsun) – the present Sevastopol).

The Russian world and the Rus’ world: the content and notions

The political notion of *Russkiy Mir* was introduced by the Russian President, Vladimir Putin, in the Address to the Federal Assembly in 2007.¹ The Address stated: “This year, that is declared as the Year of the Russian language, there is a pretext to once again remind that Russian is the language of a historic

brotherhood of peoples and the language of a truly international communication. It is not just a keeper of a whole stratum of true world achievements but also the living space for the multimillion ‘Russian world’ that is certainly much wider than Russia itself”.²

Just two months later, the Russian President by his Decree No. 796 of June 21, 2007, established the powerful *Russkiy Mir* Foundation, co-founded by

¹ Noteworthy, the notion of the *Russkiy Mir* and its role in ROC building entered the Russian public discourse much earlier. Yet in 2004, then Foreign Minister of the Russian Federation, Sergei Ivanov, speaking at the 8th World Russian People’s Congress “Russia and Orthodox World” said that “collection of the ‘Russian World’ is a common cause of the Russian state and ROC”. See: Speech by the Minister of Foreign Affairs of the Russian Federation, Sergei Ivanov, at the 8th World Russian People’s Congress. – <http://www.mospat.ru> (in Russian).

² Address of the President of Russia Vladimir Putin to the Federal Assembly of the Russian Federation. – Official Web site of the President of Russia, April 27, 2007, <http://www.kremlin.ru> (in Russian).



the Foreign Ministry and the Ministry of Education and Science of the Russian Federation (the heads of those agencies were incorporated in the Foundation's Board). The Russian prominent political scientist, Vyacheslav Nikonov, was appointed as the President. Since then, the *Russkiy Mir* doctrine has been developed and actively promoted both by politicians and scholars alike.³ Dozens of local centres (e.g., Russian Centres) have been created and remain active in the Russian Federation and beyond its borders, first of all, in the post-Soviet countries. Since November 3, 2007, the *Russkiy Mir* Assembly has been held annually (as a part of celebrations of the National Unity Day in Russia).⁴ In July, 2008, the notion of the *Russkiy Mir* was incorporated in the Foreign Policy Concept of the Russian Federation.⁵

Starting from 2009, the Russian Orthodox Church (ROC) has also joined the process. ROC Patriarch Kirill formulated the concept of the Rus' world resting on historic and geographic dimensions of Kyivan Rus, where the Orthodoxy was first adopted. So, now, the *Russkiy Mir* doctrine has two faces – secular (culturological, based on the notion of “Russia”) and religious (the Orthodox, based on the notion of “Rus”). Recently, they have become more interwoven and complementary, especially regarding their influence on Ukraine and other countries of the so-called “canonical ROC territory”.

The *Russkiy Mir* has significantly changed in its meaning after being introduced to the official political discourse. While initially, the notion was conceptually extra-territorial and extra-historic, with time, it began to acquire new senses, in particular, due to the appearance of historic and geographic dimensions following its combination with the notion of the *Rus' territory*.

The latter is especially important for ROC, since it means its “canonical” territory during the Kyiv-Novgorod Rus' times. In fact, the notion of the Rus' world was formulated in the church circles as a synonym of *Holy Rus*.

However, in the secular academic circles, too, they tried to specify the notion by drawing the historic and geographic limits of the Russian world. For instance, according to Oleg Nemensky (the Institute of Slavonic Studies of the Russian Academy of Sciences), “the *Russkiy Mir* doctrine that is deprived of the geographic principles” cannot remedy the situation whereby “Russian policy still makes no distinction between organisations of Russian compatriots in countries of non-traditional residence of Russians, and in countries, in which Russians have the historic right to be considered as indigenous population”.



So, the scholar proposed to return the notion of the *Rus' territory* to “the political vocabulary”, which, in his opinion, “can help to fundamentally structure the Russian policy, its motivation and concrete applications. This refers to different sectors – both in foreign and domestic policy... I do not mean introducing the notion of the *Rus' territory* to the Russian law (this might cause diplomatic problems) but only to the official vocabulary, as it happened with the notion of the Russian world. ***Rus' territory* is a historic value, and what is written in history cannot be just cancelled”.**⁶

The *Russkiy Mir* has become not just a socio-cultural project, but a political phenomenon of a global, civilisational scale. In its turn, the political project of the *Russkiy Mir* has emerged as the Russian geopolitical project, and its ideological component – as an ideology of strengthening the Russian statehood. In this respect, it is particularly interesting to see how the perception of the *Russkiy Mir* has evolved within the above-mentioned Assembly (Box “*Russkiy Mir* and politics”).⁷

Therefore, the means of foreign policy and political influence used by Russia in international relations (economic and energy pressure, presence of military bases on foreign territories, etc.) encompass the “soft power” tools by promoting cultural values of *Russkiy Mir* (including through the church-religious network).

***Russkiy Mir* in Russian foreign policy**

The Working Group for Cooperation between the Foreign Ministry of the Russian Federation and ROC has been active since 2003. However, the cooperation increased following the creation of **the *Russkiy Mir* Foundation** and the signing of a cooperation agreement between the

³ The mentioned Presidential Address spoke of the National Fund of the Russian Language. However, it may be assumed that analysts quickly realised the potential of the term of “Russian world”, moreover that the term had already been used by authors close to the ROC Department for External Church Relations led by Metropolitan Kirill (Gundiyev) – the present Patriarch of Moscow and All Russia. See, e.g.: Radayev, V. Ruthenians will not organise without the Church, or Why compatriots in Transcarpathia need spirituality. – November 1, 2001, <http://www.pravoslavnye.org.ua> (in Russian).

⁴ The National Unity Day is on the 4th of November; celebrated from 2005 as the state holiday in the Russia in commemoration of liberation of Moscow from Polish troops in 1612 (the end of the “Great Turmoil”). The initiative was put forward in September, 2004, by the Inter-Religious Council of the Russian Federation largely to play down the tradition of celebrating the 7th of November as the anniversary of the October Revolution. The initiative was supported by the State Duma and ROC.

⁵ Foreign Policy Concept of the Russian Federation, adopted by a Decree of the President of the Russian Federation on July 12, 2008, <http://legion.wplus.net/others/doctrina6.shtml> (in Russian).

⁶ Nemensky O. Russian land as the basic notion of Russian geopolitics. – <http://www.edrus.org>, January 23, 2011 (in Russian). (Emphasis added – Ed).

⁷ Quoted after publication of the discussion materials. See: Second Assembly of the Russian World: Round-table “Russian World and globalisation processes”; Round-table “Information space of the Russian World”. – November 3, 2008, www.russkiymir.ru (in Russian).

RUSSKIY MIR AND POLITICS

Particular attention to the definition of the Russian World was paid at the 2nd Assembly (2008). Actually all the participants agreed with Vyacheslav Nikonov's idea that *Russkiy Mir* is "a notion much wider than any national, territorial and even language limitations". According to the Assembly materials, "that idea acquired special perfection" in a statement of one participant who said that "*Russkiy Mir*, as a notion, has no territorial and time limits, and therefore, is absolutely unique".¹

On the other hand, the participants discussed the issue of connecting the doctrine and the Foundation's activity with politics. It was suggested that for building an attractive and competitive cultural project, the "Russian world" and politics should be separated – for the notion not to have an ideological component that would make it dependent on the political situation in Russia.

However, judging from the Assembly materials, most participants did not share that idea.

Namely, this idea was not supported at the Roundtable "*Russkiy Mir and Globalisation Processes*" arranged within the framework of the 2nd Assembly.

In particular, the Director of the Institute of CIS Countries and the First Deputy Chairman of the State Duma Committee on the CIS Countries and Compatriots, Konstantin Zatulin, insisted that "political struggle cannot be ruled out, when talking about *Russkiy Mir*, since struggle for preserving the Russian language in the CIS space is already a part of big politics".

Vadym Kolesnichenko, the National Deputy of Ukraine and the Head of the All-Ukrainian Coordination Council of Russian Compatriots, said that "it is absolutely insufficient to arrange various cultural events, since Ukraine... sees the cultural genocide of the Russian people, a consistent destruction of the Russian-language information space. Supporting the Russian culture in Ukraine is the task of the state policy, and in this sense, the struggle for the Russian world in Ukraine is a ... political issue".

During the discussions at another Roundtable on "Information space of the Russian World" it was said that "Russia should not only demonstrate its intellectual potential but also influence the Western policy". In this connection, they stressed the importance of using Russian informational resources and the media to penetrate the foreign markets in order to form "a single information space", and argued that "efforts to create the 'Russian world'... are the tasks of the Russian state and the Russian civil society in, and beyond Russia".

However, the speech by Father Antonyi (Ilyin), the Foundation's representative in Brussels, at the opening of the Assembly deserves a special mentioning. Reporting on the opening of the Russian Centre at the University of Mons, in Belgium, he reminded that one of NATO's two military commands (SHAPE) is located in the city "and proposed to view the opening of the Centre as a response to establishment of the Third position in Europe".²

The 3rd Assembly (November 2009) no longer questioned the political component of the project (the doctrine and the Foundation's activity).

During the Assembly, the newly elected (in February, 2009) Patriarch of Moscow and All the Rus' Kirill presented with the church-religious version of the *Russkiy Mir* doctrine – the *Rus' World*, and the Cooperation Agreement between ROC and the *Russkiy Mir* Foundation was signed.

¹ Second Assembly of the Russian World. – 3 November 2008, www.russkiymir.ru (in Russian).

² *Ibid.* Meaning the US Missile Defence Agency plans to deploy the third missile deployment area in Poland and the Czech Republic (the first – AFB Fort Greely, Alaska; the second – AFB Vandenberg, California).

Foundation and ROC in 2009. Since then, the Foreign Ministry and ROC have begun coordinated efforts, officially confined to meeting cultural, educational and religious needs of the Russian Diaspora.

For instance, in 2011, then Russian President, Dmitry Medvedev, when meeting the participants of the ROC Bishops' Council said that the state hoped for ROC assistance in stepping up contacts with *Russkiy Mir*. "It should be admitted that in this domain [work with compatriots abroad] the state has not succeeded so far. To tell the truth – the state cannot work well with Diaspora. And, in this respect, we strongly hope for ROC assistance to step up contacts with the Russian world... The Church contributes significantly to consolidating the multimillion Russian world, our compatriots abroad, first of all, in the CIS space, and in other parts of the world".

According to the President, common spiritual values are "a truly uniting factor for the whole Orthodox world, and churches are the centres of gravity for our Diaspora helping to maintain spiritual and cultural ties with their Motherland".⁸

Russia's Foreign Minister, Sergei Lavrov, said that ROC activity naturally fits into the Foreign Ministry work with compatriots abroad, "contributed to strengthening spiritual and cultural ties of the Russian world with the Motherland".⁹ In its turn, "in close cooperation with the Russian Church, the Ministry resolves many international issues touching its interests. In particular, this refers to restoring and building the orthodox temples abroad, bringing back the monuments of the Russian culture under Russia's ownership".¹⁰

However, the two doctrines of *Russkiy Mir*, both political and religious, are not confined to meeting the needs of the Russian Diaspora.

These doctrines (and the networks that spread them) are used, first, to shape Russia's image as a separate, self-sufficient civilisation that can, on the one hand, withstand influences of other cultures – both Eastern (e.g., Islamic) and Western (first of all, secular European culture, or, as one of the reports of the Association of Orthodox Experts (AOE) have put it, "secular Brussels standards").¹¹

⁸ The Church should help the state in work with foreign Diasporas – Medvedev. – February 3, 2011, <http://www.otechestvo.org.ua> (in Russian).

⁹ Noteworthy, as of 2006, "guides of the Russian spiritual influence in the world included: nearly 37 million compatriots, cared after by 132 eparchies, 26,590 parishes, 655 monasteries and over 200 sketes and monastery metochions on the canonical territory of the Church in Russia and the near abroad, and 277 church foreign institutions of the Moscow Patriarchate in 42 countries of the far abroad, including 8 eparchies, 2 deaneries, 1 Mission, 6 Representative Offices, 9 metochions, Patriarchal parishes in the USA and Canada, 46 stavropigial parishes, 16 monasteries, 1 skete and 10 chapels". See: Radayev, V. Contribution of the Russian Orthodox Church to spiritual security of the country. – Web site "Right side: Orthodox civilisation", April 11, 2006, <http://www.pravaya.ru> (in Russian).

¹⁰ Sergey Lavrov: the Foreign Ministry and the Church are united by the common understanding of the key role of the inter-confessional, inter-civilisation dialogue. – ROC official web site, January 24, 2011, <http://www.patriarchia.ru> (in Russian).

¹¹ See: "The Third Rome". Sovereign modernisation. Report... Part Four. – Web site <http://www.imperia.by> (in Russian).



The *Russkiy Mir* doctrine, sees Russia as a “geopolitical force equal to the entire West”, and as “an independent historic entity searching for its own sense of the world history”. At that, the goal of the Western restructuring the world system “concealed as a fight against totalitarianism ...” is to “ruin the entire Russian history”. “When Russia lost its position of a country, without which, no gun shoots, the West began shooting at whoever it wished to ...”.¹² The goal of Russia, as an “independent civilisation”, according to the President of the *Russkiy Mir* Foundation, Vyacheslav Nikonov, is “to bring about the ideals that are primarily generated inside the country”.¹³

The second goal of the doctrines is to promote the Russian civilisation to lead in the present-day world suffering from the lack of spiritual values, to give Russia undisputable leadership in the so-called East European civilisation to be formed around Russia and the Russian civilisation (Box “*Russia’s leaders idea of East European civilisation*”).¹⁴

In this civilisation, Russia can be established as a global geopolitical actor fit for an equal dialogue with Europe. According to the Head of the Ukraine Department at the Russian Institute of CIS Countries, Kiril Frolov: “It is only the East Christian Orthodox tradition, where Russia carries out its central functions. In the other civilisation projects, such as secular, Islamic, pan-American, we are either a province, or fully omitted. So when we speak about the Rus’ world, about Moscow as the Third Rome, this is not archaism, on the contrary, it is a project for the future... It is a project with huge opportunities. **There is another Europe, not secular – Europe that does not want to be de-Christianised, that is ready for a dialogue with Russia if Russia takes on the role of a keeper of traditional values**”.¹⁵

The Russian and Rus’ worlds in Ukraine

To influence Ukraine directly, different aspects of the discussed doctrines are implemented. However, all of them, as we noted above, appeal to the common historic roots of Russia and Ukraine, the common historic memory and cultural heritage, including the religious element – the Orthodoxy.

For instance, at the 3rd Assembly of the *Russkiy Mir* Foundation, Patriarch Kirill proposed that the peoples living on the territory of historic Rus “**should be aware of their common civilisational affiliation and of *Russkiy Mir* as their common supra-national project**”. That project itself rests on such main values of the Rus’ world as: “Orthodoxy, Russian culture and language, common historic memory and Russian tradition”.

The Patriarch said: “I do not think that we should plan some new restructuring of the Rus’ world today.

RUSSIA’S LEADERS IDEA OF EAST EUROPEAN CIVILISATION

The idea of East European civilisation was generated mainly in church and other related circles. For instance, in early 2000s, the consultant of the Department for External Church Relations of the Moscow Patriarchate, Mr. Radayev said: “Russian national interests abroad, in the spiritual sector, prompt to promote a greater role of Russia as the spiritual leader of the East European civilisation and as a bulwark of its culture (for the orthodox intellectuals in different countries populated mainly by the orthodox, the image of a post-Byzantine geo-cultural community is reborn in the form of kind of “Orthodox Oecumene” or “Byzantine Commonwealth of Nations”)”.

In his opinion, “the foreign interests of Russia’s spiritual security”:

- *firstly*, are associated “with strengthening of Russia as one of the world centres of spiritual influence”;
- *secondly*, “prompt the need to promote a greater role of Russia as the spiritual leader of the East European civilisation and as a bulwark of its culture”;
- *thirdly*, “are conditioned by the need to preserve the single spiritual space in the CIS and Baltic states” – and “the Church is making a huge contribution to achieve this goal”;
- *fourthly*, presuppose “preventing and neutralising the cultural-religious expansion of the neighbouring states to the Russian territory”;
- *fifthly*, “prompt the need to ensure the spiritual sovereignty of the country and to defend the integrity of the single spiritual space within the canonical territory of the Moscow Patriarchate. **The former entails preserving Russian unique civilisation** and protecting it from external informational influence, which can affect the country’s spirituality resting on traditional religious values. **The latter means rejecting the proselytism of Rome and ending the attempts of the Constantinople Patriarchate to separate from the Church the church territories defined as canonical territories in the new independent states (e.g., in Estonia and Ukraine)**”.

Sovereign states have been formed on the lands of historic Rus and demonstrate their viability. Today, it is important that the sovereignty is redefined in order not to isolate from neighbours but to provide support and development of our civilisational community”.¹⁶

Ukraine is supposed to have an honourable place in that “civilisational community”. According to the Patriarch: “In due time, known historic circumstances diminished Kyiv’s role in civilisational formation of the Rus’ world. For many centuries, the centre of Rus moved to the North. But now, the historic conditions are favourable for Kyiv to again become one of the most

¹² Maler-Matyazova, E. Moscow Patriarchate as an actor of orthodox geopolitics. – Byzantine portal *Katekhon*, <http://www.katehon.ru> (in Russian).

¹³ See: Nikonov, V. Not memories of the past but a dream of the future. – Russian World Foundation Web site, <http://www.russkiymir.ru> (in Russian).

¹⁴ Sources: Radayev, V. Ruthenians will not organise without the Church, or Why compatriots in Transcarpathia need spirituality...; Radayev, V. Contribution of the Russian Orthodox Church to spiritual security of the country... Emphasis added – Ed.

¹⁵ See: All-Russian Conference “Modern politics and the new political class of Russia”. – *Russian Conservator* Web site, January 23, 2011, <http://www.rusconservator.livejournal.com> (in Russian).

¹⁶ Opening speech by Patriarch Kirill at the 6th Assembly of the Russian World (November 3, 2010).



important political and social centres of the Rus' world. That role should not be smaller than that of Moscow, because Kyiv is the cradle of the Rus' civilisation...

I am sure that modern Ukraine can continue to preserve an old Kyiv tradition, expressed in a strong care for Rus that defends the Holy Orthodoxy and demonstrates its universal, that is, ecumenical nature of being a home for many that is not confined to the national cell. These intentions of the Rus' soul give rise to the ideal of a Holy Rus. The existence of that ideal reveals the highest value of the Rus' people that is not an earthly might, but the holiness of life...

Ukraine should not and cannot be a guided or a younger partner in this historic cause. It is called to be a responsible successor to Rus and to build the Rus' world on a par with other its successors".¹⁷

A special, if not decisive, place is allocated to Crimea. During his visit to Simferopol in 2009, the Patriarch said: "The Crimea occupies a very big place in my heart, and, I guess, it should occupy a significant place in the life of every orthodox person who belongs to historic Rus that emerged after the baptistry of the Kievan Rus". Hence, the Christianisation of Rus together with Crimea enhances its geopolitical importance and the importance of its belonging namely to the Rus' world, and legitimises claims of that "world" (that is, of Russia) to the peninsula.¹⁸

Meanwhile, some secular scholars go further than the Patriarch in their integration models. According to the above-mentioned Oleg Nemensky, who introduced the notion of "Rus' territory" to the political vocabulary: "The notion of the *Rus' territory* may also have a huge meaning for the integration policy in the post-Soviet space. The society has long had a consensus over integration expectations: there is a demand only for rapprochement with Belarus, Ukraine, Kazakhstan and Transnistria".

At that, the author is not worried about the actual statement that such an "integration" contains a real threat of Ukraine's disintegration. He writes: **"And although 'our' Ukraine is now seen without its western part, and Kazakhstan is really interesting only for its northern part – the Russian-populated South Siberia – only these states, however, are seen as parts of the fragmented country...** One cannot escape the simple fact that the Russian Federation is a country with random borders, it is incomplete, unaccomplished... **Vast areas inhabited by Russian-speaking population lay abroad, and the "Mother of the Russian cities" is the capital of a neighbouring state. That is why the course of reintegration for Russia is natural, and it should not be given up.** It is sought by most of the residents of Russia and the residents of historic Rus' territories in the neighbouring states". That is why **"Relations... with Ukraine, Belarus and Kazakhstan are a special matter, providing for a reunification much needed by Russia"**.¹⁹

Therefore, both secular and church-religious versions of *Russkiy Mir* envisage one or another degree of Ukraine's involvement in the Russian sphere of influence – from its (partial) involvement in a "common civilisational space" to complete reunification.

Latest trends in promoting the ideas of Russian/Rus' worlds

In the concept of the Rus' world, an extra-historic, extra-territorial and extra-ethnic Russian world got clear historic, geographic and ethnic limits (at least with respect to Ukraine and Belarus). This definition was given to it by Orthodoxy and the Orthodox Church.

Ideologists of the Rus' world logically reason such conclusion as follows.

The history of the Russian statehood dates back to the baptism of Rus by Prince Vladimir in 988.²⁰ Thanks to the adoption of Christianity in its eastern (Byzantine) version, i.e., Orthodoxy, the Rus' state rose on a par with European states of the 10th century, later evolving into Great Russia (largely equivalent to the Russian Empire), now succeeded by the Russian Federation. Under the influence of Orthodoxy, within the borders of Rus, later – Great Russia, a triune Russian people was formed as the creator of a great integral state that, in its turn, owes its greatness to Orthodoxy, whose world centre it became after the fall of Constantinople in 1453 ("Moscow = Third Rome"). The triune Russian people is made up of three branches – Great Russians, Little Russians and White Russians, united in history and, the main thing, in faith.

¹⁷ Speech by Holy Patriarch Kirill at the 4th Assembly of the Russian World. – ROC official Web site...

¹⁸ AOE Report reads: "Sevastopol ... is a most important spiritual centre of the Rus' World – the place of baptism of Prince Vladimir Equal-to-the-Apostles. We consider recognition of Ukraine's jurisdiction of Sevastopol a serious historic compromise for the sake of unity of Kyivan and Moscow Rus. However, that compromise obliges the Russian diplomacy to seek recognition of a special status of Sevastopol in Ukraine as a common Rus' sanctuary". See: "Third Rome". Sovereign modernisation...

¹⁹ Nemensky, O. Russian land as the basic notion of Russian geopolitics... Emphasis added – Ed.

²⁰ The true date of "Baptism of Rus" still remains a subject of scientific disputes.



Only the events of 1990s led to a split of Great Russia and dismemberment of the triune Russian people that cannot and should not stay in such a state, since it weakens its powers, makes it unable to accomplish the mission of the world salvation, threatens it with disappearance in the result of intrigues of hostile forces. This justifies the historic necessity of reunification of the triune people and, respectively, restoration of the unity of territories of Great Russia, in other words, the “canonical territory” of ROC.

No element of that “logic chain” is new. All of them (the myth of Moscow as the Third Rome, the idea of the triune people, merger of statehood and Orthodoxy, etc.) appeared in the 16th-18th centuries, when the Muscovite Kingdom, later – the Russian Empire were established and tried to find their own historic and ideological basis. I.e., the Rus’ world concept by itself, entirely appealing to ancient history, might remain in the domain of theorising, political speculations and, finally, on the outskirts of public life.

But, *first*, to push that concept, more and more international organisations, public movements, etc. are created with assistance from the Russian state authorities, their activity is coordinated, their management is centralised (Box “Network pushing...”).²¹ All those organisations and movements to a smaller or lesser extent, in one or another way contribute to promotion of the main idea of the Rus’ world – a closer union of peoples living on the “canonical territory” of ROC. From time to time those organisations arrange public events appealing to Ukraine’s state leadership. In particular, an appeal of the Sacred Procession of Orthodox patriots on January 17, 2012, calls “to revise the trajectory of Ukraine’s integration in the Western civilisation structure of the European Union, historically alien and hostile to the Russian world. The 1000-year-old Orthodox essence of our people is matched only with the road towards comprehensive strengthening of the unity with brothers from Russia and Belarus”.²²

Noteworthy, growing support for (pro-)Russian organisations in Ukraine from Russian state bodies and ROC gave an impetus to their activity – up to attempts of implementation of an internal ROC document²³

²¹ It should be added that creation of new structures goes hand-in-hand with “reanimation” of already founded but inactive organisations, e.g., the Congress of Slav Peoples of Belarus, Russia, Ukraine, established in June, 2001, under the motto “Three countries – one people”. At the 3rd Convention of the Congress in Kyiv in April, 2009, its activity was in fact resumed.

²² They in Kyiv again swore fidelity to the unity of Rus. – National Congress of Ukraine Press Service, March 14, 2012, <http://www.narodsobor.ru> (in Russian).

²³ E.g., submission of the draft Declaration “On Human Dignity, Freedom and Rights” to the Verkhovna Rada intended, according to the Memorandum to the draft, “to implement Principles of the Russian Orthodox Church teaching of human dignity, freedom and rights”. One of the authors of the draft was a Ukrainian MP Vadym Kolesnichenko, VKRORS leader and the head of the *Russian-Speaking Ukraine Human Rights Public Movement*. For more detail see: The religious situation and state-church relations in Ukraine: a summary of the decade, problems, and tendencies. Razumkov Centre analytical report. – National Security & Defence Journal, 2011, No.1-2, pp.67-68, <http://www.razumkov.org.ua>.

NETWORK PUSHING THE IDEAS OF THE RUSSIAN/RUS’ WORLDS: SPECIFIC FEATURES AND LATEST TRENDS

The specifics of creation and changes in the network of (pro-)Russian organisations in Ukraine is that the process immediately involves various Russian public organisations, ROC, state bodies and agencies of the Russian Federation: the Foreign Ministry, the Federal Agency for CIS Affairs, Compatriots Living Abroad and International Humanitarian Cooperation (*Rossotrudnichestvo*), Embassies and General Consulates of the Russian Federation in Ukraine. At that, the Russian state structures’ efforts of building pro-Russian organisations and movements in Ukraine went hand-in-hand with curtailment of the activity of Ukrainian national and cultural associations in Russia.¹

TRENDS IN ORGANISATION OF (PRO-)RUSSIAN MOVEMENTS IN UKRAINE

Consolidation of (pro-)Russian organisations in Ukraine and centralisation of their management. In November, 2010, the All-Ukrainian Coordination Council of Russian Compatriots (Ukrainian abbreviation – VKRORS) was set up, led by a Ukrainian MP, head of the all-Ukrainian Public Organisation *Human Rights Public Movement “Russian-Speaking Ukraine”* Vadym Kolesnichenko. He said: “...The priority task is to engage VKRORS in real work, to structure the Russian movement of Ukraine, to rally all sound and constructive forces around **common tasks of defence of the Russian identity of Ukraine and ideas of the ‘Russian world’**”.² The VKRORS working bodies include the Committee in Support for Canonical Orthodoxy and Defence of ROC Unity. The Committee is led by Yuriy Yegorov – the leader of the Orthodox Fraternity of Alexander Nevsky and *Orthodox Choice* public organisation. The public and political activity of Yuriy Yegorov was criticised by the UOC Synod in 2007 (as UOC distanced from “political Orthodoxy”). Now, VKRORS unites over 140 organisations.³

Establishment of “subsidiary” networks of Russian public organisations and movements in Ukraine:

- in January, 2011, they registered in Kyiv the first organisation of the “**National Congress**” (NC) – an all-Russian (inter-regional) public movement established in October, 2005, as “a community of national patriotic, Orthodox and human rights organisations”⁴. The “ideological document” of the movement titled “*We believe in Russia*” was presented and basically accepted at the NC Convention in December 2010. The document set tactical and strategic goals of the movement, ultimately confined to **implementation of the state “policy of reunification of the Russian Federation, Ukraine, Belarus and Transnistria in a Union state”** and simultaneous building of that state “**on traditional (Orthodox) values of the Russian civilisation**”. When the Kyiv section was registered, it was reported that its leaders “fully share... the goals and objectives of the Russian *National Congress* movement – support for the Orthodox faith, patriotism, heading towards the closest rapprochement of the sister states of Ukraine, Russia, and Belarus”.⁵ Later, the organisation acquired an all-Ukrainian status and now, it is a “Ukrainian public organisation” – a member of the international movement of National Congresses of Ukraine, Russia, and Belarus. The NC of Ukraine is led by Ihor Druz, a known activist of “political Orthodoxy”, a permanent writer for the monarchic-Orthodox web site “*Russian Line*”, working under the motto: “*Autocracy. Orthodoxy. Nationalism*”;

- in May, 2011, they registered in Sevastopol the first in Ukraine section of the international organisation “**World Russian National Congress**” (WRNC), established in May, 1993, as a platform for spiritual unity of Russians – “a forcible divided people”. Currently, the organisation enjoys a special consultative status at the UN (2005); the Congress is led by the ROC Patriarch. The second WRNC section was registered in Novohrad-Volynskiy (January 2012); registration of the Horlovka section (Donetsk region) is pending. The Congress’ latest initiatives include legislative support for the status of Russians as the nation-building people and their entitlement to get the Russian citizenship automatically, irrespective of the place (state) of residence.⁶

Simultaneous foundation of new public Orthodox organisations and movements in Russia and Ukraine. For instance, in June, 2010, the **International Public Organisation “Union of Orthodox Women”** was established in Moscow; in August of the same year, an all-Ukrainian public organisation bearing the same name was founded.

¹ For more detail, see Section 5 of the analytical report “EU-Ukraine-Russian relations: problems and prospects”, published in this magazine.

² Vadym Kolesnichenko: “All-Ukrainian Coordinating Council of Organisations of Russian Compatriots: realities of the present and prospects for the future”. – *Russian-Speaking Ukraine* web site, December 6, 2010, <http://r-u.org.ua> (in Russian).

³ One of them – with the status of an all-Ukrainian union of public organisations, 11 – all-Ukrainian, three – international, 12 – Crimean republican, two – inter-regional, as well as regional and city public organisations.

⁴ Now uniting over 250 organisations. See: *We believe in Russia*. – National Congress web site, <http://www.narodsobor.ru/about/program/ideology> (in Russian).

⁵ National Congress organised in Ukraine. – Fraternity web site, January 26, 2011, <http://bratstvo.ucoz.ua> (in Russian).

⁶ See: WRNC offered to term the Russian people as nation-building. – *Vzglyad* business newspaper, April 19, 2012, <http://vz.ru> (in Russian).



in the Ukrainian legislation and instances of open confrontation with the Ukrainian state authorities.²⁴

Second, the concept of the Rus' world has effectively become an element of the present Russian state policy. For instance, on June 1, 2010, the Russian President approved amendments to the Federal Law "On Days of Military Glory and Memorial Dates of Russia", proclaiming the Day of Baptism of Rus – July 28 – a public holiday in Russia (the initiative of its celebration belongs to ROC). Appeals to the Baptism of Rus, the idea of the triune Russian people, etc. are increasingly used in political rhetoric, often – in connection with relations between Russia and Ukraine.

A showy example was presented by the speech of the President of the International Fund of Slavic Writing and Culture and a former member of the Russian State Duma, Aleksandr Krutov, at parliamentary hearings "State of Russian-Ukrainian relations and fulfilment of obligations under the Treaty of Friendship, Cooperation and Partnership between Ukraine and the Russian Federation" (Moscow, April 1, 2008). In particular, he said: "We forgot about the main thing... that... we together celebrate the 1020th anniversary of Baptism of Rus this year. 1020 years ago the Rus' tribes adopted the glorious faith, on the spiritual values of which they created and bore in travail the triune Russian people, united by a common world outlook, common goals and the great spiritual point of life. Exactly the Russian Orthodoxy, personifying struggle with foreign occupants, proved that the Russian people... over its entire history simultaneously successfully opposed the united Catholic West and the united Muslim East... Exactly the triune Russian

people – White Russians, Little Russians and Great Russians – through their efforts and sufferings... created the great and mighty Russian state and developed vast Eurasian areas...".

Next, the speaker said: "The Ukrainian authorities are heading towards NATO, dishonestly and cynically push for creation of a National Church, pursue forced Ukrainisation of all those living on the territory of Ukraine... We should face the truth and say that under such policy, no Treaty will be effective and will work. And if today Ukraine violates the Treaty, the Agreement of cultural cooperation between our countries..., this happens because Russia and the Russian people stay indifferent to that".

As we see, the speech used next to all myths of *Russkiy Mir*. It is clear that the speech also fell short of an open call for the Russian state "not to be indifferent" to developments in Ukraine – bordering on a call for interference in internal affairs of a sovereign state.

To sum up the above, it may be argued that pushing the ideas of the Russian/Rus' worlds logically contributes to weakening of the Ukrainian statehood, to confessional, language, ethnic and, respectively, territorial fragmentation of Ukraine – which requires an adequate reaction from the Ukrainian state and Ukrainian society.

One should not overestimate the efficiency of the doctrines of the Russian and Rus' worlds, but they should not be neglected either. On the one hand, ideologists of the Russian and Rus' worlds admit that "the Russian Federation is becoming an ever more unattractive state" both in terms of internal problems and on the world stage.

On the other hand, as we noted above, the notions of "canonical" church and "canonical" territory are of fundamental importance to the orthodox. Here, the "Rus' world" and ROC practically means the same thing. So, when formulating the domestic and foreign policy of the Ukrainian state, one should take into account not only the existence of a large Russian Diaspora in Ukraine but also the division in the Orthodox Church with an increasing number of people associating themselves with the Ukrainian Orthodox Church under the Moscow Patriarchate, as well as to note that practical steps aimed at creating *Russkiy Mir* already go on in Ukraine.²⁵ ■

²⁴ In particular, on July 2, 2011, clashes occurred in Feodosiya of paramilitary Crimean Cossack units with the *Berkut* special forces and servicemen of Internal Troops of the Ministry of Internal Affairs of Ukraine that involved hundreds of people on both sides. Clashes occurred over a court ruling to demolish a memorial cross, earlier erected by Cossacks without permit at an entrance to the city. Erection of the cross caused resentment among Crimean Tatars and prompted inter-ethnic tension. See: memorial cross that caused fighting in Feodosiya was temporarily placed to a temple. – Obozrevatel Web site, July 3, 2011, <http://www.obozrevatel.com> (in Russian); Dzharly: Cossack happening with a cross in the Crimea is politics disguised as religion – *Ibid*.

²⁵ For instance, representatives of the Party of Regions in the Crimea call on Russian-speaking Crimeans to report their nationality as "Russian" during the following census. See: Will the Crimea become another Abkhazia? – January 26, 2011, <http://www.inozmi.govred.info> (in Ukrainian). For more details about the trends in the degree and character of religiosity of Ukrainian citizens, activity and initiatives of pro-Russian organisations in the field of state-church relations in Ukraine see: The religious situation and state-church relations in Ukraine: a summary of the decade, problems, and tendencies. Razumkov Centre analytical report. – National Security & Defence Journal, 2011, No.1, p.37-77.

THE STATE AND PROSPECTS OF EU-UKRAINE-RUSSIA RELATIONS: EXPERTS' ASSESSMENTS

Expert surveys on foreign policy issues regularly conducted by the Razumkov Centre enable to determine and track the dynamics of experts' evaluations. The recent research is devoted to an important topic – the current state and prospects of relations in the EU-Ukraine-Russia triangle.¹

The issue is topical today for many reasons, primarily because Ukraine is now at the crossroads of major geopolitical integration processes. The uncertainty of the situation, on the one hand, is caused by the ongoing crisis in relations between Ukraine and the EU due to internal political processes in Ukraine. This casts doubt on Ukraine's prospect of European integration and, in particular, the conclusion of an extensive Association Agreement with the EU, which contains an important element – deep and comprehensive free trade area.

On the other hand, there is an increasing pressure from Russia with an aim to involve Ukraine in Russia-led integration projects – the Customs Union, the Common Economic Zone and the Eurasian Union, in the future. Thus, Ukraine faces a choice of two different ways of civilisational development. Meanwhile, transient and contradictory processes in the European continent and the world have a dramatic impact on the nature of the EU-Ukraine-Russia relations and call for finding solutions to new challenges and threats.

During the survey, the experts assessed the state and prospects of cooperation between Ukraine and the EU, in particular, factors that prevent the conclusion of the Association Agreement. The respondents also evaluated the efficiency of Ukraine's government policy towards Russia. Both, evaluation of the EU-Russia relations and cooperation in the EU-Ukraine-Russia trilateral format are of interest. Opinions and positions of the expert community on directions of Ukraine's regional integration are also important.

The expert survey results give ground for the following conclusions.

EUROPEAN INTEGRATION OF UKRAINE: STATE, RISKS AND PROSPECTS

Pace of Ukraine's approximation to the EU is not satisfactory. During the survey period from December 2006 till April 2012 experts consistently criticised the pace of Ukraine's integration to the EU, with the last poll showing some increase in entirely negative evaluations ("zero pace"). It is evident that the pace of Ukraine's approximation to EU is affected primarily by internal political processes in Ukraine – the growth of authoritarian tendencies, curtailment of democratic processes, corrupt power structures. On the other hand, one should also note complex transformation processes in the EU itself, acute economic problems, including the deep eurozone crisis.

The EU's interest in cooperation with Ukraine is evaluated as quite pragmatic. Overall, expert evaluations over the survey period have not changed fundamentally. In their opinion (based on the latest poll), the EU is mainly interested in the Ukrainian market for the EU goods (74.8%), energy transit from Russia (65%), joint fight against illegal migration (55.3%). A significant part of respondents (49.5%) view that the EU's interest also lies in decreasing Russia's influence on Ukraine. It should be noted that the number of respondents, who believe that the EU's interest is primarily in democratic development and market reforms in Ukraine, has somewhat decreased. Traditionally, the most sceptical experts think that the EU is interested in imports of Ukrainian products.

Signing an Association Agreement with the EU fully meets Ukraine's national interests, but there are many obstacles to its implementation. A clear majority of respondents (83.5%) believes that the Agreement, which provides for deep and comprehensive free trade area complies with national interests of the country. However, according to the respondents, the signing could be jeopardized by political factors: primarily, the internal political situation in Ukraine (71.8%). The other factors that follow are: the distrust of Ukraine's current government (52.4%) and the influence of Russia (40.8%). General criticism of Ukraine by some EU countries and the Union's internal problems are among other factors mentioned by experts. There exist reasonable grounds to assume that a threatening "internal political factor" is primarily associated with the problem of democracy in the country as well as famous court cases against opposition leaders that received negative response from the international community. These factors, as emphasised by the EU leaders, are the main obstacles to signing of the Association Agreement.

According to the experts, the development of economic relations between Ukraine and the EU is primarily prevented by high levels of corruption in Ukraine, inconsistency of its foreign policy, and high levels of criminalisation of economic relations. The respondents also mentioned the unsatisfactory condition of Ukraine's economic legislation and geopolitical competition between the EU and Russia. Another noteworthy point is that, according to the experts, neither civilisation differences

¹ Expert poll was held by the Razumkov Centre from 19 March till 10 April, 2012. 103 experts were polled. They were the MPs of Ukraine, representatives of central and regional authorities, state and non-governmental research structures, institutions of higher education in Kyiv and regions of Ukraine, representatives of mass media.

nor lack of future membership guarantees on the part of the EU prevent Ukraine's economic contacts with the EU.

Ukraine needs to join the EU. This position is shared by a vast majority of experts (82.5%). Such unanimity of opinion (with slight variations) was observed throughout the polling period. Thus, there are grounds to conclude there is an almost complete consensus on European integration among the expert community of Ukraine.

At the same time, experts' forecasts regarding the development of EU-Ukraine relations in the following years are not so optimistic. It is evident that there is a lack of changes for the better within the country that would lead to improved dialogue between Brussels and Kyiv. Thus, a relative majority (45.6%) believes that these relations will remain unchanged, and one in five (21.4%) believe that they will get worse.

UKRAINE-RUSSIA RELATIONS

Relations between Kyiv and Moscow are unstable. Such a statement was made by the majority of respondents (68%). One in four (25.2%) believe they are bad and only 3.9% of respondents define them as good. This critical evaluation of the current state of Ukraine-Russia cooperation is obviously a reaction to the escalating conflict, the delay in solving a number of chronic problems, increased Russian pressure on Ukraine, etc. In this context the "cheese war", the tense gas dialogue, unresolved problems of the delimitation of maritime boundaries and others should be mentioned.

Ukraine's policy line towards Russia, as well as Russia's policy towards Ukraine are neither open, neighbourly, nor friendly. The experts estimate Kyiv's actions towards Moscow as uncertain, contradictory, and Russian policy towards Ukraine as predominantly unfriendly. The dynamics of characteristics is not positive, since no significant changes for the better happened during the period. Obviously, the primary task for both countries' governments is to find ways and mechanisms to improve relations and find "points of convergence".

Rapprochement between Ukraine and Russia will be primarily influenced by political and economic factors – the political will of the countries' leaders and coincidence of economic interests. Experts also note that common borders and common political interests offer potential for possible convergence. In their opinion, socio-cultural, religious factors – such as family ties between the residents of both countries, cultural and language proximity, and Orthodoxy – have a weaker "integrating effect".

Russia has a clear geopolitical and economic interest in cooperation with Ukraine: stimulating Ukraine's withdrawal from the Western influence, promoting Russian products on the Ukrainian market, and transiting energy resources to the EU. Unlike in previous research, experts now deem the geopolitical factor to be most important. Russia is somewhat less interested in the use of human potential and natural resources. Russia is not enthusiastic about importing Ukrainian products. To the highest degree Russia is indifferent with regard to its neighbour's democracy and market reforms. So, first of all, the Russian Federation is trying to keep Ukraine within the sphere of its political and economic influence.

The experts generally believe that Russia has a negative attitude to Ukraine's European integration aspirations. This opinion is shared by the majority of respondents (88.3%). Only 1% of respondents believe that Moscow has a positive attitude to the European integration movement of Kyiv. These evaluations generally correspond well to the results of answers to the previous question: Russia is trying to withdraw Ukraine

from Western influence, to substitute the trajectory of its European integration by the Eurasian one (Customs Union). Thus, for Russia, Ukraine's European integration is a challenge, rather than a favourable trend.

The prospects of Ukraine-Russia relations are ambiguous. The segment of the Ukrainian expert community which believes that relations will remain unchanged (36.9%) and that which thinks they will become worse (33%) are almost equal. These forecasts do not seem optimistic, particularly given the fact that the current relations between Kyiv and Moscow are estimated quite critically by the experts.

EU-RUSSIA RELATIONS

Relations between the EU and Russia are unstable. The majority of respondents (66%) emphasise this. Only about one in four (23.3%) believe they are good. Moscow's attempts to strengthen its geopolitical and geo-economic impact on the European continent and its attempts to create a new centre of world politics in the post-Soviet area complicate contacts. The EU's and Russia's approaches to ensuring security on the continent are radically different. The parties' relations in the energy sector are strained.

Among the factors that impede the efficient development of economic relations between Brussels and Moscow experts first of all note: geopolitical competition between the EU and Russia, the high level of corruption in Russia, the lack of flexibility in the negotiation process, as well as significant civilisation and cultural differences. Respondents also point to a high level of criminalisation of economic relations in Russia and the inconsistency of its foreign policy.

Most likely, the next few years will not show significant changes in EU-Russia relations. The majority of experts (66%) predict this course of events. That is, relations between Moscow and Brussels will remain problematic in the near future. Only about one in nine (10.7%) are sure that relations will improve.

EU-UKRAINE-RUSSIA RELATIONS

Russia is an obstacle in EU-Ukraine relations and Ukraine can be considered a victim in EU-Russia relations ("small coin"). The majority of respondents have this opinion. The experts estimate Russia's role in relations between Ukraine and the EU negatively: 54.4% believe that Moscow is an obstacle in relations between Kyiv and Brussels, and 36.9% believe that it is a threat. Most of the respondents (59.2%) believe that Ukraine plays the victim role in EU-Russia relations. Evaluations of the EU's role in Ukraine-Russia relations are ambiguous: 34% believe that the EU acts as a mediator, and 20.4% believe that the EU is an obstacle. The results show that Ukraine is the weakest party and that the situation in the triangle is determined by the relationship between the two most powerful players – the EU and Russia.

The experts believe that the most important problems in EU-Ukraine-Russia relations are the political situation in Ukraine, a lack of trust between the parties, and internal processes in Russia. Among other topical issues experts highlight problems in the energy sector, different foreign policy visions on the part of the EU countries, as well as financial and economic difficulties in the European Union.

The current relations in the EU-Ukraine-Russia format in general do not contribute to solving the range of key problems. Experts believe that the relations formed in this triangle are not conducive to stability in Europe, development of trade and economic contacts between the parties, strengthening democracy, human rights, free movement of people, etc. Promotion of the fight against international crime and terrorism is estimated somewhat more positively.



It is an interesting fact that the experts, while evaluating the situation in the EU-Ukraine-Russia format quite critically, at the same time emphasise that it is advantageous especially for Russia. This opinion is shared by the majority of respondents (57.3%). More than a third believe that the current relations between Ukraine, Russia and the EU are not favourable to any party.

According to the experts, the EU-Ukraine-Russia economic relations can be most efficiently harmonised under conditions of an approximation of Ukraine and Russia to the EU's legal standards. This position is shared by the majority of experts (52.4%). An equal number of respondents (both 19.4%) believe that the said harmonisation can be achieved either on the basis of the general rules of the WTO or by developing new international rules for the EU-Ukraine-Russia common economic space.

The formation of a common economic space with the participation of Ukraine, the EU and Russia seems, in the experts' opinion, a hypothetical reality in the long run. The experts are not enthusiastic about the prospects of creating such an economic space. The majority of respondents (60.2%) believe that it is possible in a distant and uncertain future. One in five (20.4%) predict the possibility of forming a common economic space in the long run (5-15 years). The share of optimists is small – only 5.8%.

The formation of civilised economic relations in the EU-Ukraine-Russia format is mostly compromised by the financial crisis in the euro area and other EU countries, as well as by the crisis in the economies of Ukraine and Russia. Among other risks experts name a worsening of geo-economic rivalry between the EU and Russia, and the lack of progress in forming a proper market economy in Ukraine and Russia. Also, in their opinion, a very critical factor is strengthening the position of other global players in the economic area of the aforementioned triangle. This means the strengthening of China's economic expansion, as well as strengthening the technological advantage of the US and others.

In the next few years we should not expect an improvement in EU-Ukraine-Russia relations. Half of respondents (50.5%) believe that trilateral contacts will remain unchanged – that is, the problematic aspects of cooperation will be preserved. 21.4% of those polled are pessimistic and forecast a deterioration in relations. Only one in eight (12.6%) have an optimistic outlook regarding the future cooperation between Ukraine, the EU and Russia.

WAYS OF REGIONAL INTERGRATION

Most of the expert community representatives support Ukraine's European integration. Evaluating the most desirable options for regional integration, experts lean towards the idea of a need for full integration into the EU and building relations with Russia in the common foreign policy format. This opinion is shared by 65% of respondents. At the same time, based on the current situation, most experts (44.7%) say that the most realistic option for Ukraine is to join the EU's common economic space without membership in the European Union, while treating Russia as a usual external partner.

Between membership in the EU and Customs Union, experts unambiguously choose membership in the EU. There is a certain consensus on this issue within the expert community. Whereas EU membership is supported by 78.6% of respondents, accession to the Customs Union with Russia, Belarus and Kazakhstan is supported only by one in twenty (4.9%) respondents. In their turn, 7.8% of experts believe that Ukraine should join neither the EU nor the Customs Union.

CONCLUSIONS

First. Experts critically evaluate the pace of Ukraine's integration into the EU. A key factor in the development of relations between Kyiv and Brussels is the Association Agreement which, according to the respondents, corresponds to the national interests of Ukraine. However, there are many obstacles to its implementation: first of which is provided by the political situation in Ukraine. The EU's interest in Ukraine is focused primarily on opening the Ukrainian market for the EU's goods, the transit of Russian energy resources, etc. However, the development of economic relations between Ukraine and the EU is prevented by a high level of corruption in Ukraine, the inconsistency of Kyiv's foreign policy, and a high level of criminalisation in the economic sphere. Despite this, Ukraine should join the EU. This position is shared by most experts.

Second. According to expert estimates, the relations between Kyiv and Moscow are unstable. Ukraine's policy towards Russia, as well as Russia's policy towards Ukraine are neither open, good-neighbourly, nor friendly. Respondents believe that the convergence of Ukraine and the Russian Federation will be influenced primarily by political and economic factors: the political will of countries' leaders and the coincidence of economic interests.

Russia has a clear geopolitical and economic interest in cooperation with Ukraine – Ukraine's withdrawal from the influence of the West, promoting Russian products on the Ukrainian market, and the transit of energy resources to the EU. Russia is trying to keep Ukraine within its sphere of influence; hence it has a negative attitude to the Kyiv's European integration aspirations. It is no wonder that the prospects of Ukraine-Russia relations are evaluated quite pessimistically.

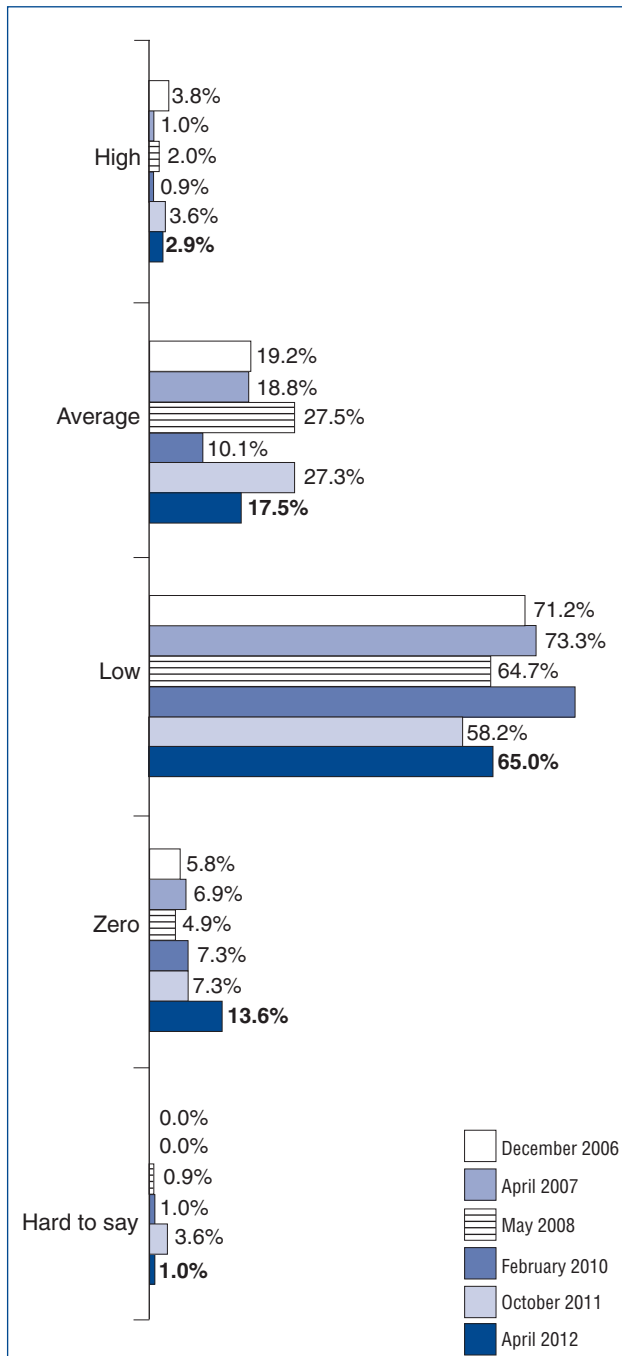
Third. Experts evaluate the EU's relations with Russia as unstable. Among the factors that impede the efficient development of economic relations between Brussels and Moscow respondents first of all note geopolitical competition between the EU and Russia, the high level of corruption in Russia, and a lack of flexibility in the negotiation process. Experts believe that there will be no significant changes in EU-Russia relations in the next few years.

Fourth. Evaluating the nature of relations in the EU-Ukraine-Russia triangle, experts emphasise that Russia is an obstacle in EU-Ukraine relations, and Ukraine can be considered a victim in EU-Russia relations. Among the most important problems experts note the political situation in Ukraine, the lack of trust between the parties, and internal processes in Russia. In their opinion, the formation of civilised economic relations in the EU-Ukraine-Russia format is impeded most strongly by the financial crisis in the eurozone and the crisis in the economies of Ukraine and Russia. Economic relations in this triangle can be most efficiently harmonised under the conditions of approximation of Ukraine and Russia to the EU's legal standards. Experts believe that in the next few years we should not expect an improvement in the EU-Ukraine-Russia relations.

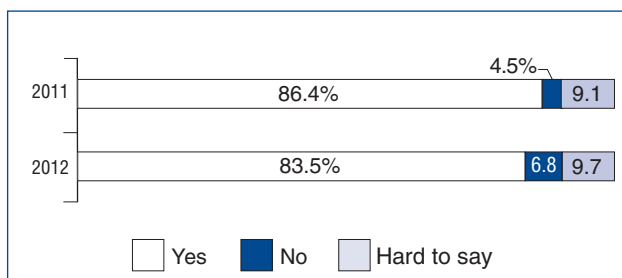
Fifth. Most of the expert community supports Ukraine's European integration and emphasises the need for full integration into the EU, while building relations with Russia in the common foreign policy format. Having to choose between membership in the EU and the Customs Union, the experts unambiguously opt for the former. ■

UKRAINE'S INTEGRATION IN THE EU

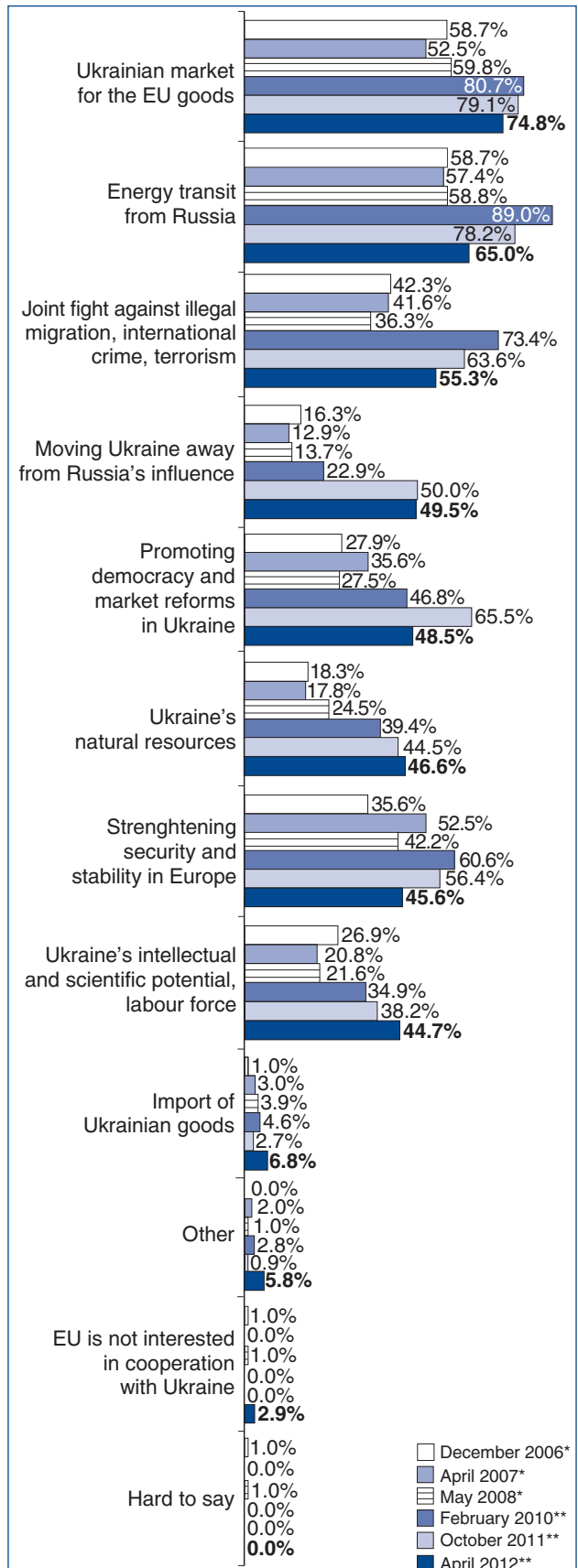
How would you rate the pace of Ukraine's EU integration?
% of experts polled



Does signing the Association Agreement with the EU, including the deep and comprehensive free trade area, comply with Ukraine's national interest?
% of experts polled



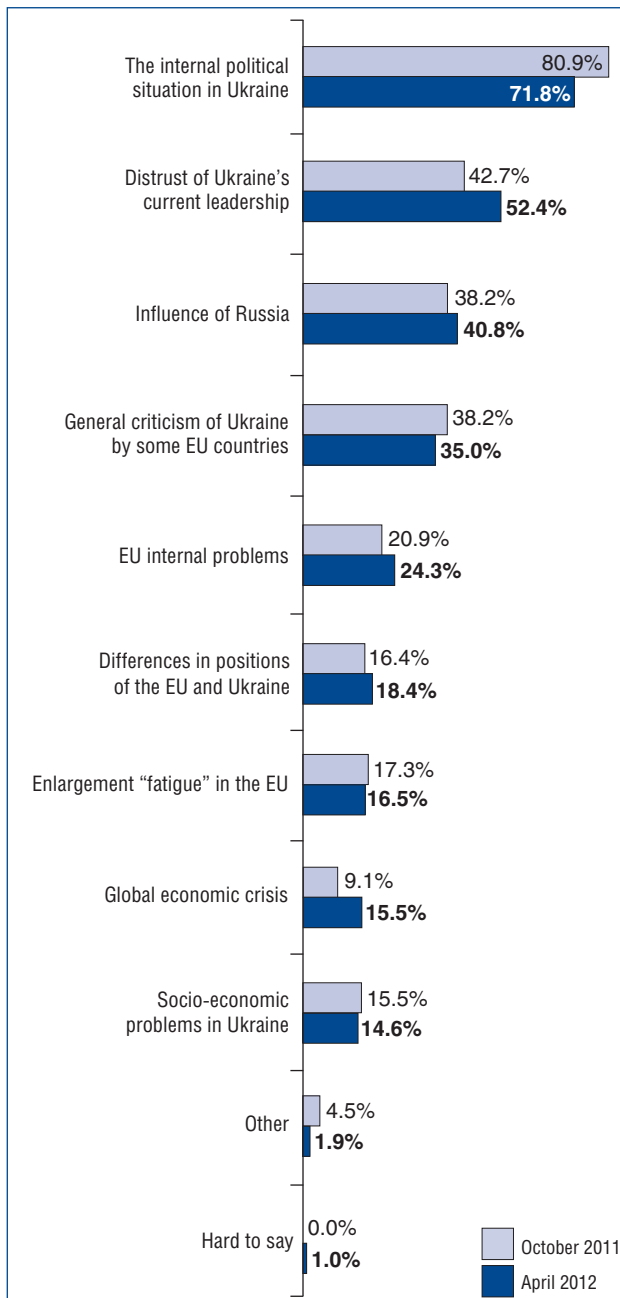
Is the EU interested in cooperation with Ukraine? What are the main drivers for such an interest?**
% of experts polled



* Respondents were supposed to give no more than three acceptable answers.

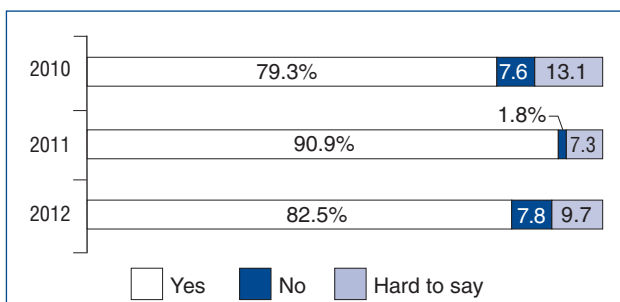
** Respondents were supposed to give all acceptable answers.

What do you think are the main threats to the conclusion of the EU-Ukraine Association Agreement?*
% of experts polled



* The experts were supposed to give no more than three acceptable answers.

Do you think Ukraine should join the European Union?
% of experts polled

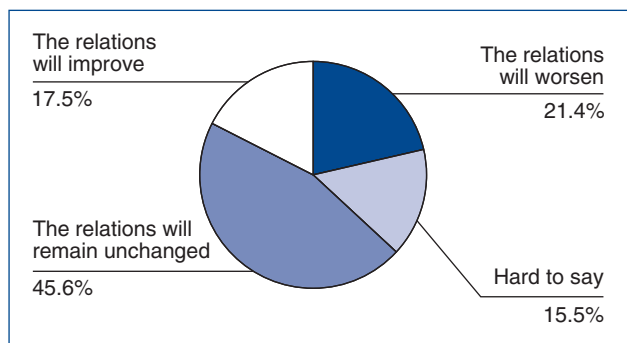


What are the factors which most of all hinder an effective development of economic relations of Ukraine with the EU?*
% of experts polled

High level of corruption in Ukraine	70.9
Inconsistency of Ukraine's foreign policy course	41.7
High level of criminalisation of economic relations in Ukraine	35.0
Inadequate state of the legislation regulating economic relations in Ukraine	34.0
Geopolitical rivalry between the EU and Russia	25.2
Low standards of business ethics of Ukrainian partners	22.3
Insufficient economic development of Ukraine	17.5
Inconsistent and weak position of the Ukrainian side in negotiations with the EU	15.5
Weak strategic basis for development of relations	10.7
Absence of the EU guarantees of Ukraine's future membership in the European Union	5.8
Insufficient development of advanced technologies in Ukraine	4.9
Significant civilisational and cultural differences	3.9
Other	2.9
Hard to say	0.0

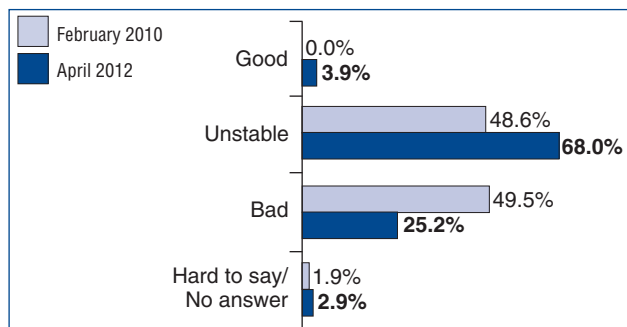
* The experts were supposed to give no more than three acceptable answers.

How would you assess the development of relations between Ukraine and the EU in the forthcoming years?
% of experts polled

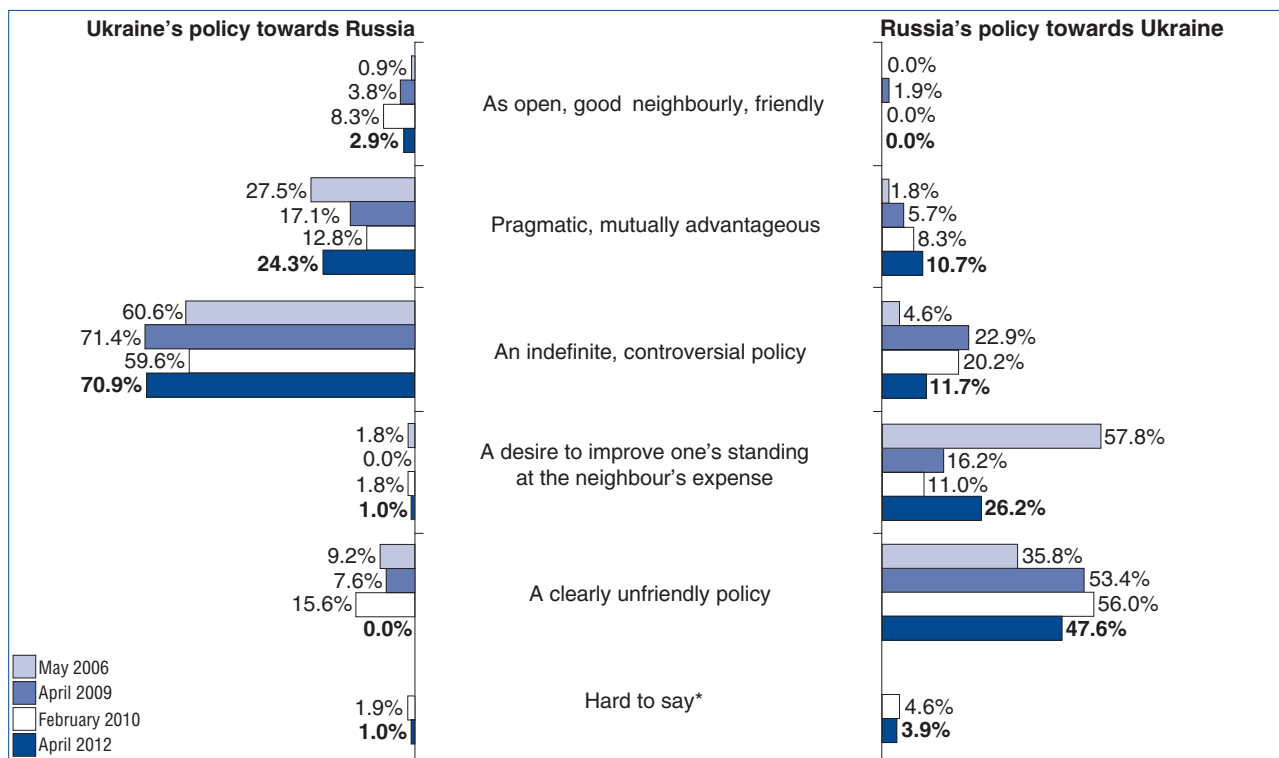


UKRAINE'S RELATIONS WITH RUSSIA

How would you assess Ukraine's current relations with Russia?
% of experts polled

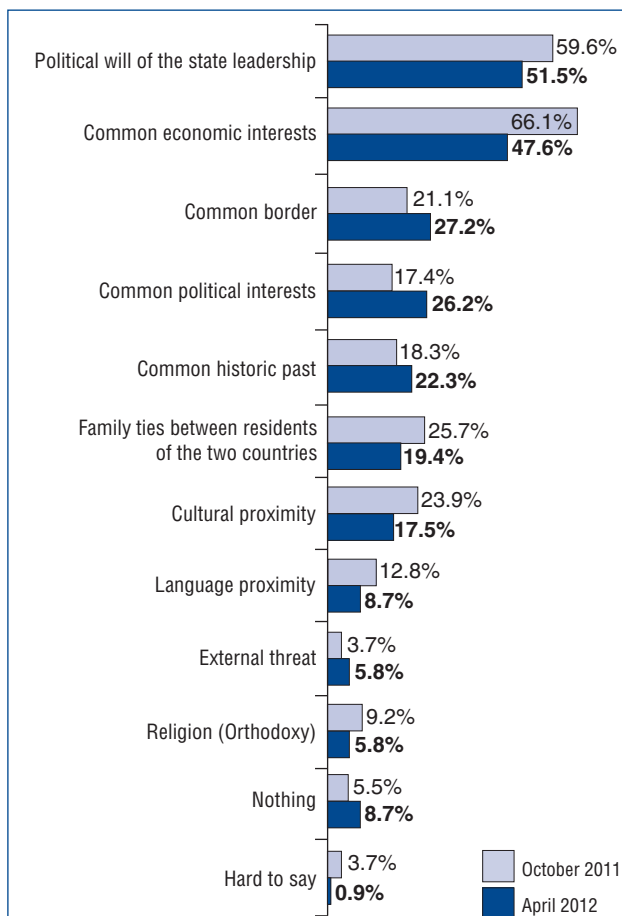


How would you assess Russia's policy towards Ukraine and vice versa? % of experts polled



What can contribute to the rapprochement of Ukraine and Russia the most?*

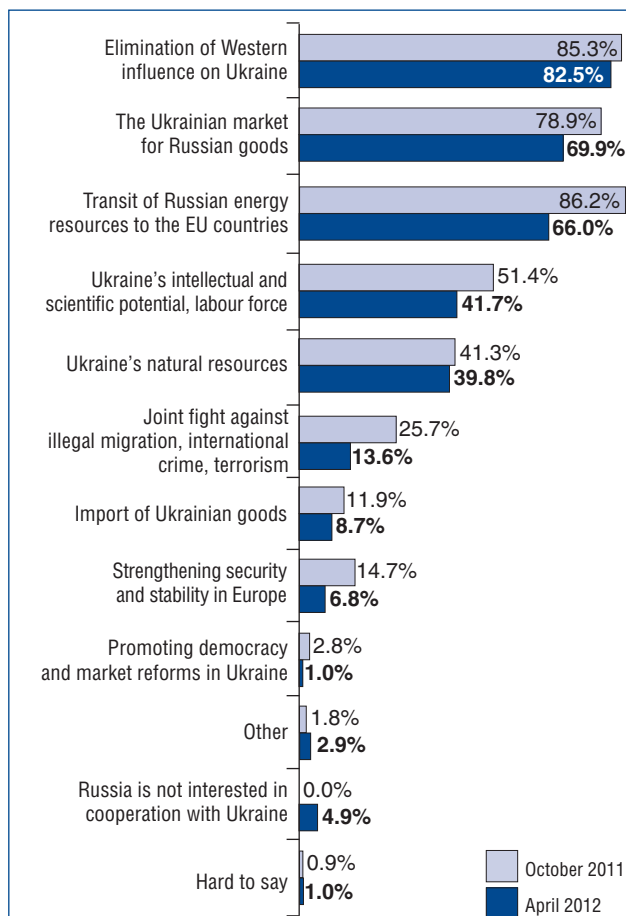
% of experts polled



* The experts were supposed to give no more than three acceptable answers.

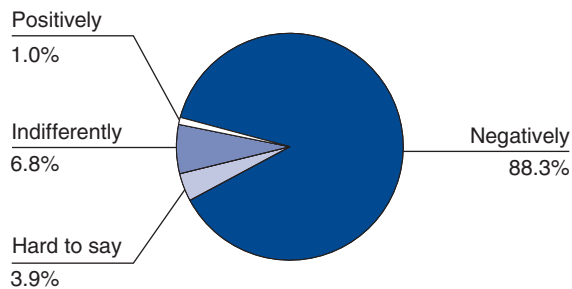
Is Russia interested in cooperation with Ukraine? What are the main drivers for such an interest?*

% of experts polled

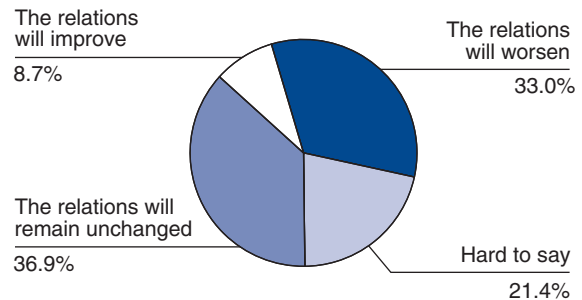


* The experts were supposed to give all acceptable answers.

How does Russia view Ukraine's aspirations of European integration?
% of experts polled

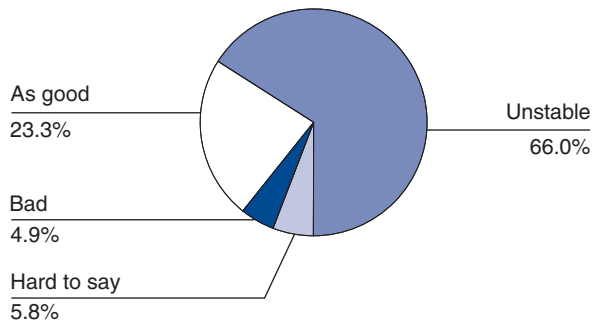


How would you assess the development of relations between Ukraine and Russia in the forthcoming years?
% of experts polled

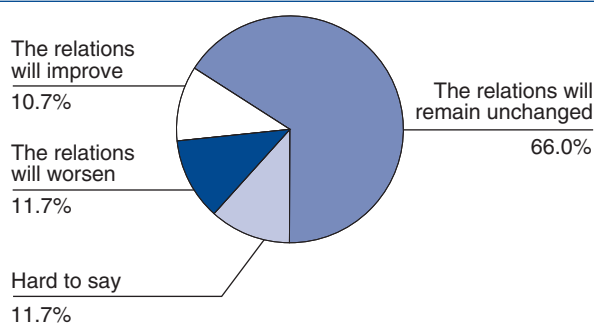


RUSSIA-EU RELATIONS

How would you describe the present relations between the EU and Russia?
% of experts polled



How would you assess the development of relations between the EU and Russia in the forthcoming years?
% of experts polled



What are the factors which most of all hinder an effective development of economic relations between Russia and the EU?*
% of experts polled

Geopolitical rivalry between the EU and Russia	68.0
High level of corruption in Russia	41.7
Lack of flexibility and readiness to compromise in negotiations between Russia and the EU	29.1
Substantial civilisational and cultural differences	28.2
High level of criminalisation of economic relations in Russia	22.3
Russia's inconsistent foreign policy (opaque nature of its foreign policy priorities)	18.4
Inadequate state of the legislation regulating economic relations in Russia	15.5
Low standards of business ethics of Russian partners	13.6
Insufficient economic development of Russia	10.7
Weak strategic basis for development of relations	9.7
Reluctance of the EU to build relations with Russia on an equal basis	4.9
Insufficient development of advanced technologies in Russia	1.9
Other	3.9
Hard to say	2.9

* The experts were supposed to give no more than three acceptable answers.

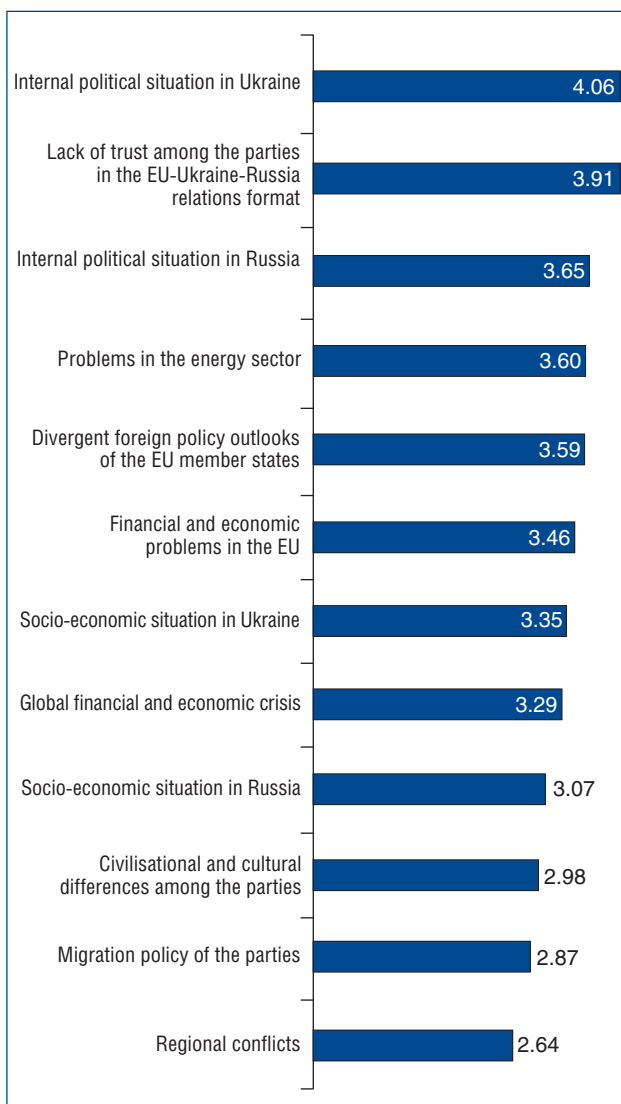
RELATIONS IN THE EU-UKRAINE-RUSSIA TRIANGLE

What is the role of...?
% of experts polled

	Of a partner	Mediator	Obstacle	Threat	Victim ("small coin")	No role	Hard to say
The EU in relations between Ukraine and Russia	11.7	34.0	20.4	4.9	1.9	8.7	18.4
Russia in relations between Ukraine and the EU	3.9	1.0	54.4	36.9	1.9	0.0	1.9
Ukraine in relations between Russia and the EU	2.9	5.8	6.8	0.0	59.2	16.5	8.8

How sufficient are the following problems for the EU-Ukraine-Russia triangle?*

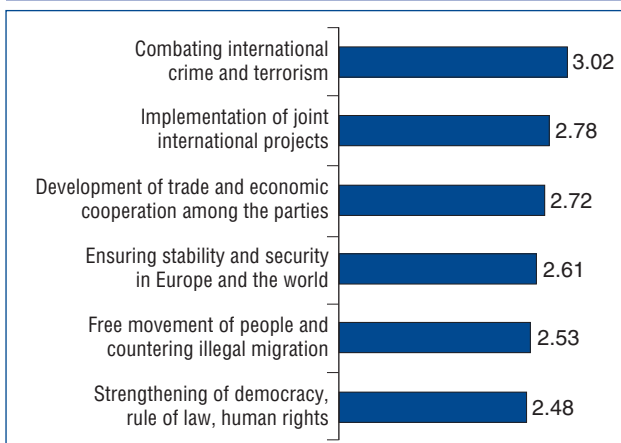
Average score



* On a five-point scale from 1 to 5, where "1" means that the problem is unimportant, "5" – extremely important.

Does the present state of affairs in the EU-Ukraine-Russia triangle contribute to ...?*

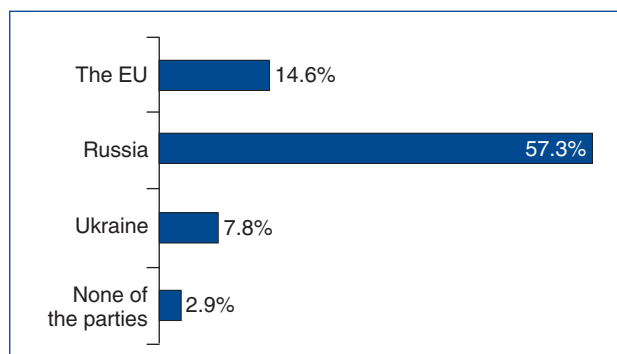
Average score



* On a five-point scale from 1 to 5, where "1" means that the relations do not contribute to that at all, "5" – greatly contribute.

Which party benefits from the situation that exists in the EU-Ukraine-Russia triangle?*

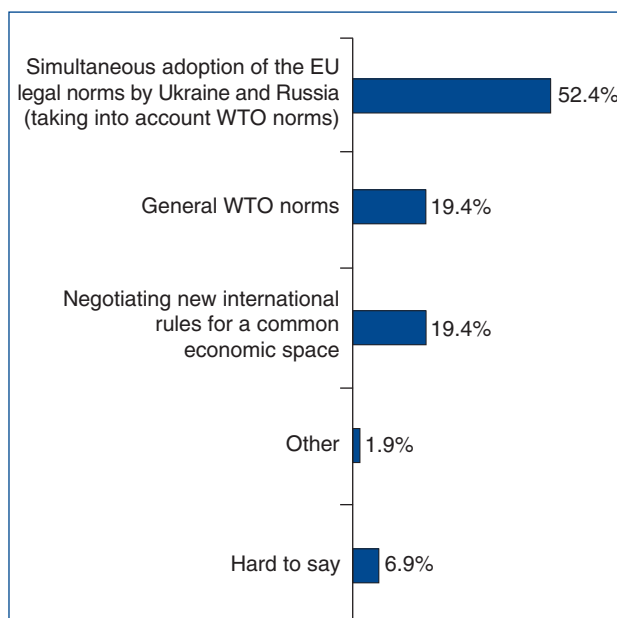
% of experts polled



* The experts were supposed to give all acceptable answers.

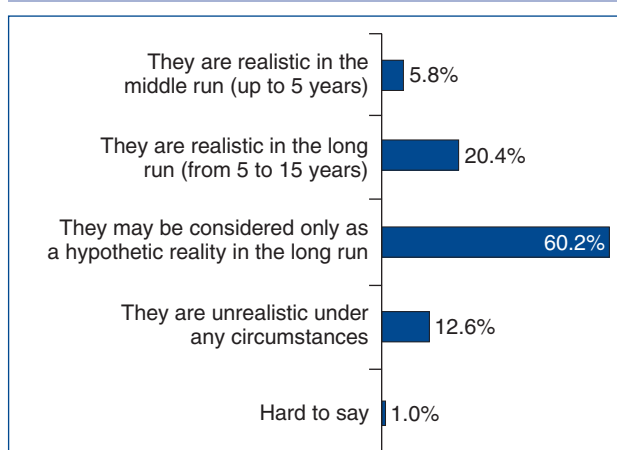
Which international legal basis should be used to effectively harmonise economic relations in the EU-Ukraine-Russia triangle?

% of experts polled

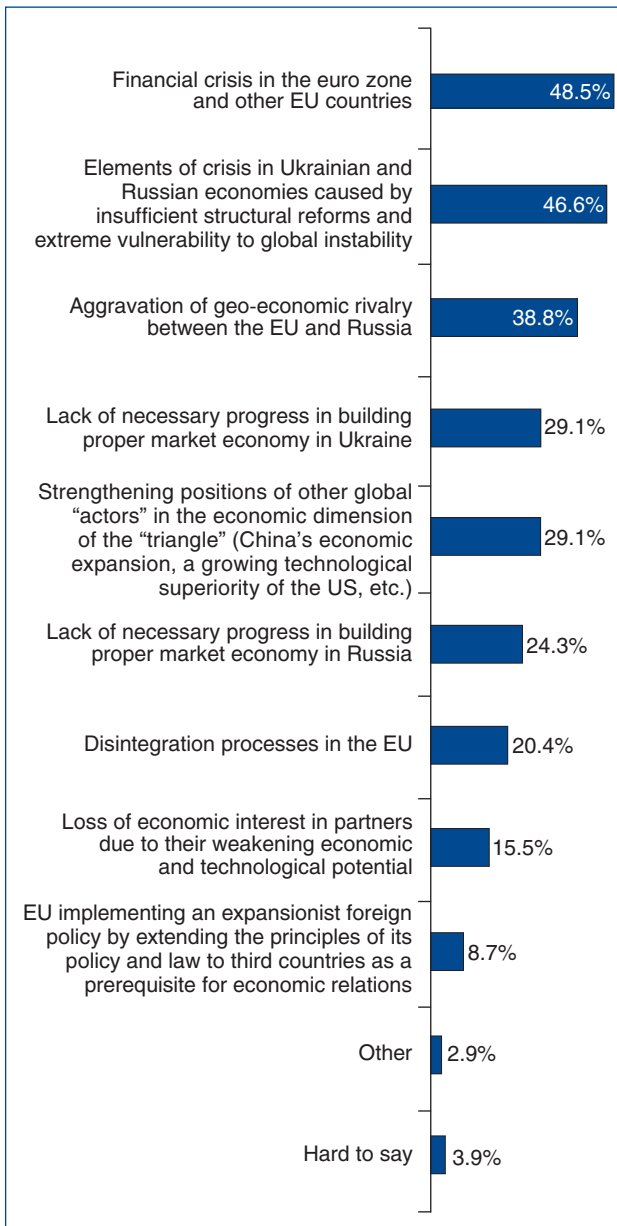


How realistic are the prospects of building a common European economic space involving the EU, Ukraine and Russia?

% of experts polled

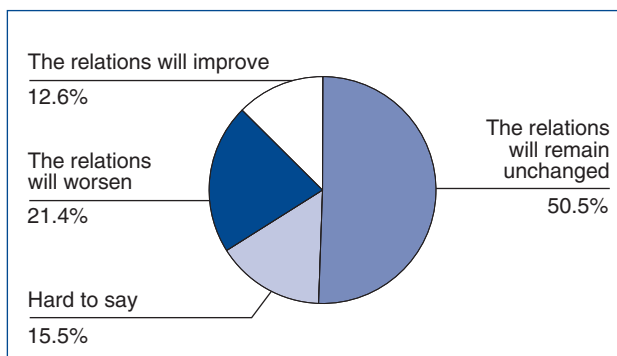


What are the major risks to building proper economic relations in the EU-Ukraine-Russia triangle?*
Average score



* The experts were supposed to give no more than three acceptable answers.

How would you assess the development of relations in the EU-Ukraine-Russia triangle in the forthcoming years?
% of experts polled

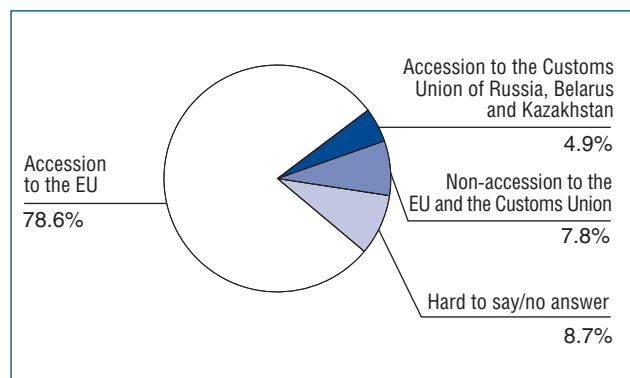


REGIONAL INTEGRATION

Which format of participation in the processes of regional economic cooperation and economic integration is the most desirable for Ukraine (taking into account its national interests) and the most realistic for Ukraine (given its capabilities)?
% of experts polled

	The most desired option	The most realistic option
Full integration in the EU and building relations with Russia in the format of a common foreign policy of the EU	65.0	1.9
Accession to the common economic space of the EU without the European Union membership (following the pattern of Switzerland and other members of the European Economic Area) and building relations with Russia on a bilateral basis as with any other trade partner	17.5	44.7
Accession to the Customs Union, the Common Economic Zone, and – in the long run – to the Eurasian Economic Union of Belarus, Russia and Kazakhstan, and building relations with the EU in the format of a common foreign policy of the mentioned Eurasian structures	2.9	11.7
Refusal to participate in the forms of integration going beyond the framework of free trade agreements in the East and West alike – and participation in gradual formation of a pan-European free trade area	4.9	16.5
Ukraine should give up participation in any regional integration processes, even in the form of free trade areas, and build economic relations with all partners based on common principles of the World Trade Organisation	0.0	5.8
Other	1.9	2.9
Hard to say/no answer	7.8	16.5

Which integration path should Ukraine follow?
% of experts polled



RELATIONS OF UKRAINE WITH THE EU AND RUSSIA: CITIZENS' ASSESSMENTS

Monitoring of public opinion has been carried out since 2000 and is a component of the Razumkov Centre's research in the sphere of foreign policy. Its results offer the opportunity to determine the dynamics of Ukrainian citizens' geopolitical orientations, to find out their estimations of Ukraine's relations with other states and international organisations.

The key areas of Ukraine's foreign policy are integration into the EU and development of partner contacts with the Russian Federation. There are grounds to assume that the situation surrounding Ukraine's relations with the EU and Russia is a cause for concern.

Processes which occur in the EU-Ukraine-Russia relations are quite complex and pose certain risks for Ukraine, which finds itself in between these two poles of influence. Obviously the nature and prospects of cooperation in the "triangle" format will be largely determined by the dynamics of relations between the key players – the EU and Russia.

Therefore, it is no coincidence that the latest poll (April, 2012) was devoted to the problems of EU-Ukraine-Russia relations.¹ The respondents estimated the state of Ukraine-EU relations, the efficiency of the government's European integration policy, and the prospects of Ukraine's cooperation with the EU and Russia.

Summarised results of the research and some comparisons with previous monitoring data provide suggestions for further observations and conclusions.

Ukrainian citizens' geopolitical orientations. Citizens of Ukraine have traditionally preferred two foreign policy lines: relations with the EU and Russia, considering them the main foreign policy vectors of the country. For the period of analysing attitudes the Ukrainian society has shown a stable positive attitude to the development of contacts with both the EU and Russia.

EUROPEAN INTEGRATION OF UKRAINE

The current relations between Ukraine and the EU are unstable; the pace of integration into the European Union is unsatisfactory. This opinion is shared by the majority of respondents. Specifically, 56% believe that contacts between Brussels and Kyiv are unstable, 49.8% characterise the pace of Ukraine's integration as slow, 14.1% – as non-existent. Such critical evaluations have prevailed throughout the research period from 2005 until 2012. Obviously, the reason for such scepticism is the lack of practical results of cooperation between Ukraine and the EU, which could be felt by the citizens in everyday life, and uncertainty over European integration prospects. Nevertheless, respondents are critical with regards to the European integration policy of the current government. They consider it neither efficient, consistent and open, nor clear for the Ukrainian society and the EU.

The main impediments to the integration of Ukraine into the EU are its low level of economic development, corruption, and a level of democracy which does not correspond to the European one. These factors are especially noted by the respondents. Moreover, the economic factors which hinder Ukraine's movement towards the EU include: corruption, criminalisation of economic relations in Ukraine, inconsistent foreign policy, and inadequate state of legislation regulating economic relations in Ukraine.

The interest of the EU in cooperation with Ukraine has a pragmatic nature. Building a hierarchy of EU interests in Ukraine, the citizens ranked highest the "the use of Ukraine's natural resources" (47.7%), followed by "interest in Ukrainian market for the EU goods" (37.4%),

and the interest in "transit of energy resources from Russia" (36.2%). The respondents cast most doubts on the EU's interest in importing Ukrainian products. In turn, according to citizens, the EU is an interesting prospect for Ukraine in terms of attracting financial resources, implementation of European standards and regulations, and obtaining innovation technologies.

According to a number of parameters Ukraine is not yet a European state, and its citizens almost do not see themselves as Europeans. This is the opinion of the majority of respondents. The "Europeanness" of Ukraine is only revealed in the historical and geographical dimensions. Citizens often do not identify themselves as Europeans. (The western half of the country shows a comparatively more favourable picture²). This trend has persisted for many years.

Society is dominated by the favourable attitude to the idea of Ukraine's joining the EU. This is confirmed by the dynamics of estimations for the period of research. Two cases of significant reduction in the level of support of Ukraine's accession to the EU were observed during this period: in November 2004 and September 2005. We can assume that these fluctuations were caused by the presidential campaign and a split in the team of European integrators. Then the situation stabilised. In April 2012 the level of public support for accession to the EU amounted to 47.4%, against 33.5% who did not support accession.

Traditionally, the highest level of support for EU accession has been demonstrated by the citizens of the West of the country and the respondents belonging to the youngest age group (18-29 years).

A relative majority of respondents estimate positively the benefits from accession to the EU, both for themselves and for the country. Positive expectations have constantly prevailed throughout the period of research. In April 2012 the share of respondents convinced that they would personally benefit from accession was 36.6% (against 25.3% convinced of their personal losses). The citizens estimate the benefit for

¹ The results of polls held by the Razumkov Centre from February 2000 till April 2012 are used. The latest research was carried out from March 30 till April 4, 2012 in all regions of Ukraine. 2,009 respondents aged 18 years and over were polled. The margin of error does not exceed 2.3%.

² Polls, the results of which are presented here, were carried out in all regions of Ukraine, Kyiv and the Autonomous Republic of Crimea and are representative regarding the adult population of Ukraine according to major socio-demographic indicators (region of residence, type and size of locality, age, sex). The margin of error of each sample does not exceed 2.3%.

³ Such subdivision of the territories according to regions is used: **West:** Volyn, Transcarpathian, Ivano-Frankivsk, Lviv, Rivne, Ternopil and Chernivtsi regions; **South:** the Autonomous Republic of Crimea, Mykolaiv, Odesa and Kherson regions; **East:** Dnipropetrovsk, Donetsk, Zaporizhzhya, Luhansk and Kharkiv regions; **Centre:** Kyiv, Vinnytsia, Zhytomyr, Kyiv, Kirovohrad, Poltava, Sumy, Khmelnytskyi, Cherkasy and Chernihiv regions.

Ukraine somewhat more optimistically: 43.1% believe that the country will benefit from accession to the EU, against 28.2% who are convinced otherwise. It is notable that a significant share of respondents abstained, apparently due to the uncertain prospects of the EU membership. The most optimistic are young people and residents of the western part of the country.

Citizens are ambiguous about the thesis that European integration may become a national unifying idea and are not enthusiastic about the prospective of the development of EU-Ukraine relations in the next years.

In 2012 only a quarter of respondents (25.8%) support the unifying mission of European integration, whereas 45.8% are sceptical. In recent years this trend has become irreversible. Citizens forecast the prospect of relations between Kyiv and Brussels quite cautiously. The largest share of respondents (41.6%) believes that the relations will remain unchanged. Slightly more than a quarter (27.3%) expects improvements.

UKRAINE-RUSSIA RELATIONS

The citizens estimate critically both the state of Ukraine-Russia relations and Ukraine's attitude towards the Russia and Russia's attitude towards Ukraine. The respondents consistently characterise relations between Kyiv and Moscow as "unstable". In April 2012 the number of such estimations matched the record high (64.5%), recorded in February 2001. Such estimations are probably the response to the constant aggravation of bilateral relations, and problematic dialogue (especially in the energy sector).

The dynamics of the comparative characteristics of Ukraine's policy line towards Russia and, accordingly, the policy line of the Russian Federation towards Ukraine show constant problematic relations. The majority of respondents, evaluating the policy of Kyiv and Moscow, choose such characteristics as "uncertain, controversial," "desire to improve one's standing at the expense of the neighbour," or "obviously unfriendly". The respondents of the Western region estimate the policy of Russia towards Ukraine the most negatively.

Among the main factors of rapprochement between Ukraine and Russia the citizens invariably note: common economic interests, common history and family ties between the residents of both countries. It is significant that a very small share of respondents (3.4%) believe that nothing can facilitate this rapprochement. It should be noted that in the West of the country respondents give priority to the political will of the countries' leaders and common economic interests, whereas in the East priority is given to economic interests and the two countries' common history.

The interest of Russia in Ukraine is estimated quite pragmatically. Respondents believe that Russia is primarily interested in the transit of Russian energy resources, in the Ukrainian market for its goods, in withdrawing Ukraine from the influence of the West and in using Ukraine's natural resources. At the same time Russia is barely interested in importing Ukrainian products, developing democracy and supporting reforms in Ukraine.

According to respondents, Russia has a mainly negative attitude to the European aspirations of Ukraine and prevents its European integration. More than half of the respondents (54.7%) are sure of Moscow's negative attitude towards the intentions of Ukraine to integrate into the EU, and a relative majority (47.1%) believes that Russia prevents Ukraine's movement towards the EU. The most critical are the people of the western half of the country. Obviously, such estimates are associated with Russia's persistent attempts to involve Ukraine in Russia-led regional structures, such as EurAsEC.

It should be added that citizens evaluate differently the role and importance of Ukraine in the EU-Russia relations. The relative majority of respondents (35.5%) believe that Kyiv plays no role in relations between Moscow and Brussels.

Ukraine must deepen cooperation with Russia. This opinion is shared by half of the citizens of Ukraine (50.4%). It should be noted that this is the lowest rate over the past 10 years (since February 2002 till April 2012). Compared with November 2009, there has been a sharp decrease (by 27.5%) in the number of citizens in favour of developing relations.

The prospects of the development of Ukraine-Russia relations are ambiguous. The shares of respondents who

believe that in the next year Ukraine-Russia relations will improve (36.1%) and those that think will remain unchanged (36.2%) are almost equal. One in five (20.2%) refrained from giving forecasts. Generally, the citizens of the South and the East are more optimistic and those of the West and the Centre are more pessimistic.

EU-UKRAINE-RUSSIA: PROBLEMS AND PROSPECTS OF REGIONAL INTEGRATION

The prospects of creating a common economic space with the participation of the EU, Ukraine and Russia are rather remote. Economic relations in this format should be built either under WTO norms or new rules.

Development of proper economic relations in the EU-Ukraine-Russia triangle is first of all compromised by the financial crisis in the eurozone, the crisis in the economies of Ukraine and Russia, and increased economic competition between the EU and Russia. These are the factors mentioned by the respondents as the most fundamental ones in the development of economic contacts between the parties involved. Respondents also emphasise the lack of progress in forming proper market economy in Ukraine.

There is no consensus within Ukrainian society on the areas of regional integration. 38.3% supports Ukraine's accession into the EU, while almost the same share (36%) supports joining the Customs Union. Almost one in nine (10.8%) is against both options. However, expectations regarding European integration and integration in the eastern direction are somewhat different. The balance of estimates of European integration in such areas as deepening reforms in the social sphere, living standards, and strengthening democracy is apparently more positive. The relative majority of respondents (45.6% vs. 27.4%) believe that joining the Customs Union will not lead to the strengthening of democracy in Ukraine.

CONCLUSIONS

Generalised results of the research grant an opportunity to track the dynamics of the positions and estimates of citizens.

First. The current relations between Ukraine and the EU are seen by the citizens as unstable, and the pace of integration into the European Union as unsatisfactory. Ukraine's integration to the EU is prevented, in their opinion, by a low level of economic development, corruption, and a level of democracy which does not correspond to the European one. According to a number of parameters Ukraine is not yet a European state; citizens usually do not see themselves as Europeans.

The positive attitude to the idea of Ukraine's accession to the EU constantly prevails in Ukrainian society. A relative majority of respondents estimate positively the benefits for themselves and the country from this step. However, they are not optimistic about the prospects of EU-Ukraine relations in the next years.

Second. The citizens estimate critically the state of Ukraine-Russia relations and Ukraine's attitude towards Russia and Russia's attitude towards Ukraine. The main factors for rapprochement between the countries are common economic interests, a common history and family ties between the residents of both countries.

In the opinion of citizens, Russia has a mainly negative attitude towards the European aspirations of Ukraine and prevents its integration. Respondents believe that Ukraine should deepen cooperation with Russia, but the prospects of developing relations between Ukraine and Russia are evaluated ambiguously.

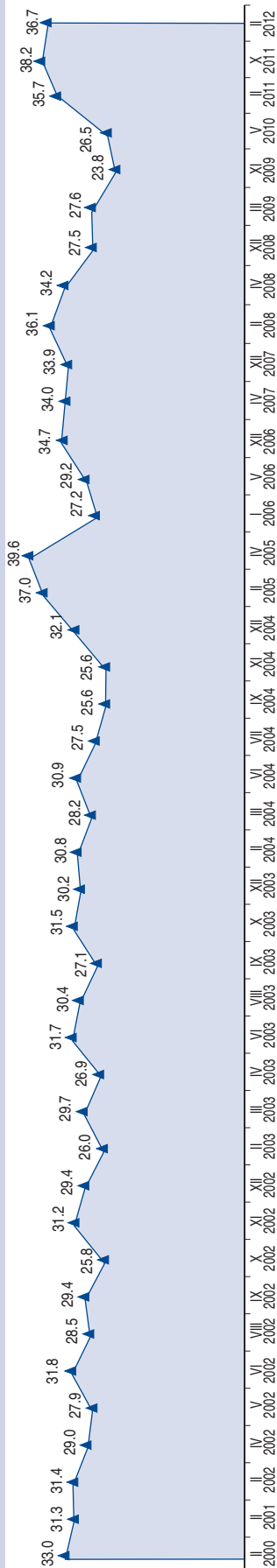
Third. The prospect of creating common economic space with the participation of the EU, Ukraine and Russia is rather remote. Development of proper economic relations in the EU-Ukraine-Russia triangle is compromised by the financial crisis in the eurozone, elements of crisis in the economies of Ukraine and Russia, and increased economic rivalry between the EU and Russia.

Fourth. There is no consensus within the Ukrainian society on the areas of regional integration – citizens unanimously prefer neither accession to the EU nor joining the Customs Union. However, expectations regarding European integration are more positive, particularly with regard to the strengthening of democracy in Ukraine.

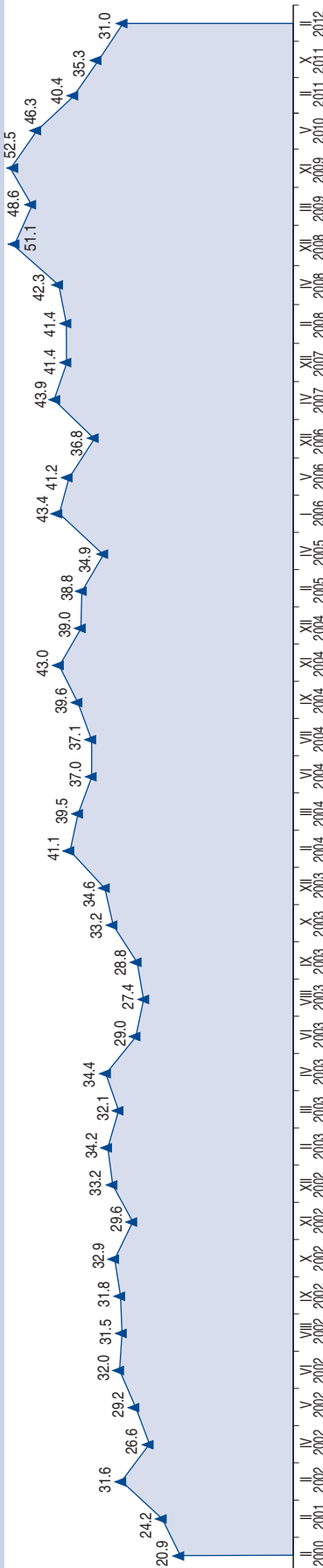
What direction of foreign policy is a priority for Ukraine?

% of citizens polled

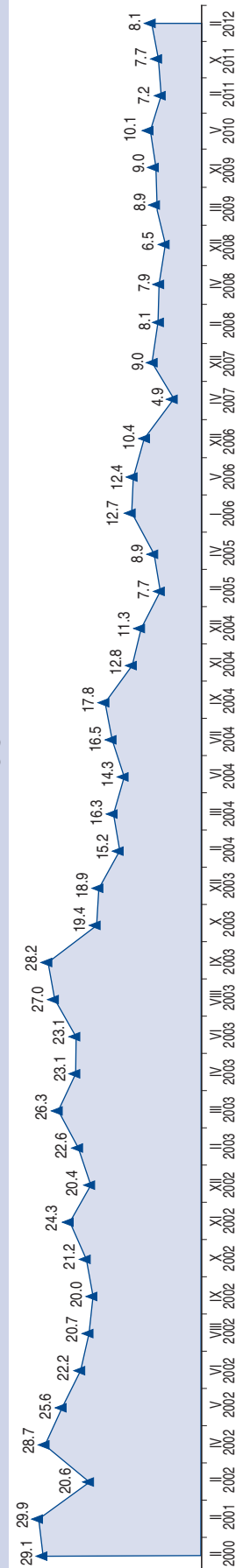
Relations with the EU countries



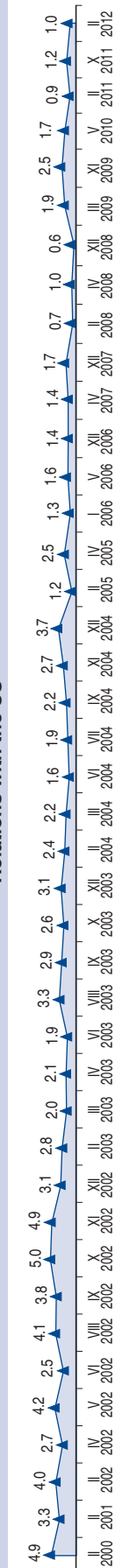
Relations with Russia



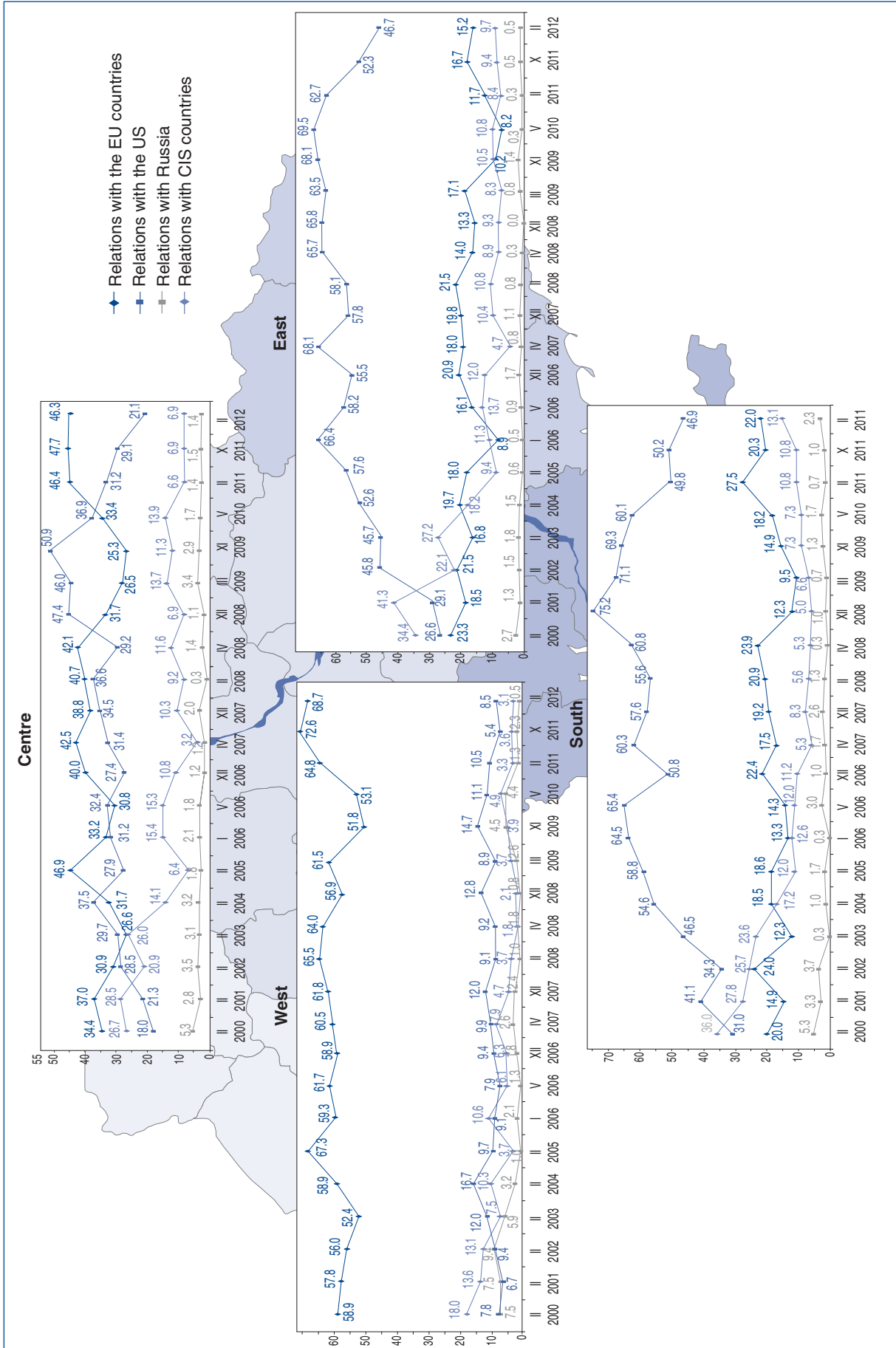
Relations with CIS countries



Relations with the US

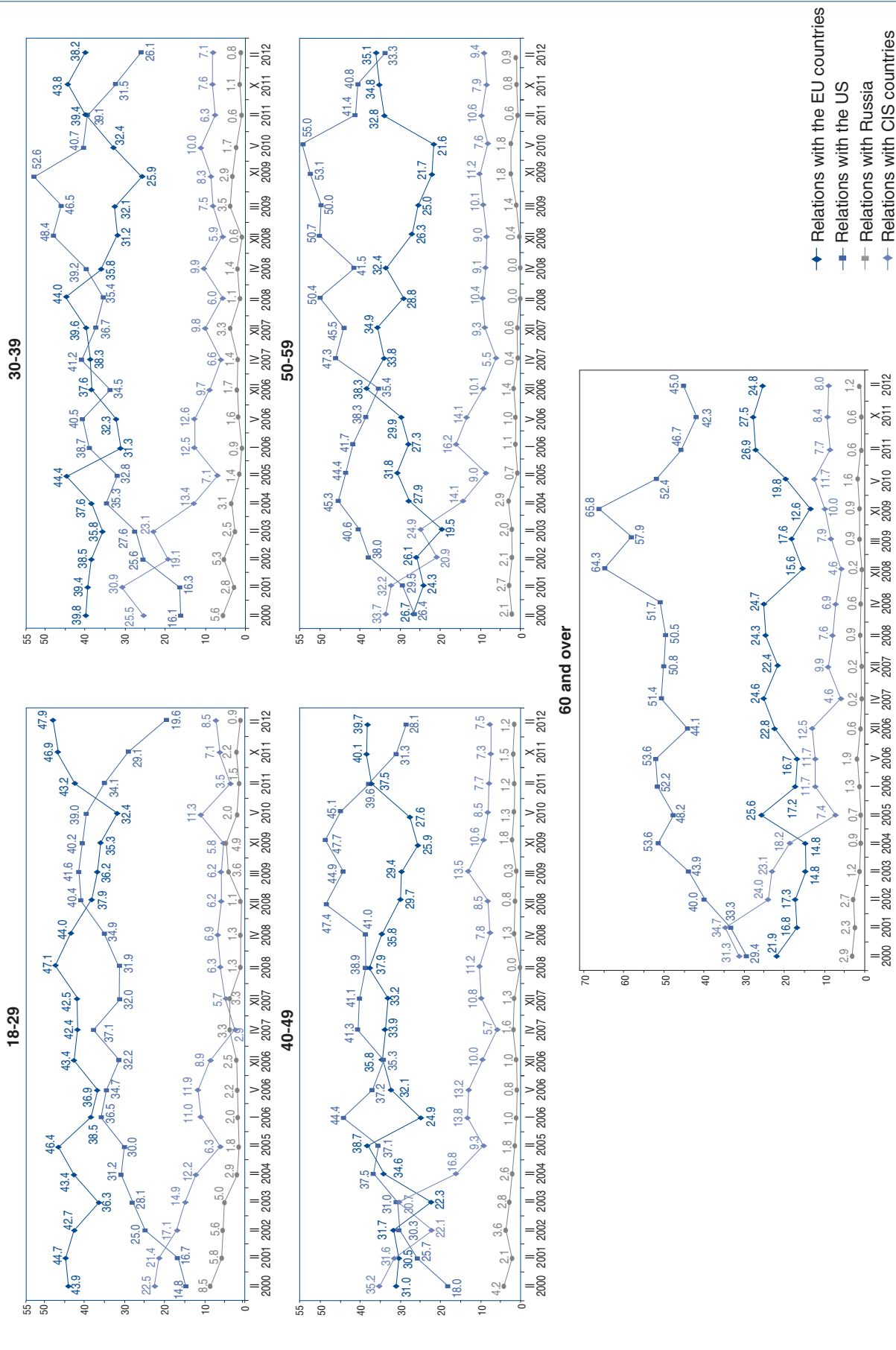


What direction of foreign policy is a priority for Ukraine? % of citizens polled



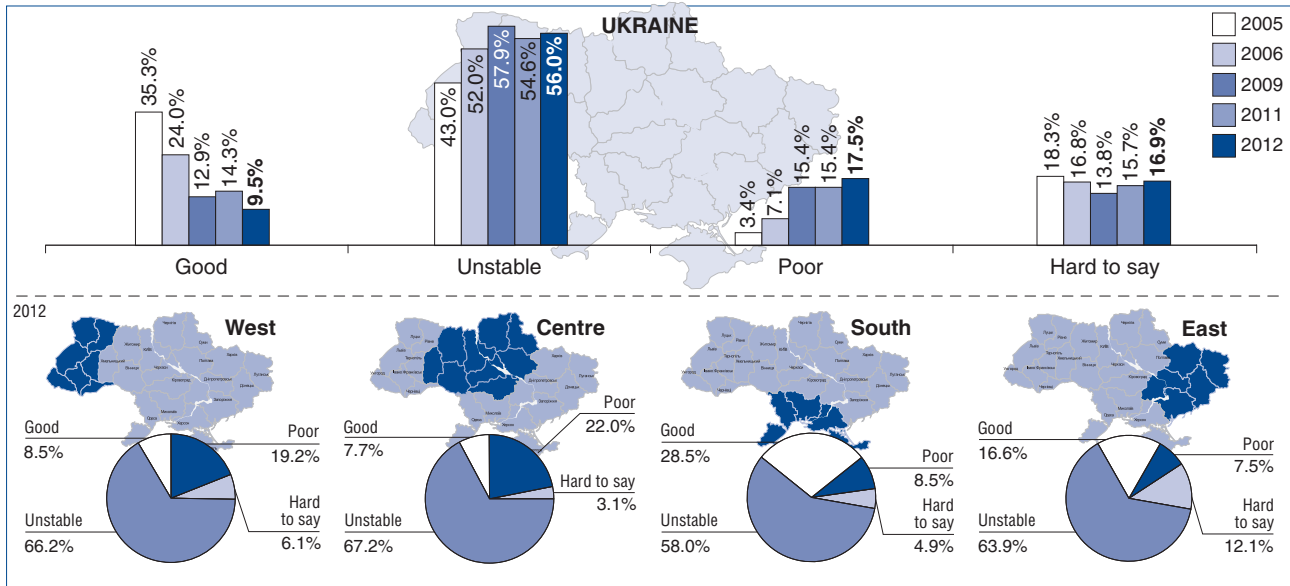
What direction of foreign policy is a priority for Ukraine?

% of citizens polled

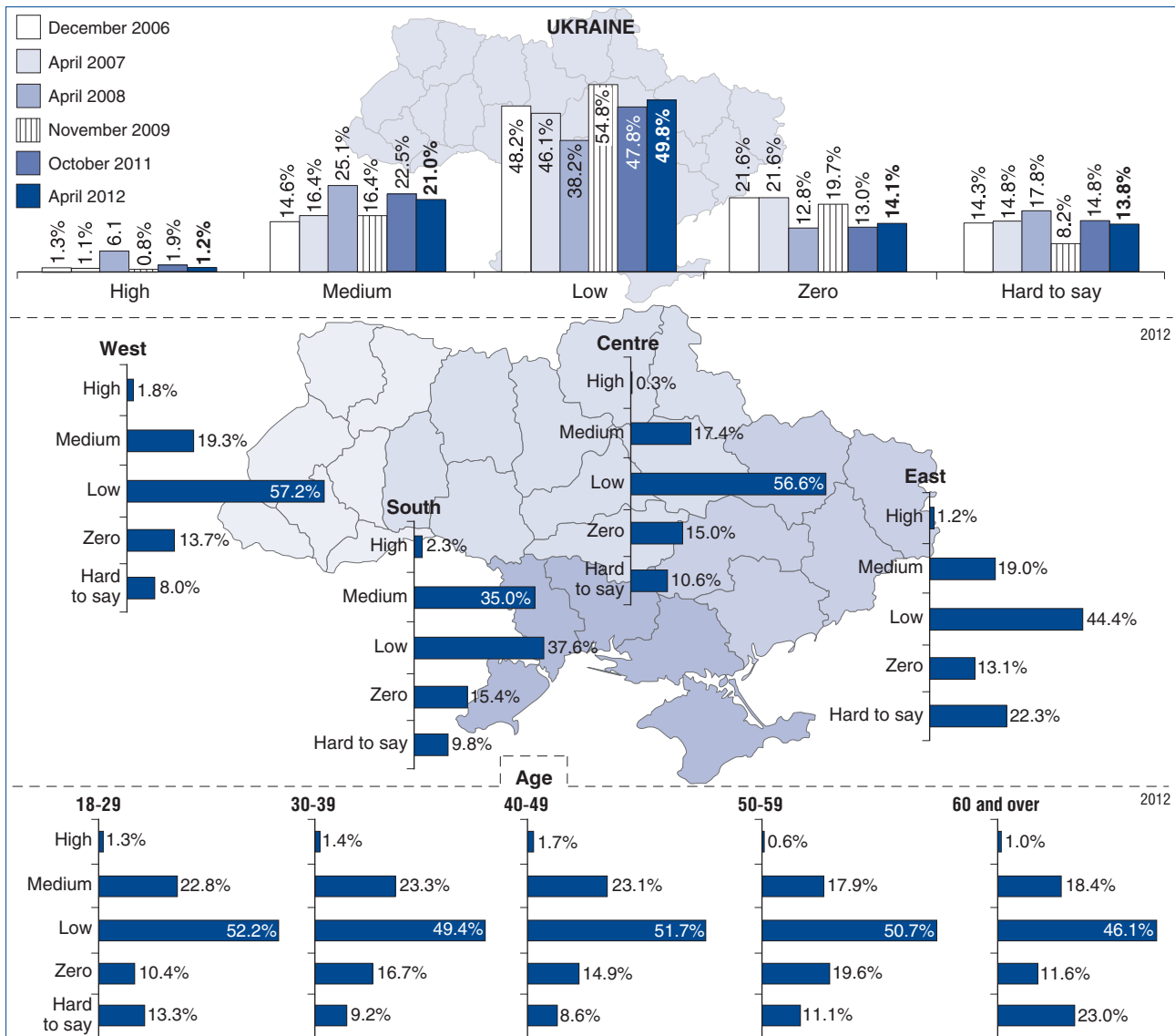


EUROPEAN INTEGRATION OF UKRAINE

How would you characterise Ukraine's current relations with the EU?
% of citizens polled

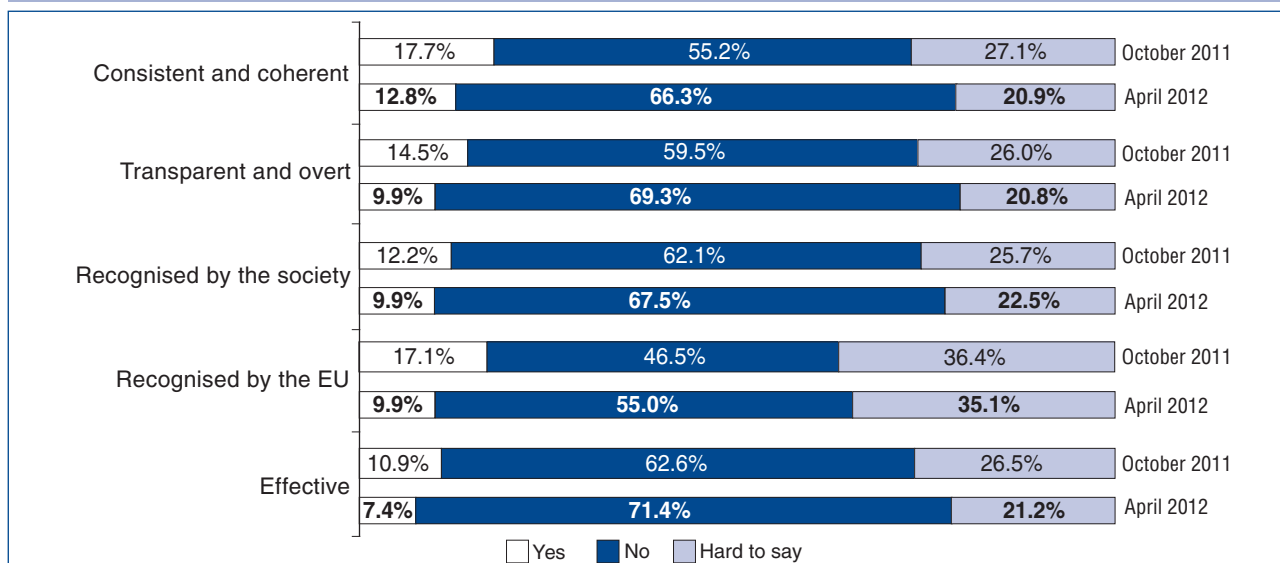


How would you evaluate the pace of Ukraine's European integration?
% of citizens polled



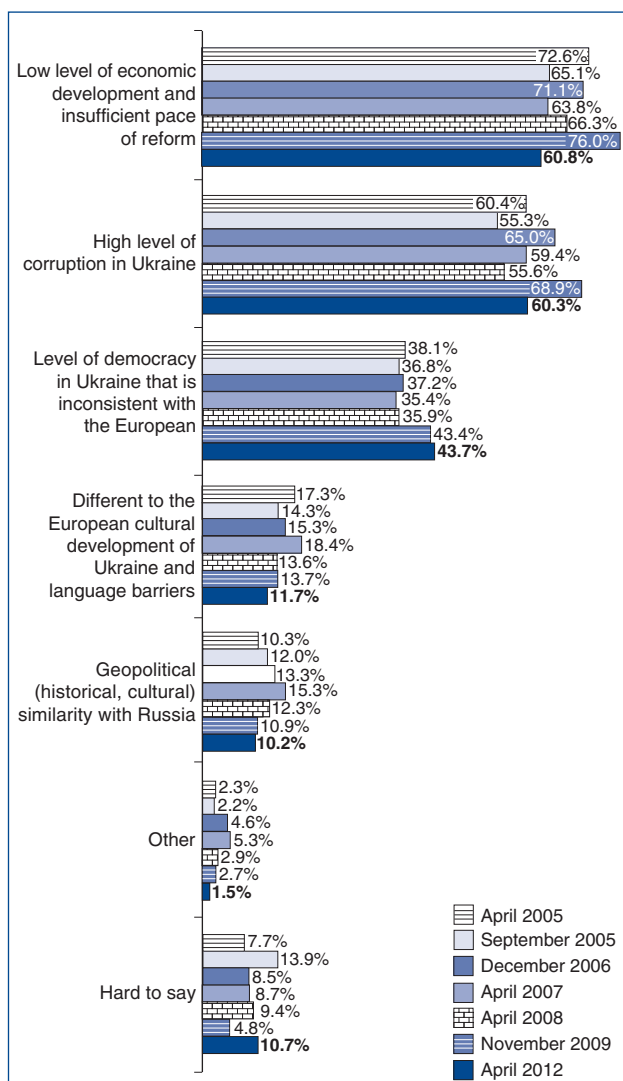


How would you characterise the European integration policy of Ukraine under the current leadership? % of citizens polled



What are the factors hampering Ukraine's integration in the EU?*

% of citizens polled



* Respondents were supposed to give no more than three acceptable answers.

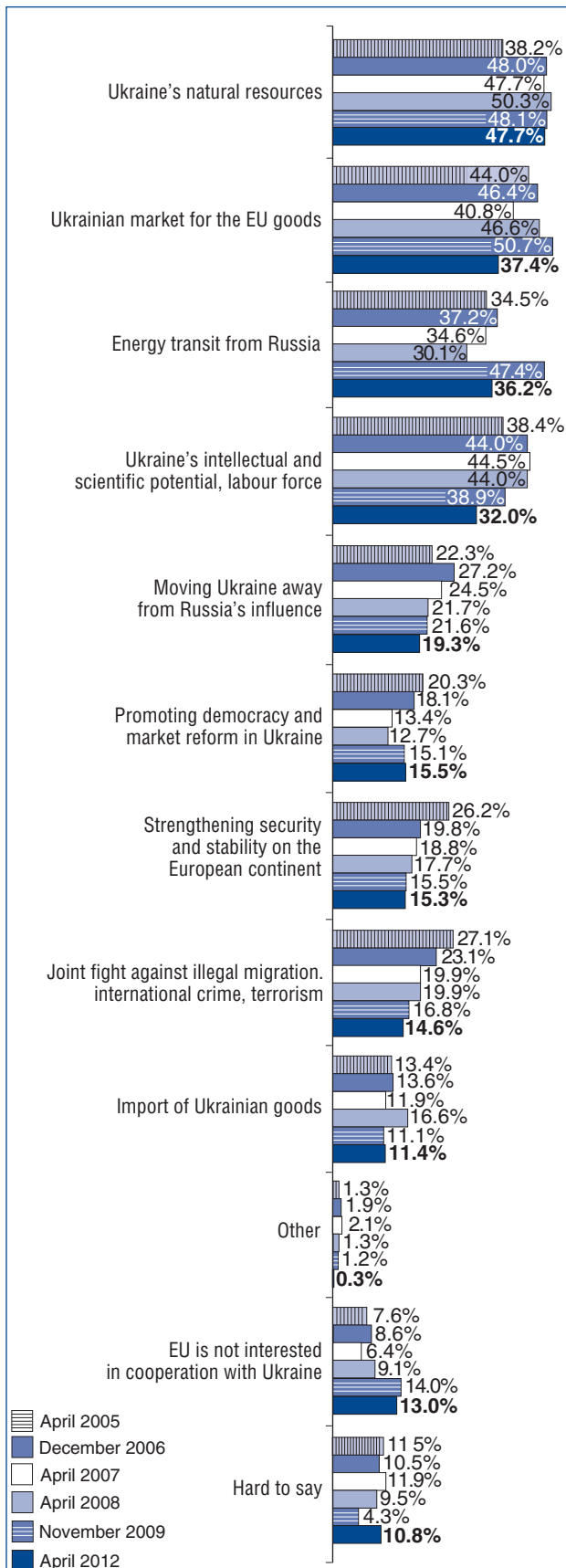
What are the factors which most of all hinder an effective development of economic relations of Ukraine with the EU?*

% of citizens polled



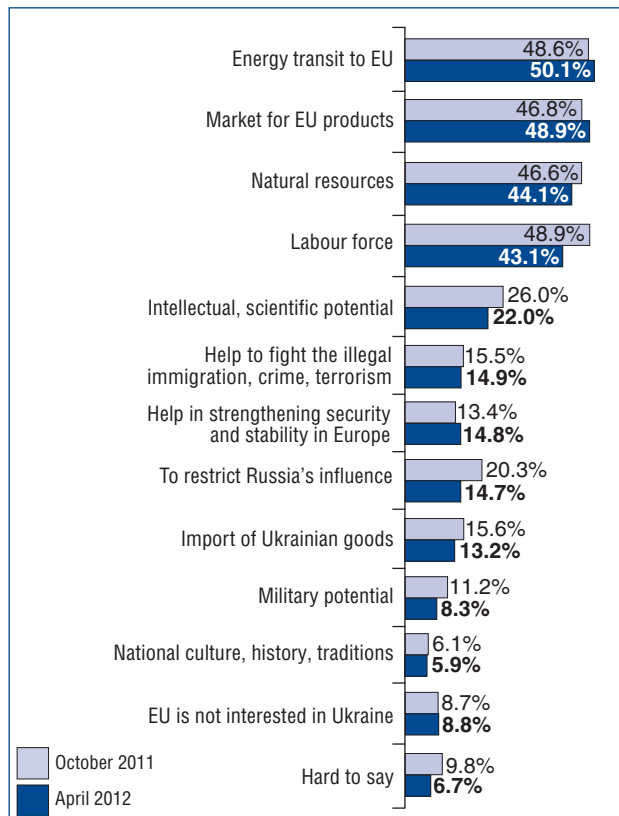
* Respondents were supposed to give no more than three acceptable answers.

**Is the EU interested in cooperation with Ukraine?
What are the main drivers for such an interest?***
% of citizens polled

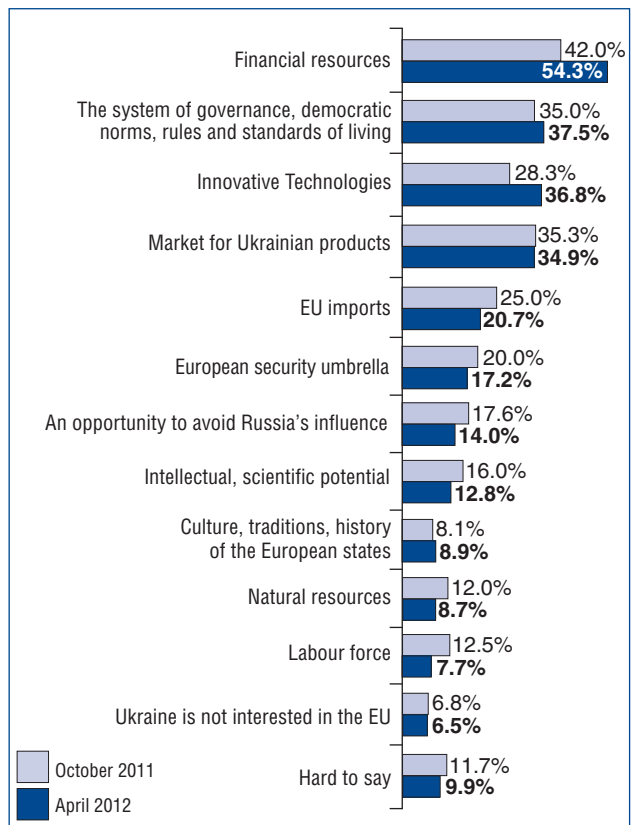


* Respondents were asked to give all possible answers.

Why the EU is interested in Ukraine?*
% of citizens polled

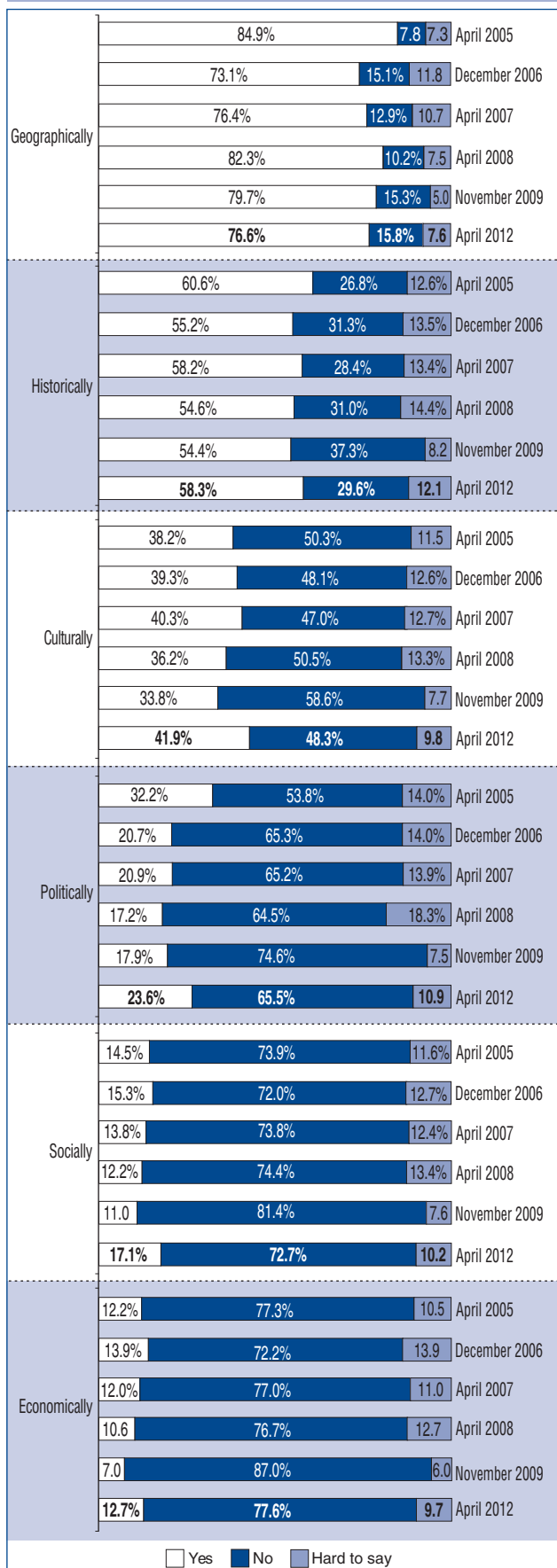


Why Ukraine is interested in the EU?
% of citizens polled

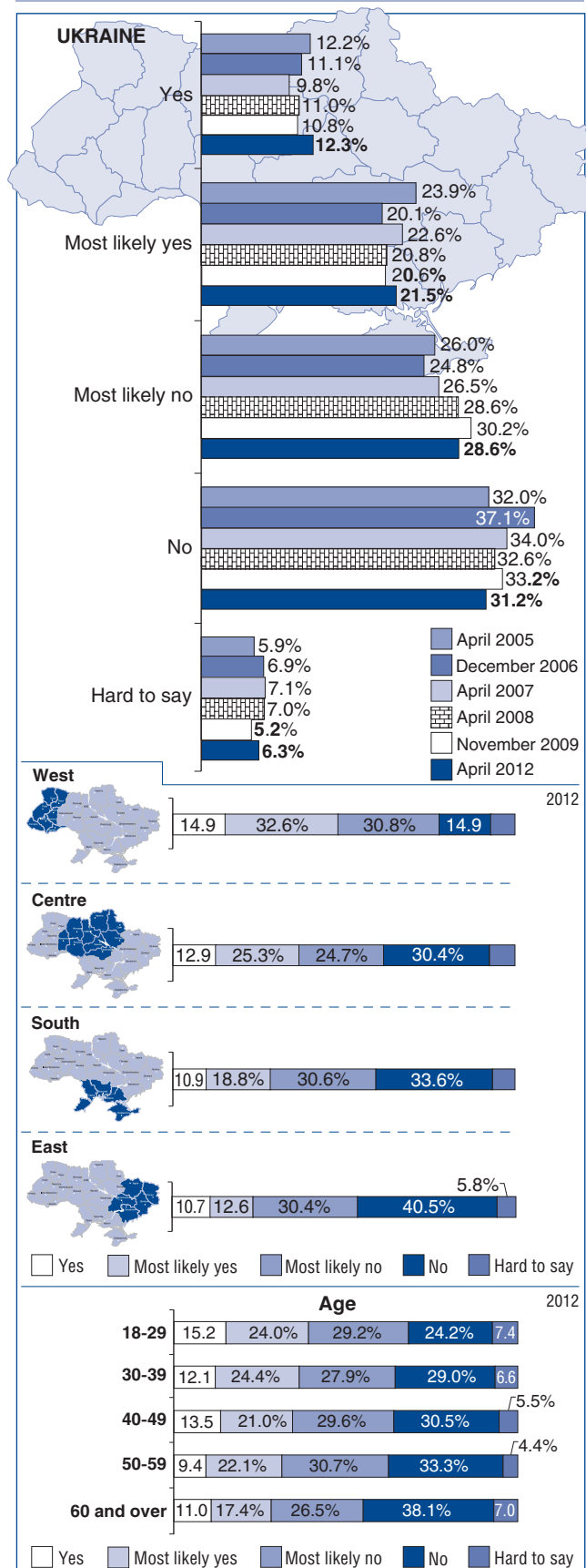


* Respondents were asked to give all possible answers.

Is Ukraine a European country? % of citizens polled



Do you feel like a European, do you have a feeling of belonging to the culture and history of the European society? % of citizens polled



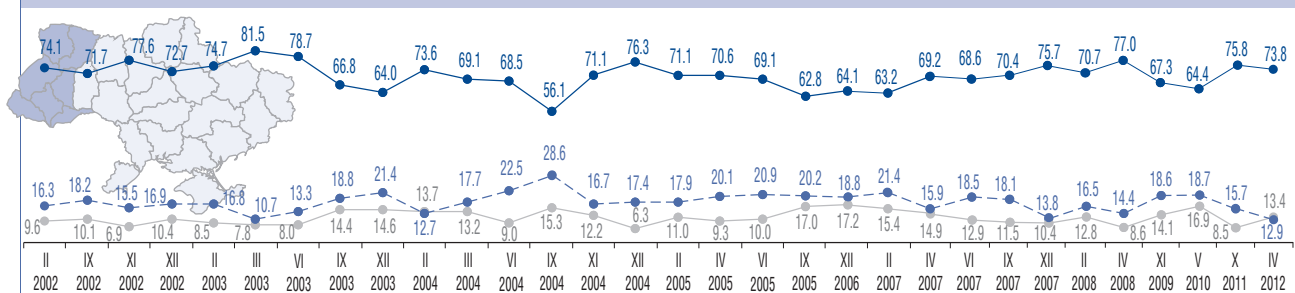
Should Ukraine join the EU?
% of citizens polled

— Yes — No — Hard to say

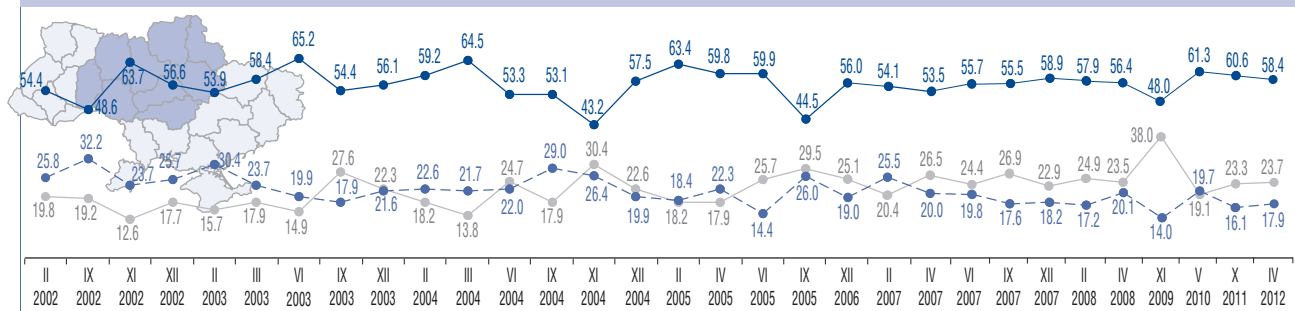
UKRAINE



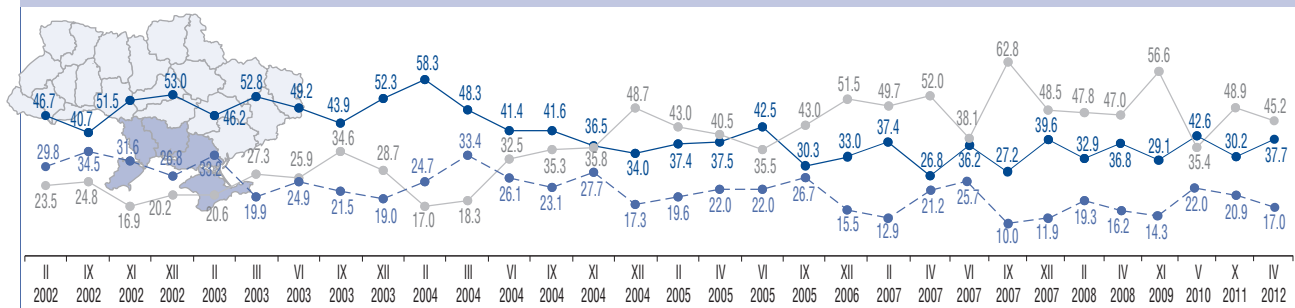
West



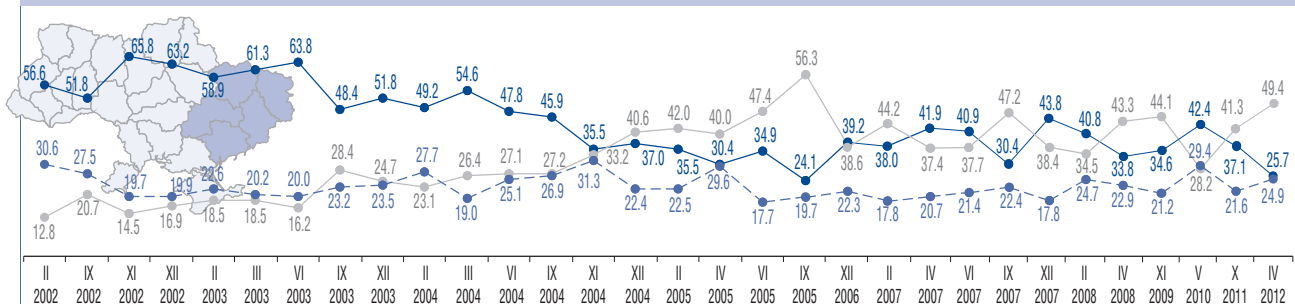
Centre

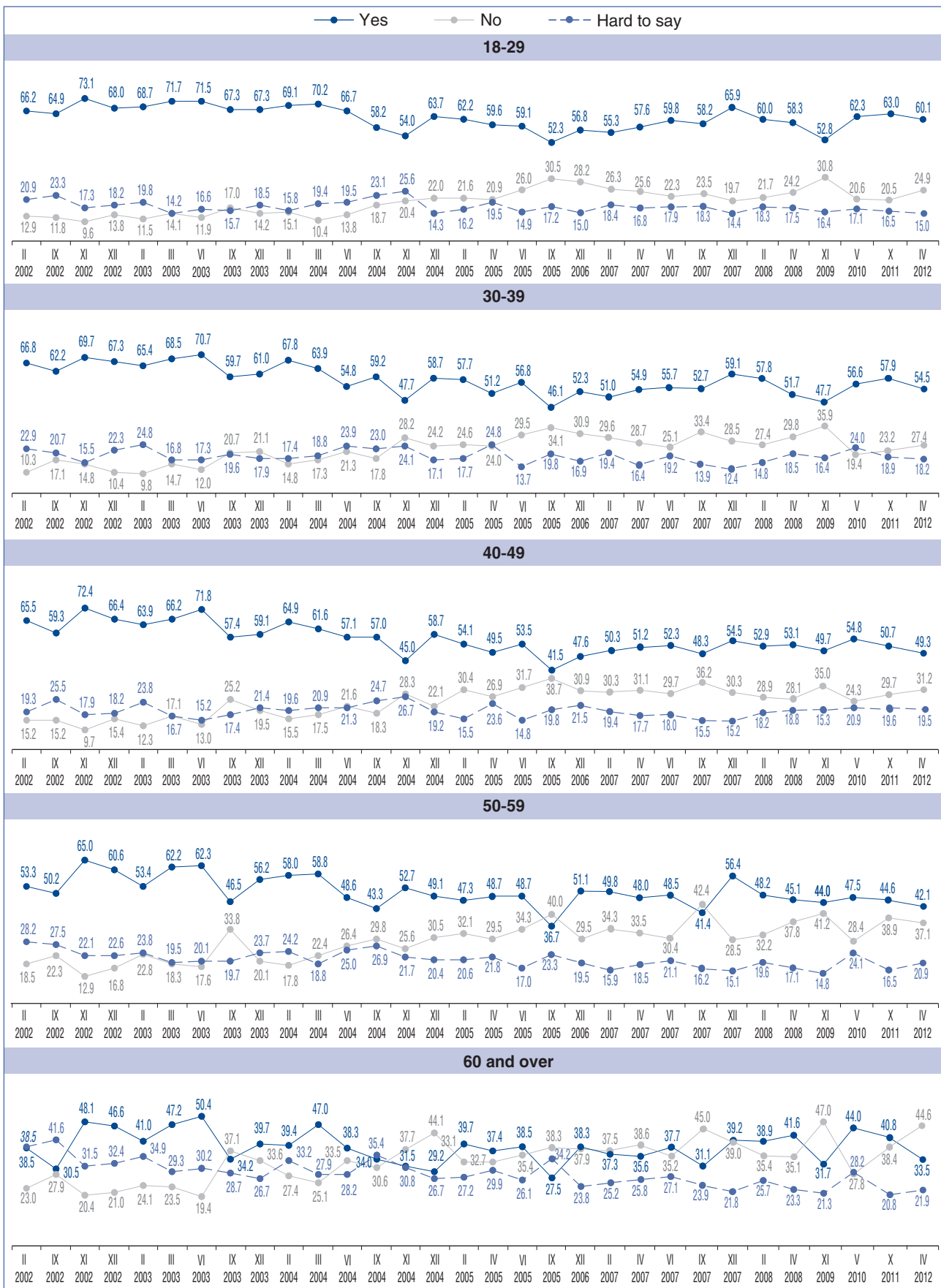


South

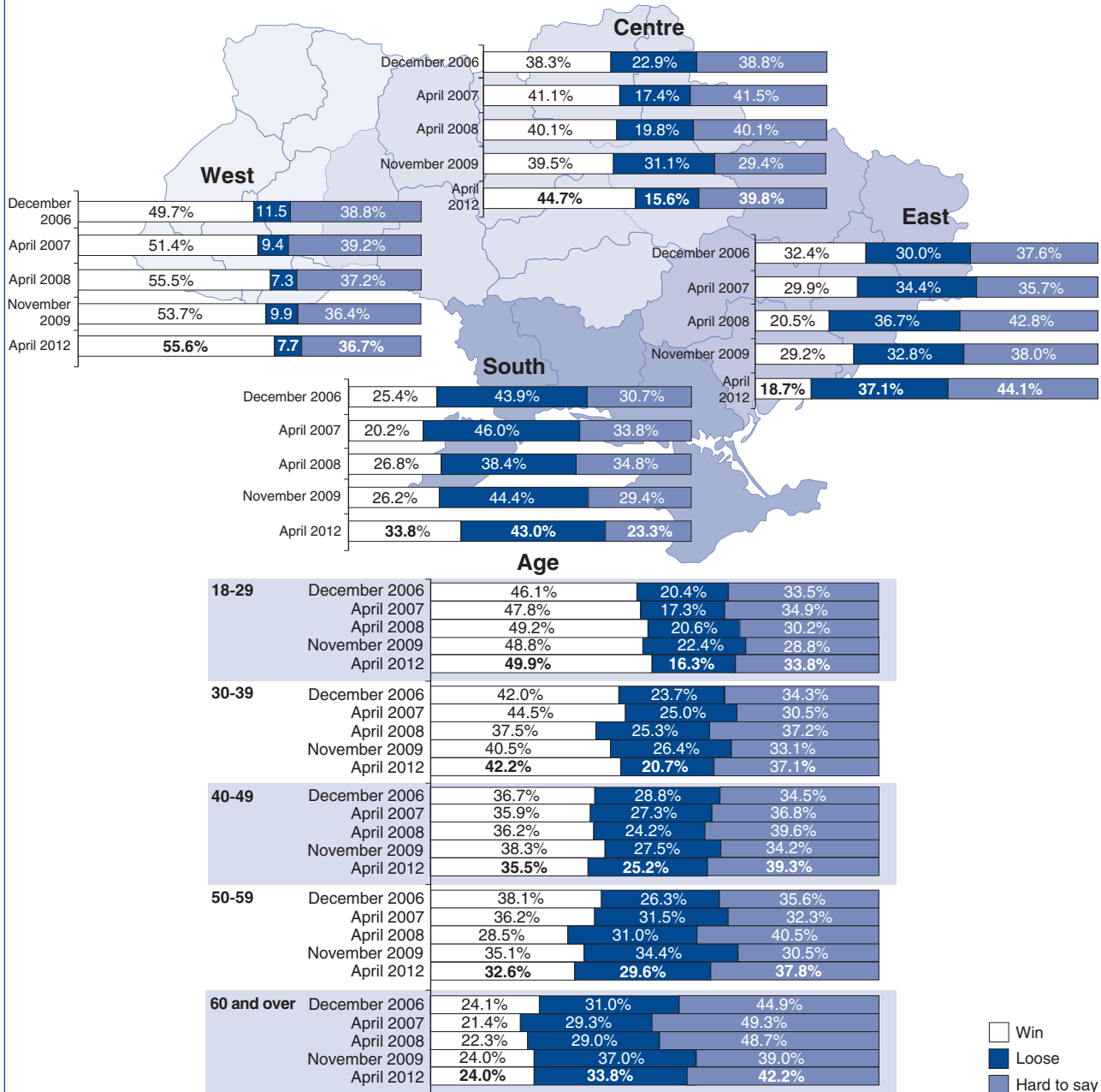
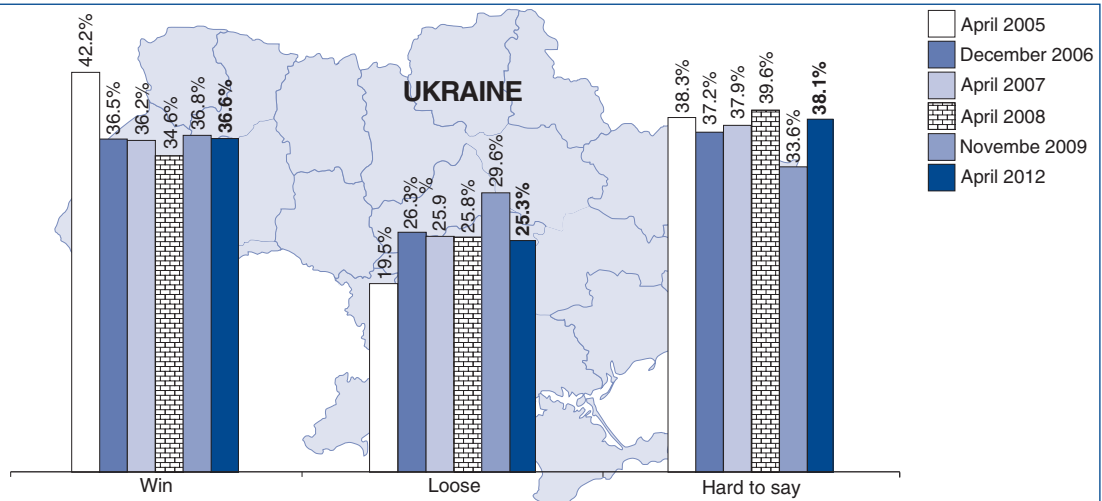


East

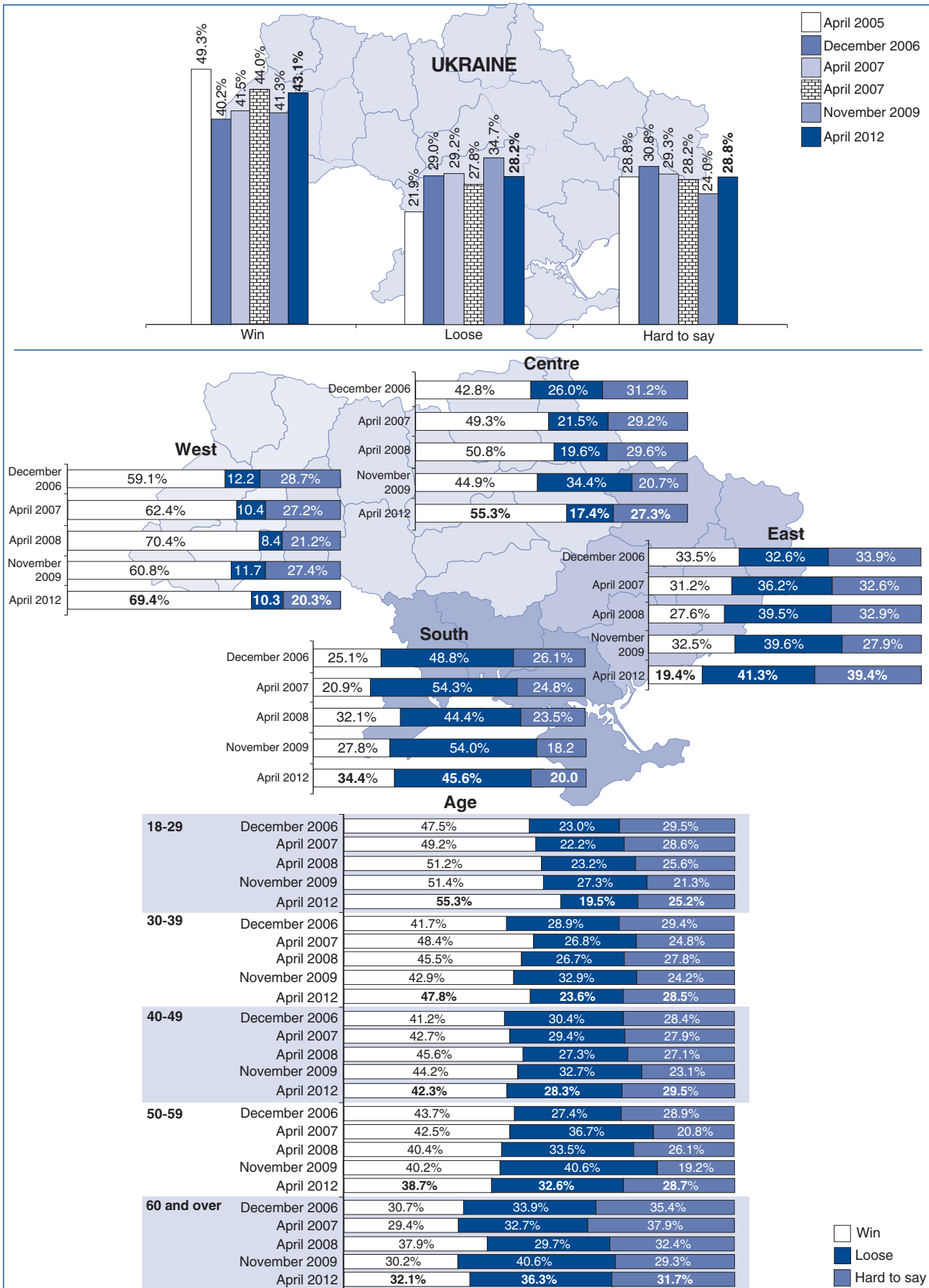


**Should Ukraine join the EU?**
% of citizens polled

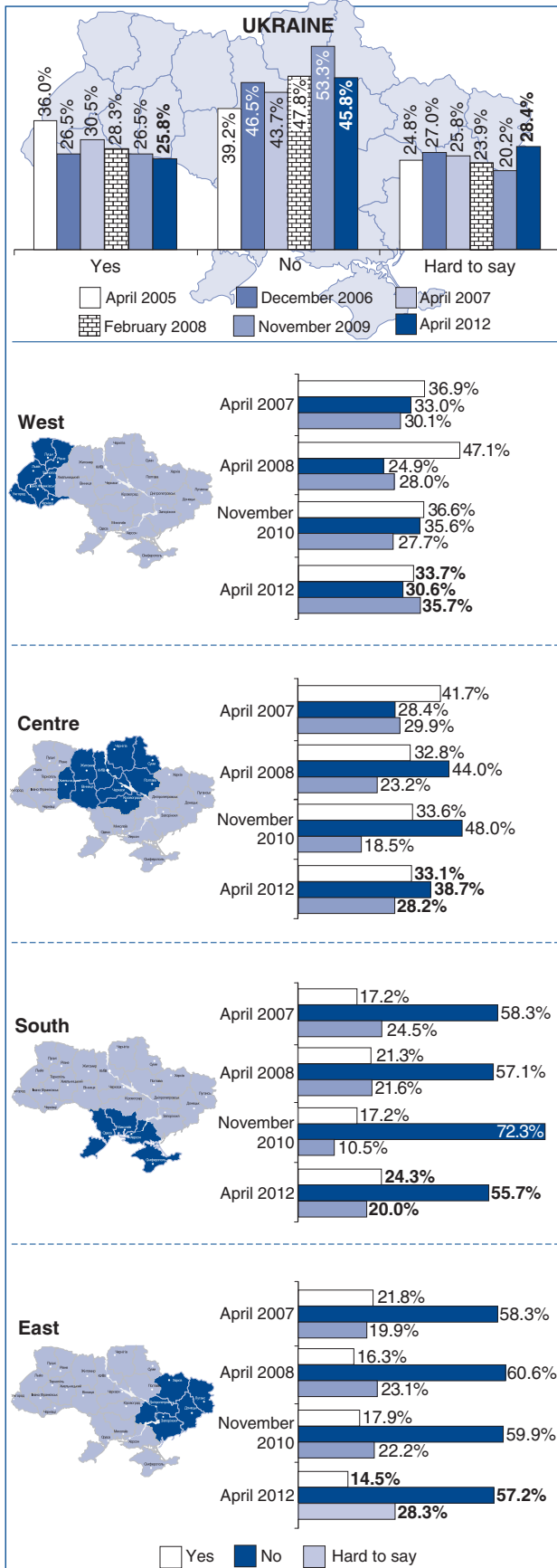
Would you personally win or loose if Ukraine joins the EU?
% of citizens polled



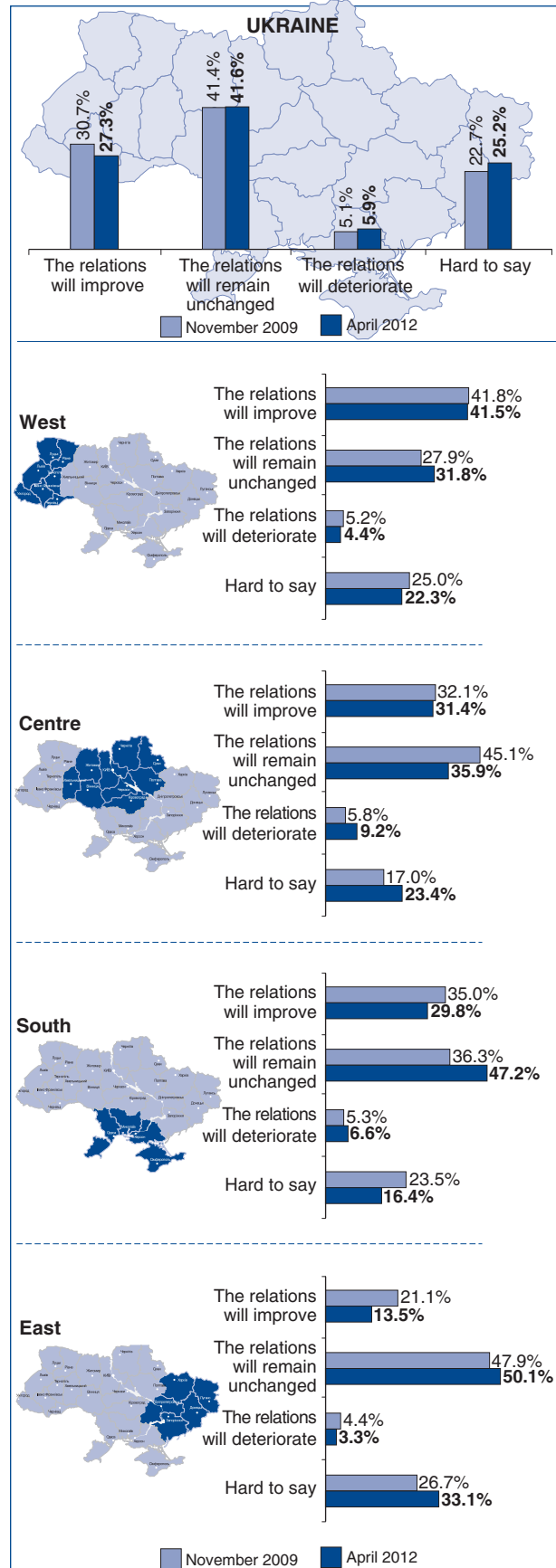
By and large, would Ukraine win if it joins the EU?
% of citizens polled



**Can the EU become a national idea,
uniting all regions of Ukraine?**
% of citizens polled



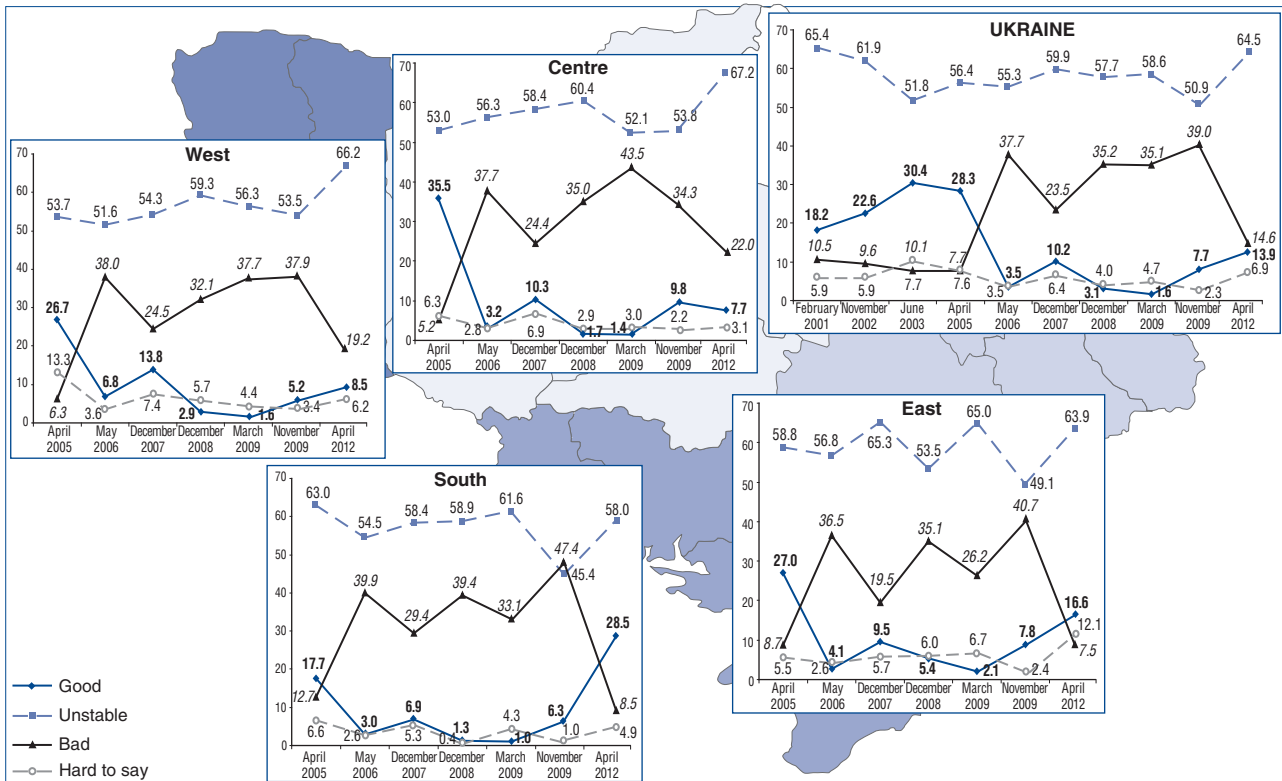
**How would you assess the prospects of the EU-Ukraine
relations development in the forthcoming years?**
% of citizens polled



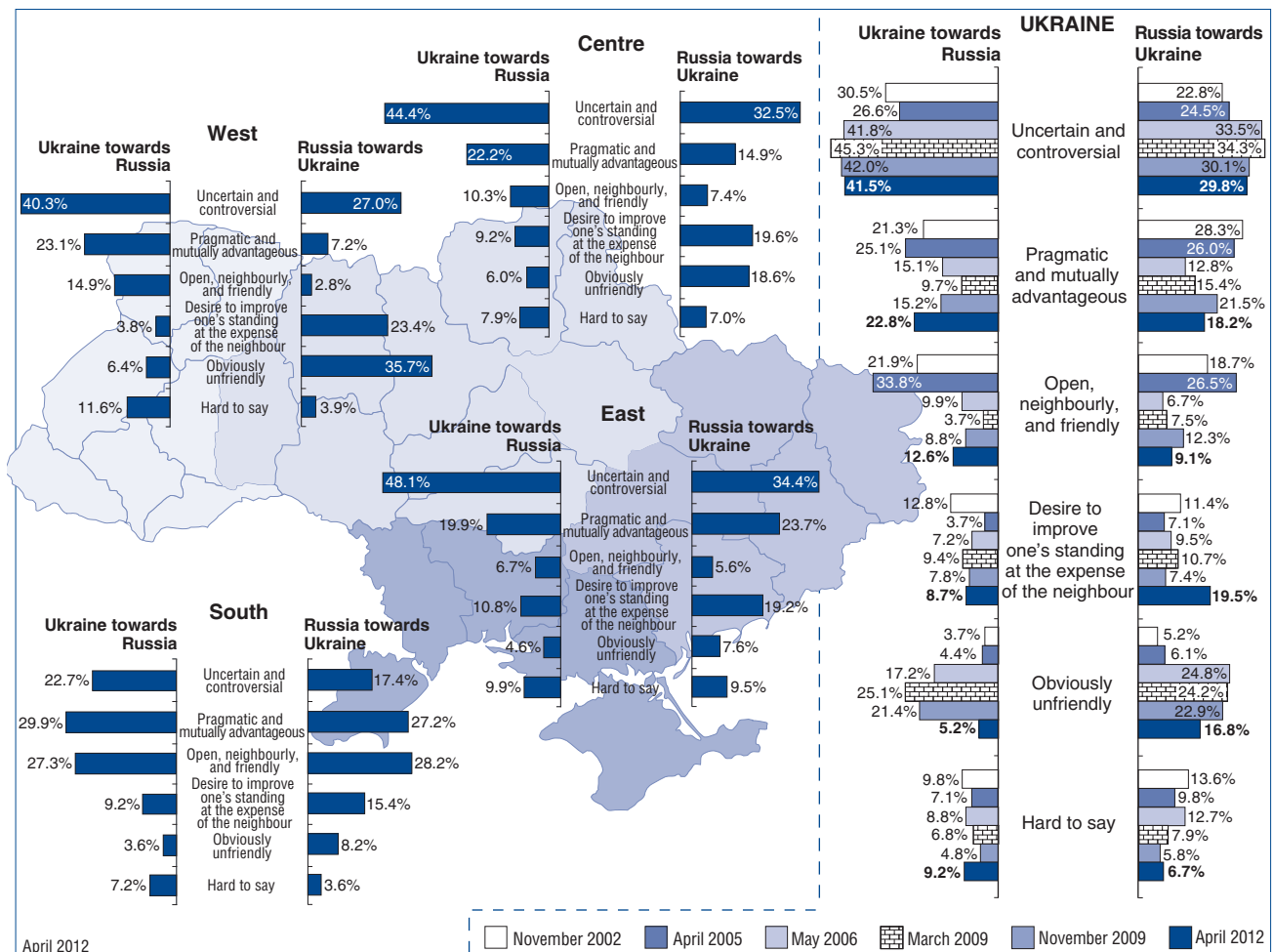


UKRAINE-RUSSIA RELATIONS

How would you describe the current relations between Ukraine and Russia?
% of citizens polled

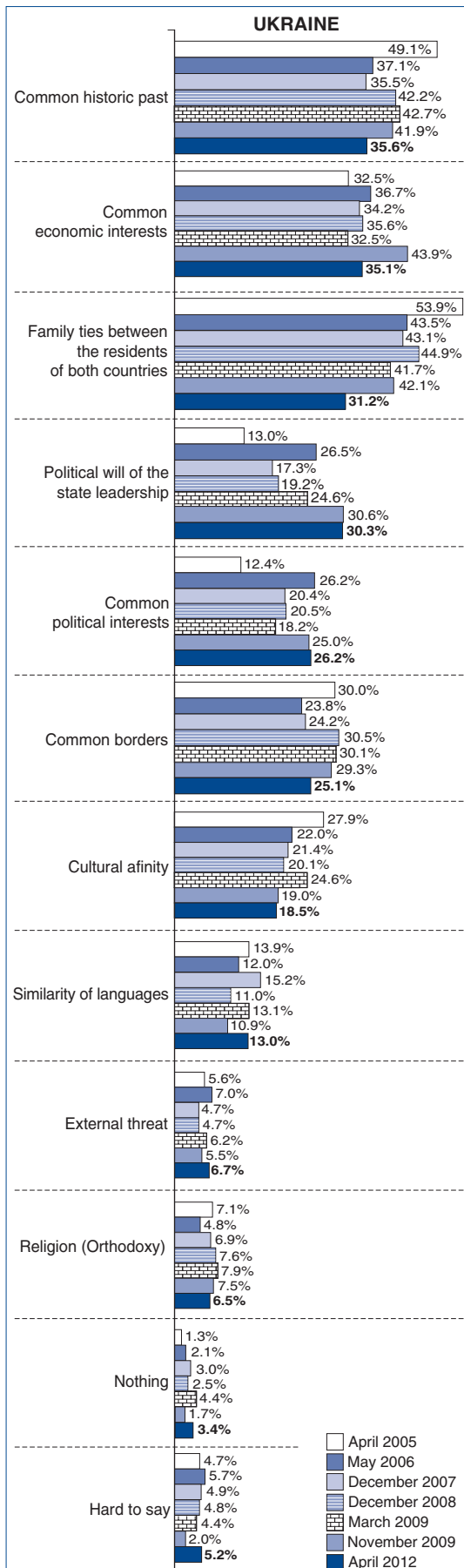


How would you assess the policy of Ukraine towards Russia and of Russia towards Ukraine?
% of citizens polled



April 2012

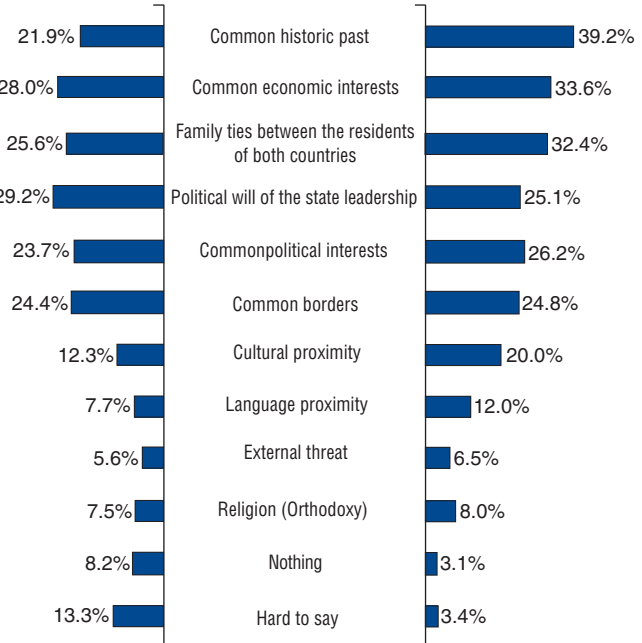
What can contribute to the rapprochement of Ukraine and Russia the most?*
% of citizens polled



West



Centre



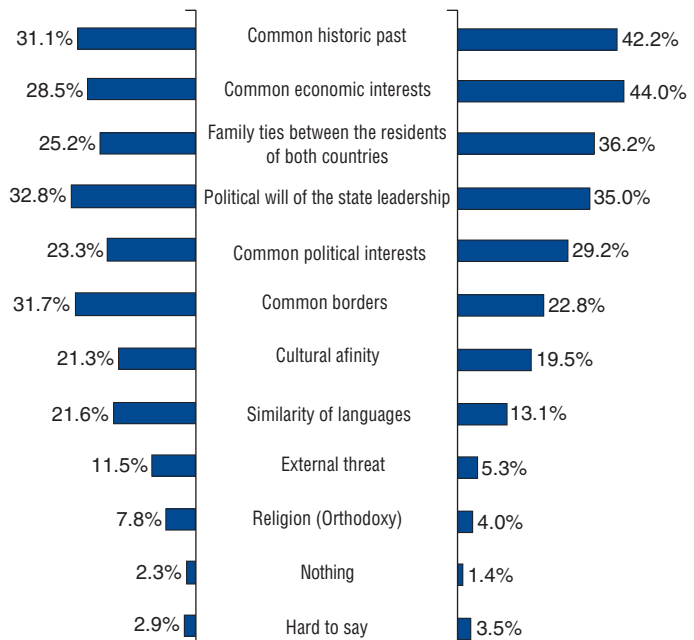
April 2012



South



East

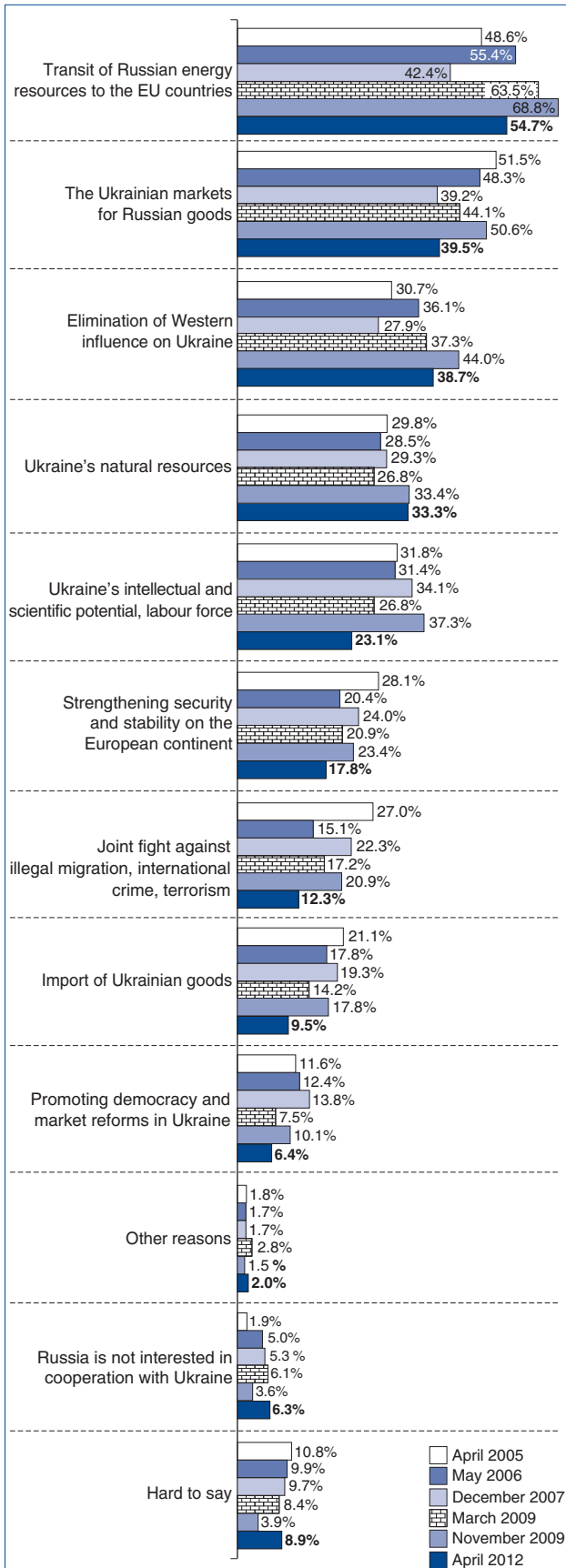


April 2012

* Respondents were supposed to give no more than three acceptable answers.

Is Russia interested in cooperation with Ukraine? What are the main drivers for such an interest?*

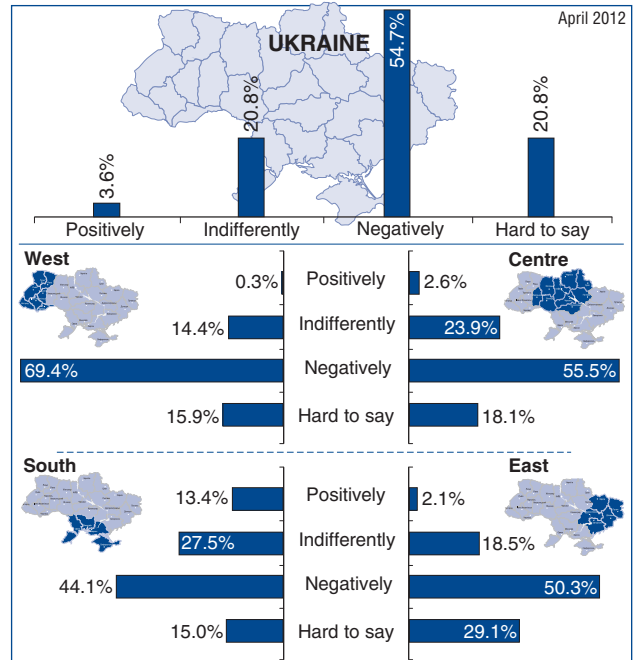
% of citizens polled



* Respondents were supposed to give no more than three acceptable answers.

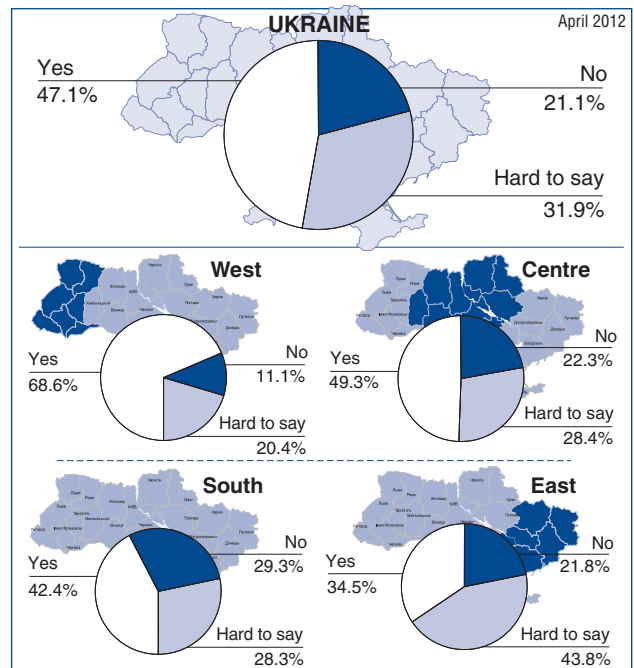
How does Russia view Ukraine's aspirations of European integration?

% of citizens polled



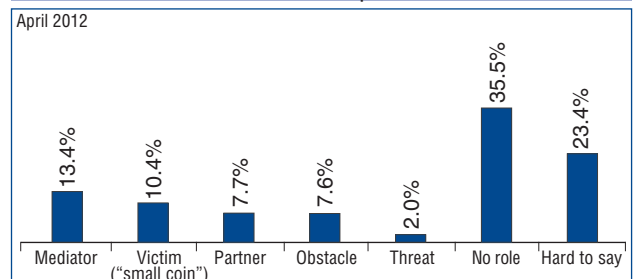
Does Russia hinder Ukraine's integration in the EU?

% of citizens polled

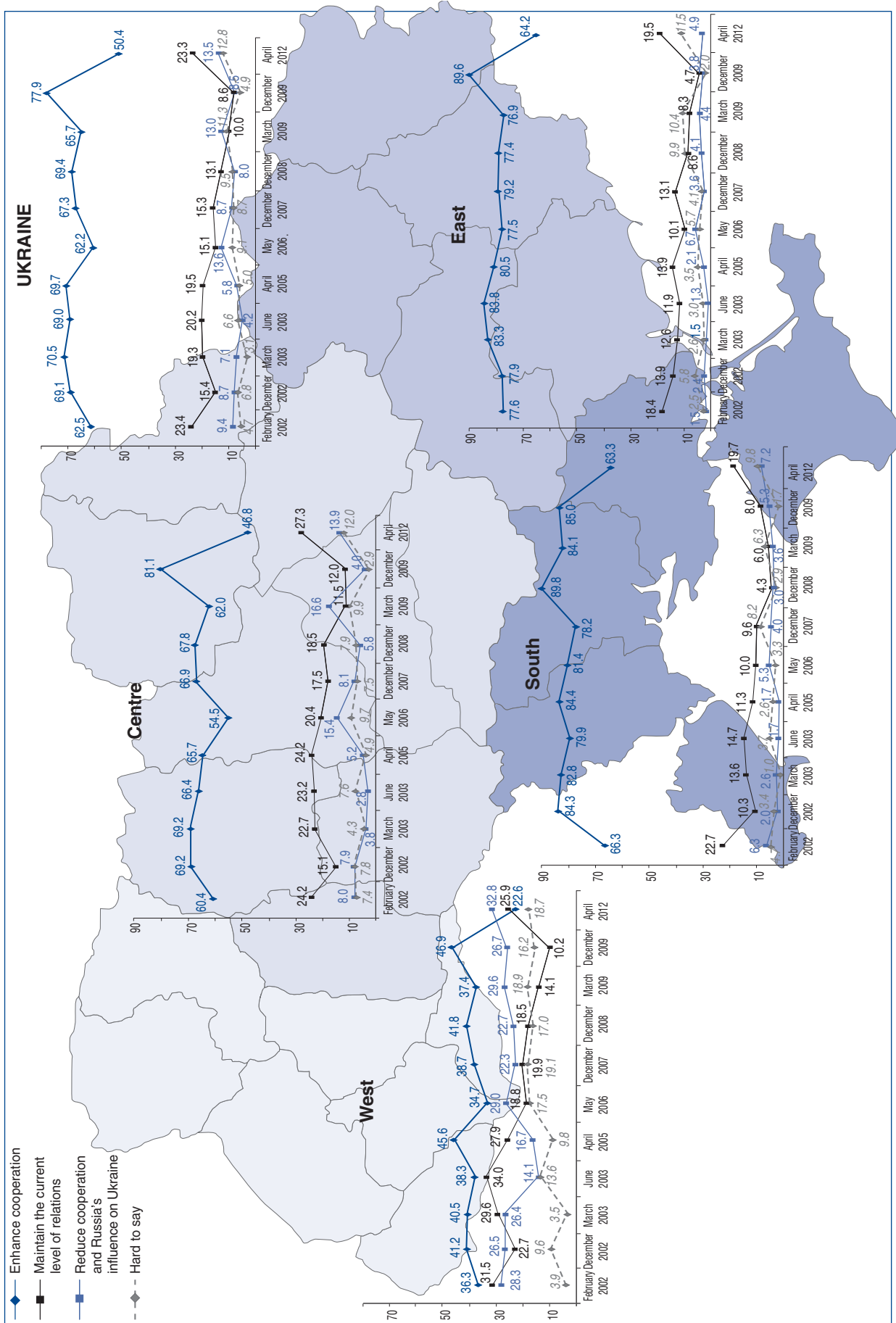


What is the role of Ukraine in the EU-Russia relations?

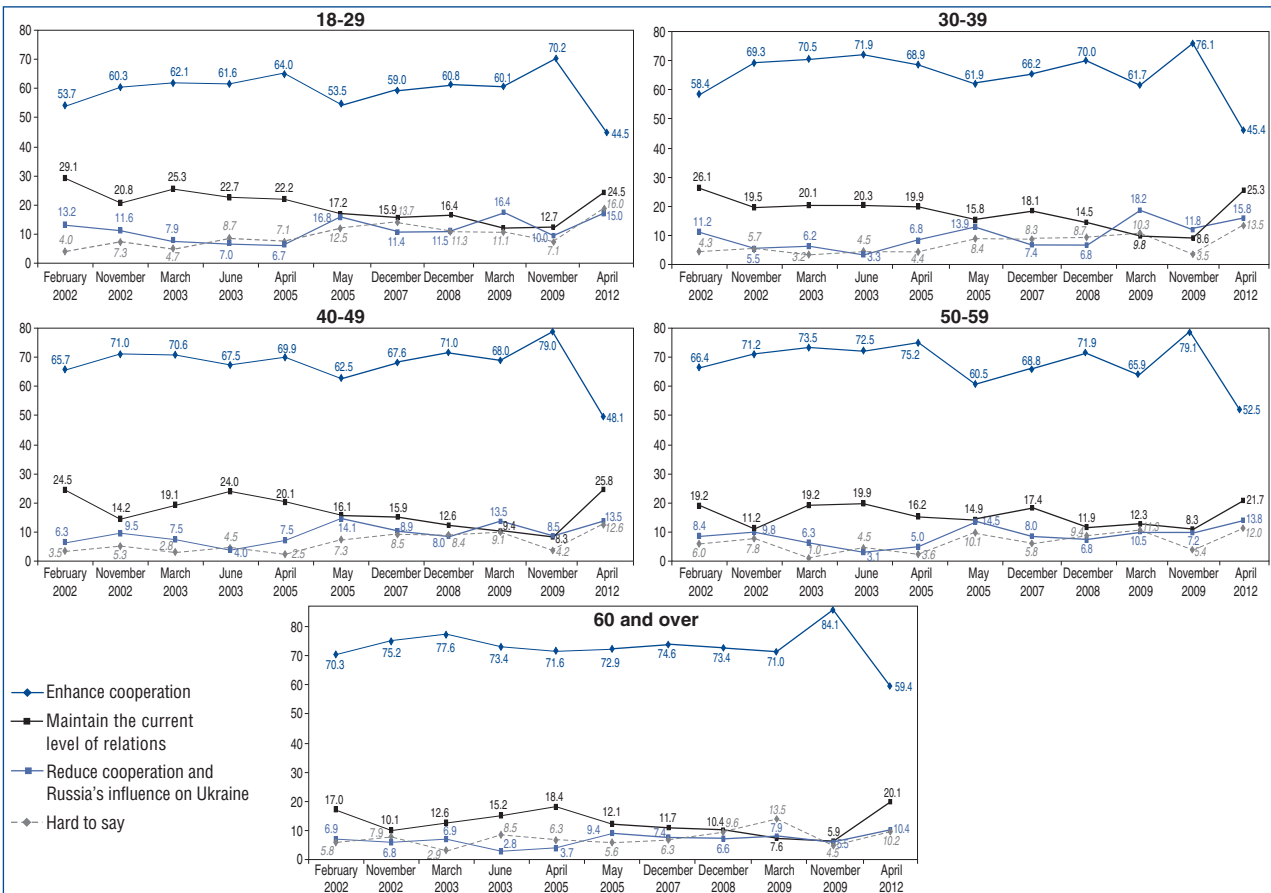
% of citizens polled



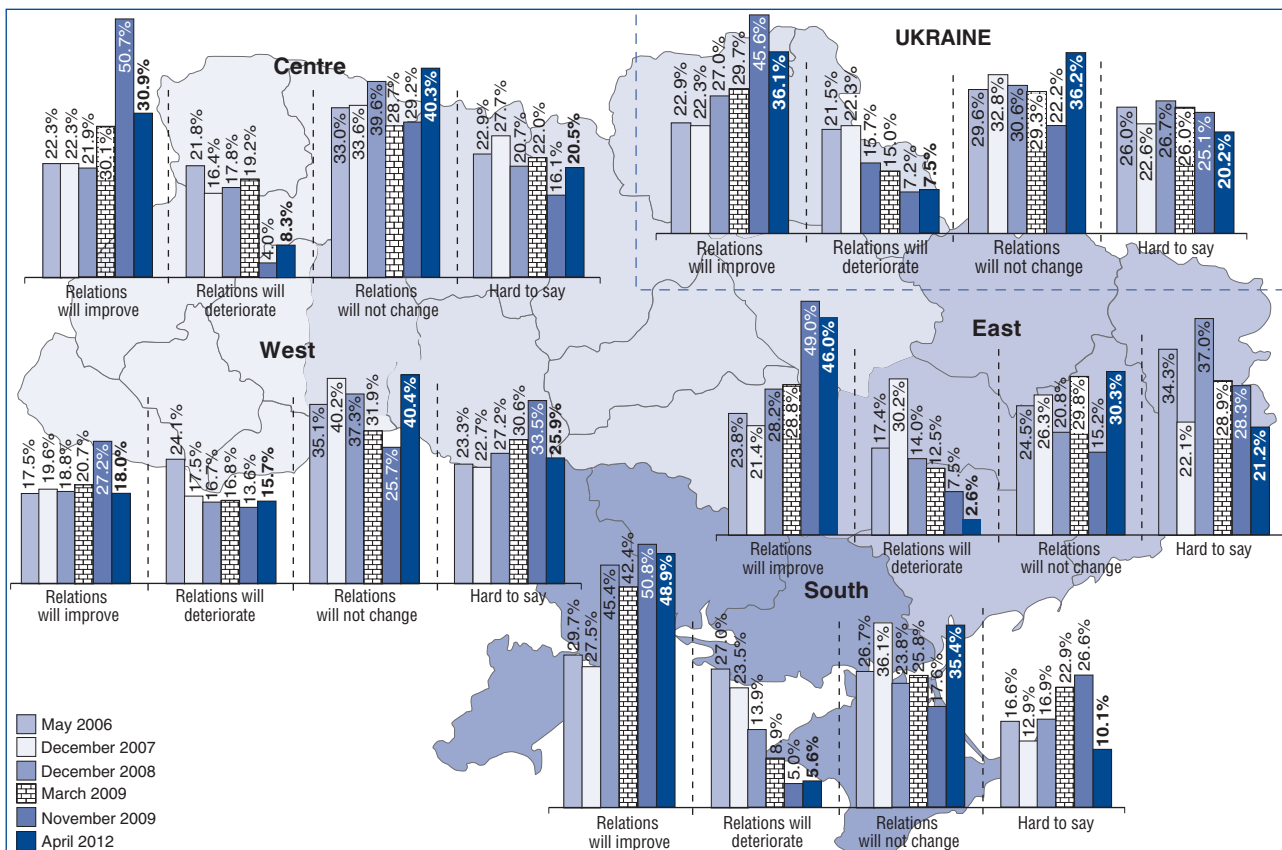
What should Ukraine's policy towards Russia look like?
% of citizens polled



What should Ukraine's policy towards Russia look like? % of citizen polled, by age

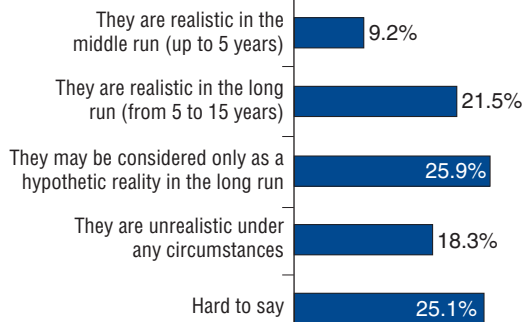


How would you assess the development of relations between Ukraine and Russia in the nearest future? % of citizens polled



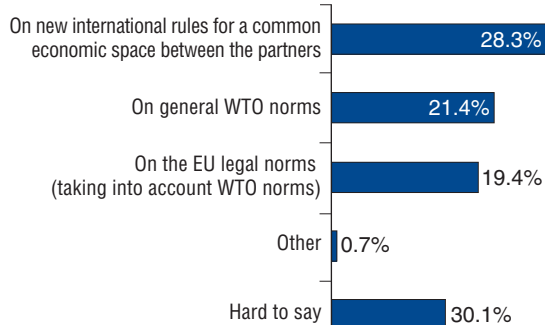
EU-UKRAINE-RUSSIA: PROBLEMS AND PROSPECTS OF REGIONAL INTEGRATION

How realistic are the prospects of building a common European economic space involving the EU, Ukraine and Russia? % of citizens polled



April 2012

On what basis should the economic relations in the EU-Ukraine-Russia triangle be built? % of citizens polled



April 2012

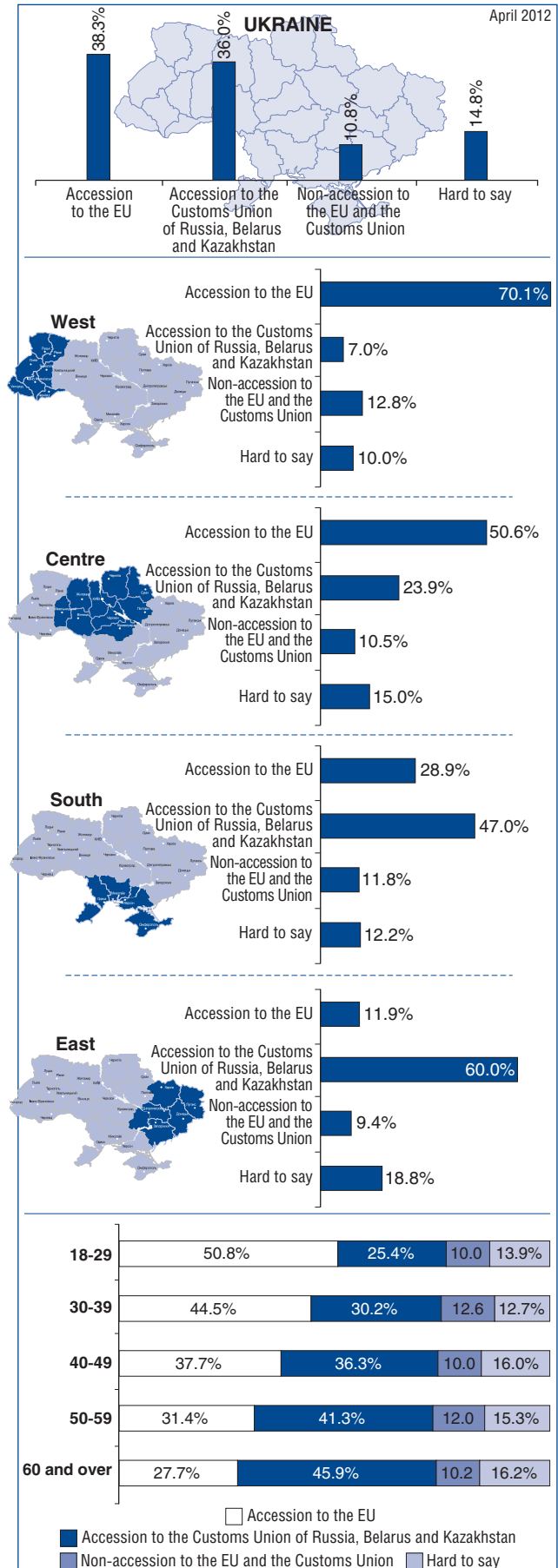
What are the major risks to building proper economic relations in the EU-Ukraine-Russia triangle?*



April 2012

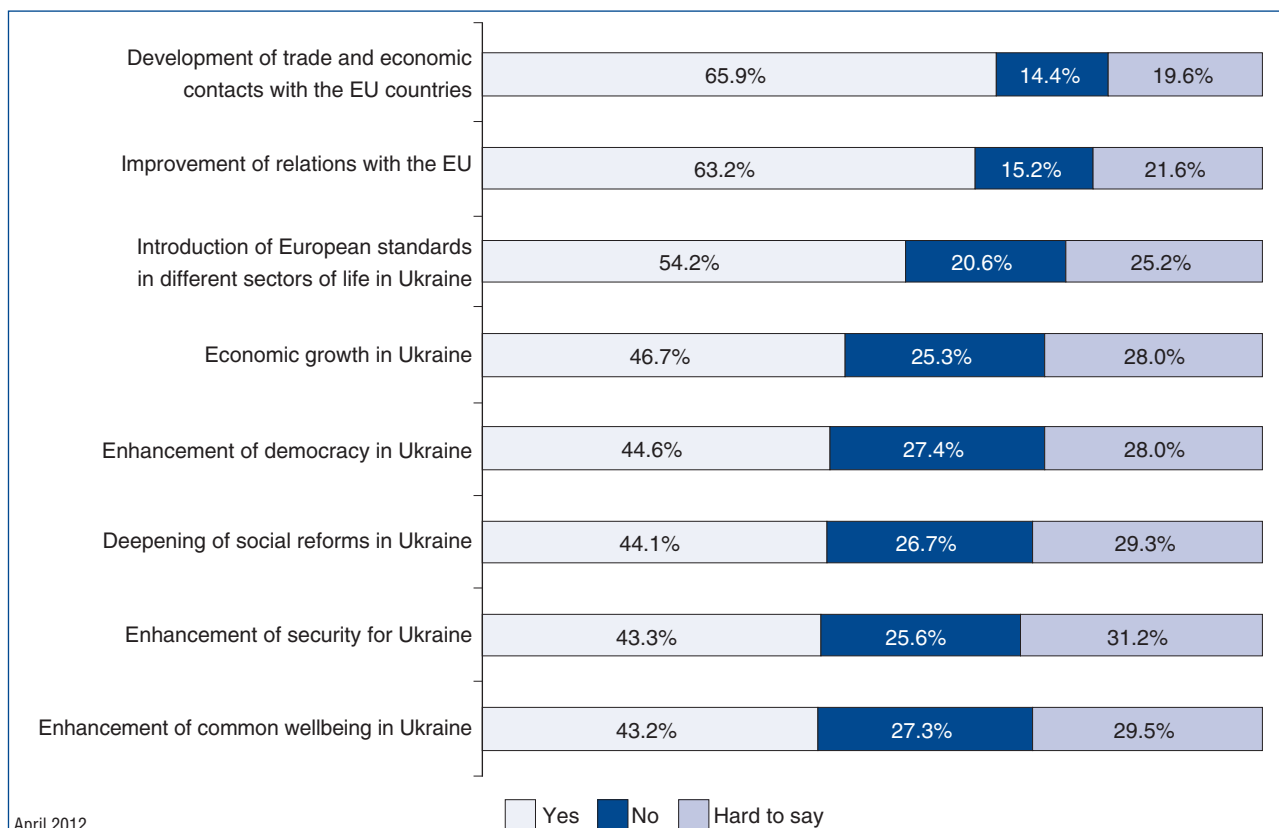
* Respondents were supposed to give no more than three acceptable answers.

Which integration path should Ukraine follow? % of citizens polled





What do you expect from conclusion of the Agreement of Association between Ukraine and the EU, including a deep and comprehensive free trade area?
% of citizens polled



What do you expect from Ukraine's accession to the Customs Union of Russia, Belarus and Kazakhstan?
% of citizens polled

