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Foreign Policy Insight

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Foreign Policy Strategies and Decisions

Russia-Ukraine-EU diplomatic front



Very few people remember that the first tri-lateral ministerial meeting in Ukraine-Russia-EU format on the implementation of the Ukraine-EU Association Agreement (hereinafter referred to as “AA”) was held in Brussels on July 11, 2014. During this meeting, it was decided to launch a mechanism for consultations focusing on technical regulations, standardization, customs administration, conformity assessment procedures, sanitary and phytosanitary measures, etc., related to the implementation of the AA. The Russian side had to provide a list of its “concerns” until November 20, and the experts committed themselves to prepare the preliminary report until September 1, 2014. Moreover, it was decided to hold the second ministerial meeting on September 12, 2014.

Russia has to present the list of its “concerns” until November 20, 2014

As planned, a trilateral ministerial meeting in the Ukraine — EU — Russia format was held in Brussels on Thursday, which was attended by the Minister of Foreign Affairs of Ukraine Pavlo Klimkin, EU Trade Commissioner Karel De Gucht and Minister of Economic Development of the Rus-

sian Federation Oleksiy Ulyukayev. However, its results turned out to be a complete surprise for experts and for Ukrainian society. According to the promulgated Joint Ministerial Statement on the implementation of the Association Agreement, the European Commission proposed “additional flexibility” to Ukraine. It covers the “suspension of provisional application of a deep and comprehensive free trade area (DCFTA) until 31 December 2015, while prolonging autonomous EU trade preferences for Ukraine”.

There may be different assessments as to this strange diplomatic formula, but one thing is obvious: Russia has managed to find compelling arguments for certain EU member states, which have been forced to change their position on establishing a free trade area with Ukraine on November 1, 2014, as announced earlier. Official Kyiv has nothing to do but to accept a coherent (probably agreed without participation of the Ukrainian side) position of negotiating partners.

Russia has forced certain EU member states to change their position regarding DCFTA with Ukraine

Moreover, phone conversation between Vladimir Putin and President of the European Commission Jose Manuel Barroso and Chancellor Angela Merkel on September 15 could be a proof of the fact that a scenario to suspend DCFTA until January 1, 2016 had been invented without Ukraine's participation. At the same time, information on Russia's intentions to "legalize" the agreements reached in Brussels suggests that Russia is trying to consolidate its victory and ensure itself against any risks in case of political changes in the Parliament and the Government of Ukraine after the elections.

Despite the economic costs and benefits from the Brussels decision, which have to be carefully investi-

gated, it becomes more obvious that the tendency to violate the Ukraine's sovereignty and increased Russian interference into internal affairs of 28 EU member states reach a threatening scale. In fact, Russian blocking of the 80% of the Association Agreement, concluded between 29 European countries (Ukraine and 28 EU member states), is nothing but a violation of one of the fundamental principles of public international law as regards to legal capacity of sovereign states to conclude international agreements.

The tendency of Russian interference into internal affairs of 28 EU member states reaches a threatening scale

Obama is mobilizing the world to isolate Russia

“The United States, NATO members and their partners are ready to mobilize all forces for Russia's isolation and support for Ukraine's independence and freedom”, — Barack Obama said in Baltimore on September 13, 2014. Moreover, he emphasized that Washington “is not only going to keep up with what is happening, but will continue to take action. Not only because Ukraine faces a threat to its national security, but also because USA have an intention to defend the fundamental international principles and norms.”

Analyzing the US position on the crisis in Ukraine, one can conclude that this is one of the most daring Obama's statements. Symbolically, it

was made a few days before the opening of the 69th session of the UN General Assembly and President Poroshenko's visit to USA. Over the next 7 — 8 days, it is planned that the President Poroshenko will meet the US President and other senior officials. In addition, Petro Poroshenko is going to speak at the Congress and the UN General Assembly. It will become more obvious what practical steps are expected to be taken by USA and the international community. At the same time, obtaining a major US ally status is a priority.

One of the priority tasks for Ukraine is obtaining of a US-ally status

11th YES Summit — finding new meanings

In 2004, on the eve of the Orange Revolution, in the historical Livadia Palace in Yalta, Viktor Pinchuk's initiative has been launched. It was aimed at preparation of the Yalta European Strategy — a document, according to which, Ukraine is expected to be a member of the EU until 2020. This initiative has received its own brand well known outside the country — the brand of annual meeting with the participation of heads of states and governments of Ukraine, the EU and other countries.

For the first time, for obvious reasons, such meeting was held not in Yalta, but in Kyiv. Despite the fact that it was attended by a great number of acting leaders of Ukraine and the EU, it is possible to boldly state that the idea has suffered a complete defeat. 10 years ago, at least optimists had hopes for significant progress in Ukraine's integration into the EU over the next 15 years. But now it is

YES idea has suffered a complete defeat

about Ukraine's survival as an independent and sovereign state and not about any tentative plans for further integration into the European Union.

As always, the agenda of the three-day summit covered the most pressing issues: geopolitics, global economy, war and peace, new technologies, energy, global security, the Association Agreement, decentralization etc. However, there was a lack of feeling that this event has been focused on addressing the most urgent problem of Ukraine — searching for a formula to end the war, which was initiated by Russia. At least, the organizers could provide a round table at the summit with the participation of authoritative representatives of Donbas. Participa-

tion of the governor Taruta can be considered as an attempt to put a tick in front of this issue, rather than trying to resolve it on the merits.

Despite the positive comments on the level of summit organisation and level of debates, it should be assumed that the fate of the next events depends on whether the organizers will be able to find a substitute for the idea that suffered a defeat. The Art Arsenal is losing against the Livadia Palace as a symbol. However, a new effective strategy for Ukraine's European integration is needed as much as air.

Ukraine needs a new Strategy of European integration

European integration. Ratification of the Ukraine-EU Association Agreement

On September 16, the Ukraine-EU Association Agreement has been finally ratified. Unity of People's Deputies of Ukraine is impressive: 355 votes "for", and simultaneously with the European Parliament. At first glance, one can relax, as a serial about the submission of the ratification package to the Verkhovna Rada has a happy ending.

However, there are "two flies in the ointment". First, a surprising number of MEP's votes "against" — 127, while 35 MEPs abstained from voting and 535 MEPs supported the ratification. Second, due to an unexpected and apparently collaborationist decision made in Brussels on September 12 to suspend the DCFTA until January 1, 2016, the ratification itself has become a sort of decoration.

At the same time, the adoption of the Verkhovna Rada's Resolution "On the statement of the Verkhovna Rada of Ukraine regarding the European choice of Ukraine" is a positive step. According to it, it has been declared that "having ratified the Ukraine-EU AA, Ukraine as the European state shares common values of democracy and rule of law, emphasizes its sovereign choice for future

Unexpectedly many MEPs voted against the ratification of the EU-Ukraine Association Agreement

membership in the European Union in accordance with Article 49 of the Treaty on European Union."

Considering the abovementioned facts, it is hoped that despite the DCFTA suspension, the new Parliament and Government of Ukraine will carry out systemic reforms in Ukraine in accordance with the Association Agreement.

On September 10, newly elected EC President Jean-Claude Juncker announced the distribution of powers among the members of his "office". The appointment of Johannes Hahn (Austria) to the position of Commissioner for Neighborhood Policy and Enlargement has become a surprise for everyone. It should be noted that the former EU Commissioner for Neighborhood Policy and Enlargement was a Czech diplomat Stefan Fuele — "a friend of all Presidents and Prime Ministers of Ukraine". The fact of preservation of the post of Commissioner for Enlargement and Neighbourhood Policy as part of the EC is quite positive for Ukraine, because its absence at all, as some analysts predicted, would mean a significant reduction of the EU commitment to Ukraine. However, the appointment of a representative of

Preservation of the position of EU Commissioner for Neighborhood Policy and Enlargement is a positive sign for Ukraine

the country, which traditionally takes up the most conservative position on Ukraine, does not inspire optimism. Expectations that the representative of Eastern Europe would keep this mandate mean that the EC will try to distance itself from Ukrainian affairs, trying to solve internal EU affairs. During a recent speech, Mr. Juncker stressed that the EU, in fact, has 29 mln of unemployed people. Energy, economy, climate change, deepening of Economic and Monetary unions are the priorities of the new European Commission. Moreover, he has not mentioned Russian aggression or the need to support Ukraine. Currently, Ukraine has the only true friend in EC — European Council President Donald Tusk. We can only wait for his first official statements and decisions at the new post.

EC will be trying to distance itself from Ukrainian affairs

On September 12, 2014, the European Union reluctantly introduced further sanctions against Russia. EU sanctions are targeted at three sectors: finances, energy and defence sectors. Under sanctions, Russian companies get limited access to the EU financial market, whereas EU citizens and legal entities are prohibited from making loans to the five largest Russia's state-owned banks, as well as supplying drilling equipment, dual-use technologies etc. In addition, 24 Russian officials and oligarchs close to Putin, as well as newly appointed heads of Donetsk People's Republic and Luhansk People's Republic and Crimea, have been added to the list of persons banned from entering EU countries. Thus, as of today, 119 persons have been banned from entering the EU and 23 Russian companies' assets have been frozen.

Energy Diplomacy

Russia's energy complex as Russia's weak point from the viewpoint of Russian imperialistic ambitions



According to the American analytical portal «Stratfor Global Intelligence», since September 08, 2014, the Russian state oil champion Rosneft has been experiencing great difficulties with financial liquidity after having been targeted by American and European sanctions. Stratfor Global Intelligence also informs that Rosneft has incurred general foreign indebtedness worth USD 40 bln, with USD 26,2 bln to be paid off by the end of 2015. Furthermore, USD 21,2 bln out of USD 26,2 bln should be paid off within the next seven months. It is noteworthy that the main suppliers of Rosneft, Russian oil giant, are American, European and Japanese companies, which have already made Rosneft aware of their refusal to let Rosneft delay the fulfilment of its financial obligations. As a result, Rosneft offered its Chinese partners the prepayment under the contract on the exploitation of Vancouver oil and gas field (China National Petroleum Corporation Ltd.). Under the preliminary Russian-Chinese agreements, Rosneft is to receive about USD 63 bln from China by the end of 2018.

But the Chinese corporation has turned down this offer. Rosneft, which became the main target of European and American sanctions, is on the verge of economic collapse. Under such circumstances, the Russian government had no choice but to provide direct financial support to Rosneft. Russian prime minister Dmitry Medvedev announced the allocation of USD 40,6 bln from the Russian Reserve fund to Rosneft. Thus, the Russian government actually has shared responsibility with Rosneft management for the enhancement of Rosneft financial protection.

Another valid argument to support the assumption on possible financial risks, which Moscow is trying to avert, is the contract with Tehran regarding grain exports in exchange for oil exports. On September 10, 2014, Moscow announced its readiness to supply grain worth USD 500 mln in exchange for oil. Many experts are wondering why Russia with its immense oil deposits and the status of the largest “black gold” exporter would need to purchase oil from other countries. The answer, however, is sim-

ple: Russia is seeking to buy up the surplus of hydrocarbons in global market through a barter transaction, which will allow for slowing down the fall in oil prices in global market. It is common knowledge that gas and oil revenues account for 2/3 of Russia's federal budget. Gas price for European partners is calculated under specific formula with oil price as a key element. Thus, the stability of energy prices in world market is one of Russia's vital national interests.

Russia is buying up the surplus of hydrocarbons to slow down the fall in oil prices in global market

At the beginning of 2000, American experts calculated the economic effect resulting from the drop in Bret oil price to USD 80 a barrel providing the situation remained unchanged within a year. According to their estimates, this will inevitably lead to economic stagnation and crisis in Russian economy. A similar tendency will be certainly accompanied by further critical growth of negative processes in social and political spheres. However, the rapid uncontrolled fall in energy prices is expected to cause the disbalance in global economy. Coupled with destabilization of socio-economic and political situation in Russia, which owns one of the largest nuclear arsenal, such fall in energy prices will have unpredictable negative impact at global level. Europe will also suffer from such a scenario. In general, a sharp drop in oil prices may directly damage American economic interests, as the extraction of shale oil and gas will not be lucrative for them anymore.

Uncontrolled drop in energy prices will lead to disbalance in world economy

Currently, the situation in global energy market is not favourable for Russia. First, Europe is now in "good energy shape" compared to the situation in 2009, when Gazprom cut off gas supplies to European countries. Europe prevented all possible risks

in winter 2014/2015 and filled up its natural gas storages. For this reason, Europe has a good chance of going through the next winter. Second, a number of energy-dependent European countries extended their gas contracts regarding the increase in the supply of hydrocarbons with such countries as Norway, Great Britain, the Netherlands etc. In this regard, Russia is facing the difficult task of managing the gas, which has not been sold to European clients, as now Russia will have to search for other rich clients to buy Russian overpriced hydrocarbons. In addition, as we pointed out earlier, there has been a gradual but steady fall in oil prices at global level. Thus, if Russian government expected to replenish the state coffers with oil prices at USD 110-115 a barrel, this week Brent put oil price at USD 96 a barrel, which may lead to Russia's budget deficit.

Thus, it may be concluded that Russia's energy complex remains its weak and vulnerable point in terms of Russian imperialistic ambitions. Oil and gas extraction technologies, drilling equipment, expert consultations, and logistics facilities are not produced and generated by Russia itself. Instead, oil and gas producers and refineries purchase technologies, equipment from American, European and Japanese companies. In view of this, European sanctions and trade restrictions imposed on Russian energy complex may curb Kremlin's destructive foreign policy.

However, we believe that international community should take into consideration the intensification of Russian-Chinese and Russian-Indian relations in energy sector. According to Russian President Vladimir Putin, Russia needs 3-4 years to diversify its energy flows in Asian direction. In case of the implementation of such a scenario, Europe will lose its leverage over Russia.

European sanctions against Russian energy complex may curb Kremlin's destructive foreign policy

Economic Diplomacy

Ukraine improved its position in the Global Competitiveness rankings

Ukraine improved its position in the Global Competitiveness rankings based on the Global Competitiveness Index of the World Economic Forum (WEF) by advancing from 84th place in the previous year to 76th place. The rankings are based on the results of surveying of 14 thousand heads of companies in 144 countries. The first three countries in the rankings are Switzerland, Singapore, and the United States. The last countries in the rankings are Yemen, Chad, and Guinea. Russia improved its position from 53rd to 64th place. The former Soviet republics have the following positions: Estonia — 29, Lithuania — 41, Latvia — 42, Kazakhstan — 50, Georgia — 69, Moldova — 82, Armenia — 85, Tajikistan — 91.

This year, Ukraine had 84th place among 148 countries. Ukraine's position went 11 positions down in the rankings due to bureaucracy and the absence of transparency of national structure.

The index is synthetic and incorporates 12 sector indexes. The best Ukraine's position was reported in the following sector indexes: market size (38th place), higher education (40), health care and schooling (43), infrastructure (68). The worst positions were in such sectors as the quality of infrastructure (130), financial market development (107), macroeconomic environment (105), business conditions (99),

According to the rankings, the most unfavourable factors for business in Ukraine are as follows (in a descending line): corruption, political instability, access to financing, frequent change of government, bureaucracy, inflation, tax rates, tax administration etc.

The rankings were made based on the 2013 statistics and opinion polls conducted among entrepreneurs at the beginning of 2014 prior to the annexation of Crimea and Russian aggression, as well as armed conflict in Ukraine's East. Accordingly, these factors may play a key role in making the rankings next year. The tensed geopolitical situation, to which events in Ukraine contributed largely, may have a great impact on global economy. In turn, the improvement of Ukraine's position compared to the last year is associated with the positive expectations of businesses at the beginning of the year as to the future effectiveness of markets and better functioning of market institutions, which was associated with the Maidan achievements and formation of a new government led by Arseniy Yatseniuk.

Significant improvement of Ukraine's position in the rankings in the future and the creation of a reliable foundation for stable economic growth is impossible without the implementation of comprehensive reforms, that is, significant improvement in the general institutional structure, the adoption of measures as to the lowering dominance over big companies in domestic market, better competitiveness in markets, and, thus, their effectiveness. The implementation of reforms and the reinforcement of financial markets will allow stabilization of the economy and better use of competitive advantages of Ukraine, including the high literacy rate and general market size, which is rather big in the European context.

The improvement of Ukraine's position is not possible without comprehensive reforms

The aim of the publication is to provide analysis of Ukraine's foreign policy in the context of global processes in the region and the world, as well as an overview of major world events that may have an impact on the further development of Ukraine and the region. Special attention is paid to the European integration of Ukraine, in particular implementation of Ukraine–EU Association Agreement.

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