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Foreign Policy Insight

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Foreign Policy Strategies and Decisions

Alarming signals from Strasbourg and Geneva



During the week, autumn sessions of parliamentary assemblies of the two most reputable organizations in the sphere of human rights, democracy and security — Council of Europe and OSCE — took place. Both organizations dealt with the situation in Ukraine as one of the key topics. Both organizations did not adopt any decision or document on Ukraine. However, the tone and contents of debates within those two organizations are somewhat alarming.

“Fatigue from the Ukraine crisis” and “we should come to terms with Putin” are the thoughts of many in Strasbourg. The number of those who criticised Russia at sessions and those who “defended” Russia was almost equal. Many MPs who are traditionally supportive of Moscow, and not only from left-wing parties, call for the return of the Russian delegation to PACE.

PACE President Ms Anne Brasseur decided to hold non-public negotiations on Ukraine and Russia in January, whereas the head of the key PACE body — Monitoring Committee — Stefan Snenakh came out against sanctions.

Many MPs come out in favour of the renewal of Russian delegation's voting rights at PACE

Instead, the activities of Ukrainian parliamentary delegation, whose mission was to work with representatives of other states, were rather ambiguous. MPs Symonenko and Popescu was actually agitating for Russia. Iryna Gerashchenko did not turn up for the session altogether, though her speech was on the agenda. As a result, Soboliev, Aryev, and Dzhemilev spoke not only for themselves, but also for their missing colleague.

In Geneva, the situation was somewhat differ-

ent. In line with a traditional tough American position, the US representative for OSCEPA Michael Taylor accused Russia of violating the cease-fire regime, which had been agreed on within the trilateral contact group. When talking about diplomatic instruments for the resolution of the Ukraine crisis, OSCEPA President Ilkka Kanerva insisted that the OSCE mission should be expanded to 500 persons and its resources be enhanced to ensure the proper monitoring of the implementation of the so-called Minsk agreements. However, it was not mentioned that some of key positions in the Mission were held by representatives of the interested party — Russia.

A number of key positions in OSCE Mission to Ukraine are held by Russia's advocates

Instead, the speech of the High Commissioner on National Minorities of the OSCE Astrid Thors came as a surprise. In her opinion, “there is no doubt that the lack of agreement on the status of the Ukrainian and Russian languages, as well as different interpretation of Ukrainian history, only deepened the crisis”.

The course of debates in Strasbourg and Geneva indicates that the window of opportunities, which was opened for Ukraine after the victorious Ukrainian revolution, is slowly narrowing. It is quite obvious that the stagnation of the situation in Donbas,

and in Ukraine in general, is changing the attitude of Europeans to the Ukraine crisis. There is a very short time distance between sympathies and admiration for Ukrainian people's courage and irritation and lack of understanding of what is going on. In order to prevent the diplomatic rollback in the form of Russian delegation regaining its voting rights at the PACE, and OSCE debates veering from comprehensive crisis resolution to “national minorities' status in Ukraine” hassle, immediate measures should be taken.

The window of opportunities, opened after Euromaidan, is slowly narrowing

- Firstly, to prevent the break in the activities of national PACE and OSCE delegations' members regarding Ukrainian elections;
- Secondly, to establish the practice of permanent invitation of PACE representatives to Ukraine with the aim of familiarizing them with the situation on the ground, which is the case with OSCE;
- Thirdly, to enhance diplomatic missions of Ukraine in Strasbourg and Wien, as it is Ukraine's diplomatic efforts at the PACE and OSCE levels that determine the effectiveness of plenary sessions of parliamentary assemblies of these international organizations.

Ukraine — Germany: deeds speak louder than words

Against a background of the so-called “Russian humanitarian convoys”, Germany demonstrated how partners should help each other. Germany sent to Ukraine 112 trucks with the product range having been previously agreed on. Winter clothing, construction materials, household equipment, blankets, and many other things needed in winter time are due to arrive soon to Donetsk and Luhansk regions. The trucks with humanitarian aid will be accompanied by German State Secretary of German Ministry for economic cooperation and development Hans-Joachim Fuchtel. The humanitarian aid is to be received by State Emergency Service of Ukraine.

During a phone conversation with Angela Merkel, Ukrainian President Petro Poroshenko

expressed his gratitude for German humanitarian aid. At the same time, the two leaders express their concern over the “absence of progress on Minsk agreements”.

Since the start of Russian intervention in Eastern Ukraine, this is the first case of effective humanitarian aid. In view of the upcoming winter, the primary task is to meet basic demands of Donbas residents, who suffered greatly as a result of shelling. We can expect the enhancement of diplomatic efforts of Ukraine aimed at the more intensified cooperation with traditional partners capable of providing significant humanitarian aid.

Germany demonstrated effective humanitarian aid

European policy: Russia is no longer EU's partner

“Russia is no longer EU's strategic partner, but it remains a strategic player in the regional and global challenges”, — said Federica Mogherini, EU's foreign policy chief in the European Parliament. In fact, this is her first public statement on Russia's actions and their repercussions. The attitude of international community to Russia indicates that fears expressed by many sceptics

Mogherini adheres to the principle of supremacy of European interests over national ones

regarding pro-Russian Mogherini were groundless. EU tradition, according to which newly appointed public officials pledge adherence to the supremacy of European principles over national ones, once again proves its viability.

At the same time, it should be stressed that Ms Mogherini is disposed to continuous cooperation with Ukrainian government as regards the implementation of systemic reforms, as well as reaching not military but political resolution of the Ukraine crisis.

There will be no Maidan in Hong Kong

After the exchange of ultimatums, the protest movement leaders agreed with Hong Kong administration on political dialogue. As a result, only a few hundreds of protesters remained on the streets. This happened despite the fact that over the last few days, protesters have enjoyed international community's support; in particular, there was a mass demonstration in Taiwan's capital, which saw 4 thousand people take to the streets, and hundreds of protesters gathered near Chinese embassies in many European capitals.

Despite the fact that the biggest mass demonstrations since the return of Hong Kong to Chi-

nese rule failed to yield any significant results, they became a warning signal for Beijing. In the epoch of the Internet and modern technologies, it is becoming harder to keep the society in control without real democracy. In view of this, it can be concluded that China is to be faced up with another wave of political reforms, aimed at satisfying public demand for democracy on the one hand, and preservation of the Communist Party's monopoly of peace and stability in the country, on the other.

China is expecting a new wave of political reforms

Energy Diplomacy

Russia is working out the scenario for further drop in energy prices



There is a growing decrease in world oil prices. On October 2, Brent oil futures dropped to USD 92.02, while American WTI futures plunged to USD 88.74 a barrel.

There are a number of reasons for oil price reduction in the global market. They should be analyzed comprehensively:

- Firstly, the increase in oil extraction by exporting countries (Iraq and Nigeria increase export; Libya increased oil extraction up to 800, 000 barrels a day; Iran announced its intentions to start the stock market trade in an amount of 100, 000 barrels a day);
- Secondly, the reduction in trade activity at global level points to muted oil demand (World Trade Organization lowered forecast for world trade growth in 2015 from 5,3% до 4%);
- Thirdly, the absence of oil deficit in global market (oil traders say that the volumes of accumulated oil reached 50 mln barrels. This is almost one half of daily norm in the oil futures market, which is sufficient enough to ensure

functioning of the entire American economy for two days);

- Fourth, political protests in Hong Kong may lead to lower production performance of the world's second largest consumer of oil;
- Fifth, the tensions in financial markets triggered by information on selling the world's largest oil company assets of Rockefeller Brothers Foundation, which made money in oil trade. Currently, the company announced its decision to exit the oil market to start investing in renewable energy.

Thus, resources supply for the global market is not of concern, oil supply and demand evidence in favor of price cutting.

The current drop in oil prices is painfully reflected in Russia's economy. The budget of the Russian Federation for 2014-2016 assumes a price of USD 101-93. Every dollar in the price of oil per barrel is equal to USD 2 bln in

Decline in oil prices is painfully reflected in Russia's economy

the budget of the Russian Federation. Thus, mathematics is quite simple: if the oil prices drop will be by an average of USD 6 within the year, the Russian budget, which consists of 65% of oil profits, loses USD 12 bln. In this situation, Putin's ambitious statements on Russian army re-equipment by 80% within the next four years seem to be hardly probable. Although, it is possible that the Russian government will curtail the social programs in order to reach the goal of the Russian army over-armament under difficult financial conditions. It should be noted that in September 2014, the Russia's Central Bank presented the project of Russia's monetary and credit policy for 2015-2017 and described three global oil market scenarios loyal to the state's economy (decline in oil prices from USD 104 to 86). However, according to Russian mass media, currently, the Central Bank is considering the fourth scenario of actions in case of world prices drop to USD 60/barrel).

At the International Investment Forum «Russia Calling» held on October 2, the President Vladimir Putin called on foreign companies to invest in the Russian economy, promising that the foreign investors would get the right to privatize the energy facilities of the Russian Federation in the near future. Such a “generosity” of the Kremlin's leader testifies the effectiveness of sanctions and attempts of the Russian government to mitigate their effect on the national economy.

On September 29, the leaders of Russia, Kazakhstan, Azerbaijan, Turkmenistan and Iran attended the Caspian summit held in Astrakhan. One can assume that a tactical goal of the Kremlin's participation was in specifying the Russian national interests regarding the construction of Trans Anatolian (TANAP) and Trans Adriatic (TAP) gas

pipelines, participation of the Russian capital and state-owned energy companies in these projects etc. At the same time, agreements on oil and gas issues have not been reached. It means that Russia failed to reach a consensus with its main partners. Instead, the decisions on demarcation of watershed and subsoil areas etc. have been made.

Meanwhile, the imposed US and EU sanctions significantly affect the Russian economy. According to Fitch, the number of IT companies ready to exit the Russian market has increased. The Medvedev's government has to credit “Rosneft” and “Naftogaz” that will result in reduction of gold and exchange reserves. Russian oil production is being reduced without western deep drilling technologies. All these factors are risky for the Russian budget. In addition, the EU has taken a decisive stance on diversification of gas flows in the long term, having officially launched a construction of the “Southern Gas Corridor” on delivering Caspian hydrocarbons. Norway also announced its technical capabilities to increase natural gas supplies to Europe.

Amid complications in Russia's energy complex, the president Vladimir Putin strengthens internal positions in the oil and gas sector of the country. Thus, the state company “Rosneft” purchased 20% of the national oil consortium from “Lukoil”, which is involved in the development of Junin-6 field in Venezuela. At the same time, there is a coalition of Putin's skeptics being formed among the business elite and political establishment of Russia.

It is about the speech of the Head of “Sberbank of Russia” Herman Gref at the Investment Forum on October 2, 2014, which criticized monetary and fiscal policies of the Putin's team. This demonstrates the “heterogeneity” and conflicts in immediate environment of the Kremlin's leader.

The Russian government attempts to mitigate sanctions against the state's economy

There is a coalition of Putin's sceptics being formed among the Russian establishment

Economic Diplomacy

Steel use in Ukraine is expected to be reduced



The World Steel Association (Worldsteel), which includes about 170 metal manufacturers (including 9 of 10 largest companies in the world), national and regional industrial associations and research institutes, forecasts that steel use in Ukraine will be reduced by 19% compared with 2013 — up to 4.5 mln tons. Decline in steel use in Ukraine this year will be caused by a conflict in eastern part of the country, which affects business activity.

In 2015, assuming a stabilisation of the political situation in Ukraine, domestic steel market is expected to grow by 9%, to 4.9 million tons.

It should be noted that the situation in Ukraine has a negative impact on the overall picture of steel use in the CIS countries. As a result, in 2014, the steel use in CIS will decline by 3.8% — to 56.9

mln tons. In 2013, the steel use were growing by 2.8% — up to 59 mln tons. It is expected that CIS steel demand will grow by 1.9% — up to 58 thousand tons.

Situation in Ukraine has negatively affected the steel use in CIS countries

In Russia, steel use downtrend in economy's sectors has been observed in the second half of 2013. In 2014, this trend remained due to reduction of infrastructure investments as a result of geopolitical tensions.

World steel use in 2014 is expected to increase by 2% compared with 2013 — up to 1.562 bln tons. According to Worldsteel forecast, in 2015, the steel use will grow by 2% — up to 1.594 bln tons.

In 2013, the world steel use has grown by 3.8% compared with 2012 — up to 1.531 bln tons.

Ukraine has successfully passed dairy product quality testing

The State Veterinary and Phytosanitary Service of Ukraine announced the successful completion of the European Union mission on Ukrainian dairy product quality testing. The next stage to be passed by the Ukrainian side is work on the adoption of the final mission report and adding Ukraine to the list of countries that are allowed to export milk and dairy products to the EU.

In order to expand exports to the European countries, amendments to the national legislation in Ukraine were made. It made it possible to open the European market for producers of fish, poultry meat and milk powder.

Specialists mission of the DG SANCO's Food and Veterinary Office of the European Commission arrived to Ukraine to inspect the control system in the dairy industry in late September. Further similar missions on production of pork and beef was expected to be launched.

In September, the law on the harmonization of legislation on safety and food quality accord-

ing to EU standards has been adopted in Ukraine. The law on compulsory identification and registration of cattle in accordance with EU legislation was also adopted. These regulations were adopted in order to open the European market for the Ukrainian producers of dairy products.

Ukraine
successfully
diversifies the
markets of dairy
products

At the same time, Russia restricts the import of milk and milk products from Ukraine in late July. Previously, dairy products were under various Russian restrictions. The main claim is the quality of Ukrainian products. "Rosselkhoznadzor" has been detecting various violations during laboratory control of Ukrainian products over the past several years (microbial contamination, residues of antibiotics).

Ukrainian dairy products quality assurance and the expected opening of the European market will make Ukrainian dairy producers less dependent on supplies to the Russian market.

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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