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## Politics vs Economics

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# TO BUILD A FOREIGN POLICY CAPABLE OF DEVELOPING

*Interview with Hanna Hopko, MP, Head of the Committee on Foreign Affairs of the Parliament of Ukraine*

## **What are the key problems of the further European integration of Ukraine?**

It is critically important to establish a single governmental coordination unit responsible for Ukraine's further move to Europe. It could be, for example, an office of a vice-Prime Minister for Eurointegration — this idea has been discussed in Kyiv for quite a while already — keeping in touch with all ministries and offices responsible for the implementation of European norms, standards, and regulations.

In Poland they had a vice Prime Minister and an office of about four hundred people. We may well use this experience to carry out sectoral reforms, adapt legislature, and elaborate free trade regulations and all other norms necessary to get closer to Europe. We have seen how slowly things were moving regarding a visa-free regime for Ukraine. Politicians promised its delivery on several occasions, namely in February and May of 2015. As a result, people's expectations were exaggerated, and when a positive report by the European Commission on Ukraine's progress towards the visa-free regime was released in December, it was received sceptically by many. The European Commission's positive signal was largely misperceived by Ukrainians due to their inadequate expectations generated by earlier promises of Ukrainian officials.

It is also extremely important to achieve political stabilization in the country. It is a tough challenge for Ukrainian political

establishment, whether we call it “elite” or not, as some would argue. Stability and predictability should become precursors for economic recovery. The implementation of a free trade area agreement between Ukraine and the EU will become a certain test for Ukrainian institutions' capabilities to enhance national interests, boost exports, and strengthen the specific branches of economy. In 2015, we witnessed a certain drop in Ukrainian export not only to the EU, but also to Asia, Africa, and other directions due to overall economic problems.



***It is critically important to establish a single governmental coordination unit responsible for Ukraine's further move to Europe***

Economic recovery, increased military effectiveness, and overall state efficiency should be kept in focus while moving further on our way to the European Union.

## **Should the role of the Parliament in developing and carrying out the foreign policy of Ukraine be increased?**

Already in February 2015, the Committee on Foreign Affairs prepared a draft law, which could amend Article 13 of the current Law on Diplomatic Service, allowing preliminary consultations with the Parliamentary Committee regarding the appointment of ambassadors. I am stressing that such consultations would

have an advisory function only, so that no one suggests that the Parliament is targeting the powers of any other state institutions. What the Committee had in mind is sharing responsibility. This is common practice. Take a look at the Baltic States or the USA, where the Senate plays an exceptionally important role in appointing ambassadors. Unfortunately, the draft has not been supported by the Parliament, although the Rada is responsible for overall control over foreign affairs, as well as for elaborating foreign policy in general. It is critically important that we work together as a national team, coordinating our efforts with the President, the Ministry of Foreign Affairs, and the Administration of the President in what concerns resistance to Russia's aggression, contributing to trans-Atlantic unity in assisting Ukraine to overcome the consequences of the crisis in the East and further economic recovery.

The Parliament is also a place where important draft laws on issues of foreign policy and national security are being prepared. They also touch on aspects of international security. Our Committee has initiated several meetings on reforming security and defence, especially after attending The Marshall Center in Garmisch-Partenkirchen, focusing on cooperation with NATO. After the Parliament cancelled the non-block status of Ukraine, getting closer to NATO standards and criteria has become an important priority in reforms of security sector. Our Committee has launched series of consultations with Parliamentary Committee on European Integration and Parliamentary Committee on National Security and Defence focusing on these reforms. We also have a very active parliamentary delegation to NATO, headed by the first deputy head of the Committee, Ivanna Klympush-Tsintsadze.

This year, it was the Parliament lobbying for increased financing for the Ministry of Foreign Affairs. What the Ministry has been

offered so far was more a survival budget unsuitable for development.

Along with the ratification of basic international treaties in military, scientific, and technological cooperation, the Parliament speeded up the ratification of other international documents, say, the treaty on protection of investments with Japan. Another very important initiative, supported by the Parliament, was Horizon 2020 project — one of the EU scientific projects, aimed at enhancing academic exchange, innovations, and educational cooperation. Our Committee initiated Parliamentary discussions of the strategy for protecting national interests in what concerns resisting acts of aggression, the annexation of the Crimean Autonomous Republic, and other crimes committed by Russia against Ukraine. When the lack of clear vision was evident in what concerned protecting national interests, namely in pursuing international lawsuits against Russia for the annexation of the Crimea, we initiated wide discussions on these issues. We also paid special attention to mechanisms and ways to control the effectiveness of transparency in using international assistance to Ukraine. Each time we ratify agreements concerning these issues, we have to understand that the ways these funds are used are influencing the international reputation of Ukraine. Starting from April, we have paid special attention to these issues.

Another important question we raised jointly with the Parliamentary Committee on Industrial Policy and Entrepreneurship concerns the “economization” of foreign policy. Increasing Ukrainian export is important, while in many of Ukraine's trade missions there is lack of staff and there is no strategy for promoting Ukrainian export. We need a more professional approach to assessing trade agreements, free trade areas, and the development of closer economic cooperation worldwide. Special

attention should be paid to promising partners, e.g. China and Turkey, as well as to perspective Ukrainian industries: food, construction, and military.

We have also created a Civil Board of the Committee, encompassing representatives of the country's most prominent think-tanks, NGOs, and expert groups. It is actively involved with the efforts to reform Ukrainian diplomatic service, enabled by the recent Law on State Service, which will come into force on May 1, 2016. We do hope that certain analytical pressure from civil society will speed up the efforts of the Ministry of Foreign Affairs to present its vision of reforms in the diplomatic service of Ukraine as well.

**We usually speak about coordination between ministries of defence or ministries of foreign affairs when analysing cooperation between states. How important is inter-parliamentary cooperation today?**

To a certain extent, we have witnessed a renaissance of the parliamentary diplomacy during the recent year. We have changed the criteria for selecting the heads of "groups of friendship", as well as the heads of parliamentary assemblies, with the knowledge of foreign language becoming one of the prerequisites. A number of successful resolutions passed by OSCE and Parliamentary Assembly of the Council of Europe indicated that Ukrainian MPs are not just international tourists, but effective advocates of national interests worldwide.

The Parliament is playing an increasingly important role in foreign policy by strengthening Ukraine's diplomatic "fortifications". In 2015, 68 inter-parliamentary "friendship groups" were established. The Members of parliament are taking an active part in parliamentary



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***The Parliament is playing an increasingly important role in foreign policy by strengthening Ukraine's diplomatic "fortifications"***

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diplomacy: they exchange visits with their foreign counterparts, participate in parliamentary assemblies of NATO, OSCE, the Council of Europe, and other international organizations.

On the other hand, more efforts should be put into building a stronger Ukrainian position at major international security forums, like the recent one in Halifax, Canada. These should be used to raise the issues of rebuilding Ukraine's territorial integrity, as well as to broadly discuss the problems of damaged international security architecture. It is important to cooperate with various ministries and institutions inside Ukraine on these issues as well. It is becoming evident that there is a problem of coordination in the sphere of security and foreign policy in Ukraine. Our Committee, for instance, is working together with the World Congress of Ukrainians as well as Ministry of Defence of Ukraine to monitor carrying out of a bilateral Ukrainian-Canadian Defence Agreement. We believe it is very important to communicate with our international partners, to be transparent, and to inform them as fully as possible how decisions are taken within Ukraine as well.

**What is more important in today's international relations — politics, security or economy?**

Well, it is close to asking what is more important for a human body — a brain, a heart or lungs. In both cases there is a huge interconnection. Politics, security, and economy are influencing each other and define the general framework for state development.

The world is watching Ukraine, as Joseph Biden put it during his recent visit to Kyiv. Not only Ukrainians in Ukraine and all over the world, but also many other people are wondering whether Ukraine will become an example of a complex transformation, encompassing economic, political, and security dimensions. The issues of politics and security are highly interconnected in the East of Ukraine, which is suffering from the Russian aggression. The assistance from the international community in dealing with the consequences of the crisis is also designed in a way that reflects interconnection between the various aspects of security in a modern world. Many states offer help to Ukraine, some of them, like Japan, for instance, clearly understanding that breaches of the international law and revisionism from Russia are vital threats. Not only security and politics are influencing each other, but also events and processes in distant parts of the world can generate far-reaching consequences.

I would say that various elements and dimensions of security are interconnected in a modern world. One cannot be safe only economically or just politically. Security encompasses numerous dimensions and elements. That is why it is sometimes so hard to achieve.

### **What are the main achievements and mistakes in Ukraine's foreign policy in 2015?**

Ukrainian foreign policy has to be more active, innovative, and creative. We need to use all opportunities offered by the modern means of communication to deliver a positive image of Ukraine to the world. Ukraine is a country with rich cultural traditions and a long history. It is a European country with European people, paying a high price for the crimes of corrupted elites and willing to live according to European values.

Among the main achievements of Ukrainian foreign policy in 2015, first of all, the European Commission positive report on the visa-free regime should be mentioned. It is a good signal for business and society. However, it also means additional responsibilities. We have to prove that recently passed anticorruption laws are not just on paper, that they are real instruments for preventing and fighting corruption in the country. We have to provide enough money for anti-corruption institutions in the state budget for 2016.

In 2016-2017 Ukraine will be a non-permanent member of the UN Security Council, which is also an important achievement of our diplomacy. In the Security Council Ukraine will concentrate on protecting its sovereignty and territorial integrity, investigating the tragedy with the flight MH-17, and ways of reforming the UN and the Security Council.

Also, in 2015 a number of resolutions were passed by international organizations calling for Russia to withdraw its troops from Ukraine, condemning annexation of the Crimea, and expressing support for Ukraine.

It is important for us to keep the trust of the international community. There were many issues important for Ukraine in 2015, when international support turned out to be stronger than the actual Ukrainian participation. We have to be more effective in lobbying and using international forums for enhancing our interests.

Extremely high expectations in the realms of foreign policy and security were among Ukraine's weak points in the recent couple of years. For instance, we expected — often publicly — a visa-free regime at the Riga Summit, which was certainly too early. Sometimes we do not have an effective planning of activities and lack coordination among various institutions.

With regard to reforming the security and defense sector — one of the most important ones today — we still lack cooperation between ministries. The same is true about cultural diplomacy and economic aspects of foreign policy: Ministry of Foreign Affairs keeps pulling the blanket with Ministry of Culture and Ministry of Economy, in both cases having no clear strategy of dealing with urgent issues.

There are also problems with staff. In many countries, there are still no appointed ambassadors, and having ambassadors in some of these countries is really crucial. On one hand, Eurointegration, keeping Euro-Atlantic unity and broadening international coalition to contain Putin's aggression are important. But on the other hand, enhancing relations with our neighbors has always been a top priority. Focusing on Poland, Hungary, Slovakia, the Baltic



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***We also have to be more sustainable and to build a foreign policy capable of developing regional cooperation in vital spheres***

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States, Belarus is important. At the same time, there is no Ukrainian ambassador in Minsk, a city that has become one of the peacemaking capitals for Ukraine in the context of the Minsk process. The same is true about Hungary, taking into account Hungarian minorities in Transcarpathia. We also have to think of avoiding a “fatigue scenario”, when the world could just be tired of bad news from Ukraine.

We have to be more active in key regions. We also have to be more sustainable and to build a foreign policy capable of developing regional cooperation in vital spheres.

# AT THE RIGHT TIME IN THE RIGHT SHAPE

Amb., Dr. Andri Veselovsky

*The article describes the relations between the European Community and Ukraine since 1994 when the Partnership and Cooperation Agreement was signed, analyzing the factors of time, when this cooperation has been developed, and personalities involved in both the EU and Ukraine. The article is based on the personal observations of the author who served both as a Deputy Minister of Foreign Affairs of Ukraine (2005-2008) and as the Permanent Representative of Ukraine to the EU (2008-2010)*

The formal rapprochement of Ukraine to the European Union started in 1994. The Partnership and Cooperation Agreement (PCA) was signed<sup>1</sup>, which took effect only on 01.03.1998 due to the long process of the ratification by the EU Member States. On the eve of the occasion, it was declared by the Ukrainian side that “the perspective goal of Ukrainian foreign policy is the membership in the European Communities...” These words matched fully with the earlier expressed national strategic goal “to assure integration of Ukraine into the European political, economic, legal space in order to acquire the membership in the European Union”<sup>2</sup>. Initially the goal was announced in the Resolution of the Verkhovna Rada (Parliament) of Ukraine “On the main directions of the external policy of Ukraine” as early as July 1993. Moreover, the first ever tentative announcement of being interested in joining the future EU could be found in the para X (International relations) of the Declaration on State sovereignty of Ukraine<sup>3</sup>, a year before the Independence of Ukraine.

Still, Ukraine is not a member neither a candidate to the EU, and the Association Agreement signed in June 2014 does not include any hints or provisions of the possibility. Few took notice of a vague formula pronounced at the ceremony by the President of the European Commission J. M. Barroso “We are well aware of our partners’ aspirations to go further; and we acknowledge their European choice. As we have stated before, these agreements do not constitute the endpoint of the EU’s cooperation with its partners. Quite the opposite. Signing these Association Agreements with Deep and Comprehensive Free Trade Areas should not be seen as the end of the road, but as the beginning of a journey on which the European Union and these three partner countries are embarking together today.”<sup>4</sup> Answering him from the Ukrainian side President P. Poroshenko did go much further. “During today’s signing ceremony I’d like to make a unilateral statement — when signing the Agreement on Association with the EU

<sup>1</sup> Partnership And Co-Operation Agreement Between The European Communities And Their Member States, And Ukraine, 1994 [http://trade.ec.europa.eu/doclib/docs/2003/october/tradoc\\_111612.pdf](http://trade.ec.europa.eu/doclib/docs/2003/october/tradoc_111612.pdf)

<sup>2</sup> Закон України «Про засади внутрішньої і зовнішньої політики» (Відомості Верховної Ради України (ВВР), 2010, № 40, ст.527) <http://zakon5.rada.gov.ua/laws/show/2411-17>

<sup>3</sup> Декларація про державний суверенітет України / Верховна Рада УРСР; Декларація від 16.07.1990 № 55-XII.

<sup>4</sup> Three partners meant Georgia, Moldova, Ukraine.

Ukraine, as a European Nation, sharing the same values as a rule of law and freedom, stressing on the future membership of Ukraine in the EU. The Association Agreement is but a tool to prepare us for the future accession”.

Why is it that 25 years after declaring the goal, Ukraine remains at the same starting point of a neighbour? Why even in 2014, after the annexation of Crimea and Russian aggression in Donbas the most “pro-Ukrainian” ever commissioner Stefan Füle had to announce dryly that the “Association Agreement is an agreement about reforms. It is a proposal of the way, how the EU partners can get closer to the EU and become a part of the EU in an economic sense — after implementing a considerable part of the EU’s know-how”.<sup>5</sup> What are the reasons for the EU frugidity towards Ukraine if not repulsion?

Many answers have been given and many have been extensive. The simple one would be as follows: Ukraine never applied to the EU. Some Ukrainians say they could submit a formal application, but it would be rejected according to the Copenhagen criteria of 1993 (we come to this subject below), and they knew that. That is why the Ukrainian case was not on the table of the historic December 1997 European Council in Luxembourg, which adopted the main lines of the Central Eastern Europe + Cyprus enlargement<sup>6</sup>. Still the answer is not fully fair. The real problem was to take a bold decision and to convert it into a policy, in spite of the rejections. Neither Bulgaria nor Romania were officially subjects of the December 1997 Council, and their fate was decided two years later in Helsinki. Similarly, Ukraine could study

properly the Luxembourg documents and then prepare papers and speed up reforms. Wasn’t the second EU-Ukraine Summit of 1998 in Vienna a step in the right direction and why didn’t it grow into a firm walk? Could Ukraine try to convert its PCA into a “European Association Agreement” or at least “Stabilization & Association Agreement”?

We are neither willing to contest others’ conclusions nor comment on the details. Instead, we are pointing at the time-factors and personal factors, which contributed to the non-success story of the EU-UA relations. The study will be limited by the first two Ukrainian presidencies period and the executive branch only. Within this time limit the negative internal developments in Ukraine, as it will be shown, coincided with the periods of the EU’s concentration on non-Ukrainian issues, while the pro-Ukrainian tendencies in the EU institutions had been ruined by Ukrainian political strife and so on. A look at the history of the bilateral relations through this optic may help to avoid mistakes in the future.

In spite of the formal success of installing contractual relations with the united Europe, the PCA was quite a shallow document. There was no vision of Ukraine as a part of the future Union in it. There were no such important words to Ukraine as “association” in the sense of the commitments given to the Central and Eastern Europe states — today’s EU Members, or ‘candidacy’, “membership prerequisites” and so on. The PCA was a framework document and its only excellence was being the first ever PCA with the post-Soviet country, save the Baltic ones.

<sup>5</sup> Füle: Bulgaria and Romania’s accession questioned the credibility of EU enlargement, 26 June 2014 <http://www.euractiv.com/sections/enlargement/fule-bulgaria-and-romanias-accession-questioned-credibility-eu-enlargement>

<sup>6</sup> Luxembourg European Council 12 And 13 December 1997 Presidency Conclusions [http://www.europarl.europa.eu/summits/lux1\\_en.htm](http://www.europarl.europa.eu/summits/lux1_en.htm)



***The personal factor plays a sizeable role in the relations between the EU and post-Soviet countries, comparing to those between the states of the Central and Eastern Europe***

The very fact of negotiating and signing of the PCA did not sound loudly in the Ukrainian media and the nascent civil society. The citizens had been preparing for the early presidential election in a less than a month time, in July 1994. A former secretary of the Central Committee of the Communist Party of Ukraine and a member of its Politburo President Leonid Kravchuk lost the elections to Leonid Kuchma, a former secretary of the Communist party committee of the world's biggest rocket-building plant. Mentioning the Party ranks is intentional. The same intention concerns the biographies of other actors of a 25-years long story of EU-Ukrainian relations. The personal factor plays a sizeable role in the relations between the EU and post-Soviet countries, comparing to those between the states of the Central and Eastern Europe, or Baltic, where institutions damped personal grievances.

Due to the absence of “de-communisation” process in Ukraine similar to the one in the Baltic States in 1991-1994, the post-Soviet mentality and oligarchic capitalism took effect. The active civil society, which embodied the movement to the independence initially through the political party “People’s Movement of Ukraine” (the “Ruh”) and large layers of citizens supporting it, viewed the EU implicitly as a guarantee of their well-being, stability and,

justice and wanted to join the European Community<sup>7</sup>. The Ukrainian authorities felt perfectly well the pressure of electorate and the pro-European slogans were, as it would be in the future, an inalienable part of their rhetoric, independently of the real state of play. President L. Kravchuk, representing Ukrainian side in the PCA, paid special attention to the topic of the European choice in his campaign for 1994 elections, representing himself as a guarantor of the European future of Ukraine vis-à-vis the “red director and old guard chap” L. Kuchma, who was campaigning under the banners of “restoring ties with Russia”.

The public polls in 1992-1998 demonstrated a steady growth of support for the integration by all groups of the population, varying from 28 to 39%. It will be relevant to stress that both presidents were exploiting the EU integration topic in their political activity.

One shouldn't go as far as to simplify Ukrainian politics of the time as an activity of the presidents and their cronies only. Other actors manifested themselves in the European discourse as well. Those were Parliaments, Governments, including the foreign ministers, and the party structures. Starting from 1986-87 there had always been the so-called pro-European tune in the Ukrainian civil society coupled with the anti-Chornobyl protest activity. The tune presented itself through its convergence towards NATO and rapprochement/accession to the EU. The tune has never matured into a single ideologically motivated political party but its slogans were borrowed later by different parties and political projects<sup>8</sup>.

<sup>7</sup> Although the Single European Act, which designed the prospects of the European Integration took effect on 01.07.1987, the Maastricht Treaty enabling the European Union as such was signed in February 1992 and became valid by the end of 1993 only. The membership consisted of 12 States compared to today's 28.

<sup>8</sup> One good example would be the “Our Ukraine” opposition party founded on 26.07.2001 as the basis of the opposition “Viktor Yushchenko Block Nasha Ukraina”, which documents proclaimed European integration to be the national goal. Just at that time, the party of power under V. Pustovoitenko “For the single Ukraine” preached for the same goal.

After the first tumultuous Ukrainian Presidency (Leonid Kravchuk, 1991-1994), a more organized and strong Presidency of Leonid Kuchma (1994-2004) was, at the beginning, interpreted in the EU institutions and Member States as a window of opportunity to close the gap between Ukrainian and the European societies, economies, and legislations. It didn't happen as a result of the deviation of the Ukrainian government from the policy of democratic transformation, return to the post-Soviet practices of cronyism, paternalism, and creeping "oligarchization" of the national economy. Hasty and sometimes controversial decisions to "activate" the integration process did not mask the obvious degradation of the rule of law and market economy standards in the country. The deviation cost a lot to Ukraine: Brussels dropped the idea to discuss a possibility of its inclusion to the Bulgaria-Romania accession package of 2002-2007 and brought the country into the European Neighbourhood Policy group together with the Mediterranean Arab States, Belarus and Moldova. In that sense, it would be possible to designate the period of 1991-1998 as a romantic negligence by Ukraine of the nascent European Union and lost opportunities to join the first wave of the Eastern Enlargement<sup>9</sup>.

After coming to power in 1994 and designating a new foreign minister, not only did president L.Kuchma fully embrace the European speeches of the predecessor but he was able, during the first tenure, to use EU and NATO interest towards Ukraine for the sake of modernizing the system of state power (Constitution), beefing up the economy and finance (national currency)

and strengthening national security. The new foreign minister H. Udoenko was building steadily the basis for the diplomatic service of Ukraine, cemented the role of the MFA as the centre for formulating foreign policy and managing international relations, gained incredible influence in the countries of Central-Eastern Europe, especially Poland, where he used to be an ambassador, as well as in the Baltics, on the Caucasus, the Balkans and the Middle East. Deputy Minister B.Tarasiuk was responsible for and served as a true engine of the European and Euro-Atlantic integration, to build on during his first tenure as a foreign minister (1998-2000).

Within this period, another visible pro-integration act happened with founding in October 1997 a special international political format, soon to become the "Organization for Democracy and Economic Development – GUAM" of Georgia, Ukraine, Azerbaijan and Moldova. In the Kyiv Declaration on establishing the "ODED – GUAM"<sup>10</sup> in 2006 it was said that their cooperation was founded on the "common aspiration to expedite advancement toward European integration", and that in their activities the GUAM States would "strive to deepen European integration and enhance relations with the European Union and NATO".

It is important to underline that the relatively warm climate of this period found reflection both in the parliamentary sphere and on the bilateral level between Ukraine and the EU member-states. Appreciation of a state of play was duly expressed in the EU-Ukraine Summit Statements, which were largely crafted by the presiding EU State. At the third

<sup>9</sup> Ukraine at any rate was not prepared to join the EU in 2004 together with 4 CEE, 3 Baltic States and Slovenia. Still, the fact of being chasing the goal and competing with the successful neighbors would possibly allow doing it within the Black Sea Enlargement of Bulgaria and Romania.

<sup>10</sup> Kyiv Declaration on establishment of the Organization for democracy and economic development — GUAM, 2006 <http://guam-organization.org/en/node/468>

Ukraine-EU Summit in 1999 several months before the presidential elections, the EU confirmed its willingness to support Ukraine in joining the WTO and proceeding with the reforms. The fourth Summit of 2000 dubbed as a “reverence diplomatique”, held in Paris, was known for the rumours about preparing the association agreement with Ukraine. The level of frankness of the parties could not have been reflected better than in two paras in the joint communiqué: “We also discussed Russia as an issue of common interest. We welcomed the expressed willingness of the new Russian leadership towards modernization and reform and underlined that it was in the interests of the EU as well as Ukraine to maintain a strong and healthy partnership with Russia based on common values, notably on the respect of human rights and fundamental freedoms” (para 20), and “We concluded that developing our strategic partnership will contribute substantially to peace, stability and economic prosperity in Europe as a whole and will help us meet our common challenges” (para 22)<sup>11, 12</sup>.

That was the context of the Ukrainian European integration during the first seven years of independence, which looked quite hectic, not well established and, still promising. It changed for the worse a year after the re-election of the president L. Kuchma in November 1999.

One important detail is worth mentioning. At that very moment, Russian President Yeltsin resigned and gave way to the youngish President Putin. Within the EU, it was a period of active, hectic and swift institutional changes, membership growing and general restructuring. It was then

when the European Economic Community transformed into the European Community (1993), the Maastricht Treaty was signed and took effect, the EU citizens received the right to vote and run for office in local and the EU Parliament elections in their country of residence regardless of national citizenship. In these very days, the basic Copenhagen criteria for the membership was adopted, representing together with the article 49 of the Lisbon treaty conditions for newcomers.

Hans van den Broek, EU Commissioner for External Relations and CEE (1993-95) was the last with overall functions<sup>13</sup> and his successor Gunter Verheugen was the first EU Commissioner for Enlargement. The decision, to our mind, made a big blow to the idea of Ukrainian integration. The questions of the external relations (where the neighbours were in focus) and of the enlargement process were bureaucratically separated. Ukraine was cut out of the latter to be placed in the former for years. Minding the role and attractiveness of Ukraine, High Commissioner J. Solana applied incredible efforts to cover both issues and narrow the split. He was admitting, privately, that the geography could be amended. His good offices were ruined by the intransigence of the rivalling leaders of Ukraine, non-interference of the second commissioners and stubbornness of the third commissioners on enlargement.

It was G. Verheugen who was the first among the top EU officials to publicly admit that Ukraine could become the EU member: “European perspective for Ukraine doesn’t imply membership for the next 10-20 years although it is possible”. His political background explains why

<sup>11</sup> Joint Statement. 4th Summit Ukraine-EU, 15.09. 2000 <http://ukraine-eu.mfa.gov.ua/ua/page/open/id/2858>

<sup>12</sup> Chris Patten. [https://en.wikipedia.org/wiki/Chris\\_Patten](https://en.wikipedia.org/wiki/Chris_Patten)

<sup>13</sup> Commissioner L. Brittan (195-99) and Broek’s successor, was in fact European Commissioner for Trade and European Commissioner for External Affairs and cared less about the latter.

it was him, who apparently broke the ranks. An active member of the German FDP (liberals), he left the party together with many left-liberal party members and later joined the SPD (social democrats) to become the minister of State in the MFA in 1998-1999. He was an active supporter of the SPD government of Chancellor Helmut Schmidt, a proponent of the Eastern German Policy of rapprochement with the Soviet Union, German Democratic Republic and Poland.

G. Verheugen became a good interlocutor to the Ukrainian officials who trusted him. It is not accidental that in 2015 G. Verheugen was visible in installing the Agency for modernization of Ukraine<sup>14</sup>, headed the European integration work stream there, concentrating on the institutional reforms recommendations aimed at the integration of Ukraine into the EU. Together with a team of professionals, G. Verheugen was engaged in the programme development for the Ukrainian economy as well as in the evaluation of the relevant amount of funding (dubbed Marshall Plan for Ukraine). One would draw from the words of G. Verhaugen that the left European politicians, who were coming to the European institutions, looked more positively at the European aspirations of Ukraine and were even ready to trespass the limits of the given mandate, at least in rhetoric. A closer look tells that the situation was quite the opposite. Independently of the country of origin (except Poland, to which the perspective membership of Ukraine was one of its important strategic goals), the representatives of the left parties of the EU states considered Ukraine as a part of the post-Soviet space rather than

an independent genuine European power. Hence, the mechanical linkage of Ukraine's European future with the position of Russia was implied.

The second stage of the EU-Ukraine relations started in 2000, when the oligarchic system of power was established in Ukraine. The second term of President L. Kucma developed into purging the so called pro-European ministers and fully transferring the process of conceiving and implementing foreign policy from the MFA to the Administration of the President. The former deputy foreign minister A. Orel (1999-2000) became the deputy head of the Administration — Director General of Main Directorate for foreign policy in 2001-2005 and Secretary of the State Council on European and Euroatlantic integration (2003-2005).

The man played an unprecedented role in the decision-making at the Administration, especially taking into account his background as a student and later on a lecturer at the Military Institute of the Ministry of Defence of the USSR<sup>15</sup>, than a desk officer in the International Department of the Communist Party Central Committee of the USSR, and the Counsellor at the Soviet Embassy in Rome. Under his instructions, a special presidential Decree was prepared in 2003, depriving the Ministry of Foreign Affairs of Ukraine of the right to nominate diplomats without his consent. No written document or statement could appear from the Ministry without Orel's agreement. All pro-EU tendencies vanished and pro-NATO words disappeared, and their authors quitted.

<sup>14</sup> The Agency for modernization of Ukraine with G. Verheugen at the banner was nothing but the artificial institution to clean the public profile of one of the biggest Ukrainian oligarchs D. Firtash living temporarily in Austria under the threat to be brought to justice by the American court for fraud and corruption. To present himself as a Ukraine's benefactor he created the above-mentioned Agency and announced his aim to invest billions to the national economy. It is a known fact that the billions of D. Firtash were made through criminal contracts with Gazprom company of Russia. This made him wanted by the American Justice and his billions by the Ukrainian budget.

<sup>15</sup> The role of the Institute was (and still is) to form officers for the Main Intelligence Directorate (GRU) and its functioning was depicted in details in the famous "Aquarium" novel by the Soviet author and defector Viktor Suvorov.

The “late Kuchma” or “Kuchma-2” phenomenon appeared after the presidential elections of 1999. It was a case of political corruption of the leader keeping him dependent in case of his “wrong behaviour”. It also allowed arranging ruining political scandals and making him weak and always worried of further revelations. This was exactly what happened in 2000-2003 through the Kolchuga story and Gongadze killing cases. The people of Ukraine gathered quickly around the opposition in the parliament and the two-year long action “Ukraine without Kuchma” invaded the country and the capital.

Both cases were crafted to demise Ukraine’s European and Euroatlantic efforts. As a way to bring Kuchma out of the deep political isolation his team pushed him to spur the economic relations with the Russian Federation and their “common economic space” and, mend the spat with the EU by creating fake integrationist’ institutions. Thus, the State Council on European and Euroatlantic integration was installed “to coordinate the governmental bodies’ activity on the matter”. The State Council was tasked to reactivate the Strategy of the European Integration of Ukraine, started on paper already in 1999 to usher the Program of the Integration of Ukraine to the EU. As a result, no major goals were reached. The judicial reform went slowly and halted because of the political climate in the country. The economic reforms could not cross the barriers put by the oligarchs, the Anti-Monopoly agency was closing eyes to grotesque concentration of wealth and major industries in few hands. The autocratic and greedy clan of Yanukovych was looming on the horizon. The nation was heading towards the uprising called

the Orange Revolution, admired in the EU member States and in Brussels and wasted in Kyiv.

Change of guards happened in Brussels, too. President J. Santer stepped down because of the corruption scandal and the Italian R. Prodi stepped in. Prodi was the Prime Minister and the leader of the Italian left party, who supported Russia concerning the EU enlargement (no invitation to post-Soviet States). The former ambassador of Ukraine in Italy A. Orel (1993-97) had access to the chancery of Prodi. It resulted in a decrease of support of the European integration as a “strategic national choice” in Ukraine. The large part of the civil society had to accept as inevitable the Brussels European geography, which excluded the post-Soviet states, except of the Baltic ones.

It was R. Prodi, who shaped the policy of enlargement of the EU for years to come, and he who declared that Ukraine and Moldova (and Israel) would never be EU members.<sup>16</sup> When coming to power in 1999, he proposed “negotiating with them (Ukraine and Russia in particular) real association agreements which lead to joint decision-making”<sup>17</sup>. Two years later, he was stating that Ukraine or Georgia, or Moldova would never be in the club. Thus, the positions of Prodi and Verheugen were identical, in spite of some differing accents. Speaking at the joint press-conference with the then prime-minister (later President) V. Yanukovych in 2003 in Brussels, Prodi underlined the EU’s readiness to share with Ukraine “everything but institutions”. “Ukrainian membership is not on today’s EU agenda, — he said, — but the EU will do everything to be open and step up the rapprochement”. Yanukovych accepted

<sup>16</sup> Speech by Mr Romano Prodi, President of the European Commission on enlargement. European Parliament, Brussels, 13 October 1999 [http://europa.eu/rapid/press-release\\_SPEECH-99-130\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-99-130_en.htm)

<sup>17</sup> Ibid.

the stance. Prodi has never changed his approach towards Ukraine. He was saying in April 2013 to an American paper that the "Western interests and values are best served by engaging Ukraine as a solid European partner., as a source of economic growth and energy security, as well as a bridge to Russia", not as a member.<sup>18</sup>

Ukraine was not successful with the next commissioner on enlargement O. Rehn (2004-2009) from Finland. In view of the decisions taken earlier on the admission of two countries of the South-Eastern Europe into the EU by 2007 (Bulgaria and Romania) and simultaneous preparation for the accession of Croatia and other Balkan States, the role of the commissioner was reduced to constant shepherding and corralling the group and controlling the complicated process of fulfilling the candidates promises. The commissioner literally lived in the plane and didn't stop 24-hour negotiation rounds with the future EU members separately and jointly. Ukraine under President Kuchma had been provoking nausea and worry because of the daily scandals and political killings

The enlargement portfolio was of a big interest to the Ukrainian pro-European forces, still formally the topic of Ukraine belonged to a sphere of the Commissioner on External Relations. The man to hold the portfolio was C. Patten, one of the leaders of the conservative party, who was privately inclined to see Ukraine in the candidates group. By the efforts of R. Prodi his role was reduced to the responsibility of working on the Union's development and co-operation programmes, as well as liaison with Javier Solana, the High Representative of the Common Foreign and Security Policy<sup>19</sup>. His keen interest towards the post-Soviet

States as well as his tough view on Putin's Russia cost him the commissioner's seat and precluded, by the efforts of Germany and France from any international carrier in the future.

The successor of C. Patten was an Austrian social-democrat B. Ferrero-Waldner, who understood from the very beginning which proposals are not welcome by certain member States. She was particularly precise in repeating time and again that Ukraine belonged to the European Neighbourhood Policy and stressed on that publicly and privately. During the early days of the presidency of V. Yuschenko she was feeling side-lined from commanding her domain of responsibility and later, when Ukraine's image tarnished because of internal strife, she was using every opportunity to remind of the fiasco of democracy and internal reforms. She was at odds with the Ukrainian Prime Minister Y. Tymoshenko and did not approve the attention towards Ukraine by the High Representative of the Common Foreign and Security Policy Dr. J. Solana.

Both J. Solana and the President of the European Commission Jose Manuel Barroso (2004-2014) had less restrictive views on the European geography than Prodi. The reasons could have been different, but the fact is that both men came from the former dictatorship states (Spain and Portugal) having a good understanding of the problems of the post-Soviet States. It was J. Solana, who, according to the American general Wesley Clark, "on 21 January 2005 invited Ukraine's new President Viktor Yushchenko to discuss future EU membership",<sup>20</sup> It was Barroso, who, in his famous interview to Financial Times,<sup>21</sup> stated the following: "We were perfectly

<sup>18</sup> R. Prodi. EU should welcome Ukraine as a partner for Europe's own good, The Christian Science Monitor, April 2, 2013. <http://www.csmonitor.com/Commentary/Opinion/2013/0402/EU-should-welcome-Ukraine-as-a-partner-for-Europe-s-own-good>

<sup>19</sup> Chris Patten. [https://en.wikipedia.org/wiki/Chris\\_Patten](https://en.wikipedia.org/wiki/Chris_Patten)



***The puzzle of Ukrainian integration could not have been resolved without any of the named elements: Russia's neutrality, Ukraine's zeal, EU's consent.***

aware of all the risks (*of concluding the AA with Ukraine*)... I spoke with Putin several times, and he told us how important for him was the customs union, the Eurasian Union, and a specific role he saw for Ukraine. But should we have given up? Should we say, 'OK, Vladimir, Ukraine is yours, do whatever you want?' That is the logical consequence of what they are saying. That's perfectly unacceptable." His devotion to the emerging democracies of Central and Eastern Europe — a stance heavily coloured by his own political awakening as a young activist against Portugal's dictatorship — put Barroso "on the wrong side of Mr Putin", the journalist raps up.

The Presidency of Victor Yuschenko (2005-2010) started from the highest "European" expectations both within the country and in Europe. It is worth reminding that the members of the Bundestag met the Ukrainian head of state with the oranges installed on their desks in support of the Orange revolution and the ideals of the Maidan (December 2004 — January 2005). The enthusiasm of the kind spread throughout Europe and very much alarmed the neighbouring Russian Federation with the autocratic Vladimir Putin. Due to the cunning Moscow policy and Ukrainian leaders' selfishness, coupled with personal rivalries inside the Ukraine's government, the NATO and the EU aspirations were shelved into the (indefinite) future.

The next and most controversial (so far) Ukrainian Presidency of Viktor Yanukovych began with an unexpected decision to make his first foreign visit to Brussels instead of Moscow. The visit was successful and the EU leaders made themselves ready to deal with the authoritarian but responsible partner. That was the mood at the beginning of 2010, and the designation of the English-fluent S. Liovochkin as a head of staff and refined K. Hryshenko as a Minister of Foreign Affairs added certainty to their hopes. President Yanukovych called for a special gathering of his political party bosses and MPs to declare his decision to keep the talks on the Association Agreement and to sign it as soon as possible. The story would not be complete without mentioning that the representative of Ukraine to the EU was immediately recalled and the new one has been designated. The formally pro-integration position of Yanukovych corresponded to the appetites of the most educated western-minded groups from his party wary of the steady move of the Russian business circles to Ukraine. "Later Yanukovych", as "later Kuchma" 13 years earlier, was stopped and reversed by the concerted Russian economic, media and political actions and by Putin personally, which led to halting the already arranged AA signing ceremony in Vilnius on November 23, 2013, and to his demise and shameful escape to Russia.

The puzzle of Ukrainian integration could not have been resolved without any of the named elements: Russia's neutrality, Ukraine's zeal, EU's consent.

The situation is different nowadays. Ukraine is largely embracing the integration and necessary reforms start, unevenly. Most of the foreign agents fled or got irrelevant.

<sup>20</sup> Clark, Wesley K. *Waging Modern War*. New York: Perseus Books Group, 2001–2002, p. 15

<sup>21</sup> José Manuel Barroso: 'Not everything I did was right' / *Financial Times*, 4 November 2014 <http://www.ft.com/intl/cms/s/0/4624563a-640b-11e4-8ade-00144feabdc0.html#slide0>

Russia is isolated and cannot stop Ukraine economically (the trade leverage practically lost), politically, and, hopefully, militarily. Big EU Member States cannot allow themselves to say “NIET” to Ukraine as before, and the EU gradually digests the Balkan enlargement, migration wave and Greek crisis. Turkey’s on the horizon only, which makes the issue of UA/MD integration opening possible. As in 1992-1993, or in 1995-1997 the fate of the European integration is in Kyiv’s hands. If the mistakes of the internal political fights are not repeated, the attempt might prove successful.

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# EASTERN PARTNERSHIP UNDER RECONSTRUCTION: THE UKRAINIAN TEST

*Hennadiy Maksak,  
Foreign Policy Council "Ukrainian Prism"*

*The whole idea behind the launch of the European Neighbourhood Policy was to secure the near environment on the EU's border perimeter after the enlargement wave in 2004. Neighbouring states to the East and South, which differed drastically in terms of their geographical and historical background, political system and level of democracy have been united in "one fits all" policy with the declared aim to "foster stability, security and prosperity" in the region. As a result of a more serious division among countries in the European Union over participants of the ENP, a new Poland-Sweden initiative "Eastern Partnership" started as the EU policy in 2009. Despite some positive changes in partner-countries as well as on a bilateral track with Brussels, Eastern Partnership failed to effectively address the challenges on the ground. The only possible way to correct the Eastern Partnership policy is to take into account the present miscalculations in relations with Russia and address precisely the needs of each partner. At the moment, the preliminary results of the ENP revision seem to have difficulties in passing the Ukrainian test.*

## **Ukraine-EU relations under the ENP phase**

In general, Ukraine-EU relations during the whole cycle of the ENP were highly dependent on the political situation in the country. The level of performing reforms under the Ukraine-EU Action Plan and later Association Agenda was very low when it came to structural democratic changes and liberalization.

EU and Ukraine established contractual relations in 1994 by signing the EU-Ukraine Partnership and Cooperation Agreement (PCA), which entered into force in 1998. After the ENP launch in 2003 both sides agreed to cooperate within this initiative, which could facilitate Ukraine's access to the EU's

internal market, policies, and programmes. After the 2004-2005 Orange revolution in Ukraine, the European aspirations of new political elite in Kyiv increased the level of bilateral cooperation. Within the framework of the PCA, the EU-Ukraine Action Plan was adopted in February 2005.

In 2007, the EU and Ukraine opened negotiations on a New Enhanced Agreement and after Ukraine's accession to the WTO in May 2008, progress was achieved in talks on the DCFTA related issues. In 2009, the Action Plan was substituted by the Association Agenda. An Action Plan on Visa Liberalization was announced at the EU-Ukraine Summit in November 2010 and in 2011 Ukraine acceded to the Energy Community Treaty.

In March 2012, the EU and Ukraine initialled the text of the Association Agreement (AA) and its Deep and Comprehensive Free Trade Area (DCFTA). At the same time, Ukraine's progress in achieving important structural reforms and implementing the Association Agenda priorities remained below expectations. In December 2012, the EU reaffirmed its commitment to signing the Association Agreement as soon as Ukraine demonstrates tangible progress on addressing selective justice and the implementation of Association Agenda. Notwithstanding this fact, Ukraine embarked on the path to correct shortcomings before the EaP Summit in Vilnius, in November 2013 Ukrainian authorities decided to suspend the preparations for signing. It has contributed eventually to dramatic events of political crisis in Ukraine, the Revolution of Dignity, and Russian military aggression towards Ukraine<sup>22</sup>.

In February 2014, the Revolution of Dignity became a new reference point in the European integration of Ukraine. It brought to life new political elite with pro-European aspirations and a more empowered civil society to stand for its rights. By signing the Association Agreement the country manifested its strong will to embark on the democratic path of value-based reforms.

Ukraine signed the political provisions of the Association Agreement on March 21, 2014 and signed the provisions of the remaining parts on June 27, 2014. On September 16, 2014, the Ukrainian Parliament ratified the Association Agreement and the European Parliament gave its consent, enabling the provisional application of the relevant provisions of the agreement on November 1, 2014 and the DCFTA section of the agreement on

January 1, 2016. The second phase of the Action Plan on Visa Liberalization was commenced in June 2014.

On September 17, 2014, the Action Plan on Association Agreement Implementation for the period of 2014-2017, which includes about 490 short-term and medium-term tasks in all spheres of cooperation between Ukraine and the EU determined in the Agreement was approved by the government. In March 2015, the Association Council approved by letters' exchange the renewed Association Agenda. The agenda envisages 10 top priority reforms crucial for Ukraine.

The 17th EU-Ukraine summit took place in Kyiv on April 27, 2015. This was the first summit taking place under the framework of the Association Agreement. The European Union was represented by the President of the European Council Donald Tusk and the President of the European Commission Jean-Claude Juncker. Ukraine was represented by its President Petro Poroshenko. In Joint Statement of the Summit, the parties welcomed the first reform steps taken by Ukraine in key areas, notably the constitutional reform, decentralization, the fight against corruption, the reform of the justice sector, the restructuring of the energy sector and the improvement of the business climate<sup>23</sup>.

As for now, there are some success stories and setbacks in the reforms implementation process under the Association Agreement and the Association Agenda in Ukraine. Some shortcomings are attributed to the internal political problems but some are directly connected to the hostile policy of Russia, which annexed the Crimea and unleashed a hybrid war in Donbas trying

<sup>22</sup> H. Maksak Focus on Ukraine / Eastern Partnership Revisited. Associated countries in focus, the Stefan Batory Foundation, FES Representation in Poland, Warsaw, 2015

<sup>23</sup> 17th EU-Ukraine Summit: Joint Statement, 27 April 2015, <http://www.consilium.europa.eu/en/meetings/international-summit/2015/04/27/>



***the absence of hard security assurances to the partner countries within the framework of the ENP or under other EU's policies provoked Russia to launch a hybrid war in Ukraine in 2014***

to initiate a political turmoil in Ukraine coupled with economic and energy crisis.

Nevertheless, there is no doubt that the European approach towards the region of Eastern Partnership should be reconsidered and enhanced with new dimensions and recourses.

Revision of the Eastern Partnership: matching with Ukrainian expectations

Eastern Partnership as part of the European Neighbourhood Policy from the very beginning obtained some specific features, which set it apart from the previous approach towards the neighbours in the region of the Eastern Europe and South Caucasus. Firstly, on a bilateral track a partner country, which covers all the requirements and commitments, can conclude a new generation Association Agreement with the EU, including DCFTA as its integral part. Secondly, the multilateral track with intergovernmental, parliamentary, business, civil society and other institutional levels was supposed to find a common denominator with all six partner countries needs and interests (Azerbaijan, Armenia, Belarus, Georgia, Moldova and Ukraine).

Over the time, it appeared difficult to apply the same frames and values to all six. That prompted the EU to make the next frame for the ENP with introducing "more for more" and "differentiation" principles, making progress in relations between EU and a partner-country dependant on the fulfilling

benchmarks of action plans or association agenda (as in case of Ukraine).

What is more, the European Union had underestimated the potential of Russia in undermining the political and economic stability in the region. In this regard, 2013 was crucial for Eastern Partnership when two partners-countries (Armenia and Ukraine) were forced to abandon their plans to respectively initial and sign association agreements with the EU. To make things more complicated, Armenia joined the Eurasian Economic Union along with Russia, Kazakhstan and Belarus, yet another EaP partner country with a specific interpretation of European standards and values. In parallel, Azerbaijan cherished its own stance in bilateral relations based on profound economic cooperation with Brussels while demonstrating enormous violations of human rights and lack of interest in political reforms in the country. On top of that, the absence of hard security assurances to the partner countries within the framework of the ENP or under other EU's policies provoked Russia to launch a hybrid war in Ukraine in 2014.

Against the backdrop of Russian aggression against Ukraine, prolonged crisis in Syria, and other challenges in the neighbourhood area, the European Commission took a decision to launch the revision of the ENP in early 2015. It started with a consultation process from March until June and eventually resulted in the recent joint communication "Review of the European Neighbourhood Policy" issued in November 2015. This document outlines the basic approaches for the Eastern Neighbourhood in the mid-term prospective. The ideas described will be discussed with member states and other stakeholders in EU before their transformation in the final policy document in 2016.

As stated in the joint communication, during the consultation process more than

250 inputs have been received from partner countries, think tanks and academia<sup>24</sup>. Ukrainian experts have been actively participating in the consultations as well. Some ideas and recommendations were issued in personal or corporate endeavours while some have been produced in collective efforts of the Ukrainian authorities and expert community. One can single out the policy brief developed by the representatives of the Governmental Office for European Integration and experts from the Ukrainian think tanks<sup>25</sup>.

Back then, the majority of experts in Ukraine agreed that the Eastern Partnership policy had to address the common challenges for the EU and partner countries. Differentiation, conditionality, “more for more” principle, co-ownership, and solidarity are the basic principles to be applied in further policy development. Although those principles were already on the table, experts agreed that it is very important to fill them with substance and make them more ambitious<sup>26</sup>.

In this vein, “differentiation” principle should be levelled with real aspirations of the partner countries and their expectations in cooperation with the European Union. It has to provide a clear framework to deploy available instruments and resources of the EU in a more coherent and flexible way.

“More for more” principle should be more detailed in terms of clear benchmarks and indicators for countries with a better history record in aligning with the EU standards and norms. The invitation to participate in the



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***“differentiation” principle should be levelled with real aspirations of the partner countries and their expectations in cooperation with the European Union***

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enlargement policy could be a reward for “champions”. Yet as another option available for the European Union, one can name the possibility of further integration in spirit of “everything except institutions”. It became obvious that two groups of countries have already appeared in terms of their ambitions: Association Agreement “club” (Georgia, Moldova, and Ukraine) and “sector partners” (Armenia, Azerbaijan, and Belarus). It is even next to impossible to tally obligations taken by Ukraine with commitments of less ambitious partners, which prefer to follow their own path in European integration. Just to provide an example, under the terms of the Association Agreement Ukraine has to transpose more than 350 legal acts of the EU during the implementation process in 3 years.

“Solidarity” principle in its turn has to serve for generating a real joint answer to common challenges we face in the region, from economic crisis to the Russian military aggression.

At the moment, the level of political association and economic integration embodied in the Association Agreement can be considered as a sufficient framework for Ukraine to foster reforms provided all parts of the document are fully

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<sup>24</sup> Joint communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions “Review of the European Neighbourhood Policy”, European Commission, High Representative of the Union for foreign affairs and security policy, Brussels, 18.11.2015

<sup>25</sup> European neighborhood policy review: expectations of Ukraine. Ukrainian independent experts' contribution, International Renaissance Foundation, June 2015, source: [http://www.irf.ua/knowledgebase/publications/european\\_neighbourhood\\_policy\\_review\\_expectations\\_of\\_ukraine/](http://www.irf.ua/knowledgebase/publications/european_neighbourhood_policy_review_expectations_of_ukraine/)

<sup>26</sup> H. Maksak Focus on Ukraine / Eastern Partnership Revisited. Associated countries in focus, the Stefan Batory Foundation, FES Representation in Poland, Warsaw, 2015

implemented, including DCFTA provisions. The main stress should be given to the implementation process where the EU support is highly needed.

Referring to the sector specific issues under the Eastern Partnership, the Ukrainian experts found it reasonable to ask the EU to extend its support to Ukraine predominantly in political, security, economic and energy domains. The vital appeal from expert community was to strengthen the EU's role in security dimension. The EU is promoting itself as a global security actor while it is unable or unwilling to take firm decisions about its military or peacekeeping presence in a neighbourhood area. Ukrainian experts argued that the EU should review its policy on regional presence in peacekeeping operations under the CSDP and expand the mandate on the Eastern neighbourhood with a clear focus on Ukraine. For longer-term security efforts, some steps have to be taken to develop effective military-technical cooperation between the EU states and Ukraine, creating industrial clusters in order to build Ukrainian military potential in the European joint military production cycles. In addition, cooperation in the framework of the CFSP and the CSDP could be included in the ENP instruments for preventing the threats from conflict escalations, organized crime, and terrorism.

It was explicitly stated alluding to Russia that the European Union can work out some instruments to motivate Russia to be engaged in policy but a point of departure here should be Russian compliance with demands of the EU to withdraw from Ukraine and to restore Ukrainian territorial integrity. The same approach has to be considered in relations with the Eurasian Economic Union as a political project of Kremlin.

In energy field, Brussels should not make concessions to Russia in the question of making exceptions from the Third Energy Package for establishing routes for transportation of Russian energy to the EU member-states, which are able to create additional risks to energy security for the partner countries. As a sound option in a trilateral format, the joint feasibility study can be arranged on the possible impact of the DCFTAs with Ukraine, Moldova, and Georgia on Russian economy in order to prevent further pressure and trade wars waged by Moscow under this pretext<sup>27</sup>.

As a result of consultation process, the EU admits the necessity of greater differentiation and mutual ownership as hallmarks of the new ENP. There is more stress on the tailor-made approach, looking for better ways to launch reforms in each partner-country, paying more attention to civil society. At the same time, the commitments of 2015 Riga Summit referring to the EaP region will be met.

On the horizon of 3-5 years, the EU predicts that the most pressing issue on the agenda of the ENP will be stabilization. However, this goes beyond security related needs, creating additional stress for political and economic stabilization. The Eastern Partnership is not an exception in this line.

Although the document lacks some details referring to the future instruments and procedures, some ideas echo with the ones proposed by Ukrainian experts. It is especially evident in parts of the joint communication devoted to economic and energy cooperation.

To this end, EU's Macro-Financial Assistance operations will remain the main tool to foster macroeconomic stability and

<sup>27</sup> Hennadiy Maksak. Position Paper on Ukraine / Reassessing the European Neighbourhood Policy. The Eastern Dimension, F. Hett, S. Kikic, S. Meuser (Eds.), Friedrich-Ebert-Stiftung, June 2015, source: <http://library.fes.de/pdf-files/id-moe/11483.pdf>

economic reforms in the ENP target-states. For Eastern Partnership the idea of creating an economic area with those partners who signed the Association Agreement and entered DCFTA regime with European Union will be especially interesting.

As part of future Energy Union strategy, EU is ready to start a dialogue with neighbours on the issues of energy security, energy market reforms and the promotion of sustainable energy. Symbolically Ukraine was directly mentioned as a beneficiary of establishing gas reverse flow capacity to Ukraine. To attract new investments in energy sectors of the AA signatories, EU is ready to extend full energy market integration with Moldova, Georgia and Ukraine through the Energy Community.

Unfortunately, there is no direct reference to the Russian aggression against Ukraine, when it comes to security dimension of the Eastern Partnership. The focus is put traditionally on security sector reform. Other domains where the cooperation is possible are tackling terrorism and preventing radicalization, disrupting organized crime, fighting cybercrime, chemical, biological, radiological, and nuclear risk mitigation, crisis management and response<sup>28</sup>. This is a solid list, but it does not fully answer the pressing needs of partner countries, especially Ukraine, which suffers from the Russian military aggression.

What is more, in part of the document devoted to “neighbours of neighbours”, Russia is not always portrayed as an aggressor and a lawbreaker of international law. Such a distorted vision of Russia from the EU side is a product of Kremlin’s endeavours to affect the public opinion in specific member-states of the European Union through various bilateral channels

(support of ultra-left and far-right political projects, business ties, engagement of national minorities and so on) and multilateral initiatives in Iran, Syria, Libya and North Korea.

Although the authors of the communication note that the EU’s relations with Russia have deteriorated as a result of the illegal annexation of the Crimea and Sevastopol and the destabilization of Eastern Ukraine, still, on a conditional level, some joint activity addressing common challenges and exploring further opportunities in the region is not excluded.

On one hand, the presence of security cooperation in the framework of the Eastern partnership policy can be regarded as a positive shift in the EU’s position toward dealing with neighbours. But if we take a closer look at the spectrum of security cooperation it becomes clear that the majority of threats of the Russian origin to the EaP region still remain unanswered in the EU’s offices in Brussels. It may provoke further escalation of the situation in partner countries, especially in areas of ongoing or frozen conflicts backed by Kremlin. Taking into account the instruments of hybrid war, waged by Russia, one cannot exclude the possibility of deterioration of the security situation in Ukraine and other EaP target countries.

## Conclusions

The joint communication has indicated the formal conclusion of the consultation process within the ENP review. The year of 2016 will be devoted to the official discussion of the ideas outlined in the document. Some formats of consultation to determine the future policy shape with

<sup>28</sup> Joint communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions “Review of the European Neighbourhood Policy”, European Commission, High Representative of the Union for foreign affairs and security policy, Brussels, 18.11.2015

member-states and the EaP partners are envisaged. That is why it is important to continue efforts to address the European Commission to be more focused on enhancing security potential of the Eastern Partnership to deal effectively with immediate challenges on the ground.

To succeed in this, some additional steps should be taken by the EU itself while drafting Global EU Strategy, which is to substitute the outdated European Security Strategy of 2003. The new strategy should encompass a more sober stance towards Russia and pay much more attention to the cooperation between the European Union and NATO. The active peacekeeping role of the EU in neighbouring countries should be on the agenda as well. Only after generating a new security potential within the Global Strategy, it will be possible to extend it to the framework of the ENP.

The multilateral track should be preserved but separated according to the concentric circles of leaders in approximation with norms and standards of the EU. The club of the Association Agreement signatories deserves to be granted a more profound support even in the framework of common cooperation in the Common foreign and security policy.



***The club of the Association Agreement signatories deserves to be granted a more profound support even in the framework of common cooperation in the Common foreign and security policy.***

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At the same time, the stress on the security sector reform should be preserved. EU officials have to be more persuading in negotiations with authorities of the EaP countries to make the SSR the priority on the national reforms agenda.

At the end of the day, Brussels has not passed the Ukrainian test yet. Nevertheless, officials in the European institutions and the EU capitals should always bear in mind that this test is vital for the future of the European Union itself.

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# FACTORS INFLUENCING THE PERCEPTION OF AZERBAIJAN IN RELATIONS WITH THE EUROPEAN UNION

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***Since its independence, Azerbaijan and the EU maintained relations, which phased development. The EU developed new tools that transformed the form of these relations from purely economic to legal and had to be found within the constraints of integration. However, for the first time, this format of relations development does not suit Azerbaijan; so it is taking an initiative to create the future scenario of cooperation with this organization. This article provides analysis of the perception of Azerbaijan's relations with the EU and the possible reasons for their development.***

## **Beginning of relations between the sides**

Both Azerbaijan and the European Union (EU) became subject to international law at about the same time. However, their relationship is not an interaction in the classical sense, since the EU is not a nation state. In addition, the EU is also not an international organization in the classical conception. That is why the level and degree of the relationship between the EU and Azerbaijan is highly dependent on the characteristics of the EU.

After the collapse of the Soviet Union, there was a brief period of uncertainty and the European Communities and then EU continued to pursue a Russia-based policy towards relations with the countries of the

region and the New Independent States (NIS).<sup>29</sup> The EC officially recognized the independence of Azerbaijan together with the other former Soviet Union states on 31 December 1991. In 1993, the EU began to assist those countries, which faced political and economic troubles. This was of great importance to the countries, which were suffering a deepening economic distress, starting from the last days of the Soviet Union. The EU's relations with Azerbaijan progressed through a similar process to that with other NIS states.

Actually, relations with the European Communities and Azerbaijan SSR started to develop in the time of the Soviet Union (via central government in Moscow) within the framework of TACIS<sup>30</sup> and other initiatives. One of the important initiatives within

<sup>29</sup> Former Soviet Union Republics.

<sup>30</sup> Technical Assistance for the Commonwealth of Independent States.

TACIS Program was TRACECA<sup>31</sup> — an inter-state regional improvement program initiated by the EU in 1992. The major objective of this program was the formation of an international network, which would create infrastructure (both national and international), develop common standards and facilitate the application process in the covered areas, which could be done at minimal cost. The program considered networks in transport, energy, and telecommunications fields.

After two years since Azerbaijan regained its independence, on September 20, 1993, it signed an agreement with the European Economic Community on regulating trade in the field of textiles. A further impetus to the development of relations was given on September 1997, by Azerbaijani President Heydar Aliyev and Georgian President Eduard Shevardnadze, who both understood the opportunities of the TRACECA Program and desired to develop their relations with the EU. In 1998, these two leaders proposed to the EU to hold a conference within the framework of the TRACECA for signing the «*Multilateral Transportation Treaty*». The EU supported this offer, and a conference on the «*Revitalization of the Silk Road*» was held in Baku on September, 8, 1998. At the end of the conference, «*Transport Corridor Europe-Caucasus-Asia for the Development of International Multilateral Treaty*» was signed.<sup>32</sup>

## Forging a new EU foreign policy towards the former Soviet countries

Partnership and Cooperation Agreement (PCA), a new tool developed by the EU,

became the next step in development of relations between the parties. In 1992, the European Council decided to sign a new agreement with NIS as the result of the formation of a new political and economic situation. PCA, which would confer a new impetus for the development of relations, was signed between the European Union and Azerbaijan on 22 April 1996.<sup>33</sup> The first article of the agreement included provisions promoting the creation of a dialogue framework for the development of political relations with Azerbaijan, the development of democracy and economy; and the provision of assistance by the EU to Azerbaijan in order to complete the process of transition to a market economy, the development of trade and investment, harmonious economic relations between the agreement parties, and provision of economic sustainability and cooperation in legal, economic, social, financial, scientific, technological, and cultural fields.

Another tool of foreign policy developed by the EU towards the neighbours, including NIS is the New Neighbourhood Policy, was introduced in order to establish stability, security, and welfare of the surrounding areas of the EU. The enlargement process cannot continue forever, therefore the EU, which aims to complete its political alliance in the future, needed a new instrument to support political and economic reforms in the neighbouring countries.<sup>34</sup>

Successful implementation of the NNP would provide a similar status for participants to the one for the members of the European Economic Area aiming to fully realize economic integration with neighbouring countries without the

<sup>31</sup> Transit Corridor Central Europe-Caucasus-Central Asia.

<sup>32</sup> Azərbaycan Respublikasının TRASEKA layihəsində iştirakı, [http://www.mfa.gov.az/az/foreign\\_policy/inter\\_affairs/econom/regional/11.shtml](http://www.mfa.gov.az/az/foreign_policy/inter_affairs/econom/regional/11.shtml),

<sup>33</sup> Annotated Summary of Agreements Linking with Non-member Countries, 2000.

<sup>34</sup> B. Ferrero-Waldner, "The European Neighbourhood Policy: The EU's Newest Foreign Policy Instrument", European Foreign Affairs Review, Volume 11, No 2, Holland, Kluwer Law International, Summer, 2006, pp. 139-140.

prospect of political integration.<sup>35</sup> The basis of this initiative lies in a differentiated step-by-step approach. Accordingly, a proposed individual action plan should be developed with each of the neighbouring states and would aim at the fulfilling of the common criteria determined in the process of integration into the EU common market.<sup>36</sup>

The talks between the EU and Azerbaijan in the framework of the NNP were completed by signing the first National Action Plan in Brussels on November, 14, 2006. This *Plan* was signed on behalf of the EU by External Relations and European Neighbourhood Policy Commissioner Benita Ferrero-Waldner and the Minister of Foreign Affairs of Azerbaijan Elmar Mammadyarov.<sup>37</sup> The National Program was signed for a period of five years and required consolidation of the rapprochement between the EU and partner state and determine the adaptation process of norms and standards.

To summarize, the main general objectives of the Action Plan were to consolidate the rule of law; strengthen respect for human rights, fundamental freedoms, and democratic institutions; initiate a transparent privatization process; improve business and investment climate; strengthen the fight against corruption; improve legal regulations on economic implementation and management consolidation; develop regional cooperation; solve regional conflicts and develop the appropriate measures. Action Plan also included measures to strengthen

cooperation between the parties in the field of energy and transport.<sup>38</sup> Azerbaijan considered the proposal by the EU as a continuation of the bilateral relations between the parties.

With the development of relations under the framework of the NNP, the EU made it clearly understood that the countries of the former Soviet Union which are located in Europe and are theoretically eligible for membership in the organization should have quite different mechanisms of cooperation than those in Africa and Asia that were also participating in the New Neighbourhood Policy. Since the EU was not ready to begin the process of integration with these countries, it was necessary to create a framework of relations at a level superior to that of all earlier proposed programs, while not offering to these states membership in the organization.

Additionally, offering this kind of initiative was, in some ways, a reaction to international developments, and events in some countries of the post-Soviet world. In particular, there were so-called "Colour Revolutions" in Ukraine and Georgia, not without the support of the West, which resulted in each country publicly stating its desire to integrate into the Euro-Atlantic structures. Moreover, after a «five days war» between Russia and Georgia, when the West (U.S., EU and NATO) did not react in any way to support its ally Georgia, it was necessary to develop a mechanism that would, at least partially, compensate for this passivity.<sup>39</sup>

<sup>35</sup> R. Aliboni, "The Geopolitical Implications of the European Neighbourhood Policy", *European Foreign Affairs Review*, Volume 10, No 1, Holland, Kluwer Law International, Summer, 2006, p. 3.

<sup>36</sup> Достижения и Иллюзии Концепции Расширенной Европы, <http://dialogs.org.ua/ru/print/material/5/322>.

<sup>37</sup> Евросоюз Подпишет Соглашения с Тремя Государствами Закавказья, 14.11.2006, <http://www.day.az/news/politics/63732.html>.

<sup>38</sup> EU/Azerbaijan Action Plan, [http://ec.Europa.eu/world/enp/pdf/action\\_plans/azerbaijan\\_enp\\_ap\\_final\\_en.pdf](http://ec.Europa.eu/world/enp/pdf/action_plans/azerbaijan_enp_ap_final_en.pdf).

<sup>39</sup> Tomislava Penkova, "EU Eastern Partnership Policy: a Second Chance for the EU Transpormative Power?", *The EU Eastern Partnership: Common Framework or Wider Opportunity?*, ed. Carlo Frappi, Gulshan Pashayeva, ISPI, SAM, 2012, p.25.

## The EU Eastern Partnership Program

As a result of all these developments, the new Eastern Partnership program was proposed by Poland with the support of Sweden at the Prague Summit in May 2009. The Eastern Partnership (EaP) is an upgraded form of the NNP. Despite the fact that the main goal of this program, as in the case of the NNP, is the export of the EU rules and regulations to target countries, this program aimed to reach its goals without offering the prospect of full membership. This fact is very important because a number of states associated with the EU within the framework of the partnership have expectations regarding their full membership in the organization. In addition, countries such as Ukraine



***the error of the EU, which is still trying to fit relations with Azerbaijan into a regional view based on a now inaccurate perception***

and Georgia are considering cooperation within the EaP as one of the stages towards EU membership. Consequently, countries included in the Eastern Partnership have seriously criticized this policy due to the lack of new proposals and the prospect of membership. This discontent was expressed during the second EaP Summit held in September 2011 in Warsaw. In short, Ukraine, Georgia, and Moldova were not satisfied using the terms “neighbour” or “partner”, considering them excessively neutral and not implying the prospect of integration.<sup>40</sup> Azerbaijan considers that this program does not include the possible prospect of full membership, and sees it only as a new instrument of EU foreign policy, which on one hand, prevents the

membership of these countries, and on the other hand, creates new partners on its border in accordance with its wishes.

In order to achieve these objectives the EU plans to deepen relations with partner states: it offered policy instruments, a new type of new Association Agreement, and far-reaching integration into the EU economy by forming the Deep and Comprehensive Free Trade Area (DCFTA) with partner states. In addition, this program intends to encourage mobility of partner states’ citizens, and to this end the Eastern Partnership initiative offers in its first stage visa facilitation and readmission agreements, later to be followed by a visa-free regime.

However, not all countries were satisfied with the proposals of the EU, including Azerbaijan. In short, by the time of the third summit of the EaP in Vilnius, the six countries of the former Soviet Union had advanced differently in their relationships with the EU. This is because expectations and desires of these countries significantly varied. In more than twenty years since their independence, these countries have progressed quite a long way, which eventually led to differences among them. Herein lays the error of the EU, which is still trying to fit relations with Azerbaijan into a regional view based on a now inaccurate perception.

Such was the situation on the eve of the Vilnius Summit, which was held from November 28th to 29th, 2013. Without a doubt, the state of affairs and the perceptions of the partner countries affected the work undertaken and results achieved. Summit results for partner countries were not identical and each partner country defined its own roadmap in relations with the EU. This fact was influenced by several factors: the EU’s readiness to offer a broader perspective to partner countries, besides

<sup>40</sup> Tomislava Penkova, *ibid.*, p. 26.

the correspondence between the proposals and expectations, and Russia's position.

Armenia, which originally intended to sign the agreement, refused to do so literally on the threshold of the summit. Its rejection was announced during the visit of President Serzh Sargsyan to Russia on 3 September 2013, where he made a statement about his country's readiness to join the Eurasian Customs Union, an organization initiated by Russia. Being politically and economically dependent on Russia, Armenia was forced as soon as possible to drastically change the direction of its foreign policy. Ukraine also refused to sign the agreement, but unlike Armenia, this state expressed its opinion a few days before the Summit. Hence, the Ukrainian government temporarily suspended the process of preparation for signing the Association Agreement and DCFTA and signed the documents later by the new after-revolutionary government.<sup>41</sup> With regard to Belarus, it was known from the outset that this country would not sign any agreements with the EU, due to the fact that Belarus has close integration with Russia and was a member of the Customs Union with Russia and Kazakhstan. This precluded the possibility of participation in the two opposing integration processes simultaneously.<sup>42</sup> Only Georgia and Moldova joined the Eastern Partnership program.

### **Azerbaijan expectations in relations with the EU**

A different approach in its relations with the EU was taken by Azerbaijan. This country, in pursuing a balanced foreign



### ***One of the drawbacks of EaP is that it does not include any political guaranties against the Russia's negative reaction***

policy, tried to negotiate appropriate deals without overestimating their values and opportunities. Taking into account the potential geopolitical problems that may arise from signing the agreement with the EU, Azerbaijan agreed to limit cooperation to the level that suits its national interests. The EU and Azerbaijan signed an agreement on visa facilitation at the Vilnius Summit in 2013,<sup>43</sup> and shortly thereafter, on 3 February 2014 the Azerbaijani parliament ratified the agreement.<sup>44</sup>

One of the drawbacks of EaP is that it does not include any political guaranties against the Russia's negative reaction. The possible reaction of Russia is not taken into account. If any problems arise, it is not a direct concern of the EU. It is basically a feature of EU foreign policy towards the former Soviet republics. EU does not want to deal with the possible geopolitical risks that could come from Russia. In this case, such challenges are to be faced by EU partner-countries.

One of specific examples concerning Azerbaijan: to this day, there are discussions about the implementation of the Trans-Caspian pipeline to transport Turkmen natural gas to the European markets via the South Caucasus and Turkey. In the EU, the project is regarded as purely commercial, despite the fact that it is of great geopolitical

<sup>41</sup> Eastern Partnership: the way ahead, 02. 12.2013, <http://www.eu2013.lt/en/news/statements/-joint-declaration-of-the-eastern-partnership-summit-vilnius-28-29-november-2013>

<sup>42</sup> Belarus, 23.01.2014, <http://www.easternpartnership.org/partner-states/belarus>

<sup>43</sup> Strategic Eastern Partnership agreements signed in Vilnius, 29.11.2013, <http://www.eu2013.lt/en/news/pressreleases/strategic-eastern-partnership-agreements-signed-in-vilnius->

<sup>44</sup> Азербайджан ратифицировал Соглашение об упрощении визового режима с ЕС, 03.02.2013, <http://news.day.az/politics/463521.html>

importance. The EU does not accept the possible negative reaction of Russia and Iran, and wants the project to be implemented under the agreement between Turkmenistan and Azerbaijan. It is impossible for geopolitical reasons, in connection with what the question arises — whether the EU provides any security guarantees that would make the implementation of this project possible. The EU's response to this question does not exist. In the 1990-ies the implementation of such projects as the Baku — Tbilisi — Ceyhan oil pipeline was only possible thanks to the political will and the support of the United States, without which the project would not have been realized.

In this regard, the EaP for the EU is a desire to create a kind of buffer zone between Russia and the enlarged EU and to expand common values to this area. Therefore, for Azerbaijan EaP is a project, which does not meet its national interests and does not respond to its questions. Thereby Azerbaijan persuades the EU in following:

First of all, it is to give up the regional perception of the EU in the framework of the EaP with respect to the six countries. Azerbaijan is inclined to the development of bilateral relations with the EU. Bilateral cooperation would be on a functional basis: areas in which relations would be formed should be defined, in case of the successful implementation of the project further expansion and deepening of the relations would be possible.

This format of relations between the parties exists. The realization of energy and transport projects between the parties was quite successfully promoted, but it is worth noting that Azerbaijan is more often an initiator of these projects than the EU. Even if we consider those energy projects that have been proposed by the EU, none of them has been fully implemented. Azerbaijan has initiated the construction of the Baku-Tbilisi-Ceyhan and Baku-Supsa and Baku-

Tbilisi-Erzurum. Azerbaijan initiated and currently supports the construction of two regional gas pipelines: Trans Anatolian Pipeline (TANAP) passing through Turkey, and the Trans Adriatic Pipeline (TAP) through Greece, Albania and Italy. In its turn, the EU-supported projects Nabucco and trans-Caspian pipeline have not been implemented.

Another example of functional cooperation would be signing the agreement on simplified visa regime between the parties, which took force in September 2014. This will allow a greater integration at the level of society, in this case — a simplified movement of certain groups of people concerned — students, businessmen, tourists — which could also encourage the integration at the community level, so people to people contacts will be increased.

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***for Azerbaijan EaP is a project, which does not meet its national interests and does not respond to its questions***

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In short, Azerbaijan is considering the possibility of cooperation and further integration with the EU in separate sectors with their further diversification. While the EaP does not provide the necessary platform for the successful development of relations with all partner-countries, Azerbaijan expects a new agreement on strategic partnership with the EU. Instead of an Association Agreement within the EaP initiative, Azerbaijan is looking to conclude an agreement on Strategic Modernization Partnership. Azerbaijan hopes that the agreement will reflect the expectations of the country that have been expressed above.

Azerbaijan perceives the integration processes if a series of conditions are met:

firstly, the existence of a rational basis for possible delegation of its political sovereignty, what Azerbaijan will get instead. Secondly, the economic feasibility of participation in integration processes. For example, 90% of Azerbaijan's exports consists of oil and oil products. It is a commodity, for which it is not necessary to create a simplified format of trade relations, as it is always in demand. In turn, there are sectors of the Azerbaijan's economy (such as agriculture, banking and insurance sectors), which will be negatively affected by the simplification of the trade regime. Azerbaijan prefers primarily to build and strengthen sectors that can compete successfully in the international economy, and then to participate in integration projects. Finally, the third condition is how the integration process will contribute to

the resolution of the Armenian-Azerbaijani Nagorno-Karabakh conflict. These three conditions determine the strategy of Azerbaijan with respect to any proposed integration project.

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# EASTERN EUROPEAN REGIONAL COOPERATION AFTER CRIMEA: THE ART OF THE POSSIBLE

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***Russia's policy towards Ukraine did not simply change the system of international relations, rebuilding the relations between its key elements. Moscow's actions in Crimea and eastern Ukraine have urged the need for sub-regional cooperation. Regionalization is one of the key trends in international relations. The author examines factors that stimulated sub-regional cooperation on the European continent (Central and Eastern Europe, South-Eastern Europe, the Black Sea region), the impact of the current global and regional processes on regional interaction, as well as the question of whether the Russian-Ukrainian crisis has raised the issue of a sub-regional security system formation due to a sharper sense of insecurity among states of CEE, SEE and the Black Sea region. The factors that facilitate or hamper efficiency of regional cooperation are studied as well.***

Transforming the system of international relations in the post-Cold War period as well as forming new elements of the structure and rebuilding the links among its key elements is extensively examined. The revisionist policy of the Russian Federation in the post-Soviet space enhances academic interest to these issues. However, while the Ukrainian-Russian crisis is studied in the context of the geopolitical confrontation between Russia and the West and its influence on the system of international relations, not enough attention is paid to the effects of this confrontation on the system of relations in the region of Central and Eastern Europe (CEE) and South-Eastern Europe (SEE).

The annexation of the Crimean peninsula by the Russian Federation has raised some issues in the modern system of international relations. The first one among them is the return to the use of force in foreign policy as a means to achieve state interests. The

second one is a violation of the principle of territorial integrity of sovereign states. Thirdly, it is the ineffectiveness of the existing mechanisms of international organizations under international law. Altogether, these points indicate that the period of "Cold Peace" is over. They also aggravated a sense of insecurity in the countries of the region, which belong to the area of "priority interests" of the Russian Federation. Thus, the aim of this study is to comprehend the consequences of the Russian-Ukrainian conflict for the CEE and SEE states, to identify trends that will define the system of regional relations in the short and medium term.

## **Regionalization and the modern system of international relations**

The role of regional cooperation increased significantly just after the end of the Cold War. In Europe regionalization occurred

simultaneously at three levels: first, in the framework of transatlantic cooperation on security (NATO and the OSCE); secondly, within the Western European integration process — establishing the European Union and its subsequent enlargement; and thirdly, in the former Warsaw Pact area. In contrast to the first two levels, where cooperation was developing during the second half of the twentieth century, the CEE and SEE countries began to create regional structures only with the end of the Cold War. The system of interaction and interdependence among the participants of the first two areas and the high efficiency of their collaboration was so obvious that it made them the centre of attraction for the post-socialist countries, as well as an impetus to develop their own formats of regional cooperation.

It should be noted that one of the main features of the post-bipolar regionalism is the emphasis on equal partnership in the process of regional cooperation in contrast to the dominance of large states over the small ones. At the same time, the leading regional states help to strengthen ties and cooperation structures in order to pursue their interests as effectively as possible. The second characteristic of modern regionalism is institutionalization: establishing economic, political and military structures that provide a platform for dialogue on preferential issues among the states of the region as well as with the existing unions — the EU, NATO<sup>45</sup>.

The regionalization of the CEE and SEE states started during the transition from a bipolar to a unipolar international system, which, according to William C. Wohlforth,



***main features of the post-bipolar regionalism is the emphasis on equal partnership in the process of regional cooperation in contrast to the dominance of large states over the small ones***

is the least war prone of all structures<sup>46</sup>. Therefore, it should be more secure, allowing the focus on the development of mutually beneficial cooperation. This reduces the sense of threat or even danger to some extent since the states unanimously show their wish to be guided by the Western norm and rules. So regional cooperation has become one of the key mechanisms of integration of the CEE and SEE states.

Among the factors that contributed to the consolidation of the regional relations, the most influential ones were the following aspirations of CEE and SEE states:

- to get out of the scope of Russia's sole influence as a successor of the USSR;
- to restructure the economy, trade and economic ties;
- to obtain security guarantees;

These factors had a clear external origin and links with a subjective external identification of countries in the region. Thus, the imperative of regional cooperation was the accumulation of resources and successful integration into the EU and NATO. The traditional perception of Russia as a threat — a state that implemented the hegemonic policy — laid at the heart of the Euro-Atlantic aspirations, especially for

<sup>45</sup> Восток/Запад: Региональные подсистемы и региональные проблемы международных отношений (Voskreesenskiy A. (ed.), East/West: Regional subsystems and regional problems of international relations), ROSSPEN: Moscow, 2002, p. 33; Европа: вчера, сегодня, завтра (Shmelev N. (ed.) Europe: yesterday, today, tomorrow), Publishing House "Economica": Moscow, 2002. — p. 420.

<sup>46</sup> W.C. Wohlforth, The stability of a unipolar world, [in:] R. Little, M. Smith (ed.), Perspective in world politics, Routledge Taylors & Francis Group: London and New York 2006, p. 116.

some of the CEE states. A Ukrainian expert Olga Brusylivska argues that the EU's role in the processes of post-communist transformation of CEE states was beneficial without any exaggeration, while the estimation of NATO's role requires considerable caution because of its both internal contradictions and ambiguous results<sup>47</sup>. Nevertheless, the perspectives of NATO and the EU membership became those fundamentals, which allowed integrating into these structures in a relatively short period of time, greatly reduced the degree of tension, and inspired with a sense of security.

The occupation of Crimea and the international context of the armed conflict in the East of Ukraine undermined that. The events of 2014-2015 in Ukraine, as well as the reaction of the Western countries demonstrated that the international system today is not a system of "co-ordinates with clear balance of power and the capacity of States"<sup>48</sup>. Many experts have concluded that the period of unipolarity has ended and the world has become "nonpolar" or "multipolar" where the centres are not the only superpower, but also alliances of states. Specific features of this system are its dynamics and vagueness, which lead to a significant increase in a number of states actively involved in a dialogue on key issues, looking for joint solutions. It should be stressed that these states prefer to rely on domestic imperatives and subjective assessments. Under these circumstances a "diffusion of power" occurs and results

in the ineffectiveness of multilateral diplomacy and institutions' weakness. The result is a raise of the regional countries' role in international processes<sup>49</sup>. This situation generates a "variability order" when alliances and associations are established in response to the situation or current interests<sup>50</sup>.

A special meaning of this approach is underlined in the use of force for enhancing national interests or to getting control over resources. That really provokes the increase in the total sense of danger and contributes to emerging new threats. The existing system of international security under such conditions practically ceases to exist due to the lack of trust among key actors, lack of solidarity within the Euro-Atlantic area with regard to Russia's role in the new Eastern Europe and a model of relations with Russia as a whole, as well as the marginalization of Russia.

### **Russia's interests in the CEE and SEE**

To understand Kremlin's approach to security in Europe we should take into account the following cornerstones of the Russian worldview. First, "a genuinely inclusive and symmetrical post-communist political and security order" was not created after the Cold War, which led to the emergence of new resentments and potential for new conflicts<sup>51</sup>. The Russian perception of the world was built on a strengthened sense of marginalization of

<sup>47</sup> Брусиловська О. Посткомуністичні трансформації країн Східної Європи (O. Brusylivska, Postcommunist transformation of the Eastern European States), Astroprint: Odessa, 2007, p. 14.

<sup>48</sup> Т. Бордачев, Возвращение внешней политики (T. Bordachev, Return of foreign policy), "Russia in Global Affairs", April, 2010 [[www.globalaffairs.ru/number/Vozvrashchenie-vneshnei-politiki-14955](http://www.globalaffairs.ru/number/Vozvrashchenie-vneshnei-politiki-14955) access: 17 April 2014].

<sup>49</sup> С. Толстов, Міжнародна система початку XXI століття (S. Tolstov, The international system of the beginning of 21st century), "Foreign Affairs", September, 2013, p. 10.

<sup>50</sup> R.N. Haas, The age of non-polarity: what will follow US-dominance "Foreign Affairs", May/June, 2008.

<sup>51</sup> J. Steele, Frontline Ukraine: Crisis in the Borderlands by Richard Sakwa review — an unrivalled account, "The Guardian", 10 March 2015, [<http://www.theguardian.com/world/2015/mar/10/ukraine-russia-richard-sakwa-extract> access: 15 October 2015].

Moscow, a feeling that Russia was seen as a regional state, excluded from a global dialogue of the centres of power, as well as on a tense perception of threats to the national and state interests. In this context, Russia's actions should be viewed through the approach of William C. Wohlforth. He notes that when the leading state excels in the production of economic and naval capabilities but not conventional land power, it may seem simultaneously powerful and vulnerable. Therefore, other states that are powerful militarily, but lack economic and political authority get to increase the share of military capabilities in foreign policy. This results in ambiguity — which state is more powerful, which is more secure, which is threatening, and which might make a bid for hegemony. In the end, the situation will come to the fact that efforts to produce a counterbalance globally will generate powerful countervailing action locally<sup>52</sup>.

Secondly, Russian strategic culture is based upon two qualities: a deep feeling of insecurity, and a major emphasis on power projection<sup>53</sup>. Still perceiving NATO and the EU as threats to its geopolitical influence, the Kremlin starts to strengthen its security. This demonstrates the security dilemma of the Russian Federation as defined by Robert Jervis: all states tend to assume the worst in others and respond accordingly. Thus, the attempts of one state to achieve security precipitate a feeling of insecurity in other states. However, the Kremlin is taking steps, which are inevitable seen as offensive rather than defensive by other states, especially by the states of Central

and Eastern Europe and the Baltic. Their collective actions unintentionally generate a spiral of insecurity for Russia. In extreme cases, says Jervis, states that seek security may believe that the best, if not the only, route to that goal is to attack and expand<sup>54</sup>.

Such a strategy is at the heart of Moscow's policy towards Georgia, Moldova and Ukraine. It creates hotbeds of unresolved conflicts on the territory of countries that show their aspirations to integrate into European structures. To use this approach, the Kremlin seeks to get the maximum political influence with minimal efforts. Moreover, by this aggressive policy towards Georgia and Ukraine, Russia demonstrates that it no longer sees itself as a part of the common space of security and stability, but "as a result of the policy of the West" has turned into an isolated and unpredictable actor, which will use all the resources to return its hegemonic status. As a Ukrainian expert M. Vorotnyuk pointed out, Russia's tactics regarding conflicts on the post-Soviet area is based on identical premises to insist on its exclusive status of observer and mediator in conflicts, self-inspired, as well as to hamper the capacity of the international community, in particular the EU, to play a more active role in the processes of conflict resolution<sup>55</sup>.

By recognizing the independence of Abkhazia and South Ossetia and signing the agreements on alliance and strategic partnership with them at the end of 2014, as well as by annexing Crimea in March 2014, Russia anchored its position in the Black Sea, minimizing one of the greatest dangers

<sup>52</sup> W.C. Wohlforth, *The stability of a unipolar world*, [in:] R. Little, M. Smith (ed.), *Perspective in world politics*, Routledge Taylors & Francis Group: London and New York 2006, p. 113-117

<sup>53</sup> P. Sinovets, C. Becker, H. Reisinger, B.S. Windsor, *Ukraine and its Neighbourhood How to Deal with Aggressive Russia*, "NDC Conference Report", March, 2015 [<http://www.ndc.nato.int> access: 10 August 2015]

<sup>54</sup> R. Jervis, *Perception and Misperception in International Politics*, Princeton University Press: Princeton 1976, p. 63.

<sup>55</sup> M. Vorotnyuk, *Ukraine in the Black Sea region after annexation of Crimea: position and interests*, "Russian-Ukrainian conflict: possibilities for de-escalation Collection of analytical works", 2015 [[https://www.academia.edu/14568534/Ukraine\\_in\\_the\\_Black\\_Sea\\_region\\_after\\_anexation\\_of\\_Crimea\\_position\\_and\\_interests\\_in-Russian-Ukrainian\\_conflict\\_potential\\_for\\_deescalation\\_2015](https://www.academia.edu/14568534/Ukraine_in_the_Black_Sea_region_after_anexation_of_Crimea_position_and_interests_in-Russian-Ukrainian_conflict_potential_for_deescalation_2015) access: 21 October 2015]

for itself — “the potential deployment of the NATO troops in Ukraine, particularly in Crimea, which would further reduce Russian strategic depth”<sup>56</sup>. The Republic of Moldova can be a next one, where Transnistrian conflict still exists, or even the Baltic states, where 25% of the population are Russian, aiming to weaken NATO by invading these states using a humanitarian intervention concept as a cover.

Therefore, the question whether Moscow will be acting in the same way in the Baltic direction, which is included in the zone of “vital interests” of Russia, is still open. However, Russia is now actively using the Kaliningrad region for the promotion of the “Russian World” branches established in almost all CEE and SEE states. There is no direct threat yet, however, the Kremlin keeps using in its geopolitical rhetoric the theses on priority to “take care of the Russians who found themselves outside the Russian Federation”<sup>57</sup> and the exclusive right to “fully protect the rights and legal interests of Russian citizens and compatriots abroad”<sup>58</sup>. Such a stance and methods already used in Ukraine largely undermine the national security of the Baltic states and the stability in the region.

The Balkan region is also of great interest to Russia because of its strategic importance as a major infrastructure component of oil and gas transportation system to Europe. It should also be kept in mind that the

Kremlin aims at gaining control over the key internal areas of a state — military, political, financial, economic, social, and cultural. It is emphasized in the Foreign Policy Concept of the Russian Federation in 2013 that the global competition is acquiring a civilizational dimension for the first time in modern history, and is put into the rivalry of different values and models of development based on universal principles of democracy and market economy. Thus, the Russia’s actions regarding Ukraine and other Eastern European countries will continue to be guided by the logic of fixing the “red line” that defines the “Russian world” and that is not the boundary of the former Soviet Union or the Russian empire, but Russia’s ideas about “what resides to it”<sup>59</sup>. Therefore, Russia, in accordance with this logic, is obliged to play a defensive role in Eastern Europe to the extent of using the armed force and to intervene into the territory of another state on the basis of a simple reference to the history, geography and culture (or civilization).

The Kremlin’s approach to getting its superpower status back constitutes the international system that is characterized by asymmetric and multivector links between its elements. It will lead to the preservation of instability and conflict potential. Under these conditions, the strengthening of interaction within regional organizations and structures can be a compensatory factor.

<sup>56</sup> P. Sinovets, C. Becker, H. Reisinger, B.S. Windsor, Ukraine and its Neighbourhood How to Deal with Aggressive Russia, “NDC Conference Report”, March, 2015 [<http://www.ndc.nato.int> access: 10 August 2015]

<sup>57</sup> Послание президента Б. Ельцина Федеральному собранию РФ: «Об укреплении Российского государства» 1994 год (Message from the President Boris Yeltsin to the Federal Assembly of the Russian Federation “On the strengthening of the Russian State” 1994) [[http://www.intelros.ru/strategy/gos\\_rf/psl\\_prezident\\_rf\\_old/58-poslani-ja\\_prezidenta\\_rossii\\_borisa\\_elcina\\_federalnomu\\_sobraniju\\_rf\\_1994\\_god.html](http://www.intelros.ru/strategy/gos_rf/psl_prezident_rf_old/58-poslani-ja_prezidenta_rossii_borisa_elcina_federalnomu_sobraniju_rf_1994_god.html) access: 23 October 2015]

<sup>58</sup> Концепция внешней политики Российской Федерации от 12 февраля 2013 года (The Foreign Policy Concept of the Russian Federation 12 February 2013) Ministry of Foreign Affairs of the Russia [[http://archive.mid.ru/brp\\_4.nsf/0/6D84DDEDEB7DA644257B160051BF7F](http://archive.mid.ru/brp_4.nsf/0/6D84DDEDEB7DA644257B160051BF7F) access: 15 March 2013].

<sup>59</sup> Ф. Лукьянов, Принуждение к новому миру (F. Lukyanov, Constraint to a new world) “Russia in Global Affairs”, March, 2014 [<http://www.globalaffairs.ru/redcol/Prinuzhdenie-k-novomu-miru-16452> access: 12 February 2015]; A. Makarychev, EU & Russia: competing realities and misperceptions “PONARS Eurasia Policy Memos”, March, 2014 [<http://www.ponarseurasia.org/article/eu-russia-competing-realities-and-misperceptions> access: 12 February 2014].

## Prospects for Regional Cooperation after 2014

In the context of Kremlin's geopolitical counteractions to the Western order, creating a hotbed of instability and armed conflict at the edge of the united Europe that shut the "arc of instability" from the Balkans to the Middle East, it is strategically important to intensify regional cooperation from the Baltic to the Black Sea. The regionalization of the CEE and SEE indeed is one of the main tools to defend their own interests and to boost security. These states already have the experience of sub-regional cooperation; however, in the context of the Ukrainian-Russian conflict, the existing structures as well as states' dialogue are facing new challenges.

The existing sub-regional cooperation can be divided with certain reservations into three dimensions: Central and Eastern European, South Eastern European and the Black Sea. The conditionality is determined by the fact that many countries are simultaneously involved in the regional structures of different geographical and geopolitical areas. Thus, the Visegrad Group and the Central European Initiative remain important platforms for inclusive dialogue over regional problems and defining ways to solve them. Security issues were included in the agenda indirectly, mostly as a component of social, energy, and transport interaction.

The mechanisms for cooperation among the countries of South Eastern Europe developed under the influence of conflicts in the Balkans. That resulted in concentration on security issues and deep cooperation with NATO, the OSCE and the EU. The greatest attention is paid to the development of such structures as the Regional Cooperation Council, South East Europe Defence Ministerial (SEDM), Multinational Peace Force South-Eastern Europe SEEBRIG, and the Balkan

Battle Group within the European Union (HELBROC) etc. Moreover, Romania and Bulgaria are active participants in the regional structures of the Black Sea region — the Black Sea Economic Cooperation (BSEC), the Black Sea Naval Force (BLACKSEAFOR), where the priority is given to the development of trade and economic relations and cooperation of navy as well.

The Kremlin's policy towards Ukraine, the visible violation of the basic principles of international law and Russian international obligations, as well as the purposeful manipulation of European dependence on Russian energy — all of these have become an unprecedented challenge for regional cooperation. On one hand, security issues have been put to the fore; the role of regional organizations in this field has been revised. On the other hand, the difference in the approaches to security and security threats within the region has become sharp.

Historically, Poland, the Baltic states, and Romania share misgivings regarding any demonstrations of neo-imperialist policy of the Kremlin, especially towards the states that are placed in the buffer line — Ukraine, Moldova and Belarus. Pro-European choice of Kyiv and Chisinau, and their adoption of the Western democratic values are seen in Moscow as a tool to limit and neutralize Russia's influence in the region. The Russian-Ukrainian crisis has already had a significant impact on the Baltic states, Poland, Romania, as well as the system of regional relations. It reveals the multidimensional nature of the current problem of the European security that in addition to energy dependence on Russian energy sources also faces hybrid threats. These threats are characterized by asymmetry and unavailability of any European or Euro-Atlantic structures (EU and NATO, even the OSCE) to their counteraction. Among these hybrid threats, "dirty" media campaigns and

mass propaganda, support for separatist sentiments using the slogan of the right of nations to self-determination and protection of rights of national minorities, as well as providing military-technical assistance to insurgents within so-called “humanitarian aid” should be pointed out.

One of the main consequences of the Ukrainian crisis for these countries is the preservation of their unsettled status. The longer it lasts, the more Russia will be perceived as a “winner” in the confrontation with the EU and the Western powers, unable to prevent the protracted conflicts in countries that strive to integrate into Western structures. Another important negative consequence will be disappointment and big divergences within the integration structures that are not able to defend the values, norms and rules on which these institutions are based<sup>60</sup>. Such outcome is unacceptable for Poland, Romania, Estonia, Latvia and Lithuania.

At the same time the Czech Republic, Slovakia, Hungary, and to some degree Bulgaria are opposing them. The policy of this group of states is primarily based on pragmatic interests: to support economic ties with Russia and to maintain the volume of investment flow from this country. Hungary has behaved less and less as a NATO or a EU member state. Hungarian leaders are open to Russian propositions on the nuclear power plant in Paks, and dependence on Russian energy<sup>61</sup>. Bulgaria has serious problems with aggressive



***the difference in the evaluation of threats from the Kremlin for the security of the CEE and SEE states has a direct impact on the integrity and effectiveness of the regional system***

Russian businesses in Sofia. Serbia traditionally behaves like a Russian satellite in the Balkans<sup>62</sup>. These states' leaders are confident that the situation in Ukraine is not an external threat, but it is rather “internal turbulence”<sup>63</sup>, moreover, they nourish dangerous “illusion that these countries are protected from the invasion of Russia”, that Russian aggression against Ukraine will not have any effect on the Eastern Europe and the security of the EU<sup>64</sup>. First of all, the experts are worrying about weak political, economic and security structures of these states that are still in the process of transition, and that combined with the Moscow pressure may lead to the rise of corruption, delay in reforms and social unrests inside of the EU.

Thus, the difference in the evaluation of threats from the Kremlin for the security of the CEE and SEE states has a direct impact on the integrity and effectiveness of the regional system. The threat of a repetition of the “Eastern scenario” on the Southern border of the EU (Moldova) and the EU member states (the Baltic States), where there is a lot of Russian-speaking

<sup>60</sup> R. Bambals, European security, defence, and global role: a year after Crimea [in:] A. Pabriks, A. Kudors (ed.) The war in Ukraine: Lessons for Europe. University of Latvia Press: Riga, 2015, p. 33

<sup>61</sup> E. Hajdú The ugly truth of project V4. Can a few common goals move Visegrad cooperation forward? Visegrad Insight, 5 January, 2015 [<http://visegradinsight.eu/the-ugly-truth-of-project-v405012015/> access: 25 January 2015]

<sup>62</sup> Romania Needs a Real Partnership with Poland : An interview with Armand Goșu, a professor at the Faculty of Political Science, Bucharest University, “The New Eastern Europe”, 11 March 2015 [<http://www.neweasterneurope.eu/interviews/1522-romania-needs-a-real-partnership-with-poland> access: 20 October 2015].

<sup>63</sup> B. Jarabik, Russia, Ukraine, and the Visegrad: Time to Get Real, “Visegrad Revue” 14 November, 2014 [<http://visegradrevue.eu/russia-ukraine-and-the-visegrad-time-to-get-real/> access: 17 February 2015].

<sup>64</sup> J. Dempsey, Not Another Iron Curtain, “Carnegie Europe”, 23 February 2015, [<http://carnegieeurope.eu/strategieurope/?fa=59150> access: 25 February 2015].

population, increases Europe's security vacuum, while the question of who will be in charge of the European security provokes the securitization of the region. Romania has already adopted a new National Defence Strategy, where the regional instability is put on the first place in the "Risks" Chapter<sup>65</sup>. It also emphasizes the change of the global paradigm that heightens security risks for Romania, situated in a region that was defined for a long time by the presence of frozen conflicts, and today is marked by active conflicts and the deterioration of the relations between NATO and the Russian Federation. The Strategy also notes that new challenges of the security environment require effective and efficient collaboration within international cooperation mechanisms and formats — especially with NATO, the EU, in the framework of the strategic partnership with the United States and other international actors. The leaders of Poland, where Law and Justice Party won the recent elections, also stated the need to revise the National Security Strategy. According to Judy Dempsey, Jaroslaw Kaczyński, the founder of this party and ex-Prime-Minister, is very anti-Russian<sup>66</sup>. Poland's president Andrzej Duda has already signalled that building an alliance of Eastern European countries running from the Baltic Sea down to the Black Sea that would keep Russia at bay will be a priority of his presidency<sup>67</sup>. To achieve that A. Duda is going to run some tracks concurrently: to deal with Romania and

Baltic states, to win over Polish partners in V4 and to strengthen NATO presence.

A number of steps to enhance regional cooperation in the sphere of security and defence have already been taken; among them, there are the following:

- Declaration of the Visegrad 4 "Long vision of the Visegrad countries on deepening their defence cooperation", March 2014 that may increase the cohesion of the V4 group by practical defence cooperation in the frames of V4, the EU and NATO;
- Poland-Romania declaration on strengthening security and defence ties that "would allow the opening of a new stage in the strategic partnership between Romania and Poland"<sup>68</sup>.
- Poland-Bulgaria memorandum on cooperation within the field of security and defence, a letter of intent, pertaining the collaboration involving the defence industries of both states.

In spite of these, there is a clear trend to deepen the partnership with the US in the context of strengthening NATO in the region. Lithuania signed a memorandum of understanding on cooperation of Lithuania military force and the US Army in Europe 2015-2017<sup>69</sup>. Poland has already purchased American-made Patriot missiles for its own national missile defense system and agreed with the US to deploy heavy weapons in 2016

<sup>65</sup> Romanian National Defense Strategy 2015-2019 [https://www.presidency.ro/static/National%20%20Defense%20Strategy%202015%20-%202019.pdf access: 01 November 2015].

<sup>66</sup> J. Dempsey, Poland's Euroskeptical Future, "CarnegieEurope", 26 October, 2015, [http://carnegieeurope.eu/strategieurope/?fa=61741 access: 05 November 2015]

<sup>67</sup> V. Gera, M. Scislowska, Poland's new leader seeks greater regional unity, NATO bases, "The Big Story", 21 August, 2015 [http://bigstory.ap.org/article/b00343b6e0a24c2595a56b15c35ae2f6/polands-new-leader-seeks-greater-regional-unity-nato-bases access: 05 November 2015]

<sup>68</sup> Romania Needs a Real Partnership with Poland : An interview with Armand Goșu, a professor at the Faculty of Political Science, Bucharest University, "The New Eastern Europe", 11 March 2015 [http://www.neweasterneurope.eu/interviews/1522-romania-needs-a-real-partnership-with-poland access: 20 October 2015].

<sup>69</sup> Литва и США подписали меморандум о сотрудничестве (Lithuania and the United States signed a memorandum of cooperation) "Weekly Mirror" 5 July 2015 [http://zn.ua/WORLD/litva-i-ssha-podpisali-memorandum-o-sotrudnichestve-181581\_.html access: 20 October 2015]

that will be based in the west and northeast of the country amid tensions with Russia<sup>70</sup>. Romania as another stalwart NATO ally is going to deepen military cooperation with the US and NATO as a whole. It has already announced its strong support for hosting the NATO missile defense system in Deveselu, a former Romanian military airforce base, as well as for the new Spearhead Force and the other decisions taken at the Wales summit. As a Black Sea state, Romania will evidently have a strong central role on defining an effective counter-strategy. Bulgaria and the Baltic states also agreed to host US military equipment.

On one hand, Europe will be forced to increase its defense capabilities in the future if it wants to deal with the myriad of threats in its neighbourhood, including those related to energy, transport, and transit security and illegal immigration, uncontrolled borders, the proliferation of weapons, drugs and smuggling, intensification of separatist movements in areas of existing conflicts and potentially unstable regions; as well as the growth of ethno-national tensions and the subsequent manipulation of public consciousness within national minorities. On the other hand, those issues relate to the strategic priorities of all states in the region and should contribute to the evolution of existing regional structures and initiatives of CEE and SEE states.

## Conclusion

The continuation of the expansionist policy of the Kremlin towards the states of Central and South-Eastern Europe seems unlikely. However, if Ukraine and Moldova become

part of the new Russian “transregional empire” the situation in the region of the CEE and SEE will definitively return to the state of a “new Cold War”. Thus, the destabilization of Ukraine is affecting the stability and security of the CEE and SEE region as a whole. The main challenge in the region, provoked by the Ukrainian-Russian conflict, is the growing split between the states. Poland, Romania, Lithuania, Latvia actively support Ukraine and declare their readiness to expand regional contacts to ensure stability and strengthen security. Undisputed is the opinion of experts that the policy of these countries is the most important for the development of a new system of regional relations. Sharing the perception of threats and challenges, these countries are ready to move from declarations to real formats of reasonable defense. The lack of resources is covered by the expanded technical assistance from the United States and NATO. Nevertheless, the main task is still to reach a common vision of regional security. Questions remain regarding other countries following this initiative group, but the fact that the Ukrainian issue has become an unprecedented challenge for the unity of the states of the region and the European system of values is evident. Obviously, the system of relations in the CEE and SEE countries will no longer be the same as well as Ukraine itself.

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<sup>70</sup> E. Cadei Poland: military superpower? “OZY”, 29 May, 2015 [[http://www.ozy.com/acumen/poland-military-superpower/41673?utm\\_source=FBorganic&utm\\_medium=Social](http://www.ozy.com/acumen/poland-military-superpower/41673?utm_source=FBorganic&utm_medium=Social) access: 20 October 2015]; US heavy weapons to be deployed in Poland next year, “EUObserver”, 28 August, 2015 [<https://euobserver.com/tickers/130027> access: 29 October 2015]

# POLITICAL AND ECONOMIC CONSEQUENCES OF THE EU'S AUTONOMOUS TRADE PREFERENCES FOR UKRAINE

*Anton Kuchukhidze*

*The article examines the political and economic meaning of the EU's Autonomous Trade Measures for Ukraine. The article questions the effectiveness of granting such measures on the political and economic levels and explores its impact on the bilateral trade relations of the European Union and Ukraine.*

The EU-Ukraine Association agenda has dramatic history. In this article we will not evaluate the historical background of the EU's autonomous trade preferences (ATP) granted to Ukraine, instead we will examine the nature of such measures. 2014 was a very difficult year for Ukraine, especially for its independence and territorial integrity. At the same time, it was extremely important for the EU-Ukraine relations. The EU strengthened its role as one of the main partners and donors for Ukraine. The EU provided comprehensive support for different spheres: since spring 2014, "the EU has committed a €12.8 billion support package for the next few years to support the reform process. To date, the EU and European financial institutions have mobilized, that is committed or disbursed, over €7 billion".<sup>71</sup>

Granting the autonomous trade preferences was an additional act of support for the Ukrainian economy. "We have agreed a set of unilateral trade provisions that will

allow Ukraine to benefit substantially from the advantages offered in the Deep and Comprehensive Free Trade Area, DCFTA, and this even before the signature of the Association Agreement with Ukraine. This will represent an economic benefit to Ukraine of around 500 million euros per year..."<sup>72</sup>, — stated President Barroso on 11 March 2014, when the Commission adopted these measures. These measures were effective from 23 April 2014 to 31 December 2015, according to the appropriate European Parliament and European Council regulations".<sup>73</sup>

In such a way the EU opened its doors for Ukrainian exporters, in other words, this tool became a chance for Ukraine to double its profit from trade with the EU. However, Ukraine did not use this chance to the fullest because it faced some objective challenges. ATP tool is like a small prototype of a free trade agreement between the EU and Ukraine: "the autonomous trade preferences can be regarded as the EU's

<sup>71</sup> EU-Ukraine relations, Fact Sheet [<http://eeas.europa.eu/> access: 3 December 2015]

<sup>72</sup> Remarks by President Barroso on unilateral trade measures for Ukraine, 11 March 2014 [<http://europa.eu/access:20> November 2015]

<sup>73</sup> Regulation (EU) No 374/2014 of the European Parliament and of the Council of 16 April 2014 and Regulation (EU) No 1150/2014 of the European Parliament and of the Council of 29 October 2014

unilateral fulfilment of their obligations under the DCFTA".<sup>74</sup>

The systematic and comprehensive analysis of the ATP tool will help us to determine the possible development of trade relations between the EU and Ukraine when the Association Agreement enters into force. It is worth to mention that every process in politics and economy has both positive and negative results. Therefore, it is very important to define the framework, within which we can examine the political and economic consequences of the ATP granting. The main components of analysing this framework shall be the following:

- a) aim of the ATP granting (to allow Ukrainian exporters to benefit from preferential access to the EU market)
- b) character of the initiative (the EU unilateral initiative and decision);
- c) validity period of the ATP (from 24 April 2014 to 31 December 2015);
- d) indicators of bilateral trade relations between the EU and Ukraine;
- e) geopolitical, political and economic realities for the above mentioned period.

We will examine the five criteria mentioned above in order to give an answer to the question concerning the effectiveness of these trade measures.

## Political consequences

The political will of the EU concerning the granting of the ATP was one of the signs of the EU's strong political support for Ukraine. It was a signal that Ukraine remained one of the key partners for the EU in the framework of the European Neighbourhood Policy and Eastern Partnership. The EU reaffirmed its commitment to the Eastern Partnership formula: "to create the necessary conditions, to accelerate political association and further economic integration between the European Union and interested partner countries".<sup>75</sup> The EU also reaffirmed some basic principles of its Security Strategy 2003:

- Europe should be ready to share the responsibility for global security and in building a better world.
- Even in era of globalization, geography is still important. It is in the European interest that countries on our borders are well-governed. Neighbours who are engaged in violent conflict, weak states where organized crime flourishes, dysfunctional societies or exploding population growth on its borders all pose problems for Europe.
- It is not in our interest that enlargement should create new dividing lines in Europe. We need to extend the benefits of economic and political cooperation to our neighbours in the East while tackling political problems there".<sup>76</sup>

<sup>74</sup> According to Annex I to Regulation No 374/2014 of the European Parliament and of the Council of 16 April 2014, the autonomous trade preferences provide for the reduction (cancellation) by the European Union of import duties for Ukrainian exports to the EU market. This implies the cancellation of 83.4% of import duties on agricultural and food products (referred to groups 1-24 of the HS classification) and 94.7% of import duties on industrial products (referred to groups 25-97 of the HS)/ Autonomous Trade Preferences: Impact on Ukrainian Export [<http://www.ier.com.ua/> access: 23 November 2015]

<sup>75</sup> Joint Declaration of the Prague Eastern Partnership Summit, 7 May 2009 [<http://www.consilium.europa.eu/> access: 18 November 2015]

<sup>76</sup> A secure Europe in a better world [<http://www.consilium.europa.eu/> access: 18 November 2015]

Ukraine has been engaged in a violent conflict since 2014, it became a source of threats for the EU, so the EU's involvement was logical as it correlated with its security and political values, based on the principles of the security interdependence of the European Union and its neighbours. The EU strongly supports Ukraine: "since spring 2014, Ukraine and the EU have together defined a joint reform agenda (the so-called «Association Agenda») and has followed up closely on its progress. Constitutional and electoral reforms, the fight against corruption, the reform of the judiciary, improvement of the business climate and public administration reform, including decentralisation, are among the issues that are high on the joint priority list. Moreover, the European Commission has put in place a dedicated Ukraine Support Group, composed of experts from the EU institutions and Member States in different priority sectors giving advice and support to the Ukrainian authorities in the mentioned reform sectors».<sup>77</sup>

On one hand, the conclusion is obvious — the EU strengthened its comprehensive support for Ukraine. In 2014, the ATP granting was the first sign of the EU's flexibility concerning the Association Agenda with Ukraine. This mechanism had a potential to become an effective economic tool of support and benefit, but it was adopted when the Crimea was annexed and the armed conflict in the East started, so these circumstances had a negative effect on Ukrainian economy, its industrial and export facilities.

On the other hand, the ATP granting is a little part of a big story. Later in 2014 the EU demonstrated a strategic and principal shift in its foreign and economic policy towards Russia's concerns on Ukraine's



***In 2014, the ATP granting was the first sign of the EU's flexibility concerning the Association Agenda with Ukraine***

Association Agenda. According to U.Speck, the EU suddenly and surprisingly changed its long and firmly held position that Russia has no right to interfere in its relations with Ukraine on September 12, 2014, when the EU Trade Commissioner Karel De Gucht announced that an agreement had been reached between the EU, Russia, and Ukraine to delay the implementation of a deep and comprehensive free trade agreement (DCFTA) between the EU and Ukraine.<sup>78</sup> In fact, it was a political compromise between the EU and Russia. From that moment ATP did not merely become a symbol of support, but it also became something similar to a temporary limited Association Agreement between the EU and Ukraine. The geopolitical challenges, which Ukraine and the EU faced in 2014, were the main reasons for the EU's new flexible approach concerning the Association Agenda of Ukraine in relations with Russia.

On the political level, we can see a transformation of the ATP from the temporary to the prolonged initiative. ATP became a tool, which promoted deeper relations with Ukraine on the way to its integration with the EU and at the same time a start of the trilateral consultations with Russia. It is worth reminding that the provisions for such consultations became a part of the Minsk Agreements: "They (*ed. — leaders of Normandy format*) also support trilateral talks between the EU, Ukraine and Russia in order to achieve practical solutions to concerns raised by Russia with

<sup>77</sup> EU-Ukraine relations, Fact Sheet [<http://eas.europa.eu/> access: 3 December 2015]

<sup>78</sup> Speck U. Postponing the Trade Agreement with Ukraine: Bad Move, EU [<http://carnegieeurope.eu/publications/?-fa=56795> / access: 16 November 2015]



***ATP became a tool, which promoted deeper relations with Ukraine on the way to its integration with the EU and at the same time a start of the trilateral consultations with Russia***

regards to the implementation of the Deep and Comprehensive Free Trade Agreement between Ukraine and the EU".<sup>79</sup> This fact stresses once more the high importance of the mechanism for these consultations for the Russian Federation.

At the same time, the European Commission has drawn some clear red lines: it is absolutely impossible to change the text of the agreement and the entry into force of the DCFTA will not be further postponed after 1 January 2016 irrespective of an earlier Russian request to do so. According to the opinion of P. Elsuwege, at best, "the trilateral negotiations can be regarded as a 'confidence building measure' within the broader context of the Minsk peace arrangement. They are a useful tool to address the economic implications of the new trade deal between the EU and Ukraine".<sup>80</sup>

The role of the trilateral talks format is strengthening. This mechanism can become efficient as it is very important to have systematic contacts with the negotiating parties, especially when their relations are difficult. It is most probable that this diplomatic format will be saved for future negotiations on different issues: "For some other concerns solutions can be available in the context of bilateral or trilateral and

plurilateral cooperation frameworks. Participants have identified a number of potential practical solutions and are ready to continue talks at ministerial and expert levels."<sup>81</sup> It is important for Ukraine to save such a trilateral format with the Russian Federation, as it will reduce the weaknesses of Ukraine during bilateral negotiations, where relations are more asymmetric.

In addition, it is worth mentioning that the Russian Federation will try to pressure Ukraine, when Association Agreement enters into force. The restrictive measures against Ukrainian producers can be adopted, and Ukraine should be ready for such challenges. Among other plans, Ukraine should have a specific plan how to help its exporters, as most probably Russia will continue the politicization of trade relations, as well as taking into account that it is impossible to exclude the adoption of restrictions against Ukrainian companies by other members of the Eurasian Union.

Ukraine will have to diversify its export including Asia, Africa and Latin America and it is a challenge for Ukraine, but it is also a chance to create a global economy model in Ukraine. "Ukraine's exports to EAEU countries consist mainly in machinery and transport equipment (34% of the total), while railway vehicles and equipment account for 41%. This is a production profile inherited from Soviet times, and it is unlikely that such exports could be diverted to the EU, given the lack of demand for these products and the differences in standards and quality. Conversely, Ukraine exports to the EU consist mainly in metal, scrap, iron ore, seeds and wood."<sup>82</sup> So, the EU market will

<sup>79</sup> Annex II, S/RES/2202 (2015) [<http://www.un.org/> access: 17 November 2015]

<sup>80</sup> Elsuwege P. EU-Russia Relations and the crisis in Ukraine: how to proceed? [<http://jog.tk.mta.hu/> access: 20 November 2015]

<sup>81</sup> Outcome of the Trilateral Talks on the Implementation of the EU-Ukraine Association Agreement/Deep and Comprehensive Free Trade Area [<http://europa.eu/> access: 1 December 2015]

<sup>82</sup> Autonomous Trade Preferences: Impact on Ukrainian Export [<http://www.ier.com.ua/> access: 23 November 2015]

not fully substitute Ukrainian companies export to the Eurasian Union countries.

## Economic consequences

The EU political will to grant ATP presented an opportunity for Ukrainian companies to get more profit. Nevertheless, good trade results do not only depend on political will, but also on economic competitiveness. Unfortunately, there is a political and economic turmoil in Ukraine, which has a great impact on export facilities. In accordance with the data of the Institute for Economic Research and Policy Consulting: the Crimea annexation led to the loss of about 1.6% of exports. The military conflict in the East and the suspension of production resulted in a sharp decline in exports from Donetsk Oblast (-32.3%) and Luhansk Oblast (-46.3%), which exceeded the corresponding rate of decline in total exports (-23.5%). In this respect, the region saw a significant reduction in its value for the national exports. As of 2013, about 25% of exports originated directly from Donbass (19.6% — Donetsk region and 5.6% — Luhansk region); while in 2014 Donbass share in exports declined to 19% (15.6% — Donetsk region and 3.5% — Luhansk region)». <sup>83</sup>

Economists argue that there are other factors, which have an impact on Ukraine's export such as depreciation of the national currency, price trend at global markets, decrease in trade turnover with other main trade partners etc. In 2014, due to the above mentioned factors, total exports decreased by 23.5% and by 35.1% in the first half of 2015. However, total Ukrainian export to the EU member-states in 2014 increased by 1.5%,

but a part of this growth was recorded before the introduction of the autonomous trade preferences. In particular, during the first four months of 2014, exports to the EU increased by 8.9%, while over the period from May to December 2014, when the ATPs were already introduced, it declined by 2.9%. In 2015 exports decline rate accelerated — over the first half of the year Ukrainian exports to the EU decreased by 35.5%. <sup>84</sup>

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***It is the first practical sign for Ukraine before Association Agreement entering into force, how the homework on the reform agenda has to be done in order to have some benefits from the Association Agreement***

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To make further conclusions, it is necessary to assess ATP at the microeconomic level: during the period from May to December 2013, 6,113 exporting firms were engaged in exports to the EU market. Their number increased up to 9,116 in the same period of 2014. Therefore, the net increment was 3,003 firms: 5,302 enterprises with no export during May-December 2013 entered the European market during the application of the ATPs in 2014, while 2,299 exporters terminated/suspended their export operations to the EU market. Besides, we can emphasise the 'core' exporters, which exported to the EU both in 2013 and continued trade with the EU in 2014. This group includes 3,814 enterprises or 42% of exporters in 2014, however, the dynamics of their exports to the European market was different — most of them, 2,106 firms or 55% reduced their supplies to the EU. <sup>85</sup>

<sup>83</sup> Autonomous Trade Preferences: Impact on Ukrainian Export [<http://www.ier.com.ua/> access: 23 November 2015]

<sup>84</sup> Autonomous Trade Preferences: Impact on Ukrainian Export [<http://www.ier.com.ua/> access: 23 November 2015]

<sup>85</sup> Elsuwege P. EU-Russia Relations and the crisis in Ukraine: how to proceed? [<http://jog.tk.mta.hu/> access: 20 November 2015]

The abovementioned figures demonstrate that during the internal crisis the ATP could not be beneficial. It is the first practical sign for Ukraine before Association Agreement entering into force, how the homework on the reform agenda has to be done in order to have some benefits from the Association Agreement. As Commissioner Malmström said: "DCFTA is not magic, it is a possibility. It gives Ukrainian companies access to the EU market, but to this end, they should fulfil rules and be competitive".<sup>86</sup> Ukraine shall understand the interdependence of its internal situation with the success on the way to the integration with the EU. It is difficult to use this possibility when your economy is weak. Nevertheless, every process, especially in international relations, has two impacts — both positive and negative. On one hand, at political and macroeconomic levels, granting such preferences could be an effective tool for Ukrainian exporters, but Ukrainian economy was very weak to use such an opportunity. On the other hand, the number of Ukrainian exporting firms increased: 5,302 enterprises entered the European market during the application of the ATPs in 2014.<sup>87</sup> Unfortunately, the increasing number of firms did not have a direct impact on the Ukrainian export increase to the EU.

## Conclusions and recommendations

The Autonomous trade preferences granting has been a sign of the EU flexible approach since its adoption. It opened opportunities for the Ukrainian exporters before the Association Agreement entering into force. In other words, the ATP tool became the mechanism of unilateral fulfillment of the Association Agreement by the EU. Its mechanism and other macro-

financial assistance from the EU were a confirmation that Ukraine has a great importance for the EU in the area of Eastern Partnership. Unfortunately, Ukraine was not ready to fully use the opportunities granted by the EU, because of a wide range of objective reasons: the military conflict, annexation of territories, internal political chaos, devaluation of national currency and reduction in production. It is clear that Ukraine cannot be successful on its European integration path without its internal political and economic stability.

The ATP tool could be useful for Ukraine in case of its political and economic stability. The annexation of the Crimea and the war in the East were the most difficult challenges not only for the political and economic stability, but also for the territorial integrity and sovereignty of Ukraine. Despite such a preferential regime, the Ukrainian export to the EU has drastically reduced. Ukraine must achieve peace in the East in order to restore the stability and development of the country. Minsk agreement's implementation by all participants can facilitate this process.

At the same time, it is vital for Ukraine to provide reforms. The war cannot explain their absence. The corruption has strong roots in the state system and it is also a challenge for Ukraine, which prevents it from the sustainable development and success in the European integration process. It is very important for Ukraine in order to take comprehensive benefits from the political association and economic integration with the EU to demonstrate concrete results. Ukraine should be a much more responsible partner for the EU, it should be a reliable partner. In the nearest future, the EU will tighten its control over

<sup>86</sup> Commissioner Malmström: DCFTA is not a magic, it is possibilities [<http://euukrainecoop.com/> access: 23 November 2015]

<sup>87</sup> Autonomous Trade Preferences: Impact on Ukrainian Export [<http://www.ier.com.ua/> access: 23 November 2015]

the implementation of its obligations by Ukraine within the framework of the Association Agreement.

When examining the EU-Ukraine relations in a broad sense, we cannot omit attention to the Russia's position. In that sense, the prolongation of the ATP was a political compromise. However, it is necessary to mention that this compromise has a restrictive nature. On one hand, the EU changed its principal position and started trilateral talks. On the other hand, the EU and Ukraine do not accept any amendments to the Association Agreement text. However, Ukraine will have to diversify its trade relations with the Russian Federation, Belarus, Kazakhstan and other states of the CIS, as it is possible that they might adopt some restrictive measures against Ukrainian exporters, so Ukrainian exporters

need to search new partners worldwide.

The experience of ATP granting demonstrated that it will be difficult for Ukraine to increase its export facilities to the EU, when the Association Agreement enters into force. The ATP tool was a little model of the comprehensive Association process. In case of political instability and economic weakness, the Association agenda is more a challenge, rather than an opportunity, but if Ukraine starts a reform process, it will have great benefits from the economic integration with the EU in a long-term perspective.

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# LIVING IN SUSTAINED UNCERTAINTY THE BLACK SEA REGION AFTER THE 2008 GLOBAL FINANCIAL CRISIS

*Panayotis Gavras and Panagiota Manoli\**

*This article looks into the variable impact of the global financial crisis of 2008 on the economies of the Black Sea region. In most cases, the impact was swift and negative but short-lived. What pervades the post-crisis environment is an underlying sense of uncertainty. This is a necessary development to a degree, a correction of the recklessness which had become a hallmark of the latter phase of the pre-crisis boom, during which over-leveraging had reached dangerous levels and ultimately unraveled at a high economic and social cost. However, it is a key factor behind sluggish post-crisis investment, reducing observed economic growth rates and potentially suppressing longer-term growth prospects. The article also supports that the variable impact of the crisis has demonstrated the persistent heterogeneity of the Black Sea economies, which is attributable to structural factors. The latter makes the delineation of any region specific strategy for economic growth, or crisis management, difficult.*

## Introduction

The bankruptcy of the investment bank Lehman Brothers in September 2008 began in the United States and western markets but then spread throughout the rest of the world. The 2008 crisis was not just a periodic “cyclical” economic crisis but a significant “structural crisis”<sup>88</sup> which befell the international market order, along the lines of those in the 1930s and, to a lesser degree, in the 1970s.

The repercussions of the crisis were felt in the Black Sea economies<sup>89</sup>, three of which are EU members, and one overlaps as a Eurozone member. With the exception of Greece and Turkey, the other Black Sea countries concluded a difficult transition from centrally planned to market oriented economies. A common feature is that during the last two decades of economic and political transition, the Black Sea region was no stranger to economic crises such as the ruble crisis of August 1998, or the Turkish crisis of 2001. However, the

\* The views expressed in this paper are those of the authors and do not necessarily reflect the policies or views of the Black Sea Trade and Development Bank.

<sup>88</sup> Gamble, A. 2009. *The Spectre at the Feast: Capitalist Crisis and the Politics of Recession*, Houndmills, Basingstoke, Hampshire: Palgrave Macmillan

<sup>89</sup> The wider Black Sea region covers the twelve member states of the Organization of the Black Sea Economic Co-operation: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey and Ukraine.



***The impact on Black Sea economies was for the most part differentiated according to economic fundamentals, the structure of the affected economies, their linkages with other economies and the kind of policy responses adopted.***

current, major crisis to strike the region “... is different from its predecessors both in terms of scope and nature”<sup>90</sup>. The previous ones were driven primarily by local economic conditions or geopolitical events — although the 1998 ruble crisis arguably had roots in the Asian financial crisis of 1997 — while the current crisis is global in nature, resulting from events taking place in developed economies.

The impact of the crisis on the Black Sea region was “swift and negative”<sup>91</sup>. The onset of the crisis created similar effects from country to country. The financial systems came under stress, lending came to a halt and there was a painful process of deleveraging that resulted in a downturn in economic activity. However, financial systems did not collapse, and countries mostly avoided bank failures that marred previous crises and in turn led to a feeling of panic in places like Russia in 1998 or Turkey in 2001.<sup>92</sup> The impact on Black Sea economies was for the most part differentiated according to economic fundamentals, the structure of

the affected economies, their linkages with other economies and the kind of policy responses adopted.<sup>93</sup>

## **The Financial Crisis Reaching the Black Sea**

The 2008 crisis brought to a sharp halt an extended period of economic growth dating back to 2000 which underpinned the end of a long transition period for most of the Black Sea economies. Buoyed by favourable global economic conditions and reaping the benefits of difficult fiscal and structural reforms that were undertaken during the 1990s, regional GDP growth rates averaged 5.9% per annum<sup>94</sup>, income and living standards rose while poverty rates declined substantially. In the early phase of this growth cycle, productivity gains and rising investment levels contributed a higher share of the growth whereas in the later phase, growth became more consumption dependent fuelled by rapid credit growth. Economic “overheating” symptoms<sup>95</sup> emerged in several Black Sea economies, including (i) increasing growth of private sector credit, (ii) rising asset prices, consumer prices and wages, (iii) increasing external net flows and (iv) a rise of current account imbalances.

In autumn 2008, external financing and investment into the Black Sea region abruptly ceased as a result of the global financial crisis. Governments, financial institutions and private companies with significant external

<sup>90</sup> Gavras, P. and G. A. Iorga. 2009. The Impact of the Current Economic and Financial Crisis on the Black Sea Region, ICBS Policy Brief 18, Athens: ICBS

<sup>91</sup> BSTDB. 2013. Annual Report 2013. Thessaloniki: BSTDB, p.11

<sup>92</sup> Papava, V. 2010. The economic development complex in the Black Sea area: The impact of the global financial and economic crisis, Xenophon Paper 9, Athens: ICBS

<sup>93</sup> European Commission. 2009. The impact of the global crisis on neighbouring countries of the EU, Occasional Papers 48, Brussels: European Commission

<sup>94</sup> Unless otherwise specified, Black Sea region data mentioned is based on calculations from National Statistical Agencies of BSEC countries and the 2013 and 2014 Annual Reports of the Black Sea Trade and Development Bank. Additional sources include World Bank. 2013. Global Economic Prospects 2013, Washington D.C.: World Bank and IMF. several years. World Economic Outlook, Washington D.C.: IMF  
IMF. 2011. Regional Economic Outlook: Middle East and Central Asia, Washington D.C.: IMF, April

<sup>95</sup> BSTDB. 2009. Annual Report 2009. Thessaloniki: BSTDB, p. 13



***In the Black Sea region,  
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were able to draw upon  
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exposures lost direct access to the foreign financing needed to service their deficits and loans and suddenly faced the threat of bankruptcy. A general slowdown in economic activity ensued. The countries with economies largely integrated into global markets were the first ones to be affected due to their dependence on foreign capital and deeper external trade and investment ties, mainly with EU member states. As the economies of the EU countries contracted and commodity prices plummeted, demand for exports from the Black Sea declined, especially from those countries whose economy depended on commodity exports. The downturn in the more globally integrated economies led to a rise in unemployment, affecting immigrant labor from smaller and poorer economies such as Moldova- in which remittance levels amounted to 31.4% of GDP<sup>96</sup> — and which experienced a 21.4% decline in remittance flows in 2008/9. The resulting decline in remittances to these smaller, isolated economies that were dependent upon transfers from their large emigrant populations threw them into recession as well.

During 2009, the Black Sea region cumulatively experienced the most severe fall in GDP of any region, contracting by -6.4% in real terms. The key reasons for this were the reliance of the economies in the Black Sea region on external financing, the weakness of local financial systems, which could not compensate for the loss of foreign financing (although the fact that these financial systems were small and often less integrated

left regional banks less susceptible to the immediate effects of the global financial crisis than in the case of Western banks) and the overall slowdown in economic activity in the EU- in particular- which is the main economic partner of the countries in the region for trade, investment and other types of financing. On the whole, the Black Sea region experienced a foreign trade contraction of -34%.

Another factor amplifying the downturn was the deficiency of mitigating policy responses available to most countries. Policy-wise, the response to recession is to increase public spending – both discretionary as well as automatic stabilizers (e.g. unemployment benefits). In the Black Sea region, commodity exporting countries (such as Azerbaijan and Russia) were able to draw upon accumulated reserves in order to offset the decline in private activity, and also in order to stabilize the financial system. For its part, Greece as a euro country, prior to the Eurozone crisis, had access to cheap borrowing allowing it to increase public spending. However, most Black Sea countries lacked such options and were obliged to undertake fiscal cutbacks. Deficits rose, mainly due to reduced tax receipts, but possibilities to increase government spending were constrained by the lack of access to resources, and thus public spending cuts exacerbated the recession caused by reduced private spending.

As the global economy recuperated by the end of 2009, so did most of the Black Sea region, and in certain cases it happened in a very robust fashion over the next two years. The downturn, though sharp, was short-lived with private domestic demand picking up vigorously and becoming the most important factor behind the return to growth. Additionally, a key factor for the recovery was the resilience of the financial sector. The anticipated collapse

<sup>96</sup> Bartlett, W. and I. Prca. 2012. The variable impact of the global economic crisis in South East Europe. LSEE-Research on Southeastern Europe, LSE, April, pp. 14-15

of the fragile financial sector in the Black Sea economies did not materialize, either due to its small size or because it was less exposed to the ruinous lending that caused the global crisis in the first place. In many countries the financial sector was further stabilized by successful, albeit expensive, government support. A further lift to growth was the recovery of external trade flows, which grew by 25% and another 29% in 2010, reaching new highs as both exports and imports surpassed the pre-crisis peak levels. As a result, regional GDP grew 4.3% in 2010 in real terms, and 4.1% in 2011.

However, in the late 2011, a recovery momentum petered out and growth slowed after a series of destabilizing events, including the earthquake in Japan, geopolitical developments such as the Arab uprising (which also created upward volatility in energy prices), and the Eurozone crisis. As the latter worsened and provoked recession in the Eurozone region, uncertainty in financial markets resurfaced, impeding the recovery and overall output growth in the Black Sea region. In 2012, nine out of twelve countries experienced lower growth, and three experienced outright contractions as GDP growth in the region halved to 2.0%. The slowdown was more pronounced in the western part of the region, the economies of which are more tightly linked to the EU. The growth slowdown in the euro area and deleveraging by Western European banks acted as negative shocks for the region, and weighed heavily on financial developments. The eastern part of the Black Sea performed better, with private consumption acting again as a positive driver of growth, while private investment was sluggish and government spending restrained<sup>97</sup>. In contrast to 2010-11, external trade ceased to contribute significantly to growth, as export growth fell to 2.7%, while imports were essentially flat.

In 2013, real GDP growth slipped slightly to 1.8%. However, there were shifts in the contributing factors to this figure. Agricultural production rebounded robustly after a poor 2012, and became a positive contributor to growth. External trade was weaker, as regional exports rose only 1.3%, while imports grew 4.2%. More significantly, the geography of growth shifted, as the countries that had previously experienced downturns or stagnation in 2012 improved, while those that had driven regional growth started to slow down. A part of this can be explained by 'recovery effects' as the western part of the region recovered from the output dip in 2012, while external trade received a proportionately greater boost from the nascent recovery in the EU. In the eastern part of the region, where the post-crisis recovery was mainly consumption driven, the persisting lag in investment has become a drag on national economies and led to the appearance of capacity constraints.

This trend continued through 2014 into 2015. In 2014, GDP growth slowed further to 1.1%. The Balkans again fared relatively better, aided to some degree by the ameliorating situation in the Eurozone. By contrast, the eastern part of the Black Sea was affected by the worsening economic slowdown in Russia, which in turn was aggravated by declining commodity prices, an uncertain global monetary environment, and above all, a geopolitical turmoil which led to the imposition of sanctions and counter-measures between Russia on one hand, and the US and EU on the other hand. In 2015, the Black Sea region fell into recession, with real GDP contraction expected to be slightly worse than -1.0%.

At the end of 2014, GDP in real terms stood about 6.3% higher than in 2008, and the average growth rate for the region between

<sup>97</sup> Roaf, J., R. Atoyán, B. Joshi and K. Krogulsk. 2014. 25 years of transition. Post-Communist Europe and the IMF, Regional Economic Issues Special Report, Washington D.C.: IMF, October, p. 47



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***Post-crisis liquidity has grown in importance and represents a prominent and volatile factor that is difficult for countries to manage or even gauge, and it has affected risk premiums adversely***

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2009-14 was 1.1%. However, these figures hide sizeable disparities in the performance of individual countries. Azerbaijan and Albania grew moderately but steadily; Georgia and Turkey recovered quickly and have since posted robust results; Greece and Ukraine contracted significantly; and the rest contracted sharply in 2009 and then followed varying paths of recovery, with bumpier year on year results.

Instead of being swayed by broader global or regional trends, individual country performances have become more decoupled and their performance is increasingly determined by individual country's structural issues, policies, and overall economic situation. In particular, a lingering legacy of the crisis is extra scrutiny and heightened sensitivity (at least as far as markets are concerned), of a country's external position. And while the focus on indicators such as current account balances, foreign exchange reserve levels, import cover ratios, short and long term external financing needs, etc. is not new for identifying possible vulnerabilities and perceived dependence upon inflows of external financing, there is also a heightened concern about the ease of access to foreign funding. Put differently, the focus used to be primarily on calculations of solvency, while liquidity- at least in recent years- was largely assumed. Post-crisis liquidity has grown in importance and represents a prominent and volatile factor that is difficult for countries to manage or even gauge, and it has affected risk premiums adversely. It is also often affected

by exogenous factors completely beyond the control of countries, as evidenced by the destabilizing impact of US monetary policy trends, such as the debate about "tapering"<sup>98</sup>.

The heightened focus on the external position conceals the fact that most key macroeconomic indicators were better at the end of 2014 than they were prior to the crisis. Unemployment rates are a significant exception to this, as they remain stubbornly higher than during the pre-crisis period. Going forward, reducing unemployment will be a central challenge for certain Black Sea countries for a number of years. As a rule, public debt levels are also higher than they were at the end of 2008. This is a legacy of the sharp rises in fiscal deficits in 2009. However, while the region experienced two sovereign debt crises, in the majority of cases the increase in public debt as a share of GDP was less than 10%, and debt levels were stable or even slowly declining.

Otherwise, the picture is positive and a testament to the commitment of Black Sea countries to sustained macroeconomic stability. Current account imbalances, for example, still persist, but they are far more muted with perennial deficit countries having achieved considerable strides towards rebalancing, and generally relying more on increased exports rather than on reduced imports. Inflation rates are also, as a rule, lower than they were prior to the crisis, and Black Sea countries have achieved impressive fiscal consolidation in the years since 2010, quickly restoring finances to sustainability and adjusting to the new lower growth environment, where simple reliance on rising receipts can no longer be assumed.

One consequence for the Black Sea region is that there are not easily identifiable region-wide trends. Economic performance during the post-crisis period has become

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<sup>98</sup> The term "tapering" refers to the reduction of the Federal Reserve's quantitative easing policies, or bond buying.

increasingly divergent. The lack of a neat thread common to all countries in the region remains an interesting question for debate, since on one hand it can be argued that this reduces the risk of contagion while on the other it may be a function of a slower regional integration and foregone opportunities for countries to cooperate or achieve greater complementarities.

### **Heightened Uncertainty Part of the “New Normal”**

Global financial markets have returned to functionality in the years since the 2008 crisis and have experienced upswings and downswings. This volatility has been influenced by natural disasters, economic shocks (e.g. volatility in food and energy prices), the Eurozone crisis, political crises (e.g. Arab uprising, the Ukrainian crisis), and significant policy measures such as major economy fiscal stimuli in 2009, the highly stimulative monetary policies of the world’s most influential central banks, and the steps announced in 2013 to start moving back to more conventional policies (e.g. “tapering”).

One important feature of the current global economic environment that also pervades the Black Sea markets is an “underlying sense of uncertainty”. Insofar as this uncertainty is the result of a greater caution, it is a normal development, deterring the recklessness which had become a characteristic of the pre-crisis boom, during which over-leveraging had reached dangerous levels and both borrowers and lenders were stuck in an unsustainable spiral which ultimately unraveled at a high economic and social cost. However, until the right balance between confidence and caution is found, persisting uncertainty can easily result in excessive risk aversion, which especially deters investment.

Lower investment levels over a prolonged period are particularly pernicious since they do not only reduce growth in the present; but they also constrain potential output in the longer term. Insufficient investment may result in capacity constraints, reduced productivity, and over-reliance on antiquated or inefficient processes with prospectively permanent unfavorable impact upon economic growth rates. It renders tackling high unemployment impossible.

In many Black Sea countries, investment has been weak in the post-crisis period, with growth reliant mainly on private consumption and exports. Public investment, like public consumption, has been hindered by fiscal constraints and the efforts of governments to reduce budget deficits and public debt levels. However, private investment, unlike private consumption, has remained muted throughout the five-year period, with uncertainty, higher risk premiums, and fear of continued and unfettered access to financing, among the principal reasons for the abandonment or deferral of investment decisions.

Gross fixed investment<sup>99</sup> (GFI) data, trends for which are highly correlated to those for GDP, highlight this ongoing weakness. From 2000-08, GFI in the Black Sea region fluctuated from year to year, but averaged 10.6% per annum during the period. GFI contracted sharply by -18.0% in 2009, and subsequently recovered. However, from 2010-14 GFI averaged a mere 2.5% and after a decent recovery in 2010 and 2011 has declined, exhibiting a similar trend to GDP growth.

Foreign direct investment (FDI) into the Black Sea region has also slowed. It peaked in 2008, at US\$144 billion or nearly 4.5% of regional GDP. It more than halved to US\$65 billion in 2009, and in the subsequent four

<sup>99</sup> Gross Fixed Investment- a component of GDP formation, is the sum of gross fixed investment in an economy, private plus government.

years recovered unevenly, around 40% below pre-crisis peak levels in the 2.5% of GDP range. In 2014, it fell sharply again, to US\$53 billion or 1.5% of GDP, and the expectations for 2015 are even worse.

Seven years after the outbreak of the global crisis, a much debated question with respect to the Black Sea region- and to Eastern Europe as a whole — is to what degree the model upon which growth in the region was based has changed. In the 2000-08 boom era, external financing fueled the growth to a considerable degree. This was both desirable and necessary, since domestic financial markets in most Black Sea countries were too small and underdeveloped to be able to mobilize the large amounts of capital necessary to finance accelerated growth; quite simply, external financing made the high growth rates possible. However, by the later stages of the boom, the external financing shifted from mainly financing investment (particularly for tradable goods and services) — which increases productivity and economic capacity over a longer period of time and is thus considered more sustainable — to primarily financing either inward oriented investment (for non-tradable goods and services) and consumption (including asset purchases)-which provides a short term boost to growth but also tends to exacerbate imbalances that arise over the course of a business cycle. In particular, rapidly rising levels of imports resulted in the mushrooming of trade and current account deficits in many countries.

Ultimately, re-balancing was necessary not just for macroeconomic indicators such as the current account, but also for the structure of the economy. An appropriate balance between (i) domestic demand driven and export driven growth, and (ii) investment in tradable sectors and non-tradable sectors, is required to provide a sustainable basis. Where an economy's structure tilts too far in one direction, imbalances may appear, while vulnerability also rises since the economy's

diversification is reduced and its resilience to shocks is weakened.

For countries that were overheating and dependent on continued and ever greater flows of external financing, reducing this reliance has been and remains the priority. This requires taking measures to increase domestic savings levels so as to strengthen and help to deepen domestic financial systems, as well as updating and building upon the generally solid track record of bank regulation.

Building domestic financial systems is necessarily a slow and deliberate process, and the promotion of domestic savings implies reduced domestic consumption in the short term, which in its turn implies lower economic growth rates. While excess external financing is problematic, insufficient external financing raises investment costs, and can limit available maturities and instruments in the market. It thus suppresses growth and results in higher unemployment, lower living standards, and less poverty reduction than might otherwise be achieved. The key is to strike an appropriate balance, since external financing can provide lower cost, longer maturity, more sophisticated financing that can be highly beneficial when channeled into productive uses, and will remain a necessity for convergence towards wealthier country income levels to occur.

Where external financing takes the form of FDI, especially in tradable sectors, it generally plays a more constructive role in improving an economy's competitiveness, facilitating technology transfer and increasing wealth-generating capacities. Unlike other external sources, FDI constitutes a long-term commitment -i.e. it cannot enter and withdraw quickly- and therefore tends to be less volatile than capital market inflows.

Beyond sector-related conditions, a stable and business friendly environment (political, economic, judicial) is a key determinant for attracting investment. In this respect, the role

of the public sector is crucial in implementing effective fiscal and monetary policies, maintaining good standards of governance and a competent and diligent regulatory regime. The Black Sea countries have achieved substantial progress in improving the external business environment in the last decade, as measured by the World Bank's Doing Business and Euromoney's country risk evaluations. Still, there is a need for further regulatory and institutional reforms in the region's economies that compete with other emerging economies in global markets to attract investment capital. Moreover, political and security risk factors are significant deterrents to investment. Unresolved conflicts in the South Caucasus, Transnistria and currently in Crimea and eastern Ukraine deter market entry.

## Conclusions

The Black Sea region enjoys a number of competitive advantages including geographic proximity to the wealthy markets of the EU, improving business environments, commodities wealth and high quality of human capital (education, skills) at a relatively low cost. The recent experience of 25 years of economic transition and crisis management for most Black Sea countries provided resilience and greater flexibility in implementing policy responses than that observed in the wealthier but more rigid economies of Western Europe. The Black Sea has further received significant support from IFIs, in terms of structural reforms, technical assistance and project funding.

However, economic activity in the Black Sea region is weakening compared to the pre-crisis period, mainly because of the short-term slowdown and regional tensions engaging Russia, the largest regional economy, as well as weak domestic demand in a number of Black Sea countries. In particular, the deepening of geopolitical tensions between Russia, Ukraine and the European Union



***there is a need for further regulatory and institutional reforms in the region's economies that compete with other emerging economies in global markets to attract investment capital.***

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could have a significant impact on the Black Sea region, in the short and medium term.

While the growth in the Black Sea region was strong in the decade of 2000s, it has weakened after the crisis, while remaining susceptible to external volatility and dependent on commodities and external financing. In spite of the decoupling of the Black Sea economies after the 2008 crisis and the imperfect but discernible geographic division between western and eastern Black Sea markets there is a common uncertainty on (how to improve) their growth model. A policy toolbox for growth includes further diversification of commodity-based economies, improving access to financing especially through foreign investment (which requires further improving the business climate), and pursuing balanced multilateral and regional trade integration. Though many of these tools require mainly domestic reforms, the external anchors of growth (i.e. foreign capital flows) remain irreplaceable given the current dearth of domestic sources of financing. Foreign capital flows can benefit the growth if directed to increasing wealth-creating capacity in the real economy, and not merely to fuelling consumption or speculative asset purchases.

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# ENERGY PROJECTS AROUND THE BLACK SEA: GEOPOLITICS VS. ECONOMY

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In the 21st century, it has become even clearer that political considerations come sooner than economy when global goals and concepts are at stake. Unfortunately, it will be an exaggeration to say that the contemporary globalized world is ruled by markets only. More and more often economy follows political decisions and that brings turmoil into the well-being of even the most developed members of the international community. Number one area of such unbalanced approach is energy, in particular oil and gas.

There is a number of economic factors that determine the political weight of a particular country. It is definite that a volume of GDP and amount of foreign investments, GDP per capita, export/import ratio and technological strength are among them. But in case of Eurasia, as a whole, and the Black Sea region in particular, this list is not complete without energy infrastructure considerations. For example, in terms of GDP or level of technology, Russia cannot compete with the vast majority of the EU member states and yet it is an important supplier of natural gas to Europe and oil to the world market. Ukraine is an indispensable part of this supply chain as a transit hub, although country's GDP is far below its potential. Iran, Turkmenistan and Azerbaijan are important players first of all because of their carbohydrates resources. Romania is able to conduct its foreign policy independently of Russia's

whims because it has its own natural gas and oil. We are now witnessing Turkey assuming an important role of a transit state to add even more visibility to its already well-deserved position among the Organisation for Economic Co-operation and Development (OECD), G-20 and NATO member states as a country with a strong industrial base.

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***Europe knows too well that diversification of energy sources and routes as well as the development of gas pipelines infrastructure inside Europe is a key for its national security***

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Next year will mark the 10th anniversary of the first gas war Russia opted against Ukraine. Since the harsh 2005/2006 winter, Europe knows too well that diversification of energy sources and routes as well as the development of gas pipelines infrastructure inside Europe is a key for its national security. Slow but definite efforts to unlock the potential of the Caspian basin came into fruition while Russia started to lose its strategic importance because of the unwise pricing policy, shadow business schemes and most recently its aggression against Ukraine. Here Turkey came into the picture as a major emerging link between the enormous potential of Azerbaijan, Turkmenistan and Iran on one side, and European consumers on another. It is

expected that being a candidate country for the EU membership and a seasoned NATO member Turkey will play its role well.

It is not an easy task. There is no doubt that if Russia stopped seducing Ankara with highly suspicious proposals, Turkey would follow the most logical path of becoming a transit hub for all sources of natural gas coming to Europe from the Caspian basin and even the Middle East. But such a development will be a major geopolitical blow to Russia. The leaders in Kremlin feel threatened with democratic developments in Ukraine and its rapprochement with the European Union. Moscow has developed a policy of bypassing Ukraine with politically motivated gas pipeline projects.

On January 1, 2016, the Deep and Comprehensive Free Trade Zone between Ukraine and the EU will enter into full force to deep and comprehensive dissatisfaction of Russia, making things worse. Being desperate to achieve its political goals with political harassment and direct bribery of corrupt politicians of Yanukovich's government, Moscow created a fictional reality of energy infrastructural projects threatening to bypass Ukraine, diminish its value for Europe as a transit country and block any alternative routes from East to West other than those controlled by Gazprom. Only after a two-year "soap opera" worth 5 billion USD Russia had to abandon the politically motivated South Stream project. It was initially unjustified from the economic point of view and this example allowed Europeans to learn a lot about the Russian way of shaping foreign policy. Let us take a closer look at what is going on around the Black Sea since Russian propaganda mastered the creation of a parallel reality to perfection.

## Russian energy geopolitics

The state of Russia's gas sector is dire. Gas production has been falling for several years in a row and in the first half of 2015 it reached a downfall of almost 20 percent. To save its face the Russian Government made those data secret since July 2015<sup>100</sup>. Gazprom was taken to arbitration in Stockholm after several consumers demanded price cuts based on market realities. Some of them, including Poland, succeeded. The most striking case is the recent appeal of the Turkish state petroleum pipeline company Botaş to the International Chamber of Commerce to resolve a row over the price of Russian gas after two countries failed to sign a deal. Since February 2015, Botaş has been saying it had obtained a 10.25 percent discount on the 28-30 billion cubic meters (bcm) of gas it buys from Russia each year but the two sides have been at loggerheads over the deal for months<sup>101</sup>. Botaş, which is also Turkey's state pipeline operator, said in its statement that it had notified Russia's Gazprom of arbitration aiming to cover the price of Russian natural gas purchased since the beginning of the year. If Gazprom's "strategic partner" like Botaş has to resolve its disputes in court, what would one expect from Gazprom in relation to less valuable consumers? This Turkish-Russian dispute is only one of many, including anti-monopoly investigation against Gazprom in the EU, which as well has a terrible smell of widespread corruption.

Russian president Putin made a surprise announcement about the plans to construct a new "Turkish Stream" pipeline that had to replace the failed "South Stream" project during his December 1, 2014 visit to Turkey<sup>102</sup>. Since then the Russian

<sup>100</sup> В Росії засекретили статистичні дані про видобуток газу // Українська правда, 19 серпня 2015 р. // [www.pravda.com.ua/news/2015/08/19/7078268/](http://www.pravda.com.ua/news/2015/08/19/7078268/)

<sup>101</sup> S.Korsunsky. Turkey as a regional energy hub: dreams and realities // Daily sabah, January 24, 2015 // <http://www.dailysabah.com/opinion/2015/01/24/turkey-as-a-regional-energy-hub-dreams-and-realities>

<sup>102</sup> С.Корсунський. Що насправді відбулося під час візиту Путіна в Анкару? // «День», 16 грудня 2014 р., №236

propaganda has done a lot to push Europeans to “accept the reality” that after 2019 Ukraine is out of the picture as a transit state. European Commission has been urged to invest tens of billions of dollars into infrastructure in Greece to bring Russian gas through this newly designed route. But it was too late. European Commission has learned a lot from the South Stream saga and did not buy this threat. In its turn, Russia announced that “the agreement with Turkey is almost signed” and Miller even visited Turkey “to determine the route of the Turkish Stream”<sup>103</sup>. The EU stood still. Then on July 3 2015, Italian Saipem’s pipe-laying vessel *Castro Sei* set sail to Russian waters to prepare for the offshore construction of the Turkish Stream. Saipem had signed a 2 billion euros contract for the construction of the first lane of the South Stream Offshore Pipeline. After Russia terminated this project, it was said that Saipem now works for the Turkish Stream, since “it is almost the same route”<sup>104</sup>. Six days later, on July 9, Russian authorities cancelled their commission to Italian Saipem and announced that “the future of the Turkish Stream is no longer dependent on this contract”<sup>105</sup>. South Stream Transport, Gazprom’s wholly owned subsidiary has to pay Saipem 300 million Euros as compensation. It was announced that the South Stream Transport would enter into negotiations with other constructors. The point is that there are none.

But the game continued. In September, Turkey said it completely freezes the Turkish Stream. Gazprom said that “Turkish

Stream is important but not vital” and put forward another hoax project — North Stream-2. The North Stream-1 is half-empty and hardly economically profitable, but when it comes to harassment techniques Gazprom stops at nothing. In October 2015, Turkish Minister of Energy said that his country “is not ready to discuss Turkish Stream” and drew a Russian response that “discount for gas prices could be discussed in connection with the project”<sup>106</sup>. Then Alexei Miller made an announcement at the Saint-Petersburg economic forum that Gazprom decided to cut initially planned capacity of the Turkish Stream in half. The Turkish Government responded that it has interest only in one lane and has no intentions to waste money rather than invest into something profitable. Then it all ended up at the arbitrage.

## Competing projects

Facing cold shoulder from Europe and increased competition at home, Russia’s Gazprom has struggled to assert dominance on the global energy market. But Gazprom is grappling with a series of issues, including the recent loss of the Ukrainian market — a direct consequence of the aggression, Europe’s energy diversification efforts, the US shale gas revolution and increased competition on the domestic and LNG markets, which jeopardize its status as a gas giant. With Russian economy slipping into recession due to lower oil prices and Western sanctions over Ukraine, it is predicted that Gazprom would produce 414 bcm of gas this year, an all time low for

<sup>103</sup> Turkey, Russia’s Gazprom survey new pipeline route // Hurriyet Daily News, February 8, 2015 // <http://www.hurriyetdailynews.com/turkey-russias-gazprom-survey-new-pipeline-route-.aspx?pageID=238&nID=78053&News-CatID=348>

<sup>104</sup> Saipem prepares to start Turkish Stream pipeline construction // July 3, 2015 // <http://en.trend.az/business/energy/2413979.html>

<sup>105</sup> Gazprom scraps Turkish Stream’s phase with Saipem // Daily Sabah, July 9, 2015 // <http://www.dailysabah.com/energy/2015/07/09/gazprom-scraps-turkish-streams-phase-with-saipem>

<sup>106</sup> Turkey not yet ready to discuss Turkish Stream — Minister // October 3, 2015 // <http://en.trend.az/business/economy/2439687.html>

the public company sitting atop some of the world's largest natural gas reserves.

Gazprom market capitalization has plummeted in recent years as well. Prior to 2008 financial crisis and the crisis in Georgia, the company was worth more than 300 billion USD. Its value now is even below 50 billion USD<sup>107</sup>, trailing far behind the world's other major energy companies (for comparison — Exxon Mobil — 360 billion USD, Petro China — 330 billion USD). Gazprom has been slow to react to the ever-changing gas market, clinging to lengthy contracts based on oil prices. Definitely, its role as a tool for the foreign policy does not bode well with realities. The Ukrainian conflict, which has propelled Russian relations with the West to their post-Soviet nadir, has exacerbated Europe's desire to dissociate with Gazprom. Even the traditional supporters of Gazprom turned away from the company and its unpredictable behaviour. Russia's authorities blamed Bulgaria's Government and the European Commission for the failure of the South Stream although it was a direct result of their own decisions based on political reasons rather than economic ones<sup>108</sup>.

It is estimated that gas consumption in the Eurozone will reach 760 bcm by 2030, which indicates that the EU's dependency on the energy imports will reach around 80%. In short, the EU's gas imports will increase to 240 bcm or so by 2030<sup>109</sup>. EU has to meet this energy deficit either from Russia or through the Southern Gas Corridor that passes through Turkey. It is also well known that several new LNG terminals have recently been built in France, Poland and Lithuania to accommodate the United States shale gas export opportunities, which are going to be operational very soon. But so far, from a



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strategic perspective the Trans-Anatolian Gas Pipeline (TANAP) is the most important part of the Southern Energy Corridor, which will carry Azeri, Central Asian, Middle Eastern and Eastern Mediterranean gas reserves to Europe through Turkey. When TANAP fully comes into operation, the energy monopoly, which is mostly supervised by Russia today, will be broken. The Turkish Stream idea is directed at preventing this from happening and here again politics prevail over economy and reason.

It should be noted that a monopolistic situation in a strategic commodity like natural gas, which can determine economic cycles, means the lack of market approach in the entire region where monopoly and voluntarily determined prices prevail. Therefore, the fact that Turkey and Azerbaijan have started to nourish European markets in energy through the Southern Gas Corridor will not only affect price regulations in Europe, Turkey and Asia Minor. In this case, TANAP is an economic and political instrument that brings (i) energy safety, more democracy, political stability and peace in the region; (ii) market defined prices for energy and energy-related commodities; (iii) more regional integration and cooperation in a peaceful way, including the creation of a vast integrated and interconnected economic zone from the Balkans and Eastern Europe to Caucasus and Asia Minor.

<sup>107</sup> How Russian energy giant Gazprom lost \$300bn // The Guardian, August 7, 2015 // <http://www.theguardian.com/world/2015/aug/07/gazprom-oil-company-share-price-collapse>

<sup>108</sup> Roberts, John. The Impact of Turkish Stream on European Energy Security and the Southern Gas Corridor, July 2015

<sup>109</sup> Tagliapietra, Simone and Zachmann, Georg. designing a new EU-Turkey Strategic gas partnership, July 2015, №10

In addition, an Italian energy company Eni has recently announced that it discovered a “super giant” natural gas field off the Egyptian shore, which, it said, is the largest ever to have been found in the Sea<sup>110</sup>. The discovery was also confirmed by the Egypt’s oil ministry and could hold a potential 850 bcm of gas in an area of about 100 square kilometres. Thus, it could be one of the world’s largest natural gas reserves. This discovery combined with offshore gas and oilfields found in Cyprus brings another wider opportunity when gas from the Mediterranean will flow to Europe through the Turkish territory. In this way, the Black Sea and the Mediterranean regions could be combined into a huge zone of cooperation and prosperity.

To achieve this goal the Middle East needs peace. The war in Syria, fuelled most recently by Russian involvement, ignited even more violence than before. Trying to distract attention from its adventures in Ukraine and to prevent Iran from further rapprochement with the West, Russian leaders sent troops and ammunition to support the regime of Bashar al-Asad. Thus, European Union now sees more refugees, while Saudi Arabia, Iran and other oil rich countries have to spend more on war thinning high currency and gold reserves already severely damaged by the low market prices. So far, the international community was able to withstand this move of Kremlin, but the question is how long the war in Syria will last. In 1973, an oil embargo created the first precedent, when energy resources were used as a political tool. The Russian Federation learned that lesson well and has been using it extensively in Europe and now in Asia.

## Nuclear energy factor

However, it is not only oil and gas that constitute the issue when energy blackmailing can be used. Nuclear energy is no less important and dangerous. In recent decades, the nuclear energy sector experienced a renaissance. After Three Mile Island’s accident in the US in 1979 and the Chernobyl catastrophe in Ukraine in 1986, a number of developed countries decided to postpone the construction of new Nuclear Power Plants (NPP) and even decommission those already built. As it turned out, in the contemporary world it is difficult if not impossible to survive without nuclear energy, particularly for those economies, which are not rich in oil, gas or coal.

Among the countries that joined the pool of nuclear energy community most recently, there are two notable newcomers — Iran and Turkey. The NPP in Buzher (Iran) was built by Atomstroyexport of the Russian Federation and became operational in 2011. It is not entirely clear why the country with vast oil and gas reserves spent billions of dollars on the NPP, but the plant was constructed. As for Turkey, the decision to introduce nuclear energy sector into its growing economy is definitely justified. Turkey has very few options to satisfy industry and population with a stable and reliable supply of electricity and the construction of a NPP could be a solution. The first site has been already chosen, it is going to be in Akkuyu and it is going to be Russian-made.

Nevertheless, devil is in the details. There are no small issues in the nuclear energy sector and Ukraine knows that better than anybody else does. Nowadays there are four NPPs in Ukraine, which encompass fifteen reactors, all of them being Russian-built

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<sup>110</sup> Dipaola, Anthony. Eni Discovers Massive Gas Field in the Mediterranean // Bloomberg Business, August 30, 2015 // <http://www.bloomberg.com/news/articles/2015-08-30/eni-discovers-super-giant-natural-gas-field-offshore-egypt>

VVER-types. The first NPP built in the early 1980s by Russia is the famous Chernobyl Nuclear Power Plant. It has become a symbol of technological failure and human imperfection. Combined, those two factors caused the worst technological catastrophe in the history of mankind. Amazingly, another recent tragedy at Fukushima NPP in Japan happened the same year that the Buser NPP started to generate electricity. Ukrainian engineers and environmentalists were asked to help Japanese colleagues to cope with the disaster since Ukrainian experience in dealing with Chernobyl is unique.

When a country decides to build a NPP, it has to follow a long list of very strict security, safety and environmental regulations. They are not artificially imposed, but are a result of decades of sector experience. Particularly, several questions should be asked and answered. Firstly, how is nuclear fuel going to be supplied to the plant? In case of Russian-made fuel, it is of unique composition, which can only be delivered in special casks. If it is going to be delivered through the Bosphorus, what kind of safety procedures should be put forward to exclude accidents with highly enriched uranium? Secondly, what is going to happen with spent fuel? Until recently, Ukraine had been paying hundreds of millions of dollars to Russia for re-processing of spent fuel and then decided to store it on its territory until technology to process it in Ukraine is in place. In case of Turkey, this should be taken into account because such technology requires thoroughly enforced regulation and the construction of in-site storage facilities. Thirdly, it is very important to evaluate environmental risks in case of an accident, giving the proximity of touristic Antalya and Cyprus to Akkuyu site. Unfortunately, the information site developed by Rosatom for Akkuyu project has no answers to those questions.

It is absolutely not enough just to show Turkish engineers how a Russian-made



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***The construction of NPP is not an end but a beginning of a long journey into the world of nuclear technologies***

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NPP is being operated. It is absolutely not enough just to teach Turkish students the basics of nuclear energy industry. But what is necessary is to learn from experience of other countries. It is absolutely vital to understand every detail of a wider picture of the chain: fuel production (where, by whom, is it a monopoly?); delivery of the fuel (how can it be done, is it safe enough?); operation of NPP (is it environmentally safe? do we know what to do if there is a leakage or fire?); spent fuel and nuclear waste disposal (on-site storage? to store deep in the ground somewhere? to send it to another country?). The construction of NPP is not an end but a beginning of a long journey into the world of nuclear technologies. It is just wise to get ready even before the construction is finished.

And yet money-stripped Russia agreed to invest 22 billion USD into a four-unit Nuclear Power Plant in Turkey in exchange for a simple obligation from the Turkish Government to purchase electricity produced at a certain tariff. Obviously, no country around the globe could afford such an agreement, which is very good for Turkey. Moreover, there is little doubt that it was done with politics in mind, since Russian technology could be attained by Russian engineers only, as only Russian fuel could be supplied for Russian reactors. Monopoly in nuclear industry is far more dangerous than monopoly in oil and gas, and international community will have to deal with it rather sooner than later.

Russia has publicly touted an array of natural gas export projects over the recent years, a web of pipelines that would connect Russian gas to some of its largest customers

while also achieving important strategic objectives like circumventing Ukraine. However, many of those projects have not and will not come to pass. Only one of the two proposed Blue Stream lines was built and put into operation in 2005 after eight years of wrestling, and only half of the widely advertised North Stream is now in action delivering half of its capacity of natural gas to Germany. In spite of all efforts, Atomexport failed to build new Nuclear Power Plants in Europe switching to Asia instead. Similarly, Gazprom is trying to compensate its losses in Ukraine and across the region with China, India, Pakistan and Japan deals. Moscow found pretty tough negotiators in Asia, because it does not want to learn that times have changed since the disintegration of the Soviet Union. In order to be successful today good politics should

be based on good economy and never on arm-twisting and intimidation. Invasion in Ukraine made Russian cooperation with the most sophisticated transit network in Europe almost impossible. Ukraine should integrate its energy network with Europe and let Russia deal with China instead. And let the economy prevail.

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# POLITICS VS. ECONOMY IN EUROPEAN ENERGY AFFAIRS AND THE ROLE OF UKRAINE

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***The European energy market emerged primarily due to economic interests under the European Coal and Steel Community with politics overtaking only in 1973 because of the oil embargo. Politics in energy affairs has been prevailing on the EU agenda since 2007 after the "third energy package" was introduced and Ukraine played a significant role as a catalyst for progressive development. Since 2014, politics has been dominating energy sector development in the EU because of Russia's aggressive behaviour against both Ukraine and the Member-States.***

The EU started to influence the European energy sector in 1996 systematically with the first package of liberalization directives<sup>111</sup>. It has not yet introduced significant incentives for energy market development besides a higher degree of competition. The second package of liberalization directives followed in 2003 with a prolonged timeframe for its implementation and the aim to initiate unbundling as the instrument to counter energy monopolies. However, in 2007 the European Commission published a competition enquiry, claiming significant malfunctions of the energy legislation in force<sup>112</sup>. The above was a result of a very strong superiority of national political interests over general European energy market needs and the resistance towards a new paradigm — a customer-oriented approach versus energy monopolism.

Germany and France specifically were strongly against radical market changes, trying to protect their own big energy companies from losing their power on the market<sup>113</sup>.

In 2005-2006, the first large-scale gas crisis happened in Europe. Formally recognized as a price dispute, it started directly after V.Yuschenko became the President of Ukraine and announced clear messages about its integration into the EU and NATO. From March to December 2005, Russian pressure against Ukraine raised little doubts within the EU, because the latter traditionally perceived relations between both states as something internal, far away from the European interests. It has been one of the reasons for the still existing system of the long-term agreements between Russian and European companies on gas supply with

<sup>111</sup> Liberalisation of the electricity and gas markets. European Commission. April 2012, [[http://ec.europa.eu/competition/sectors/energy/overview\\_en.html](http://ec.europa.eu/competition/sectors/energy/overview_en.html), access: 02 November 2015]

<sup>112</sup> Commission threatens EU power giants. EurActiv, January, 2007, [<http://www.euractiv.com/energy/commission-threatens-eu-power-giants/article-160804>, access: 13 November 2015]

<sup>113</sup> Michael Glos, Minister of Economics and Technologies, Pressemitteilung, Juni 2007, [[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/mailing/file374.PDF](http://www.consilium.europa.eu/uedocs/cms_data/docs/mailing/file374.PDF), access: 13 November 2015]

the delivery point at the western border of Ukraine, thus excluding it from legally binding documents on supply and transit.

Only the reduction of gas supply to several European companies in January 2006 slightly stirred the blood of western politicians<sup>114</sup>. Russian propaganda blamed Ukraine for illegal “gas siphoning” and was echoed by many western media, thus creating a negative image of an unreliable transit country. European politicians refused to conduct an open comprehensive investigation of this case and called only to immediate resolution. It helped Russia to insist on a higher price, the introduction of RosUkrEnergo intermediary for gas supply to Ukraine and disguising the blockade of gas transit from Central Asia to Europe. Price blackmailing became the constant Russian instrument to “divide and rule” in countries supplied by Gazprom.

The efforts of the European Commission to introduce updated energy regulations starting in September 2007<sup>115</sup> resulted in nearly two years of negotiations<sup>116</sup> and proceedings. Only the second “gas war” in January 2009 pushed top politicians from Member-States to a consolidated policy with regard to a more active campaign against energy monopolies and the creation of competitive energy market. The European Parliament and the Council of the European Union adopted the “third energy package” in July 2009 coming into force on 03 September 2009. However, its

implementation has not been completed so far despite several deadlines.

As a response to the Russian aggression against Ukraine in 2014, where gas blackmailing became an important instrument, the idea of Energy Union emerged<sup>117</sup>. Initiated by the Polish Prime Minister Donald Tusk as a mechanism of solidarity against Russian energy expansion, it has been changed already by European Commission to the new “envelope” for existing energy acquis<sup>118</sup>. Once again, the EU started discussions on the basis of medium-to-long-term development of the energy market instead of emergency talks about instruments for making its own stronger foreign energy policy under “single voice” umbrella.

### **European economic and political interests**

The EU aims to gain “secure, sustainable, competitive and affordable energy”<sup>119</sup>. Every effort of politicians is directed towards internal energy market and the achievement of “noble” political goals of climate and nature protection. External challenges in the form of an oil embargo in 1973, the above-mentioned “gas crisis” and the necessity to ensure energy imports have little effects on European foreign energy policy. The latter is subordinated to economic benefits of consumers and European business.

<sup>114</sup> Ukraine ‘stealing’ Europe’s gas, BBC, January 2006, [<http://news.bbc.co.uk/2/hi/europe/4574630.stm> , access: 14 November 2015]

<sup>115</sup> Energising Europe: A real market with secure supply. European Commission Press Release, September 2007, [[http://europa.eu/rapid/press-release\\_IP-07-1361\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-07-1361_en.htm?locale=en), access: 14 November 2015]

<sup>116</sup> Johann-Christian Pielow, Legal and economic aspects of ownership unbundling in the EU, *Journal of World Energy Law & Business*, Volume 2, Issue 2, February 2009, Pages 96 — 116.

<sup>117</sup> Piotr Buras, The Polish initiative for an energy union. European Council on Foreign Relations, May 2014, [[http://www.ecfr.eu/blog/entry/polish\\_initiative\\_for\\_an\\_energy\\_union](http://www.ecfr.eu/blog/entry/polish_initiative_for_an_energy_union), access: 14 November 2015]

<sup>118</sup> Energy Union package. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, 25 February 2015, p.4 [[http://ec.europa.eu/priorities/energy-union/docs/energyunion\\_en.pdf](http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf), access: 14 November 2015]

<sup>119</sup> *Ibid.*, p.2.



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The EU institutions, in particular the Energy Commission, have been working on regulations in order to change the energy market and make it more consumer-friendly. This should be achieved through growing competition, access to different energy sources and diversification of suppliers and supply routes. Being an attractive marketplace in terms of effective demand, the EU considers every supplier around the globe to be interested in mutually profitable cooperation. As a result, it is used to rely on the USA for ensuring security on main maritime energy supply routes and refused to accept Russia as a threat for European energy security until 2014.

National governments of many western countries have been enjoying preferential relations with Russia in energy sector and often sought to find compromises in order to avoid hampering Russian interests. The most evident case is the German attitude towards the construction of a bypass pipeline “Nord stream” via the Baltic Sea after the “Orange Revolution” and the Memorandum of Understanding on co-operation in the field of energy between the European Union and Ukraine<sup>120</sup>, which has evidently been a damage to Ukraine and several EU Member States in Central Europe due to the reduction

of transit. Peculiar “economics” underlies the decisions of Finnish and German top officials to support the construction of “Nord stream” gas pipeline with the “Shroeder case” and the possibility of its reiteration by German socialists in 2017<sup>121</sup> after the eventual resignation of the acting Federal Chancellor.

Countries like Austria and the Netherlands have used to benefit from Russian investments and preferential energy cooperation for many years, thus remaining pro-Russian at least in compromises on sanctions. Slovakia and Hungary are still significantly dependent on Russia’s supplies of energy sources and try to keep an ongoing cooperation to reduce financial losses for their own energy companies. Reverse gas supplies cannot supplement the downturn of revenues after 2012.



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***European energy companies often served as effective lobbying structures for Russian interests in the EU, aiming to gain advantages in downstream and midstream of the energy supply chain***

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European energy companies often served as effective lobbying structures for Russian interests in the EU, aiming to gain advantages in downstream and midstream of the energy supply chain. Some German companies (Verbundnetz Gas AG, Wingas GmbH, Wintershall Erdgas Handelshaus GmbH & Co. KG) are joint ventures with Russian Gazprom and enjoy special terms and conditions for gas supply<sup>122</sup>.

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<sup>120</sup> Memorandum of Understanding on co-operation in the field of energy between the European Union and Ukraine, 01 December 2005, p.8 [[https://ec.europa.eu/energy/sites/ener/files/documents/2010\\_ukraine\\_mou.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/2010_ukraine_mou.pdf), access: 14 November 2015]

<sup>121</sup> Gabriel spielt in Moskau den Gerhard Schröder, (Gabriel plays in Moskau according to Gerhard Shroeder style), Die Welt, [<http://www.welt.de/politik/ausland/article148156440/Gabriel-spielt-in-Moskau-den-Gerhard-Schroeder.html>, access: 14 November]

<sup>122</sup> Gazprom ‘adjusts’ prices for selected European clients, EurActiv, Januar 2012, [<http://www.euractiv.com/energy/gazprom-adjusts-prices-selected-news-510253>, access: 14 November 2015]



## ***Despite the new Ukrainian legislation in gas sphere and external challenges, Ukrainian government failed to introduce state programmes on energy efficiency***

Even Sakhalin problems,<sup>123</sup> the delays of Stockman<sup>124</sup> field development and strong pressure on British Petroleum<sup>125</sup> have not cooled down the interests of European companies to cooperate with Russian state-owned energy counterparts.

Several European energy giants have often used a factor of social responsibility for politicians, claiming that losses are happening because of changes on energy market and threatening politicians with a huge reduction of workforces and destabilization of energy supply. They do not want to change their own development strategies and try to keep status quo in terms of their own energy mix and partners.

### **Ukraine — cooperation versus confrontation**

Despite two “gas wars” with Russia in 2006 and 2009, Ukraine started to reduce gas imports from Gazprom only in the late 2012 because of enormous pricing. However, it was only after the open military aggression that Ukrainian government changed its economic attitude for a political one with regard to gas imports, preferring supply from the EU Member-States despite higher

prices in the second quarter of 2015. It managed to play its political cards by using a combined strategy of request and offer in relations with the EU institutions and single national governments. United efforts opened three directions of reverse gas supply with annual volumes over 15 bcm. Starting from October 2015, Ukraine has been offering direct access to consumers for European gas suppliers. Since 2017, Ukrainian internal gas market will become completely liberalized, excluding Russian suppliers.

Nevertheless, the growing diversification from the European direction is still under the threat, because many politicians and oligarchs want to return to former opaque gas deals with Gazprom and to continue earning money on sold volumes and price differences. They are used to making populist statements and taking advantage of the acting government in unjustified pricing and tariff setting. However, the Ukrainian government makes mistakes regarding other issues.

Despite the new Ukrainian legislation in gas sphere and external challenges, Ukrainian government failed to introduce state programmes on energy efficiency<sup>126</sup> in order to build up preconditions for sustainable reduction of energy consumption in the future. The current fall in gas consumption was a preliminary result of a drop in industry demand. Raised gas prices for private households will affect consumption only during the heating period, because in summer time gas consumption is rather low.

<sup>123</sup> Shell cedes control of Sakhalin-2 as Kremlin exerts its iron fist, The Independent, September 2011, [<http://www.independent.co.uk/news/business/analysis-and-features/shell-cedes-control-of-sakhalin-2-as-kremlin-exerts-its-iron-fist-428157.html>], access: 14 November 2015]

<sup>124</sup> Gazprom's Shtokman Project: Relic of a Past Era, Jamestown, August 2012, [[http://www.jamestown.org/single/?tx\\_ttnews%5Btt\\_news%5D=39757&no\\_cache=1#.VkdPE\\_nhDIU](http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=39757&no_cache=1#.VkdPE_nhDIU)], access: 14 November 2015]

<sup>125</sup> Rosneft takes over TNK-BP in \$55bn deal, The Guardian, March 2013, [<http://www.theguardian.com/business/2013/mar/21/rosneft-takes-over-tnk-bp>], access: 14 November 2015]

<sup>126</sup> Проект розпорядження Кабінету Міністрів України “Про затвердження Національного плану дій з енергоефективності на період до 2020 року” (Draft Decree of the Cabinet of Ministers of Ukraine “On approval of the National action plan for energy efficiency for the period until 2020”, [<http://sae.gov.ua/uk/activity/zakonoproektna-diyalnist>], access: 14 November 2015]

State programmes to support energy efficiency are inadequate in comparison to programmes of subsidies with nearly one billion UAH, spent on the first one (programme), while the latter accounts to over 25 billion only for 2015 and is expected to increase in coming years. The government does not want to introduce incentives in the form of monetized support with time-limited but close to zero or zero-interest rates instead of subsidies. Only in September 2015, private consumers eligible to subsidies were allowed to request 70% reimbursement for energy efficiency measures (thermal modernization and equipment), while authorized banks still experience problems with transactions from state budget to reimburse energy efficiency credits.

## Russia's game with energy supplies

After V. Putin came to power in Kremlin in 2000, energy sources and transport infrastructure have become an instrument for comprehensive offensive operations against independent states in neighbourhood and the EU Member-States. Utilizing energy assets for political purposes is a long-term strategy of V. Putin, as indicated in several documents and statements of Russian top officials:

- Energy Strategy of Russia: "Russia possesses huge energy resources deposits and powerful fuel energy complex, which is the base for development of its economy, an instrument of foreign and domestic policy implementation<sup>127</sup>";

- The following recommendations demonstrate the conceptual approach for an updated Energy strategy of Russia until 2030 (draft): «...main priorities of energy policy for concerned period are <...> effective deployment of Russian energy potential with regard to international economic and political relations <...>, ensuring geopolitical and geo-economic interests of Russia in Europe and neighbouring countries, as well as in Asian-Pacific region»<sup>128</sup>.
- Now, while Russia formulates the basic provisions of the Energy strategy until 2035, an additional dimension of the external energy policy is revealed: «Russia, as a responsible state, considers external energy policy not from the exporter's narrow point of view intended to maximize short-term revenues, but as a tool to solve both national and global problems»<sup>129</sup>.

The above makes it evident that Russia has used primary gas supply as an instrument to keep control over Ukraine. It became possible because of the two main factors — opaque gas negotiations with top officials involvement from both Russian and Ukrainian sides and corruption.

Russia has been deploying energy supply as the leverage for political pressure against Ukraine since late 1990s. For instance, it requested Ukraine to prolong the leasing for Russian Black Sea fleet in the Crimea until 2017 and 2042 in exchange for restructuring of the so-called "gas debts" in 1997<sup>130</sup> and 2010 respectively. In 2014,

<sup>127</sup> Энергетическая стратегия России на период до 2020 года (Energy Strategy of Russia till 2020), May 2003, p.4

<sup>128</sup> Energy Strategy of the RF Concept till 2030 (project). Institute of the Energy Strategy. [<http://www.energystrategy.ru/editions/concept.htm>, access: 14 November 2015]

<sup>129</sup> Энергетическая стратегия России на период до 2035 года (проект) (Energy Strategy of Russia for the period till 2035) (draft). Institute of the Energy Strategy. [[http://www.energystrategy.ru/ab\\_ins/source/ES-2035\\_03\\_2014.pdf](http://www.energystrategy.ru/ab_ins/source/ES-2035_03_2014.pdf), access: 14 November 2015]

<sup>130</sup> Подолати корупцію — означає подолати її в газовій сфері. З іншими різновидами буде легше (To counter corruption means to do it in the gas sector at first. It will be easier to repeat successfully with other kinds of corruption), *Dzerkalo Tyzhnia* (Weekly Mirror), December 2014, [[http://gazeta.ua/articles/events-journal/\\_podolati-korupciyu-oznachaye-podolati-yiyi-v-gazovij-sferi-z-inshimi-riznovidami-bude-legshe/589670?mobile=true](http://gazeta.ua/articles/events-journal/_podolati-korupciyu-oznachaye-podolati-yiyi-v-gazovij-sferi-z-inshimi-riznovidami-bude-legshe/589670?mobile=true), access: 14 November 2015]

Russia's instruments of offensive energy aggression were enhanced by diversion acts on main gas pipelines in Ivano-Frankivsk and Poltava<sup>131</sup> regions, damage and capture of coal mines in Donbass, destruction of transportation infrastructure and electricity generation enterprises along the confrontation line<sup>132</sup>.

Russia has gained better political results in Belarus, Armenia and Moldova than in Ukraine. Belarus sold to Gazprom its gas transportation system in two tranches in 2007 and 2011<sup>133</sup> in order to keep moderate prices on Russian gas after facing strong pressure and threat of gas cut off. Armenia followed the same route in 1997 and 2013<sup>134</sup>, the last 20% of stocks were sold after the rapid turnover from association agreement with the EU to Eurasian Union. Sometime before, Kremlin intensified pressure on Armenia to force it to abandon closer cooperation with the EU, in particular, by threatening with 60% increase of gas prices<sup>135</sup>.

Moldova has accepted dominance of Gazprom (51%) in Moldova-gaz since its creation in 1999. Since that time, the Russian monopolist has threatened numerously to cut off gas because of debts, made by the self-proclaimed Transnistrian Republic, not paying for the gas consumed, but receiving it directly from Russia. Decreasing export volumes and revenues prevented Gazprom from introducing gas leverage against Moldova in 2014 after signing the association agreement with the

EU and full-scale Russian involvement into conflict with Ukraine. In 2015, the situation is coming to an end with little progress of Moldova in terms of the EU integration, several corruption scandals and political instability, which also might delay serious gas blockade. Moreover, Kremlin's aggression toward Moldova is limited, because the main pipeline goes through the self-proclaimed Transnistria and in case of emergency, it might become a victim too.

Georgia faced a full-scale energy blockade from Russia in winter 2006. Sabotage acts on electricity lines and gas cut-offs were used together with political pressure. Since that time, the main source of gas comes from Azerbaijan, while Russia is dependent on Georgia because of the gas pipeline to Armenia and pays for transit of up to 300 mln m<sup>3</sup> of gas annually. During the confrontation in August 2008, Russia threatened transit pipelines from Azerbaijan via Georgia to Turkey, which resulted in a two weeks shutdown. The supply of gas and oil to Turkey was affected; hereby the oil pipeline Baku-Tbilisi-Ceyhan exploded the day before the aggression because of a hacker attack<sup>136</sup>. The explosions on a hydrocarbon infrastructure also occurred during the negotiations about the Turkish stream pipeline, after Turkey clearly insisting on price reduction before any concrete agreement on the mentioned project could be signed. It has been put on hold so far.

The most evident approval of Russian politically motivated approach toward

<sup>131</sup> Ukraine Suspects Terrorism in Pipeline Explosion, NY Times, June 2014, [<http://www.nytimes.com/2014/06/18/world/europe/ukraine-suspects-terrorism-in-pipeline-explosion.html>, access: 14 November 2015]

<sup>132</sup> Centrengo power station damaged by shelling in Donbas, July 2015, [<http://www.fixygen.ua/rs/companies-reviews/20086/>, access: 14 November 2015]

<sup>133</sup> Beltransgas, history of the company, official website [<http://www.btg.by/about/history/>, access: 14 November 2015]

<sup>134</sup> Armgazprom, history of the company, official website, [<http://armenia.gazprom.ru/about/history/>, access: 14 November 2015]

<sup>135</sup> Armenia in the Custom Union, New Eastern Europe, [<http://www.neweasterneurope.eu/subscribe-now/20-eastern-europe-50/854-armenia-in-the-custom-union>, access: 14 November 2015]

<sup>136</sup> U.S. Intelligence: Russia Sabotaged BTC Pipeline Ahead Of 2008 Georgia War, Eurasianet, [<http://www.eurasianet.org/node/71291>, access: 14 November 2015]

energy exports is a comparison of gas prices for different countries of the EU in 2013<sup>137</sup>. For instance, Slovakia, being a transit country for Austria, paid at least 50 USD more (than Austria), Poland, transiting via Yamal-Europe pipeline gas to Germany, paid about 150 USD more than Germany.

Kremlin waged politically motivated restrictions of energy supplies to Baltic States in 2004, encroaching on refineries privatization, against the Czech Republic, trying to prevent the deployment of NATO anti-missile shield in 2008<sup>138</sup> and to, Slovakia, Austria, Poland, and Germany with the aim to stop reverse supply to Ukraine in 2014.

Russian “carrot” style approach brought more in terms of political success and personal enrichment of V.Putin’s nearest circle of politicians in Duma and top managers of Gazprom, Rosneft, etc. In February 2003, Gazprom started to deliver gas to Turkey via Blue stream, the newly constructed maritime gas pipeline through the Black Sea. However, as pipeline construction started at the beginning of 2001, a large-scale bribery scandal<sup>139</sup> threatened the entire project and engulfed several top-officials, making it evident that apart from gas, Russia also exports corruption. Corruption, political advantages and private interests underlie the construction of the Nord stream pipeline via the Baltic Sea with Gerhard Shroeder, appointed evidently according to “casus foederis” as a Chairman of the Nord Stream Shareholders’ Committee<sup>140</sup>.

## Conclusions

The above-mentioned makes it evident that the EU, Ukraine and other neighbouring countries consider energy sector as an important tool for economic benefits both of national and private dimension. Even the EU, as the global economic power, does not have political ambitions and instruments to play an active foreign energy policy aiming to enlarge its own presence and secure its interests, including “hard power” similar to the USA.

Russia has very ambitious goals and little respect to internationally acknowledged principles of relations with counterparts. Given the lack of economic advantages, V. Putin has chosen the way of compulsion to reintegrate countries of the so-called “Soviet space” and punish the West for destruction and ignorance of Moscow’s “super power”.

Having no chances in regular economic or military confrontation, it has started a long-term strategy to destroy the EU, playing with differences and spreading corruption. Energy sector with its large-scale financial turnover and significance for every country becomes the core instrument to “poison” Europeans, “divide and rule” by abusing democratic rights and freedoms.

Post-Soviet space has had little attention from the EU for a long time, which allowed Russia to initiate and “freeze” local conflicts in many neighbouring countries. Energy dependency was used for gaining political

<sup>137</sup> Gazprom Isn't Being Run By Evil Geniuses, It's Being Run By The Keystone Cops, Forbes International, February, 2013, [http://www.forbes.com/sites/markadomanis/2013/02/20/gazprom-isnt-being-run-by-evil-geniuses-its-being-run-by-the-keystone-cops/, access: 14 November 2015]

<sup>138</sup> Czechs See Oil Flow Fall and Suspect Russian Ire on Missile System, NY Times, July 2008, [http://www.nytimes.com/2008/07/12/world/europe/12czech.html?\_r=0, access: 14 November 2015]

<sup>139</sup> Prosecutors widens corruption probe to the Blue Stream project, Hurriyet Daily News, April 2001, [http://www.hurriyetedailynews.com/prosecutors-widens-corruption-probe-to-the-blue-stream-project.aspx?pageID=438&n=-prosecutors-widens-corruption-probe-to-the-blue-stream-project-2001-05-04, access: 14 November 2015]

<sup>140</sup> Our Management, Nord Stream AG, Gerhard Schröder, [http://www.nord-stream.com/about-us/our-management/, access: 14 November 2015]



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***Starting an open military confrontation against Ukraine, V. Putin intensified European efforts toward more energy efficiency and saving, the development of renewables and cooperation with new suppliers***

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advantages and control over foreign policy of Belarus and Armenia. It is still considered by V. Putin as a core precondition to keep supervision over Moldova, Georgia and Ukraine, as all these countries remain energy intensive and import dependent.

Starting an open military confrontation against Ukraine, V. Putin intensified European efforts toward more energy efficiency and saving, the development of renewables and cooperation with new suppliers. However, the expansion of the Nord stream can erode unity within the EU and threaten the development of single energy market. Russia tries to target two main European drivers, using “carrot” for Germany, which is concerned by the growing costs of “Energiewende” and “sticks” for France, supporting right and left wings of Eurosceptic parties.

The EU might face a large-scale reduction of energy supplies during the next heating period to multiply negative consequences and worsen security. The EU Member-States should be ready to gain control not only over their domestic critical infrastructure, but also over main maritime routes and pipelines, in particular from the Southern Supply Corridor (North Africa, Middle East), including the help of military means.

The reduction of energy intensity in Ukraine’s economics and private households

should become a core priority for the next 5-10 years, as it is the cheapest way to strengthen energy security of the country and ensure the competitiveness of industries. The second precondition is the shift from short-term priorities of state budget balancing by taxing hydrocarbon production to incentive reduction of rent payments in order to increase domestic output. Both elements should become a unified comprehensive approach for the next years. Growing tensions and conflicts on the energy supply routes together with Russian aggressive behaviour make this strategy inevitable for Ukraine, as it needs to survive as an independent state.

Therefore, Ukraine will most likely prefer a rather political than economic approach toward energy policy and security in coming years, which is needed to push forward reforms and damage interests of oligarchic financial and industry groups. In its external energy policy, Ukraine is forced to have a stronger dialogue with both European and Russian counterparts. The achieved diversification results have an important role to gain affordable prices for energy and to demand changes in long-term contracts with European companies towards the eastern border.

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