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Foreign Policy Insight

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Foreign Policy Strategies and Decisions

26th NATO Summit — «a critical summit at a critical time»



On September 4-5, the 26th NATO Summit was held. On the eve of the event, NATO General Secretary Anders Fogh Rasmussen called the summit in his Twitter as “a critical summit at a critical time”. Indeed, it is a significant one since the times of the Cold War, as the world faced with unprecedented challenges to the security of many countries at the Middle East, in North Africa, Afghanistan and Europe.

Ukrainian issue was most highly represented at the Summit held in South Wales. Overall, the Summit was attended by over 30 delegations led by Heads of States and Governments of NATO members and partner countries, including Ukrainian official delegation led by President Petro Poroshenko. The Russian delegation, for the first time since the collapse of the Soviet Union, was not invited for obvious reasons.

On the first day of Petro Poroshenko's stay in Newport, he met with the Presidents of the United States and France, as well as Prime Ministers of Great Britain, Italy and Germany.

Then, a meeting of Ukraine — NATO Commission led by heads of the state and the governments

has taken place. As a result, it was stated that NATO does not recognize and will not never recognize Russia's annexation of Crimea, emphasized a unity in support of the sovereignty and territorial integrity of Ukraine within its internationally recognized borders, claimed that Russia, despite of its denial, is involved in military operations in eastern Ukraine, directly deploying its regular troops and supplying militants with heavy armed equipment. In general, the language of the statement is maximally tough, which is not typical for such kind of diplomatic documents.

At a press conference with Petro Poroshenko and Anders Fogh Rasmussen, there was announced that NATO is going to establish four trust funds to help Ukraine in such areas as treatment of the wounded, logistics, management systems and cyber defense. Member states have currently announced their intent to provide USD 15 mln for initial funds launch. It has also been announced that some NATO countries would provide lethal and non-lethal weapon to Ukraine according to a bilateral agreements.

Establishment of trust funds to help Ukraine has been announced

On September 5, as the result of the summit, the Declaration of Wales Summit was adopted. According to it, the Russian aggression against Ukraine was recognized as a challenge to whole Europe. However, it is somewhat surprising to read some parts concerning Russia. In particular, in paragraph 16, it is stated that “Russia should use its influence on separatists for de-escalation of the situation ...”. In other words, NATO still prefers a non-conformist position, which is likely caused by an unwillingness to finally break off relations with Moscow.

In general, it should be noted that, despite some concerns about the possibility of enlargement of the theater of war operations to other countries of Europe, NATO proved to be not ready to provide effective military assistance to Ukraine or launch a large-scale program of military-technical assistance similar to well-known US “Lend-Lease” program.

NATO proved to be unprepared to provide Ukraine military-technical assistance

However, the fact of aggression’s condemnation and statements on the need for renewal of

Ukraine’s territorial integrity is a positive outcome without any doubt. Taking into consideration the results of the summit, it is wise to concentrate on two areas of cooperation with NATO. First, it is necessary to make bilateral agreements with NATO Member States on military-technical cooperation and to use the maximum of the opportunities to be available after the creation of trust funds. In addition, the preparation and adoption of the Decree of the President of Ukraine on the Annual program of cooperation between Ukraine and NATO should be speeded up and a draft law №4562a on the abolition of non-alignment status of Ukraine, introduced to the Verkhovna Rada (Parliament) on August 29, 2014, should be adopted.

It is clear that in the case of escalation of the situation in Eastern Ukraine, NATO members are the only states who can provide an effective military and technical assistance. However, in order to ensure its prompt receiving, it is necessary to conduct appropriate bilateral negotiations right now and to sign supply contracts.

The ceasefire without peace

On September 5, 2014, the President of Ukraine ordered the ceasefire in Donbas. This decision was preceded by a meeting of the contact group in Minsk and signing of the Protocol “On the results of consultations of the Trilateral contact group on joint steps aimed at the implementation of the peace plan of the President of Ukraine Petro Poroshenko and initiatives of the President of Russia Vladimir Putin”.

The protocol was signed by the former President of Ukraine Leonid Kuchma, Russian Ambassador M. Zurabov, OSCE Representative Ambassador Heidi Tagliavini and the leaders of the so-called DNR /LNR (or DPR/LPR) A. Zakharchenko and I. Plotnitskyi. The document consists of 12 points. It is easy to see the unclearness of the most of its statements. In particular, it remains unclear how paragraph 10 will be fulfilled. According to it, there should be a withdrawal of “illegal military formations, military equipment, militants and mercenaries from the territory of Ukraine”. In addition, it is doubtful that the paragraphs 3 and 9 could be implemented. According to them, it is a priority to

adopt the Law of Ukraine “On temporary order of local governance in certain areas of Donetsk and Luhansk regions”. Because of highly politicized conditions in the Parliament, which consists of deputies already involved in election campaign, the issue on adoption of the Law may become an unsurpassed obstacle.

In general, it should be noted that the signed Protocol is a document with questionable legal nature with even more suspicious signatories.

Minsk protocol has the dubious legal nature

Nonetheless, the apparent positive outcome of the arrangements in Minsk is an intensification of the exchange of prisoners and hostages (though still without civilians) and cessation of hostilities and firing of the positions of Ukrainian army and Ukrainian settlements from the territory of Russia. However, the information provided by the National Security and Defense Council on the attacks of over a dozen of towns and villages with small arms and mortars, as well as Ukrainian checkpoints, even during the working visit of the Presi-

dent Poroshenko to Mariupol, just illustrates that the Kremlin diplomatic actions do not match with its real steps.

A telephone conversation between Petro Poroshenko and Vladimir Putin during the visit of the resident of Ukraine to the East should be regarded rather as a purely diplomatic protocol-step, but not as a way to specify the implementation of the Protocol modalities.

At present, we should expect for military actions taken by the Russian side at any moment. Therefore, ceasefire should be used to regroup Ukrainian Armed Forces, National Guard and special units and to prepare for large-scale defense of Ukrainian territory around the whole perimeter of the deployment of the Russian troops, mercenaries and local gangs.

Russia may resume active hostilities at any moment

Belarus-Russia relations: unconditional surrender or hard bargaining

For over 20 years since A. Lukashenko's presidential inauguration, Belarus continues to demonstrate its own policy of "balancing".

On the one hand, Belarus declared itself as the most reliable ally of Russia and reiterated its readiness to join any Kremlin reintegration initiatives.

The President of Belarus continue to demonstrate the policy of "balancing"

Belarus received huge economic benefits from Russia. Thus, it helped to keep the unreformed "closed" Belarusian economy afloat. However, Lukashenko underlines the priority of the national sovereignty of his country, and sometimes even flirts with European neighboring countries. Moreover, Belarus even joined the EU initiative "Eastern Partnership".

Russia's expectations that Minsk's political move towards Moscow will be accompanied by the opening of new economic opportunities for Russian businesses has failed to be met.

Events of 2014 has significantly changed the balance of powers in the region. Russian annexation of Crimea has shown that Moscow prefers using of force over the economic incentives and considers forcible partnership as a more effective political tool.

Signing of the agreement on creation of the Eurasian Economic Union (EEU) in May 2014 confirmed that Lukashenko could not avoid further institutional integration with Russia. Events in Ukraine and EEC creation has limited space for maneuver for Minsk and forced Belarus to change its own foreign policy paradigm in the near future.

There are no doubts that Belarus would like to act as an independent player in Ukraine-Russia conflict, even as an arbiter. Lukashenko personally has done enough in order to underline the differences between Russian and Belarusian approaches to the current situation in Ukraine.

Even despite the fact that Lukashenko has not demonstrated any sympathy for the protest movement "Euromaidan", he immediately recognized the legitimacy of new Ukraine's authorities and met the acting Ukraine's President Oleksandr Turchynov. After the presidential elections held on May 25, Lukashenko congratulated Petro Poroshenko on his victory and even was present at the Poroshenko's inauguration. Lukashenko recognized Crimea's entry to Russia de-facto, not de-jure, and he publicly supported the territorial integrity and unity of Ukraine. Later, Belarus refused to recognize the results of referenda in Donetsk and Luhansk regions.

Recent developments limited room for maneuver for Lukashenko

The differences between Kremlin and Belarusian positions also attracts the attention of the West. At present, Lukashenko is trying to take advantage of this situation. However, despite its rhetoric in support of the unity of Ukraine, Belarus supported Russia during the voting on the territorial integrity of Ukraine at the UN General Assembly in March 2014. Probably, Lukashenko came to the conclusion that the absence of a full and meaningful solidarity with Moscow regarding this issue would have certain consequences that Belarus could not afford.

The key factor in understanding why Minsk has decided not to test the patience of Russia can be a number of concerns that Belarus' sovereignty and territorial integrity are today less protected than ever before. Moreover, the rhetoric on "Russian world" and "gathering of Russian lands" began to play an increasingly prominent role in formal and informal political circles in Russia. But in comparison to Ukraine, Belarus is an easy target: it is traditionally friendly to Russia, mostly Russian-speaking and relatively small.

Another "constraining" factor for Lukashenko is the participation in the Customs Union (CU). The history of relations between Belarus and CU reflects the bilateral Belarus-Russia relations. A. Lukashenko criticizes Eurasian integration due to its inability to form economic union without any exceptions and non-tariff barriers. He also threatened to disaffiliate with an organization if certain demands are not met: first of all, Belarus' right to keep exports duties on oil products refined domestically. However, Lukashenko unconditionally signed the creation of the EEC in May 2014.

This is due to the fact that Moscow has made some concessions to Belarus after a number of bilateral negotiations in early August 2014. The parties agreed that in 2015 Belarus will get \$1.5 bln. of its export duty on oil (approx. the half of the expected amount). Russia also agreed to provide Belarusian refineries with

Kremlin made some economic concessions to Belarus

crude oil necessary to keep it operating at full capacity; and the state owned bank "VTB" disbursed a so-called "interim loan" of \$ 2 bln.

Thus, Russia recognizes the need to compromise with Belarus on the economic front, rather than on the political one. Undoubtedly, the deep economic crisis in Belarus would be much more difficult challenge for Russia and the newly created EEC, than minor financial concessions, while Lukashenko's dissatisfaction of Moscow actions could impede further Eurasian integration. Moscow will continue to provide Minsk with a number of economic benefits. After all, keeping Belarus under Russia's control, more dependent Lukashenko is less costly scenario for Russians compared to other hypothetical variants, such as "reunification" of the two countries or Lukashenko's replacement.

All this creates a favorable situation for the president of Belarus before the presidential elections 2015. It is likely that the EU will not play any role in this election, while Russia will again offer its support to Lukashenko's regime. Considering the weakness of the Belarusian opposition and a relatively high level of public trust, Lukashenko can experience the least problematic election for his entire political career. After the election, in order to further balance between EU and Russia, Lukashenko can conduct a partial and conditional democratization to be noticed in Europe.

Lukashenko in a favorable situation before presidential election 2015

European Integration

On September 8, European Council President Herman Van Rompuy delivered a Statement about the future EU restrictive measures against Russia. The package of sanctions was adopted under a written procedure. "Publication and coming into force of sanctions will take place in the upcoming days. We need time to evaluate how the agreement on ceasefire and a peace plan is being fulfilled. Depending on the situation, the EU will be ready to reconsider the agreed sanctions as the whole or part of them," — as claimed in Rompuy's Statement.

Finland was against the introduction of new sanctions against Russia

It is worth paying attention to the fact that this time the EU decision was in danger until the last moment. Experts made the assumption that the only country that tried to use its veto right was Finland. It is a rather predictable situation in a view of the recent statement of the Finnish Prime Minister Alexander Stubb, who tried to prove the unreasonableness of the imposing of new sanctions against the Kremlin at this stage. However, during a press conference in the evening on the 8th of September, he said that Finland is "not against sanctions, it is only a matter of time of their adopting".

On September 8, the decision of the Committee on Foreign Affairs of the European Parliament

has been published. According to it, the European Parliament is recommended to give consent to make Association Agreement obligatory for EU in terms of temporary application of its positions on the introduction of a free trade area since November 1, 2014.

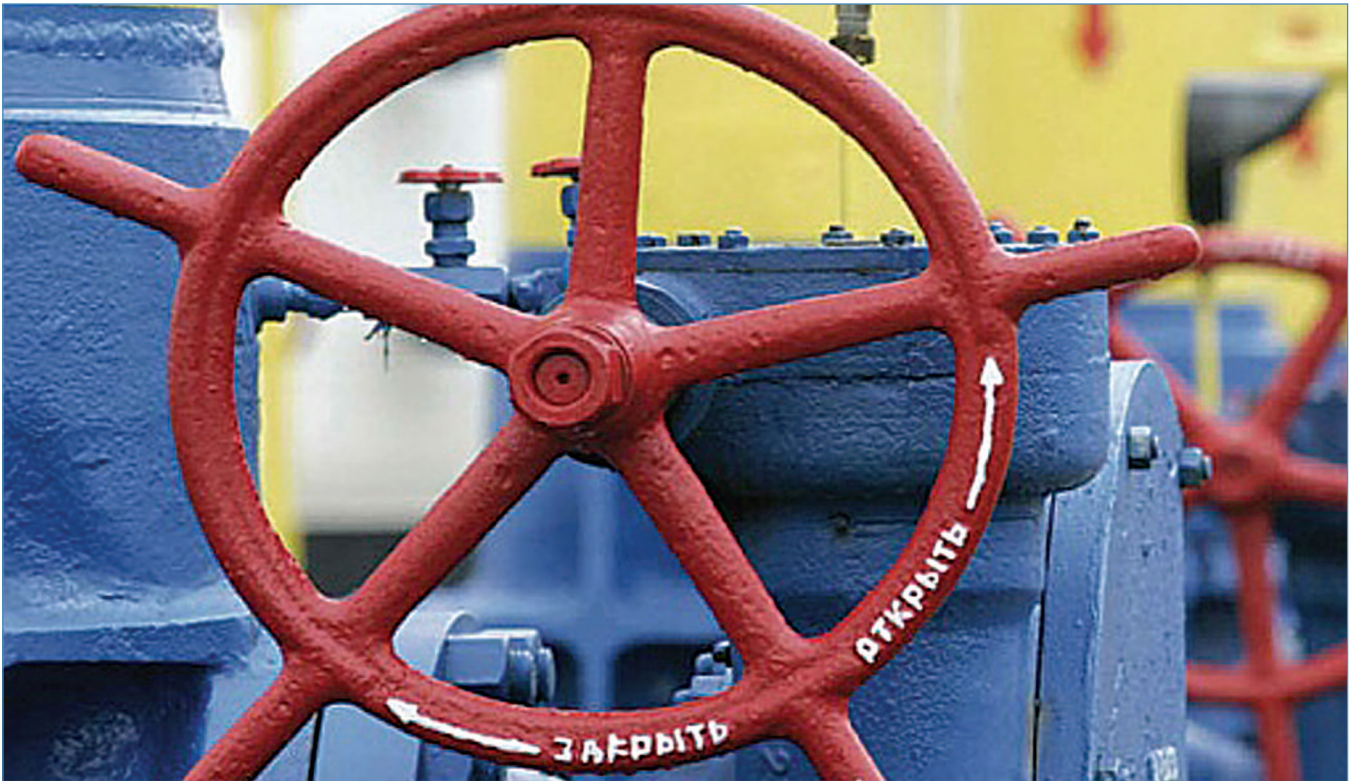
Synchronous ratification of the Association Agreement is expected next week

The Agreement is expected to be ratified next week. As it was announced on August 30, 2014, after a meeting between President Poroshenko and the President of European Parliament Schulz, it should be ratified simultaneously with the ratification of the Agreement by the Verkhovna Rada of Ukraine.

Moreover, on September 8, it was announced that the successor to Commissioner Füle will be a representative of Slovakia Maros Šefčovič. Thus, Eastern Europe holds a mandate to continue taking care of the affairs of the Eastern Partnership and Ukraine. At the same time, one should wait for the first steps of the new European Commissioner for Enlargement in order to see how the closeness to Slovakian Prime Minister Fico will affect him. As it is known, Fico is considered to be one of the most pro-Russian politicians in Europe with higher education received in Moscow State University of International Relations.

EU Commissioner for Enlargement will be representative of Slovakia

Energy Diplomacy



According to ITAR-TASS, on September 5, 2014, activities of the working groups within the project “Energy dialogue Russia-EU” has been blocked at the current stage by EU initiative. According to preliminary Russia-EU agreement, the project should have six thematic groups, including a group on monitoring of the “Road map” implementation for energy cooperation until 2050, analysis of energy markets functioning and their development strategies, electricity, nuclear energy, energy efficiency and innovation, as well as the Gas Advisory Council.

However, currently, there is no consensus on the heads of certain workgroups; activities of the Gas Advisory Board are actually blocked, and the board meeting scheduled for June 10, 2014 has been postponed indefinitely. The aim of the European Commission in this project was to prepare a “main scenario” until 2030 jointly with the Russia’s Ministry of Energy. Such a scenario should include forecasts on the gas industry development on a global scale. Taking into account the variability of gas demand in Europe in the coming future, the

Russia avoids open dialogue with the EU on pricing and transportation of energy resources

European Commission has proposed about 30 scenarios for further discussion with Russian partners, where a key issue is a pricing model for Russian gas.

In view of recent events, it seems quite reasonable to question why the Russian side seeks to avoid an open dialogue with European partners in terms of pressing issues on pricing and energy transportation. Actually, purposeful and deliberate elimination of the Russian side from cooperation with European countries in energy sector allows the Kremlin to broaden the political and economic “maneuvering” avoiding any liabilities and responsibility.

This aspect is of particular relevance in the context of introduction of the third-level EU sanctions against Russia as a response of European countries to Kremlin’s aggression in eastern Ukraine. It is clear that Russia is deliberately delaying the negotiation process in order to gain time before the winter period, when the situation will require quick actions and will provide “compliance” of European partners in energy dialogue.

Russia is actively using the factor of EU energy dependence

Setting excessive, economically unjustified and often politically motivated energy prices, imposing

impossible conditions for mandatory subscription for hydrocarbon supplies and determining predetermined volumes of energy resources purchases, regardless of the current importer's needs, Moscow stubbornly seeks to preserve the dependence of European economies and impose certain political behavior. At the same time, as to strong economies of the European community, it is evident that Russia "sophisticatedly" uses the energy factor as part of the so-called "soft power".

Instead, Russia is trying to get some EU concessions in geopolitical terms and loyalty to Kremlin in case of escalation of the situation at the global level. Economic illogicality of Russia's energy sector pricing policy as to transport component is particularly evident. For example, the gas price for some Western European countries is much

lower than the contractual costs of natural gas to the Baltic States, although they are geographically much closer to the Russian borders. Thus, considering the above-mentioned facts, it should be noted that current energy policy of Moscow aims at creating a type of partner relations, where each European country has its own role in an intricate combination of promoting Russian strategic interests. Moreover, the energy factor, which is actively used by Russia, becomes "hard" or "soft" power, depending on the characteristics of the interaction with each country of the European Union. Thus, the energy factor has become a powerful geopolitical weapon.

Energy factor
becomes a
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weapon

Economic Diplomacy

International financial organizations support Ukraine

After the information on IMF assistance to Ukraine has been released, financial resources of a number of other international financial institutions became available for Ukraine. IMF will disburse the second “stand-by” program tranche of USD 1.39 bln; USD 1 bln of which will be used to support the state budget of Ukraine.

The postponement of the second IMF tranche disbursement could seriously complicate cooperation with other donors.

Disbursement of the second IMF tranche provides access to resources of other donors

Thus, on September 8, the Ministry of Finance received the first loan for development policy in the financial sector in the amount of USD 500 mln under the Agreement between Ukraine and the International Bank for Reconstruction and Development signed on August 8, 2014. The loan is obtained for 16 years with a 7-year grace period under variable interest rate (at the date of signing — 0.63%) and non-recurring commission — 0.25%. The loan will support urgent measures to reform the banking sector and the implementation of a comprehensive crisis management program in the financial sector of Ukraine.

In particular, the funds will be used to strengthen the operational, financial and regulatory capacity of the Individual Deposit Guarantee Fund; improving the solvency of the banking system; strengthening the legal and institutional framework to improve the stability and efficiency of the banking system in the long term.

Ukraine will receive funds from IBRD and EBRD

Earlier, Head of the European Bank for Reconstruction and Development (EBRD) in Ukraine Sevki Acuner confirmed the intention to invest EUR 1 bln in Ukraine’s projects this year. Mr. Acuner positively assessed the implementation of the IMF program by Ukrainian side and noted that Ukraine has made some progress in fighting against corruption.

In contrast to the IMF funds, which are aimed primarily at supporting gold reserves, EBRD resources will support the real economy sector, i.e. Ukrainian small and medium businesses.

EBRD resources will be used for real economy sector

The funds from the EBRD will be especially important against the background of a significant reduction of foreign investment into the Ukrainian economy this year. The volume of foreign direct investments decline in January-May 2014 was 51% compared to the same period last year. In January-June 2014, foreign investors had invested USD 1.298 mln of direct investments into Ukraine’s economy, whereas in January-June 2013 — USD 2614.9 mln. In general, the total amount of direct foreign investments into Ukrainian economy, as of July 1, 2014, is USD 50021,8 mln. It is amounted to USD 1164,1 per capita. The main reasons for decline in FDI are the war in eastern Ukraine and the lack of reforms aimed at improving the investment climate and investor protection.

The war in the east and the lack of reforms are the reasons for FDI

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