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RUSSIA'S TRADE WAR AGAINST UKRAINE: WHO IS THE WINNER?



Summary

Trade and economic pressure is one of the tools of Russian foreign policy towards Ukraine. As a result of the consistent use of this tool in the period of before Maidan, as well as after the start of military aggression, the volume of Russian-Ukrainian trade turnover decreased from 50.6 billion USD in 2011 to 16 billion USD in 2015. Three years ago, the share of Russian foreign trade in Ukraine was 35%, today is only 12%. In 2016 the negative trend of trade with Russia will increase because of the preservation of confrontation between the two countries, but a complete break of trade and economic ties will not happen. Fall of exports to Russia in 2016 can be up to 30%, losses of Ukraine will be from 0.4 to 0.9 percentage points of GDP.

Despite the fact that both countries are paying a

high price for breaking traditional trade and economic relations, by this time there is no clarity about their status, the concept of recovery or further development. Russia links the suspension of economic pressure with the revision of conditions of the free trade zone between Ukraine and the EU. The Ukrainian side was not provided and not fixed in international documents the clear definition of Russia's actions towards Ukraine as an aggression, and thus not suspended trade relations with the country-aggressor. Actions of civic activists to block transit only increase the uncertainty of the status and future actions of the parties. Ambiguous nature of political relations with Russia, the lack of a viable concept of resolving the conflict in the Eastern Ukraine and the restoration of sovereignty on Crimea as well as internal weakness of Ukrainian government restrain decision-making on the future of bilateral trade and economic relations, which

will have a negative impact on the internal socio-economic situation.

In the short term period the way out of the current situation is possible by looking for new markets for Ukrainian producers, modernization of production and improvement of competitiveness of Ukrainian goods. In the long run there is a need to identify a new framework for trade and economic relations with Russia in the all-European context. The idea of creating a pan-European free trade zone from Lisbon to Vladivostok may contribute to the settlement of this conflict with Russia on the whole, not just to give a chance to restore trade and economic relations. Ukraine should immediately begin to develop a clear and systemic strategy for resolving the conflict with Russia and post-conflict reconstruction, including ways of further development of trade and economic relations with the Russian Federation.

Russian-Ukrainian trade: a history of menaces, pressure and sanctions

Since Ukraine's proclamation of independence the Russian Federation has actively used trade and economic instruments to achieve its foreign policy goals. In Budapest Memorandum of 1994, as well as in a series of other documents, Russia undertook to avoid economic pressure to Ukraine. Though, in fact Russia actively used energetics, just like mutual trade in general, as instruments of achieving its foreign policy goals.

The Russian leadership has always sought to keep Ukraine in its sphere of influence in order to have a right to veto Kyiv's key decisions. Ukraine's drift to West was always considered by Kremlin as a potential threat, while the in-

nocent free trade zone agreement with EU has become a red line, which spurred Russia firstly to the trade war, and sooner on to a military invasion.

The Kremlin does not hide its intentions to rebuild the supranational union of the former Soviet Union led by Russia, regarding Ukraine as the cornerstone of this project.

In fact, the whole modern period of Ukraine-Russia relations is a period of a permanent trade and economic war.

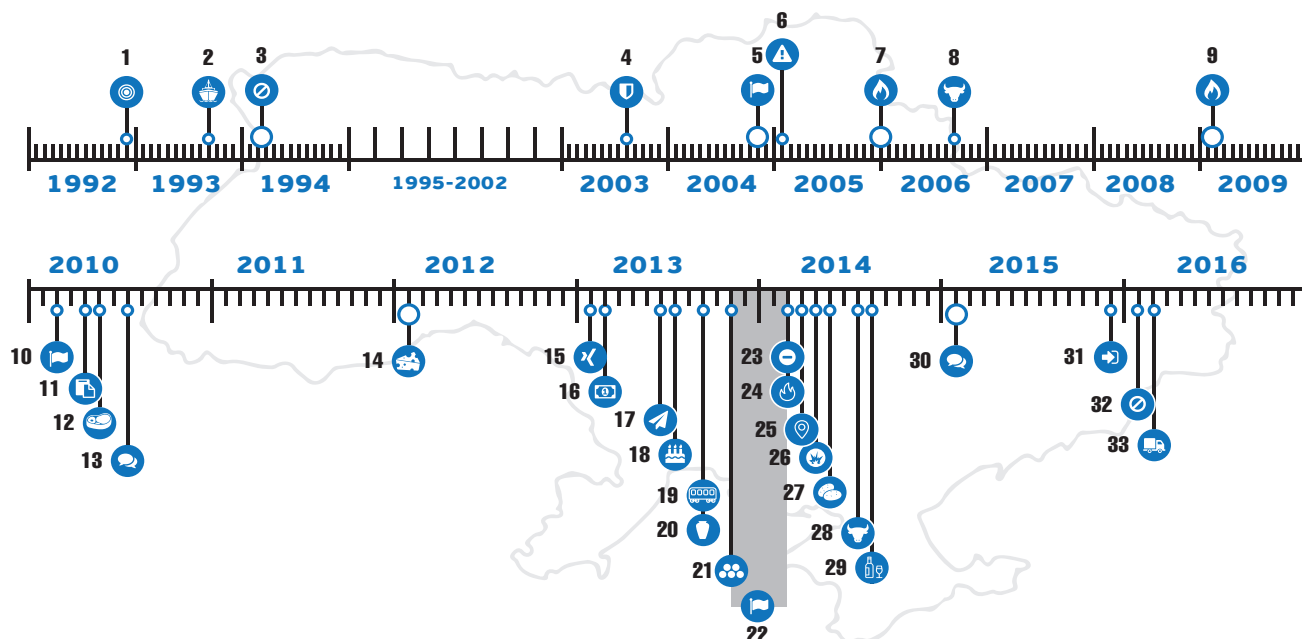
Its culminations resulted in two natural gas wars – in 2006 and 2009, as well in start of penal trade sanctions in 2013, caused by the upcoming signing of Association Agreement (AA) between Ukraine and the European Union.

Russia's military aggression against Ukraine, the annexation of Crimea and Donbas conflict "logically" concluded the Russian authorities' policy towards Ukraine at the present stage.

From pressure to embargo

Not having been able to overcome Ukraine in an open armed conflict in Donbas, the Kremlin increased trade and economic leverage as a weapon in hybrid war, trying to provoke popular discontent and destabilize the political situation in the country. Within 2014-2015 Ukraine and Russia menaced each other with trade sanctions, embargo and even full-scale cease of trade. On January 1, 2016, Russia introduced partial food products embargo and inhibited free trade zone agreement with Ukraine.

Russian pressure on Ukraine: key events



1	December 1992 –	Russia pressured Ukraine to return the gas debt.
2	September 1993 –	Kyiv gave some of its warships to Russia to repay 800 million USD of gas debt.
3	March-April 1994 –	Gazprom cut off gas supplies to Ukraine because of large industrial enterprises' debts.
4	September 2003 –	The conflict over the status of the island Tuzla in the Sea of Azov.
5	November 2004– December 2005 –	Orange Revolution. Policy change
6	January 2005 –	Customs restrictions on imports of steel pipes.
7	December 2005– January 2006 –	1 st gas war.
8	September 2006 –	The embargo on Ukrainian dairy products import.
9	January-February 2009 –	2 nd gas war.
10	February 2010 –	Viktor Yanukovich's victory in the presidential election. Policy change.
11	April 2010 –	The Kharkiv agreements. Russian Black Sea Fleet will base in Sevastopol until 2042 in exchange for gas price reduction for Ukraine.
12	May 2010 –	The embargo on Ukrainian meat products.
13	July 2010 –	Negotiations on a gas consortium between Russia, Ukraine and the EU.
14	January-February 2012 –	Cheese war.
15	January 2013 –	Ukraine buys cheaper gas on the EU market and buys less Russian gas.
16	February 2013 –	Russia charges Naftogaz 7 billion USD for gas shortage last year.
17	June 2013 –	Russia violates an agreement on serial production of the aircraft AN-70.
18	July 2013 –	A ban on confectionery imports.
19	September 2013 –	The termination of certificates on import of Ukrainian wagons.
20	September 2013 –	An increase in import duties on Ukrainian porcelain.
21	November 2013 –	Anti-dumping investigation against Ukrainian rolled metal producers.
22	November 2013– February 2014 –	The revolution of dignity. Policy change.
23	March 2014 –	The transport blockade for Ukrainian products.
24	March 2014 –	The annexation of Crimea.
25	April 2014 –	The suspension of Ukrainian sugar transit.
26	May 2014 –	The beginning of ATO in Donbas.
27	June 2014 –	An embargo on Ukrainian potatoes.
28	July 2014 –	A ban on Ukrainian dairy products.
29	August 2014 –	A ban on Ukrainian beer and vodka imports.
30	January-February 2015 –	New gas negotiations.
31	December 2015 –	A ban on Ukrainian pork imports.
32	January 1, 2016 –	A complete embargo on Ukrainian agricultural products.
33	February 2016 –	A ban on Ukrainian trucks transit in the Russian Federation.

The Association Agreement between Ukraine and the European Union, the economic part of which fully entered into force on January 1, 2016, was the pretext for this.

In response to the Association Agreement, Russia imposed sanctions against Ukrainian exports. On December 16, 2015, Putin signed a decree on suspending the Treaty on free trade zone dated January 1, 2016 because of “the exceptional circumstances affecting Russia’s interests and economic security”. Russian Ministry of Trade assessed potential loss from introduction of free trade zone between Ukraine and the EU of up to 3.5 billion US dollars.

The agreement on free trade zone in the CIS was signed in St.Petersburg, Russia on October 18, 2011 and came into force for Ukraine, Russia and Belarus on September 20, 2012. Kazakhstan, Kyrgyzstan, Moldova and Armenia entered into it later.

This decision means that Ukrainian goods will face same dues as goods from other WTO member countries. In this context, after Russia has implemented the decision to cancel free trade zone agreement, actual due rates increased from 0% to 15-20%, with average weighted of 7.7%. Moreover, Russia has got a chance to introduce temporary bans, quotas and other non-tariff measures. Yet another hostile step was the ban on Ukrainian goods transit via Russian territory.

Since January 1, 2016, Russia has introduced a ban on agricultural products imports for Ukraine, which was imposed earlier on the EU countries, the USA, Canada, Australia and Norway.

Responding to the counterproductive actions of the Russian Federation, Ukraine imposed mirror sanctions against Russian goods import. Pursuant to the decision of the Cabinet of Ministers № 1146, December 30, 2015 and adopted by the government in response to Russia’s suspension of the agreement on free trade on October 18, 2011, all Russian products are liable to preferential import duty rates set by the Customs Tariff of Ukraine from January 2, 2016. At the same time, preferential treatment towards Russia (free trade) has been repealed.

Certain goods from the Russian Federation have been banned in Ukraine since January 10, 2016. Pursuant to the Government decree № 1147, December 30, 2015, these measures are to be implemented by August 5, 2016. The products subject to sanctions are Russian meat and meat products, fish, dairy products, processed cheese, coffee, tea, cereals, confectionery, baby food, pasta, beer, alcohol, vodka, cigarettes and some other products.

There are also restrictions on the transit of goods. On January 1, 2016, Russian President issued a decree according to which international transit road and rail transport of goods from the territory of Ukraine to the Republic of Kazakhstan through the territory of the Russian Federation will be carried out only from the territory of Belarus. The Russian Federation completely stopped the transit of any goods of Ukrainian origin through its territory irrespective of final destination. As a result, domestic producers’ logistics costs have increased and delivery of Ukrainian products to the consumer countries, including Asia, have been delayed.

On January 20, 2016, the Ukrainian government approved a list of border checkpoints through which sanctioned Russian goods can be transited. Only 10 (out of 21) road and 4

(out of 8) railway crossing points on the border with the Russian Federation allow transiting banned Russian goods. In addition, 8 (out of 20) road and 6 railway checkpoints on the border with Belarus allow the same.

On February 24, 2016, both countries restarted to transit goods. However, there is a risk that Ukrainian activists, who continue to advocate a total ban on any contact with the state-aggressor, Russia, because of the ongoing aggression in Donbas and occupation of Crimea, may terminate the transit.

Economic consequences

In 2015, both countries tried to settle disputes in the WTO and in the framework of tripartite talks Ukraine-EU-Russia.

Tripartite talks have ended in failure

The major objective of talks initiated by Russia was to protect its domestic market from European imports. Expert talks were consultative and the Russian side envisaged adverse effects of the Association Agreement on the Russian market. However, no agreements were reached. This is not surprising because the expected cheap European imports are not likely to rise. In the last two years Ukraine suffered from the national currency devaluation, which affected the purchasing power and made the process almost imperceptible. Ukraine's suits against Russia in WTO failed because of the duration of proceedings.

In 2015, trade dynamics between the countries dramatically deteriorated – Russia's share in total foreign trade of Ukraine was 27.12% in 2007 and about 12% in 2015.

Ukraine and Russia's foreign trade dynamics have seriously deteriorated

In 2015, exports to Russia amounted to 4.8 billion USD, which was 5 billion USD or 51% less than in 2014, while imports amounted to 7.5 billion USD (-41%). What is more, in 2014, exports to Russia fell by 34%, which in value terms was about 5.2 billion USD. The reduction of Russian imports in 2014 was 45%.

A decline in trade turnover resulted not only from a trade war but also from the crisis in the Ukrainian economy, a fall in industrial production and the hryvnia devaluation.

Analysing the trade war with Russia and a decline in trade turnover, it is necessary to differentiate between macro-economic implications and the impacts at the level of specific enterprises. Given a sharp fall in trade with Russia in 2014-2015, the recent trade restrictions will not have dramatic impact on Ukraine's economy in the macro-economic context. At the macro level, Russia's economic war against Ukraine did not seriously threaten the country since domestic supplies to its market accounted for only 2% of Ukraine's total agricultural exports (total agricultural exports to Russia amounted to 275 million USD in 2015). Thus, the more Russia uses trade war instruments, the less profound impact they have on the economy of Ukraine.

The more Russia deploys trade war instruments, the less significant impact they have on Ukraine's economy

The trade war has led to the changes in exports to Russia, particularly as regards agro-industrial products. Previously, more than a half of

export revenues to Russia generated from dairy products, including cheese, confectionery, fats, oils, and beverages. Today, mostly meat (46%), beverages, including alcohol (13%) and cocoa products (11%) are exported to Russia

Meanwhile, trade restrictions have a negative impact on the companies aimed at the Russian market. Exporters of meat, fish and vegetables have suffered most since Russia introduced trade restrictions on January 1, 2016.

Analysing the potential consequences of a trade war in 2016, the losses should consider various hostile actions – a selective trade embargo, suspension of the free trade zone and transit restrictions. According to the NBU, a food embargo will result in the loss of 250 million USD and the abolition of the FTA will lead to the loss of 0.4 billion USD. The overall decline in Russia's demand for major goods may amount to 0.5 billion USD. In 2016, a fall in exports to Russia might be up to 30%. In value terms, it will make about 1.3-1.5 billion USD.

Fall of Ukraine's exports to Russia in 2016 can be up to 30%

Thus, under the various estimates, Ukraine may lose 0.4 to 0.9 percentage points of GDP. This loss may be reduced if the other market outlets are found.

The ban of transit through the Russian territory may cause substantial losses for the Ukrainian exporters. Imposition of restrictions on transit through its territory as well threatens interests of other countries being in trade relations with Ukraine. As of now, the supply of the Ukrainian goods through the territory of the Russian Federation is carried out mainly to the Central Asia countries - Kazakhstan, Azerbaijan, Kyrgyzstan, Tajikistan, Turkmen-

istan and Uzbekistan. They receive about 4% of total agricultural exports from Ukraine including the main goods positions as sugar, cereals, confectionery and meat. The blocking of transit by Russia may minimize the presence of Ukrainian goods in Central Asia, Xinjiang Uygur Autonomous Region of China and Mongolia.

Therefore, the Ukrainian exporters face the problem of finding alternative ways to supply products to the mentioned countries. The Ukrainian products may find their way to the Central Asia even in case various restrictions are imposed by Moscow. In the middle of January, the so-called new Silk Road has been launched as an experimental route to bypass Russia, with the starting point at Illichivsk seaport, going through Ukraine - Georgia - Azerbaijan - Kazakhstan - China.

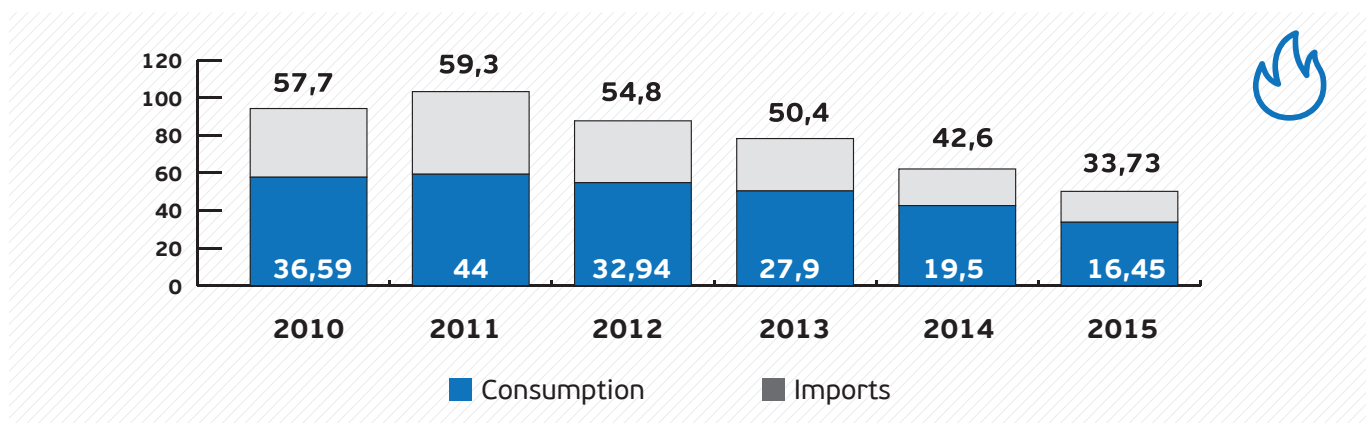
However, so far the alternative transit route is considerably more expensive than the traditional route through the Russian territory. It affects the competitiveness of the domestic products negatively, since the logistics costs increase by 2-3 times leading to growth of the products costs. It is also being time-consuming. In general, the potential losses caused by the transit ban may reach 0.5 bln. USD.

The alternative transit route is considerably more expensive than the traditional one

Energy diplomacy

The bilateral gas relations in 2014-2015 became a key issue on the Russian-Ukrainian agenda along with aggression in the East and the annexation of Crimea.

Consumption and imports of natural gas by Ukraine, billion cubic meters



GTS of Ukraine remains vulnerable to partnership with Russian Federation

Although under the terms of Contract (№KP) between JSC «Gazprom» (hereinafter - Gazprom) and NJSC «Naftogaz of Ukraine» (hereinafter - Naftogaz) signed on January 19, 2009, Ukraine is entitled to receive Russian gas by the end of 2019, the trend towards reduction of gas deliveries picks up. To replace Russian imports, Ukraine is bound to seek outlets on the EU gas market, as a result of discriminatory price policy of Gazprom. Thus, increase of gas exports from Slovakia in 2015 to almost 10 billion cubic meters enabled Ukraine not to purchase gas from Gazprom since November 2015. According to mutual accusations of non-compliance with contractual obligations, Naftogaz and Gazprom in 2014 sued in the Stockholm arbitration court for failure to fulfill the gas contract.

Ukraine still relies on loans for providing gas imports

Despite the basic point of Naftogaz, **Ukraine's ability to do without Russian gas may be of temporary nature**. Ukraine still relies on loans and neglects to create appropriate conditions for increasing its own gas production. The ex-

pected amount of loans from the EBRD, the World Bank and the International Finance Corporation for this purpose is \$ 1 billion USD. In order to obtain it, the Verkhovna Rada should approve on January 26, 2016 the draft law №3388 on stabilization of (reserve) energy fund (a relevant warranty package will belong to the guaranteed public debt). Own gas production in 2015 came up to 19.9 billion USD, which is 1% less than in 2014¹.

Further, if we pay attention to Ukraine's industry as the main gas consumer, it decreases by 13% in 2015 and almost by 10% in 2014. In case of industry recovery, **needs for gas imports will increase**.

GTS of Ukraine remains vulnerable to partnership with Russian Federation

Import of natural gas is not only a bilateral issue that should be considered in international arbitration. In 2014, Naftogaz appealed to the Chamber of Commerce in Stockholm with arbitration requirement against Gazprom in order to fulfill obligations under the terms of

¹ Source: the consulting company «Newfolk»



the Transit Contract, concluded on January 19, 2009 № TKHU.

In addition, the Antimonopoly Committee of Ukraine considered the case regarding signs of law violation by Gazprom on competition protection. According to the obtained results, the Committee adopted a decision which confirmed that Gazprom in the period of 2009 to 11 months of 2015, as a buyer, held a monopoly in the national market which provides services for natural gas transit over pipelines through the territory of Ukraine.

Due to the committed violation Gazprom is imposed the fine of 85,965,927,000 USD. Further, Gazprom is ordered to stop such violations, according to the decision of the Committee. On February 12, 2016 the Committee decision was sent to the parties of the case - Gazprom, as the defendant, and Naftogaz, as a third party.

One of Ukraine's key strategic priority is preserving a transit potential of its natural gas transmission system. However, a volume of gas transit has become much lower than a flow capacity of transmission system estimated at 178 billion cubic meters annually (at exit point), thus risking not to cover even transit net cost.

Russia's new gas pipeline projects that are aimed at bypassing Ukraine's territory is another challenge. Gazprom has already launched Nord Stream to supply Russian gas to Germany under the Baltic Sea with a capacity of up to 55 billion cubic meters annually. Moreover, Nord Stream 2 is being currently constructed to follow the same route and flow capacity. Russia is also negotiating another energy projects. Russia's policy is determined by Gazprom's refusal to prolong transit deal with Ukraine which expires in 2019.

Ukrainian-Russian gas rivalry risks aggravating economic crisis in Ukraine given domestic instability. The Stockholm court arbitration that may take a decision in favour of Russia is also likely to fuel the situation in Ukraine. As of today, Naftogaz and Gazprom have made appeals to the court estimated at 30 billion USD – 25.7 billion USD and 29.2 billion USD respectively. On the other side, financial obligations by Naftogaz will have a negative impact on its reorganization and division of its activities.

Modernization of bilateral treaty framework must be a key priority

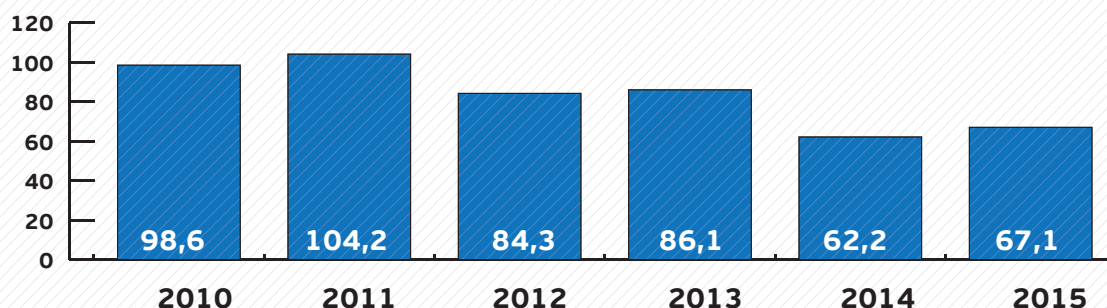
However, minimizing negative implications requires **market liberalization and new energy price formation based on a competition and interests of final consumers**. By means of this, favourable circumstances will push for increase in domestic energy output and extend cooperation with foreign investors. **A final goal is to introduce in Ukraine norms of the** As part of Soviet heritage, strong bilateral industrial links are also apparent in nuclear and electrical power industries. Ukraine's refusal from Russian goods and services facilitated its policy of diversifying suppliers.

Following Ukraine's decision to suspend Russia's participation in constructing two units at the Khmelnytsky Nuclear Power Plant and cut in importing Russian nuclear fuel, the country extended cooperation with Westinghouse Electric Company. In February 2016 the company provided first nuclear fuel supplies to the Zaporizhzhia Nuclear Power Plant in line with fuel diversification. Previously, power unit No. 3 at the South Ukraine Nuclear Power Plant that has been exploiting fuel from TVEL and Westinghouse Electric Company suppliers since 2005 was similarly modernized. **Ukraine's ability to update nuclear fuel chain without Russia's participation will depend on whether the country will make use of modern technologies and optimize nuclear energy production in its energy balance.**

Ukraine's import of Russian electrical power energy is not critical

In 2015 Ukraine imported 2 billion kWh (178 million kWh in 2014) of Russian electrical power energy estimated at 84 billion USD in accordance with annual contract signed between Ukrinterenergo and Inter RAO. A pylon

Natural gas transit through Ukraine's territory



of the transmission line downed in Kherson region in November 2015 prevented from fulfilling bilateral deal on electricity supplies to Crimea. Both contracts expired on January 1, 2016.

Given that nuclear power plants in Ukraine have the potential to increase production and its volumes exceed the consumption, electricity imports from Russia should not be considered critical. Thus, in 2015, production amounted to 157.3 billion kWh and consumption of 118.2 billion kWh² (181.9 billion kWh and 134.7 billion kWh, respectively, in 2014). However, most of the energy system of Ukraine is in parallel with the energy systems of Russia, Belarus and Moldova, which is important in terms of the stability of its work.

Given the above, it is obvious by the fact that today the Ukrainian energy development priority should be **the optimal use of national energy resources and creating favorable conditions for increasing their production.**

Further Scenarios of the Trade War

The events of 2016 show that both countries are not ready to stop and the further trade relations may be built by the following scenarios:

- 1) **Status Quo** – the most probable option is the short duration of active confrontation due to the general weakening of both economies. A striking example of this option is the rapid solving of transit problems, which arose at the beginning of the year.
- 2) **The deepening of the trade war** – in case this scenario takes place, the countries may impose restrictions on products of

machine building, chemical industry and consumer goods industry, in addition to food products. In such situation, despite the high potential of the chemical industry, Ukraine will not be able to compensate for these losses by own production and will have no other choice than to import products from the other markets at a higher price. The same applies to machine building products. At the same time, it will be very difficult to find an alternative way for the supply of some specific components for the mechanical engineering produced exclusively in Russia or exported exclusively to Russia (due to inheritance of peculiarities of the Soviet times productions). This scenario is only possible in case of aggravation of the military conflict in Eastern Ukraine.

- 3) **Settlement of disputes between the countries at the WTO level** - it is unlikely that the disputes will be settled at the counseling level as in most cases the counseling appears to be ineffective. Therefore, consideration of cases requires much time. A general term of dispute resolution in the WTO system excluding the appellate procedures is approximately one year. The appeal on restrictions in respect of wagons in 2015 could be the first step in a series of appeals of Ukraine against Russia to the WTO. The other goods may be: confectionery, poultry, cheese, milk and other dairy products, sugar and alcohol products. Russian discriminatory measures have been previously applied in respect of these products.

In order to resolve trade disputes under the WTO, Ukraine could have used rules and procedures established within the this organization. It should prove that Russia's actions are unlawful. Ukraine, at least, should have

² Based on the Supreme Council of Ukraine energy auditors and energy managers



expressed concern about the violation by Russia of its obligations in the framework of such WTO bodies as the Trade Committee on Sanitary and Phytosanitary Measures, technical barriers Committee.

Ukraine long delayed with appeals to the WTO to review the violations committed by the Russian Federation. Since joining the WTO only three disputes were initiated (Moldova, Georgia and Armenia).

In late October 2015 Ukraine has filed a suit against Russia to the WTO on trade restrictions on railcars and turnouts of domestic production. The lawsuit is the first in the overall package claims that Ukraine prepares. The essence of the claim of Ukraine is that Ukrainian exports of railcars and rail turnouts declined from 1.7 billion US dollars in 2013 to 51 million US dollars for 7 months of 2015 because of the trade restrictions imposed by Russia.

Earlier, Ukraine submitted to the WTO Committee on Technical Barriers a proposal to analyze a ban introduced by Russia on imports of confectionery, dairy and juice products, including baby food and beer made in Ukraine, and the introduction by Russia of restrictions on the international transit cargo from Ukraine.

It is theoretically possible to use the mechanism of free trade agreement between the CIS countries. However, this tool will hardly be efficient due to legal discrepancies, that wouldn't even allow this issue to be put on agenda.

Is there any alternative for Ukraine?

In general, the loss of the Russian market is obvious for Ukraine and is a significant part of general deterioration of the economic sit-



uation. What are the potential ways to go for Ukraine?

In the short term perspective the possible solution may be in searching of new markets for Ukrainian producers, modernization of production and competitiveness of Ukrainian goods. In the long run you need to identify new framework for trade and economic relations with Russia in a European context.

Regarding the first option, some success has been achieved. Despite the efforts of the Kremlin almost complete break of economic ties with Russia not only isolated Ukraine from the CIS countries (primarily - partners of Russia in the Eurasian Economic Union), but even contributed to the deepening of bilateral cooperation with them. There was also increase in exports to Spain, Italy, the UK and other EU countries through the sale

of grain, metal and chicken. Russia with its aggressive actions, especially in the trade sector, has forced Ukrainian producers to find new markets and to take steps to upgrade production and its adaptation to modern requirements.

Still, due to the overall decline in industrial and agricultural production and reduced exports from Ukraine these successes appeared negligible.

Ukrainian exporters did not use preferential treatment for trade with the EU in full in 2015. The main reason for the lack of growth in exports in terms of application of preferential treatment is a general economic crisis, in particular, the decline in industrial production and insufficient time for significant changes. The majority of producers who had been exporting products to Europe switched to the

European standards for quality and technical characteristics of products and services a long time ago, as it was the only way to preserve competitive positions. The new producers have not been able to adjust to the European conditions.

Significant positive effect of application of preferential treatment is only possible after the legislative and institutional changes, especially with regard to the products standardization, are implemented in Ukraine (which is a requirement of the Association Agreement) and a broad informational work concerning advantages and basic requirements to exports to the EU is conducted among the representatives of business (especially representatives of small and medium businesses).

In this situation exports to Asia, Africa and Latin America can lead to rapid positive results. Ukraine needs a qualitative intensification of political and diplomatic activity in these countries, aggressive support for domestic companies, who can already take or expand their niche in countries like the former Soviet Union, Iran, Iraq, Afghanistan, Turkey, China, India, Argentina Brazil and others. The monthly growth of trade with these countries should be one of the key performance indicators of the Foreign Ministry, the Economy Ministry and other departments.

Herewith, Russia will not disappear from the map and will remain the key challenge for the Ukrainian foreign policy, and Ukrainian international trade in particular.

The biggest problem causing a negative impact on the whole spectrum of issues of domestic and foreign policy of Ukraine is the lack of the Ukrainian government's clear strategy for the development of relations with the Russian Federation with the defined goals.

Even after the military aggression of Russia against Ukraine, occupation of Crimea and conflict in Donbas the Ukrainian authorities do not recognize Russia neither aggressor, nor a sponsor of terrorism. The lack of a clear strategy for relations with Moscow has become one of the reasons of the recent destabilization of internal political situation in some regions of Ukraine, in particular, in the context of the transport, food and energy blockade of Crimea and blocking of the goods transit to/from Russia by the Ukrainian activists.

The current trade and economic relations between Ukraine and Russia are gradually drifting towards a «frozen» state. Resolving conflict issues as well as return to the civilized form of relations entirely depends on the political settlement of relations with Russia. However, the ideas for restoring and establishing appropriate civilized trade and economic relations with Russia have both economic and political potential. Ukraine should fundamentally require radical sanctions against Russia because of its military aggression and annexation of Crimea. A “reward” approach should also be offered which Ukraine and the international community can apply to Russia in case it will change its behavior and transform the conflict logic to the cooperation logic, mean, partnership in the long term. The Ukrainian diplomacy must be far-sighted and wise in order to win from Russia in the current complicated geopolitical game and become a bargaining chip. The settlement of Ukrainian-Russian trade disputes as part of the recovery of European security and cooperation must be a key point. The idea of creating a pan-European free trade zone from Lisbon to Vladivostok or the prospect of Russia's entry to the European Economic

Area should be the ultimate goal of a new, positive agenda of relations with Ukraine and Western Russia. In general, this may contribute to the settlement of this conflict with Russia along with giving a chance to restore trade and economic relations. That

is why Ukraine should immediately start to develop a clear and systematic strategy for resolving the conflict with Russia and post-conflict reconstruction, including ways of further development of trade and economic relations with Russia.

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

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