

HOW UKRAINE HURT RUSSIA'S FEELINGS VIEWS FROM MOSCOW

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The truth is that a common culture and history unites Russians and Ukrainians alike, even though the officials from Kiev insists on putting everything Russian in a dark spot. The deteriorating relation between Ukraine and Russia is not only the outcome of the government's policy towards Moscow, but also of anti-Russian sentiments that taint the hearts of the common folk who once shared the same ethos with their neighbours. Ukraine is perceived as the spoiled child of the former Soviet Union, who Russia nurtured and cared for in as much as to invest in the development of its industrial infrastructure and agriculture. This not only made the Ukrainian economy stronger, but also transformed the region into one of the most technologically advanced republics in the soviet space (due the construction of the Krivoy Rog Metallurgical Plant, the Zaporozhstal and Azovstal steel plants, the Druzhba oil pipeline and of seven hydroelectric power stations which formed the basis of the economy; due to the scientific and technological potential of the Soviet Union, Ukraine's aerospace technology can still deliver competitive products in certain aircraft-building segments). In addition, Russia continued to support the Ukrainian economy after it became independent in 1991, even though the Russian economy was in itself strained (a 1993 loan was given to Ukraine amounting for about 250 billion rubles). Even more recently, amid delicate conditions, such as the global financial crisis of 2008-2009, the Russian investments in engineering, metallurgy and metal processing, shipbuilding and oil refining strengthened the banking sector.

The interconnectedness and interdependence of the two economies prompted Russia to continue its preferential treatment towards Ukraine on gas-related issues. The latter benefitted for a long time from low gas prices, while the supplies from Russia were exceeding the combined amount of gas that the state-owned giant Gazprom was selling to Italy and Germany. However, Ukraine decided that the deal in place at that time was not enough and it started illegally pumping gas intended for European customers, adding to the debt to Gazprom (actually, leaving aside the carrot strategy employed by Russia, Ukraine has been entitled to lower gas prices being a transit country; and the allegations against it have never been proved). As Russia tried negotiating with Ukraine in order to separate supply from transit, Kiev was reluctant and asked instead to charge European prices for transit while enjoying low prices for Russian gas. Even though the Ukrainian side rejected every proposal to put the cooperation on the legal track, Russia continued to compromise. Thus, in 2009, for the first time in the relation between the two countries, a long-term contract was signed in accordance with the international practice of doing gas business and, later that year, several other contracts were concluded as well. Much to Russia's dismay, despite the fact that the price for gas and transit tariffs were established according to the widespread European formula, Ukraine kept on violating its payment commitments and illegally pumping gas. These infringements of the terms agreed pushed Kiev on the brink of a precipice and the sum owed to Gazprom rose to \$2,7 billion. But even then, Russia wouldn't let go of Ukraine's hand and sought to help it out by giving Naftogaz a significant discount for gas supplies. (the

Ukrainian company was to pay \$268.5 per 1000 cubic meters) in order to allow Ukraine to save nearly \$7 billion a year. In addition, the Russian Government issued a loan of \$3 billion to Kiev, which was mainly intended for the payment of the gas debt. However, Kiev didn't seem too eager to fulfill its obligations, so Russia had to cancel the previous discount and get back to the contract terms. By April 2014, the Ukrainian debt stood at \$5.4 billion. Actually, much of the debt is held by Russia, who in the past few years alone has invested about \$33 billion in Ukraine, including bank capital, loans and Gazprom money.

Furthermore, the Russian side is offended by the accusations that it uses the economic factor in addressing political issues. The truth, as Prime Minister Dmitry Medvedev said, is that the economy of independent Ukraine was created and maintained with Russia's support. It would be only fair, therefore, that Ukraine kept a mild stance with regard to its relation with Moscow. Unfortunately, Russia's longstanding protégé kept up with its record of ingratitude and, in an ultimate act of treachery, decided to assert its economic and political independence from its neighbour and chose to partner with the European Union in as far as signing and Association Agreement (AA) in late June, 2014.

But how is the AA perceived by Ukraine?

The EU-Ukraine AA calls for a free trade zone and for the latter to adhere to European values such as democracy and respect for human rights. It will allow for the country to participate in common border protection and security processes. Moreover, pursuing closer political and economic ties would bring greater security, stability and prosperity. And last but not least, the prospect of the full integration in the European market is an incentive for Ukraine to push forward with the reforms already initiated.

However, in Russia's view, the AA represents only an opportunity for the EU to dictate rules to Ukraine and shun Moscow, who is feeling that its authority in the former soviet space is being questioned by the West and also by an unruly Ukraine. This fact is clearly reflected in the provisions of the AA, that require Ukraine to bring its legislation fully in line with the EU standards as part of a "deep and comprehensive free trade area" and to amend it accordingly with EU legislation changes. In other words, Ukraine's national interests and laws will be subordinated to the Union's *acquis*.

Another concern of Russia is that in terms of economic cooperation, the EU pushed for advantages for European companies and the Ukrainian firms they work closely with whilst all is done under the guise of fair competition. Moreover, under the AA, Ukraine will face a discriminatory quota system that is entirely inconsistent with the principles of free trade. Tariff liberalization, which covers almost integrally the imports of goods from the EU market will gradually result in European goods ousting all competitors' products from the Ukrainian market. Similarly, it will be difficult for Ukrainian enterprises to achieve and keep a high profile on the highly competitive EU market.

Finally, Ukraine, who has already an ailing economy, will have to find financial resources and spend them on the transition to European technical standards and regulations of the manufacturing industry and agriculture quite rapidly. This will require heavy spending and, if Ukraine doesn't provide for it, the EU is unlikely to do it. For its part, the EU's economy is still struggling to recover from the financial crisis and aiding Ukraine to stay afloat will prove difficult, not to mention about propping it to develop. It's not been long since the EU's effort to do what is right about the cracking economies of Ireland, Spain or Greece showed that its will

and preparedness to act has been difficult to amass. Thus, why would the EU even bother for a country that is not even a member of it? Actually, let me add a parenthetical and shortly explain why the Union has a lot to gain by helping out Ukraine.

First of all, as it was laid in the 2003 EU Security Strategy, it is strategically very important for the EU that the Southern and Eastern Neighbourhood be a stable and secure environment in order to integrate the specific interests and preferences of the Member States. Also, the countries in the Neighbourhood should promote and foster the conditions for the consolidation of democracy, good governance and development. When applied to Ukraine these expectations are hardly met, but the 2014 political developments have shown that the country is ready to embark on a European path and in time stand equal to its neighbours in the West. However, in order to succeed in its endeavours, it needs the political, financial and technical support of the EU to build a sound and effective system of governance, to lower corruption, improve social and living standards and last but not least, to ensure security and stability all over the country. So far, the Union has pledged to assist Ukraine and it should be commended for its implication in aiding it.

Secondly, the EU is expected not to falter in its efforts to keep Ukraine afloat and additionally strengthen it internally due to the economic opportunities the Eastern neighbour has to offer: namely in the trade area, where the EU can access a market of 45 million consumers and agriculture, where profitable investments can be made and business developed due to Ukraine having one of the most fertile soil in Europe.

Lastly, Ukraine represents an energy hub whose transit system is vital for the Union in terms of energy security. As such, the EU's interest for cooperation with Ukraine in this area is very unlikely to wane and be deepened instead in ways that would be beneficial for both of them. Actually, Ukraine has received a €150 million loan in December 2014 from the EU's lender, the European Investment Bank, for the modernization of the section of pipeline used to deliver gas from Russia to European countries (EUobserver). Overall, the modernization of the pipelines will result in lowering the costs of gas transit and boosting energy efficiency and security. Thus, taking into account the reasons stated above, it appears that maintaining a close relationship with Ukraine is in the EU's interest. Now, let's get back to Russia's view on the relation with Ukraine.

So far, we have seen how Russia has been thinking about its neighbour, but the recent developments-Ukraine misbehaving and turning the back on its traditional benefactor-are no longer an issue Moscow can overlook. So the question is how Russia's relation with Ukraine will evolve in the future?

The Russian Government sees future cooperation between the country and its neighbour as inevitable. But be not mistaken! For it will certainly be defined strictly by European terms-rationality and pragmatism- and not by warm feelings of kinship as it was in the past. Russia will act in its national interests and firmly uphold them, as with any other partner. Firstly, in order to prove differently to those claiming Russia makes use of the energy card to punish other states for their behaviour, the gas issue has been settled for now. The West and Ukraine can be at ease: according to the agreements reached in Brussels, Ukraine had to pay \$3.1 billion of the \$5.3 billion it owes to Gazprom before the end of 2014 and prepay in the future. From November 1st 2014 to March 31st 2015, Ukraine will enjoy a discount of \$100 per 1000 cubic meters from the contract price(the price for Russian gas for Ukraine in November and December 2014 was \$370 per 1000 cubic meters)(Russia Times). However, the terms of the future energy cooperation will

be the subject of negotiations and will depend on Kiev's adherence to the payment schedule. This is, to not say the least, a warning by Russia that this time it will not turn a blind eye to Ukraine's dealings and that it should be expected to be sanctioned accordingly. In other words, Russia is willing to continue its energy cooperation with Kiev in the future, but only if this one stands by its contractual obligations. However, as the past proved, disputes over gas prices and unpaid debts are easy to surface, so an unwanted scenario where gas disruptions take place is still possible.

Secondly, the economic relation between the two states will be strained as Moscow announced protectionist measures in the face of potentially negative effects of the Deep Comprehensive Free Trade Area on its trade interests: from implementing a monitoring system for the tracking of European goods disguised as Ukrainian entering the Russian market at dumping prices to applying higher non-member fees for Ukrainian products in the Customs Union-if any of the certain provisions of the trade and economic parts of the AA come into effect before 1 January 2016- and even to completely shutting out Ukrainian agricultural products if these continue to contradict the consumer safety standards in effect. It is obvious then that these measures aimed at protecting Russian markets and producers against unfair competition will amount to significant financial losses-\$33 billion a year according to Russian estimates- for the Ukrainian economy.

Finally, major improvements in the political relation between Russia and Ukraine in the near future are unlikely to happen as both sides continue to blame each other for the unflagging crisis in the Eastern provinces. On one hand, Russia accuses the Kiev administration of doing nothing to stop the military confrontation between the militias and the army when the solution is simple: agree to listen to the rebels' requirements and consider a federalization plan; on the other hand, Ukraine accuses Moscow of breaching the Minsk Agreement and fuelling the conflict by providing the separatists the military means to control the seized areas and retaliate against the Ukrainian army's advancement in the East. For my part, the beginning to the end of this crisis is in the pooling of will from all sides involved in the conflict to find a common solution that accommodates their claims. Because so far passing the blame has proved counterproductive.

In conclusion, I'd like to say that it is obvious Russia's relation with its neighbour has entered a new historical phase, where the shift from Moscow's safeguarding will be detrimental to Ukraine. The dialogue between the two will take place in a new environment where Moscow is highly unlikely to make any concession to Kiev and where it will be difficult for the latter to appease the former. Ukraine has transformed from a buffer state between the West and Russia into its opponent, by choosing to align to Western standards and politics. The interdependence between the two countries is asymmetrical and, unfortunately, Ukraine stands to lose in the current state of affairs. By engaging on the European path and by firmly advocating its independence from Moscow, Ukraine's choice is perceived as the ultimate betrayal by Russia. And Russia will certainly not forget, much less forgive, Ukraine wrestling from its embrace.

For further insight into Russia's view on its onward relation with Ukraine, please check Prime Minister Dmitry Medvedev's opinion article- *Russia and Ukraine: Living by new rules*- available at <http://government.ru/en/>.