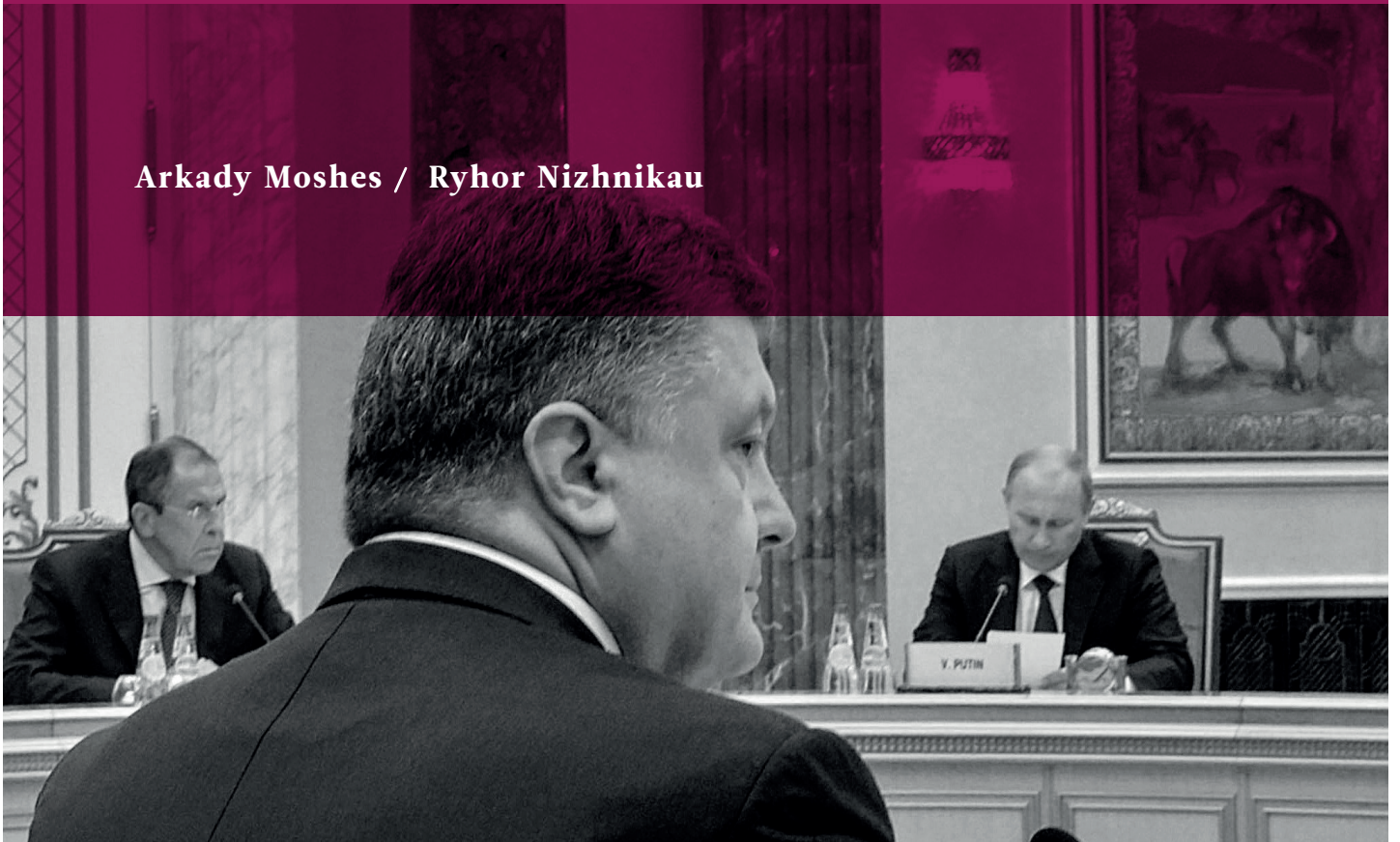


RUSSIAN–UKRAINIAN RELATIONS

THE FAREWELL THAT WASN'T

Arkady Moshes / Ryhor Nizhnikau



RUSSIAN–UKRAINIAN RELATIONS: THE FAREWELL THAT WASN'T

- The “Revolution of Dignity” led to a considerable decrease in Russian economic, political and soft power influence over Ukraine. Yet the process did not turn out to be self-sustainable. Insufficient reforms and the predatory behaviour of old elites negatively affect the prospects for change in general and the emergence of a new model in Russian–Ukrainian relations in particular.
- Russia may exploit opaque schemes to gradually regain some of its lost positions in the country. The presidential and parliamentary elections of 2019 might result in the explicit re-establishment of Moscow’s leverage over Kyiv.
- There is a risk that Western conditionality will increase the temptation to “normalize” the relations with Moscow for certain interest groups within Ukraine, including the ruling elite. Portraying this conditionality as an incursion on Ukraine’s sovereignty has already become a part of national discourse.
- Western decision-makers should be aware of the risk, but this should not become a reason to abandon a principled stance on Ukraine’s reforms.



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INTRODUCTION

Since Ukraine's independence, Russian influence in the country has been based on four pillars: economic resources, military predominance, soft power, as well as close ties between the elites. Economic pressure, such as energy cuts and trade embargoes, were accompanied by subsidies and energy deliveries below the world market price. The deployment of the Russian Black Sea Fleet in Sevastopol in Crimea posed a direct security risk (which materialized in 2014), whereas the linguistic and cultural proximity boosted Russia's popular appeal. Most importantly, shadow gas deals that became part and parcel of the oligarchic economic model thriving in Ukraine turned many representatives of Ukraine's top elites into Moscow's clientele. Eventually, structural dependencies, on the one hand, and the selfishness of the ruling elites on the other made the Ukrainian authorities incapable of withstanding Russian pressure. In 2010, in exchange for minor economic benefits, Kyiv agreed to extend the basing rights of the Black Sea Fleet until 2042, which were due to expire in 2017. In November 2013, having received the promise of a loan to the tune of 15 billion US dollars from Russia, the then president, Viktor Yanukovich, refused to sign the Association Agreement with the EU.

The annexation of Crimea by Russia and the conflict in Ukraine's Donbas deeply shocked Ukrainian society and exposed the unacceptable extent of Ukraine's dependence on and vulnerability vis-à-vis Russia. The war in the east of the country, in which almost 11,000 people have been killed and 1.7 million displaced up to now, would simply not be feasible without the Russian support provided for the separatist entities in Donetsk and Luhansk. Reciprocal Russian and Ukrainian political and economic sanctions, severing economic and personal ties, political murders and trials as well as tough rhetoric inevitably followed. National mobilization in Ukraine, aptly encapsulated in the sarcastic motto "Brother at the Gates!", fostered a new state-building project.

In January 2018, Ukraine defined Russia as an aggressor in a special legal act. Interestingly, while Ukraine emphasizes the break with the "Soviet imperialist past", embodied by today's Russia, the latter

prefers to see the rupture as something temporary and puts the blame on the new Ukrainian "nationalist" authorities only. In May 2017, Ukraine's President Petro Poroshenko claimed that "Ukraine had finalized its divorce from the Russian Empire", adding in February 2018 that "the war with Russia was the main challenge to Ukraine". Russia's President Vladimir Putin, however, continues to insist that "we are one people".

This paper briefly assesses what has happened in Russia–Ukraine relations since the annexation of Crimea. It argues that the process of restructuring relations has been less straightforward than is often assumed based on an uncritical reading of the official and media discourse, and that preconditions for a potential reversal of the trend are emerging.

PARTING WAYS

Since 2014, political, economic and people-to-people ties between Ukraine and Russia have been significantly scaled down.

Top-level contacts have declined to a historic low and only take place as part of broader international formats. "The junta of Kiev" became a standard way of referring to the Ukrainian government in Russia's official media. 1,228 Russian citizens have been put on Ukraine's list of sanctioned individuals. In turn, Russian courts issued arrest warrants for several prominent Ukrainians, including former Prime Minister Arseniy Yatseniuk and business tycoon Ihor Kolomoisky. Diplomatic ties have also been reduced to a minimum. Ukraine's embassy in Moscow has very few diplomats, while the Russian embassy in Kyiv has no ambassador.

The change in the personal composition of Ukraine's top echelons of power was very telling. In 2013, as Ukrainian commentator Vitali Portnikov opined, approximately half of the members of the national parliament, the Verkhovna Rada, were primarily loyal to Moscow.¹ The cabinet of ministers included such figures as Dmytro Tabachnik, who openly considered Ukrainians to be a part of the Russian people and systematically launched attacks on the Ukrainian language and culture. Dmitry Solomatin and

¹ <https://apostrophe.ua/news/politics/2017-11-24/prorossiyskiy-prezident-i-rada-izvestniy-jurnalist-ukazal-na-lovushku-dlya-ukrainiyi-ot-rf/113939>

Pavel Lebedev, Ministers of Defence in 2012–2014, were Russian citizens. The head of Ukraine’s State Security Service in 2013–2014, Alexander Yakimenko, was a Russian national as well and had served in the Russian army.

In 2014, however, many openly pro-Russian politicians and affiliated businesspeople fled to Russia in the wake of the ousted President Yanukovich. The Communist Party of Ukraine, with its platform of post-Soviet reintegration around Russia, was banned in July, while Yanukovich’s Party of Regions self-dissolved in August. More importantly, pro-Russian forces suffered a landslide electoral defeat. In the presidential elections of May 2014, the official candidate for the Party of Regions, Mikhail Dobkin, received only 3.3% of the votes. In the parliamentary elections in October of the same year, the combined support for pro-Russian parties fell to 13% compared with 45% in October 2012.

Economic ties were severed on both sides. Trade turnover fell from USD 37.8 billion in 2013 to USD 9.9 billion in 2017. WTO is currently reviewing four trade disputes between Russia and Ukraine concerning mutual restrictions on exports and transit.

Ukraine adopted a number of laws and regulations, which directly targeted Moscow’s traditional areas of economic interest. In June 2014, Ukraine banned military industrial cooperation with Russia. In September 2015, it made public an extended list of sanctioned Russian military enterprises. In March 2017, the National Bank of Ukraine introduced sanctions against 29 Russian banks and payment systems; 14 banks lost their licenses as a result. Industrial and scientific ties were also downsized. The new privatization law, adopted in January 2018, forbids Russian natural and legal persons from taking part in the planned sale of 3,000 state-owned enterprises.

Russia’s energy leverage has lost its might. In 2016–2017, Ukraine’s national gas company Naftogas did not purchase any gas from Russian Gazprom. Instead, a mechanism of reverse gas deliveries from Central Europe was created. Although Ukraine actually receives the same Russian gas, legally it belongs to EU suppliers, which makes it impossible to blackmail Kyiv with energy cuts, as was the case before. This new mechanism showed its efficiency when in March 2018 Gazprom refused to resume direct gas deliveries to Ukraine, which it was supposed to do following a decision by the Stockholm court of arbitration. Meanwhile, the Russian share in Ukraine’s nuclear fuel imports is officially estimated to drop from 93% in 2013 to 45% in 2018.

In 2015–2016, Ukraine imported a significant share of oil products from third countries, particularly Belarus (48.7%), while crude oil came from Azerbaijan (85% in 2017).² But most importantly, the reform of Naftogas, namely the repeal of state subsidies for gas consumers and the introduction of market prices, annihilated the very space for corruption schemes and thus removed a leading source of rents for both Russian and Ukrainian elites.

As far as the language sphere is concerned, in February 2014, Parliament adopted a new law, significantly restricting the use of the Russian language in the public sphere. Although it did not enter into force, the preceding legal act was later deemed unconstitutional, so another attempt to revise the legal status of Russian should be expected. In September 2017, the Verkhovna Rada passed an education law making Ukrainian the only language of instruction from 2020 onwards.

In the field of media and culture, Ukraine also initiated some radical measures. Thirty Russian TV and radio channels cannot be broadcast in Ukraine. In May 2017, the most popular Russian social media networks (*Vkontakte* and *Odnoklassniki*) as well as the internet search engine *Yandex*, previously the number one in the country, were banned. In July 2014, a special commission was set up to review Russian films and TV production. All Russian films made after January 2014 have been outlawed. One of the most popular Ukrainian TV productions was banned, too, because it featured Russian artists who had visited Crimea. Currently, the legislation requires national TV channels to broadcast 75% of their content in Ukrainian.

Finally, people-to-people contacts have suffered. Travel and migration flows decreased, which was particularly visible in neighbouring regions across the border.³ Nationwide, whereas in 2013 6 million Ukrainians visited Russia, in 2015 the number fell to 4 million.⁴ Ukraine closed 10 out of 11 border checkpoints with facilitated procedures. There are no direct air connections, while railways are experiencing a significant decrease in passengers. If in 2013, 60 trains passed the Belgorod border crossing daily, in 2017 only four did so.⁵ Russia built a new railway to bypass Ukraine, which has been operational since November

2 <https://korrespondent.net/business/economics/3926499-ukrayna-za-hod-uvelychyla-ympor-nefty-pochty-vtroe>.

3 See, for example, a study on the deterioration of ties between the Belgorod and Kharkiv regions: Zayats, A., et al. *Krizis Rossiysko-Ukrainskikh Otnosheniy: Posledstviya dlia Transgranichnykh Vzaimodeystviy v Belgorodskoi Oblasti*. *Izvestia RAN. Seriya Geograficheskaya*. 2017. № 5, pp. 43–57.

4 <https://zn.ua/internal/vizualnaya-zhestkost-.html>.

5 <https://www.epravda.com.ua/rus/news/2017/06/1/625587/>.

2017. As early as April 2014, Ukraine strictly impeded the entry into the country of Russian males aged 16 to 60, who were required to provide documents, confirming family ties, or the serious illness or death of close relatives. Since March 2015, Ukraine has banned entry on Russian domestic IDs. As of January 2018, it introduced biometrical border control requirements for Russian citizens. Although previously 40% of Ukraine labour migrants traditionally went to Russia, in 2014 the attractiveness of Poland as a destination rose drastically. As a result, if in 2012 1.2 million Ukrainians worked in Russia, in 2015 only half a million did so, whereas Poland recorded a 350% increase in its Ukrainian workforce, which reached 1 million in December 2017.⁶

UNFINISHED BUSINESS

As a result of all these developments, the general landscape of Russian-Ukrainian relations changed to make Ukraine much less dependent on its eastern neighbour. On a separate note, with Ukraine becoming a theatre for a broader Russian-Western conflict, it gained access to Western assistance that it had not obtained before, which objectively increased its freedom of manoeuvre.

However, the policies declared by the Ukrainian government were partial and inconsistent to a considerable extent. Decisions taken were not implemented in full, were delayed, or simply ignored.

Consequently, in 2016–2017, the pendulum started to swing back, starting with economics. Trade began to recover. In 2017, Ukraine's exports to Russia grew by 11.6% and imports from Russia by 38.2%.⁷ Russia restored its position as one of the main foreign investors in the Ukrainian economy (currently after Cyprus and the Netherlands).⁸ The media report on the presence of sanctioned Russian goods in Ukraine.⁹ Russia's core businesses, including Rosatom, Vimpelkom and Sberbank, are still functioning in the country.

Energy is at the core of the trade growth. In 2017, Ukraine increased imports of Russian oil products by 82% and doubled the purchase of anthracite coal. Russia now supplies 55% of all coal imported to Ukraine

and is likely to overtake Belarus as the main supplier of oil products. In June 2016, the oil pipeline running from Russia to Ukraine via Belarus resumed operations. Kyiv declared its readiness to restart gas purchases in Russia following the respective court decision, and – in the event that the above-mentioned conflict with Gazprom is settled – to procure half of its gas imports directly from Gazprom in 2018–19.

Ukrainian and Russian companies establish fictional intermediaries. The sensitive issue of military-technical cooperation is a case in point. Ukrainian enterprises such as the Zaporizhia-based Motor-Sich, for example, are traditionally dependent on Russian contracts. Officially, Motor-Sich does not cooperate with Russia today. According to media accounts, however, its owners set up companies in Russia, which continued to sell military production and services to Russia's Ministry of Defence. In 2016, Motor-Sich was reportedly repairing the engines of an air regiment that fought in Syria.¹⁰ In 2017, Motor-Sich established a joint enterprise in China, presumably to supply engines for a new Russia-China defence project.

Societal links are gradually being restored. In the first half of 2017, the 56.1% increase in travel to Russia was officially registered, which also implies that the number of Ukrainians working in Russia has increased.

The change in attitudes towards Russia is obvious. In December 2017, only 14.5% of Ukrainians blamed Moscow, and another 12% pro-Russian “fifth column”, for Ukraine's difficulties. An overwhelming majority thought that the main problem was the oligarchs and Ukrainian authorities themselves. In March 2015, the visa regime with Russia was supported by 46.7% of respondents compared with only 29% in September 2016, according to the Razumkov Centre. In June 2017, 51.4% were against the visa regime.¹¹ Only 22% of respondents disapproved of Ukrainian migrant labour in Russia in December 2017, which should be counter-intuitive in times of conflict.

In September 2014, according to the International Republican Institute's (IRI) polls, negative attitudes towards Russia peaked at 66% of respondents. Three years later, this indicator dropped below 50%. Similarly, polls conducted by the Kyiv International Institute of Sociology registered a rise in positive attitudes towards Russia – from 26% in May 2015 to 44% in May

6 <https://nv.ua/opinion/pozniak/trudovaja-migratsija-ukraintsev-v-rossiju-mify-i-fakty-82652.html>; <https://112.ua/politika/v-polshu-emigrirovali-bolee-milliona-ukraintsev--posol-429222.html>.

7 http://ukrstat.org/en/operativ/operativ2017/zd/ztt_e/ztt117_e.htm.

8 It should be noted that many Russian companies also invest in Ukraine through the EU.

9 <https://ua.korrespondent.net/business/economics/3766950-v-obkhid-sanktsii-yak-ukraina-torhuie-z-rosiieui>.

10 <https://glavcom.ua/publications/motor-sich-remontuje-ta-osnashchuje-aviaciyu-minoboroni-rf-dokument-393483.html>.

11 https://zn.ua/WORLD/bolshe-poloviny-ukraintsev-vystupayut-protiv-vizovogo-rezhima-s-rossiey-252947_.html.

2017. Between 40 and 47% would like to have friendly relations with Russia with open borders and free trade, even though this is still far from the 80% registered in 2013.

The observed changes in public attitudes created space for new and revived pro-Russian political projects. The Opposition Bloc, a successor to the Party of Regions, and the *Za Zhittya* (“For Life”) party with a similar platform currently appear rather competitive in the national ratings, whereas their support in the South-East of Ukraine is nothing short of overwhelming. The IRI poll in the city of Mariupol in Ukraine-controlled Donbas in December 2017 recorded their combined support of 40%. In comparison, the well-established *Batkiivshchyna* (“Fatherland”), the party of the former Prime Minister Yulia Tymoshenko, also in the opposition at present, holds the third place in these polls with only 3%. In Dnipro, the aforementioned pro-Russian parties show comparable numbers (8% and 13%) with the locally strong populist “Ukrainian Union of Patriots – UKROP” (13%), the presidential, demonstratively EU- and NATO-leaning Petro Poroshenko Bloc (BPP) (9%), and *Batkiivshchyna* (10%).

In view of such public attitudes, the forthcoming presidential (spring 2019) and parliamentary (autumn 2019) elections in Ukraine may once again change the country’s political trajectory. It is quite possible that pro-Russian forces will qualitatively strengthen their positions in the parliament. And it cannot be ruled out that President Poroshenko, whose approval rating dropped from 55% in September 2014 to 14% in December 2017, will have to make some kind of implicit agreement with these forces in order to be re-elected. It goes without saying that if this were to happen, Ukrainian-Russian relations would travel back in time to a significant degree.

A NEW PACT IN THE MAKING?

The key remaining element of Russian structural influence on Ukraine is the country’s old elites. The failure of de-oligarchization, of anti-corruption and lustration reforms paved the way for the return of corruption schemes. As Ukrainian scholar Yuri Matsievskiy points out, since 2014 “the institutional core of Ukraine’s regime system persists [...] and Poroshenko’s regime might come to resemble that of Leonid Kuchma – one

with a ‘diffuse network’”.¹² In other words, it is the corruption among the elites that provides Moscow with a window of opportunity.

Corruption schemes concerning the customs, energy, transport and state enterprises involve former Yanukovich officials. Tycoons Yuri Boyko, a Deputy Prime Minister in the last Yanukovich government, and Dmytro Firtash, once a key intermediary in the Russian-Ukrainian gas trade, openly operate in Ukraine’s business and political spheres despite evidence of their involvement in mass embezzlement. The Ukrainian authorities did not prosecute any Ukrainian beneficiary of the *Rosukrenergo* scheme.¹³ Fugitive Yanukovich’s minister, Mykola Zlochevsky, later returned to Kyiv and does business with the companies affiliated with the incumbent president of Ukraine.

As before, energy is a huge source of elite rents, which naturally implies Russia’s involvement. The coal trade is a prominent example. The Ukrainian authorities introduced the so-called Rotterdam+ price formula, which calculates the price of coal for consumers according to the price on the Rotterdam market plus the costs of shipment. But the actual production costs of Russia’s and Ukraine’s own coal are much lower (600–800 Ukrainian hryvna per ton in Donbas compared with the 2,500 hard currency equivalent in Rotterdam), with this gap earning super profits for those who control the market. Today, this role belongs to Rinat Akhmetov, the richest person in Ukraine since the time of Yanukovich, and Vitaly Kropachev, who is indirectly linked with Poroshenko’s inner circle and is allegedly building his energy empire by buying coal companies on both sides of the frontline in Donbas from the Yanukovich family.¹⁴

Donbas coal, which is under sanctions imposed by Ukraine’s National Security and Defence Council as an element of the trade blockade of breakaway entities, is officially transported through Russian and Ukrainian territory and sold both inside Ukraine and abroad.¹⁵

Among Russia-Ukraine energy schemes, the role of Victor Medvedchuk, a Ukrainian politician, personally close to Putin and serving as an informal contact between Putin and Poroshenko, although placed on the US sanctions list, is becoming prominent. Mr.

12 <http://www.ponarseurasia.org/memo/old-political-habits-die-hard-ukraine>.

13 RosUkrEnerg is a shell company set up by Ukrainian and Russian oligarchs in 2004, which bought gas from Gazprom well below the market price and sold it to Ukraine with significant profits.

14 <https://www.epravda.com.ua/publications/2016/09/14/604533/>.

15 <https://www.epravda.com.ua/rus/news/2017/08/12/628001/>.

Medvedchuk was said to be a final beneficiary of a web of Chinese, Swiss and Hong Kong-registered traders, which sell coal, gas and oil products. In 2017, Viktor Medvedchuk's shell companies reportedly traded 3 million tons of oil products and consolidated 40% of the LNG market in Ukraine.¹⁶

As before, economic power translates into political assets. At the national level, pro-Russian oligarchs retain influence over political parties. Dmytro Firtash maintains influence over the Ukrainian Democratic Alliance for Reforms (UDAR), which is part of the BPP faction in the Verkhovna Rada. Rinat Akhmetov has strong ties with the BPP and the Popular Front, which together form the governing coalition. At the same time, he is one of the official leaders of the Opposition Bloc alongside the above-mentioned Yuri Boyko.

As public attitudes towards Russia soften, these groups are openly starting to express their aspirations. In April 2017, Medvedchuk said that the only future for 'sovereign, independent' Ukraine lies in rebuilding ties with Russia.¹⁷ However, while Medvedchuk's statement comes as no surprise, "pro-European" oligarch Victor Pinchuk's call for "temporarily eliminating the European Union membership" goal and making a "painful" compromise with Moscow¹⁸ might be a strong signal of changing winds in Ukrainian public politics.

A separate theme concerns the situation with regard to regional elites in Ukraine's southern and eastern regions. There was little personal change in local administrations, despite the fact that quite a few local officials did not distance themselves from the separatists in 2014. One explanation for this state of affairs could be that these people can be helpful in mobilizing votes for the benefit of incumbent authorities the way they used to do. But another explanation is that sympathies towards Russia may boost rather than hinder their electoral positions. For example, Mayor of Odesa, Gennadiy Trukhanov, was re-elected to his post in 2015 despite being a Russian citizen.¹⁹

CONCLUSION

Russia's leverage over Ukraine has significantly decreased since 2014 as political, economic and people-to-people interactions have shrunk. However, the intra-elite ties have been preserved and their opaque dealings have continued, which presents a formidable and realistic threat to Ukraine's path towards full independence from Moscow. Russia traditionally corrupted Ukraine's elites through energy schemes, and that pattern is re-emerging today. Among other things, murky energy and similarly suspect deals may provide resources for both ideologically pro-Russian and no less destructive populist political forces.

The forthcoming presidential and parliamentary elections might be a turning point. If President Poroshenko's re-election becomes possible thanks to a covert electoral alliance with people like Rinat Akhmetov and the Opposition Bloc, further reforms will be brought to a halt. Societal disillusionment and anger over the elites may, as was the case in neighbouring Moldova, result in a strong electoral performance by pro-Russian political forces in the parliamentary campaign, which would be a massive blow for Ukraine's European aspirations.

Ukraine's domestic political elites already portray EU and IMF conditionality and demands to fight corruption schemes as an attack against Ukraine's national sovereignty. Admittedly, Western pressure would reinforce the temptation for Ukrainian elites to improve ties with Moscow. Decision-makers in the West should be aware of this risk, but it should not become a reason to abandon a principled stance on Ukraine's reforms.

16 <https://antac.org.ua/en/publications/autogas-of-the-national-shame-medvedchuk-poroshenko-scheme/>.

17 <https://www.ft.com/content/0972792c-1e96-11e7-a454-ab04428977f9>.

18 <https://www.wsj.com/articles/ukraine-must-make-painful-compromises-for-peace-with-russia-1483053902>.

19 Strangely enough, the state did not take any action on that account, even though foreign nationality is forbidden by law for Ukraine's civil servants.