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**Russia, Ukraine and European Integration**

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## **Russia, Ukraine and European Integration**

What are the prospects that Russia and Ukraine will be drawn further into the processes of European integration in the coming decade? Are these states destined to remain excluded from both the European Union and NATO as these key institutions spread eastward, or in only minor forms of partnership with them? Ten years ago, right after the collapse of the USSR, the prospects of Russia and Ukraine “joining the West” looked bright, at least from the perspective of their own leaders. Today, however, they have all but accepted exclusion or an arms length association with the European Union and NATO for the foreseeable future.

The process of European integration appears far more complex today than it did before the complete collapse of the communist bloc in 1991. First, the process confronts the challenge of the EU’s eastwards expansion into Central and East European states which were separated from Western Europe economically, politically and militarily for almost half a century. Second, there is a consensus in the Euroatlantic states that Russia and Ukraine are not suitable candidates for EU or NATO membership, with different reasoning applying to each of these states. At the same time the Euroatlantic states acknowledge that the further economic and political evolution of Russia and Ukraine has great significance for the prosperity and stability of the entire European subcontinent. Therefore, serious engagement with Russia and Ukraine is necessary, even though their full integration with European structures is not contemplated. Such engagement means both the EU and NATO on the western side and Russia and Ukraine on the eastern side developing co-operative ties that further European unity and will hopefully create preconditions for the integration of these European regions in the long term. Finally, European integration confronts the challenge of overcoming the divisions and mistrust between Russia and Ukraine themselves which, like the Franco-German relationship immediately after the Second World War, has the capacity either to retard or help regenerate their neighbourhood of states.

This paper explores the prospects of Russia’s and Ukraine’s integration with the EU and NATO by exploring the evidence of adaptation, co-operation, interdependence and allegiance between them along the following lines:

- a) Russia’s and Ukraine’s experience with democratisation and the market;
- b) Ukraine’s encounters with the EU and NATO;
- c) Russia’s encounters with the EU and NATO;
- d) how the interdependence of Russia and Ukraine in the natural gas trade affects the prospects of both states for closer integration with Western and Central Europe.

## **Russia's and Ukraine's experience with democratisation and the market**

If satisfaction of the EU's Copenhagen criteria were the main precondition for EU membership, then neither Russia nor Ukraine presently stand a chance of joining. The two countries are not developing market economies nor political orders like those found in the states of the European Union. Rather, after an initial start in the direction of democratisation, Russia and Ukraine have both turned towards more authoritarian government with the consolidation of strong presidential rule and the emasculation of their legislatures, restrictions on democratic freedoms and the application of a wide variety of legal, administrative and coercive instruments to limit independent civic institutions. There is pluralism in Russian and Ukrainian politics today, but it is largely the pluralism of competing oligarchic groups fighting one another for denationalised assets, markets and influence within the state. The struggle at the apex of power is augmented somewhat by those civic organisations and mass media that retain a degree of independence from both the state institutions and the business oligarchs. However, civil society is poorly developed, and the mass media in both countries is subject to heavy pressures from state institutions and powerful business interests.. The political decision making process itself, both in Russia and Ukraine, is captive to this mutually advantageous relationship between big business and state officialdom.. In the post-1991 transition period the state has organised the denationalisation of state property and made possible the accumulation of capital in private hands. The new business class, upon becoming wealthy, seeks to transform its economic power into political power by purchasing mass media outlets, financing election campaigns or simply buying influence with the various arms of the state. The executive power in return bestows upon them privileged access to resources and markets; the legislature adopts laws to facilitate their business and the courts become instruments to combat and punish rivals, both in politics and business.<sup>1</sup>

Two important features of the economic change in Russia and Ukraine stand out: the peculiar multi-faceted structure of oligarchic clan capitalism which combines in each of its competing entities productive enterprises, trading outlets, mass media,

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<sup>1</sup> The retreat from democratisation has been amply documented in the monitoring reports and plenary sessions of the Parliamentary Assembly of the Council of Europe. See also Marko Bojunc, *Ukraine and Europe; A Difficult Reunion* Part Two, European Dossier Series, Kogan Page, London, 2001. For an analysis of the development of capitalism in Ukraine in the 1990s see Marko Bojunc, "The Ukrainian economy since independence", *Working Papers in Ukrainian Studies* No. 1, May 1999; [www.unl.ac.uk/ukrainecentre](http://www.unl.ac.uk/ukrainecentre). The relationship between political power and capital accumulation in Ukraine were the main focus of attention given by the Internet newspaper *Ukrayinska Pravda* ([www.pravda.com](http://www.pravda.com)) from its inception in April 2000, for which its founder Heorhiy Gongadze paid with his life in September of that year. Its findings were subsequently augmented with the revelations of the secret tape recordings made in President Kuchma's office by his security officer Mykola Menychenko.

political parties and even security forces; and the fact that state institutions at every level -the State Property Fund, taxation authorities, courts, local governments, fire inspectors - have continued to control access to private economic activity, which results in monopolistic production, closed markets and corruption. These features and the general retreat to authoritarian and plutocratic rule seen in recent years increasingly set these successor states of the Former Soviet Union apart from the liberal democratic tradition of the West European states and of the contemporary European market economy model which both Russia and Ukraine initially chose, but failed, to emulate.

A simple comparison of the current state of affairs at both extremes of the European subcontinent suggests that a path to their integration would be hard to implement in the medium term even if there were overriding reasons of, say, geo-strategic advantage for the EU, to do so.

### **Ukraine, the EU and NATO**

Embarking from a position of non-bloc status and neutrality on the eve of its independence, Ukrainian foreign policy evolved over the course of the 1990s into a multi-vector strategy that sought to balance Russia in the east with the USA and the EU in the west. It found a clear expression in the January 1994 Tripartite Agreement of Russia, Ukraine and the United States which offered a guarantee of Ukraine's territorial integrity and protection from the use of external force to influence its foreign policy. However, the East-West balancing act was increasingly biased in favour of a pro-Western orientation, which became explicit from 1994 after Leonid Kuchma became President. In that year Ukraine joined the Council of Europe and signed a Partnership and Co-operation Agreement with the European Union. Relations deepened with NATO, leading to Ukraine's inclusion in the Partnership for Peace and the signing of a Special Charter with NATO that projected a relationship more complex and far reaching than the Partnership for Peace, but fell short of accession to full membership.

The motives for Ukraine's westward drive in foreign policy during the 1990's were mainly to do with its international security and economic development. An abiding concern of the state leadership was to find a suitable counterweight to the historical pull of Russia onto Ukraine. The economic motive stemmed from the initial estimation in 1990 that Ukraine's economy and social structure were sufficiently developed to permit a successful transition to an effective national market economy that could engage the West European economies in a mutually beneficial way, and in the process relieve Ukraine of its strong economic attachment to Russia. Ukraine sought membership in the Council of Europe in order to be recognised as a

democratising state, to seek the Council's assistance for democratic reform and to thus legitimise its claim for eventual full membership in the European Union.

Ukraine's relationship with the European Union during the 1990s was beset by serious problems. The European Union developed its orientation towards Ukraine in the light of its more important relationship with the Russian Federation. There was never any intention of offering Ukraine full membership in the EU. Rather, the EU's leaders anticipated that Ukraine would eventually be subsumed by Russia.<sup>2</sup> This became increasingly evident as the Ukrainian leadership from 1998 began calling for a signal from the EU that it had a chance to join, while the EU insisted that Ukraine first implement the terms of the PCA and create the necessary conditions for a free trade area with the EU.

Ukraine's frustrations with the EU and the EU's growing irritation with Ukraine were rooted not only in divergent preconceptions about the long term objectives of their engagement, but also by the Ukrainian domestic economic crisis, its failure to pursue market reforms and the unsatisfactory progress in foreign economic relations. In the background of foreign economic relations there stood a steadily deteriorating domestic economy, with declining production levels, flight of capital and scientific-technical expertise, erosion of labour skills, unemployment and mounting social inequalities - a socio-economic degradation that was not arrested even by the end of the decade. In such domestic conditions it is difficult for any country to seek advantage in its foreign economic relations.

Ukraine in the 1990s reduced the proportion of its trade with Russia from around 80 to 55%. But its trade with Central European states that were acceding to the EU was simultaneously reduced from 20 to 10%, while trade with EU member states rose from around 6 to 20 percent. With both Russia and the EU member states Ukraine experienced an ongoing trade deficit that was reduced, but not compensated for by its trade surpluses with other countries. The structure of its trade ties with the EU was unsatisfactory insofar as the EU protectionist regime prevented imports from Ukraine of those products in which it had competitive advantages (steel, chemicals, foodstuffs, textiles) and from which it could have generated earnings for productive investment and modernisation of its economy. Moreover, the proportion of Ukrainian exports that fell under anti-dumping investigations grew in the 1990s from around a quarter to more than a third.<sup>3</sup>

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<sup>2</sup> "Ukraine has never been regarded as a potential EU member"; Centre for Peace, Conversion and Foreign Policy of Ukraine, Annual Report for 2000. P 10. "A study produced in 1999 in the depths of the German and French foreign offices and published in 2000....said it would be desirable for the EU to deal with united political and economic systems of Ukraine and Russia - that is, the CIS". Zerkalo nedeli 14 April 2001.

<sup>3</sup>Commentary of Mykhailo Pashkov in Rozvytok ta rozshyrennia Ye.S. pid chas holuvannia

The EU and Ukraine had damaging disagreements about the certification of product standards to cover imports from the EU (and other countries). During the 1990s around 60% of the retail trade market in Ukraine was captured by foreign suppliers of surplus and second rate goods that could not be sold in their countries of origin. There was the dispute with the EU over Ukraine's granting preferential tax treatment to the Korean firm Daewoo, which committed itself to rebuilding the country's main automobile production plant. Both sides were critical of the implementation of the TACIS technical assistance programme, blaming each other for unspent, misdirected and misappropriated funds, the lack of consultation or transparency. The closure of the Chernobyl nuclear power station became a drawn out affair that pitted powerful economic interests on the EU and Ukrainian sides over the issue of whether its generating capacity should be replaced by thermal or additional nuclear generating capacities. Finally, despite robust declarations of intent and detailed strategic documents, the Ukrainian side did not manage to establish a legal and regulatory framework that met West European expectations and in which foreign capital could confidently enter the Ukrainian markets. By March 1998, when the legislatures of EU states had finally ratified the EU-Ukraine PCA and its full terms were meant to come into effect, it was clear that the free trade area it sought to foster was a long way off. EU leaders believed by that time that the Ukrainian leadership lacked both the political will to make it work and the authority to compel the emerging oligarchic business groups to let European and transnational companies participate in the Ukrainian market. By 1999 Ukraine's relations with the EU were in crisis, and its relations with Central European states acceding to the EU were stagnant.<sup>4</sup>

Ukraine's participation in the Council of Europe from mid 1994 was dominated by the growing contradiction between its willingness to sign up to practically all of the Council's Charters and Covenants and their actual violation in Ukraine itself. There was a drawn out struggle which finally compelled the Ukrainian state to impose a moratorium on the death penalty by March 1997 and then to abolish it in December 1999. The Council also pressed Ukraine on its commitments to reform the system of criminal justice, to guarantee fair elections and the rights of ethnic minorities, political parties, the press and local governments. In 1999 it embarked upon unprecedented measures to suspend its membership.<sup>5</sup> And at the end of 2000, the tensions between the two sides erupted with even greater force over the disappearance and murder of the journalist Heorhiy Gongadze and allegations of

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Frantsii. Perspektyvy dlia Ukrainy (Development and Expansion of the EU during the French Presidency. Perspectives for Ukraine), Kiev, Atlantic Council of Ukraine, 2000; p. 61.

<sup>4</sup> Bojcun, Ukraine and Europe, Part 1, pp. 9-23.

<sup>5</sup> Bojcun, Ukraine and Europe, Part 2, pp. 24-51.

President Kuchma's involvement in his disappearance. In early 2001 Ukraine faced the prospect of complete expulsion from the Council.

Ukraine's bid to establish a "distinctive relationship" with NATO through the 1997 Special Charter differed from the EU-Ukraine relationship in two respects. On the one hand the Ukrainian leadership did not ever announce an intention to seek full membership in NATO. The reasons for this are not entirely clear, but subsequent developments (see below) suggest that the Ukrainian political and military leadership had never ruled out a security alliance with Russia. This may have to do with the following set of pressures: Ukraine is of geo-strategic importance to Russia, a vital corridor to Central and Western Europe; Ukraine experienced great difficulty maintaining its cumbersome army of 400,000; by the end of the decade Russia was spending six times as much money per serviceman maintaining its own army<sup>6</sup>; the Ukrainian and Russian military industrial production complexes remained closely interwoven; the loyalty of the Ukrainian general staff had not been tested nor publicly confirmed (nor indeed the loyalty of its National Security Service) and both of these were rather direct "transplants" from their all-Union bodies. A myriad of inherited links and perceptions of common interest in the military and security fields mitigated against any clean break between Russia and Ukraine.

On the other hand, Ukraine was also of geo-strategic value to the Western alliance (as a check on Russia) which overrode the relative lack of economic interest in it on the part of the West. Thus the country's geo-strategic importance stimulated the USA to envelop it militarily - short of full membership - in NATO and make it the third largest recipient of US aid, while at the same time urging on its European allies to "do more for Ukraine" to overcome the barriers to economic integration. Yet the relationship with NATO received a nasty shock in 1999 when NATO attacked Serbia. The out of area military operation, without UN consent, inflamed public opinion in Ukraine and cast doubt in its leaders' minds about the claim that NATO eastward expansion was consistent with strengthening European security.

Ukraine's pro-Western orientation was eroded in a major way at the end of 2000 and in early 2001 after intensive negotiations between Russia and Ukraine led to several bilateral agreements covering the energy sector, broader economic co-operation, military and security affairs (see below). These agreements appeared to signal the imminent end of Ukraine's pro-Western orientation and the beginning of its re-integration with Russia. They also graphically revealed the contradiction which had emerged by the end of the 1990s between the official pro-Western foreign policy of the President's Administration and the powerful economic links with Russia that same Administration was promoting on behalf of Ukrainian oligarchic

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<sup>6</sup> Centre for Peace, Conversion and Foreign Policy of Ukraine, Annual Report for 2000, p 17.



circles tied to the Russian economy.<sup>7</sup> They evoked concern on the part of both the EU and NATO. But while EU did not regard Ukraine's eventual reintegration with Russia as a retrograde step nor necessarily harmful to the EU's relations with Ukraine, the reaction of the USA - the leading force in NATO - which treated Ukraine as a counterweight to Russian regional ambitions was one of alarm.

Public opinion surveys conducted over the period 1994 to 2000 showed practically no growth in the proportion of those who favour European integration (understood as integration into the EU and NATO): the marginal rise was from 14% to 16% over this period. At the same time there had been a decline in public opinion favouring integration into the Commonwealth of Independent States - from 41% in 1994 to 15% in 2000. When asked in 2000 about Ukraine's possible integration into the Russia-Belarus Union 23% were opposed and 53% were in favour. Those in favour were more heavily represented in Eastern Ukraine. With respect to the eastward vector of integration, there is a clear tendency to favour economic integration with Russia or the Russia-Belarus Union over political-military integration with Russia, or the Union or the CIS. A certain sense of isolationism is suggested in the proportion of those favouring "reliance on one's own forces" growing over the same period from 13 to 26%. This tendency was especially marked in Western Ukraine. Young and better educated people favour European integration in proportionally greater numbers than other age and education groups. And for them the notion of integration is less of an institutional, state-to-state, geopolitical process and more of an individual opportunity for social mobility.<sup>8</sup>

## **Russia, the EU and NATO**

Russia's outlook on European integration and security has been conditioned by several factors. Its leadership considers Russia the successor state of the USSR. It occupies the lion's share of the former Soviet space. In the wake of the collapse of the USSR, the Russian Federation has sought to maintain its status within the group of G7/8 countries, and while acknowledging that it not a superpower anymore, it wishes to be a great power, the regional hegemon in the eastern part of the Eurasian landmass. Thus its relationship to the "European project" emanating from the west is envisaged as a relationship between two great powers, two pillars of potential

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<sup>7</sup> Centre for Peace, Conversion and Foreign Policy of Ukraine, Annual Report for 2000, p 5.

<sup>8</sup> Sergei Makeev "Obshchestvennoe mnenie v Ukraine o Perspektivakh Integratsii v NATO i Yevropeiskie Struktury" (Public Opinion in Ukraine on the Perspectives of Integration into NATO and European Structures) in Rozvytok ta rozshyrennia Ye.S. pid chas holuvannia Frantsii. Perspektyvy dlia Ukrainy (Development and Expansion of the EU during the French Presidency. Perspectives for Ukraine), Kiev, Atlantic Council of Ukraine, 2000; pp. 63-66.

Eurasian co-operation. Were it not for the fact that the USA is the dominant military force in Western and Central Europe and sees Russia as its rival in the Balkans-Black Sea-Caspian Sea corridor this long term perspective of Russia-EU co-operation would seem eminently feasible. However, the Russian leadership under President Yeltsin, in the aftermath of the initial illusions about Russia's rapid integration into the advanced capitalist world, had to refocus its sights and define specific objectives with respect to the former Soviet space, the European Union and to NATO. In the course of the decade the spirit of Russian foreign policy shifted from liberal-democratic pro-Westernism to a national-patriotic defensiveness and with the assumption of presidential power by Vladimir Putin to a pragmatic re-engagement that seeks "restoration of Russia's economic and strategic power"<sup>9</sup>.

The first zone of re-engagement is the post-Soviet space. Russia hoped to rebuild a Commonwealth of Independent States on the ruins of the USSR, but its hopes were thwarted by the reticence of the former non-Russian Soviet republics to enter into a close alliance so soon after the break-up. Ukraine resisted more than the others and viewed the CIS as a divorce arbitration court where she would get her fair share of the assets. She maintained observer status in the CIS and refused to take part in any projects that required pooling sovereignty and creating supranational authority. Ukraine refused to sign up to two critical treaties: the Tashkent Collective Security Treaty adopted by five CIS members in May 1992 and the Customs Union, adopted in March 1996. Belarus, at the other extreme, actively sought union with Russia after the election of Alexandr Lukashenka as President in 1994. The Baltic states were, for all intents and purposes, considered a lost cause. And in the south from the Caucasus to the Chinese border, Russia had to resort to forceful means to maintain stability on its borders and influence with its allies: keeping the 14 Army in Moldova in support of the Transnistrian enclave against the Romanian Moldovans; challenging Ukrainian sovereignty over Crimea; supporting Armenia against Azerbaijan, nurturing the Abkhaz insurgency as a counterweight to Georgia's efforts to break out of dependency on Russia, stationing troops on the Afghan border with Tajikistan and countering the domestic opposition to the Tajik government.<sup>10</sup> And, of course, the Russian Federation went to war against the Chechen independence movement within its own borders.

So in the first half of the 1990s the Russian central state tried to reclaim the post-Soviet area, but failed to secure a voluntary re-unification of the post-Soviet states or to hold the line against the now northward spreading Arc of Crisis, or indeed to

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<sup>9</sup> James Sherr "A New Regime? A New Russia?" in Centre for Peace, Conversion and Foreign Policy of Ukraine, Occasional Report No. 35, 15 July 2000, p 2.

<sup>10</sup> Allen C. Lynch "The Realism of Russia's Foreign Policy", Europe-Asia Studies Vol. 53, No. 1, 2001, p 23.

prevent the projection of Western power into the Balkans-Black Sea-Caspian Sea corridor. Ukraine was clearly its biggest disappointment and for reasons of imperial past history the Russian establishment could not understand why Ukraine was so determined to carve out its independence and cleave to the West, rather than return to the East Slavic brotherhood. In the process of grappling with failed strategies the Russian establishment learned three lessons about the recovery of its former power: first, that while Russia is relatively weak in its dealings with the West, it is nevertheless strong in dealing with the fragile Newly Independent States; second, the Russian state leadership and its big business allies realised that their truly effective lever for regional integration is not force, but the economic dependency of the NIS on trade with Russia, and particularly on Russian gas and oil; third, as Moldavan developments in 1992 already showed, the Western alliance is prepared to acknowledge Russia as the guarantor of stability in her own region, if not de jure then at least de facto.<sup>11</sup>

These lessons accompanied the revival of the doctrine of Eurasianism, reclaimed from the Russian White emigre intelligentsia of the 1920s and adopted by virtually the whole political spectrum from Zyuganov to Zhirinovskiy. Eurasianism asserted that Russia is a unique civilisation, separate from Europe and destined to unite the Slavic, Turkic and Central Asian peoples into a great continental power. Yet Russia's practical efforts to unite the former Soviet republics around itself in the Commonwealth of Independent States have failed so far. The CIS is an institution built on many sweeping declarations of intent with a poor record of adherence or implementation by its members, who have avoided above all the creation of a CIS supranational authority to which they should relinquish a portion of their sovereignty<sup>12</sup>. Therefore, the process of integration in the west of Europe is matched in the east during the 1990's by its opposite: the disintegration of the USSR as a supranational state and economic entity and the stubborn resistance thereafter of most of the non-Russian newly independent states (except those deeply dependent on Russia economically or militarily: Armenia, Belarus, Kyrgyzstan and Tajikistan) to any substantive reintegration. This resistance has rebounded on the Russian state itself, causing it to pursue bilateral relations to achieve cooperation with former Soviet republics rather than trying to build a supranational authority for the entire CIS. In place of the CIS, other regional initiatives have sprung up in the post-Soviet space during the 1990's: the Russia-Belarus Union, the Central Asian Economic Community and the GUUAM alliance, uniting Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova in a tacit anti-Russian counterweight. All these regional

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<sup>11</sup> Lynch "The Realism of Russia's Foreign Policy", pp. 11-20.

<sup>12</sup> Richard Sakwa and Mark Webber "The Commonwealth of Independent States 1991-1998: Stagnation and Survival, *Europe-Asia Studies* Vol. 51, No. 3 1999, pp. 379-415; "Ukrayina znovu vvyavlye pedantychnist" (Ukraine continues to be pedantic), *Ukrainska pravda* 21 June 2000;.

groupings are weak and ineffectual, yet their creation testifies to the ongoing search by these states for alternatives to economic and political integration with Russia.<sup>13</sup> Russian foreign policy makers at first viewed the European Union as a benign economic institution, even as a counterweight to American influence on the continent. Russian leaders were and remain concerned that their country not be isolated from the economic powerhouse of the EU, to benefit from its approach to their borders.<sup>14</sup> Like Ukraine, Russia joined the Council of Europe and signed a Partnership and Co-operation Agreement with the EU in 1994. But unlike its neighbour, Russia has not done so for the purpose of joining the EU, but rather to become a strategic partner of the EU on a continental matrix. The language of the PCA shows that there are far greater ambitions at play:

Russia is an essential element in the future of the continent and constitutes a strategic partner for the European Union.....The Union is already Russia's main trading partner and Russia itself provides a significant part of the Union's energy supplies.....the strategic partnership (should) develop within the framework of a permanent policy and security dialogue designed to bring interests closer together and to respond jointly to some of the challenges to security on the European continent...continuing consultations on a multilateral transit framework which will enhance co-operation between Russia and its neighbours over access to the Russian (sic) pipeline system.....joint foreign policy initiatives with regard to specific third countries and regions...<sup>15</sup>

The PCA suggests that a strategic partnership is conceived, among other things, for the purpose of a long term exchange of European technique for Russian gas and oil. Building and protecting such an economic partnership would require joint approaches to third countries, such as Ukraine, and mutual responsibility for meeting security challenges along the length of the network that will join the two extremes of the European subcontinent. In this context Russia views Central Europe as a region with which it must rebuild its economic ties in order to complete the bridge to Western Europe.

Trade, investment and technical assistance flowing between Russia and the EU offer some measure of the importance Russia attaches to the partnership and of its

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<sup>13</sup> Centre for Peace, Conversion and Foreign Policy of Ukraine, Occasional Report No. 12, April 2001.

<sup>14</sup> Financial Times Special Report on Russia, 9 April 2001.

<sup>15</sup> "Common Strategy of the European Union on Russia, 4 June 1999. Document 499XO414; Official Journal L157, 24 June 1999, pp. 7-8

potential to become a truly strategic one in the future. The EU is Russia's largest single trading partner, the destination of one third of its total exports and the source of more than one third of its total imports in 1997. Almost 60 percent of foreign capital invested in Russia comes from the EU, and Russia is the recipient of two thirds of the total EU Technical Assistance destined for the CIS states. On the other hand, EU imports from Russia are far less important, accounting for 1.5 percent of total EU imports. Nevertheless, natural gas accounts for the lion's share of these imports, and is a strategic commodity not only for the EU member states but also for the Central European states acceding to the EU. The latter states are heavily dependent on Russian energy sources.<sup>16</sup>

Yet the grand vision of Europe grouped around Eastern and Western pillars that will themselves forge ever closer ties has been rendered inoperable so far by unresolved problems on both sides of the EU-Russia partnership. First, Russia has yet to make the kind of economic recovery necessary to boost capital investment, production and trade to appreciably higher levels. Nor has it been able, so far, to harness other states and national economies in its neighbourhood into regional co-operation that could boost economic recovery for all concerned. The second unresolved problem from Russia's point of view is that NATO remains Western Europe's primary security institution. Its leading member, the United States, still sees Russia as a rival on the continent. Russia strongly opposed NATO expansion into Central Europe, tried to persuade the states involved that a pan-European security order was more appropriately the concern of the Organisation for Security and Co-operation in Europe and held onto the belief that the United Nations was the ultimate instrument for international intervention and conflict management. Russia also tried to develop an understanding with NATO during Yevgenii Primakov's tenure as Foreign Minister in 1996-97 about the limits of NATO expansion. Russia acquiesced to NATO expansion in exchange for the formation of the NATO-Russia Council, designed to ensure permanent security dialogue and consultation. It was viewed by the Russian leadership as a means to limit the damage of NATO expansion to its own interests.<sup>17</sup> However, the NATO bombing of Yugoslavia in the spring of 1999 revealed that Washington did not see the NATO-Russia Council in the same way. Russia in the person of former Prime Minister Viktor Chernomyrdin was reduced to delivering NATO's messages to Slobodan Milosevicz. The bombing came at the precise moment when Poland, Hungary and the Czech republic acceded to NATO as full members. The consequences of this episode for Russia's outlook on European

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<sup>16</sup> Margot Light, Stephen White and John Lowenhardt, "A Wider Europe: The View from Moscow and Kyiv" *International Affairs* 76, 1(2000)..p 81; Gerhard Mangott, "Russian Policies on Central and Eastern Europe: An Overview", *European Security* Vol. 8, No. 3 Autumn 1999, pp. 61-72; Dmitri Danilov "A Piece of the Partnership", *Transitions*, Vo. 5, No. 4, April 1998, p 60.

<sup>17</sup> Mangott, p 67; Light, White and Lowenhardt, op. cit., p 78.

security were far reaching. And the Russian leadership now felt morally freed to go to war a second time against the Chechen independence movement.

Thus, while the majority view in the West European states today is that NATO and EU expansion eastwards are desirable and compatible processes, the Russian establishment holds markedly different views with respect to each: it supports European expansion and integration and wishes to find its own place within that process, but it opposes NATO expansion as a challenge to its own interests.

### **The interdependence of Russia and Ukraine**

Relations between Russia and Ukraine have evolved in the 1990s against a historical background of Ukraine's national subordination in the Russian Empire and the Soviet Union. During the past decade Ukraine has experienced the longest period of state independence in its history, while the Russian Federation has been coming to terms with the loss of its imperial periphery. The depth of feeling about national gains and imperial losses of each side is perhaps underestimated by West European leaders whose countries experienced decolonisation after the Second World War mainly as a loss of distant overseas possessions, rather than the dismemberment of a geographically compact state. The Russian nation was long accustomed to treating its Slavic neighbours as nations closely related in language, culture and religion. And the Ukrainian ethnos was itself only recently transformed by those modernising influences of literacy, urbanisation and social mobility which equipped it with the professional classes and political awareness necessary for national self determination and independence from Russia. There was, therefore, a fundamental divergence of outlook on the Russian-Ukrainian relationship after 1991 between the two sides: those who viewed it as one between brothers, albeit quarrelling ones, and those who viewed it as one between a man and woman in the process of divorce. The two countries leaders naturally foresaw different possible outcomes to the dispute at hand: filial bonds made reconciliation possible or, on the other hand, a bad marriage made separation necessary and in the best interests of both parties. Russia in the 1990s sought to bring Ukraine back under its roof, while Ukraine sought a new partner in the West. In fact, Ukraine so assiduously guarded its national independence against what it perceived as Russian attempts to resubordinate it through bilateral and multilateral (CIS) means that it was prepared to see its economy incur heavy losses rather than to agree to restoring or deepening economic interdependence with Russia.<sup>18</sup>

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<sup>18</sup> Paul D'Anieri, "Interdependence and Sovereignty in the Russian-Ukrainian Relationship", *European Security* Vol. 4, No. 4, Winter 1995, p 608.

However, the conflict-ridden diplomatic relations between Russian and Ukraine (over Crimea, the Black Sea fleet, the status of the Russian minority in Ukraine, the assets of the defunct USSR) were no longer the only kind of relations between them. With the advent of market relations and oligarchic capitalist formations working the cross border trade, the diplomatic relations were increasingly directed to the service of the latter's needs and the settlement of their disputes. Russia is by far more powerful economically and on this count alone Ukraine inevitably faced the pull of eastwards re-integration, however strong its European inclination. Because private capital was consolidated earlier and in far greater concentrations in Russia than in Ukraine Russian capitalists have been able to make decisive inroads to buy up strategic industries in Ukraine. Secondly, the drive to buy up Ukrainian industries has followed on the heels of the Russian natural gas and oil trade in Ukraine and through Ukraine to Central and Western Europe (see below). Thirdly, Russia is able to generate significant earnings from foreign trade - especially in gas and oil, while Ukrainian producers are hard pressed to retain markets both at home and abroad. Both countries are heavily indebted to foreign creditors, but Russia has greater capacity to generate earnings from foreign trade with which to pay back its debts and to deploy to the advantage of its strategic industries. Finally, the redevelopment of capitalism in both Russia and Ukraine has taken place in the 1990s under the powerful influence of their respective state institutions, which to this day control access to the resources and markets. So by the end of the 1990s, Russian-Ukrainian relations were shorn of their emotional baggage, and "pragmatism" became the favoured description of their mutual relations for both the Russian and Ukrainian Presidents. To paraphrase a popular saying, the business of both governments increasingly became business. And as the determining influences on relations between these two states changed, so too did their outlook on the prospects of European integration for them.

### **The end of Ukraine's "European choice"?**

The year from mid-2000 to mid-2001 may well go down in history as the point at which Ukraine abandoned its independent orientation towards the EU and its pro-NATO strategy, while Russia embarked on a new stage of integration with the EU. In this year President Putin made a determined drive to exploit the critical state of Ukraine's domestic economic situation and international standing, and to exact Russia's dues from Ukraine's dependence on its fuel and energy resources. He succeeded in the course of the year to secure several fundamentally new agreements with Ukrainian leaders:

1. To restructure Ukraine's gas debt to Russia over an 8-10 year period that will allow Russian firms to use part of the debt to buy shares in privatising industrial assets (December 2000);

2. A 52 part military co-operation accord signed by the respective defense ministers to co-ordinate the two countries' policies in relations with the European Union and to allow Russia to take part in planning all multinational military exercises on Ukrainian soil (January 2001)
3. Co-operation Agreement between the respective heads of state security services (February 2001)
4. Co-operation Agreements in aerospace and aviation industries, shipbuilding and electronics (February 2001);
5. An agreement to integrate the two countries' electricity power grids (February 2001);
6. Protocol between the Russian Conventional Arms Agency and the Ukrainian State Committee for Industrial Policy on co-operation in the production of ammunition and conventional weapons on the basis of "a single industrial policy" (February 2001)<sup>19</sup>.

These agreements came after intense negotiations between Kyiv and Moscow throughout the year 2000 which in September brought about the dismissal at Moscow's insistence of the pro-NATO Ukrainian Foreign Minister Borys Tarasiuk in the midst of critical negotiations over Ukraine's debt for Russian gas.<sup>20</sup> His replacement, the veteran diplomat who had held the foreign ministry portfolio at the beginning of the 1990s is Anatoliy Zlenko. Zlenko downgraded Ukraine's long standing multi-vector policy. The authoritative Kyiv think tank, the Centre for Peace, Conversion and Foreign Policy identified in its annual report for 2000

a cardinal change of foreign policy as well as of the military and political course of Ukraine, which is characterised by a transition from the multi-vector policy, or balancing Ukraine's interests between those of the United States and Russia, to a factual, single-vector policy oriented at Ukraine's reintegration into the Russian Federation.<sup>21</sup>

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<sup>19</sup> The texts of these agreements were not made public. For press reports see: Hanna Liuta "Dosiahnuta Pryntsyypova Domovlennist" (A Principled Agreement has been Reached), Zerkalo nedeli No. 47, 2000; Ukrayina moloda 21 February 2001; Centre for Peace, Conversion and Foreign Policy of Ukraine, Reports 7 and 12 February 2001, Report No. 7, March 2000; ITAR-TASS 18 January and 14 February 2001; Financial Times 22 February 2001; "

<sup>20</sup> "Ukraina ta Rosia domovylysiapro ostatochnu sumu ukrainskoho borhu za haz" (Ukraine and Russia have agreed on the Ukrainian gas debt) Ukrainska pravda 27 May 2000; "U Rosii ne duzhe vysoko otsiniuit rezultaty vizytu Tarasiuka do Moskvyy" (In Russia there isn't a very high assessment of Tarasiuk's visit to Moscow) Ukrainska pravda, 30 May 2001.

<sup>21</sup> Centre for Peace, Conversion and Foreign Policy of Ukraine, Annual Report for 2000, p 7.



If indeed the above noted agreements are duly implemented the shift in Ukraine's geo-strategic orientation they collectively represent will surely count as President Putin's first dramatic and substantial foreign policy achievement, a major step in the reclamation by Russia of the former Soviet space and, ipso facto, the beginning of what might prove a deep erosion of Ukraine's independence.

How did Putin persuade Kuchma to take such unprecedented steps in their mutual relations? Here we should identify a number of important developments that converged in the year 2000 to substantially undermine Ukraine's ability to manoeuvre between Russia and the Western alliance.

Russia is the biggest supplier of natural gas to Central and Western Europe. It provides around 40% of their needs and will be providing around 60% within ten years. Ukraine is a major consumer of Russian gas, as well as Turkmenistan gas, both of which are delivered to Ukraine in a total volume of 60 BCM each year by a Russian gas transit firm. These 60 BCM account for three quarters of Ukraine's annual demand, the remainder being produced in Ukraine itself. Natural gas fuels round 87% of Ukrainian households and the generation of over 40% of its electricity (the remainder by Russian and Kazakh oil and by nuclear power). Yet Ukraine is not just a major consumer of Russian gas: it is also the largest gas transit country in the world delivering across its territory around 120 BCM or 94% of the Russian gas consumed in Central and Western Europe. The dense network of pipelines covering 35,000 kms is the property of Ukrainian para-state firms. In exchange for delivering Russian gas to European consumers the Ukrainian state and private participants involved in the gas transit network are paid in kind in the amount of 30 BCM of gas each year.<sup>22</sup>

Ukraine had by the end of 2000 built up a debt to Russia for the additional gas its para-state firms were drawing out of the transit network each year to meet peak winter demand and to sell on for cash to Central European consumers. Throughput in the pipelines could not easily be monitored because the international transit lines are intertwined with the Ukrainian domestic distribution network. So the amount of Ukraine's debt was disputed, but ranged between \$1.4bn and \$3 bn. There was always a debate about whose debt it was - the private side of the firms transiting and trading the gas or the state side which maintains the trunk lines and guarantees the repayment of the debt.

Nevertheless the transit and trade in Russian gas was an especially lucrative business in the 1990s, the primary initial source of superprofits on whose foundation today's

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<sup>22</sup> "Ukraine at a Crossroads as Energy Uncertainty Prevails" *Gas Matters*, December 2000, pp. 1-10; Vasyl Rozgonyuk and Zinoviy Osinchuk, "Ukrainian gas transit system expanding, modernising to meet demand", *Oil and Gas Journal* 19 February 2001.

five or six main oligarchic groups in Ukraine began building their diversified empires. These oligarchs made their money in such large amounts because they learned how to turn Russian gas passing through the pipelines into hard currency profits while dumping the costs of transit onto Ukrainian state institutions. Indeed there was close co-operation between state officials and private businessmen in the pursuit of this rewarding trade.<sup>23</sup>

In the second phase of capital accumulation -roughly 1996-1998 - the Ukrainian oligarchs began to buy up downstream and ancillary assets as they were being privatised, such as the provincial electricity generating and distribution companies (oblenergos) and the pipe manufacturing plants. They also created their own mass media outlets and political parties and succeeded in gaining representation in the Verkhovna Rada, the Ukrainian legislature in the 1998 elections. They penetrated the entourage of President Kuchma, whose Administration has practically sole decisionmaking power with respect to foreign policy. From this important foothold grew their ambition to take a more direct part in deciding who would occupy the chief executive positions in the country, which was clearly revealed in the key financial and organisational roles they played in the re-election of Leonid Kuchma for his second term as President in November 1999. In return they expected to gain seats in the Cabinet of Ministers, from which they could more easily direct the final phase of privatisation of the biggest and most important enterprises in the country.

Yet both Russian and Western transnational capital were also poised to take part in the final phase of privatisation of the whole fuel and energy complex based on coal, oil, gas and nuclear power and on the cycle of extraction, refinery, transit and consumption. The prize asset was the gas transit network. And both Russian firms such as the giant Gazprom and Western multinationals like Shell were keen to take controlling interest in it. Backing the western firms was the International Monetary Fund and the EU. The Russian state stood behind its own para-state and private firms which, having a hold on one of the greatest sources of gas and oil on the continent now wanted to take hold of its distribution system beyond Russia to former Soviet, Central European and West European states. Moving into the gas transit network stretching across Ukraine was one of the most important paths for Russian national capital to transnational status and transnational competition with the Western giants. The appointment in May 2001 of former Russian Premier and former head of Gazprom Viktor Chernomyrdin as Ambassador to Kyiv and Special Presidential Envoy on the development of Russian-Ukrainian trade and economic relations was widely interpreted in Ukraine and Russia as a calculated move to strengthen Russia's chances of winning this important Ukrainian asset .<sup>24</sup>

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<sup>23</sup> “Z uriadu Ukrainy idut ostanni prykhlynyky zviaskiv z Rosiieu” (The last supporters of ties with Russia are leaving the government), *Ukrainska pravda* 25 May 2000.

<sup>24</sup> “Do nas prykhav revizor” (The inspector calls): *Ukrayinska pravda* (Ukrainian Truth) 23 May

The Ukrainian oligarchs and the state institutions did not have sufficient resources to repay the gas debt to Russia and invest simultaneously in the maintenance and exploitation of the gas transit network for their own benefit. And throughout the past two years there was growing pressure from the EU, the Russian government and major European energy companies to resolve the long term question of security of supply across the European subcontinent<sup>25</sup> The other options, therefore, were for Ukraine to grant a long term concession to a foreign firm to exploit the network or to privatise it, partially or completely. For Ukraine it boiled down to the size of the stake in the network that it could retain.<sup>26</sup>

In the battle fought out through 2000 and into 2001 the Russian side had the advantage over the Western side in dealings with the Ukrainians because: the Ukrainian oligarchs were already dependent upon Russian supply; the Ukrainian state owed a gas debt to the Russian side for which it had no cash to repay; Russian private capital had already moved onto the Ukrainian market, was buying continuously into a wide range of producing enterprises, communications, mass media, etc, and knew how to operate in the novel conditions of the “Wild East”. Both Ukrainian and Russian capitals were determined to keep Western capitals of any serious weight out of the picture until they had consolidated their own positions.<sup>27</sup>

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2000; “Kredyty vid MVF mozhe dadut” (Maybe the IMF will extend credits), Ukrayinska pravda 24 May 2000; “Ukraine at a Crossroads as Energy Uncertainty Prevails” Gas Matters, December 2000, pp. 7-9. Gazprom has worked with the Russian government to acquire equity in the fuel and energy distribution systems of the NIS states in exchange for their debts so that it can control energy transit and trade further afield to Central, Southern and Western Europe. See Jan Kalicki “High Stakes Hinge on Russia’s Energy Choices”, Oil and Gas Journal Online 19 March 2001. On the occasion of Chernomyrdin’s appointment to Kyiv, Ukrayina moloda commented in its 2 May 2001 edition that he “will supervise Russia’s participation in big privatisation and gas debt settlement. He will do everything to make Kiev sell Russia part of its gas transit pipelines”

<sup>25</sup> “Ukraine at a Crossroads as Energy Uncertainty Prevails” Gas Matters, December 2000, p 1; Darius Snieckus, “EU and Russia seek co-operation and integration of energy markets” Oil and Gas Journal Online 17 May 2001; EBRD calls for Gazprom Break-up”, Oil and Gas Journal Online, 3 July 2000.

<sup>26</sup> In an interview given to Rossiyskaia gazeta on 18 April 2001 President Kuchma acknowledged that “we will be seeking compromises...we are...ready to examine the question of whether the pipeline should not be solely Ukrainian and whether both Russian and even European partners should be allowed to participate”. Ukrainian Foreign Minister Anatoli Zlenko said in Brussels on 24 April 2001 that Ukraine sought to develop closer co-operation with the EU, including “the implementation of the European Union’s energy strategy as an equal partner...(and) the creation of an international mechanism for managing Ukraine’s gas transportation system and invited strategic investors to participate”. Centre for Peace, Conversion and Foreign Policy of Ukraine, Report 21-27 April 2001.

<sup>27</sup> Russian companies taking large shares or controlling interest in Ukrainian enterprises include

Two countervailing tendencies to Ukraine's drift into a Russian orientation should be noted here. There was an agreement between the two countries in 1994 quite similar to the gas debt for transit assets deal signed by Putin and Kuchma in December 2000. And it was rejected by the Verkhovna Rada as too damaging to Ukraine's strategic interests.<sup>28</sup> Ukrainian diplomats have said privately that agreements are initialled by the executive in the knowledge that the legislature will get them off the hook. Secondly, there was from early 2001 (possibly earlier) quite sustained pressure from the EU and the United States upon Ukraine to keep its Western orientation.<sup>29</sup> Yet are these tendencies sufficient to keep Ukraine looking westwards, given the important changes that have occurred in the overall international environment: under Putin's leadership Russia has embarked upon a more calculated reclamation of its sphere of influence in the former Soviet area; Ukraine's room for economic manoeuvre vis a vis Russia has been eroded severely by the size of its debt for Russian gas and the imposition of trade tariffs and quotas by Russia, the EU and the USA; Ukraine's international reputation is damaged by the Gongadze affair and the Melnychenko tape scandal; Ukraine's relations with Central European countries are stagnant (with the exception of Poland, which may also follow suit if a centre-left government is elected at the end of 2001); its relations with the EU and the Council of Europe are at their lowest point ever. The controversy over the US National Missile Defense project threatens to create an additional platform on which Russia and Ukraine could be driven together.<sup>30</sup> EU

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Avtozaz, buying the Zaporizhzhia Aluminium Plant; Lukoil buying the Odessa oil refinery, creating a joint venture with the Kalush refinery and planning to purchase 100 Ukraine petrol stations; the Tuymen Oil Company buying the Lisichansk oil refinery and a local television station; the metals conglomerate Russian Aluminium taking the Mykolayiv Aluminium Industrial Complex; Metals Russia investing in the Donetsk Metallurgical Industrial Complex; the companies Alliance Group, Alfa Nafta and Tat Nafta taking part in the privatisation of the Kherson, Nadvirna and Kremenchuk refineries respectively. For reports see Ukrayina moloda 21 February 2001, Baltimore Sun 29 April 2001, Moscow Interfax 12 February 2001, Centre for Peace, Conversion and Foreign Policy of Ukraine, Occasional Report No. 7, p 5. "The (Ukrainian) oligarchs do not need the West. They do not need it in terms of economics as the overwhelming majority of money making schemes is based on the Russian economic sphere....(The Ukrainian oligarchs are) just mediators for the Russian capital in Ukraine. Take all the recent examples of the Russian privatising Ukrainian companies - you will see traces of the lobbyists from the President's entourage everywhere". Zerkalo nedeli 14 April 2001. "Prior to President Putin's visit to Kyiv on 15-16 April (2000) Russia published a list of 30 Ukrainian enterprises of interest to Russian entrepreneurs"; Janes Sherr, op. cit., p 12.

<sup>28</sup> D'Anieri, op. cit., pp. 614-15.

<sup>29</sup> Interfax Moscow 12 February 2001

<sup>30</sup> "Russia's strategic priority: building allied relations with Ukraine"; Moscow Interfax 14 May 2001, in which Russian Deputy Foreign Minister Valeriy Loshchinin is quoted as saying "Moscow and Kiev first of all have similar views on strategic deterrence issues and in support of the 1972 ABM Treaty". Serhy Kichinin, editor of the Kyiv publication 2000, wrote on 11 May

President Romano Prodi has tried to reassure Ukraine that it matters to the West.<sup>31</sup> But it remains to be seen whether Ukraine will maintain a pro-European or Euroatlantic orientation as an alternative to Russia, whether it will pursue the same orientation by means that are co-ordinated with Russia, or whether it will drift from its pro-Western course in line with Russian foreign policy moves.

### **And the beginning of a new phase in Russia-Ukraine-EU relations?**

We are still too close to the edge of the developments described above to draw firm conclusions about what has actually changed in a lasting way in Russian-Ukrainian relations and their implications for both countries' relations with the European Union. The long standoff marked by Ukraine's resistance to Russia's advances, its orientation towards NATO and intention to seek integration with the EU regardless of Russia's interests in European integration seems to have ended. The meaning of the agreements that were signed between December 2000 and February 2001 are still being contested by Ukrainian, Russian and American representatives. However, the parlous state of the Ukrainian economy, its wounded President and divided political elite means that the country at this point in time is even less able to influence the terms of its engagement with eastern or western powers than it ever was in ten the years of its independence.

One can hypothesise about the likely changes to the supranational dynamic between the east and west of Europe if these Russian-Ukrainian agreements are implemented. They may signal a fundamental shift in the balance of forces in Eastern Europe in favour of Russia, which is moving more decisively westward into Ukraine both in economic and military-strategic terms. Further, Russia now has a grip on key sectors of the Ukrainian economy and a strong chance to take control of its gas transportation network from the Russian border to Central Europe. If it succeeds in consolidating its advantage, Russian national corporations in the fuel, energy, metallurgical, chemical, transportation, military and other sectors will build upon the Ukrainian industrial capacities they take over and will aspire either to compete or co-operate more boldly with Western transnational giants.

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2001 that US officials are seeking ways to immobilise President Kuchma in order to prevent him giving Russia access to the production facilities of Pivdenmash, the rocket building complex once managed by Kuchma, which are crucial for Russia's response to the US National Missile Defense plans. "Without Ukraine's rocket plants, Russia would lag far behind the United States".

<sup>31</sup> Goran Persson and Romano Prodi "Ukraine's progress should be a priority for all of Europe", International Herald Tribune 22 May 2001.

For EU-Russia relations these changes may stimulate a more rapid and profound implementation of the PCA and other agreements in the fuel and energy sector, and the upgrading of the existing gas, oil and electricity transmission networks into a transcontinental energy superhighway. Russian and Central Asian fuels will flow west while European technique will go east to ensure they flow west faster. Such a development could combine the technological capacities of Western Europe with the resource rich terrain of Russia, mediated by Ukraine's transit, storage and refining capacities. An EU-Ukraine-Russia alliance built on the gas for technology trade would naturally strengthen the bargaining power of the EU (and its most powerful member states) with the United States of America. It could conceivably put the USA and the EU in conflict with each other over their relations with the Russian Federation and possibly as well over the exploitation of gas and oil reserves of the Caspian Sea region. That depends on whether the United States continues to see Russia as its rival. Such possible developments in the near future would be predicated also on Ukraine coming to long term agreements with both Russia and the European Union about the development of the gas-technology corridor which preserve its sovereignty and lead to productive interdependence with both sides.

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