Ukraine abandons NATO candidacy

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In a June 3 vote, the Ukrainian parliament abandoned the country's previous commitment to join the US-led military alliance North Atlantic Treaty Organization (NATO). The legislation, submitted by President Viktor Yanukovich, states that Ukraine is a non-aligned country, though it can co-operate with NATO and with other military blocs, such as the Russian-led Collective Security Treaty Organization.

In another move aimed at improving strategic relations with Moscow, Yanukovich agreed to a new deal with Russian President Dmitry Medvedev in April over the future of the Black Sea Fleet, based in the port of Sevastopol in Crimea, a province of Ukraine. The Russian fleet will remain at the base for at least another 25 years, after the current lease expires in 2017.

Yushchenko had refused to extend the Russian lease of the Sevastopol base beyond that date. Russia has maintained a fleet at the port since 1783.

Ukraine's membership of NATO has always been opposed by a solid majority of the population.

In exchange, Russia will grant a discount on the price of the natural gas it pipes to Ukraine. Kiev will now pay $230 per 1,000 cubic meters of Siberian gas, $100 less than the previous rate. It is estimated the gas discount combined with rent Russia pays for the base could be worth $40 billion to the Ukrainian economy over the next 25 years.

While some commentators have portrayed the Sevastopol deal as a sign that Yanukovich's Ukraine is back under the authority of Moscow, the move appears to be designed to allow Kiev to balance more effectively between Russia and the European Union (EU) to the west. "We want to move towards the west," one Ukrainian foreign ministry spokesman was quoted as saying, "But the best way of doing this is to get gas from the east."

"The main element in Ukraine's predictability and consistency in Ukraine's foreign policy is its non-aligned status," Prime Minister Mykola Azarov told parliament.

Yanukovich, a representative of Ukrainian big businesses in the eastern part of the country, served as prime minister under former president Leonid Kuchma from 2001-2004. He then lost the 2004 presidential election to Yushchenko after an unprecedented third round of vote and accusations of electoral fraud.

Yanukovich was elected to the presidency in January, replacing Viktor Yushchenko. The leader of the "Orange Revolution" in 2004, one of the so-called color revolutions backed by Washington in an effort to place pro-US regimes in power in ex-Soviet states, Yushchenko was a staunch advocate of Ukrainian membership of NATO.

Russia is deeply opposed to NATO's further expansion into the former USSR, and was especially hostile to the efforts of Washington and Yushchenko to incorporate Ukraine, the second most populous ex-Soviet republic, into NATO. Until the Yushchenko administration took power, Ukraine and Russia retained highly integrated defense industries and shared military installations.

The abandonment of Ukraine's bid to join NATO was not only aimed at appeasing Moscow. The major European powers, especially Germany, were opposed to admitting Ukraine and the other former Soviet prospective member, Georgia, into the alliance. Berlin opposed antagonizing Moscow, with whom it has a vital trade and strategic relationship, focused in the energy sector.

Especially after the 2008 war between Russia and Georgia, initiated when Georgian President Mikheil Saakashvili launched an attack on Russian troops stationed in the separatist region of South Ossetia, it became clear that Berlin and Paris were unwilling to support the inclusion of two new pro-US and anti-Russian regimes into the alliance.

Yanukovich's first foreign visit after assuming office was to meet with leaders of the European Union (EU) in Brussels. Like the Yushchenko administration, Yanukovich seeks to put the country on a path to membership of the EU, from which the Ukrainian economy seeks large-scale inward investment, especially in the energy and industrial sectors.

Despite the improved relations with Russia, the

Ukrainian elite remains wary of the Kremlin's ambitions. Yanukovich recently rebuffed a merger offer for Naftogaz, Ukraine's largest energy company, from Russia's state-owned natural gas giant Gazprom. The Russian bid would have given Gazprom a dominant role in Ukraine's pipeline network, through which flows the majority of Russia's natural gas supplies to the EU.

Yanukovich seeks Russian investment in Ukraine's aging pipeline network, but is also looking for European investment. The Ukrainian president stated that control over the country's gas pipelines "can only be given in return for investment by Russia and Europe."

"Such investors would get a share of the property. But full Russian control, no, that's empty words," Yanukovich said in a May 14 media interview.

There have been a series of disputes between the former Yushchenko government and Russia over the price Ukraine should pay for the natural gas piped through its territory. As with many ex-Soviet republics, Ukraine has historically received natural gas from Russia at well below the international market rate, and has profited enormously from exporting that gas to the European market. However, from 2005, the Kremlin increased the price and accused Ukrainian businesses of stealing gas; two other major disputes occurred in 2007-8 and 2008-9, the last leaving much of central Europe without adequate supplies of natural gas for several days in the middle of winter.

While Russia and Ukraine agreed in October 2009 to a new gas deal for the coming year, new disputes are likely. Russia is highly dependent on oil and natural gas exports to Europe, and falling energy prices will prompt Moscow to demand higher payments from the intermediary pipeline countries such as Ukraine and Belarus.

Any disruption to gas supplies or a fall-off in demand for Ukraine's petrochemical and metallurgical exports could plunge the country back into a deep recession. There is also a risk that Ukraine could be targeted for the same treatment from the global financial markets as Greece, with the costs of borrowing driven up as speculators bet on the country's insolvency.

In the past two years foreign capital has pulled out of Ukraine due to the country's vulnerability to the global economic crisis that hit in late 2008. Ukraine's economy shrank by 15 percent in 2009 and economic growth this year remains fragile. The country received a $16 billion loan from the International Monetary Fund (IMF) to stabilize its currency and prop up its financial sector.

Yanukovich's hopes of political and economic support from the EU have been met with a cool response from Brussels and the national capitals of Europe. The EU is straining to keep the union between its existing members from falling apart, and no EU leader has suggested a timeframe for Ukrainian membership.

In an effort to encourage a more active EU policy in Ukraine vis-à-vis Russia, Yanukovich recently stated that he would "like to obtain the same quick responses from the European Union that I got from Russia." Complaining that the EU was dragging its feet on visa and trade agreements, seen as vital first steps to EU membership, Yanukovich told the BBC: "Today Ukraine is ready to integrate with Europe, inasmuch as Europe is ready to integrate with Ukraine … Are they ready or not?"

Ukraine has a public debt equal to 36 percent of gross domestic product (GDP) and a budget deficit of $21 billion, or 11 percent of GDP, in 2009—a rate similar to that of Greece.

The new government claims that this deficit has been cut in half thanks to increased tax receipts, a position that has been challenged by some economists who believe state revenues have been overestimated.

Yanukovich has so far been reluctant to spell out the types of sharp cuts in public expenditures announced in Ireland, Greece and Spain. However, faced with demands for austerity measures from international credit ratings agencies, financial institutions, and the IMF, Yanukovich announced a reform package on June 3 promising to cut the budget deficit to around 3 percent of GDP by 2013-14.

There have been calls, both from the business elite of Ukraine and from international commentators, to slash Ukraine's subsidies for domestic gas consumers, which reduce prices by around 30 percent from the market value. In its June 3 edition, the *Economist* magazine called the gas subsidy a "heavy drain on the public purse" and warned Yanukovich that he had to "carry through reforms that could make him unpopular."