

# Tensions grow between Ukraine and Russia

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The Russian Customs Agency has halted the import of Ukrainian goods to Russia, as of last Thursday. Moscow is seeking to prevent the signing of an association and free trade accord between Ukraine and the European Union, and trying to push Ukraine to join a Customs Union dominated by Russia.

Since August 14, Russian customs authorities have categorized a large part of Ukraine's imports as "high-risk goods", preventing their onward transit for weeks, if not months.

On Thursday, the Ukrainian employers' association and numerous politicians accused Moscow of launching a trade war. Russia is the second largest export market for Ukraine, after the EU. Last year, the total value of Ukrainian exports to Russia amounted to €12.3 billion.

At first, the Kremlin denied the measures were politically motivated. However, on Sunday, Sergei Glazyev, an adviser to President Vladimir Putin, said openly that they were "preventive measures". Should Ukraine take "the suicidal step" and sign an agreement with the EU in November as planned, Russia will prevent the import of Ukrainian goods for the long term, he said.

After a phone call between Ukrainian Prime Minister Yuri Boiko and his Russian counterpart Dmitry Medvedev on Sunday, both declared there could be no talk of a trade war.

Russia has been trying for nearly two years to ensure Ukraine joins the Customs Union between Russia, Belarus and Kazakhstan. Based on the Customs Union, Russia wants to establish the Eurasian Union, comprising a large part of the former Soviet Union. The Kremlin sees both projects as a way to counteract the economic crisis and Russia's declining political influence in the post-Soviet sphere.

President Putin has made the construction of the Eurasian Union a foreign policy priority for his third

term. Without Ukraine, one of the geo-strategically and economically most important countries of the former Soviet Union, the Eurasian Union and Customs Union would make little sense.

Ukraine has so far refused to join. Under President Viktor Yanukovich, Kiev has sought to balance between Russia and the EU. Yanukovich has always referred to Russia as a "strategic partner", and a short while after taking office three years ago, dropped the Ukraine's application for NATO membership. At the same time, the Ukrainian government also made the signing of an association and free trade agreement with the EU and a reduction in dependence on Russian gas imports major policy priorities.

Russia has repeatedly stated that Kiev must choose between Moscow and Brussels, and vehemently opposes the accord between Ukraine and the EU. The trade agreement would mean a massive influx of European goods to Ukraine, which currently is still one of the major consumers of Russian goods. Russian companies also fear that European goods would then reach Russia in increasing quantities, providing serious competition for domestic manufacturers.

Relations between Ukraine and Russia have been strained for years, mainly due to energy issues. For nearly two years, the government of Ukraine and the Russian energy giant Gazprom have had unsuccessful negotiations over a reduction in gas prices. Ukraine receives almost all its gas from Russia, for which it pays \$406 per cubic metre, far more than Gazprom's average price.

Moscow has linked a reduction in gas prices to Ukraine's accession to the Customs Union and the sale of the Ukrainian gas transportation network to Gazprom. At the end of May, Ukraine raised the prospect of the creation of a Ukrainian-Russian consortium to manage the network.

The transit of Russian gas to Europe is an important

source of income for Ukraine, providing annual revenues of around \$3 billion. Direct gas transit to Western Europe has already been established through the construction of the North Stream pipeline, which supplies gas from Russia to Germany under the Baltic Sea. As a result, the amount of gas that has passed through Ukraine has fallen from 120 billion cubic meters in 2004 to 84 billion cubic meters in 2012. The construction of the South Stream pipeline to deliver gas from the Black Sea to south-eastern Europe should be completed by 2016, further reducing the importance of Ukraine as a transit country.

Ukraine has now begun to scale back its own gas imports from Russia. Since November of last year, the German company RWE Supply & Trading has increased the amount of gas delivered to Ukraine via Hungary and Poland. Overall, Russian gas deliveries to Ukraine for domestic consumption decreased by 35 percent in the first seven months of the year, compared with the same period last year.

By 2014, Ukraine intends to reduce Russian gas imports, doubling those from Europe. At the same time, the Ukrainian government is trying to increase its own energy production through the exploitation of shale gas and import more liquefied gas.

This policy is receiving open support from the US. The new American ambassador to Ukraine, Jeffrey Pyatthat, stated recently that Washington had two policy priorities in regard to Ukraine: full support for Kiev's orientation to Europe and the attainment of energy independence. Above all, American companies want to be involved in the search for shale gas in Ukraine.

The United States sees an orientation by Ukraine to Russia and the Eurasian Union as a threat to its own geopolitical interests in the Eurasian region. At the end of 2012, former US Secretary of State Hillary Clinton described the Eurasian Union as an attempt to "re-Sovietize" the region under Russian domination. She warned that the US would do everything to stop this project. In a recent post, Ariel Cohen of the *Heritage Foundation*, a right-wing thinktank in Washington DC, warned that the Eurasian Union would endanger US interests and stability in the region.

The European bourgeoisie is divided on the question of Ukraine, not least because of its implications for already tense relations with Russia. European-Russian

relations have recently deteriorated, mainly due to Western war preparations against Iran and Syria and conflicts over dependence on Russian energy supplies.

To date, the EU has not finally agreed to sign the association and free trade agreement with Ukraine. The EU has also given Ukraine little support in the negotiations with Russia over gas.

In the current issue of the magazine *WeltTrends*, under the heading "No Europe without Russia," Russia expert Alexander Rahr, who until mid-2012 worked as a consultant to Germany's foreign ministry, calls for a joint Russian-European economic strategy that would culminate in a common "free trade zone" between the European Union and the Eurasian Union. Ukraine should be integrated into this. This would, according to Rahr, be "the only way to complete the integration of the European continent peacefully".



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