

# EU in tug of war with Russia over Ukraine

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The planned signing of an association and free trade agreement between the Ukraine and the European Union (EU) has led to sharp tensions with Russia. The agreement is to be signed November 28-29 at the eastern partnerships conference in the Lithuanian capital of Vilnius, provided Ukraine has met a series of conditions by then.

For months, the Russian government has been attempting to prevent the signing of the deal with threats and trade war measures. Ukraine, which was an important part of the Tsarist empire and Soviet Union for centuries, would be closely bound economically and politically to Europe by the agreement, which would finally put paid to the plans of the Russian government to bring together the states of the former Soviet Union into a Eurasian union.

The association agreement would immediately link the Ukraine to the European open market. Moldova and Georgia are also due to sign association agreements with the EU soon. Armenia, which is heavily dependent on Moscow both militarily and economically, has instead opposed an association agreement with the EU and intends to join Russia's customs union with Belarus and Kazakhstan, which is to be the precursor to the Eurasian union under Russian plans.

The EU has demanded that the Ukrainian government impose significant spending cuts and economic liberalisation, which will further intensify the social crisis in the country. Experts also expect that when European industrial standards are introduced, many Ukrainian products will no longer be economically competitive, and that the flooding of the country with goods from Europe will ruin sections of Ukrainian industry.

An additional condition for the agreement is the release of the pro-Western opposition politician Yulia Tymoshenko. Particularly in Germany, a massive campaign in support of Tymoshenko has taken place

over recent months. Kiev's attempts to conclude the agreement have been supported within the EU above all by Germany and Poland.

Ukraine's president, Viktor Yanukovich, has since announced that he intends to allow Tymoshenko to travel to Germany for medical treatment. On November 18, a commission will decide whether Ukraine has met the necessary conditions for the association agreement.

The Russian government is seeking to dissuade Ukraine from the association agreement with economic and political pressure. Russia is by far the most important trading and investment partner for Ukraine.

In August, Moscow imposed a temporary import ban on Ukrainian goods. Russian President Vladimir Putin threatened permanent protectionist measures, and foreign minister Sergei Lavrov announced a tightening of travel regulations between the two countries.

According to news magazine *Der Spiegel*, Russian border posts have begun to build a barbed wire fence on the Ukrainian border. Since last week, Moscow has also threatened the Ukraine with fines totalling €640 million due to unpaid gas bills.

The EU has condemned the threats from Moscow and pushed for the conclusion of the association agreement after years of delays on the issue of Ukraine.

The chairman of the foreign affairs committee in the European Parliament, Elmar Brok of the German Christian Democratic Union (CDU), accused the Russian government of blackmail tactics. They were breaching international law by using energy prices as a political weapon, he said. The EU commission opened an anti-monopoly suit in September 2012 against the Russian firm Gazprom, charging that it was in breach of competition law. Investigations into the case have been ongoing for over a year.

Reuters reported that the EU is preparing emergency plans for the eventuality that Russia adopts countermeasures in the wake of the signing of the

agreement. Negotiations are well advanced with the International Monetary Fund (IMF) to provide assistance to the Ukrainian government with a loan of between \$10 billion and \$15 billion. There are also plans to temporarily supply Ukraine with gas from Europe, by switching the direction of gas flow through the already existing pipelines.

Behind the tug of war over Ukraine there are economic as well as fundamental geo-strategic interests involved.

With a population of more than 45 million, Ukraine has the largest internal market in eastern Europe and it is the second largest country in Europe in terms of geographical area. The country has significant deposits of raw materials and plays an important role as a transit route for Russian gas to Europe. Its location between Europe and Central Asia, and Russia and the Black Sea, gives Ukraine considerable strategic significance.

In the First and Second World Wars, Ukraine was a select target for German troops. With the collapse of the Soviet Union 22 years ago, the old conflicts have erupted once again. The signing of the association agreement with the EU would be a turning point in relations between Europe and Russia and would sharply alter the balance of power in Eastern Europe.

After Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria and the Baltic states joined the EU, Ukraine remains the only state in Eastern Europe over which Russia has a major economic and political influence, apart from the less significant Belarus and Moldova.

The Ukrainian government has manoeuvred between Russia on the one side and Europe and the United States on the other for several years. The so-called Orange Revolution in 2004 brought to power the government of Viktor Yushchenko and Tymoshenko with European and American support. Yanukovich then returned to power as president in 2010, with Moscow's backing.

Nonetheless, Yanukovich continued to manoeuvre between Russia and the EU. This was in no small part due to the country's deep economic crisis. Kiev had to accept several billion dollars of loans from Russia and the IMF. Ukraine currently has foreign debt totalling US\$60 billion. Its economy grew by just 0.2 percent last year, and it is to contract by 0.5 percent this year.

The cost of gas has been a constant source of dispute

between Russia and Ukraine. Although Ukraine has deliberately reduced its imports of Russian gas over the past two years, Gazprom still supplies 75 percent of the country's gas needs.

In 2005, Russia stopped supplying Ukraine with gas at a price well below the market rate. Ukraine now has to pay more for Russian gas than any other country in Europe. Russia offered a price cut of 50 percent, but made this conditional on Ukraine joining the Russian-dominated customs union. However, Kiev opposed this. There had been no contractual agreement to confirm Moscow's promises.

According to press reports, the major industrial magnates who back Yanukovich also fear that they would not be able to compete with the Russian oligarchs in a customs union, and that the union would be used by Russia as a means to eliminate Ukraine as an economic competitor. In the chemical, metal, foodstuffs and auto industries, Russian and Ukrainian firms compete directly.

With additional IMF and EU loans for Ukraine, and an increased independence from Russia in its energy supplies, Russia's economic and political influence in Europe would decline further.

While Russia has sought through the South Stream and North Stream pipelines to weaken Ukraine's significance as a transit country and to intensify economic pressure, the EU and United States have supported the attempts of Kiev to increase its own gas production and promote the use of shale gas. Ukraine's ambassador to the EU, Konstantin Yeliseyev, stated in October, "We want to transform ourselves into a European energy hub, whether Russia likes it or not."

The Ukrainian commentator Borys Kushniruk subsequently noted that the association agreement between Kiev and the EU also serves the interests of China. According to Kushniruk, with the signing of the association agreement China would "obtain new opportunities for developments across the entire European market through the organisation of joint ventures on Ukrainian territory."



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