

# Economic blockade of Ukrainian rebel regions inflicts mass suffering

David Levine

26 November 2014

During the first half of November, Ukrainian President Petro Poroshenko signed a series of executive orders that create the equivalent of an economic blockade of rebel-controlled territories in eastern Ukraine.

The orders sever financial ties between the territories of the Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR) and the rest of Ukraine, and thereby cut them off from much of the rest of the world as well. All Ukrainian banks and government institutions are to cease functioning in the territories by December 1. The employees of these institutions have been told to "evacuate" to Kiev-controlled areas, to which their positions are supposedly being transferred. Prison inmates are also to be transferred to facilities elsewhere or amnestied.

The most immediate victims of the policy are pensioners and recipients of other forms of government aid. Pension payments to DPR and LPR residents had already been stopped at the end of August. Subsequently, there was an explosion of "pension tourism," involving brief visits by pensioners from the rebel territories to Kiev-controlled territories in order to collect pension payments.

According to Ukrainian Minister of Social Policy Lyudmila Denisova, the number of such "pension tourists" as of early November was approximately 248,000. Now, all pensioners in the rebel territories, including the sick and disabled, must abandon their residences in the DPR or LPR in order to continue receiving their pensions.

DPR leaders claim that they intend to restore pensions, but for the time being they say they can afford to pay only to three categories of pensioners: disabled World War II veterans, disabled children, and children who have lost their parents or guardians. They have also failed for months to pay wages to employees of educational and medical institutions. There have been reports of coercive measures, including threats of execution, being used to

force medical workers to remain at their jobs.

The situation in the LPR is generally recognized as worse. LPR leader Igor Plotnitsky has called the blockade "an act of genocide and the ruination of our people," and in reaction has announced his intent to hold a referendum on integration with the Russian Federation.

The orders appeared soon after elections were held in the DPR and LPR on November 2, and less than two months before the end of the fiscal (and calendar) year which requires the adoption of a new state budget. The elections, condemned by Kiev as illegal, saw a high voter turnout, amounting to a mass rejection of the Kiev regime.

According to Prime Minister Arseny Yatsenyuk, canceled subsidies to the territories amount to 19.6 billion hryvnia (\$1.3 billion) per year for DPR and 14.6 billion (\$969 million) per year for the LPR. The elimination of subsidies for the Donbass portends deep cuts for the rest of the country as well, as Kiev works to meet the austerity demands of international creditors.

Despite being locked in a military conflict with Kiev, the rebel territories have thus far continued to collect taxes for the central government.

The economic blockade of the rebel controlled regions comes on top of enormous infrastructure damage as a result of the conflict with Kiev. Ukrainian Minister of Finance announced in October that reconstruction of those parts of the Donbass currently under Kiev's control would cost approximately \$2 billion.

A Russian government internal report recently leaked to the German publication *Der Spiegel* estimated the extent of the damage in rebel-controlled regions. In Donetsk Province, industrial production has fallen by 59 percent over the past year, while an 85 percent drop was registered in Luhansk Province. Before the crisis, the two provinces accounted for 20 percent of Ukrainian industrial production.

Most of the territories' industrial enterprises have shut

down, including the Luhansk Machine-building Works, the Stirol fertilizer works, at least seven steelworks, and the German-owned Heidelberg Cement works. Out of the region's approximately 140 coal mines, 93 are on rebel-controlled territory, 69 of which have suspended operations. Over half of the labor force in the DPR and LPR has neither employment nor any other source of income. 40,000 small businesses have declared bankruptcy. Food production has fallen by 25-30 percent. Thousands of kilometers of roads, thirty bridges, and 4585 apartment buildings have been destroyed. Fifty-eight thermoelectric power stations have been damaged. Forty-seven villages have been cut off from all electric power sources.

Reconstruction of Donetsk Airport, which lies in ruins, will likely cost upward of €1 billion alone. Approximately one million refugees have fled the region to Russia, while another 400,000 are internally displaced. The report concludes laconically that “a humanitarian and economic crisis threatens the Donbass.”

In fact, most of the economic blockade measures had already been in place long before this month's presidential decrees. The Ukrainian State Treasury shut down its operations in Donetsk and Luhansk Provinces in late June, and in August the Ukrainian National Bank ordered all remaining Ukrainian banks to suspend financial operations in the territories of the DPR and LPR.

Without a banking system, all commercial transactions in the territories are conducted in cash only. This has undoubtedly accelerated the shutdown of commercial enterprises in the territories. The remaining companies will not pay taxes to the DPR and LPR in cash. The rebel republics have thus far maintained their existence on the basis of voluntary donations.



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