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essays

Why Ukraine matters to Europe

Tomas Valasek

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1 Introduction: War comes to Eastern Europe

The conflict in Georgia in August 2008 is making the EU rethink its approach to the eastern neighbourhood. If the Union is to have a safe and stable eastern border – which it had taken for granted until the Georgia war – it needs to offer its neighbours a credible membership perspective, and it should also help them to resolve 'frozen conflicts' on their territories. Ukraine should be the starting point for Europe's new policy.

For years, the EU's eastern strategy worked on the basis of a simple premise. With sufficient time, EU money, trade opportunities and a little friendly nudging, all Eastern European countries, from Ukraine to Azerbaijan, would in time become 'Europeanised'. They might or might not join the EU, but they would become like its member-states: liberal, democratic, internationalist, law-abiding and peaceful. Even Russia, once it had fully recovered from the trauma that the economic collapse and political upheaval of the 1990s inflicted on the Russian psyche, would eventually join the broader European community.

The EU's eastern strategy had run into trouble long before the conflict in Georgia. The EU derives most of its 'soft power' in the East from offering the prospect of EU membership to countries in the region. But in recent years so many EU governments have gone cold on further enlargement that few eastern neighbours realistically expect to join the EU soon. This has made it difficult for the EU to encourage political and economic reforms aimed at 'Europeanising' its neighbourhood.

The August 2008 war added to Europe's woes. The conflict made it clear that Russia will actively oppose western influence on its borders. And while Moscow's anger is primarily aimed at NATO, the war also brought EU-Russia relations to a new low. As the EU seeks to transform Eastern Europe in its image, it will from now on have to contend with an increasingly antagonistic Moscow.

The EU's underlying strategy should remain the same: the best way to keep Eastern Europe peaceful is to Europeanise it. But for the strategy to succeed, the EU needs to become more active in the neighbourhood. This essay argues the EU should offer a clear membership perspective to Ukraine, Moldova and other countries – not membership as such, for which the countries have yet to qualify, but a clear indication that they are welcome to join the EU once they meet the political, economic and other criteria of membership.

The EU should take a more active role in defusing frozen conflicts in Eastern Europe, thereby reducing the vulnerability of its neighbours to Russian political and military pressure. And the EU should re-align its foreign policy institutions so as to seem more welcoming to those countries, like Ukraine, which are not on the path to membership but which are likely to join the EU at some point in the future.

In the long run, the EU governments need to find a way to rebuild agreement on further enlargement. They should not treat EU membership as a rare privilege reluctantly bestowed on a lucky few countries but rather as the EU's best tool for transforming the eastern neighbourhood. Eastern Europe's existing weaknesses – and they are many, as this essay argues – should not be used as excuses for deferring enlargement indefinitely. Instead, the EU should step up its efforts to help the eastern neighbours address their weak economies and unstable political systems. And it should use a clear prospect of membership as an incentive to guide them through the difficult and necessary reforms. The EU's approach to the Balkans – its active use of the membership prospect to entice Serbia and Bosnia to adopt EU values – serves as a useful precedent.

The EU's new approach to its eastern neighbourhood should begin with Ukraine. Ukraine is tremendously important to Europe. It is the continent's seventh most populous country, with a population bigger than Spain's or Poland's. Some 80 per cent of Russia's gas exports to the European Union go through Ukraine. A stable government in Kyiv would give the EU's easternmost members peace of mind; they want to be separated from Russia by a strong and stable country.

But most importantly, Ukraine has tremendous signalling power. It is the largest of the countries between the EU and Russia. It will set an example for others: for Moldova and Belarus, the EU's immediate neighbours, but also for former Soviet republics further away from EU borders, like Armenia, Georgia or Azerbaijan.

Ukraine, like the other former Soviet countries along the EU's eastern border, has a looser relationship with the EU than the 2004-07 accession countries. It is more inward-looking, less sure of its European identity. It is run by Soviet-educated leaders, who are not fully convinced of the need for a European-style liberal democratic order. Russian influence, while mainly aimed at stopping Ukraine from joining NATO, also adversely affects Ukraine's EU ambitions. If Ukraine successfully Europeanises against these odds, it will serve as an inspiration to other countries in the EU's eastern neighbourhood.

The first section, 'Europe and the eastern neighbourhood' argues that the EU's eastern policy, after its initial successes (enlargement to include ten former communist states between 2004 and 2007) ran into trouble (the subsequent collapse of the public support for enlargement), and now faces a challenge unseen since the end of the Cold War (a resurgent Russia). The second section discusses Ukraine's relationship with Europe, pointing out why Ukraine, a large and introvert state dominated by Soviet-era bureaucracy, has been a difficult partner for the EU. The third section, on Ukrainian-Russian relations, makes the case that Moscow will seek to keep

Ukraine in its orbit and may try to destabilise it to prevent the integration of Ukraine into western security institutions – but, equally, that Kyiv has become a lot more resilient to Russian pressure since gaining independence in 1991. The fourth section, on the EU's eastern policy, makes a series of recommendations for how to adjust the EU's approach to Ukraine to compensate for Russia's destabilising influence in the region, and to better 'sell' the EU to Ukraine's political classes and its oligarchs. And lastly, the essay ends with an appeal to EU member-states to show more foresight and determination in shaping Eastern Europe in the EU's own image.

2 Europe and the eastern neighbourhood

From enlargement to fatigue

Throughout the 1990s and into the new century, the European Union did remarkably well at Europeanising its eastern neighbourhood. The prospect of accession to the European Union, backed by EU money and membership-driven reforms, has helped turn a dozen former communist countries from Estonia to Albania into full democracies. Since the end of the Cold War, ten of them have joined the EU and NATO. To qualify for membership in both organisations, the new members buried old conflicts and embarked on economic reforms that made them richer. Europe as a whole has benefited because trade with the fast-growing economies of Central and Eastern Europe has made western member-states wealthier and stabilised the EU's borders.

But after the EU had accepted 12 countries between 2004 and 2007 (ten former communist countries plus Cyprus and Malta), a number of EU member-states turned against further enlargement. For many in the EU, the expansion had gone too far, too fast. Critics of enlargement charge (mostly unfairly) that workers from accession states have lowered living standards in the 'old' member-states. Many Europeans fear the relocation of factories to the East, where labour costs and corporate taxes tend to be much lower. The financial crisis will only add to those concerns. Many Belgians, French and Germans were disappointed when the former communist states sided with the US and the UK over the Iraq war. Others point to the influence of organised crime in Bulgaria or corruption in Romania – the two most recent accession states – and argue that

future membership candidates need to mature politically and economically before EU accession.

For better or worse, the future of enlargement is also entangled with the future of the Lisbon treaty, which proposes to change decision-making rules and streamline the EU's institutions. As with the ill-fated European constitution before it, advocates of the Lisbon treaty argue that the EU cannot expand further until it adopts new operating rules. The treaty's rejection in the Irish referendum in June 2008 has postponed, perhaps indefinitely, the adoption of the Lisbon treaty, and hence enlargement has become even more difficult to sell.

In 2004, the EU launched the European neighbourhood policy (ENP). Its purpose is to anchor the EU's eastern neighbours (as well as countries in North Africa and the Middle East) to Europe, without necessarily giving them the prospect of membership. The EU negotiated bespoke 'action plans' with the neighbourhood countries. These plans set out what reforms the countries need to undertake in order to align themselves with EU norms and regulations, and it specifies what the EU can offer in terms of trade, aid, political contacts and participation in EU programmes.[1] The idea behind ENP is to eventually build a 'ring of friends' around the EU. But without the promise of membership, the neighbourhood policy and its action plans do not offer strong enough incentives for ENP countries to undertake difficult reforms. And some ENP countries, like Ukraine, came to see the neighbourhood policy as the EU's way of telling its neighbours that they will not be offered membership.

[1] *Charles Grant, 'Europe's blurred boundaries: Rethinking enlargement and neighbourhood policy', CER report, October 2006.*

After the Georgia war

Over the past few years, the EU's image in neighbouring countries from Bosnia to Ukraine has changed. Europe has gone from being viewed as a select and attractive club to one that is tired, closed, inward-looking and bent on protecting its social welfare systems at any cost.

This impression has reduced the EU's appeal. If the EU cannot credibly offer membership to those neighbourhood countries that want and qualify for it, it loses much of its ability to shape their politics and economies. Even before the war in Georgia, some EU governments had begun worrying that the EU's waning influence in the East makes the neighbourhood countries too vulnerable to Russia's influence. Moscow's nationalist foreign policy seems aimed at countering western political and economic influence in Eastern Europe. EU enlargement has not been very controversial in Moscow, which has saved its ire for NATO's plans to enlarge to Georgia and Ukraine. Russia officially supports EU membership for the former Soviet republics. It seems relaxed about EU enlargement mostly because it does not believe that the EU will ever expand eastward. But in reality, Moscow is deeply unenthusiastic about the encroachment of western influence towards it borders. It would prefer the former Soviet republics to pursue a foreign and economic policy closely aligned with Russia's interests.

The six-day Georgia war in August of 2008 confirmed the fears of many in Europe that Russia is prepared to use force in some cases to halt the expansion of western political and economic influence into Eastern Europe. It has also pointed out that the EU urgently needs a more effective strategy for the region.

Although far from the EU's borders, the war was also partly about Europe. Georgia wants to join the European Union. Through the Baku-Tbilisi-Ceyhan pipeline, which crosses its territory, Georgia has assisted the EU's efforts to diversify its energy sources away from Russia. Georgia sent troops to the (mostly European) missions in Kosovo as well as to Afghanistan.

Moreover, Georgia got into trouble in part because of its pro-western leaning. Russia had been angered by Tbilisi's attempts to join NATO and by the role Georgia played in enabling neighbouring Azerbaijan to export Caspian oil to Europe while

avoiding Russian territory. So in the months and years preceding the war, Moscow abandoned the role of neutral broker in the separatist provinces of South Ossetia and Abkhazia. It gave away thousands of Russian passports to residents of the breakaway regions (who, under international law, are citizens of Georgia). In April 2008, Russia passed a law upgrading relations with both provinces to an almost state-to-state status. And Russian planes entered Georgian airspace several times, occasionally firing rockets. In so doing, it sought to undermine the government of Mikhail Saakashvili, who made the re-integration of breakaway provinces into Georgia his top priority.

Russia's behaviour in Georgia has been cynical and destabilising. This does not mean that Moscow started the war; its immediate cause was Georgia's ill-judged attack on Tskhinvali. Tbilisi's harsh treatment of its ethnic minorities is also responsible for reinforcing separatist sentiments. However, there is little doubt that Russia has sought to fuel tensions between Tbilisi and its breakaway provinces. It was complicit in creating conditions that led to the war.

From now on, Europe needs to assume that its relationship with Moscow will be competitive, especially when it comes to countries between the EU and Russian borders. This should not rule out co-operation; Europe and Russia will continue to trade and address shared concerns like Islamic terrorism. But Russia will actively seek to subvert the process of gradual 'westernisation' of Eastern Europe. And it may even resort to military force to prevent countries like Ukraine or Moldova from slipping out of Moscow's orbit.

How should Europe respond?

Europe's guiding foreign policy document, the 2003 'European security strategy', states that the EU's best defence is to build a zone of well-governed, democratic countries beyond its borders. The war

in Georgia has not changed that. If anything, it has reminded the member-states to pay closer attention to the potential conflicts in Eastern Europe.

The EU's interests in the neighbourhood should centre on two objectives: Eastern Europe should be free from conflict, and it should be anchored to the EU. The countries in the region need to be bound into a tight institutional and economic relationship, one close enough to discourage irresponsible politics and to encourage economic reforms and openness to trade. To increase its chances of accomplishing these goals, the EU needs to make two changes in its approach towards the eastern neighbourhood.

First, Europe should get serious about offering membership to those neighbouring countries that are ready for it. The prospect of accession tends to discourage them from acting recklessly. This, in turn strengthens stability in the East. Whether provoked or not, Saakashvili acted recklessly and gave Russia the pretext it needed to launch an invasion. Europe should make clear to Ukraine, Moldova and others that their prospects for eventual EU (and NATO) membership depend on avoiding similar miscalculations.

Unfortunately, as things stand, such pressure is scarcely credible because countries in the eastern neighbourhood do not think the EU is planning to admit them. The EU member-states that oppose further enlargement need to acknowledge that 'enlargement fatigue' is damaging Europe's ability to stabilise the eastern neighbourhood. The EU does not have enough leverage in Eastern Europe to discourage its governments from pursuing policies that increase the risk of conflict with Russia.

But changing attitudes on enlargement is a long-term process. At its September 2008 summit with Ukraine, EU governments could not even agree to offer Ukraine a 'membership perspective', a non-binding diplospeak suggesting that the country may at some point in the future join the EU. So, without hopes for enlargement in the near

future, the EU needs to think of more immediate ways to shore up its credibility in the eastern neighbourhood.

In fact, it already has. As discussed below (see page 34), the European Commission is ready to launch a new 'eastern partnership' (EaP) for Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan. The new initiative (as outlined in the European Commission's draft proposals from November 2008) would double the money the EU spends, on a per capita basis, in countries to the EU's east. The Commission's proposals would also give the EaP states a bigger say in the EU's foreign policy, remove trade barriers, and abolish visa requirements for citizens of EaP countries. Taken together, the eastern partnership could be extremely useful in rebuilding the EU's image in the East. The partnership addresses the eastern neighbours' most common complaints about the EU, like the need to obtain expensive visas to travel to EU member-states (see page 33). And it sends out a more welcoming message to the eastern partners.

The EU should go beyond the eastern partnership proposals. As argued below (see page 27), the EU should stop dividing countries on its borders into 'neighbours' and 'membership candidates' because this only causes confusion and ill-will in countries like Ukraine and Moldova. And the European Union should fight harder to win the hearts and minds of the people living between the EU's border and Russia by increasing the number of scholarships and visas available to their people. These measures are not a substitute for enlargement but they would help shore up the EU's influence in the East until further enlargement becomes possible.

Second, the EU should become more active in defusing potential conflicts in Eastern Europe (as the Czech Republic has proposed in in an informal, food-for-thought paper in early 2008). These conflicts, even if 'frozen', cripple Eastern Europe's economic potential and leave the neighbourhood countries vulnerable to pressure from Russia, which has troops in all the contested areas.

Ukraine should be the immediate focus of EU attention. Like Georgia, Ukraine wants to join the EU. Its present government is also in favour of quick NATO accession (although the next government, due to be elected in early 2009, will probably want to go slower). Ukraine is vulnerable to Russian pressure. Moscow has troops on Ukrainian territory (the Black Sea fleet in Sevastopol) and parts of Ukraine, particularly Crimea, are more loyal to Moscow than Kyiv. In recent months, Russia has begun to exploit both these issues in order to deter Ukraine from pursuing NATO membership. Ukraine fears that if and when it moves closer to NATO, Russia will use its military presence in Crimea, and the pro-Moscow leanings of the local population, to break up Ukraine. Europe has a strong interest in preventing a conflict on its borders. The EU should act now to help reduce Ukraine's vulnerability to Russia.

3 Ukraine

The EU and Ukraine share a 1,300 km-long border. Their bilateral trade was worth €34.7 billion in 2007, and this figure stands to rise when the EU and Ukraine conclude talks on a new trade agreement, currently under negotiation.

For the past several years, the EU has been trying to help Ukraine to develop a stable political system. EU member-states have deployed civil servants at various ministries in Kyiv to help educate the next generation of Ukrainian administrators. During the 2004 Orange Revolution, the EU High Representative Javier Solana, along with the presidents of Lithuania and Poland, brokered an agreement on new elections between the two claimants to the presidency, Viktor Yushchenko and Viktor Yanukovich. EU intervention helped prevent an escalation of the conflict and overturn the results of fraudulent elections.

Ukraine and the EU are also co-operating on resolving the frozen conflict between Moldova and its breakaway province of Transdniestria. In 2005, the EU and Ukraine launched a joint training and border monitoring mission with Moldova. The operation has greatly cut down on smuggling between Transdniestria and Ukraine, thus removing the single greatest source of income for the unrecognised government of Transdniestria, and forcing thousands of Transdniestrian businesses to register with the Moldovan authorities.

Ukraine participates in the European neighbourhood policy, and its relations with the EU are governed by a 'partnership and co-operation agreement', which will be replaced with a new association agreement, probably in 2009. This would give Ukraine the most

privileged ties with the EU of all neighbouring countries. Among other things, the agreement would extend zero tariffs on all goods and services, and harmonise many Ukrainian technical standards with Europe's. The changes should boost trade at an important time for Ukraine. Much of its economic growth in recent years came from exporting steel and coal. But with commodity prices levelling off or even falling after the 2008 economic crisis, Ukraine will have to diversify its economy. The EU is Ukraine's largest trade partner, and for the foreseeable future it will be its main external source of growth.[2]

[2] *European Commission, 'EU bilateral trade and trade with the world: Ukraine', July 28th 2008. http://trade.ec.europa.eu /doclib/docs/2006/september/ tradoc_113459.pdf.*

Why Ukraine differs from previous accession countries

Despite the relatively intense co-operation with the European Union, Ukraine has made little progress towards Europeanisation. Like other old Soviet republics, which have enjoyed over 15 years of self-rule, Ukraine remains considerably poorer and less politically stable than the Central European countries that joined the EU in 2004-07.

The EU has partly itself to blame for the eastern neighbours' slow progress towards EU integration. Its reluctance to enlarge further means that neighbours lack the motivation to carry out difficult reforms necessary to join the EU. It is also investing considerably less money in Ukraine or Moldova than it did in the countries that joined the EU in 2004-07. But equally, the former Soviet states are slower to Europeanise because they have a different history and different political culture from the countries that joined the EU in 2004-07.

The integration of Central Europe was largely a matter of holding the EU door open while offering targeted economic assistance as well as legal and political expertise. The candidate countries did most of the work. Such was their drive to qualify for EU

membership that they willingly opened up their economies, buried unresolved border problems and adopted thousands of new laws. But Europe will need to rethink its previous enlargement formula if it is to continue to project influence, and transform countries on its borders in the EU's image. The former Soviet republics will require more attention and nurturing.

Ukraine illustrates these new challenges. It is a large and inward-looking country. Only a tiny percentage of its population has ever been to the EU (in part because the EU governments keep tight visa restrictions on Ukrainians, much to their frustration). Few speak foreign languages other than Russian (which they would not consider foreign). Most of what they know about the EU comes from television. Whereas many of the 2004-07 accession states had bordered on Western Europe and therefore had access to western TV even during the communist years, the views of many Ukrainians in the eastern half of the country are shaped by Russian TV, whose coverage of the West is rarely flattering.

When the Berlin Wall fell, travel between the former Soviet satellites in Central Europe and the EU boomed. Cross-border business also developed quickly as Austrian and German companies snapped up assets in Poland or then-Czechoslovakia. Very quickly, the now new member-states built up sizeable constituencies whose economic livelihood was tied to the EU, and who were exposed daily to life 'on the other side'.

Such relationships have been much slower to emerge in Ukraine. Geography matters, even in the days of the internet and discount airlines. In a country with an average per capita income of less than €380 a month, a €300 ticket to, say, Paris, is out of the reach for most people.[3] To most Ukrainians the EU is a faraway place, which they instinctively like, but of which they know little. Paradoxically, many of those

[3] *'Gross National Income (GNI): Belarus, Moldova, Ukraine', UNEP/GRID-Arendal Maps and Graphics Library. http://maps.grida.no/go/graphic/gross-national-income-gni-belarus-moldova-ukraine.*

who would naturally support EU membership – those who speak languages and received foreign education – left Ukraine and take no part in its political life.

History counts

What drove most of the 2004-07 accession states to join the European Union was, first and foremost, a desire to return to 'normality'. Many, though not all, enjoyed periods of free, democratic existence before falling under Soviet domination after World War II. To the likes of the Czech Republic or Slovakia, communist rule was an historic aberration. And membership of the European Union was an opportunity to return to the community of democratic states and slam the door shut on four decades of communism.

Ukraine is different. Like most of the former Soviet republics, it spent over 70 years under communist rule. Ukrainians suffered horribly under Soviet rule, especially in the 1930s when Stalin's collectivisation of agriculture caused one of the world's worst famines, the *holodomor*, in which some 2-3 million Ukrainians lost their lives.

But many Ukrainians openly embraced the Soviet regime. The Ukrainians like to quote Vladimir Lenin as saying that the Bolshevik revolution would not have prevailed "without the help of the Ukrainian comrades". Two of the best-known Soviet leaders, Nikita Khrushchev and Leonid Brezhnev, came from Ukraine. The longer Soviet rule lasted, the more the Soviet identity came to dominate the Ukrainian one. By the 1990s, large parts of Ukraine – and not just those occupied by ethnic Russians – were thoroughly 'Russified': they spoke Russian, watched Russian TV, and thought of the Soviet Union, rather than Ukraine, as their homeland.

When the USSR collapsed, the Ukrainians were, on balance, as confused as they were jubilant. Their fate was so thoroughly tied to the USSR that it was not immediately obvious that independence

was a good thing. This has changed in the 17 years of independence. The Ukrainians have built up a nascent, if somewhat fragile, sense of national identity. And, as discussed below, few would want to return to a union with Russia.

But, importantly, most Ukrainians are not attracted to the EU because they want to distance themselves from their Soviet past. Tellingly, Ukrainians speak not of "returning" to Europe but of "establishing themselves" as a part of Europe. The EU should therefore not assume that Ukraine and other former Soviet republics will want to join Europe as readily as the previous accession countries did. If the EU wants to 'Europeanise' the countries to its east, it will need to help to increase the number of people in the neighbourhood for whom integration into the EU becomes a matter of personal or professional interest. The eastern neighbourhood needs more students educated at universities in EU member-states, more businessmen whose livelihood is tied to trade with the EU, and simply more ordinary people who enjoy visa-free travel to EU member-states.

Kyiv's messy politics

Another factor slowing Ukraine's Europeanisation is the messy state of the country's politics. Ukrainian governments are exceptionally unstable by European standards. The average lifespan of post-Soviet administrations has been little more than a year. At the time of writing (December 2008) President Viktor Yushchenko and Prime Minister Yulia Tymoshenko are in open conflict (they both want to run in the 2010 presidential elections, hence the rivalry), and Yushchenko's party has left the coalition, prompting the third election in two years. The country's politics has been in almost constant crisis since the 2004 Orange Revolution, which brought Yushchenko and Tymoshenko to power.

The country's constitution is partly to blame. It divides power more or less evenly between the prime minister and the

president. Confusingly, they both make appointments to the cabinet (the president nominates the ministers of foreign affairs and defence, the prime minister chooses the rest of the cabinet). Under a more enlightened leadership the system might work but in the past four years chaos has been the norm. In December 2006, with the presidency and prime ministership split between the two rivals in the Orange Revolution, Viktor Yushchenko and Viktor Yanukovich, the president's ministers found themselves shunned by the rest of the prime minister-nominated government. At one point, Yanukovich ordered the then foreign minister Borys Tarasyuk to be physically barred from entering the cabinet room.

What underlines much of the disorder in Ukraine is the background of the political elites. Ukraine continues to be ruled by Soviet-era bureaucrats. Even the 2004 Orange Revolution merely reshuffled the top jobs instead of sweeping the old elites away. Yushchenko is himself an old government hand. He was the longest-serving prime minister under the very man whose regime the Orange Revolution removed from power – former president Leonid Kuchma. Viktor Yanukovich, the current opposition leader and prime minister in 2006-07, was a Kuchma protégé and his designated successor before the Orange Revolution. There has been even less turnover in the lower rungs of the government. The few new arrivals to the civil service tend to be party nominees, rewarded for their loyalty, not abilities.

The political elites that rule Ukraine – *homo sovieticus*, as one Ukrainian analyst, Oles Donyj called them – are essentially rent-seekers. They have declared their commitment to democracy but their values and methods have been profoundly corrupted by decades of Soviet rule. Their understanding of their duties to voters is shaky at best. They treat liberal democracy much the same way as communism before: as yet another set of rules, sometimes pesky, sometimes convenient, to be used and abused in the pursuit of personal enrichment and political survival.

Because they are unburdened by any sense of responsibility for the country's long-term future, most Ukrainian politicians spend their time plotting against each other instead of governing. Yet despite the turbulent day-to-day politics, the economy grew steadily through the political chaos of 2004-08. Ukraine has held three free and fair elections since 2004, and each time the opposition won and took power.

Other factors compensate for Ukraine's messy politics. Real power in Ukraine lies with business elites – the country's oligarchs – rather than the politicians. Political parties in Ukraine tend to be little more than fronts for big business. This goes for the so-called democratic parties, Yushchenko's Our Ukraine and the Yulia Tymoshenko Bloc, as much as for the opposition Party of Regions of Viktor Yanukovich. The country's most important oligarchs bankroll electoral campaigns. They vet all important political decisions and have a say in selecting personnel to represent the parties in the parliament, the *Verkhovna rada*. At one point so many businessmen sat in the *Rada* that the "Ukrainian parliament [was] more reminiscent of the New York Stock Exchange than the US Congress".[4]

[4] *Anders Åslund, 'Prepared statement for the hearing before the subcommittee on Europe of the committee on international relations of the US House of Representatives', May 12th 2004.*

Under former president Kuchma, the oligarchs formed a more or less cohesive group, with Kuchma awarding government contracts and privileged privatisation deals evenly among them. After the Orange Revolution, the oligarchs split into several competing groups, affiliated with different political parties. This dispersal of power has prevented a monopoly emerging, but it has caused much political fighting. At least, Ukraine's oligarchs understand that chaos is bad for business, and whenever political crises threaten to spin out on control, they seem to rein in the top political leaders.

A system where business rules the government may give Ukraine a measure of stability but it is undemocratic and makes it impossible

to carry out economic and political reforms. Reforms require a political leadership willing to take risks and capable of building up enough political and popular support to implement changes. No politician in Ukraine has enough power or will to push through tough economic and political measures. And judging by the passivity of the political leadership, there seems to be no pressure from the oligarchs to reform, nor any consensus on how to do so. In part due to bad governance, the financial crisis has hit Ukraine hard in 2008. In October of that year, Kyiv had to ask the International Monetary Fund for a $16.5 billion loan, to shore-up its finances (see Conclusion, page 39).

On the political front, things are slowly changing for the better: a new generation of leaders is rising through the ranks. Deputy Prime Minister Hryhoriy Nemyria or former Defence Minister Anatoliy Grytsenko (now chairman of the parliament's security and defence committee) are modern leaders with liberal mindsets and a real commitment to democracy. When one speaks to young Ukrainians, it is evident that they are increasingly contemptuous of the old-school elites, and disenchanted with the major parties. Ukraine has a growing middle class (most talented Ukrainians tend to be in business, not government), whose ascent should eventually bring about a more competent, enlightened leadership.[5] But for the time being, Ukraine's politics remains largely in the grip of the Soviet generation of leaders. This will slow down Ukraine's progress towards Europe. Accession to the EU is a demanding process; it requires a country to reform its state apparatus so that it becomes more effective and accountable, to liberalise previously protected sectors of the economy, and to enact and implement a raft of new laws. Ukraine's top politicians all want the country to join the EU. But the elites seem too consumed with day-to-day infighting to pursue a complicated, long-term agenda like EU accession.

[5] In one September 2008 poll, 77.5 per cent of Ukrainians said the country's affairs are moving in the wrong direction and 16 per cent would vote "against all" political parties in the Ukrainian parliament (Alina Pastukhova, 'Major parties lose support as voters want new faces', Kyiv Post, September 25th 2008).

4 Ukrainian-Russian relations

Ukraine needs to stabilise its political system and focus on reforms if it is serious about EU accession. As it does so, it will also have to contend with a Russia that is increasingly hostile to western influence, and which still views Ukraine as a part of its sphere of influence.

Russian policy on Ukraine – and much of its western neighbourhood – strives to keep the region's countries out of NATO, and to gain or retain control over the region's infrastructure (oil and gas pipelines, refineries, storage facilities). Moscow manipulates the cost of gas sales to Ukraine and Belarus in order to show displeasure with the countries' foreign policies. And it has used military force against Georgia in part to keep the country from joining NATO.

Russia is particularly determined to keep Ukraine in its orbit. The countries have closely related histories; together they formed the first eastern Slavic state, the Kiyvan Rus, in the 10th century. These days, the Russians tend to think of Ukraine as an independent country, but not necessarily a foreign one. Because they both had very similar political and economic systems for much of the post-Cold War era, Ukraine did not seem particularly 'foreign' to Russia. But as Ukraine has started to move towards EU and NATO membership, a growing contrast has emerged between it and the increasingly authoritarian Russia.

From the Russian perspective, if Ukraine succeeds in building a stable market economy and a transparent political system – both prerequisites for NATO and EU accession – it would undermine the appeal of the Putinist model of semi-authoritarian government. It would prove to the rest of the region that the former Soviet republics

do not need to follow Russia's path towards one-party politics and state control of the economy, and that they would become richer and more successful by embracing an open, competitive political system and by allowing a market economy to flourish.

Russia will therefore seek to slow down the Europeanisation of Ukraine. How ready is Kyiv to manage what will be a turbulent relationship with Moscow?

So far, Ukraine has been doing reasonably well, under the circumstances. Immediately after Ukraine's independence, there was a real risk that it would fall back to Russia before long, because so many of its new citizens spoke Russian, and because it had such a weak sense of national identity. But the links to Russia were less straightforward than first appeared. Ukraine's Russian-speakers fall into two categories. There are ethnic Russians themselves, mostly in Crimea, who are certainly less integrated than other minorities (see page 24). However, most Russian-speakers outside Crimea are ethnic Ukrainians who are culturally close to Moscow, but not necessarily beholden to its politics. Their Ukrainian nationality and Russian cultural and linguistic identity are fused.

Sensibly, successive Kyiv governments have pursued a laissez-faire approach to nation-building, which minimises frictions between Ukrainian- and Russian-speakers. After independence, Ukraine adopted one of the most liberal citizenship laws of the post-Soviet states and did not try to impose Ukrainian language and culture.[6] As the country's national identity began to congeal, many Russian-speakers adopted the majority language. Yanukovich is a good example. Although his party's stronghold is precisely in the Russian-speaking part of the country and he himself is a native Russian speaker he has switched from using Russian to speaking

[6] *Craig A. Weller, 'Mass attitudes and ethnic conflict in Ukraine'. In: Taras Kuzio, Paul d'Anieri (Eds), 'Dilemmas of state-led nation-building in Ukraine', 2002.*

Ukrainian in a bid to widen his political base beyond the country's eastern parts. And the strategy worked: in the 2007 elections, his Party of Regions made significant gains in the Ukrainian-speaking west of the country.

The reverse held true as well: parties traditionally based in the western parts of Ukraine made inroads in the east. Both the Tymoshenko Bloc and Yushchenko's Our Ukraine won new voters there at the expense of the Party of Regions. This suggests that language and ethnicity are no longer the defining – and divisive – issues in Ukrainian politics. As Anders Åslund of the Petersen Institute points out: "All parties have become more national....The voting pattern has changed substantially, from region to class."[7]

[7] *Anders Åslund, 'Reflections on the Ukrainian parliamentary election', October 14th 2007.*

Business interests also explain why Yanukovich has chosen to cultivate a Ukrainian rather than a Russian identity. Ukraine's oligarchs are jealously guarding their economic independence. Yanukovich's money and support comes from the east, where most of Ukraine's mines and steel mills are based (12 per cent of Ukraine's GDP comes from the export of steel alone).[8] Their owners worry about Russia's economic influence, all the more so because of their proximity to the border. The Ukrainian oligarchs would rather be big fish in the small(ish) Ukrainian pond than small fish in a much larger Russian pond.

[8] *'Ukraine: Selected issues', IMF Country Report No. 08/228, July 2008, http://www.imf.org/external/pubs/ft/scr/2008/cr08228.pdf.*

The upshot of all this is that Ukraine is becoming more unified and independent. By ceasing to define political affiliations on the basis of regional and linguistic differences, the major parties have reduced Russia's ability to sow divisions within Ukraine. Moscow will continue to meddle but Ukraine's independence stands on more solid footing than anyone could have expected 10 or 15 years ago.

Ukraine's weak spot: Crimea

The real source of Ukraine's vulnerability is the Crimea peninsula – a majority Russian-populated region with a strong Russian military presence. Moscow keeps 54 major ships in Crimea, including an aircraft carrier, under a 1997 treaty, which gave Moscow a 20-year lease on the port of Sevastopol. Accompanying the fleet are 18,000 Russian soldiers and dependents. The fleet generates income for much of the surrounding community. (In fact, Crimea as such has only been a part of Ukraine since 1954, when Nikita Khruschev transferred the territory from the Russian Federal Socialist Republic to the Ukrainian Soviet Socialist Republic.)

The Russian lease on the Sevastopol base expires in 2017. What will happen then is unclear. The current Ukrainian government wants the Russian fleet to leave when the agreement runs out, and in April 2008 it sent Moscow a detailed timetable for a Russian withdrawal. But Moscow seems determined to stay.

Three years ago, Russia started the construction of a new base in Novorossiysk, also on the Black Sea coast. The base was widely seen as an eventual replacement for Sevastopol. But more recently, Moscow seems to have decided to try to hold on to its base in Ukraine. In June 2008, President Dmitry Medvedev called Kyiv's demand that Russia withdraw from Sevastopol "inadequate".[9] And Foreign Minister Sergei Lavrov said that the Ukrainian demands "are unworthy of a friend", adding that the 1997 treaty "allows for the Sevastopol lease to be extended".[10]

9 & 10 'Medvedev vstretilsya s kolegami s SNG. On obvinil Yushchenka z neadekvatnosti', www.newsru.com, June 6th 2008.

Ukraine's nightmare scenario is that Russia will drag its feet on withdrawal and, at some point before 2017, force Ukraine into a choice: accept extension of the Russian lease or lose Crimea altogether. That is a serious threat given that three-quarters of Sevastopol's population are ethnic Russians and the local economy depends on the fleet. Forced to choose, the locals may well support

Moscow over Kyiv. The pro-Moscow Ukrainian Communist Party claims it has gathered a million signatures in Crimea in support of making the Russian lease permanent.

The capacity to push Kyiv into a corner allows Russia to manipulate Ukraine's future course. The closer Kyiv moves to the West, the more difficult Moscow can become over Sevastopol. Unsurprisingly given the stakes, relations with Russia – and the related questions of NATO membership – have divided Ukraine's politicians. To President Yushchenko, Russian reluctance to leave Sevastopol and the war against Georgia mean that Ukraine should join NATO and seek safety in the alliance's mutual defence clause. Prime Minister Tymoshenko is not convinced: she favours Ukraine joining the EU but thinks that a precipitous move towards NATO would invite a potentially violent Russian response. Viktor Yanukovich and the Party of Regions are against NATO membership under any circumstances. Yanukovich has, however, generally supported NATO's presence in Ukraine and the role it plays in rebuilding the country's military like most of Ukraine elites, he is supportive of co-operation with NATO, but not necessarily of membership in the alliance.

The differences on NATO membership, Russia, and on relations with the West were vividly demonstrated during the Georgia war. Yanukovich came down strongly on the side of Russia and demanded an investigation into Ukraine's (pre-war) sales of arms to Georgia. Yushchenko threatened to prevent Russian ships which took part in the Georgia war from returning to their port in Sevastopol (they eventually returned without confrontation). Tymoshenko has called Yushchenko's stance "reckless", which prompted the president's office to accuse Tymoshenko of "betrayal".

Fewer than 30 per cent of Ukrainians support NATO accession. Of the top leaders, only Yushchenko unambiguously wants Ukraine to join the alliance. He is up for re-election in 2010 and with his popularity ratings in single digits, he will most likely lose. Should the next president adopt a go-slow approach to NATO, relations with

Russia may ease. Crimea gives Russia the opportunity to destabilise Ukraine but military intervention, like in Georgia, looks less likely.

This does not reduce the importance of defusing a potential conflict over Crimea. As long as the region remains a source of Russian leverage, Kyiv cannot conduct a truly independent foreign policy. Moscow will seek to stop it from joining NATO. And while Moscow has not openly opposed EU enlargement, it may do so in the future. Some serious Russia observers believe that the European Union presents a bigger challenge to Moscow's foreign policy than NATO.[11] Should Russia harden its policy on EU enlargement, Kyiv's pursuit of membership could land it in difficulty with its eastern neighbour.

[11] *Ivan Krastev, 'The crisis of the post-Cold War European order: What to do about Russia's newfound taste for confrontation with the West', Brussels Forum paper series, German Marshall Fund of the United States, March 2008.*

There is much that Ukraine itself can do to strengthen its hand vis-à-vis Russia. A constitutional reform is needed to clarify the roles of the president and the prime minister; their constant squabbles make it difficult for Ukraine to pursue a consistent foreign policy (see Conclusion, page 39). Even on the issue of the Black Sea fleet, where Ukraine is vulnerable, Kyiv could improve its position. The ruling coalition should strive to inform and involve the opposition in its debates on Sevastopol, and keep the issue from becoming a domestic political football.

Kyiv also needs to create a credible alternative source of income to the tens of thousands of people, whose livelihood depends on the Sevastopol base. The port will need another use after the Russian fleet leaves. It should become a hub for the movement of goods in and out of Ukraine. The Ukrainian government should start making the necessary investments to prepare the port for its commercial future. Without an economic alternative to the Russian fleet, Crimeans will be susceptible to Russian scaremongering.

5 Rebuilding the EU's eastern policy

The EU should take steps to draw Ukraine closer, and signal to Moscow that it does not recognise spheres of influence on the continent. This was one of the principles at stake in the Georgia conflict: should the Tbilisi government – or any other government – be allowed to choose a pro-western course even though it borders on Russia? Moscow has rejected EU and NATO memberships for itself, and it now seeks to deny its neighbours the choice of a pro-western orientation. The EU needs to demonstrate that it will not be deterred, and confirm that Ukraine and other countries in the eastern neighbourhood are free to pursue EU membership.

The European Union should offer targeted economic assistance to Crimea, and support infrastructure projects in Sevastopol. The initiative for these and other steps would need to come from the Ukrainian government. But the EU should make it clear to Kyiv that it would be ready to support its efforts to prevent conflict in Crimea.

Stronger EU engagement with Ukraine would also reassure Kyiv that Ukraine has a realistic chance of joining the EU. The EU's cautious approach to further eastward enlargement has unwittingly discouraged its neighbours from pursuing reforms necessary for accession or even closer relations with Europe.

So Europe needs to rethink how it relates to Ukraine. As discussed earlier, the EU treats Ukraine as a 'neighbour' rather than a country that aspires to, and could join the EU. The Ukrainians think that by lumping them in the 'neighbourhood' category, the EU is snubbing their membership aspirations.

The Ukrainians are partly unfair to the EU. They fail to acknowledge that few of the neighbourhood countries have had such robust co-operation with the EU. Kyiv stands to receive €122 million in EU financial assistance in 2008. EU experts work directly in dozens of Ukrainian government departments and agencies. The EU gives hundreds of scholarships to Ukrainian students and grant money to many academics. The EU also pays for nuclear safety equipment at several Ukrainian power plants and funds research at Ukrainian NGOs. Over the years, the EU paid more than €1.2 billion to help Ukraine to deal with the aftermath of the Chernobyl nuclear disaster.

The new association agreement will further deepen trade links, expand the number of scholarships and increase EU technical assistance to Ukraine. In fact, the draft document looks like a facsimile copy of agreements the EU signs with membership candidate states. Some European Commission officials argue that if Ukraine fully implements the new agreement it will effectively have completed an accession process 'by stealth', by undergoing the full panoply of reforms necessary to join the EU without being explicitly labelled a membership candidate. This, Commission officials say, will make it all but inevitable that Ukraine will be invited to join the EU because Europe will find it impossible to say 'no' to a country that fulfils all the criteria. Many in the EU institutions and member-states argue that Ukrainians should stop asking for membership and just get on with implementing the reforms.

This line of argument, however, misses two crucial points. The prospect of membership is one of the most important reasons why countries undertake reforms. Without it, Ukraine's leaders cannot point to the EU and say that disruptive reforms, even though they may cost jobs or impinge on vested interests, are important because they help Ukraine get into the EU, and once there, the country will be better off. For example, the EU will certainly require Ukraine to bring its agricultural sector up to

European standards.[12] Agriculture is a massive business in Ukraine, accounting for nearly 10 per cent of the GDP. EU-mandated reforms are certain to drive up the cost of production and as such, they will prove terribly unpopular. A concrete promise of membership with the full benefits – the ability to work anywhere in Europe, to travel without visas – would help soothe the unrest that reforms are guaranteed to stir up.

[12] *Institute for Economic Research and Policy Consulting in Ukraine, 'The evolution of EU Common Agricultural Policy: Implications for Ukraine', May 2005. http://ierpc.org/ierpc/papers/u2_en.pdf.*

Even more importantly for Ukraine, where political life is so dominated by the country's elite, the oligarchs will have to cast in their lot with the EU. They already stand to gain nearly unlimited access to EU markets under the new association agreement (see pages 32-33). More importantly, the oligarchs expect the accession process to create a transparent, predictable legal and political environment, under which their past gains would be protected. Ukraine's oligarchs made their money in different ways: most got rich by buying subsidised Russian gas and reselling it for much higher prices on world markets; many others are former state company directors, who used their political connections to buy 'their' companies on the cheap during the wild privatisations in the 1990s and early 2000s.[13] They all share the fear that their fortunes may be taken as easily as they were acquired. This nearly happened after the Orange Revolution, when the new Yushchenko government reversed the privatisation of Kryvorizhstal, a steel mill, originally sold for $800 million to Viktor Pinchuk (President Kuchma's son-in-law) and Rinat Akhmetov (the chief financier of former prime minister Viktor Yanukovich political career).

[13] *For an excellent discussion on Ukraine's oligarchs, see: Anders Åslund, 'Comparative oligarchy: Russia, Ukraine and the United States', Studies and Analyses n.296, Center for Social and Economic Research, Warsaw, April 2005, http://www.case.com.pl/upload/publikacja_plik/4931074_SA%20296last.pdf.*

Luckily for the oligarchs, the re-nationalisation of Kryvorizhstal (which the government later re-sold to Mittal Steel for $4.8 billion)

turned out to be one of a kind. Even so, Ukraine's richest have since coveted stability and guarantees that their money would be safe, and many of them came to see EU accession as their best insurance policy. Victor Pinchuk is financing a Davos-style discussion group, the Yalta European Strategy (YES) group, which advocates EU membership for Ukraine.

But not all oligarchs stand to win from EU membership. Those involved in heavily subsidised sectors like agriculture or transport may well suffer. As one observer pointed out, "the need to at best reform and at worst abolish the system of state subsidies, as precondition to … EU membership, coupled with the expected requirement that Ukraine adopt costly EU and international standards, provoked substantial concern within the least technologically advanced sectors [of Ukraine's economy]."[14] Besides worrying about the impact of EU membership on their bottom line, some oligarchs may also fear the looming political reforms. For example, the EU will probably insist that Ukraine introduce more transparent rules on party financing. But this would mean that the top businessmen would lose some of their ability to influence the country's politics.

[14] *Rosaria Puglisi, 'A window to the world? Oligarchs and foreign policy in Ukraine', Sabine Fischer (ed.), 'Ukraine, Quo Vadis?', Chaillot Paper n. 108, EU Institute for Security Studies, February 2008.*

When forced to choose between joining the EU and protecting their wealth and power, some oligarchs will be tempted to choose the latter. It is not clear that they would give up some of the subsidies and quirks in the political system that made them rich. When pressed on the point, one legislator from the Party of Regions close to the oligarchs said that perhaps instead of membership, Ukraine needs a close partnership with the EU, like Norway has. His words suggest that the broad support for EU membership may only be an inch-deep in places. As one senior Ukrainian government official warned the author in 2007: "The oligarchs are not as pro-western as we'd like to believe. The introduction of western accounting and

transparent business practices will take away the 'black holes' they have been using to siphon-off profit and avoid paying taxes."

In order to minimise opposition to membership-related reforms, the EU needs to change the oligarchs' political calculus – they would find it more difficult to oppose reforms if accession is genuinely popular among the Ukrainians (which it is) and if membership is a realistic prospect (which, at this point, it is not). Until accession becomes possible, the oligarchs will hedge their bets.

Seeing the EU's reluctance to accept Ukraine, the opposition Party of Regions is adopting a mildly nationalist tone. Their message to the voters is, essentially, that the EU needs to come to Ukraine's door, not the other way around. This is mostly for tactical rather than philosophical reasons. The Party of Regions, like all of Ukraine's main parties, is in favour of EU membership. But for most of the four years since the Orange Revolution, it has watched the more openly pro-western parties of Yulia Tymoshenko and Viktor Yushchenko try and fail to secure the prospect of accession to the EU. This makes the current government parties vulnerable. And the Party of Regions leadership, as good politicians, seek to exploit their opponents' weak spot. So they criticise the government for its "incompetence" in the pursuit of EU membership, and offer a message of patriotism and pride as an alternative. This does not mean that the Party of Regions is turning against EU membership; they continue to favour accession in principle. But they are also positioning themselves as a party that 'stands up' to the EU.

On balance, the EU has become more welcoming towards Ukraine in the past two years. The EU heads of states concluded at their September 1st 2008 extraordinary summit on the war in Georgia that "it is more necessary than ever [for the EU] to support regional co-operation and step up its relations with its eastern neighbours" and they named Ukraine as one of the target countries.[15]

[15] *Council of the European Union, 'Conclusions of the Extraordinary European Council', September 1st 2008.*

The EU-Ukraine association agreement

In the autumn of 2008, the EU and Ukraine were in the process of negotiating a new bilateral agreement to form the basis of their economic and political relationship. At the EU-Ukraine summit in September 2008, the EU named the new treaty an 'association agreement', which was the name of the treaties that the EU signed with the aspiring member-states of Central and Eastern Europe in the 1990s. The new title therefore represents a rare nod from the EU to Ukraine's membership aspirations.

The agreement foresees a new kind of free trade arrangement, 'deep free trade', which would give Ukrainian businesses access to the EU single market that is normally only reserved for EU members or candidates. The EU and Ukraine would not only abolish customs duties but they would also remove non-tariff barriers by, for example, harmonising some technical standards. This is important because divergent health or safety standards can often be a bigger obstacle for Ukraine's exports to the EU than quotas or customs duties.

Such deep economic integration could have a profound impact on Ukraine's economy. Much of the economic boom of the last five years has been driven by steel and coal exports. However, with recession looming in the US and Europe, and demand from emerging markets slowing sharply, commodity prices have been falling steeply. To continue growing, Ukraine needs to start exporting a broader range of products. But to do so it needs, among other things, access to the lucrative EU markets. The deep free trade agreement would provide this access.

Economic upgrading would come at a price. Some uncompetitive businesses in Ukraine will go bust while unemployment may rise temporarily as resources migrate to new manufacturing sectors. It will be expensive to build the administrative structures to monitor health standards in agriculture or to upgrade steel mills to comply with higher environmental standards. But Ukrainian economists say that the costs of implementation are much smaller

than the long-term benefits of deep free trade. And the EU has promised to increase its aid to Ukraine. The estimated €120 million that the EU provides in assistance to Ukraine may sound like alot, but it is only marginally more than the €100 million that the EU gave in 2002 to Slovakia, a country which is a tenth of Ukraine's size. The EU should significantly expand its aid to Ukraine to help it implement the deep free trade agreement. The proposed eastern partnership would double EU assistance to Ukraine by 2013.

The biggest obstacle to achieving deep free trade may be the Ukrainian government itself. It will have to pass numerous new laws and trample on many special interests. It cannot do this if the parliament remains paralysed and the government deadlocked, as they have often been in recent years. The shock of the financial crisis should help focus the politicians' minds on the dire need for further economic reforms.

Deep free trade is not the only subject of the association agreement. The document also outlines co-operation on foreign and security policy, on immigration, on economic co-operation and so on. Among other things, it obligates both parties to prevent the proliferation of weapons of mass destruction and to co-operate with the International Criminal Court. The sections on illegal employment and movement of persons proved particularly difficult to agree – not surprisingly given that some member-states fear the influx of legal and illegal workers from Ukraine.

Outside the association agreement negotiations, the EU and Ukraine are also in talks about switching to a visa-free travel regime. EU citizens can already travel to Ukraine without visas but Ukrainians still need visas to travel to the EU. This has caused much irritation in Ukrainian-EU relations. The EU simplified the visa regime in early 2008 but the Ukrainians complain that obtaining multiple-entry visas is nearly impossible, and that different EU member-states still demand different documentation. The Commission said in September 2008 that it may launch legal actions against those EU governments that failed to simplify visa procedures in line with the EU-Ukraine visa facilitation agreement of 2008. A visa-free regime would do away with the red tape altogether but the EU and Ukraine are not expected to agree such an arrangement until 2012.

The Ukrainians may not always appreciate the changes; they point out that the EU officially does not acknowledge Ukraine's membership aspirations, despite friendly gestures from London or Paris. At the September 2008 EU-Ukrainian summit, the EU member-states could not agree to offer Ukraine a membership 'perspective' (diplomatic jargon for a possible invitation, at a future date). The Netherlands, Belgium and other states were against. But an association agreement, which the EU did offer at the September summit, together with positive, if ambiguous, noises on "progressively closer relations", represents an upgrade in Kyiv's ties with the EU.[16]

[16] *Palais de l'Élysée, 'Joint declaration on the EU-Ukraine association agreement', September 9th 2008. http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/fr/er/102632.pdf.*

The EU is not a monolith. Its member-states have different views on Ukraine. Rather than complaining, the Ukrainians would be better off cultivating friendships with the various EU countries. The EU's pro-Ukraine camp has in recent years grown in stature and influence. Ukraine's best allies, the Central European states that joined in 2004 are beginning to leave a mark on EU's foreign and enlargement policies.

The new eastern partnership?

In December 2008, the European Commission, acting on proposals from the Polish and Swedish governments, unveiled plans for a new eastern partnership. The philosophy behind their proposal – and behind an earlier, similar plan floated by the Czech government – is simple. The countries of Eastern Europe, unlike other neighbourhood states, will join the EU at some point, so Brussels should smooth their eventual accession. The eastern partnership would break down all barriers to trade and travel between EU member-states and partners. It would drastically increase EU aid to eastern neighbours. And it would target EU assistance at building up administrative capacities, the lack of which, as noted earlier, hold Ukraine back from adopting EU membership-related reforms. The

eastern partnership also aligns the future action plans with the neighbours more closely with EU standards and legislation. This would put the neighbouring states on path to meeting membership criteria. Implicitly, the eastern partnership also aims to reduce Russia's influence in Eastern Europe. The Czechs, Poles and Swedes are among those EU member-states most worried that Moscow will seek to subvert the independence of its neighbours to the west. The Georgia war has only reinforced those concerns.

In practical terms, these proposals matter much more to the other neighbouring states than to Ukraine. The country already enjoys much attention from the EU institutions, a new trade agreement with Kyiv is in the pipeline, and the EU recently simplified its visa regime for the Ukrainians.

But Ukraine should welcome the eastern partnership anyway. The European Union is putting in place policies to ease future eastward enlargement. In effect, eastern partnership changes the terms of the debate on eastward enlargement from "whether" to "when and how". The partnership's terms – particularly its deep free trade clauses – give incentives to top Ukrainian politicians and oligarchs to remain on a pro-European course. The EU could do more to entice ordinary Ukrainians; it could for example raise the number of scholarships for students (the eastern partnership contains no such provisions). But on the whole, the partnership is the right step for the EU's eastern policy.

The eastern partnership is not the first attempt of its kind; in 2005 Germany sought, without much success, to launch a similar 'Ostpolitik'. But several things have changed. A resurgent Russia has started openly undermining attempts by Ukraine and other countries in the region to join the EU and NATO. These efforts made it more important for Brussels to find ways to anchor these states to the EU. Also, the Poles and the Czechs, who have always been in favour of further enlargement, have become more skilled at selling their foreign policy goals to other EU member-states. At

first, the new member-states showed little understanding of the need for building the necessary support and alliances in Brussels nor were they very good at it. But four years later, a new generation of EU-savvy diplomats and politicians from Central Europe seems to have cracked the code. Their rhetoric on Russia is less searing and provocative; they have grown more adept at acknowledging others' points of view, and at persuading rather than pleading. The pro-enlargement camp, while always strong in numbers, has increased in influence.

'Neighbours' no more?

Ideally, the Ukrainians would like to move from the neighbourhood to the enlargement track as soon as possible. That will not happen (some important member-states are against it) and probably should not happen (Ukraine still needs to prove it is worthy of candidate status). But it should be possible for Europe to offer Ukraine a membership perspective; to state clearly that the EU views Ukraine as a future member-state, not a perennial neighbour. The eastern partnership sends such a signal but the EU has more explicit ways of saying countries are welcome to join in the future without naming them official candidates. The Union has designated five countries in the Balkans (Albania, Bosnia, Kosovo, Montenegro and Serbia) 'potential candidates'. They are not officially candidates nor are they close to meeting membership criteria. But the Union is actively floating the prospect of membership in order to entice them to adopt political and economic reforms. Ukraine is no less important to European security than the Balkans; in fact probably more so given Russia's return to expansive foreign policy. So the EU should name Ukraine, too, a potential candidate.

In the meantime, the EU governments should change the way European institutions manage Ukraine and its membership bid. The EU should reform its neighbourhood policy, to draw a clearer line between those neighbours that will probably accede to the EU in the long run, and those who are not entitled to or do not want to.

Because the current neighbourhood policy makes no such distinction, many neighbours view it with suspicion. The Ukrainians believe that the longer they stay in the neighbourhood framework the less likely they are to join the EU. They think that when they make the bid to join, the EU will say 'no' for fear of encouraging other neighbourhood countries to follow Ukraine.

The eastern partnership will help. It calls on the EU to use the enlargement process as a blueprint for the next generation of partnership agreements with its neighbours in Eastern Europe. In essence, the neighbourhood countries would start the process of accession, although the EU would not explicitly offer membership. That is a useful approach; it sends a signal to Eastern Europe that it will be treated differently to, say, Palestine, which has no EU aspirations. But the change will not make much difference to Ukraine, whose agreements with the EU are already based on those with accession countries.

In the longer run, the EU should seek to merge its directorates for neighbourhood and enlargement policies. The substance of what they do is already very similar (and nowhere more so than in the case of Ukraine), but their bureaucratic separation feeds the perception that the neighbourhood policy is a road away from, rather than to, membership. And this has damaged the EU's leverage in Eastern Europe. As the first step, the enlargement commissioner (currently Olli Rehn, a Finn) should start making visits to Kyiv. This will be unpopular with the commissioner for external relations (Benita Ferrero-Waldner, an Austrian), who has relations with Ukraine in her portfolio. But the EU should set its bureaucratic rivalries aside; Ukraine needs to be shown a clearer signal that EU governments take seriously its aspiration to join the European Union.

6 Conclusion

This essay makes a number of suggestions on how the EU should strengthen its relationship with Ukraine, especially in the aftermath of the war in Georgia. But these recommendations should not be taken to mean that responsibility for the successful Europeanisation of Ukraine is the EU's alone. There is much that Ukraine needs to do to improve its prospects of joining the EU.

For much of the four years since the Orange Revolution, Ukraine has been ruled by a succession of weak and quarrelling governments. Nevertheless, Ukraine's business sector has found ways to get on with creating wealth and jobs. Fuelled in part by massive increases in the prices of steel and grain, Ukraine's biggest export items, the economy has grown at an annual average of nearly 7 per cent for the past five years. But even before the global financial crisis hit in 2008, Ukraine's economy was in trouble. Inflation had reached 30 per cent in the summer of 2008 and the trade deficit was running at 12 per cent of GDP. The government had foolishly tied the *hryvnia* to the dollar, which had encouraged hot money to flow in and fuel inflation.[17]

[17] *Charles Grant, 'Ukraine needs new politicians', CER insight article, July 22nd 2008.*

The global financial crunch has hit Ukraine particularly hard; the country's leading stock index, the PFTS, lost three-quarters of its value between January and October 2008. The currency plunged 40 per cent from its July to October peak. The same month, Ukraine was forced to negotiate a $16.5 billion loan from the International Monetary Fund to avert a balance of payments crisis. Its economy, which for years relied on booming commodity exports, will suffer as global economic slowdown reduces demand for steel and coal. The slump only reinforces the need for Ukraine to build a more open,

modern and integrated economy. It needs to start producing higher value-added products, modernise its factories, and make better use of the service industry.

More than economic reforms, Ukraine needs political ones. Arseniy Yatsenyuk, the former speaker of the parliament, sums up Ukraine's weaknesses as follows: "Our problem is a lack of political maturity, we have no standards, we don't have a clear idea how to enforce laws or penalise people, we have no strong prosecutor's office, and the judicial system is deteriorating."[18] Ukraine needs to fix its constitution, its electoral system, and its courts. It needs an electoral system that produces members of parliament accountable to their own constituents, not business lobbies and other special interests. It needs far more clarity on the division of powers between the president and the prime ministers, so that the two are not constantly tempted to encroach on each others' territory. And it needs courts and judges whose decisions are respected, and who cannot be hired or fired at the whim of political leaders. Until that happens, Ukraine's prospect of joining the EU will remain dim.

[18] Charles Grant, 'Ukraine needs new politicians', CER insight article, July 22nd 2008.

But equally, the EU should be ready to integrate Ukraine when and if the country fulfils the membership criteria. The Union would thus make very clear to Kyiv that its accession depends entirely on whether it can successfully implement political and economic reforms. Ukraine would have gained a clear membership perspective and, with it, a powerful reason to embark on difficult reforms.

The trouble is, some EU member-states oppose even such a vague promise. They argue that the EU should not offer something which it may not be prepared to deliver in the long run. And they point to the example of Turkey, which started membership talks in 2005, despite opposition in France, Germany and other member-states. The EU continues to negotiate accession with Turkey but the progress is slow and difficult. Sensing possible

rejection by Europe, public opinion in Turkey has become disillusioned and angry.

There is indeed a risk that Ukraine, too, might be disappointed if the EU offered it a membership perspective but failed to live up to the promise. But the answer lies not in tempering the expectations of the candidate states, but rather in putting enlargement back on track. If the EU is to remain a strategic actor in its eastern neighbourhood, it needs enlargement: it is the Union's best tool for reshaping Eastern Europe in the EU's image. And the need for an active EU role in the eastern neighbourhood has increased dramatically after the Georgia war.

Reconciling the different views on enlargement among the member-states will be difficult. Ukraine and other eastern neighbours need to do most of the work. As long as Ukraine's politics remains messy, opponents of enlargement have no reason to change their minds. Also, EU governments that favour Ukraine's membership need to take seriously the concerns in Berlin and Paris that further enlargement would undermine the working of the EU. They should not give up on the ratification of the Lisbon treaty, which would simplify EU decision-making and create more powerful EU foreign policy institutions. The Polish and Czech presidents are among the most vocal critics of the treaty. But by arguing against Lisbon they are only reinforcing French and German scepticism on enlargement. The two issues go hand in hand; the EU cannot expand indefinitely without improving its decision-making processes.

Russia's role in the EU's Ukraine policy

It is Ukraine's fate that many European countries will always look at it through the prism of Russia. Many Ukrainians hate this, and they object to Russia being discussed in the same breath as EU-Ukrainian relations. But the reality is that many EU governments will not support a Ukraine policy that does not take Russia into account.

So the right European approach to Ukraine needs to make sense in the broader context of the EU-Ukraine-Russia relations. This is not to say that the EU should see its relations with Ukraine as secondary to its ties with Russia. Europe needs to be ready to go against Moscow's wishes, if it is for the right reasons. And on occasions, it may have to do so: as much as Europe would like to think of EU-Ukraine-Russian relations as a win-win situation, Russia does not agree.

Some European countries will resist aiding Ukraine to prepare the ground for the Russian fleet withdrawal from Crimea, because they fear that Moscow will view such steps as provocative. They should take a more strategic view. The rationale for assisting Ukraine in Crimea is not anti-Russian. The purpose is to reduce the risk of conflict between Russia and Ukraine. The fleet's departure, as Ukraine has requested, would dampen the chances of clash. Conversely, if the fleet stays, its presence is bound to irritate Kyiv and tempt Moscow into interfering in Ukraine's politics.

So Europe should assist Ukraine in preparing the ground for the fleet's departure, even at the risk of ruffling Russia's feathers. By assisting Kyiv, the EU would also signal to Moscow that Europe is not prepared accept any Russia-declared zones of interest. The principle of free association – the idea that countries should be allowed to choose their foreign policy destiny, whether they lie on Russia's borders or not – should be a non-negotiable part of the EU's foreign policy.

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Why Ukraine matters to Europe

Tomas Valasek

Until the war in Georgia in August 2008, the EU had taken stability beyond its eastern border for granted. Now it will need to become more active in this volatile region, in which Ukraine is the largest and most important country. If Ukraine successfully 'Europeanises', it will serve as an inspiration to the entire eastern neighbourhood. The EU needs to offer it and other eastern neighbours the prospect of eventual membership to help them become stronger and more prosperous. And it needs to work harder to find solutions to the region's local conflicts, existing and potential ones, such as the Ukraine-Russia disagreement over Crimea.

Tomas Valasek is director of foreign policy and defence at the Centre for European Reform.

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