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| Technical support | Volodymyr Kekukh Yevhen Skrypka |

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Editorial address:
16 Lavrska str., 2nd floor,
Kyiv, 01015
tel.: (380 44) 201-11-98
fax: (380 44) 201-11-99
e-mail: info@razumkov.org.ua
web site: www.razumkov.org.ua

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UKRAINE'S EUROPEAN INTEGRATION: THE RUSSIAN FACTOR

The pace and effectiveness of Kyiv's European integration course depends on many internal and external factors. The key ones being the political will of Ukrainian government, ability to implement and dedication to real pro-European changes in the country that would be tangible for Ukrainian citizens. This is the internal factor that is the main issue on the path to integration into the European community.

That being said, European integration is a two-way street. The quality and level of Kyiv-Brussels relations to a great extent depend on the position and engagement of the European side, including EU's internal processes and trends, which are rather complex, controversial and sometimes centrifugal in their nature at the moment. We are talking about an increased sentiment of restoring partnerships with Russia in the "business as usual" format inside the EU's business and political circles.

Russian hybrid aggression is a dangerous factor. For the Russian leadership that views post-Soviet countries as its zone of "privileged" interest, an independent Ukraine headed towards Europe and NATO is both a challenge and a threat. Firstly, Kyiv's successful European integration is an incentive for other post-Soviet countries to step up, which means a failure for Russia's plans of "forced" reintegration of Eurasian countries. Secondly, Kyiv achieving success in its European project is a model for Russian citizens and a convincing evidence of the inability of Russia's authoritarian regime to offer an attractive democratic model of social development.

This is why the Russian regime is using all of its available "hybrid warfare" to prevent Ukraine from integrating into Europe – from political and diplomatic pressure, economic blockade, information warfare to military intervention – occupation of Crimea and Donbas.

Currently, Ukraine is a training ground and a testing area for Russia's massive purposeful expansion into the EU territory. In particular, this includes discrediting the unifying European values and institutions, disorienting public opinion, interfering with elections, formation of pro-Russian lobby within the European establishment, support of radical movements, etc. The goal of this influence is to disintegrate the EU, reform Europe's political system in line with the Russian scenario.

An important factor is the EU member states', institutions' and other countries' assistance and solidarity with Ukraine, as well as sanctions introduced by the West. Regrettably, over the period of almost six years, the sanctions have failed to stop Russia's war against Ukraine, failed to change the nature of Kremlin's aggressive foreign policy. Yet it is certainly crucial that the EU and other countries uphold a common course of conduct in regard to Russia, maintain and strengthen the "sanctions frontline".

At the same time, assessing the current confrontation in the notional Ukraine-EU-Russia "triangle", it is worth noting that these problems have been temporarily overshadowed by the global COVID-19 pandemic. On the one hand, the pandemic has affected internal and external priorities of different countries, has shaken the global economy. On the other – it has "hit the pause button" for Ukraine's European integration, made adjustments to EU-Ukraine Association Agreement implementation plans.

Obviously, the problems that have been temporarily postponed will later resurface again – this time in the new circumstances and in the new form.

- Section one** talks about stages of evolution of Kyiv-Brussels relations, analyses internal and external processes and factors that influence Ukraine's integration into the EU, assesses the "European integration start" of the new government.
- Section two** presents an overall picture of trends and dynamic of relations within the notional Ukraine-EU-Russia "triangle" in economics and the energy sector.
- Section three** analyses the specifics and peculiarities of Kremlin's hybrid aggression both in Ukraine and on the entire European continent. It evaluates the means and mechanisms used by Russia to block and prevent Ukraine from integrating into Europe.

"Ukraine's European Integration: The Russian Factor" report was prepared by a team of authors: M.Pashkov (head of project), Co-director of Foreign Policy and International Security Programmes of the Razumkov Centre; M.Honchar, President of the Centre for Global Studies "Strategy XXI"; V.Sidenko, Razumkov Centre Scientific Consultant on Economic Issues; I.Stukalenko, Manager of Energy Programmes at the Centre for Global Studies "Strategy XXI"; L.Shanhina, Razumkov Centre Scientific Consultant on Social and Humanitarian Issues.

1. UKRAINE'S EUROPEAN INTEGRATION: EVOLUTION, ISSUES, ACHIEVEMENTS

This section analyses the dynamic of evolution of Kyiv-Brussels relations, stages of partnership development, in particular, development of a shared treaty and legislation framework, which is now represented by the Association Agreement. On the one hand, the Agreement is the basis of political association and economic integration between Kyiv and Brussels, and on the other – a guideline and plan for Ukrainian reforms in various sectors. Obviously, the Agreement is a two-way street and thus the important factors include both: Ukraine's internal transformations and the situation within the EU, which clearly affect the parties' current interaction, as well as the prospects of Kyiv's advancement toward the European community. The section also presents the steps new Ukrainian government took towards European integration, a number of achievements and issues, assesses EU-Ukraine integration prospects in the near future.

1.1. EVOLUTION OF KYIV-BRUSSELS RELATIONS: STAGES AND CHARACTERISTICS

Relations between Ukraine and the EU started in December 1991, when the Minister of Foreign Affairs of the Netherlands that was the EU presiding country at the moment recognised Ukraine's independence on behalf of the EU.¹ Cooperation between Kyiv and Brussels that began amidst the complicated circumstances of emergence of Ukrainian statehood and geopolitical reformatting of the post-Soviet space has had achievements and problems, important agreements and dramatic events on the way. Overall, this study does not aim to analyse the course of EU-Ukraine relations, but we will briefly outline certain stages of their development, in particular, characteristics and peculiarities of the evolution of treaty and legislation framework for Kyiv-Brussels relations.

Ukraine: Establishing the European Integration Course. From the beginning, Kyiv saw development of relations between the parties as Ukraine's full integration into the EU. For example, Verkhovna Rada Resolution "On the Main Directions of Ukraine's Foreign Policy" as of July 1993 emphasised "restoration of Ukraine's former political, economic, cultural and spiritual ties with the European civilisation... extending Ukraine's involvement in European institutions... integration of its economy with the European... economic space".²

Later, the "Strategy of Ukraine's Integration into the European Union" approved on 11 June 1998 by the

Presidential Order announced the country's strategic goal of "becoming a part of European political (including foreign policy and security policy), informational, economic and legal space".³ The document declared: "national interests of Ukraine require its establishment as an influential European state, a full-fledged member of the EU".⁴ Ukraine's strategic plans as regards Europe are also reflected in the Law "On the Framework of Domestic and Foreign Policy" as of 1 July 2010.⁵

Thus, in the period of emergence and development of Ukrainian statehood, establishment on the global arena, Ukrainian leadership has declared the strategic priority of Ukraine's foreign policy – movement towards the European community.

Yet the nature, specifics and effectiveness of official Kyiv's European course was being determined by a complex of internal and external factors. *Firstly*, an intricate political, socioeconomic situation, resistance of the former elites, immensely strong inertia of post-Soviet mindset, business interests of oligarch groups, pro-Russian orientation of a part of population, etc. *Secondly*, reluctance and unpreparedness of EU leading member states to proceed with full integration of Ukraine into the EU. *Thirdly*, the influence of the Russian factor, which kept gradually getting stronger with Vladimir Putin's ascent to power. Later on, Eurasian integration based on Moscow scenario emerged as a real alternative to the EU course.

Despite the EU integration course being enshrined

¹ EU-Ukraine Relations. – MFA of Ukraine, <https://mfa.gov.ua/ua/about-ukraine/european-integration/ua-eu-relations>.

² Verkhovna Rada Resolution "On the Main Directions of Ukraine's Foreign Policy" No.3360 dated 2 July 1993.

³ Order of the President of Ukraine "On Approving the Strategy of Ukraine's Integration into the European Union" No.615 dated 11 June 1998.

⁴ Ibid.

⁵ Namely, Article 11 of the Law entails "ensuring Ukraine's integration into European political, economic, legal space with the purpose of becoming a member of the European Union".

at the statutory level, in reality, official Kyiv was implementing the policy of manoeuvring between Brussels and Moscow. The European Union itself was rather sceptical about opening prospects for Ukraine's EU membership, offering partnership and cooperation agreements instead.

Partnership and Cooperation Agreement (hereafter – PCA). The European Union signed this type of agreement with Ukraine on 14 June 1994.⁶ By its legal status, the agreement was significantly different from the “European association agreements” signed with Central and Eastern European and Baltic states in 1991-1996. Both types of documents envisaged broad internal transformation of countries in political, economic and trade sectors, however, unlike PCA, “European association agreements” provided EU membership prospects.⁷

According to Article 1 of PCA, a partnership was being established between the EU and Ukraine, its objectives being “to provide an appropriate framework for the political dialogue... allowing the development of close political relations; to promote trade and investment and harmonious economic relations between the Parties...; to provide a basis for mutually advantageous economic, social, financial, civil scientific technological and cultural cooperation; to support Ukrainian efforts to consolidate its democracy and to develop its economy and to complete the transition into a market economy”.⁸

PCA consisted of a preamble, 10 titles, 109 articles and five annexes, and covered EU-Ukraine cooperation in the following sectors: energy, trade and investment, justice and internal affairs, approximation of Ukraine's legislation to EU's legal framework, environment protection, transport, transboundary cooperation, cooperation in science, technology and space.⁹ PCA became the foundation of bilateral relations between Ukraine and the EU for the next 10 years after its approval.

At the same time, pay attention to Article 3 of the PCA that states that the newly independent states, which have emerged from the dissolution of the Soviet Union should maintain and develop cooperation among themselves. Also, development of relations between Ukraine and the EU should take due account of Ukraine's wish to maintain cooperative relations with other Independent States.¹⁰

The EU Common Strategy on Ukraine. The EU Common Strategy on Ukraine adopted on

11 December 1999 also did not clearly identify any European integration prospects. The document established a strategic partnership between the EU and Ukraine, based on shared values and common interests, and as a vital factor enhancing peace, stability and prosperity in Europe. In the EU Common Strategy, Ukraine is named “a determinant regional actor”, and its independence and stability are ranked among the greatest achievements in the new Europe rid of old dividing lines.¹¹

In this document, the European Union has acknowledged Ukraine's European aspirations and welcomed Ukraine's pro-European choice, as well as expressed its commitment to support political and economic transformations in Ukraine, which will facilitate Ukraine's further rapprochement with the EU. Cooperation between Kyiv and Brussels was planned along the clearly identified lines, namely: consolidation of democracy, the rule of law and public institutions in Ukraine; support for the economic transition process in Ukraine; cooperation to strengthen stability and security in Europe; cooperation in the field of environment, energy, nuclear safety, in the field of justice and home affairs, regional and cross-border cooperation with neighbouring countries.¹²

In view of the above, it should be mentioned that in the early 2000s a number of both internal and external factors have adversely affected the EU-Ukraine relations. In the political sector, Ukraine's progress towards the EU was obstructed by the weakness of democratic institutions, complicated socioeconomic situation, low human rights standards, instances of the freedom of speech violations. As regards PCA implementation, political slogans mainly prevailed over real actions. By socioeconomic development standards, Ukraine also proved unprepared for hypothetical EU membership.¹³

European Neighbourhood Policy. The ambiguity of Ukraine's position, its attempts to balance between Moscow and Brussels, internal weakness and lack of clear membership prospects have led to an offer to Ukraine to participate in EU's new foreign policy initiative – European Neighbourhood Policy (hereafter – ENP). Despite noticeable disappointment of the pro-Western part of society and politicians in the new EU initiative, the government agreed to Ukraine's participation in the ENP.¹⁴ Along with Israel, Jordan,

⁶ Verkhovna Rada ratified PCA on 10 November 1994. The document took effect on 1 March 1998 after all EU member states have completed the ratification process. Also, note, that PCA was signed prior to the EU's large-scale “Eastern” enlargement (2004), and that at the time the EU had no common border with Ukraine and consisted of 12 member states.

⁷ Sydoruk T. *Integration Processes in Modern Europe*. – Lviv, 2010, p. 244-246.

⁸ Partnership and Cooperation Agreement between the European Communities and their Member States, and Ukraine was ratified by the Law dated 10 November 1994.

⁹ EU-Ukraine Relations. – MFA of Ukraine, <https://mfa.gov.ua/ua/about-ukraine/european-integration/ua-eu-relations>.

¹⁰ Partnership and Cooperation Agreement between the European Communities and their Member States, and Ukraine.

¹¹ Common Strategy of the European Union on Ukraine, adopted by the European Council on 11 December 1999. – Verkhovna Rada of Ukraine, https://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=994_492.

¹² Ibid.

¹³ Kopiika V., Shynkarenko T. *European Union: History and Principles of Operation*. – Kyiv, 2012, p.615-616.

¹⁴ Russia refused to participate in the ENP, giving preference to bilateral type of relations.

Moldova, Morocco, Palestinian Authority and Tunisia, Ukraine joined the first group of countries, for which the EU envisaged the possibility of concluding Action Plans in the framework of ENP.¹⁵

ENP's strategic goal is to extend EU advantages to neighbouring states to strengthen the prosperity, stability and security of all involved parties; identify the scope of priorities, achieving which will help bring the countries closer to the EU. "Privileged relations" with neighbours are built upon respect for common values with further prospects depending on proper adherence to such values. According to Brussels' political elite, ENP had to enhance EU contribution to regional conflict regulation, including, in the post-Soviet space. Besides, ENP provided for prospects of new baseline agreements for bilateral cooperation – the so-called "European Neighbourhood Agreements" – to substitute the effective PCA.¹⁶

Despite Brussels' view of ENP as a strong model of developing relations with neighbours in the south and east, this initiative had a number of conceptual drawbacks, including the unjustifiably broad geographical coverage and setting similar requirements for EU neighbours as those for member states, yet with no full EU membership guarantee.

EU-Ukraine Action Plan: Achievements and Miscalculations. During the Orange Revolution, Kyiv and Brussels were working on a draft of the new bilateral document – EU-Ukraine Action Plan, foreseen in the ENP. This Action Plan, developed for three years, was signed on 21 February 2005.¹⁷

Overall, this document did not meet Ukraine's strategic interests, and Kyiv looked at it as a short-term and interim framework programme. Regrettably, hopes for a breakthrough in relations with the EU, born in the Orange Revolution, were met with a reserved reaction from the latter. (Let us remember that in 2004 the EU has

had a big enlargement wave, which included eight post-socialist countries, largely in advance).

Thus, Kyiv had to accept relations on a smaller scale of ambition. Internal political instability also did not play in favour of Ukraine; there was a crisis in the government's European integration team, as well as strong opposition of pro-Russian and pro-European powers in the Parliament. This also affected citizens' support of the pro-European course.

Public Opinion

During the study period (2002-2019), it was at the end of 2005 that we saw the lowest drop (40.1%) of the number of citizens that support Ukraine's integration into the EU.

At the same time, note, that despite some fluctuations of pro-European sentiment in the Ukrainian society, the number of those who support Ukraine's accession to the EU has always prevailed. Starting in 2014, the idea of EU membership was supported by the stable majority of Ukrainian citizens.¹⁸

According to Action Plan provisions, Ukraine and the EU have agreed to intensify political, security, economic and cultural relations, including cross-border cooperation and joint responsibility for conflict prevention and regulation. This document enshrined the possibility of moving beyond the partnership framework towards a high level of integration, including participation in the EU internal market and a possibility for Ukraine to participate in key aspects of EU policies and programmes. The Action Plan also provided for deeper political cooperation, bilateral opening of economies and reducing the number of trade barriers, increased financial support, approximation of legislation to EU norms and standards, deepening trade and economic relations, as well as a possibility of signing a new deeper agreement.¹⁹

The status of implementation of this document has brought to light problems and contradictions that have become chronic. On the one hand, there has been some progress towards European integration, in particular, political dialogue has been intensified, a number of important agreements have been concluded as regards trade and economy, energy, justice, visa and migration policy. On the other hand, the status of Plan implementation cannot be described as satisfactory. Thus, in 2008, a consortium of Ukrainian experts performed an analysis of results of Action Plan implementation in 2005-2008. According to them, out of 73 provisions of the Action Plan, 11 have been completed in full, 61 – partially and one – not completed over the three-year period.²⁰ Most provisions were at different stages of implementation, among which the traditionally problematic for Ukraine – judicial and anti-corruption sectors.



¹⁵ Sydoruk T. *Integration Processes in Modern Europe*, p.253-254

¹⁶ Communication from the Commission "European Neighbourhood Policy. Strategy Paper". – Commission of the European Communities, p.2-5, https://ec.europa.eu/europeaid/sites/devco/files/communication-european-neighbourhood-policy-com2004373-20040512_en.pdf.

¹⁷ EU-Ukraine Action Plan. – Verkhovna Rada of Ukraine, https://zakon.rada.gov.ua/laws/show/994_693.

¹⁸ Hereinafter we present data of national sociological studies and expert surveys of the Razumkov Centre published in this journal.

¹⁹ EU-Ukraine Action Plan. – Verkhovna Rada of Ukraine.

²⁰ For more information, see: EU-Ukraine Action Plan: Results and Prospects. – National Security and Defence, 2008, No.6, p.2-6, http://razumkov.org.ua/uploads/journal/ukr/NSD100_2008_ukr.pdf.

Expert Opinion

During the period of study (December 2006 - December 2019), Ukrainian experts assessed the pace of European integration and most often described it as low. Thus, in May 2008, 64.7% experts believed that Ukraine's pace of movement towards the EU is low, 27.6% – medium, and only 2% talked about the high pace of EU integration. In December 2019, evaluation spectrum did not change drastically – 48.2% of surveyed experts noted the slow pace of European integration, 38.2% – medium, and only 1% were convinced of the high tempo of Ukraine's movement towards the EU.

It should be noted that during the period of Action Plan implementation, a number of other events were happening on the Kyiv-Brussels track. In particular, the results of the 9th EU-Ukraine summit that took place on 1 December 2005 were important to Kyiv. There, participants made a decision to give Ukraine a market economy status, noted the increased cooperation with the EU on EU's common foreign policy and security policy (CFSP), as well as signed a Memorandum of Understanding on cooperation in the field of energy.²¹

In January 2006, Ukraine joined the Group of States against Corruption (*GRECO*) after entry into force of the Convention against Corruption.²² Parties also signed visa facilitation and readmission agreements.²³ In July 2005, Ukraine unilaterally abolished visas for nationals of EU member states and Switzerland.²⁴ In February 2008, Kyiv signed the protocol on Ukraine's accession to the WTO.²⁵

Eastern Partnership. In May 2009, Poland and Sweden initiated a new EU foreign policy initiative – Eastern Partnership. Six Eastern European and South Caucasus countries were invited to join the initiative, namely: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. Eastern Partnership led to differentiation between EU's southern and eastern neighbours, which did not happen with ENP. The new format envisaged cooperation at both the bilateral and the multilateral level. Eastern Partnership framework provided for concluding new agreements, including free trade area, and a prospect of granting visa-free travel.²⁶

Distinguishing the six countries that used to be a part of the Soviet Union affected strategic interests

of Russia, which was making attempts to involve the said countries in its own integration project in the post-Soviet territory. Thus, Eastern Partnership caused a negative reaction from Moscow.

Using political and diplomatic, economic, energy sector levers of influence, Kremlin tried to impose its Eurasian integration alternative on Ukraine.

So, we are talking about two mutually exclusive integration models: (a) European, based on democratic values and standards, the rule of law, political pluralism and liberal economy, and (b) Russian – authoritarian, state-centred, based on the principle of domination of one actor.²⁷ (A detailed analysis of Russian influence is presented in Section 3 of this report).

Public Opinion

In general, selecting between the European (EU) and Eurasian (EurAsEC, later EAEU) course of integration, Ukrainian citizens preferred the European direction. Only in August 2012, the number of supporters of both integration vectors was almost equal. However, after the start of Russian aggression in 2014, the idea of joining EAEU lost relevance for respondents. Thus, in December 2019, 53.3% of respondents supported the European integration course, 10.6% wished to join EAEU, at the same time, 29.3% did not consider it necessary to integrate into either the EU or EAEU.

It should be noted that Eastern Partnership, which united six countries with different geopolitical interests and integration orientations, has unfortunately not become an effective tool for bringing Ukraine closer to the European Union.

Summarising some of the abovementioned events and trends in the initial period of evolution of EU-Ukraine relations, we would like to state the following.

First. One of the key factors that defined the nature, state and prospects of Kyiv-Brussels relations was Ukraine's internal weakness and its insufficiently reformed systems, lack of anti-corruption efforts, low indicators of socioeconomic development, etc. Coupled with other internal issues, this made Ukraine objectively unready to join the EU. The proclaimed European integration course was largely declarative in nature and was implemented ineffectively and inconsistently by the Ukrainian authorities as part of the country's domestic policy.

²¹ EU-Ukraine Summit, Kiev, 1 December 2005. – European Commission, https://ec.europa.eu/commission/presscorner/detail/en/PRES_05_337.

²² Ukraine became 40th member of the Council of Europe Group of States against Corruption. – Ministry of Justice, <https://minjust.gov.ua/news/ministry/ukraina-stala-sorokovim-chlenom-grupi-derjav-radi-evropi-proti-koruptsii-greko-6134>.

²³ Both agreements were signed in Luxembourg on 18 June 2007. For more information, see: Agreement between the European Community and Ukraine on visa liberalisation. – Verkhovna Rada of Ukraine, https://zakon.rada.gov.ua/laws/show/994_850; Угода між Україною та Європейським Співтовариством про реадмісію осіб. – Верховна Рада України, https://zakon.rada.gov.ua/laws/show/994_851.

²⁴ Ukraine has abolished visas for citizens of EU countries, Switzerland, Liechtenstein and Canada. – Korrespondent, 26 July 2005, <https://ua.korrespondent.net/ukraine/259263-ukrayina-skasuvava-vizi-dlya-gromadyan-krayin-es-shvejcarsiyi-lihtenshtejnu-i-kanadi>.

²⁵ Yushchenko signs Protocol on Ukraine's Accession to the WTO. – UNIAN, 5 February 2008, <https://www.unian.ua/politics/94299-yuschenko-pidpisav-protokol-pro-vstup-ukrajini-do-sot.html>.

²⁶ Eastern Partnership. – Government website, <https://www.kmu.gov.ua/diyalnist/yevropejska-integraciya/shidne-partnerstvo>.

²⁷ EU-Ukraine-Russia Relations: Problems and Prospects. – National Security and Defence, 2012, No.4-5, p.8-10.

Second. Unpreparedness of the EU to offer membership prospects to former Soviet republics, except for the three Baltic states, which despite having been a part of the USSR have always been viewed as a part of European civilisation space. This unpreparedness is explained by many internal and external factors, in particular the growth of internal problems, the “overload” from the recent enlargement waves, etc. At the same time, Brussels, while refusing to clearly determine Ukraine’s EU membership prospects, urged Kyiv to undertake major internal transformations and set requirements that were largely similar to those set for candidate countries, yet provided less financial and economic assistance.

Third. The growing influence of Russia, which was not abandoning its attempts to return the former Soviet republics to the zone of its own “privileged” interests, and was imposing the alternative Eurasian integration in the form of the EES, Customs Union, and later – EurAsEC, EAEU; Moscow pursued its “integration policy” through political and diplomatic pressure, using financial and economic, energy levers of influence, threats, bribery, information pressure, etc.

Fourth. Ukraine’s European integration is a complex, multi-layer, gradual process in different sectors – political, economic, sociocultural, etc. That said, it is clear that a conscious pro-European choice of citizens, their support of the country’s movement towards the EU, establishment of European identity in the Ukrainian society, – are the most important aspects of Kyiv’s movement towards the European community.

1.2. POLITICAL ASSOCIATION AND ECONOMIC INTEGRATION WITH THE EU

The new stage of Kyiv-Brussels relations came with the approval and further implementation of the EU-Ukraine Association Agreement, with the Deep and Comprehensive Free Trade Area (DCFTA) as its component. In March 2007, Ukraine and the EU have started negotiations on signing a new agreement to substitute PCA. In September 2008, at EU-Ukraine Paris summit parties decided that a new enhanced agreement will be named the Association Agreement (hereafter – the Agreement) and will be based on

principles of political association and economic integration. In December 2011, negotiations regarding the Agreement were concluded, and in March 2012, its text was initialled.²⁸

It was planned to sign the Agreement at Vilnius Eastern Partnership Summit in November 2013. However, due to Russia’s pressure, on 21 November 2013, M.Azarov’s Government has made a decision to suspend the preparations for concluding the Agreement.²⁹ At Vilnius Eastern Partnership Summit on 29 November 2013 President of Ukraine V.Yanukovich has definitively withdrawn from signing the document.³⁰ This decision of Ukrainian authorities was met with mass protests in Kyiv, which went down in history as “The Revolution of Dignity”.

The European Parliament and the Verkhovna Rada of Ukraine then simultaneously ratified the Agreement on 16 September 2014. Yet, as a result of Russia’s pressure, implementation of the economic part of the Agreement (DCFTA) was postponed until 1 January 2016.³¹

On 1 September 2017, the Agreement officially came into force.³² This is the most extensive, legally binding bilateral agreement in the entire history of EU-Ukraine relations. It contains 486 articles grouped into seven titles, 44 annexes and three protocols, which constitute an integral part of the Agreement.³³

Reference. Note that relations of political association and economic integration that were being established between Ukraine and the EU after signing the Agreement were provided for in the Lisbon Treaty.³⁴ Given the rather vague wording in the founding treaty of the EU, they were specified in the decision of the Court of Justice of the European Communities as of 1987. According to the decision, the Agreement creates special privileged relations with non-member states, which must, at least to a certain extent, take part in the Community system.

Let us also remember, that not long before the Agreement took effect, in June 2017, another important event took place in the Kyiv-Brussels relations – **the visa-free regime between Ukraine and the EU entered into force.**

We cannot overlook the fact that the process of adopting and implementing the Agreement actually coincided in time with extremely difficult

²⁸ EU-Ukraine Relations. – MFA of Ukraine, <https://mfa.gov.ua/ua/about-ukraine/european-integration/ua-eu-relations>.

²⁹ Azarov abandons the Association Agreement with the EU. – Ukrayinska Pravda, 21 November 2013, <https://www.pravda.com.ua/news/2013/11/21/7002657>.

³⁰ Yanukovich did not sign the Association Agreement at the summit in Vilnius. – Dzerkalo Tyzhnia (Mirror Weekly), 29 November 2013, https://dt.ua/POLITICS/ukrayina-ne-pidpisala-ugodu-pro-asociaciyu-na-samiti-u-vilnyusi-132821_.html.

³¹ The EU has unilaterally introduced trade preferences for Ukrainian goods in advance. At the same time, in March 2014, the European Commission approved a plan of assistance to Ukraine, which provided for the allocation of €11.175 bn by 2020.

³² The Association Agreement was signed in two stages: on 21 March 2014 – the political part, on 27 June 2014 – the economic. On 16 September 2014, the Verkhovna Rada and the European Parliament simultaneously ratified the Agreement. On 1 January 2016, the EU and Ukraine started applying the Free Trade Area. On 1 September 2017, the Agreement officially came into force.

³³ See: Integration within Association: Dynamics of the EU-Ukraine Agreement Implementation. “Civic Synergy” Project. – International Renaissance Foundation with support of the EU, December 2019, <https://www.civic-synergy.org.ua/wp-content/uploads/2018/04/Integratsiya-u-ramkah-asotsiatsiyi-dynamika-vykonannya-Ugody-mizh-Ukrainoyu-i-YES-3-e-vydannya-1.pdf>.

³⁴ According to Article 217 of the Treaty of Lisbon, “The Union may conclude with one or more third countries or international organisations agreements establishing an association involving reciprocal rights and obligations, common action and special procedure”. For more information, see: Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union with protocols and declarations. – Verkhovna Rada of Ukraine, https://zakon.rada.gov.ua/laws/main/994_b06.

and dangerous circumstances, which later not only affected the pace and nature of Agreement implementation, but also the overall state of Kyiv-Brussels relations.

First, in 2014, Russia started its massive aggression campaign against Ukraine – annexing Crimea and conducting a military intervention in Eastern Ukraine. Not only did it dramatically change the state of relations in the notional Ukraine-EU-Russia “triangle”, it also affected the situation on the European continent and the world at large. **Second**, as a result of “Euromaidan”, Ukraine has had a change of political regime, asserted its pro-European choice, yet rather powerful pro-Russian forces were still present on Ukraine's political arena. **Third**, during this period the EU experienced some drastic complications of its own: the peak of the large-scale migrant crisis, the launch of the process of UK exiting the EU, intensification of terrorism in Europe, which could not but affect Agreement implementation and the EU-Ukraine contacts as a whole.

The Agreement provides for the possibility of achieving the highest level of cooperation between parties, subject to mutual fulfilment of obligations.³⁵ However, the Agreement did not provide for EU membership prospects.

In this context, it is quite telling that the 19th EU-Ukraine Summit (July 2017) ended without the signing of the final statement precisely because of the Netherlands' refusal (supported by Germany and France) to include a provision on Ukraine's European aspirations.³⁶ The following 20th EU-Ukraine Summit (July 2018) ended with the approval of the final statement that included acknowledgement of Ukraine's European aspirations.

In 2017, the Government approved the Action Plan for implementation of the Association Agreement and the procedure to control the implementation, the 2017-2018 Plan of Translating EU Legislative Acts and Agreement Communication Strategy.³⁷

Very briefly and generally summarising the course of Agreement implementation, we would like to note that the start of implementation was complicated.

According to President P.Poroshenko, as of October 2017, Ukraine has implemented only 15% of the Agreement and there was still “a lot to do”.³⁸ At the same time, there was a significant lag in a number of problematic sectors. According to Vice Prime Minister for European and Euro-Atlantic Integration Ivanna Klympush-Tsintsadze, “...there are sectors, where we are lagging behind: these are the issues of customs, transport sector, environment, social policy falls behind according to our commitments for previous years. The parliament is delaying consideration of certain bills for a long time. We have managed to establish sound cooperation on advancing European integration initiatives with only few committees”.³⁹

According to Government report on Agreement implementation in 2017, in the process of implementing the Agreement, Ukraine has achieved certain progress in the areas of consumer rights protection, environmental protection, social policy, energy efficiency, etc.⁴⁰ Steps have been made towards approximation to EU's digital standards, legislative support for food products safety reform. Ukraine has adopted the framework law on environment management and integration of environmental policy into all sectors, created legal framework for implementation of international standards in the field of accounting, etc. Overall, in 2017, 23 basic European integration laws have been adopted.

At the same time, the Agreement was a booster for developing trade and economy contacts between Kyiv and Brussels. Namely, in 2017, Ukraine sold \$4 billion (or almost 30%) more worth of goods in the European market than the year before. The overall export of goods and services to the EU in 2017 amounted to \$20 billion, moreover, Ukraine's export to the EU expanded by 362 new trade items.⁴¹

EU Evaluation. On 14 November 2017, the European Commission published a report on the implementation of the EU Association Agreement by Ukraine, which commented on meaningful progress in the fields of energy, environment, education, decentralisation, public administration reform, etc.⁴²

Yet, the overall pace of Agreement implementation can hardly be assessed as satisfactory. Thus, on 23 February 2018, the Government of Ukraine presented

³⁵ Judgment of the Court of 30 September 1987. – Meryem Demirel v Stadt Schwabisch Gmund. – Reference for a preliminary ruling: Verwaltungsgericht Stuttgart – Germany. – Association agreement between the EEC and Turkey – Freedom of movement for workers. – Case 12/86, <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576067735940&uri=CELEX:61986CJ0012>.

³⁶ See: Futile Summit: the EU blocks Ukraine's European dream. – European Pravda, 13 July 2017, <http://www.eurointegration.com.ua/articles/2017/07/13/7068450>.

³⁷ See: Government-approved Action Plan for implementation of the Association Agreement will accelerate its implementation – Ivanna Klympush-Tsintsadze. – Government website, <https://www.kmu.gov.ua/ua/news/250372246>.

³⁸ Poroshenko says the Association Agreement is 15% complete. – European Pravda, 20 October 2017, <http://www.eurointegration.com.ua/news/2017/11/20/7073896>.

³⁹ Vice Prime Minister: a number of Ukrainian sectors lag behind in Association performance. – European Pravda, 25 October 2017, <http://www.eurointegration.com.ua/news/2017/10/25/7072749>.

⁴⁰ See: Report on Implementation of the EU-Ukraine Association Agreement in 2017. – Government Office for Coordination of European and Euro-Atlantic Integration; Office of the Vice Prime Minister for European and Euro-Atlantic Integration of Ukraine, <https://www.kmu.gov.ua/storage/app/media/uploaded-files/pro-vikonannya-ugodi-pro-asotsiatsiyu-mizh-ukrainoyu-ta-evropeyskim-soyuzom-za-2017-rik.pdf>.

⁴¹ Ibid.

⁴² See: Association Implementation Report on Ukraine. – European Commission, https://eeas.europa.eu/sites/eeas/files/association_implementation_report_ukraine.pdf.

its report on Agreement implementation, where the overall progress in 2017 was estimated at 41%. In particular, the Parliament completed 32% of tasks, central executive power authorities – 42%, other government bodies – 50%.⁴³

Obviously, these indicators are somewhat formal and illustrative in nature, but they provide some insight into the state of affairs in various sectors and the effectiveness of government actions.

In 2017, Ukraine did not implement EU norms on transportation, occupational health and safety, public health. There was a delay in reforms in these areas: customs, public procurement, exploration and development of hydrocarbons, environment, etc.

On the other hand, certain initiatives that contradicted the European integration course were being advanced in the Verkhovna Rada. In particular, a “Buy Ukrainian, Pay to Ukrainians” bill was introduced in the Verkhovna Rada, which “contravened the provisions of the Agreement in the “Public Procurement” section on the principle of non-discrimination between foreign and domestic economic operators in the trade in goods and services in the public procurement sector”.⁴⁴

Alignment of Ukrainian legislation to EU norms was also slow and failed to meet deadlines – Ukraine fulfilled only 10 out of 86 commitments.

At the same time, the fight against corruption was and still remains a difficult problem in Kyiv’s relations with Brussels. In 2017, the EU expressed concern regarding the conflict between Prosecutor General’s Office and the National Anti-Corruption Bureau, failure to implement the automatic verification module for e-declarations. There was a problem with the anti-corruption court situation – the corresponding bill introduced in the Parliament by the President caused criticism from partner countries and international organisations.

Evaluating 2017, Hugues Mingarelli, Head of the EU Delegation to Ukraine, highlighted four problems with Association Agreement implementation: (a) coordination between ministries; (b) determination of relevant priorities by the Verkhovna Rada; (c) providing comprehensive monitoring of document implementation; (d) informing the public.⁴⁵ This list should obviously

include other factors: the profound nature of internal Ukrainian problems and bureaucratic obstacles in decision-making; lobbying of corporate interests against European integration priorities; internal problems within the EU, etc.

Based on Government data, in 2018, the situation with Agreement implementation has somewhat improved compared to the previous year. Thus, according to the 2018 Government report, the overall level of completion of the set objectives was at 52%. The Parliament completed 40% of tasks, central executive power authorities – 55%, other government bodies – 47%, etc.⁴⁶

The dynamic of Agreement implementation can be viewed in the diagram “*Progress of EU Association Agreement Implementation by Ukraine in 2017 and 2018*” p.10.

Ukrainian government has taken a number of steps to improve the joint work of executive and legislative branches of power on adopting European integration legislation, informing citizens about the benefits of European integration. In particular, they approved the Roadmap for Agreement Implementation⁴⁷ (February 2018) and the Action Plan for Implementation of European Integration Communication Strategy (April 2018).⁴⁸ In July 2018, Coordination Council for European Integration Communications was launched,⁴⁹ and in November 2018 they started information campaigns aimed at explaining the benefits of EU and NATO membership to the public.⁵⁰

Ukrainian achievements in Agreement implementation include the following. Noticeable progress has been achieved in: entrepreneurship (89%), agriculture (86%), reduction of technical barriers in trade (70%), social policy and labour relations (70%). Also, Ukraine fulfilled 73% of its commitments on approximation of entrepreneurship legislation to EU law.⁵¹

EU Evaluation. On 9 November 2018, the European Commission in its Report on Ukraine’s implementation of the Agreement in 2018 commented on certain progress in the areas of sanitary and phytosanitary measures, competition, transparency of public procurement, climate, energy, financial services and intellectual property. The EU also praised the pension and education reforms, as well as healthcare, public administration and decentralisation reforms.

⁴³ Report on Implementation of the EU-Ukraine Association Agreement in 2017. – Government Office for Coordination of European and Euro-Atlantic Integration; Office of the Vice Prime Minister for European and Euro-Atlantic Integration of Ukraine, <https://www.kmu.gov.ua/storage/app/media/uploaded-files/pro-vikonannya-ugodi-pro-asotsiatsiyu-mizh-ukrainoyu-ta-evropeyskim-soyuzom-za-2017-rik.pdf>.

⁴⁴ See: The “Buy Ukrainian...” bill violates Ukraine’s obligations to WTO – Klymush-Tsintsadze. – Interfax-Ukraine, 8 December 2017, <http://ua.interfax.com.ua/news/economic/468255.html>.

⁴⁵ The EU has identified four key conditions for effective implementation of the Association Agreement. – UNIAN, 25 October 2017, <https://www.unian.ua/politics/2206659-v-es-nazvali-chotiri-osnovni-umovi-dlya-efektivnogo-vprovadjennya-ugodi-pro-asotsiatsiyu.html>.

⁴⁶ See: Report on Implementation of the EU-Ukraine Association Agreement in 2018. – Government Office for Coordination of European and Euro-Atlantic Integration; Office of the Vice Prime Minister for European and Euro-Atlantic Integration of Ukraine, https://www.kmu.gov.ua/storage/app/sites/1/55-GOEEI/AA_report_UA.pdf.

⁴⁷ The Government and Parliament approved the Roadmap for EU-Ukraine Association Agreement implementation. – Government website, <https://www.kmu.gov.ua/ua/news/uryad-i-parlament-shvalili-dorozhnyu-kartu-vikonannya-ugodi-pro-asociaciyu-z-yes>.

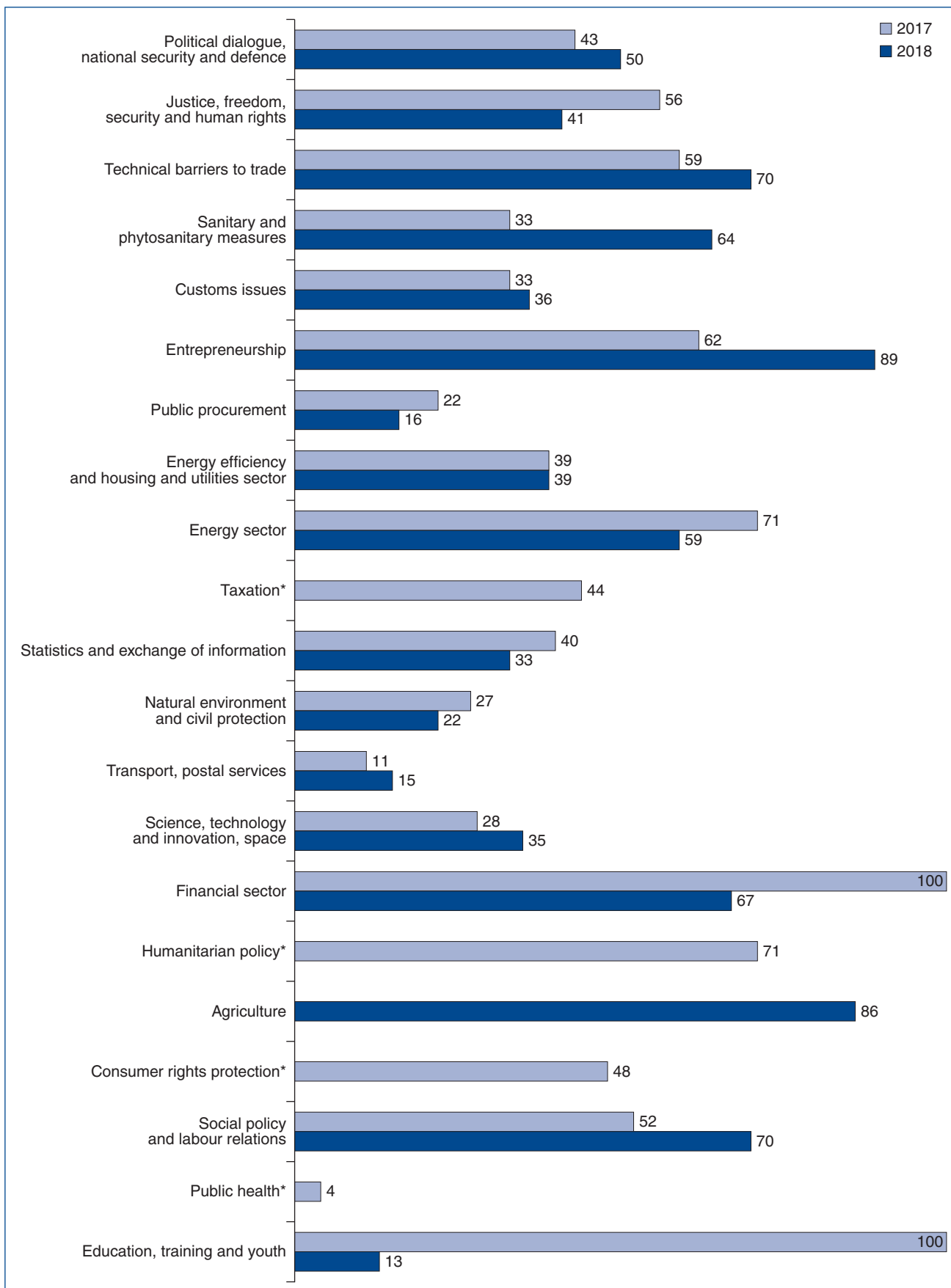
⁴⁸ Government approved the Action Plan for Implementation of European Integration Communication Strategy. – Government website, <https://www.kmu.gov.ua/ua/news/uryad-zatverdiv-plan-zahodiv-z-realizaciyi-strategiyi-komunikaciyi-yevrointegraciyi>.

⁴⁹ Coordination Council for European Integration Communications started its work. – Government website, <https://www.kmu.gov.ua/ua/news/koordinacijna-rada-z-komunikaciyi-yevrointegraciyi-rozpochala-svoyu-robotu>.

⁵⁰ Ukraine launched information campaigns on the topics of European and Euro-Atlantic integration. – Government website, <https://www.kmu.gov.ua/ua/news/v-ukrayini-startovali-informacijni-kampaniyi-na-temu-yevropejskoyi-ta-yevroatlantichnoyi-integraciyi>.

⁵¹ See: Report on Implementation of the EU-Ukraine Association Agreement in 2018.

Progress of EU Association Agreement Implementation by Ukraine in 2017 and 2018, %



* In 2018, there were no obligations in the framework of the Association Agreement.

Source: Report on Implementation of the EU-Ukraine Association Agreement in 2017, Kyiv, 2018, <https://www.kmu.gov.ua/storage/app/media/uploaded-files/pro-vikonannya-ugodi-pro-asotsiatsiyu-mizh-ukrainoyu-ta-evropeyskim-soyuzom-za-2017-rik.pdf>; Report on Implementation of the EU-Ukraine Association Agreement in 2018, Kyiv, 2019, https://www.kmu.gov.ua/storage/app/sites/1/55-GOEEI/AA_report_UA.pdf.

On the other hand, there was a chronic delay in a number of important sectors. In particular, approximation of legislation to EU norms in the transport sector was happening with delays. In May 2018, Ukraine adopted a new National Transport Strategy, however, did not adopt laws on opening up the markets of road, railroad and inland waterways.⁵² The pace of accomplishing corresponding tasks in the customs sector, energy efficiency, statistics, environment, education, training and youth was slow. “Homework” on creating conditions for signing the EU ACAA agreement was not done.

Judicial reforms progressed at a slow pace. Alongside the adoption of the Law “On High Anti-Corruption Court”, the EU noted the small number of convictions in top-level corruption cases,⁵³ the low rate of verification of officials’ e-declarations,⁵⁴ and failure to fulfil previous promises to abolish the obligatory e-declaration for anti-corruption activists.

The final statement of the 20th EU-Ukraine Summit (July 2018) emphasises the need to continue fighting corruption.⁵⁵ In this context, let us also remember that on 19 December 2018, the EC published its second report under the Visa Suspension Mechanism. As in the year before that, Ukraine received a list of seven recommendations, four of which deal with the fight against corruption. In particular, Brussels called for the full launch of the High Anti-Corruption Court, as well as for restoring the independence and trust in the Specialised Anti-Corruption Prosecutor’s Office.⁵⁶

Assessing Agreement implementation status, we also need to take into account the results of public monitoring. This monitoring differs from the government one by methodology, general approaches, and assesses the state of Agreement implementation more critically.

EXPERT ASSESSMENTS OF THE STATUS OF ASSOCIATION AGREEMENT IMPLEMENTATION.

The report prepared by Ukrainian experts in the framework of Civic Synergy Project implemented by the International Renaissance Foundation with support of the EU, states that “...as of November 2019, Ukraine had to fulfil its obligations in at least 5 sectors (out of 14): technical barriers, customs procedures, postal and courier services, inland waterway transport, and partly in public procurement. Also, the “homework” deadlines are drawing near (end of December 2019) in 2 other sectors: telecommunications and the natural gas market.

Thus, as of November 2019, Ukraine should have created conditions for the adoption of at least 5 EU decisions on integrating Ukraine into its internal market: concluding the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA); Ukraine’s accession to two customs Conventions; recognition of Authorised Economic Operators; providing an internal market regime for postal and courier services; partial opening of the public procurement market.

Yet... thus far, **Ukraine has completed its “homework” only in 2 sectors: technical barriers to trade; (partially) in public procurement.** So, by now, the EU should have already made decisions regarding: concluding the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA); opening the public procurement market”.⁵⁷

Describing the status of Agreement implementation, let us pay special attention to Title II “Political dialogue and reform, political association, cooperation and convergence in the field of foreign and security policy”. It seems that the parties have left this part (as well as Title III “Justice, freedom and security”) aside. But obviously, for Ukraine, which is fighting Russia’s hybrid aggression, security issues, joint response to regional challenges and threats constitute basic foreign policy priorities, an important component of relations with other countries and international institutions, in particular the EU. Yet, this is precisely this area of the Agreement that looks nominal, secondary and difficult to implement given the following factors.

First. According to Ukrainian experts: “While “economic integration” is an established term, the term “*political association*” which is not explained in the text of the Association Agreement, is unknown to the EU law (there is the term “association”, while “political association” only occurs in the Association Agreement and other EU documents with Ukraine, Moldova and Georgia, and in Eastern Partnership documents) and has not been analysed in academic literature”.⁵⁸ Therefore, we lack a clear legal definition of this term that is used in the Agreement to define a part of the integration process.

Second. This part contains only general phrases like “increase political and security policy convergence”, “promote international stability and security based on effective multilateralism”, “develop dialogue and deepen cooperation between the Parties in the field of security and defence”, etc. Thus, unlike the “economic block”, the political part of the Agreement does not contain clear commitments of the parties, specific plans and performance indicators.

Third. We would agree with opinions of Ukrainian experts who think that Titles II and III of the Agreement require specification. “Defining commitments in the political and legal sector as an annex to the Association Agreement seems to be the best option, while implementation plans for these commitments can be presented, if necessary, in the form of “Action Plans” or “Roadmaps”. They can take the form of not one, but several annexes to the AA”.⁵⁹

⁵² Joint Staff Working Document. Association Implementation Report on Ukraine. – European Commission, https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPl-d-gbCzXpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf.

⁵³ Convictions were made in 21 cases, yet none involved any senior officials.

⁵⁴ As of October 2018, NACP managed to review only 400 e-declarations out of 2.7 million of those uploaded into the system.

⁵⁵ Joint statement following the 20th EU-Ukraine Summit. Brussels, 9 July 2018. – European Council; Council of the EU, <https://www.consilium.europa.eu/media/36086/joint-statement-eu-ua-summit-2018.pdf>.

⁵⁶ Report from the Commission to the European Parliament and the Council. Second Report under the Visa Suspension Mechanism. – European Commission, https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20181219_com-2018-856-report_en.pdf.

⁵⁷ See: Integration within Association: Dynamics of the EU-Ukraine Agreement Implementation. “Civic Synergy” Project. – International Renaissance Foundation with support of the EU, December 2019, p.12.

⁵⁸ Ibid., p.16-19.

⁵⁹ Ibid., p.18.

Of course, the EU-Ukraine relations are not limited to just implementing the Association Agreement. The overall assessment of Kyiv-Brussels relations under the previous government shows, on the one hand, positive moments, achievements and accomplishments, certain progress on the path of European integration, although not quite at the desired pace. On the other hand, there were a number of miscalculations, mistakes, crisis events that were slowing down the country's movement towards the European community. European integration assets include the following:

- **updated and strengthened legal framework of the partnership.** The main achievement on the path to the EU was the enactment of the EU-Ukraine Association Agreement, which became the roadmap for Ukrainian reforms, the basis of relations between Kyiv and Brussels. At the same time, the pace of its implementation is not satisfactory;
- **introduction of the visa-free travel regime.** An accomplishment of the European integration process is the introduction of the visa-free travel regime between Ukraine and the EU on 11 June 2017.⁶⁰ This was preceded by Ukraine's fulfilment of all requirements in the framework of the Visa Liberalisation Action Plan, completed in December 2015.⁶¹ According to the Government, as of 11 June 2019, almost 3 million Ukrainian citizens have crossed the EU border with biometric passports since the start of visa-free travel;⁶²
- **development of financial, trade and economic cooperation.** As a result of application of the Association Agreement, the volume of bilateral trade with EU countries grew. In particular, in 2018, EU exports made up 42% of Ukraine's total export, with almost 15 thousand Ukrainian companies exporting their goods. There is also cooperation in the framework of Macro-Financial Assistance (MFA) programmes that support structural reforms in a number of sectors. Since 2013, Kyiv has received funds under four MFA programmes. This helped diversify the system of Ukraine's foreign economic contacts, supported elimination of critical dependence on the Russian Federation;
- **support in countering Russia's aggression.** During the Russia-Ukraine conflict, the EU provided active and consistent political-diplomatic and financial-economic support to Ukraine. EU governing structures were actively supporting Ukraine. In particular, in 2014-2019, the European Parliament has approved a number of resolutions with demands to stop Russia's aggression, ensure territorial integrity of Ukraine;
- **asserting the irreversibility of Ukraine's European course.** In 2018, President Petro Poroshenko proposed an initiative on capturing in the Constitution the irreversibility of Ukraine's movement towards the EU and NATO. On 20 September 2018, a draft of corresponding constitutional amendments was sent to the Constitutional Court, and already on 22 November

2018, Parliament approved them in the first reading. On 7 February 2019, the Verkhovna Rada has ultimately approved the constitutional amendments on the country's strategic course towards gaining full membership in the EU and NATO.

At the same time, the pace of Ukraine's movement towards the EU and the results of Association Agreement implementation cannot be called satisfactory. First of all, due to internal issues – lack of political will to implement real changes and the slow pace of reforms, inefficiency in fighting corruption, lack of coordination between government authorities and insufficient institutional capacity of ministries and agencies, bureaucratic barriers, Ukraine's failure to comply with its obligations.

The proclaimed European integration course has unfortunately not yet been properly converted into positive political and socioeconomic changes tangible for citizens. At the same time, in internal policy, government was using means and methods different from European principles and standards. Overall, this was discrediting and undermining the European idea within the country and caused the EU to “grow tired” of Ukraine.

Clearly, Ukraine's road to the EU is a two-way street. So, talking about the status of “homework” completion by Kyiv, we should also take into account another important factor – EU's movement towards Ukraine, assistance and support for Ukraine's European integration. In this context, we cannot but talk about the internal situation within the EU – events, processes and trends developing on the EU territory. Lately, it is the EU's internal situation that has been becoming more and more of an influential factor in Kyiv-Brussels relations. And this deserves special attention and a separate analysis.

1.3. EUROPEAN UNION: INTERNAL TRENDS AND ISSUES

In the early 2000s, the EU was demonstrating definite progress in achieving its set goals: ensuring stable peace in Europe, creating a powerful economy, and practical implementation of democracy principles. The EU has created a common legal space, introduced a common citizenship institute. They were moving towards creating a single European identity. However, it is at this time that the EU faced a number of major challenges and complex problems, which also emerged within a very brief historical period.

⁶⁰ Today the decision on the introduction of visa liberalisation between Ukraine and the EU came into effect. – UNIAN, 11 June 2017, <https://www.unian.ua/politics/1968736-vidsogodni-nabulo-chinnosti-rishennya-pro-zaprovadjennya-bezvizovogo-rejimu-ukrajini-z-es.html>.

⁶¹ On the Development of EU-Ukraine Visa Liberalisation Dialogue. – Mission of Ukraine to the EU, <https://ukraine-eu.mfa.gov.ua/ua/ukraine-eu/justice/visa-liberalization>.

⁶² Almost 3 million Ukrainian citizens have used EU visa liberalisation regime within two years. – Government website, 11 June 2019, <https://www.kmu.gov.ua/ua/news/majzhe-3-miljoni-gromadyan-ukrayini-skoristalisya-bezvizom-z-yes-protiyagom-dvoh-rokiv>.

Essentially, during a period of 10 years, several powerful factors at once were at play: the unprecedented expansion of the Union's membership (2004-2013); financial and economic crisis and the euro crisis (2008-2013); the rapid spread of terrorism and the crisis of multiculturalism policy (from 2004); migrant crisis (from 2011). These factors were mutually reinforcing each other and, together, created a real threat to EU unity.

Recently, the situation has been further complicated by Donald Trump's adverse EU policy and the UK's exit from the EU. Brexit proved that European integration is not an irreversible process.

Economic stagnation, rising unemployment, constant threat of terrorism, mass immigration of groups from other cultural communities and increasing burden on social infrastructures of member states created a very favourable ground for national egoism, intensification of nationalist and separatist movements, and a rise of Euro-sceptical sentiment.

In the aftermath, the EU was forced to focus all of its efforts and resources on internal problems, finding answers to challenges, ways and mechanisms to overcome crises.

Challenges of Enlargement and Economic and Financial Crisis of 2008-2013. In 2004-2007, the EU went through the so-called Fifth wave of EU enlargement, as a result of which the number of its members has almost doubled – from 15 to 28 (including Croatia).⁶³ New members included 11 post-socialist countries: (a) with a comparatively lower level of socioeconomic development; (b) non-established democracy traditions; (c) in need of developing their new identity; (d) significant baggage of traumatic historical events and mutual bitterness.

The first factor led to deepening of the socioeconomic gap between EU countries and a high social cost of enlargement: the area of the Union grew by 34%, population – by 28%, and the cumulative GDP per capita – only by 5%. This situation led to a slowdown in the growth of both the economy and the standard of living of citizens in the “old” EU member states, which, along with the need to increase contributions to EU structural funds and reallocation of funds for the benefit of the new members under the cohesion policy, caused dissatisfaction in the donor countries, as well as in the countries that were the main recipients of assistance.⁶⁴

The second factor led to revival and strengthening of authoritarian trends, emergence of authoritarian leaders and, ultimately, manifestations of the normative crisis in the EU, when the new states refuse to adhere to common principles and rules and implement decisions made at the communitarian level (Poland, Romania, Slovakia, Hungary, Czech Republic).

Lastly, the need to develop their new identity naturally caused these post-socialist societies to turn to their national history and assert their national separateness. On these grounds, at the end of 1980s – early 1990s, we saw the emergence of conservative, national patriotic, and openly nationalistic movements and political parties,⁶⁵ which exhibited a painful reaction to transferring a part of their national sovereignty to the communitarian level and especially – to the risks of cultural unification and loss of national-ethnic characteristics of their societies.

Thus, already at the moment of accession to the EU there were signs of disagreement and fears of some new participants in the aspects of political and sociocultural integration: the then President of the Czech Republic V. Klaus expressed reservations,⁶⁶ and centre-right Polish parties – “Law and Justice” (PiS), Polish Peasant Party and “Civic Platform” – announced that after the next parliamentary election in Poland they will initiate the procedure of the country's exit from the EU.⁶⁷

Enlargement was taking place against the backdrop of adverse events and trends within and around the EU. **First**, discussions on the draft of EU Constitution and the failure to adopt it showed a lack of common understanding of values, foundations and prospects of further integration even among the founding countries – the draft was rejected at general referendums in the Netherlands and France.⁶⁸

Second, disagreements between EU members were also reflected in the assessments of legitimacy of the counterterrorism military operation of international forces in Iraq, in which only some EU countries took part, and which led to first terrorist attacks on EU countries by radical Islamists.⁶⁹ On 11 March 2004, Madrid experienced a series of explosions, which took the lives of about 200 citizens and made Spain withdraw its military contingent from Iraq; on 7 July 2005,

⁶³ “Enlargement waves”: 2004 – Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia; 2007 – Bulgaria, Romania; 2013 – Croatia.

⁶⁴ Assistance from the Cohesion Fund was meant for countries with GDP per capita below 90% of the average for the EU, – Greece, Ireland, Portugal, Spain. After enlargement, Poland became the largest recipient of financial aid. For more information, see for example: Polishchuk L.S. Regional Asymmetries in the EU and New Equalisation Policy Instruments. – *Actual Problems of International Relations*, 2015, issue 126, p.116-124, journals.iir.kiev.ua.

⁶⁵ Bulgarian National Movement (1991), Latvian Way (1993), National Party “Homeland” (Estonia, 1992), the “Greater Romania Party” (1991), Polish National Union (1990), Slovak National Party (1989), Slovenian National Party (1991), Croatian Pure Party of Rights (1992), etc.

⁶⁶ Warning against the loss of national identity, V.Klaus said: “We will dissolve in the EU like a sugar cube in a cup of coffee”. See: Czech Republic: on the Eve of Joining the EU. – DW, 13 December 2002, <https://www.dw.com/ru/чехия-накануне-вступления-в-ев/а-704438>.

⁶⁷ Orlyk V., Rukomeda R. European Union Before and After Enlargement. – *Dzerkalo Tyzhnia (Mirror Weekly)*, 29 April 2004, https://dt.ua/POLITICS/evropeyskiy_soyuz_do_i_pislya_rozshirenya.html.

⁶⁸ Constitution for Europe – draft was developed in 2004. While discussing it, Belgium, France, Germany, Italy, Luxembourg, Netherlands advocated the transfer of sovereign powers to EU's supranational bodies. Meanwhile, Poland, Spain and a number of others advocated the preservation of the significant part of sovereignty under national jurisdiction. The draft was rejected in 2005. After referendums in the Netherlands and France, the rest of EU countries did not hold referendums.

⁶⁹ International coalition led by the USA and the UK conducted its military operation in Iraq against the Saddam Hussein regime from March 2003 to December 2011. The coalition included Estonia, Italy, the Netherlands, Poland, Spain.



a serial terrorist attack in London killed about 60 people and over 700 were injured.

The London attack was crucial, since three out of four suicide bombers were born, raised and educated in the UK and were its citizens – this has drawn attention to Muslim communities in EU countries, in particular those that formed closed ethnic enclaves, or the so-called *parallel societies* on the territory of their countries of residence.⁷⁰ It turned out that the multiculturalism policy practiced by the EU since 1960s did not ensure full integration of immigrant groups from other cultures into local societies, and the EU lacked a common policy for helping them adjust to European norms and social co-habitation rules. This factor, alongside others, led to far-reaching negative consequences.

Third, The enlargement took place almost at the final stage of economic integration in the EU – the creation of an economic and monetary union – the euro area. Responsibility for the monetary policy was transferred to the European Central Bank, while budgetary (fiscal) and debt policy remained the responsibility of respective national governments, which meant that there was no single and binding policy for all eurozone members in the field of finance. Such functional gap posed a threat of destabilisation of the entire euro area financial system under the influence of external factors.

The global financial and economic crisis that started in 2008 became such a factor, which undermined the stability of banking systems, including in the EU countries. To support them, significant budget

subsidies were needed.⁷¹ This saved the banks from bankruptcy, but shifted the debt burden to national budgets, thus complicating the internal socioeconomic situation – in addition to production drop also caused by the crisis and a sharp decline in demand. Combined, these factors have led to depletion of EU member states' budgets, increased budget deficits and, consequently, limited international borrowing opportunities.

The latter has foremost affected the economically weakest links of the European Union, which were at the same time a part of the eurozone. As a result, in 2010, Greece, Ireland, Spain, Portugal (and later – Italy) found themselves on the verge of default. This caused a sharp drop of the Euro and a rapid collapse of securities prices of other eurozone countries, leading to a crisis of the entire union. To help countries on the verge of bankruptcy and curb fluctuations in the financial markets, in May 2010, Europe created the European Stability Mechanism with a €500 bn budget.⁷²

This move generated dissatisfaction from the donor countries, forced to pay for the budgetary problems of others at the cost of reducing their own social spending and the loss of pace of socioeconomic development. Overall, the debt crisis has greatly exacerbated dissatisfaction with the EU enlargement, increased its social base, and triggered an increase in autonomy and separatist movements in the more developed regions of EU countries (Flanders in Belgium, Catalonia in Spain, Piedmont, Veneto and Lombardy in Italy, etc.).

Eurosceptic sentiment has also intensified. It was then that at the 2011 party conference Prime Minister of the United Kingdom at the time David Cameron claimed that the debt crisis was a threat not only to the euro area, but also to the UK economy, and thus it made sense to hold a referendum on exiting the EU. This initiative was supported by Boris Johnson, the Mayor of London at the time, and currently – the UK Prime Minister, who is completing the process of the country's withdrawal from the EU.⁷³

Migrant Crisis Amid Terrorist Threats. In 2011, the “Arab Spring” events, military action in the Middle East, armed conflicts and starvation in northern Africa, caused the mass migration flow to Europe, which peaked in 2015, when 1.3 to 1.8 million migrants arrived in Europe, the vast majority of whom came from Syria, Afghanistan, Iraq and Libya.⁷⁴ Mass immigration forced the EU leadership to talk about a “refugee crisis” and to put forward a proposal on quota schemes for accepting migrants in all EU member states.

⁷⁰ As of 2004, according to different calculations of migrant services and experts, there were from 8 to 15 million Muslims residing in Western Europe: 3.5-5 million in France, 3-4.5 million in Germany, 1.5-2 million in the UK, 0.5-1 million in the Netherlands, 0.3 million in Belgium. See: Orlyk V. Muslim Europe. – Dzerkalo Tyzhnia (Mirror Weekly), 23 July 2004, https://dt.ua/POLITICS/evropa_musulmanska.html.

⁷¹ Thus, the size of Germany's “anti-crisis package” was €500 million.

⁷² Assistance programmes were being implemented for eight years; only in June 2018 it was announced that the debt crisis was over and assistance was stopped for the last problem-ridden country – Greece. See: Shapran V. Recovery of Greece: EU's Deepest Financial Crisis Deemed Overcome. – Yevropeiska Pravda, 29 June 2018, <https://www.eurointegration.com.ua/articles/2018/06/29/7083626>.

⁷³ EU exit referendum took place on 23 June 2016. Turnout was 72% of citizens; EU exit was supported by 51.9%, 48.1% were against. However, in some areas of the United Kingdom – in Gibraltar, Scotland, Northern Ireland – most voted against *Brexit*.

⁷⁴ According to IOM, almost 1.5 million people; according to European Border and Coast Guard Agency Frontex – 1.8 million. See: Migrant Crisis in Europe. Dossier. – TASS, 28 June 2018, <http://tass.ru/info/5336277>.

The plan for distribution of migrants was approved by the EU Council on the level of Ministers of the Interior in September 2015. However, Poland, Romania, Slovakia, Hungary and Czech Republic did not support this decision.⁷⁵ Meanwhile, the countries that were the migrants' route to the EU (Greece, Spain, Italy, Austria) were bearing the double burden, as well as countries with high social standards – the migrants' goal (Germany, Denmark, Sweden).

Discussions around the refugee problem became extremely heated and caused dispute not only between EU countries, but also within the countries (e.g., the 2018 German government crisis⁷⁶), as well as international incidents.⁷⁷

The migrant crisis created overwhelming problems for the EU and some of its core values, such as freedom of movement and human rights. It turned out that EU leaders have different views on solidarity in this particular situation. Thus, Hungary stated that the only way to stop the massive influx of migrants is to close EU borders. Viktor Orban discarded Angela Merkel's appeals to demonstrate humanness stating that countries should be practicing humanness towards their own citizens.⁷⁸

At the same time, crisis mitigation mechanism was finally found: in 2016, an agreement was struck with Turkey about Turkey accepting refugees in camps on its territory, which would be funded by the EU.⁷⁹ Since then, the number of migrants to the EU has been steadily declining (already in 2016, there were just 390 thousand people). At the same time, as of early 2020, there were about 3.7 million refugees on the territory of Turkey, the majority of whom came from Syria, where hostilities still continue. In September 2018, the leaders of Russia and Turkey

agreed to establish a demilitarised zone in Syria's Idlib border region.⁸⁰

The massive influx of immigrants to EU countries created a number of problems. **First**, conflicts specific to immigrants' countries of origin started occurring increasingly more often in EU countries. Thus, on 9 December 2017, after Donald Trump announced the United States recognition of Jerusalem as the capital of Israel, a group of Muslim immigrants, among whom were Palestinian refugees, attacked a synagogue in Gothenburg, Sweden.⁸¹ In Germany, there have been clashes between Sunnis and Shiites, Sunnis and Yazidis; between Kurds and Turks, Syrians and Afghans.⁸² Quite regular are clashes between ethnic groups in refugee camps in Greece.

Second, the phenomenon of "new anti-Semitism" emerged and spread in the form of attacks against Jewish EU citizens by Muslim immigrants hostile to Israel. These manifestations are especially visible in Germany and France.⁸³ According to the Head of European Jewish Congress, "Today over 80% of European Jews do not feel safe in Europe, over 40% are looking at the idea of leaving Europe".⁸⁴

Third, the migrant crisis significantly increased the terrorist threat to Europe. The peak of the migrant crisis coincided in time with the peak of terrorist attacks that started with the abovementioned attacks in Madrid and London. In 2015, the UK officially recorded 103 terrorist attacks, France – 72, Spain – 25.⁸⁵ Overall, in 2004-2017, over 600 people in nine EU countries died from the actions of Islamic terrorists.

Fourth, there is a radicalisation of Muslim diasporas in EU countries and involvement of local youth into their groups. Islamist militant group the "Islamic State" (IS) has openly stated that it is sending

⁷⁵ In May 2017, Hungary and Slovakia appealed to the European Court of Justice, arguing that the EU's 2015 decision on the distribution of migrants was approved with procedural irregularities. In September, the Court dismissed the claims. At the same time, in June, the EC announced the launch of prosecution procedures against Poland, Hungary and the Czech Republic for failure to comply with the EU decision. In May 2019, the European Court of Justice started hearings on the case of countries that have refused to comply with the quota decision – the Czech Republic, Poland and Slovakia.

⁷⁶ 2018 government crisis in Germany due to disagreements between CDU/CSU coalition partners Chancellor Angela Merkel (CDU leader), who supported the "open door policy", and Interior Minister Horst Seehofer (CSU leader), who demanded the introduction of strict measures to reduce immigration.

⁷⁷ For example, Turkish President Erdogan's stern response to Austria's adoption of legislation restricting immigration and external financing of mosques on the territory of Austria.

⁷⁸ For more information, see: Why Merkel and Orban Did Not Agree On the Issue of Receiving Migrants. – Rambler, 5 July 2018, <https://news.rambler.ru/world/40265185-otvet-vengrii-kuda-merkel-predlozili-poslat-migrantov/?updated>.

⁷⁹ The EU pledged to pay €6 billion in two tranches to Turkish refugee organisations: €3 billion at the end of 2016 and at the end of 2018. Yet, in January 2020, Turkish Foreign Minister Mevlut Cavusoglu said that the EU has not fulfilled its promises, thus, giving Turkey the right to open its borders. See: Turkish Foreign Minister Accuses the European Union of Violating Refugee Agreements. – DW, 23 January 2020, <https://www.dw.com/ru/глава-мид-турции-обвиняет-евросоюз-в-нарушении-соглашений-по-беженцам/a-52115906>.

⁸⁰ See: Russia and Turkey Agreement on Idlib: Who Conceded and How Strong It Is. – DW, 18 September 2018, <https://www.dw.com/ru/соглашение-россии-и-турции-по-идлибу-кто-уступил-и-насколько-оно-прочное/a-45546834>.

⁸¹ See: In Sweden Unknown Suspects Threw Molotov Cocktails at a Synagogue. – European Pravda, 10 December 2017, <https://www.euointegration.com.ua/news/2017/12/10/7074864>.

⁸² See: Bundestag MP: In Germany, Jews Are Taking Care of Syrian Muslims. – DW, 11 September 2015, <https://www.dw.com/ru/депутат-бундестага-в-германии-евреи-опекают-сирийских-мусульман/a-18706377>.

⁸³ According to the Interior Ministry of France, in 2017, the number of attacks on the grounds of anti-Semitism increased by 22%; according to the French office of the Jewish Repatriation Agency (Sokhnut), in 2014-2016, 20 thousand people left France just for Israel. See: How France Is Dealing With Growing Anti-Semitism. – DW, 3 March 2018, <https://www.dw.com/ru/как-франция-борется-с-растущим-антисемитизмом/a-43199349>.

⁸⁴ See: Jews Are Running Away From Europe – EJC Head Kantor. – Interfax, 23 January 2020, <https://ua.interfax.com.ua/news/general/637094.html>.

⁸⁵ 211 planned terrorist attacks were prevented in six EU countries (the UK, Greece, Denmark, Spain, Italy, France). See: Patsek P. Terrorism in Europe as a Factor of Developing Security Threats. – Science and Technology of the Air Force of Ukraine, 2018, No.3, p.89 (88-95), http://www.hups.mil.gov.ua/periodic-app/article/18891/nitps_2018_3_14.pdf.

militants to EU countries disguised as refugees, as well as recruiters of new “jihad soldiers” to work not only within Muslim diasporas, but also in local communities.

As a result, Europe experienced a sharp deterioration in the attitude of EU citizens to immigration, division and radicalisation of European societies. In 2018, the vast majority of those surveyed in EU countries indicated that their societies were divided by different characteristics, first of all, by the immigrant vs local factor (61% of respondents in Italy to about 50% – in the UK, Sweden, Germany, France); division by religious denomination was named by approximately 50% of citizens in Austria, Belgium, France, the UK; similar data was gathered for European societies' division by ethnicity.⁸⁶

The 2019 Report by the European Commission against Racism and Intolerance states that the influence of ultranationalism and xenophobia is growing, hate speech prevails on social networks, anti-Muslim hatred manifestations are multiplying.⁸⁷

Isolationism is spreading in local communities, growing into xenophobia and nationalism. Ultranationalist, xenophobic and racist amateur movements and organisations are springing up and intensifying their activity.

Centrifugal Trends of Historical Revanchism.

The combination of economic crises (financial and economic, debt, euro crisis), sociocultural challenges (mass immigration of foreign culture groups) and direct security threats (Islamic terrorism) – present a volatile mix of problems that has created a favourable fuelling environment for ethnic nationalism, xenophobia, racism and historical revanchism, which, together, may pose a real threat to European unity. A clear illustration was the Independence March in Warsaw on 11 November 2017.⁸⁸ It was the largest in Europe march of far-right supporters (approximately 60 thousand people).

As noted above, accession of post-socialist countries to the EU and their societies' turning to history in search of grounds for national identity have shaken the foundations of Europe's system. Not only do new EU members look to the past, but they often require a revision of it – that is, in fact, what the very idea of the EU was against. “The culture of forgetting”, which

was the unwritten rule in EU-15, now gives way to constant reminders about traumas of past historical experience.

European unity is not getting stronger with many demands to “restore historical justice”, including the restoration of territorial ownership, – which, given the long, complex and contradictory history of European countries, nourishes the trauma of historic experiences and poses a threat of historical revanchism. Virtually every EU country (first of all, the “new” Union members) has political forces (sometimes even among those currently in power) that seek to restore their country's “great” status and put forward territorial claims against neighbour countries. For instance, Slovenian National Party is demanding the transfer of selected areas of Croatia to Slovenia; Bulgarian National Movement IMRO and the “Attack” party are demanding the creation of Great Bulgaria with inclusion of Macedonia and a number of adjacent territories; the Greater Romania Party supports restoration of Romania's territory of 1940, there are proposals to renounce the Molotov-Ribbentrop Pact.⁸⁹ The Movement for a Better Hungary – Jobbik Party, which calls itself the heir to the 1940s national socialist Arrow Cross Party, raises the topic of restoring the Greater Hungary.

In the context of revising history, there are now increased demands (Greece, Poland) for reparations from Germany for World War II Nazi crimes. Controversies over the interpretation of particular historical events and figures in national histories are exacerbated. Thus, Bulgaria has differences with Serbia and North Macedonia; Poland – with Belarus, Lithuania, Germany, Russia, Ukraine; Slovenia – with Croatia.

Thus, the common European historical and cultural heritage, defined as the basis of EU values, is being revised and destroyed.

Events of early 2000s were a challenge for the EU – testing its strength, unity and solidarity of its member states, stability of its normative leadership in Europe and the world. Pressure of economic crisis, terrorist threats and mass immigration revealed the negative effect of large-scale and rather fast EU enlargement. The socioeconomic inequality of member states and their regions increased. There appeared trends of economic and political national egoism, gravitation towards separatism, autonomisation, closing off within

⁸⁶ According to an international survey conducted in January-February 2018. See: BBC Global Survey: A World Divided? – Ipsos MORI, 23 April 2018, <https://www.ipsos.com/ipsos-mori/en-uk/bbc-global-survey-world-divided>.

⁸⁷ The targets of prejudice, discrimination, xenophobic rhetoric and violence are Muslims, Jews, Roma and Black Europeans. See: Council of Europe Is Alarmed by the Rise of Ultra-Nationalism and Xenophobia in Europe. – European Pravda, 27 February 2020, <https://www.euointegration.com.ua/news/2020/02/27/7106859>.

⁸⁸ Marches started in 2009. Organisers included: National Radical Camp, National Movement, All Polish Youth; at the 2016 march, participants burnt a Ukrainian flag. See: MSZ: Marsz Niepodległości był wielkim świętem Polaków. – RMF24, 13 listopada 2017, https://www.rmf24.pl/fakty/polska/news-msz-marsz-niepodleglosci-byl-wielkim-swietem-polakow,nld,2464363#utm_source=www.rmf24.pl&utm_medium=relatedBottom&utm_campaign=2464511; Transparenty na Marszu Niepodległości: Policja bada sprawę, prokuratura czeka. – RMF24, 13 listopada 2017, https://www.rmf24.pl/fakty/polska/news-transparenty-na-marszu-niepodleglosci-policja-bada-sprawe-pr,nld,2464511#utm_source=paste&utm_medium=paste&utm_campaign=chrome.

⁸⁹ In February 2018, former Romanian President Traian Basescu announced his intention to submit to the Parliament a draft declaration on the denunciation of the Molotov-Ribbentrop Pact and its aftermath. Despite Basescu's statement that the declaration concerns only Moldova and the restoration of Romanian borders along the Dniester, it entails the return to Romania of the territories of Moldova, Northern Bukovina, Northern Bessarabia and Southern Bessarabia (Chernivtsi oblast and a part of Odesa oblast of Ukraine).

national borders. Euroscepticism spread, right-wing political parties and movements became more active. The process of forming a common European identity and further EU enlargement were suspended.

At the same time, centripetal movement is still prevalent in the EU: the leaders of key EU countries remain supporters of the idea of European integration and do not accept the national egoism trends. The 2019 elections to the European Parliament asserted the victory of Euro-optimists and proved that there is no “legitimacy crisis” in the EU.

The EU’s focus on internal problems and threats – new waves of migration, terrorism, economic downturn as a result of the virus pandemic limit the EU’s interest, activity and resources towards Ukraine, whose priority is diminishing for official Brussels. Currently, it will be the complex and contradictory internal processes in the EU that will predominantly determine the nature, specific aspects and climate of EU-Ukraine relations, the pace and particulars of further implementation of the Association Agreement, as well as the overall prospects of Ukraine’s European integration.

1.4. “EUROPEAN INTEGRATION START” OF THE NEW GOVERNMENT

After the change of government, Ukraine’s foreign policy course remained generally hereditary and predictable, consistent along the main strategic directions, in particular in relations with the EU. The new government declared its intention to deepen European integration, made a number of steps in this direction.

Symbolically, President Zelensky’s first visit was to Brussels, where he met with leaders of the European Council, European Commission, NATO Secretary General and the President of Poland. Following the visit, the Ukrainian President said that “the EU will remain Ukraine’s reliable partner... European integration means foremost ensuring systemic internal changes in the country and implementation of reforms and obligations captured in the EU-Ukraine Association Agreement”.⁹⁰

Next visits included key EU countries – France and Germany, which, on the one hand, have significant influence on the EU’s foreign policy and, on the other, are Ukraine’s important partners in the Normandy format. In these meetings, Volodymyr Zelensky advocated for the idea of Ukraine’s European and Euro-Atlantic integration, organisation of the Normandy Four summit. Later, the President of Ukraine visited Poland, the Baltic States and others (in particular, President

of Lithuania Gitanas Nausėda and President Zelensky signed the Declaration on Strategic Partnership between Ukraine and Lithuania for 2020-2024).⁹¹

On 8 July 2019, Kyiv hosted the 21st EU-Ukraine summit, during which parties signed a number of agreements on financial support for civil society, decentralisation, anti-corruption measures, EU-Ukraine technical cooperation. Following the summit, parties signed a joint statement, which emphasised EU support of Ukraine’s European integration, assistance for reform implementation, etc. Overall, the summit demonstrated the upward dynamic in Kyiv-Brussels partnership. The parties noted Ukraine’s progress in reform implementation in the areas of healthcare, decentralisation, retirement benefits, public administration and public procurement. At the same time, it was stressed that the fight against corruption and meeting the visa liberalisation criteria remain important.⁹²

The first actions of the new government in the European direction included attempts to accelerate European integration processes, as well as ambiguous, contradictory statements and decisions.

Implementation of European integration course in 2019 was complicated by the internal political situation tied to election campaigns in Ukraine. In particular, dissolution of Parliament led sharp confrontation between the branches of power. The Parliament refused to dismiss the head of the Ministry of Foreign Affairs Pavlo Klimkin and appoint the President’s candidate – Vadym Prystaiko – twice (June 6 and July 11). De facto, MFA leadership was “hanging in the air” for three months, which could not but affect efficiency of the country’s foreign policy in general and in the European integration direction specifically. The new composition of the “President-Parliament-Government” triangle started working in September 2019. Thus, on 29 August 2019, in his speech at the first session of the newly elected Verkhovna Rada, assessing his first 100 days in power, Volodymyr Zelensky said: “...I am my own worst critic. This period can be described as a quiet drive in the dark, with no headlights and in first gear”.⁹³

September 2019 marked the increased tempo of adopting European integration legislation. The newly elected Parliament adopted over 30 European integration laws, some of which were inherited from the previous Verkhovna Rada. Among others, the following laws were adopted: on sectoral reforms, on the regime of joint transit and introduction of the national electronic transit system, as well as on the introduction of the institute of Authorised Economic Operator.⁹⁴ Table

⁹⁰ In Brussels Volodymyr Zelensky Urged the EU to Step Up Sanctions Pressure on Russia. – Internet Representation of the President of Ukraine, 5 June 2019, <https://www.president.gov.ua/news/volodimir-zelenskij-u-bryusseli-zaklikav-yes-posiliti-sankci-55777>.

⁹¹ During his six months as the President, Volodymyr Zelensky has visited all three Baltic States. He has had four meetings with the President of Estonia Kersti Kaljulaid. See: M.Kyjak. The Baltic Bicycle Visit: Results of Ze-Trip to Tallinn and Vilnius. – European Pravda, 29 November 2019, <https://www.eurointegration.com.ua/articles/2019/11/29/7103623>.

⁹² Strengthening Mutual Commitments: Joint statement following the 21th EU-Ukraine Summit. – Internet Representation of the President of Ukraine, <https://www.president.gov.ua/news/posilyuyemo-vzayemni-zobovyazannya-spilna-zayava-za-pidsumka-56277>.

⁹³ For more information, see: President of Ukraine Volodymyr Zelensky congratulated Verkhovna Rada of 9th convocation on assuming authority and beginning their work. 29 August 2019, – Verkhovna Rada of Ukraine, <https://portal.rada.gov.ua/news/Novyny/179712.html>.

⁹⁴ Draft Law “On the Regime of Joint Transit and Introduction of National Electronic Transit System”, reg. No.1082 dated 29 August 2019, http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=66314; Draft Law “On Amendments to the Customs Code of Ukraine Regarding Certain Issues of Functioning of Authorised Economic Operators”, reg. No.1048 dated 29 August 2019, http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=66276.

Certain European Integration Laws Adopted by the Verkhovna Rada of Ukraine of the 9th Convocation in 2019.⁹⁵

| | |
|--|--|
| Intellectual Property Sector | <ul style="list-style-type: none"> introduction of European standards for the quality of goods (Law “On Amendments to Certain Legislative Acts of Ukraine On Improving the Legal Protection of Geographical Indications” dated 20 September); simplifying the conditions for obtaining and protecting ownership of chip layout for large companies, as well as ordinary citizens (Law “On Amendments to Certain Legislative Acts of Ukraine On Improving Protection of the Rights to Build Semiconductor Products” dated 19 September); activity against counterfeit and forged products, which flow to our country through the customs border (Law “On Amendments to the Customs Code of Ukraine on Protection of Intellectual Property Rights During the Transfer of Goods Across the Customs Border of Ukraine” dated 17 October). |
| Transport, Infrastructure, Transportation Security Sector | <ul style="list-style-type: none"> implementation of technical conditions of road exploitation, improvement of road traffic safety, efficient use of budget funds during motor road repairs (Law “On Amendments to Certain Legislative Acts of Ukraine Regarding Particular Issues of Size and Weight Inspection” dated 11 September); implementation of safety audit mechanism for motor roads (Law “On Amendments to Certain Legislative Acts of Ukraine on Road Safety Management” dated 17 October); attracting private capital in state property management without privatisation (Law “On Concession” dated 3 October); introduction of administrative responsibility for violation of rules of transporting children in order to improve the level of children’s safety on the road (Law “On Amendments to the Code of Ukraine on Administrative Offenses Regarding the Establishment of Responsibility for Violating the Rules of Transporting Children” dated 29 October). |
| Protection of Citizens’ Rights Sector, Social Sector | <ul style="list-style-type: none"> prompt response to violations of the rights of citizens, who were provided low-quality financial services (Law “On Amendments to Certain Legislative Acts of Ukraine on Protection of Consumers of Financial Services” dated 20 September). |
| Support and Protection of Business, Customs, Anti-Corruption Sectors | <ul style="list-style-type: none"> improvement of standardisation in construction to combat corruption in the construction sector (Law “On Amendments to the Law of Ukraine “On Building Norms” Regarding Improvement of Building Regulations” dated 3 October); voluntary application of national standards (Law “On Amendments to Certain Legislative Acts of Ukraine In Connection with the Adoption of the Law of Ukraine “On Standardisation” dated 20 September); improvement of public procurement, which provides for an opportunity of opening the EU public procurement market for Ukrainian companies in different sectors of economy (Law “On Ukraine “On Public Procurement” and Some Other Legislative Acts of Ukraine For Improvement of Public Procurement” dated 19 September); re-launch of NACP (Law “On Amendments to Certain Legislative Acts of Ukraine Concerning Ensuring the Effectiveness of Institutional Mechanism for Corruption Prevention” dated 2 October); introduction of Convention on Common Transit provisions into Ukrainian law (Law “On the Mode of Joint Transit and Introduction of National Electronic Transit System” dated 12 September); creating the institute of Authorised Economic Operator (Law “On Amendments to the Customs Code of Ukraine Regarding Certain Issues of Functioning of Authorised Economic Operator” dated 2 October); introduction of changes to Annex 1-A to the EU-Ukraine Association Agreement in the part of changing EU’s commitments regarding the volume of tariff quotas for poultry meat (Law “On the Ratification of the Agreement in the form of an exchange of letters between the European Union and Ukraine amending the trade preferences for poultry meat and poultry meat preparations provided for by the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part” dated 5 December); improvement of legislation in state market surveillance sector (Law “On Amendments to Certain Legislative Acts of Ukraine On Easing of Pressure on Business by Market Surveillance Authorities” dated 12 December); defining a legal mechanism for preventing and counteracting the legalisation (laundering) of proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction (Law “On Preventing and Counteracting the Legalisation (Laundering) of Proceeds from Crime, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction” dated 6 December, entry into force – 28 April 2020); reducing the number of regulators and supervisory bodies in the financial sector, ensuring a competitive environment and overcoming activity of companies with unfair business practices (Law “On Amendments to Certain Legislative Acts of Ukraine Regarding the Improvement of Functions of State Regulation of Financial Services Markets” dated 12 September, entry into force – 1 July 2020). |

⁹⁵ Table prepared based on the “Report on Progress and Results of Implementation of the Action Programme of the Cabinet of Ministers of Ukraine in 2019”. – Government website, <https://www.kmu.gov.ua/news/zvit-uryadu-2019>.

Certain European Integration Laws Adopted by the Verkhovna Rada of Ukraine of the 9th Convocation in 2019.

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|--|--|
| Environmental Protection and Energy Sector | <ul style="list-style-type: none"> • implementation of European standards for radioactive waste management and long-term safety of final disposal (Law “On Amendments to Certain Laws of Ukraine on Improvement of the Legislation on Radioactive Waste Management” dated 17 October); • regulation of legal relations as regards production, import, export, storage, use, placing on the market and handling of ozone depleting substances, fluorinated greenhouse gases, goods and equipment that affect the ozone layer and the level of global warming (Laws “On Regulation of Economic Activity with Ozone Depleting Substances and Fluorinated Greenhouse Gases” and “On the Principles of Monitoring, Reporting and Verification of Greenhouse Gas Emissions” dated 12 December); • reforming Ukraine's natural gas market in order to achieve its liberalisation, efficiency, transparency and further integration with the EU market (Law “On Amendments to Certain Legislative Acts of Ukraine Due to Separation of Natural Gas Transportation Activities” dated 31 October); • ensuring a high level of radiation safety and radiation protection during the use of nuclear energy in various sectors of economy and human health and safety (Law “On Amendments to Certain Laws of Ukraine in the Field of Nuclear Energy Use” dated 18 September). |
|--|--|

“Certain Laws in the European Integration Sector...” gives an idea about the legislative activity of the Verkhovna Rada in the European integration Sector.

However, this high-speed mode was affecting the quality of legislative process. New government's steps in reform of the judiciary, as well as SBU,⁹⁶ were met with criticism in the West. In particular, ambassadors of Canada, the United Kingdom, Germany and the EU have addressed the speaker of the Parliament with a letter expressing their concern that “certain elements of the bill might not be in line with the principles of independence of judges”.⁹⁷ The bill “On Labour”, which according to experts was in conflict with the Association Agreement, caused concern of the International Trade Union Confederation and sharp criticism of the International Labour Organization.

Bills “On Media” and “On Amendments to Some Legislative Acts of Ukraine On Ensuring National Information Security and the Right to Access Reliable Information” also caused controversial and ambiguous reactions both in Ukraine and in the West. Finally, a sharp internal confrontation and public protests were triggered by the legislative initiative to introduce land market in Ukraine.

The new government has set rather ambitious goals in the European integration direction. According to Vice Prime Minister for European and Euro-Atlantic Integration Dmytro Kuleba, “2019 became a landmark year, as for the first time the Government acknowledged European integration as the overarching objective for reforming the country...

and set the goal to achieve Copenhagen criteria for EU membership”.⁹⁸

Assessing the new government's actions in the European integration sector, let us pay attention to the following positive aspects.

First. As mentioned above, government provided legislative support for the European integration process within the framework of Association Agreement implementation. This jumpstarted sectoral integration process. It is also key, that the last legislative acts necessary to start negotiations on the important ACAA agreement (“industrial visa liberalisation”) were adopted.⁹⁹

Second. Government Office for Coordination of European and Euro-Atlantic Integration and the respective Vice Prime Minister were given the right to submit their own bills to the Cabinet of Ministers. At the same time, a joint parliamentary-governmental European integration platform was established to strengthen cooperation between the branches of power.¹⁰⁰

Third. The practice of holding Government sessions fully devoted to the issues of European integration was introduced. The first “European integration” meeting took place on 20 November 2019, where a number of important decisions were made: (a) update of the Action Plan for Agreement implementation; (b) opening the “Agreement Pulse” system for the public, which the previous government did not dare do. (This allows to track the progress of Agreement implementation in real time¹⁰¹); (c) approval of the package of European integration

⁹⁶ As regards the judiciary, among other things, the West criticised the reduction of the number of judges in the Supreme Court from 200 to 100 judges. In SBU reform, the EU insists on limiting the agency's functions to counterintelligence, terrorism and protection of state secrets.

⁹⁷ See: Zelensky's Judicial Reform Poses Great Risks for the Independence of Judges – Western Ambassadors. – European Pravda, 17 October 2019, <https://www.euointegration.com.ua/news/2019/10/17/7101959>; EU Criticises SBU reform project: Bakanov Retains Excessive Powers. – Ukrayinska Pravda, 17 December 2019, <https://www.pravda.com.ua/news/2019/12/17/7235131>.

⁹⁸ Report on Implementation of the EU-Ukraine Association Agreement in 2019. – Government Office for Coordination of European and Euro-Atlantic Integration; Office of the Vice Prime Minister for European and Euro-Atlantic Integration, p.5, https://eu-ua.org/sites/default/files/inline/files/zvit_implementation-2019-4_0.pdf.

⁹⁹ Draft Law “On Amendments to Certain Legislative Acts of Ukraine in Connection with the Adoption of the Law of Ukraine “On Standardisation”, reg. No.1068 dated 29 August 2019, http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=66304; Draft Law “On Amendments to Certain Legislative Acts of Ukraine on Easing of Pressure on Business by Market Surveillance Authorities”, reg. No.2172 dated 25 September 2019, http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=66942.

¹⁰⁰ Razumkov and Kuleba announced the creation of a parliamentary-governmental European integration platform. – European Pravda, 19 November 2019, <https://www.euointegration.com.ua/news/2019/11/19/7103230>.

¹⁰¹ Agreement Pulse – a system for monitoring the AA implementation that shows progress in respective areas of state policy. Started working in 2017, but was open only for Government representatives.

bills; (d) decision to conclude additional agreements with the EU in the field of migration management; (e) approval of establishment of the first European integration office in Kherson in order to decentralise European integration processes and involve regions in EU projects/programmes.

Fourth. At the end of 2019 - beginning of 2020, there was an active dialogue on the platforms of joint association bodies (Association Committee, Specialised Subcommittees, Association Council), during which parties agreed to intensify cooperation on deepening sectoral integration in priority sectors: digital market, energy, justice, freedom and security, customs, and to facilitate the start of negotiations on the ACAA Agreement. Parties set a priority of concluding the EU-Ukraine Common Aviation Area Agreement as soon as possible. Identified the necessity of implementing the updated “energy” annex to the Association Agreement. The Ukrainian side also presented its proposals for a new agenda in the areas of justice, freedom and security.¹⁰²

Reference. At the 5th meeting of the Association Committee (5 November 2019), five current priorities of EU-Ukraine integration were defined – sectoral integration, overcoming the effects of climate change and energy efficiency, harmonising Agreement provisions with the real increase in turnover (revision of tariffs and quotas), decentralisation of European integration, restoration of Donbas infrastructure.

Fifth. Ukraine continues accumulating financial support from the EU. Total financial aid and loans from the EU in 2019 amounted to €1.5 bn. In particular, €200 million was allocated for support of Pryazovia region. The following programmes were implemented at the same time: technical cooperation programme (€44 million), anti-corruption initiative (€22.9 million), support for civil society (€10 million), support for Eastern Ukraine (€10 million), etc.

Agreements were signed with EBRD and EIB (€900 million) to finance the project of reconstruction of Ukrainian roads. The total EBRD loan portfolio for project support in Ukraine in 2019 was €1.1 bn. Ukraine is also working on achieving conditions for receiving the second tranche (€500 million) of macro-financial assistance from the EU.¹⁰³

Sixth. For Ukraine it is important that the EU stands in solidarity, politically and diplomatically, and supports Ukraine in countering Russia's aggression. The joint statement of the 21st EU-Ukraine summit reiterates the “strong condemnation of the clear violation of Ukrainian sovereignty and territorial integrity by acts of aggression by the Russian armed forces since February 2014. We continue to condemn the illegal annexation of Crimea and Sevastopol by Russia...”.¹⁰⁴

At the same time, the overall results of Association Agreement implementation do not seem optimistic. According to the 2019 Government report, the current

progress of document implementation was at 37% of the plan (CMU accomplished 53% of tasks, Verkhovna Rada – 12%, other authorities – 21%).¹⁰⁵ Fully completed were the tasks in “Political dialogue, national security and defence”, “Education, training and youth”, “Financial cooperation and anti-fraud provisions” areas. No significant progress was achieved in “Intellectual property”,

EU Evaluation. On 12 December 2019, the European Commission published its annual report on Association Agreement implementation by Ukraine. It noted continued reforms in the areas of anti-corruption activity, public administration, decentralisation, education and healthcare. At the same time, the steps taken by the new government in reforming the judicial branch of power and judicial self-government bodies received critical remarks. In terms of economic and sectoral reforms, the EU praised the budget law, the adopted laws on customs, deregulation, public procurement, separation of the independent GTS operator from Naftogaz.

There has been little progress in the fields of statistics and protection of intellectual property rights. The European Commission report also stressed significant opposition to the comprehensive energy and transport reform.¹⁰⁶

Overall, Brussels was cautiously optimistic about the new government's first steps in reforming the country.

“Customs issues”, “Public health”. The transport sector remains a problem.

Meanwhile, assessing the current situation of Agreement implementation in real time (“Agreement Pulse”), as of early March 2020, we have already noticed numerous “red”, overdue tasks in a number of sectors. These include consumer rights protection, taxation, environment, financial sector, etc.¹⁰⁷ This situation can be explained by: (a) the toll of previous backlog, the need to “catch up” on overdue tasks of the previous Government; (b) last year's internal political difficulties, a “pause” on the European integration process related to the long election cycle in Ukraine; (c) problems, contradictions, miscalculations of the new team of European integrators. On the whole, we can agree with experts that the initial European integration

¹⁰² Report on Implementation of the EU-Ukraine Association Agreement in 2019, p.14-18.

¹⁰³ Report on Progress and Results of Implementation of the Action Programme of the Cabinet of Ministers of Ukraine in 2019.

¹⁰⁴ Joint statement following the 21th EU-Ukraine Summit dated 8 July 2019. – Internet Representation of the President of Ukraine, <https://www.president.gov.ua/news/posilyuyemo-vzayemni-zobovyazannya-spilnazayava-za-pidsumka-56277>.

¹⁰⁵ Report on Implementation of the EU-Ukraine Association Agreement in 2019.

¹⁰⁶ Association Implementation Report on Ukraine. – European Commission, https://eeas.europa.eu/sites/eeas/files/swd_2019_433_f1_joint_staff_working_paper_en_v4_p1_1056243.pdf.

¹⁰⁷ See: Agreement Pulse, <https://pulse.eu-ua.org>.

¹⁰⁸ Sydorenko S., Panchenko Yu. European Integration Beyond High-Speed Mode: Why the Implementation of EU Agreement Slowed Down. – Yevropeiska Pravda, 3 March 2020, <https://www.eurointegration.com.ua/articles/2020/03/3/7107041>.

impulse of the new government “failed to turn into regular fast movement and did not allow to close the gap in the schedule of EU Agreement implementation”.¹⁰⁸

Outlining the problematic factors in the actions of the new government in the European integration sector, we would like to note that some of them are connected with objective circumstances, in particular, the period of establishment and adjustment, the legacy of the predecessors, yet others – are connected with special aspects and defects of the current government team.¹⁰⁹

Lack of Programmatic, Conceptual Approaches and Strategic Vision. There has not been, and still is not a coherent national foreign policy strategy, with European integration as its part. Clearly, European integration is not an autonomous sector, separated from other vital sectors of the country’s foreign policy. President’s Decree “On Urgent Measures for Reform Implementation and Strengthening of the State” (No.837 dated 8 November 2019) very generally outlined certain areas of government action in foreign policy. Simultaneously, the approved in 2019 Programme of O.Goncharuk’s Government essentially removed the MFA from key foreign policy areas – European and Euro-Atlantic integration. The MFA with limited functions was de facto transformed into an “appendix” to the President’s Office. This poses a threat of falling into a pattern of foreign policy micromanagement.

Lack of Experience. There was a noticeable lack of experience in a significant number of MPs, who, until recently, were far from foreign policy issues, in particular regarding the purely professional issues of European integration, as well as in O.Goncharuk’s Government, which, with the average age of 39 y.o., was the youngest in Europe,¹¹⁰ with a number of members having neither relevant political nor administrative experience.

Problematic Structural and Personnel Transformations. *First.* Some of the structural innovations of the new government were hasty, ill-conceived, raised doubts and concerns. For instance, the merger and subsequent separation of some ministries (the Ministry of Temporarily Occupied Territories and the Ministry of Veteran Affairs, the Ministry of Culture, Youth and Sports, etc.). *Second.* Structural reorganisation of the Ministry of Foreign Affairs started in December 2019¹¹¹ entailed, on the one hand, unjustified reductions of important specialised divisions, on the other – introduction of external competitions for key MFA positions, which threatened to de-professionalise the foreign policy



institution. *Third.* The critical issue is the short “substitute bench” of the new government, President’s orientation primarily on his own team from “Kvartal 95”. Volodymyr Zelensky admitted: “What happened is that there is no one left to trust. I mean, there are no people worthy of trust. Besides our narrow circle, everyone lies”.¹¹² Important appointments were made based on principle of personal acquaintance, recommendations of the closest environment.

This affected the efficiency of work of the ministries and agencies implementing the Association Agreement. A negative factor is that since November 2019, as of March 2020, the position of the Director of Government Office for Coordination of European and Euro-Atlantic Integration – the main structure that ensures implementation of the Association Agreement – remains vacant.

Lack of Communications. This area is very problematic for the current government. In general, domestic political conversation was focused mainly on the issue of the war in Donbas. At the same time, significant government information resources were focused on discussions with internal opponents. There was a lack of public activity of the relevant ministries and agencies regarding European integration issues. Cooperation of government with experts was not systematic. It should also be added that disagreements and differences in the ruling team’s positions created an unfavourable backdrop for Ukraine’s progress towards Europe. For example, there was much negative publicity about the statement by the Head of “Servant of the People” MP faction

¹⁰⁸ These problems are related not only to implementation of the country’s European integration course, but also to the country’s foreign policy as a whole.

¹¹⁰ Young and Green: Ukrainian Government is the Youngest in Europe. – DW, 3 September 2019, https://www.dw.com/uk/юні-і-зелені-уряд-україни-наймолодший-у-європі/a-50262907?fbclid=IwAR3HMzQy3vaXGfY3-KZ4lwS_y4gCrsGIXFIOKz0_F7Ic-IVlib_SbEaQm0A.

¹¹¹ Kravchenko V. Limited Liability MFA. – Dzerkalo Tyzhnia (Mirror Weekly), 15 January 2020, https://dt.ua/internal/mzs-z-obmezhenoju-vidpovidalnistyu-335604_.html.

¹¹² Zelensky Admitted That He Does Not Trust Anyone Outside of His Circle. – Ukrayinska Pravda, 17 July 2019, <https://www.pravda.com.ua/news/2019/07/17/7221204>.

D.Arakhamia at the Davos Forum on 22 January 2020 regarding the fact that Ukraine should temporarily abandon the policy of harmonising its legislation with EU law. Vice Prime Minister for European and Euro-Atlantic Integration Dmytro Kuleba had to refute this thesis.¹¹³

Change of Government. Resignation of O.Goncharuk's Government in early March 2020 resulted in more personnel transformations in ministries responsible for the implementation of the Association Agreement in key areas – defence, healthcare, social policy, finance, community and territory development, economy, energy, culture, education and science. All of this has in one way or another affected the work of ministries in the European context, leading to a “pause” in the implementation of the Association Agreement.

The most problematic and controversial move was the “castling” of MFA head Vadym Prystaiko to the post of Vice Prime Minister for European and Euro-Atlantic Integration and Dmytro Kuleba – to the post of Minister of Foreign Affairs. There are reasons to believe that such a reshuffle was done not for professional reasons or national goals, but due to conflicts in the government team.¹¹⁴ Moreover, European integration is mainly related to purely internal socioeconomic, financial, energy, structural reforms, which is a new area for the former MFA Minister Vadym Prystaiko and will take considerable time to get into.

Outlining immediate prospects of EU-Ukraine relations, it is necessary to emphasise that in 2020 we should hardly expect any drastic “breakthroughs” in relations between Kyiv and Brussels. Routine processes of EU-Ukraine Association Agreement implementation will be carried out. On the other hand, the pace of Agreement implementation is important given the fact that the majority of this document's provisions are to be completed during Volodymyr Zelensky's presidential term.

A clear priority in relations with the EU will be the launch of negotiations and the conclusion of the important ACAA agreement (conformity assessment of industrial products). This “industrial visa liberalisation” will open up the internal EU market for Ukrainian manufacturers. Also, the new Ukrainian Government's

attentions will be focused on: (a) key areas of sectoral integration; (b) introducing relevant changes to Agreement provisions (annexes); (c) signing the Common Aviation Area Agreement; (d) liberalisation of quotas within the Deep and Comprehensive Free Trade Area; (e) recognising the equivalence of sanitary and phytosanitary protection systems in key sectors of agricultural goods; (f) recognition of authorised economic operators; (g) Ukraine's accession to the EU common transit system (NCTS); (h) signing the agreement on mutual recognition of electronic trust services between Ukraine and the EU, etc.¹¹⁵

There are reasons to predict that the EU will stand in solidarity with Ukraine and will support it in countering Russia's aggression. However, either toughening of official Brussels' position towards Russia or expansion of anti-Russia sanctions can hardly be expected. On the contrary, we have observed dangerous processes for Ukraine among European politicians and businessmen – willingness to re-establish relations with Kremlin in the “business as usual” format.

At the same time, internal EU processes will adversely affect Ukraine's European integration, limiting EU's possibilities of helping Ukraine. The European Union is in a state of transformation, with noticeable centrifugal trends, and increasing influence of the Russian factor.

Talking about Ukraine's short-term European integration plans, we should keep in mind the critical inhibitory factor of global virus pandemic, which is currently unveiling in Europe, and which will clearly slow down/suspend the progress in EU-Ukraine Association Agreement implementation. Therefore, the corresponding results of its implementation in 2020 are unlikely to be satisfactory. At least in the coming months, the attention of official Brussels, EU member states' governments, and Ukrainian authorities will focus on fighting the global pandemic, and subsequently – on overcoming its consequences. Thus, we expect both a slowdown of EU-Ukraine cooperation on different levels, as well as adjustment of joint plans in the framework of Association Agreement due to current force majeure circumstances.

¹¹³ Kuleba and Arakhamia Are Already Refuting the Statement On Abandoning European Integration. – European Pravda, 22 January 2020, <https://www.eurointegration.com.ua/news/2020/01/22/7105472>.

¹¹⁴ Sydorenko S. European Integration Castling: Why Zelensky Substituted Prystaiko for Kuleba. – Ukrayinska Pravda, 4 March 2020, <https://www.eurointegration.com.ua/articles/2020/03/4/7107089>.

¹¹⁵ Shulha D. European Integration-2020: What Should Become the Priority in EU Agreement Implementation. – Ukrayinska Pravda, 13 January 2020, <https://www.eurointegration.com.ua/articles/2020/01/13/7104931>.

2. UKRAINE-EU-RUSSIA: CERTAIN ASPECTS OF RELATIONS

This section outlines certain aspects of relations in the notional Ukraine-EU-Russia “triangle”. On the one hand, Russian expansion has had a drastic effect on relations between Ukraine and the aggressor, as well as on Brussels-Moscow contacts. On the other hand, the “hybrid war” launched by Kremlin is also affecting EU-Ukraine cooperation, in particular, the nature and pace of Kyiv’s progress towards the European community.

In this context, it is interesting to look at specific aspects, details and dynamic of trade and economic relations between Ukraine, EU and Russia as affected by the “hybrid war”, parties’ investment policy, sanctions. The section also follows the evolution and current state of the energy component of Russian expansion in the post-Soviet space and on the European continent as a whole.

2.1. ECONOMIC ASPECTS OF KYIV-BRUSSELS COOPERATION: THE RUSSIAN FACTOR

The process of concluding and further implementation of the EU-Ukraine Association Agreement, with provisions on the creation of a Deep and Comprehensive Free Trade Area (DCFTA), was from the very beginning affected by political and economic pressure of the Russian Federation, which considered this issue foremost in the context of its own *geopolitical situation* and the functioning of its own “zone of privileged interest” in the post-Soviet space. Russian leadership seemed hardly interested in the purely economic opportunities that the DCFTA between Ukraine and the EU created for Russia’s entry into European single market via Russia’s economic foothold in Ukraine. The concluded agreements were primarily seen as a challenge to Russia’s interests on the CIS territory. As a result, the official position of the Russian Federation (as well as that of the majority of Russian experts) was that by concluding the Association Agreement and creating the DCFTA with the EU, Ukraine creates insurmountable obstacles to the future operation of the CIS free trade regime, as well as puts the entire system of Ukraine’s economic relations with Eurasian partners in a qualitatively new and unfavourable situation.

Ukraine’s position (both, official and that of expert majority) was that European integration is not only Ukraine’s independent civilisational choice that cannot be a subject for discussion with Russia, but also a range of new possibilities for Ukraine to become a strong economic partner both for the West and the East – due to transformational opportunities to modernise Ukrainian economy and create a more civilised institutional environment for conducting business and market development. According to more careful Ukrainian experts, European integration was bound to cause certain re-orientation of the flow of goods,

services and capital towards EU partners and cause certain trade complications in relations with Russia, other CIS and Eurasian Economic Union countries, but it was believed that these effects would not have *long-term* negative consequences for said relations. Moreover, none of the masterminds of Ukraine’s European integration policy *intentionally aimed to artificially destroy economic relations with Russia or other members of the Eurasian space.*

Of course, during development, harmonisation and adoption of the terms of DCFTA, there was a group of more sceptical experts and politicians, who believed that the benefits of European integration would not be easy to use in the economic sector. European integration measures would require considerable time and money, while the losses caused by the contraction of economic relations with Russia would be real and have significant consequences in the near term after the Association Agreement came into effect. Yet even they could not have imagined the real political context of Russia’s expansion, in which Ukraine’s European integration would be taking place starting from 2014.

First of all, no one could have imagined that as a result of Kremlin’s aggression the sectors of trade, economic and investment relations would become not just a place of significant structural shifts, but a *true arena of the economic war*, which would lead to *destructive consequences for the entire system of economic relations* between Ukraine and Russia. And no one could have imagined that *such destructive consequences in the Russia-Ukraine economic relations would also adversely affect the EU-Ukraine economic relations and the course of Ukraine’s integration into EU institutions.*

Today is the sixth year since Agreement provisions entered into force, and the fifth year since provisions on liberalisation of Ukraine’s access to the EU market entered into force,¹ and it is time to assess real,

¹ Agreement was implemented on a provisional basis from 1 November 2014 until official entry into force on 1 September 2017. However, provisional application of Title IV on free trade area was postponed until 1 January 2016, and until that time, the EU unilaterally introduced autonomous trade preferences in regard to Ukraine, which abolished customs duties on Ukrainian goods in EU countries (in line with approved DCFTA schedules), while supplies from the EU retained their customs *status quo*.

empirically derived trends in the development of the entire complex of Ukraine's economic relations with the EU and Russia for the abovementioned medium-term period.

2.1.1. Trade

As seen in diagrams "Ukrainian Goods Export and Import to EU-28 and Russia" and "Ukrainian Services Export and Import to EU-28 and Russia"² (p.25), 2014-2015 was the period when export and import in goods and services were drastically reduced not only in trade with Russia, but also, to a certain extent, with Europe. Note that this happened *prior to entry into force* (even provisionally) of Association Agreement provisions and, hence, DCFTA. The registered volumes of trade decrease strongly suggest that trade dynamic depends not so much on the customs duties and customs regimes in place (as stressed by Russia), but on other factors – first and foremost: (a) general macroeconomic trends and especially the dynamics of national currency's exchange rate;³ (b) the level of stability of established economic ties that ensure the continuity of value chains;⁴ (c) partners' level of trust in each other.⁵

With the background of these collapsing trends in 2014-2015, further events in the trade sector in the EU-Ukraine-Russia "triangle" did not seem as dramatic. In this context, we need to pay attention to a number of special aspects of the export and import dynamic.

- **Both export and import of Ukrainian goods to EU-28 were growing almost in parallel since trade provisions of the Association Agreement came into force for Ukraine.** This is quite unexpected given the asymmetry of trade preferences in the period before the full implementation of DCFTA provisions in the fall of 2017. This once again shows that the level of customs duties in modern international trade is hardly a decisive factor. Adaptation of Ukrainian economic agents and consumers to new price ratios created preconditions for a noticeable increase in the volume of import procurements from the EU – especially since they were necessary to compensate for the loss of key import supplies from the Russian Federation.
- **Exports and imports of goods in the Russia-Ukraine relations tended to continue going**

down in 2016, however, the drop was less pronounced compared to the 2014-2015 period (when Russian intervention caused a dramatic collapse). This trend has essentially stopped the same year, as resources for further reduction were almost exhausted. Starting in 2017, the flow of goods between Ukraine and Russia even increased slightly, but this was primarily driven by the trends of rising prices of energy and other raw materials and semi-finished products in the context of global economic recovery. Trade in services shows stagnation in the export of Ukrainian services (which mainly include transit transportation services) and a moderate yet persistent reduction of Ukraine's import of Russian services.

Overall, noticeable differences in trade development trends with Europe and Russia led to *a very significant adjustment of the entire geographical structure of Ukraine's trade* (diagram "EU-28 and Russian Shares in Ukraine's Export and Import of Goods and Services",⁶ p.26). The abovementioned data shows that de facto the **trade "triangle" involving Ukraine has ceased to exist**: separate comparable trade volumes are still present in service exports, yet they too edge closer towards the EU. Thus, *the process of Ukraine's geographical re-focusing of its trade from Russia to the EU is undeniable and large-scale*. This conclusion is also supported by Russian statistics (Appendix 2 "Mutual Export and Import Between Ukraine and the Russian Federation in 2010-2018: Russian Statistical Data").

However, it is premature to say that such dynamic of trade flows and a radical change of their geographic structure reflect Ukraine's progressive integration into the EU's economic space. There are at least two significant reservations here.

Firstly, note the very high level of concentration of Ukraine's EU-28 trade flows on a limited number of key partner states: in 2018, 63.1% of Ukraine's goods exports to EU-28 went to six main buyers of Ukrainian products (Poland, Italy, Germany, Hungary, the Netherlands, Spain), and in 2019 – 62.6%; in Ukraine's imports with EU-28, percentages of the leading "six" (Germany, Poland, Italy, France, Hungary, Czech Republic) were 66.5% and 64.9%, respectively.⁷ *At the same time, for the majority of EU member states, the Ukrainian market still*

² Dynamics of the geographical structure of foreign trade in goods, 1996-2018 and corresponding annual data. – State Statistics Committee of Ukraine, <http://www.ukrstat.gov.ua>.

Data for 2019 is an extrapolation of the volume of trade in goods for 11 months, in services – for 9 months.

Here and in other diagrams and tables in this section, statistical data on Ukraine for 2013 does not include the AR of Crimea and the city of Sevastopol, for 2014-2019 – does not include the temporarily occupied territories of Donetsk and Luhansk oblasts as well.

³ It was the sharp devaluation of the Ukrainian hryvnia in the abovementioned period that caused a dramatic imports price rise and led to their significant decrease in all trade areas.

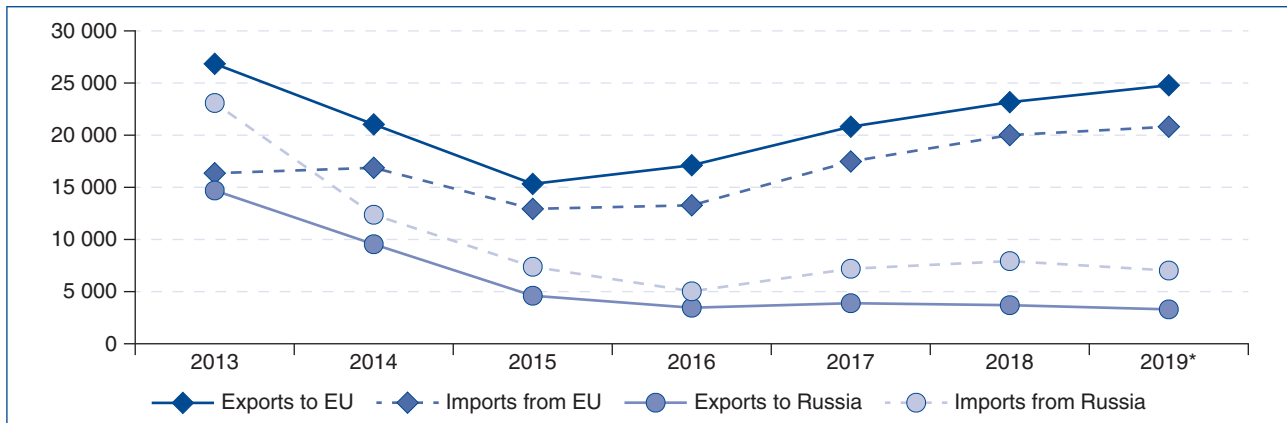
⁴ It was their destruction during this period that made it impossible to increase export supplies under the influence of significant cost advantages created by the devaluation: potential cost advantages cannot be used in conditions, when production ceases to function normally.

⁵ No one will enter into a large-scale trade agreement with partners, whose country is in the grip of chaos – even if the overall attitude towards political events in this country is generally positive.

⁶ State Statistics Committee of Ukraine.

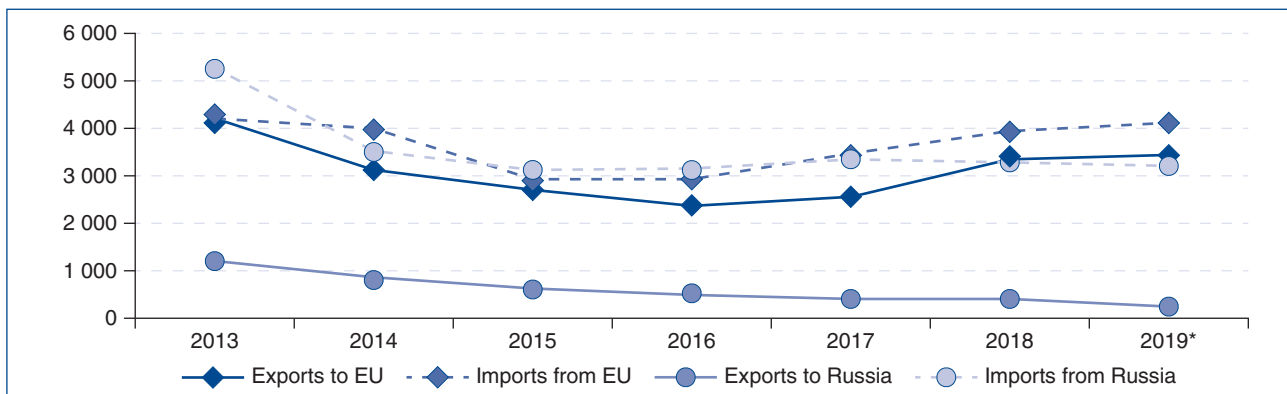
⁷ We can see a similar situation in the geography of trade in services: in 2019, the top six trade partners accounted for 55.6% of Ukraine's export in services to EU28 (the UK, Germany, Poland, Cyprus, Austria, the Netherlands) and 60.4% of their import (the UK, Cyprus, Germany, Ireland, Poland, Malta).

Ukrainian Goods Export and Import to EU-28 and Russia, \$ mln



* 1st half-year.

Ukrainian Services Export and Import to EU-28 and Russia, \$ mln



* 1st half-year.

seems to be of minimal importance. Such strong attachment to a limited number of partners makes Ukraine vulnerable to these partners' actions – not only economic, but also political.

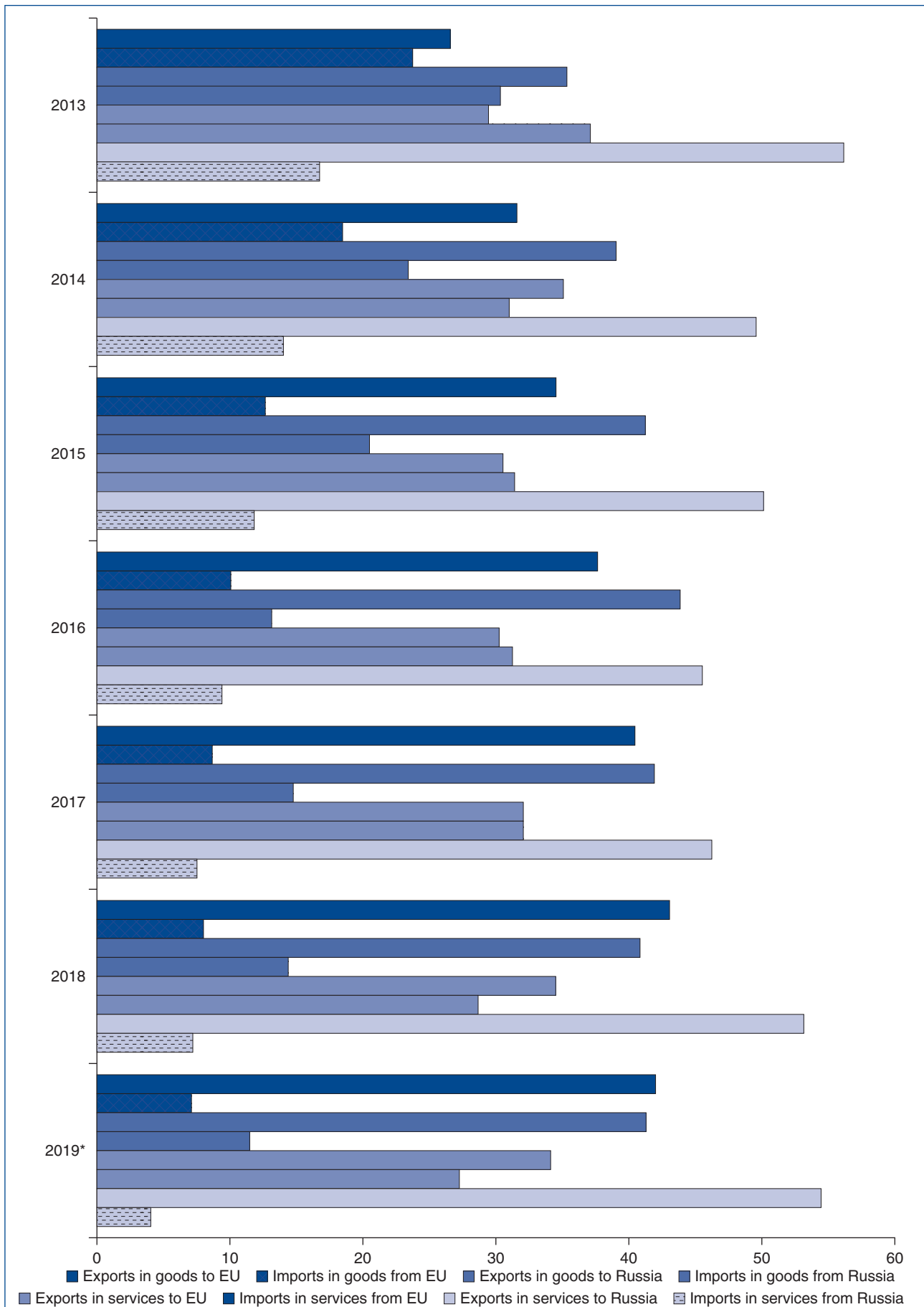
Secondly, the growth of EU-28 share in Ukraine's foreign trade in 2014-2015 masked the reduction of trade in all directions: it was just slower in the European direction. The main problem is that even after trade volume with the EU started increasing again, trade growth rates remained insignificant: the volume of import of both goods and services from the EU, and Ukrainian export of services to the EU still have not reached the pre-crisis level of 2013. This means that trade deflection processes clearly prevailed over trade creation processes, which is definitely an unfavourable factor: it has long been proved in economic theory that positive trade effects of regional integration processes are primarily related to trade creation processes, not deflection.

In the context of major transformations in the geographic structure of Ukraine's trade we need to remember that they were strongly affected by the introduced sanctions and trade restriction regimes. We should clearly differentiate between the two different groups of trade policy measures – (1) use of economic sanctions against Russian entities guilty

of violating international law – which is perfectly in line with the system of standards in international trade law; (2) broad wrongful use of artificial trade restrictions based on political and ideological grounds as a form of trade war – a component of Russia's hybrid armoury of military and political levers. Information presented in Appendix 1 "Use of Economic Sanctions and Trade Restrictions in Russia-Ukraine Relations" convincingly proves that trade restriction measures have been intensively used on both sides. However, on Ukraine's part, most of these were precisely sanctions – measures introduced in response to Russia's violations of international law, territorial integrity of Ukraine and seizure of Ukrainian property in the occupied territory. Meanwhile, Russia, from the very beginning, was using systemically important restrictive measures meant to harm the other side – cancellation of the free trade regime, ban on food imports, transit restrictions, etc.

Losses caused by sanctions regime and trade restrictions became significantly more noticeable due to the fact that contrary to initial expectations, the decrease of trade with Russia was not offset by the accelerated increase of trade with the EU: in 2013-2019, the annual volume of goods exports to Russia decreased by almost 77.8% (\$11.5 bn),

EU-28 and Russian Shares in Ukraine's Export and Import of Goods and Services, %



* 1st half-year.

while the increase of goods exports to EU-28 was only \$4.4 bn (+26.5%). In goods imports, a dramatic 61.8% (\$14.3 bn) decline of imports from Russia was supplemented by a decline of imports from the EU (by 7.2%, or \$1.9 bn).

But this is just a part of the problem. Re-orientation of trade is connected with “adjustment” of structure (by product and by types of services), which is generally characterised by *a clear trend towards structural simplification*, which, in turn, *significantly affects the negative evolution of the entire structure of Ukraine’s economy*. Analysis of changes in the structure of Ukraine’s trade in goods with EU-28 (Table “Main Components of Commodity Structure of Ukraine’s Foreign Trade with EU-28 Countries in 2018-2019”;⁸ Appendix 3 “Commodity Structure of Ukraine’s Foreign Trade with EU-28 Countries in 2018-2019”) shows that implementation of DCFTA provisions still has not had any major effect on improving structural characteristics of Ukraine’s

exports. *EU-Ukraine trade in goods is more similar to EU top member states’ trade with their former overseas territories, than to trade with EU membership candidates.*

Rather large percentage of electrical products in Ukraine’s exports to EU-28, which could in theory signify a major improvement of exports structure, is unfortunately not a sign of inclusion of Ukrainian companies in relevant European value chains (Appendix 4 “Ukrainian Exports of Certain Types of Machinery and Equipment by Top Importer Countries”⁹). Despite a relative increase of EU markets share in a number of electrical product groups, excessive concentration of supplies to a small number of EU countries indicates a lack of strong competitive position. Besides, the most *diversified and extensive are exports of technologically simplest products* (wires and cables), which have little value added. Talking about more technologically sophisticated products (e.g. gas-turbine engines, etc.), Russian

Main Components of Commodity Structure of Ukraine’s Foreign Trade with EU-28 Countries, %

| Commodity groups and items | Ukraine’s exports to EU | | Ukraine’s imports from EU | |
|--|-------------------------|-------|---------------------------|-------|
| | 2018 | 2019* | 2018 | 2019* |
| II. Vegetable products, incl.: | 18.3 | 18.4 | 2.1 | 2.8 |
| 10. Cereals | 11.0 | 15.3 | 0.5 | 0.7 |
| 12. Oil seeds and oleaginous fruits | 5.8 | 1.9 | 0.6 | 0.8 |
| III. Animal or vegetable fats and oils | 5.7 | 7.2 | 0.3 | 0.3 |
| IV. Prepared foodstuffs | 4.5 | 4.8 | 6.2 | 5.9 |
| V. Mineral products, incl.: | 13.4 | 14.3 | 14.1 | 10.8 |
| 26. Ores, slag and ash | 9.0 | 9.8 | 0.0 | 0.0 |
| 27. Mineral fuels, mineral oils and products of their distillation | 3.3 | 3.6 | 13.8 | 10.4 |
| VI. Products of the chemical or allied industries, incl.: | 2.9 | 2.6 | 17.3 | 19.1 |
| 30. Pharmaceutical products | 0.1 | 0.1 | 6.1 | 6.1 |
| VII. Plastics and articles thereof, incl.: | 0.9 | 1.0 | 7.3 | 6.7 |
| 39. Plastics and articles thereof | 0.8 | 0.9 | 6.0 | 5.3 |
| IX. Wood and articles of wood | 5.2 | 5.3 | 0.7 | 0.6 |
| 44. Wood and articles of wood | 5.2 | 5.3 | 0.6 | 0.6 |
| XV. Base metals and articles of base metal | 22.0 | 19.5 | 5.3 | 5.1 |
| 72. Iron and steel | 18.4 | 16.4 | 1.4 | 1.4 |
| 73. Articles of iron or steel | 2.4 | 2.1 | 1.8 | 1.8 |
| XVI. Machinery and mechanical appliances; electrical equipment | 14.2 | 13.9 | 22.1 | 20.7 |
| 84. Nuclear reactors, boilers, machinery | 2.4 | 2.4 | 13.9 | 13.2 |
| 85. Electrical machinery | 11.8 | 11.4 | 8.2 | 7.5 |
| XVII. Vehicles, aircraft, vessels | 0.8 | 1.0 | 10.0 | 14.0 |
| 87. Vehicles other than railway rolling-stock | 0.3 | 0.2 | 9.6 | 13.5 |
| XX. Miscellaneous manufactured articles | 3.3 | 3.4 | 1.4 | 1.3 |
| 94. Furniture | 2.5 | 2.7 | 1.4 | 0.5 |

* 1st half-year.

⁸ Source: Commodity structure in Ukraine’s foreign trade with EU countries for corresponding years. – State Statistics Committee of Ukraine, <http://www.ukrstat.gov.ua>.

⁹ Foreign trade in certain types of goods by country for respective years. – State Statistics Committee of Ukraine.

market is being replaced more by supplies to China and other third country markets, than the EU market.

Changes in structure of the Russia-Ukraine trade in goods (Appendix 5 “*Change of Structure of Ukraine’s Exports and Imports in Goods with Russia*”¹⁰) demonstrate a shift in the structure of Ukraine’s export supplies from engineering products (especially electric machinery, railway locomotives) to ferrous metals (but not products made of them), plastics and polymer materials, inorganic chemical products – in general, products with less value added and a higher level of damage for the environment. At the same time, despite termination of direct purchasing of Russian natural gas, overall hyperdependence on Russian energy supplies (Group 27 of the product nomenclature) remained almost unchanged: in the situation, when Ukraine’s oil refining capacities are idle, dependence on petrochemical imports is growing. Imports of products with high level of processing from Russia are insignificant, as well as exchange of technologies. Thus, in 2018, in Russia’s exports of technologies Ukraine got only 0.03% of the total value of all Russian contracts concluded in this sector, in Russian imports this number was 0.4%. At the same time, 22 EU countries got 3.3% of the total value of agreements in Russia’s exports, and 48.3% of imports value (with Germany being the dominant country – 32.6%).¹¹ Main groups of products with positive dynamics in Ukraine’s exports to Russia since 2016 include ferrous metals (25.3% in 2018, +71% to the 2015 level) and inorganic chemical products (16.8%, +39% to 2015), with significantly smaller increase of electric machinery, equipment and spare parts supplies (5.5%, +3.4%).¹² In Russia’s exports to Ukraine, most noticeable growth was observed in ore materials

supplies (4.9% in 2018, +336%), ferrous metals (4.6%, +123%), and from 2017, also fuel and energy products (43.3% in 2018, +127% to 2016 level).

These structural shifts meant an increasing difficulty of sales for Ukrainian machine building companies and other industrial companies that produce highly technological goods with increased value added. ***These companies are losing markets and resources needed to restructure their manufacturing and are forced to scale down their activity instead of adjusting it to EU’s single market requirements.***

Analysis of structural characteristics of trade in services in Ukraine’s relations with the EU and Russia (table “*Structure of Ukraine’s Foreign Trade with EU-28 Countries and Russia in 2018-2019*”¹³) shows that service supplies from Ukraine to the EU are much more diversified than the structure of exports in goods: there is no hyperdependence on transport services, which prominently prevails in service exports to Russia (94-95%). Telecommunications, computer and information services, along with business services, already make up a greater share of exports to the EU than transport services. This is especially important in the context of fears that exports of transport services to the EU may be further reduced due to the use of bypass transport routes by Russia.

Russia exerts influence on Ukraine’s integration into the EU not only along the line of Russia-Ukraine economic ties, but also along the line of Russia-EU trade and economic contacts (table “*Shares of Partner Countries in Russia’s Exports and Imports*”¹⁴). Interestingly, *contrary to Russian rhetoric about the priority of Eurasian integration, the EU remains Russia’s*

Structure of Ukraine's Foreign Trade with EU-28 Countries and Russia, %

| Service type | EU-28 | | | | Russian Federation | | | |
|--|--------|-------|--------|-------|--------------------|-------|--------|-------|
| | Export | | Import | | Export | | Import | |
| | 2018 | 2019* | 2018 | 2019* | 2018 | 2019* | 2018 | 2019* |
| Material resources processing services | 26.5 | 24.8 | 0.1 | 0.1 | 0.1 | 0.1 | – | – |
| Transport services | 32.2 | 32.2 | 26.1 | 24.6 | 94.0 | 95.3 | 32.2 | 43.7 |
| Travel-related services | 1.5 | 1.3 | 13.5 | 17.6 | 0.1 | 0.1 | 3.4 | 5.9 |
| Insurance services | 0.8 | 0.5 | 1.7 | 2.2 | 0.0 | 0.1 | 0.9 | 1.0 |
| Finance-related services | 1.6 | 2.0 | 9.7 | 8.3 | 0.0 | 0.0 | 2.5 | 3.2 |
| Royalties and other services related to the use of intellectual property | 0.4 | 0.7 | 12.2 | 12.5 | 0.4 | 0.2 | 2.3 | 4.0 |
| Telecommunications, computer and information services | 20.7 | 22.7 | 10.1 | 8.3 | 2.1 | 1.4 | 8.6 | 7.3 |
| Business services | 13.2 | 12.7 | 22.1 | 21.7 | 2.5 | 2.5 | 47.3 | 30.2 |
| Government and state services | 0.1 | 0.1 | 2.5 | 2.6 | – | – | 1.1 | 2.0 |

* Data for January-September 2019

¹⁰ Countries by commodity structure of Ukraine’s foreign trade for corresponding years. – State Statistics Committee of Ukraine.

¹¹ Calculations based on: Russian Statistical Yearbook. 2019: Statistical Compendium, electronic version, <https://gks.ru/folder/210/document/12994>.

¹² Russian State Statistics Service: Trade in Russia. 2019: Statistical Compendium, table 6.18.

¹³ Ukraine’s foreign trade in services with other countries (by type of service); Structure of foreign trade in services (by type) with EU countries for corresponding years. – State Statistics Committee of Ukraine.

¹⁴ Russian State Statistics Service: Russian Statistical Yearbook: Statistical Compendium 2017-2019, electronic version, <https://gks.ru/folder/210/document/12994>; Russian State Statistics Service. Trade in Russia. 2019: Statistical Compendium, electronic version, <https://www.gks.ru/folder/210/document/13233>.

leading trade partner: almost half of all Russian exports are still with the EU, which is driven by the EU's extremely high dependence on Russian energy supplies. And the situation did not change significantly with the introduction of EU's sanctions against Russia, only the linkage to the European market was slightly weakened – by 8 p.p., compared to smooth 2010, and by 6.5 p.p. – with the beginning of crisis in Russia-EU relations in 2014. A decrease of EU share in Russia's imports, despite Russia's food embargo, was even less pronounced – approximately by 4 p.p. Note that *EU share is larger in Russia's trade, than this share in Ukraine's foreign trade*. Meanwhile, the decrease of Ukraine's share in Russia's foreign trade is truly massive: compared to 2010,¹⁵ it decreased almost threefold (in exports to Ukraine – from 5.8 to 2.1%, and in imports from Ukraine – from 6.1 to 2.3%).

Rather prominent is the fact that a major decrease of Ukraine's role in Russian trade and a certain reduction of the EU share *were only slightly offset by the increase in trade in the EAEU (EurAsEC) format. The share of partners in this ambitious integration group in both Russia's export and import is several times smaller, than the EU share*. The biggest beneficiary of changes in Russia's trade regime was China, whose share increased dramatically, especially in Russian exports (more than twice).

An important factor in Ukraine's European integration is *Ukraine's ability to be a more important trade and economic partner for the EU than Russia*. Unfortunately,

Eurostat statistics (diagram “EU-28 Trade in Goods with Ukraine and Russia”,¹⁶ p.30) **does not point to the relative strengthening of Ukraine's position: Russia is a much more important trade partner for the EU**. EU-28 exports to Russia in the past two years were 3.7-3.8 times higher than to Ukraine, while in EU imports, Russia exceeds Ukraine by 7.9-9.4 times. It then comes as no surprise that EU business circles show interest in restoring “*business as usual*” with Russia. And such interest cannot but be reflected in the political decisions of a number of leading EU countries.

EU trade with Russia suffered a significant reduction in the initial period of anti-Russian sanctions: European imports from Russia in 2016 made up only 57.5% of the “pre-sanctions” year 2013 and 55.3% – of the 2012 level. For EU exports to Russia, these figures were 60.6% and 58.6%, respectively. However, these truly significant trade reductions should probably not be credited exclusively to the sanctions regime. *Firstly*, a downward trend has emerged back in 2013, when there were no sanctions yet, but there was a price change trend in global markets (foremost, the price of oil). *Secondly, sanctions, which were not eased in 2016 and in the following years, ceased to cause a decline in trade since 2017*. Starting from this year, EU trade with Russia started to noticeably grow again. This is a sign of not only **market actors' ability to adapt to the regime of sanctions**, but also of the *existence of more powerful factors influencing trade dynamics*, that manifest themselves in the area of prices and market

Shares of Partner Countries in Russia's Exports and Imports, %

| | | 2010 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------|---|------|------|------|------|------|------|
| Ukraine | e | 5.8 | 3.4 | 2.7 | 2.3 | 2.2 | 2.1 |
| | i | 6.1 | 3.7 | 3.1 | 2.2 | 2.2 | 2.3 |
| EAEU (EurAsEC)* | e | 7.7 | 7.3 | 8.3 | 9.1 | 9.5 | 8.5 |
| | i | 6.6 | 7.2 | 7.7 | 7.7 | 7.9 | 7.8 |
| EU, incl.: | e | 53.3 | 52.0 | 48.2 | 45.7 | 44.7 | 45.6 |
| | i | 41.7 | 41.3 | 38.4 | 38.3 | 38.2 | 37.4 |
| Germany | e | 6.3 | 7.5 | 7.4 | 7.4 | 7.2 | 7.6 |
| | i | 11.7 | 11.5 | 11.2 | 10.7 | 10.6 | 10.7 |
| Italy | e | 6.9 | 7.1 | 6.5 | 4.2 | 3.9 | 3.6 |
| | i | 4.4 | 4.4 | 4.5 | 4.3 | 4.4 | 4.4 |
| Netherlands | e | 13.6 | 13.7 | 11.9 | 10.2 | 10.0 | 9.7 |
| | i | 1.9 | 1.8 | 1.7 | 1.7 | 1.7 | 1.5 |
| France | e | 3.1 | 1.5 | 1.7 | 1.7 | 1.6 | 1.7 |
| | i | 4.4 | 3.7 | 3.2 | 4.7 | 4.3 | 4.0 |
| Turkey | e | 5.1 | 5.0 | 5.6 | 4.7 | 5.2 | 4.7 |
| | i | 2.1 | 2.3 | 2.2 | 1.2 | 1.5 | 1.8 |
| China | e | 5.1 | 7.5 | 8.3 | 9.8 | 10.9 | 12.5 |
| | i | 17.0 | 17.7 | 19.1 | 20.8 | 21.1 | 21.9 |

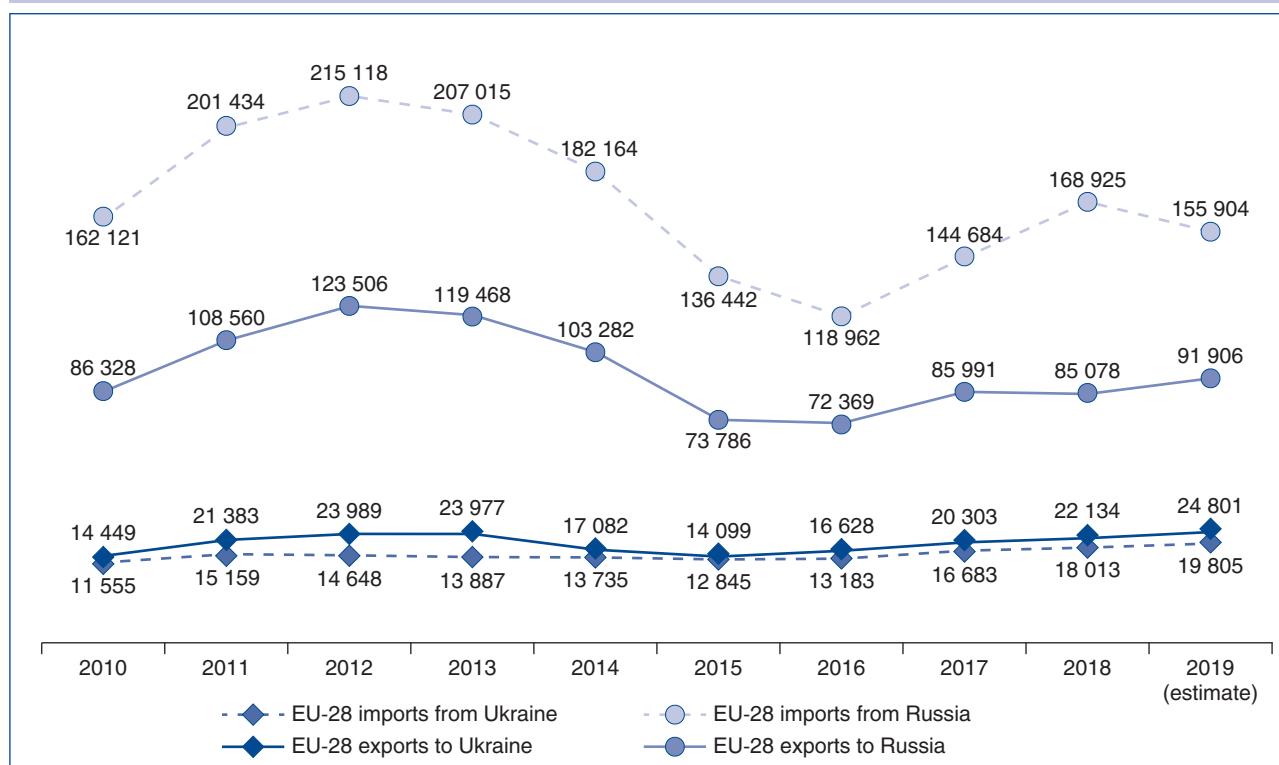
e – export, i – import.

* Until 2016 – Eurasian Economic Community (EurAsEC), from 2016 – Eurasian Economic Union (EAEU).

¹⁵ Reference to this particular year allows to take fuller account of the declining trends in the Russia-Ukraine economic relations, which started before the events of 2014.

¹⁶ Created using data from: Eurostat International Trade databank, <http://epp.eurostat.ec.europa.eu/newxtweb>.

EU-28 Trade in Goods with Ukraine and Russia, € mln



competitiveness. If such trends persist, *approximately in 2021, EU-Russia trade will be able to reach a full restoration of its “pre-sanctions” volume.* This could be greatly facilitated by the introduction of new routes of Russian energy supplies to Europe.

On the whole, we would like to note that significant shortcomings in the process of Ukraine’s market reforms, which limited Ukraine’s ability to create new trade flows, especially in the most modern sectors of economy, are an obvious cause of the country’s losing position in the international trade system and trade relations on the European continent. This cannot but adversely affect Ukraine’s ability to realise its geopolitical goals and objectives, including its own security goals.

2.1.2. Investment

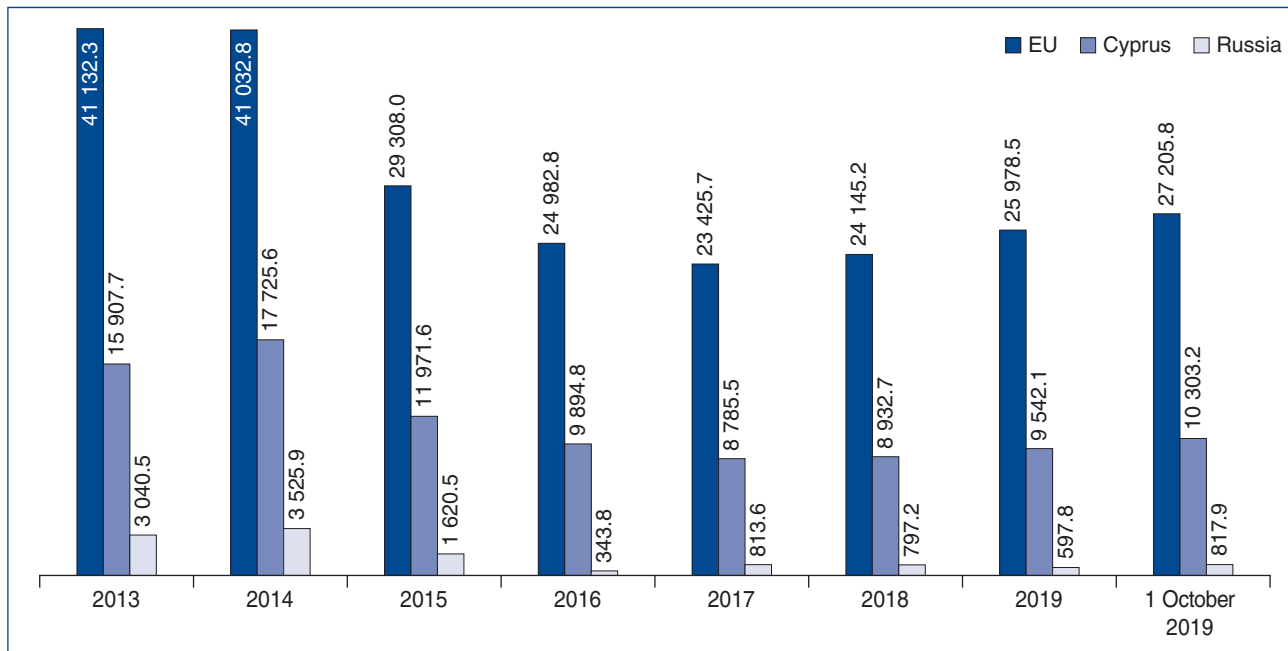
Attracting European investment for modernisation of Ukrainian economy was one of the main arguments in favour of European integration. However, statistics (diagram “Direct Investment (Equity Capital) in Ukraine’s Economy From EU-28 and Russia”,¹⁷ p.31) demonstrates inaccuracy of initial assessments and predictions about the decisive impact of concluding the Association Agreement and implementation of DCFTA provisions on investment situation in Ukraine and, thus, on acceleration of investment attraction from the EU. A significant decrease in corresponding dynamics is caused by a number of factors.

On the one hand, *problems with investment climate due to significant increase of risks in the face of military activity with uncertain consequences and a threat of further escalation. On the other, general processes of macroeconomic destabilisation and chaotisation due to obvious preponderance of destruction of old institutional formats over the creation of new effective formats.* In the macroeconomic aspect, the most damaging factor were the weakly controlled inflation processes and the dramatic devaluation of hryvnia,¹⁸ which in one moment led to depreciation of the value of foreign currency capital that belongs to non-residents but is denominated in hryvnia. Essentially, aside from investments from Cyprus, which are mainly offshore investments of Ukrainian legal entities and individuals, we are dealing with a *real collapse of direct equity investments from the EU.* Meanwhile, major devaluation of Ukrainian hryvnia has a long-term effect and, along with corruption, became one of the decisive factors that *deter European investors from investing in Ukraine.*

After 2014, direct investment from Russia, which even prior to the Russia-Ukraine relations crisis was not too large (Russian investors have always preferred indirect and covert methods of control over Ukrainian enterprises in sectors that are of interest to them), was significantly reduced under the influence of not just sanctions (see Appendix 1), but also *overall confrontation and insurmountable psychological barriers in relations*

¹⁷ Direct investment (equity capital) of other countries in Ukraine’s economy (20002018); Direct investment (equity capital) of other countries in Ukraine’s economy in January-September 2019; Direct investment (equity capital) of EU countries in Ukraine’s economy (20102018). – State Statistics Committee of Ukraine.

¹⁸ According to NBU average hryvnia to euro exchange rate was 1061.22 hryvnias for €100 in 2013, in 2014 – already 1571.59 hryvnias, in 2015 – 2422.87 hryvnias, in 2016 – 2829.18 hryvnias, and in January 2018 – 3460.22 hryvnias. For more information, see: NBU. Official exchange rate of hryvnia against foreign currencies (period average). – NBU, <https://bank.gov.ua/markets/exchangerates>.

Direct Investment (Equity Capital) in Ukraine's Economy from EU-28 and Russia,
 \$ mln (as at the start of year)*


* Provided data does not include the temporarily occupied territories of the Autonomous Republic of Crimea, city of Sevastopol; 2014-2018 data also does not include the part of temporarily occupied territories in Donetsk and Luhansk oblasts.

created by Russian aggression. In this situation, **Russian investors were faced with broad social opposition to the presence of Russian capital in Ukraine**, which caused their **progressive exit from the Ukrainian economy**. Today Russia's share in the total direct investment in Ukraine's economy is mealy – as of 1 October 2019, only 2.4%, while EU-28 share is 78.3%, including Cyprus – 29.7% (37.9% of the total EU-28 investment), the Netherlands – 21.8% (27.8% of EU-28), the UK – 5.9% (7.5% of EU-28), Germany – 5.2% (6.6% of EU-28), Austria – 3.5% (4.4% of EU-28).

Note that the abovementioned data on equity investment has to be supplemented with data on attracting direct investment through *debt instruments*. As of early 2019, Ukraine has attracted \$8891.6 million into its economy using these mechanisms, and as of 1 October 2019 – \$9271 million. Out of this, EU-28 investments made up \$7459.6 million (83.9% of the total volume of investments attracted through debt instruments from all countries of the world) and \$8072.8 million (87.1%) respectively,¹⁹ and Russian investments – only \$57.4 million (0.65%) and \$58.6 million (0.63%).²⁰ However, the dominant investor in Ukraine's securities is Cyprus (\$4761.9 million, or 63.8% of the total volume of such investments by EU-28 as of 1 January 2019, and \$4876.3 or 60.4% by EU-28 as of 1 October 2019). Essentially, these are the mechanisms of refinancing of Ukrainian economy by Ukrainian residents through their offshore jurisdictions, who thus protect themselves against investment and property loss risks.

To assess the development of foreign investment processes, it is important to analyse not only their overall dynamics, but also the structure of investment areas and purposes. Data below (Appendix 6 “*Main Areas of Direct Investment by EU-28 and Russia in Ukrainian Economy*”²¹) shows that it is generally typical for Ukraine to have *concentration of foreign investment in non-manufacturing sectors*, which provide relatively quicker capital circulation and possibilities to quickly exit the business if needed. First of all, this includes wholesale and retail trade, real estate transactions, financial and insurance activity, which together account for 42% of invested foreign capital. Processing industry investments are primarily directed into sectors with strong export capacity – food, beverages, tobacco products and metallurgical production. Foreign investment actually *bypasses sectors of Ukrainian economy related to manufacturing goods with higher value added and technological complexity*. Possibly, the only exception are rather *noticeable investments in Ukraine's information and telecommunications sector*. Unfortunately, such structural priorities in investment do not meet the strategic interests of Ukrainian economy.

We should pay attention to the fact that in direct equity investment, like in trade relations, there is a small number of dominating member states, with an excessively large share of investment from Cyprus. *Currently, Russia's share in this investment is miniscule, except for financial and insurance activity sector* (or, rather, financial, as Russian capital is essentially no longer present in Ukraine's insurance sector).

¹⁹ Taking into account the volume of investment attracted from Switzerland, which is in close contractual relations with the EU, these shares will increase to 94.2% (as of 1 January 2019) and 95.4% (as of 1 October 2019).

²⁰ Direct investment (debt instruments) of other countries in Ukraine's economy for the specified periods. – State Statistics Committee of Ukraine.

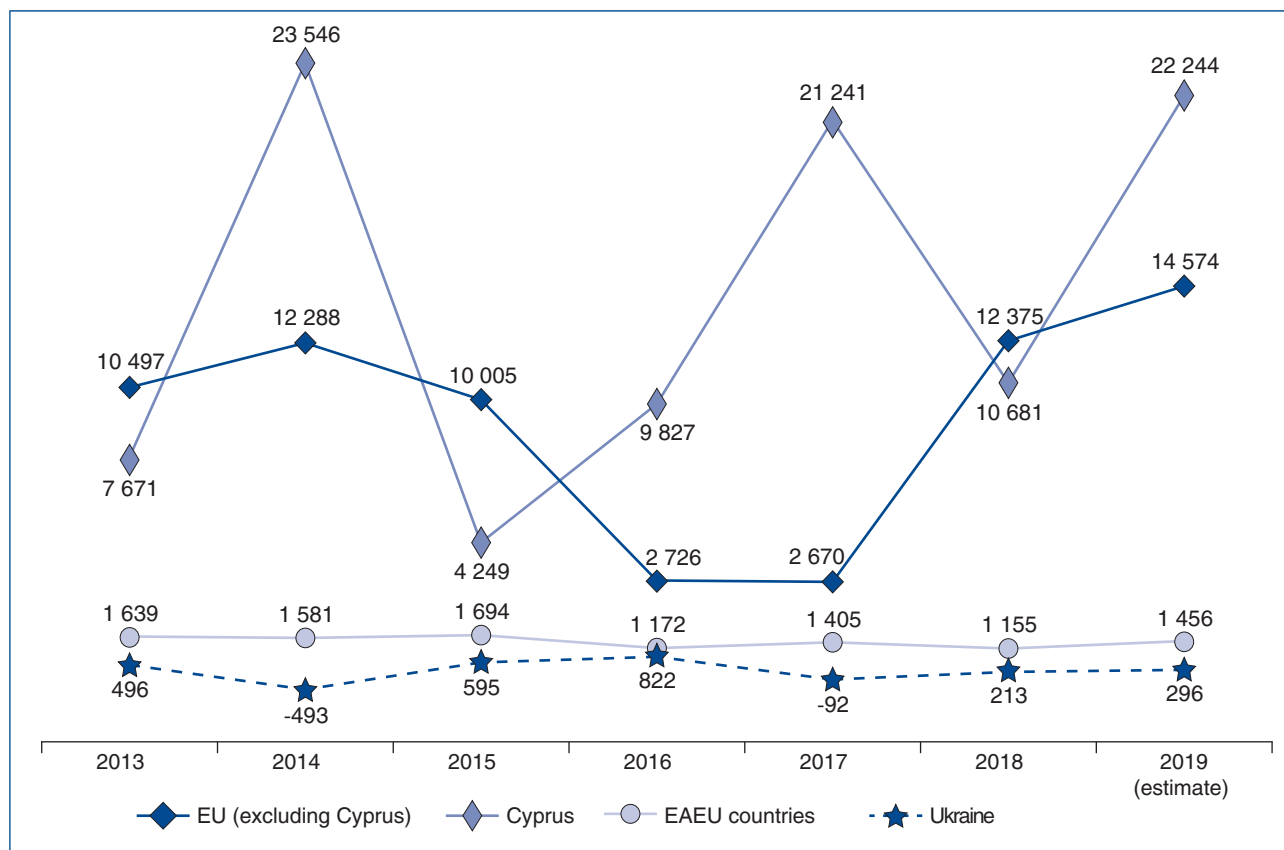
²¹ Direct investment (equity capital) in Ukraine's economy by the type of economic activity. – State Statistics Committee of Ukraine.

Banks with Russian state capital are not hiding their intentions to exit the Ukrainian banking market, which started manifesting itself in spring 2017 – after Ukraine strengthened its sanctions in the form of prohibiting banks with Russian capital to perform any financial operations for the benefit of their parent institutions (supplementing the 2015 prohibition for subsidiary structures of Russian banks to perform any operations in Ukraine’s stock market). Thus, in December 2017, Russian “Sberbank” sold its subsidiary banking institution to “VS Bank”. Other Russian actors in Ukraine’s financial market were behaving along similar lines. For instance, “Moscow Exchange” sold its 43% of “Ukrainian Exchange” shares (January-March 2016) and 50.02% of “PFTS Ukraine Stock Exchange” shares (February 2016). Russian insurance company “Ingosstrakh” in 2017 sold its subsidiary Ukrainian company “INGO Ukraine”, and “Rosgosstrakh” withdrew as a shareholder of Ukraine’s IC “Providna”.²²

Withdrawal of Russian capital from Ukraine affected a number of sectors of real economy, where Russian capital used to have strong positions. Thus, back in 2014, “Lukoil” sold (to Austrian AMIC Energy)

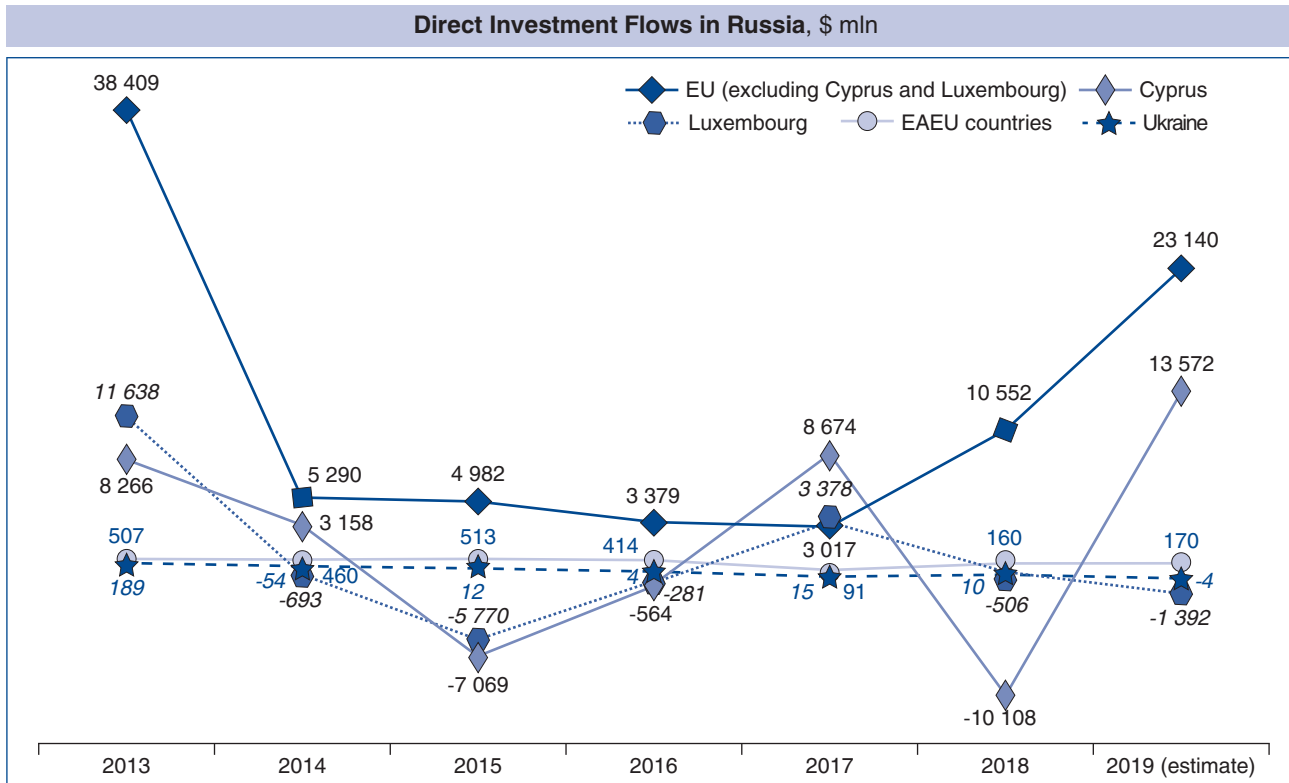
its network of gas stations and tank farms in Ukraine, and in 2017 – its “Karpatneftekhim” plant (Kalush, Ivano-Frankivsk oblast). In 2016-2017, a well-known Russian group “Evraz” sold iron ore mining and processing plant “Suha Balka” and coke plant “Yuzkoks” (Dnipropetrovsk oblast). In 2017, “Rosneft” sold its network of gas stations “TNK Ukraine” to Swiss Glusco Energy S.A. In November 2019, Russian company MTS sold its Ukrainian asset “Vodafone Ukraine” to an Azerbaijan mobile operator Bakcell, which is a part of international NEQSOL Holding. These are just some examples of a quite large number of cases of Russian investors’ withdrawing from direct participation in Ukraine’s economy, which led to the fact that *at the moment, we cannot speak of a significant role of Russian direct investment in Ukrainian economy*. It is likely to be higher than the presented numbers, because to a certain degree Russian capital is present in Cyprus investments and investments from other offshore jurisdictions (e.g., British Virgin Islands). Yet, there are grounds to assume that *current interest of top Russian investors in Ukraine is not as strong as it used to be several years ago* (diagram “Direct Investment Flows from the Russian Federation”²³).

Direct Investment Flows from the Russian Federation, \$ mln



²² Such steps were a forced reaction to the real license revocation prospects after Ukraine introduced amendments to its legislation that allowed to revoke licenses of institutions controlled by residents of the aggressor country. See: Licensing conditions for conducting economic activity in provision of financial services (except for professional activity in the securities market), approved by CMU Resolution “On Approval of Licensing Conditions for Conducting Economic Activity in Provision of Financial Services (Except for Professional Activity in the Securities Market)” No.913 as of 7 December 2016 (pp. 40, 43).

²³ Bank of Russia external sector statistics, http://www.cbr.ru/statistics/macro_itm/svs.



Note. Estimated volume of investments for 2019 is an extrapolation of official data for 1st half-year of 2019, made to ensure comparability of indicators presented above.

On the other hand, *the volume of direct equity investment from Ukraine is miniscule and tends to decrease.* Investment in Russia, which in early 2013 made up \$292.6 million, as of 1 October 2019, reduced to \$120.2 million (only 1.9% of total equity investment in all countries around the globe), and respective investment in the EU – from \$6150.1 million to \$6077.2 million. Almost the entire volume of EU investments (\$5931.2 million, or 97.6%²⁴) falls on one country – Cyprus. Thus, *this aspect of development of economic relations is almost defunct.* Given the tight connection between investment and trade, it is not surprising that Ukraine is losing markets – above all, value-added goods and services markets, which require a steady commercial presence for successful business development.

Also pay attention that *the Russian Federation has far higher volume of FDI flows in relations with EU-28 than Ukraine.* Although they, apart from the distorting influence of offshore Cyprus investments (basically of Russian origin), suffered a significant collapse in the situation of major deterioration of Russia-EU relations after 2014, at the moment, this period seems to be already in the past: *since 2017, Russian investment in the EU has definitely been on the rise.* Note that *the overall volume of such investment should not even be compared to the volume of Russian investment in Ukraine or even Russia's partner countries in EAEU* (another question about the

reality of Eurasian integration being a “priority” for Russia, at least in the economic sense).

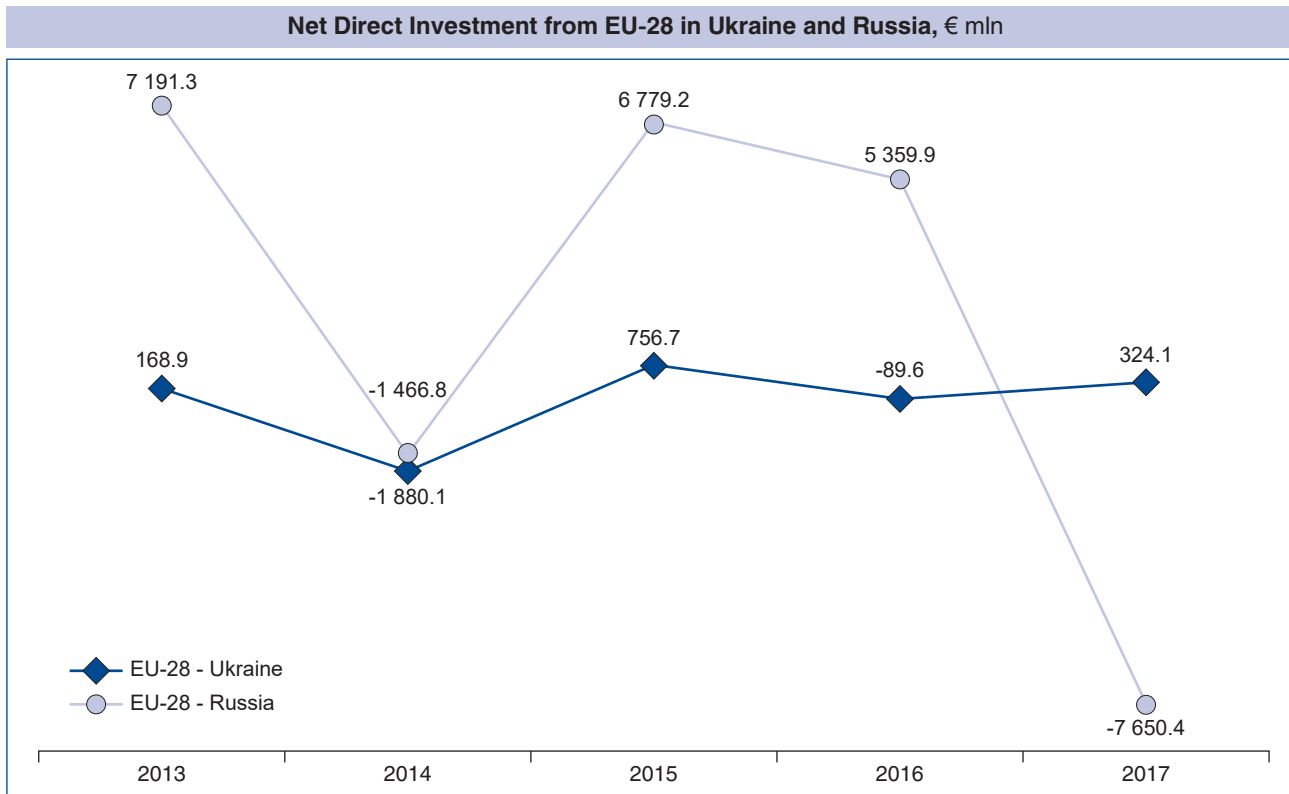
Statistical data on attracting direct investment in Russian economy (diagram “Direct Investment Flows in Russia”²⁵) also demonstrates, *firstly, the overcoming of crisis in Russia-EU investment relations starting in 2017, and secondly, similarly obvious prevalence of investment flows from the EU over investments from other areas, among which capital investments from Ukraine (as well as EAEU countries) go almost unnoticed.*

In this regard, it is important to note that direct investment movement in Russia-EU relations is characterised by *concentration on a narrow group of “privileged” partners, among which a special place is occupied by countries with relatively liberal regimes of investment regulation and control.* Thus, in Russia's structure of direct investment in EU-28 in 2013-2019, the share of Cyprus (the country most beloved by Russian owners of financial assets in offshore jurisdictions) in different years was from 29.8% (2015) to 88.8% (2017). Cyprus and Luxembourg (or rather, Russian owners of accounts in these countries' financial institutions) hold a large share of EU investment flows in Russia's economy.

As in trade and economic relations, *Ukraine clearly loses to Russia as an investment partner of the EU* (diagram “Net Direct Investment from EU-28 in Ukraine

²⁴ This figure seems overstated due to confidentiality regime regarding investments in a number of EU countries, although such an overstatement is hardly significant given the availability of data on major partner countries.

²⁵ Bank of Russia external sector statistics, http://www.cbr.ru/statistics/macro_itm/svs.



and Russia”,²⁶ p.34). Eurostat statistics demonstrate not only the obviously larger scale of investment flow between Russia and the EU than between EU and Ukraine, but also its much higher *volatility*: major ups are followed by equally striking falls. The latter is a sign that despite the much larger volume of investment between Russia and the EU, it *does not possess a stable, structurally meaningful foundation*. Various risks and non-economic considerations influence investment flow and cause its sharp fluctuations, which does not contribute to Russia’s development.

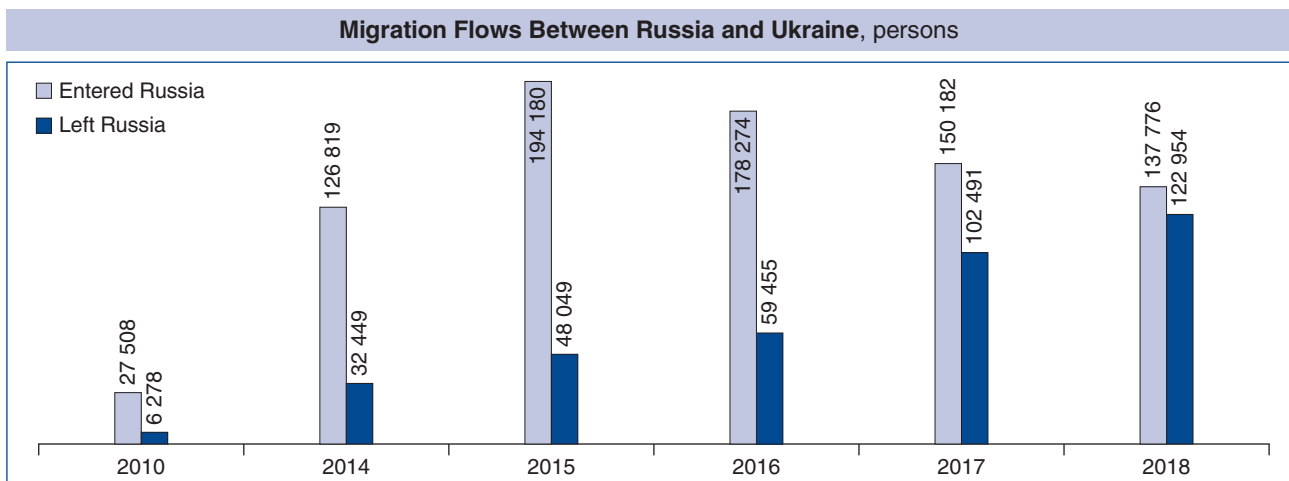
Overall, *European investors must obviously consider Russia a potentially more important partner than Ukraine, although this approach is strongly restricted by the existing political contradictions and non-economic risks. But the very factor of*

such investment proclivity should be taken into account, as it helps understand why the regime of anti-Russia sanctions is working with such obvious restrictions and is predisposed to erosion.

2.1.3. Migration Flows

International migration is becoming an increasingly more important factor in the development of global economics and politics, and thus has to be taken into account in the context of changes that occur in the process of Ukraine’s European integration and deterioration of the entire complex of Russia-Ukraine economic relations.

Russian statistics (diagram “Migration Flows Between Russia and Ukraine”²⁷) shows that in contrast to the trade and investment sector, the crisis led to an



²⁶ Created using data from: Eurostat database, <https://ec.europa.eu/eurostat/data/database>.

²⁷ Russian Statistical Yearbook: Statistical Compendium 2017-2019, electronic version, <https://gks.ru/folder/210/document/12994>.

obvious and significant in terms of numbers increase of migration flows, especially in the initial period after the beginning of the acute crisis in relations and the start of Russia's aggressive actions on the territory of Ukraine. First and foremost, this reflects the massive displacement of persons under the influence of very unfavourable changes in living and employment conditions that followed the Russian intervention in 2014 and in subsequent years. An interesting factor is that along with this, *the number of migrants from Russia to Ukraine also significantly increased*. This is a more complicated phenomenon, because, most likely, we are talking about Ukrainians who previously lived and worked in Russia leaving it, as under new conditions they no longer identified themselves with Russia.

Note that departure from Russia to EU countries which, according to Russian statistics, was 7192 persons in the calmer 2010, during the period of 2014-2018, turbulent for Russia-EU relations, slightly grew at first – to 12,373, and later even went somewhat down – to 10,996 in 2017 and 11,726 persons in 2018.

The numbers of arrivals from EU countries were always miniscule, so there is no need to mention them. Thus, *in contrast to Ukraine, where migration is taking place in two directions (towards EU – from most oblasts of the country, and Russia – from the East of the country, with the first direction prevailing), for Russia, the European direction of migration is of minimal significance*.

At the same time, along with a major increase of the number of migrants from Ukraine to Russia, *presence of Ukrainians in the Russian labour market has significantly decreased in recent years* (table “Number of Valid Work Permits and Valid Employment Patents on the Territory of Russian Federation”²⁸), which explains the growing number of reverse migrants – from Russia to Ukraine.

Ukrainians, who in 2014 held 13.4% of all work permits issued in Russia and 12.1% of all employment patents on the territory of Russian Federation, reduced their presence in these areas in

Number of Valid Work Permits and Valid Employment Patents on the Territory of Russian Federation, thousand persons, at the end of year

| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|----------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|--------------------|
| | Work permits | Employment patents | Work permits | Employment patents | Work permits | Employment patents | Work permits | Employment patents | Work permits | Employment patents |
| Total | 1 043.8 | 2 079.8 | 182.4 | 1 656.3 | 143.9 | 1 543.4 | 114.9 | 1 649.1 | 93.2 | 1 661.9 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Ukraine | 139.5 | 252.6 | 4.2 | 202.7 | 2.7 | 164.6 | 2.0 | 132.8 | 1.2 | 112.0 |
| | 13.4% | 12.1% | 2.3% | 12.2% | 1.9% | 10.7% | 1.8% | 8.1% | 1.3% | 6.7% |
| CIS countries | 866.0 | 2077.6 | 33.5 | 1 655.4 | 25.0 | 1542.6 | 19.9 | 1648.7 | 17.3 | 1 661.4 |
| | 8.3% | 99.9% | 18.4% | 99.9% | 17.4% | 99.9% | 17.3% | 100.0% | 18.6% | 100.0% |
| Tajikistan | 145.7 | 432.5 | 10.7 | 416.8 | 8.3 | 393.4 | 4.4 | 432.8 | 4.1 | 443.2 |
| | 14.0% | 20.8% | 5.9% | 25.2% | 5.8% | 25.5% | 3.8% | 26.2% | 4.4% | 26.7% |
| Uzbekistan | 422.0 | 824.8 | 10.0 | 859.2 | 7.8 | 871.7 | 7.7 | 976.9 | 7.1 | 1 009.0 |
| | 40.4% | 39.7% | 5.5% | 51.9% | 5.4% | 56.5% | 6.7% | 59.2% | 7.6% | 60.7% |
| EU countries | 10.4 | | 10.8 | | 8.4 | | 4.4 | | 1.5 | |
| | 1.0% | | 5.9% | | 5.8% | | 3.8% | | 1.6% | |
| Turkey | 24.1 | | 19.3 | | 9.9 | | 5.4 | | 6.9 | |
| | 2.3% | | 10.6% | | 6.9% | | 4.7% | | 5.8% | |
| Vietnam | 13.5 | | 14.1 | | 12.5 | | 13.0 | | 12.0 | |
| | 1.3% | | 7.7% | | 8.7% | | 11.3% | | 12.9% | |
| China | 71.7 | | 49.4 | | 40.5 | | 34.4 | | 37.4 | |
| | 6.9% | | 27.1% | | 28.1% | | 29.9% | | 40.2% | |
| North Korea | 30.7 | | 30.4 | | 29.1 | | 24.1 | | 8.0 | |
| | 2.9% | | 16.7% | | 20.2% | | 21.0% | | 8.6% | |

Note. 2014 data: number of issued work permits – for foreign nationals and stateless persons, who entered the country on a visa or visa-free; as well as the number of employment patents issued to individuals – foreign nationals and stateless persons, who entered the country in the order that does not require a visa. 2015 data: number of issued work permits – for foreign nationals, who entered the country on a visa; as well as the number of employment patents issued to individuals and legal entities, private entrepreneurs and other persons, whose activity is subject to registration, – for foreign nationals, who entered the country in the order that does not require a visa. Information on foreign nationals does not include citizens of the Republic of Belarus, to whom the foreign labour involvement regulation procedure does not apply. Since 2015, citizens of the Republic of Armenia, Republic of Kazakhstan, Kyrgyz Republic also carry out work activities without permits (work permits, patents). Data by country lists numbers only for citizens who were issued a work permit or employment patent (qualified specialists or students who work while studying).

²⁸ Russian Statistical Yearbook: Statistical Compendium 2017-2019, electronic version, <https://gks.ru/folder/210/document/12994>.

2018 to 1.3% and 6.7% respectively (they are replaced in the Russian labour market by Uzbekistan, Tajikistan nationals and citizens of some East Asia countries – China, Vietnam, North Korea). At the same time, Ukrainian labour migrants, especially those from western regions of Ukraine, are re-orienting themselves to EU labour markets.

Ukrainian labour migration to the EU is receiving an additional boost due to the exit from Russian labour market, while migration processes between Russian and EU labour markets are minimal. From 2012 to 2017, according to German economists, migration to Russia decreased at least by a third, and the number of migrants to Poland increased threefold – to 0.5 million. Today the EU is the largest region that employs migrants from Ukraine, with Italy and Czech Republic being in the lead alongside Poland. Overall, in 2017, three out of four Ukrainian labour migrants (the minimum estimate of total labour migration from Ukraine in 2017 is 2 million persons) worked in EU countries.²⁹

However, the increasing penetration of Ukrainian labour migrants into the EU market hardly has exceptionally positive effects. While solving certain problems for the migrants themselves in terms of raising their income and providing opportunities for professional fulfilment, it leads to *increasing losses for the Ukrainian economy as the country haemorrhages highly skilled workforce and top specialists*. This, in turn, discourages investment in technology-intensive industries: European integration may stumble upon an insurmountable obstacle of the increasing structural simplification of Ukrainian economy.

Ukraine is implementing its European integration course in the situation of Russian aggression and large-scale destruction of the entire complex of economic relations between Russia and Ukraine. The main factor was the transformation of bilateral economic relations into “hybrid war” arena with widespread use of various prohibitions, restrictions and selective discriminatory actions. This resulted not only in the radical reduction of bilateral trade and investment, but also in systematic confrontation in the Russia-Ukraine relations, which will obviously have long-term consequences.

The “triangle” in relations between Ukraine, the EU and Russia has ceased to exist, as one of its sides (Russia-Ukraine) has de facto degraded. Russia no longer plays the role of Ukraine’s main economic partner and, as a result of a dramatic decline of its presence in the Ukrainian economy, can no longer systematically influence the overall dynamics and external orientation of Ukraine’s economy through its actions in trade and economy. However, the impact of destructive past events in the economic relations between Ukraine and Russia on Ukraine’s foreign economy position will,

at least in the medium term, be significant and generally negative. This negative impact manifests itself in:

(a) a sharp increase of the level of economic risks in the situation of “hybrid war” on the territory of Ukraine;

(b) deterioration of the overall dynamics of Ukrainian economy, its structural characteristics and the level of balance due to quick loss of foreign markets in Russia and some other countries in the East (due to restrictions on transit through the territory of Russia), forced curtailment of production due to disruption of production chains and other complications, which so far are not being offset by the creation of new opportunities in the European cooperation sector;

(c) low level of interest in the Ukrainian market of European and other potential investors, in particular due to Ukraine’s inability (in the current situation) to fulfil the role of a transit territory that links economic areas of Europe and Eurasia; and inability to become a part of single economic space large enough to achieve savings through increased scale (which is critically important in implementing costly innovative development projects);

(d) existence of critically significant constraints on directing funds to innovation and modernisation of economy in the civil sector due to major forced increase of defence and security spending. As a result – progressive loss of competitiveness and displacement into peripheral areas of international markets, which is actively “facilitated” by the existing structure of foreign investment in Ukrainian economy.

Due to major economic complications caused by the mentioned external factors and significantly exacerbated by the negative factors of internal origin (corruption, poor law enforcement and high level of economic crime, distortion of competitive environment, colossal social stratification, etc.), Ukraine has limited opportunities to effectively move along its European integration trajectory. After all, much of its critically limited resources are diverted towards goals hardly compatible or completely incompatible with integration into European space. Ukraine’s economic achievements in the European direction since 2014 are limited and do not match initial expectations, and so far only partially compensate for losses incurred by Ukraine in relations with Russia.

In general, Ukraine needs to adjust its model of integration into EU’s economic space in the context of Association Agreement in order to create real conditions for correcting the abovementioned issues in its European integration movement.

²⁹ For more information, see: Zakh D., Liukke M. “Last One Out Will Turn Off the Lights”: The Real Scale of Labour Migration from Ukraine to the EU. – *Economichna Pravda (Economic Truth)*, 11 February 2020, <https://www.epravda.com.ua/publications/2020/02/11/656895>.

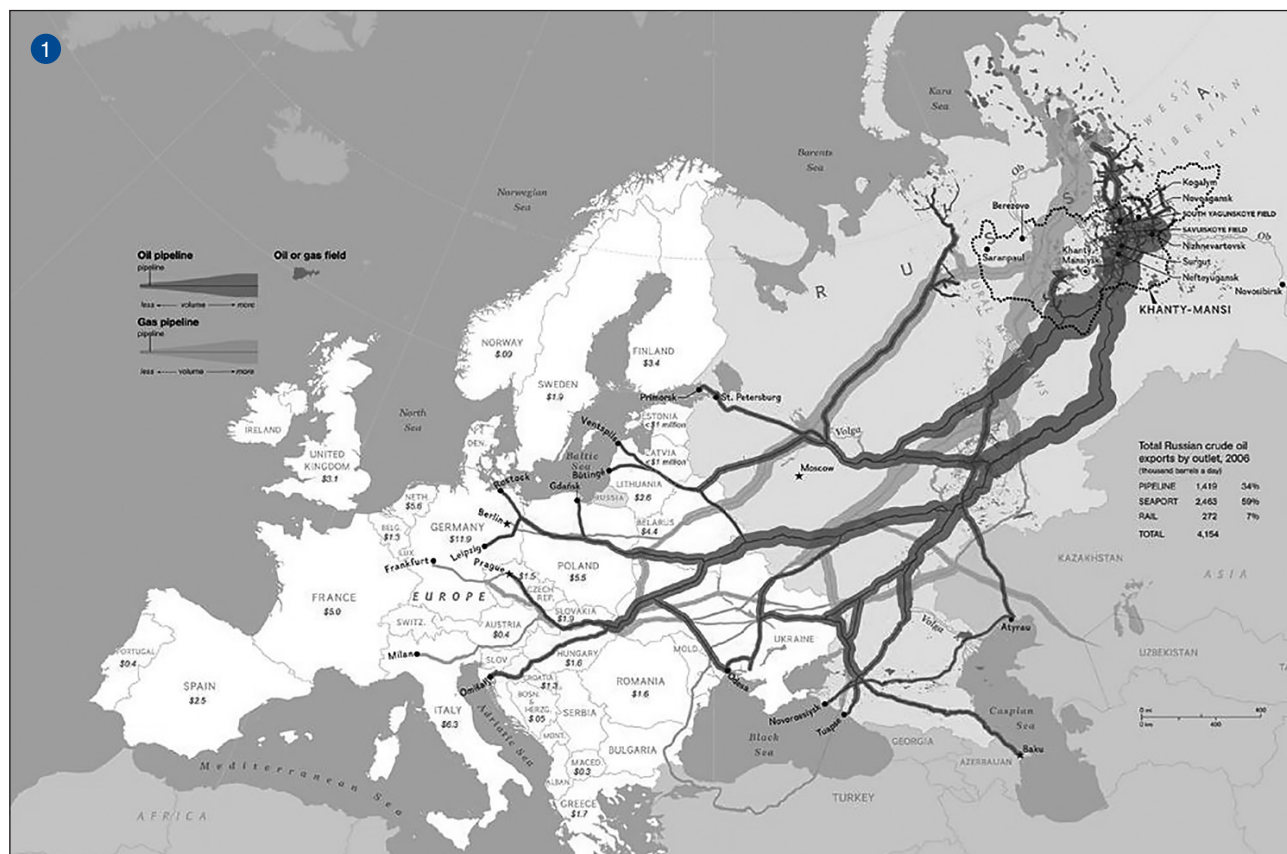
2.2. UKRAINE-EU-RUSSIA: ENERGY COMPONENT

2.2.1. Soviet Energy Strategy

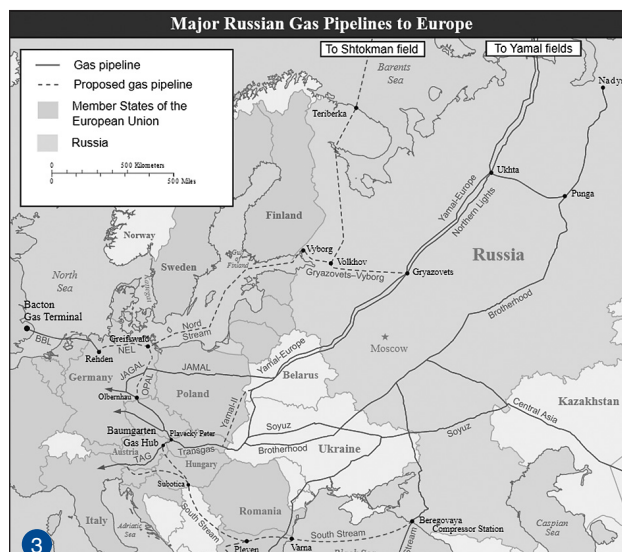
The natural route of oil and gas movement to Europe from the East that formed in the 1960s-1980s is the basis of bilateral and trilateral relations, cooperation and crises in the notional Russia-Ukraine-EU “triangle” (schematic map 1). Note that first exports of natural

gas from the USSR were supplied from Ukrainian gas fields in the 1960s. The time of Ural and West Siberian gas came in the 1970s.

The base for oil supplies was the largest in Europe pipeline system “Druzhba” built in the 1st half of the 1960s, and for gas supplies – gas pipelines Dolyna-Uzhhorod-State Border (“Soyuz”) and Urengoy – Pomary – Uzhhorod (“Progress”) built in 1965-1986 (schematic maps 2, 3).



Source: Oil and gas pipelines from Russia to Europe. – National Geographic, <https://www.nationalgeographic.org/photo/europe-map>.



Source: The Druzhba Pipeline, https://www.google.com/maps/d/embed?mid=1hzAK5p4tgksvndxSeEbpqQFVj_w&ll=53.03947913092652%2C38.745059500000025&z=4; Natural gas pipelines from Russia to Europe, https://en.wikipedia.org/wiki/Russia%E2%80%93Ukraine_gas_disputes#/media/File:Major_Russian_Gas_Pipelines_to_Europe.svg.

Note that these large-scale infrastructure projects were being implemented during the time of the Cold War and were mainly intended to provide oil and gas to USSR allies in the Warsaw Treaty Organisation (WTO) and Council for Mutual Economic Assistance (Comecon). While implementing its policy of expansion in Europe on different fronts of the Cold War, USSR, which desperately needed foreign currency flows, was implementing projects aimed at energy exports to NATO and European Economic Community (EEC) members. However, Kremlin was guided not only by its foreign currency needs. The goal of the massive increase of oil and gas exports was making Europe dependent on the USSR, its separation from the USA.

It was intended to do the same thing with electricity. Many NPPs are located in Ukraine not by accident, as it is a convenient location near the border with Europe. Five NPPs were built out of seven planned by the Soviet leadership. For the purpose of large-scale export of electricity it was planned to build powerful high voltage transmission lines in the northwestern direction (Poland, Rzeszow), western (Hungary, Albertirsa), southwestern (Romania, Isakcha). However, the Chernobyl NPP accident impeded the implementation of USSR's plans for electricity expansion to Europe.

I.Diiak mentions the period of early 1980s, when Soviet leadership formulated a strategic goal: "Central Committee of the Communist Party of the Soviet Union sets the task of building gas pipelines that will allow to deliver up to 70% of the required gas to Western Europe – thus we will be able to achieve European countries' total dependence on Soviet energy resources... The USSR will be able to influence Western Europe economically and politically. In addition, this will allow to minimise the influence of the USA on European countries, helping to transform the USSR into a world superpower".³⁰

Low oil prices in 1985-1999 and collapse of WTO and Comecon, and later USSR made Moscow put its expansionist policy on hold. It was relaunched at a new historical stage – after Vladimir Putin rose to power in the Kremlin and the demand and prices for oil and gas grew in the EU market.

2.2.2. Soviet Strategy Relaunch

As its former socialist camp satellites were becoming NATO and EU members, and the EU's agency got stronger after eurozone creation, Russia returned to old Soviet plans to make Europe dependent and detach it from the USA. An additional strategic objective was to use energy supplies to make political leadership of post-Soviet states (some of which chose the path of European and Euro-Atlantic integration, above all,

Ukraine, Moldova and Georgia) dependent on Russia. Note that the opening line of official 2003 document "Energy Strategy of the Russian Federation till 2020" stated: **"Russia possesses significant energy reserves and a powerful fuel and energy complex, which is the basis of economic development, a tool for implementation of domestic and foreign policy. A country's role in global energy markets largely determines its geopolitical influence"**.³¹

Energy and its delivery infrastructure, as a foreign policy instrument, is being used by Russia in full with both Ukraine and the EU. In both cases, the aim is to corrupt political elites through non-transparent mechanisms of selling gas, oil and petroleum products, to make them move exclusively along the lines of Russian interests in making strategic foreign policy decisions and steps on the international arena.

Russian oppositioner Garry Kasparov accurately described Kremlin's modern policy: "Europe failed to export democracy to Russia. But Putin managed to export corruption to Europe";³² "Russia's biggest export is not gas or oil – it is corruption".³³ In order to create a perfect scheme for parallel export of hydrocarbons and corruption to Europe, Russia needed to regain full control of the oil and gas transmission systems in the countries between Russia and the EU. In some places it worked. For instance, Belarus GTS became a part of "Gazprom". In places, where Russia failed to gain control of oil pipelines and terminals, such as Lithuania and Latvia, these countries were cut off from transit flows. As for Ukraine, Russia made numerous attempts to gain control of Ukraine's GTS under the pretext of creating an international gas transportation consortium. In the end, these attempts failed, as Kyiv clearly saw the example of Belarus, where through gaining control of energy infrastructure Russia was able to proceed with desovereignisation of the country. However, Kremlin managed to implement non-transparent corrupt schemes like "Eural Trans Gaz", "RosUkrEnergo" in Ukraine in the early 2000s in exchange for Kyiv abandoning its course towards NATO and EU membership. This only worked up to a certain point. The 2004 Orange Revolution made adjustments. And Russia turned to active actions of creating bypass routes for oil and gas transportation in order to decrease Ukraine's transit role, deprive it of a portion of income, and overall, weaken the country, make it marginal in the space between Russia and the EU.

This was aided by intensive growth of oil prices and rising income of Russia's state energy companies, which became the stronghold of Kremlin's kleptocracy within the country and financial base for foreign expansion that started to look increasingly more like hybrid aggression.

³⁰ I.Diiak – Corresponding Member of the Academy of Mining Sciences, Member of Parliament of 3rd convocation, Deputy Head of Ukrgazprom in 1972-1998. See: Natural gas has always been Kremlin's geopolitical weapon. – Holos Ukrainy ("Voice of Ukraine"), No.76(6831) as of 24 April 2018.

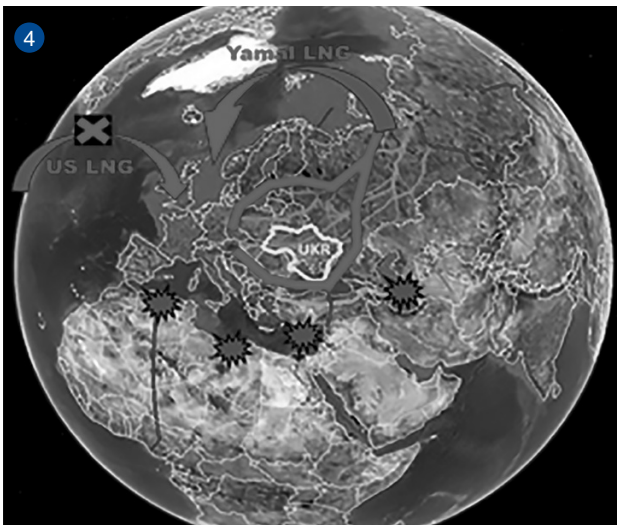
³¹ Energy Strategy of the Russian Federation till 2020, http://www.energystrategy.ru/projects/ES28_08_2003.pdf.

³² Kasparov Is Disappointed With Germany's Policy Regarding Putin. – DW, 16 September 2019, <https://p.dw.com/p/3Pff1Q>.

³³ Open letter to German Foreign Minister Heiko Maas from Garry Kasparov. – Kasparov.Ru, 3 August 2019, http://www.kasparov.ru/material.php?id=5D44553B7C852&fbclid=IwAR3_RyXJ3pVsf734dx2LpcNtpScH8aBP3bQ6Z5WWP19YXx25X0eivx4qw.

Significance of the oil route from Russia to the EU via Ukraine has sharply fallen as a result of limited consumption of Russian oil at the European end of the pipeline, and as a result of Russia implementing its strategy of building non-transit oil transmission systems – Baltic Pipeline System-1 and Baltic Pipeline System-2. Of the total Russian oil exports of 260.2 million ton in 2018,³⁴ 23.8% of oil (49 million ton) passed to Europe through main oil pipeline system “Druzhba”, and only 5% (13 million ton) by transit through the Ukrainian part³⁵ with target ORP in three EU countries – Slovakia, Hungary and Czech Republic. To compare: in 2005, Ukraine transited 12.5% of Russia’s oil exports.

The situation is fundamentally different, if we look at Russian gas supplies to Europe. In 2019, 45% of its total exports was coming by transit through Ukraine, while in 2005 this number was 76%. The goal that Russia is trying to achieve is eliminating Ukraine from the chain of gas supply to Europe and switching gas supplies to key NATO and EU member states (Turkey and Germany) in order to make them its situational partners in splitting transatlantic and European solidarity, capturing the EU in its “gas pipeline pincers” (schematic maps 4, 5).



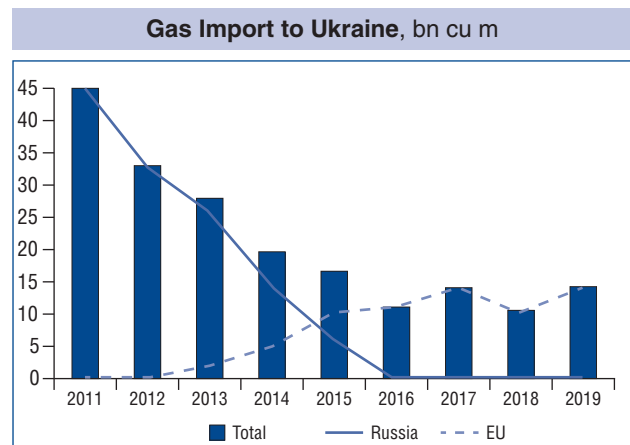
Source: CGS Strategy XXI, <https://eegas.com>.

2.2.3. Ukraine-EU-Russia: Military Aggression Stage

The military stage of energy relations within the notional Ukraine-EU-Russia “triangle” started in 2014, when Russia resorted to military aggression against Ukraine, having occupied the Crimean peninsula and having conducted a military intervention in Eastern Donbas. As a result of Russian aggression, Ukraine lost a part of its oil and gas infrastructure in Crimea, in the Black Sea shelf and in Donbas. Although Russian aggression did not affect transit functions of Ukrainian GTS, nevertheless, it created serious issues for gas supplies to Ukraine.

Essentially, Russia organised a gas blockade of Ukraine in June 2014 by stopping gas supply. Only intervention of the European Commission and mediation mission of EU Commissioner Gunther Ettinger, who feared potential problems with transit of Russian gas to the EU in the winter of 2014-2015, made Russia resume its gas supplies to Ukraine in December 2014. However, starting from 25 November 2015, gas import from the aggressor country was stopped (diagram “Gas Import to Ukraine”).

This move was caused by Gazprom’s aggressive behaviour and price conditions that significantly exceeded European prices. Ukraine’s fundamental position was to minimise trade with Russia, the proceeds from which, above all, from the sale of energy to Ukraine, financed Kremlin’s aggression. Gas imports from Russia were discontinued. However, transit remained in place, as Ukraine was trying not to harm its European neighbours and partners. Although legally, “Naftogaz of Ukraine”, having no contractual obligations to any European companies on transit of Russian gas, could have easily stopped providing services to “Gazprom” as a state company of the aggressor country. However, this did not happen.



In 2014-2015, through cooperation with the EU and the USA, as well as with Poland and Slovakia, and later Hungary, Ukraine was able to achieve success in diversifying gas supplies to the country, which drastically

³⁴ Oil exports from Russia in 2018 grew by 2.9% – Russian State Statistics Service. – Finmarket, 22 February 2019, <http://www.finmarket.ru/news/4947860>.

³⁵ Calculated based on information from Belarusian business publications and data of Ukrtransnafta operator: Manenok T. Is Belarus Getting Ready to Create an Energy Corporation? – Belrynok, 14 February 2019, <https://www.belrynok.by/2019/02/14/belarusgotovitsyakozdaniyuenergeticheskoykorporatsii>; Ukrtransnafta increased the volume of oil transportation in 2019. – Naftogaz, 10 January 2020, <https://www.ukrtransnafta.com/ukrtransnaftau2019rocizbilshilaobsjag-transportuvannjanafiti>.

reduced the risks of economic blackmail by the former exclusive gas exporter – Russia. Possibilities were created to receive gas through GTS of Ukraine's three neighbouring countries: Poland, Slovakia and Hungary, and in 2019 – also Romania. Given a major reduction of gas consumption in Ukraine, reverse supplies from the west were able to completely cover Ukraine's need for imported gas. Above that, the created total capacities for reverse supplies of 22.6 bn cu m per annum, in 2016, exceeded the annual volume of necessary imports almost two-fold – 11 bn cu m. In 2019, reverse capacities were increased to the total of 29.8 bn cu m from 4 directions, which almost makes up Ukraine's total annual gas consumption. This was done in preparation for the possibility of Russia interrupting gas supplies to the EU via Ukraine.

Note that Russia's energy exports are quite tightly linked to Europe, both infrastructurally and financially. Natural physical characteristics of Black and Baltic Sea straits, Russia's lack of deep-water ports in the Black and Baltic Seas prevent it from using *VLCC* or *ULCC* tankers necessary to transport oil to distant Asian countries. Therefore, profitable oil exports are carried out by *Panamax* and *Aframax* tankers mainly to European ports from Primorsk and Ust-Luga in the Baltic Sea and Novorossiysk and Tuapse in the Black Sea, as well as via "Druzhba" system pipelines.

Infrastructural dependence on gas exports is even stronger.

Overall, according to official statistical data, we can conclude that in the past years Russia received almost half of its monetary revenues from energy exports to EU-28 (table "Russia's Energy Exports and Revenue Structure"). However, we should take into account that most of Russia's energy exports go to EU countries not directly, but through various offshore jurisdictions or traders registered in Switzerland. Thus, it can be estimated that Russia receives up to 80% of revenues directly or indirectly from the EU market.

Therefore, we can state that Russian geopolitical revanchism and military aggression, including subversive activities within the EU are funded mainly through Russia-EU trade, which provides the necessary income for Putin's regime.

To this end, we can conclude that given the political will, the EU could block Russia's expansionism and aggression. However, other approaches prevailed among top EU member states, approaches dictated by European tolerance and desire for dialogue and cooperation with Russia under any circumstances. Russia is using this EU approach to advance its model of Eurasian integration from Vladivostok to Lisbon, where the EU ceases to exist as an integrational unit, and Europe turns into a high-tech appendix to raw material rich Russia.

Transformation of Main Indicators of Natural Gas Sector Operation in the Context of Ukraine-Russia-EU relations, bn cu m

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Consumption | 59.3 | 54.8 | 50.3 | 42.5 | 33.9 | 33.1 | 30.6 | 30.4 | 29.8 |
| Production | 20.6 | 20.2 | 21.0 | 20.5 | 19.9 | 20.1 | 20.8 | 20.9 | 20.7 |
| Imports, incl.: | 44.8 | 32.9 | 27.9 | 19.6 | 16.4 | 11.1 | 14.1 | 10.6 | 14.2 |
| from Russia | | 32.8 | 25.8 | 14.4 | 6.1 | 0.00 | 0.00 | 0.00 | 0.00 |
| from the EU | | 0.06 | 2.1 | 5.1 | 10.3 | 11.1 | 14.1 | 10.6 | 14.2 |
| Transit | 104.2 | 84.3 | 86.1 | 62.2 | 67.1 | 82.2 | 93.5 | 86.8 | 89.6 |

Based on Naftogaz of Ukraine and Ukrtransgaz data.

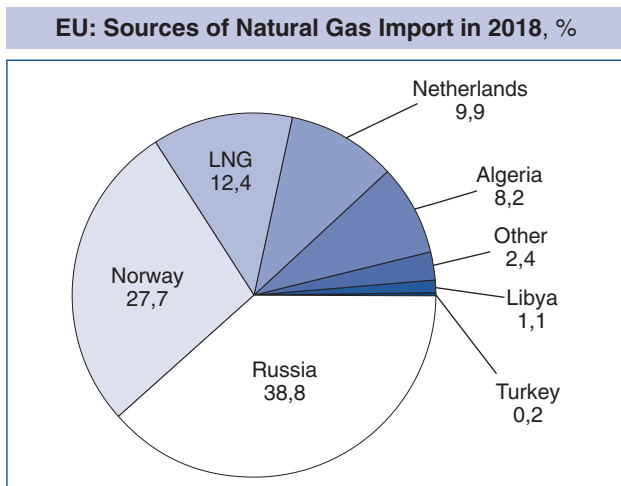
Russia's Energy Exports and Revenue Structure

| Russia's Exports and Budget Indicators, \$ billion | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Crude oil and petroleum products | 280.0 | 282.9 | 269.7 | 157.0 | 119.6 | 151.6 | 207.1 | 188.3 |
| Natural gas | 63.0 | 67.2 | 55.2 | 46.4 | 31.2 | 38.7 | 49.1 | 49.5 |
| Bituminous coal | 13.1 | 11.9 | 11.8 | 9.6 | 9.1 | 13.9 | 17.0 | 15.9 |
| Total energy exports | 356.1 | 362.0 | 336.7 | 213.0 | 159.9 | 204.2 | 273.2 | 253.7 |
| Total exports | 524.7 | 526.4 | 496.9 | 345.9 | 287.5 | 359.8 | 452.1 | 424.6 |
| Percentage of energy exports in the total exports of Russia, % | 67.9 | 68.8 | 67.8 | 61.6 | 55.6 | 56.7 | 60.4 | 59.7 |
| EU share in energy exports revenues, % | - | - | - | 42.5 | 48.3 | 47.7 | 44.2 | |

Note: Based on data of Russian Federal Customs Service, Central Dispatching Department of the Fuel and Energy Complex of Russia, Ministry of Finance of Russia for 2012-2019; Eurostat and European Central Bank.

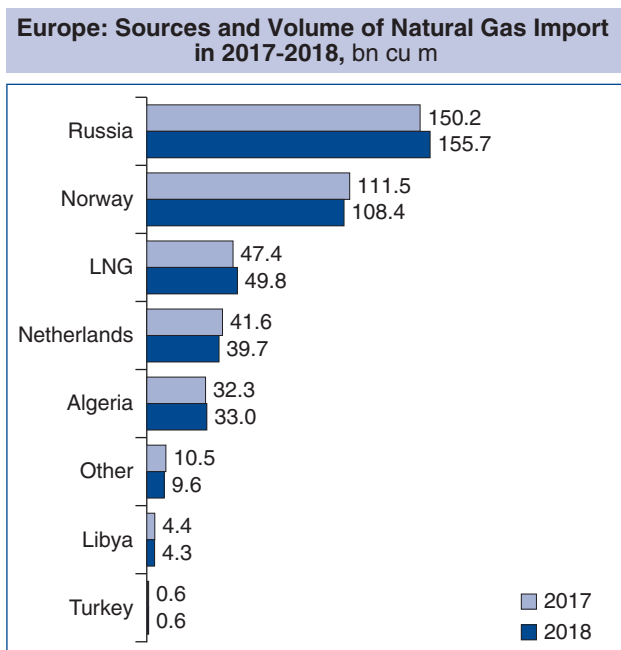
2.2.4. EU's Progressive Import Dependence

Relations between Russia and the EU are largely defined by the fact that a lion's share of natural gas and a certain volume of oil are supplied to Europe by Russia. Natural gas production in the EU is decreasing, which makes the European market progressively more dependent on gas imports, foremost, from Russia. In 2018, EU imported 39% of its total gas imports from Russia (chart "EU: Sources of Natural Gas Import in 2018").



Source: McKinsey&Company, <https://www.mckinsey.com/>.

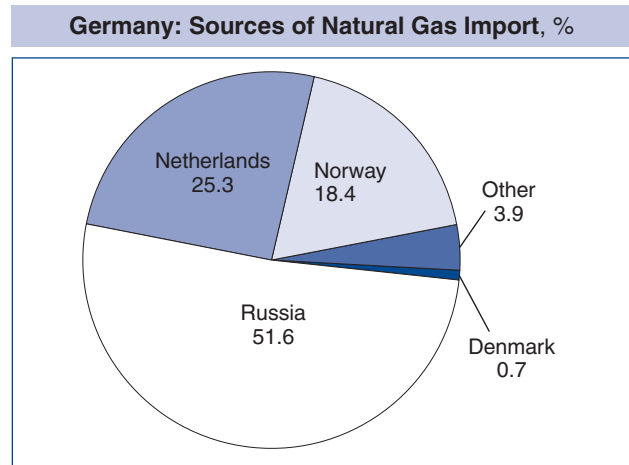
In 2018, main importers were: Germany (78.9 bn cu m), Italy (64), France (47.8), the UK (43.8), Spain (30.4). These imports mainly came from Russia, and in total, in 2018, Russia imported 155.7 bn cu m to the EU, which is 3.6% more than in 2017. This is due to a drop in natural gas production and supplies from the Netherlands and Norway (diagram "Europe: Sources and Volume of Natural Gas Import in 2017-2018").



Source: McKinsey&Company, <https://www.mckinsey.com/>.

Besides the EU's general dependence on Russian gas supplies, in a number of countries this dependence exceeds the diversification standard – not more than 30% from one

source. For instance, in Germany in 2017, Russia's portion was 45% of total gas imports, and in 2018 – it was already 52%³⁶ (chart "Germany: Sources of Natural Gas Import in 2018").



Source: McKinsey&Company, <https://www.mckinsey.com/>.

2.2.5. New Energy Reality

European gas legislation is being constantly improved. Given that gas is mainly transported through pipelines, reliable connection between networks of different countries and non-discriminatory access to gas infrastructure **is the basis for efficient market operation**. Ukraine's GTS retains its important role as the system that ensures reliable flow of Siberian gas from the Russian Federation to the borders of EU countries – Poland, Slovakia, Hungary, Romania.

Quite significant was the signing of the five-year Agreement on Provision of Services in Organisation of Transportation of Natural Gas Through the Territory of Ukraine between "Gazprom" and "Naftogaz" on 30 December 2019, which was the result of a lengthy process of consultations and negotiations in the trilateral Ukraine-EC-Russia format.

Also important are the signed *technical interconnection agreements* between Ukraine's GTS Operator (OGTSU) and GTS operators of neighbouring EU countries – Poland (*Gaz System*), Hungary (*FGSZ*), Slovakia (*Eustream*), Romania (*Transgaz*) and Moldova ("Moldovatrangaz" and "MoldovaGaz") – under European gas law. This allowed to get rid of *Gazpromexport's* mediation, representatives of which are not longer present at border gas-metering stations (GMS), unblock the use of gas transportation infrastructure capacities and enable commercial operations (*swap* agreements).

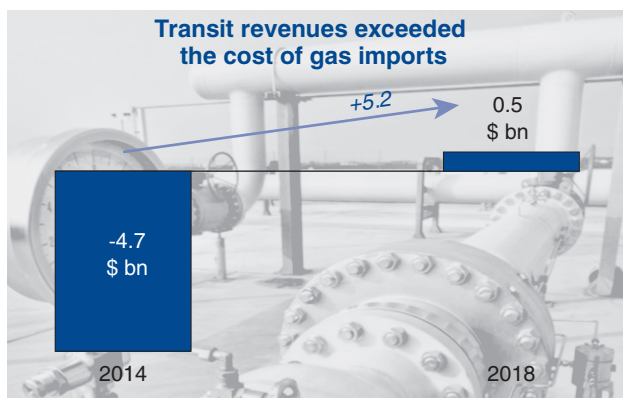
Although by its main parameters, the abovementioned agreement between *Gazprom* and *Naftogaz* is a compromise mostly achieved due to Ukraine's concessions, the entire complex of concluded agreements with Russia and Europe is a stepping stone towards further Europeanisation of gas relations in the Ukraine-EU-Russia format.

While the agreements between operators signed by OGTSU with European companies fully conform to EU energy legislation requirements, this cannot be said

³⁶ Source: McKinsey&Company, <https://www.mckinsey.com/>.

about the framework agreement between *Gazprom* and *Naftogaz*. In accordance with European law and practice, the agreement had to be signed between OGTSU and Russian *Gazpromexport*. Instead, a different thing happened. Ukraine and the EC agreed to a hybrid option – relations between Ukrainian companies (*Naftogaz* and OGTSU) and the Ukrainian operator and its EU partners will be based on European principles, while relations between *Gazprom* and *Naftogaz* will be a separate case. As a result of this approach, *Naftogaz* received the status of the gas transportation organising company, which essentially has to act as an agent of *Gazprom*. This is inconsistent with European practices and creates space for abuse by the Russian side in the bilateral intercorporate relations in the future.

Also, the concluded agreement decreases the volume of transit through Ukraine, as well as revenues from it. For instance, in 2018, *Naftogaz* achieved unprecedented results. Ukraine's natural gas transit revenues for 2018 exceeded expenditure on its import by \$0.5 billion, while in 2014, expenditure on imported gas exceed transit revenues by \$4.7 billion.



Source: Naftogaz of Ukraine

This is a remarkable achievement, which is unlikely to be recreated in the conditions of the current five-year agreement between *Naftogaz* and *Gazprom*. While in 2017 – a record year by the volume of transit in the past five years (93.5 bn cu m) – *Naftogaz*, according to official financial reports, received \$2.780 billion for transit services,³⁷ in 2020, which according to the new agreement with *Gazprom* is also a record year by the volume of requested transit (65 bn cu m per annum), it will receive \$2.062 billion. In 2021-2024, the annual payment for booking Ukraine's GTS capacities for transporting Russian gas in the volume of 40 bn cu m per annum will be \$1.268 billion. That said, the actual transit and corresponding revenues may be slightly higher than the specified in the agreement levels of mandatory fees for organisation services of gas transportation.

³⁷ Calculated based on financial reports of NAK Naftogaz of Ukraine and official NBU exchange rate (UAH-USD) in 2017: UAH 73.937 bn: 26.5966 = \$2.780 bn. See: Consolidated financial statement as of and for the year that ended on 31 December 2018, http://www.naftogaz.com/files/Zvity/Naftogaz-18fsConsolidated_UKR_forpublication.pdf; Official exchange rate of hryvnia against foreign currencies, <https://bank.gov.ua/markets/exchangeratechart?cn%5B%5D=USD&startDate=01.01.2017&endDate=31.12.2017>.

For Ukraine, the only guarantee of retaining its transit functions and corresponding revenues is neutralisation of negative effects from the existing Nord Stream, as well as Nord Stream-2, in case of its completion. Neutralisation of this essentially anti-European project is possible either through its freezing or, in case of completion, through application of all requirements of the Gas Directive (with amendments that came in effect in May 2019), in particular on using 50% of capacity due to limitations under Third Energy Package for gas pipelines *OPAL* and *EUGAL*. However, there are doubts as to the European Commission's ability to ensure compliance with Third Energy Package requirements in the situation of consolidated efforts to circumvent European legislation by Russia from outside and Germany and Austria – from within the EU. Thus, in order to retain transit functions for the longest possible period, it would be appropriate for Ukraine to make further joint efforts to neutralise Nord Stream-2 together with Poland, Baltic countries and the USA. In Southern Europe, it is also necessary to work against the second leg of the Turkish Stream pipeline – together with the EC, the Three Seas Initiative (3SI) and in cooperation with the USA.

Neutralisation of Russian gas flows is fully in line with the spirit and provisions of EU-Ukraine Association Agreement, which contains requirements on coordination of strategies and plans of gas infrastructure development and consideration of the already available gas transportation opportunities. Namely, Article 274 "Cooperation on infrastructure" contains important requirements: "***The Parties shall endeavour to facilitate the use of gas transmission infrastructure and gas storage facilities and shall consult or coordinate, as appropriate, with each other on infrastructure developments. The Parties shall cooperate on matters related to trade in natural gas, sustainability and security of supply. With a view to further integrate markets of energy goods, each Party shall take into account the energy networks and capacities of the other Party when developing policy documents regarding demand and supply scenarios, interconnections, energy strategies and infrastructure development plans***".

Here, of key importance is the requirement for the EU to take into account Ukraine's capacities in terms of available spare capacities for transporting gas to Europe.

2.2.6. "Green" Challenges for the Future

The European Green Deal was adopted in December 2019 by the European Commission. The *Green Deal* was intended as a roadmap for making Europe the first climate-neutral continent by 2050 in line with Paris Climate Agreement goals. Strategic goal – boosting the economy, improve the environment, reduce human impact on climate change. In the coming years, the EC has to develop a number of initiatives in almost all sectors of economy, but foremost energy, transport, metal industry, agriculture. European Investment Bank plans to channel €1 trillion of investments in the current decade to achieve the objectives of the Green Deal.

Obviously, such radical environmentalisation of European policy is bound to have consequences both within the EU and in its relations with the rest of the world. These consequences are likely to be quite problematic for everyone, both economically and socially. Rapid implementation of the Green Deal will lead to an increase of energy tariffs, which will cause further loss of competitiveness of European products in global markets, as well as social protests like the yellow vests movement in France.

Already first discussions of this ambitious project showed internal European contradictions. Poland, whose energy sector is still based on coal, does not approve of the Green Deal. Prime Minister of Poland Mateusz Morawiecki said: “Poland will be achieving climate neutrality on its own pace”.³⁸ Germany did not object. Angela Merkel stated that she was happy with discussion results: “There’s no division of Europe into different parts, but rather one member state needs more time to reflect on how this should be implemented”.³⁹ Clearly, Poland will require specific guarantees of funding for restructuring its economy to no fossil fuels model, as well as the extension of the transition period to 2070. Hungary’s position is also reserved. “Hungary agrees with the ambitious goals set by the EU but we cannot sign a blank cheque. The 2050 climate goals cannot have the consequence of hiking the prices of food or energy”, said Hungary’s Prime Minister Chief of Staff Gergely Gulyas in Brussels during the discussion of the document.⁴⁰

The first victims of the Green Deal in relations with the EU are most likely to be its main trade partners, at least those who produce and export energy-intensive products to the EU, as the EU will be introducing a special environmental tax. In this context, Ukraine’s economy and energy sector will find themselves in a difficult position, as decarbonisation means giving up coal-powered generation. This is possible and appropriate, but not through replacing it with renewable energy sources (RES) – sun and wind, as some people imagine. Increase of RES share unbalances energy system, increasing the volume of generation that requires manoeuvring capabilities. Besides, coal-powered generation is the manoeuvring option for nuclear generation, which is the basis. Unless Ukraine resolves the issue of replacing coal-powered generation with another type of manoeuvring generation – pumped-storage plants, energy storage, gas-powered generation – stable operation of nuclear generation will be at risk. The latter should remain the basis for Ukraine in the near future and develop through construction of small modular reactors. There should be no concessions

on Ukraine’s part if the EU starts requiring Ukraine to close its NPPs.

Integration of Ukrainian electricity market and the integrated power system (IPS) of Ukraine into the market of EU member states’ energy systems union *ENTSO-E* is one of the priorities of Ukraine’s energy policy. To this end, in 2017, SE NEC Ukrenergo signed Agreement “On the Conditions for the Future Interconnection of the Power System of Ukraine and Moldova with the Power System of Continental Europe”, which was approved by 28 European system operators of the *ENTSO-E* “*Continental Europe*” Regional Group. Full implementation of the complex of measures captured in the Agreement will allow Ukraine to become a part of *ENTSO-E*’s Continental Europe area by 2025 in the synchronous operation mode. For this to happen, Ukraine has to complete a number of steps:

- fulfil technological and regulatory requirements;
- switch to operation isolated from CIS energy systems;
- inclusion of Ukraine’s IPS into *ENTSO-E*.

According to predictions of SE NEC Ukrenergo, parallel mode of operation of Ukraine’s IPS with *ENTSO-E* will allow to increase the volume of electricity trade by 4-5 times in the first several years after synchronisation. Synchronisation of IPS of Ukraine with *ENTSO-E* will bring along European standards of protection of electricity consumers’ rights and quality of services. Electricity transmission to/from *ENTSO-E* provides additional opportunities for balancing energy market and creates conditions for better competition in the single electricity market, creates incentives for Ukrainian energy companies to increase their efficiency, to enter foreign markets, as well as opportunities for diversification of electricity supply.⁴¹

However, in 2019, under the influence of a certain financial-industrial group, Ukraine successfully lobbied for importing cheap electricity from Russia and Belarus. As long as such practices persist, IPS of Ukraine will retain its *status quo* of parallel work with IPS of CIS countries, and thus, integration with *ENTSO-E* is out of the question.

An important Ukraine-EU Energy Bridge project was suspended. The project was initiated by NNEG Energoatom and involves exporting electricity from Ukraine’s surplus nuclear generation capacities (one power unit of Khmelnytskyi NPP) to Poland in the electricity island mode. Ukrenergo believes that this project can be implemented only after complete synchronisation of Ukraine’s and EU energy systems.⁴²

³⁸ See: Strupczewski J., Baczynska G. EU leaves Poland out of 2050 climate deal after standoff. – Reuters, Dec 12, 2019, <https://www.reuters.com/article/us-climatechange/eu-leaves-poland-out-of-2050-climate-deal-after-standoff-idUSKBN1YG011>.

³⁹ Poland Refused To Sign Up To The EU Summit Decision On Climate. – Elektrovesti.net, 13 December 2019, https://elektrovesti.net/68780_polshchavidmovilasprzednatisdorishennyasamituespoklimatu.

⁴⁰ Hungary Listed Conditions Under Which It Will Support EU’s Climate Goals. – European Pravda, 12 December 2019, <https://www.euointegration.com.ua/news/2019/12/12/7104157>.

⁴¹ For more information, see: Review of the State and Development Prospects of Interstate Power Grids. Cross Border Electricity Transmission of the Pan-European Energy System ENTSOE, <https://ua.energy/wpcontent/uploads/2018/12/Transkordonniperedachielektroenergiyi.pdf>.

⁴² Ukraine-EU Energy Bridge Project Is Not In Ukraine’s Interest In Terms of Synchronisation with ENTSO-E – Ukrenergo. – ExPro Consulting, 14 August 2019, <https://expro.com.ua/novini/proektenergostukranasnevdpovdanteresamukranivchastinsinhronzacentsoekrenergo>.

Misunderstandings between the two state-owned companies – NEC Ukrenergo and NNEGC Energoatom – do not contribute to achievement of integration goals.

In any case, the prospects of Ukraine's energy sector are connected with natural gas, and not only with its use as energy raw material, but also with using it for hydrogen production – the environmentally friendly fuel of the future. Ukraine can become a hydrogen producer for Europe, i.e. process natural gas, producing hydrogen to be supplied to the EU using surplus GTS capacities. Therefore, development of new gas fields in the East and Centre of the country and construction of hydrogen production facilities with the use of modern technologies should become a priority for domestic and foreign investors.

EC President Ursula Von Der Leyen said that the “Green Deal” is a very ambitious project, but because this is Europe's ‘man on the moon’ moment, it will also be very careful in its implementation.⁴³ For Ukraine, a careful approach to EU's future projects has to prevail over the desire to accelerate towards the “green revolution”. Even more so, as in May 2019, countries approved the amended Annex XXVII to the EU-Ukraine Association Agreement, which provides for strengthening of direct relations with the EC in addition to cooperation through the Energy Community Secretariat. This should contribute to the direct communication of Ukraine's vision and approaches.

Ukraine continues its energy sector reforms and implements European legislation. The greatest progress has been achieved in the natural gas sector. Following the Revolution of Dignity, which facilitated the signing of the EU-Ukraine Association Agreement, gas market integration processes have been accelerated. The ultimate goal of the reforms is sectoral integration of Ukrainian and EU energy markets. This goal has a legislative foundation and has been recognised by the European Parliament and the European Commission.

Both parties, Ukraine and the EU, are closely linked with each other by gas and oil transportation infrastructure. Gas flows both from Ukraine to the EU and in reverse direction. De facto, Ukraine and EU have a single legal framework that governs energy markets – gas and electricity markets.⁴⁴ The legal basis for this is the Association Agreement and the Treaty Establishing the Energy Community (although, de jure, the EU still does not recognise this as *fait accompli*).

Ukraine is an Associated Country of the EU and a party to the Treaty Establishing Energy Community. Implementation of EU energy legislation should transform Ukrainian energy market into a fully-fledged part of the EU market.

The area of European single energy market is larger than the EU territory. The integrated market can be described by formula EU27+⁴⁵, – i.e. complying with energy legislation of the EU, besides obligations, Ukraine, Georgia and Moldova should be able to enjoy the same rights as EU Member States. As single market participants, Ukraine and the EU should uphold a consolidated position in relations with the Russian Federation in line with spirit and provisions of European gas legislation and Association Agreement (Article 274).

This foremost concerns the European system of energy supply security:⁴⁶ Ukraine should be its full-fledged member, as well as a participant of long-term energy infrastructure development planning. Plans should be coordinated and take into account interests of all members of EU market and Ukraine. Parties need coordinated actions in order to prevent situations where infrastructure is built that endangers and causes losses for other members of the EU market, as in the case of construction of gas pipelines like Nord Stream-2 by a third party. It must be Ukraine's priority to prevent resumption of construction works and completion of this project.

It is possible to improve coordination of infrastructure development plans through measures foreseen in the Gas Directive and the Association Agreement – the Ten-Year Network Development Plan, as well as through strengthening partnership with the Three Seas Initiative (3SI). In the latest 2019 Summit, 3SI⁴⁷ parties declared the Initiative's readiness for partnership with Ukraine and created 3SI Investment Fund to finance, among other things, priority gas infrastructure projects, while the USA announced its intention to provide \$1 billion to support energy independence.⁴⁸

New relations between Naftogaz and Gazprom make the European market even more integrated, allowing for free gas flows, reducing market distortions created by Gazprom in five member states (Bulgaria, Estonia, Latvia, Lithuania and Poland) and Ukraine, and ultimately increase the security of gas supplies in Central and Eastern Europe.

Ukraine needs to continue developing its nuclear power system as emission-free generation capacities that contribute to achieving low carbon development targets. Coal-fired power generation has to be decreased and substituted with manoeuvring generation of another type to ensure stable operation of nuclear generation. At the same time, construction of new RES capacities has to be coordinated with construction of energy storages according to European practices in order to ensure stable IPS operation and its integration with *ENTSO-E*.

⁴³ A “Green Deal” has been prepared for Europe. – Interfax-Ukraine, 11 December 2019, <https://ua.interfax.com.ua/news/economic/629901.html>.

⁴⁴ EU-Ukraine Association Agreement.

⁴⁵ Three Eastern Partnership countries that have Association Agreements with the EU.

⁴⁶ Regulation No. (EU) 2017/1938 concerning measures to safeguard the security of gas supply.

⁴⁷ Joint Declaration of the Fourth Summit of the Three Seas Initiative.

⁴⁸ The West Is Winning. Speech Michael R. Pompeo, Secretary of State, Munich Security Conference, Feb. 15, 2020.

**Use of Economic Sanctions and Trade Restrictions
in Russia-Ukraine Relations**

| Russian measures against Ukraine ¹ | Ukrainian measures against Russia ² |
|---|--|
| 2014 | |
| | <p>On 16 September 2015, decision of the National Security and Defence Council (NSDC) of Ukraine regarding sanctions against 105 Russian legal entities came into effect.³</p> <p>These sanctions were regularly revised, the list of their targets and types of restrictions was being expanded. In particular, on 28 April 2017, NSDC of Ukraine extended sanctions to 466 Russian legal entities,⁴ and decisions as of 2 May 2018 and 21 June 2018 introduced restrictions on different economic operations against 786 Russian legal entities, including banks and other financial institutions, transportation sector organisations, telecommunications sector, etc.⁵ On 19 March 2019, NSDC additionally extended sanctions to 294 Russian legal entities.⁶</p> <p>Characteristically, the range of restrictions on economic transactions tends to expand: lately, Ukraine is introducing not only restrictions regarding trade, investment operations, and blocking of financial assets, but also a ban on participation in privatisation, on leasing state property and participation in public procurement, transit and flights in Ukraine's airspace and transportation through the territory of Ukraine, suspension of fulfilment of economic and financial obligations, discontinued issuance of permits and licenses for certain types of activities.</p> <p>Among these restrictive measures, special attention should be paid to prevention of capital withdrawal outside of Ukraine in favour of persons related to banks, introduced in respect of a number of Russian banks in Ukraine (SBERBANK, Joint Stock Commercial Industrial and Investment Bank, VTB BANK and BM BANK), in accordance with the NSDC decision as of 1 March 2018.⁷</p> |
| 2015 | |
| | <p>According to the decision of the State Aviation Service of Ukraine, as of 25 October 2015, Ukraine completely cut off air traffic with Russia, banning flights of all Russian airlines.</p> <p>Transit air transportation restrictions were introduced.⁸</p> <p>Ukraine banned imports of a broad range of goods from Russia – food products (dairy, tea, coffee, beer, vodka, chocolate and confectionery, baby food), personal care cosmetics (shampoos, shower gels, soaps), chemical products for agriculture (herbicides, fungicides, insecticides, rodenticides), potassium chloride, railway equipment (locomotives, wagons and track equipment) and others.⁹</p> |

¹ Russian legal sources are cited according to data from: Official internet-portal of legal information. State system of legal information, <http://publication.pravo.gov.ru/>.

² Ukrainian legal sources are cited according to database of the Verkhovna Rada of Ukraine: <https://zakon.rada.gov.ua/laws>, and the Cabinet of Ministers of Ukraine, <https://www.kmu.gov.ua/npasearch>.

³ NSDC Decision as of 2 September 2015 "On the Application of Personal Special Economic and Other Restrictive Measures (Sanctions)". Enacted by the Order of the President of Ukraine as of 16 September 2015 No.549/2015.

⁴ NSDC Decision as of 28 April 2017 "On the Application of Personal Special Economic and Other Restrictive Measures (Sanctions)". Enacted by the Order of the President of Ukraine as of 15 May 2017 No.133/2017.

⁵ NSDC Decision as of 21 June 2018 "On the Application and Amendment of Personal Special Economic and Other Restrictive Measures (Sanctions)". Enacted by the Order of the President of Ukraine as of 21 June 2018 No.176/2018.

⁶ NSDC Decision as of 19 March 2019 "On the Application, Lifting and Amendment of Personal Special Economic and Other Restrictive Measures (Sanctions)". Enacted by the Order of the President of Ukraine as of 19 March 2019 No.82/2019.

⁷ Enacted by the Order of the President of Ukraine as of 6 March 2018 No.57/2018.

⁸ Starting from 25 October, Ukraine closes air traffic with Russia. – Ukrinform, 25 October 2015, <https://www.ukrinform.ua/rubricconomy/1903058-ukrajina-tsieji-nochi-pripinyae-povitryane-spoluchennya-z-rosieyu.html>.

⁹ CMU Resolution No.1147 as of 30 December 2015 "On the Prohibition of Import into the Customs Territory of Ukraine of Goods Originating from the Russian Federation". The Cabinet of Ministers extends the resolution as of 30 December 2015 annually: by resolution No.605 as of 5 July 2019 – to 31 December 2020.

| Use of Economic Sanctions and Trade Restrictions in Russia-Ukraine Relations | |
|--|---|
| <i>(continued)</i> | |
| Russian measures against Ukraine | Ukrainian measures against Russia |
| <p>On 30 December 2015, Russian President signed Federal law, which suspended operation of CIS Free Trade Area Agreement (signed in St. Petersburg on 18 October 2011) regarding Ukraine, which meant introduction of import duties on goods from Ukraine as of 1 January 2016.¹⁰</p> | <p>From 2 January 2016, Ukraine introduced most-favoured-nation treatment instead of free trade regime regarding Russian products, which meant introduction of corresponding preferential rates of import duties foreseen in the Customs Duty Rates of Ukraine.¹¹</p> |
| 2016 | |
| <p>From 1 January 2016, Russia expanded its food embargo on Ukraine, which was previously introduced back in 2014¹² against a number of countries Russia blames for the use of anti-Russia sanctions.¹³ Ukraine's losses from this embargo were estimated by experts at \$200 mln to \$400 mln (depending on the extent of the embargo).¹⁴</p> | <p>The list of goods prohibited for import from the Russian Federation was supplemented by a number of food products (onions, green tea, prepared or canned fish, sturgeon caviar (black caviar) and caviar of other fish, white chocolate, confectionery in the form of gum or jelly, chocolate candy containing alcohol, prepared foods obtained by the swelling or roasting of cereals or cereal products, cereals (other than maize) in the form of grain or flakes, granules or otherwise processed, cookies, crispbreads, ketchup, tomato sauce and soy sauce).¹⁵</p> |
| <p>Introduction of restrictions on transit traffic from the territory of Ukraine through the territory of Russia to Kazakhstan and Kyrgyzstan.¹⁶</p> <p>Restrictions extend do:</p> <ol style="list-style-type: none"> 1. prohibition of transit of Ukrainian goods through the territory of Russia to the territory of Kazakhstan and Kyrgyzstan directly across the Russia-Ukraine state border; 2. international transit traffic from the territory of Ukraine carried out exclusively through the territory of the Republic of Belarus with the use of special means of identification (seals), including those operating on the basis of GLONASS, and with the use of driver registration cards; 3. identification of stationary and mobile checkpoints: two on the Russia-Belarus and three on the Russia-Kazakhstan borders; 4. prohibition of transit through the territory of Russia of goods originating in Ukraine in respect of which: <ul style="list-style-type: none"> • Russia applies non-zero import tariffs (import duties pursuant to rates of the Common Customs Tariff of the Eurasian Economic Union); • there is a ban on the import of certain agricultural products to Russia pursuant to the Order of the Government of Russia as of 7 August 2014 No.778 "On Measures of Implementing Presidential Decrees as of 6 August 2014 No.560 and as of 24 June 2014 No.320". <p>In September 2016, Ukraine challenged measures of restricting transit traffic through Russia to Kazakhstan and Kyrgyzstan in the WTO. These restrictions cost Ukraine over \$1 bn annually, or approximately 2% of the GDP.¹⁷</p> | |

¹⁰ Federal Law as of 30 December 2015 No.410-FZ "On Suspension of Operation of the Free Trade Area Agreement with respect to Ukraine by the Russian Federation".

¹¹ CMU Resolution No.1146 as of 30 December 2015 "On Import Duty Rates for Goods Originating in the Russian Federation". This resolution is extended annually.

¹² Decree of the President of the Russian Federation No.560 as of 6 August 2014 "On the Application of Certain Special Economic Measures to Ensure the Security of the Russian Federation". Currently in force as amended by decrees of the President of the Russian Federation as of 24 June 2015 No.320, as of 29 June 2016 No.305, as of 30 June 2017 No.293, as of 12 July 2018 No.420, as of 24 June 2019 No.290, as of 24 June 2019 No.293. The latest one extends Decree operation until the end of 2020. Ukraine is covered by this mechanism pursuant to the Order of the Russian Federation Government as of 21 December 2015 on the extension to Ukraine of appropriate economic measures in connection with it joining anti-Russian sanctions.

¹³ On 18 April 2019, Order of the Government of Russia extended this mechanism's operation to 31 December 2020.

¹⁴ Ryzhenkov M. Food Embargo and Suspension of the FTA with Russia: Ukraine's Losses. – <https://www.epravda.com.ua/publications/2015/12/22/573553/>; according to former First Deputy Prime Minister of Ukraine Stepan Kubiv, Ukraine's direct losses from the Russian products, trade and transit embargo introduced in 2016 on Ukrainian exports, are approximately \$0.4 bn. – Kubiv: Ukraine's Direct Losses from the Russian Embargo are Approximately 400 Million, <https://www.epravda.com.ua/news/2017/02/20/621518/>.

¹⁵ CMU Resolution No.28 as of 20 January 2016 "On Amending the List of Products Originating from the Russian Federation Prohibited for Import into the Customs Territory of Ukraine".

¹⁶ Decree of the President of the Russian Federation as of 1 January 2016 "On Measures to Ensure Economic Security and National Interests of the Russian Federation in International Cargo Transit From the Territory of Ukraine to the Territory of the Republic of Kazakhstan or the Kyrgyz Republic Through the Territory of the Russian Federation" (as amended by decrees of the President of the Russian Federation as of 1 July 2016 No.319; as of 30 December 2017 No.643; as of 29 June 2018 No.380), <http://kremlin.ru/acts/bank/40394>.

¹⁷ The Ministry of Infrastructure calculated losses from the ban on transit of Ukrainian products through the territory of Russia, <https://tsn.ua/groshi/uminiinfrastrukturiporahuvai-zbitki-vid-zaboroni-tranzitu-ukrayinskih-tovariv-teritoriyeyu-rosiyi-864375.html>.

| Use of Economic Sanctions and Trade Restrictions in Russia-Ukraine Relations | |
|--|---|
| Russian measures against Ukraine | Ukrainian measures against Russia |
| 2017 | |
| | Expansion of the list of goods banned from import to Ukraine from the Russian Federation with a number of chemical goods (ammonium sulphate, mixtures of ammonium nitrate with calcium carbonate or other inorganic substances, polyethylene, polyvinyl chloride).¹⁸ |
| 2018 | |
| Introduction of the regime of “special economic measures” for certain individuals and legal entities of Ukraine. ¹⁹ Based on this order, Russian Government 20 applied mechanisms of blocking (freezing) non-cash funds, uncertified securities and property on the territory of the Russian Federation, and introduced a ban on the transfer of funds (withdrawal of capital) outside the territory of Russia. These measures affected 68 Ukrainian legal entities (AvtoKrAZ, Azot, UkrHimEnergo, Ukrspirt, Sumykhimprom, Marganets Mining and Processing Plant, Rivneazot, Kharkiv Tractor Plant, Joint Stock Insurance Company “INGO Ukraine”, etc.). That said, the Russian Ministry of Finance was essentially given a carte blanche to expand this list, as well as to provide temporary permits for individual operations against certain legal entities covered by special measures. | Prohibition of importing to the territory of Ukraine of corrugated asbestos-cement sheets, as well as a mixture of ammonium nitrate with calcium carbonate with nitrogen content not exceeding 28 % wt originating from the Russian Federation,²¹ as well as cement clinkers.²² |
| On 29 December 2018, Russian Government introduced a ban on import of goods originating from Ukraine regarding a large group of products – wheat, sunflower oil, a number of meat and fish products, chocolate and confectionery, bakery products, vegetables and fruit, juices, beer, grape wines, construction materials, detergents, paper and paperboard, a number of other pulp and paper products, turbines, pumps, furniture, agricultural machines, electricity generating machines and equipment, transformers, coaxial cables and wires, other electrical products, tractors, etc. ²³ | The ban on imports from Russia is extended to: corn starch; glucose and glucose syrup, containing fructose or fructose-free; maltodextrin and maltodextrin syrup.²⁴ |
| 2019 | |
| From 1 June 2019, a ban on supplying oil and some other types of petroleum products to Ukraine. Gasoline and diesel fuel may be supplied to the territory of Ukraine only with the special permission of the Ministry of Economic Development of the Russian Federation. Restrictions on the supply of propane, butane and other types of liquefied hydrocarbon gas, coal and coke are foreseen. Ban on imports of mechanical engineering, consumer goods industry, pulp and paper industry, metallurgy, metalworking and other products from Ukraine for the total amount of \$250 million. ²⁵ | Expansion of the list of products originating from the Russian Federation prohibited for import to Ukraine to include: formalin, urea-formaldehyde concentrate, urea-formaldehyde resins; springs for freight-car trucks; electrical equipment for switching or protection of electrical circuits (relays) used in devices of railway automation of signalling and communication facilities; electrical conductors for voltages above 1000V; glass canning jars (sterilisation jars), bottles for food and beverages, other glass containers.²⁶ |

¹⁸ CMU Resolution No.1022 as of 20 December 2017 “On Amending Resolution of the Cabinet of Ministers of Ukraine as of 30 December 2015 No.1147”.

¹⁹ Decree of the President of the Russian Federation as of 22 October 2018 No.592 “On Special Economic Measures in Connection with Ukraine’s Unfriendly Actions Towards Citizens and Legal Entities of the Russian Federation” (as amended by the Decree of the President of the Russian Federation as of 24 June 2019 No.290).

²⁰ Resolution of the Government of the Russian Federation as of 1 November 2018 No.1300 “On Measures for Implementation of the Decree of the President of the Russian Federation as of 22 October 2018 No.592”.

²¹ CMU Resolution No.490 as of 23 May 2018 “On Amending the List of Products Originating from the Russian Federation Prohibited for Import into the Customs Territory of Ukraine”.

²² CMU Resolution No.670 as of 29 August 2018 “On Amending the List of Products Originating from the Russian Federation Prohibited for Import into the Customs Territory of Ukraine”.

²³ Resolution of the Government of the Russian Federation as of 29 December 2018 No.1716-83 “On Measures for Implementation of the Decree of the President of the Russian Federation as of 22 October 2018 No.592”.

²⁴ CMU Resolution No.1154 as of 27 December 2018 “On Amending the List of Products Originating from the Russian Federation Prohibited for Import into the Customs Territory of Ukraine”.

²⁵ Resolution of the Government of the Russian Federation as of 18 April 2019 No.460-25 “On Amending the Resolution of the Government of the Russian Federation as of 29 December 2018 No.1716-83”.

²⁶ CMU Resolutions No.305 and No.306 as of 10 April 2019 “On Amending the List of Products Originating from the Russian Federation Prohibited for Import into the Customs Territory of Ukraine”.

| Use of Economic Sanctions and Trade Restrictions in Russia-Ukraine Relations | |
|--|---|
| <i>(continued)</i> | |
| Russian measures against Ukraine | Ukrainian measures against Russia |
| <p>Restrictive provisions on the transit of Ukrainian goods through the territory of the Russian Federation were updated. Entry of certain types of goods originating or departing from Ukraine or moving through the territory of Ukraine into the territory of the Russian Federation, is allowed as part of international road transport transit and international railroad transport transit through the territory of the Russian Federation to third countries, in line with the order of carrying out such road and railroad transportation established by the Government of the Russian Federation, provided that they are tracked using a control system with means of identification (seals) operating on the basis of the GLONASS global navigation satellite system, and that vehicle drivers who carry out such road transportation are in possession of registration coupons.²⁷</p> | <p>Expansion of the list of Russian products prohibited for import (as a rule, from 1 July 2019), including cement, plywood (imports of cement products from Russia in 2018 amounted to almost \$17 million, plywood – approximately \$19.7 million), some types of medicines, vitamins, veterinary drugs, textiles, footwear, metallurgical products (wires, pipes, tubes), etc.</p> <p>From 1 July 2019, Ukraine also introduced an import ban on vehicles originating from Russia – buses, trolleybuses, cars and trucks (commodity items 8702-8704), but later CMU with a resolution from 5 July 2019 moved the date for introduction of this measure to 1 January 2020.²⁸</p> <p>Introduction of special import duties on heavy distillates (gasols) imported to the customs territory of Ukraine via pipeline transport, for liquefied gas used as fuel, imported to the customs territory of Ukraine under the customs regime of import.²⁹</p> |
| <p>Russian Government Resolution as of 16 December³⁰ expanded the list of products prohibited for import to Russia from Ukraine: corn starch, glucose and fructose, medical air lines and tubes, warmers, catheters, tourniquets and some other medical devices, central heating radiators with non-electric heating, central heating boilers, parts of hydronic pumps, regenerated paper and paperboard (scrap paper and waste).</p> | |

The abovementioned trade restriction mechanisms are supplemented with trade measures introduced pursuant to WTO agreements for internal market protection, although officially they are not a part of sanctions, as they are being introduced according to WTO norms.

In particular, on 8 May 2017, the Interdepartmental Commission on International Trade (ICIT) approved a decision on resumption of antidumping measures regarding imports of certain nitrogen fertilisers (urea and CAM) originating in the Russian Federation to Ukraine, imposing a duty of 31.84% on all urea and CAM (UKTZED 3102 10 and 3102 80 00 00) producers from the Russian Federation. And on 26 March 2018, Ukraine approved a decision on expanding the antidumping measures regarding import of ammonium nitrate originating from Russia to Ukraine: the antidumping duty for Dorogobuzh PJSC will be 29.25%, for other exporters and overall for Russia – 42.96%. Overall, as of 19 February 2020, 12 antidumping measures regarding Russia were in effect, covering: railroad switches (from July 2002), fibreboards (August 2006), ammonium nitrate (June 2008), medical glass containers (June 2013), sodium hydroxide (June 2016), nitrogen fertilisers (February 2017), abrasive wheels (May 2017), some types of chocolate and other prepared cocoa-containing products (June 2017), fittings and wire rods (February 2018), urea-formaldehyde resins (August 2018), cement (June 2019),³¹ rolled products with corrosion resistant coating (June 2019). Additionally, in January 2016, Ukraine introduced countervailing duties on automobiles.

²⁷ Decree of the President of the Russian Federation as of 24 June 2019 No.290 “On Amending Certain Decrees of the President of the Russian Federation”.

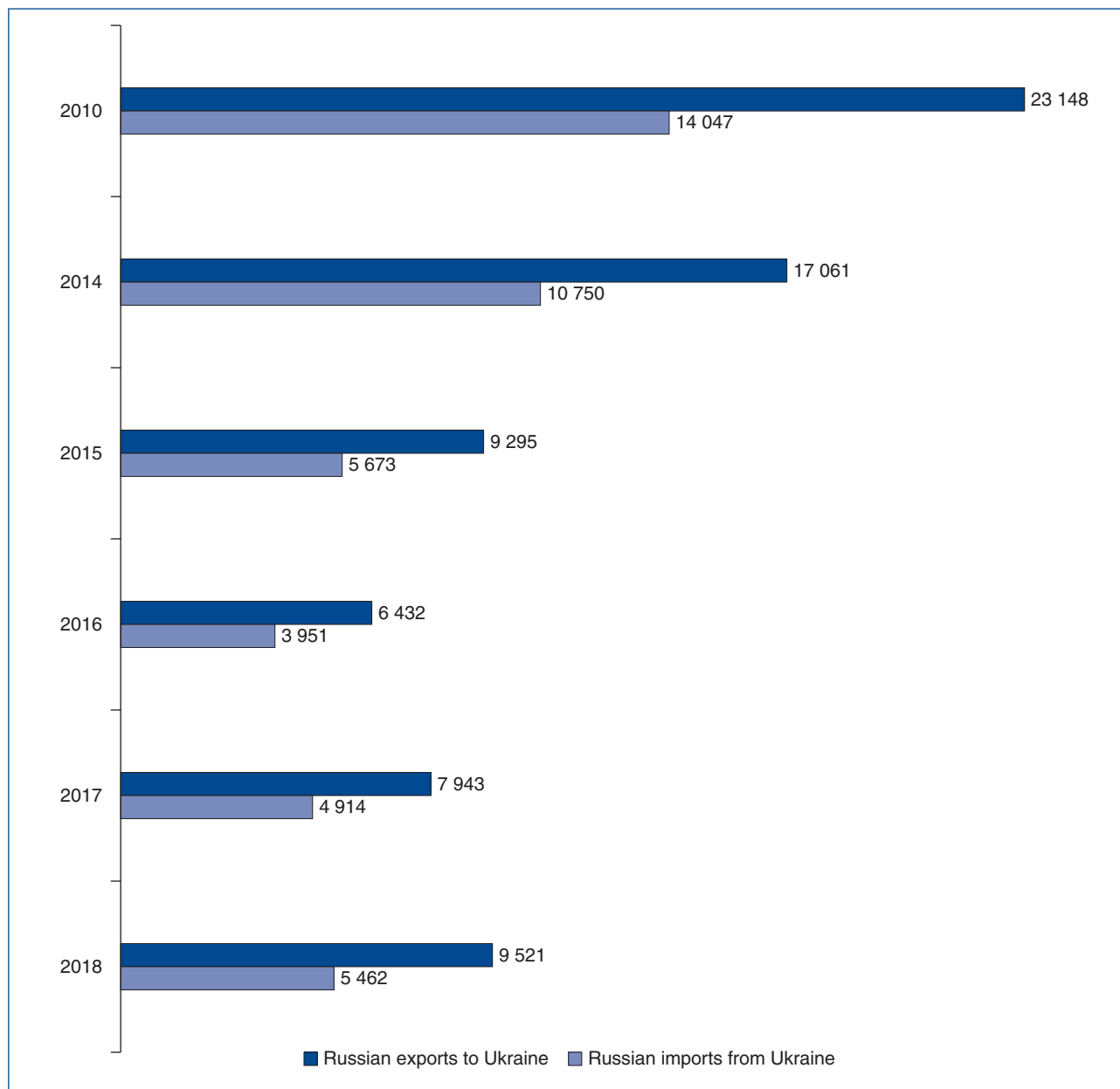
²⁸ CMU Resolutions No.535 and No.536 as of 15 May 2019 “On Amending the List of Products Originating from the Russian Federation Prohibited for Import into the Customs Territory of Ukraine”.

²⁹ CMU Resolution No.624 as of 17 July 2019 “On the Issue of Introducing a Special Duty on Certain Goods Originating from the Russian Federation, Imported Into the Customs Territory of Ukraine”, with amendments introduced by CMU Resolution No.678 as of 24 July 2019.

³⁰ Resolution of the Government of the Russian Federation No.1685 as of 16 December 2019 “On Amending the Resolution of the Government of the Russian Federation as of 29 December 2018 No.1716-83”, <http://publication.pravo.gov.ru/>.

³¹ Ministry of Economic Development, Trade and Agriculture of Ukraine. Restrictive Measures on Imports of Goods to Ukraine (Antidumping, Countervailing and Special Measures), as of 3 February 2020, <http://me.gov.ua/Documents/Print?lang=uk-UA&id=2d92511f-c6fa-468a-97f3-bc353742db15>.

**Mutual Export and Import Between Ukraine and the Russian Federation in 2010-2018:
Russian Statistical¹ Data, \$ mln¹**



¹ Russian State Statistics Service. Trade in Russia. 2019: Statistical Compendium. – Moscow, 2019, <https://www.gks.ru/folder/210/document/13233>; Russian Statistical Yearbook: Statistical Compendium 2017-2019, <https://gks.ru/folder/210/document/12994>.

Commodity Structure of Ukraine's Foreign Trade with EU-28 Countries in 2018-2019, %

| Commodity groups and items | Ukraine's exports to EU | | Ukraine's imports from EU | |
|--|-------------------------|-------------|---------------------------|-------------|
| | 2018 | 2019* | 2018 | 2019* |
| I. Live animals; animal products | 1.9 | 1.7 | 1.9 | 1.9 |
| II. Vegetable products, incl.: | 18.3 | 18.4 | 2.1 | 2.8 |
| 10. Cereals | 11.0 | 15.3 | 0.5 | 0.7 |
| 12. Oil seeds and oleaginous fruits | 5.8 | 1.9 | 0.6 | 0.8 |
| III. Animal or vegetable fats and oils | 5.7 | 7.2 | 0.3 | 0.3 |
| IV. Prepared foodstuffs | 4.5 | 4.8 | 6.2 | 5.9 |
| V. Mineral products, incl.: | 13.4 | 14.3 | 14.1 | 10.8 |
| 26. Ores, slag and ash | 9.0 | 9.8 | 0.0 | 0.0 |
| 27. Mineral fuels, mineral oils and products of their distillation | 3.3 | 3.6 | 13.8 | 10.4 |
| VI. Products of the chemical or allied industries, incl.: | 2.9 | 2.6 | 17.3 | 19.1 |
| 30. Pharmaceutical products | 0.1 | 0.1 | 6.1 | 6.1 |
| VII. Plastics and articles thereof, incl.: | 0.9 | 1.0 | 7.3 | 6.7 |
| 39. Plastics and articles thereof | 0.8 | 0.9 | 6.0 | 5.3 |
| VIII. Raw hides and skins | 0.8 | 0.7 | 0.6 | 0.6 |
| IX. Wood and articles of wood | 5.2 | 5.3 | 0.7 | 0.6 |
| 44. Wood and articles of wood | 5.2 | 5.3 | 0.6 | 0.6 |
| X. Pulp of wood or of other fibrous cellulosic material | 0.5 | 0.5 | 3.0 | 2.8 |
| 48. Paper and paperboard | 0.5 | 0.5 | 2.7 | 2.5 |
| XI. Textiles and textile articles | 3.5 | 3.5 | 3.2 | 3.1 |
| 62. Articles of apparel and clothing accessories | 1.9 | 1.8 | 0.1 | 0.1 |
| XII. Footwear, headgear, umbrellas | 0.9 | 0.8 | 0.3 | 0.3 |
| 64. Footwear ¹ | 0.8 | 0.8 | 0.3 | 0.3 |
| XIII. Articles of stone, plaster, cement | 1.0 | 1.1 | 1.3 | 1.2 |
| XIV. Natural or cultured pearls, precious or semi-precious stones | 0.1 | 0.1 | 0.1 | 0.2 |
| XV. Base metals and articles of base metal | 22.0 | 19.5 | 5.3 | 5.1 |
| 72. Iron and steel | 18.4 | 16.4 | 1.4 | 1.4 |
| 73. Articles of iron or steel | 2.4 | 2.1 | 1.8 | 1.8 |
| XVI. Machinery and mechanical appliances; electrical equipment | 14.2 | 13.9 | 22.1 | 20.7 |
| 84. Nuclear reactors, boilers, machinery | 2.4 | 2.4 | 13.9 | 13.2 |
| 85. Electrical machinery | 11.8 | 11.4 | 8.2 | 7.5 |
| XVII. Vehicles, aircraft, vessels | 0.8 | 1.0 | 10.0 | 14.0 |
| 86. Railway locomotives | 0.3 | 0.4 | 0.2 | 0.2 |
| 87. Vehicles other than railway rolling-stock | 0.3 | 0.2 | 9.6 | 13.5 |
| 88. Aircraft | 0.0 | 0.1 | 0.1 | 0.3 |
| 89. Ships | 0.2 | 0.3 | 0.0 | 0.0 |
| XVIII. Optical, photographic instruments and apparatus | 0.2 | 0.3 | 1.9 | 1.7 |
| XX. Miscellaneous manufactured articles | 3.3 | 3.4 | 1.4 | 1.3 |
| 94. Furniture | 2.5 | 2.7 | 1.4 | 0.5 |
| XXI. Works of art | 0.0 | 0.0 | 0.0 | 0.0 |
| Goods purchased in ports | 0.0 | 0.0 | 0.7 | 0.6 |

* 1st half-year.

Source: State Statistics Committee of Ukraine. Commodity Structure of Ukraine's Foreign Trade with EU Countries for Corresponding Years, <http://www.ukrstat.gov.ua/>

¹ In 2018, Ukraine has exported \$165.6 mln worth of footwear to EU-28, and imported – \$60.4 mln worth; in the 1st half-year of 2019, these indicators were \$81.7 and \$28.3 mln, respectively.

**Ukrainian Exports of Certain Types of Machinery and Equipment by Top Importer Countries
in 2013, 2018, 2019, \$ million**

| Importers | 2013 | 2018 | 2019 (11months) |
|--|---------|---------|-----------------|
| 8411. Turbojets; turbopropellers and other gas turbines | | | |
| Total in the world | 1 058.6 | 300.9 | 244.3 |
| Russian Federation | 648.0 | 9.2 | 10.2 |
| EU-28, incl.: | 7.8 | 15.4 | 31.9 |
| <i>Latvia</i> | 1.6 | 14.3 | 19.2 |
| India | 37.4 | 19.7 | 25.7 |
| China | 153.4 | 171.6 | 130.7 |
| 8504. Electrical transformers, static converters (for example, rectifiers), inductors and chokes | | | |
| Total in the world | 408.4 | 104.9 | 65.3 |
| Russian Federation | 281.1 | 51.6 | 10.8 |
| EU-28, incl.: | 22.1 | 36.4 | 33.8 |
| <i>Germany</i> | 9.3 | 12.5 | 10.9 |
| <i>Hungary</i> | 4.4 | 20.5 | 15.0 |
| Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and soil heating apparatus; electro-thermic hair-dressing apparatus, etc. | | | |
| Total in the world | 96.2 | 296.5 | 308.5 |
| Russian Federation | 16.8 | 9.0 | 6.3 |
| EU-28, incl.: | 64.1 | 278.3 | 293.3 |
| <i>Hungary</i> | 57.4 | 261.7 | 279.0 |
| 8536. Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, etc. | | | |
| Total in the world | 121.9 | 99.1 | 80.1 |
| Russian Federation | 42.0 | 8.2 | 6.3 |
| EU-28, incl.: | 64.0 | 77.5 | 62.3 |
| <i>Germany</i> | 44.2 | 47.3 | 33.8 |
| 8537. Boards, panels, consoles, desks, cabinets and other bases, etc. | | | |
| Total in the world | 85.7 | 78.0 | 90.3 |
| Russian Federation | 43.3 | 8.0 | 5.7 |
| EU-28, incl.: | 16.8 | 51.9 | 69.9 |
| <i>Germany</i> | 7.0 | 8.3 | 8.8 |
| <i>Poland</i> | 0.4 | 3.5 | 3.9 |
| <i>Hungary</i> | 0.2 | 25.7 | 27.7 |
| <i>Czech Republic</i> | 0.2 | 8.1 | 18.8 |
| 8544. Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors: optical fibre cables, etc. | | | |
| Total in the world | 1 081.6 | 1 476.6 | 1 378.1 |
| Russian Federation | 66.3 | 15.8 | 12.8 |
| EU-28, incl.: | 979.1 | 1 427.0 | 1 338.7 |
| <i>United Kingdom</i> | 24.5 | 8.4 | 34.0 |
| <i>Netherlands</i> | 0.1 | 85.2 | 70.4 |
| <i>Germany</i> | 220.4 | 320.5 | 297.6 |
| <i>Poland</i> | 272.6 | 335.2 | 301.5 |
| <i>Romania</i> | 38.6 | 138.2 | 175.0 |
| <i>Slovakia</i> | 69.8 | 146.0 | 106.3 |
| <i>Hungary</i> | 231.2 | 182.1 | 158.5 |
| <i>Czech Republic</i> | 101.7 | 179.6 | 158.7 |

Source: State Statistics Committee of Ukraine. Foreign Trade in Certain Types of Goods by Country for Respective Years, <http://www.ukrstat.gov.ua/>

**Change of Structure of Ukraine's Exports and Imports
in Goods with Russia in 2013, 2018, 2019, %**

| Commodity group | Export | | | Import | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2013 | 2018 | 2019* | 2013 | 2018 | 2019* |
| 02. Meat and edible meat offal | 1.1 | 0.0 | 0.0 | 0.0 | – | – |
| 04. Milk and milk products, bird eggs; natural honey | 2.5 | 0.0 | 0.0 | 0.1 | – | – |
| 18. Cocoa and cocoa preparations | 2.2 | 0.8 | 0.9 | 0.5 | 0.0 | 0.0 |
| 19. Prepared foods made of cereals | 1.0 | 0.2 | 0.1 | 0.3 | 0.0 | 0.0 |
| 20. Vegetable products | 1.2 | 0.2 | 0.0 | 0.2 | 0.0 | 0.0 |
| 22. Beverages, spirits and vinegar | 1.5 | 0.6 | 0.1 | 0.3 | 0.0 | 0.0 |
| 25. Salt; sulphur; earths & stone | 3.1 | 2.7 | 2.9 | 0.6 | 0.9 | 1.0 |
| 26. Ores, slag and ash | 0.4 | 0.7 | 1.0 | 1.1 | 0.5 | 0.6 |
| 27. Mineral fuels, mineral oils and products of their distillation | 1.4 | 1.9 | 1.3 | 62.2 | 54.4 | 57.8 |
| 28. Inorganic chemicals | 6.0 | 19.0 | 18.7 | 0.6 | 2.7 | 2.6 |
| 29. Organic compounds | 0.6 | 0.4 | 1.1 | 0.8 | 2.0 | 2.2 |
| 30. Pharmaceutical products | 0.3 | 0.5 | 0.5 | 0.4 | 0.2 | 0.1 |
| 31. Fertilisers | 0.0 | 0.0 | 0.0 | 2.6 | 4.0 | 2.9 |
| 39. Plastics and articles thereof | 2.6 | 4.7 | 5.9 | 2.1 | 3.4 | 3.0 |
| 40. Natural gum, rubber | 0.4 | 0.6 | 0.7 | 1.2 | 1.4 | 1.4 |
| 48. Paper and paperboard | 5.1 | 5.2 | 1.8 | 1.4 | 1.9 | 1.7 |
| 69. Ceramic products | 1.3 | 1.3 | 1.2 | 0.1 | 0.2 | 0.2 |
| 70. Glass and glassware | 0.3 | 0.4 | 0.5 | 0.5 | 1.1 | 1.2 |
| 72. Iron and steel | 14.3 | 17.3 | 22.5 | 3.5 | 4.8 | 4.6 |
| 73. Articles of iron or steel | 5.6 | 5.5 | 4.2 | 0.8 | 1.2 | 1.1 |
| 74-81. Copper, nickel, aluminum, lead, zinc, tin and articles thereof | 0.8 | 1.0 | 1.1 | 1.8 | 2.4 | 2.5 |
| 83. Miscellaneous articles of base metal | 0.5 | 1.7 | 1.1 | 0.1 | 0.1 | 0.1 |
| 84. Nuclear reactors, boilers, machinery | 14.7 | 14.5 | 13.8 | 5.3 | 8.1 | 6.5 |
| 85. Electrical machinery | 7.3 | 5.6 | 4.1 | 3.4 | 2.2 | 1.6 |
| 86. Railway locomotives | 11.6 | 3.3 | 5.8 | 0.7 | 1.1 | 1.2 |
| 87. Vehicles other than railway rolling-stock | 1.3 | 1.2 | 1.2 | 1.9 | 1.2 | 1.3 |
| 88. Aircraft | 0.3 | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 |
| 89. Ships | 0.3 | 1.0 | 0.6 | 0.0 | 0.0 | 0.0 |
| 90. Optical, photographic instruments and apparatus | 0.9 | 0.7 | 0.7 | 0.4 | 0.2 | 0.3 |
| 94. Furniture | 1.5 | 0.8 | 0.7 | 0.1 | 0.1 | 0.1 |

* January-November

Source: State Statistics Committee of Ukraine. Countries by Commodity Structure of Ukraine's Foreign Trade for Corresponding Years, <http://www.ukrstat.gov.ua/>.

**Main Areas of Direct Investment by EU-28 and Russia in Ukrainian Economy,
as of 1 October 2019**

| Types of economic activity | FDI in the specified sector | | Investor countries and their share in the total volume of investment in the sector, % |
|---|-----------------------------|--|---|
| | Total volume, \$ million | % of the total volume of direct investment | |
| Total | 34 727.6 | 100 | |
| Agriculture and fishing | 536.7 | 1.5 | <i>Russia – 0.8</i> Cyprus – 41.5; Denmark – 9.5; Poland – 7.5; Netherlands and Germany – по 5.8; France – 4.9. |
| Industry | 11 417.3 | 32.9 | <i>Russia – 0.7</i> Netherlands – 24.5; Cyprus – 24.0; Germany – 10.1; United Kingdom – 5.7; Switzerland – 9.0. |
| <i>Mining and quarrying</i> | <i>2 013.7</i> | <i>5.8</i> | <i>Russia – 0.1</i> Netherlands – 41.7; Cyprus – 10.6. Switzerland – 41.5. |
| <i>Processing industry, incl. sectors:</i> | <i>8 573.0</i> | <i>24.7</i> | <i>Russia – 0.9</i> Cyprus – 26.2; Netherlands – 20.0; Germany – 13.1; United Kingdom – 7.1. |
| Manufacture of food products, beverages and tobacco products | 2 886.3 | 8.3 | <i>Russia – 0.4</i> Netherlands – 27.6; Cyprus – 20.6; United Kingdom – 15.5. |
| Manufacture of textiles, apparel, leather, and related products | 105.5 | 0.3 | <i>Russia – 0.4</i> Denmark – 32.0; Germany – 18.9; Netherlands – 12.4. |
| Manufacture of wood and paper products, and printing | 580.4 | 1.7 | <i>Russia – 0.5</i> Cyprus – 30.0; Poland – 16.8; Austria – 15.1, Switzerland – 8.3. |
| Manufacture of coke, and refined petroleum products | 292.5 | 0.8 | <i>Russia – confidential data.</i> Cyprus – 57.4; Netherlands – 41.4. |
| Manufacture of chemicals and chemical products | 668.3 | 1.9 | <i>Russia – 0.9</i> Cyprus – 37.8; Netherlands – 37.0; France – 7.5; Germany – 4.5. |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 42.5 | 0.1 | <i>Russia – confidential data.</i> Cyprus – 33.8; United Kingdom – 13.0, Virgin Islands (UK) – 29.3. |
| Manufacture of rubber and plastics products, and other non-metallic mineral products | 1 136.4 | 3.3 | <i>Russia – 0.1</i> Cyprus – 28.5; Germany – 23.1; Netherlands – 14.9; Austria – 11.3. |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 1 789.4 | 5.2 | <i>Russia – 2.6</i> Germany – 36.6; Cyprus – 30.2; Netherlands – 13.9; Estonia – 5.3; Poland – 4.5. |
| Manufacture of machinery and equipment, except repair and installation of machinery and equipment | 796.2 | 2.3 | <i>Russia – 0.7</i> Germany – 14.5; Cyprus – 12.9; Netherlands – 11.4; Poland – 6.0; United Kingdom – 5.6; Sweden – 5.0; Estonia – 4.3; France – 3.8. |
| Manufacture of furniture, other products; repair and installation of machinery and equipment | 275.5 | 0.8 | <i>Russia – 0.6</i> Cyprus – 26.0; United Kingdom – 18.5; Poland – 12.8; Austria and Netherlands – 4.6, each. |

Main Areas of Direct Investment by EU-28 and Russia in Ukrainian Economy,
as of 1 October 2019

(продовження)

| Types of economic activity | FDI in the specified sector | | Investor countries and their share in the total volume of investment in the sector, % |
|---|-----------------------------|--|---|
| | Total volume, \$ million | % of the total volume of direct investment | |
| <i>Electricity, gas, steam and air-conditioning supply</i> | 775.2 | 2.2 | Russia – 0.0 Cyprus – 35.2; Netherlands – 31.5. |
| <i>Water supply, sewerage, waste management and remediation</i> | 55.4 | 0.2 | Russia – 0.5 United Kingdom – 37.2; Germany – 29.4; Cyprus – 16.4; Austria – 9.8. |
| Construction | 980.2 | 2.8 | Russia – 1.5 Cyprus – 50.4; Netherlands – 6.7; United Kingdom – 4.0. |
| Wholesale and retail trade, repair of motor vehicles and motorcycles | 5 624.7 | 16.2 | Russia – 2.0 Cyprus – 24.6; Netherlands – 17.0; United Kingdom – 5.0; Germany – 4.3; France – 3.4, Switzerland – 7.1. |
| <i>Transportation and storage, postal and courier activities</i> | 1 052.1 | 3.0 | Russia – 0.5 Cyprus – 35.4; Netherlands – 13.6; United Kingdom – 8.8; Germany – 8.5. |
| <i>Temporary accommodation and food service activities</i> | 350.8 | 1.0 | Russia – 2.7 United Kingdom – 45.4; Cyprus – 30.9. |
| <i>Information and telecommunications</i> | 2 222.2 | 6.4 | Russia – 0.5 Netherlands – 80.2; Cyprus – 12.1. |
| <i>Financial and insurance activities</i> | 4 469.7 | 12.9 | Russia – 11.7 Cyprus – 26.9; Austria – 9.6; United Kingdom – 8.3; France – 8.1; Netherlands – 7.6; Hungary – 6.8; Germany – 3.8. |
| <i>Real estate activities</i> | 4 484.2 | 12.9 | Russia – 0.9 Cyprus – 43.1; Netherlands – 19.6; United Kingdom – 5.4; Austria – 3.7. |
| <i>Professional, scientific and technical activities</i> | 2 258.6 | 6.5 | Russia – 0.3 Cyprus – 42.9; Netherlands – 20.8; United Kingdom – 3.0. |
| <i>Administrative and support service activities</i> | 1 129.4 | 3.3 | Russia – 0.7 Cyprus – 48.8; Netherlands – 8.3; United Kingdom – 6.9; Germany – 4.9; Switzerland – 9.2. |
| <i>Education</i> | 22.6 | 0.07 | Russia – 1.5 United Kingdom – 6.9; Cyprus – 4.7. |
| <i>Health services and social work activities</i> | 49.3 | 0.14 | Russia – 0.6 Cyprus – 31.9; Germany – 16.9; United Kingdom – 12.2; Poland – 3.3. |
| <i>Arts, sports, entertainment and recreation</i> | 104.0 | 0.3 | Russia – 1.3 Cyprus – 39.6. Virgin Islands (UK) – 25.7. |

Source: State Statistics Committee of Ukraine. Direct Investment (Equity Capital) in Ukraine's Economy by the Type of Economic Activity, <http://www.ukrstat.gov.ua/>.

3. UKRAINE'S EUROPEAN INTEGRATION: RUSSIAN INFLUENCE AND COUNTERWORK

Ukraine's civilisational choice – progress towards the EU and NATO – is the main reason and motive for Kremlin's hybrid aggression. Control and domination in its "zone of privileged interests", reintegration of the post-Soviet space according to its scenario – is just one component of Russia's foreign policy strategy. Ukraine drifting towards the West is a challenge and a threat to something that current Russian leadership holds as sacred. On the one hand, Russia is using all available instruments and means from its "hybrid warfare" armoury to block and make Kyiv's movement to the European community impossible, and on the other – to weaken and disintegrate the EU with the ultimate goal of reformatting the geopolitical system on the European continent in line with its own plan.

This section looks at the nature and particular aspects of Russia's policy regarding CIS and specifically Ukraine. It outlines Russia's goals, mechanisms and means of obstructing the European integration of Ukraine. We also analyse characteristics of Kremlin's hybrid expansion in Europe. In this context, joint effort against Russia's intervention is crucial, in particular, political and diplomatic solidarity and financial assistance of official Brussels to Ukraine in countering the aggressor's actions.

3.1. UKRAINE'S EUROPEAN INTEGRATION – CHALLENGE AND THREAT TO CURRENT POLITICAL REGIME IN RUSSIA

From the beginning of 2000s, Ukraine's external political situation has been affected by the increasingly more severe geopolitical competition between two European centres of influence – the EU and Russia, which are implementing fundamentally different integration projects for post-Soviet states in Eastern Europe and the Caucasus.¹

The EU pursues a policy of expansion and/or establishing a circle of partner countries, which base their internal and external policy on democratic values, norms and rules. Russia strives for the EU (as well as the rest of the world) to recognise these states as "Russia's zone of privileged interests", to export its state-centred and authoritarian ("Eurasian") model of "managed democracy" to these countries, and to create a powerful integrational structure under its auspices, which would serve as a counterweight to the EU and move along Russia's policy lines.

Moscow and Brussels have a different vision of the essence and goals of integration processes, which are based on different values and cooperation mechanisms. Namely, as opposed to the EU, countries that belong to Russia-led integration associations (EAEU, CSTO) are not required to ensure the rule of law, protection of citizens' rights and freedoms, civil society development, independence of the judiciary, fairness and transparency of elections. Framework agreements signed in these

Russia-led associations do not set the goal of developing democracy in their member states.

In this context, controlling Ukraine – strategically located, largest by population and area post-Soviet European country – is a priority in Kremlin's regional expansion policy and in Russia's overall neo-imperial plans in the global arena. Thus, Ukraine distancing itself from Moscow and pursuing European and Euro-Atlantic integration pose both internal and external threats and challenges for Kremlin's leaders.

Public Opinion

Most people believe that the reason for the Russia-Ukraine conflict is Ukraine's "Western" drift. In particular, 50% of respondents see Ukraine's Euro-Atlantic integration as the reason for the conflict, 48% – Ukraine's attempts to free itself from Russia's influence and Russia's attempts to keep Ukraine under control. 39% of respondents believe that Russian aggression was caused by Russia's inability to accept Ukraine's European integration course, and 39% – by Kremlin's inability to generally accept Ukraine as an independent, sovereign state with independent foreign policy.

These threats and challenges include the following.

First, Russian leaders understand that Ukraine's successful European integration, leaving Russia's sphere of influence would mean: (a) weakening of Kremlin's overall geopolitical standing, failure of claims for regional leadership and "special rights" in the post-Soviet space. This is unacceptable for

¹ See: EU-Ukraine-Russia Relations: Problems and Prospects. Analytical report by the Razumkov Centre. – National Security and Defence, 2012, No.4-5, p.6-7, http://razumkov.org.ua/uploads/journal/ukr/NSD133-134_2012_ukr.pdf.

Moscow, which finds itself in the situation of “Russia-West” confrontation and is “fighting” the EU influence in the post-Soviet space; (b) failure of Russia-led integration project – EAEU (Eurasian Economic Union), which is a staple in Russia’s strategic plans to reformat the territory “from Lisbon to Vladivostok” according to Russia’s model. (Note that this Russia-led Eurasian integration association is more of a “Potemkin village” – it failed to become either an influential or reputable international institution, or an appealing political and economic centre of gravity for other post-Soviet countries in the region. Moreover, data in Section 2 of this Report shows that Russia itself is more oriented towards the EU than the EAEU in its financial and economic activity); (c) Kyiv’s successful European integration project could become a convincing example and mobilisation impulse for other post-Soviet states – not just Moldova and Georgia, but also citizens of the neighbouring Belarus, which is a party to the European “Eastern Partnership” project.

Second, the prospect of Ukraine becoming an example of introducing reforms and creating better living conditions for its citizens through realisation of European, instead of Eurasian integration course, would create a serious threat for Russia’s ruling regime. Thus, if European reforms are successful in Ukraine, Russian citizens will logically have questions about Russian leadership’s inability to offer an attractive model of social development. The contrast between prosperous, democratic, European Ukraine and contemporary Russia – a kleptocratic police state, may shatter the political-ideological and sociocultural system that is the foundation of current Russian political regime.

Expert Opinion

92% of Ukrainian experts believe that Russia perceives Ukraine’s European integration aspirations as negative. According to 86% of respondents, Russia obstructs Ukraine’s movement to the EU because it is trying to keep Ukraine under control, in the area of its influence. At the same time, 58% of experts believe that Ukraine’s movement to the EU, development of a prosperous democratic Ukraine is an example for Russians and a threat for the current political regime in Russia. Also, 50% of experts agree that Ukraine’s successful European integration is an example for other countries and a threat to Russia-led integration of the post-Soviet space.

This situation was best described by Special Adviser to EC President on relations with Ukraine Elmar Brok: *“The worst thing that can happen to Russia is Ukraine becoming a democratic and economically successful state based on the rule of law. This will be a disaster for Kremlin...”*² Later he added: *“Free*

and independent Ukraine... is the best answer to Putin’s system”.³

Thus, Kremlin’s goal is to prevent Ukraine’s European integration at any cost. Russian policy regarding Ukraine has been evolving in three stages: *mild persuasion* to integrate into Russia-led Eurasian associations, *hard coercion* to do so (using political and diplomatic, economic, energy sector, and information levers), and finally, – *military aggression*. In 2014, Russia annexed Crimea and started military expansion in Donbas.

3.2. KREMLIN'S STRATEGY AND GOALS IN THE POST-SOVIET SPACE. UKRAINIAN Foothold

Russian policy in the post-Soviet space can be generally characterised as “force-based hegemony”. Russia has been using political and economic pressure, “energy” levers. CIS countries are treated according to the “divide and conquer” tactic. Kremlin leaders have tested and are actively using the practices of creating a “controlled chaos”, destabilisation from inside. Moscow is a direct participant and manager of “frozen” or “simmering” conflicts in the post-Soviet space, which are essentially “time bombs”.

It is necessary to admit that Kremlin’s current policy in the post-Soviet space and on the European continent as a whole is the result of internal Russian processes, which western world clearly must have seen and understood. At the moment, Russia presents as an authoritarian militarised country with totalitarian repressive domestic policy and aggressive foreign policy (insert *“Certain Key Features of Russia’s Political Regime”*).

Active involvement of Ukraine and other CIS countries in Russia’s integration projects in the post-Soviet space started in 2000, when Vladimir Putin came to power in Russia.⁴ In May 2000, the countries signed a Memorandum of Improvement of Collective Security Treaty (CST) Effectiveness and Its Adaptation to the New Geopolitical Situation,⁵ which in essence restored and intensified the work of CSTO. In October 2000, the Eurasian Economic Community was established (EurAsEC). At that time, conceptual approaches were formulated and practical steps were determined for Russia-led Eurasian integration.⁶ EurAsEC was viewed as the core of economic integration, CSTO – as the main international instrument for defence against external threats.

Later, in 2003, an attempt was made to establish a Common Economic Space (CES) involving Russia, Ukraine, Belarus and Kazakhstan. However, Viktor

² Elmar Brok: The worst thing that can happen to Kremlin is democratic and economically successful Ukraine. – UNIAN, 23 December 2016, <http://interfax.com.ua/news/interview/392660.html>.

³ Successful Ukraine is the best answer to Putin’s system. – Ukrinform, 9 October 2019, <https://www.ukrinform.ua/rubric-polytics/2796242elmar-brok-specialnij-radnik-prezidenta-evrokomisii-z-pitan-ukraini.html>.

⁴ For more information, see: Russia-Ukraine Conflict: Situation, Consequences, Development Prospects. Analytical report by the Razumkov Centre. – National Security and Defence, 2014, No.5-6, p.3-5, http://razumkov.org.ua/uploads/journal/ukr/NSD148-149_2014_ukr.pdf.

⁵ Memorandum of improvement of Collective Security Treaty (CST) effectiveness dated 15 May 1992 and its adaptation to the new geopolitical situation. – CSTO website, <http://www.odkb-csto.org>.

⁶ For more information, see: Problems and Prospects of Russia-Ukraine Cooperation. Analytical report by the Razumkov Centre. – National Security and Defence, 2006, No.5, p.338.

CERTAIN KEY FEATURES OF RUSSIA'S POLITICAL REGIME⁷

Since the beginning of 2000s, Russia was gradually creating a new ideology – an imperial concept of greatness and self-sufficiency, isolationism, aggressive anti-western foreign policy, confrontation with other global centres of influence, denial of generally accepted civilisational values.

The most brutal and open demonstration of Kremlin's aggressive offensive course was the Address of the Russian President to the Federal Assembly of the Russian Federation on 1 March 2018,⁸ which was essentially a force-based ultimatum to the West that by the level of confrontation exceeded the infamous Munich speech of Vladimir Putin.⁹ The Address shows Russian leadership's course towards political-ideological and sociocultural militarisation of the country, uses the "besieged fortress" philosophy and apologetics, contains undisguised nuclear blackmail of the West and readiness to pay any social price for confrontation with Russia's enemies.

In general, we can outline certain typical characteristics of the current Russian political system.

- The formulated doctrine of the "besieged fortress" and resistance to external enemies, which is the main stimulus for mobilisation of society for Russia's current regime, the core of its domestic and foreign policy.
- Increased militarisation of the country and social consciousness. "Middle class in uniforms" – created

as the backbone of the regime. Responsibilities and powers of law enforcement agencies have been expanded, social status of their employees has been raised compared to other categories of citizens.

- Citizen rights and freedoms have been limited. Public persecution for disloyalty to the regime and persecution of opposition leaders have become a regular practice. Public repressions (judicial persecution) have started as means of public intimidation.
- Media has been completely nationalised, powerful pro-government "holdings of truth" have been created, while small independent media – eliminated or pushed out to the periphery.
- Government has established total control over the "third sector". Disloyal organisations (mostly, human rights organisations) have been branded as "foreign agents", and foreign NGOs have been banned.
- As a result of introducing corresponding constitutional amendments, it is planned to prolong the current political regime personified by Vladimir Putin at least until 2036.

So, Russia has created an authoritarian state with personality cult elements, totalitarian domestic and aggressive foreign policy, disdain and hypocrisy towards international rules and regulations. This is the state, with which the West will have to co-exist in the near future.

Yushchenko's Presidential Decree limited Ukraine's participation in the CES only to participation in the free trade zone, which did not satisfy the Russian side in the least.¹⁰ In 2007, Russia initiated the creation of the Customs Union; in 2014 the Agreement establishing the Eurasian Economic Union (EAEU) was signed.

Implementation of integration projects introduced by V.Putin was continued by D.Medvedev during his presidency (2008-2012). In particular, the Concept of Foreign Policy of the Russian Federation (12 July 2008) and the National Security Strategy until 2020 (12 May 2009) were approved; both documents define cooperation within the CIS as the priority of Russia's external policy. In this period, Russia's pressure on Ukraine, including blocking of the declared by V.Yushchenko course for European and Euro-Atlantic integration, caused a number of sharp conflicts.¹¹ In August 2008, D.Medvedev officially presented the geopolitical concept of "Russia's zone of privileged interests", which in the opinion of Russia's leaders undoubtedly included Ukraine.¹²

In this context, it is worth mentioning that on 11 April 2012 in his annual government report to the State Duma V.Putin said: "*Deepening integration in the post-Soviet space is a crucial task of both Russia's economy and foreign policy – crucial, there is nothing more important than that. Our future depends on that*".¹³

V.Putin's return to the presidential post was marked by strengthening of Russia's ambitions in the post-Soviet space. In his speech during the inauguration on 7 May 2012 he said: "... historical prospects of our state and nation depend today... on our ability to become **the leader and centre of gravity for the entire Eurasia**".¹⁴ On the same day this course was captured in the corresponding Order "On Measures of Implementing the Foreign Policy Course of the Russian Federation", which defined the directions in which CIS integration processes had to be strengthened. Intensification of these processes was captured in National Security Strategy of the Russian Federation until 2020 (2009), Concept of the Foreign Policy of the Russian Federation (2013),¹⁵

⁷ See: The War in Donbas: Reality and Resolution Prospects. Analytical report by the Razumkov Centre. – National Security and Defence, 2019, No.1-2, p.3-4, http://razumkov.org.ua/uploads/journal/ukr/NSD177-178_2019_ukr.pdf.

⁸ Address of the Russian President to the Federal Assembly on 1 March 2018. – Website of the RF President, <http://kremlin.ru/events/president/news/56957>.

⁹ On 10 February 2007, At the Munich Security Conference Russian leader Vladimir Putin delivered a boldly confrontational speech that caused controversy in Western political circles regarding the resumption of the Cold War.

¹⁰ Decree of the President of Ukraine "On the Decision of the Ukrainian National Security and Defence Council as of 20 May 2005" No.952 dated 15 July 2005.

¹¹ For more information, see: Ukraine-Russia: From Crisis to Effective Partnership. Analytical report by the Razumkov Centre. – National Security and Defence, 2009, No.4, p.214.

¹² See: D.Medvedev's interview to Russian TV channels on 31 August 2008. – Official website of the RF President, <http://kremlin.ru>.

¹³ See: Website archive of the Prime Minister of the Russian Federation, <http://www.premier.gov.ru>.

¹⁴ Vladimir Putin took the office of the President of Russia. – Official website of the RF President, 7 May 2012, <http://kremlin.ru>.

¹⁵ Concept of the Foreign Policy of the Russian Federation talks about the intention to "build a relationship with Ukraine as a priority partner in the CIS, and contribute to its involvement in deeper integration processes".

Military Doctrine of the Russian Federation (2014), Addresses of the Russian President to the Federal Assembly of the Russian Federation (2013, 2014).

The new stage in the development of Russia's foreign policy was military aggression against Georgia (August 2008), followed by annexation of Abkhazia and South Ossetia. Due to moderate and reserved reaction of the West, this operation strengthened and expanded Kremlin's foreign ambitions.

Later, the principles of the policy Russia was implementing in the post-Soviet space and on the global arena were further developed in Russian President's Annual Addresses to the Federal Assembly of the Russian Federation and conceptually enshrined in a number of cornerstone documents: National Security Strategy (2015), Military Doctrine (2015), Foreign Policy Concept (2016).¹⁶

Russia is carrying out political and economic expansion on the CIS territory to achieve reintegration by its own playbook, using all of its available hybrid influence armoury – from political and diplomatic pressure, financial and economic influence to military interventions and annexation of territories.

3.3. KREMLIN'S OBSTRUCTION TO UKRAINE'S EU PROGRESS: MEANS AND TOOLS

Russia has been pressuring Ukraine to block its European integration progress consistently and comprehensively, using all of its available hybrid warfare means and instruments

Expert Opinion

Most (88%) experts believe that Kremlin's main tool in blocking Ukraine's European integration is force – hybrid aggression against Ukraine (namely, annexation of Crimea, occupation of Donbas). 76% of respondents stress the information and propaganda expansion in the Ukrainian media aimed at discrediting European integration. 66% talk about obstructing Ukraine's movement towards Europe with the help of pro-Russian political forces in Ukraine. 65% of experts think that Russia is using information and propaganda campaign in the EU to discredit Ukraine, its European integration course. 61% of respondents stress the factor of Kremlin exerting political and economic pressure on individual EU countries. At last, 59% say that Russia is trying to destabilise internal situation in Ukraine.

In general, Russia's use of its "hybrid" influence tools focused on the following areas.

Political and Diplomatic Pressure. In the contemporary history period of Russia-Ukraine relations,

Kremlin's political pressure on Ukraine was gradually increasing. During the presidency of Viktor Yanukovich, relations with Russia were happening in the closed, asymmetrical "political-economic barter" mode – Ukraine's national interests in exchange for economic (incl., natural gas) preferences from Russia. The so-called "Kharkiv Agreements" signed on 21 April 2010 were a prominent example of such "barter" – they provided for a 25-year extension of Russian lease on naval facilities in Crimea in exchange for natural gas preferences from Russia.¹⁷

The list of Ukraine's concessions includes: (a) Kyiv's official abandonment NATO accession prospects; (b) abandoning own interpretation of a number of historical events; (c) expansion of Russia's presence and strengthening of its influence in key sectors of national economy; (d) Ukraine's support of a number of Kremlin's foreign policy initiatives.¹⁸

Yet this did not help in making Russian political elites change their attitude towards Ukraine, which they view as the object of their geopolitical interests. On the contrary, Kyiv's concessions only intensified Russian activity regarding Ukraine.

A textbook case is Russia attempting to prevent Ukraine from signing the EU-Ukraine Association Agreement. Kremlin used the full scope of its political and economic levers to derail the signing of the Agreement and make Kyiv's European integration impossible.

On 31 May 2013, countries signed the Memorandum "On Deepening Cooperation Between Ukraine and the Eurasian Economic Commission", according to which Ukraine agreed to adhere to the principles set forth in the documents of the Customs Union. It was also planned to sign the Memorandum on harmonisation of technical regulations of Ukraine and the Customs Union, which in essence tied Ukraine to this union and, consequently, was in conflict with its European integration course.¹⁹

However, on 18 September 2013, Ukrainian Government passed a resolution on the preparation for the signing of the EU Association Agreement. On 27 October and 9 November, two urgent secret meetings of the presidents of Ukraine and Russia took place, after which, on 21 November, M.Azarov's Government decided to suspend preparations for signing the EU Association Agreement, and on 29 November, at Vilnius EU Summit, V.Yanukovich refused to sign the Agreement.

Almost at once after Ukraine's "integration turnaround" due to backroom dealings with Russia, the two countries signed a package of Russia-Ukraine deals

¹⁶ National Security Strategy of the Russian Federation approved by the Order of the President of Russia as of 31 December 2015, <http://kremlin.ru/acts/bank/40391>; Military Doctrine of the Russian Federation approved by the Order of the President of Russia as of 25 December 2014, in 2015 – new version was adopted, http://www.mid.ru/ru/foreign_policy/official_documents/asset_publisher/CptlCk6BZ29/content/id/976907; Concept of the Foreign Policy of the Russian Federation approved by the Order of the President of Russia as of 30 November 2016, http://www.mid.ru/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/2542248.

¹⁷ Already on 27 April 2010, the Agreement between Ukraine and the Russian Federation on the Presence of the Black Sea Fleet of the Russian Federation in the Territory of Ukraine was ratified.

¹⁸ See: EU-Ukraine-Russia Relations: Problems and Prospects. Analytical report by the Razumkov Centre. – National Security and Defence, 2012, No.4-5, p.2-3.

¹⁹ On 15 January 2014, the Government of M.Azarov approved the Cooperation Programme with the Customs Union Member States until 2020 by the Resolution of the Cabinet of Ministers of Ukraine "On approval of Ukraine's Cooperation Programme with the Member States of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation for the period until 2020".

as of 17 December 2013, in particular – on providing a short-term loan of \$15 billion to Ukraine and reducing the price of Russian natural gas. De facto, this was Kremlin's "payment" for Kyiv renouncing its European integration course.²⁰

This government decision caused mass protests in Ukraine, the Yanukovich regime was overthrown. The Revolution of Dignity was perceived by the global community as the evidence of European aspirations of the Ukrainian society. Already on 20 February 2014, Russia launched its large-scale military aggression against Ukraine.

Humanitarian and Information Expansion. Kremlin launched a powerful propaganda machine against Ukraine, which included TV and radio broadcasting, print and electronic media, cinema, theatre, book publishing, concerts, youth subcultures and social networks in the Internet, different public and religious organisations. An important target of Russia's influence is the domestic situation in Ukraine, as well as separate political and public institutions: government system, local self-government, political parties and civil movements, religious organisations, media.

It is safe to assume that the active stage of the information war began in the fall of 2013, before the summit in Vilnius, during which the EU-Ukraine Association Agreement was supposed to be signed.

One of the goals of Russia's information (psychological) war is "de-Europeanisation" of Ukraine, disgracing and discrediting its European integration course. To achieve this, Russian propaganda used these fake information phrases:

- Ukraine is a country that did not happen, and the West (EU) does not need it;
- Without integration with Russia and the EAEU Ukrainian economy will eventually collapse;
- Getting closer to the EU will ruin Ukraine's traditions, culture, identity;
- Ukraine will be an agricultural appendix to Europe, where EU countries will move their harmful production;
- the EU is bound to degrade and collapse.

Overall, Russian propaganda aims to destroy Ukrainian society from within – through discrediting the existing government, instigation of social discontent and separatist sentiment in the regions, promotion of the "Russian World" doctrine in Ukraine's cultural and information space, as well as appropriateness of protecting the "fellow compatriots" on the Ukrainian territory. This is generally about disintegration and destruction of Ukraine's statehood.



For destabilisation from within, Russia is using the "fifth column" practices. In the framework of hybrid aggression, Russia actively uses the pro-Russian sentiment in the East of Ukraine. There is a network of agents of influence in social networks. At the same time, Kremlin initiates operation of political forces, public organisations and religious groups loyal to Russia. The "third sector" in Ukraine is influenced by the aggressor with the purpose of advancing the "Russian World" ideology, spreading of anti-European sentiment, negative attitude to the country's pro-European choice, etc.

Economic war. Starting from mid-2000s, an important tool of Russia's political and economic pressure on Ukraine was the broad introduction of different trade restrictions. Large-scale trade wars began on 20 January 2006, when without a warning Russia banned imports of all animal products, allegedly due to their poor quality. Later, Russia involved its ally countries in anti-Ukrainian trade measures. In particular, in June 2011, Customs Union (under Russia's pressure) introduced customs duties on Ukrainian metal and pipes, raised customs duties on FMCG – sugar, buckwheat, potatoes, cabbage, etc. Import of Ukrainian confectionery was terminated altogether.

An acute crisis occurred in August 2013, when Russia started a "customs war" – all Ukrainian goods imported to Russia were categorised as high-risk and their supply to Russia was blocked. It is not by chance that this economic blockade started on the eve of the Vilnius summit, where Ukraine and the EU were supposed to sign the Association Agreement.

In parallel, Russia was pressuring Ukraine using energy sector levers and blackmail. Russia's "gas" war against Ukraine started long before the beginning of military activity: its first displays were gas disputes in 2006²¹ and 2009, when Russia suspended transit of natural gas through Ukraine's territory. Energy warfare was

²⁰ On 2 December 2013, the First Deputy Prime Minister of Russia, I. Shuvalov, clearly defined Russia's position: "I think that no one, except Russia, can give Ukraine the necessary resources so fast and in such volume... We can also provide a loan. But we will not help them for no special reason, without any responsibilities on their part... Of course, Ukraine understands that by signing up to its responsibilities in the Customs Union, it can get a different price for gas, other conditions regarding its liabilities and tariffs". See: Russia does not want to "save Ukraine for no special reason" with cheap gas and loans. – UNIAN, 2 December 2013.

²¹ On the eve of the first gas dispute, Ukraine attempted to diversify its fuel supplies by working with Turkmenistan, but the project was not implemented as Russian leadership banned transportation of Turkmen gas through the territory of Russia.



effective in conditions of Ukraine's critical dependence on gas supplies by the monopolist represented by *Gazprom*, which allowed Russia to dictate gas prices. The latest example is construction of gas pipeline Nord Stream-2 with geopolitical goals that clearly bypass Ukraine's interests.

In summary, Russia was using all of its available economic levers of influence: (a) increased customs duties; (b) banned imports of Ukrainian goods; (c) discredited Ukrainian goods in the eyes of European consumers; (d) blocked supplies of Ukrainian goods to third party markets; (e) banned transit for Ukraine through its territory to the Caucasus region and Central Asia; (f) economic sabotage. All of this was being done to destroy Ukraine's economy, block development of cooperation between Kyiv and Brussels, keep Kyiv in Russia's "zone of privileged interests".

Expansion in Cyberspace. A very dangerous component of the "hybrid war" against Ukraine is cyberspace aggression. In particular, this includes massive attacks on government and state companies' websites, war in social networks launched by Russian "troll factories". Russia uses numerous hacker groups with Russian intelligence agencies behind them.²²

"Hybrid" aggression conducted by Russia in cyberspace has grown in strength. In 2014, *CERT-UA* group (*Computer Emergency Response Team of Ukraine*) at the State Service of Special Communications has detected 216 external cyberattacks (more than half of them – against government institutions). In 2015, the number of attacks increased by 1.5 times. In the past years, pro-Russian hackers performed massive attacks on government websites and web-pages of state institutions, e.g. websites of Presidential Administration, Cabinet of Ministers, State Service of Special Communications. There were a number of attacks on the websites of oblast state administrations, where hackers uploaded anti-Ukrainian content and Russian symbols.²³

²² See: Russia's "Hybrid War" – Challenge and Threat for Europe. Analytical report by the Razumkov Centre. – National Security and Defence, 2016, No.9-10, p.14.

²³ Such attacks have been executed on the websites of Ternopil, Lviv, Ivano-Frankivsk, Zaporizhzhia and other oblast state administrations.

²⁴ SBU identified 38 spreaders of fakes on Covid-19 – several received tasks from Russia. – Official website of SBU, 23 March 2020, <https://ssu.gov.ua/ua/news/1/category/2/view/7335#.rkJohpBX.dpbs>.

A dangerous cyber-sabotage event took place in December 2015, when a massive attack was launched on the traffic controller of Ukrenergo company and 6 other energy companies, which caused a power outage in 103 cities and villages in the West of Ukraine. US experts established that the massive sabotage act was launched by the Russian Federation. In December 2016, a major online sabotage was launched against Ukraine's financial and banking sector – a hacker attack blocked the work of State Treasury, Ministry of Finance, Pension Fund websites. Later these attacks continued and targeted Ukrainian Railways and Ministry of Defence websites. In the past years, SBU uncovered a series of Russia's sabotage actions in cyberspace. In particular, in March 2020, SBU stopped operations of a number of Internet inciters in Dnipro and Odesa, who following directions from Russia were publishing fakes about *Covid-19* in social networks in order to blow up panic, destabilise the situation and discredit Ukrainian government.²⁴

Russia's Military Aggression Against Ukraine. The "force" component of Kremlin's "hybrid war" is occupation and illegal annexation of Crimea as a result of a massive well-planned military-political operation. Later – invasion of Russian troops in separate areas of Donetsk and Luhansk oblasts.

Russian aggression has several scenarios, depending on the progression of events in Ukraine: (a) *bringing pro-Russian forces to power in Ukraine and retaining it under Russia's influence*; (b) *federalisation of Ukraine with special status of "DPR" and "LPR" and the right to influence Ukraine's foreign policy with the goal of preventing the country's integration into NATO and EU*; (c) *"conservation" of conflict and creation of pressure zone in "DPR" and "LPR" as a foothold for renewal of aggression*; (d) *in case of failure of "peaceful" means of subduing Ukraine – its disintegration with seizure of Eastern and Southern oblasts and uniting the territory of Transnistria and Crimea with Russia by land.*

Yet Russia's key basic goal is to subordinate and control Ukraine, making its movement towards NATO and EU impossible. In this context, we would like to outline several factors of Russia's military aggression that negatively affected and slowed down Ukraine's European integration.

First. Massive human and financial-economic losses. According to UN data, the Donbas conflict is one of the deadliest conflicts in Europe since World War II. In the six years of war, 13 thousand people died in Donbas, over 30 thousand were injured, approximately 1.5 million residents of Donbas and Crimea were internally displaced. 17 thousand sq km of Donetsk and Luhansk oblasts territory was occupied, which together with Crimea is 43.7 thousand sq km – i.e. 7.2% of Ukraine's territory.

Experts cite different overall volume of economic losses depending on the time and methods of assessment – from \$60-70 bn to \$300 bn.²⁵ Calculated by the indirect method (T.Piketty coefficient), the cost of lost assets just in the occupied Donbas territory is \$32 bn (without the value of land and natural resources).²⁶ 388 state enterprises, 4500 state property facilities (real estate units) and over 100 large non-state enterprises remained in the occupied territories. Overall, approximately 50% of the industrial capacity of Donbas was lost. Equipment from a number of enterprises was moved to Russia or dismantled for scrap metal.

Ukraine's energy infrastructure also suffered huge losses. As a result of the annexation of Crimea, Ukraine lost a number of fuel and energy complex facilities and potential areas for hydrocarbon resources mining, while the occupation of Donbas led to destruction of oil and gas infrastructure and energy facilities in Donetsk and Luhansk oblasts.

Obviously, such massive losses have on the one hand affected the country's economic development as a whole, and on the other: (a) complicated and slowed down the progress of Ukraine's socioeconomic reforms in the framework of EU-Ukraine Association Agreement; (b) reduced interest and activity of European partners in developing relations with the at-war country with volatile internal situation; (c) caused some European politicians to doubt the irreversibility and consistency of Kyiv's European integration course; (d) turned Ukraine into a problem-ridden recipient of donor help.

Second. Due to Russia's expansion and lasting war in Donbas, Ukraine is forced to channel huge political and diplomatic, financial and economic, human resources to countering Kremlin's aggression in different areas. Namely, Kyiv has to not only keep a large military contingent in Eastern Ukraine, but also increase its defence spending (5% of budget). Essentially, in the situation of the ongoing Russia-Ukraine "wear-out-war", European integration is handled based on the leftover principle. At the same time, lately, political decisions and actions of the Ukrainian government, society's attention and the overall public political discourse have been mainly focused on the topics of Donbas war and the annexation of Crimea. Meanwhile, the topic of European integration, results of Ukraine's implementation of the Association Agreement, sectoral cooperation with the EU have moved to the background.

As of April 2020 (and likely, further on as well), the prevailing topic both for the EU and Ukraine will be tackling the global virus pandemic. This issue will be the defining factor in the countries' tactical priorities, character of actions of both Brussels and Kyiv in the global arena.

Third. In the geopolitical sense, Russian aggression led to pronounced opposition between Russia and the West and introduction of anti-Russia sanctions on the one hand. And on the other – Kremlin's intervention revealed

the limited readiness of EU countries to stand up to Russia and increase the pressure of sanctions, as well as a growing trend of seeking dialogue with the aggressor, restoration of contacts in the "business as usual" format.

So, consistency and irreversibility of Kyiv's progress towards EU membership is not accepted and resisted by the current Russian regime, which is using and will keep using all of its available "hybrid warfare" tools to disrupt and thwart Ukraine's European integration. Out of the entire range of possible interstate relations (to say nothing of the war per se), Russia's aggression against Ukraine has made the only format of co-existence possible for a long period of time – that of forced co-existence – limited, confrontational, cold – depending on the unfolding situation.

3.4. RUSSIA'S EXPANSION IN THE EU

Currently, Russia is exerting targeted hybrid influence on the EU on a large scale in order to weaken (break up) the European Union, reformat the overall European political system according to its plan. Kremlin's tactical tasks are to discredit and erode basic European values, disorient the public opinion, form influential pro-Russian lobby within the European political class, support radical extremist movements, deepen differences between European states and EU institutions, etc.

Russian expansion is taking place against the background of total devaluation of global and regional security structures (OSCE is in crisis, and operation of UN Security Council, in particular, in the context of the Russia-Ukraine conflict regulation, is being blocked by Russia). According to UN Secretary-General Antonio Guterres: "The relationship between the three most important powers, Russia, the United States and China, has never been as dysfunctional as it is today. When we are facing a real crisis... it is almost impossible to get the Security Council's unanimous vote. We see that the Security Council is paralysed".²⁷

Western world, including the European community, has numerous "vulnerability spots", which are effectively used by Russia. These weak spots include the following: (a) persistence of previous hopes for Russia's liberalisation and democratisation coupled with the fear of Moscow's nuclear blackmail; (b) the mechanism of consensus used in decision-making, which proves dysfunctional in crisis; (c) lack of unity among EU leaders and lack of adequate assessment of the nature and essence of current Russian regime, its foreign policy; (d) internal problems and disintegration processes in the EU, in particular, migrant influx, *Brexit*, upsurge of terrorism and far-right sentiment, etc.; (e) "purely pragmatic" approach of certain European business representatives

²⁵ These calculations are presented in more detail in the Analytical report by the Razumkov Centre "War in Donbas: Reality and Resolution Prospects" – National Security and Defence, 2019, No.1-2, p.42-43.

²⁶ Ibid.

²⁷ UN Secretary-General – UN Security Council is paralysed. – DW, 23 May 2019, <https://www.dw.com/uk>.

to the inexpediency of confrontation with Russia (e.g. sanctions), as it is hurting Europe in financial and economic sense.

This is by no means a complete list of European democracy's vulnerabilities in the situation of Russian aggression.

Expert Opinion

Most (88%) experts believe that Kremlin's main tool in blocking Ukraine's European integration is force – hybrid aggression against Ukraine (namely, annexation of Crimea, occupation of Donbas). 76% of respondents stress the information and propaganda expansion in the Ukrainian media aimed at discrediting European integration. 66% talk about obstructing Ukraine's movement towards Europe with the help of pro-Russian political forces in Ukraine. 65% of experts think that Russia is using information and propaganda campaign in the EU to discredit Ukraine, its European integration course. 61% of respondents stress the factor of Kremlin exerting political and economic pressure on individual EU countries. At last, 59% say that Russia is trying to destabilise internal situation in Ukraine.

It is also clear that Russia is rather effectively using the features typical for western democracies – wide political pluralism, liberal freedom of speech and association, respect for human rights, obedience to law, tolerance, etc.²⁸ All of these make EU states vulnerable to hybrid “special operations”, which are conducted outside of norms, rules and ethics. According to authors of “The Kremlin's Trojan Horses” study: “Moscow treats Western values, pluralism and openness, as vulnerabilities to be used. Its tactics is asymmetrical, subversive, not easily countered”.²⁹

It is reasonable to say that being in a state of wishful thinking, Europe has “demobilised and disarmed itself, despite clear signs that Russia, the successor to the Soviet Union, is becoming extremely nationalist and revanchist”.³⁰

Overall, in the EU, Russia is using a set of means and tools similar to the one it applies in Ukraine (apart from military intervention). However, there are certain “European particularities”. Here are some areas of Kremlin's hybrid expansion in the European Union.

Broad offensive propaganda (*Russia Today*, *Sputnik*) is the most effective information weapon, a powerful source of distorted, fake information products and means for targeted distribution of Russian ideology and *Russian World* concepts. In 2018, EU

analysts (“*EU vs Disinformation*” project) recorded 1000 cases of dissemination of false information in Russian media. Action Plan Against Disinformation approved by the EC in December 2018, stressed that Russia was carrying out active disinformation campaigns against EU member states regarding *MH-17* airplane that was shot down above Ukraine, to fuel war in Syria, as well as during the chemical attack in Salisbury. EU experts, starting in 2015, recorded 5000 Russian fakes, out of which about 2000 were on Ukraine, 700 – on the EU, 400 – on NATO and Syria.

Meddling in Internal Political Processes, Including Elections. Since 2004, American researchers have been identifying facts of Russia's meddling in internal politics of 27 countries. This includes EU countries, USA, Canada, Turkey, Georgia, Moldova, Belarus, Ukraine, etc.³¹ Russia's interference in referendums (Netherlands, *Brexit*, Catalonia), in electoral processes in France, Germany, etc. was much talked about.³² There was much publicity about Russia's attempt to influence Macedonia's vote on changing its name (30 September 2018), which opened access for its NATO and EU membership.³³ Two Russian agents in Macedonia were sentenced to 12 and 15 years of imprisonment for organising an attempted coup on the day of parliamentary elections in October 2016.

European Commission report (June 2019) on the results of European Parliament elections stresses: “Evidence collected revealed a continued and sustained disinformation activity by Russian sources aiming to suppress turnout and influence voter preferences. These covered a broad range of topics, ranging from challenging the Union's democratic legitimacy to exploiting divisive public debates on issues such as of migration and sovereignty”. Note that in October 2019, EU experts discovered a fake European Parliament website, which was functioning for several years using EU's official symbols, with content coming from *Russia Today* (145 thousand users).

Use of “Energy Weapons”. Today's leadership of the Russian Federation is actively using the “natural gas factor”, tested back in Soviet times, as a way to influence the EU. We are talking about attempts to establish a monopoly on the EU's energy market, thus creating EU member states' critical dependence on Russian gas.³⁴ At the same time, gas pipelines that Russia is building in the European direction (latest example – construction of Nord Stream-2) have

²⁸ Compared to western leaders, V.Putin has a number of obvious advantages. **First**, Russian President is not burdened with international legal and contractual “convenances” such as borders and treaties. **Second**, according to western standards, he possesses unique personal efficiency in decision-making and unconditional support of his decisions by other state institutions. **Third**, he relies on the tradition of utilitarian and uncontrolled use of human resources (classified data on losses of security agencies). **Fourth**, he has efficient mechanisms of ensuring public support.

²⁹ The Kremlin's Trojan Horses. – Atlantic Council, atlanticcouncil.org/images/publications/The_Kremlins_Trojan_Horses_web_1116.pdf.

³⁰ Marcel H. Van Herpen. Putin's Wars. Chechnya, Georgia, Ukraine: Undigested Lessons of the Past. – Kharkiv, 2015, p.4.

³¹ Alleged Russian political meddling documented in 27 countries since 2004, <https://www.usatoday.com/story/news/world/2017/09/07/alleged-russian-political-meddling-documented-27-countries-since-2004/619056001>.

³² Jean-Christophe Ploquin. Future Trends of Information War Conducted by Russia. – Inopressa website, 11 September 2018, <https://www.inopressa.ru/article/11Sep2018/lacroix/information.html>.

³³ Simon Tisdall. Result of Macedonia's referendum is another victory for Russia. – The Guardian, 1 Oct 2018, <https://www.theguardian.com/world/2018/oct/01/result-of-macedonia-referendum-is-another-victory-for-russia>.

³⁴ More on this in Section 2 of this Report.

geopolitical goals. On the one hand, they are meant to increase EU's dependence on Russian energy, which will allow Russia to dictate its political demands to Europe, and on the other, to push Ukraine out of the gas transportation segment, discredit it as a transit country.

Discrediting Government Institutions of Other Countries, Support of Radical Right-Wing, Nationalist, Populist Movements, which create anti-NATO and anti-American sentiment in EU communities.³⁵ UK Foreign Secretary Jeremy Hunt accused Russian intelligence of organising a global campaign aimed at discrediting central government networks. Russia is creating a system of loyal political and public organisations, media, etc. in the countries of Europe and the rest of the world. Conducting targeted work among “compatriots”, etc.

At the same time, Kremlin provides different types of assistance (foremost, financial) to right-wing political forces in Europe, incl. with the purpose of formation of pro-Russian lobby among European politicians and civil society leaders. The fact of Russia sponsoring the French “National Front” party is well-known.³⁶ Recently, a grand scandal broke out in connection with Russia's alleged sponsorship of Italy's far-right Lega party. According to former Vice-President of the European Commission Frans Timmermans: “There is a reason why Mr.Putin supports the extreme right all across Europe. Because he knows the extreme right makes us weak, he knows the extreme right divides us”.³⁷

A recent vivid example of Russia's special “undercover” operations was the “humanitarian aid” to Italy for fighting *COVID-19* provided by Russia's Ministry of Defence in late March 2020.³⁸ *Firstly*, Russia sent its military contingent to “provide assistance”, *secondly*, 80% of Russian supplies were “absolutely useless or hardly useful” for Italy. The operation was openly propagandistic and aimed to strengthen Russia's position in the Italian political establishment, strengthen the authority of Lega and Five Star Movement parties loyal to Russia, secure the presence of Russian troops near NATO bases and, accordingly, push the EU to review its anti-Russian sanctions, etc.

Reconnaissance and Espionage, Sabotage and Subversion Activities. In recent years, such facts were regularly recorded by intelligence services of the Baltic States, Poland, Bulgaria, Sweden, Germany and other EU countries. Russia's chemical sabotage in Salisbury in March 2018 carried out by two employees of Russian GRU got a lot of publicity worldwide. In

response, almost 30 countries expelled a large number of Russian diplomats.

There have been a lot of loud public scandals involving Russia's intelligence: (a) the Dutch arrested 2 Russians attempting to steal data from a Swiss Spiez chemical lab, which was investigating chemical attacks in Syria and the UK; (b) Switzerland arrested two Russian spies, who were preparing an attack on the laboratory of World Anti-Doping Agency (*WADA*); (c) in 2019, a powerful GRU spy base was uncovered in the French Alps that was conducting operations in the entire Europe; (d) Czech Republic eradicated a broad network of Russian agents; (e) former Chechen field commander Z.Khangoshvili was killed in Berlin.

Also, Russian intelligence services were organising information sabotage in cyberspace, large-scale hacker attacks against online resources of government agencies of EU countries, etc.

Certainly, this is not an exhaustive list of the areas of Russian hybrid aggression on the European continent. Alongside traditional instruments, Russia also uses new technologies and instruments of influence.

Expert Opinion

According to Ukrainian experts, most dangerous means of Russia's hybrid aggression against the EU are formation of pro-Russian lobby among politicians, public leaders (4.2 on the five-point scale), cyberattacks (4.1), use of energy levers (4). Other instruments dangerous for the EU include Russian mass media propaganda in European information space (3.9), interference in EU member states' elections (3.8), reconnaissance operations (3.8).

Russian influence in Europe has grown wide and poses a real threat to the EU. Preservation of European community's unity and its democratic system largely depend on successful resolution of internal problems, as well as on the effectiveness and coordination of actions in countering Russian hybrid expansion on the continent.

3.5. EU-UKRAINE: SOLIDARITY AND COUNTERING RUSSIAN AGGRESSION

External political-diplomatic solidarity and economic support of Western countries and international organisations, including support of internal reforms, are crucially important for Ukraine, which, being in different “weight classes” with Russia, has limited internal resources to counter Russian hybrid expansion.

³⁵ See: Russia's “Hybrid War” – Challenge and Threat for Europe. Analytical report by the Razumkov Centre. – National Security and Defence, 2016, No.9-10, p.2-7.

³⁶ More on this in the book by Cecile Vaissie “Kremlin's Networks in France”, separate chapters of which have been translated and published in Ukraine by NGO “Education Centre “Civic Initiative”” in 2016. This material was reprinted in Razumkov Centre's journal “National Security and Defence” No.9-10 (2016, p. 98-108).

³⁷ Vice-President of the EC: Putin supports the extreme right to divide Europe. – Ukrayinska Pravda, 31 March 2017, <http://www.eurointegration.com.ua/news/2017/03/31/7063870>.

³⁸ 80% of Russia's assistance to Italy is useless for fighting COVID-19 – La Stampa. – Ukrayinska Pravda, 26 March 2020, <https://www.eurointegration.com.ua/news/2020/03/26/7107990>.

Overall, the European community has demonstrated its solidarity with Ukraine, active support of its territorial integrity, independence and sovereignty. The EU (as well as other countries and international organisations): (a) did not recognise the annexation of Crimea, condemned Russia's intervention in Donbas; (b) provided financial and economic, technical assistance to Ukraine; (c) introduced different political and economic sanctions against Russia; (d) initiated multilateral negotiations to stop the war in Eastern Ukraine.

Active and consistent support for Ukraine was expressed by governing EU institutions – European Council, European Parliament, European Commission. In particular, in 2014-2019, the European Parliament has approved a number of resolutions requiring cessation of Russia's aggression, ensuring territorial integrity of Ukraine. At the same time, heads of state/government of EU members have been appealing to the international community with statements on supporting Ukraine.

Back on 1 September 2014, leaders of EU countries approved “Conclusions of the European Council on the Situation in Ukraine”, which decisively condemned “the illegal annexation of Crimea... infiltration of militants and weapons from the territory of Russia into Eastern Ukraine, and the aggression of Russia's armed forces towards the Ukrainian territory”.³⁹ Later on 10 June 2015, European Parliament approved Resolution “On the State of EU-Russia Relations”, which stressed that Russia can no longer be treated as, or considered, a ‘strategic partner’, and proposed to review the entire system of relations with Russia.⁴⁰ Also, as mentioned above, the joint statement of the 21st EU-Ukraine Summit (July 2019) emphasised EU's support of Ukraine and condemnation of Russian aggression.

Overall, throughout the Russia-Ukraine conflict, the EU has been providing active and consistent economic assistance and support for Ukraine. Brussels has provided a number of grant programmes, loans, credits, humanitarian assistance. Over the period of 2014-2018, total macrofinancial assistance of the EU to Ukraine was €3.3 bn.⁴¹ In July 2018, 4th €1-billion programme of macrofinancial assistance to Ukraine was started.

At the same time, the EU, other Western countries and a number of international organisations introduced sanctions against Russia, which cover three areas: (a) visa restrictions; (b) economic sanctions against Russia's oil, defence and financial sector companies;⁴² (c) restrictions concerning Crimea. Sanctions in these areas were approved in 2014, and were being

amended and expanded later. The first two blocks of sanctions are prolonged once every six months, and measures concerning Crimea – once a year. Thus, on 19 December 2019, the EU Council prolonged sanctions against certain sectors of Russian economy for another six months – until 31 July 2020.⁴³

For a long time sanctions against Russia have been a cornerstone of the complex of measures to influence this country's expansionist policy. They [sanctions] are intended not only to demonstrate certain values – as a signal of non-acceptance of Russia's actions in the international arena, but also serve a pragmatic function. Sanctions were meant to cause significant financial and economic losses in Russia and thus limit its possibilities to finance its aggressive actions, as well as to create dissatisfaction within the country making the leadership shift its focus to internal socioeconomic issues. However, analysis of statistical data that characterises the change of parameters of Russia's economic development in the past five years shows that initial predictions were only partially correct. **Overall, sanctions did not have the effect they were expected to have. Thus, they could not change Russian policy given the scale of their impact.**

On the one hand, Russia did spend major funds from its reserves to overcome the negative effects of international sanctions. Thus, resources of the Russian Reserve Fund, which, according to Russia's Ministry of Finance, as of 1 January 2014, were \$87.38 bn (3.9% of Russia's GDP), were completely exhausted by the end of 2017, which is why the Fund itself was liquidated through a merger with Russian National Wealth Fund (NWF).⁴⁴ At the same time, resources of NWF,⁴⁵ as of 1 January 2014, were \$88.63 bn (4% of Russia's GDP), and as of 1 January 2019 – \$58.1 bn. (3.7% of Russia's GDP). *So, as of early 2019, net government spending (balance of these funds' total expenditure and export earnings) for both of these funds was \$117.91 bn.*

Of course, there are no reasons to believe that all of these expenditures were fully used to offset losses caused by sanctions: there were other spending goals connected with the overall volatility of global economy and numerous internal, structural issues in Russia. Yet on the other hand, we cannot think that losses of Russian economy are tied only to losses of its state finances. The abovementioned financial losses of reserves are supplemented by general economic losses in the form of **slowdown in GDP growth**: according to newest data from Russian state statistics agency (Rosstat), index of the physical volume of GDP growth, which in 2012 was 103.7%, in 2014 – dropped to 100.7%, in 2015 – to 98%, and only after this drop started

³⁹ Conclusions of the European Council on the situation in Ukraine as of 1 September 2014. – Website of the Delegation of the EU to Ukraine, eeas.europa.eu/delegations/ukraine/press_corner/all_news/news/2014/2014_09_01_01_uk.htm.

⁴⁰ European Parliament urges not to consider Russia as a strategic partner. – *Telegraf*, 10 June 2015, <https://telegraf.com.ua/mir/europa/1927657-evroparlament-prizyvaet-ne-rassmatrivat-ri-kak-strategicheskogo-partnera.html>.

⁴¹ See: EU approves disbursement of €500 million in Macro-Financial Assistance to Ukraine. – Delegation of the European Union to Ukraine, 30 Nov 2018, https://eeas.europa.eu/delegations/ukraine/54726/eu-approves-disbursement-%E2%82%AC500-million-macrofinancial-assistance-ukraine_en.

⁴² In particular, EU sanctions apply to: Transneft, Gazprom Neft, Rosneft, Uralvagonzavod, Oboronprom, “Almaz – Antey” Air and Space Defence Corporation, Tula Arms Plant, Kalashnikov Concern, etc.

⁴³ EU prolonged sanctions against Russia by six months. – DW, 19 December 2019.

⁴⁴ Ministry of Finance of Russia. Reserve Fund. Statistics, <https://www.minfin.ru/ru/performance/reservefund/statistics/volume>.

⁴⁵ Ministry of Finance of Russia. National Wealth Fund. Statistics, <https://www.minfin.ru/ru/performance/nationalwealthfund/statistics>.

growing very slowly (along with increasing global oil prices) – to 102.5% in 2018, dropping again to 101.3% in 2019. These losses also include financial losses of private companies – both current and long-term, due to decreased competition potential connected with limited modernisation and innovations resources.

These huge losses happened in parallel with a certain increase of energy exports prices, which has allowed Russia **to largely offset the negative impact of sanctions on its economy and foreign economic potential**. Lately, we have been observing a trend of improving macroeconomic state in Russia, as evidenced by the following:⁴⁶

- *quick replenishment of the volume of the country's international reserves*, which shrank considerably from 2014 until mid-2015 – from \$509.6 bn to \$356 bn. Since 2017, there has been an obvious upward trend – to \$468.5 bn as of early 2019 and \$554.4 as of early 2020. Pay attention to a major increase of the share of highly liquid instruments in the structure of Russia's international reserves: while in early 2014 foreign cash and deposits made up 8.3%, and monetary gold – 9% of the total volume of international reserves, now their share has grown to 31.5% and 19.9%, respectively, while securities share dropped from 75.9% to 45.8% (by almost \$133 bn in total), which makes Russia's reserves noticeably better protected against possible financial sanctions of the West;

- *Russia's rather strong external payment position* – significant positive trade balance and overall current balance of payments, which according to the Bank of Russia in 2019 were \$163.1 bn and \$70.6 bn, respectively;

- *Russia's moderate, in comparison to many other countries, foreign debt*, which according to the Bank of Russia as of early 2014 was \$728.9 bn, as of 1 January 2018 – \$518.2 bn and decreased as of 1 January 2019 to \$454.7 bn (which was only 30.4% of the GDP); and even a slight increase of the debt during 2019 – to \$481.5 bn (as of 1 January 2020) was more a sign of an increased access to international funding necessary for development, rather than destabilisation of the country's external position. At the same time, note that the volume of external debt of Russian federal government agencies, which as of early 2014 was \$49.4 bn, and in two years (1 January 2016) reached a minimal mark of \$30.5 bn, kept growing since then and increased more than two-fold – to \$64.8 bn as of 1 October 2019, and \$69.3 bn as of 1 January 2020: i.e. the share of government agencies in external debt is growing – and this is not a positive sign, as it shows that *sanctions did limit the sources of external funding for a number of key Russian companies*;

- *recent major improvement of consolidated government budget balance*: in 2014 its deficit was 1.1%, and in 2018 – a surplus of 2.9% GDP was achieved; in 2019 (10 months) consolidated budget surplus

reached 13.9% of revenues. This *allows to increase funding for social spending and programmes without the threat of inflation surge*;

- *a definite trend of curbing inflation* (albeit inconsistent): consumer price index (December to December) in 2014 was 111.4%, and in 2018 – only 104.3%, although the trends of producer price index changes were reversed (2014 – 106.1%, 2018 – 111.9%). According to the latest data from the Bank of Russia, the 2019 number dropped to 103%.

At the same time, **a major flaw of Russia's macroeconomic state is rather slow pace of investment, and, consequently, economic growth**: average annual pace of Russia's GDP growth in 2011-2015 was 1.6%, investment growth – 4.5%, and in 2016-2018 – only 1.4% and 2.2%, respectively. Together with a slowdown of consumer demand caused by tight monetary policy and budgetary savings measures, this is becoming an issue for implementation of the country's development strategy. This is especially dangerous in the situation of fast changes in the structure of global economy caused by technological innovations, which are accelerating in the context of the Fourth Industrial Revolution.

While economic sanctions against Russia did cause major financial damage to the country, *they did not create the level of economic problems necessary to make Russia abandon its foreign policy course*. The current trend of improving macroeconomic balance (since 2017) on the one hand, and the recovering volume of trade and investment in the EU-Russia relations indicate the increasing adjustment of Russia's economy to the sanctions and the start of their erosion.

Thus, summarising the above, note the following important moments. First, foreign economic assistance tends to be limited and to decrease due to many reasons, foremost, due to the global COVID-19 pandemic, the economic consequences of which are hard to predict at the moment. Thus, Ukraine must mainly rely on itself.

Second, Western sanctions have an important "detering" effect, which Kremlin leadership cannot ignore. However, over the period of almost six years, Western sanctions failed to significantly change either the character of Kremlin's aggressive foreign policy, or the situation in Eastern Ukraine. Yet it is clearly important that the EU and other countries maintain solidarity in their policy towards Russia – in particular "holding the sanctions front" against Russia, as cancellation (weakening) of sanctions in the current situation will be taken by Kremlin as weakness on the part of the West and encouragement to active actions.

⁴⁶ Ministry of Finance of Russia. National Wealth Fund. Statistics, <https://www.minfin.ru/ru/performance/nationalwealthfund/statistics>; Summary of Consolidated Budget Performance of the Russian Federation, <https://www.minfin.ru/ru/statistics/conbud>; Russian Statistical Yearbook: Statistical Compendium 2017-2019, electronic version, <https://gks.ru/folder/210/document/12994>; Bank of Russia external sector statistics, http://www.cbr.ru/statistics/macro_itm/svs.

UKRAINE'S PATH TO THE EU: PROBLEMS, ACHIEVEMENTS, OBSTACLES

Round table by correspondence of the Razumkov Centre, held in December 2019 as part of Razumkov Centre project "Ukraine's European Integration: The Russian Factor", focused on two interconnected issues. First, in their discussion, experts evaluated Ukraine's problems, difficulties and achievements on its path towards European integration, analysed internal and external factors that influence cooperation with the EU. They also described government policy in relations with Europe. At the same time, prospects of Kyiv-Brussels cooperation were outlined.

Second, experts talked about goals, nature and specific details of Russia's influence on Ukraine's European integration. Note that Moscow's resistance to Kyiv's European integration efforts started much earlier than the annexation of Crimea and Russia's military aggression in Eastern Ukraine, and motives of this resistance are clear – Russia wants to establish imperial influence and control over its "zone of privileged interests", reintegrate post-Soviet space according to Kremlin's play-book and under its leadership.

Interestingly, round table participants' attitudes towards issues of Ukraine's integration in the EU were slightly different, while their thoughts and attitudes regarding Russia's influence on Ukraine's movement towards the EU were almost identical. So, Russian leadership perceives Ukraine's European integration as a challenge and a threat and is trying to prevent the deepening of contacts between Ukraine and the EU using various means of pressure – from fake information to military intervention.

Materials of this discussion by correspondence give an idea about the nature and prospects of Kyiv-Brussels cooperation, specific aspects of Russia's influence, and, to a certain degree, about the complex, controversial situation in the notional Ukraine-EU-Russia "triangle".

OUR GOAL: BUILDING A STRONG, SUCCESSFUL EUROPEAN EU MEMBER STATE



Dmytro KULEBA,
Vice Prime Minister
for European
and Euro-Atlantic
Integration of Ukraine

– What is the strongest obstacle to Ukraine's movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

In order to move forward quickly and effectively, it is important to have a clear goal and mobilise all available resources to achieve it. We know our goal: building a strong, successful European EU member state, deeply integrated into Europe's economic, energy, digital, legal and cultural space.

This Government's fundamental position is: instead of setting intangible dates of EU accession, Ukraine needs to accelerate the development and adoption of legislation that introduces European standards and practices in all sectors of Ukraine's society.

Government Action Programme for the next five years talks not just about implementation of the EU Association Agreement, but specifically about achieving economic benchmarks set for EU accession candidates (the so-called Copenhagen criteria).

Since the first day of Government operation, in close cooperation with the Verkhovna Rada, we were able to accelerate the adoption of a number of important laws. Some of these laws were gathering dust in parliamentary offices for many years. Indeed, they posed a threat of ruining different "schemes", contradicted the interests of separate groups that desired to maintain the *status quo*. Inner political balancing acts, as well as the absence of real effective cooperation between Government and Parliament, between individual ministries, were slowing down our integration progress for years. My experience of the first months of work clearly showed that both Parliament and ministries realise their joint responsibility for efficient implementation of the Association Agreement.

Ukraine's progress was positively assessed by European partners. EU summary Report on Implementation of the Association Agreement between Ukraine and the European Union in 2019 acknowledges the "fast progress of reforms" achieved by the new Government and Parliament. We highly appreciate the EU's dedication to supporting Ukrainian reforms with "all political, financial and technical means"; we also expect 2020 to be more ambitious and productive in deepening our integration.

European integration is always a two-way street, so its success also depends on EU's support and readiness to move further. The experience of introducing visa liberalisation regime showed the potential of EU's effectiveness in reform stimulation in the presence of clear requirements and the ultimate goal. At the same time, stalling and indecisiveness on the part of the EU could weaken reform efforts. This is why in our dialogue with EU partners we are consistently talking about the necessity of developing a strategic vision for the EU-Ukraine dialogue, as well as EU's regular involvement in the implementation and monitoring of implemented reforms.

What are our current priorities? We have started working on updating the Association Agreement in line with the latest EU legislation changes and the current state of the bilateral cooperation. We have also defined the ways of deepening our sectoral integration in key areas, namely: digital market, energy, justice, freedom and security, customs. An important step is signing the "Agreement on Conformity Assessment and Acceptance of Industrial Products" (ACAA Agreement). Ukraine has adopted all the necessary laws, we are waiting on the EU assessment mission. Signing this Agreement will allow Ukraine to gradually expand the list of industrial products to be exported to the EU under a simplified procedure, without additional conformity assessment.

We have set European integration as a clear priority in the work of the Government, however, this is not enough. I believe that in order to be successful, government's European integration policy has to be transparent, accountable and comprehensible to citizens. We changed it to fit these characteristics. Since 2017, we have an online monitoring system "Agreement Pulse", which is tracking Ukraine's progress in Association Agreement implementation. This system used to be closed, available only to government employees. At the Government "European integration session" on 20 November, we opened "Agreement Pulse" for general public. Now any citizen can view the decisions the government has to approve to implement European standards in 24 areas of society's life.

Of course, transformations of this scale are a great challenge for the country. We see the "old" system resist change, ignore innovations, attempt to preserve the *status quo*. This is why it is particularly important to maintain the high pace of reforms and prevent our antagonists from slowing them down. Communications are key in this process. European integration as the country's modernisation plan and, at the same time, process that

opens numerous possibilities has to become closer and more comprehensible for Ukrainian citizens.

Setting up regional European integration offices will be an important step in this direction. These offices are meant to become a space where residents will be able to get comprehensive information on European integration and new opportunities that it provides. This includes consultations for entrepreneurs who wish to export their products to the EU (or find business partners in the EU), as well as information about EU grants, student exchanges and different programmes for civic activists, scientists, artists. In a way, a "decentralisation" of European integration.

Another important task – building institutional capacity. Apart from financial resources, we need to think about human resources. The more Ukraine integrates in the EU, the higher will be its need for specialists who are able to speak a common language with their European colleagues. We have already agreed on trainings for Ukrainian government employees at the College of Europe; we are conducting negotiations on introducing internships for government employees in EU institutions (EC, European Parliament, etc.), as well as exchange programmes for local government representatives. Thus, step by step, we are working on bringing up a new generation of government managers, who are not just knowledgeable in EU law and procedures, but are integrated into Europe's professional network. However, without a European update of the settings of Ukrainian education, we will not be able to integrate in the EU. Large-scale training of specialists should happen at home.

So, in order for our plans to succeed, Ukraine and the EU have to be ambitious, consistent and persistent. We have to walk this road together.

– In what way does the Russian factor influence Ukraine's European integration? What are the forms and means of this influence?

First of all, I would like to note that Russia's efforts to block Ukraine's movement towards the West are currently having the opposite effect – consolidation of Ukrainian elites and society around the country's strategic course towards EU and NATO integration. In the aftermath of the parliamentary elections, we have a clear pro-European majority in the Parliament and a Government of reform-makers dedicated to Ukraine's European choice.

At the same time, using different instruments, from "natural gas blackmail" to military aggression, Kremlin is raising the price Ukraine has to pay for the possibility to live in a free, European state. Aggression is drawing away the resources that could be invested in the country's development and modernisation. According to data of the Ministry of Economic Development, Trade and Agriculture, direct losses of Ukraine's economy in 2014-2015 were 15-20% of its GDP. Overall losses were from \$50 bn to \$150 bn.

Information threats are a separate story. Assessing the Russian factor, we need to remember one key aspect: Russia cannot offer any sustainable alternative to the European path. The idea of the imaginary "Russian

World”, where a person is just a cog in a machine, failed even in regions where pro-Russian sentiment was traditionally stronger. Numerous surveys and focus groups demonstrate that Ukrainian citizens positively perceive the EU as a community of successful states with high standard of living, protected human rights and freedoms (despite Russian propaganda!). A percentage of Ukrainians, however, have doubts as to Ukraine’s ability to achieve these standards, its chances of being accepted in the European family. Russia and its supporters are actively fuelling these doubts. We have to account for these information threats, which could potentially ruin the foundation of our European integration.

Russia’s “Russian World” myth was aimed not only at domestic consumers. The idea that Ukraine is a part of Russia’s area of influence, a part of some imaginary Russian civilisation is creating invisible but tangible barriers to our successful EU integration.

Ukraine’s vulnerable spot is its image, given that for many Western countries it is still an unfamiliar, post-Soviet state. Just google “corruption” and “Ukraine” and you will get lots of links. Clearly, Ukraine is not the most corrupt country in the world. Yet, such perception exists. Note that only in a couple of months, we have achieved significant progress in limiting opportunities for corruption.

However, this corrupt state “brand”, which lately has been surfacing and resurfacing before the public eye, makes it more difficult for Ukraine to enter the European space. It undermines investors’ and potential partners’ trust in us. On many occasions I have learnt personally that the lack of knowledge about Ukraine is what nourishes these negative stereotypes, so our only option are regular communications aimed at ruining mental barriers between the EU and Ukraine. ■

EU DOES NOT NEED WEAK, CONTROLLED UKRAINE, WHICH IS THE GOAL MOSCOW IS TRYING TO ACHIEVE



Serhiy KORSUNSKY,
Director of the Hennadii
Udovenko Diplomatic
Academy at the
MFA of Ukraine

– What are the obstacles to Ukraine’s movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

Ukraine’s movement towards the EU is obstructed by a whole range of internal and external factors, including the following. **Firstly, from the very introduction of the idea of Ukraine’s future membership in the European Union, this idea was being used by political powers**

inside Ukraine not to bring forces together around a common goal, but as a tool to achieve their own political goals, like winning the election, pressuring Russia, gaining investment resources and extensive assistance. Only a small portion of the elites, who truly believed (and still believe) in the European project, essentially being the minority, still kept advancing the idea of European integration, implementing the necessary steps “from the top” and thus ensuring Ukraine keeps to its obligations.

That said, for a long time (actually, until 2014), people at large remained passive observers. We need to admit that there was no honest dialogue in the society regarding Ukraine’s European future, advantages and limitations that came with the EU membership. Instead, government chose to make symbolic steps and attempted to pressure Brussels to make a statement about what was already written in EU’s core documents – membership prospects.

After 2014, the situation changed for the better, however, even after the Revolution of Dignity, government failed to organise systemic work on the implementation of agreements concluded with the EU. The most obvious was the lack of professional steps to implement the Deep and Comprehensive Free Trade Area as part of the Association Agreement, which resulted in a sharp deterioration of trade balance in 2016-2019. Yes, Ukraine’s exports to the EU have significantly grown, but EU imports to Ukraine have grown much quicker.

The Government that has spent major resources on pro-European rhetoric has taken almost no steps to prevent this scenario, i.e. create conditions for attracting investment and building import-substituting production companies in Ukraine. **Also, under previous government, Ukraine failed to organise systemic work on implementation of European norms, adaptation of legislation, harmonisation of standards and rules with EU norms** (with the exception of parts of the agricultural products nomenclature).

Instead, European integration course was enshrined in the Constitution, which was a purely populist step and in no way influenced the real approximation with the EU. Reforms and steps aimed at overcoming corruption were implemented not because it was useful for the Ukrainian society, but because it was required for visa liberalisation, which was meant to bring additional votes in the presidential election. However, despite all the positive aspects of visa liberalisation, only a small portion of Ukrainian population was able to benefit from it, as the rest simply do not have sufficient resources.

Secondly, the system of government policy implementation in the sector of European integration proved inefficient. The new positions of deputy ministers on European and Euro-Atlantic integration, as well as corresponding offices in government agencies were effective only in part. In most cases, their efficiency was close to zero. Efforts to “launch” legal mechanisms to combat corruption, unlawful

enrichment, and stop oligarchic influence on economy and politics also proved futile. Society even started a debate on the efficiency of use of financial and technical assistance that was being provided by the EU all those years.

Thirdly, we need to realistically acknowledge that key EU member states do not have a single position as to Ukraine's future membership. Even simple declarations regarding this matter have been excluded from the text of the Association Agreement. On the contrary, a number of EU member states' leaders voiced clear messages about the impossibility of Ukraine's EU membership; searching for alternative "integration models" similar to "Eastern Partnership" (the structure of which was questionable from the very beginning) became a usual practice. It is unclear, how Ukraine and Georgia on the one hand, and Belarus and Armenia – on the other, can be participants of the same integration project, which requires major reform efforts from member states both on the government and public level.

It is premature to talk about achievements of the new Ukrainian government in the context of European integration due to change of EC members and head, as well as due to the fact that new Ukrainian leadership and Government are focused on the Donbas issue. We should hardly expect any systemic changes except negotiations on trade issues (Ukrainian government announced its intention to support an increase of export quotas) and discussions of the new "Eastern Partnership" format. It is obvious that France's tough stance on the future EU enlargement will not help increase Ukrainian population's support for European integration. A generally positive dialogue with the European Commission is taking place in the "natural gas" sector, but this process is not complete yet.

– In what way does the Russian factor influence Ukraine's European integration? What are the forms and means of this influence?

The Russian factor is among key adverse factors that influence Ukraine's European integration. For Putin's regime, European and Euro-Atlantic integration of Ukraine is an unacceptable development. Political (through agents of influence) and economic (through trade blockade, gas prices manipulations) destabilisation of Ukrainian economy has always been a useful tool to achieve Russia's goal – bring Ukraine back into Russia's zone of influence.

Direct aggression, annexation of Crimea and occupation of a part of Donetsk and Luhansk oblasts became the height of these efforts. For Russian leadership, Ukraine's success in the context of European integration (just as visa liberalisation) will be a humiliation, a demonstration of availability of a path different from submission to Kremlin's autocratic regime.

Russia is using two main mechanisms of influence: passive and active.

The passive one uses media to magnify Ukrainian government's mistakes, negative experience of European integration, examples of EU's "interference" (according

to Russia) in Ukraine's internal affairs. The same technology is used to dramatise the negative (according to Moscow) features of "Europeanness" for internal consumers in Russia and its close neighbours. Any political unrest, conflicts, separatist movements, issues of sexual minorities and refugees are exploited by Russian government's TV channels to create a negative image of Europe everywhere where Russian TV channels are available.

Active measures include using a broad range of political and economic instruments to slow down, if not completely stop, Ukraine's European integration. For instance, financial and ideological support of pro-Russian movements, special operations including murder, assault of important political figures, antisemitic steps, attacks against LGBT activists, fuelling of ethnic issues, including language, etc.

Every negative example of Ukraine's "non-Europeanness", every mistake of government agencies are being used to build a negative image of Ukraine in the EU, and spread the idea of "Europe not needing Ukraine" among Ukrainians. This is confirmed by numerous speeches of Russian officials at international conferences and events, both academic and official.

Obviously, economic strangling of Ukraine is also aimed at curbing our European integration. Just look at the special operation of building gas pipelines bypassing Ukraine – it not only deprives Ukraine of a major share of foreign currency income, but also critically diminishes EU's interest in Ukraine.

Unfortunately, after gaining independence, Ukraine lost several chances to involve the EU in management of its gas transportation system, and current efficient steps towards unbundling, implementation of European legislation, etc. may prove belated.

The same goes for coupling and synchronisation of electricity networks (we are still purchasing electricity from the Russian Federation), creating joint productions with EU companies on Ukraine's territory, attraction and protection of foreign investment.

Strong government attracts investors, and Kremlin's special guarantees help direct these investments to Russia, instead of Ukraine – this goes for German, French, US investments. Over the past years, this process has intensified, despite sanctions.

The oligarchic structure of Ukraine's economy, lack of legal mechanisms of protection against raiders and corruption, nullify all the encouragement for European partners to invest resources in Ukraine. In this situation, European integration will remain nothing but a political slogan, instead of real policy. Also, we should expect a strengthening of arguments in favour of integration with Eurasian Economic Union (i.e. a return to 2013 rhetoric), obstacles to resolution of conflict in Eastern Ukraine, demonstrative refusal to even discuss the issue of annexation of Crimea. **The EU does not need a weak, controlled Ukraine, which is the goal Moscow is trying to achieve.** ■

EUROPEAN INTEGRATION IS A LONG PROCESS THAT DOES NOT TOLERATE DOG AND PONY SHOWS



**Ivanna
KLYMPUSH-TSINTSADZE,**
Chairwoman of the
Verkhovna Rada
Committee on Ukraine's
Integration with
the European Union

– What is the strongest obstacle to Ukraine's movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

Ukraine's movement to the EU is mostly obstructed by institutional weakness, government's ignorance and populism. Talking about institutional capacity I mean, foremost, effective, adequately trained specialists in central and local executive government agencies, as well as in Parliament. Current government's desire to centralise power and its neglect of democratic procedures for the sake of political expediency move us further away from building strong institutions. The responsible thing would be to admit that there are no easy solutions for complicated problems. European integration is a long process that does not tolerate dog and pony shows.

The only achievement of the current government is the adoption of a number of European integration bills in economic sector. However, these bills have been prepared by the previous Parliament and Government. Meanwhile, proposals for the updated parliamentary-governmental roadmap for legislative framework of Association Agreement implementation sent by the Government contain bills that are in conflict with our European integration obligations. Most disturbing is the disregard for basic principles of EU operation, which are even more important that trade with it. I mean democracy, citizen rights and freedoms, rule of law. Scaling back decentralisation, offensive against independence of the judiciary, wrecking the public service reform for the benefit of political reboot, non-compliance with parliamentary procedures and destruction of parliamentarism in the parliamentary-presidential republic – all of these move us further away from the EU.

Unfortunately, powers and capacities of the Committee on Ukraine's integration in the EU remain weak. I say "in the EU", yet officially, this is the Committee on Ukraine's integration with the EU – do you feel the difference? Even in such seemingly small details we see a lack of understanding or desire to understand the essence of European integration and its ultimate goal. Talking about the Committee's work, I can say that its conclusions on conformity of Ukraine's bills with the Association Agreement and EU law are often ignored during voting in the session hall. This would be unimaginable for instance in Poland or Lithuania at the time of their EU integration.

Also, the limited number of employees in Committee's secretariat are simply physically unable to process all bills produced in the high-speed mode by the so-called mono-majority. Begrudgingly and after three months of requests, the respective Vice Prime Minister has finally approved the Government Office for European and Euro-Atlantic Integration to restore its practice of sharing its conclusions on bills with us. Lack of effective parliamentary-government communications for sure does not benefit our cause.

Also, the new government has essentially brought interparliamentary cooperation down to zero; it does not understand the importance of parliamentary diplomacy tools. On 19-18 December 2019, the tenth meeting of the EU-Ukraine Parliamentary Association Committee was held in Strasbourg – the first one for the members of the new European Parliament and new Verkhovna Rada. Ukrainian part of the PAC consists of 16 MPs, nine of whom represent the ruling party – Servant of the People. The Strasbourg meeting was attended only by two Servant of the People MPs and only after my, to put it mildly, insisting and explaining to the head of their faction how important PAC is for Ukraine as the main interparliamentary instrument of Association Agreement implementation.

Talking about simpler practical things, I am shocked by boldness, with which the majority pushed through the so-called "Herus amendment" on the permission to import electricity from the Russian Federation, which however was cancelled later under public pressure, yet was substituted with something not much better – provisions on importing electricity from energy deficient Belarus. To say nothing of the moral side of purchasing electricity from Russia at the time of war. We also have an updated Annex XXVII (Energy) to the Association Agreement, which prohibits the enactment of any regulatory acts without consultations with the European Commission on the compliance of these acts with the Association Agreement and the EU law. Compliance with these requirements ensures our integration into EU's single energy markets, non-compliance – pushes us towards energy dependence on Kremlin. Government did not hold the required consultations with the EC prior to voting on "Herus amendments", and all of my appeals and requests to stop were ignored by the majority.

– In what way does the Russian factor influence Ukraine's European integration? What is the overview, as well as forms and means of this influence?

Foremost, this is military aggression, which is exhausting us economically, slowing down reforms. Russia is using hybrid measures, which include different components. Pro-Russian forces in the Parliament (and as of recently, there are reasons to suspect their presence in other branches of power as well) impede the implementation of pro-European reforms, in particular, Ukraine's integration in EU's single energy markets, which I've already mentioned. Russia's information war against Ukraine is also doing major harm. Kremlin's narratives are aimed against European values, they undermine Ukraine's progress from inside, distort its image abroad and also destroy the EU from within.

There are media in Ukraine, which are spreading these narratives, there are numerous “experts”, whose goal is to spread despair and chaos, promote Putin’s idea that Ukraine is incapable as a state, that we will not “happen” without Russia, in particular, without its “cheap” gas. Kremlin propaganda and influence agents work in EU countries in a similar way. A telling example of their efforts’ success was the Dutch referendum on ratification of the Association Agreement. Later, there appeared proof that many of those, who campaigned against ratification posing as Ukrainian citizens turned out to be Russian citizens. Such examples are numerous, including attempts to ruin our relations with our Western neighbours through provocations, as was the case with Poland and Hungary. Also, Russia is financing radical forces in EU countries aiming to destabilise the EU from within, spread Euroscepticism, so-called “traditional values”, etc. All of this creates complications for our European integration, EU’s internal situation, pushing EU support for Ukraine to the background.

Russia is “expanding” political cracks inside European countries and between them, takes full advantage of problem issues. A strong example is the incitement of hatred of migrants by Russian propagandists. Along with this, Kremlin is spending huge amounts of money to support businessmen, “journalists” and “experts” loyal to Russia and interested in cooperation with it. These agents of influence are advancing the idea of dialogue with Russia in the EU, return to “business as usual” with Russia as the only alternative. Of course, this is supplemented with defamation of Ukraine, which has to make Europeans think that they should not help Ukraine to the disadvantage of their economic interests.

Russia’s actions in Ukraine are even more aggressive, as here it has a wider network of collaborators and more nourishing post-Soviet ground to push its narratives. It is using natural gas as a weapon yet again and will be doing all it can to relaunch its direct supplies. At first, Ukraine will get baited with some “discount” or an unlikely “guarantee”, then, when we are hooked, Russia will start to tighten the noose on our neck. We have already seen this scenario many times.

Besides this, Russia has other economic “hybrid warfare” tools: complicating and then deterring our exports to our usual markets in Central Asia, maritime blockade to destroy the economics of Azov region, etc. ■



RUSSIA IS THE MAIN EXTERNAL BARRIER TO UKRAINE'S EUROPEAN AND EURO-ATLANTIC INTEGRATION COURSE



Volodymyr OHRYZKO,
 Former Minister
 of Foreign Affairs
 of Ukraine (2007-2009),
 Head of Centre
 for Russian Studies

– What is the strongest obstacle to Ukraine’s movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

Ukraine’s EU and NATO membership is captured as a priority in the Constitution, thus, it has to be the focus of attention in the work of both legislative and executive government. I’d like to recognise the achievements of the previous government, which despite the aggression launched by Russia against Ukraine and great economic damage, managed to not only stabilise the situation inside the country, but also continue the country’s consistent progress towards EU and NATO.

Overall, Ukraine was adequately implementing provisions of the EU-Ukraine Association Agreement. The new leadership has to continue, deepen and accelerate this process. It has to make an unambiguous demonstration of its political will.

At the same time, on the way to achieving Ukraine’s European and Euro-Atlantic goals there are a number of obstacles that the current government has to overcome. Otherwise, Ukraine will not be able to get out of the vicious circle, in which it has been stuck for 28 years.

The first obstacle is oligocracy. This is a symbiosis of oligarchic economy, which is strangling Ukraine’s fast economic development, with a political system dependent on oligarchs, which is essentially servicing private corporate and financial interests of the latter. Without the destruction of this system, there is no hope for successful European integration.

The second similarly serious obstacle, which is objectively tied to the first one and is its logical consequence, is corruption. Although corruption is not a Ukrainian invention, the destruction it causes in Ukraine has reached a particularly dangerous level. Reducing the influence of corruption on economic and political processes in Ukraine is one of the most important prerequisites to successful progress towards achieving EU and NATO membership criteria. The new government has to demonstrate in action that fighting corruption on all social levels is its primary goal.

Talking about external factors, position of certain EU member states, which do not wish to provide membership prospects for Ukraine, at least in the medium term, is a major demotivator for Ukrainians. This is political shortsightedness, unwillingness to look at Europe's problems systemically and strategically. Without Ukraine, as well as without Moldova and Georgia, and in the long term – Belarus, European project will not be complete. This situation will be causing tensions and instability on Eastern borders of political Europe, taking into account Russia's desire to destabilise its close neighbours, as well as the EU in general.

Today, Russia is not only a major external barrier to Ukraine's European and Euro-Atlantic integration, but also the main threat to its existence as such. Successful, democratic, peaceful and prosperous Ukraine is the most dangerous challenge for the current Kremlin regime. That is why it is ready even to turn to crime in the form of military aggression and occupation of Crimea and certain parts of Donbas in order to counter Ukraine's European integration.

At the moment, it is premature to talk about achievements or failures of the new government. It is important that it demonstrates presence of political will to deal with external and internal challenges Ukraine faces on its way towards NATO and the EU.

– In what way does the Russian factor influence Ukraine's European integration? What are the forms and means of this influence?

Russia employs all of its armoury to counter Ukraine's progress. While in the past, it mostly meant economic pressure and different economic and energy wars, latest history demonstrated that Kremlin would not stop at anything in its expansionist policy, even at launching a full military aggression. For the first time since WWII, Russia is trying to take control of a part of another state, which blatantly violates the foundations of international law and undermines both European and global security.

A "hybrid war" has been launched against Ukraine, which includes, but is not limited to, attempting to discredit our political leadership, imposing Russia's formulas to settle the consequences of Russian military aggression in Donbas, attempting to take the issue of Crimea out of the equation, continuing to exert economic pressure and blackmail, a powerful defamation campaign by the Kremlin-controlled propagandistic media, etc.

"Appeasement of the aggressor" instead of "punishment for committed crimes" only incentivises Russia to commit new crimes. It has to become a priority of Ukraine's foreign policy to communicate the fallacy and danger of such policy to Western partners. The keys to liberation of Donbas and de-occupation of Crimea are in Kyiv, Brussels, Berlin, Paris, Washington and other Western capitals. Not in Moscow. Forcing Russia into peace has to become the priority on the agenda of civilised world, if it wishes to ensure its safe future. ■

A KEY GOAL OF RUSSIAN AGGRESSION IS BLOCKING UKRAINE'S ACCESSION TO EU AND NATO



Volodymyr FESENKO,
Chairman of the Board,
Centre for Applied Political
Studies "Penta"

– What is the strongest obstacle to Ukraine's movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

The main and defining obstacle on Ukraine's path towards the EU is the lack of political will in the EU itself regarding Ukraine's European future. This situation is similar to Turkey's circumstances. Turkey has been in this situation for over 50 years. This should be a lesson for us.

What defines such attitude to us (and earlier, to Turkey)? **First of all**, the size of the country and, in our case, also the scale of our current problems. Brussels fears that it will be very difficult and extremely risky to "digest" (politically, economically, socioculturally) such large countries. In particular, this also means a lot of money necessary to integrate such countries into the EU. In Turkey's case, there is also the feeling of "non-Europeanness" of the country, its belonging to a different civilisation. To a certain extent, although much less, this also concerns Ukraine, at least for some European politicians and officials.

Fatigue and experience of different problematic consequences in the "old" EU countries from Eastern enlargement in the 2000s also exacerbates the negative attitudes among European politicians regarding a new wave of enlargement. This sentiment is supported by major internal problems in the EU (from migrant crisis to Brexit).

The second critical obstacle on the way to Ukraine's European integration is Russian aggression and war in Donbas, which have been going on since 2014. As long as the East of Ukraine is in the grip of military activities, it is unlikely that the EU will consider our country as a potential member. Hardly anyone in the EU will want to "import" (or "integrate") this conflict into their community.

Third, Ukraine's movement to the EU is impeded by a whole range of internal problems: low level of socioeconomic development (currently, we are one of the poorest countries on the European continent), underdevelopment and extremely poor state of infrastructure, high level of corruption, which, among other things, also distorts our judiciary.

After the new President's six months in office, and new Parliament's and Government's 100 days – it is too early to speak about major successes and failures of the new Ukrainian government in European integration.

The first and most important achievement is preservation of European integration course, and structural reforms aimed at creating conditions for further EU accession. Volodymyr Zelensky's first foreign visit was to Brussels, where he met with EU and NATO leaders. Already at that point, parties confirmed the inalterability of Ukraine's European integration course.

It was confirmed one more time on 8 July, at the 21st EU-Ukraine Summit in Kyiv. Following the summit, a Joint Statement and five agreements were signed.

During formation of the new Government at the end of August 2019, the country's leadership preserved the post of Vice Prime Minister for European Integration, which was taken by a well-known diplomat D.Kuleba. He was rather active in this office. Namely, European and Euro-Atlantic integration was not simply mentioned in the new Government's Action Programme, but had a separate section dedicated to it. Vice Prime Minister for European Integration got the right to submit bills for the Cabinet of Ministers' consideration.

On 20 November 2019, the Cabinet of Ministers held a special open meeting (with participation of the Head of the EU Delegation to Ukraine, MPs) dedicated to issues of Ukraine's European integration. At this meeting, the Government adopted 16 documents in the sector of European integration, in particular, introduced changes to the Action Plan on Implementation of the EU-Ukraine Association Agreement.

The updated Action Plan accounts for the deepening of bilateral relations between Ukraine and the EU and aims to achieve goals of Government Action Programme, namely, achieving Ukraine's compliance with EU membership criteria. Also, the Cabinet of Ministers opened Agreement Pulse for public, which is an online system for monitoring the completion of tasks towards EU Association Agreement implementation. Ukraine also started implementation of a pilot project of Regional Development Agency "Office of European Integration" in Kherson oblast. It is planned to create such agencies in different parts of the country.

Both Vice Prime Minister for European Integration and the Government are now mostly focused not on pompous statements, but on pragmatic issues, in particular, advancing industrial liberalisation, improving trading conditions for Ukrainian business in relations with the EU, establishing and developing relations with new EU leadership, in particular, the new composition of the European Commission.

There have been no major issues on Ukraine's European integration path since government change. Most issues are the same as previously and include traditional troubles, or specific issues of concern connected with certain decisions of individual government institutions. For instance, G7 ambassadors and EU Delegation to Ukraine

had remarks about certain provisions of the so-called new Law of Ukraine on the judicial reform.¹ On 13 December 2019, the European Union published its annual report on Association Agreement implementation by Ukraine. The document outlines key issues in the actions of the new Ukrainian authorities: SBU reform, which contradicts recommendations of Western partners; lack of action against organised crime; new violations of free trade rules; problematic copyright bills. However, overall, EU's annual report contains mostly positive assessments of new Ukrainian government's actions towards implementation of the Association Agreement and completion of structural reforms. This year, the EU report on Association Agreement implementation is more positive and optimistic than in previous years.

– In what way does the Russian factor influence Ukraine's European integration? What are the forms and means of this influence?

Obviously, the Russian factor has adverse influence on Ukraine's European integration. This is foremost connected with the fact that Russia views post-Soviet space as its area of influence. Russia is interested in weakening its geopolitical and ideological competition, namely, the EU and NATO, and is trying to block any forms of either NATO or EU enlargement, especially in the Eastern direction – the post-Soviet space. Talking about potential NATO and EU enlargement in the post-Soviet space, Russia can resort to drastically aggressive actions, which Ukraine has learnt the hard way.

At the moment, Russia's main instrument of preventing Ukraine's integration is the military-political conflict in Donbas. A key goal of Russian aggression against Ukraine is to block the very possibility of Ukraine's accession to the EU and NATO. As long as there is military activity in the East of our country, probability of Ukraine's successful EU and NATO integration remains very low. Russian experts, who I regularly meet at different international conferences abroad, talk about this frankly (although, off-the-record). They are not hiding that stopping the Donbas war is not to Russia's advantage specifically because it is Russia's way of blocking Ukraine's progress towards the EU and NATO.

In the past years, Russia has been actively working to weaken the EU from within, intensify contradictions between member states and different political camps in the EU. As noted above, this is a separate, independent goal of Russian politics regarding the EU, but it is also used against Ukraine's European integration. In particular, it is used to promote EU's new agenda – the need to focus on solving internal problems, suspending any new enlargements of the EU.

In order to weaken the EU from within different instruments are being used: financial and other types of support for various populist and anti-European political

¹ Law "On Amending Certain Laws of Ukraine Regarding Activity of Judicial Governance Bodies", which provides for amendments to the laws "On the Judiciary and Status of Judges", "On the Cleansing of the Power" and "On the High Council of Justice".

forces (from far-right to far-left and the so-called new anti-system parties); interference with elections (as well as referendums, such as Brexit) and internal political processes in individual EU countries; formation and expansion of pro-Russian lobby within Europe's political elites, business environment, mass media and public sector; use of energy levers (projects like Nord Stream, Turkish Stream); direct Russian propaganda (through own media such as Russia Today) and indirect information campaigns (through global and European media, social networks); active diplomatic play using contradictions between individual EU members; provoking a variety of sociopolitical problems (or contributing to their aggravation) that create crisis situations and dramatic contradictions within the EU (e.g. migrant crisis, separatist movements in individual countries); economic sanctions against European countries; intelligence operations and cyberattacks.

All these instruments are also being used with various levels of intensity to prevent Ukraine's European integration; also they are sometimes combined. A telling example was the initiation of a Dutch referendum on ratification of EU-Ukraine Association Agreement. This referendum was initiated by a group of Eurosceptical activists and took place on 6 April 2016. Politicians with Eurosceptical and pro-Russian views urged people to vote against ratification of this Agreement.

The combination of Euroscepticism and the liking of Russia in the actions of some politicians and political forces is a typical trend in many EU countries. There was a powerful information and advertising campaign in the Netherlands against ratification of the EU-Ukraine Association Agreement. Already after the referendum (in February 2017), the New York Times published results of its own investigation, which showed that Russia a key player in the Dutch referendum, and that Russians acted together with representatives of Eurosceptical parties. 61% of voters who took part in the referendum voted against agreement approval. As a result of the Dutch referendum, the EU had to look for tough compromises to ultimately ratify the Association Agreement. This story demonstrated that Russia can effectively use Eurosceptics in some EU countries to slow down Ukraine's EU integration.

To prevent Ukraine's integration into the EU and NATO, Russia also exploits certain problems in Ukraine's relations with some of its neighbours that are EU member states. Thus, in 2017-2018, Russia was actively fuelling and using for propaganda the discussion between Ukraine on the one side and Poland, Romania and Hungary on the other – regarding certain provisions of the new Law of Ukraine on education. Later, a similar situation developed regarding the new language Law.

Russian leadership's special relations with some of EU countries' leaders can also be used against Ukraine. This showed rather strongly in the situation with Hungary's Prime Minister Viktor Orban and Czech Republic President Milos Zeman, who allowed

themselves unfriendly statements and steps towards Ukraine.

Ukrainian diplomats have to account for all of these instruments used by Russia to obstruct Ukraine's European integration, search for and use opportunities to neutralise or minimise their influence. This must be done jointly with our European friends. Then such actions will be more efficient. ■

PROMOTE EUROPEAN NORMS, RULES AND BEST PRACTICES IN ALL SECTORS OF OUR COUNTRY'S LIFE



Kostiantyn KONONENKO,
Deputy Director
of the National Institute
for Strategic Studies

– What is the strongest obstacle to Ukraine's movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

Unfortunately, the strongest obstacles to Ukraine's integration into the EU are still the slow pace and low quality of implementation of European integration tasks by Ukrainian government agencies. This goes foremost for the implementation of Association Agreement obligations, as this is Ukraine's basic European integration document that defines the political and legal framework for reforms and institutional transformations in our country necessary for its future membership in the EU.

According to data in the latest annual report of the Government Office for Coordination of European and Euro-Atlantic Integration,² the overall completion of Association Agreement tasks in 2014-2018 was 42% (of all measures foreseen in the Agreement). Summarising completion of tasks planned for 2018, only half of the Agreement was implemented (52%). At the same time, according to public sector assessment, the situation with Agreement implementation is even more critical: the progress of implementation of Agreement obligations for five years is 24%, out of this, obligations planned for 2018 – 21%, which, however, is almost twice as high as in 2017 (11%).³ That said, this percentage for 2014-2018 in relation to tasks assigned to Verkhovna Rada

² Report on Implementation of the EU-Ukraine Association Agreement, 2018, https://www.kmu.gov.ua/storage/app/sites/1/55GOEE/AA_report-UA.pdf.

³ See: Inconspicuous Association: How Ukraine Implements the EU Agreement. – European Pravda, 17 December 2018, <https://www.eurointegration.com.ua/articles/report2018>.

of Ukraine was 28%, central executive government agencies – 43%, other government agencies – 34%. For each individual year, percentage of completion of required tasks is also lower than planned. Progress of Agreement implementation in 2019 by the Verkhovna Rada is 40%, central executive government agencies – 55%, other government agencies – 47%.⁴

As seen from preliminary analysis, this year's performance will not be much better.

The most successful sector in terms of approximation of national legislation to provisions of European legislation is still the removal of technical barriers to trade. In 2018, Ukraine fulfilled seven out of 10 obligations in the “vertical legislation” part.⁵ Some progress was also achieved in the environmental sector. In other sectors, such as energy, transport, social policy, financial services, business start-ups, trade in services and e-commerce, company activities – there is almost no progress in approximating national legislation to European provisions. This means that either no laws and regulations were developed in these sectors, or only drafts thereof, or legislative acts were adopted that require development and adoption of secondary legislation.

Besides this, issues of electoral law, reform of judiciary and SBU, intellectual property protection stand as problem areas in Ukraine's way to European integration. Among new Ukrainian government's achievements, the latest EC report on implementation of EU-Ukraine Association Agreement⁶ mentions progress in countering corruption and prosecution service reform.

The process of implementation of the Association Agreement and Ukraine's rapprochement with the EU are impeded mainly by the weak institutional capacity of Ukrainian state institutions that have to implement the EU *acquis communautaire* norms in Ukrainian legislation, their lack of strong human resources and effective management, their focus on the process rather than the result, as well as the lack of political will to implement necessary changes.

Besides, legislation adopted in the context of Association Agreement is often not fully in line with European legislation, and its practical application often differs – in particular, due to at-will interpretation of the norms of EU acts by individual government agencies, selective application of these norms, unwillingness to lose powers, etc.⁷ Also, it is worth paying attention to the negative impact of lobby groups associated with business circles that are not interested in an accelerated transition to European standards.

The slow pace of Association Agreement implementation in the situation of high public expectations regarding its results points to a rather high probability



of failure to achieve the planned indicators, which poses a real threat to Ukraine's application for EU membership in 2024. It also significantly increases the risk of a slowdown of real reforms, for which there is a demand in society, leading to a loss of trust in Ukraine by the EU and erosion of our country's European prospects.

Despite the presence of fairly clear European integration plans in the programmes of almost all Ukrainian governments, the overall (almost chronic) dissatisfaction with the pace and content of reform policy has become a constant area of criticism for the Ukrainian leadership by both the European community and Ukrainian civil society. To a large extent, this criticism is related directly to the state of affairs in matters covered by the Association Agreement.

This is why an important task of the newly formed Government is to change the approach to EU Agreement implementation and to the European integration process as a whole; instead of prioritising the formal implementation of individual standards (which will remain a mandatory task in the current work of corresponding government authorities and business associations), start paying attention to promoting European norms, rules and best European practices in all areas of the country's political, economic and social life. At the same time, Ukrainian representatives should increase their presence in the work of various European interstate, intergovernmental, public and business structures, which will be a significant practical contribution to Ukraine's European future.

– In what way does the Russian factor influence Ukraine's European integration? What are the forms and means of this influence?

One of the direct goals of Russian aggression against Ukraine has been and still is obstruction to

⁴ On the Results of Implementation of the Economic Part of EU-Ukraine Association Agreement in 2018 and Tasks for 2019. – NISS, <https://niss.gov.ua/doslidzhennya/ekonomika/prorezultativikonannyaekonomichnoichastiniugodiproasociaciyumizh>.

⁵ Report on Implementation of the EU-Ukraine Association Agreement, 2018.

⁶ JOINT STAFF WORKING DOCUMENT. Association Implementation Report on Ukraine. – European Commission, Brussels, 12 Dec 2019, https://eeas.europa.eu/sites/eeas/files/swd_2019_433_f1_joint_staff_working_paper_en_v4_p1_1056243.pdf.

⁷ Inconspicuous Association: How Ukraine Implements the EU Agreement. – European Pravda, 17 December 2018.

our country's integration in the EU and NATO. In order to achieve this, Russia is using force, information, political, energy, economic and other methods of increasing its influence on the developments in Ukraine, all of which constitute its "hybrid war" armoury.

While the military confrontation in Donbas is progressing to become a protracted conflict, Kremlin is shifting its attention to undermining the basic principles of Ukrainian statehood and internal stability in Ukraine, as well as discrediting it in the eyes of the international community.

As part of the "hybrid war", Russia is constantly expanding its range of not only military, but also foremost non-military instruments used against Ukraine, including political and economic (incl. energy) pressure, information and cyber-attacks, attempts to disorganise our political system, government and military administration, attempts to interfere with Ukraine's elections in order to change its political course against the background of permanent support for the active conflict in Donbas, formation of preconditions for the escalation of contradictions among national and regional elites in Ukraine, a split in Ukrainian society, discreditation of the current Ukrainian authorities and the progress of our European integration course, instigation of social unrest and anti-government protests among the population, etc.

In the context of informational support of the "hybrid war", what draws attention in the first place is Kremlin's set of measures to cover up its aggressive actions by propaganda aimed at creating an artificially distorted and demonised perception of Ukraine and Ukrainians in the information space. Because of being within the Russian information field, a large part of the population of southeastern oblasts of Ukraine also fell under the influence of Russian propaganda, which is targeting Eastern Ukrainians to convince them of the "fascist" nature of Kyiv government, mass "atrocities" of "Banderists" and the "right sector" against Russians and Russian-speaking population. And, consequently, of the need to defend them with Russia's help.

Russia is also conducting a massive anti-Ukrainian campaign in the international information space. It is promoting the main themes of Russian propaganda: "punitive actions of Ukrainian Armed Forces", "ethnic cleansing", "atrocities of Ukrainian right-wing radicals". The goal of this campaign is to discredit Ukraine, create its negative image as a country incompatible with European values.

Russian Orthodox Church (ROC) is actively partaking in anti-Ukrainian propaganda promotion. In particular, patriarchate of the ROC finances "Association of Orthodox Experts", whose activities are aimed at destabilising the situation in Ukraine. It aims to form negative public opinion among believers in Russia, in Ukraine and other ROC patriarchies abroad.

Over the past years, Russia has developed and tested a broad range of influences on the internal situation in European countries. In addition to traditional diplomatic and military methods, Moscow makes extensive use of new tools – support of populist political projects, cyberweapons and information attacks through media resources and social networks, interference in electoral processes in the USA and several EU countries, use of financial and economic levers (trade restrictions and sanctions, loans, energy levers) to undermine the economic foundations of states that Russia considers unfriendly, etc. Kremlin openly supports pro-Russian, left-wing, far-right, Eurosceptical and openly nationalistic parties and NGOs in European countries that agree with its policies regarding Ukraine. In particular, these include Jobbik Party in Hungary, National Front in France, Golden Dawn in Greece, Alternative for Germany and the Left Party in Germany, left-wing and far-left movements in the Czech Republic, Slovakia, Serbia, Bulgaria and other countries.

In addition, Russia actively uses economic interests of large Western capital to lobby its own political interests; involves current and retired Western politicians in the circle of its sympathisers in order to use them as agents of influence to lobby Russian interests among Western political elites; provides economic preferences to foreign companies in order to destroy their ties with states that Russia considers unfriendly.

Russian interference in European countries' internal politics is currently commensurate with the Cold War period and aims to destroy the unity of Western powers in imposing and expanding anti-Russian sanctions, mislead the global community about the nature and causes of the situation created by the Russian aggression, impose ideas about the inexpediency of cooperation with Ukraine without consideration of Russia's foreign policy position on the USA and EU countries, etc.

Certain current international trends also work in favour of Russia's destructive actions, including: aggravation of contradictions (incl. in trade) in transatlantic relations, contradictions within the EU, Brexit consequences, other negative trends connected with destruction of international legal foundations of the global order. Some EU countries' "fatigue" over anti-Russia sanctions, which are perceived as such that harm their economic and commercial interests, also helps Russia in achieving its goals. A great illustration is gas pipeline Nord Stream2-, construction of which will have negative consequences for Ukraine both in the economic and political sense.

Yet Moscow's goals for Europe do not stop at halting Ukraine's European and Euro-Atlantic integration, they reach much further. Trying to undermine the existing world order, Russia seeks global revenge; eroding the EU's political system and destroying its unity, creating tensions in transatlantic relations, supporting anti-systemic parties and

movements, establishing corrupt ties with representatives of European elites, – Russia aims to create a chasm between Western countries, minimise USA's political influence in Europe and, ultimately, to disable the EU and NATO. ■

RUSSIA WAS DOING AND CONTINUES DOING EVERYTHING IN ITS POWER TO ALIENATE UKRAINE FROM THE EU



Vitalii MARTYNIUK,
 Executive Director
 of the Centre for Global
 Studies "Strategy XXI"

– What is the strongest obstacle to Ukraine's movement towards the EU? What are the achievements and failures of the new Ukrainian government on the path towards European integration?

Ukraine's movement to EU membership has a long history, over the course of which the EU still has not determined any clear prospects for Ukraine's EU accession. It is important to pay attention to internal and external factors that affect this process and are interconnected. External factors include two directions: European and Russian.

On the one hand, Ukraine clearly stated its intention to proceed with EU membership only after 2014, pushed forward by the Revolution of Dignity. Only in 2019, this goal was captured in Ukraine's Constitution. Essentially, this was a definitive expression of will on the part of our state. Prior to this, Ukraine was going through times of European integration rises (after the Orange Revolution) and falls (when Viktor Yanukovich was Prime Minister and later – President). The lack of national unity on the issue of EU membership and fluctuations from deep cooperation with the EU to partnership and friendship with Russia forced the EU to be cautious about our country's European prospects.

European reforms were progressing too slowly, and anti-corruption measures remained mostly on paper. I.e., besides political, we also lacked inner readiness to start the process of EU accession. The post-Soviet oligarchic system was not keen to introduce transparent mechanisms of country management, which it considered a threat to its existence. It was trying to preserve the status quo, where oligarchs could receive budget money for their own gain. Even today, we have not completely left this system behind us. Despite major achievements in implementation of domestic reforms, oligarchic influences still persist in our country, slowing down our European integration.

Ukrainian economy that was tied to Russia after the collapse of the Soviet Union, failed to reorient itself to the European market, which is why the start of Russia's war against Ukraine in 2014 became not only a painful blow, but also a powerful stimulus for economic integration with the European Union. Nevertheless, even today a part of Ukrainian business is focused on Russia and wishes to return to the pre-war situation, in particular, in the energy sector. A striking example is resumption of electricity exports from Russia, although there is a very topical issue of Ukraine's energy system integration into European ENTSO-E, for which Ukraine must disconnect from the post-Soviet electricity system, work autonomously for a year and then join the European electricity system. Economic integration with the EU requires practical implementation of EU standards and rules, which calls for additional efforts and expenditure that some Ukrainian businesses are trying to avoid.

In the EU itself, there is no unity regarding Ukraine's EU membership prospects. To that end, the EU avoids any wordings that would directly or indirectly reflect such position. A perfect example is the EU's Eastern Partnership initiative, which from the very beginning excludes any mentions of membership. Instead, they were substituted with "political association and economic integration". Actually, Eastern Partnership itself is a part, or "Eastern dimension" of European Neighbourhood Policy – neighbourhood, not integration or accession. This is based on the EU's unpreparedness for further enlargement in the East for the following reasons: internal contradictions in the EU that require efforts to preserve unity; Britain's exit from the EU; incomplete accession of Balkan countries; ongoing difficult negotiations on Turkey's EU accession; Ukraine's large size (not only in territory); Russia's efforts to influence Eastern Partnership space; different attitudes of EU member states to Russia.

EU's attitude can change as a result of revision of its policy regarding Russia and internal transformations in Ukraine, or our country's internal readiness for EU accession.

New Ukrainian government declared its dedication to Ukraine's EU membership course and supported it with declarations about internal reforms and anti-corruption





measures. The new Government preserved the post of Vice Prime Minister for European and Euro-Atlantic Integration. The Government itself continued implementing EU-integration-focused policy. As of December 2019, it is impossible to list achievements that should be attributed to the new government, as different initiatives have been started earlier.

For instance, unbundling in the energy sector or progress in integrated border management. In the fight against corruption, there have not been any significant breakthroughs yet, despite regular news on arrests of Ukrainian officials for receiving bribes. It is impossible to overcome corruption by individual measures – it requires a systematic approach, which, on the one hand, will eliminate conditions for possible corrupt actions (when resolution of a particular issue depends on a particular official), and on the other – will create the real rule of law environment and make it impossible to avoid punishment for corruption. So far, there has been no significant progress on this issue, although the EU insistently accentuates (at various levels) the importance of anti-corruption activities.

– In what way does the Russian factor influence Ukraine's European integration? What are the forms and means of this influence?

Russia was always opposed to Ukraine's integration into the European Union. To prevent this, Moscow was even ready to pay \$15 billion to former President Viktor Yanukovich. Russia was doing and continues doing everything in its power to alienate Ukraine from the EU as it wishes to keep our country under its influence and thwart its transition to transparent European rules of operation, for which Russia is not and does not want to be ready. The latest example are negotiations on the new Russia-Ukraine contract for Russian natural gas transit through the territory of Ukraine after 2020, when Russia kept rejecting Ukraine's and EU's position on concluding this contract by European rules.

Another threat coming from Russia is its export of corruption to other countries, Ukraine included.

Moscow uses corruption levers constantly and skilfully in order to achieve its goals and destroy a well-defined system of state operation. If Ukraine proves unable to overcome corruption, which is also fuelled by Russia, EU membership prospects will be out of the question – a corrupt country will not even be considered as a potential candidate.

Russia is also using other levers of influence on Ukraine to prevent our European integration, namely: uncertainty about borders; the language issue; distortion of history; incitement of internal unrest; and of course the force-based scenario that Russia enacted starting from 2014.

At the same time, Russia is influencing the EU, separate member states and European politicians. Among the latter are the President of the Czech Republic M.Zeman and the Prime Minister of Hungary V.Orban. It is working closely with European political forces, such as the French National Front, and continues to impose its energy projects on European countries, increasing their energy dependence. In addition to the continuation of the Russia-Germany Nord Stream-2 project, which in reality will not diversify natural gas supplies, bring low natural gas prices for European consumers, or reduce European consumers' dependence on supplies from Russia, – Russian gas needle under the name of Turkish Stream is being inserted into the EU from the south, which is meant to “string together” Bulgaria, Serbia and Hungary. Although Russia's destructive actions have not had a pervasive effect on all EU member states, its influence has created significant obstacles to Ukraine's EU prospects.

Russia's numerous violations of international law have demonstrated to the EU Russia's unreliability as a partner and created a wary attitude to everything that comes from the Russian side. For example, Russia's unwillingness to pay €5.6 billion under Stockholm Arbitration ruling in the Naftogaz v Gazprom case demonstrated that neither this Russian company, nor any other company, or the country as a whole will abide by international agreements they signed in case it is not in their interest. This was a striking example for those in the EU, who after the start of Russia's aggression against Ukraine insisted on continuing economic cooperation with Russia.

Clearly, facts that discredit Russia, including occupation and annexation of Ukraine's Crimea, the war waged in the East of Ukraine, MH-17 airplane that was shot down by Russia's military aircraft, attempted and successful murder of people in the UK, Germany, etc. have not completely changed EU's outlook in favour of Ukraine, yet they exposed Russia's destructive policy in Europe. As a result, the influence of the “Russian factor” on Ukraine's European integration has weakened, but for efficient counteraction we need to keep taking it into consideration while building further EU-Ukraine relations. ■

UKRAINE'S MOVEMENT TO THE EU: FOREIGN EXPERTS' OPINION

Foreign experts' opinions and assessments of Ukraine's achievements and problems on the way towards European integration are of interest for many reasons. On the one hand, opinions of experts from Poland, Germany and the UK allow us to understand what they believe are the most important problems that prevent Ukraine's advancement towards the European community. (Pay attention that participants of this discussion by correspondence are stressing different problems).

On the other hand, it is interesting to learn about Western experts' perception of Ukrainian government's actions aimed at European integration and the efficiency of Ukrainian reforms overall. Their assessment of Ukraine's EU accession prospects is also important. We cannot but agree with the idea that the future of Ukraine's European integration will depend on the result of integrated interplay of internal and external factors. It is clear, however, that the cornerstone is the internal factor – the success and upward dynamic of Ukraine's pro-European reforms.

Another component of this discussion is the experts' opinion and assessment of the impact of the Russian factor on Ukraine's European integration. This is an important topic in the context of overall understanding of the goals and content of Kremlin's aggressive policy in the global arena, as well as due to a rising sentiment of restoring business as usual with Russia among Europe's political elites and experts.

UKRAINE HAS A LOT TO ACCOMPLISH FOR SUCCESSFUL IMPLEMENTATION OF THE ASSOCIATION AGREEMENT



Jacek KLUCZKOWSKI,
*Ambassador Extraordinary
and Plenipotentiary
of the Republic of Poland
to Ukraine (2005-2010)*

– Which factors impede Ukraine's integration into the EU?

Talking about factors impeding integration processes, we should be looking everywhere – on the Ukrainian side, on the EU's side and in the bilateral relations of individual EU countries with Ukraine. Some of them are structural and long-term, hard to overcome at once. Others require more consistency and initiative from politicians and diplomats.

First, we need to clarify what these words really mean today: "Ukraine's integration into the EU". I believe, it is necessary to look at Kyiv's political intentions, its goal of achieving EU membership in the near future. This goal was even captured in the Ukrainian Constitution. However, it is important to understand

that the EU's real policy and that of its key member states does not include a prospect of Ukraine's membership or even candidacy at the moment. Of course, this does not mean it will stay like this forever.

Europe has never promised Ukraine a possibility of accession to the European community in the short- or even longer term.

Why? Because neither EU institutions, nor its member states have ever given their approval to this. This has not happened in the last round of negotiations on the Association Agreement in 2012-2013 and has not happened later, after the Revolution of Dignity.

The only binding promise that the EU has given Ukraine is that of support, incl. financial support, for implementation of the association agenda, which essentially is an important part of Ukraine's internal transformation.

Today it is hard to find a serious European politician, who would talk about the EU's future with further territorial enlargement in mind. The goal today is to protect the unity within the EU, protect the pace and depth of internal integration processes and the future of key policies. Only after the situation inside the EU is normalised, it will be able to return to the topic of enlargement. This is not just the French President's opinion.

Of course, both for Ukraine and Poland it would be better if we could talk about the prospect of Ukraine's full membership in the EU today. However, keeping



to the realistic perception of the situation, we should not focus on achieving this goal in the near future. I even think that this would be counterproductive. So, when we talk about Ukraine's European integration today, we have to remember what is real, and what remains wishful thinking until distant future. The primary thing that is real today is successful implementation of the Association Agreement and the Free Trade Agreement, as well as the Eastern Partnership programme. There is a lot to do here, foremost, for the Ukrainian side. In 2020 and the following years, Ukraine's European integration means successful and timely accomplishment of association tasks.

Eastern Partnership and association of "neutral" (as regards future EU enlargement) states are officially not connected with this issue in any way. They are meant to foster internal stability, development of democracy, economic growth and improvement of management quality. This means not just "Europeanisation" of regulatory policy and gradual opening of markets. It should facilitate the transformation of Ukrainian state and society as a whole, improve their competitive position, develop economic relations with the EU and contacts between societies. As a result, Ukraine will free itself not only from corruption, but also from political influence of oligarchs. Although their role in economics also has to be diminished. For their part, politicians and those who vote for them have to understand that low taxes and high budget spending cannot be promised together.

Currently it is hard to say, when a "window of opportunity" will open for Ukraine, and when it will be able to receive the candidate status. This could possibly happen during the future EU Council Presidency of Poland and Lithuania – in 2025 and 2027, respectively. But this will require a major acceleration on the part of Ukraine in implementing its Association agenda, so that in 2024 parties could ascertain the completion of most tasks jointly scheduled in the Association Agreement. Of course this also means that the EU itself has to complete its reconstruction by that time,

which is beyond Ukraine's control. What Ukraine can influence is the pace of resolution of its misunderstandings with neighbours – Hungary, Poland and Romania, as well as better coordination in cooperation with Moldova and Georgia.

– What are successes and failures of the new Ukrainian authorities on the path towards European integration?

There are probably more positive, than negative aspects. There were initial doubts as to retaining the post of the Vice Prime Minister for European and Euro-Atlantic Integration and the specialised Verkhovna Rada Committee on European Integration. This was incomprehensible to foreign observers. Another thing is that combining Euro-Atlantic and European integration directions of government work "under one roof" seems rather questionable. The first one means "tough" international security policy, and the second – coordination of efforts of Ukrainian ministries, agencies and parliamentary committees.

As for European integration activity of the new team's Government, I believe, they correctly changed the emphasis in their policy towards internal transformations instead of declarative confirmations of "pro-European choice", which was generally well accepted by Western experts. The level of detail and professionalism of many government bills on increasing investor safety and destroying corruption schemes has positively surprised many international observers. The fact that the Parliament was processing them very quickly was rarely criticised by Europeans, as many of these bills have been waiting for their turn for many years.

Of course, we have to recognise reform efforts of the previous team, but also note that much more had been expected of them. Many strong pro-European projects were stuck in the Parliament, blocked by lobbyists. Time was wasted.

In my opinion, the fate of the bill on the introduction of agricultural land market will be decisive for the overall assessment of the government's reform programme. It looks like the new government team was not fully prepared for a tough standoff with opponents of this bill. Next – it is not quite clear, what is taking so long regarding renewal of cooperation with the IMF, even though an agreement has been reached back in autumn. As we know, this issue is connected with EU's macrofinancial assistance to Ukraine.

As far as I know, discussions between the new authorities and Brussels officials are conducted in the generally positive atmosphere, without mutual impatience. Ukraine's exit from the hasty project of entering EU Customs Union can also be considered a smart and well-advised step of the new team. The situation with EU-Ukraine cooperation in trade is more complicated – there have been positive trends in the mutual trade exchange, but both parties are voicing complaints. Amendments to the Association

Agreement proposed by Ukraine could help avoid the unwanted situations in the EU-Ukraine trade. Yet this was not achieved.

– How does the Russian factor impact Ukraine's European integration? What are the forms and instruments of this impact?

Russia is fighting all efforts aimed at building closer ties between Ukraine and the West. In the past, Kremlin has stated on numerous occasions that it only cares about Ukraine's NATO membership prospects, there was no mention of any serious admonishments against Ukraine's contacts with the EU on the part of Russia. However, in 2013 it turned out that prospects of Ukraine's association with the EU enraged Moscow, which led to military aggression against its neighbour.

Today, in the situation, when Ukraine's European integration essentially means implementation of the Association agenda, trade agreement and support for internal reforms, Russia has limited possibilities of obstructing such EU-Ukraine cooperation. Because no one in the EU is seriously considering any further steps in EU-Ukraine integration, Russia will not have to counter this so-called "threat" to its national interests. Besides, on their part, Russians are now trying to restore economic relations with Western Europe and consequently abstain from bringing any more tensions in relations with most EU countries. The situation may change, if new initiatives regarding Ukraine's new status of relations with the EU appear on the agenda. But as mentioned before, we can hardly expect this to happen in the next few years.

Of course, there is still propaganda as an instrument of Russian aggression – merciless and cynical, affecting Ukraine, and public opinion in Western countries. "Moscow's hand" could be detected in the Dutch referendum, which almost blocked the ratification of Ukraine's association with the EU. It can also be seen in discussions on the situation of national minorities in Ukraine and the issue of state language. The same can be said about Russia's political activity in Western Balkans, which is aimed not so much at blocking European integration for Macedonia or Bosnia, but foremost – for Ukraine.

By annexing Crimea and occupying a part of Donbas, Russia openly positioned itself as the country that does not respect Ukraine as an independent state and is not willing to achieve good neighbourhood relations with it. On the other hand, Russian model of integration in the post-Soviet space is not attractive for Ukrainians. Besides, at the moment, Moscow does not offer a single positive idea to ensure former USSR countries' support, apart from referencing the Soviet myth and exerting merciless economic and political pressure on partners. It is hard to find any constructive elements here.

In addition, Kremlin's financial possibilities are also not limitless. Especially, given Ukraine's area and its economy. Note that after a weird statement by Ihor Kolomoisky who said it would be better if Russia was helping Ukraine, not the IMF or the EU, no initiative came from Moscow to support such expectations.

I have no doubt that Russia can and will be obstructing Ukraine's further cooperation with the EU after the start of reintegration of the part of Donbas currently occupied by Russian mercenaries. If this reintegration does happen – it will be used by Kremlin to block Ukraine's economic cooperation with the EU. The territories of the so-called "people's republics" were essentially included in Russia's economic space, and Ukrainian property was pillaged. Besides disputes about security conditions in the region, its place within the Ukrainian state and election procedures, there may emerge another area of conflict. ■

THE FUTURE OF UKRAINE'S EUROPEAN INTEGRATION WILL DEPEND ON A COMPLEX OF FACTORS



Susan STEWART,
 Head of the Eastern Europe
 and Eurasia Research Division
 German Institute
 for International
 and Security Affairs

– Which factors impede Ukraine's integration into the EU?

There are numerous factors impeding Ukraine's EU integration, and they are interconnected. I would distinguish three in particular: internal Ukrainian dynamics, the actions of the Russian elite, and developments within the EU itself.

First, despite the many successful reform efforts Ukraine has undertaken since 2014, the country is still facing multiple problems in numerous areas. The environment for both domestic and foreign investors is highly problematic, certain reforms (such as those in the agricultural sector and those concerning rule-of-law) have not advanced as much as needed, and the country has not been able to overcome its dependence on a regime in which there is an unhealthy symbiosis between politics and economics, leading, among other things, to undue influence by a few oligarchs.

Currently the political leadership which has come to power since the election of President Volodymyr Zelensky in April 2019 has been taking rapid action to deal with certain reform areas. However, the overall impression

is one of unsystematic, at times chaotic efforts, and their effects are yet to become clear. In particular, the role of the oligarch Ihor Kolomoisky remains ambiguous, sowing uncertainty among domestic and foreign actors pushing for systemic reform in Ukraine. In this situation reforms are hindered by internal conditions and therefore the EU integration process is slowed.

Second, the Russian Federation continues its destabilising approach towards Ukraine. Despite some positive signs regarding developments in the Donbas in the past months (troop pullback in three areas, prisoner exchanges, a new bridge at the crossing point in Stanytsia Luhanska etc.), there are no clear indications that the Russian elite is willing to withdraw Russian military, financial and administrative support from the so-called People's Republics in Donbas, nor is it likely to permit the re-establishment of Ukrainian control over these areas and over the border with the Russian Federation. Beyond Donbas, Russia continues its efforts to influence Ukrainian politics and society through a variety of instruments, including personal ties, monetary flows, disinformation, the Russian Orthodox Church, etc. These (often successful) attempts at destabilising the country and deflecting energy and resources away from reform efforts make it more difficult for Ukraine to pursue effective reforms and therefore impede the process of EU integration.

Third, developments within the EU are jeopardising Ukraine's integration along this vector. There is now a new European Commission under the leadership of Ursula von der Leyen, as well as a newly elected European Parliament. While this in itself is not necessarily a disadvantage for Ukraine, it nonetheless means that Ukrainian politicians and others (e.g. civil society organisations and activists) will have to make additional efforts to make sure that they are on the radar screen of the new actors in Brussels and try to ensure that these actors' image of Ukraine is positive. This will not be easy for two reasons. First, the EU is facing major difficulties of its own, such as the ongoing Brexit process, the still unresolved migration issues, monetary questions, defence concerns, and problems with rule-of-law in several member states. In fact, the EU is going through a rather serious phase of an identity crisis, during which there are as yet no answers to questions about its future, including the issue of further enlargement. Second, six years after the annexation of Crimea by Russia and the destabilisation of Donbas with the key assistance of multiple Russian actors, there is a growing tendency within the EU to (re)-establish a variety of forms of interaction with and cooperation with the Russian Federation, embodied most recently by Emmanuel Macron's proposals on dialogue with Russia in the sphere of European security. Since the various conflicts between Russia and Ukraine are seen as an impediment to cooperating with Russia more closely, some actors in Brussels and the member states view Ukraine as a hindrance and are inclined to sacrifice supporting Ukraine and standing up for principles of international law such as state sovereignty and territorial integrity in order to pursue a closer relationship with Russia.



As time goes by and the events of 2014 recede further into the background, these voices within the EU grow stronger and pose a greater threat to Ukraine's EU integration process.

– What are successes and failures of the new Ukrainian authorities on the path towards European integration?

The new authorities have created the sense among several of their counterparts in the EU that they are serious about achieving results. Their activity regarding certain reforms and in particular concerning the situation in Donbas has been perceived very positively, especially by those EU member states involved in the Normandy Format (France and Germany). At the same time, however, there are doubts about the effectiveness of the new authorities' efforts for a number of reasons.

First, the “turbo mode” of proceeding with new legislation has raised questions regarding both democratic procedures and the sustainability of the measures approved.

Second, some member state representatives note that their interactions with Ukrainian authorities are unprofessional and that certain key institutions and experienced actors are shut out of important processes, which are concentrated almost exclusively in the hands of the Presidential Office. This raises doubts about the capacity of Ukraine to conduct its foreign policy in an efficient and results-oriented manner.

Third, although the progress on issues regarding Donbas is highly appreciated, there is concern that President Zelensky and his team may overestimate the possibilities for achieving an acceptable compromise with the Russian side.

There may be too much investment in the Donbas dossier and the relationship with Russia and not enough in areas which depend more exclusively on Ukrainian efforts and where progress can therefore more easily be achieved.

– How does the Russian factor impact Ukraine's European integration? What are the forms and instruments of this impact?

Beyond what I have said above, I would add here that Russian foreign policy thinking and a Russian sense of entitlement regarding at least parts of the post-Soviet space have a major impact on the potential for Ukraine's

European integration process. Since there is no convincing sign that the Russian elite is likely to alter its fundamental approach to the post-Soviet space and to questions of European security, the basic issue at stake is how the EU and other actors, such as the United States, will decide to deal with Russia concerning these questions.

If Russian attitudes and actions are accepted, then it will be very difficult for Ukraine to proceed with its western integration vector. However, the actions (or lack thereof) of the Ukrainian side will be of crucial importance in affecting the decisions of European politicians and policymakers.

If Ukraine manages to pursue reforms in key areas (the economy, rule-of-law, social reforms) and to progressively diminish the role of oligarchs in governing the country, then it will be much easier to muster continued support for Ukraine within EU circles and frameworks. This in turn will have an effect on how the relationship with Russia is seen in the EU.

So the future of Ukraine's European integration process will be the result of a complex interaction of factors including the priorities of western actors, Russian actions in Ukraine, the EU and more broadly in the international arena, and Ukraine's own reform efforts. It is worth mentioning that the situation is becoming rapidly more complex due to the involvement of other states such as Turkey and China, whose activities regarding Ukraine, Russia and the EU increasingly need to be taken into account. All of the factors mentioned above interact, making the situation complex indeed and the future difficult to predict. ■

EUROPEAN INTEGRATION IS A COMPLEX AND LENGTHY PROCESS



Kataryna WOLCZUK,
 Professor at the School
 of Government
 University of Birmingham

– Which factors impede Ukraine's integration into the EU?

There are three main factors. First, Ukraine's political class in general and the new authorities in particular have a tendency to look for quick wins. They lack a long-term, reformist vision. This affects Ukraine's integration with the EU because this requires nurturing talent and building institutions rather than merely signing agreements and making popular proclamations. However, in the absence of the former, the symbolism of the latter, such as the Association Agreement, soon fades.

Increasingly, there is also the ongoing and excessive centralisation of power in the presidential office, as result of which the creation of the strong executive institutions with power outside its control are an anathema. At the same time, very few people – who are close to Zelensky – understand the AA and what European integration requires. It is not clear what kind of political standing the new deputy prime minister for European integration, Dmytro Kuleba, has in the Cabinet of Ministers and, more importantly, in the broader configuration under President Zelensky.

Since 2014 the EU has forged ahead with the promotion and support of all kinds of fundamental reforms in Ukraine designed to address the modernisation priorities in Ukraine. So the question is how the new authorities are able to work with the EU on developing long-term reform strategies and – even more importantly – implementing them.

Second, Ukraine has the largest number of competent officials of all the Eastern neighbours, but their expertise is largely pooled and ineffectively deployed. Furthermore, state institutions, such as GOEEI, are frequently restructured and lose staff, whom it takes years to train in EU law and sectoral knowledge, in the process.

Yet skilled staff are at the very heart of the integration process insofar as they implement the asymmetrical and complex AA, which in turn stimulates domestic reforms of the state and economy. Indeed it is well recognised that integration into a more advanced organisation, such as the EU, enhances the credibility of domestic reforms in the aspiring countries.

And aside from the economic gains from trade, benefits include a multiplicity of other goals, including securing the irreversibility of domestic reforms. Furthermore, as the EU is the most densely legalised organisation in the world, with a vast array of rules the participating countries need to adhere to, integration is not only a foreign policy choice but becomes a causal variable in domestic policy making.

The third factor impeding integration is a lack of vision for relations on the part of the EU. The implementation of the AA is not a substitute for such a vision. This is recognised by many in the EU, although this is difficult to address owing to strong resistance from countries, which are uninterested in Ukraine and its integration with the EU.

However, it is important to appreciate the Euromaidan had a profound effect on EU-Ukraine relations, and was an immense stimulus in the emergence of EU's subsequent support of domestic reforms in Ukraine, symbolised in the conclusion of an Association Agreement.

However, it was also abundantly clear that the Ukrainian state simply lacked the capacity to implement the AA, leading the EU to introduce innovative processes to support public administration reform and provide far-reaching assistance on capacity building in the



government. In fact, since 2014, as a result of the AA, the European integration process that the agreement promotes has resulted in the (re)building the state structures in Ukraine. In other words, European integration for Ukraine goes beyond the implementation of the AA and extends to root-and-branch reform of Ukrainian state structures.

More specifically, Ukraine has benefitted from the work of a large group of EU officials with an excellent understanding of Ukraine's dynamics and priorities who have helped create reform "enclaves" inside state institutions to spearhead reforms. The benefits of these efforts are more than apparent, as reflected in the fact that the new Commission of Ursula van der Leyen has confirmed the continuation of this support to Ukraine, which extends well beyond what is on offer to the so-called "third countries".

This is noteworthy as the EU offers Ukraine a long-term strategy for change. Certainly the work of the EU in Ukraine confirms the view that the EU is more effective than any other international organisation in inducing domestic change in the process of integration. This is because European integration is a complex and lengthy process involving virtually all parts of the state and which penetrates deep into the state apparatus, ranging from food safety agencies to anti-monopoly policies.

– What are successes and failures of the new Ukrainian authorities on the path towards European integration?

The biggest success is a change of power in free and fair elections. Ukraine once again proved its vibrant – even though somewhat unpredictable – pluralism. The new authorities are keen to push reforms but this is often done in a hectic and ad hoc way. Many reforms and the neck-breaking speed is formidable but it also leaves the EU officials often bewildered and surprised at what reforms have been adopted, and more pertinently, why.

Crucially, the EU is keen to support reforms, though having learnt from past experience, it insists in working with and supporting reformers. This means not only providing funding, but working together in terms of devising a strategy and realising a vision. After all, Ukraine still has formidable problems; its institutions are still weak, with limited capacity and ability to introduce systematic reform.

Despite the huge potential that the DCFTA offers Ukrainian businesses, the response of the commercial sector has been patchy – the agricultural sector has been impressively agile in exploiting opportunities in contrast to the leaden-footed service sector. Still under the new leadership, however, Ukraine lacks a comprehensive and feasible strategy for the implementation of the DCFTA.

– How does the Russian factor impact Ukraine's European integration?

Russia has sought to influence Ukraine's integration – or more accurately impede it, if not actually reverse it. The use by Russia of its hard power in Crimea and Eastern Ukraine has sent an unambiguous message to the EU, and other post-Soviet states. The fact that Russia was prepared to break the rules and norms so painstakingly built up by the international community since 1945 has sent an ample message as to Russia's position on Ukraine. Russia's willingness to use military force in the DPR and LPR to extract political concessions from Ukraine to ensure Russia's de facto control of the domestic and foreign policy of Ukraine is ominous.

And beyond hard power, Russia has exploited every opportunity to exploit domestic opportunities within EU member states through adept anti-Ukrainian propaganda, as evidenced in the Netherlands 2016 referendum on Ukraine's AA.

Within Ukraine Russia supports domestic actors who can support Ukraine's reorientation to the East. Conversely, Russia is unable (let alone willing) to support viable and credible modernisation reform in the post-Soviet space; after all, Russia is hardly a model for reform: not only does it suffer from similar problems, but the overweening power of "Sistema" [the system] in Russia means that much-needed economic let alone political reform is not even on the agenda.

Overall, Russia is clearly seeking to undermine Ukraine's pro-European orientation as feasible and lasting. In doing so, it is evidencing a vision, underpinned by a long-term strategy which could be summarised: "if not by banks then by tanks" and – in the security domain – is unmatched by a corresponding position from the West. But Russia spectacularly lacks any positive vision for any post-Soviet state, especially Ukraine. This is unlikely to change anytime soon. ■