



Analytical Weekly Review

Internal and Foreign Policy of Ukraine
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Introduction

Analytical Weekly Review integrates traditional media with social media analysis. This report consists of Ukraine's internal and foreign policy analysis in the framework of the media monitoring overview.

COSA delivers strategic insights across public media sources. Our expert analysts, extensive media monitoring and internationally recognised research methodologies intersect to deliver high quality media intelligence. Both quantitative and qualitative analysis is conducted using systematic coding based on key words and key data.

This publication is a review of Ukrainian media resources, official statements of political leaders as well as social media information coverage on the current political and economic changes in Ukraine. The Internal Policy Chapter of the analytical report helps understand the internal decision-making process in Ukraine and the role of multifaceted reforms that are being implemented in the country since 2014.

The second Chapter is dedicated to the foreign policy issues overview, in particular Ukraine's bilateral relations with different regions. Furthermore, this section addresses one of the most significant issues of international relations nowadays – Russia-Ukraine conflict analytical update. Military-political cooperation of Ukraine is monitored in respect to the conflict overview.

In addition to the macro overview, *Analytical Weekly Review* also indicates country political and business risks by summarising conclusions and expert prognosis on the monitored issues. Such analysis has a particular value for producing an objective and independent view on the Ukraine's development.

In conclusion, this weekly report provides a well-grounded summary of the key points uncovered in the analysis, and is usually more than twenty pages long. It discusses not only the highlights of the current period's coverage, but can also compare findings to the previous period and any conclusions drawn from the analysis.

INTERNAL POLICY

Policy of the central power

Event №1. *The Verkhovna Rada of Ukraine adopted the Resolution "On the Statement of the Verkhovna Rada of Ukraine on the guarantees of rights of the Crimean Tatar people as a part of the State of Ukraine."*

Analysis. This statement, first of all, is intended to set the status of the Crimean Tatar people as indigenous people of Crimea. It has potentially serious political consequences, yet without the consent of indigenous people on their territory no primary social changes, political processes, and, in particular, military actions cannot be conducted. Also it is a step towards future joining of Ukraine to the UN declaration "On the Rights of Indigenous Peoples", which will guarantee the Crimean Tatars status of indigenous people of Ukraine on the international level.

The Resolution also concerns the issue of quotas on a national basis while allocating posts in public authorities. Thus, the project guarantees representation of Crimean Tatars in the Verkhovna Rada of the ARC at level 33%, which, in principle, contradicts Ukrainian legislation. Because the Civil Service Act clearly states that citizens in Ukraine have the right for civil service "regardless of race, coloration, political, religious or other beliefs, sex, ethnic or social origin, property status, place of residence".

Also, this Regulation concerns the broader issue of the administrative-territorial structure of Ukraine - the point of the local self-government reform, which has repeatedly been raised by various political forces. It refers to the guarantee of minority rights, and Crimean Tatar minority is not the only national minority in Ukraine. The same applies to ethnic Russians living in the eastern and southern regions of Ukraine. In this regard, the acting Prime Minister of Ukraine A. Yatsenyuk made a statement about the future expanding of local authorities in southeastern regions, particularly in utilities, health, education and cultural spheres. "In the government we have introduced a special post of deputy prime minister, whose main task refers to the issue of authority's decentralization. This far-reaching reform for maintaining unity and unitary of Ukraine that transfers to the localities - regions, cities and districts - the widest range of powers and financial resources necessary for their

development." ¹ In fact, this statement is a step towards a possible large-scale reform of local self-government - especially now, during the great probability of a state's split. According to some political scientists, the possible federalization of Ukraine will only accelerate its collapse and threaten the future of its European integration. As members of the former government noted earlier, "In case of any method to form the chamber of regions representative actions of the people there will be as critical to each other, as they are today in case of "Svoboda" against the CPU, and vice versa [...]. Regional disparities are also not conducive to the dialogue. For some parts of the country are donors to the budget, and the others are subsidized. Experts believe that the controversy over parliamentary crisis, which exists today, will be manifested even much more in the bicameral parliament." ² Obviously, the cornerstone of today is the struggle between two different visions of the administrative-territorial structure of Ukraine - its federalization and decentralization.

Conclusions. The act of the Verkhovna Rada needs to be elaborated and harmonized with Ukrainian legislation inasmuch that in the future it may cause legal contradictions. Such contradictions can be avoided by amending the Law "On Civil Service" in Ukraine. For now, the question is rather not in a juridical foundation, but rather in political: to release the Crimean territory from military units of the Russian Federation. Considering the fact that among the obvious threats of federalization of Ukraine is, above all, the uneven nature of different regions' development, this process also necessarily entails reformatting unicameral parliament into bicameral which will greatly complicate already difficult policy-making process in Ukraine. We can rather talk about the increasing of powers of local communities, and this calls for major reforms: the community which will have the right to choose not only the mayors, but the heads of local government administrations will feel that their influence on politics increases. Of course, this would weaken the executive branch, but in terms of the separatism threat and possible loss of Ukrainian territories such a scenario is the most suitable. Moreover, such a practice works in the European Union, where some regions have been entitled to be represented at the highest level - in the Committee of the Regions.

Event No 2. *In his statement acting Prime Minister A. Yatsenyuk declared the absence of intentions of Ukraine concerning joining NATO in the foreseeable*

¹ Yatsenyuk promises expansion of the authorities of the regions and partner relations with Russia. - Radio Svoboda. - Mode of access: <http://www.radiosvoboda.org/content/article/25300890.html>

² Horbal. Why doesn't Ukraine need Senate, or what is the bicameral Parliament in Ukraine. - Mode of access: <http://www.gorbal.kiev.ua/ukr/news/2836.html>

future: "Exclusively for the sake of the unity of Ukraine the issue of joining NATO is not on the agenda - the country will be defended by strong and modern Ukrainian military forces".³

Analysis A. Yatsenyuk's statement was made in the context of availability of the different positions on this issue in the Ukrainian society, as well as in the conditions when the number of supporters of joining NATO after the Russian aggression in Crimea has increased significantly. This position decidedly has its strong and weak sides. The weak includes the fact that the Ukrainian army, thanks to the "efforts" of the former regime, has become the object of destructive processes in the material and technical, organizational, financial and other aspects. In particular, it is affirmed by the fundraising media campaign among Ukrainians to support the army, as well as the decision of the Verkhovna Rada's staff to transfer their wages to the army's needs.

The Ukrainian army has been marked by the absence of a rapid response to new threats, attempts to avoid risks. For instance, the current situation in Crimea has had a negative trend (in particular, the increase of the Russian Federation's military units) for a long time. In this regard, the deputy head of the State Border Guard Service of Ukraine P. Shisholin also reported that the increase of Russia's military presence in Crimea had taken place a year ago, and the State Border Guard Service of Ukraine had proposed to amend the order of border and customs clearance of this contingent because this control was just documental - through submitting a note with the number of military. But no one decision on this issue was passed. Consequently, the expansion of Russian military presence in Crimea has actually occurred with the assistance of local and central authorities of that time. In this regard, it is difficult not to agree with the opinion of V. Syumar, the Deputy Secretary of the National Security and Defense Council, who stresses that Crimea region has been surrendered steadily in recent years - when the Party of Regions' group came to power on the peninsula.

Now, with the start of the direct aggression actions of the Russian armed forces in Crimea, again there has been no active resistance. At the same time acting Minister of Defense of Ukraine I. Tenyukh stresses that "To attract the army an appropriate policy decision should be provided, and only then military forces will start to act! Now, without such a political decision, military forces has no right to act."⁴ Indeed, in peacetime the Army cannot operate by the

³ Yatsenyuk promises expansion of the authorities of the regions and partner relations with Russia. - Radio Svoboda. - Mode of access: <http://www.radiosvoboda.org/content/article/25300890.html>

⁴ Tenyukh: Without the political will the army has no right to act. - Ukrayinska Pravda. - Mode of access: <http://www.pravda.com.ua/news/2014/03/22/7019901/>

rules of war, and political decision is necessary for appropriate orders. However, Crimean military units have been attacked by armed men, which authorize protection of the military facilities according to the Military Statute.

It should be mentioned that excessive political caution, referred to avoiding the use of weapons at any price, has serious political consequences, so far as perceived by a significant part of society not as a political caution, but as a weakness. What is more, according to authoritative estimates, real military potential of Ukraine in the current conditions is not so catastrophic. This is also confirmed by the former head of the Security Service of Ukraine I. Smeshko, who said that Ukrainian army was unable to conduct offensive operations, however, our armed reserve counted 700 thousand, which was a great potential for defense and - in case of deterioration of the situation - for guerrilla warfare on Ukraine's territory.

Conclusions. De facto the act of annexation of Crimea by Russia is rather political and it is not recognized by Ukraine, but Ukrainian military's presence on the peninsula and the non-use of force suggest that Ukraine is trying to cope with the problem independently. The issue of "strong modern Ukrainian military forces" is quite urgent in the context of Russia's military aggression. That is why, along with the issue of European integration, it is important to raise the question of Ukraine's joining NATO, - if not now, then in the nearest future (after all attempts, resolving the problem in the UN Security Council, as it turned out, had no consequences - that is why collective security system is more reliable option to protect the territorial integrity of the individual states; not entering such a structure, Ukraine de facto finds itself face to face with the aggressor and must act according to realists approach ("protect yourself by yourself"). However, it is important to understand that NATO is unlikely to accept the state that has problems with its neighbors. Yet among the basic principles regarding new members' admission to NATO is the lack of territorial claims in the relations with other States.

Event No 3. *On March 25 A. Yatsenyuk proposed to replace the regional state administrations with executive committees.*

Analysis. Acting Prime Minister gave a task: "Executive committee must take full responsibility for the situation in each area. This will allow to primarily

increase the accountability of those who would control the resources of the local community."⁵

Such transformation is only a fragment of a broader process of administrative reformatting that Ukraine needs. After all, this decision is primarily aimed at overcoming the negative consequences of excessive centralization of power in Ukraine.

Conclusions. The Government should prepare a draft law with clearly defined functions and conditions of the chairmen of executive committees' elections - yet only the person elected by local community could provide relatively political indifference of the body and focus one's powers on the executive foundation.

Event No 4. In Rivne region during the arrest one of the leaders of the "Right sector" A. Muzychko was killed.

Analysis. Muzychko was also known as Sashko Biluj - in particular, he became famous after video, on which he, being armed, was addressing to the Presidium of the Rivne Regional Council. He was also known as a radical member of UNA-UNSO. The official version says that he was killed during detention and his exerting resistance to law enforcement agencies - GUBOZ and "Sokil". The leader of "Third Ukrainian republic" I. Lutsenko said that the operation was fully justified because it is necessary to clean the system - not only from the "aliens", but from "ours" too - so any other thug could die in the same way. Among current online discussion on this issue one idea is distinguished: that the current government "cleans" the system off radical elements in order to preserve its (governmental) reputation in the world. Also, the involvement of the "Right sector" to O. Muzychko's detention is also mentioned. However, at the end of the day, at the press conference in Rivne the organization made an appeal where its members said that they would revenge A. Avakov (Interior Minister) for the death of the "Right sector's" member. The organization insists on that O. Muzychko could not shoot during his detention because he had his hands bounded; also he had not received any summons from the police.

Conclusions. The event seems to be extremely controversial and requires a thorough investigation. But it is already clear that it marked the beginning of open conflict between the security forces and members of the "Right sector", and, possibly, in general between different political groups that were previously allies on the Maidan. And as long as active opposition militants from

⁵ Yatsenyuk proposes to replace the regional state administrations with executive committees. - 7 days. - Mode of access: <http://7dniv.info/ru/yacenyuk-proponuie-oda-zaminiti-vikonavchimi-komitetami>

the "Right sector" were necessary as an active force for resistance to "Berkut", then, with the removal of the previous regime, the need for this structure has changed. And, in order to obtain political support from the liberal West, the current government of Ukraine entirely needs to distance itself from the most radical tendencies of Ukrainian political spectrum.

Changes in public administration apparatus

Event No 1. *After returning to Ukraine Y. Tymoshenko has offered to create the staff for responding to threats - an alternative to the National Security and Defense Council.*

Analysis. On March 21 Y. Tymoshenko held an emergency meeting with the specialists in military defense. Creation of this staff is based on the idea that in case of the current aggression of Russia and further escalation of the conflict extraordinary decisions should be made - involving wider range of experts in military affairs to respond to potential threats quickly. In the result of that meeting the package of decisions were made and should be sent to the government.

However, this idea was not supported by the majority of population: on the TV show "Schuster LIVE" Tymoshenko was asked if, doing so, she was actually planning to create an alternative source of power, along with opposing it to already existing the National Security and Defense Council.

Conclusions. The idea of spreading the processes of producing public policy to the formally non-state institutions that collaborate with the government can be very fruitful, since effective public policy should be based on experts' knowledge, which, unfortunately, today is not always concentrated within the state power apparatus. However, for a positive result there is a need to develop the official regulations that will determine the procedure of activities and interactions of such forums with the power structures.

Event No 2. *At the meeting of Parliament on March 25 acting Minister of Defense I. Tenyukh resigned.*

Analysis. I. Tenyukh explained that he made such a decision due to the lots of criticism concerning worsening situation in Crimea, the actual surrender of the peninsula. Since the very first day of the government's work many experts has predicted that his work will run upon numerous problems, as well cause a lot of claims. Yet the effectiveness of his functions' execution were unlikely to be high

- concerning the fact of the actual destruction of the army by the previous government, combined with the increase of displaying separatism and social conflicts in particular regions of the country.

The Verkhovna Rada deputies from the second attempt accepted the resignation of I. Tenyukh and appointed M. Koval as acting Minister of Defense of Ukraine.

The dismissal of I. Tenyukh, on the one hand, is fully justified from the political point of view - due to the actual fact of the loss of Ukrainian government's control over the peninsula without even a single shot. However, on the other hand, one should admit that the former Defense Minister had extremely limited means to defend Ukraine's positions in Crimea. Information from different sources indicates that the forceful scenario was being provoked by Russia - as a political precondition to expanse its invasion to southern and eastern regions of Ukraine. In these conditions, it is likely that the former acting Defense Minister I. Tenyukh was guided by the principle "better a bad peace than a good war".

Conclusions. On the one hand, Tenyukh's critic is proved by the fact of Crimea's surrender to Russia, but, on the other hand, solving this political crisis with the use of force and establishing a local military conflict would be quite ridiculous step in view of the possible plans for such a scenario by Russian side. It is important to take into account not only the fact of losing control over Crimea, but all of the consequences - both immediate and long-term. The near future will show whether such decisions of the Minister were correct and cautious.

Event No 3. *Progress and complications of the staff renovation in the governmental structures. Actually there are series of events that include the following personnel rotations.*

Analysis.

- Turchynov gave a number of instructions concerning dismissal all the heads of the district public administrations in Vinnytsia, Zhytomyr and Volyn regions.
- The new deputy of acting Chairman of Security Service of Ukraine V. Nalyvajchenko is V. Yahun - a lieutenant colonel, former official of the Central department of Security Service of Ukraine. One should pay attention to the fact that this appointment followed picketing the building of the Security Service by so-called Avtomaidan members in their demand to free missing in Crimea activists and journalists. Deputy Head of Security Service

of that time A. Levus said that the department needs "the official status in order to attract international mediators to resolve the issue."⁶

- Ministry of Internal Affairs made out a decree concerning competition for the chiefs' vacancies in offices of Central Boards of Administration of Ministry of Internal Affairs and Administrations of Ministry of Internal Affairs of Ukraine in Kyiv, Lviv, Volyn and Ternopil regions.
- I. Zaitseva was dismissed from the director's post of the Ukrainian Center for Educational Quality Assessment – due to "single gross violation of labor duties."

Conclusions. In fact, acting authorities have started the process of power rotation in regions, in power structures, as well as changing top-managers in organizations characterized by a high level of corruption capacity. However, the question of such rotations' effectiveness remains open. In particular, more important is the question of how realistic the assumption is that within a short period of time new nominees for the posts of heads of regional state administrations will not be able to form "the vertical of election rigging."⁷ And whether they will not retard the transition to the new system of administration concerning liquidation of state administrations and replacing them by the executive committees of district councils.

Political parties and interparty relations

Event No 1. Chairwoman of the party "Batkivshchyna" Yulia Tymoshenko for the first time after her release from prison came out to the public - on March 21 on the political show "Shuster-LIVE".

Analysis. After arriving to Ukraine from Germany, where she received treatment, the head of "Batkivshchyna" returns to politics. The statements Tymoshenko made on Friday clearly show how exactly she is going to win votes as a presidential candidate: Crimea will become the subject to fight for. By the way, some experts emphasize her close cooperation with Putin.

⁶ Arthur Goncharov. The SSU is picketed by Avtomaidan with a demand to release the hostages. - UNN. - Mode of access: <http://www.unn.com.ua/uk/news/1319214-bilya-sbu-piketuvali-avtomaydanivtsi-z-vimogoyu-zvilniti-zaruchnikiv>

⁷ New heads of the RSA will not falsify the elections, - the governor of Transcarpathia. - Zik.ua. - Mode of access: http://zik.ua/ua/news/2014/03/19/novi_golovy_rda_ne_falsyfikuvatymut_vybory_gubernator_zakarpattya_471798

But polls conducted by leading sociological services show that Y. Tymoshenko candidacy for president loses to such politicians as P. Poroshenko and - to a lesser extent - V. Klytschko. However, the rhetoric about Crimea's issue is able to make a great influence on the society's mood - especially that part which has been frankly dissatisfied with her possible return to politics after her release from prison.

At the same time, many of the supporters of radical renewal of Ukrainian society do not accept the candidature of Y. Tymoshenko in principle. She is greatly associated with past and unsuccessful attempts to change the country's course during the presidency of V. Yushchenko. For a considerable number of voters business name of Y. Tymoshenko, who came to politics from large-scale business, is still far from perfect.

Interestingly, there is an initiative to nominate Mustafa Dzhemiliov for President of Ukraine as a candidate of "Batkivshchyna". The author of this idea emphasizes that, in order to cope with a deep crisis of Ukrainian statehood, clear and ordinary steps are necessary, and Dzhemilyev is just wise and prudent man, to whom Putin talks, and who may affect the vision of Ukraine in other countries, in particular, show that in Ukraine there are no radicals at power, and also make Islamic countries support Ukraine. Such a position of the expert raises a number of questions because, firstly, the president of the state shall not impersonate a national minority (even if he or she is very authoritative person), he should represent all people of the state - thus, residents of Western Ukraine will unlikely give their votes for Dzhemiliov. Secondly, the Tymoshenko's nomination for the presidency as the candidate from the "Batkivshchyna" will probably undermine the chances of M. Dzhemiliov as the candidate of the same party. Yet Y. Tymoshenko has more resources and experience.

Conclusions. It is obvious that in conditions of acute political confrontation in Ukraine, on the one hand, and huge amount of reforms, which are necessary to be undertaken within Ukraine - on the other hand, the new President of the country must be a centrist figure, who is capable of uniting broad segments of population with different political preferences. In this regard V. Klytschko in recent months has suffered reputational losses as a political leader. P. Poroshenko has better chances, and, among other things, has the best chance among all the leaders of the Maidan to be apprehended in the eastern and southern regions of Ukraine. Grounded upon that, Y. Tymoshenko, who has proved herself in Ukrainian politics primarily as a charismatic leader and decisive politician, can raise her rating on the factor of the Crimean crisis.

Event No 2. *A new political party "Right sector" was established in Kyiv.*

Analysis. The "Right sector" established not only a political party: its leader D. Yarosh is running for president's office. The "Right sector" actively manifested itself during the confrontations in Kyiv, becoming one of the decisive factors of the previous regime overthrow, at one time played crucial role in the clashes on Hrushevskoho street in Kyiv.

However, this radicalism at the same time pushes many moderate citizens, who focus on the more liberal Western values and are supporters of the integration to the EU, away from the "Right sector". As the slogan "No integrations" is one among the basic in the "Right sector's" political platform.

The problem also lays in the fact that political link between the "Right sector" and the pro-Russian extremists still remains unclear.

Conclusions. The party "Right sector" has emerged as a far right political project, alternative to a relatively more liberal "Svoboda". In fact, today the "Right sector" has no clear vision of the future of Ukraine: radicalism disallow to conduct a course for Europe and Russia is seen as the main enemy, and, as a consequence - the implementation of the "Right sector's" program will result in the unavoidable international isolation of Ukraine. In the upcoming presidential election D. Yarosh is unlikely to receive substantial support, and the "Right sector" also has little chance to pass the Parliament of Ukraine.

Event No 3. *In the evening of March 18th people's deputies of "Svoboda" I. Miroshnichenko, A. Illyenko and B. Benyuk in a rather brutal way (with the use of force, abuses and threats) forced acting chairman of the First National Channel O. Panteleimonovov to sign a resignation due to the fact that the First National was broadcasting the concert on Moscow's Red Square in honor of joining Crimea to Russia. That was recorded on video by "Svoboda" representative O. Aronets.*

Analysis. This event has caused great resonance among officials (e. g., the statement that from now I. Miroshnichenko has no moral right to work in the Committee on Freedom of Speech and Information), as well as among the public. I. Miroshnichenko, while commenting his own behavior on the political show "Today about the principal" on TVi channel, said that in form he obviously had got too excited and was ready to bear full responsibility in accordance with law, but in meaning everything was done correctly because chairman of the First National had misinformed Ukrainians - especially regarding the protests in Kyiv. In such a tragic day for Ukraine this channel was broadcasting live celebration in Moscow. As journalist of "Hromadske" A. Seychuk claimed, the

incident occurred rather due to his fault as being an editor that day. As the First National has begun broadcasting "Hromadske" on air since February 25, that day the guest was late to studio, and the editor decided to broadcast on air for 5 min. what is going on in Russia. The staff of «Hromadske» believes that television should not be censored, and people should have access to any information - so, that broadcasting was not inherently a "propaganda" as it was perceived by "Svoboda". And if by that time the First National had primarily been known for fact for reporting the protests in Kiev not objectively, so this translation was not dependent on the direction of the First National. Thus, by using force, "Svoboda" demonstrates the absence of tolerance, and because of this its political rating is under question.

Conclusions. This event of the obvious manifestation of intolerance towards alternative political views and preferences, first of all, indicates the alarming tendency of claims to a new authoritarian power. Secondly, this may significantly affect further support of the "Svoboda" by more liberal part of the population, while more radical part may shift to the "Right sector". For the first time support of "Svoboda" dropped after the December (2013) events in Kyiv - when, by its members' initiative, Lenin monument in the city center was overthrown. This was condemned as vandalism by the population of the capital. In future such events can raise doubts about presence of the "Svoboda" among the all-Ukrainian parties in the supreme legislative body.

Event No 4. *M. Levchenko was appointed chairman of the Donetsk regional branch of the Party of regions, and Party of regions prepared and registered in the Verkhovna Rada a bill on granting the Russian language the status of the second state language.*

Analysis. M. Levchenko was elected unanimously at the Party Congress; also he was the only candidate. It means lack of loyal party cadres, so that nowadays in Donetsk region there are a few willing to lead the party. It is also worth noting that M. Levchenko supports federalization of Ukraine, and this position dissents from the position of power concerning local self-government reform.

This is how this initiative of a draft law regarding the provision of Russian language as the second official in Ukraine was explained by the chairman of the Party of Regions O. Efremov: "In my understanding, today it is the primary need to pass constitutional reform, to develop such a system that would ensure

territorial integrity of Ukraine, to give Russian language the status of second state language"⁸.

If we compare the positions of Levchenko-federalist and Efremov, who called for the territorial integrity, it seems like there are two different variations on the theme of growing disintegration of the country. Creation the subjects of federation from the south-eastern regions will rather speed up the separatist actions in this part of Ukraine - especially if local power will be controlled by pro-Russian elite. And it is especially dangerous to create a federation close to the aggressive neighbor, which may provoke separatism in neighboring regions. The same applies to the question of language - Russian as a second state language is likely to accelerate the process of Ukraine becoming the federal republic, rather than unite it. And if we add that the Party of regions made an ultimatum, one of the items of which is the demand to adopt the law on local referendum, the situation becomes similar to the Crimean scenario.

Conclusions. The position of the Party of regions in many aspects actually continues contradicting that of the authorities' (directed on maintenance of Ukraine's unity). Explicitly or implicitly it promotes destructive processes in Ukraine, leads to the adoption of key demands of the Russian Federation concerning the "directions of regulating the Ukrainian crisis."

Macro overview

Event No 1. *Ukrainian Minister of Finance O. Shlapak has predicted a decline of GDP in 2014 by 3%.*

Analysis. In the nearest future the crisis in the prospects of the economy of Ukraine will objectively be determined by huge financial "breaks" in it, which have been inherited from the previous regime combined with the accumulated structural problems that predetermine falling competitiveness and target markets. Moreover, considerable structural reforms never occur without the hindering of the economic growth, and Ukraine will not be the exception.

For Ukraine the prospects of economic development in 2014 are seriously complicated by its relations with Russia. In this context, especially after the signing the Association agreement with the EU, the further trade restriction with Ukraine on the part of Russian authorities seems to be real. This will be an

⁸ The Party of regions initiates providing Russian as the second state language. - TVi. - Mode of access: http://tvi.ua/new/2014/03/24/partiya_rehioniv_iniciyuje_nadannya_rosiyskiy_movi_statusu_druhoyi_derzhav_noyi_movy

additional factor which will predetermine the temporary decreasing Ukrainian economy's rate.

Certain problems for the dynamics of the GDP of the country will be determined by the actual loss of the economic territory of Crimea.

Of course, even in these difficult conditions the factors of definite acceleration of the development may appear - particularly, due to the legalization of economic activity. Thus, at the session of the Cabinet of Ministers of Ukraine on March 25, during the discussion of budget prognosis for 2014, the Minister of Finance expressed hope that in March it would be possible to attract more than 2 billion US dollars as the result of tax levies and incomings from the "shadow" sector. However, it is still unknown on how much exactly the shadow economy could enrich the state budget.

All these events are planned together with the opening of criminal cases against the so-called "platforms" for money laundering.

Conclusions. Ukraine's economic prospects for 2014 will remain challenging due to the inherited deep structural problems, also complicated by a hostile Russian policy towards Ukraine. However, in the case of radical institutional changes and drastic policy concerning the structure of Ukrainian economy, these losses will be temporary and can be overcome already from the beginning of 2015.

Event No 2. *The Chairman of the ARC Council of Ministers S. Aksyonov said that in future he would "nationalize" all Crimean ports.*

Analysis. Because the process of proclamation of "independence" of Crimea from Ukraine is illegal, then all procedures following from it, including intention of "nationalization" of Ukraine's property on the territory of Crimea, should automatically be perceived as illegal actions. Independently from this, one should bear in mind practical aspects of the consequences of this "nationalization".

For many years Crimea has been a subsidized region that has existed due to the regular subventions from the state budget of Ukraine: in 2013 its budget deficit amounted to 3.78 billion UAH (1.94 billion UAH of taxes and payments from the territory of Crimea were transferred to the state budget, and 5.72 billion UAH were received from the state budget by Crimea). Concerning transport issue, Crimea has recently not been too profitable for Ukraine: the country received much more from the ports of Odessa. And after the latest events on the peninsula the cost of freight in Crimea increased.

In general, according to the official estimates, the loss of Crimean property can cost about 100 billion U.S. dollars to Ukraine. Therefore, the government plans to appeal to international courts regarding the appropriation of the peninsula's property by Russia.

At the same time, the independent estimates of Ukraine's losses in Crimea are quite moderate. In particular, the international rating agency Moody's notes that the loss of Crimea will give one-time negative effect on the GDP growth in Ukraine and in general reduce its amount. However, these losses will be insignificant because the share of Crimea in Ukraine's GDP has amounted to no more than 3.7%. Consequently, the ratio of Ukraine's total debt to GDP will increase due to the loss of this part of GDP to no more than 1.6 percentage points, which is insignificant for Ukraine's overall state of solvency.

Conclusions. Any actions of Crimean current authorities concerning "nationalization" of the property of Ukraine, which is situated on its territory, is a misappropriation that can and will be appealed in the international courts. In purely economic terms such actions, although will be sensitive to Ukraine, will not cause too significant material damage to its economy and its international positions.

Event No 3. *In terms of reducing expenditures of the state budget, the Cabinet intends to reduce expenses on the state apparatus, and also to sell part of departmental property. The acting President of Ukraine O. Turchynov ordered to sell the property of the State management of affairs.*

Analysis. Vice Prime Minister of Ukraine on social issues O. Sych made such a statement: "It is, above all, on the reduction of administrative structures of ministries, regional offices, regional administrations, etc. Sometimes it is up to 30-40%."⁹ As he said, material resources and benefits would primarily fall under the cuts.

In connection with the decree of the acting President of Ukraine, it is expected that state enterprises and structures, organizations, sanatoriums, state residences, state country houses, vehicles, equipment, etc. will be exhibited on a sale. Saved means will be directed to the general fund of the state budget of Ukraine.

Thus, primarily approved state budget for the year 2014 has envisaged financing of expenses of the State management of affairs in the amount of

⁹ The Cabinet will sell part of Ministerial property. - Gigamir. Money. - Mode of access: <http://gigamir.net/money/economics/pub697517>

1184 million UAH - it was almost the same with expenditures on infrastructure development (1265 million UAH), more than on the development of youth and sport (1107 million UAH), the foreign policy of the state (MFA budget - 112 million UAH), the economic policy of the state (budget of Ministry of economic development and trade - 934 million UAH), and not much less than for the entire regional development (Ministry of regional development - 1571 million UAH). It is clear that such distribution is unacceptable.

Conclusions. Such a position corresponds to the modern realities of Ukraine in conditions of excessive bureaucratism, destabilization of state finances and, as a consequence, growth of social discontent. Therefore, these solutions can be considered as those aimed at filling the budget in order to covering the deficit caused by the corruption deals of the previous government. However, only the future will show whether this course will be successful in practice. In this regard, the important tasks are monitoring of the tenders on state property's sales, along with tracking of financial flows from such sales.

Business insider

Event No 1. *In Austria, in order to introduction of sanctions against Ukrainian officials and businessmen involved in violent actions against protesters in Kyiv, the case of D. Firtash, arrested on 13 March, 2014 by Vienna police upon the request of the U.S. FBI, continues to unfold.*

Analysis. The arrest of D. Firtash became a significant event because it concerns the person who occupies a special place in Ukrainian business hierarchy (President of the Federation of the employers of Ukraine) and is one of the key figures in Ukrainian oligarchic system. Moreover, this person has special links with the Russian political and economic elite, especially with "Gazprom", allowing him to have occupied a unique position in the supply of Russian natural gas to Ukraine through the structure of "RosUkrEnergo". Therefore, his arrest and possible extradition to the US authorities could have huge consequences for the disclosure of secret schemes of Russian-Ukrainian energy business. In addition, it is a clear signal to the Kremlin that from now no one in the ruling business elite cannot be considered protected against possible measures for the prevention of the unlawful entrepreneurial activities.

Although on March 21 D. Firtash was released on bail 125 million euros, he should still remain in Vienna until the final court's decision. As the result, the structures financed by D. Firtash began experiencing financial problems (in

particular, it has already become apparent on the example of the financial condition of FC "Tavriya").

The case of D. Firtash may have important political consequences in Ukraine. He is an owner of a network of Ukrainian TV-channels, as well as one of the leading - "Inter". Together with the former Chairman of the Presidential Administration S. Lyovochkin he has connections with the "UDAR" members (N. Ahafonova, S. Kunitsyn, P. Ryabkin). Also, according to some sources, he is financing the political project of V. Klytschko, although the latter in an interview to the TV channel "Rain", while disproving the information about financing of his political project by D. Firtash, said: "We are somehow partners. As a boxing company has a contract with TV channel "Inter" which is near to Firtash." ¹⁰

However, it should be noted that D. Firtash is an extremely flexible politician who is able to reach new compromises in the changing situation. Thus, on March 24 Firtash from Austria called Ukrainian oligarchs to assist the Ukrainian government and the army. In particular, the mechanisms of help are already being developed in the Federation of the employers headed by Firtash. According to experts, the following acts of Firtash aim at reconciliation with the new government (just as Akhmetov does). Because, after all, business of Firtash is in Ukraine.

Conclusions. The case of D. Firtash potentially may have far-reaching and diverse political consequences. However, despite the experience of investigation of similar cases in the past which indicates a long-term nature of similar legal procedures, the process is unlikely to be quick, which will significantly influence the politics in the nearest future. Obviously, the major Ukrainian oligarchs associated with the Party of regions (group of Firtash-Lyovochkin) today are trying to "rehabilitate" in the eyes of the current government. One must also take into account the fact that since the beginning of protesting events on the Maidan Firtash has been seen as one of the initiators and sponsors of these mass protests in the capital - in particular, because of his disagreement with the position of "family" and his adherence to the course of European integration. People's deputies who left Party of regions after dispersal of protesters on November 30 were representatives of Firtash group. Sanctions against Firtash do not give him the opportunity to properly conduct business in Ukraine, so the best option these days is demonstration of

¹⁰ Klytschko told about his "partnership" with Firtash. - Ukrayinska Pravda. - Mode of access: <http://www.pravda.com.ua/news/2013/12/11/7006414/>

loyalty. So Firtash will have enough time to correcting his behavior and adapting to the new situation.

Event No 2. *The dismissal of large economic structures' directors.*

Analysis. This week the head of "Naftogaz Ukraine" E. Bakulin who is a protégé of J. Boyko and D. Firtash has been arrested. Also the first deputy chairman of this company H. Yuryev and its director S. Vinokurov have been dismissed. In addition, the chairman of NAK "Nadra Ukraine" V. Ponomarenko has been discharged by the government decision. In connection to the events in Crimea, "Chornomornaftogas", a state joint-stock company which is a part of "Naftogaz", was captured by the Russian military and transferred to "Gazprom" on March 14.

By the decree of the Cabinet, General Director of "Ukrzaliznytsia" C. Bolobolin was also dismissed "at his own request". However, this dismissal should be acquired regarding the fact that recently "Ukrzaliznytsya" has often been criticized for raising tariffs, the dubious quality of purchased Hyundai trains, and other shortcomings. It requires from the new leadership of "Ukrzaliznytsia", first of all, a plan to reforming the industry, optimization of costs and eliminating corruption.

Acting President of Ukraine Oleksandr Turchynov appointed J. Tereshchenko as CEO of "Ukroboroprom". This is the third CEO appointment during the last month in this quite important state company. On March 7 V. Drozd was appointed as CEO, but, according to reliable sources, under her direction the company has continued to deliver goods to the Ministry of Defense of the Russian Federation. After she had been dismissed, a week later People's Deputy from "UDAR" S. Averchenko - one of the Maidan's majors - was appointed. But he seems to have been unprepared for the effective execution of these functions. Unlike this politically motivated decision, Y. Tereshchenko is an experienced person who has been working in military-technical cooperation sector for over 20 years (the Deputy Secretary of the National Security and Defense Council, the director of "Spetstehnoeksport", acting deputy director of "Ukrspecexport").

Conclusions. The dismissal from the foregoing positions the representatives of the former government demonstrates the implementation of a course on staff renovation in the system, as well as its clearance from representatives who became the conductors of large corruption schemes and participants of state property's embezzlement, thus demonstrating total helplessness in management of state assets. Obviously, the policy of staff renovation and

elimination of corrupt practices' mediums will continue and enclose other representatives of large state enterprises and corporations. However, this should not turn into a campaign of "settlement of accounts", just because it can threaten with concerns regarding the guarantees of property rights in Ukraine and further deterioration of the investment climate.

FOREIGN POLICY

Ukraine – EU bilateral relations

Event No 1. *On the 21st of March, the European Union and Ukraine signed the first part of the Association agreement between these international actors.*

Analysis. The so-called “political part” of the association treaty includes the following components:

- General principles (issues of democracy, human rights and the rule of law as stipulated in the statutes of the UN and the OSCE.).
- Accepting a course for reforms in the government (eradicating corruption, increasing transparency of governmental agencies, increasing the prices for energy resources and municipal services for the citizens).
- Preparation of Ukrainian institutions for cooperation with their EU counterparts.
- Preparation for the signing and enactment of the “economic” section of the Association agreement.

It is worth mentioning that the recently signed treaty did not include the traditional provisions on issues in the sphere of regional and international justice and law-enforcement.

The signing of the economic part of the agreement is planned for this summer and is predicated on Ukraine holding fair and transparent presidential elections at the end of May (based on the statements of the Prime Minister of Ukraine Arseniy Yatseniuk and Štefan Füle, the European commissioner responsible for enlargement and the EU neighborhood policy). The head of the Ministry of Economic Development of Ukraine Pavlo Sheremeta also announced that it would take his country approximately six months to fully integrate the economic changes of the Association agreement.

Additionally, it is becoming quite clear that both the representatives of the EU and of Ukraine view this international contract not only as an instrument of European integration, but also as a way to influence the foreign relations between Russia and Ukraine. The ambassador of Ukraine to the EU Konstantin Yelisseyev underlined that the signing of the first part of the Association agreement is a show of support of Ukraine’s **territorial integrity** by Europe and a route to closer cooperation in the sphere of international security. Yelisseyev also remarked that the signing of this document is a confirmation of Ukraine’s

ambitions for European development and is likely to translate into the signing of the statute of the International Criminal Court (accompanied by the corresponding changes to the country's constitution).

On a similar note, the Minister for Foreign Affairs of Sweden Karl Bildt declared that supporting the political and economic development of Ukraine is an effective way to counterbalance Russia's aggressive regional strategies. "...helping Ukraine achieve success is important to us, as the deciding factor [in European security] will be what Ukraine can achieve in two, five, ten years from now", - said the head of the Swedish diplomatic agency.

Apart from the obvious aspects of European integration, the signing of this treaty reaffirms Europe's recognition of the new government of Ukraine **on a legal level**, which is monumentally important in terms of European political procedure and etiquette. It solidifies the support of Kyiv from Brussels, which is especially important in light of the Russian position as to the supposed "illegitimacy of the new Ukrainian government".

Conclusions. To finalize issues of future European integration processes, the EU is sending a high-ranking delegation to Ukraine, aimed to stay during March 25-26th. The delegation will be headed by Štefan Füle, the European commissioner for the enlargement and the EU neighborhood policy. It is quite likely that the European side's goal in this political visit is to negotiate both its official and unofficial conditions for the support of Ukraine in its conflict with Russia, as well as for the prospects of Ukraine's actual accession into the European Union. It is important to remember that the signing of the political part of the Association agreement is, at this moment in time, not a complete guaranty of a fast integration process. Rather, it should be seen as an opportunity for Ukraine to create closer ties with Europe and use those as a basis for successful institution-based integration.

Event No 2. *The Prime Minister of Ukraine, Arseniy Yatseniuk has announced the government priorities in its cooperation with Germany.*

Analysis. This was a result of bilateral talks held between him and the Minister for Foreign Affairs of Germany, Walter Steinmeier. Among the declared priorities were: the supply of natural gas to Ukraine to strengthen its energy independence from Russia, cooperation in the sphere of battling corruption and the apprehension and punishment of those guilty of embezzling from the government budget of Ukraine in the past. The officials also discussed the possibilities of military and technical cooperation and the Germany's support in the modernization and reinforcement of Ukraine's armed forces.

Currently, one of the most important aspects of this announcement is the issues of the “reversed” supply of natural gas to Ukraine from Germany and Slovakia, as the “gas war” still remains an effective instrument in the hands of Russia when it comes to financial pressure on Ukraine.

Conclusions. The strengthening of ties between Ukraine and Germany has an extremely high level of influence on Ukraine’s relations with the EU in general. This is explained by the fact that Germany, along with France, functions as a political and economic “engine” of the Union and is the initiator of the most ambitious projects of European integration. Consequently, its position in many ways defines the overall tempo and effectiveness of Ukraine’s accession into Europe’s political and economic framework. At the same time, Germany has incredibly valuable assets tied in the economy of Russia, which it would obviously not want to lose or diminish. This could create a potential willingness to agree with Russia’s diplomatic and political reasoning. However, in the atmosphere of increasing Russian aggressiveness in the geopolitical scene, Germany will most likely be forced to prioritize issues of European security and development over national economic considerations.

Ukraine in international organizations

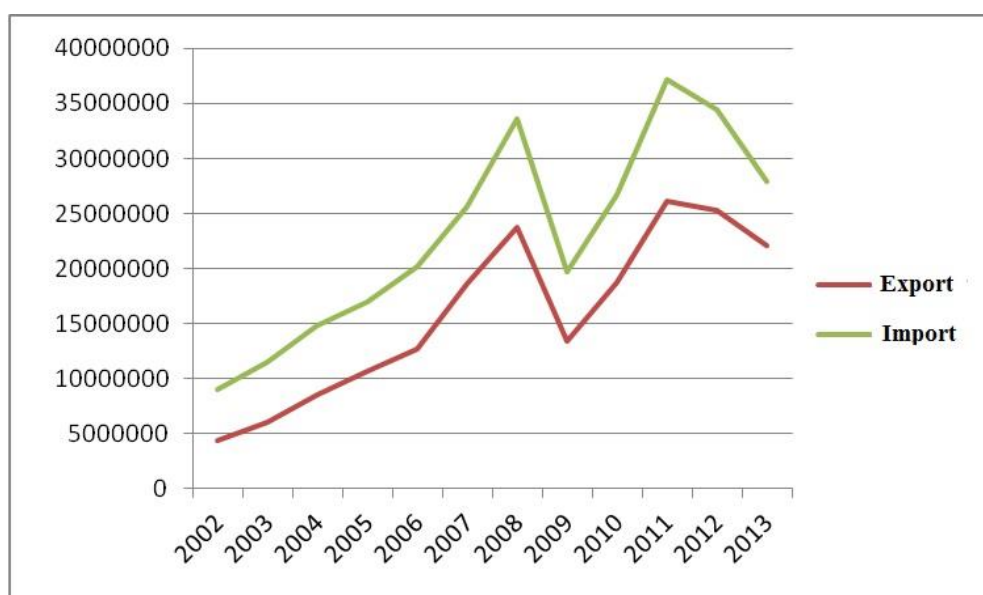
Event No 1. *Ukraine has initiated the procedure of terminating its membership in the Commonwealth of Independent States due to the organization’s ineffectiveness in solving the problems placed before it today, chief among them – Russia’s military aggression in the Crimea region. The corresponding public statement has been given by the Secretary of the Security and Defense Council of Ukraine Andriy Parubiy on the 19th of March. In connection with this decision, the permanent representative of Ukraine to this organization, Ivan Bunechko, has resigned from his post. Ukraine has also refused to vote in the various organs of the CIS, a duty which it had been assigned since the beginning of 2014.*

Analysis. Formally, the direct motive for the adoption of such a decision was the fact that the members of the CIS had refused to convene in a special meeting dedicated to the issue of the Crimean crisis. Furthermore, some of the member states (Kazakhstan, Armenia) officially recognized the referendum held by the self-proclaimed government in Crimea as legitimate, or have stated that “the peninsula has de-facto become part of the territory of Russia” (statement by the Belarus leader Aleksander Lukashenko). It should be noted however, that Ukraine has never been a fully-fledged member of the CIS as it refused to ratify its statute in 1991. Instead, it has been functioning all these years on “observer” status. Moreover, those members of the CIS that aimed at

the deepening of mutual integration have, during the course of modern history, chosen the path of creating organizations independent from the CIS structure: the Eurasian economic community, the Customs Union, the Common Economic Space and finally – the Eurasian Union (starting from 2015). The forming of these institutions has considerably lowered the credibility and respect of the CIS as a Eurasian integration structure. During the years of its existence, the CIS has more than once demonstrated its inability to regulate and solve issues of regional conflicts (which lead to Georgia leaving the organization in 2009, after the military occupation of Abkhazia and Southern Ossetia by Russian armed forces in 2008).

The primary value of the CIS for Ukraine is the Free trade zone treaty signed in the framework of the organization on the 18th of November 2011. In relation to this document, some experts, both in Ukraine and in Russia express concerns as to the economic consequences of Ukraine leaving the organization, which could possibly create difficulties in cross-border trade, investments and the free movement of persons and capital. Special concerns are voiced as to the export of animal products (meat, dairy etc.) as they will need additional veterinary certifications on an international level (currently they are certified within the framework of the CIS).

On the other hand, many other Ukrainian economic analysts state that financial losses for the country's economy will be minimal, highlighting that Ukraine had already been very superficially involved in the economic activities of the CIS. Even though it was part of the Free trade zone, Ukraine had, in recent years, been lowering its trade level with the member states of this regional organization (see chart below).



*The dynamics of export and import trade of Ukraine with the CIS member states
(in thousands, US dollars)*

It should be considered that even the exclusion of a country from the CIS, as evidenced by the experience of Georgia, does not necessarily mean its exclusion from treaties previously adopted in the organization. As a result, the agreement on the Free trade zone could theoretically remain in force for Ukraine, unless certain member states of the Commonwealth unilaterally refuse to cooperate with it.

Furthermore, we should keep in mind that the economic part of the Association agreement between Ukraine and the EU, which is planned to be signed after the presidential elections could considerably diversify the financial flows to Ukraine's market, as well as open the European markets for Ukrainian companies. Until then, Ukraine can be effectively aided by the temporary lifting of the customs barriers by the EU, which is projected to bring a profit of around 400 million dollars only in the first year of its existence. This is especially true in regards to agriculture products, which are a prominent Ukrainian export and would benefit greatly from the lack of economic barriers in Europe.

Conclusions. The declaration regarding Ukraine's withdrawal from the CIS is a direct reflection of the fact that it considers the organization ineffective in its regional activity, specifically in connection with providing national security and safeguarding the territorial integrity of Ukraine. However, this withdrawal does not necessarily conclude that Ukraine plans to sever ties with the CIS member states, nor does it plan to denounce the previously ratified CIS treaties. As to the possible financial losses, they can be amended by deepened economic cooperation with the countries of the European Union, made possible by Europe basically admitting Ukraine into its Free Trade Area.

Event No 2. *The Organization for Security and Cooperation in Europe has agreed upon a plan for an observer mission to Ukraine.*

Analysis. In the early stages, the mission will consist of 100 civilian observers and will have a planned duration of 6 months. Its mandate will be subject to renewal and continuation in the case of the appropriate request on Ukraine's part. In the starting stages of the mission's activity, the observers will be sent to 9 regions of Ukraine. The main office will be situated in Kyiv. The mission itself will be aimed at monitoring issues of civilian and military security, human rights and freedoms (especially in the eastern and southern regions of the country). According to a statement issued by the head of the diplomatic agency of Germany, Walter Steinmeier, in the future the staff of the mission is planned

to be increased up to 400 individuals. Mr. Steinmeier also expressed his hope that the presence and activity of the mission will help to de-escalate the situation in Ukraine.

It should be noted that despite the fact that the Ukrainian representatives in OSCE expressed the desire for the mission's mandate to include the territory of Crimea, due to Russia's political sway in the organization (of which it is also a member), **the Crimean peninsula was excluded** from the geographic jurisdiction of the mission. This decision might possibly be connected to the announcement made on the 22nd of March by Russia's representative to the OSCE Andrey Kelin that **the Russian Federation would not allow OSCE observers to enter the territory of Crimea**.

The OSCE also intends to provide approximately 1000 observers to monitor the presidential elections taking place in Ukraine in May. The arrival of this particular mission is planned for the 28th of March. An important point to consider in regards to the above is that the OSCE is a traditionally much more effective organization when it comes to monitoring political processes and elections than it is in regulating military conflicts. Basically, in recent years the organization specialized in missions that controlled parliamentary and presidential elections in their fulfillment of the norms of European and international law, as well as the widely accepted standards of democracy.

Conclusions. In light of the above, it would be logical to view the mission mandated to observe the military crisis connected to the Russian intervention into Ukraine as a political gesture aimed at lessening the tension in Ukrainian-Russian relations. The observer mission sent to monitor the presidential elections, however, is a much more pragmatic venture, most likely tied to the process of Ukraine's European integration. Another effect of the missions' presence in Ukraine is the further legitimization of the current Ukrainian government, as it continues to successfully cooperate with European regional institutions.

Event No 3. The main decision-making body of the Council of Europe – the Committee of Ministers has condemned the military occupation of the Crimean peninsula by the forces of the Russian Federation, as well as the referendum held in Crimea on the 16th of March, as such that break both Ukrainian and international laws.

Analysis. It is worth noting that the Council of Europe is an organization primarily focused on issues of human rights and rule of law, it does possess any legal power to directly influence the military forces or governments of

European states. Its decisions and recommendations are not legally binding. However, the Council of Europe is a platform for political statements, and as such is extremely useful in gauging the tendencies and views dominant in the European political scene.

The non-recognition of the Crimean referendum by European political forces means that Russia and Crimea as its part could have serious problems in developing foreign relations on the European continent. In practice it could become a prelude to a partial blockade of trade activity, investments and personal contacts with representatives of the Russian Federation.

Conclusions. The position of Russia in the Council of Europe is likely to become extremely complicated and Ukraine might have the opportunity to actively use the political mechanisms of the Council to find solutions to the problems created by the Crimean crisis.

Ukraine - Russia conflict update

Event No 1. *On March 17, the Ministry of Foreign Affairs of Russia has released a statement with its demands, after the fulfillment of which it is ready to cooperate on a governmental level with the Ukrainian authorities.*

Analysis. The key demands voiced by Russia were:

- Federalization of Ukraine based on a new “federal constitution” according to which separate regions can choose most of their local officials via direct elections.
- Granting an official governmental status to the Russian language, and granting other minority languages a status in accordance with the European convention on regional and minority languages.

Taking into account the fact that the aforementioned convention is already ratified and has been acting in Ukraine for a number of years, this demand essentially boils down to granting the Russian language preferential status in government agencies and leaving the current status of other languages unchanged.

- Committing to political and military neutrality on a constitutional level.

Note the use of the term “political neutrality”, as opposed to just military neutrality. Such a broad definition would allow Russia to forbid Ukraine from entering even political-economic organizations such as the European Union.

- Recognition of the Crimean referendum as legal, and recognition of Crimea as a new region of Russia.

The Ukrainian government is obviously unwilling comply with these demands, which in almost all their components would be detrimental to the stability of the country. Such a list leads to a political and diplomatic stalemate in the countries' bilateral relations. This is further proven true by the meeting between the heads of the diplomatic agencies of Ukraine and Russia on the 21st of March in Hague, Norway (Andriy Deshytsia and Sergey Lavrov respectively). The Ukrainian Minister stated afterwards that the meeting did nothing to move the diplomatic relations of the two states forward, essentially keeping them stagnant.

However, the fact that the meeting took place at all is a politically significant moment, as it signifies at least a temporary departure from the Russian tactic of ignoring the new Ukrainian government altogether: during the early stages of the Crimean conflict, the MFA of Russia refused to have any contact with its Ukrainian counterpart.

Conclusions. It is more than likely that the officials in Moscow recognize the unrealistic nature of the demands made public in this list. They also realize that it is not very probable at this stage that these conditions will be met by the Ukrainian side. This signifies that the document is either meant as a basis for further negotiations or as an excuse (presented for the eyes of the international community) for Russia's possible intervention into the Southeastern regions of Ukraine. More specifically, the issue of federalization and the status of the Russian language may be used as a tool to destabilize the situation in the Russian-speaking regions of the country.

Event No 2. *The main governmental procedures of including Crimea into the Russian Federation have been completed in Moscow.*

Analysis. On March 18, Vladimir Putin made an appearance with a speech before the Russian Federal Assembly, in which he proposed to adopt legislation which would allow the inclusion of Crimea and the city of Sevastopol as territorial subjects of the Russian Federation. Analysts note the highly charged and pronouncedly nationalist nature of the speech: accentuated criticism of Western policies; the creation of a public image of the Russian military incursion into Ukraine as a peacekeeping force rather than an invasion; the presentation of the inclusion of Crimea as a triumph and a Russian national achievement.

The signing of the treaty between the self-proclaimed government of Crimea and the Russian dignitaries, that would allow the peninsula to join Russia as a new region took place on the same day and was ratified 3 days later in the upper house of the Russian parliament. On the 20th of March, the lower house of parliament ratified the decision of President Putin in regards to Crimea with 445 votes for and 1 vote –against the inclusion.

As such, the main formalities in regards to accepting Crimea into the federative structure of Russia were completed in the course of 4 days. Specifically this speed and streamlining of bureaucratic procedures allowed Russia to successfully gain control of Crimea without any serious resistance on the part of Ukraine or the international community.

Conclusions. The practical establishment of military and political control over the Crimean peninsula, without the compliance with the norms and principles of international law (or even political status quo), creates a deepening controversy between the factual and formal statuses of Crimea as a national territory. The latter is not recognized by the international community, which essentially isolates the peninsula from international trade, cooperation and tourism and puts it in complete dependence of Russian financial and political support.

Event No 3. *On March 20 Parliament of Ukraine adopted the Declaration on the fight for the liberation of Ukraine. This bill was supported by 274 deputies.*

Analysis. On March 19 the annexation of the Autonomous Republic of Crimea (hereinafter - the ARC) was de-facto executed by the Russian Federation. It was based on the results of the Crimean "referendum", which took place on March 16, 2014 and was organized by the local authorities of the ARC with the involvement of the armed forces of the Russian Federation.

In this context it is necessary to analyze the regulatory framework of Ukraine and determine whether the fact of referendum held in Crimea fulfills Ukrainian legislation. Article 73 of Chapter III of the Constitution of Ukraine states that the issue of change of Ukrainian territory should be imposed exclusively for an all-Ukrainian referendum. Furthermore, to change Ukrainian territory it is necessary to sign the relevant international treaty with another country, to adopt the Law on Ratification of that treaty by Parliament of Ukraine, and only then to approve an all-Ukrainian referendum on the issue. Of course, the ARC has its own Constitution, and the right to appoint Republican (local) referendums is on matters relating to the authority of the ARC. Under the Constitution of Ukraine, the issue of territory's change does not belong to the

jurisdiction of the ARC. And in the Supreme Law of the ARC it is declared that in case of the contradictions between the laws and decisions of the Crimean and Ukrainian governments the regulations of the Constitution of Ukraine act.

In addition to this, an appeal of the leaders of Russian Federation to "the right of peoples to self-determination" in accordance with the UN Charter (clause 2 Art. 1) and the Declaration of principles of international law (1970) are groundless. Because the realization of the principle of self-determination should happen only in the context of respecting of all basic principles of international law in their unity and interconnection. The Declaration of principles of international law (1970) notes that "nothing in this Declaration shall be construed as mandating or encouraging any action which would lead to the dismemberment or to partial or complete violation of the territorial integrity or political unity of sovereign and independent States", and, therefore, each government should "refrain from any action aimed at the partial or total disruption of the national unity and territorial integrity of any state or country". The provisions of the Helsinki Final act (August 1, 1975) operates in the same direction, among the fundamental principles of which are the following: "II. The non-use of force or threat of force", "III. Inviolability of the borders", "IV. Territorial integrity of States". The implementation of the principle "VIII. Equal rights and the right of peoples to decide their own destiny" is directly associated with the norms of international law "including those which relate to the territorial integrity of States".

It should be also implied that the right to self-determination, which the Russian Federation and Crimean separatists appeal to, belongs to the *peoples*. And in this respect it is impossible not to share the doubts expressed by the leaders of the Majlis of the Crimean Tatar people concerning that the indigenous people of Crimea is exactly the Crimean Tatar people. And the right to self-determination can be referred exclusively to them, but not to some unknown "people of Crimea".

In two days before this event the acting President of Ukraine O. Turchynov on a briefing for journalists said that Crimea - despite the attempts of its annexation - would belong to Ukraine. He stressed that Russia's actions are "an attempt to destabilize the situation in the world and Europe".¹¹ In general, such a statement made by Turchynov could be considered political, as it was said nothing about the mechanisms that Ukraine will use towards it.

¹¹ A. Turchynov: Crimea is the territory of Ukraine. - Official web-site of the President of Ukraine. - Mode of access: <http://www.president.gov.ua/news/30156.html>

In particular, it is necessary to understand that such course of events was a direct consequence of the weakness of Ukraine, primarily in its economic, political, social, military and security spheres.

In this context the order of the National Security and Defense Council on redeployment of Ukrainian military units from the occupied territory of the Crimean Peninsula has quite important meaning. According to it, Ukrainian soldiers' families, who are at risk, should be evacuated by authorities. Also evacuation from the territory of Crimea of law enforcement bodies of Ukraine, public servants and certain categories of citizens, who have expressed such a wish, should be guaranteed.

Making such a decision was prompted by a number of negative phenomena: the actual overlap of connections between mainland Ukraine in Crimea and establishment of the borders there, the phenomenon of abduction of the Ukrainian military, blocking of Ukrainian army units in Crimea by Russian military, the seizure of military equipment and most of Ukrainian ships, the increasing number of cases of Ukrainian military transition to Russian side (such a decision was made by about half of Ukrainian servicemen).

However, the central government failed to give an opportune order to the Ukrainian military to leave the territory of the peninsula because of the fears that it could be understood as the recognition of a Crimea's disconnection from Ukraine. And only after the actions of Russian servicemen had started (which had, in particular, been followed by kidnapping of the Ukrainian officers, using force while assaulting military units, etc.), the appropriate decision was made.

Conclusions. If a local referendum in the Crimea on March 16 was a violation of not only the norms of the Constitution of Crimea, but also the norms of the Constitution of Ukraine, the results of that referendum are not valid on the territory of our country. Most countries in the world also adhere to such a standpoint. Thus, actions of the Russian Federation are a direct violation of international law, along with Russia's claims to unilateral revision of the world order established after the World War II. The returning of Crimea to Ukraine will be, apparently, a lengthy and difficult process which will require mobilization of the full potential of Ukrainian state, along with the proper use of external assistance of the world community. It is obvious that the Crimean conflict resolution (peacefully or by employing force) will not be in favor of Russia because foreign governments have already started the first phase of sanctions against Russian officials, which has greatly reduced the economic ratings of this country.

Event No 4. *Ukrainian-Russian military interactions in Crimea remain extremely tense. The tendency for the diminishment of Ukrainian military influence and the increase of Russian influence remains prominent.*

Analysis. As of the 24th of March, according to the data of the Ministry of Defense of Ukraine, approximately 50% of the military personnel based in Crimea have expressed the desire to either stay in the region or to join the military structure of the Russian Federation. However, the focus of military activity, as well as the methods employed by Russian troops, groups of tactical support (including in the informational and paramilitary spheres) has gradually changed during the course of the conflict. While during the early stages of the operation in Crimea, the armed forces of Russia concentrated their efforts on blockading Ukrainian strategic sites, now this tactic has been replaced which much more aggressive maneuvers.

The methodology of the conflict has changed as well: during the first phase of the Crimean occupation, the accent for Russian activity was made on psychological warfare against the Ukrainian forces. Ukrainian media and government agencies received numerous reports of blackmail and attempts of bribery of Ukrainian officers of strategically important bases/units. The isolation of local military divisions from journalists and the media also increased the tension and psychological pressure on the Ukrainian soldiers. The main goals in this phase of the incursion operation were: provoking Ukrainian troops into violence to justify further use of force by Russian troops; the establishment of the public image of the Russian forces as a “peacekeepers” one rather than “invaders”; the quick demoralization of the Ukrainian armed forces and mass recruitment of the high ranking officers.

During the course of March, the methods of Russian military operation gradually escalated both in speed and in violence. There were a few contributing factors:

- The “political reconnaissance” phase ended. It was meant to gauge and analyze the readiness of the Ukrainian government and the international community to respond to Crimea’s occupation. Once the analysis was done, it allowed high ranking Russian officials to assess how radically they could act in the situation and how widely they could use force.
- The tactic of provoking the local military was mostly a failure, as well as the tactic of fast recruitment of officers into the ranks of the Russian army. This process turned into a stalemate and saw no progress for weeks.

Because of the abovementioned circumstances, as well as the new orders issued by the Russian command, the “blockade” strategy was cancelled and the Russian troops proceeded to storm and occupy Ukrainian military bases. At the same time, the aspect of Russia’s political and international image remained important to its political elite, evidenced by the fact that most of the military activity remained bloodless (the main exception was the death of a Ukrainian soldier on the 18th of March). The fact that the invading troops did not widely use firearms was compensated by the use of local paramilitary groups, flash-bang grenades and other means of “suppression”, hand-to-hand combat and as specialized equipment (such as armored transports and military vehicles).

The decision of Ukraine’s Ministry of Defense that gave permission to the country’s troops to use firearms in self-defense did not drastically change the situation, due to two main reasons:

- The psychological lack of desire of Ukrainian soldiers to open fire, as they realized it could lead to massive bloodshed.
- The enormous advantage in firepower and numbers on the side of the Russian army (according to numerous analysts, most divisions that stormed the Ukrainian bases belonged to Russian special force units). This advantage allowed the successful takeover of bases enforced just by the threat of use of force, with only minimal use of it in reality.

Overall, the soldiers of the Russian Federation succeeded in capturing a large number of strategically important sites in Crimea, including photogrammetric, rocket and artillery division bases, as well as other government objects throughout the peninsula. Another sign of the escalation of the methods on the Russian side was the taking of hostages, both from the ranks of regular soldiers, and from the ranks of officers such as colonel Mamchur, abducted on the 22nd of March. It is also worth noting that the release of hostages was highly sporadic and varied in motivation. The release of rear admiral Sergiy Gayduk should not be seen as part of a greater tendency, as the admiral might have been released due to close personal ties with Russian military leadership, formed during the existence of the Soviet Union. According to some sources, the order to release this officer was issued directly by the Russian Minister of Defense, Sergiy Shoygu.

Special dedication was demonstrated by the Russian naval forces in regards to the task of capturing Ukrainian military ships. Among those already under Russian control are: the command ship U510 “Slavutych”, “Kostiantyn Olshanski”, the submarine vessel “Zaporizhia” and the trawler ship

“Cherkassy”. Forces of the Ukrainian Navy refused to surrender and resisted the attempts to capture the vessels. However, due to vast superiority in number of the Russian side, they were eventually forced to lay down arms. The Russian Federation’s Navy also sunk three of their ships to block the entrance to lake Donuzlav (on the side of the Black Sea) to prevent the escape of Ukrainian vessels. It should be fully understood that the strategic value of access to Crimean ports as a tool to control Black Sea naval activity far exceeds the value of the lost Ukrainian ships, most of which are in a poor technical state and disrepair. In the light of the above, it is not surprising to hear the announcement by the Russian Navy admiral Chirkov that Russia plans to reinforce its presence in Crimea by six military submarines.

Direct foreign military support of Ukraine (for example from the forces of EU or NATO) remains highly unlikely. The Secretary General of NATO made a statement to that effect on the 19th of March, announcing that the Crimean crisis “should be solved in a peaceful manner, by political instruments” and that the Alliance does not currently have any plans to send troops to the peninsula. Additionally, the organization voiced its concerns as to the massing of Russian troops near the Ukrainian borders. The amount of these forces has been estimated to be approximately 83 thousand by the coordinator of the “Informational resistance” group, Dmitro Tymchuk.

At this moment in time, based on the decision of its Security and Defense Council, Ukraine is conducting the partial evacuation of military personnel to the continent. Among those already transported to the mainland are the 25th paratrooper division and the marine division from the Crimean Feodosiya district.

Conclusions. Further development of events still remains extremely unpredictable, tense and subject to considerable risks. The permanent representative of Russia to the European Union announced on the 23d of March that his country has no intentions of moving its troops beyond the boundaries of the Crimean peninsula. However, this statement cannot and should not be considered a guaranty of peace in the current situation. Moreover, even if Russia abstains from using its regular armed forces in mainland Ukraine, it is still not restricted from destabilizing the situation with less conventional methods (an example of that are the dozens of Russian soldiers in civilian clothes apprehended on the Ukrainian border, smuggling weapons and special equipment).

Further proof of the possibility of military action on the territory of Ukraine is the recent (March 25) announcement by its Ministry of Defense that the

country's armed forces are preparing to repel any outward aggression, as well as reinforce border posts.

Military-political cooperation

In the atmosphere of high military and political tension between the Russian Federation and Ukraine, it has become extremely important for the latter to redirect its objectives of military cooperation towards new partners, especially those that are members of the EU or NATO.

Analysis. The military-political policy of Ukraine in relation to other states has so far had a moderately active character, however, some aspects of cooperation in this field between Ukraine and the countries of Western and international organizations is worthy of mentioning:

Starting from March 19th, Ukraine has held negotiations with representatives of the Ministries of Defense of Lithuania and Poland in regards to the creation of a shared military battle group. Announcements to that effect have been made by the representative of Poland to the European Parliament Pavel Koval, as well as the Minister of Defense of Lithuania Jouzas Olekas. It should be considered that a similar model of military cooperation is traditional for members of the European Union and the current events can be seen as a transitional stage of cooperation, preparing Ukraine for integration into the military framework of the EU in the future.

Great Britain is scheduled to take part in large-scale military exercises with the Ukrainian armed forces. This information was supplied on the 20th of March by the Russian informational agency ITAR-TASS with a reference to materials of the British media outlet The Guardian. According to official data from NATO sources, the exercises have been scheduled under the "Rapid Trident 2014" program and aim to "improve regional stability and cooperation between the armed forces of the USA, Ukraine and other countries of the North Atlantic Alliance." The training maneuvers will take place in the Lviv region of Ukraine.

Another important statement in the sphere of international military and political partnership was made on the 23d of March by Michael Rogers, Chairman of the House Intelligence Committee of the American Senate. Mr. Rogers announced that he intends to discuss with the appropriate US authorities the possibility of providing the Ukrainian army with modern weapons and equipment. According to the senator, such a step would be a clear demonstration of America's position to the Russian officials.

Conclusions. The events discussed above underline the fact that the countries of the West have a concrete intention of reinforcing Ukrainian political and military capabilities in Europe as a buffer country that would impede the geopolitical ambitions of the Russian Federation. At the same time it is abundantly clear that the physical intervention of NATO/EU troops still remains an extremely unrealistic scenario.

International trade and economic activity

Event No 1. *Ukraine faces the process of considerable revisions and changes in its foreign economic ties.*

Analysis. The Crimean crisis has transferred significant parts of the Russian-Ukrainian market into a zone of high financial risk. Until recently, trade disputes had an episodic nature and were mostly caused by temporary political processes. As a general rule (with the exception of the arbitrary changes in the prices of natural gas) they did not have an inherently destructive influence on bilateral economic relations. However, with the start of the conflict in Crimea, these disputes became systematic and began to be supported on a governmental policy level by the Russian Federation. At the same time, the unilateral lifting of trade barriers for Ukraine by the EU serves to motivate Ukrainian companies to move into European markets.

The data published on the 24th of March by the Government statistical service of Ukraine further illustrates a complete collapse of many sectors of bilateral trade between the two countries. The export of goods from Ukraine to Russia has shrunk by 32.6% in the time period between January 2013 and January 2014, the import - by 14.9%. Ukraine has also lowered its acquisition of Russian fuel, oil and oil products by 18.8% and other goods - from 25 to 50%. A clear sign of change is that during the same period, Ukraine's export of goods to Europe has increased by 11%, including: to Germany – by 15.2%, to Poland – by 22.5%, to Bulgaria – by 26.8%, to Romania – by 27.4%, to Belgium – by 44%, to the United Kingdom – by 45.8%, to Portugal – by 90.8%.

The losses in bilateral trade between Ukraine and Russia were a result of a number of measures taken by Ukraine's northern neighbor that disrupted the trust in economic relations. For example, on March 19th the Russian Federation completely closed its borders for the import of Ukrainian goods. This action was explained due to a supposed "risk of import of illegal objects, including various weapons". And even though the border was opened again on the 20th

of March, this foreign policy enactment demonstrated the risks of conducting Ukrainian business ventures within the Russian Federation.

Additionally, the confectionary factory of the Ukrainian corporation Roshen was closed down in Lipetsk, Russia on the 19th of March. According to local media, the authorities were investigating the financial affairs of the company. Its Russian bank accounts were frozen on the 14th of March. Representatives of Roshen stated that the suspicion towards the corporation is unfounded and the criminal investigation is falsified, used as tool of political blackmail.

The two events detailed above create a reasonable suspicion of a policy of economic pressure against Ukrainian businesses in the country, similar to the tactics used in the past against Ukrainian agricultural and confectionary companies, as well as Polish exporters of dairy and meat products.

Meanwhile, the Minister of energy and coal industry of Ukraine Yuriy Prodan has already stated his concerns as to the possible problems with Russian gas supply in relation to a considerable rise in prices, remarking in his press-conference in Brussels that "... the issue of reversed gas supplies [from Europe] is a vital one for us. We have decided to create a committee which will work with secretariat of the European commissioner [for energy] starting from next week." Yuriy Prodan also mentioned that the Ukrainian government intends to pay its existing energy debts using the financial aid from the International Monetary Fund. Meanwhile, Russia is basing its increase in prices on Ukraine's current debts and the cancellation of 100 dollar price discount from the Kharkiv treaties.

These negative changes in Ukrainian-Russian economic relations only accentuate the strengthening of the country's ties with Europe: on the 20th of March, the European Parliament Committee on international trade upheld **the decision to remove trade and customs barriers** for Ukrainian goods within the European Union. The decision was supported by 22 out of 25 members of the committee. The project agreed upon by this body envisions the provisional cancellation of 98% of import taxes which will give Ukrainian companies the ability to save approximately 487 million euros per year.

This step is essentially the application of the economic provisions of the Association agreement with the EU despite the fact that this part of the treaty has not yet been signed by the parties. It is a decision motivated by the desire to support Ukraine in overcoming its political and financial crisis. The main practical difference between this measure and the traditional legal obligation of this kind is that the EU reserves the right to renew the barriers if Ukrainian

imports considerably threaten the well-being of the European market. The European institutions also included the condition that the imported goods have to meet the trade and sanitary standards of the country they're sold in.

These changes are expected to enter into force from the beginning of May and should last either until the 1st of November or until the signing of the economic section of the Association agreement. The changes are unilateral and don't require Ukraine to reciprocate.

On the 22nd of March, Ukraine also plans to renew negotiations with the government of Canada as to a mutual Free trade area agreement. However, the economic ties of these two states have so far been much weaker than their political and cultural ties (Canada is host to one of the largest Ukrainian Diasporas in the world). The trade turnover between Canada Ukraine reached only 165 million in 2010 and only 115 million in 2012. Regardless, a Free trade area treaty could considerably increase the significance of these economic relations.

Conclusions. The escalation of the Crimean crisis will undoubtedly stimulate even further reductions in economic ties between Ukraine and Russia and will facilitate the reorientation of Ukrainian businesses towards other countries of the world, most importantly – members of the EU and other states with which bilateral FTA agreements are reached.

Event No 2. *The non-recognition of Crimea's new territorial status by most of the international community threatens to isolate the region from any sort of international economic interactions.*

Analysis. Due to the fact that the Crimean peninsula has not been recognized as part of the Russian Federation, the financial risks of operation a business or company on its territory have reached a critical point and may have fatal consequences for the independent economy of the peninsula.

One of the first international corporations to react to this heightening of risks was Shell. On the 19th of March, the company announced that it would be suspending its negotiations in regards to possibilities of the extraction of natural gas on the Black Sea shelf In its public statement, Shell also remarked that this decision would not affect the company's other ventures in the Southeastern regions of Ukraine (*reminder: Shell, along with ExxonMobil, Petron and Nadra Ukraina, was one of the four companies who won the government competition for the rights of extracting natural gas from the Skifska oil and gas field in 2012*).

On the 21st of March, 28 members of the EU adopted the decision as to the urgent enforcement of financial and trade restrictions regarding the Crimean peninsula. According to the British Prime Minister David Cameron, the export of goods from the EU to the Crimean region will only be allowed if it passes through the authorities and the territory of Ukraine, and not Russia. The unrecognized status of Crime also makes it impossible for most international airline companies to operate there, limiting air travel solely to the Russian Federation via its national aviation.

Conclusions. Crimea faces a very real threat of a trade blockade, the halting of all the majority of foreign investment projects and the impossibility of receiving European and North American visas. Coupled with the inevitable reduction of financial ties with continental Ukraine, this creates a complete dependence on Russia financial aid for the survival of the region.

Event No 3. *International financial aid has become the main direction of Ukraine's foreign economic policy aimed at preventing the country's economic collapse.*

Analysis. This current situation is determined by the incredibly difficult economic policy "inheritance" left by the previous government (enormous external debt, high budget deficit, the reduction of the foreign exchange reserves to only 15 billion dollars). Under these circumstances, the European Commission has declared its intention of supplying Ukraine with a loan of 1 billion euros in the coming weeks. The Commission also stated that this loan will be part of a financial aid package agreed upon by the Council of Europe on the 6th of March. Its total size amounts to 11.2 billion euros.

The United States of America and Japan have also stated about their plans to provide Ukraine with financial support to overcome its current economic and political troubles. Japan's financial aid program will come in the amount of 1 to 1.5 billion dollars, announced Japanese Prime Minister Shinzo Abe during the recent summit in Hague.

This declaration is obviously tied to the efforts of the American president Barack Obama to secure the support of Asian states in resolving the Crimean regional crisis. A similar initiative of economic support has also been started by the American Senate, which has adopted a decision to provide a loan of 1 billion dollars meant for the repayment of Ukraine's external debts.

To contrast this, the Prime Minister of the Russian Federation Dmitriy Medvedev recently stated that the Ukrainian debt to his government has been

evaluated at approximately 16 billion dollars. The Russian official remarked that this number includes both governmental and corporate debts, as well as a supposed “loss of profit” in the amount of 11 billion in connection to Ukraine’s inability to fulfill its obligations within the Kharkiv treaties. However, the reasoning behind the demand to compensate this “loss of profit” seems quite illogical: the impossibility to fulfill the aforementioned agreements stems at least partially from Russian’s military actions in Crimea. In light of this fact, the statement of Mr. Medvedev can easily be interpreted as **economic pressure** with a political subtext.

Conclusions. Without considerable financial aid, key among which will be the loan from the IMF, Ukraine could face a serious threat of default and the inability to enact any real economic reforms, including those needed to join the European Union. Additionally, it is extremely important that the funds from these financial aid programs are used to repay external debts and to modernize the production facilities and trade methods of the country, which would prevent excessive acquisition of debt in the future.

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