

## Analysis

### *Back to the Future?*

## Ukrainian-Russian Relations After Kyiv's Presidential Election

By André Härtel, Jena

### Abstract

The victory of Ukraine's two-time former prime minister Viktor Yanukovich in the country's fifth presidential election in February marks an important milestone not only for Ukraine's domestic politics, but also for its foreign conduct. For Moscow, more than any other capital, the victory provokes relief and raises expectations. Since the so-called "Orange Revolution" of late 2004, Russian-Ukrainian relations experienced an unprecedented deterioration. Therefore, almost none of the problematic areas of the bilateral relationship—ranging from energy issues to the Russian Black Sea Fleet in Sevastopol—has seen any significant progress in recent years. Though much of the blame has been put on outgoing Ukrainian president Viktor Yushchenko and his pro-western policies, the current state of affairs between the two countries is also a result of both Ukraine's unconsolidated democracy in general and Russia's lack of a coherent strategy towards its "near abroad". Yanukovich—in contrast to his fierce rival Yulia Timoshenko—is generally assumed to be the more pro-Russian leader who could restore the friendly and pragmatic policy of former president Leonid Kuchma. However, a short introduction to the history and the most pressing issues of the relationship will suffice to show that a simple "back to the future" approach seems unlikely to work.

### The History of an Asymmetric Relationship

Relations between Russia and Ukraine reached their nadir in August last year, when Russian president Dmitry Medvedev accused his Ukrainian colleague in an open letter of conducting an anti-Russian policy. The Russian leader claimed that Ukraine had supported the Georgian army during the war in the Southern Caucasus, violated the agreement concerning the deployment of the Russian Black Sea Fleet at Sevastopol, and engaged in a pronounced anti-Russian historical discourse. This letter continued a negative trend in Russian-Ukrainian relations, which many observers attribute solely to the 2004 Orange Revolution and the subsequent change of power in Kyiv. Indeed, given the two gas crises between the countries in 2005/06 and 2008/2009, the dispute about Ukraine's intensified quest for NATO membership and Kyiv's reactions following Russia's war with Georgia, there were plenty of signs of animosity. Nevertheless, the conventional wisdom now is that the new, allegedly pro-Russian president Viktor Yanukovich will soon turn things around and rebuild the relationship. However, a short examination of the history of the Russian-Ukrainian relationship will demonstrate that the Orange Revolution of late 2004 was no major turning point and that one has to pay attention to both structural and personal factors in projecting the relationship's future development.

Ukraine's first president Leonid Kravchuk simply stood on the sidelines watching as Russia went

through a period of domestic turbulence that continued from the collapse of the Soviet Union until 1993. Accordingly, it was Leonid Kuchma (1994–2004) who helped normalize the relationship between the two former Soviet republics. Whereas the Russians were assured of a non-nuclear Ukraine in 1996, Moscow formally recognized Ukraine as an independent state in the 1997 "Friendship Treaty." Kuchma's pragmatic-realist "multi-vector" foreign policy always walked a fine line vis-à-vis Moscow, vacillating between a very close strategic partnership between two brother-nations and preserving Ukraine's sovereignty. In practice, Kuchma never really challenged Russia's strategic hegemony in the post-Soviet space, but remained outside the political framework of the Commonwealth of Independent States (CIS).

Kuchma's approach owed much of its impact to Russia's unconsolidated and chaotic state of internal affairs during the 1990s. Moreover, Kuchma and Russia's former president Boris Yeltsin had an easy personal relationship since they both belonged to the same generation of initial post-Soviet leaders. After Vladimir Putin's rise to the Russian presidency at the end of 1999 and the subsequent growth of the Russian economy, this picture began to change rapidly. While Russia under Putin tried to re-erect its former great power status especially in the "near abroad," Kuchma's stable authoritarian regime began to disintegrate after the murder of independent journalist Georgiy Gongadze, a crime in

which Kuchma was personally implicated. This critical shift at the beginning of the new millennium made the logic of Russian-Ukrainian relations very clear: the natural degree of asymmetry between both states can only be reduced somewhat in the case of Ukrainian internal stability and Russian weakness. By the time of the Ukrainian presidential elections in 2004, this asymmetry had clearly tilted in Russia's direction.

### “Orange Foreign Policy”—A Failure

Reflecting the deeper logic of Russian-Ukrainian relations, the Orange Revolution in 2004 and the rise of Viktor Yushchenko to the Ukrainian presidency in 2005 do not represent a major turning point. Rather, the new Ukrainian leader had little latitude vis-à-vis the Kremlin, which had already begun to use its dominance in the energy sphere as a foreign policy tool against its neighbors. Yushchenko and his entourage made clear from the beginning that they were willing to push the country's foreign policy in another direction—relations with Moscow were to be subordinated to a “euroatlantic” course while the concept of “multi-vectorism” would be abandoned all together. Whereas “euroatlantic integration” into the EU and NATO had remained pure rhetorical constructs under Kuchma, Yushchenko promised to implement the necessary internal reforms and to make Ukraine a part of these Western institutions as soon as possible.

It is fair to say that, at the end of the Yushchenko presidency, his pro-western policy did not produce much beyond Ukraine's entry into the World Trade Organization. Rather, relations between Kyiv and the EU have reached a standstill, reflecting a climate of mutual misperception and even distrust. Yushchenko was unable to secure political support from Brussels beyond the poorly-received Eastern Partnership Initiative and even on more pragmatic issues, like a visa-free travel agreement or the proposed Free Trade Area (FTA), no results were produced. The NATO-membership initiative, once a cornerstone of Yushchenko's foreign-policy strategy, has developed into an *anathema* for both NATO (which thwarted Kyiv's hopes for a road map in late 2008) and Ukrainian politics. Moreover, the NATO issue stood out mainly as an example of how Ukrainian elites still instrumentalize sensitive questions of national security for domestic political purposes—even with the possibility of a membership action plan long gone, Yanukovich's Party of Regions still used the public unpopularity of NATO to gain votes.

Yushchenko, who had no interest in changing his one-sided foreign-policy course even in the face of west-

ern rebuffs, resorted to an increasingly anti-Russian policy and discourse over time. While many of his anti-Russian acts, like a ban on Russian vessels returning from the war in the Southern Caucasus to Sevastopol in 2008, had no imminent consequences. Yushchenko's interpretation and political use of Ukrainian and Soviet history (particularly the *Holodomor* and the glorification of Mazepa and Bandera) excluded any chance of a rapprochement with the Kremlin. However, Yushchenko's renunciation of Kuchma's pragmatic-realist foreign policy and the adoption of a normative-constructivist “orange foreign policy” did not turn out to be his greatest failure. Instead, it was the Yushchenko administration's failure to deliver on its promise of a logical link between foreign and domestic politics which raised the most questions about Ukraine's international position. Thus, the internal destabilisation of Ukraine after 2004—the obvious lack of far-reaching reforms, the political stalemate between president and prime minister and the deep economic crisis after 2007—reduced the country's already small leverage vis-à-vis Moscow to a minimum.

### Yanukovich and the Ukrainian-Russian Agenda

At first glance Yanukovich looks like the ideal Ukrainian counterpart to Medvedev for the much-anticipated rapprochement between both states. In contrast to Yushchenko, Yanukovich never supported Ukraine's NATO bid and even suggested recognizing the sovereign status of Abkhazia and South Ossetia in 2008. In addition, Yanukovich's power bases are the majority Russophile eastern and southern parts of Ukraine and his Party of Regions has had a collaboration agreement with Russia's ruling party United Russia since 2005. The new Ukrainian president spoke about the necessary renewal of the once friendly relationship during his campaign and shortly after inauguration promised to rebuild the strategic partnership “in all directions”.

However, today Yanukovich and the Party of Regions look somewhat transformed compared to pre-Orange times. First, Yanukovich, being prime minister in 2006–2007, changed from the role of clan leader into a nationally-conscious politician. Second, the oligarchs who dominate the Party of Regions, like Rinat Akhmetov or Dmitry Firtash—famous for exploiting Ukraine's weakness for rent-seeking activities well beyond the 1990s—now have a vested interest in Ukraine's economic and political stability. Thus, today Yanukovich and his entourage should first of all be seen as a pro-Ukrainian, rather than a pro-Russian force,

whose political priority will be to reactivate Ukraine's economy and shore up its political stability. Examining a few of the most sensitive issues in Ukrainian-Russian relations will demonstrate how problematic this national preference could turn out to be.

### *The Gas Question*

The two gas crises between the countries during the last five years clearly demonstrate the disruptive potential of this issue. Given the Ukrainian economy's energy-intensiveness especially in terms of gas, the degree of dependence upon Russia is even greater here than in other areas. Though the Ukrainian leadership can be blamed for its slow reform of the energy market and its inability to prevent strong oligarchs from seeking high intermediary rents, the Russians from the very beginning used the Gazprom-monopoly to exert political pressure on Ukraine. The options left to Yushchenko and subsequent prime ministers were either to keep prices as low as possible while going along with Russian interests or accepting higher prices for the sake of increased autonomy. Accordingly, notwithstanding the two standoffs and the somewhat more pragmatic policy of former prime minister Yulia Tymoshenko, the price Ukraine had to pay for its gas dramatically increased in recent years (up to \$305 per 1000m<sup>3</sup> for the first quarter of 2010). However, at least until 2007/2008—when the world financial crisis reached Ukraine—higher gas prices could be somewhat absorbed by the economy's growth while some voters, particularly those in the national-democratic camp, could live with the "higher prices-more autonomy" deal.

Yanukovich now faces a different situation. On the one hand, overcoming Ukraine's economic crisis will clearly depend on his ability to lower the price for Russian/Central Asian gas. This quest will be driven in part by the oligarchs close to Yanukovich, who either run energy-intensive businesses or are directly benefiting from better trade margins. Though, any deal with Gazprom will have to include a certain incentive for the Russians for whom the current agreement is rather advantageous. Yanukovich thus has to put forward the option of possible Russian participation in the renovation of Ukraine's Gas Transport System (GTS) together with Naftogas and European energy companies. However, Gazprom officials have already raised doubts if this would be in their interest and instead suggested that they would rather accept shares in Naftogas or the GTS for lower prices. Statements like these show that Yanukovich will have to walk a fine line if he wants to advance his short-term interest in economic growth and

stability with Ukraine's long-term quest for more political autonomy vis-à-vis the Russians.

### *Trade and Regional Integration*

A major task for both presidents will be the reanimation of the trade relationship. Once Ukraine's biggest trading partner, the balance of trade between Kyiv and Moscow slumped in 2009 by 42.5 percent in contrast to 2008. While much of this decline can be traced back to the worldwide financial crisis, structural factors played a role too. Especially since Kyiv's entry into the WTO, Ukrainian exporters have increasingly oriented themselves westwards. Moreover, in contrast to the 1990s, major Ukrainian business groups now look for financial sources and corporate knowledge predominantly in Europe or the US. On the one side, an increase in bilateral trade would certainly benefit Ukraine's shrinking economy and some branches will push Yanukovich in this direction. On the other side, what we have seen in the past is harsh competition between Ukrainian and Russian producers in many fields (pipe construction, for instance) leading to severe tariff wars between the two countries. Any rapprochement in the trade area will therefore have its natural limits. A good example of Kyiv's pre-determined policy is the Russia-led Common Economic Space framework (CES)—while Yanukovich has openly spoken about Ukraine's possible membership, he simultaneously dashed Russian hopes in stating that Moscow's WTO-membership would be a precondition.

### *Language and Identity Issues*

At first glance, this area seems to be the easiest for Yanukovich in reaching a better status-quo with the Russians. Since former president Yushchenko not only perceived of himself as an Ukrainian nationalist, he made anti-Russian use of certain aspects of both countries' history and national identity a priority during the latter part of his presidency. In contrast, Yanukovich and the Party of Regions never supported Yushchenko, for example on his far too biased Holodomor-interpretation and are even prepared to discuss the elevation of Russian to a second state language. Notwithstanding Yushchenko's negative influence on the relationship in this regard, less attention has been paid so far to the fact that his policies would not have been so consequential if it were not for a Russian nationalist equivalent. The "Politics of History" are therefore no Ukrainian phenomena, but a common element of post-Soviet reality. Additionally, one should not forget that Yanukovich now presides over the whole coun-

try and will have, at least to a certain degree, to develop a nation-building doctrine of his own.

### Conclusion—A Serious Need For New Ideas

Yanukovich has already announced that he will stand for a new, pragmatic and more balanced foreign policy. This approach will especially include rebuilding the Ukraine-Russia relationship. Will it also mean the reopening of former Ukrainian president Kuchma's "multi-vector foreign policy" or just a slightly more pro-Russian course? The analysis here demonstrates that the change from Yushchenko to Yanukovich should not be overrated and that an evaluation of the structural preconditions for a rapprochement between both states

leaves a rather ambivalent picture. Thus, Yanukovich's alleged pro-Russian outlook will not only be tempered by his now being the leader of the Ukrainian nation, but also by his foremost task to secure the very stability of Ukraine as a polity in severe crisis. Last but not least, the lack of sophisticated concepts and structures in the Ukrainian-Russian relationship beyond the "Friendship Treaty" and some gas agreements is puzzling and seems to be a major obstacle for further progress. Especially on the Russian side, one cannot shake the impression that no one really wants a well defined concept vis-à-vis Ukraine since such a comprehensive policy is viewed as an obstacle to the Kremlin's policy of neo-imperial reflexes.

#### *About the Author*

André Härtel is a Doctoral Student at Friedrich-Schiller University Jena and Fellow of the Konrad-Adenauer-Stiftung.

## Analysis

### Ukrainian-Russian Gas Relations After the 2009 Conflict: The Current Situation and Future Prospects

By Katerina Malygina, Bremen

#### Abstract

The gas war in January 2009 led to a reexamination of the contracts between Ukraine and Russia for delivering and transiting gas. Additionally, the election of Ukraine's new president means there will be changes in the energy dialogue between the two countries. The new realities demand an analysis of the status quo and the possibilities for change in Ukrainian-Russian gas relations.

#### Consequences of the Gas Contracts for Russia

One of the most important consequences of the 2009 gas war was the elimination of the intermediary-company RusUkrEnergo (RUE) in the gas trade between Russia and Ukraine. Ultimately, Russia likely profited more than Ukraine, even though Ukraine initiated this process. First, in 2009 Russia paid for gas transit across Ukrainian territory through barter, reassigning to Ukraine RUE's \$1.7 billion in debts to Gazprom. Second, Russia revised its contract with Poland on terms that were favorable to it. Thus, after the elimination of the intermediary RUE, Poland did not receive the gas that it had contracted from it and began negotiations with Gazprom about purchasing additional gas. The nearly year-long negotiations with Poland resulted in the

signing of an inter-governmental agreement which defined the terms of gas deliveries through 2037. In addition to the long-term contract, Gazprom also achieved confirmation of the principle of unanimity in management decisions regarding Europogaz, the joint venture between Gazprom and the Polish oil and gas company PGNIG. The changes which Gazprom had aspired to since 2006 deprived Poland of its previous priority in setting tariffs on transporting gas across the Polish part of the Yamal gas pipeline.

Gazprom's success in signing the gas contracts with Ukraine in January 2009 allowed it to partially compensate for its reduced income from European sales in the 2009 crisis year at the expense of Ukraine. Overall income from Russian gas sales abroad in 2009 compared to 2008 dropped 40 percent and totaled \$39.4