

# UKRAINE'S FOREIGN POLICY AUDIT

## T TRUMAN

### INDEX OF RELATIONS

APRIL – JUNE / 2017

№ 4







You are holding the fourth Index of Ukraine's foreign relations: it is issued quarterly, and this one, the summer one, ends an annual cycle. We started this project back in August 2016 together with partners from Institute of World Policy. From the very beginning we were sure our work would be in demand. Now our confidence has become an accurate knowledge: we are pleased to receive feedback and hear words of gratitude from diplomats, entrepreneurs and politicians. It is very important to us. The internal debate with partners from IWP Alyona Getmanchuk, Leonid Litra, Sergiy Solodkyy was also extremely valuable. Their experience as well as the experience of experts they invited allowed us to issue not only interesting, but also really useful Index.

Through the year the project grew and changed. It's high time to conduct re-branding. Starting from autumn "Ukraine's Foreign Policy Audit. Index of Relations" will become TRUMAN Index. Although the project's essence will remain the same. We will keep on objectively estimate key developments in bilateral relations of Ukraine on the main foreign policy directions – the EU, the US, China and Russia. We still intend to prove to our partners and friends around the globe that Ukraine is a country of opportunities despite all the current difficulties. We believe that both Europe and the whole world will benefit from cooperation with Ukraine.

Within brand-new TRUMAN Index we will launch a new product – TRUMAN Report. It will let us show more points of view on Ukraine's foreign policy, economy and international relations. Not only experts, but also the events' participants themselves and leaders of public opinion will be able to speak out and discuss the successes and challenges Ukraine faces.

It will get more and more interesting. Join us!

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# RESEARCH METHODOLOGY

The publication “Ukraine’s Foreign Policy Audit. Index of Relations” is based on the monitoring and analysis of the events in the foreign policy of Ukraine by key areas: the EU, the US, China and Russia. The document is issued quarterly, to monitor the dynamics in the developments. Besides the experts’ observations, an important component of the research is exclusive interviews with Ukrainian officials responsible for certain areas in the foreign policy, Ukrainian and foreign diplomats. Furthermore, the document is based on numerous discussions with foreign opinion leaders and officials.

The report presents an analysis of foreign political events in Ukraine in each area, as well as that of the partner country’s (region’s) approaches to Ukraine within the period under research. The document discloses the context of the events and provides the assessment of factors that affect the country’s reputation. A forecast of the developments is made based on the facts presented.

Along with the qualitative analysis, the researchers have performed a quantitative analysis, assessing each area on a ten-grade scale.

## **Step criteria (0.5 points each):**

- Discussion
- Agreement
- Document signing
- Implementation commencement
- Finance allocation
- Political support
- Headline-making public statements
- Partial implementation of agreements
- New initiatives
- Full implementation of agreements.

A “minus” will be applied to the score if the criteria assessment is negative.

**Total score for the area** is the sum of points for the criteria, which characterize the area within the reporting period.

The expert group takes the BISS <sup>1</sup> methodology as the basis: they have developed a clear scale for foreign policy events assessment.

## **Event assessment scale:**

- Economic and political integration, entry of agreements for more intensive cooperation into force – **7-10 points**
- Signature/ratification of an important agreement (on cooperation, trade, tariffs etc., signature of agreements on integration), provision of loans or economic aid – **4-6 points**
- Official visits at the ministerial level (key ministers: Foreign Affairs, Interior, Defence, Economy and Finance), negotiations on the conclusion of agreements, Top level (President or Prime Minister) official visit by any of the parties – **1-3 points**
- Positive statements made by the key politicians of the state and by the Ministry of Foreign Affairs on the foreign policy direction, parliamentary resolutions – **1-2 points**
- Official visit at the vice minister (or non-key minister) level, a visit of a parliamentary delegation, exhibitions, business forums, national culture days, important diplomatic contacts and negotiations – **1 point**
- Negative statements made by the key politicians of the state and by the Ministry of Foreign Affairs on the foreign policy direction, parliamentary resolutions – **minus 1-2 points**
- Delays in agreement ratifications, denial of invitations to events, denial of support at the international level – **minus 2-4 points**
- Breach of an agreement or mutual obligations – **minus 3 points**
- Trade wars, antidumping investigations, boycott of goods, embargos, expulsion of diplomats, recall of ambassadors – **minus 4-6 points**
- Severing of diplomatic relations, provocations or hostilities – **minus 7-10 points.**

<sup>1</sup> BISS (Belarusian Institute for Strategic Studies). Source: <http://belinstitute.eu/ru/tags/индекс>

# UKRAINE – EU RELATIONS

April – June 2017

Positive: +57  
Negative: -14  
Overall: +43

Leonid Litra

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## SUMMARY

*Brussels and Kyiv had their ups and downs over April-June 2017. Finally, the visa-free regime with the EU came into effect and European integration became more tangible for ordinary Ukrainians. The EU is also finishing the process of ratifying the Association Agreement, which was delayed because of the Dutch referendum in spring 2016. The good news was topped up by the EU decision to raise the caps on zero-tariff imports that opens up new opportunities for Ukrainian business.*

*However, the relations between Ukraine and the European Union became strained in other areas during the second quarter of 2017. The EU is increasingly impatient about delays in a series of reforms that Ukraine has committed to deliver. These reforms are mainly stuck in the Verkhovna Rada and involve such areas as healthcare, customs, and more. Meanwhile, the Rada has also made decisions that breach the terms of the Association Agreement. One of the examples is a three-year extension of an increased export tax on scrap metal. Although it is against the commitments made by Kyiv, the steel industry has been given a new lease on life thanks to such protective measures.*

*Fighting corruption remains the top priority for the EU and the Union's efforts will mainly go into pressuring Ukraine to set up the specialized anti-corruption courts it has promised. This reform is crucial since the regular courts are not picking up investigations by the National Anti-corruption Bureau of Ukraine (NABU). Moreover, NABU itself is limited by an inability to collect evidence because it does not have the right to, say, tap phones. Both the EU and the IMF are insisting that NABU be granted such rights post-haste, especially since this was previously agreed.*

*Other issues discussed in this report are related to difficulties with setting the agenda for the Ukraine-EU summit and a mismatch in expectations between the EU and Ukraine regarding the transformation of the current Association Agreement.*

## TIMELINE

### Reforms: Detours galore

Ukraine was successful in delivering on reforms in QII 2017, but not completely. The reforms related to European integration cover a wide range of areas that, in most cases, require a vote in the Verkhovna Rada, which has come under heavy criticism from the EU, mainly by the head of the EU Delegation to Ukraine, Hugues Mingarelli. The Union's main complaint is that the Rada is delaying and even blocking a series of reforms to which Ukraine committed itself. The average timeframe for adopting important laws related to European integration is now 12 months, a delay that is difficult to justify. Moreover, aside from these delays, quite often the bills are drafted or adopted in a manner that does not meet EU standards.

In the opinion of both the EU and many Ukrainians, the problems with the Rada's adoption of EU-compliant reforms come from the fact that many MPs have vested interests and thus are preventing the legislature from fulfilling its commitments to the EU. The bills are frequently prepared by the Cabinet and various ministries and are registered in the Rada, but then they are neither debated nor adopted because the chairs of the relevant VR committees are not putting the bills on the agenda.

Various sources point fingers at several committee chairs as the guilty ones of these delay tactics: chair of the tax

committee, chair of the healthcare committee, chair of the industrial policy and entrepreneurship committee. EU dissatisfaction with the results of the Rada's work is backed by statistics for 2016: of 126 EU documents that were to be implemented in the Ukrainian legislature, only 36 of them were, in fact, implemented with only 23 documents fully implemented.

The EU's growing disappointment with the pace of reforms in Ukraine is evident in the comments of the EU Ambassador to Ukraine and other Brussels officials. The EU clearly feels deceived by the Ukrainian side because there was actually no progress at all on a series of reforms that had been jointly agreed. Previously, the EU restricted its criticism largely to private discussions with Ukrainian officials. Nowadays, there is no longer any taboo on discussing the wrongdoings of Ukrainian authorities. Growing tension between the EU and Ukraine, as seen from Brussels, is expected to pressure Ukraine to deliver on the commitments. In Kyiv, this additional pressure has not been well received and many think that this will only worsen relations between the two without leading to any positive results. The avalanche of critiques from the EU has been tolerated—as long as it takes place in Kyiv. Once the criticism starts echoing in Brussels, it will be a really bad sign for Ukraine, since it could erode the unity within the EU. The timing of this criticism is firstly

related to expectations about the delivery of reforms that have not been met, whereas the EU finally delivered on its commitments—a visa-free regime and ratification of the Association Agreement. In the past, the absence of these two kept Brussels from heavily criticizing Kyiv, as the EU itself was guilty of delaying on its commitments.

In order to avoid more criticism from the EU, Kyiv will make an effort to deliver on certain reforms that will have a limited impact on the positions of the current political elite. Ukraine will try to buy some time on more complicated reforms that are related to sensitive issues—fighting corruption, the moratorium on exports of timber, and so on. Otherwise, half of the reforms needed will be implemented in order to show progress while the dysfunction of these sensitive areas will remain.

### The EU: Using carrots and sticks

The mismatch in expectations and actions between the EU and Ukraine could result in attempts on the part of Brussels to find additional stimuli. Such instruments could include delaying disbursement of its third €600mn macro-financial tranche. At the beginning of April, Brussels disbursed the second tranche without the necessary conditions in place, as described in the EU-Ukraine Memorandum of Understanding, on the lifting of the moratorium on timber exports. In Brussels, the decision to push for the disbursement of €600mn, despite not meeting the conditions, is associated with European Commission Vice President Valdis Dombrovskis.

The third EU disbursement, which should take place the latest in October, has a long list of conditions for Ukraine to meet in order to receive the funds. First of all, it includes the reforms identified in the MoU and then a list of issues that was compiled after the memorandum was signed. Currently, among many issues on the table, few are very important, but lifting the moratorium on timber, relaunching the work of the National Agency for Corruption Prevention, and issuing benefits to internally displaced people (IDPs) are among the ones that are crucial. If the EU does not disburse the third tranche by October, the funds will return to the EU budget and could be earmarked for other needs. Since it's already well behind schedule, Kyiv might find it difficult to deliver on these reforms, even if it would like to do so.

The overall macro-financial assistance of €1.8 bn is the biggest that EU has ever provided to a non-member country. For Ukraine, the third tranche of €600mn is not a critical issue, especially with reserves having reached a stable value. However, the EU's rescinding on the funds would be a bad signal for Ukraine: economic actors interested in Ukraine would interpret it as a rollback of reforms. This means Ukraine will have to fight for the third tranche for the reasons not necessarily related to financial value, but to its reputation. In the end, if Ukraine does not at least partly deliver on reforms, the country will continue to lose credibility among international supporters, and that could have consequences in 2018. It could be even

worse: the EU could change its discourse in relation to Ukraine. Some signs have been already observed with EU officials speaking more about “rapprochement” than “integration,” certainly suggesting a weaker appetite for Ukraine.

On the positive side, two important laws have been passed by the Verkhovna Rada: on electricity market and on Energy Efficiency Fund. The first one was the law on the electricity market, which is in compliance with EU standards. The law brings into force the standards of the Third Energy Package, which would create a properly functioning electricity market and regulate relations between electricity generation, supply, transportation, and distribution. The bill passed first reading in September 2016 and then went to a special VR working group because there had been 1,135 propositions to prepare it for second reading and passage. The second law praised by the EU was the one on setting up an Energy Efficiency Fund. The passage of this law led to the disbursement of €100mn from the EU to help launch the Fund. The Fund's aim is the modernization of residential buildings that will save about US \$3bn, if implemented properly.

### Corruption: Doggedly persistent

Fighting corruption remains one of the key reforms demanded by the EU and warrants special mention. Since the Euromaidan Revolution, Ukraine has taken some serious steps to set up the necessary institutions and now it has to make these institutions fully operational. One of the main issues on the EU-Ukraine agenda in this area has been independence and functionality of the National Anti-Corruption Bureau of Ukraine (NABU).

Of all issues related to NABU, two are particularly noteworthy. The first one is the NABU audit, which has been on the agenda since the beginning of the year. Negative audit would allow the sacking of the current director Artem Sytnyk and appointment of someone who is “more loyal” to the powers that be. So far, however, a team of NABU auditors has not been put together, although several attempts have been made with no result.<sup>1</sup> The EU has suspected political motives behind the selection process and has requested a transparent procedure that would not raise any questions. Recently, a number of EU officials, such as Commissioner Hahn, the EU Ambassador to Ukraine Hugues Mingarelli, and MEPs Rebecca Harms and Petras Austrevicius have called for depoliticizing the audit selection process and making it transparent. The current stalemate is unlikely to be fixed before the summer recess.

The second big issue is granting NABU the right to tap phones. This point was agreed earlier, but so far has not been implemented. The political class seems to be afraid to give such a tool to an institution it does not control, since some of them are scared of falling afoul of NABU and the Bureau has a set of dossiers that are currently under investigation and often target officials. It is likely that the right to tap phones would significantly improve

<sup>1</sup> See the Index of Relations for Q1 2017.

NABU's chances of collecting conclusive evidence. The EU has called for NABU many times to have this power, but there was no result. The International Monetary Fund also supported such initiative since it became more vocal in its demands and this particular reform is part of the IMF agreement with Ukraine. This certainly has serious impact on Kyiv, especially given that Ukraine will have to pay back about US \$14bn next year.

Another anti-corruption issue is reforming the Office of the Prosecutor General. The EU Advisory Mission (EUAM) to Ukraine has been openly criticizing Prosecutor General Yuriy Lutsenko for impeding the reform process, which was demonstrated by the fact that he disbanded the unit in charge of the reform process. Lutsenko is in a difficult position, given that he is loyal to a president who appears very reluctant to carry out hard-core reforms at the Office of the Prosecutor General, while imitating the reform process and even delivering the occasional element in certain instances. Unlike Ukrainian officials, the EU considers the Prosecutor General ineffective because the office has produced little results. However, this problem will have to be handled by President Poroshenko himself, since he appointed Lutsenko and convinced Ukraine's international partners, especially the US and the EU that the reforms in the Office had not been taking place precisely because the previous prosecutors were insiders, while Yuriy Lutsenko is an outsider with no special relations to the office. This theoretically gives him a free hand in reforming the institution.

Probably the most important anti-corruption issue was setting up specialized anti-corruption court, which was agreed between the EU and Ukraine. Ukraine has established anti-corruption agencies aimed at investigating and preventing corruption among high officials, but the effectiveness of these anti-corruption institutions depends on a functional, independent judiciary. NABU filed several key cases in court but failed to get the desired result, because the courts actually took the other side, disregarding the evidence provided by NABU. Kyiv has promised to set up a specialized anti-corruption court that will deal with corruption cases involving high officials. The deadline was the end of June but so far there is no certainty whether the court will actually be established or not. In fact, a bill on the specialized court is ready, but sources in the Ukrainian establishment say that Ukraine will likely address the Venice Commission to get their avis on the bill in order to drag out the process. The EU considers such a step useless and aimed simply at buying time for the president: the bill was drafted in cooperation with EU experts and does not need additional verification. Unsurprisingly, in March, Ukraine's High Council of Justice made a decision to treat the bill on the on anti-corruption court as unconstitutional and its adoption by the Rada as inappropriate. EU officials interpret the decision as intended to delay the process because the anti-corruption fight in Ukraine is reaching a decisive phase and many fear the potential threat

from an institution that will work in tandem with NABU investigators.

The series of problems with the EU continued with a lingering conflict over amendments to e-declaration legislation that, among others, obliges anyone related to anti-corruption activities, including NGOs, activists and even contractors such as cleaning personnel, to submit e-declarations just like elected officials do. Given severe reaction from the EU and US, the Ukrainian side initially promised to review the law within a month. But the deadline was missed and now it is to be delivered by the EU-Ukraine summit. Calls by the EU Delegation and Commissioner Hahn to roll back the e-declarations for civil society were joined by a recent appeal from 20 MEPs forming an informal group of "friends of Ukraine," another from the Council of Europe, and one from the Swedish Foreign Ministry. President Poroshenko apparently plans to propose changes to the law by the summit, but Brussels EU officials have already stated that the mechanism he envisages does not meet their expectations. The thing is that the Ukrainian side claims it would like to create a registry to increase the transparency of NGOs, while the EU says to drop the amendments extending e-declarations to activists and to collaborate on a registry that would ensure transparency among NGOs. If Ukraine does not find a compromise, allegations that the president hopes to stifle anti-corruption initiatives will gain traction, and the parallels between Russian and Ukraine will only grow.

### **Export, trade and investment: Up and down**

The EU and Ukraine have seen progress on temporary trade preferences for Ukraine. These trade preferences have been introduced for a period of three years and cover a number of additional import quotas at zero tariff for agricultural products:

- Natural honey – 2,500 tonnes
- Processed tomatoes – 3,000 tonnes
- Grape juice – 500 tonnes
- Oats – 4,000 tonnes
- Wheat – 65,000 tonnes
- Maize – 625,000 tonnes
- Barley – 325,000 tonnes

The EU also decided to completely drop import duties on several industrial products, such as fertilizers, dyes, pigments and other coloring matters, footwear, copper, aluminum, and television and sound-recording equipment.”<sup>2</sup>

The additional import quotas at zero tariff are an important step on the part of the EU aimed at correcting imbalances in its Deep and Comprehensive Free Trade Area (DCFTA) with Ukraine. Ukraine has been rightly complaining that the DCFTA put a lot of pressure on the country's economy while offering very difficult conditions for competing with the EU companies. The quotas initially proposed by the European Commission were better for Ukraine than the ones actually voted by the European Parliament. The initial quotas were agreed in the EU trialog, but then

<sup>2</sup> Ukraine: Council confirms political agreement on temporary trade preferences for Ukraine. <http://www.consilium.europa.eu/en/press/press-releases/2017/06/28-ukraine-trade-preferences/>

the Verkhovna Rada decided to increase the export tax on scrap metal, which caused the EU legislature to change its mind. For some countries, Ukraine's mistake offered a good pretext to skate away from the initial offer. Countries like France were reportedly against it, and such a position was outlined by the previous French administration. Surprisingly, the biggest opposition came from Poland, a country that has been seen and acted as Ukraine's advocate, and from Hungary. Some officials reported that Romania had also voiced concern. Many EU countries are uneasy about the country's agricultural potential since, according to government statistics, Ukraine was one of the top three suppliers of agricultural products to the EU in 2016.

Of course, the new zero-tariff quotas came with strings attached, and safeguard measures will apply: respecting arrangements under the Association Agreement, continuing to combat corruption and upholding rule of law and democratic principles. The fight against corruption was a condition put forward by MEPs during debates on the expanded quotas. The import regulation is expected to come into force by the end of September.

The potential for Ukraine's farm sector is indeed huge. In Q1 2017, Ukraine had filled the zero-tariff quota for 6 groups of products: honey, sugar, groats and flour, maize, processed tomatoes, and grape and apple juice. Unlike Ukraine, EU used its zero-tariff quotas for only one category: poultry and semi-finished products. In many cases, the EU did not use even 1% of its quotas.

Today, 281 Ukrainian companies have the right to export to the EU market, 101 of which are food-related. In Q1 2017, exports of Ukrainian goods rose 24.5% compared to Q1 2016. Compared to the same period, 39 new product positions were exported to the EU. In 2016, total exports to the EU amounted to 40% of all exports, making the EU the #1 destination for Ukrainian products. What's more, some of the most struggling domestic industries finally started to make inroads into the EU market in 2017. The example is Motor-Sich, which signed a contract to supply a German company with 100 helicopter engines. If Ukrainian companies can adapt to the EU market, this could be the beginning of a very productive relationship, as the full-bore DCFTA only comes into effect in about 7 years.

Despite such positive trends in trade, no major investments are expected from EU partners. For example, in 2016 only 1% of the annual privatization plan was actually carried out, which is equivalent to UAH 190mn of the planned UAH 17bn. Privatization was postponed to 2017, but it is very unlikely that to actually take place even this year, partly because of Ukraine's low business ratings with S&P, Fitch and the World Bank's Doing Business Index. These negative assessments keep foreign investors away from the country.

## Association, visas and sanctions: Finally on track

The EU finally delivered on the Association Agreement (AA), ratification of which was long delayed by the Dutch referendum a year ago. The Netherlands ratification vote took place and, after being signed by the King, was passed on to Brussels. It is expected that the AA will fully enter into force by September 1, 2017.

The process of ratification took a long time, but the decisive moment actually took place on December 15, 2016, when the EU Council made a decision intended to appease Dutch voters and guarantee that the AA 1) does not offer Ukraine membership in the EU; 2) does not involve any obligations regarding mutual defense between Ukraine and the EU; 3) does not give Ukraine access to structural funds; 4) does not give Ukraine freedom of movement to work and live in the EU; and 5) continues to make combating corruption the key area of cooperation between Ukraine and the EU.

The Association Agreement has not yet been fully ratified, but Ukraine has already proposed a new format of "enhanced" association for "advanced" countries in the Eastern Partnership: Ukraine, Moldova and Georgia. The proposal was received with skepticism in the EU. Commissioner Hahn noted that there was no consensus on FM Pavlo Klimkin's proposal in the EU. The Union insists on the implementation of Ukraine's current commitments and only then will it consider discussing "enhanced" association. From Ukraine's perspective, Klimkin's proposal makes sense as the two key carrots offered by the EU have been eaten and Ukraine needs motivation to continue its efforts.

The visa-free regime, the main tangible nationwide component of EU integration, finally entered into force on June 11. Ukrainians warmly welcomed the event but that did not prevent ongoing animosities between Brussels and Kyiv. The main issue arose when President Poroshenko stated that visa-free travel to the EU was not available to people from the occupied territories—a statement the EU strongly refuted and saw as an attempt to establish a new dividing line. Ukrainian sources were quick to point out that the statement is based in a fear that holders of Ukrainian passports residing in ORDiLO might travel to the EU and cause provocations that could hurt Ukraine's reputation.

The main arena for clarifying many outstanding bilateral issues was the EU-Ukraine summit scheduled for July 13 in Kyiv. Even before the meeting, a certain bitterness could already be felt. The key disagreement was the summit agenda and the joint statement. While Ukraine wanted to talk more about the future and about Russia's aggression, the EU was concerned about reforms. The joint statement has already been rewritten many times and apparently little agreement has been reached so far supposedly because Kyiv is paying too much attention to Russia's aggression and not enough on reforms.

At least, Ukraine was not disappointed about the vote to extend EU sanctions against Russia, which are now in force until January 31, 2018, without any controversy. In mid-June, Ukrainian officials were discreetly expressing concern over reports that Italy might attempt to block the extension. It appears that the briefing given by Angela Merkel and Emmanuel Macron on the implementation of Minsk at a summit of heads of state in Brussels was enough to convince EU members to extend the sanctions. Originally President Poroshenko wanted the extension to last for a year, not six months, as it is now. But that was not possible because EU members believe that a half-year provides more incentive. Legally, such an alteration would involve approving of the sanctions again, rather than an extension. However, Russian government clearly has no illusions about lifting the EU sanctions, as PM Medvedev already proposed that Russia's own sanctions be extended until December 31, 2018.

### **Glitches: "Heavy metal" diplomacy**

The Verkhovna Rada's decision to triple the export tax on scrap metal from €10 to €30 was a huge disappointment for the EU, not so much because the EU was seriously affected by it, but because Kyiv, once again, was breaching the terms of the Association Agreement. Figures from 2015, when there was no increase in the tax, show that of US \$289.5mn-worth of scrap metal exported that year, only US \$6.3mn went to the EU. The bulk of the metal, worth US \$227.1mn, went to Turkey.

Ukraine's justification for setting the export tax at €30 was that it stabilized the work of the steel industry, which employs around 25,000 Ukrainians. The sector also pays about UAH 15bn in taxes, which is helping the country withstand Russia's aggression. Indeed, Ukraine is among world's top 10 largest producers of steel, with almost 25mn tonnes per year in output—thanks to the increased export tax. However, production remains uncertain despite keeping the tax. The main material used in the production of steel is enriched coal, which is purchased from ORDiLO, the occupied territories. The supply used to be quite reliable, despite the conflict. With the blockade of ORDiLO, however, supplies are unreliable, and blockade has led to a shortage of coal. The fact that the sector accounts for 23% of Ukraine's total exports and is thus a major source of foreign currency simply exacerbates the problem. For the EU, however, the problem is that it breaches the Association Agreement and a solution needs to be found. Otherwise, Ukraine is solidifying its reputation as an unreliable partner who does not deliver on commitments.

### **Great expectations**

Within the next year, the EU will likely focus on the adoption of reforms in healthcare, pensions, land ownership and privatization. A major priority will likely be setting up the specialized anti-corruption courts and the proper functioning of anti-corruption institutions

### ***Events in Ukraine-EU relations (April – June 2017). Point-based evaluation***

<b>Date</b>	<b>Event</b>	<b>Points</b>
April 1	The Congress of the European People's Party passes a resolution urging EU countries to develop a long-term support plan for Ukraine based on bilateral and multilateral programs that includes military, humanitarian and economic support.	+2
April 4	Ukraine receives €600mn in macro-financial assistance.	+4
April 6	The European Parliament votes to grant visa-free travel to Ukraine.	+5
April 12	The Verkhovna Rada ratifies an agreement with the EIB on a credit worth €200mn for public transport.	+4
April 13	The VR passes a law on the electricity market.	+2
April 26	The EU Delegation to Ukraine announces that it expects Ukraine to pass a Law establishing the Specialized Anti-Corruption Court by mid-June 2017.	-2
	The Committee of Permanent Representatives of the EU (COREPER) approves the visa-free regime for Ukraine.	+2
	The EU launches a project worth €6 million to set up 20 model police departments in the Kyiv, Kharkiv and Lviv Oblasts.	+3
May 5	The European Commission requests that Ukraine cancel mandatory e-declaration for NGOs	-2
May 11	The EU Council approves a legislative proposal to abolish short-stay visas for Ukrainian citizens.	+3
May 12	Ukraine's Foreign Minister, Pavlo Klimkin, suggests at a press briefing that the EU develop a new format for relations with Ukraine—enhanced association.	+2
May 16	The EU Delegation to Ukraine calls on the VR to reject amendments to Law №2126a that could hinder the adequate work of the ProZorro state procurement system.	-1
May 17	Ukraine is invited to join the Pan-Euro-Med Convention.	+1
May 24	The EU urges Ukraine not to put pressure on anti-corruption NGOs.	-2
May 30	The Dutch Senate votes to ratify the Association Agreement between Ukraine and the EU	+5
June 1	The King of the Netherlands signs a law passed by the Parliament ratifying the Association Agreement between Ukraine and the EU.	+1
	The European Parliament votes to increase zero-tariff quotas for Ukraine, with some exceptions.	+4
June 8	The EU urges the VR not to increase the export tax on scrap metal.	-3
	The Rada passes a bill establishing the Energy Efficiency Fund.	+2
June 14	The EU urges Ukraine to renew the membership of the Central Election Commission.	-2
	The European Commission agrees to increase the number of zero-tariff quotas for Ukraine.	+2
June 19	The EU Council extends sanctions against Russia for the occupation of Crimea for 12 more months.	+3
June 21	Some MEPs call on Ukraine's MPs to comply with transparency procedures in selecting a NABU auditor.	-2
	The Verkhovna Rada calls on the European Parliament to approve the extension of autonomous preferences for goods from Ukraine.	+2
June 22	The EU approves the extension of economic sanctions against Russia.	+3
	President Poroshenko pays a working visit to Brussels, during which he talks with EC President Donald Tusk and the leadership of the European People's Party.	+2
June 27	The European Atomic Energy Community (Euratom) ratifies the Association Agreement between Ukraine and the EU.	+2
June 28	The EU confirms an agreement on new trade preferences for Ukraine.	+1
June 29	The third meeting of the Association Committee between Ukraine and the EU is held in Brussels.	+2

# UKRAINE-US RELATIONS

April – June 2017

Positive: +30.5  
Negative: -1.5  
Overall: +29

Alyona Getmanchuk  
Director, Institute of World Policy

## SUMMARY

*Kyiv chose the principle that “little drops wear down big stones” as its approach to the United States, and it began to bring dividends in recent months. Ukrainian diplomats, like their counterparts in the US, were able to take advantage of the positive domestic political conjuncture in the United States. Perhaps for the first time in the history of Ukraine-US relations, the American president needed the Ukrainian one to shore up his position at home as much as the Ukrainian president traditionally needed his US counterpart. And perhaps for the first time since the times of nuclear disarmament, the position of the Ukrainian leader is as important to the White House as it is for Donald Trump today because of widespread suspicions of his ties to Russia. The most visible indication of how the Ukrainian side took advantage of this conjuncture in the US was the meeting between President Poroshenko and the American President. For the Ukrainians, it was critical to meet with the US leader before the planned talks between Vladimir Putin and Donald Trump in Germany. For the first time in Ukraine-US relations, the US President met separately with the Ukrainian Foreign Minister, Pavlo Klimkin, in the Oval Office, albeit outside his official schedule.*

*A number of contracts in the defense sector entered the final preparation stage at this time but, as it turned out, they were not signed when President Poroshenko came to DC with his delegation. Meanwhile, the US Embassy in Kyiv was busy preparing for the next important visit, the coming of Secretary of State Rex Tillerson to Ukraine. The secretaries of energy and defense are also expected to come to Kyiv in the next few months. In other words, complete dialogue has been restored, not just with the US Congress, but with the entire US Government.*

*The dynamics of relations between Ukraine and the US in this last quarter has demonstrated how effectively it is possible to work in any given foreign policy direction once it is prioritized at every level, including the presidency. The “America First” policy of the Ukrainian president does, however, carry some risks: assessments of Ukrainian-American dialogue at home depend largely on assessments of President Poroshenko’s overall policies. Those who support him see his American spearhead as effective, but those who oppose him do not.*

*Difficult as it has been, Ukraine and its allies in the US have managed to at least maintain status quo in relations. Unfortunately, this status quo is as unreliable as the positions of the 45th President on so many issues. It’s clear that Ukraine will witness an ongoing conflict between the consistency of US policy towards it and the inconsistency of the current US president. On a number of issues that are critical for Kyiv, it’s becoming clear that there is a US position and then there is President Trump’s position. In other words, the position of a political ally and the position of, at best, a neutral referee.*

## TIMELINE

### Political dialogue

Visits to Washington have long become an important element in self-affirmation in Ukraine. This tendency has only grown more important under the Trump Administration, and, given all the mixed messages, not to the benefit of Ukrainian interests.

By the time President Poroshenko visited the US, nearly 270 visitors of various political caliber from Ukraine had already come to DC since the inauguration of Donald Trump. Nevertheless, efforts to establish an agenda for Ukraine that differs from the agenda offered by the Ukrainian government largely failed. The question “Who represents Ukraine in Washington?” was no longer raised by American counterparts as often as it had been during the first couple of months of the new administration.

Meetings between Klimkin, then Poroshenko and Trump not only shored up the overall positions of official Kyiv, but also the position of Ukraine’s Ambassador to the US, Valeriy Chaliy, who attended both meetings. This proves, once again, that the tactic of shifting attention from Russian interference in the US election to Ukraine’s interventions (some sources say was proposed by former head of the Trump campaign and consultant to Viktor Yanukovich Paul Manafort) was not taken seriously.

FM Klimkin was in the American capital so often that rumors began to float in diplomatic circles—but not Ukrainian ones—that he was going to be appointed Ukrainian Ambassador to the US. He was able to take advantage of his travels to join a field session of the Munich Security Conference in May. This particular visit coincided with a meeting between Trump, apparently at the personal request of Putin, and Russian FM Lavrov.

While in Washington, Klimkin was able to get a meeting with Vice President Mike Pence, and then, in the company of Pence, to meet with Trump in the Oval Office.

This meeting led to quite a few comic remarks that Klimkin had simply gone in for a photo op. In fact, some Ukrainian diplomats were pleased to point out in private conversation that the White House actually gave permission to publish these photos, unlike the photos taken during Trump's meeting with the Russian delegation that same day. Indeed, after the grandiose meeting with the Russian minister and his large delegation in the Oval Office, the short meeting with the Ukrainian FM—during which apparently Trump never even stood up from behind his desk—looked like a spontaneous event. This is the point when it became obvious that the White House had understood something: public contact with Ukrainian officials was useful not only for the Poroshenko Administration but also for the Trump Administration, and in particular for Trump personally. This was confirmed by the president's subsequent tweets, where he reported on the two meetings, together with photos, and a few days later complained on Fox News that his meeting with the Ukrainian FM had not been covered as well as the meeting with the Russian one.

Obviously, even a quick photo op can have substance. Not long after, information began to trickle from various sources, starting with Defense One, that Trump let Klimkin know, in between the flashes of cameras in the Oval Office, that no one in Washington was about to hand Ukraine over to Russia in exchange for Syria. Ukrainian officials heard this message several times from various members of the Trump Administration over the last few months: "Calm down. No one's about to give you up." But it was particularly important to hear this from Trump himself, if indeed it happened that way.

The Klimkin meeting established the right bridge for the future meeting between Trump and Poroshenko, which was confirmed less than two weeks prior to the actual date of the meeting. A week prior to it, the time of the meeting was also known: 11:00 local time. Widespread suggestions in the press that no one at the White House had even planned this meeting were, at the least, inappropriate. As to its format and how it would fit into the president's schedule—that was a different matter. Significantly, the White House changed the way it portrayed this meeting after it had actually taken place. Prior to its start, the meeting was planned as between Trump and National Security Advisor H.R. McMaster, and VP Pence and President Poroshenko were supposed to join in, but after it had taken place, a one-sentence press release described it as a meeting between Trump and Poroshenko. This was even shorter than the press release after an earlier telephone call between the two leaders. Even more oddly, at the briefing that day, WH Press Secretary Sean Spicer did not mention a single word about the meeting with Poroshenko.

For the Ukrainian side, which had been warned that Poroshenko had to be prepared to fly to the US within as

little as 24 hours, a timeframe that did not bother Bankova at all, that kind of timeframe offered enough time both to prepare the right signals and to formulate them suitably for tweeting. Some of the offices in the Presidential Administration on Bankova resembled a theater studio where all kinds of variations of dialogue were being worked on, according to an inside source. What worried Kyiv the most about this meeting was that Trump might disrupt the meeting at some point and either ask his Ukrainian guest to leave or stand up and leave himself. Poroshenko understandably was determined not to find himself on a bench with other world leaders whom Trump had already put on his list of those with whom he made clear he no longer had any desire to communicate.

The Poroshenko Administration, including the president himself, carefully sought advice and recommendations for how to deal with Trump among those world leaders who had already met with the American president, including Donald Tusk. Romanian President Klaus Iohannis, who had been to the White House for a proper meeting the day before, in accordance with our information, was not asked for advice.

After lengthy consultations, Kyiv deliberately chose a tactic that can be succinctly described as flattery. This was recommended as the most effective approach and the fastest way to establish the right kind of contact with the egocentric, narcissistic American president. The fact that Poroshenko had chosen this tactic was evident from his brief speech on camera in the Oval Office and, especially, in his subsequent interview on Fox News, where he drew parallels between Trump and Ronald Reagan, saying that Trump was capable of ending Russia's war against Ukraine, just like Reagan ended the Cold War—without firing a single shot. Interestingly, the parallel between Reagan and Trump in the context of the Ukrainian-Russian conflict is hardly new. It was made several months ago by the odious GOP Congressman from California, Dana Rohrabacher. Many in the US have called Rohrabacher an agent of Putin in the Congress because of the way he has repeated the Kremlin narrative, including the one about Crimea, and caught Trump's attention by praising him on Fox News.

This approach based on flattery was immediately noticed in the US. Several observers noted that Poroshenko had chosen the same tactic as Japanese Premier Abe and Saudi Arabia's Mohamed bin Salman, better known as MbS. For the Japanese leader, the tactic worked very effectively: he is considered one of the international partners with whom Trump found common ground the best. Unfortunately for Poroshenko, this cannot be said of Angela Merkel, on whom Kyiv had counted to promote Ukraine's interests in Washington. Trump failed to properly assess the solid briefing about Russia's aggression in the post-soviet arena that Merkel provided him with during her first visit to the White House. Indeed, Poroshenko was advised not to mention Merkel's name around Trump.

Many individuals considered themselves the midwives of the Trump-Poroshenko meeting, as well as its success, both in Ukraine and in the US. But this is one of those cases where Ukrainian diplomats admit in private conversations that it would be naive to consider the meeting a victory for Ukrainian diplomacy. It was more of a victory for Trump's critics at home, who had driven him into a corner with accusations of collusion with Russia.

It was obvious that just about every possible channel was involved in preparing for the visit. Even Rudy Giuliani, who came to Kyiv at the invitation of oligarch Viktor Pinchuk, played a role: he brought a tentative date for the meeting between the two presidents—although the Presidential Administration did not confirm this. In general, the role of Pinchuk, who is known for his “alternative” views on resolving the conflict with Russia, in building bridges between Bankova and Pennsylvania Avenue is not so clear. Obviously the answer to this will be more understandable after the next Pinchuk-sponsored YES conference in the fall. Or rather, after it becomes clear whether Poroshenko intends to participate in it.

How successful the Ukrainian president's visit to the US was remains open to debate. The Ukrainian delegation did not have a clear indicator of the success of the meeting. This tends to raise the question that the very fact that the visit took place before Trump's meeting with Putin is what constitutes its success. If the goal was to familiarize Trump with the Ukrainian view of a resolution to the conflict in Crimea and Donbas, and to make Kyiv's red lines clear, the real impact of Poroshenko's talks in DC will be clear after Trump meets with the Russian president.

## Resolving the conflict around Donbas

The main issue on the minds of the Ukrainian delegation was, as one top diplomat put it, the question of war and peace. “Of course, we're prepared to talk about reform and about corruption, but it's understood that security is the priority,” he said. The topic that was a close second on the agenda was business. Ukraine is continuing to develop its policy towards the Trump Administration, actively exploiting two traditional weak spots for the Republicans: security and hardcore business.

The last few months raised expectations that the US would formulate a clearer view of how it will act in terms of resolving the conflict between Ukraine and Russia. Among others, this also includes taking a position on the level of engagement on the part of the United States in the negotiation process. Despite all the propositions that the US should join the Normandy format and other, sometimes exotic variations, the best option in Washington continues to be strengthening the Nuland-Surkov track, that is, US-RF talks as a complement to and reinforcement of the Normandy format. What's more, this track looked like it might continue to be called Nuland-Surkov. American and Ukrainian source alike confirm that when Trump was told about the need to find a new Nuland for the post, he asked who had dealt with the issue earlier and proposed reappointing Victoria Nuland. Kyiv is quite

skeptical about this particular format for engaging the US in the negotiating process, as the US side needs a very strong figure so that Surkov has no room for manipulation or for using the individual to Russia's advantage.

The American side meanwhile is also working to make the efforts of the new special representative more effective and to ease certain concerns among Ukrainian colleagues. One proposition apparently is that the person not only talk with the Russians directly but also take part in the Normandy process at the level of a foreign policy advisor. That would prevent problems with the broken telephone effect, which happened with Nuland and Surkov.

As predicted in the QI report in this series, Kurt Volker, the one-time US ambassador to NATO, has become the new special representative to Ukraine. Interestingly, in addition to being the executive director of the McCain Institute, Volker is also a senior consultant on international issues for the BGR Group, a lobbying company that the Ukrainian government hired to promote Ukraine in Washington. According to our sources, A. Wess Mitchell, president and CEO of the US-based Center for European Policy Analysis (CEPA) is being considered for the post of deputy secretary of state for Europe and Eurasia, Nuland's State Department position. Mitchell is a fairly typical representative of the US think-tank sector.

One of the reasons why Americans have not been seriously looking at the idea of properly engaging in the negotiating process regarding Donbas has been due to the skepticism of Germany and France about such a move. Today, the tensions between Merkel and Trump make it even more improbable. Incidentally, the confrontational element of relations between Washington and Berlin puts Ukraine in a very delicate position, as it needs both Merkel's continuing support and effective communication with Trump.

The Ukrainian side also considered some fairly exotic ideas, such as having the US representative replace Martin Sajdik at the Minsk talks. Members of the US Cabinet who are friendly towards Ukraine consider this idea not especially attractive, if not the least because the US will then have to act as a neutral referee, not as an ally to Ukraine.

In terms of regulating the conflict in Donbas, the message Poroshenko brought to Trump during his Washington visit was based on the formula, “a great deal on peace, a great deal on success.” Informed sources confirm that this phrase particularly appealed to Trump even during his previous telephone conversation with Poroshenko, so it made sense to elaborate on it during the actual visit.

What exactly appealed in this phrase, other than the reference to “deals,” in which Trump considers himself a master, is not entirely clear. Maybe it was its tweetability... and the complete absence of specifics, because it's not clear just what format needs to be chosen to make the deal and what the US role in it all will be. Despite the fact that, during Poroshenko's meeting with Pence, the US's support for the Normandy format and the Minsk accords

was confirmed, there is still reason to think that Trump personally believes more in bilateral than multilateral arrangements. His talk with Donald Tusk in Brussels was very revealing: apparently the US leader reacted quite nervously to the mention of the Normandy format and the Minsk accords, instead promising to resolve everything directly with Putin. Meanwhile, Tillerson's announcement about the possibility of reaching the goals laid out in Minsk in other formats also led to a variety of interpretations regarding the new administration's commitment to the Minsk process. In private conversations on this issue, American diplomats were inclined to believe that the problem really was mainly a matter of interpretation, as Washington continued to be guided by the logic of Minsk—despite definite reservations about strictly tying the Minsk agreements to sanctions and the flaws of the Minsk process itself. State Department officials also admitted that they were not working on any Plan B to resolve the conflict in Donbas.

Based on the available facts, it's hard to draw any clear conclusion as to what Ukraine mainly means to the new American president today: an obstacle or an opportunity. On one hand, the Ukraine dossier looks like an obstacle to any reset with Russia. It's not for nothing that Rex Tillerson admitted in May that the Ukrainian-Russian conflict was the most difficult issue to resolve on the US-RF agenda. Trump appears convinced that they need to at least try to reboot relations with Russia and see what happens, and Tillerson would seem to think so, too.

At the same time, Ukraine also offers opportunities: the more Trump demonstrates that he is taking Ukrainian interests into account, the less pressure he will feel from his opponents. The US president is basically forced to publicly show that he has reached complete understanding with his Ukrainian partners, if for no other reason that he has to pay attention to the military conflict in eastern Ukraine that his political opponents at home are so concerned about. According to the *New York Times*, he as much as admitted this during his meeting with Lavrov.

Trump needs Ukraine to restore a balance to his domestic policy, especially in relations between the White House and the Congress. Bills codifying sanctions against Russia were drawn up mainly as a response on the part of Congressional representatives when the White House tested the waters for ways to soften sanctions against Russia back in January 2017.

To the credit of the White House, it did not attempt to weaken sanctions and did not remove Exxon Mobil, Tillerson's former employer, from the list. In response to repeated requests from Exxon Mobil in April, the US Treasury announced that it would not make any exceptions to the sanctions for American oil companies interested in joint drilling with Russian companies on Russian territory. Various statements on the sanctions issued by both the White House and the State Department are even more direct than the diplomatic mantras about "sanctions will not be removed until the Minsk accords

are implemented," that were typical of the Obama Administration. Now it is saying "Sanctions will not be removed until Russia gets out of eastern Ukraine and Crimea." The State Department has also begun to use stronger words regarding the separatists in eastern Ukraine, replacing the Obama Administration's preferred "Russia-backed" with "Russian-led" and "Russian-trained."

Despite this, it's unlikely that official Kyiv can count on the US to be the international driver of sanctions, the way it was under Barack Obama. This matters, because during Poroshenko's visit to Washington, Kyiv was expecting to get the support of its American partners in persuading certain European countries to continue to maintain sanctions. It makes more sense to talk about the fact that the US, on the contrary, has undermined transatlantic unity on this issue when it initiated new sanctions in a bill passed by the Senate. This is important as, for the first time since the beginning of Russia's aggression in Ukraine, the US and EU did not act in a coordinated and coherent manner on the sanctions question. Moreover, the American bill directly provided for sanctions against German and Austrian companies involved in building Nordstream-2. So now there is a situation where Washington is stepping up as Ukraine's ally on the issue of Nordstream-2, in line with US export interests in Europe, but at the same time is provoking a transatlantic riff over restrictions on Russia—including in the matter of sanctions.

What's more, despite all the announcements about a fresh start in resolving the conflict, both Kyiv and Washington have little faith that it will be resolved in the nearest few years. US intelligence agencies published projections on May 23 that the conflict in Donbas would last through 2018. The difference in forecasts lies in the reasons that both capitals list as the main obstacles to a resolution. Kyiv sees the 2018 presidential race in Russia as the main factor, whereas the Americans are ever more frequently including presidential elections in Ukraine in 2019 as a factor, as Poroshenko is unlikely to agree to fully implement Minsk and risk losing the support of his electoral base.

As an alternative, US stakeholders are beginning to talk more and more about a transitional resolution: so far, all the parties involved are working to establish a permanent truce and remove the leaders of self-proclaimed DNR and LNR, Oleksandr Zakharchenko and Ihor Plotnytskiy from their "posts." Either candidates who suit both sides of the conflict will be appointed to replace them, effectively returning to the scenario with Yuriy Boyko and Rinat Akhmetov as Governors of Luhansk and Donetsk, or an administration along the principles of the Minsk group will be established, involving representatives of Ukraine, Russia and the OSCE. How acceptable this alternative is to Ukraine's leadership is questionable. Moreover, it's not clear how the Russian side might be "persuaded" to establish a permanent truce.

## To arm or not to arm

One of the key messages Ukrainian officials took to Washington during their visit was that Ukraine still needed weapons. Towards the end of the Obama years, Washington began to get used to the idea that the conflict in Ukraine was slowly becoming frozen, and so this issue became far less urgent than it had been in the first two years of the war.

Before Poroshenko's visit, officials in Kyiv kept revising lists of urgent needs of the Ukrainian Armed Forces, together with accompanying arguments, which went to Washington along with Ukraine's Chief of the General Staff Viktor Muzhenko. Significantly, these lists were "approved" by Gen. John Abizaid, the US's strategic advisor at the Ukrainian Ministry of Defense. This is significant given that both US Secretary of Defense Gen. James Mattis and National Security Advisor Gen. McMaster are on good terms with Gen. Abizaid and worked under his leadership at one point. In fact, Gen. Abizaid is seen in Kyiv as Ukraine's main lobbyist in the security and defense sphere, so there was good reason, according to our sources, why he was offered yet another post in addition to being advisor to the Defense Minister: chairing the Supervisory Board of a major state enterprise.

The list that went to Washington included, according to our sources, a number of critical positions: counter-battery radar, anti-aircraft radar, anti-tank weapons, radio surveillance equipment, and higher class drones than those that were issued earlier.

In addition to this, two agreements have been drafted for some time now that the Ukrainian side intended to sign during this Washington visit in order for President Poroshenko's trip to have a more practical element. One was an Agreement on mutual defense procurements and the other an Agreement on the exchange of defense technology. But neither agreement was signed. Later, Poroshenko announced that the defense agreements with the US would be signed at a later date.

Not only are these agreements testimony to plans for deeper cooperation in defense but also the beginning of a significantly new approach with the transition to purchasing US weaponry, rather than just receiving it in the form of aid. By signing an Agreement on mutual defense procurements, Ukraine is signaling that it is prepared to pay for some of its military weapons. In this way, Ukraine is prepared to arm those members of the Administration who are likely to be criticized for excessive spending on Ukraine with solid arguments: "Ukraine is actually buying weapons from us and we are only helping a little."

Most sources agree that, for the Trump Administration as well as for other Republican administrations, the question of supplying lethal defensive weapons to Ukraine will not sound as scary as it did for the Obama Administration,

which was extremely afraid of being accused of provoking an escalation. There are serious expectations that the new Administration will be more understanding of Ukraine's argument: Give us the opportunity to defend ourselves.

## Reforms

Just how interested Trump's White House is in the reform process in Ukraine is a question that requires a more detailed response, even though anti-corruption efforts and the overall reform process were mentioned at Poroshenko's meetings with Pence and Trump. It's not clear how much the US is prepared to continue to invest its resources in this process. President Poroshenko talked about Ukraine like a success story, although for many in Washington this success story is tied to an anti-corruption success story that has so far not come to pass.

Given the more business-friendly nature of the new US administration, much will depend on what extent the Ukrainian government is genuinely interested in attracting serious American investment to Ukraine, as was mentioned more than once at the highest level. If the Ukrainian Government is really interested, it should understand how establishing the proper business climate for American companies depends on combating corruption, including in the court system. The thing is that corruption is what puts American business in a one-down position relative to companies from other countries because US anti-corruption legislation affects its companies beyond the borders of the United States. And corruption was named as the main obstacle in an American Chamber of Commerce survey of those companies who are already operating on the Ukrainian market. President Poroshenko paid his respects to American business in Ukraine by visiting the 25th anniversary celebration of the ACC. Still, those celebrating are only a small part of American investors and real respect would involve establishing the proper conditions for doing business, where American companies would not feel discriminated against by corruption and an unreformed judiciary.

The latest trend in Ukrainian-American dialogue on the topic of reform has been public focus on reforming the justice system. Concerns with the dilatory pace of judiciary reform, which hurts American businesses in Ukraine, was the main message coming from US Ambassador Marie Yovanovitch in her June 29 speech at a Ukraine-EU conference, held by the Institute of World Policy. In addition, she mentioned similar concerns about the result of talks in Washington. In short, if Ukraine's leadership wanted to build its relationship with the US administration based on the principle "Business is one thing, reforms are another," it will be very hard to accomplish anything because of the obvious obstacles faced by American business due to corruption and an unreformed court system.

### ***Events in Ukraine-US relations (April-June 2017). Point-based evaluation***

<b>Date</b>	<b>Event</b>	<b>Points</b>
April 7	Ukraine's Foreign Ministry issues a statement in support of the US's cruise missile attack on the Al-Shayrat' airfield in Syria in response to the Asad regime's use of chemical weapons.	+1
	Ukraine's president speaks by phone with the US vice president about the worsening security situation in Donbas because of Russian forces violating the ceasefire. Poroshenko also expresses support for US actions in Syria. Pence expresses complete support for Ukraine in its struggle to restore territorial integrity and sovereignty.	+1
April 11	Prior to his visit to Moscow, Secretary of State Tillerson calls President Poroshenko. Tillerson also notes that the US supports Ukraine's territorial integrity and expects the Minsk provisions to be implemented to ensure the necessary security conditions. Tillerson also assures Poroshenko that Washington will not allow any "package deals" on Syria at Ukraine's expense.	+1
April 18-23	The annual spring meeting of the IMF and the World Bank Group takes place in Washington with a Ukraine delegation headed by Finance Minister Oleksandr Danyliuk. While there, Danyliuk meets with the Secretary of Commerce, who assures him that Ukraine will continue to get financial support as it is strategically important in the region. They also discuss how to get American investors involved in Ukraine.	+2
April 23	In a telephone conversation with SecState Tillerson, President Poroshenko underscores the importance of unity in pressuring the Russian Federation to carry out the Minsk accords in full and brings up the issue of stationing UN peacekeeping forces in Donbas because of the growing danger in the region.	+1
April 28	Ukraine's Border Patrol receives secure communications equipment, a total of 500 radio systems of various types worth US \$21 million.	+1
May 4-5	The US Congress passes a consolidated bill on budget allocations for 2017 in which Ukraine may receive as much as US \$560mn in aid by September 30, 2017. President Trump signs the bill into law the following day.	+3
May 6	Information Policy Minister Yuriy Stets announces that the US has shipped a television tower that will be installed in Luhansk Oblast by way of improving Ukraine's information security.	+1
May 8	A bipartisan group of US senators sends an open letter to President Trump calling on him to meet with Petro Poroshenko before he meets with Vladimir Putin.	+1
May 10	As part of his visit to the US, Foreign Minister Pavlo Klimkin meets with President Trump in the Oval Office through the offices of Vice President Pence, where they talk about further US support for Ukraine. This meeting takes place just after the Russian FM meets with the US president.	+2
	President Poroshenko meets with a delegation of American Congressmen in Kyiv. He informs the US lawmakers about the situation in Donbas and discusses increased cooperation to improve Ukraine's defense capabilities.	+1
May 11	During hearings in the Senate Intelligence Committee, Director of National Intelligence Dan Coats states that the Russian Federation's goal is to maintain its influence over Ukraine and to prevent its integration into western structures.	+1
May 17	The US State Department criticizes the National Security Council's decision to block a number of Russian sites in Ukraine, calling it a violation of free speech.	-0,5
May 18	Prosecutor General Yuriy Lutsenko says that the US has promised to transfer the bulk of Pavlo Lazarenko's funds, as much as US \$280mn, if they are seized.	+1
May 23	The White House presents the draft budget for 2018, according to which DoD has requested US \$150mn to strengthen Ukraine's defense capabilities through institutional reform, the procurement of equipment, and training. Total aid for this period is expected to be US \$350 mn.	+1
May 24	Secretary Tillerson states that the Russian Federation can rejoin the G7 only when it has fully complied with the Minsk accord and Ukraine's sovereignty has been fully restored.	+1
May 25	President Trump calls Russia a "threat" in a speech at the NATO mini-summit.	+1

Date	Event	Points
May 26	President Trump's chief economic advisor Gary Cohn makes contradictory statements about the position of the current government regarding sanctions, first stating that it has no position on this issue, then stating that the Trump Administration has told the Russian Federation very clearly what conditions need to be fulfilled for sanctions to be lifted and that the US is ready to increase sanctions.	-0,5
June 1	President Poroshenko participates in the 25th Anniversary celebration of the American Chamber of Commerce in Ukraine.	+0,5
June 4	US Ambassador to the UN Nikki Haley states that no one is about to lift sanctions against the RF and that pressure must be kept up until the Kremlin fulfills the requirements of the Minsk accords.	+1
June 13-15	On a visit to the US, Ukrainian Speaker Andriy Parubiy meets with House of Representatives Speaker Paul Ryan, as well as officials in the State Department and the Department of Defense. He raises the problem with Ukraine receiving lethal defense weapons and security guarantees from the US. He also signs a memorandum of cooperation with the House.	+2
June 14	At hearings in the US House of Representatives, Rex Tillerson calls on the White House to remain flexible in dialogue with Russia and not to link the US to the Minsk accords if Ukraine and Russia manage to resolve their conflict outside these accords, provided that the resolution matches the spirit of Minsk. This takes place as the Senate works on an amendment regarding Russia in a bill on Iran, in which the current sanctions are supposed to be enshrined in law and the Congress granted the power to agree to their removal.	-0,5
June 15	The US Senate votes 98-2 to pass the bill on Iran with an amendment regarding sanctions against Russia. The bill goes to the House of Representatives for review.	+2
June 19-20	President Poroshenko's working visit to the US includes talks with the US President, Vice President, Secretaries of Energy and Defense, and the State Secretary.	+3
June 20	The US Treasury institutes sanctions against 19 individuals and 39 companies over Russia's aggression against Ukraine.	+2

# UKRAINE-CHINA RELATIONS

April-June 2017

Positive: +35.5  
Negative: 0  
Overall: +35.5

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## SUMMARY

In QII of 2017, Ukrainian-Chinese relations continued to expand as mutual trust grew, and political interactions and economic cooperation increased. The situation was best phrased by the Chinese Ambassador to Ukraine, Du Wei, who said at the presentation of a special issue of Ukraine-China magazine on the 25th anniversary since diplomatic relations were established between the two countries: "The cold winter is over and now we welcome the lively spring. On the cover of this special issue is a photograph of the visit of our Heads of State in Davos, which shows the direction for future development of relations between Ukraine and China."

Over April–June 2017, the political sphere was marked by three key events, different in their levels but decisive in their substance. On April 24, Ukraine's First Lady, Maryna Poroshenko, opened the Week of Ukrainian-Chinese Cultural Exchange at Ukraine House, as part of the One Belt, One Road (OBOR) initiative. This event became significant politically and demonstrated the growing cooperation between the two countries. During the week of April 24-30, a Ukrainian-Chinese Economic Forum took place, as well as a Forum for Cooperation in Traditional Chinese Medicine, the Founding Congress of the Union of Silk Road Cities, the First One Belt, One Road Youth Forum between Ukraine and China, and other cultural and artistic events.

On May 14, Ukraine's First Deputy Premier and Minister for Economic Development and Trade Stepan Kubiv participated in a High Level Dialog at the One Belt, One Road International Cooperation Forum that took place in Beijing. In his address, Kubiv underscored the fact that Ukraine's participation in the One Belt, One Road project would foster increased trade among all the partner countries, enliven bilateral investment, and increase comprehensive and sustainable economic growth. That a top Ukrainian official participated in this event is a real step forward for Sino-Ukrainian relations. However, expert circles had expected the signing of a document joining Ukraine to China's ambitious One Belt, One Road initiative in Beijing, something the Chinese side had also anticipated, according to unofficial sources. But it did not happen. And so, despite declarations about the "irreplaceability" of Ukraine on the New Silk Road, the country remains outside the political One Belt, One Road club and still has no connections with the related Chinese Fund and the Asia Infrastructure Investment Bank (AIIB).

On May 30, the current situation and prospects for Ukrainian-Chinese relations were discussed at the One Belt, One Road Strategic Partnership Forum dedicated to the 25th anniversary of diplomatic relations between Ukraine and China, problem areas were analyzed, and a number of propositions were developed for how to strengthen this strategic partnership. The central themes of the Forum included strategic partnership, the Chinese Dream and Ukraine's European choice, the prospects for Ukraine's participation in China's geostrategic initiative, and Sino-Ukrainian relations in a global context. National Security Council Deputy Secretary Oleksandr Lytvynenko and the Chinese Embassy's Chief Political Officer Zhang Yi presented reports on political interactions between the two countries.

In the economic arena, QII of 2017 saw a growing number of contacts at various levels to discuss cooperation in the power industry, transportation, farming, processing, and specific infrastructure projects. On April 26, Ukrainian PM Groisman met with the Chairman of the China National Complete Engineering Corporation (CCEC), Sun Bai. The two sides expressed readiness to actively cooperate on projects in the farming, power and infrastructure sectors. During the meeting, the head of the Chinese delegation noted that the agricultural sector was a priority area. The Chinese partners expressed specific interest in developing solar power, housing and infrastructure. Groisman welcomed a plan by the CCEC to invest in Ukraine and proposed setting up a joint working group to develop a step-by-step joint plan for each of these projects.

Regional economic and trade ties continued to develop as well. A series of cultural and art events took place, including the Week of Ukrainian-Chinese Cultural Exchange as part of the One Belt, One Road initiative.

Cooperation in the humanitarian sphere also expanded. In June, the Subcommittee for Cooperation in Education, which is under the Commission for Cooperation between the Governments of Ukraine and China held its latest session.

## TIMELINE

### A chronicle of political interactions

On April 11, a special issue of the Ukraine-China journal dedicated to the 25th anniversary of diplomatic relations between the two countries was presented. The magazine is a joint publication of the Krymskiy Institute of the Oriental Studies at the National Academy of Sciences (NAS) of Ukraine and the Ukrainian Association of Sinologists. The issue was published with the support of the Chinese Embassy in Ukraine. National Security Council Deputy Secretary Oleksandr Lytvynenko and Chinese Ambassador Du Wei both attended. The Ambassador noted that a January meeting at Davos between the two countries' presidents gave the signal for further developing Sino-Ukrainian relations.

"The cold winter is over and now we welcome the lively spring," said Ambassador Du Wei. "On the cover of this special issue is a photograph of the visit of our Heads of State in Davos, which shows the direction for future development of relations between Ukraine and China. I expect that representatives of all circles that are working to develop these relations have heard this signal and will take advantage of this opportunity to foster greater relations between our countries."

Lytvynenko noted, "One of the most important areas for realizing the potential of Sino-Ukrainian relations and the strategic partnership between our countries is to establish working infrastructure to ensure these relations and working institutions that can provide the support for realizing this potential, no matter how much conditions change."

On April 18, NSC Secretary Oleksandr Turchynov met with Ambassador Wei to discuss political, economic and security cooperation between Ukraine and China. "We need to increase the level of cooperation in various spheres to a qualitatively new level that meets the interests of both our countries," said Turchynov. Ambassador Wei, meanwhile, confirmed that China firmly supported Ukraine's territorial integrity and sovereignty.

On April 24, Ukraine's First Lady Maryna Poroshenko opened the Week of Ukrainian-Chinese Cultural Exchange as part of the One Belt, One Road initiative at Ukraine House in Kyiv. "This is a wonderful opportunity to multiply what we already have and to establish the foundation for new, more powerful cooperation afforded by the new epoch," said the Ukrainian president's wife. Given the presence of Ukraine's second and third presidents, Leonid Kuchma and Viktor Yushchenko, along with many government officials and a top-level Chinese delegation, the event gained political significance and was a visible sign of growing Sino-Ukrainian cooperation.

On May 14, First Deputy Premier and Minister for Economic Development and Trade Stepan Kubiv participated in a High-Level Dialog at the International One Belt, One Road Forum. In his speech, Kubiv emphasized Ukraine's key role in establishing trade routes between Asia and Europe. "Territorially and geo-economically, Ukraine is

an integral part of the One Belt, One Road global project," he said, noting that Ukraine's participation in this project would foster growing trade with all partner countries, stimulate bilateral investment, and spur comprehensive, sustainable economic growth. "This will lead to higher economic and technical cooperation, and growing potential in trade and investment," he went on, "and will foster conditions for all-around, stable development in all three dimensions—economically, socially and environmentally in a balanced, all-encompassing manner."

The active participation of such a top official in this event was an important step forward for bilateral relations. However, expert circles had expected the signing of a document joining Ukraine to China's ambitious One Belt, One Road initiative in Beijing, something the Chinese side had also anticipated, according to unofficial sources. But it did not happen. And so, despite declarations about the "irreplaceability" of Ukraine on the New Silk Road, the country remains outside the political One Belt, One Road club and still has no connections with the related Chinese Fund and the Asia Infrastructure Investment Bank (AIIB).

On May 30, the One Belt, One Road Strategic Partnership Forum took place in Kyiv, with the support of the Chinese Embassy in Kyiv. The co-organizers were the Department of History, Philosophy and Law at the National Academy of Sciences, the NAS's Krymskiy Institute of the Oriental Studies, and the Ukrainian Association of Sinologists. Various aspects of Ukraine-China relations were discussed and the results of bilateral agreements made were analyzed. Participants also looked at studies of new areas of cooperation between the two countries and underscored the need to raise public awareness of the opportunities offered by a strategic partnership in both countries. It was agreed that the Forum should be held on a regular basis. During the discussions, a projection was made of bilateral relations over the next decade. Political and diplomatic milestones between the two countries were presented by Deputy NSC Secretary Lytvynenko and the Chinese Embassy's Chief Political Officer, Zhang Yi.

On June 22, during a visit to the City of Chongqing, the MFA's Director of Consular Services, Serhiy Pohoreltsev, met with the Deputy Director of the municipality's Office for External Relations and Migration, Wang Aen. The two sides talked about current issues in bilateral cooperation with a focus on consular matters, including the expansion of Ukraine's diplomatic presence in China by opening a consulate in Chongqing. Pohoreltsev also met with Chairman of the Board of the Lianjie District Investment Corporation Fang Wenjie, and Skyrizon President Du Tao. The Chinese side presented the plan for a Ukrainian-Chinese plant to produce aircraft engines that is currently being built in Chongqing and is expected to employ 2,000 specialists from Ukraine by 2020.

The evolution of political relations between Ukraine and China in QII 2017 was steady and predictable, fostering further strengthening in mutual trust and growing cooperation in all areas.

## Building economies together

On April 6, there was a working meeting between Power and the Coal Industry Minister Ihor Nasalyk and specialists from the China Development Bank to discuss options for investment projects based on the Novokostiantynivka Mine, which belongs to the Eastern Mining and Enrichment Plant, a state enterprise and investment possibilities with Chinese partners. Nasalyk pointed out that the two sides had agreed to extend the term of an agreement to provide Ukraine with a US \$3.656bn line of credit. The Government is currently looking into the options for using the credit to carry out joint projects. The Minister also confirmed support for the proposition of Nuclear Fuel, a state enterprise, to set up joint exploitation of the Novokostiantynivka uranium ore deposits and to build a mineshaft for the purpose. The Chinese specialists showed interest in cooperating, especially in developing this ore deposit and to be involved in upgrading heat-generating enterprises as well.

On April 20, China Harbor Engineering Company Ltd. won an open tender to carry out the first phase of plans to reconstruct the marine fairway and inland water approaches channels to the deepwater berths of the Pivdennyi Port. CHEC offered its services for UAH 1.064bn instead of the expected UAH 1.196bn.

On April 25, Agricultural Policy and Food Minister Taras Kutoviy met with China National Complete Engineering Corporation (CCEC) Director Sun Bai. CCEC is interested in investing directly in Ukraine's agro-industrial complex. Initial plans are to organize a Ukrainian-Chinese International Forum in agricultural development has been planned, and set up the First Chinese Modernized Farming Park in Ukraine. The latter is a massive investment project and talks are now underway for a suitable site. Plans are for the Ukrainian-Chinese International Forum on agricultural development to take place twice a year in both countries, starting with September 2017.

During the meeting, a reduction in interest rates on credits was also raised, which would allow the State Food & Grain Corporation to continue to make payments in a stable manner while expanding its production capacities for grain deliveries to China. "The Chinese side supported the Grain Corporation's request that China's Exim Bank reduce interest rates on its loans," said the Minister. "For now, we are continuing talks on this issue and are paying considerable attention to the successful completion of the biggest joint project between our countries."

On April 26, PM Volodymyr Groisman met with CCEC Director Sun Bai. The two sides confirmed that they were ready to start cooperating on projects in the farm sector, power and infrastructure. During the meeting, the head of the Chinese delegation noted that the farm sector was of particular interest. "For us, what's most important is to change the profile of our economy," said Ukraine's PM. "We're interested in ensuring major processing of Ukraine's farm products into finished goods." The Chinese partners expressed interest in solar power, housing and infrastructure projects. Groisman welcomed plans by

CCEC to invest in Ukraine and proposed setting up a joint working group to work up a step-by-step plan for working together on each of these projects. He noted that preparing projects meant a good deal, as both Kyiv and Beijing have experienced what happens when initiatives fail because preparations weren't of the necessary quality. Groisman also said he would like to see the turnover of goods between the two countries grow and for cooperation to be even more extensive in the future.

On May 11-13, Deputy Minister for Infrastructure for European Integration Viktor Dovhan arrived in Beijing with an official delegation for a working visit. While there, he held a series of important meetings with officials from the Chinese Ministry of Transport and Chinese investment companies. At the Transport Ministry, three priority infrastructure projects were mentioned: Air Express, a bridge in Kremenchuk, and a concession for a rail ferry complex at the Chornomorsk Port. The Kremenchuk Bridge alone will be worth US \$300mn through the China Road and Bridge Company from the Exim Bank of China.

Potential Chinese investors were presented with current infrastructure projects. Among others, the China Railway Company, a state enterprise, is looking into investing in the modernization and production of electric locomotives at Ukrzaliznytsia production sites. Minister Dovhan also discussed deepening the Pivdennyi Port with China Harbor Engineering Company and its parent company, China Communication Construction Company, who are interested in cooperating with Ukraine. Notably, this was the first official meeting at the level of deputy ministers in the last 12 years.

On May 14, First Deputy PM and Minister of Economic Development and Trade Stepan Kubiv and the China Road and Bridge Corporation (CRBC) agreed to build a bridge near Kremenchuk and reconstruct the Shuliavka Overpass in Kyiv, projects worth a total of US \$400mn. "We propose that you complete the preparatory phase on these projects no later than September, so that after that successful credit program it will be possible to sign credit agreements and service contracts with the corporation," said Kubiv. "For now, we will set up a working group for the comprehensive work ups of these investment projects. This group will include officials from MEDT, Ministry of Infrastructure, the Ministry of Finance, and UkrAvtoDor." He also noted that improving current and building new logistical facilities, where Ukraine's role will be decisive, thanks to its convenient location and attractive investment terms, in line with the One Belt, One Road initiative.

"To improve conditions, increase the throughput and speed of traffic, the level of competitiveness of multimodal container shipments travelling between China and Western Europe and transiting through Ukraine, we are prepared to invest in the expansion and upgrading of infrastructure in Ukraine on the basis of public-private partnerships and other modern forms of cooperation," noted Kubiv. This includes building port terminals, elevators, mobile warehouses, for shipping farm products, and refrigerated storage.

On May 14, as part of the One Belt, One Road Forum, officials from the Power and Coal Ministry visited the Huawei Corporation's R&D facilities and exposition center, meeting with company management in Beijing. Here, discussions were mainly about knowledge exchange, involving specialists and technology to maintain cyber security at power facilities, and other issues whose resolution would foster the effective development of IT infrastructure in Ukraine's fuel and energy complex (FEC). On May 15, PCM officials met with the management of China National Nuclear Corporation (CNNC). The Chinese side showed interest in a joint venture to build mine shafts at the Novokostiantynivka uranium ore deposit. China is also prepared to participate in the construction of production facilities on Ukrainian territory to manufacture fuel assemblies for Ukrainian AESs.

On May 15, Kubiv met with Deputy Premier of the State Council of China, Ma Kai. "Our two countries have been engaged in manufacturing and trade with each other for a long time, but the potential is far greater and deserves expansion" said the Minister. "We're talking about projects in the aviation, machine-building, space and farm sectors. This suggests that we should hold a Ukrainian-Chinese business forum in the not-too-distant future and a third session of the Commission for Cooperation between the Governments of Ukraine and China, which has not met in nearly four years. Kubiv noted that a session of the Commission would make it possible to settle all the key areas of mutual interest and establish close contact at the diplomatic and business levels.

"Ukraine is an important transit hub between Asia and Europe," Kubiv added. "Taking advantage of Ukraine's transportation potential will open new trading opportunities and more fully reveal the country's overall potential. It will also have a huge positive impact and multiply the effects of reform in improving the investment climate here."

That same day, First Deputy PM and EDT Minister Kubiv met with China Export-Import Bank President Hu Xiaolan, where he proposed establishing a credit council to select and approve investment projects and professionally develop and implement such projects. The deputy PM stated firmly that the greatest potential was in the agricultural, infrastructure, machine-building and power industries.

On May 22, Ukrainian beef was officially OK'd for export to China's markets. Ukraine's Food Safety and Consumer Protection Service (FSCPS) and China's Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) signed a Protocol of inspection, quarantine and veterinary health requirements regarding the export of frozen beef from Ukraine to China. At this time, the FSCPS and AQSIQ are cooperating to agree to phytosanitary and inspection requirements for the export of an entire series of Ukrainian farm products to Chinese markets. This includes sunflower meal, beet pulp, dairy products, poultry meat, eggs, honey, and so on. As the Chinese Ambassador noted, the signing of the Protocol was a

"concrete result and a small victory" in reaching the large goals of bilateral cooperation.

On May 25, Ukraine's Marine Port Authority signed a contract with China Harbor Engineering Company Ltd (CHEC) to carry out dredging works at the Pivdennyi Port. The contract was signed in the presence of PM Groisman, Infrastructure Minister Volodymyr Omelian, and Chinese Ambassador to Ukraine Du Wei. The dredging of the Pivdennyi Port is currently one of the largest-scale infrastructure projects in Ukraine. The project feasibility study was approved by the Cabinet on April 12, 2017. The contractor, CHEC, was selected from among five international dredging companies via tender in the Prozorro electronic procurements system.

On May 30, State Energy Efficiency Committee Chair Serhiy Savchuk met with China Everbright International Limited Executive Director Wang Tian. This company has enormous experience in constructing factories that process household waste and in generating power, on the basis of public-private partnerships. So far, Everbright has completed 31 such projects while nearly 70 more are underway at the development stage or going on line. Their plants are operating in Vietnam, Germany and Poland. At this time, the company is looking at new markets, including Ukraine. Savchuk explained the legislative framework in power generation using alternative fuels and the guarantees that municipalities are able to offer to public-private partnerships. After the meeting, the two sides agreed to continue to exchange information. Plans are to look at possible PPP projects, including waste recycling and power generation. The company will also study ready projects that require investment or discounted loans.

On May 31, during a presentation of the Ukrainian Danube Shipping Company's development strategy for the company's fleet, Chair Dmytro Barinov announced that Ukrainian Danube Shipping and China National Technical Import & Export Corporation (CNTIC) had signed a Memorandum of Cooperation. According to Barinov, the strategy involves building 40 new SLG-type barges and upgrading 21 tugboats. The barges will be built on the basis of old lighters, while the upgrade will involve changing engines. The overall value of this work is around US \$50mn.

On June 12, the State Property Fund and the Bohai Commodity Exchange Co., Ltd. signed a sale-purchase agreement for a 99.9% stake in the Ukrainian Bank for Reconstruction and Development, at a price of UAH 82.83mn or about US \$3.2mn. After the contract was signed, Bohai Chairman and General Manager Yang Dungsheng proposed that the SPF sign a Memorandum of Cooperation and underscored that the Chinese side would do what it could to help Ukraine carry out effective privatization and would disseminate information about potentially available Ukrainian assets among its clients.

On June 19, China Railways announced that it was looking into investing in the upgrade of electric locomotives being manufactured at Ukrzaliznytsia facilities. So far,

there is an agreement to set up technical labs and test Chinese locomotives on Ukraine's tracks, which would make it possible to speed up modernization and improve transport efficiency.

On June 20, lengthy but fruitful negotiations between the Agricultural Policy Ministry, the State Food and Consumer Service, and government delegations, and expert technical resolutions of all issues led China to add nine new dairy companies to the list of those who have the right to export dairy products to China. At this time, 27 Ukrainian dairies can ship dairy products to the Chinese market.

On June 22, State Enterprises (DP) Antonov and Ivchenko-Progress, and PAT Motor Sich discussed the delivery of 50 AN-178s with a Chinese customer at the Le Bourget Air Show in Paris, 12 in finished form and 40 as assemblies. The two sides discussed delivery timeframes, financial resources and the unloading of real and material parts for the plane to be assembled in China. The AN-178s will be equipped with a D-436-148FM turbojet engine. The power units are manufactured by Motor Sich. In addition, PAT Motor Sich and China National Aero-Technology Import & Export Corporation (CATIC) signed a contract for the delivery of 25 AI-25TLK aircraft engines to China for K-8G trainers in 2018 and early 2019. At this time, Motor Sich is developing a partnership program with Beijing Skyrizon Aviation Industry Investment Co., Ltd. that anticipates licensing the production of Ukrainian aircraft engines at Chinese facilities. The partnership program between Motor Sich and Skyrizon includes a Chinese investment worth nearly US \$250mn to upgrade Motor Sich facilities in Zaporizhzhia.

### Getting together over culture and more

On April 24-30, the Week of Ukrainian-Chinese Cultural Exchange took place at Ukraine House in Kyiv. It included a forum on cooperation, the first Ukraine-China youth forum, a slew of cultural events and Silk Road cities, as well as a contest for schoolkids called "The Bridge of the Chinese Language." Visitors could participate in various thematic aspects of traditional Chinese culture: tea ceremonies, calligraphy, Chinese paintings, silk, porcelain, and Chinese theatrical performances. Well-known Chinese masters came to Kyiv to participate in these events: artists, calligraphers and masters of Chinese medicine. From April 25 through 30, the National Academy of Fine Art held an exposition of famous Chinese artist and impressionist Lao Jia. The Week became the largest event promoting Chinese culture in Ukraine since the country became independent.

Over May and June, officials from Ukraine and China discussed cooperation through scientific, cultural and tourist exchange programs in a series of meetings. A slew of negotiations also took place during this quarter regarding Ukrainian-Chinese cooperation in relation to intellectual property and information technologies.

### Cooperation in the regions

On April 3, Korolenko National Pedagogical University in Poltava signed an agreement of cooperation with the Chinese Institute of Sports Sciences in the province of Shandong

That same day Hong Kong-based Man Bei Trading Co., Ltd. announced that it is prepared to produce a special line of products for tourists at the Ternopil Meat Packing Plant, which is part of the Agroprodservis, as tourism is growing dynamically in China. Eventually, Agroprodservis could deliver more than 200 of pork and beef a month to China.

On April 19, a delegation from the Ankaï Factory visited the shops at the Tram and Trolleybus Administration in Zhytomyr. The purpose of the visit was to see the conditions for operations and evaluate Zhytomyr as a potential site for placing, assembling and servicing electric buses.

On May 11, a team from Grandblue Environment Co., Ltd. in China met with Lviv Governor Oleh Syniutka and discussed plans to construct a waste recycling plant in Lviv Oblast. Preliminary plans are to build a plant in Chervonohrad that will be able to process 320 tonnes a day to generate heat and power. Developing the plan will take about 6 months, then documentation will have to be approved. After this, the company will be able to start construction.

On June 5-7, a delegation from Bila Tserkva led by Mayor Ghennadiy Dykiy visited sister city Jingzhou in the province of Hubei. The two mayors signed a memorandum outlining key areas of cooperation.

During this quarter, basic agreements that established areas for regional cooperation were also signed and extended in Kharkiv and Zaporizhzhia with Chinese sister cities.

On June 13, Chinese Ambassador Du Wei met with the leadership of Zhytomyr and Zhytomyr Oblast. The oblast proposed for Chinese investors to get involved in building rental housing and infrastructure, including a jewelry factory to process amber. After the meeting with top oblast and city officials, Embassy officials toured the medical college in Novohrad-Volynskiy, where they handed over charitable assistance to schools and hospitals in the form of equipment and computer technology.

On June 12-19, Chinese tour operators went on a promotional tour of Ukraine from Kyiv to Odesa, to Lviv's Olesko Castle, to Rivne's Tunnel of Love and Museum of Amber, and back to Kyiv. The organizers of this Ukrainian promo-tour were Ukrainian tour operators from the Association of the Hospitality Industry in Ukraine (AHIU), together with local governments and businesses.

On June 25, Ukrainian tour operators took part in the 5th EXPO of the Western China Tourist Industry taking place in Chongqin. The Ukrainian tour operators presented opportunities for Chinese tourists, told about the country's advantages, and invited Chinese tour operators to cooperate actively and fruitfully.

**Events in Ukraine-China relations (April-June 2017). Point-based evaluation**

Date	Event	Points
April 3	Korolenko National Pedagogical University of Poltava signs an agreement of cooperation with the Chinese Institute of Sports Sciences in the province of Shandong.	+0.5
	Hong Kong-based Man Bei Trading Co., Ltd. announces that it is prepared to produce a special line of products for tourists at the Ternopil Meat Packing Plant.	+0.5
April 6	Minister of Power and the Coal Industry Ihor Nasalyk has a working visit from specialists from the China Development Bank.	+1
April 11	The presentation of a special issue of the Ukraine-China journal includes a significant comment by Chinese Ambassador to Ukraine Du Wei.	+2
	A delegation of specialists from the Chinese State Intellectual Property Agency comes to Ukraine on a working visit.	+0.5
April 18	NSC Secretary Oleksandr Turchynov meets with the Chinese Ambassador to Ukraine, Du Wei.	+1
April 19	A delegation from the Ankai Factory visits the shops at the Tram and Trolleybus Administration in Zhytomyr.	+0.5
April 20	China Harbor Engineering wins a tender to deepen the Pivdennyi Port harbor.	+1
April 21	Officials from the Chinese food safety consumer protection agency meet State Consumer Food Service Director Volodymyr Lapa.	+0,5
	A delegation from the Beijing Office of Intellectual Property led by General Director Wang Hong visits the National Academy's Law University in Kyiv.	+0,5
April 24	First Lady Maryna Poroshenko opens the Week of Ukrainian-Chinese Cultural Exchange as part of the One Belt, One Road initiative. The event was also attended by Ukraine's second and third presidents, Leonid Kuchma and Viktor Yushchenko.	+1.5
April 24-30	The Week of Ukrainian-Chinese Cultural Exchange takes place.	+2
April 25	Agricultural Policy and Food Production Minister Taras Kutoviy meets with China National Complete Engineering Corporation (CCEC) Director Xun Bai.	+0.5
April 26	Ukrainian Premier Volodymyr Groisman meets with CCEC Director Xun Bai.	+0.5
May 11	A team from China's Grandblue Environment Co., Ltd. announces intention to build a waste recycling plant during a meeting with Lviv Governor Oleh Syniutka	+0.5
May 11-13	Deputy Minister for Infrastructure for European Integration Viktor Dovhan arrives with a delegation for a working visit in Beijing.	+0.5
May 14	First Deputy Premier and Minister for Economic Development and Trade Stepan Kubiv participates in the High-level Dialog at the One Belt, One Road International Cooperation Forum in Beijing.	+2
	First Deputy PM and MEDT Kubiv and the China Road and Bridge Corporation (CRBC) agree to build a bridge near Kremenchuk and reconstruct the Shuliavka Overpass in Kyiv.	+0.5
	During the One Belt, One Road Forum, officials from the Ministry of Power and Coal visit Huawei's research and exhibition center and meet with company management in Beijing.	+0.5
May 15	During the One Belt, One Road Forum, officials from the Power and Coal Ministry meet with China Nuclear Energy Industrial Corporation management.	+0.5
	First Deputy PM and MEDT Kubiv meets with State Council of China Deputy PM Ma Kai.	+1.5
	First Deputy PM and MEDT Kubiv meets with China Export-Import Bank President Hu Xiaolan	+0.5
	A Ukrainian delegation headed by Presidential Representative in the Verkhovna Rada Iryna Lutsenko, and MP and head of the VR group for interparliamentary relations with China Andriy Pavelko meets with Sheng Beili, assistant to the Director of the International Department in the Central Committee of the Communist Party of China.	+0.5
May 22	The Chinese market is officially open to Ukrainian beef.	+1
	The chair of the VR Subcommittee for freedom of conscience and religious organizations under the VR Committee for Culture and Spirituality, MP Viktor Yelenskiy, meets with a Chinese delegation led by Deputy Minister for Religion Zheng Dui.	+0.5

Date	Event	Points
May 23	First Deputy Minister for Culture Svitlana Fomenko meets with a Chinese delegation led by Deputy Minister for Religion Zheng Dui	+0.5
May 23-24	A business meeting takes place between the Ukrainian Association for the Hospitality Industry and Chinese tour operators.	+0.5
May 25	Ukraine's Port Authority signs a second contract with the China Harbor Engineering Company Ltd. to reconstruct the marine fairway to the Pivdennyi Port.	+1
May 29	The Center for Dental Medicine and the Faculty of Dentistry at Bohomolets National Medical University is visited by a delegation from the Dental Hospital in the city of Urumqi.	+0.5
May 30	The One Belt, One Road Strategic Partnership Forum dedicated to 25 years of diplomatic relations between Ukraine and China takes place in Kyiv.	+2
	State Energy Efficiency Committee Chair Serhiy Savchuk meets with China Everbright International Limited Executive Director Wang Tian.	+0.5
May 31	Ukrainian Danube Shipping Company and China National Technical Import & Export Corporation sign a Memorandum of Cooperation.	+0.5
June 5-7	A delegation from Bila Tserkva led by Mayor Ghennadiy Dykiy visits sister city Jingzhou.	+0.5
June 5-10	State Consumer Food Service Director Volodymyr Lapa participates in the Second Session Dialog on quality control between China and CEE countries as part of a working visit to China.	+0.5
June 8	Kharkiv First Deputy Mayor Ihor Terekhov and Jinan Urban Planning Department Director Wang Xiubo sign a Memorandum to continue cooperation.	+0.5
June 12	The State Property Fund and the Bohai Commodity Exchange Co., Ltd. sign a sale-purchase agreement for a 99.9% stake in the Ukrainian Bank for Reconstruction and Development.	+1
June 12-19	Chinese tour operators go on a promotional tour of Ukraine.	+0.5
June 13	Chinese Ambassador to Ukraine Du Wei meets with top officials in Zhytomyr and Zhytomyr Oblast.	+0.5
June 14	Zaporizhzhia Mayor Volodymyr Buriak and Deputy Mayor of Ichang Zhou Zhenying sign a cooperation plan between Ichang, Hubei Province, and Zaporizhzhia for 2017-2019.	+0.5
June 15	Deputy Premier and Minister for Regional Development, Construction and Housing Services Ghennadiy Zubko announces that Ukraine plans to build a permanent route between China and the EU with the support of Kazakhstan.	+0.5
June 19	The Chinese State Railway Corporation considers investing in modernizing the manufacture of electric locomotives at Ukrzaliznytsia's production facilities.	+0.5
June 20	Nine new Ukrainian dairies are added to the list of those who have the right to export dairy products to China.	+1
June 22	The MFA's Director of Consular Services, Serhiy Pohoreltsev, meets with the Deputy Director of the Office for External Relations and Migration of the City of Chongqing, Wang Aen, Chairman of the Board of the Lianjie District Investment Corporation Fang Wenjie, and Skyrizon President Du Tao.	+0.5
	State Enterprises (DP) Antonov and Ivchenko-Progress, and PAT Motor Sich discuss the delivery of 50 AN-178s with a Chinese customer.	+0.5
June 23-25	Ukrainian tour operators participate in the Fifth Expo of the Western China Tourist Industry.	+0.5
June 24	The subcommittee for cooperation in education between Ukraine and China approves the plan of priority measures to develop Ukrainian-Chinese cooperation in education over 2017-2019.	+1
June 27	Deputy Director of the State Emergency Services Ruslan Boloshytskiy meets with officials from a Chinese company that specializes on R&D in Information and Communication Technology (ICT).	+0.5

# UKRAINE-RUSSIA RELATIONS

April-June 2017

Positive: +1

Negative: -33

Overall: -32

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## SUMMARY

*Ukraine-Russia relations reached a low of -32 for this quarter. On one hand, it looks like there has been some progress in this area, strictly quantitatively, given that last quarter this figure was at -61. On the other, it's clear that there hasn't been an improvement whatsoever: the difference is simply that Q1 2017 was more packed with events, which automatically increased the overall index. What's more, a number of events took place during the Q2 2017 made it clear there can be no improvement in relations. The situation at the line of contact remains unstable, with news about the dead and wounded almost on a daily basis. In April, a car carrying OSCE observers blew up, killing one American.*

*The three months being analyzed here showed a new trend in relations between the two countries: Kyiv has begun making decisions that it had been deliberately avoiding for the last three years. The Poroshenko Administration has decided to minimize the hybrid nature, meaning the ambiguity, of its own actions towards Russia, which had been giving its opponents plenty of reason to criticize it for showing weakness to the Kremlin. So, in May we saw the first expert discussion of a bill that, among others, would recognize the occupied status of certain counties of Donbas, known as ORDiLO, and will rename the Anti-Terrorist Operation. Over April-May, other decisions emerged that caused sharp reactions in Moscow: the banning of Russian social media and the institution of a language quota. In addition, Ukraine amended legislation to recognize the state's movement towards joining NATO. And finally, the issue of instituting visa requirements for Russian citizens was raised again during the reporting period.*

*Ukraine and Russia saw the first rulings handed down by the International Court of Justice and the Stockholm Arbitration Institute in bilateral disputes. Each country interpreted the ruling as a victory for its side. Moscow made it clear it had no intention of complying with any of the measures in the preliminary decision of The Hague, that is, restoring the Tatar Mejlis as a functional institution. As to the Stockholm ruling, Gazprom suggested not jumping to any conclusions.*

*The next months promise to be just as strained. In September, a joint Russia-Belarus military exercise called Zapad-2017 or West-2017 is expected to out do last year's Kavkaz-2016 exercise, which involved over 100,000 servicemen. There are also concerns that the Kremlin will resort to aggressive provocations to mobilize Russian voters in the upcoming presidential campaign. The fact that Election Day was moved to March 18, the day Crimea was illegally annexed, suggests that the Ukraine card will be actively played during this election.*

## TIMELINE

### 3 months of derring-do after 3 years of daring not

The last three months saw Ukraine take a number of unprecedented steps in relation to Russia. It seems that in three months, the country's leadership finally dared to do what it had been studiously avoiding since the start of Russia's aggression in early 2014. First of all, this was adding Russian social networks in Ukraine to its expanded sanctions list. The Kremlin was equally upset over amendments to Ukrainian legislation that acknowledge the country's intention of moving towards membership in NATO. The Poroshenko Administration also initiated legislation that will rename the Anti-Terrorist Operation or ATO and recognize the occupation of certain eastern counties of Ukraine, known colloquially as ORDiLO or "occupied counties of Donetsk and Luhansk Oblasts," in law. Passed on May 23, a bill setting mandatory Ukrainian language quotas for broadcast programs and films caused Russia's news programming to rail angrily against Kyiv for several days. An initiative to ban the

infamous orange-and-black-striped St. George's ribbon caused another storm of protest in Russia.

In the corridors of power in Ukraine, calls by Russian politicians to "respect human rights" were seen as simply bullying behavior. In fact, Kyiv paid little attention to other sharp reactions in Russia to these decisions.

Possibly the biggest confrontation came when Ukraine added to its sanctions list two popular Russian social networks that had millions of Ukrainian users, along with Transaero, a Russian airline, and 1C, Ukraine's most widely-used accounting system. The idea of banning these two resources had been raised much earlier: propositions to take the necessary steps had been submitted to the country's top leadership many times before because the networks were seen as the most powerful weapon in Russia's hybrid war. The government had rejected radical steps earlier, clearly worried about a hostile public reaction. A May survey by the Rating Group showed that nearly 60% of Ukrainians were unhappy

about the ban. In this context, official government pages in the Russian VKontakte network looked quite illogical. Nor did the government work effectively to explain its decision, which led to criticism from western partners as well. Both the EU and US suggested mildly that Ukraine needed to protect freedom of speech.

Russia, of course, was much more critical over Ukraine's sanctions. Russia's critical assessments even had some local color to them. For instance, in addition to a blanket condemnation of such a violation of human rights, Putin's spokesman Dmitry Peskov claimed that the ban also clearly showed who was guilty of "completely derailing the Minsk agreements."

External criticism has not entirely been ignored the Ukrainian government, although Moscow's manipulative comment about Kyiv disrupting the peace process came closest to being ignored. However, the sharp reaction of western partners caused considerable worry among those in power. To a large extent, critical observations from Germany, the US and international organizations could have been avoided altogether had the Ukrainian Government at least explained its moves properly. Indeed, it seems that those pro-Ukraine partners who expressed calls to respect freedom of speech did so less because they genuinely thought there were threats to it in the country than because they simply hadn't been forewarned. This also happened with the amendments to the law that acknowledges Ukraine's desire to join NATO.

Western reaction to the sanctioning of Russian social nets was the second most negative response to decisions made by Ukraine in the last half-year. The other sharp reaction came when the official blockade of ORDiLO was announced. Moreover, the reactions were not just about the movement of goods but Ukraine's threat to shut off water supplies to the occupied territories: EU diplomats openly stated that such a step would be unacceptable. It seems that Kyiv had not expected this kind of reaction, given that the situation seemed quite obvious all around and the assumption that partners would treat the decision with understanding.

"Our partners really need to understand that their criticisms of Ukraine's decisions regarding Russia harm, both Ukraine and them," was one opinion in the Ukrainian Government about the expressions of concern from some EU countries. The argumentation is that sensitive issues should be discussed behind closed doors. "The Kremlin will only be thrilled to watch Ukraine and the EU settle their differences," says one official. "We can understand when we hear criticisms over the slow pace of reform, as we aren't happy about that, either," says another. "But when the victim of aggression is being blamed for somehow violating the rights of the aggressor... we're prepared to defend out position." Such opinions can also be heard from Ukraine's diplomats, who most often have to explain the country's decisions to their foreign counterparts.

## Trading hybridity for clarity

the latest government initiative to entrench in law the status of temporarily occupied territory to certain counties of Donbas is likely to also run into criticisms, if nothing else, from the European Union. The bill is called "On specific state policy to restore state sovereignty of Ukraine over the temporarily occupied territory of Donetsk and Luhansk Oblasts of Ukraine." In mid-June, the National Security Council actually debated this document with Ukrainian experts. This time around, the government will obviously try to get broader support. If passed, the new law will also change the format of the ATO. It includes provisions for setting up an Operative HQ with the broadest powers and complete charge of all military and police structures and the military-civilian administration. To prevent criticism from western partners, the bill makes references to the Minsk Accords.

All these recent moves clearly indicate that Ukraine wants to get away from the period of hybrid halftones and understatement to the phase of precise language and clarification. In the last three years, political opponents from the pro-western camp have mostly accused the government of indecision, weakness and even collusion with the Kremlin. But to be fair, President Poroshenko's opponents have ever fewer pretexts for accusing him of dependence on Russia. Now that he finally shut down the Roshen plant in Lipetsk, they've lost one of the main trumps that kept being used against him.

Of course, Petro Poroshenko's own maneuvering in making decisions opened him up to all kinds of criticism. Most often the country's leadership was accused of continuing to operate in accordance with the Ukrainian-Russian Friendship Treaty (1997) and diplomatic relations were never cut. The Administration was subject to equally vocal blows over the legal discrepancies, such as how an "anti-terrorist operation" can go on for three years, whether military resistance to the aggression of another country can be even called an "anti-terrorist operation," and why were there several waves of mobilization to the Armed Forces if there is neither state of war nor a declaration of war? The bill certainly doesn't resolve every single issue, because it fails to address these basic questions although it does move beyond the extradiplomatic approach Ukraine has been taking for the last three years.

There's no reason to believe that references to the Minsk process will save this piece of legislation from comments on the part of EU partners. More to the point is whether such criticisms will be public this time as well, because both sides have had plenty of time to discuss it at the drafting stage. References to Minsk should serve to reassure the country's partners that Ukraine is determined to find a peaceful resolution to the conflict. On the other hand, a recent decree by Vladimir Putin recognizing DNR and LNR document also referenced the Minsk accords.

Most likely the purpose of this law is not so much to change the status of things in the conflict zone, as to

alter definitions in order to avoid further blame from domestic critics. However, such accusations are likely only to multiply, one of the main ones being that the government was far too late in this move and that the law doesn't go far enough to dot all the i's and cross all the t's. The pro-Russian camp of politicians will likely accuse the government of trying to resolve the conflict militarily, not peacefully. This is certainly the position of Putin ally Viktor Medvedchuk.

But what lies behind this sudden boldness on the part of the Ukrainian Government? Why has the country's leadership finally taken steps that were first discussed three years ago? It appears that there are plenty of reasons, in fact. One of the more popular explanations is that Poroshenko is playing to the electorate and preparing for an election. Still, such populist explanations don't quite work in all cases. For instance, the ban on social networks was not popular among most Ukrainians. Most likely, Ukraine has understood that things aren't going to get any worse. Three years ago, those in power needed to weigh every decision and review it carefully for Russia's possible reaction in mind and many western politicians called on Ukraine "not to give in to provocations," which is why Kyiv chose the path of least definition and clarity.

After Russia's proxies began to "nationalize" businesses in ORDiLO, Putin recognized LNR and DNR documents, and the ruble became the currency of the occupied territories, Ukraine dared to take its first radical step: a blockade. Subsequent decisions became far easier to take once the first barrier was down. In fact, all of them can be seen as a response to the nationalization of Ukrainian businesses and Russia's recognition of documents issued by the illegal enclaves.

When all is said and done, it's clear to Ukrainians that if Russia wanted an excuse to launch a large-scale invasion, it would just as easily make one up, just like it did in February 2014. Clearly, the Kremlin justified the annexation of Crimea, among other excuses, as a "preventive measure" so that NATO bases could not be established on the peninsula.

What may have inspired Ukraine to take more decisive steps may also have been the April 19 ruling of the International Court of Justice and the May 31 ruling by the Stockholm Arbitration Institute in a gas dispute. On one hand, they largely confirmed Ukraine's position, but on the other, their ambiguity offers Russia plenty of room to maneuver. For instance, Kyiv was unable to persuade The Hague judges of the need to immediately apply a series of measures against Russia for violating the International Convention for the Suppression of the Financing of Terrorism. Ukraine's diplomats commented on the timidity of the UN judiciary. Whereas the vote to launch measures to uphold the International Convention on the Elimination of All Forms of Racial Discrimination was clearly registered and it was clearly visible that the majority of the international judges supported Ukraine, the measures in the anti-terrorism convention remain far less meticulously noted. It seems that there were quite

contentious discussions among the judges, so the final decision was postponed until later.

For now, the Ukrainian authorities are continuing to collect evidence that would support the validity of accusations that Moscow is in violation of the International Convention for the Suppression of the Financing of Terrorism as well as those that prove that the Kremlin has no intention of complying with any measures decreed by the International Court of Justice in April. The diplomats are supported by a number of expert groups that are strengthening Ukraine's position in accusing Russia of deliberately supporting terrorist activities on the territory of Ukraine.

The evidence base against Russia for ignoring temporary measures in response to discriminatory actions in Crimea promises to be more than solid. Moscow has been required to stop restricting the rights of Crimean Tatars and ethnic Ukrainians in occupied Crimea, and to restore the Mejlis, which Moscow banned on the Ukrainian peninsula. However, the latest report from the UN High Commissioner for Human Rights, the 18th so far, confirmed the catastrophic situation in Crimea in the period from February 16 through May 15, 2017. Cases of human rights abuse in Crimea were reported after the International Court's of Justice decision was handed down as well. There were many cases of persecution against Crimean Tatars and radical cuts in the teaching of the Ukrainian language. The number of children who studied in Ukrainian went from nearly 13,000 in 2013 to only 371 in 2016. As soon as the report was published, the Russian Foreign Ministry criticized the UN document as "politically biased" and "an attempt to defend the government in Kyiv." Still, Russia failed to provide any specifics to prove that the report was biased.

### **Where to now with Minsk?**

It's quite possible that Ukraine's leadership gained some courage vis-a-vis Russia thanks to eurointegration success stories: the complete ratification of the Association Agreement and the institution of a visa-free regime for Ukrainian citizens travelling to the EU. Possibly more importantly, for almost the first time in three years of conflict, the European Union extended sanctions against Russia without debate. Not only did few in Ukraine pay attention to this, but some even expressed concern about whether all the countries were really unanimous on this. During previous extensions, there were always leaks to the press about the dissenting opinions of Greece, Hungary or Italy, which were in a position to block the extension of restrictive measures for the next half-year.

For a time, there were fears in Ukraine that internal problems in the Union would result in Europeans becoming focused on their own issues—the terrorist threat, Brexit, the risk of radical right-wing parties coming to power, – which would have given Russia free rein with regard to Ukraine. But everything turned out exactly the opposite: being focused on themselves not only did not push Ukraine out of the ring but actually made its problems more understandable for Europeans,

as happened with the French election after Russia's interference. Indeed, being focused on itself may actually be working in Ukraine's favor: the EU really has no time to read between the lines of Russia's latest manipulative statements about the Minsk process, but sanctions can be extended on automatic pilot, without discussion.

The international arena saw other more and less significant successes for Ukraine in terms of resolving the conflict with Russia. The backroom maneuvering of the two countries' presidents over who would be first to meet with the new US President ended up in a victory for President Poroshenko. Not everyone in Ukraine assessed this race positively, however, arguing that Putin would now have the last word with Mr. Trump and the delay gave him more time to prepare. With the new French president, it went the other way. Vladimir Putin met him first, but it caused the Russian leader more harm than good, given the highly critical statements of Russia made by Emmanuel Macron during their joint press conference. On one hand, Putin has the opportunity to show that he's not in isolation and that his international counterparts are on contact with him. On the other, what these same colleagues are saying and the unfriendly tone of the local press have been a rude awakening for the Kremlin boss.

Needless to say, Putin has no shortage of attention: in April, he met with US Secretary of State Rex Tillerson in Moscow, and in May Angela Merkel visited him in Sochi for a full-scale meeting. The last three months the intensity of meetings between Merkel and Putin, Poroshenko and Macron, Macron and Putin, Poroshenko and Merkel (Poroshenko actually met with Merkel twice during these months, in Berlin in May and in Brussels in June) reflect renewed interest in Paris and Berlin to engage in the negotiation process with greater vigor. On April 17, the leaders of France, Germany, Ukraine and Russia held a four-way phone conversation that looked more like a thank-you to Francois Hollande, who was leaving office. Nevertheless, the idea of such phone discussions with the new president, Emmanuel Macron, surfaced quite quickly, although the one expected at the end of June did not take place. It's quite obvious that the participants in the negotiations were not prepared to step back from their old positions.

Ukraine's position, which has been publicly supported by both France and Germany, is to first establish a durable ceasefire, which so far has not happened. Artillery fire continues and nearly every day there are reports of men and women killed in action. The Normandy format, which hit the three-year mark in June, continues to function although its effectiveness is questionable. The road map that the sides were supposed to agree to last year is far from the final stages. Neither Russia nor Ukraine is prepared to step back from its positions: Ukraine considers that it has already made plenty of compromises, which only led to further losses, while Russia from its stronger position sees no reason to compromise in any way. Formally, Moscow continues to distance itself from the conflict and insists that Kyiv should directly negotiate with the "rebellious regions."

The Minsk process has become a kind of routine as it has failed to achieve the purpose for which it was originally set up. It was supposed to promote a peace plan and to push for a resolution to the conflict, but in the end, the talks in Minsk moved to a stage of resolving issues that were anything but strategic in nature—although that did not in any way diminish its significance. The main issues that shaped discourse in Minsk in recent months involved the confirmation of hostages, environmental issues caused by flooded mines, and the threat of water supplies being cut off to occupied population centers. The stalemate in Minsk requires new decisions and initiatives that will force the sides to start taking the first steps to a truce.

Putin, of course, has not changed his position regarding the conflict in Ukraine one iota in recent months, so it is pointless to expect that the situation might change simply because a new, energetic French leader will take the task on. In Kyiv, meanwhile, there's the impression that the Macron team firmly believes that it can reach some kind of compromise with Putin.

What's more, Moscow has not given up on its old calculation that it might negotiate directly with Washington, and the rest of the players, so to speak, will have no other option but to accept the rules made by Russia and the US. After the presidential election in the US and the departure of Victoria Nuland from the State Department, a break came in the ongoing dialog among representatives of both countries. Russia has made it clear that Vladislav Surkov, who is effectively responsible for the quasi-republics in eastern Ukraine, will continue to represent Moscow in negotiations. Who will represent the US remains up in the air.

Kyiv, incidentally, was not happy about these contacts all along: the Ukrainian question was discussed in this format without anyone representing Ukraine. This time, Ukraine's diplomats have already stated publicly that they expect Ukraine to participate in any such dialog. Berlin was also not happy with the arrangement, which could actually explain the greater peacemaking efforts on the part of the German chancellor in recent months. The EU continues to be worried about a possible separate deal between Russia and the US that would harm the handling of global challenges, including the Russian-Ukrainian conflict. The G20 Summit in Hamburg on July 7-8 was intended to be a decisive moment with a Putin-Trump meeting scheduled during the two days and talks in the Normandy format slated for the summit site as well. Originally these talks were slated for September 2016, but were cancelled because Putin dropped out.

### **Russia's looming presidential election**

Ukraine is paying close attention to the domestic political situation in Russia because the Kremlin will soon switch to its domestic agenda and will have little time for foreign adventures. Even though anti-government demonstrations pop up from time to time in Russia, few people in Ukraine have any illusions that there might be a tectonic shift in their neighbor's landscape any time soon. What's more, there's good reason to worry that Moscow

will resort to yet another destabilization in neighboring countries in order to improve ratings among ordinary Russians.

Still, Ukraine's establishment isn't especially systematic in how it follows events in Russia: Kyiv doesn't really have best- and worst-case expectations. Firstly, this is because few assume there is any likelihood that Putin will leave office. Secondly, regime change will not necessarily mean a change in policy towards Ukraine. Still, people are paying attention to Alexei Navalny's speeches, the most high-profile opponent to the Kremlin in Russia today, who believes that a second referendum should be held in Crimea "that Ukraine, of course, is highly likely not to recognize."

In Russia itself, social tensions are growing, along with the protest movement. At the end of March, some 60,000 Russians came to demonstrations against corruption in more than 80 cities all across Russia. Mass arrest and violent crackdowns at the rallies caused a storm of angry statements from the US and the EU to the Russian leadership. Ukraine, which normally adds its name to many EU declarations, this time abstained from political solidarity, quite likely due to lack of trust in the leaders of these protests.

In any case, growing protest actions are not threatening enough for Vladimir Putin to be able to talk about the Russian opposition as an important driving force. For one thing, its options are too limited to be able to shift the Kremlin's attention from foreign policy to domestic policy issues. Leaders in Kyiv and in key EU capitals don't believe in any scenario in which the Kremlin will resort to large-scale aggression against other countries in order to mobilize its own electorate, although it might possibly cause provocations accompanied by the necessary sound bites... On one hand, the level of trust in Putin appears unchanged; on the other, in many post-soviet countries, the mobilization of voters is handled in a more peaceable fashion, through "adminresource"—administrative leverage, which is effectively vote-buying.

On June 1, Vladimir Putin signed a bill that provides for the presidential election to be held on March 18, 2018, the fourth anniversary of the annexation of Crimea. This "coincidence" did not pass unnoticed in Ukraine, although there was not much public commentary on it. "Russian television has been stirring up hysteria over Ukraine for three years now," government officials say, commenting mutedly on the Russian move. "So it's hardly surprising that Putin is trying to take advantage of the

situation. There's no doubt that he will promote Crimea as his main achievement." At the same time, they admit that they have been pointing out this symbolic decision to their international partners, which makes it clear that Russia has no regrets about its actions and has no intention of changing its approach to Ukraine in any way. On June 24, Putin visited Crimea just as the European Union was extending sanctions and the US was adding new sanctions. A critical statement from Ukraine's Foreign Ministry about the "cynical and demonstrative disdain of the Russian side to universally accepted norms of international law" was even less likely to be heard.

Meanwhile, preparations by Russia and Belarus to hold a massive exercise called *Zapad-2017* in September are causing nightmares in some quarters in Ukraine. The country's defense agencies are counting on NATO countries and are exchanging the necessary information with them. After Russia's aggression, Ukraine is understandably uneasy about any kind of military exercises being carried out near its borders and is not ignoring the possibility that Moscow might resort to some kind of provocation completely unrelated to training.

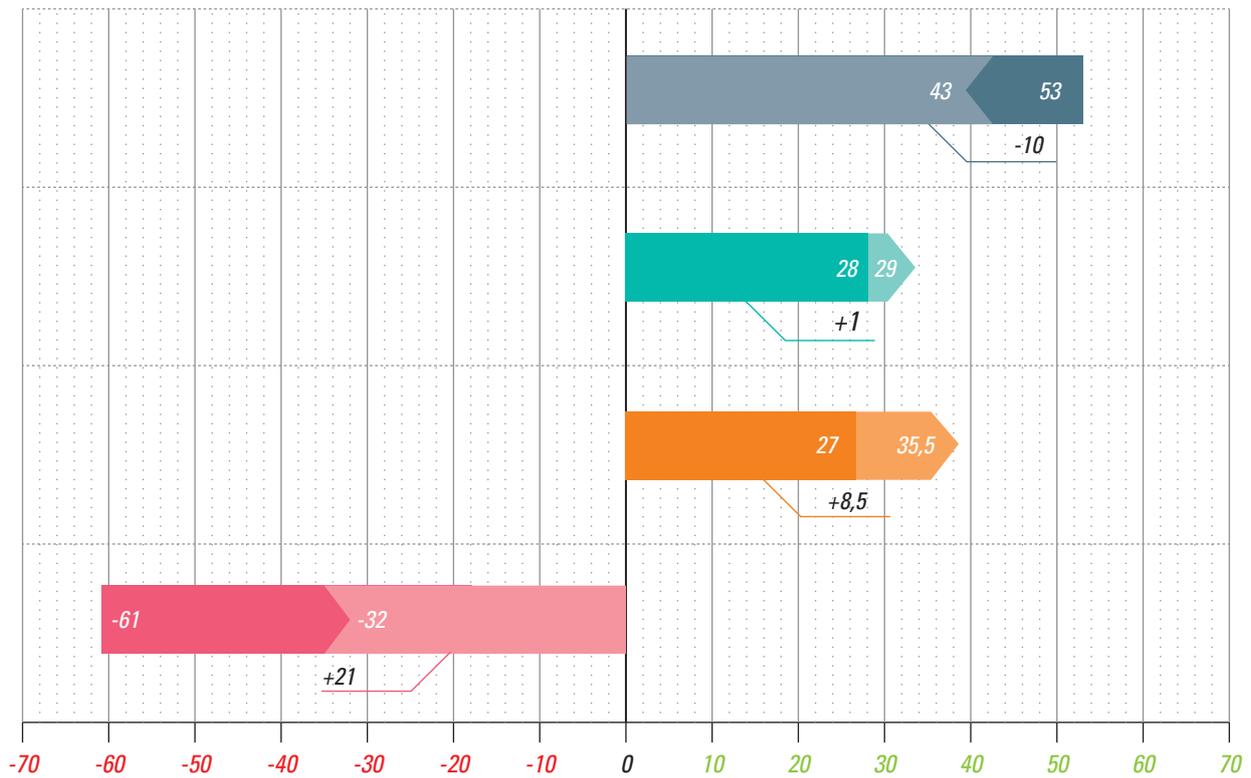
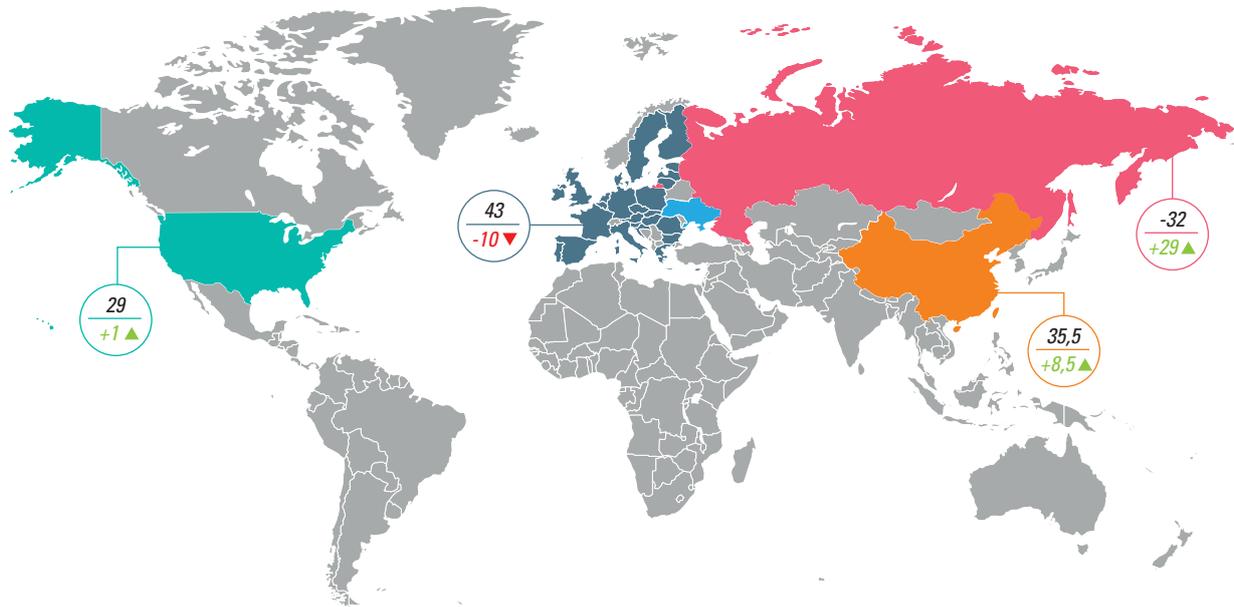
"Any kind of exercise is threatening," say officials at Ukraine's Defense Ministry. "Russia's behavior shows that it won't stop its efforts to scare Ukraine or its western partners." The new exercises are supposed to be the biggest ones yet. Some say that they could be larger than last year's *Kavkaz-2016* exercises, which involved 125,000 service personnel.

What makes the situation even touchier is that Belarus is being dragged into the conflict, although Ukraine's leadership has been trying to build a trusting relationship with the country. At an April meeting with Aleksandr Lukashenko, Petro Poroshenko personally emphasized "friendship and cooperation." Not two months later, Russian factor provoked a diplomatic row between the two countries. At the end of June, the Ukrainian Ambassador was called to the Belarusian MFA to explain his strong criticisms of Belarus's military exercises, including *Zapad-2017*. Just before that, the Belarus Ministry had called the Lithuanian Ambassador because the Lithuanian President had referred to the exercises as "games of aggression." So far, both Ukraine and other countries bordering on Belarus have more questions than answers on the September exercises. And although both Minsk and Moscow have promised to allow NATO observers to the exercises, it's unlikely to reduce tensions in the region.

***Events in Ukraine-Russia relations (April-June 2017). Point-based evaluation***

<b>Date</b>	<b>Event</b>	<b>Points</b>
April 17	The leaders of Ukraine, France, Germany and Russia communicate in the Normandy format by phone.	+1
April 19	The UN's International Court requires Russia to restore the activities of the Mejlis and the learning of the Ukrainian language in occupied Crimea.	-7
April 23	An automobile carrying OSCE observers explodes. Ukraine blames "Russia's military and political leadership."	-2
May 15	Among others, Ukraine adds Yandex, a Russian search engine, VKontakte and Odnoklassniki, two popular social nets, Transaero, an airline, and 1C, a popular accounting system, to its sanctions list.	-5
May 16	The Verkhovna Rada supports a bill that will ban the use of the orange-and-black St. George ribbon. The Russian Foreign Ministry is sharply critical of the move.	-2
May 20	Russia turns to the World Trade Organization regarding trade restrictions placed by Ukraine.	-4
May 23	A bill is passed in Ukraine that introduces mandatory quotas of programs and movies in the Ukrainian language. Russia reacts sharply.	-2
May 31	The Stockholm Arbitration Institute publishes its decision in a dispute between "Naftogaz" "Gazprom". Ukraine's Foreign Ministry greets the decision as a "clear and unambiguous victory," whereas Russia grumbles about not rushing to conclusions before a final decision.	-6
June 8	Russia criticizes a decision by Ukraine regarding its intention to join NATO in the future.	-2
June 13	Ukraine's Defense Ministry expresses concerns about preparations to a joint military exercise between Russia and Belarus planned for September.	-2
June 24	Ukraine's Foreign Ministry protests a planned visit by Vladimir Putin to Crimea.	-1

# INDEX OF RELATIONS





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