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TRUMAN

№3 (7)

INDEX

MARCH – JUNE / 2018

RESEARCH METHODOLOGY

TRUMAN Index is a quantitative and qualitative assessment of Ukraine's progress in bilateral relations with key foreign policy directions: the EU, the US, China and Russia. This quarterly journal tracks the changing dynamics of these four relationships. Every 6 months we also monitor the progress of Ukraine-NATO relations. Our analytical articles are written by specialists based on their own observations and on many discussions with domestic and foreign diplomats, opinion leaders and officials.

TRUMAN Index monitors events in Ukraine's foreign relations with each of these countries and offers an analysis of the way that each of these partners has been interacting with Ukraine during the reported period.

In addition to analyzing the quality of relations, every bilateral event is evaluated on a scale from -10 to +10. The total points for foreign policy in the given area is the sum of the values assigned to these bilaterally significant events during that quarter. The expert group takes BISS¹ methodology as its basis, which offers a clear scale for evaluating foreign policy events.

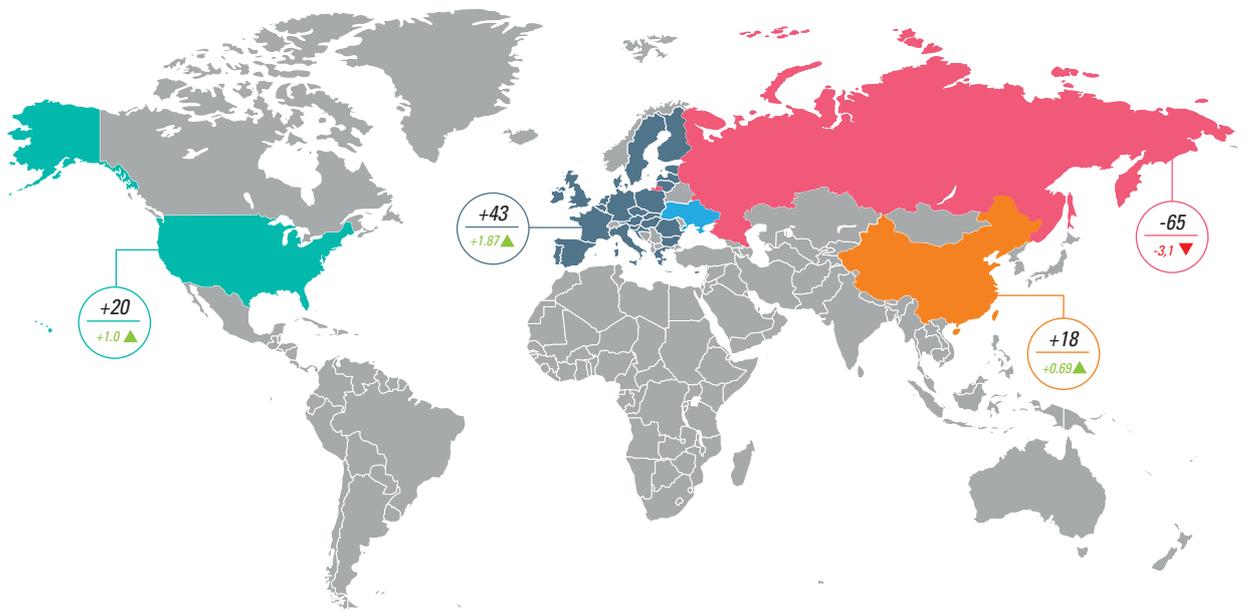
Event evaluation scale:

- Economic and political integration, the coming into force of agreements on deeper cooperation: **7-10 points**.
- The signing or ratification of an agreement – on cooperation, on trade, on tariffs, on integration, and so on – , the opening of credit lines and economic assistance: **4-6 points**.
- An official visit at the ministerial level or higher, especially related to key ministries: foreign affairs, internal affairs, defense, economy, and trade; negotiations over potential agreements, official visits at the highest level – president, PM – from both sides; high-level official telephone calls (primarily presidential): **1-3 points**.
- Positive statements from key politicians in these countries, from the MFA regarding foreign policy, in legislative resolutions: **1-2 points**.
- Official visits at the deputy minister level from non-key ministries, parliamentary delegations, exhibitions, business forums, national culture days, important diplomatic contacts and negotiations: **1 point**.
- Negative announcements from key politicians, from MFAs regarding foreign policy, in legislative resolutions: **minus 1-2 points**.
- Delays in ratifying agreements, not being invited to events, failure of support to come from the international community: **minus 2-4 points**.
- Violations of agreements or mutual commitments: **minus 3 points**.
- Trade wars, anti-dumping investigations, boycotts of goods, embargoes, expulsions of diplomat, recalls of ambassadors: **minus 4-6 points**.
- Provocations, severed diplomatic relations, military action: **minus 7-10 points**.

The total points in a given foreign policy direction are divided by the number of events recorded during the quarter: this constitutes the TRUMAN Index. This approach minimizes the methodological risk that one partner will accumulate more points simply thanks to a large number of less significant events during a given quarter. A different quarter might result in lower points because of fewer, but more significant than average, events. TRUMAN Index serves to establish a balance between the quantity of events and the quality of the cooperation.

1 BISS (Belarusian Institute for Strategic Studies)

TRUMAN Index



EU	<ul style="list-style-type: none"> November 2017 – February 2018 March – June 2018 	China	<ul style="list-style-type: none"> November 2017 – February 2018 March – June 2018
USA	<ul style="list-style-type: none"> November 2017 – February 2018 March – June 2018 	Russia	<ul style="list-style-type: none"> November 2017 – February 2018 March – June 2018

UKRAINE-US RELATIONS

MARCH – JUNE 2018

Positive: +26

Negative: -6

Overall: +20

TRUMAN Index: +1.0



Alyona Getmanchuk

Director of the New Europe Center

UPDATE

The latest quarter was a kind of test of the strength of the dialog established between Kyiv and Washington since the start of the Trump Administration. Many of the efforts by the Ukrainian side came under serious risk of being leveled. Despite optimistic forecasts in Kyiv, changes in the leadership of the US National Security Council and the State Department have not brought the anticipated results. With a new team in place, Donald Trump began to take an independent line, including on an aspect that is critically important for Ukraine: US support for the country's territorial integrity and its maintenance of a unified transatlantic position towards Russia. Against his statements about returning Russia to the G7 and about where Crimea belongs, the arrival of the much-anticipated Javelins lost a lot of its shine.

In this last quarter, the Department of State was the main driver of dialog between Ukraine and the US. Two US visitors came to Ukraine, Special Envoy Kurt Volker and Assistant SecState Wess Mitchell, and two Ukrainians visited the US: Interior Minister Arsen Avakov and Speaker Andriy Parubiy. State Department adopted a more pro-active position and supported it with the necessary declarations from its spokesperson regarding the cancellation of mandatory e-declarations for anti-corruption activists and then with regard to setting up the Anti-Corruption Court.

Much more so than under Obama, there is a distinct impression that there are two American policies towards Ukraine: that of the US itself and that of the US President. It looks like the Ukrainian side needs to be prepared for a bit of a roller-coaster ride under a Trump presidency in relations with the US, as positive decisions and statements are replaced by negative ones.

TIMELINE

POLITICAL DIALOG

In this last quarter, political dialog between Ukraine and the US at the highest level noticeably slowed down. This is primarily tied to the fact that the current US president has other foreign policy priorities, such as the Iran deal, North Korea and so on. Still, the question of Ukraine came to the fore when the White House confirmed its intentions to hold a summit between Trump and Putin in mid-July.

During this reporting period, the US National Security Advisor and Secretary of State were both dismissed. The appointments of John Bolton and Mike Pompeo to replace them clearly confirmed certain assumptions: Trump wants to adapt his advisors to suit his politics, and not his policies to suit his advisors. Some experts who are familiar with Bolton's approach said right from the start that, for him, the most important objective was not to impose his own agenda on the Oval Office but to gain Trump's trust in this new position and to implement the president's policies. This is despite the fact that the entire purpose an advisor is to advise the president, not just

conscientiously carry out his demands. Over the last year, Pompeo has gained a reputation as someone who never contradicts the president. Many observers say that this is not the least factor that helped him gain Trump's approval. In reality, the new NS Advisor and SecState could bring considerable added value to the issue of constraining Russia, if they were to cooperate with Secretary of Defense Jim Mattis and coordinate their efforts to constrain Trump. In other words, to contain Russia, someone first has to contain Trump on the issue of Russia.

In Kyiv, both appointments were met calmly and positively. The reputations as hawks that both Bolton and Pompeo had gained over the years, including vis-à-vis Putin's Russia, was enough to draw the conclusion that they would not be worse than their predecessors, Herbert McMaster, who understood and carefully monitored Russia's hybrid threats, and Rex Tillerson. Moreover, Bolton was already an established contact as a fee-based participant at events sponsored by Viktor Pinchuk: the annual YES conference in Kyiv in September 2017 and a working lunch in Munich in February. It's not

that the Ukrainian oligarch was especially far-seeing, however, as the media began to talk about Bolton as someone slated for a key position in the Trump Administration within days of the presidential election, with the State Department being named specifically.

Pompeo, on the other hand, was nominated to the post of Secretary of State but continued to head the CIA and even made an unannounced visit to Ukraine in the spring, where he met with top officials responsible for security issues. Insiders say that, as the future top US diplomat, Pompeo wanted to get to know about the situation in Ukraine personally, including about the war in the east. Clearly, Pompeo prepared for his new post very seriously. In contrast to his secret visit to North Korea, about which the US press wrote extensively afterwards and President Trump tweeted vigorously, the Ukraine visit was not publicly made known. Only during the hearings in the Foreign Relations Committee of the House of Representatives in May did Pompeo admit that, while head of the CIA, he had had the opportunity to visit the Donbas, but he did not mention any details. One top Ukrainian official who met with Pompeo said that his American colleague had some interesting ideas about how to possibly regulate the situation in the Donbas. The head of a Ukrainian agency who also met with Pompeo stated, off the record, that since the appointments of Bolton and Pompeo, "we feel more protected."

At the same time, the sudden change in key individuals in the Trump Administration forced Ukraine, and many other US partners, to keep investing time, resources and energy in rebuilding personal connections with White House officials who could easily be fired. The feeling was that no one ever knew who would still be in a job tomorrow and who would be off to a think-tank or university. Enormous amounts of time were devoted, among others, to build relations with SecState Tillerson. During the last high level visit between the US and Ukraine last January, President Poroshenko spent a fair bit of time explaining to Tillerson about the institutional boundaries of Ukrainian-American relations. Poroshenko reported that they had even agreed to hold a UA-US commission on strategic partnership in March. The last meeting within this framework took place back in 2011. The Ukrainian side still hopes to see this commission's work renewed this year. However, the tendency in the Trump Administration to work according to non-standard templates, often bypassing diplomatic channels, does not engender optimism that traditional diplomatic mechanisms might be restored, let alone be effective.

For Ukraine today, what's important is whether Defense Secretary Jim Mattis will hang on to his position, as he is possibly the main promoter of Ukraine's interest in the current US Cabinet. Recent messages about Trump's dissatisfaction with the pace of implementation of his policies on the part of the Pentagon are not very cheering in this respect. And even if Mattis manages to stay on for a while longer, his ability to influence the president is extremely limited at this point. Where earlier Mattis was de facto given carte blanche to deal with matters of a military and defense nature, right now decisions are being made unilaterally by the White House, such as the cancellation of US military exercises with South Korea. This kind of situation can only alarm Kyiv.

Yet another reason why the appointments of Pompeo and Bolton led to mostly positive responses in the corridors of Ukrainian power is because both of these men more security types than reformers. That is, they belong to those politicians for whom the issue of Ukraine's security, especially in the context of Russia's aggression, is more understandable and dearer to their hearts than implementing reforms or fighting corruption. Clearly, this could be yet another wrong signal for those members of Ukraine's government who are annoyed by an approach to Ukraine that is based exclusively on the answer to the question: "Are they or aren't they fighting corruption?"

Moreover, although the issues of reforms and combating corruption are low priorities for President Trump personally, not to mention for Ukraine as well, in the latest quarter the State Department's position on reforms in Ukraine has been very loud and clear, especially on the matter of fighting corruption. State has placed especial emphasis on two issues: (1) dropping the requirement for anti-corruption activists to file e-declarations, which so far hasn't happened and (2) setting up the Anti-Corruption Court in line with IMF recommendations. The US has actively worked, both bilaterally and within the G7 reform support group, and its efforts have been largely successful. A slew of sources have confirmed that the position of the US Embassy in Kyiv has also gained weight in Washington: public statements issued by the State Department often reflect its views, and there have been many of them on a variety of issues during this quarter (see Chronicle of events).

The fight against corruption has taken on new meaning in Ukraine. As was predicted in earlier issues of TRUMAN Index, even if this issue is not fundamentally important to the US president, he can use the lack of effort by Kyiv in this direction as a reason to refuse support or, at the least, to place such support under a question mark—and has already done so, if his pronouncements at the G7 summit are true. There, Trump used as an argument for the return of Russia to the G7 before western leaders that Ukraine was one of the most corrupt countries in the world.

A fairly new but nevertheless important area of cooperation with the State Department was the mediation of American diplomats to resolve a crisis in relations between Ukraine and Hungary. The need to engage American facilitators at the level of Assistant SecState Mitchell and even SecState Pompeo arose when Ukrainian diplomatic efforts had reached a dead end while Hungary continued to be determined to block dialog between Ukraine and NATO, especially at the level of the Ukraine-NATO Commission at the Alliance Summit in Brussels. Back in February, Mitchell met with Ukrainian FM Pavlo Klimkin and the Hungarian FM Peter Szijjarto. Diplomatic sources say that the American negotiators made it pretty clear how undesirable Budapest's continuing blocking of Ukraine-NATO relations was and what it might do to Hungarian-American relations. Seems like Hungary only relented in May, after its FM talked with Mike Pompeo. Still, the Ukraine-NATO Commission wasn't unblocked. Some sources say that the Ukrainian side has considered the possibility of engaging the US's "facilitatory" potential if relations with Poland continued to deteriorate.

It's worth noting that the US has done everything in its power to get Ukraine represented at the NATO summit in Brussels. In addition to resolving the issue of Hungary, it participated actively in drafting a new bill on national security in Ukraine, which was another informal condition from NATO in order to have the NUC meet in Brussels, and did everything they could to encourage its passage with all of NATO's critical observations intact. In mid-March, the US Ambassador and the head of the EU Delegation, the head of the NATO office in Ukraine, and the head of the Consultative Mission of the EU in Ukraine signed a letter to Ukraine's leadership that pointed out that a series of provisions in the bill on national security submitted by the president contradicted EU and NATO practice. More specifically, the letter stated, the bill did not provide for the Verkhovna Rada to oversee SBU activities.

Incidentally, during this reporting period, possibly for the first time US officials in the Trump Administration clearly stated the US position regarding support for Ukraine's membership in NATO. "We support Ukraine's aspirations to join NATO," said US Permanent Representative to NATO Kay Bailey Hutchison, who visited Kyiv in April.

REGULATING OCCUPIED DONBAS AND CRIMEA

US mediation in resolving the conflict in eastern Ukraine slipped somewhat into the background during this quarter. One reason was the lack of response from the Russians regarding the proposal for a peacekeeping mission that Special Envoy Volker handed to Putin aide Vladislav Surkov at a January meeting in Dubai between the two. The Russian side had promised to give feedback in March and the Americans were expecting a response to come after the presidential election in Russia. When it became obvious that Russia intended to ignore the Volker mission and Russian strategists close to the Kremlin accused Volker himself of engaging in megaphone diplomacy, Volker openly announced that there had been no response from the Russian side.

During Volker's latest visit to Ukraine, there was talk over a peacekeeping mission in Kyiv, but this time Volker did not focus on progress in regulating the conflict but on familiarizing himself with the humanitarian crisis in the Donbas. This was the first time that the Special Envoy devoted his time in Ukraine to the humanitarian aspects of the conflict.

In addition to the lack of response and political will in Moscow, the Volker mission on peacekeepers in the Donbas is complicated by the fact that skeptics about such a mission have appeared even on the US side. The new National Security Advisor, John Bolton, has long been known for his cynical position towards the UN in general and its peacekeeping missions in particular. In earlier interviews on the subject, he did nothing to hide his negative position towards the idea of such a mission in eastern Ukraine, saying it would just be a way to freeze the conflict, but not resolve it. According to some sources, US Ambassador to the UN Nikki Haley is also skeptical about the idea, together with the entire US mission to the organization. Without the support of the US representation, it's hard to imagine that the UN will continue to develop this initiative in the manner that Kyiv had hoped. There's little support even though the main idea of a UN peacekeeping mission had already turned into the more flexible concept of a peacekeeping mission under a UN mandate. This was evident to anyone paying attention to Kurt Volker's statements.

In the last few months, US and European diplomatic and expert circles have been actively discussing the likely transfer of Volker to another position, possibly to a much higher level at the State Department. The possibility that his Russian vis-a-vis Surkov will be replaced has also been talked about in the press, with an entire list of possible replacements. So far, however, both men remain in their posts.

US intermediation has also faded somewhat as Germany becomes more engaged in regulating the Donbas. After a very long coalition process, the new Government has once again shown interest in resolving the conflict in eastern Ukraine, not the least because of the enthusiasm of the new Foreign Minister, Heiko Maas. Maas is particularly keen to see the Normandy format revived. However, it's clear to both the US and Germany that other than lack of political will on the part of the Russians, there are also limits to compromises with the Ukrainian side, given that presidential and Verkhovna Rada elections come up in 2019.

During this latest quarter, while it has strengthened sanctions against Putin's inner circle and provided lethal weapons to Ukraine, Washington is watching carefully how much this affects the behavior of Russia's leadership in the Donbas. So far, the results are not cheering. It's quite probably that Putin felt a weakening in the American position, and after Trump's telephone invitation to a bilateral meeting, the Russian side is nurturing the hope that all the major issues will be resolved face-to-face, without the assistance of any special envoys. After Trump's theatrical peacemaking at the summit with Kim Jong Un, concerns have grown that a similar show might be put on in relation to Ukraine.

Meanwhile, Kyiv is doing what it can to downplay the significance of Donald Trump's statements about returning Russia to the G7 and his alleged statement at the G7 dinner regarding where Crimea belongs: the latter statement was shared by unnamed diplomats with BuzzFeed News and was neither confirmed nor denied by the White House. Foreign Minister Pavlo Klimkin stated that, as far as he knew, the US president's words were taken out of context and that "there's no point in spreading this nonsense."

Nevertheless, it's worth noting that Trump had formed a pretty specific position as regards the annexation of Crimea already during his election campaign. On one hand, he openly stated his opinion that Crimeans really wanted to be with Russia—an underhanded way of justifying the annexation. On the other, he had been criticizing Obama mercilessly for several years for "allowing" Putin to annex Crimea. Even at his meeting with Poroshenko last year, witnesses say that he asked the Ukrainian president, "Do you agree that Obama gave Crimea away to Putin?" If all of Trump's public and private statements on this subject are examined, the impression is that he would rather condemn Obama over the annexation of Crimea than Putin. Meetings between Trump and Putin are dangerous in that the Russian president can continue to impose his narrative about the statehood of Ukraine—or its inevitable demise—, Crimea and the solution to the Donbas conflict on the US president. Given that Trump has frequently demonstrated his willingness to believe Putin and that Putin, based on many indicators, remains a person of authority to him, this kind of discreditation campaign from Putin's lips could have a seriously negative impact on Ukraine-US relations further down.

UKRAINE AND THE EU-US CONFLICT

Relations between the United States and the European Union were strained during this last quarter because Trump abandoned the Iran deal and slapped new import duties on steel, 25%, and aluminum, 10%, coming to the US. Any disruption in transatlantic solidarity since the start of Russia's aggression against it has been a potential nightmare for Ukraine, threatening as it does a consolidated position in the West towards Russia's actions in Ukraine and offering Putin plenty of room to maneuver.

Ukraine has found itself in a fairly difficult situation where it could be forced to choose sides between its two most important partners, the US and the EU. With regard to the Iran deal, Ukraine could simply avoid stating any position at all. However, the additional duty on steel and aluminum makes things more difficult, as Ukraine has also taken a hit from them since March. During an April meeting with Chancellor Merkel, President Poroshenko agree to coordinate positions on this issue.

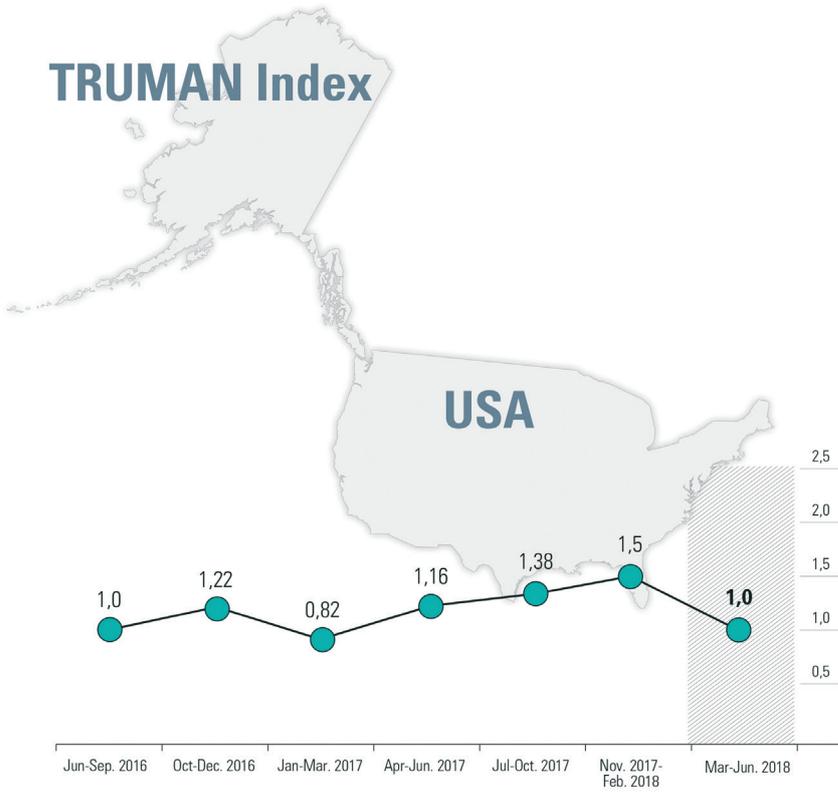
Significantly, new restrictions affect 20-25% of Ukraine's overall exports to the US over the last three years. During these years, Ukraine exported steel products worth US \$119.6mn in 2015, US \$89.7mn in 2016, and US \$175.6mn in 2017. At the same time, Ukraine is not even among the top 20 countries exporting steel products to the US: it was only 24th in 2017 among all exporters, shipping 256,000 t of such products, a fairly pathetic amount compared to the nearly 6 mn tonnes that Canada exported or the nearly 5 mn tonnes that Brazil shipped to the US.

Given that the US president's decision allows for possible exceptions or revisions to the size of the additional duty for individual countries that meet five specific requirements, Ukraine has been actively working on this. The first discussions to exclude Ukraine from the new import duties took place in Washington at the beginning of June. For now, Ukraine appears prepared to follow the example of Japanese Premier Abe, who, unlike some other world leaders, has been avoiding criticisms of Trump's protectionist measures in order to preserve dialog on security with the US.

Events in Ukraine-US relations (March – June 2018). Point-based evaluation

Date	Event	Score
March 2	The US Department of Defense issues a notice that US State Department has approved the sale of Javelin missile systems to Ukraine worth US \$47mn.	+4
March 2	US President Donald Trump signs off on a 12-month extension on sanctions against Russia due to its aggression in Ukraine. The executive order is published on the White House site on March 2.	+1
March 8	The US slaps 25% additional duty on imported steel and 10% on imported aluminum from various countries, including Ukraine.	-2
March 15	The US condemns RF President Vladimir Putin's visit to Sevastopol, reiterating that Crimea belongs to Ukraine in a statement issued by State Department Spokeswoman Heather Nauert.	+1
March 23	US President Trump signs the Consolidated Budget Bill allocating US \$620.7mn for Ukraine, which is higher than the previous year's allocation. US \$200mn of this has been earmarked for the Pentagon to provide military technical assistance to Ukraine, which is US \$50mn more than the 2017 amount.	+3
March 31	The US insists that Ukraine's government withdraw legislation requiring e-declarations from anti-corruption activists in a statement from the State Department called "Diplomacy in Action."	-1
April 15	Ukraine's Interior Minister Arsen Avakov arrives in Washington for meetings with the State Department and FBI.	+2
April 26	The Office of the US Trade Representative announces the "suspension of the General System of Preferences (GSP)" for certain Ukrainian export goods, which will cost Ukraine the right to export 155 categories of goods duty-free to the US.	-1
April 30	A State Department official tells Radio Liberty that the anti-missile Javelins have already been delivered. This is confirmed shortly later by President Poroshenko in his Twitter account.	+3
May 2-3	Assistant Secretary of State for Europe and Eurasia Wess Mitchell arrives in Kyiv to "discuss reforms and express US support for Ukraine."	+2
May 14	US Special Envoy Kurt Volker visits Ukraine for the seventh time to observe the situation in the Donbas and be updated about the humanitarian crisis in the region.	+1
May 15	At a joint press conference, USAID Assistant Administrator for Ukraine and Eurasia, Brock Bierman, US Special Envoy Kurt Volker and US Ambassador to Ukraine Marie Yovanovitch announce that an additional US \$125mn in assistance will be allocated to Ukraine. USAID states that this aid will be directed at further stabilizing and consolidating Ukrainian communities in the Donbas, increasing the stability of the local economy, and stimulating its growth.	+1
May 23	The BBC cites its own sources saying that Donald Trump's personal lawyer Michael Cohen had received secret payments of either US \$400,000 or US \$600,000 to organize the first visit between Petro Poroshenko and Trump in June 2017.	-1
May 25	The US House of Representatives passes the draft 2019 defense budget, in which US \$250mn is earmarked for security purposes for Ukraine, which is US \$100mn more than the House offered to set aside for the same needs in the 2018 budget.	+1
May 31	US Secretary of State Mike Pompeo talks to his Hungarian counterpart, Peter Szijarto, to explain the importance of supporting interaction between Ukraine and NATO in the face of Russian aggression, according to a statement released by State Department Spokeswoman Heather Nauert summing up the meeting between the two in Washington.	+2
June 5	The US reminds Ukraine of the importance of a properly independent anti-corruption court and notes that the related legislation must satisfy the IMF, according to a statement issued by State Department Spokeswoman Heather Nauert.	+1
June 14	BuzzFeed News reports with reference to two sources in diplomatic circles that US President Trump stated at a dinner with G7 leaders in Canada that Crimea was Russian since all the residents of the peninsula spoke Russian. White House Press Secretary Sarah Sanders tells journalists the following day that she is not aware of any such statement being made by the president.	-1
June 18	The State Department expresses serious concern over the number of political and religious prisoners in Russia and calls on the Russian Federation to immediately release these people in a press release published on the State Department site: "We are especially concerned about the health of four illegally imprisoned Ukrainians who are currently on hunger strikes: Oleh Sentsov, Stanislav Klykh, Oleksandr Shumkov and Volodymyr Balukh."	+1
June 21	The State Department congratulates Ukraine on passing the law on the Anti-Corruption Court: "We are satisfied that this important piece of legislation found broad support in the Verkhovna Rada and was passed." State also welcomes an announcement by IMF Director Christine Lagarde, who had called on Ukraine to support amendments to the law on the Anti-Corruption Court.	+1
June 28	VR Speaker Andriy Parubiy, together with the Speakers of Georgia, Moldova and Lithuania and the deputy Speaker of the Polish Sejm, meets the Speaker of the House of Representatives, Paul Ryan. The meeting is part of an initiative by the Ukrainian Speaker to get the Speakers of countries that border on Russia and have had territory taken over by Russia to visit Washington together and talk to their American colleagues about the threats and challenges of Russia's aggression.	+2

TRUMAN Index



- US officials clearly stated the US position regarding support for Ukraine's membership in NATO. The US's "facilitatory" potential in Ukrainian-Hungarian dialogue.
- A little support of a UN peacekeeping mission in the Donbas from some representatives of the US Administration and the US mission to the UN.
- Kyiv's growing concern about Trump's theatrical peacemaking with Putin amid his statements about returning Russia to the G7.

UKRAINE-EU RELATIONS

MARCH – JUNE 2018

Positive: +45
Negative: -2
Overall: +43
TRUMAN Index: +1.87



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UPDATE

Ukraine-EU relations remained very intense during the monitored period. Unlike the previous quarter, however, this time cooperation has been very focused and many times even technical, with less politics and public statements, and more concentration on practical processes. This quarter mainly focused on two dimensions: preparations for the EU-Ukraine summit and the adoption of legislation establishing an Anti-Corruption Court.

Preparations for the summit were a relatively difficult process because a wide range of issues needs to be discussed. Among the most important are the new Macro-Financial Assistance program worth €1 billion and EU conditionalities in order to release these funds. Also, the four unions proposed by President Poroshenko at the EU-Eastern Partnership Summit in November 2017—energy, customs, digital and Schengen—have been undergoing detailed work, although the future of these projects is mixed. A separate matter of concern is Nord Stream II, which is high on Ukraine's agenda but, so far, Kyiv has had little success in stopping the project.

The adoption of legislation establishing an Anti-Corruption Court (ACC) represents an important milestone in relations with the EU and international partners. The Anti-Corruption Court offers new impetus to relations with both the EU and the IMF and other international partners of Ukraine who are in a position to provide much-needed support for Kyiv's reform agenda and addressing the challenges that Ukraine still faces. Still, the process of adoption has been difficult and while the outcome is positive, improvements are still required. In short, relations between Kyiv and Brussels have advanced despite a mismatch on certain issues between the two.

TIMELINE

POLITICAL DIALOG AND THE ASSOCIATION AGREEMENT

The political dialog between Ukraine and the EU has been very intense and covered a wide range of issues during the monitored period. Notably, a lot of attention has been paid to the course of Ukrainian reforms and the impression that the reform process has left the international community and the EU with. "Ukraine fatigue" is once again being mentioned more often in Brussels, although one high-ranked official said that "fatigue" was the past and has turned into a "Ukraine allergy". The problem is that, unlike one year ago, when critical remarks towards Ukraine were addressed by certain EU officials, this year even Ukraine's best friends in the EU are more skeptical. Negative commentaries from friends of Ukraine are not meant to offend Ukraine, but to warn Ukrainians to be more attentive and less self-absorbed in bilateral relations. Moreover, there is growing opinion that many actions of certain Ukrainian officials are intended more to preserve personal wealth rather than to promote

national interests. On the other hand, growing concern over Ukraine has not yet had an impact on official relations between the two.

Tensions in relations between Ukraine and the EU are being felt at all levels, including at the higher level. For instance, insiders say that the meeting between EU High Representative Federica Mogherini and President Petro Poroshenko in Kyiv was tense and continued the series of "difficult" meetings that President Poroshenko has had with Mogherini. The commissioner had not been to Ukraine for almost three years and many on the Ukrainian side were resentful that Ukraine was not a priority for her, while other seemingly less important countries were. In fact, President Poroshenko openly admitted to Mogherini that he had long been waiting for her visit. Incidentally, the EU High Representative came to Ukraine without a special occasion. Some Ukrainian officials expressed dissatisfaction that Mogherini did not opt to visit eastern Ukraine, interpreting it as a sign of her disinterest towards Russia's aggression.

However, with the adoption of legislation establishing the Anti-Corruption Court, Ukraine has a good opportunity to improve its dialog

with the EU, as this represents an important milestone for Ukraine-EU relations. President Poroshenko presented it as a major victory at the EU-Ukraine summit that took place on July 9 in Brussels. In addition to the adoption of the legislative framework, the president was supposed to deliver on a promise to cancel mandatory declarations for anti-corruption activists. However, the Verkhovna Rada failed to amend the necessary legislation early April and now the issue is likely to be a liability rather than a source of leverage in negotiations.

Another issues on the agenda are the next EU Macro-Financial Assistance program, analyzed below, and the four unions proposed by Ukraine at the EU-Eastern Partnership Summit in Brussels last November: Digital, Energy, and Customs Unions, and association with the Schengen zone.

One interlocutor in Brussels noted that the EU position on Ukraine's proposals is clear now. The Digital Union, whose feasibility study was positive, has the best chance and there is also positive feedback on the Energy Union. However, the Customs Union and Association with the Schengen have so far been given a more negative assessment.

Ukraine also has issues it wants on the agenda. For one thing, Kyiv is unhappy with the EU with regard to the Energy Union. According to a Ukrainian source, Kyiv has delivered on 80% of its commitments to the EU with reforms in the energy sector. The major outstanding issue is unbundling Naftogaz, the state oil and gas conglomerate. However, EU apparently does not want Ukraine to become part of the Energy Union because Brussels will then have to defend Ukraine's interests in the energy sector. This would be a big burden for the EU and would potentially require challenging Russia on energy issues.

A novelty at this EU-Ukraine summit is that both Kyiv and Brussels discussed the results on the implementation of their commitments under the Association Agreement. Ukraine insisted on this because the AA is a document that has to be implemented by both parties and both parties, at least legally, are equal.

Major attention was paid to the joint declaration after the summit. The last summit in 2017 ended without a joint declaration: although the draft was very detailed and forward-looking, the parties failed to adopt it because of reference to the recognition of Ukraine's European aspirations. This year both parties appeared to be more flexible and a joint declaration was adopted. This is particularly important since this summit is the last one before the presidential elections and the incumbent wanted to get a positive document to strengthen his position in domestic politics and burnish his image as the only really pro-European and pro-reform politician – and did. There have been some signals that Ukraine is willing to include the recognition of Russia by the EU as the aggressor country in the declaration and convince the EU to assume the leading role in contributing to and developing a UN peacekeeping mission in eastern Ukraine. Apparently, Ukraine was also willing to have these issues discussed at the EU Council on March 19, 2018. Security issues were also going to be discussed in light of the implementation of the Minsk Agreements—or, more precisely, the lack of such implementation. Although not all of these issues were included in the final joint statement, the fact that Russia is named an aggressor is a major success for Ukraine.

The Nord Stream II project has a substantial political dimension that also came up at the summit. The EU position is that a minimum amount of gas must be shipped through Ukraine. The formula would work with GTS management by an international consortium involving Germany as a guarantee that Russia will stick to its commitments. Unofficially, sources in Brussels admit that the Nord Stream II will happen and Ukraine will lose its main transit. Some EU members may try to delay the project and make it costlier, especially Denmark and Poland. In theory, there are two ways to stop the project. One is to place Nord Stream II under EU legislation where it will be governed by EU regulations and will give EU members more leverage. The other,

more realistic option would be getting the US involved in the project by sanctioning participating companies, as the Congress already adopted the necessary legislation last year. This would greatly increase the risks around Nord Stream II and the financial burden, potentially making the project unprofitable. So far, EU officials don't seem very open to either scenario, insist, instead, that Naftogaz is unbundled and that Ukraine's energy regulator is fully independent.

One particular issue that captured public attention was the president's instruction to draft a bill amending the Constitution to include Ukraine's aspirations to membership in the EU and NATO. Experts in Ukraine mentioned that, normally, such changes would have to be written into the first section of the Basic Law. But this would require 300 votes in the Verkhovna Rada and a referendum, which could not take place because there is currently no law on referenda. Besides, it will be hard to mobilize Ukraine's voters to participate in a referendum on such an issue. An easier approach would be to include European and Euroatlantic aspirations in the preamble to the Constitution, which still requires 300 votes in the Rada, but no referendum. Still, the president did not propose changing the Constitution, because he does not have enough votes, according to one MP.

In June 2018, Ukraine celebrated one year of its visa-free regime with the EU. According to the State Border Guard Service, nearly 20.3 mn Ukrainians visited EU, almost 4.8 mn of them on biometric passports, and over 555,000 Ukrainian citizens took advantage of all the benefits of visa-free during the first 12 months. Over this year, EU border guards refused entry to 44,000 Ukrainians.

In trade, relations between Ukraine and the EU have continued to strengthen. Ukraine is already filling all its quotas on honey, malt, wheat, corn, processed tomatoes, grape and apple juices. Other quotas, such as cereals and flour, are also almost met. Among big achievements is the fact that Ukraine is now the biggest exporter of eggs to the EU, providing 38% of total supplies. Overall, the EU remained Ukraine's biggest trade partner, taking in 42.9% of Ukrainian products in the first four months of 2018.

EU FUNDING AND MACRO FINANCIAL ASSISTANCE

The EU has been an important source of funding for reforms and projects in Ukraine. These days, funding for the next budgetary framework is being discussed in the EU. There are two aspects: 1) horizontal funding, defended by Mogherini, for which everyone competes, there are no clear rules and it is difficult to understand how this works, and 2) vertical funding, which is allocated for each country or group of countries and is disbursed when the countries meet the requirements. In both cases, it seems that the EU will attempt to make its funding complementary and not instrumental.

But before Ukraine can access the funding from the next budgetary framework, Kyiv will benefit from other EU funds, albeit not much. EU officials have mentioned quite often, even publicly, that the EU's ability to provide financial assistance for Ukraine exceeds the country's ability to absorb these funds. According to some sources, since 2014 Ukraine was unable to absorb some €5bn that foreign donors were prepared to provide. The Ukrainian side says that the overall sum is lower but admits that the problem exists. This represents a serious barrier in mobilizing the international community for a "European Investment Plan for Ukraine," also dubbed a Marshall Plan.

Nevertheless, Ukraine has been successful in securing a new Macro-Financial Assistance (MFA) program from the EU, which has already been voted on by the relevant EU institutions and was presented at the EU-Ukraine summit. As of today, Ukraine has received loans worth €2.81bn, of which €1.61bn were allocated under the two previous MFA programs and €1.2bn under the third MFA program. The third program was debated hotly in Ukraine because Kyiv missed

a third installment worth €600mn for not fulfilling all the conditions agreed. In fact, Ukraine has had a high rate of implementation – 17 of 21 conditions were met, but the remaining four conditions were more important. Among the most serious were the moratorium on the export of unprocessed timber and the automated verification of e-declarations.

The new MFA program is worth €1bn and, unlike what President Poroshenko stated in late 2017, the program will not be the same as the previous one, worth €1.8bn. The new MFA was adopted based on several factors, including the status of Ukraine's program with the IMF. The conditions that will become part of the MFA memorandum between Ukraine and the EU are not yet known, but it is likely that the EU will continue to require conditions that were not implemented in the previous program, with the exception of the moratorium on the export of unprocessed timber. Ukraine hopes to get the first installment by September 2018, but this is not certain since, unlike in the previous program, the first tranche will likely be transferred only after fulfilling the conditions. Still, Kyiv has enough time to implement the conditions, since the MFA extends for 30 months. Despite the fact that the MFA program is a loan, Kyiv is effectively using this money free of charge for the next 15 years because the interest rate is so marginal.

Lifting the moratorium on exports of unprocessed timber will likely not be one of the conditions for the new MFA program. There are not enough votes in the Verkhovna Rada to remove it and it is unlikely that there will be enough prior to the elections. The EU has decided that there is no merit to such a condition for MFA since it will not be implemented and then Ukraine would have little incentive to implement the other conditions if no money would be forthcoming regardless.

The export of the unprocessed timber has partly continued despite the moratorium. Official statistics show that Ukraine exported only 2 t of unprocessed timber in 2017, while EU statistics show that the EU imported 447 t of unprocessed timber from Ukraine, a difference of 445 t. That suggests about that Ukraine keeps exporting but is classifying it as firewood and its Customs Service has a special approach on the issue.

To solve the problem, the EU will apply the arbitration procedure prescribed by the Association Agreement and mandatory after the first time, which is a recommendation. The arbitration procedure is launched once a group of 15 arbiters is assembled: 5 from Ukraine, 5 from the EU and 5 neutral individuals not related to either party, but on which both parties will agree. The group has been assembled by the EU and the neutral arbiters have been appointed, while Ukraine has appointed 4 out of 5. Since the appointment of the last Ukrainian arbiter has been delayed for almost one year by President Poroshenko, the EU suggested starting the arbitration procedure without the full complement of arbiters and once Ukraine appointed the fifth arbiter, that person would join an already ongoing process. According to sources, if Ukraine disagrees with arbitration based on an incomplete panel, then the EU might open a panel within the WTO instead, which might have dire consequences for Ukraine if it should lose. At any rate, the option of getting the WTO involved in the dispute was apparently mentioned in a letter from EU Trade Commissioner Cecilia Malmstrom. A dispute at the WTO could seriously damage Ukraine's image. Moreover, other countries could join the challenge and would be entitled to compensation, even if they had not suffered from Ukraine's moratorium. Finally, Ukraine might have a hard time getting zero tariff quotas and other potential improvements to the Association Agreement.

Another funding mechanism has been proposed by EU Commissioner Johannes Hahn, who offered Kyiv €50mn in exchange for reforms. Hahn called the program a contract of "reforms in exchange for investments," which could take place as part of the new EU External Investment Plan. As it was presented by Commissioner Hahn, the

grant is meant to improve the work of Ukraine's financial market and the grant can be used as seed funding to leverage loans from IFIs and provide guarantees.

But this can only happen if Kyiv meets three conditions: full independence for the National Commission for the Regulation of Energy and Public Utilities; permanent and independent business ombudsmen; and the dropping of declarations for civil society activists dealing with corruption. All three conditions are aimed to build confidence towards Ukraine.

Commissioner Hahn's proposal was not quite understood in Ukraine, especially because he was asking so much for such a relatively small amount of money. Some EU diplomats in Kyiv do not support Hahn's view.

Overall, there is a wider issue with Commissioner Hahn, who has apparently "checked out" of Ukraine and is focused on the Western Balkans, since, as noted in Brussels, his advisers recommended that he focus on the Balkans if he failed to achieve a breakthrough in Ukraine. By contrast, there is a chance for him to leave behind a certain legacy in the Balkans.

REFORM AGENDA

Reforms continued to be the main priority in the Ukraine's relations with the EU. As before, EU officials noted that there was considerable resistance to reforms in the Verkhovna Rada and partly in the Government itself. There is considerable frustration that, in four years' time, no "big fish" has been put in jail, so anti-corruption reform remains high on the priority list. Even with elections looming, the EU continues to bring up anti-corruption efforts, although it understands that it must do it in such a way that does not offer a platform to populist forces, especially those are making hay on anti-corruption issues.

The key reform in the European integration process during the monitored period was establishing the Anti-Corruption Court. The law got 317 votes, although the process was very difficult. First, MPs proposed a massive 1,927 amendments to the law, all of which had to be debated, and 4 alternative bills on top of the one proposed by the president. When the presidential bill was submitted, a wave of criticism was unleashed by the EU, G7 and other international partners who argued that the bill did not comply with the recommendations of the Venice Commission.

Second, there was a long negotiation process between Verkhovna Rada and the Venice Commission aimed at agreeing the provisions and wording of the law. Initially, most of the recommendations of the Venice Commission were agreed. The main disagreement was over the powers of the public council of international experts, which was mainly about the veto power of the international experts over the selection of individual judges for the Anti-Corruption Court. More difficult negotiations took place with the IMF. Sources say that President Poroshenko discussed various compromises with IMF Director Christine Lagarde over the phone several times.

Third, the agreed formula is that if at least 3 out of 6 members of the Council of Foreign Experts are against a given candidate proposed by the High Qualification Commission of Judges, then they can veto the decision. After that, the candidates are discussed at a special meeting between the Council and the Commission. If the majority of the joint meeting or at least half the members of the Council do not support the candidate, the latter is withdrawn from the competition. Also, the Council is allowed to hold interviews with candidates. Finally, the Court has to be completed within 12 months and will become operational as soon as at least 35 judges have been selected.

Before the vote, President Poroshenko came to the Rada to support the bill and encourage MPs to vote in favor, noting that the bill was in full compliance with Venice Commission recommendations. Most

countries and institutions welcomed the successful vote on the same day—except the EU, which took note of the voting but mentioned that it would issue an opinion once the signed bill had been reviewed, because there were many amendments to the bill and the “devil is in the details.”

The EU was right to wait for the official published law because the final version contained a controversial provision that concerned criminal cases already being heard in lower courts. These were not subject to review by the Anti-Corruption Court and appeals in these cases were supposed to be considered by regular courts, even if the ACC is already operational. Interestingly, this rule was introduced in the transitional provisions.

Along with the IMF and Venice Commission, the EU immediately demanded a swift change to the controversial provision and the negotiations were taking place when this report went to press.

The other traditional anti-corruption reform discussed by the EU and Ukraine is the National Agency for Prevention of Corruption (NAPC). Some have criticized the EU for not pushing enough to have the NAPC function properly. However, the EU cannot have too many priorities and so it focused on the Anti-corruption Court, noted a member of

the EU Delegation to Ukraine. The NAPC is mentioned but is not a primary focus. For the EU, the priority is to have the entire legal framework in place and only then to focus on implementation. NAPC without an Anti-Corruption Court would be useless, as are e-declarations without a properly functioning NAPC.

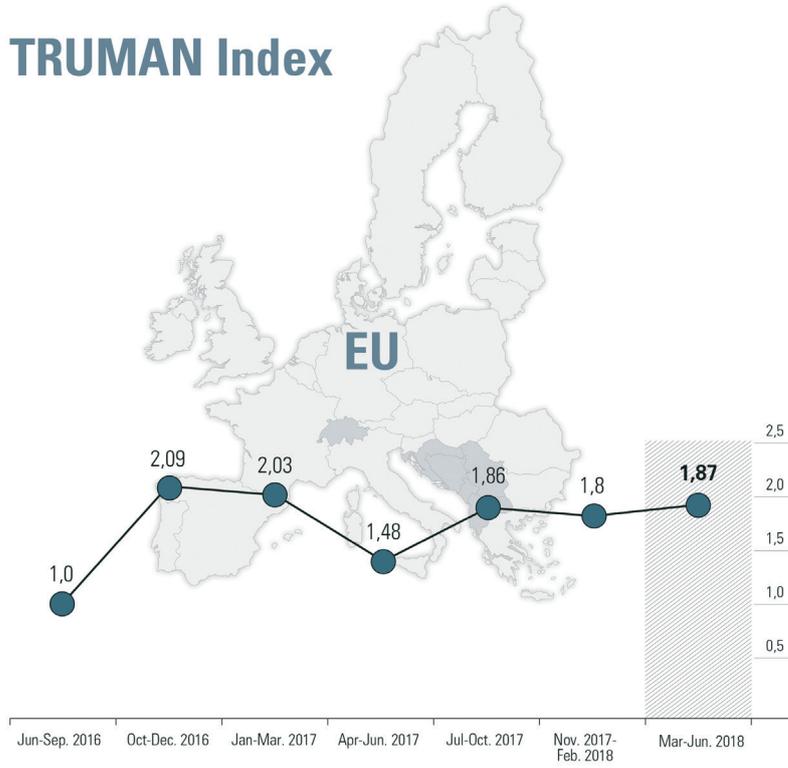
This is bad, because NAPC will likely be used for political reasons warn experts in the field. They expect that NAPC will eventually verify the declarations of those people who are “inconvenient.” So far, the EU is worried that the NAPC will be used in the upcoming elections as a political tool to disqualify or disdain certain politicians and, says one source, there are signs that this is already taking place. From the EU perspective, “NAPC is a disaster.” Bills reforming NAPC were submitted to the Rada more than a year ago, but the process is still being delayed. The EU also expects an independent assessment of the verification system.

The EU’s main frustration is over the fact that e-declarations have not been dropped for civil society activists dealing with anti-corruption matters. Certain experts mentioned that this amendment could be annulled by decision of the Court, which would significantly simplify the task.

Events in Ukraine-EU relations (March – June 2018). Point-based evaluation

Date	Event	Score
March 9	The European Commission proposes €1bn in new Macro-Financial Assistance.	+1
March 11-12	HRVP Federica Mogherini visits Kyiv.	+3
March 12	The EU extends sanctions against 150 officials and 38 Russian companies for another six months.	+4
March 16	High Representative Federica Mogherini issues a declaration on behalf of the EU on the Autonomous Republic of Crimea and the city of Sevastopol.	+1
March 19	The Foreign Affairs Council of the EU discusses Ukraine.	+2
March 20	The Verkhovna Rada adopts the European integration law on environmental assessment.	+1
March 22	MEPs urge Ukraine to maintain its anti-corruption focus and to avoid pitfalls.	-1
March 28	Commissioner Hahn issues a statement on the extension of mandatory e-declaration to civil society activists.	-1
March 28	Ukraine and the EU sign a roadmap for the integration of industry.	+2
April 17	46 MEPs sign a letter urging a diplomatic boycott of the World Cup 2018 in Russia.	+1
April 18-19	The EU-Ukraine Parliamentary Association Committee meets in Strasbourg.	+2
April 19	The Ukrainian government signs an agreement with Germany worth €9mn for IDPs housing.	+4
April 25	The Ukrainian Government approves the Communication Strategy for European Integration.	+2
May 11	The permanent representatives committee adopts restrictive measures against actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.	+2
May 15	The EEAS issues a statement on the partial opening of the Kerch Bridge.	+1
May 22-23	Commissioner Johannes Hahn visits Ukraine.	+2
May 29	Ukraine and the EU sign an agreement on cooperation in space under the Copernicus program.	+1
May 29	The EU Council approves macro financial assistance to Ukraine.	+1
June 7	The Verkhovna Rada passed a bill on the Anti-Corruption Court.	+3
June 13	The European Parliament approves macro-financial assistance to Ukraine worth €1bn.	+1
June 14	The European Parliament issues a resolution on Russia, notably the imprisonment of Ukrainian filmmaker Oleh Sentsov.	+2
June 18	The EU extends sanctions for one year over the illegal annexation of Crimea and Sevastopol.	+4
June 26	The Council of the European Union approves the allocation of €1bn in macro-financial assistance to Ukraine.	+5

TRUMAN Index



- The adoption of legislation establishing an Anti-Corruption Court in Ukraine represents an important milestone in relations with the EU which unblocks Kyiv's access to the EU funding.
- The new Macro-Financial Assistance program worth €1 billion has been approved but funds will be disbursed upon fulfilling the EU's conditions.
- Nord Stream 2 pipeline will become an increasingly important and divisive issue for the EU amid pressures from Ukraine and other EU members states.

UKRAINE-CHINA RELATIONS

MARCH-JUNE 2018

Positive: +18
Negative: 0
Overall: +18
TRUMAN Index: +0.69



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UPDATE

Over the last four months, Sino-Ukrainian relations remained an important direction in Ukraine's foreign policy. On one hand, this is affecting the development of the Ukrainian economy substantially and the socio-economic development of the country's regions. On the other, however, Ukraine's political elite tends to be relatively unaware of it. China typically keeps a distance from domestic politics in other countries, even with its strategic partners. And so, the approach of presidential and parliamentary elections in Ukraine will inevitably dampen bilateral dialog, which, compared to Ukraine's relations with the US and EU looks sleepy and simple. In domestic expert circles, some even talk about "stagnation in Ukrainian-Chinese relations" in the first half of 2018.

At this time, one pressing challenge for Ukraine's diplomats is to organize and prepare for a visit at the highest level. Direct talks between President Poroshenko and President Xi Jinping are expected to become one of the most important events in Ukraine's foreign policy, especially in the Asian aspect, regardless of the domestic situation in Ukraine.

Still, bilateral relations continue to demonstrate a positive dynamic in contacts between ministries and government agencies in both countries. Given this, two trends become significant. First, government agencies are properly understanding the role China can play in ensuring the development and modernization of Ukraine's industries and farm sector. Some officials directly tie the future of their branches to growing cooperation with the Middle Kingdom. The other tendency is towards the gradual concretization of economic cooperation, with slogans about "roadmaps" slowly being replaced by the day-to-day work of carrying out bilateral projects.

Over the last four months, an important feature of Ukraine's approach to relations with China has visibly emerged. Whereas the function of moderator in bilateral cooperation on the Chinese side tends to be handled by profile state agencies led by the Foreign Ministry, on the Ukrainian side it tends to be civil society through the scientific and expert community. This explains the numerous bilateral events in which the Ukrainian co-organizers are the NAS, the Association of Sinologists of Ukraine, the Chamber of Trade and Industry, and a variety of think-tanks.

In the case of China, moreover, the humanitarian aspect of bilateral cooperation somewhat compensates for the flabbiness of the state entities that should be driving the development of relations.

TIMELINE

KEY EVENTS

Only one event of a political nature took place in Ukraine-China interstate relations in the last four months. On June 11, Ihor Zhovkva, Director of the Main Department for Foreign Policy and Eurointegration at the Presidential Administration, met with the Chinese Deputy Foreign Minister Jang Hanhui. The two discussed the importance of exchanges at the highest level, more active cooperation in trade, investment and tourism, Ukraine's participation in China's "One Belt, One Road" initiative, and so on. The Ukrainian official noted that the country's leadership was working on effectively carrying out reform, fighting corruption and resisting Russia's aggression. The Chinese official noted that China was prepared to support intensified economic growth in Ukraine and to foster mutual cooperation to the utmost.

International assessments of the prospects for Sino-Ukrainian cooperation also came during this period. On March 13, Polish Minister of Infrastructure Andrzej Adamczuk spoke at the 11th Europe-Ukraine Forum about the importance of Ukraine's participation in the New Silk Road for Poland: "Poland has considerable hope for Ukraine's GO Highway project, which started last year." Adamczuk also thought that this initiative could become an extension of Poland's trunk A4 highway into Ukraine, which would make it possible to safely move goods from China and Ukraine and other countries to Europe, as well as the other way, from Europe to the East.

Official information about trade between Ukraine and China is also encouraging. On April 24, Ukraine's Ministry of Economic Development and Trade reported that China was in second place in the list of Top 20 most promising markets for the export of Ukrainian goods over 2017. Last year, trade in goods with China added up to 8.28% of Ukraine's exported goods. Ministry and Derzhstat figures show that trade with China is strategically important for Ukraine. In 2017, Derzhstat says bilateral trade was worth US \$7.7bn up 17.9%, with Ukraine exporting US \$2.4bn in goods to China, an increase of 11.3% over 2016. Imports of Chinese goods were worth US \$5.6bn in 2017 and were up 20.5%, making the negative balance of trade for Ukraine US \$3.6bn.

As of December 31, 2017, all of US \$18.2mn of Chinese investment had come to Ukraine or 0.044% of total FDI. Since the beginning of 2018, another US \$1.7mn has been added.

KEY MEETINGS BETWEEN TOP OFFICIALS

Chinese Ambassador to Ukraine Du Wei attended a celebration of Science Day at the Ministry of Education and Science where he emphasized the importance of developing cooperation in science, technology and innovation. Minister Lilia Hrynevych awarded an official thanks from to Ambassador Du's mission for its contribution to the development of bilateral relations in science and technology.

On June 5, Chinese partners signed a Memorandum on Cooperation with the State Mortgaging Agency of Ukraine regarding the SMA's "Providing housing through financial leasing or mortgage lending" investment project. The Chinese delegation included the chair of the Chinese part of the Commission on Cooperation between the Governments of China and Ukraine, Sung Bai; President of the China Complete Engineering Corporation (China Machinery Engineering Corporation) Yang Jin; First Deputy General Manager of CCEC (CMEC) Li Guan, and other company specialists. CCEC won an open competition to attract foreign investment and committed itself to give financing for the project provided state guarantees were offered. SMA COB Andriy Kamuz noted: "The start of this 'Providing housing through financial leasing or mortgage lending' project jointly with China should give a signal to investors that our country is a reliable partner with whom you can develop relations,

including in high-efficiency building technology and the construction of modern infrastructure." Bai noted, "Given the situation with the global economy, it is necessary to develop joint projects and the government and corporate levels. This project will allow Ukraine and China to move to a new rung in their relations and guarantee long-term productive cooperation that should become a powerful means to resolve many contemporary economic challenges."

Ukraine and China agreed to set up a working group involving the Chinese Commission and key Chinese companies to agree their investment projects in Ukraine. This happened during the working visit of Minister for Infrastructure Volodymyr Omelyan to China, where he met with China National Development and Reform Commission Vice President Ning Zhe and the team from this key agency in China that is responsible for overseas investments. "For Ukraine," said Omelyan, "the priority is to ensure the reliable, secure movement of goods along the Europe-Asia rout and to turn Ukraine into a hub. The turnover of goods between China and Ukraine keeps growing. Just in the last year, it grew 50%, so we're not just looking at the future with China, we're already seeing it come to life today." Moreover, the Chinese are interested in the GO Highway project, the construction of a high-speed railway running Lviv-Kyiv-Odesa, and in expanding air freight traffic.

A Memorandum of Understanding between the Main Customs Administration of China and the State Food Safety and Consumer Protection Service of Ukraine on cooperation and mutually foster trade in poultry between Ukraine and China was signed. The Head of the State Food Safety and Consumer Protection Service of Ukraine Volodymyr Lapa also met with officials from the Chinese Ministry of Agriculture. The two sides discussed the latest changes in China's government agencies, including the functioning of the agricultural sector and further steps to open the Chinese market for Ukrainian poultry and products made from it.

In Beijing Lapa also met with officials from the Ministry of Commerce in order to revive contacts with the Chinese side and discuss the participation of Ukrainian companies in China International Import Expo 2018 coming up in Shanghai in November 2018.

KEY DEVELOPMENTS IN TRADE AND COMMERCE

Ukrzavdydobuvannia declared Sichuan Honghua Petroleum Equipment the winner of a tender to supply power equipment to modernize 15 Uralmash 14E drilling rigs. The company was selected based on two-step bids in reverse-auction mode. The procurement process was announced in August 2017. Ukrzavdydobuvannia has worked with Sichuan Honghua before: in summer 2017, the company ordered 10 drilling rigs for US \$123.85mn.

On March 13, the ProZorro electronic procurements system held a tender for the delivery of dredging works in the Port of Chornomorsk. The simultaneous winner of two lots was China Harbor Engineering Company Ltd. During open bidding, the Chinese company made the best price offer for both lots. Savings on the first one added up to UAH 4,620,365 ex VAT, while the second one represented savings of UAH 36,033,189 ex VAT.

Also, China Harbor Engineering Company won a tender for exploratory dredging in the approach channel and waters of the Dnipro-Buh Port and the approach to the Port of Mykolayiv.

On March 13, Xinjiang Beiken Energy Engineering began drilling the first well for Ukrzavdydobuvannia as part of a contract signed in the fall of 2017 for drilling 24 wells.

In March, a Chinese ship delivered 2,500 t of cargo to Odesa for a mobile asphalt plant and a large party of road building equipment. As

reported earlier, Ukravtodor, the state-owned roadways corporation, and China's Xinjiang Communications Construction Group Co. Ltd. signed a contract for an overhaul of the Striy-Ternopil-Kropyvnytskyi-Zamianka section of the national highway network and to carry out some of the contracted works that Italy's Todini failed to complete on the Kyiv-Kharkiv-Dovzhansk section.

Chinese company ZTE announced the issuing of a long-term loan to Ukrtelecom. The first phase of lending to the Ukrainian telecoms operator was US \$10mn. This capital will go to finance joint Ukraine-China projects.

On April 4, DTEK and China Machinery Engineering Company (CMEC) signed an agreement to design and build a 200 MW solar electricity station (SES) in Dnipropetrovsk Oblast. Total investment in the project will reach €230mn. The related documents were signed in Kyiv during a roundtable called "Chinese investment in the development of Ukraine's power industry," organized by the "Silk Link" Ukrainian Silk Road Association. Present at the event were Deputy Premier Volodymyr Kistion and Power Minister Ihor Nasalyk. This station will be built in a relatively tight timeframe of nine months. After it is completed, the Nikopol SES will be the most powerful solar power generator in Ukraine and will be among the top three in Europe.

A contract worth US \$33.4mn to produce the film "Blazing Eagle," about World War II, was signed between Ukraine and China during the 2018 Beijing International Film Festival.

In May, TOV Zhongman Ukraine was founded in Kyiv with statutory capital of UAH 30mn. The company is a wholly-owned subsidiary of Hong Kong-based Zhongman Petroleum and Natural Gas Group, which participated in two tenders to drill wells for Ukgazvydobuvannia. As a result, Zhongman will be signing two contracts worth UAH 981mn. This is the second Chinese contractor that has established a company under Ukrainian jurisdiction. In September 2017, Xinjiang Beiken Energy Engineering, the biggest foreign subcontractor working for Ukgazvydobuvannia, opened a representative office in Ukraine.

On June 7, Infrastructure Minister Omelyan met with Isbrand Kho, managing director of the BYD Company Limited on the European market. The two discussed opportunities to locate facilities manufacturing lithium batteries for electric buses and electric cars in Ukraine, and BYD's plans to enter the European market. Kho noted, "Ukraine offers unique potential for a plant location and barrierless access to the European Union thanks to the Association Agreement with the EU and a positive economic situation."

That same day, Minister Omelyan discussed opportunities to invest in the port, rail and roadways sectors in Ukraine with China Communications Construction Company Vice President Sun Ziyu. The meeting was joined by officials from China Harbor Engineering Company and China Road Construction Company. Among the possible projects discussed was setting up a network of concrete roads in southern oblasts for the shipment of freight between seaports. Ziyu noted, that the Chinese side was interested in developing infrastructure projects in Ukraine because this directly affected their access to European markets. "Given the DCFTA between Ukraine and the EU," he emphasized, "expanding and improving transport infrastructure in Ukraine is a high priority for China because, in combination with the New Silk Road, this will significantly simplify access to European markets for Chinese goods."

Chinese Ambassador Wei visited the Bila Tserkva Industrial Park. The ambassador suggested that the industrial park could become a platform for joint Ukraine-China production oriented towards the European market. "China is considering the possibility of establishing a few JVs in Ukraine and is studying the options," said Du Wei. "Today, Chinese companies are actively working with Ukraine and investing in Ukrainian enterprises. However, I'm confident that in the future Chinese businessmen will be setting up both their own companies and co-production in such industrial parks. We have come here to study how you operate."

DEVELOPING LINKS THROUGH ACADEMIC EVENTS

The Ukrainian Association of Sinologists held a roundtable called "Socialism with a Chinese Face in a New Epoch: the view from Ukraine." UAS President Viktor Kiktenko said, "China's main strategy is the peaceful development of the country, but its global role is also important, because it requires peace on the territories of China's strategic partners as well." Andriy Yermolayev, director of the Nova Ukraina Institute for Strategic Studies, noted that the crisis around Ukraine has complicated the situation considerably for China, because both Ukraine and Russia are its strategic partners. China can't easily support one side, so it has not been rolling out large-scale projects "that might lead to new conflicts of interest and tension with other strategic partners." Senior Researcher at the National Institute for Strategic Studies Andriy Honcharuk also pointed out that, after a 40-year period during which it remained in the shadows, "today China is ready to take on some responsibility for what is going on in the world."

One Belt, One Road Ukraine-China Strategic Partnership Forum took place in the Grand Conference Hall at the National Academy of Science of Ukraine. The event was organized by the Krymskiy Institute of Orientology under the NAS, the Ukrainian Association of Sinologists, and Vadym Hetman National Economic University in Kyiv, and supported by the Chinese embassy in Ukraine and the National Security Council of Ukraine. Participants included 16 Ukrainian and 11 Chinese academics involved in studying current issues in bilateral relations.

The Second Ukraine-China Economic Cooperation Forum took place in Kyiv, organized by Ukraine's Chamber of Trade and Industry and the China Overseas Development Association. The event included presentations of sectors and projects in the farm sector, power engineering, infrastructure, tourism and other areas, as well as business negotiations with potential investors from China. 75 representatives of government agencies, Chinese state enterprises and companies that are interested in investing in Ukraine, setting up joint ventures, and exporting Chinese goods.

A roundtable entitled "New Silk Road: Potential for Ukraine," organized by the Ukrainian Institute for the Future and the Ukrainian Association of Sinologists took place in Kyiv. A group of eight experts presented their reports at the event, including well-known Ukrainian sinologists, political scientists and economists. The main purpose was to provide detailed analysis of the "One Belt, One Road" initiative and the role Ukraine might play in its implementation. The experts and guests at the roundtable exchanged opinions about the geopolitical and geoeconomic prospects for China's presence in Ukraine, and opportunities for bilateral economic cooperation within this initiative. Participants also discussed the steps that need to be taken to develop relations between Kyiv and Beijing to carry out the Action Plan to jointly build the "Economic Belt of the Silk Road" and the "Marine Silk Road of the 21st Century." The experts expressed confidence that Ukraine will become an active participant in One Belt, One Road as it has plenty to offer China and other countries involved in this initiative.

Another international roundtable, entitled "Ukraine-China: Strategic partnership in a global context," took place in Kyiv, organized by the Friedrich Ebert Foundation and the Ukrainian Prism Foreign Policy Council. Participants included academics from Germany, Hungary, China and Ukraine.

The International Educational and Cultural Forum "Silk Road 2018: Ukraine-China" took place in Kyiv with participants from nearly 60 post-secondary institutions in Ukraine and China, as well as officials from Ukraine's Ministries of Education and Science, Culture, and Information Policy. The event included presentations by Ukrainian and Chinese colleges and universities. At the conclusion, officials from these institutions signed an agreement on cooperation in education.

Events in Ukraine-China relations (March-June 2018). Point-based evaluation

Date	Event	Score
March 12	Ukrgezvydobuvannia declares Sichuan Honghua Petroleum Equipment (China) the winner of a tender to supply power equipment to modernize 15 Uralmash 14E drilling rigs.	+0.5
March 13	The ProZorro electronic procurements system holds a tender for the delivery of dredging works in the Port of Chornomorsk. The winner of two lots is China Harbor Engineering Company Ltd.	+0.5
March 13	Xinjiang Beiken Energy Engineering begins drilling the first well for Ukrgezvydobuvannia.	+0.5
March 13	Polish Minister of Infrastructure Andrzej Adamczuk states at the 11th Europe-Ukraine Forum that Ukraine's participation in the New Silk Road is important for Poland.	+1
March 28	A Chinese ship delivers 2,500 t of cargo to Odesa for a mobile asphalt plant and a large party of road building equipment.	+0.5
March 29	ZTE announces the issuing of a long-term loan to Ukrtelecom.	+0.5
March 29	China Harbor Engineering Company wins a tender for exploratory dredging in the approach channel and waters of the Dnipro-Buh Port and the approach to the Port of Mykolayiv.	+0.5
April 4	DTEK and China Machinery Engineering Company sign an agreement to design and build a 200 MW solar power station in Dnipropetrovsk Oblast. Investment in the project will reach €230mn.	+1
April 20	During the 2018 Beijing International Film Festival, a contract worth US \$33.4mn is signed between Ukraine and China to produce the film "Blazing Eagle," about World War II.	+0.5
April 24	Ukraine's Ministry of Economic Development and Trade reports that China was in second place in the Top 20 most promising markets for the export of Ukrainian goods over 2017.	+1
April 27	The Ukrainian Association of Sinologists holds a roundtable called "Socialism with a Chinese Face in a New Epoch: the view from Ukraine," at UNIAN's offices.	+0.5
May 18	TOV Zhongman Ukraine is founded in Kyiv with statutory capital of UAH 30mn.	+0.5
May 23	Chinese Ambassador to Ukraine Du Wei emphasizes the importance of developing cooperation in science, technology and innovation, at a celebration in honor of Science Day at the Ministry of Education and Science.	+1
May 25	NSC Deputy Secretary Oleksandr Lytvynenko attends the One Belt, One Road Ukraine-China Strategic Partnership Forum.	+1
May 29	The Second Ukraine-China Economic Cooperation Forum takes place in Kyiv, organized by Ukraine's Chamber of Trade and Industry and the China Overseas Development Association.	+0.5
June 5	Chinese partners involved in the SMA's "Providing housing through financial leasing or mortgage lending" investment project meet with the State Mortgaging Agency of Ukraine.	+0.5
June 7	On a working visit to China, Ukraine's Infrastructure Minister Volodymyr Omelyan meets with the vice president of the China National Development and Reform Commission.	+1
June 7	Infrastructure Minister Omelyan meets with Isbrand Kho, managing director of the BYD Company Limited on the European market.	+0.5
June 7	Infrastructure Minister Omelyan discusses opportunities to invest in the port, rail and roadways sectors in Ukraine with China Communications Construction Company Vice President Sun Ziyu.	+0.5
June 6-8	State Food Safety and Consumer Protection Service of Ukraine Director Volodymyr Lapa participates in the 3rd Dialog between China and CEE countries on cooperation in quality control, inspections and quarantines, held in the city of Ningbo.	+0.5
June 8	Director Lapa meets with officials from the Chinese Ministry of Commerce in Beijing.	+0.5
June 8	A roundtable entitled "New Silk Road: Potential for Ukraine," organized by the Ukrainian Institute for the Future and the Ukrainian Association of Sinologists takes place in Kyiv.	+0.5
June 11	Ihor Zhovkva, Director of the Main Department for Foreign Policy and Eurointegration at the Presidential Administration, meets with the Chinese Deputy Foreign Minister Jang Hanhui.	+2
June 14	An international roundtable entitled "Ukraine-China: Strategic partnership in a global context" takes place in Kyiv, organized by the Friedrich Ebert Foundation and the Ukrainian Prism Foreign Policy Council.	+0.5
June 14-15	The International Educational and Cultural Forum "Silk Road 2018: Ukraine-China" take place in Kyiv.	+0.5
June 17	Chinese Ambassador Wei visits the Biopharma Pharmaceuticals Plant and the Bila Tserkva Industrial Park.	+1

TRUMAN Index



- The discrepancy between the potential of Ukrainian-Chinese cooperation and the level of actual bilateral dialogue.
- High level of involvement of Chinese companies in Ukrainian infrastructure projects.
- The humanitarian direction of cooperation overbalances the economic one.

UKRAINE-RUSSIA RELATIONS

MARCH-JUNE 2018

Positive: +3
Negative: -68
Overall: -65
TRUMAN Index: -3.1



Sergiy Solodkyy

First Deputy Director of the New Europe Center

UPDATE

This quarter was saturated with mutual rebukes and an escalating security situation in the Donbas. Serious accusations were made about the involvement of Russian intelligence services in preparing large-scale acts of terror in Ukraine. One special operation in response to a supposed Russian plot—the faked assassination of a Russian journalist living in Ukraine—seems to have backfired and become more of a fiasco than a victory in terms of gaining international support. That could be one reason why foreign actors did not respond especially harshly to warnings from Ukraine’s leadership about Russia’s preparations for broad-scale provocations this coming fall. Still, in unofficial conversations, western diplomats often question how Russia is likely to behave during the election campaign in Ukraine. There are no doubts on any side that Moscow will interfere. The only questions are how, and what the impact will be. Both in Kyiv and in western capitals, there was some hope that Vladimir Putin might make some gestures of good will during the world football championship, but the miracle did not happen in this reporting period. Ukraine continued to hope to put pressure on Russia using two kinds of leverage: international sanctions and international lawsuits. Still, these instruments don’t always work, as certain bits of news in this quarter have demonstrated, such as the opening of the bridge across the Kerch Strait and Germany’s go-ahead to Nord Stream II.

TRUMAN Index of relations between Ukraine and Russia is -3.1 points, which is more than twice as bad as the previous index. This is because the previous period was filled with much-promised events, such as the release of hostages or the start of talks over a UN peacekeeping mission, which stirred a baseless hope that the war between the two countries might end. This latest quarter confirmed the pointless nature of the expectations that emerged half a year ago: the process of prisoner exchanges ground to a halt once more and the peacekeeping mission keeps being discussed but Russia has shown no willingness to compromise.

TIMELINE

OLD EXPECTATIONS OF NEW PROVOCATIONS

In this last quarter, expressions of concern that Russia was preparing for large-scale provocations, including military assaults, grew more frequent in Ukraine. These came most often from the National Security Council and the Foreign Ministry, and most of them were connected to the fact that Ukraine has entered the active phase of the 2019 election campaigns, one for the presidency and the other for the Verkhovna Rada. Kyiv is pretty certain that Moscow will attempt to influence the results, including through its leverage over the dynamic of the conflict. Last year, Ukraine was also seriously concerned about Russia’s planned military exercises in Belarus. Key NATO members also issued statements calling on Moscow to avoid escalating tensions in the region. This time, though, there were few expressions of concern on the part of top western leaders that Russia might interfere on a large scale.

Ukraine’s intelligence agencies report that Russian intelligence agencies are also actively involved in organizing provocations involving ethnic minorities in Ukraine: in the last year 41 incidents of extremism were reported. Some of the special ops have been

commissioned by the so-called Ukraine Salvation Committee, which was organized by political fugitives from Ukraine who are now living in Russia, including former PM Mykola Azarov. In this way, Moscow appears to be trying to discredit Ukraine in the world and to set the country at odds with its neighbors.

International actors have been more and more cautious in their responses to such pronouncements from the Ukrainian government. This distrust may have been spurred by overall fatigue with the subject of Ukraine, something that the scandalous special operation with the staged murder of Russian journalist Arkadiy Babchenko may have increased. Although the SBU insisted that it was working to prevent a series of terrorist acts that were being prepared for Ukraine by Russian intelligence services, western capitals found official Kyiv’s explanations less than convincing. On one hand, they are more than aware that Russia is quite capable of aggressive attacks, but on the other, they don’t understand why Ukraine chose to execute an unprecedented deception without ultimately producing persuasive evidence. In unofficial communications with western diplomats, there is often a sense of skepticism the minute they hear about the “mark of Russian intelligence services.”

At the same time, in these same informal discussions, members of the diplomatic corps of both the EU and US show continuing interest in the “Russian factor” in the election campaign period, including through engaging the military component. It seems clear that Russia will not risk any such actions at least until July 15, when the football championship is over.

It’s equally obvious that the pro-Russian wing in Ukrainian politics will become more active as the campaign rolls out. For instance, Viktor Medvedchuk, whose youngest daughter is Vladimir Putin’s godchild, intends to run for the Rada. After 2004, he focused on behind-the-scenes politicking, preferring to operate in the shadows. The fact that he is returning to open politics indicates just how important the upcoming elections are for the Kremlin and Medvedchuk’s decision was clearly not made in isolation. However, Medvedchuk’s participation also suggests that Putin no longer trusts any of the politicians representing the pro-Russian wing in Ukraine, primarily represented by such political parties as Yuriy Boyko’s Opposition Bloc and Vadim Rabinovych’s *Za Zhyttia*—even if Medvedchuk makes a point of speaking positively of them. That Medvedchuk plans to run in the election is evident in his recent purchase of two new television channels in Ukraine, although neither he nor the two channels confirmed this at the time of press.

Meanwhile, Kyiv can see that the threat this time comes not just from the east but also from the south, primarily the Azov Sea region. According to Ukrainian data, Russia has deployed additional forces there and is in a position to land its troops on the Ukrainian shore. Kyiv is very worried that, the completion of the bridge across the Kerch Strait allows Russia not only to block Ukrainian vessels but also to march troops into Crimea, from which it could attack the mainland. However, the Presidential Administration notes that Crimea has already been turned into a heavily armed fortress. The NSC reports that the MLRS deployed on the peninsula are already capable of attacking deeply into the heart of Ukraine. The Presidential Administration decided to specifically draw the attention of European leaders to security in the Black and Azov Seas during the Ukraine-EU summit on July 9. Kyiv was hoping that there will at least be a severe verbal response and decisive steps up to and including the institution of new sanctions. The hopes for sanctions were, of course, groundless, but in the joint final statement, Ukraine and the EU sentenced militarization of the Azov and Black Seas.

Ukraine is also worried about changes in the eastern part of the country. For instance, its military has shared information about the fact that Russia has been preparing special units on the occupied territory of Donbas to prevent the retreat of its proxies from the first line of defense. Supposedly because of this representatives of the Russian army have been beefing up rearguard units.

OSCE observers have officially noted a significant worsening in the security situation in Donbas. At the end of May, there were even reports that it was the worst fighting since the beginning of the year. Not only was it the largest number of attacks on Ukrainian military positions in the previous six months, but also on civilian targets. The National Security Council reported that there was a growing concentration of RF forces near the Ukrainian-Russian border.

All efforts to establish a ceasefire proved useless: the proxies resumed shooting pretty much the next day after the announcement of a cessation in hostilities. The efforts of Ukraine’s negotiators in the Trilateral Contact Group were focused on two main aspects: a ceasefire and the release of the hostages on the occupied territories. The Ukrainian side returned for the umpteenth time to the question of having the OSCE SMM observers present at the international border between Ukraine and Russia, but the Russians refuse to even discuss this. Kyiv insists that this is intended to prevent Russia from supplying weapons. Moscow argues that it refuses because it has nothing to do with the conflict.

Ukraine was hoping to see a ceasefire agreed at least for the two summer months, July and August. Ukraine’s diplomats noted that it has become much harder to negotiate with the Russian side lately. Their refusal to compromise is supported by the ambiguous behavior of western partners: Donald Trump’s statements about how desirable it is to return Russia to the G7, the weakening of the European Union due to various crises, such as Brexit, the growing presence of radical pro-Russian politicians, and so on.

PSYCHOLOGICAL MANIPULATION, NOT GOOD WILL

The conflict in eastern Ukraine began to escalate just as considerable diplomatic efforts were being made. For instance, in May, President Poroshenko met with French President Emmanuel Macron and German Chancellor Angela Merkel just as the situation on the front turned for the worse. Later, Macron and Merkel raised the Ukraine question in talks with Putin. They expected Moscow to offer some gesture of good will in view of the approaching football championship.

Kyiv presented its meeting with the French and German leaders as a kind of diplomatic victory, calling it “Normandy without Putin.” However, the actual meeting was not especially long. There was an impression that it was largely a formality, as it took place in Aachen, where the French president was being awarded the Charlemagne Prize. Moscow understood that the meeting of the trio was no special threat and that they would all have to work things out with Putin. There was no fundamental change on the issue of a UN peacekeeping mission in eastern Ukraine. Putin continues to insist on three main conditions: firstly, it will not be a proper peacekeeping mission but a security detail to protect OSCE observers; secondly, Kyiv has to agree the mandate of the ‘mission’ with the leaders of Russia’s proxy states; and thirdly, the ‘peacekeepers’ will not have access to the state border.

Ukraine had also hoped that the gesture of good will on Putin’s side would be the release of the country’s citizens who are being held in Russian prisons. This issue was the topic of two telephone conversations between Petro Poroshenko and Vladimir Putin in June after a four-month break since the last high-level call. Negotiations were initiated by the Ukrainian side, which the Kremlin particularly insisted on.

After a large-scale release of Ukrainians held hostage on the occupied territories of Donbas in December 2017, Kyiv expected that, this year, those Ukrainian citizens held in Russian prisons would also be released. However, so far, no one has been released. In fact, the hostage exchange with the Russian proxies that was expected to happen at the beginning of the year never took place, either.

When filmmaker Oleh Sentsov announced May 14 that he was going on a hunger strike until 64 of his fellow incarcerated Ukrainians were released by Russia forced both Kyiv and its international partners to act more decisively. For the first time in four years, the subject of political prisoners was discussed during a ministerial meeting in the Normandy format on June 11. A few days later, Ukrainian Ombudswoman Liudmyla Denysova travelled to Russia to carry out the agreement arranged between the Ukrainian and Russian presidents. She was supposed to meet with Ukrainian prisoners, starting with Oleh Sentsov, Mykola Karpiuk and Roman Sushchenko. But when she arrived at the penal colonies, she was not allowed in. Moscow claimed that there was no legal basis for her to have access and that supposedly there first should have been an agreed schedule for these visits.

Kyiv saw this as a stalling maneuver because Moscow had no real intention of making any concessions. The assumption in Kyiv was that this was payback for Ukraine supposedly trying to spoil Putin’s moment in the sun during the football championships. The Russian

leader may have been particularly angry over Ukraine's appeal to the international community and the ensuing sharp statements issued by the US State Department and the European Union. Most likely he was not too happy about the fact that Ukrainian officials were overly confident in conjecturing that Putin would agree to release prisoners during the championships as a PR move. Instead, Russia went for psychological manipulation, neither refusing directly nor agreeing.

A diplomatic scandal took place that Kyiv feared could also turn into a major irritant in talks between Ukraine and Russia regarding the release of Ukrainian prisoners and give Putin more ammunition in settling accounts. In March, a chemical attack on British soil intended to kill a former Russian military intelligence officer and his daughter turned into the diplomatic scandal in relations between Russia and the West, and resulted in the expulsion of 153 diplomats from 28 countries. Ukraine joined the UK's initiative and expelled 13 Russian diplomats from Kyiv.

Immediately a major debate began in Kyiv about why Ukraine had taken so long to expel Russians accused of spying. In diplomatic circles it was pointed out that these expulsions were largely symbolic: Ukraine simply showed solidarity with Great Britain. Some argue that Russia has no reason to send out spies under diplomatic cover, as this would be too obvious. Much better to expand the spying network within Ukrainian government agencies. For instance, in December 2017, the SBU exposed a Russian spy who was working as a translator for Premier Groisman.

THE BRIDGE THAT TAKES RUSSIA STRAIGHT TO COURT

For a long time, Ukraine consoled itself that Russia would not succeed in building the bridge across the Kerch Strait. The arguments were many: lack of money, especially under pressure from sanctions; construction was too complicated; Russia would not dare because it would lead to a strong international protest. None of it proved true. For Russia, the bridge across the Kerch Strait was more than just a symbol but also a strategic link to Crimea, so Moscow threw all the resources it could at the project. Indeed, the construction of the bridge even involved companies from countries that had placed sanctions against Russia.

Kyiv had to admit that the options for responding to such actions were pretty limited. The international pressure that Ukraine called for did not work. What's more, western governments often looked the other way when their companies cooperated with Russia until a number of major public scandals erupted, such as the one involving Siemens' sale of turbines for a power station in Crimea.

All that was left was to turn to international courts. But even here, there are many questions: Russia can simply not recognize the jurisdiction of a court and often ignores any rulings. This happened, for instance with temporary precautionary measures issued by the UN's International Court on April 19, 2017. The court required Russia to restore the Crimean Tatar Medjlis and stop persecuting ethnic minorities.

The years-long epic at The Hague between Ukraine and Russia has also entered a new phase. Official Kyiv submitted a Memorandum in a case involving the application of the International Convention on the Prohibition of Financing Terrorism and the International Convention on the Elimination of All Forms of Racial Discrimination. This was, in fact, a submission of evidence of Russia's responsibility. Most of the focus was on the part that involved violations of the Convention on financing terrorism. Last year, The Hague's judges refused to institute temporary precautionary measures related to this document, so Ukraine's diplomats and lawyers needed to prove the deliberate intentions of the other side. The Memorandum accuses Russia of supplying arms and coordinating a series of terrorist acts

by illegal armed formations on Ukrainian territory: the shooting down of MH17; the shelling of civilians in Mariupol, Kramatorsk, Avdiivka and Volnovakha; and terrorist acts in Kharkiv, Odesa and Kyiv. Ukraine's diplomats point out that there is a vast body of evidence: 29 volumes with more than 17,500 pages of testimony. This kind of volume is necessary to support what is written in the lawsuit as Ukraine is worried that Russia will once again distort every argument in its favor. The submitted documents will now be studied by the court for about 18 months.

Ukraine will have to exercise considerable patience regarding another issue: the now-built bridge across the Kerch Strait. Kyiv launched an arbitration case against Russia back in September 2016 accusing Russia of causing Ukraine considerable damage by its actions. Among others, this concerns the mining of minerals and the environmental, infrastructural and transportational impact of building the bridge without permission from Ukraine. As part of this case, official Kyiv has already submitted a memorandum and Russia has until November 19 to issue a counter-memorandum, after which Ukraine gets to respond, and then Russia has time to repeat its denials by September 19, 2019.

The construction of the bridge across the Kerch Strait represents two extremely important challenges. The first is security. Ukraine is worried that it will foster the further militarization of Crimea by making it easy for Russia to rapidly deploy military equipment there. This, in turn, raises fears of a growing military threat along Ukraine's southern mainland. The SBU has reported that Putin's inner circle is planning provocations under the guise of "defending Russian-speaking citizens of Ukraine" this coming fall.

The second challenge is transportation. The central arc of the bridge places restrictions on shipping vessels. According to the Port of Mariupol, at least 144 vessels don't meet the new requirements as to size, which constitutes a quarter of all of Ukraine's ships in the region. This has already cost billions of hryvnia in losses.

Ukraine's diplomats promise to do their best to get sanctions placed against companies that took part in the construction of the bridge. Right now, what can be said is that international response to the opening of the bridge was limp. Both the EU and the US criticized the project sharply as in violation of Ukraine's sovereignty. However, none of the international actors said anything about increasing sanctions.

During this past quarter, the gas conflict between Ukraine and Russia took on a new shape. Kyiv barely managed to celebrate its victory in the Stockholm Arbitration regarding the contract for deliveries of natural gas in 2009 when the positive ruling was suspended by a different Swedish court. Russia had turned to the Svea Court of Appeal against Naftogaz Ukraine's suit and so refused to pay the US \$2.5bn fine that the Stockholm Arbitration had charged. On one hand, the Stockholm ruling was expected to be a kind of impetus for other court challenges against Russia's actions. On the other, it reminds Ukraine that Russia will take advantage of the smallest legal loophole to block court rulings and ensure their further non-enforcement. Still, in Ukraine's government offices the conviction is that no appeal will ultimately change the ruling of the arbitration panel.

The last four months were also marked by the usual extremes of approaches to Russia. The first came as growing pressure, both political and sanction-wise. The second came as dialog and reconciliation, especially with Germany giving the green light to a second pipeline bypassing Ukraine, Nord Stream II. This issue was given priority during bilateral talks between Poroshenko and Merkel. It was given particular attention during talks between Merkel and Putin. Ukraine's government has been trying every way possible to block the bypass pipeline, but Germany has been very open about the chances of this being marginal. At least, official Berlin has not gone for it. There the project is seen as strictly commercial, so the

state has no basis for interfering in it, although Germans are well aware of the political implications. Kyiv has been hoping for one of two successful outcomes: either construction will be halted by EU supranational agencies, or it will be stopped under threat of sanctions by the United States.

Berlin is also aware of the possibility of sanctions. Some German analysts have supposed that American sanctions might save the Merkel Government from political disaster, as the chancellor herself does not have the courage to block Nord Stream II. On the other hand, they also understand that such a conflict could hit Ukraine badly,

primarily because a conflict between the EU and US could reach a peak and the transatlantic allies would have a hard time, if it remained at all possible, to carry on a dialog on other issues, such as support for Ukraine. Indeed, in German political circles, Kyiv is unofficially being warned to “restrain excessive glee” over possible US sanctions against German companies. Ukraine’s diplomats understand these warnings: decisions by an American leader who has been calling for Russia to be reinstated in the G7 could prove just as harmful to the country’s interests as Germany’s decision to support Nord Stream II.

Events in Ukraine-Russia relations (March-June 2018). Point-based evaluation

Date	Event	Score
March 1	Gazprom refuses to deliver gas to Ukraine for domestic consumption.	-3
March 9	The SBU announces that “handlers in Moscow” are involved in preparing terrorist acts in Ukraine with the participation of Volodymyr Ruban, director of the Officer Corps Center for Released Prisoners NGO.	-7
March 22	The SBU detains MP Nadia Savchenko. The Prosecutor General says that Russia supported plans by Savchenko and her accomplices to commit terrorist attacks against the country’s leadership.	-7
March 23	After two days of the latest cease-fire, Russian proxies begin shelling Avdiyivka.	-7
March 25	Ukrainian border guards on the Azov Sea arrest a fishing vessel sailing under the Russian flag. Russia’s Foreign Ministry issues a note of protest to its Ukrainian counterparts.	-4
March 26	Ukraine decides to expel 13 Russian diplomats in response to the chemical attack in Salisbury (UK). Moscow expels a similar number of Ukrainian diplomats.	-6
March 29	The leaders of the Normandy quartet declare their support for a “Pascal ceasefire” starting March 30.	+1
March 31	The latest ceasefire is violated.	-7
April 5	The Verkhovna Rada calls on the legislatures and governments of other countries to take steps to completely prohibit the building of the Nord Stream II pipeline.	-2
April 10	During a visit with Angela Merkel, President Poroshenko criticizes the Russian view of a UN peacekeeping mission in the Donbas.	-2
April 13	NSC Secretary Oleksandr Turchynov announces that Russia is preparing for an expanded war against Ukraine.	-2
April 13	The SBU reports that Putin’s circle is preparing to invade Ukraine in the fall.	-2
April 22	The NSC renews its sanctions and institutes sanctions against 1,759 individuals and 786 legal entities from Russia.	-4
April 24	The Foreign Ministry turns to the UN’s International Court in The Hague because of Russia’s failure to comply with the court’s order from a year earlier.	-3
May 10	President Poroshenko holds talks with Emmanuel Macron and Angela Merkel in a meeting dubbed “the Normandy format without Putin.” The main topics are sanctions against Russia and a peacekeeping mission to the Donbas.	-2
May 15	President Poroshenko accuses Russia of violating international law with the opening of the bridge across the Kerch Strait.	-3
May 15	The SBU arrests the director of RIA Novosti Ukraine Kirill Vishnevskiy and Russia “harshly condemns” the move.	-2
June 9	President Poroshenko and Vladimir Putin discuss the release of Ukrainian citizens in Russian jails over the phone.	+1
June 11	The FM’s of Ukraine, France, Germany and Russia meet in Berlin to discuss how to set up a peacekeeping mission in the Donbas.	+1
June 12	Ukraine submits evidence on Russia’s violations of international law to the International Court in The Hague in a case that was first heard a year ago.	-3
June 21	In a telephone conversation with President Putin, President Poroshenko states that it is completely unacceptable that Ombudswoman Liudmyla Denysova was not allowed to visit Oleh Sentsov	-2

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- Deteriorating security situation instead of goodwill gestures.
- Judicial Diplomacy: A bridge across the Kerch Strait leads Russia to an international court.
- Expectations of Russian provocations in Ukraine in autumn.



TRUMAN Agency

TRUMAN Agency team brings together expertise from various fields: strategic planning, PA&GR, lobbying and international communications.

The Agency takes into account the current vector of Ukraine's development to conduct effective campaigns aimed at solving problems of Ukrainian business and opening new perspectives for the foreign companies in Ukraine.

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