

T RUMAN

INDEX

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IVAN VANEEV

Founder, Managing Partner,
TRUMAN Agency



Trust. That's what Ukraine is missing, both from its citizens and often from its foreign partners. I'm writing this foreword for the 9th issue of the TRUMAN Index two weeks after martial law came to an end in Ukraine. I remember what people were writing and saying when the Decree instituting it came into effect: the president will extend it, the election will be postponed, and Poroshenko will become a military dictator. Yet martial law ended while Ukraine made it very clear that the situation in the Azov Sea was a real threat. The country's partners in the US, EU and NATO seem to have taken this signal seriously.

The lack of trust is a fundamental loss. And the Poroshenko Administration is feeling it right now, when its most urgent and logical actions keep getting knocked down at home. It seems like, no matter what it does, it will not be trusted. Now, imagine for a minute that Poroshenko did not sign the Decree on martial law. What would experts and observers have said then? The president underestimates the threat, he's not decisive enough, and he's weak. And how would Ukraine's allies have responded if Ukraine itself wasn't prepared to respond uncompromisingly is a rhetorical question. Obviously, they trusted the administration's actions in instituting martial law more than Ukrainians themselves.

Ukrainians are lucky that some people in the world who are anything but indifferent are building up an infrastructure of trust around Ukraine. Thanks to this, Ukrainians can count on support and help from allies, and, as a result, on trust in the administration's actions at home. One-time US Ambassador to Russia, a person who was once the Assistant Secretary of Defense for International Security and Deputy Secretary General of NATO Alexander Vershbow, is one of those who understands very well what has befallen Ukraine and how to get out of this situation. I'd like to thank Mr. Ambassador for his introductory words to our journal. They offer not just an example of trust but also an assessment of our reputation. Trust is very costly but the price is worth it when it becomes the foundation of your reputation.



ALEXANDER VERSHBOW

US Ambassador
Distinguished Fellow,
The Atlantic Council of the United States


It is my pleasure to welcome readers to the first issue of the TRUMAN Index for 2019. The TRUMAN Index is an invaluable tool for scholars and policymakers alike, providing a comprehensive account of recent developments in Ukraine's relations with the European Union, the United States, NATO, Russia and China.

The final weeks of 2018 witnessed dramatic and potentially ominous events in the Black Sea and Kerch Strait. On November 25, 2018, Russia mounted an illegal blockade and closure of the Kerch Strait, and illegally attacked and seized three Ukrainian ships, in clear violation of international law and bilateral Ukrainian-Russian agreements. Unlike Russia's 2014 illegal annexation of Crimea and its undeclared war in Eastern Ukraine, this was not an ambiguous, deniable attack by "little green men" without insignias: it was a direct act of aggression by Russia's navy and security services against a sovereign state that was acting within its rights in the Black Sea and the Sea of Azov, whose waters are shared by Russia and Ukraine.

These actions can only be seen as premeditated, with the aim of destabilizing Ukraine in the run-up to the country's 2019 elections and crippling its economy. The United States and European Union condemned these actions rhetorically, and demanded the return of the ships and sailors detained by Russia. But they have been hesitant to carry out any specific measures in response. If November's events bring little more than a slap on the wrist, Russian President Vladimir Putin will see this as a green light for further escalation, to include a full blockade or even the illegal annexation of the Azov Sea, as well as new offensives in Eastern Ukraine.

The November 25 attacks were not a one-off event. Russia was intensifying pressure on Ukraine over the summer and fall of 2018 in small steps, similar to what took place with Moscow's creeping aggression against Georgia in the spring and summer of 2008. This may be based on the hope that each small step will be met with nothing more than political protests by the West.

Other Russian actions look ominous in retrospect. All through 2018, there were incessant artillery and rocket attacks by Russian-led forces on Ukrainian military and civilian targets along the line of contact with occupied Donbas. Russia interfered with international shipping to and from Ukraine's Azov Sea ports of Mariupol and Berdiansk throughout the summer, inflicting significant losses on the local and national



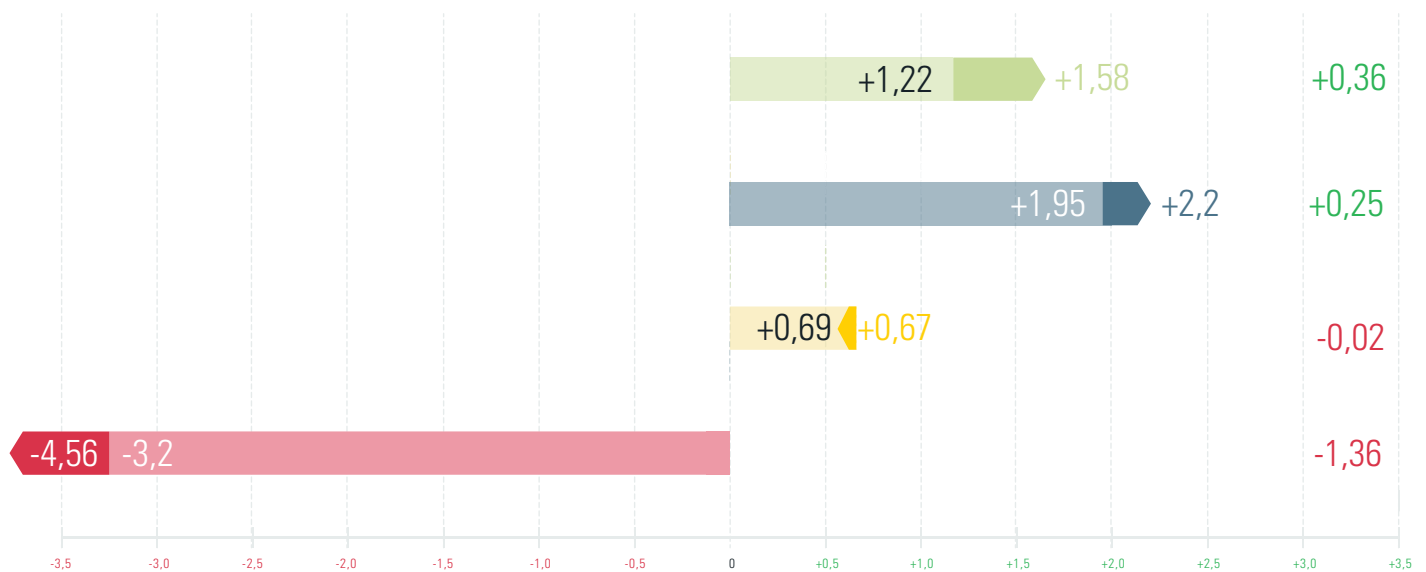
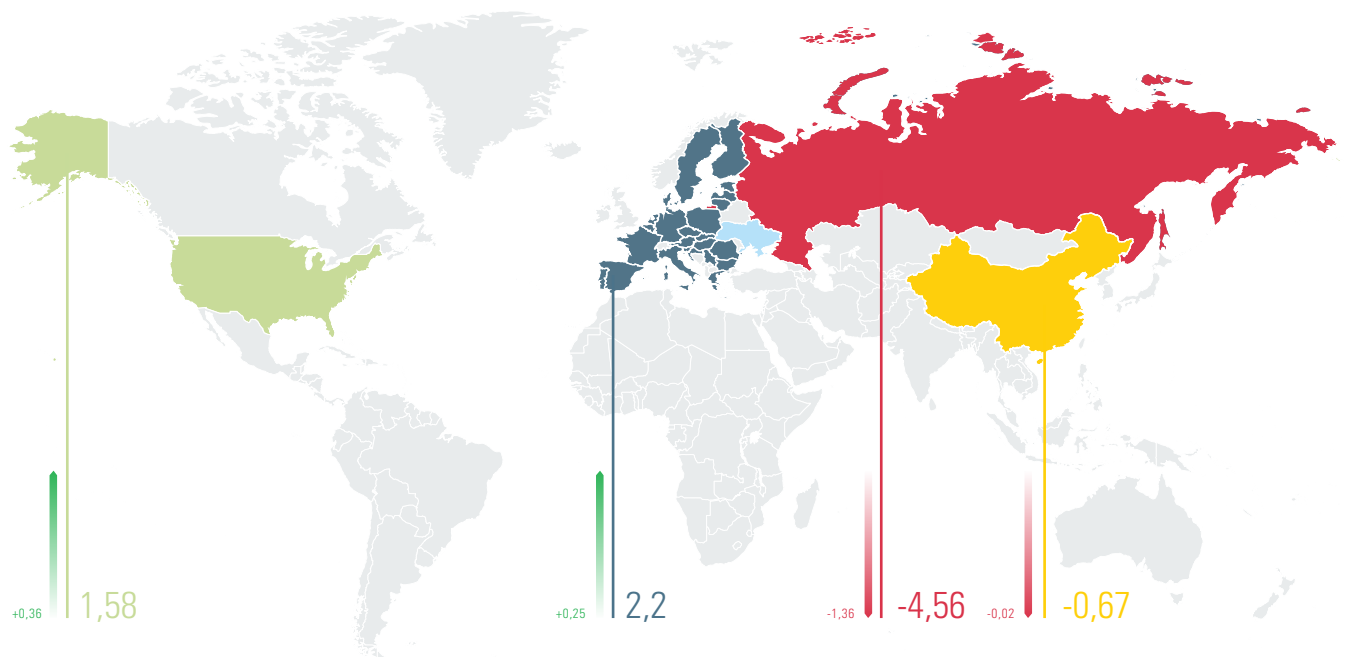
economy. The Kremlin imposed sweeping sanctions on Ukrainian companies and pro-Western business leaders in early November. The Russians also allowed the holding of elections in mid-November in the occupied portions of Donetsk and Luhansk Oblasts, in flagrant violation of the 2015 Minsk agreements.

Moscow seems determined to make it look like Ukraine is a failed state that cannot defend its own borders—in the hope of bringing a more malleable leader to power in Kyiv in the 2019 election and reversing Ukraine's rapprochement with the European Union and NATO. Ukraine's sovereignty and its aspirations for a European future are clearly very much on the line—as is the credibility of the West's commitment to an international order based on the rule of law rather than the law of the jungle.

Rhetorical condemnation by the United States and the European Union is necessary, but not sufficient. The US and its European allies need to impose real costs on Russia if it doesn't reverse course, including tighter economic sanctions on Russian shipping companies, banks and individual Putin cronies involved in trade with illegally occupied portions of Ukraine.

The US and its allies should also expand NATO's naval presence in the Black Sea to demonstrate support for Ukraine and for freedom of navigation in international waters, which is being challenged by Russia's actions. The United States and its allies should consider increased support to the Ukrainian Navy as well, including the provision of coastal defense systems for deployment along the Azov Sea coast. Without such measures, Russia will believe it can continue to escalate with impunity—today against Ukraine, tomorrow against the West.

TRUMAN INDEX



USA JULY – SEPT, 2018.

EU JULY – SEPT, 2018.

CHINA JULY – SEPT, 2018.

RUSSIA JULY – SEPT, 2018.

OCT – DEC, 2018.

OCT – DEC, 2018.

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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.

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.

EVENT EVALUATION SCALE:

- **7-10** Economic and political integration, the coming into force of agreements on deeper cooperation
- **4-6** 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
- **1-3** 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)
- **1-2** Positive statements from key politicians in these countries, from the MFA regarding foreign policy, in legislative resolutions
- **1** Official visits at the deputy minister level from non-key ministries, parliamentary delegations, exhibitions, business forums, national culture days, important diplomatic contacts and negotiations
- **-1-2** Negative announcements from key politicians, from MFAs regarding foreign policy, in legislative resolutions
- **-2-4** Delays in ratifying agreements, not being invited to events, failure of support to come from the international community
- **-3** Violations of agreements or mutual commitments
- **-4-6** Trade wars, anti-dumping investigations, boycotts of goods, embargoes, expulsions of diplomat, recalls of ambassadors
- **-7-10** Provocations, severed diplomatic relations, military action

¹ BISS (Belarusian Institute for Strategic Studies / Білоруський інститут стратегічних досліджень). Джерело: <http://belinstitute.eu/ru/tags/индекс>



UKRAINE – US RELATIONS

ALYONA GETMANCHUK

Director of the New
Europe Center

POSITIVE POINTS: +32

NEGATIVE POINTS: -2

TOTAL: +30

TRUMAN INDEX: +1,58

UPDATE

The last three months of the year were marked by at least two significant events in Ukraine-US relations. First was the relaunch of the Strategic Partnership Commission, whose inaugural meeting took place in Washington between Ukraine's foreign minister and the American secretary of state. Reviving the work of this Commission was something Ukraine's diplomats had worked at persistently ever since Petro Poroshenko was elected president, despite clear skepticism on the US side about the usefulness of such a bureaucratic format. And so this event had priority significance for the Ukrainian side. The Commission's meeting also gave a clear picture of the current priorities in relations between the two countries. These became evident with the reformation of the Commission's working groups and the clear prioritization of the work of three of them: security and countering Russia's aggression, human rights and humanitarian issues, economy and energy.

The second event was the crisis over the Kerch Strait caused when Russia opened an armed attack against Ukrainian naval vessels and took the crews prisoner. It ended up with President Trump cancelling a meeting with President Putin, arguing that the Russians were still not releasing the sailors and their ships. Still, at the time of press it was still not clear whether the cancellation of the meeting between the two constituted the US's ultimate response to Russia's aggression in the Black Sea or was just the first level of its response and that further action would follow beyond the correct political declarations. Also under question is what will win out in America's response to the crisis: active engagement or shifting the issue to its European allies. Given the flurry of statements from various officials in the Trump Administration calling on them to take the lead in issues related to Ukraine, the impression is that the White House was prepared to "declare" Germany and other European countries responsible for any further escalation or the de facto annexation of the Azov Sea by Russia—just like Obama was "declared" responsible for the annexation of Crimea.

Among other events, one of the more notable ones was the long-awaited visit of US Secretary of Energy Rick Perry. During his visit, the US official referred to Ukraine as the "Texas of Europe" in terms of its resource potential. Aside from NSA John Bolton on Independence Day in August, Perry's visit represented the highest level of US government official not only during this last quarter but basically for the entire year. There is some symbolic value as well, given the importance of energy in bilateral relations. The United States has been quite actively opposing the construction of the Nord Stream II pipeline. However, its position has mostly just been verbalized, either through statements or resolutions issued by the House of Representatives that have largely been recommendatory in nature.

Among the minuses during this quarter was the resignation of Secretary of Defense Gen. James Mattis, one of the strongest supporters of Ukraine among the top officials in the current US administration.

Generally speaking, however sustained and effective the current version of the Strategic Partnership Commission might be, the main challenge in relations between Ukraine and the US is to build them on common interests and not on temporary crises.

TIMELINE

■ STRATEGIC PARTNERSHIP COMMISSION UPDATES PRIORITIES

The most notable achievement in political dialog between the two countries during this period was the restoration of the Ukraine-US Strategic Partnership Commission. The inaugural meeting was chaired by the Ukrainian FM and the American SecState. More precisely, Pavlo Klimkin wrapped up the work of the Commission with a meeting and briefing with Mike Pompeo. The actual meeting of the working groups was chaired by Assistant Secretary of State for European and Eurasian Affairs Wess Mitchell. In a way, the relaunch of the Commission marked the 10th anniversary of the Charter on Strategic Partnership, which was signed in the last days of George W. Bush's presidency, in December 2008 by Ukraine's then-FM, Volodymyr Ohryzko, and SecState Condoleezza Rice as a kind of consolation prize for Ukraine's unsuccessful application for the Membership Action Plan the previous April at the NATO Summit in Bucharest.

But getting the Commission back up and running was unquestionably the result of extraordinary persistence on the part of the Ukrainians at all levels, from the Ukrainian ambassador to the US to Ukraine's president, who personally explained the importance of such a step to both of the Trump Administration's Secretaries of State and other top officials. Poroshenko has a personal connection to the Commission: in December 2009, it was in his capacity as foreign minister that he inaugurated its first session with then SecState Hillary Clinton. Afterwards, there were only two more meetings, attended by Clinton and Ukraine's next FM, Kostiantyn Hryshchenko. The last meeting of one of the most important working groups at that time, on political dialog and rule of law, took place at the State Department at the start of Viktor Yanukovich's final year, in February 2013, which the author attended as an observer.

It's significant that the Commission has been restored under President Trump, although the decision was persistently—and unsuccessfully—promoted by the Poroshenko team during President Obama's second term as well. The US side kept maintaining that Vice President Joe Biden's ongoing handling of the Ukraine portfolio was far more significant than any formal commission. Under Trump, Ukraine's negotiators were also initially told that dialog between the US and Ukraine was developed enough without such bureaucratic mechanisms. Washington typically uses such mechanisms with countries with whom relations are noticeably underdeveloped.

Notably, the Ukrainian side was hoping to see the Commission restored at the level of the President of Ukraine and Vice-President of the US, along the lines of the Kuchma-Gore Commission. In the run-up to a presidential election in Ukraine, the inauguration of a "Poroshenko-Pence Commission" would have been a more desirable diplomatic and

PR outcome. However, at a certain point, Kyiv interpreted the signals from Washington as indicating that, unlike his predecessor, Pence had priorities other than foreign policy. So the ministerial level became a kind of compromise although hope remains in Kyiv that the level might eventually be raised.

Aside from the PR effect, why has rebooting the Commission been such a big deal for Kyiv? Our sources in Kyiv say that firstly it's in order to ensure regular closed-door dialog with Washington and the opportunity to discuss the most critical issues face-to-face. In short, instead of exchanging statements or "deep concern" in public, better to discuss everything privately within the designated working group.

This was, in fact, tested during the working session on November 16. Then, the US side raised a number of issues rather sharply, but the discussion remained constructive around such issues as the registration of IDP documents, restricting access to Russian social nets, and so on. The Ukrainian side also argued the need precisely for an effective bureaucratic mechanism that would bring both partners together around specific commitments, including in the form of related assignments after every working group session.

Stable, predictable dialog with Washington is especially important at a time when President Trump engages in twitter diplomacy. The Strategic Partnership Commission is a kind of test for whether traditional, bureaucratic diplomatic formats stand a chance in the context of such untraditional formats, especially in relations with the US. Practice has shown that dialog with President Trump at the highest level between Kyiv and Washington on principle cannot be predictable or systematic. Only coordination and constant contact at other levels is capable of maintaining Ukraine-US relations in good shape. With Ukraine heading into elections, it's especially important that this bilateral dialog is carried on not just by political appointees but also those who carry the institutional memory of various agencies.

So far, the US Congress has remained a stable, reliable partner for Ukraine, providing Kyiv with support from both Houses—at least through actions that are not favorable to Putin's Russia. For this reason, Kyiv was rooting not so much for one party or the other as for specific candidates in both Republican and Democratic ranks. Overall, the outcome was pretty good for Kyiv: the 116th Congress saw all members of the bicameral Ukraine caucus who were up for election returned, except for Democrats Joe Donnelly and Bill Nelson, and Congressmen Pete Roskam (R) and Joseph Crowley (D). Andy Levin replaced the co-chair of the Congressional Ukraine caucus when his father, Sandy Levin, 87, decided not to run. The one development that probably worried Kyiv most of all was the decision of Bob Corker, chair of the Senate foreign relations committee, not to run. He will most likely be replaced by Senator James Risch, who is seen among Ukrainian diplomats as largely supporting the country. Still, US analysts who follow the Russia

portfolio say that he is more inclined towards dialog with Russia, giving as an example his participation in the controversial Senate delegation that visited Moscow last July.

Back to the Strategic Partnership Commission session, it's important to note that this clarified the new priorities in Ukraine-US relations over the last few years. This was possible because of the reformation of the working groups and the clear priorities designated to three of them: security and countering Russia's aggression, human rights and humanitarian issues, and economy and energy. All of these issues were reflected at length in the joint statement issued by the Commission. Moreover, these are the issues that regularly came up in bilateral dialog in recent months.

This latest quarter finally saw US Energy Secretary Rick Perry visit Kyiv. Other than the visits of Mike Pompeo while he still headed the CIA and NSA John Bolton, who came for the Independence Day ceremonies, this was probably the most high-level visit of a member of the US Government to Ukraine for 2018. Perry was supposed to visit back in 2017, but had to change his schedule. In addition to Ukraine, he visited a number of other CEE countries. His regional tour could well have been subtitled: "For energy diversification, against Nord Stream II." Perry's time in Kyiv will be most remembered for his statement that Ukraine's resource potential means it could become "Europe's Texas," and came at a time when Ukraine was expanding active efforts with Westinghouse to diversify nuclear fuel deliveries to Ukraine—American nuclear fuel has already replaced Russian fuel on 6 of the country's 15 AESs—and to increase the capacities of domestic power units. A joint project is also currently underway between EnergoAtom and Holtec to construct a centralized storage facility for spent fuel rods.

With Nord Stream II, statements strongly condemning the construction of Russia's pipeline have echoed at all levels of the US government. On December 11, the Congress passed a strongly-worded resolution criticizing the project and calling for new sanctions. Assistant Secretary for the Bureau of Energy Resources (ENR) Francis Fannon noted that nearly 10 bills are waiting for consideration in the Congress that are aimed against Russia's energy sector. However, the fact remains that more than 200 kilometers of the pipeline have already been laid and opposition to the project continues to mostly be all talk and no action.

The number of statements criticizing the gas pipeline has grown substantially since Russia's attack on Ukrainian ships in the Black Sea. Calls on European partners to reconsider the building of Nord Stream II have been coming from all levels of the US government.

■ THE KERCH CRISIS

How the US reacted to the escalating situation around the Azov Sea we reported on in the previous TRUMAN Index and that was when

a State Department official visited Henichesk. At the end of August, State issued a strongly-worded statement about Russia's practice of holding up ships in the Azov Sea that were headed for Ukrainian ports. Altogether, up to the armed assault on November 25, the US had issued three statements of concern over the course of the year about the situation in the Azov, in May, August and November. The American delegation also raised the issue at the OSCE Permanent Council.

A significant amount of time was dedicated to this issue during the meeting of the Strategic Partnership Commission and the joint statement issued afterwards contained an entire passage about the situation around the Azov that condemned Russia's actions. "Both sides emphasize: Russia's aggressive behavior in the Azov Sea has raised new security, economic, social and environmental threats for the entire Azov-Black Sea region."

Despite Washington's high level of awareness of the situation in the Azov and its readiness for a possible escalation, the US appeared disconcerted after the November 25 attack on Ukrainian naval vessels. Its initial official response was seen on both sides of the Atlantic as somewhat late and unclear. Diplomats explained this confusion by the rapid pace at which things were moving and the wish to bring to it all the main aspects while avoiding any premature pronouncements—which happened when the EU issued its initial statements as the situation was still evolving. Washington was also waiting for martial law to be declared in Ukraine. There, as in other countries, including Ukraine, there were concerns over its implications in terms of possibly leading to the postponement of the spring election. Overall, the declaration of martial law raised considerable questions about its timing and purpose among Ukraine's partners, who sent out signals urging that it be lifted within the 30-day term established.

One way or another, Washington's initial response on the crisis in the Kerch Strait came across as improvised and even ambiguous. Both the president and the State Department used phrases that could be interpreted both as accusations against both sides. Indeed, State called on "both sides" to exercise restraint and to uphold their international commitments. Yet another statement that raised eyebrows in Kyiv was a "call on Presidents Poroshenko and Putin to communicate directly in order to resolve this situation." Within the first 24 hours, the clearest response to Russia's attack in the Black Sea came from US Ambassador to the UN Nikki Haley.

In the week after the start of the Kerch crisis, Ukraine was broadly able to see for itself whether the US was now capable of responding swiftly and decisively to a crisis involving Russia. This was the first serious escalation against Ukraine directly involving Russian military forces since Trump came to office. The White House had a chance to demonstrate how his actions differ from those of his predecessor,

whom Trump accuses of de facto losing Crimea to Russia.

In the end, the US president himself canceled a scheduled meeting with his Russian counterpart in Argentina, arguing that Russia had not released the ships and sailors. It's possible he had other reasons, but there is no evidence of that. The important point is that this was probably the first time that Donald Trump personally drew attention to the issue of Ukrainians being held captive by Moscow, although Ukraine itself deems these new captives prisoners of war. Previously, any and all attempts to get him to state anything in relation to the release of Ukrainians imprisoned in Russia fell on deaf ears. This situation demonstrates that, at least in some circumstances, Trump does actually listen to his advisors.

There is some thought that Trump, on the contrary, was to have met with Putin precisely to discuss this issue. Still, canceling the meeting was a major step in bringing attention to the situation, unlike any meeting would have been. Since Helsinki, there is good reason to believe that during a one-on-one meeting with the Russian leader, Trump would have been unable to defend the US position as strongly as he could in Twitter. Of course, it's also worth remembering that the politics of public ultimatums doesn't work with the current Russian regime and one tweet isn't nearly enough to get Russia to return Ukraine's vessels and their crews. Nor is this enough of a step to get the Russian Federation to stop its tactics in the Black Sea region, where Putin is clearly attempting a creeping annexation of the Azov Sea, similar to the way that he occupied Crimea. The ultimate question remains whether cancelling the meeting in Buenos Aires was Trump's entire response to Russia's aggression or just the first shot across the bow. At the time of publication, various options for restraining Russia in the Kerch Strait were actively discussed but even a month after the incident, nothing had happened.

The only positive news on the practical level was that the State Department announced at the end of December that it was allocating US \$10 million to assist Ukraine in improving the capacities of its navy in response to Russia's aggression in the Black Sea. So far, there have not been any further details as to what exactly this funding would go towards.

While Ukraine was calling for an appropriate response from the West to Russia's attack in the Black Sea, bad news came with the surprise resignation of Defense Secretary Gen. James Mattis, which previous TRUMAN Indexes had raised as a possibility. This was the second disappointing resignation after UN Ambassador Nikki Haley's. Mattis was one of the greatest allies of Ukraine among the current administration's top officials and the one who understood, possibly better than all the rest, just what a threat Russia represented and the importance of an effective response to such threats.

So far, the US reaction to the crisis over the Azov Sea is most notable for the constant references to the fact that America's European partners have to take the lead on this issue. One State Department official said "off record" at an agency briefing, "Our European partners have to answer for what is going on in their own backyard." If the notion that the Ukraine crisis should be delegated to European partners continues to gain force, the question arises: how does Donald Trump differ from Barack Obama, who effectively handed the Ukraine question off to German Chancellor Angela Merkel.

The impression all the statements and accusations from the Trump Administration regarding the need for Europe to take the lead on the Ukraine situation make is that the White House is preparing to declare Germany and other EU countries "responsible" for any further escalation or the effective occupation of the Azov Sea by Russia—just like President Obama was declared "responsible" for the takeover of Crimea.

Shifting the burden of the Ukraine issue to its European partners does not suit Kyiv or Ukrainian society as a whole. A national poll taken for the New Europe Center by the Democratic Initiatives Fund showed that Ukrainians expect the United States to take the lead as the guarantor of security, to launch new sanctions against the RF, and to support Ukraine's accession to NATO. Incidentally, this last point is contained in the joint statement of the Strategic Partnership Commission. This contrasts sharply with the responses of those polled to potential assistance from the EU. Here, most Ukrainians expect the European Union to pressure their government on reforms more than anything.

In terms of the situation in the Donbas, the main issue in Ukraine-US relations was the extension of the Law on the special status of certain counties of Donetsk and Luhansk Oblasts, which the US actively promoted in order to avoid having Ukraine accused of not implementing Minsk. The holding of illegal "elections" in ORDiLO was condemned by the American and European parties to the Normandy format. The question of a peacekeeping mission to the occupied territories and other aspects of a resolution were tabled for the time being. According to sources, Special Representative Kurt Volker attempted to maintain contact with his Russian vis-à-vis in order to figure out what could be done about the situation before the elections even took place. It's also confirmed that he sent Vladislav Surkov a letter to this effect with a request to meet. However, based on Volker's later comments, the meeting was cancelled in the wake of the Black Sea attack. Meanwhile, one influential Ukrainian diplomat says that the US position in terms of resolving the situation in the Donbas is inspiring: in all the key points it coincides with the Ukrainian position.

■ THE HOLODOMOR: GENOCIDE AGAINST UKRAINIANS

This quarter was a decisive point in a process that began long ago, but yielded the most only in the last few months. At the local level, 21 US states had recognized the Holodomor as genocide against the Ukrainian people by the end of 2018. Typically this kind of recognition takes the form of a proclamation by the governor of a state or the mayor of a city. It also includes the declaring of a certain day or month or year to mark the anniversary. What's significant here is that some states declared all of 2018 as a year to commemorate the victims of this genocide against the Ukrainian people.

Finally, the necessary resolution was passed in the US Senate and House of Representatives. In the resolution, both chambers of Congress acknowledged the conclusions of the Commission on

the Famine in Ukraine: Stalin and his circle had organized genocide against the people of Ukraine in 1932-33.

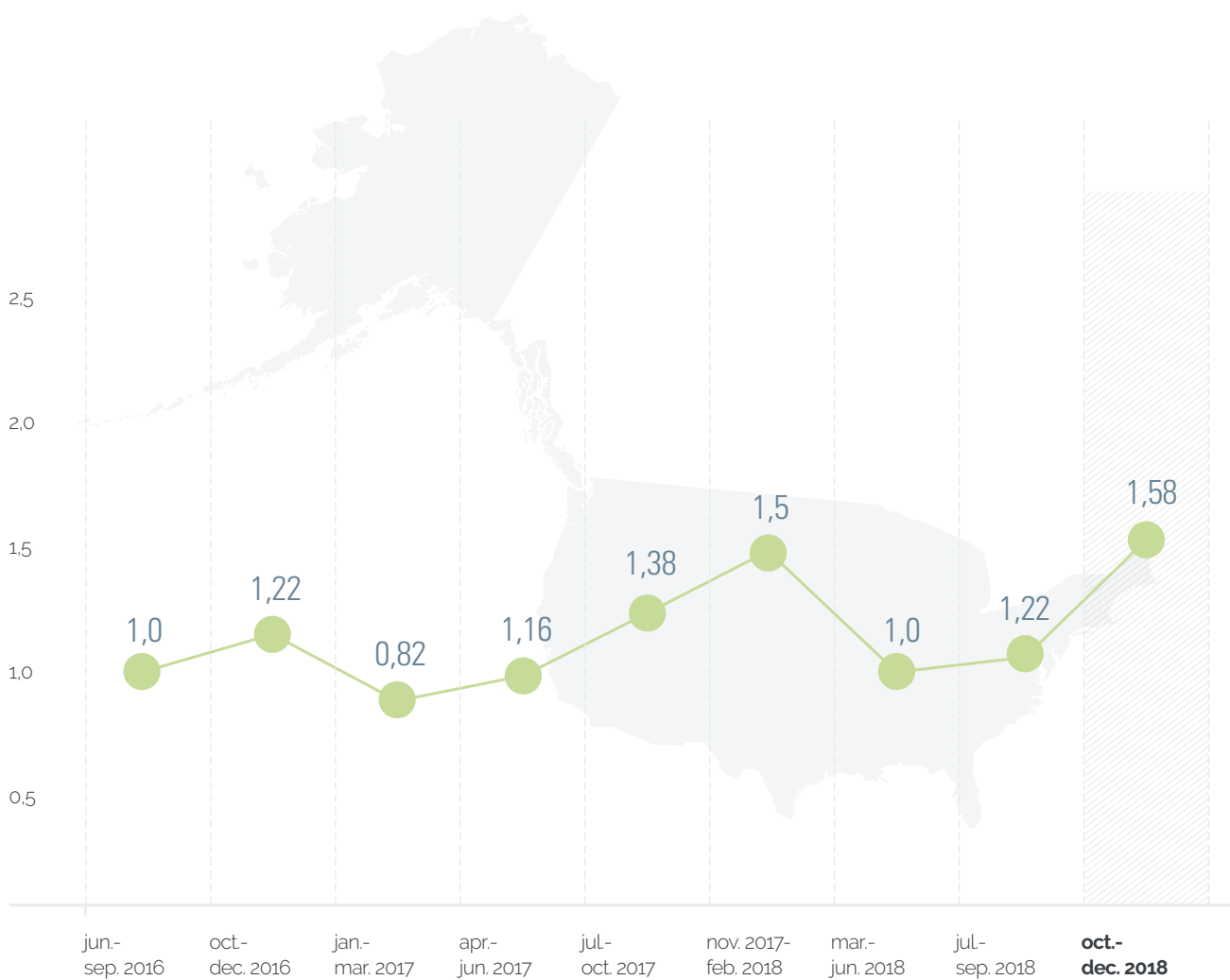
This happened despite a certain amount of undermining activities, probably instigated by Russia, that ranged from accusing Ukraine of anti-Semitism—taking advantage of members of Congress with obvious intention of turning them against Ukraine and against recognizing the Holodomor—to a campaign of prank calls in the name of Ukrainian Ambassador to the US Valeriy Chaly to governors and mayors to remove the recognition of the Holodomor as genocide against the Ukrainian people from their agendas. Fortunately, these plans were exposed quickly enough and recognizing the Holodomor finally entered the mainstream of US politics at both the federal and local levels.

EVENTS IN UKRAINE-US RELATIONS (OCTOBER - DECEMBER 2018). POINT-BASED EVALUATION

DATE	EVENT	POINTS
October 2	US Permanent Representative to NATO Kay Bailey Hutchison calls on Hungary to stop blocking the Ukraine-NATO Commission because of Kyiv's law on education, referring to Ukraine as one of the Alliance's key allies and partners.	+0,5
October 4	The US Senate recognizes the Holodomor as genocide against the Ukrainian people, according to a unanimously supported bipartisan resolution. This is the first legal act by the US Congress that recognizes the Holodomor as genocide. By the end of the year, 21 states have recognized the Holodomor as genocide at the local level.	+2
October 12	The US calls on Russia to stop organizing illegal elections in ORDiLO in a statement issued by State Department Spokesperson Heather Nauert. Nauert also congratulates the Verkhovna Rada on extending the law on the special status of certain counties of Donetsk and Luhansk Oblasts, noting that Ukraine's implementation of the Minsk accords contrasts sharply with Russia's complete failure to follow through on them.	+0,5
October 15	In an interview with CBS, President Trump states that he has been helping Ukraine far more than his predecessor, President Obama: "I'm the one who gave Ukraine offensive weapons and anti-tank systems. Obama didn't do that."	+1
October 23	During the 8th session of the Ukrainian-American Trade and Investment Council, steps are agreed to simplify mutual access to markets and support the trend towards growing bilateral trade.	+2
October 26	According to a Reuters report after his latest visit to Moscow, NSA John Bolton states that it would be good if Russia got out of Crimea and Eastern Ukraine, stopped interfering in US elections and was less intrusive in the Middle East.	+1
November 10-12	Energy Secretary Rick Perry visits Ukraine for the first time, where he states, among others: "You could become not just the main supplier in terms of shipping LPG through Poland and from there to Europe. The potential for exploration and production in Ukraine—this is quite a statement from me— but Ukraine would be the Texas of Europe."	+3
November 16	The inaugural meeting of the revived format of the Ukraine-US Strategic Partnership Commission takes place under the aegis of FM Pavlo Klimkin and SecState Mike Pompeo.	+4

DATE	EVENT	POINTS
November 26	President Poroshenko discusses Russia's attack on Ukraine in the Black Sea with SecState Pompeo over the phone. Pompeo reiterates that the US supports Ukraine's sovereignty and territorial integrity, including its territorial waters.	+2
November 26	The US State Department issues a statement that condemns the Russian Federation's attacks in the Kerch Strait and calls on Moscow to release the three ships and their crews that it took captive. The statement also mentions the need for both sides to restrain themselves and respect international commitments, calling on Presidents Poroshenko and Putin to communicate directly in order to resolve the situation. Earlier, President Trump made a fairly vague comment on this subject: "We do not like what's happening, either way. Hopefully it gets straightened out. Europe is not thrilled. They're working on it too. We're all working on it together."	+1
November 27	The newly appointed US strategic advisor, retired Lt-Gen. Keith Dayton, begins working at the Ukrainian Ministry of Defense. After meeting with DM Gen. Stepan Poltorak, Dayton notes that he is familiar with the culture of Ukraine and "the challenges that face the country on its path to instituting NATO principles and standards."	+1
November 29	President Trump tweets that he is cancelling a meeting with Putin in Argentina, because of the RF's attack in the Kerch Strait: "Based on the fact that the ships and sailors have not been returned to Ukraine from Russia, I have decided it would be best for all parties concerned to cancel my scheduled meeting.. [with Putin]. I look forward to a meaningful summit again as soon as this situation is resolved." Earlier in an interview with the Washington Post, Trump mentioned the possibility of canceling the meeting once he was familiar with the necessary report, noting that he was not happy about the attack. In December, NSA John Bolton announces that he does not see a reason for the US president to meet with his RF counterpart until the Ukrainian sailors are released.	+3
November 29	The US Senate unanimously approves a resolution condemning Russia's attack in the Kerch Strait and calls on Russia to release the crews of the Ukrainian ships it seized. The resolution also notes that the confrontation near the shores of Crimea destabilizes the region and "is leading to a further escalation of tensions." The resolution is largely declarative.	+1
December 11	The US House of Representatives passes three resolutions at the same time: one recognizing the Holodomor of 1932-33 as genocide against the Ukrainian people, a second on opposing the Nord Stream II project, and a third on support for Ukraine. The third also condemns Russia's attack in the Black Sea and calls on the US, its partners and allies to bring the Russian Federation to justice.	+3
December 13	Ukraine's Naval Commander Ihor Voronchenko meets with US Admiral John Richardson during a visit to the US and the two discuss bilateral cooperation in security and Ukraine's new Naval Strategy.	+1
December 18	SecState Pompeo personally calls the Kyiv and Ukraine Metropolitan Epiphanius to congratulate him on being elected and express the US's support for freedom of confession and Ukraine's sovereignty. This is noted in an official statement from State Department Deputy Spokesperson Robert Palladino.	+1
December 18	US Special Representative Kurt Volker arrives in Ukraine to meet with DM Poltorak. The previous day Volker announced new deliveries of military equipment from the US to Ukraine.	+1
December 20	US Defense Secretary James Mattis tenders his resignation over differences with President Trump on foreign policy matters. Mattis was one of Ukraine's key partners in the US Government.	-2
December 21	In response to Russia's attack in the Black Sea, the State Department allocates US \$10 million to expand Ukraine's naval and marine forces, according to an announcement on the State Department site.	+4

TRUMAN Index



UKRAINE – EU RELATIONS

POSITIVE POINTS: +75,5

NEGATIVE POINTS: -3

TOTAL: +72,5

TRUMAN INDEX: +2,2

LEONID LITRA

Senior Research Fellow at the
New Europe Center



UPDATE

The last three months of 2018 saw intense interactions between Ukraine and the European Union. Relations were dominated by political dialog at the highest level, with much attention paid to the extension of EU economic sanctions against Russia. Despite certain fears that the EU might not prolong sanctions, in the end they were unanimously extended for another six months. Russia contributed significantly through its attack on Ukrainian naval vessels in the Black Sea, which removed any doubts EU countries had about its continuing aggressive policy.

The Russian attack in the Black Sea and the ongoing blockade of the Azov Sea generated a critical mass of demands for new sanctions against Russia. The idea was discussed on several occasions in the EU, but it proved divisive. Germany, which advocated against new sanctions, pointed out that new sanctions were not supported by all EU states and that additional sanctions would damage efforts to

de-escalate and release the Ukrainian crew from Russian captivity. Kyiv has been pushing for more sanctions and hoped to see practical results at the EU Summit. In the end, new sanctions were not agreed at the Summit on December 13-14, but nor were Ukraine's efforts futile. The EU chose to strengthen its support for Ukraine instead by providing over €200 million in funding for various programs.

Further EU support came with the disbursement of the first tranche of a macro-financial assistance (MFA) facility worth €500 million. The first installment was an easy win for Ukraine, since the conditions were not burdensome and some were already in place when the memorandum between the EU and Ukraine was signed. Now Ukraine will be aiming to get the second tranche before the presidential election. However, this will happen only if Kyiv broadly delivers on its commitments and the EU continues its current policy.

TIMELINE

■ SANCTIONS AGAINST RUSSIA AND INTERNAL EU DEBATE

Sanctions were a central element of Ukraine's relations with the EU in the last trimester of 2018. Discussions around sanctions were very intense, since there was a real risk that sanctions against Russia, notably economic ones, might not be prolonged due to opposition from Italy, and the possibility that Hungary and Austria would follow suit.

Italy has lately been seen as a potential spoiler of EU unity when it comes to sanctions. Such fears are not unfounded, but derive from

statements made by the political leadership in Rome and from past examples. The Italian prime minister voiced the idea that at the EU Summit on October 18, he would propose that the EU allow the EBRD and the European Investment Bank (EIB) to fund SMEs in Russia, as was the case before 2014. The argument was that Russian SMEs were not linked to the Kremlin and should not be punished. It is likely that the Italian leader did not expect to find support for his proposal at the October EU Summit, but EU sources say he might have had hopes that the December 13 EU Summit would back his request in exchange of Italy's support for prolonging economic sanctions against Russia. In the end, Giuseppe Conte did not raise the issue of EBRD and EIB access to the Russian market, knowing that there would be no support for such move at the October meeting—and even less so at

the December EU Summit, after Russia openly attacked Ukrainian navy vessels just outside the Kerch Strait.

In the meantime, the fear that Italy might not back prolongation was based on statements made by Deputy PM Matteo Salvini in Moscow, where he said that Italy would not support the sanctions and later added that sanctions did not make any sense. Salvini's statements were somehow diluted by Conte's statement that Italy saw sanctions as an instrument, not as a goal. The PM noted that the only way to move forward was the dialog, but at the same time, he confirmed that Italy would support EU's plan to maintain sanctions against Russia.

Confidence in Italy's support was undermined not only by political statements but also by earlier negative actions. On July 31, the EU adopted sanctions against 6 Russian companies that had taken part in the construction of the Kerch Bridge. It turned out, later, that initially 8 companies were listed, but Italy—and some sources say Germany, too—opposed and excluded 2 companies on the grounds that it would damage its business relations with Russia too much. Moreover, Italy was against putting "Crimean Senator" Olga Timofeeva on the sanctions list, threatening that the sanctions would not be adopted at all if EU added new names on the list. But when the Italian leadership said it would follow the EU line, other countries that had previously questioned automatic prolongation of sanctions, like Hungary, fell in line and agreed to extend economic sanctions. Fears that Austria might also oppose economic sanctions proved unfounded—not only because of the situation around the Azov Sea, but also because Austria was reluctant to generate any negative noise during its EU presidency.

Italy also balked at a different series of sanctions. In October 2018, a group of EU countries including Britain, Estonia, France, Latvia, Lithuania, the Netherlands, Poland, Romania, and Slovakia proposed imposing sanctions on states that carry out cyber-attacks. The adoption of an EU legal framework allowing sanctions to be imposed for cyber-attacks was meant to deter such attacks, primarily from Russia but also from China and North Korea, and to strengthen EU defenses. The policy was apparently agreed by all EU members except Italy, which claimed that the new sanctions policy would damage efforts to de-escalate tensions with Russia. As a result, the sanctions policy was not adopted, but the countries agreed to continue the debate on how to deal with cyber-attacks at the EU level. As usual, Salvini called the sanctions against Russia "economic, social and cultural madness."

Before the December 13-14 EU Summit, which had particular importance for Ukraine, the EU extended personal sanctions against Russians and separatists in Crimea and the occupied areas of the Donbas. Significantly, Norway, Albania and Montenegro were aligned with Ukraine on these sanctions. In addition, the EU imposed new personal sanctions against 9 individuals responsible for organizing

"elections" in the occupied territories in eastern Ukraine.

Economic sanctions against Russia, which are the strongest and most effective, were brought up at the December Summit. As usual, France and Germany briefed member states on the state of the Minsk Accords, that is, the lack of implementation, and sanctions were prolonged unanimously for another half-year. The fact that Italy did not call for discussion before the prolongation was largely owing to Russia itself. The Russian attack on three Ukrainian naval vessels outside the Kerch Strait on November 25 contributed enormously to removing any doubts that Russia was determined to continue its aggressive policies and was not de-escalating. Without this open Russian attack, Rome would have questioned prolongation, not in the serious hope of lifting sanctions, but of getting some symbolic concessions in order to start the process of rolling back sanctions against Russia.

■ SANCTIONS OVER THE AZOV SEA

Since April 2018, the EU has been monitoring the situation in the Azov Sea. In fall 2018, EU institutions paid even more attention to the Azov Sea. The attack on the Ukrainian vessels in the Black Sea on November 25 and Ukraine's subsequent application of martial law in 10 oblasts seriously raised the profile of the Azov Sea in the EU. Before the attack, the European Parliament was the first to adopt a resolution in October 2018 to highlight the security risks coming from the tensions in and around the Azov Sea and to propose an EU Special Representative on Crimea and Donbas, who would also cover the Azov Sea. One important point in the EP resolution was a call to EU member states to step up sanctions against Russia should the latter continue escalating the conflict in and around the Azov Sea. It was also noted that the blockade of the Azov Sea had significant economic repercussions for Ukraine, especially for the ports of Mariupol and Berdiansk and the more than 200 Ukrainian vessels were stranded by Russia's blockade.

On November 25, when the Russians attacked Ukrainian vessels, several Ukrainian servicemen were wounded and all 24 crew were taken prisoner by Russia. The EU issued a statement calling for de-escalation on both sides—although Ukraine did not engage in any provocations and did not fire back when the Russians attacked. The statement also called on Russia to ensure free navigation through the Kerch Strait and around the Azov Sea. Immediate reaction among many observers, especially in Ukraine, was that the EU had responded too softly to what they considered an act of war. Foreign Minister Klimkin clarified this situation, pointing out that the EU statement on the Azov situation had, in fact, been adopted before the attack and was issued after Russia had shot at the Ukrainian vessels and taken their crews captive, hence the overly mild tone. On November 28, the EU Council issued a second statement with much stronger wording, condemning Russia for its actions, calling for the immediate and unconditional release of the Ukrainian crews

and the return of the seized vessels, reinforcing its support for Ukraine's territorial integrity, and confirming its non-recognition of Russia's illegal annexation of Crimea. The EU statement was joined by a large group of countries: Turkey, the former Yugoslav Republic of Macedonia, Montenegro, Albania, Iceland, Liechtenstein, Norway, Moldova, Georgia, and, of course, Ukraine.

Ukraine asked for new sanctions against Russia over the attack and initially EU did consider such a possibility, but did not, in the end, raise new sanctions because several countries, Germany and Italy prime among them, were against the idea. Other countries that were not in favor included the Netherlands, France, Austria, and Hungary. It seemed that that EU countries were split between adding new sanctions and trying to deal with Russia.

The 97 members of the European Parliament were the first in the EU, together with Lithuania, to call for new sanctions against Russia. On December 12, the Parliament adopted a resolution with 433 votes in favor, 105 against and 30 abstained, that once again called for the immediate release of the Ukrainian crews and vessels, and demanding new sanctions should the Ukrainian POWs continue to be held by Russia. Unfortunately, the EP's determination to impose new sanctions was not entirely shared by all EU member states. The EU response was that discussions were taking place and that only after the evidence was presented, a strong legal basis established and the member states in agreement could any new sanctions be added. In the end, a decision was postponed several times, initially for the EU Foreign Affairs Council and then for December Summit.

Prior to the December EU Summit, the most vocal reaction against additional sanctions came from Germany. FM Heiko Mass mentioned on several occasions that Germany considered new sanctions against Russia inappropriate, claiming that they would undermine de-escalation efforts and noting that there was no consensus among EU states on the issue. Instead, Mass proposed expanding the OSCE mission's mandate to cover the Azov Sea, a proposal that was immediately rejected by Russian FM Lavrov. Interestingly, just a few days before being elected to replace Angela Merkel as the leader of the Christian Democratic Union, Annegret Kramp-Karrenbauer suggested that a potential response to Russia's aggression might be a ban on Russian ships sailing from the Azov Sea and entering European or American ports. Germany's Ambassador to Ukraine echoed the position of his foreign minister, saying that new sanctions were not realistic and that it was unlikely they would be adopted. Such public declarations seemed to be meant to make Ukraine less vocal in its demands for new sanctions from EU, but they failed. Ukrainian officials, starting with the president and foreign minister, have all continued to demand additional sanctions for the attack in the Black Sea.

The idea of a ban on Russian ships sailing from Russia's Azov seaports, mainly Taganrog and Yeyesk, was among Ukraine's key

proposals, along with personal sanctions against all the Russians involved in the attack and some other "creative sanctions" as FM Klimkin called them. President Poroshenko passed the names of Russian military and the FSB to the EU and NATO during his visit to Brussels on December 12-13, hoping that the EU would impose sanctions at the Summit on December 13-14. Despite Poroshenko's efforts to push for sanctions, the EU offered no clear commitment. Poroshenko also met with European Council President Donald Tusk and European Commission VP Valdis Dombrovskis, but any decisions would be made by the member states themselves. Ukraine's president wanted to meet leaders of EU countries at a mini-summit of the European People's Party held in Brussels on the same day, but the event was intended only for EU member states. Instead, President Poroshenko met with Chancellor Merkel, although this did not change the German position on new sanctions. FM Pavlo Klimkin was luckier, being invited at the beginning of December to the EU Foreign Affairs Council, a format that was applied for the first time and turned into a mini EU-Ukraine summit focused mainly on Russia's aggression around the Azov Sea.

When Ukraine's leadership understood that the EU was not ready for new sanctions, both President Poroshenko and FM Klimkin moderated their narrative in order to manage expectations. Klimkin said that if sanctions were imposed, it was not going to happen "tomorrow," adding that Mass's proposal to expand the OSCE mandate to cover the Azov Sea would be already a mild form of sanction against Russia. The EU Summit indeed discussed the possibility of imposing new sanctions on Russia, but opponents of the sanctions dominated. Most disappointing for Ukraine at the EU Summit was that EU member states did not agree to their Parliament's proposal that new sanctions be imposed should Russia continue to escalate the conflict around the Azov Sea. Italy apparently objected to the wording and, with the support of Germany as mediator, the passage did not make it into the final declaration of the Summit.

Still, Ukraine's efforts were not entirely futile. Instead of new sanctions, at the suggestion of German FM Heiko Mass, the EU offered more support to Ukraine as one of the main elements in a roll-back of Russian aggression. In less than a month, more than €200mn were earmarked for Ukraine. Germany itself proposed almost €85mn in financial assistance, while the EU offered €4mn to help eastern Ukraine, €37mn to help with implementing the Association Agreement, and €54mn to support energy efficiency in Ukraine. Meanwhile, High Representative Mogherini mentioned that the EU was looking for additional measures to help the regions that were most affected by the blockade of cargo shipping in the Azov Sea. The EU approach should be welcomed, since it provides much need support for Ukraine. Still, political support against Russia is also very important. Before the Revolution of Dignity, when Ukraine wanted more money, the EU offered more values. Now Ukraine wants more values, while the EU offers more money.

Commenting on the attack near the Kerch Strait, US special Representative Kurt Volker made an interesting reference to the implementation of EU sanctions, noting that there were some severe sanctions in place regarding Crimea, yet businesses from the Russian occupied territory were, in fact, still doing business in the EU, although the sanctions expressly forbade it. Moreover, he was backed up by State Department spokesperson Heather Nauert, who made a similar observation.

Avoiding the subject of sanctions, the EU has raised the question of Ukraine's introduction of martial law. Inside the EU, some felt that Ukraine had over-reacted to the Russian attack and questioned the need to invoke martial law at this stage. Some officials even speculated that the martial law might have something to do with a possible scenario to postpone the country's upcoming elections. Apparently, some EU leaders spoke with President Poroshenko over the phone about the martial law and the EU was very concerned about possible breaches of the civil liberties of Ukrainian citizens.

At this point, some EU diplomats have privately responded negatively to Ukraine's position of insisting on sanctions. They agree that sanctions should be in place but they think that sanctions have become the national idea of Ukraine, and the country's biggest achievement and interest in relations with the EU. Their argument is that Ukrainians will not live better if the sanction burden on Russia is increased and therefore reforms should remain the main focus in relations with the EU.

■ REFORMS, EU SUPPORT AND NORD STREAM II

In early November 2018, the EU published its progress report on Ukraine's implementation of the Association Agreement. The report takes stock of developments in the implementation process by mapping out areas where reforms are moving ahead and areas that are lagging. Although it contained some positive assessments, it also criticized the pace of reform. Yet, the report seems too benign on issues in which Ukraine is lagging and more about cooperation than integration, although integration is Ukraine's ultimate goal. Brussels seems to be saying that Kyiv is not ready for deeper integration with the EU, but is saying so very diplomatically. Compared to the reports of previous years, this one contains fewer compliments, although overall it is still positive. The format of the report reflects an EU strategy centered around the idea of not openly or severely criticizing Ukraine until after the 2019 elections. The EU's logic is based on a desire not to offer additional arguments to populist forces ahead of the vote. At his presentation of the report, EU Commissioner Johannes Hahn mentioned that, despite the high pressure on the National Anti-Corruption Bureau, the institution has achieved tangible results and that Ukrainian society did not seem to understand this. Hahn also said that he expected Ukraine to finish setting up the High Anti-Corruption Court and to return trust in the National Agency for Corruption Prevention. In fact, by this,

Commissioner Hahn broadly outlined EU priorities for 2019.

Hahn also seemed disappointed with the fact that Ukraine ignored the deal worth €50mn that he had proposed earlier: "Investments in exchange for reforms." The idea was to compensate lending by banks and investments in the real sector of Ukraine's economy. Hahn's disappointment with certain reforms was shared by Ukrainian Vice PM for European integration Ivana Klympush-Tsintsadze, who noted at the final press-conference of the year that not quite 50% of the tasks for 2018 had been implemented and many planned changes were running up against the business interests of various lobbies in the Verkhovna Rada. However, some experts in Ukraine pointed out that not all the sins could be laid at the feet of the Verkhovna Rada: for the previous four years, the legislature had adopted hundreds of bills related to European integration, including bills on e-declarations and the Anti-Corruption Court. However, many were not then implemented by the Government. Clearly, there is resistance to certain processes in both the Government and Rada, and it is unlikely that much will change in 2019, as this year will be exceptionally turbulent politically.

One development that was highlighted in our previous indices continued to evolve in the last quarter. After receiving the approval of the Constitutional Court, with 14 out of 18 judges in favor, amendments to the Constitution to include Ukraine's aspirations to join the EU and NATO passed first reading in the Rada. Of the 311 votes in favor, 124 were from the Bloc of Petro Poroshenko, 73 from Narodniy Front, 17 from Samopomich, 19 from the Radical Party, 18 from Batkivshchyna and another 27 from Volya Narodu and Vidrozhennia. The Opposition Bloc gave not a single vote. Following this, President Poroshenko urged that second and final reading take place in February 2019, which would contribute to his campaign for re-election. The EU, meanwhile, showed little enthusiasm for these constitutional amendments.

Another law being monitored by the EU is "On ensuring the functioning of the Ukrainian language as a state language." The EU has pointed out that the law has to be in line with the Council of Europe regulations to which Ukraine is committed, to ensure that the rights of minority language groups are upheld. Moreover, they advised the Rada to consult all stakeholders whom the law will affect, including linguistic minorities, before second reading. Some EU diplomats in Kyiv seem disappointed by the fact that the law is apparently going to be adopted rapidly, without the broad consultations the EU has asked for. The president's primary goal is somewhat self-serving, since his campaign slogan is "Army, Language, Faith," so the bill is likely to be submitted for a final vote before the presidential election. One European ambassador in Kyiv noted that, in its current form, the bill could damage Ukraine and said that, in general, the bill might not be really necessary since the process of switching to Ukrainian is already well underway, whereas legislating too much could have a negative impact on this process. Other diplomats also questioned the

bill in its current form and the active involvement of the incumbent in establishing an independent Ukrainian Church. While all foreign diplomats seemed very supportive of a united and independent Ukrainian Church, to some the president's role seemed too high-profile. On this subject, Italian Vice PM Salvini noted sourly, "Ukraine is fueling a religious war."

On the more practical aspects of Ukraine-EU cooperation, the EU disbursed the first tranche of its new MFA program worth €500mn on November 30. This brought macro-financial assistance to Ukraine up to €3.3bn since 2014, the largest amount of assistance of this kind disbursed to a non-EU country. As forecast in the previous Index, the first tranche was an easy win for Ukraine since many of the conditions for the first installment were easy to achieve or already in place. The conditions included: increasing the transparency of state registries, combating corruption, establishing better governance at state-owned enterprises, and signing a new IMF agreement, which Ukraine secured. While meeting with Dombrovskis, PM Groysman mentioned that Ukraine was hoping to get the second and final €500mn tranche in early 2019. That would be problematic, however, since the MoU between the EU and Ukraine stipulates that there have be at least 90 days between the first and second installment. That means that, in the best case, Ukraine will get the second tranche at the beginning

of March. If the EU maintains its current policy towards Ukraine and Kyiv broadly delivers on the conditions for receiving the second installment, then it should be forthcoming. This will also be good for the current political leadership in the upcoming elections.

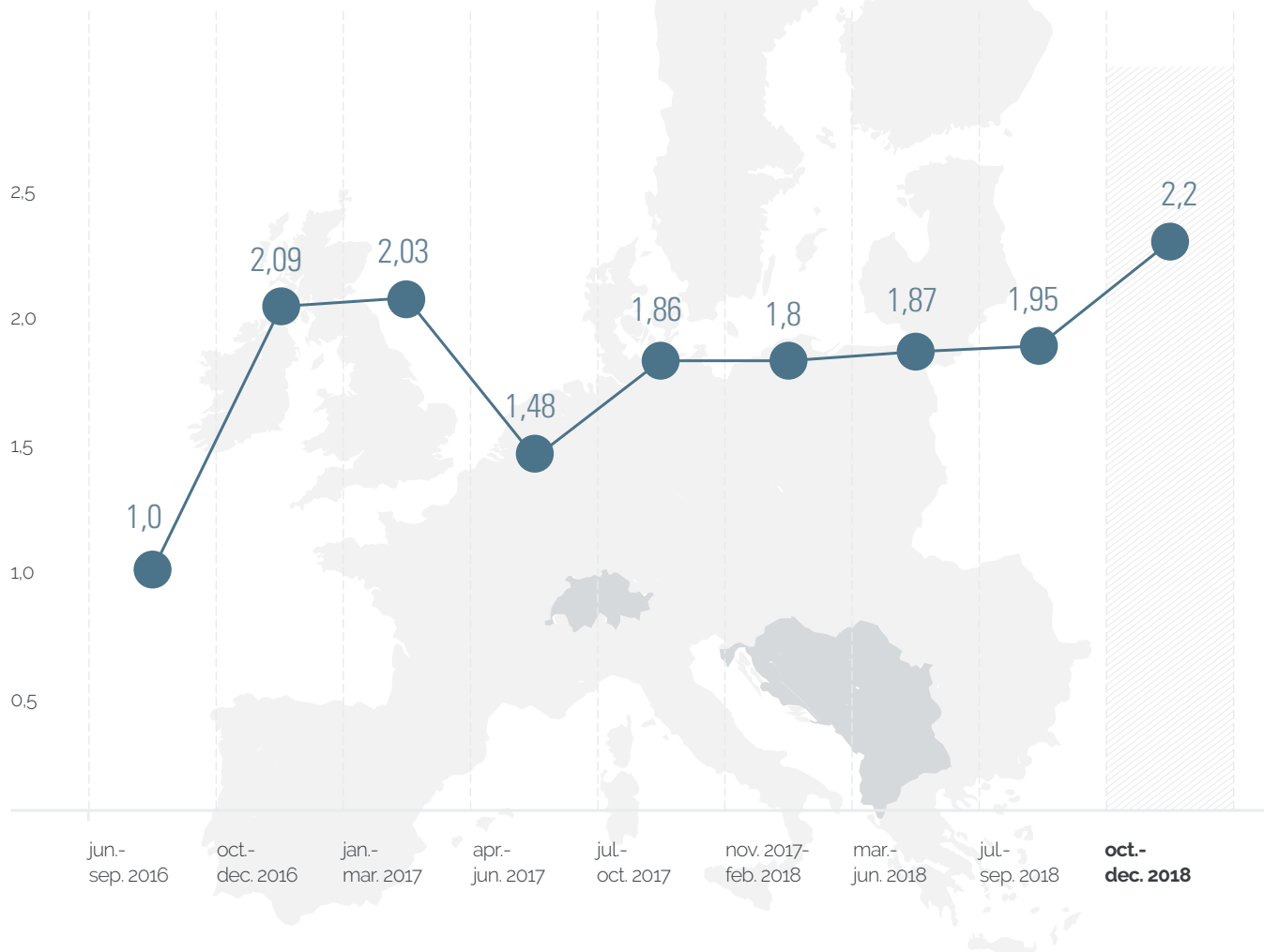
Russia's aggression around the Azov Sea reanimated with new force discussions over the Nord Stream II project. Some German conservatives called for the project to be reconsidered and Bundestag Foreign Affairs Committee Chair Norbert Röttgen, who is openly opposed to the project, supported them. Some fuel was added to the fire by US partners who said that Russia's attack should remind Europeans about the risks of Nord Stream II, since the more Russian infrastructure projects there are that bypass Ukraine, the less deterrence there is towards Russia's aggression in Ukraine. Criticism aimed at Germany has prompted several statements in defense of the project. First, Merkel's successor as leader of the CDU, Annegret Kramp-Karrenbauer, noted that it would be too radical to completely abandon the project, but Berlin could reduce the level of gas supply through the new pipeline. Kramp-Karrenbauer's statements were somewhat echoed by FM Mass, who stated that Germany's exit from Nord Stream II would not stop the project, but would reduce Berlin's leverage to insist on continued transit through Ukraine.

EVENTS IN UKRAINE-EU RELATIONS (OCTOBER - DECEMBER 2018). POINT-BASED EVALUATION

DATE	EVENT	POINTS
October 3	The Austrian Government approves €1mn for projects in eastern Ukraine.	+1
October 4	The EU welcomes the Verkhovna Rada's prolongation of the law on the special status of certain parts of Donetsk and Luhansk Oblasts.	+1
October 12	Italy resists an EU push to impose sanctions over cyber-attacks.	-2
October 22	Albania, Montenegro, Norway, and Ukraine align on the prolongation of personal EU sanctions against Russians and separatists in annexed Crimea and occupied Donbas.	+1,5
October 25	The European Parliament passes a resolution on the situation around the Azov Sea.	+1,5
November 2	The EU criticizes the imposition of Russian sanctions against Ukraine.	+1
November 6	69 MEPs and 20 politicians from EU countries sign a letter to Merkel to stop Nord Stream II.	+1
November 8	The EU Council ratifies an agreement providing €1bn in EU macro-financial assistance.	+1

DATE	EVENT	POINTS
November 8	President Poroshenko meets EU Council President Donald Tusk.	+2
November 8-9	EU Commissioner Hahn meets with President Poroshenko, PM Groysman and others in Kyiv.	+2
November 9	The EU signs a new Donbas support program worth €50mn.	+4
November 19	EU FMs discuss the illegal elections in Donbas and the situation around the Azov.	+2
November 25	The Rada passes first reading of changes to the Constitution with regard to EU and NATO	+1
November 25	The EU issues a statement regarding the incident in the Black Sea.	+1
November 27	Germany announces €84.8mn in financial assistance to Ukraine.	+5
November 28	The EU issues a declaration on escalating tensions in the Azov Sea.	+2
November 30	The European Commission disburses a €500mn first tranche of its MFA.	+5
December 6	FM Klimkin and HRVP Mogherini meet privately at the OSCE Ministerial Council in Milan.	+2
December 6	The UK Government announces over £35mn for reforms in Ukraine over 2018-2019.	+4
December 7	Lithuania imposes sanctions on 20 people involved in the Black Sea attack on Ukraine.	+2
December 10	FM Klimkin joins EU Foreign Affairs Council discussion of recent events in Ukraine.	+2,5
December 10	The EU Council adds 9 to the list of individuals subject to restrictive measures over actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine.	+3
December 12-13	President Poroshenko meets with European leaders during a working visit to Brussels.	+3
December 12	The European Parliament adopts a resolution calling on the EU to step up sanctions against Russia.	+1,5
December 13	The EU Summit issues a statement condemning Russia's escalation and calling for the release of Ukraine's servicemen.	+2
December 13	The EU allocates €4mn to help eastern Ukraine.	+3
December 14	The European Parliament adopts a resolution to stop the Nord Stream II pipeline.	+1,5
December 17	The European Union and Ukraine hold a fifth meeting of the Association Council.	+3
December 17	The EU announces €37mn in aid to implement the AA and promote democracy.	+4
December 17	The EU announces €54mn in support of energy efficiency in Ukraine.	+4
December 17	The EU calls on Ukraine to lift the moratorium on the export of raw timber.	-1
December 17	Ukraine and the EU agree on Annex 27 regarding integration into the EU energy market.	+4
December 21	The EU Council extends economic sanctions against the Russian Federation for six months.	+4

TRUMAN Index





UKRAINE-CHINA RELATIONS

AMB. SERGIY KORSUNSKY

Director of the Hennadii Udovenko
Diplomatic Academy of Ukraine at
the Ministry of Foreign Affairs

POSITIVE POINTS: +10

NEGATIVE POINTS: 0

TOTAL: +10

TRUMAN INDEX: +0,67

UPDATE

During the final quarter of 2018, the main events were revolving around economic cooperation between Ukraine and China. A delegation headed by First Vice Prime Minister Stepan Kubiv visited the International Import EXPO in Shanghai, which was attended by 82 countries and 3 international organizations. During this visit, intergovernment talks took place and many contacts among businesses from both countries, including a business forum that was co-chaired by the China Council for the Promotion of International Trade Gao Yan. The delegation's visit was preceded by a meeting between Ukrainian PM Volodymyr Groisman and Chinese Ambassador to Ukraine Du Wei. It proved to be the only high-level contact between the two countries, which is not enough for relations to continue to develop on a significant scale. This was evident when Ukraine did not make the list of 12 countries that were the main honored guests at the Shanghai EXPO and were allocated a prime exhibition area: Indonesia, Vietnam, Pakistan, South Africa, Egypt, Russia, Great Britain, Hungary, Germany, Canada, Brazil, and Mexico.

However, China's leadership continues to demonstrate openness to international contacts and is actively pursuing its agenda. Chinese President Xi Jinping personally presided at the opening of the Import EXPO in Shanghai. He also visited the Asia-Pacific Economic Cooperation (APEC) Summit in Papua-New Guinea and the G-20 Summit in Buenos Aires, where he met with US President Donald Trump. Chinese Premier Li Keqiang visited Tajikistan in October to participate in the 17th session of heads of government of the Shanghai Cooperation Organization, the 12th EU-Asia Summit, and the Netherlands for a bilateral meet. The 7th ministerial meeting of the China-Africa Partnership Forum took place in Beijing.

Notably, in addition to purely bilateral factors, relations between China and the US, which grew sharply worse during this last quarter, also affected relations with Ukraine. US President Trump and Vice-President Mike Pence openly accused China of interfering in the mid-term elections to the Congress in November, as well of dishonest trade practice on the part of both the Chinese Government and of Chinese state companies, and of worsening the security situation in the South China Sea. During SecState Mike Pompeo's visit to Beijing, there was a highly unusual exchange of mutual accusations, even at the joint press briefing the two foreign policy heads gave afterwards.

The mutual institution of trade tariffs over the year caused businesses in both countries, although China may have suffered more, because it exports much more to the US than it imports. International analysts are already referring to relations between the world's two largest economies an "economic cold war" and warn that it will have a noticeable impact on the global economy. 70% of US companies that have operations in southern China announced that they were forced to postpone planned investments because of the uncertain signals in bilateral trade and economic relations. Ford management announced that the company had lost US \$1 billion as a result of the current US Administration's actions. Meanwhile, BMW, Audi and Tesla, by contrast, increased their investments, counting on a greater presence on the Chinese market, especially in the electric car segment. Fully 70% of the world's production of lithium batteries for cars comes from China and the country's official policy is to encourage electric transport as broadly as possible.

Another indicator was the announcement by GoPro, an American camera maker, that it was planning to move most of its production of cameras intended for the US market out of China to other countries. The decision was made based on concerns about the impact of duties

on its products. Plans are to move the facilities by summer 2019, but facilities producing cameras for Southeast Asian markets will remain in the Middle Kingdom.

At the highest level talks that took place during the G-20 Summit in Buenos Aires, Trump and Xi agreed to stop harming trade relations, but nothing was said about withdrawing the duties already in place. China agreed on a "step towards peace" by reducing its tariffs on American cars, but the threat of further "aggressive action" on the part of the US Administration remains. The impression is that the West is collectively worried about China's economic expansion and plans to take steps to restrain it. One of the latest clashes occurred between Canada and China after Canada arrested a top executive of Huawei. China retaliated by arresting two Canadian citizens.

Criticism against China, especially in terms of its tendency to encourage developing countries to accept huge credits from it, along with the opaque trade and investment practices of Chinese state-owned corporations, according to Brussels, was echoed by the European Commission. The EU even announced its own projects to set up transportation links between the European Union and Asia to compete with the Belt and Road initiative. The Union also plans to set up investment screening mechanisms, which will make it possible to avoid selling strategic EU companies to Chinese funds and banks. Some cases of rejecting such sales have already taken place in Germany and France. Brussels has also decided to set up free trade agreements with Japan and Singapore, both of them important Chinese partners in the region.

Still, the policy of restraining China that the European Commission has adopted, is not supported by all EU members. At the bilateral level, European countries keep engaging actively in dialog with Beijing, which rejects all accusations out of hand and emphasizes its intentions to build a peaceful future for humanity together with western countries. Ukraine's neighbor, Belarus, is also actively expanding cooperation with China.

Over the quarter, China once again demonstrated its high technological capabilities, completing the first-ever unmanned mission to explore the dark side of the moon. Huawei's general manager announced that the company had devised its own AI chip. Given the trade restrictions the US has placed, this suggests that China's industry is moving independently towards a goal set by the Chinese Communist Party: to become a leader in AI by 2025.

The Xinhua news agency and Sogou, a Chinese internet company, presented the first digital television presenter with AI in the world during the World Internet Conference in Wuzhen. The AI was able to analyze people's expressions, manner of speech and gestures as well as their voices and emotions. To set up a television program, all that had to be done was to load a video with the live presenter and text. A hologram provided the information, copying the characteristics of the real version. At the conference, a holographic clone of a popular Chinese presenter called Jiu Qiao was demonstrated. During the presentation, the virtual journalist independently explained about the technology the developers used and the principles underlying AI. It's no surprise that of the 20 most powerful IT companies in the world, 11 are American and 9 are Chinese today.

In the next few years, projections are for the volume of electronics being shipped by China to be higher than that of the US, Great Britain, Germany, France and Japan put together. In just one happy trading day, November 11, Chinese behemoth Alibaba sold products worth US \$30bn. At the end of November a private Chinese company called LinkSure announced plans to establish a free global satellite internet system by 2026. The first satellite will be launched in 2019 and in 2020 plans are to have the first 10 in orbit. Altogether, the global communication system will have 272 satellites that will cover internet communication across the entire globe.

In October, President Xi officially opened the longest bridge in the world crossing the sea to join Hong Kong, Macao and the mainland at Zhuhai, nine years after construction began. Together with the access ramps, the bridge is 55 km long and cost US \$20bn to build. The new bridge is a good indicator of the ambitions and capabilities of Chinese engineering. Altogether, China invested US \$328bn into its own infrastructure in the first 9 months of 2018.

Compared to its technological achievements at home, China seems to be choosing somewhat outdated, even archaic areas to cooperate with Ukraine, which nevertheless became central to bilateral contacts over this last quarter: light industry, food exports, and insignificant transport and infrastructure projects. A few technological innovations that were presented at the Shanghai EXPO do not change the overall picture. The reason for such a situation is the Ukrainian government's chronic underestimation of the importance of expanding cooperation with China on a systematic, consistent basis in other branches of the economy that would help Ukraine's own industries get the resources to grow faster.

The episodic nature of Ukraine-China relations over 2018 continued into the final quarter. It's likely that business contacts between businesses during the Import EXPO will help trade pick up pace between the two countries. This should be boosted by some key agreements that were signed between the National Bank of Ukraine and its Chinese counterpart regarding mutual payment settlements and swap operations in the local currency. However, without high-level visits and a conceptual basis for developing relations that is not only on paper but being implemented, Kyiv won't be able to count on any significant expansion in cooperation with Beijing. Given the upcoming election, it's likely that there won't be any meeting between the two countries' leaders until 2020.

TIMELINE

■ POLITICAL DEVELOPMENTS

In the fourth quarter of 2018, the only high-level meeting between China and Ukraine took place when PM Volodymyr Groisman met with the Chinese Ambassador to Ukraine Du Wei, just before a visit by a Ukrainian delegation to the Import EXPO in Shanghai. The delegation consisted of nearly 300 individuals: government officials, officials from branch ministries, business owners, and directors of chambers of commerce. It was headed by First Vice-Premier and Minister of Economic Development and Trade Stepan Kubiv. During his meeting with Du, Groisman announced plans to increase trade with China to US \$10bn. Meanwhile, Kubiv told officials in China that he was hoping to see trade rise to US \$20bn over the next five years.

During a meeting with Chinese Vice-Premier Liu He, Kubiv proposed starting bilateral consultations about setting up a free trade area with China. Despite its superficial appeal, this proposition is not only premature but also extremely controversial. A slew of representatives of domestic industries have already expressed their opposition to the idea. For one thing, Ukraine has limited experience negotiating to set up an FTA: In the last four years, an agreement of this nature was only concluded with Canada and word has come that negotiations with Israel are complete—both countries with whom trade volumes are negligible. Secondly, since Ukraine already has an Association Agreement that includes a DCFTA with the European Union, talks with China could stall from the very start as the trade regimes with the EU and China are radically different. Thirdly, Ukraine lacks the necessary resources to compete with China, whether in its industrial branches and its farm sector. Given all this, talk about an FTA is mere populism that will not do anything to improve relations.

■ SECTORAL INTERACTIONS AMONG AGENCIES

Over the last quarter, the most active cooperation was in transport, where an agreement was reached with Poland and China to launch a container freight train in 2019 that would link the three countries. There seems to be growing activity in establishing direct flights between Ukraine and China as well, as the two countries

exchanged additional permits to carry passengers by air. China has been quite attentive to the development of civil aviation and plans to invest US \$10bn in setting up new universities in this field, as well as building 200 new airports. China's leadership has established the goal of becoming the world leader in aviation by 2035. The training of pilots and the expansion of airports are both areas in which Ukraine has plenty of experience, so it would make sense to look into the opportunities that are opening as a result of the plans that China has announced.

As part of a visit to Beijing November 8-9, 2018, Deputy Infrastructure Minister for European Integration Viktor Dovhan met with officials from the State Committee for Development and Reform and the Chinese Minister of Transport and Commerce to support infrastructure projects with Ukraine as part of the Belt and Road initiative. He invited Air China to establish direct flights from Beijing and Shanghai to Kyiv. Agreement was reached with Deputy Transport Minister Liu Xiaoming to sign an agreement about car imports before the next Belt and Road Forum in May 2019.

During this same meeting the question was raised of a line of credit worth US \$340mn to build a bridge across the Dnipro near Kremenchuk at a discounted interest rate of 3% pa. The credit would start to be paid back after 4 years, the time allocated to build the bridge, and would be issued after a feasibility study. Dovhan also held talks with the Chinese Exim Bank regarding a loan agreement for the Air Express project, which involved returning Ukraine a commission and an insurance premium worth US \$36mn. The Chinese side reported on the progress of plans to build a bridge across the Dnipro and a first-grade concrete highway running Odesa-Mykolayiv-Kherson, its readiness to invest up to US \$30mn into the pier at the Port of Mykolayiv and river logistics, and the preparation of a project to reconstruct the second landing strip at Boryspil Airport.

The China Railway Company handed over a preliminary feasibility study for the fourth branch of the Kyiv Metropolitan, worth US \$2.5bn, while CRRC announced its intentions to prepare a proposal for leasing and a joint venture to manufacture electric locomotives for UkrZaliznytsia. Meanwhile, a delegation from the China Harbor Engineering Company visited the Olvia Stevedoring Company, a state enterprise, as part of a pilot project for concessions at the

Olvia port. The Chinese appeared especially interested in investing in port infrastructure in Ukraine.

Two important agreements were signed between Ukraine and China in November, both in the sphere of financial settlements. The PROSTIR Ukrainian payment system and China's UnionPay International signed a contract to emit co-badged cards. The document was signed in Beijing by NBU Governor Yakiv Smoliy and UnionPay CEO Cai Jianbo. The widespread global network for UnionPay cards means that users of co-badged cards under the PROSTIR and UnionPay brands will be able to pay for goods and services as well as get cash at ATMs, not just in Ukraine, but nearly anywhere in the world. This is the first such program in Ukraine. The agreement does not include any financial commitments for either party as its purpose is the development of products for both payment systems on the basis of a partnership. Co-branded PROSTIR and UnionPay cards will begin to be issued once there are agreements directly with interested issuing banks. This project became possible when the NBU agreed to the conditions and the way that the UnionPay International payment system would operate in Ukraine. In the first stage, it will provide acquiring services, issuing cash and paying for goods and services using UnionPay cards.

In addition to this, the National Bank of Ukraine and the People's Bank of China renewed a bilateral agreement about currency swaps for the yuan and hryvnia for another three years. The maximum amount of this currency swap line has not changed: RMB15bn or UAH 62bn. The document was signed by Governor Smoliy and PBC Governor Yi Gang during a working visit by Smoliy to Beijing. "China is Ukraine's second largest trading partner by volume and the role of the yuan in international trade is growing," said Smoliy. "Access to the money this agreement provides will foster trade between Ukraine and China in yuan. What's more, it will also spur further economic cooperation between the two countries." This is the third such agreement the NBU and PBC have signed as part of ongoing mutually beneficial cooperation between the two central banks. The previous three-year agreement, on a currency swap was for up to RMB 15bn and UAH 54bn, ended in June.

At the end of the year, a group of Ukrainian diplomats went to China on a study visit under a cooperation program between the Diplomatic Academy of Ukraine, the University of International Relations in China, and the Chinese Embassy in Ukraine. At this time, the Ukrainians, who have been learning Chinese, were able to learn about China's foreign policy, its views of how the world situation is evolving, and successful experience with developing tourist and regional infrastructure. These kinds of exchanges are intended to become ongoing and to foster better understanding at government agencies in both countries.

■ JOINT TRADE AND ECONOMIC PROJECTS

In trade and commerce, the initiative of the business communities in both Ukraine and China is noteworthy. On November 29, a memorandum of cooperation in the light industry was signed in Kharkiv between the Fashion Globus Ukraine National Light Industry Partnership, a business association, the Barabashovo Shopping Center, the China Sewing Machine Association, and the Shanghai Textile Association. The organizations agreed to put together some joint projects that will allow Ukrainian manufacturers to gain access to modern technology and equipment. Through joint efforts with Chinese partners, a modern technology center for the light industry called the Fashion Hub will be set up in Kharkiv inside the Barabashovo shopping center in 2019. The Chinese partners are planning to supply quality modern equipment, textiles and haberdashery.

One of Ukraine's biggest producers of vegetable oil, ViOil, has signed an agreement of cooperation with COFCO International, a Chinese processor and exporter of various kinds of vegetable oil. In addition, the State Food and Grain Corporation of Ukraine has agreed with its strategic partner, the China National Complete Engineering Corporation (CCEC), to significantly increase deliveries of grain to China.

Dongfang Electric International Corporation (DEIC), a state-owned Chinese company that includes nearly 100 enterprises and specializes in power engineering, has proposed the lowest price, UAH 19.09bn, in a tender to reconstruct the #6 power unit at the Sloviansk TES, a co-generation plant. The plant belongs to Donbasenergo, a power company. Interestingly, this tender was bid in by another Chinese company, Power Construction Corporation of China, which offered UAH 19.61bn. The tender was to reconstruct one power unit to make two, #6A and #6B, with a capacity of 330 MW each. The anticipated price for this unit was UAH 21.24bn.

At the end of 2018, outside the city of Nikopol in Dnipropetrovsk Oblast, construction was launched on a joint project between the DTEK Corporation and China's CMEC to build a huge solar electrical station capable of generating 246 MW. The original contract was signed in April and by October, Trina Solar Limited finished installing solar panels with an overall capacity of 123 MW. The Chinese side has invested more than US \$230mn in the project.

Major Chinese companies took part in the 15th Arms and Security International Specialized Exhibition, which took place October 9-12 in Ukraine. Hytera Communications demonstrated comprehensive solutions to setting up integrated communications and data exchange systems during emergency situations and the establishment of perimeter security. After the

exhibition, Beijing Trueguard decided to open a representative office in Ukraine. Trueguard specializes in manufacturing personal protection items and is one of the companies supplying Ukraine's enforcement agencies.

A final important event was the Third Ukrainian Silk Road Forum, organized by the Silk Road Association of Ukraine. It was attended by government and business from both countries, as well as members

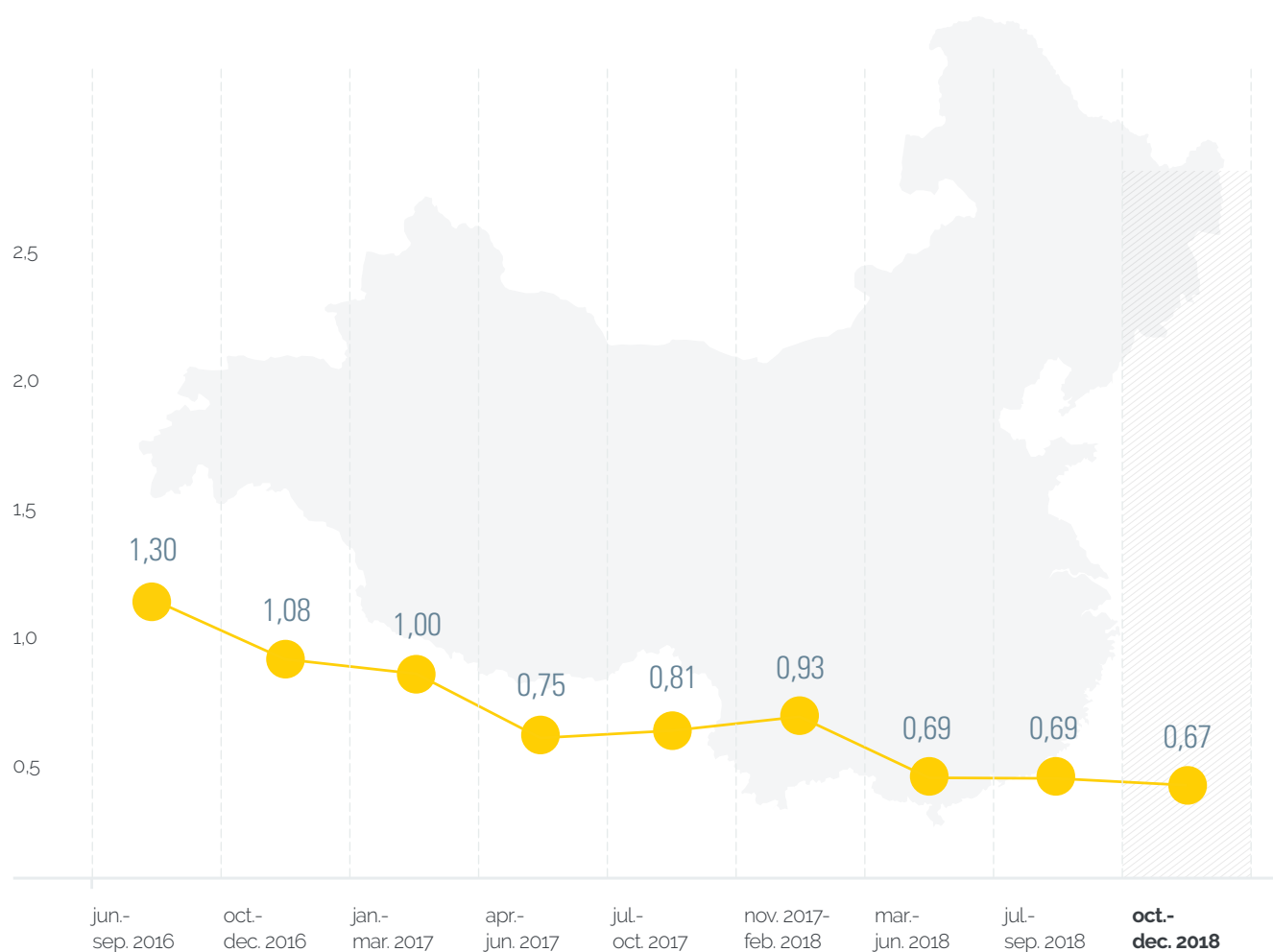
of the Ukraine-China Friendship group in the Verkhovna Rada. Ukrainian companies demonstrated their wares and negotiated a number of projects. The Forum, as usual, testified to the high potential and readiness to cooperate actively on both sides.

EVENTS IN UKRAINE-CHINA RELATIONS (OCTOBER - DECEMBER 2018). POINT-BASED EVALUATION

DATE	EVENT	POINTS
October 2	PM Volodymyr Groisman meets with Chinese Ambassador to Ukraine Du Wei to talk about joint projects in trade and investment in the run-up to the import EXPO in Shanghai.	+1
October 5	The State Food and Grain Corporation of Ukraine agrees with its strategic partner, the China National Complete Engineering Corporation (CCEC), about a significant expansion of grain deliveries to China.	+0,5
October 5	The construction of a powerful solar energy plant as part of a joint project between the DTEK Corporation and China Machine Engineering Corporation (CMEC) begins outside Nikopol, Dnipropetrovsk Oblast.	+0,5
October 25	China Harbor Engineering Company Ltd. officials visit the Olvia Stevedoring Company as part of a pilot concessions project at the Olvia specialized seaport.	+0,5
November 5-9	A Government of Ukraine and business delegation led by First Vice Premier Stepan Kubiv visits China to take part in the Shanghai Import EXPO for talks with Chinese Vice-Premier Liu He and other officials, and to participate in the business forum.	+1
November 9	Ukraine's VIOil and China's COFCO International sign an agreement to cooperate in the production of vegetable oil.	+0,5
November 8-9	During a visit to the Shanghai Import EXPO, Deputy Infrastructure Minister Viktor Dovhan talks with officials from the Transport and Commerce Ministry of China, as well as the State Development and Reform Committee. Air China proposes scheduling flights from Beijing and Shanghai to Ukraine. The two sides also agree to put together an agreement in 2019 on transporting cars.	+1
November 9	China Railway International Group confirms the completion of a feasibility study for the construction of a fourth branch of the Kyiv Metropolitan for an estimated US \$2.5 billion.	+0,5
November 16	The Third Ukrainian Silk Road Forum takes place in Kyiv with the participation of government and business from both countries.	+0,5
November 26	Shenzhen Tang Pharmaceuticals has leased 97 hectares of land in Kherson Oblast for 7 years to breed Saiga antelope, an investment of about UAH 10 million.	+0,5

DATE	EVENT	POINTS
November 29	In Kharkiv, Fashion Globus Ukraine, a national sectoral business partnership in light industry, and its Chinese counterparts, the Shanghai Textile Association and the China Sewing Machine Association, sign a memorandum of cooperation in light industry.	+0,5
December 7	Infrastructure Minister Volodymyr Omelian announces that a final agreement has been reached over the launch of a container freight train running China-Ukraine-Poland.	+0,5
December 10	The National Bank of Ukraine and the National Bank of China renew a bilateral treaty on a currency swap worth RMB 15bn and UAH 62bn.	+1
December 10	The NBU and China's UnionPay, the largest payment settlement system in the world, agree to issue joint co-badged cards. The document is signed by NBU Governor Yakiv Smoliy and UnionPay International Chief Executive Officer Cai Jianbao in Beijing.	+1
December 2-11	A group of Ukrainian diplomats visits China on a study tour as part of cooperation among the Diplomatic Academy of Ukraine, the International Relations University of China and the Chinese Embassy in Ukraine.	+0,5

TRUMAN Index





UKRAINE-RUSSIA RELATIONS

SERGIY SOLODKYY

First Deputy Director of
the New Europe Center

POSITIVE POINTS: +1

NEGATIVE POINTS: -74

TOTAL: -73

TRUMAN INDEX: -4,56

UPDATE

Pseudo-elections in occupied Donbas, the recognition of a local Ukrainian church, and the attack on Ukrainian naval vessels in the Black Sea were the three events that dominated Ukrainian-Russian relations in this fourth quarter. No signals came of any improvement in the situation and the two countries continued to exchange hostile missives. Both Kyiv and Moscow were talking about the other side's armed provocations. Russia promised to come up with "an appropriate response," while Ukraine called it the biggest escalation in armed aggression on the part of Russia since 2014.

Official Kyiv took a proactive position, calling not just for western sanctions to be extended but for them to be increased as well. Ukrainian diplomats began to talk about "creative" sanctions, that is, sanctions that went beyond lists of physical and legal entities. One of these "creative" ideas that might force Russia back to the table, according to Ukraine, would be to ban Russian registered vessels from entering European and American ports.

While Kyiv was thinking about a sanctions upgrade, Moscow for the first time issued its own sanctions list. In a very short time, it managed to issue two related Government resolutions. The sanctions list expanded more rapidly than any of the "select" was able to even figure out why they were on it: sanctions against Ukrainian politicians with a clearly pro-Russian position raise a few questions, as did sanctions against activists who had no assets or business interests in Russia.

The recognition of an independent church in Ukraine forced Russia to react at the highest level: President Putin even called a session of the RF Security Council on this matter. Kyiv worried about possible provocations, even bloodshed on religious grounds, prior to the Unification Sobor that was to establish the new church.

During this period, the TRUMAN Index reached the lowest level for the entire year. Whereas 2018 started with an Index of 1,30, it has ended with an exceptionally low 4,56. The only other time the Index was so low was at the beginning of 2017, when Ukraine's suit against Russia came up in the International Court and Russia seized Ukrainian companies in the occupied territories. In short, relations have grown far worse which, given the approach of the presidential election, could well continue through the next quarter as well.

TIMELINE

■ "CREATIVE" SANCTIONS IN RESPONSE TO THE KERCH CRISIS

For many international partners, the escalation of tensions around the Azov Sea that culminated with Russia's attack on Ukrainian

naval vessels on November 25 was quite unexpected and seemed spontaneous. Ukraine, of course, had been talking about the threat of the inland sea and the militarization of Crimea for quite some time. These concerns came up more and more frequently after Russia opened the Kerch Bridge in spring 2018. For Kyiv to be prepared for a new round of the conflict required an appropriate reaction that was concerted and determined. Instead, it was seen

as confused or overly ambitious and unjustified.

Ukraine's diplomats called the new package of restrictive measures that they submitted to the European Union initially "creative" sanctions. Government officials were clearly determined to act proactively this time, not reactively. It was as though the Ukrainian government seemed to want to make up for some of the shortcomings of previous years, when it reacted to Russian aggression somewhat chaotically and did not show any initiative in dialog with western partners regarding sanctions policies. This new creative approach, for one thing, called for a series of measures. In addition to expanding sanctions against individuals, these sanctions called for NATO vessels to enter the Black Sea and, possibly even, the Azov Sea; for the OSCE SMM mandate to be expanded to cover the Azov Sea; for a ban on Russian ships entering European and American ports; and for emergency negotiations to take place on all of the existing platforms, including the Normandy format and Minsk. By the end of December, none of Ukraine's proposals was carried out by the EU or the US. What's more, one idea, inviting the vessels of NATO countries, including Germany, to enter the Black Sea, was publicly rejected.

Both public and private statements by EU diplomats demonstrated considerable skepticism towards Ukraine's new approach. Reaction amounted to: "You're making things worse for yourselves. The EU cannot support everything that you have asked for. Russia will see that we aren't unified on Ukraine's propositions, and so new arguments will come in handy for critics, who will say that no one supports Ukraine."

Every one of Ukraine's propositions really had some limitations that made it difficult to consider the proposal. For instance, to ban Russian ships from European and American ports would lead to financial losses. Europe has always had a strong pro-Russian lobby that knows how to scare their governments about the loss of popularity due to any decline in trade in goods with Russia, although, in fact, trade between the EU and Russia has been growing in recent years. But such proposals should not be rejected out of hand, either. A number of influential western politicians have talked about this form of sanctions, including Annegret Kramp-Karrenbauer, the incoming leader of Merkel's party, the CDU, and a possible future German chancellor.

Kyiv considers the blocking of Russian vessels an appropriate response to Russia's actions, which include not only attacking three Ukrainian naval vessels and taking their crews prisoner, but also the constant obstacles Russia has been placing in the way of free navigation of the Kerch Strait and the Azov Sea. Between May and November, Russia stopped more than 110 vessels in the middle of the sea, unnecessarily held 316 vessels up in the Kerch Strait for permission to navigate into the Azov Sea, and held another 301 up in the Azov Sea when they were going back through the Strait again.

The idea of expanding the OSCE SMM's mandate to cover the Azov Sea was also raised in the EU, including in Germany. Of course, Kyiv understands that ordinary monitoring of the ports of Berdiansk and Mariupol will achieve little. It won't stop Russia from interfering in the navigation of merchant ships whose destination is a Ukrainian port, as Moscow will argue that the provisions of the UN Convention on the Law of the Sea permits this. In this situation, what's more important is to monitor the situation at the main bottleneck points, such as Kerch, which Ukraine has also proposed.

This proposal also has its limitations. The decision to set up the OSCE SMM was made on March 21, 2014. Even then, the Ukrainian delegation was emphasizing the need to extend the Mission's mandate to include the Crimean peninsula. But Russia submitted an interpretive statement pointing out the "political and legal reality" that Crimea supposedly no longer belonged to Ukraine and so the mandate could not be expanded to include that territory. Still, Ukraine knows that no matter how Russia responds, it has nothing to lose. If Russia agrees, which is highly unlikely, Ukraine gets one factor to stabilize things in the Azov and the Kerch Strait. What's more, it would put the issue of Crimea back on the international agenda, since Moscow made it very clear after the annexation that it considered the Crimea question closed.

If Russia rejects this proposition, which is most likely, it will simply confirm, not for the first time, who is really provoking the escalation. This initiative follows very logically from the previous actions taken by Ukraine and the world community, based on the principle, "The thief's hat is on fire." For instance, an international tribunal was formed to judge the organizers and executors of the shooting down of MH17 in July 2014 and Russia blocked the idea. When Ukraine insisted on carrying out the September 5 Minsk protocol on continual monitoring of the Ukrainian-Russian international border, Russia refused to comply with that, too. Back in 2015, Ukraine's president first proposed setting up a UN peacekeeping mission in the Donbas to get the situation under control, and Russia categorically rejected the idea. Only at the end of 2017 was some agreement reached, but with significant caveats. So Russia's rejection of Ukraine's proposition regarding the OSCE SMM in Kerch will be just another reason to turn to the EU to ask for stronger sanctions...

■ THE BUDAPEST MEMORANDUM AND THE ELECTION

After Russia's attack in the Black Sea outside the Kerch Strait, Ukraine immediately raised the issue of security in the Azov Sea on every international platform it could. That included, as usual, the OSCE and UN Security Council, but also those that are strictly involved in resolving the conflict in the Donbas: the Minsk and Normandy formats. Russia rejected these formats, emphasizing that Moscow was only an intermediary in what was a "civil war" in Ukraine.

In addition, Ukraine immediately called for immediate consultations with the signatories of the Budapest Memorandum. This time, Kyiv was better prepared to possible criticisms of the initiative. Earlier, considerable skepticism had circulated around the binding nature of this document—even Ukraine's closest allies pointed out that the document contained not "guarantees" but "assurances." This time, Ukraine's diplomats kept referring to international law, emphasizing the importance of fulfilling the memorandum. They reminded their partners about Art. 26 of the 1969 Viennese Convention on international contract law, which states that every valid contract is binding on its parties and is supposed to be upheld in good conscience. Moreover, in the Russian language version, the Budapest Memorandum actually refers to "obiazatelstva," meaning obligations or commitments, which has greater legal force than "assurances." For this reason, Kyiv dismisses claims by the Russian leadership about the non-binding nature of the memorandum.

Still, Ukraine's diplomats admit there is one serious flaw in the document: there is no clear mechanism for enforcing its provisions. The memorandum talks about consultations, but the procedure for calling for and holding them is not specified. The first talks by the signatories of the Budapest Memorandum took place in Paris on March 5, 2014, and Russia simply refused to show up. And so Ukraine has continued to propose that Russia, the US, Great Britain, China, and France hold consultations. London agreed in principle. The US, France and China felt that the full format needed to be maintained and so, with Russia refusing, it's impossible to make the Budapest Memorandum work.

Even if Ukraine's politicians had no election goal in mind, their reaction to the November 25 attack will have an impact on voters, regardless. Thus, the failure to get the Budapest Memorandum on the table has hurt the nominal leader in the presidential race, Yulia Tymoshenko. She proposed a "Budapest+" format to include the EU and Germany. The declaration of martial law in 10 oblasts was received with some suspicion in the West as a move that could be used to delay the election. In Russia itself, both the Kerch crisis and Ukraine's reaction to it were tied entirely to the election cycle as supposedly convenient for Petro Poroshenko.

■ SANCTIONS GALORE: RUSSIA'S CARROT AND STICK

Throughout the quarter, Ukraine kept warning that Russia was planning destabilizing actions during the election campaign period. Kyiv treated Russian sanctions against individuals and businesses as a kind of "carrot and stick" approach by Putin, with the stick meant to punish businessmen who support the incumbent and the carrot is the possibility to be removed from the list.

The impression is that no one in Ukraine took Russia's sanctions especially seriously. Those who made it on the list bragged about it. Their campaign headquarters immediately began to analyze the

list for why one candidate or another might be on it: absence was supposed to suggest some kind of deal with the Kremlin. And so the president's team had to try to explain why Poroshenko and his foreign minister weren't on the list. However, even being on the list didn't offer any clear benefits: the press was awash with rumors that some candidates had been left off by Moscow in order to remove any suspicion of covert cooperation.

For the first time, Russia put individuals on its sanctions list. So far, it had only restricted certain sectors of Ukraine's economy. Moscow had engaged in a kind of "economic punishment" towards Ukrainian businesses long before the war. For instance, it restricted imports of farm products from Ukraine during the intensive period of talks between the EU and Moscow loyalist Viktor Yanukovich regarding the Association Agreement in 2013. The price of natural gas and deliveries of it were one of the most obvious levers used by Moscow to get Kyiv to the table. There were also occasionally restrictions on individuals, although they were never published so no one knew if they were an FSB blacklist: the person would only find out when they tried to cross the border into Russia.

In addition to the approaching election season, there was no reason for Russia to change its position. This "happenstance" was anything but coincidental to many observers in Ukraine. In early November, economic measures were instituted against 322 Ukrainian citizens and 68 companies. By the end of December another 200 individuals and companies had been added to the list. Moreover, even some former members of Party of the Regions joined the list, who could never be accused of not being loyal to Russia.

Ukraine's list of sanctions is far longer than the Russian one. In May, the Poroshenko Administration published an updated list of sanctions against Russia that included 1,748 individuals and 765 legal entities. A year earlier, the list had contained 1,228 persons and 468 companies. Among the individuals are Gazprom boss Alexei Miller, aluminum tsar Oleg Deripaska, billionaires Igor Rotenberg and Viktor Vekselberg, investor Suleiman Kerimov, oil tycoon Vladimir Bogdanov, and banker Andrey Kostin.

The "carrot" in Putin's decree is that sanctioned restrictions might be lifted. So Russia's MinFin is responsible for submitting proposals to "offer temporary permission to carry out specific operations in relation to specific legal entities against whom special economic measures are in place." And so individual companies can look to Ukrainian voters and the government as though they are victims of Russian sanctions, when in fact sanctions may not actually extend to them—and it's unlikely that the press will publish the news about such "temporary" suspensions of sanctions.

Other than the election campaign, some have seen other reasons behind Russia's radical actions, including the steps Kyiv took to get an independent Ukrainian Orthodox Church recognized.

■ TECTONIC RELIGIOUS SHIFTS

The Unification Sobor that took place December 15, 2018, to establish a unified Ukrainian local Orthodox Church was one of the main events, not only of the last quarter, but probably for the last more than 300 years: the Kyiv Metropole was moved to the Moscow Patriarchate in 1686. For the Western world, which gravitates to the secular and associates religious dogma with the Middle Ages, the attention Ukraine's political elite paid to religious matters probably looked a bit odd. In Ukraine, however, the Russian Orthodox Church was always recognized as a serious source of influence. In the Russki Mir initiative that was suppose to spread Russian cultural and political concepts, orthodoxy figured prominently. One of the most influential personalities in Russia, Patriarch Kirill I officially supported the ideology of Russki mir, taking on himself the function of its defender and conductor. Back in 2009, he said that the core of Russki mir were Russia, Ukraine and Belarus, "regardless of state borders, political disagreements, spiritually, and I emphasize spiritually, we continue to be a single people. And most of us are children of the Russian Orthodox Church."

From the very start of Russia's aggression in 2014, Kyiv saw the Russian church as an integral part of Moscow's efforts to destabilize Ukraine. But the initiative of the government to establish an independent canonical church was a complete surprise. Even more surprising, especially for Moscow, was the process through which Ukraine's leadership was able to foster the unimpeded establishment of a national church.

The circle of politicians involved in this was not large. The country's leadership understood the kind of threats that would stand in the way to achieving autocephaly and so it limited the flow of information. The Presidential Administration and later the National Institute of Strategic Studies, whose director is one-time Assistant Chief-of-Staff Rostyslav Pavlenko, and the Foreign Ministry. Without the intermediation of the government and the support of the Ecumenical Patriarch, the idea of a local church could have collapsed many times, and not always because of interference from Russia. Russia, of course, was involved in countering the autocephalous process at every possible level: church, politics and media.

Indeed, some of Moscow's intended effects came to fruition. For instance, the majority of the hierarchy of the Ukrainian Orthodox Church of the Moscow Patriarchate refused to participate in the Unification Sobor. This already gave Russia the opportunity to talk about the schismatic nature of the actions of Ukraine's politicians. Moreover, it also establishes fertile ground for further maneuvers using the church as an instrument for influencing the situation in the country.

Ukraine's politicians were worried about Russian provocation, which could have involved bloodshed, even as they prepared for the

Unification Sobor, such as the tragic events in Odesa during the May holidays in 2014. A few days prior to the convention, the SBU announced that it had prevented some provocative actions that supposedly were to be organized by an Anti-Maidan activist who was hiding in Moscow. The Russian Foreign Ministry claimed that this was a fake. At that point, SBU officials called on Ukrainians not to give into any provocations to avoid becoming "cannon fodder to satisfy the imperial ambitions of the puppetmaster behind the wall."

Although the country's leadership in public acted confident that it had the situation in hand, official Kyiv understood: Russia continues to have opportunities to make subversive moves. The Ukrainian government is most worried that the shift of MP churches to the new national church could also be accompanied by bloodshed, because Russia is prepared to discredit their actions as incitement to a religious war.

■ MINSK REGRESS: MEETINGS = +100 REAL RESULTS = ~0

Over this last quarter of 2018, the Minsk process saw its hundredth meeting come and go, but no one really noticed this jubilee event. This format of negotiations has long languished in stagnation: Russia openly refuses to negotiate with the current Administration, while Ukraine also sees no point in compromising since none of the previous compromises led to peace.

Yet, the negotiating process itself raised the emotional temperature more than once. The pseudo-elections that took place in occupied Donbas could have finally killed the already half-dead talks. Indeed, voices were raised in Kyiv to say that it was time to leave the Minsk process because of the pointlessness of any negotiations with Russia. There were also worries that the Verkhovna Rada would find itself in heated debate over prolonging the Law on the special status of certain counties of Donbas. Surprisingly, international observers said the vote took place without any to-do.

Other concerns emerged over problems with continuing the work of the Trilateral Contact Group, because Leonid Kuchma no longer wanted to represent Ukraine. The Russian press spread rumors that Ukraine would now be represented by another ex-president, Viktor Yushchenko. This was hardly likely to raise confidence among European partners: Chancellor Merkel found it quite difficult to engage in a dialog with him. But, once again, Ukraine prevented accusations that it was disrupting the Minsk process. The decision was made that Yevhen Marchuk, a former premier, would represent Ukraine at the talks. Marchuk has considerable experience working on security issues, and he knows Russia's political elite and its methods very well. This kind of background could ease the negotiating process, provided that it takes place. Based on Marchuk's public statements, the Russian side has been tasked with sabotaging the consultations

at least until the presidential election is over. Putin, for instance, refused to even negotiate over the phone with Poroshenko over the Kerch incident. He also stated point-blank that it was pointless to keep communicating in the Normandy format.

The pseudo-elections in the occupied territories had a harsh reaction from Ukraine. Officials close to the negotiation process kept hoping until the very end that Putin would go for a compromise at the last minute and refuse to organize the election of new leaders for the occupied territories. This would have improved dialog with the West and soften EU sanctions that were up for renewal in December. But once again there were voices raised against any compromise, in part because Moscow has no wish to make the current leadership in Kyiv any "presents." Kyiv understands that Putin will not back down because he has a clear objective: to force his own vision of a solution to the situation through direct talks between Kyiv and the militants running the occupied territories.

This same spirit can be seen in the question of exchanging hostages and releasing the Ukrainians Russia is holding as prisoners of war and political prisoners. Ukraine's negotiators say that Russia is using

the question of releasing its hostages for political purposes. If this does happen, then it will be in such a way as to give the least credit possible for it to Ukraine's leadership.

This last quarter was quite uneasy because of the real threat of a full-fledged war: Russia kept accusing Ukraine of preparing provocations and Ukraine kept warning that the risk of escalation on Russia's part was the highest since 2014. Russia's MFA officials reported about preparations for "provocations by Ukraine's forces in the Donbas." Later, FM Sergei Lavrov said that he expected provocations at the administrative border with Crimea. President Poroshenko meanwhile reported that Russia had deployed some 80,000 soldiers to the Ukrainian border, nearly 1,400 pieces of artillery and missile systems, 900 tanks, 2,300 armored vehicles, and over 500 aircraft.

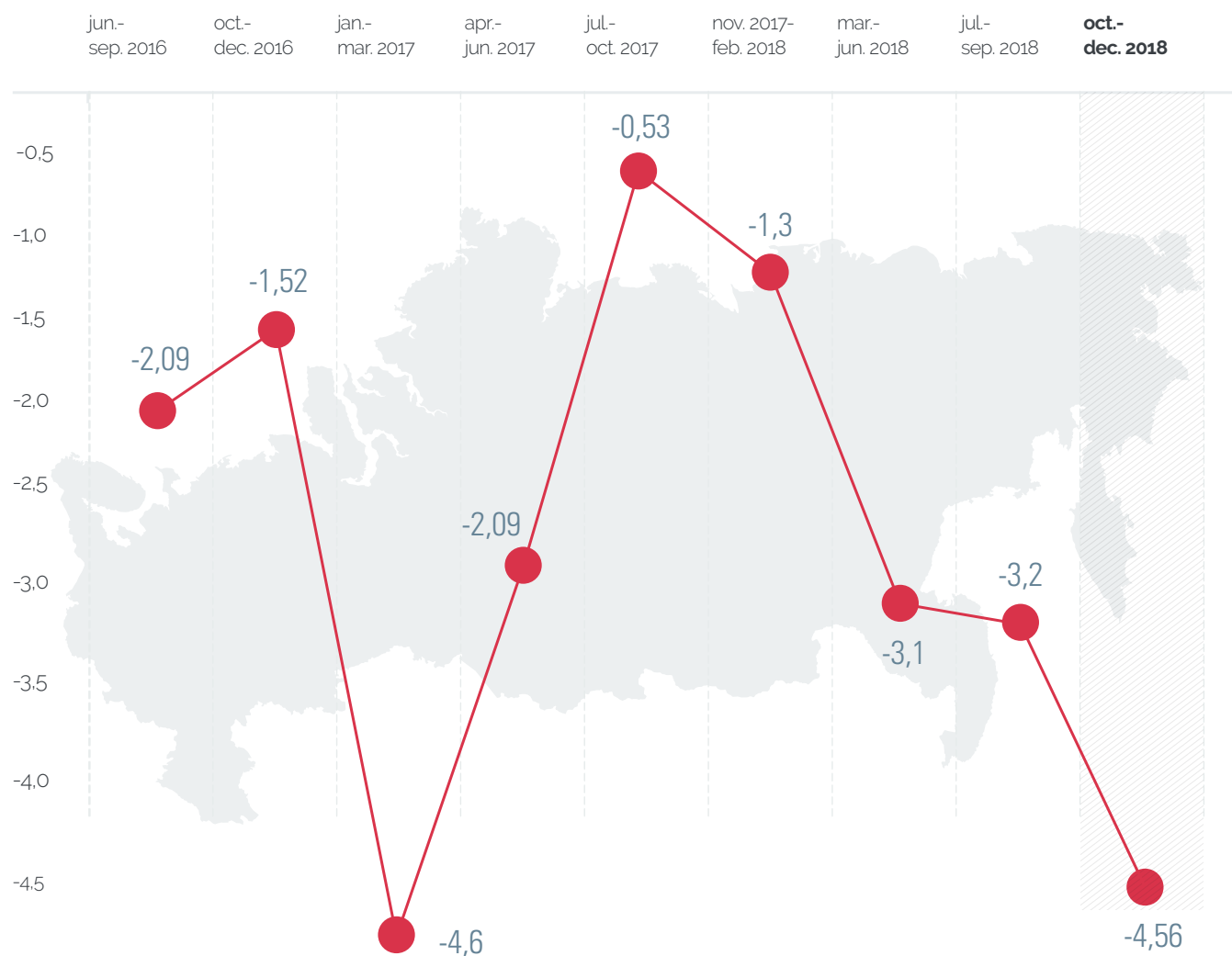
The next quarter is expected to be especially tense as the presidential election looms in Ukraine. Moscow understands that the chances of a loyal candidate coming to power in Kyiv are low. However, it remains interested in the results and clearly would like very much for the current president to lose.

EVENTS IN UKRAINE-RUSSIA RELATIONS (OCTOBER - DECEMBER 2018). POINT-BASED EVALUATION

DATE	EVENT	POINTS
October 4	President Poroshenko signs the extension of the Law on the special status of occupied Donbas.	+1
October 10	Russian Presidential Aide Vladislav Surkov meets with the leader of DNR to discuss an upcoming pseudo-election that Ukraine considers to be in breach of Minsk.	-3
October 12	President Putin meets with the permanent members of the Security Council of the Russian Federation to discuss the question of the Orthodox Church in Ukraine.	-3
October 18	The Russian Duma passes a resolution that accuses the Ukrainian government of aggression and threatens an "appropriate response."	-3
October 22	Putin signs a decree instituting sanctions against physical and legal entities in Ukraine.	-6
November 11	Ukraine condemns the pseudo-elections in occupied Donbas and Russia for supporting them.	-7
November 25	Ukraine accuses Russia of military aggression: Russian FSB vessels attack and capture three naval vessels from Ukraine, along with 24 seamen.	-9
November 26	Martial law is enacted in 10 oblasts of Ukraine for a 30-day period because of a "clear and present danger of a large-scale invasion of Ukraine by the RF Armed Forces.	-7
November 30	Ukraine prohibits men aged 16-60 to enter the country from Russia.	-6

DATE	EVENT	POINTS
December 1	Poroshenko announces that nearly 80,000 Russian military have been deployed to Crimea and occupied Donbas. In Ukraine, fears mount that Russia might launch an all-out attack.	-4
December 5	Ukraine appeals to the signatories of the Budapest Memorandum to immediately start consultations to stop Russia's aggression. Moscow does not respond.	-4
December 5	Chief-of-Staff of the Armed Forces Viktor Muzhenko announces the highest level of threat since 2014 that Russia might launch a new active round of war.	-3
December 6	The Verkhvona Rada approves a decision not to extend the Friendship Treaty with Russia.	-7
December 23	Ukraine's MFA publishes an announcement about a new UN resolution declaring that the human rights situation in Crimea is growing worse and Russia continues to violate its obligations as the occupying country.	-3
December 24	Ukraine's MFA condemns Russia's arbitrary court actions against Crimean Tatars.	-3
December 25	The Government of Russia expands its list of sanctions against physical and legal entities in Ukraine.	-6

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TETIANA GAIDUK

Head of Analytical Projects
e-mail: tetianagaiduk@truman.ua

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

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New Europe Center
Project partner



CONTACTS: 1/8 Ihorivska Str, Kyiv, 04070
Ph.: +380 98 175 97 46
www.truman.ua

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