

# Think Tank Summit for a European Ukraine

## Briefing Paper<sup>1</sup>

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### Main recommendations

- The West should provide support to Ukraine and step up pressure on Russia in order to show that the intervention in Crimea has crossed a “red line” in Europe;
- The upcoming presidential election in Ukraine, scheduled for 25 May, needs to be free and fair, which will require Western support in terms of long-term election observation, tight monitoring of campaign finances, refraining from privileging specific political figures, and keeping open channels of communication with all political forces, including the Party of Regions;
- The formation of an independent anti-corruption authority with broad powers is necessary. The issue of fighting corruption—from higher echelons of power to everyday bribes—can be a significant uniting factor for all Ukrainians;
- External financial and technical support of international financial institutions should be contingent on strict IMF conditionality for key reforms to be carried out under a public advisory body;
- The new government should prioritise those reforms likely to secure immediate, tangible results within the next three months: the primary aims are to reform the country’s judiciary system and secure property rights;
- The EU needs to go beyond the use of soft power and employ economic pressure, mindful of the vulnerability of Russian businesses. In NATO, a package of measures should be prepared for Kyiv, including direct security assurances, support with equipment, and technical assistance on defence planning and intelligence sharing.

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<sup>1</sup> The paper summarises the main points of the debate at the “Think Tank Summit for a European Ukraine”, held on 5 March and hosted by the Polish Institute of International Affairs (PISM), co-organised with the Atlantic Council of the United States, Carnegie Europe, and the European Commission, and co-financed by the Polish-American Freedom Foundation. For more information on the summit, see: [www.pism.pl/Events/Conferences/Think-Tank-Summit-for-European-Ukraine](http://www.pism.pl/Events/Conferences/Think-Tank-Summit-for-European-Ukraine).

## Political Transformation in Post-Revolutionary Ukraine

In order to **draw the right lessons from the missed opportunities for transformation in the aftermath of the Orange Revolution**, it is helpful to compare Euromaidan with the 2004 upheavals. A major difference was in the goals set forth. While in 2004 the protests had a very specific objective—nullifying the results of falsified elections—Euromaidan's goals came about in a dynamic, fluid succession, as the protests combined non-violent and violent means and took on more actors. From a demonstration against the government's decision to reject an Association Agreement with the EU, it gradually grew into a multi-faceted expression of national identity (in civil, not ethnic terms), civic dignity, geopolitical orientation and public frustration with the corrupt state administration. The split in Ukraine went beyond geographical lines: rather, it was a division of generations and value systems. As such, it might be more justified to compare Euromaidan to last year's Gezi protests in Turkey, where we observed the emergence of a new class defiant to the regime.

This underlying difference between the Orange Revolution and Euromaidan needs to be addressed by the West appropriately. In the aftermath of the Orange Revolution, the EU had no clear approach to the squabbling Ukrainian leadership. This time, **due and lasting attention needs to be paid to the political transformation** and some **concrete offers have to be put on the table to keep it on track**.

The major short-term challenge for both Ukraine's new authorities and external actors supporting the reform process is **the upcoming presidential election**, scheduled for 25 May. One of the main concerns is that the presidential election will focus on the personalities of the candidates rather than on their programmes and proposed policies. Arguably, the election is not going to be representative of society at large, given the substantial fragmentation amongst the politicians in both the Maidan camp and the former authorities. In any case, to ensure free and fair elections, the international community should **give priority to long-term rather than short-term observation missions**. It is also necessary to **monitor the campaign funding of all political groupings without favour** for the parties associated with the protests.

During the election campaign and beyond, the West has to **award equal attention to the various political groupings**, maintaining multiple channels of communication. First, it should **refrain from unconditionally privileging one specific political figure or another**. This was the case with Yulia Tymoshenko in the run-up to Vilnius, who has turned out to be much less representative of the pro-European protesters than the EU would have expected. Second, it is **important not to marginalise the Party of Regions**, as happened with the Communist Party of Moldova following the 2009 government change. The Party of Regions has to reform itself, yet it remains essential to preserving the balance of the political scene, because it is the only significant political grouping with outreach to the eastern and southern regions of the country.

**Special attention will have to be paid to the emerging radical right in Ukraine**. Due to the lack of substantial empirical research on the subject, there is very limited understanding of this phenomenon, and ideological-based popular support for far-right political groups is generally overestimated. For instance, in the 2012 parliamentary

elections, Svoboda garnered as much as 10.44% of the vote and won seats because it was the party most opposed to the Party of Regions, rather than for its nationalist postulates. Today, Russia is eager to capitalise both domestically and internationally on this poor comprehension of the right, choosing to portray Pravy Sektor as the most powerful political formation in the country and one that poses a threat to democracy and stability in Ukraine. Yet, the facts contradict this thesis. Suffice it to note that among the “Heavenly Hundred” (those killed during the protest) there was not a single member of Pravy Sektor.

To secure the opportunity for a genuine political transition, **the engagement of civil society and the civic activism generated during Euromaidan must be preserved and further developed.** The role of civil society will be essential in advocating for constitutional reform (to eliminate the presently built-in tensions between the competences of the president and the government) and monitoring the actions of the new authorities while demanding more transparency and increased rule of law.

The issue of fighting corruption—from the higher echelons of power to everyday bribes—could become a significant uniting factor for all Ukrainians. In terms of handling petty corruption, it can be worth taking a **look at the Georgian experience in providing quick fixes to improve the work of police and public administration.** As for high-level corruption, **attempts need to be made to disconnect business from political power.** In spite of the current change of power, the impact of oligarchs on Ukraine’s political system will remain a significant problem. With gubernatorial positions in some eastern regions entrusted to major oligarchs as a “transition tool” for stabilising those regions, the formalisation of oligarchic control over the executive raises concern about the long-term effects. The idea of federalisation has been criticized precisely because it would only work in a mature society: under the current system of paternalism and “limited access” to resources, it is bound to weaken rather than strengthen state institutions.

Finally, **both the EU and the U.S. need to improve public diplomacy in Ukraine** in order to **transmit to the population more clearly the aims and advantages of association with the EU**, but also to be able to **manage better the expectations of Ukrainians. Communication has to be particularly improved with the eastern and southern regions**, both during the campaign and beyond it. Part of the population there genuinely fears that Euromaidan alienated Russia and that they cannot count on its support in the future. The Russian “tourists” in these regions are effectively capitalising on these fears.

## Mapping Priorities for Economic Reform

Unlike the democratic transformation, the measures necessary for economic transition in the country appear more clear. They seem to require two conditions. First, genuine political will, which should not fall prey again to the oligarchs’ interests. Second, the resources needed for implementation of the necessary reforms. With respect to the first, **swift steps are needed towards institutional consolidation in order to prevent the new political elite from adopting the old corrupt schemes under the pressure of oligarchic groups** in the current parliament. It is only on this condition that

a number of further reforms will succeed, such as anti-monopoly legislation, state aid and subsidies.

Regarding the financial aspect of the reforms, **in addition to external loans (e.g., from the IMF) and potential restructuring of Ukraine's debt, Ukraine's government can also tap into domestic revenue sources: the recovery of assets and the accounts of corrupt officials, closing loopholes for gas and coal arbitrage, etc.** It is estimated that Ukraine loses about \$8 billion a year on corrupt public procurement schemes and bleeds \$3.6 billion annually on gas arbitrage (resulting from the difference between domestic and imported gas prices). Inadequate pricing and low energy efficiency contribute to Naftogaz indebtedness and put a burden on the state budget, with losses by this state-owned giant amounting to 6% of Ukraine's budget in 2013. Closing such corruption-prone loopholes can in time help alleviate the country's budgetary problems, though only with proper oversight. **The assistance of an advisory mission of international professionals could be much welcome** in this respect.

External donors and lenders need to pay particular attention to the proper design of conditionality on financial assistance. From the point of view of the legitimacy of IMF-required reforms, **it is imperative that legislative changes are accepted by Parliament with the support of all of the political formations**, including the Party of Regions. **Conditionality also needs to foster a shift from the so called "limited access social benefits system", which gives privileges to the elites to the detriment of the state budget, towards more of a "social-welfare system".** One way to do that, is to **place the burden of the reforms and budget cuts on large businesses rather than the impoverished population.** For instance, **in order to bring energy prices to market levels, price increases for households should be mitigated by individual aid, rather than by subsidising industrial consumers.**

To offset one of Ukraine's main vulnerabilities to Russian economic pressure, its dependence on energy supplies, **the reverse capacity of gas interconnectors needs to be enhanced, not only with Slovakia but with all neighbouring states.** As for the high prices Ukraine currently pays for Russian gas, the new Ukrainian government should **seek arbitration in Stockholm to dispute the price-formation clauses of the 2009 gas agreement with Russia**, given that the chances for winning such a case are very high. **Using the "clause of war" as an emergency provision to suspend the agreement is also one possibility.**

**All of the above measures will need to be taken or at least initiated by the new government within very tight time constraints.** It is estimated that there are **at most three months** to start crucial, basic reforms before the country is swamped by the electoral cycle and the outside world loses interest. Although there is relative confidence in the competence of the economic part of the new government, some appointments to state administration have raised concerns that the authorities are about to start campaigning rather than focus on reforms. Forcing the bureaucracy to support these reforms rather than participating in the elections will be a big challenge.

As for the tasks awaiting the EU, with the association process now resumed, the **DCFTA should be signed right after the presidential elections so that it will have full political legitimacy.** In the meantime, **its content should be reviewed and**

debugged in some clauses that are perceived as a threat to the present, ailing economy of Ukraine. As a “first aid” measure before signing the DCFTA, **EU Member States should approve the unilateral liberalisation of market access for Ukrainian imports as soon as possible to counter likely trade restrictions from Russia.** Additionally, the **DCFTA should be better promoted to Ukrainians by raising awareness** of the facts that the DCFTA will not only increase Ukrainian exports to the EU but also that having EU certification will allow products to enter Asian or African markets.

### **Appropriate Steps Vis-à-vis the Occupation in Crimea**

**Russia’s intervention in Crimea is a test case for the West** in at least two regards. First, the invasion in Crimea presents the first major Europe-wide crisis since the Balkan wars of the 1990s, potentially though on an even greater scale given as the other side of the conflict is a nuclear superpower. Second, the intervention in Crimea has confirmed the West’s continuing inability to deter Russian interference in the post-Soviet zone despite the lessons of the 2008 Russo–Georgian War.

When looking at **the rationale behind Russia’s policy towards Ukraine**, it seems that the long-term gains from its obstructive short-term policy (thwarting the Association Agreements with Armenia and Ukraine in November) were not at all thought through. As Euromaidan succeeded in ousting the malleable Yanukovich from power, Russia was eventually confronted by this loss of control over domestic developments in Ukraine. This made **Russia ready to face high risk and significant temporary losses** in order to restore its position in Ukraine through a number of specific actions. First, it has sought to preserve the political dysfunction in Ukraine by imposing huge economic costs in the country through preparation for war. It hopes the economic instability will be mirrored by political imbalances, as the suggested constitutional changes (e.g., federalization of Ukraine or cutting off Crimea and bringing it into the Russian Federation) would deprive the central government of the legitimacy to hold elections and carry out reforms. Second, Russia aspires to retain its military presence in Crimea, with potential for further destabilisation elsewhere in Ukraine. Finally, by erasing the shaky security architecture that existed until now, Moscow seeks to deprive Ukraine of the predictability and credibility that its Western partners expect in the long run. In ideological terms, Russia also aims at proving that the U.S. has failed to deliver on its promises from the early 1990s: fostering the transformation of the region to free market economies. In light of the recent history of peaceful revolts in post-Soviet countries and massive protests on its own soil, Russia is intent on demonstrating that revolutions are not the way to go.

Indeed, **Russian intervention in Crimea is bound to have effects beyond the peninsula**, both in Russia itself and in the region at large. Among the expected consequences could be the partial re-nationalisation of defence policy in Poland and the Baltic states, among others, and the potential for political radicalisation in Ukraine despite the positive developments of the past few months. If Russia’s gambit fails, it would undermine its Eurasian Union and weaken Putin’s position, both domestically and abroad. If potential sanctions are imposed on Russia it would affect Putin’s domestic power base, although the more active involvement of external actors would give him a pretext to

mobilise against an “external enemy”. **Putin’s domestic game might also suggest a focus on eastern and southern Ukraine rather than diverting attention and resources to occupied Crimea.**

In the face of such a complex Russian challenge to the West’s reactions, **the EU needs to go beyond soft power and employ economic pressure, mindful of the vulnerability of Russian businesses. As for NATO**, whereas a consensus on a military response is unlikely, **a package of cautious and effective measures should be prepared for Kyiv, including direct security assurances, support with equipment and technical assistance with defence planning and intelligence sharing on Russian military movements** (similar to the 2008 war with Georgia). Even such steps should already introduce new elements to Russia’s strategic rationale. **More resolute measures could involve the activation of a NATO Response Force or the introduction of naval assets into the Black Sea.** Even if it proves impossible to agree on such actions at the NATO level, they can be initiated by **“coalitions of the willing” with the crucial support of the United States.** It is also important to **make such support visible to the wider public so that the credibility of NATO is highlighted** after the lack of an overt reaction since the start of the occupation of Crimea.

With the “Crimea challenge” now raising serious strategic questions for NATO, the anniversary of the enlargement of the Alliance in Central Europe and the preparations for the September NATO summit should be used to **conduct some reflection on a number of key issues: the future role of NATO in the region, its relations with Russia, and its policy of reducing defence expenditures.** The occupation of Crimea is a weighty argument against those members more passive in the region about the real security threats posed by Russia. This can also be a moment to **bring US attention back to Eastern Europe.**

Yet, international concern with Ukraine needs to go beyond the EU and NATO reactions. The **engagement of Turkey is also crucial**, given its interest in the security of the Black Sea region as well as its affinity for the Crimean Tatars—a major force opposing Russia’s occupation of Crimea. **The CIS states and members of the Shanghai Cooperation Organization should also be involved on a diplomatic level** to counter Russia’s aggression, as the Crimean case might present a dangerous precedent for their own territorial integrity. This refers particularly to the larger Central Asian countries, such as Kazakhstan and Uzbekistan, which have already voiced veiled condemnation of the Russian acts in Crimea.