

Is there reason to hope for Minsk II?

Michael Emerson

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The last Minsk agreement on eastern Ukraine failed to bring peace. The latest looks similar – but the context has changed.

The German chancellor, Angela Merkel, called it “no more than a glimmer of hope” after all-night negotiations in the Belarus capital, involving the leaders of Russia, France, Ukraine and herself, concluded on February 12th.

Indeed, many of the 13 paragraphs of Minsk II were already in Minsk I of 5 September 2014, supplemented by additional language a fortnight later: ceasefire, withdrawal of heavy weapons (now with wider buffer zones), monitoring by the Organisation for Security and Co-operation in Europe, local elections, pardon and amnesty, return of prisoners, humanitarian assistance, withdrawal of foreign military and decentralisation of powers for “some areas of Donetsk and Luhansk regions” (those separatist-controlled). Most of the provisions of Minsk I were violated.

So what will be different this time? First, there are additional provisions that may be significant. Secondly, the strategic political and economic context is categorically different.

Commitments

Constitutional reform is pledged by Kyiv for the end of 2015, with decentralisation to include special and permanent provisions for the separatist regions. These are somewhat stronger and more precise commitments. There is a link to the “reinstatement of full control of the state border” of Ukraine by the end of 2015, conditional not only on the reform but also the “agreement” of the separatist regions, which themselves are largely controlled by Russia. This latter condition must have been a bitter pill for the Ukrainian president, Petro Poroshenko, to swallow. Compliance must be regarded as unlikely.

The economic provisions, however, are potentially not only more plausible but also in due course of serious political significance. Public-finance flows between the Ukrainian state and the separatist regions – pensions, taxation, energy-utility bills and so on – are to be restored, as also the Ukrainian banking system there. This confirms that while Russia was happy to absorb Crimea, it is not ready to take on the economic and financial burden of a war-

Michael Emerson is an associate senior research fellow at the Centre for European Policy Studies. This Commentary was (first) published by OpenSecurity on 13 February 2015 (www.opendemocracy.net/opensecurity/michael-emerson/is-there-reason-to-hope-for-minsk-ii).

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devastated eastern Donbass, which has twice the population. Indeed, the separatist regions are ten times the size of Transnistria, a frozen conflict zone in Moldova abutting Russia and seen by some as a model.

Therefore the regions have to remain Ukraine's economic responsibility, and the financial resources of the EU and the West have to stand behind Ukraine's near-bankrupt state. This is to going to be another long and complicated story, involving the International Monetary Fund, which also on February 12th agreed a second round of funding for Kyiv, its total commitment thereby raised to \$17.5 billion. The separatist regions, once drained of their war-inspired adrenalin, will be back in the normal boring business of economic and financial recovery and reconstruction. This will require negotiation with Kyiv and an organised sharing of competences in finance and economic relations, whatever it is called (decentralised or federalised, Catalonia or Scotland).

This leads on to the issue, so far barely discussed in the heat of war, of the future economic relations between the separatist regions and the rest of Ukraine, with its deep free-trade agreement with the EU, and with Russia and thence also the customs union of the Eurasian Union and trading relationships with the rest of the world. Poroshenko has made passing references to the notion of the separatist regions becoming a free-trade zone. This is a half-baked idea, which would run into serious problems, like establishing 'rules of origin' controls for goods sourced there passing into the rest of Ukraine.

A far better deal would be for all of Ukraine to continue implementing its agreement with the EU and then to negotiate a free-trade agreement with the Eurasian Union, including of course Russia, replacing the non-functioning such agreement with the latter. The EU, which already consults Ukraine and Russia trilaterally, could table this as a logical extension within the framework of EU competences of what Merkel and her French counterpart, François Hollande, worked on before and at Minsk vis-à-vis political and security relationships. Advances along these lines could naturally lead to ending the sanctions regime between the EU and Russia.

Supply chains

Local economic geography supports this logic. The separatist regions are big producers of metal products, which need heavy port facilities for exports and imports. The port city of Mariupul will have to continue to serve that purpose but it falls just outside the separatist regions. Mariupul itself has major steel plants, with complex supply chains into the separatist regions.

This is a scenario for returning to sanity and normality. The open question is whether the Russian president, Vladimir Putin, would be interested in it — as against careering along the track of the embattled authoritarian leader who looks to 'patriotic', foreign military adventures to sustain his popularity at home.

The strategic context has changed since Minsk I, in economic and security terms. The sanctions, coupled with the huge decline in the oil price, are driving Russia into recession and rapid erosion of its financial reserves. Putin's line seems to be that the recession will be over in two years, with recovery of the oil price, and in the meantime Russia has reserves enough. But major economic figures in Moscow (such as the former finance minister Alexei Kudrin and former economy minister German Gref) are warning that Russia's economic-policy problems go far deeper. The Russian people may be prepared to endure hardship stoically but economic isolation while evading the need for modernisation is ultimately unsustainable.

Better to get out of the war mode — especially as voices in the US in favour of arming Ukraine strengthen, with the appalling vista of escalation closer and closer to direct military confrontation between Russia and the US. The full story of Merkel's whirlwind diplomacy in recent days, in Moscow, Washington, Minsk and Brussels, remains to be told. But one can readily speculate as to what she said:

To Putin: unless we get a real peace in Ukraine now, you will get the US arms supplies flowing. I, Merkel, am willing to go to Washington to persuade Obama not to do this, if you move on a peace.

To Obama: we must think through the consequences of arming Ukraine. If you do that, it would probably trigger a pre-emptive strike by the Russian military before those supplies are put in place, sending the tanks to take Mariupul and on to establish a land corridor down the Azov Sea coast to Crimea. A siege of Mariupul would mean war on a scale way beyond what has been seen — it could become Ukraine's Stalingrad. Maybe Putin would play this Russian roulette more readily than you (Obama).

But even Putin has to calculate the stakes, and ponder the costs of his *NovoRossiya* campaign and the law of unexpected consequences. And so the 17 hours of non-stop negotiation in Minsk through the night of February 11-12th may have been a turning point, when strategic perspectives came more vividly into focus while the local details of Minsk II were thrashed out.

The sceptics have a lot of evidence on their side. But the strategic context has changed more than the wording of the texts.