



RUSSIA'S LONG WAR ON UKRAINE

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RUSSIA'S LONG WAR ON UKRAINE

TRANSATLANTIC ACADEMY PAPER SERIES

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Introduction	1
Why War Came to Ukraine	2
Political Outcomes and Prospects: Russia's Long Game Ahead	9
Western Responses: Accommodation or Containment?	15

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1 INTRODUCTION

The clear de-escalation in the Russian-Ukrainian war observable since late summer 2015 suggests that Russia may have decided, at least for the time being, to turn from mostly military to mostly economic and political instruments. However, there is no indication that its strategic offensive goals toward Ukraine have changed. Moscow still seems to want, in the long term, to put Ukraine under its political control. To that end Russia, has promoted the “federalization” (or “decentralization”) of Ukraine: dividing it into large regions with strong powers, possibly including veto power over key decisions of the federal government in Kyiv — a scenario that seems hardly possible under the current political circumstances. Despite the increased political dialogue between Moscow and individual Western capitals, the crisis seems to be far from over, and a full return to “business as usual” between Russia and the West seems highly unlikely.

Russia’s war on Ukraine, which began in February 2014 and included the occupation and illegal annexation of Crimea and the support of separatist militias in eastern Ukraine, has led to the biggest crisis in relations between the West and Russia since the Cold War. The gravity of what has occurred and the continued presence of major risks for regional stability posed by the conflict between Russia and the West create incentives for closer analyses of the crisis. This sort of close look reveals that the Kremlin’s moves have not been knee-jerk, but rather well-plotted and consistent with a long history of wanting to draw Ukraine closer to Russia. Several questions are critical. What were the major reasons for the crisis? What are the consequences of the crisis (especially for Ukraine), what is current state of play, and where we are heading? And finally, how should Europe and the United States react?

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2 WHY WAR CAME TO UKRAINE

Despite the political will of Moscow to keep Ukraine as close to it as possible, Russia's weakness and its economic interests, as well as Ukraine's priority of stronger independence, led to a gradual weakening of links between the two countries.

It is a popular belief that Russia's war on Ukraine (including the annexation of Crimea) was an emotional defensive reaction by Russian President Vladimir Putin to the EU's attempt to integrate Ukraine and to the fall of Yanukovich regime. However, some key facts suggest that this was not necessarily the case. Returning Ukraine to Russia's strategic control has been long-term goal of Moscow since the break-up of the Soviet Union. In that context, Russia pursued an offensive strategy of forcing Ukraine to join the Customs Union and to abandon its association with the EU, which led to political crisis and eventually revolution in Ukraine. As the situation in Ukraine developed against Russia's interests, Moscow decided to intervene, including with military means, to divide Ukraine, with the occupation of Crimea and subsequently war in Donbas.

Strategic Control Over Ukraine As A Russian Policy Priority

For various reasons, Ukraine has been and remains crucial for Russia. Medieval Kievan Rus' has been called the cradle of Orthodox Christianity in the Russian lands, and Russia's political elites have largely embraced concepts of Ukrainians and Russians (along with Belarussians) being "one people." Much of the territory of contemporary Ukraine was part of different Russian states, whether the Russian Empire or the Soviet Union, for at least two centuries. Soviet Ukraine, with its rich agriculture and developed industry, played an important part in Soviet Union's economy while Crimea (transferred from the Russian Soviet Federative Socialist Republic to the Ukrainian Soviet Socialist Republic in 1954) was a strategically important Soviet military stronghold in the Black Sea area. Ukraine's push for independence in late 1980s and early 1990s strongly contributed to the break-up of the Soviet Union. The leadership of the new Russian Federation was interested in maintaining some form of state integration

including Ukraine, which led to the creation of the Commonwealth of Independent States (CIS) established by Russia, Belarus, and Ukraine in early December 1991. However, despite the political will of Moscow to keep Ukraine as close to it as possible, Russia's weakness and its economic interests, as well as Ukraine's priority of stronger independence, led to a gradual weakening of links between the two countries.

When the Russian government structures and the Russian economy became stronger under the leadership of Vladimir Putin starting in 1999, the Kremlin increased its efforts to reintegrate post-Soviet states (including Ukraine) into its sphere of influence. The main manifestations of this policy were subsequent Eurasian integration projects. First was the Eurasian Economic Community (EEC) lobbied for by Putin and formally created in October 2000.¹ Ukraine refused to join, became an observer in May 2002. The Kremlin did not give up and provided political and economic support for outgoing Ukrainian President Leonid Kuchma and his prime minister and chosen successor, Victor Yanukovich, including reducing the price of Russian gas for Ukraine by more than a half in 2003. The political price for Ukraine was its participation in the new Moscow-led initiative: the Single Economic Space (SES) of Russia, Ukraine, Belarus, and Kazakhstan, declared by the four presidents in February 2003, with the basic agreement following in September. Apparently there was some sense of urgency in Moscow to pursue its integration project in the post-Soviet space connected with the development of the

¹ The Eurasian Economic Community contained states that had previously agreed in 1995 to establish a customs union: Russia, Belarus, and Kazakhstan, as well as Kyrgyzstan, Tajikistan, and Uzbekistan, and was meant to be a Russia-led analogue of the European Union.

EU's policies there.² However after the "Orange Revolution" in Ukraine in the winter of 2004-05, the new pro-European government in Kyiv, much to Moscow's displeasure, discontinued its participation in the project and prioritized European integration, leading to the failure of the SES.

But again, Russia did not give up. In June 2009, Putin, then in his capacity of prime minister of Russia, announced preparations for the establishment of Customs Union (CU) between Russia, Belarus, and Kazakhstan (along with the plan initially agreed within the EEC in 2007). A series of documents creating a basis for the Customs Union were signed in November and it entered into force on January 1, 2010, later followed by its next stages: the Common Economic Space (CES) and the Eurasian Economic Union (EEU).³

² European Commission President Romano Prodi's concept of "ring of friends" along the EU's southern and eastern borders (fall 2002) led to the formulation of the EU's European Neighborhood Policy (spring 2003 – spring 2005). Moscow strongly criticized EU plans, accusing Brussels of attempting to establish "cordon sanitaire" along Russia's Western borders. Cf. "Выступление заместителя министра иностранных дел России В. А. Чижова на конференции 'Расширяющаяся Европа: новая повестка дня' по теме 'Черноморское и кавказское соседство Европы'" [Speech by the deputy foreign minister of Russia V.A. Chizhov at the conference "Enlarging EU: the new agenda" on the subject "Black Sea and Caucasian neighborhood of Europe"], Bratislava (March 19, 2004), http://archive.mid.ru/bdomp/dip_vest.nsf/99b2ddc4f717c733c32567370042ee43/5cab9ebee9ab1fb1c3256e9b0033c3ae!OpenDocument.

³ The Common Economic Space (CES) formally came into being on January 1, 2012. But earlier in November 2011, Putin had announced his initiative to create yet another step of integration: the Eurasian Union (or Eurasian Economic Union) to be created by 2015. See I. Wisniewska, "Eurasian Integration: Russia's Attempt at the Economic Unification of the Post-Soviet Area," Centre for Eastern Studies (OSW), OSW Studies 44, (July 2013), http://www.osw.waw.pl/sites/default/files/prace_44_eurasian-integration_net.pdf; N. Popescu, "Eurasian Union: the real, the imaginary, and the likely," Chaillot Paper 132, European Union Institute for Security Studies (September 2014), http://www.iss.europa.eu/uploads/media/CP_132.pdf.

Due to its political, demographic, economic, and strategic weight⁴ as well as its historical and cultural links with Russia, Ukraine's participation in all of the above-mentioned projects was a priority goal in Moscow. This was especially the case with the CU/CES/EEU, described by Putin as not only an economic project but also "civilizational,"⁵ (and more geopolitical in fact). The intention has been to create an area of Russian strategic control in the post-Soviet space, where states are bound together by Moscow-controlled structures of political, economic, and possibly military integration and refrain from pursuing any policies that may be perceived in Moscow as going against Russia's interests (the so-called policy of good neighborliness). Various conceptual frameworks have been developed by the Kremlin to justify and frame this approach, "Russian World" (*Russkiy Mir*) and "historical / Great Russia," among them.⁶ Their common premise is that some natural unified civilizational space exists, where subsequent forms of Russian empires historically developed and where Ukraine remains an important part.

On the other hand, Moscow could not allow Ukraine to become part of the EU's normative space through its Association Agreement (AA) process. Such a scenario would not only undermine Russia's attempts to put Ukraine under its strategic

⁴ Ukraine is second in population, second in the size of the armed forces, third in nominal GDP, and third in area among the post-Soviet states, behind Russia and in the latter cases Kazakhstan.

⁵ "The Eurasian Union is a project for maintaining the identity of nations in the historical Eurasian space in a new century and in a new world," Putin said at the Valdai Discussion Club meeting in September 2013. See President of Russia, "Meeting of the Valdai International Discussion Club," (September 19, 2013), <http://eng.kremlin.ru/news/6007>.

⁶ See M. Laruelle, "The Russian World: Russia's soft power and geopolitical imagination," Center on Global Interests (May 2015), <http://globalinterests.org/2015/05/26/the-russian-world-russias-soft-power-and-geopolitical-imagination/>; V. Putin, "Russia: The national question," *Nezavisimaya Gazeta* (January 23, 2012), <http://rt.com/politics/official-word/migration-national-question-putin-439/>.

Due to its political, demographic, economic, and strategic weight as well as its historical and cultural links with Russia, Ukraine's participation in all of the Eurasian integration projects was a priority goal in Moscow.

Russia began to push Ukraine to join Eurasian integration with increasing intensity in the spring of 2010, as the Customs Union was created and following the election of Viktor Yanukovich.

control but would also create a risk that successful European reforms would transform Ukraine, making it a role model in the European part of the post-Soviet space and challenging the legitimacy of Putin's regime in Russia.

Friendship Enforcement: Russia Pushes Ukraine Toward the Customs Union

Russia began to push Ukraine to join Eurasian integration with increasing intensity in the spring of 2010, as the Customs Union was created and following the election of Viktor Yanukovich (perceived as pro-Russian) as the fourth president of an independent Ukraine in February 2010.⁷ Both carrots (promises of serious economic and financial benefits of membership) and sticks (threats of economic retaliation in case of non-membership) were used.⁸

Yanukovich wanted Moscow to allow Ukraine to finalize negotiations on and sign the Association Agreement with the European Union, including a Deep and Comprehensive Free Trade Agreement

(DCFTA), to boost his chances of staying in power and in accordance with the economic interests of most of Ukraine's oligarchs (which had been moving increasingly toward the European market). He also wanted Moscow to change the highly unfavorable gas contract of 2009.⁹ In exchange for that, he offered to give up Ukraine's NATO membership bid (knowing that the Alliance had lost any appetite for eastern expansion after the Russian-Georgian war of 2008) and to provide guarantees of Ukraine's non-aligned status as well as agreeing to the long-term extension of the presence of the Russian Black Sea Fleet (RBSF) bases in Crimea.¹⁰ However Moscow failed to reciprocate, only offering a temporary 30 percent rebate, rather than a new gas contract. Russia agreed to lower the (very high) price of its gas to Ukraine by 30 percent, but through a temporary rebate, not by changing the gas contract (which Moscow refused to do), conditioned on the continued presence of the RBSF in Crimea.¹¹

⁷ When President Yanukovich declared in Moscow in March 2010 that his intention to make a positive breakthrough in relations with Russia, Prime Minister Putin responded immediately and boldly: "Join the Customs Union!" See *Lenta*, "Путин предложил Украине вступить в Таможенный союз" [Putin offered Ukraine to join the Customs Union] (March 5, 2010), <http://lenta.ru/news/2010/03/05/join/>. Russia kept repeating the offer, e.g. during meetings of Presidents Yanukovich and Medvedev in November 2010. Before Putin's visit to Ukraine in April 2011, Russia started a broad campaign to pressure Ukraine to join the Customs Union.

⁸ Representatives of the Russian government (including Putin) suggested Ukraine could strongly benefit economically from joining the Customs Union (numbers ranging from \$5 to 10 billion annually were mentioned). But others warned of the possibility of "trade wars" and "gas wars" if Ukraine refused to join. Medvedev stated in May 2011 that Ukraine had to choose between integrating with the EU or CU. See T. Sinina, "В союзники или в союзники?" [Allies or fellow prisoners?] *Zerkalo Nedeli* (April 8, 2011), http://gazeta.zn.ua/POLITICS/v_soyuzniki_ili_v_souznyki.html; *Korrespondent*, "Медведев: Украина должна выбрать - или ЕС, или Таможенный союз," [Medvedev: Ukraine has to choose: the EU or the Customs Union] (May 18, 2011), <http://korrespondent.net/business/economics/1218519-medvedev-ukraina-dolzha-vybrat-ili-es-ili-tamozhennyj-soyuz>.

⁹ The contract resulted from the Russian-Ukrainian "gas war" of January 2009, when Moscow blackmailed Kyiv to agree on significantly higher gas prices on a take-it-or-leave-it basis after stopping gas exports to Ukraine and gas transit through Ukraine to European customers for two weeks. Then-Prime Minister Yulia Tymoshenko's signing the agreement, which later served as a pretext for Yanukovich to prosecute her for abuse of power. Yanukovich maintained in 2011 that Ukraine had been "overcharged" by Gazprom for \$5-6 billion per year (approximately 20 percent of Ukraine's budget). See *Kommersant*, "Виктор Янукович: мы не бедные родственники и не будем ими никогда," [Viktor Yanukovich: we are not poor relatives and we won't ever be] (September 6, 2011), <http://www.kommersant.ru/doc/1766755>.

¹⁰ Yanukovich abolished the government bodies responsible for Ukraine's integration with NATO in April 2010 and in the same month signed the Kharkiv agreement extending the lease for the RBSF bases in Crimea for more 25 years (from 2017, when the previous agreement expired, until 2042), and initiated and signed a law declaring, among other things, Ukraine's non-aligned status in July 2010.

¹¹ Text of the agreements in Russian: KM, "Тексты соглашений Украины и России опубликованы," [The Texts of the Ukrainian - Russian agreements published] (April 22, 2010), http://www.km.ru/news/teksty_soglashenij_ukrainy_i_ros.

As Russia's pressure for Ukrainian membership in the Customs Union increased, Kyiv responded in the spring of 2011 with a counter-proposal: the so-called 3+1 formula, providing for Ukraine's gradual association with the Customs Union, without abandoning its integration with the EU.¹² However, this concept was flatly rejected by Moscow.¹³ Russia tried to inflame difficulties in Ukraine's relations with the EU due to the growing authoritarian practices of Yanukovich's regime.¹⁴ After the last minute cancellation of Yanukovich's visit to Moscow scheduled for December 18, 2012, which

¹² The concept envisaged sectoral free trade agreements between Ukraine and the CU, joint infrastructural projects, harmonization of transport fees and rules, and joint regulatory harmonization based on European standards. See Sinina.

¹³ It was corroborated in public by Medvedev in August 2011 and March 2012. He warned that non-members of the CU among CIS states would face negative economic consequences as a result of their status. See LB, "Медведев поставил ребром вопрос членства Украины в ТС," [Medvedev brings matter of Ukraine's membership in the Customs Union to a head] (August 24, 2011), http://lb.ua/news/2011/08/24/111783_medvedev_postavil_rebrom_vopros_.html; ZN, "Россия забраковала украинскую формулу сотрудничества с Таможенным союзом," [Russia considers the Ukrainian formula of cooperation with the Customs Union as flawed] (March 12, 2012), http://zn.ua/ECONOMICS/rossiya_zabraovala_ukrainskuyu_formulu_sotrudnichestva_s_tamozhennym_soyuzom.html; Unian, "Медведев: у стран, не вступивших в Таможенный союз, возникнут сложности," [Medvedev: states that won't join the Customs Union will face problems] (March 20, 2012), <http://www.unian.net/world/624171-medvedev-u-stran-ne-vstupivshih-v-tamozennyiy-soyuz-vozniknut-slojnosti.html>.

¹⁴ The Association Agreement between Ukraine and the EU was initialed on March 30, 2012, marking the formal end of five years of difficult negotiations between the parties (negotiations on the political chapters of the agreement started in February 2007, while negotiations of its economic part, the Deep and Comprehensive Free Trade Agreement or DCFTA, started in February 2008, following Ukraine's WTO accession). However the signing of the agreement was postponed due to increasing tensions between the EU and Ukraine over the growing authoritarian practices of the Yanukovich government (the arrest of opposition leader Yulia Tymoshenko, the legal case against her, and sentencing her to seven years in prison in October 2011 was the most visible manifestation of the practices, though not the only one).

angered the Kremlin,¹⁵ Russia turned to direct economic pressure on Ukraine. In the summer of 2013, Russia introduced various protectionist measures and a temporary (week-long) trade blockade against Ukraine.¹⁶ After forcing Ukraine to make small steps toward the Customs Union,¹⁷ Russia finally succeeded in forcing Yanukovich's

¹⁵ Based on official statements and media leaks, one may conclude that during that visit Yanukovich was supposed to sign a set of important agreements concerning trade and energy relations (most probably they envisaged the creation of a Russian-Ukrainian gas consortium that was to lease Ukraine's gas transport system in exchange for lower gas prices; they could also have concerned the gradual integration of Ukraine into the Customs Union, starting with the signing of some Customs Union documents).

¹⁶ In late January 2013, Gazprom demanded that Naftohaz repay \$7 billion in outstanding debts on Russian gas not taken by Ukraine in 2012 (based on contract's take-or-pay principle); Russia in fact warned Ukraine that it would put an end to free trade zone rules for Ukraine in case of its entering into a DCFTA with EU. See Y. Barsukov, "Украине отказали в невозможном," [Ukraine was denied the impossible] *Kommersant*, (August 27, 2013), <http://www.kommersant.ru/doc/2264416>. Starting in mid-July 2013, Russia adopted a series of protectionist measures against Ukraine, including in steel tubes, sweets, and oil products, targeting Ukrainian oligarchs in particular. See Z. Ul'yanova, "Принуждение к братской дружбе," [Brotherly friendship enforcement] *Gazeta.ru*, (August 19, 2013), http://www.gazeta.ru/politics/2013/08/19_a_5597565.shtml; ZN, "Русский план, осмысленный и беспощадный," [Russian plan, sensible and merciless] (August 19, 2013), http://zn.ua/columnists/russkiy-plan-osmyslennyi-i-besposhadnyy-127664_.html. Between August 14 and 20, 2013, Russian customs officers tightened controls for most Ukrainian imports.

¹⁷ Following the Yanukovich-Putin meeting in Sochi, a memorandum on enhanced cooperation between Ukraine and the Customs Union was signed on May 31, 2013, providing Ukraine with a kind of informal observer status (it envisaged the establishment of Ukraine's permanent representative to the Customs Union, possible Ukrainian participation in some meetings, and Kyiv's declaration to honor basic Customs Union norms and refrain from statements and actions undermining Customs Union interests). See LB, "В интернете появился текст Меморандума с Таможенным союзом," [The text of the Memorandum with the Customs Union on the Internet] (May 30, 2013), http://lb.ua/news/2013/05/30/202847_internete_poyavilsya_tekst.html.

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government to abandon the Association Agreement with the EU in November 2013.¹⁸

Toward the Ukrainian Revolution: From Supporting Yanukovich to Dividing Ukraine

This announcement by Prime Minister Mykola Azarov on November 21 came as a shock for many Ukrainians, who truly believed an Association Agreement with the EU would provide Ukraine with a chance to modernize along European standards and create the preconditions for a better future.¹⁹ A relatively small protest movement against the decision not to sign the agreement turned massive following a brutal police crackdown against the protesters on the night of November 29/30 and became more of a protest against the Yanukovich regime.

Russia's reaction, apart from strong accusations against the West for "fomenting unrest" in

Ukraine,²⁰ was initially to offer political and economic support for Yanukovich.²¹ In such tense circumstances, Moscow dropped public references to the issue of Ukraine's Customs Union membership for some time. When in late January 2014 the standoff between the protesters and police forces in Kyiv escalated and became violent, marking the gradual shift from a political protest to a revolution, Russia sharpened its approach. It visibly increased political and economic pressure on Yanukovich, openly recommending the introduction of a state of emergency,²² but also suspending further financial support for Ukraine and directly pressuring some Ukrainian oligarchs.²³ It could not be coincidence that at the same time the idea of "federalization of Ukraine" began to be publically advocated by both a group of the

¹⁸ Decisive for further events were two consecutive short visits of Yanukovich to Russia for meetings with Putin. The first took place in Sochi on October 26, the second on November 9 (reportedly on a Russian military base near Moscow). No information was disclosed on results, but later Azarov admitted that during the latter meeting, both presidents agreed that Ukraine would refrain from signing the Association Agreement with the EU in Vilnius. It was Azarov who publically announced that Ukrainian government decision on November 21, quoting not only vague economic reasons (alluding to financial losses resulting from decreased economic cooperation with Russia) but also unnamed "national security" considerations. See O. Grytsenko and I. Traynor, "Ukraine U-turn on Europe pact was agreed with Vladimir Putin," *The Guardian*, (November 26, 2013) <http://www.theguardian.com/world/2013/nov/26/ukraine-u-turn-eu-pact-putin>; *Unian*, "Україна припиняє підготовку до асоціації з ЄС – Кабмін," [Ukraine seizes preparation to the association with the EU – Council of Ministers] (November 21, 2013), <http://www.unian.net/politics/854480-ukraina-priostanavlivaet-rabotu-po-assotsiatsii-s-es-kabmin.html>

¹⁹ According to the Kyiv International Institute of Sociology's September 2013 opinion poll, 41 percent of all Ukrainians preferred a policy of European integration at that time, while 35 percent preferred to join the Customs Union; 9 percent were against both and 14 percent were undecided. See J. Sakhno, "What Path of Integration Should Ukraine Choose: European Union, Customs Union," Kyiv International Institute of Sociology, (October 7, 2015), <http://www.kiis.com.ua/?lang=eng&cat=reports&tid=556&page=1&t=3>.

²⁰ *RIA Novosti*, "Путин: акции в Киеве подготовлены извне, это не революция, а погром," [Putin: actions in Kyiv externally prepared, this is pogrom, not a revolution] (December 2, 2013), <http://ria.ru/politics/20131202/981344124.html>.

²¹ Following the two presidential meetings in Sochi (December 6 and 17, 2013), Russia announced another temporary 30 percent gas price rebate for Ukraine and promised financial support in the form of purchasing Ukrainian treasury bonds worth up to \$15 billion (the first tranche of \$3 billion being purchased by the end of the month), while the leaders concluded a series of agreements on economic (mostly industrial) cooperation.

²² E.g. Putin's aide Sergei Glaziev warned Yanukovich he was going to lose power unless he "crushed the rebellion" and suggested there was no alternative to the use of force, blaming the West for allegedly sponsoring Maidan and blackmailing Yanukovich. See ZN, "Советник Путина «кошмарит» Януковича потерей власти," [Putin's aide threatens Yanukovich with the loss of power] (January 31, 2014), http://zn.ua/UKRAINE/sovetsnik-putina-koshmarit-yanukovicha-poterey-vlasti-137829_.html; S. Sidorenko, "Сергей Глазьев: федерализация — уже не идея, а очевидная необходимость," [Sergei Glaziev: federalization is no longer an idea, it is obvious necessity] *Kommersant*, (February 6, 2014), <http://www.kommersant.ru/doc/2400532>.

²³ After the February 7 meeting between Putin and Yanukovich, Russian Finance Minister Anton Siluanov announced no further tranches of purchase of Ukrainian treasury bonds would happen until Ukraine paid off a \$3 billion gas debt. At the same time, problems reappeared on the Russian border with Ukrainian food products and coal stopped (the latter particularly hitting Donbas oligarch Rinat Akhmetov, owner of many coal mines).

most pro-Russian leaders of Yanukovich's Party of Regions and some Russian officials. The idea was that Ukraine should be divided into large regions with strong powers, including the possibility to conduct their own foreign economic relations and possibly possessing a veto power over decisions of the federal government in Kyiv.²⁴ Obviously such a system would potentially provide Moscow with strong leverage on Ukrainian government policy through some leaders of eastern regions who tend to be proponents of closer cooperation with Russia. It could also open the possibility of integration of the southeastern regions of Ukraine with the Customs Union (which Putin's adviser Sergey Glaziev publically advocated).

However, by the end of January, Moscow had already lost hope in using the Yanukovich government to control the whole of Ukraine (and to push it to join the Customs Union) as Yanukovich seemed doomed to fail, and had chosen to pursue the division of Ukraine into two parts: a pro-Russian southeast, with an option for some regions to become *de facto* independent of Kyiv and to join the CU or even to join Russia (Crimea first, others depending on the development of the situation), and a northwest possibly descending into chaos and becoming a more or less failed state, unable

²⁴ The first appeals for federalization of Ukraine — an idea advocated for many years by Ukrainian politician Victor Medvedchuk, a close friend of Putin — began to be voiced by the most pro-Russian activists of the ruling Party of Regions (like Vadim Kolesnichenko, Mikhail Dobkin, or Oleg Tsarev) in late January 2014. See ZN, "Колесниченко пообещал вскоре поставить перед Януковичем вопрос о федерализации Украины," [Kolesnichenko promised to put an issue of federalization to Yanukovich soon] (January 30, 2014), <http://zn.ua/POLITICS/kolesnichenko-poobeschal-vskore-postavit-pered-yanukovichem-vopros-o-federalizacii-ukrainy-137799.html>. In an interview on February 6, Glaziev called federalization a necessity, advocating for part of Ukraine to join the Customs Union, referencing the case of Denmark and Greenland (where Greenland left the European Economic Community in the 1980s after Denmark granted it home rule) and suggested the break-up of Ukraine had already started in the country's west. See Sidorenko.

to integrate with the EU and providing a negative example for the pro-European policies across Eastern Europe.²⁵

Whatever the case, following the bloody fighting on the streets of Kyiv in late February and takeover of parts of government in the western and central regions of Ukraine by the opposition, Russia moved forward with its military operation in Crimea. Contrary to conventional wisdom, an analysis of the events suggests that in fact both the occupation of Crimea (between February 27 and March 28, 2014) and the pro-Russian "uprising" in southeastern Ukraine (which started with coordinated protests in dozens of cities and attacks on regional government buildings in three regional capitals on March 1, 2014) were performed simultaneously and were in fact part of a single larger Russian operation to assume control over a large part of Ukraine. It was called *Novorossiia* (New Russia) in the Russian

²⁵ A series of secret meetings started no later than January 30, 2014, in Crimea between Kremlin-linked emissaries and officials and some leaders of Crimea and local Russian activists. On February 1, the founding congress of the movement "Ukrainian Front" was held in Kharkiv (headed by Kharkiv oblast governor Mikhail Dobkin with about 6,000 participants from local councils in southeastern Ukraine, including Crimea). Glaziev's interview mentioned a secret memo prepared in early February 2014 apparently for the Kremlin that offered a bleak diagnosis of the situation in Ukraine, with Yanukovich no longer in control. It suggested Russian offensive measures of various kinds to take over control of the southeastern regions of the country should be undertaken, envisaging these regions would become autonomous and possibly join Russia. See *Novaya Gazeta*, "Представляется правильным инициировать присоединение восточных областей Украины к России," ["It is considered the right thing to initiate the inclusion of the Eastern regions of Ukraine into Russia"] (February 24, 2015), <http://www.novayagazeta.ru/politics/67389.html>. A number of concrete recommendations of the memo were in fact applied later by Russia in Ukraine.

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Due to series of failures, Russia has been unable to reach the maximum goals it pursued when starting the operation.

state propaganda.²⁶ But due to series of failures, Russia has been unable to reach the maximum goals it pursued when starting the operation. The failure of the Kharkiv congress of February 22, 2014 (the day after Yanukovich fled Kyiv and the day he was removed from office by the parliament) seems to be especially important.²⁷

It was lack of progress in achieving the goals of the Russian operation, both due to growing Ukrainian resistance and the relative passivity of pro-Russian segments of the local population, which led to another, military stage of conflict in the Donbas region (from early April 2014). In that phase, an initial tactical alliance between Moscow, some members of the Yanukovich regime, and the Yanukovich family, as well as regional oligarchs, all reportedly played important roles in orchestrating the separatist movement in Donbas, was gradually replaced by Russia's more direct engagement. In such circumstances, the roles of military veterans, volunteers, and semi-regular and

regular Russian troops increased.²⁸ As situation in Donbas escalated, so too did Russia's direct military support.

²⁶ The name *Novorossiya* was used in the late 18th and 19th centuries to describe the southeastern regions of contemporary Ukraine, which were briefly united in a governorate bearing that name. The term, used among some marginal Russian nationalist groups, has been popularized by Russian state propaganda during the conflict and Putin himself used it several times in his statements between March and October 2014. In May and June 2014, separatist para-states in eastern Ukraine (the DNR and LNR) formally agreed to create a sort of confederation labelled *Novorossiya*, yet the project has never succeeded, and from spring 2015 the name largely ceased to be used.

²⁷ On February 20, 2014, Kharkiv Governor Dobkin, leader of the "Ukrainian Front" movement, announced a congress of regional and local councils of southeastern Ukraine. It took place on February 22 in Kharkiv, with the participation of other pro-Russian activists and politicians (including MPs Vadim Kolesnichenko and Oleg Tsarev, Evgeny Zhilin of the pro-Russian "Oplot" organization, and Crimea Prime Minister Anatoliy Mogilev) and a delegation from the Russian parliament (including the head of the foreign relations committee, Alexei Pushkov). During the congress, a declaration was adopted stating that decisions made by the new leaders in Kyiv were illegal and that the congress's participants assumed full responsibility for the situation in their regions. Yanukovich was in Kharkiv at that time but did not participate; immediately after the short congress proceedings, Dobkin and Kharkiv Mayor Gennadiy Kernes flew to Moscow.

²⁸ The first appearances of armed rebellion started in Lugansk after separatist group seized arms from the local SBU headquarters on April 6, 2014. On April 10, the DNR's "defense forces" started to be organized (originally mainly by Oplot activists). The arrival of an armed unit headed by Igor Girkin (a.k.a. Igor Strelkov) in Slovyansk on April 12 was a breakthrough, marking the active involvement of military actors led directly by Moscow. Soon, waves of Russian military volunteers came to Donbas, the overall number later assessed as between 30,000 and 50,000 by separatist leader Alexandr Borodai. Semi-regular units from the North Caucasus also participated while regular troops of the Russian armed forces were directly engaged in fighting in Donbas on several occasions (especially in late August 2014 and early February 2015). See ZN, "Из чего состоит 'ДНР': схема иерархии сепаратистов" ["What the 'DNR' consists of: the scheme of the separatists' hierarchy"] (June 27, 2014), http://zn.ua/UKRAINE/iz-chego-sostoit-dnr-sostavlena-shema-ierarhii-separatistov-147959_.html.

3 POLITICAL OUTCOMES AND PROSPECTS: RUSSIA'S LONG GAME AHEAD

Russia's Failure in Ukraine

The Russian–Ukrainian war in Donbas, which has left more than 9,000 killed and 20,000 wounded according to conservative UN estimates since its start in mid-April 2014, failed to achieve or even seriously advance Russia's strategic goals toward Ukraine.²⁹

Russia — despite its allegations of Western-sponsored “coup d'état” — was not able to undermine the new Ukrainian government's legitimacy, acknowledged in subsequent free and fair presidential (May 2014) and parliamentary (October 2014) elections. Ukraine has grown more resilient toward Russia and more pro-European. The prospects for Ukraine joining the Eurasian Economic Union (formally established on January 1, 2015) became unrealistic for the foreseeable future, due to the overwhelming pro-European majority in parliament, the pro-European government, and a clear shift in Ukrainian public opinion against Russia and for Europe.³⁰ Moreover, Russia was not able to stop Ukraine from taking steps toward European integration, including signing the Association Agreement.³¹ Ukraine also refused Russian demands of “neutrality,” renouncing any documents declaring its non-aligned status and continuing political and military cooperation with NATO.

No important Russian political leverage over Kyiv's policy has been created since Russia's postulates for deep constitutional reform in Ukraine leading to its “federalization” (meaning providing regions of Ukraine with large degree of autonomy, including in pursuing their external economic relations) were refuted by Kyiv (e.g. by President Petro Poroshenko in June 2015 or Prime Minister Arseniy Yatseniuk in September 2015). Such autonomous status has not yet been granted even to the war-torn Donbas region. Moscow was unable to force Kyiv to open bilateral negotiations with the Donbas separatists and to recognize them indirectly. Ukraine also refused to provide services and benefits such as pensions to the parts of Donbas out of its control, which has forced Moscow to bear the burden of maintaining the separatist para-states, which is increasingly heavy as the country is buffeted by an economic crisis.³²

There were also other high costs for Russia. Gazprom lost billions of dollars due to both limitations on its delivery of gas to Ukraine and Kyiv's decisions to use reverse-flow gas delivery schemes with EU member states and increase energy efficiency, resulting in a serious decrease of

Gazprom lost billions of dollars due to both limitations on its delivery of gas to Ukraine and Kyiv's decisions to use reverse-flow gas delivery schemes with EU member states and increase energy efficiency.

²⁹ Office of the United Nations High Commissioner for Human Rights, “Report on the human rights situation in Ukraine 16 August to 15 November 2015,” (December 9, 2015), <http://reliefweb.int/sites/reliefweb.int/files/resources/12th%20OHCHR%20report%20on%20Ukraine%20EN.pdf>.

³⁰ According to Kiev International Institute of Sociology polls, support for European integration in Ukraine increased from 41.3 percent in September 2013 to 47.2 percent in February 2015 and fell slightly to 44.1 percent in September 2015, while support for joining the CU/EEU fell from 35.3 percent to 12.3 percent and rebounded to 17.3 percent in the same periods. See Sakhno.

³¹ Despite Russian opposition, the Ukrainian government signed the Association Agreement with the EU on March 21, 2014 (the political sections) and June 27, 2014 (the economic sections), and the provisional implementation of sections started on November 1, 2014.

³² The Ukrainian government provides financial services and social benefits only for persons registered or physically present on the territories controlled by the government forces. Separatists in Donetsk admitted Russian transfers to the area were \$37 million monthly for pensions alone. See S. Kravchenko, “The Central Bank With No Currency, No Interest Rates, But ATMs,” *Bloomberg Business* (September 15, 2015), <http://www.bloomberg.com/news/articles/2015-09-15/the-central-bank-with-no-currency-no-interest-rates-but-atms>. Stratfor has assessed Russian financial support for occupied Donbas at for \$2 billion annually. Cf. R. Bhalla, “The Logic and Risks Behind Russia's Statelet Sponsorship,” *Geopolitical Weekly*, (September 15, 2015), <https://www.stratfor.com/weekly/logic-and-risks-behind-russias-statelet-sponsorship>.

Russia was also clearly surprised by the scope of Western sanctions against it.

gas purchases from Russia.³³ Ukraine's decision to cease military-technical cooperation with Russia also caused serious problems for the Russian armed forces, which were partly dependent on equipment and parts produced by Ukraine's military industry.³⁴ Moreover, cuts to the electricity supply from mainland Ukraine to Russian-occupied Crimea from November 22, 2015 (due to an act of sabotage apparently committed by Crimean Tatar activists) led to blackouts in Crimea, revealing its vulnerability to and dependence on Ukraine.

Russia was also clearly surprised by the scope of Western sanctions against it, adopted in several stages in 2014. Such unity and assertiveness was not expected in Moscow following the very mild Western reaction to the Russian-Georgian war of 2008. Sanctions, while not being decisive, still played a certain role in the economic crisis in Russia since autumn 2014.³⁵ Additionally, enhanced U.S. and NATO military activity and presence on the Alliance's eastern flank, a reaction to Russia's

aggressive policies aimed at reassuring allies, ran contrary to Moscow's interests.

Russia's Limited Success Over Ukraine

Despite the abovementioned strategic failures, there were some events and processes that could be interpreted in Moscow as external policy successes or at least the promises of these. Firstly, despite Western sanctions, Russia may have concluded that the West (especially some European states) *de facto* recognized the irreversibility of the Russian annexation of Crimea.³⁶ Second, Moscow also succeeded in creating several different negotiation mechanisms with the West over Ukraine,³⁷ which allowed, to some extent, Moscow to portray itself as a moderator rather than being on one side in the conflict. The establishment of the trilateral dialogue on Ukraine's DCFTA with the EU in July 2014 was apparently particularly perceived in Moscow as sign of readiness by the EU to take Russian economic interests in Ukraine into account in EU policy toward Kyiv. The decision on September 12, 2014, to postpone, on Moscow's request, the implementation of the DCFTA between the EU and Ukraine until the beginning of 2016 apparently raised some hopes in Moscow of blocking Ukraine's European integration (subsequently partly undermined by the failure of negotiations and

³³ Purchase of Russian gas by Ukraine dropped dramatically in 2015 (to 4.63 bcm in the first three quarters of 2015 in comparison to 14 bcm in all of 2014). The Ukrainian side assessed Gazprom losses on Ukrainian market in the first eight months of 2015 at \$2.5 billion. *Unian*, "Gazprom loses \$2.5 bln due after dropping Ukraine supplies," (September 8, 2015), <http://www.unian.info/economics/1120063-gazprom-loses-25-bln-due-after-dropping-ukraine-supplies.html>.

³⁴ C. Recknagel, "Complex Ties: "Russia's Armed Forces Depend on Ukraine's Military Industry," *Radio Free Europe / Radio Liberty* (March 28, 2014), <http://www.rferl.org/content/russia-ukraine-military-equipment/25312911.html>.

³⁵ Accurately assessing the financial consequences of Western sanctions for the Russian economy is challenging. The Russian Ministry of Finance announced a figure of \$40 billion annually in November 2014. Reuters, "Russia puts losses from sanctions, cheaper oil at up to \$140 billion per year," (November 24, 2014), <http://www.reuters.com/article/2014/11/24/us-russia-siluanov-idUSKCN0J80GC20141124#9IWwvQp23JQK m67C.97>. Medvedev gave larger figures (\$26.7 billion in 2014 and an expected \$80 billion in 2015), but one should consider them exaggerated for propaganda purposes. See I. Kottasova, "Sanctions will cost Russia more than \$100 billion," CNN, (April 21, 2015), <http://money.cnn.com/2015/04/21/news/economy/russia-ukraine-sanctions-price/>.

³⁶ The Crimea issue has not been included in the so-called Minsk agreements providing the basis for the regulation of the conflict, and it has been dropped from the agenda in the most important Western statements. Even some political or parliamentary delegations from individual EU member states have started to visit this region.

³⁷ First, the high-level Normandy format (with the leaders of Russia, Ukraine, Germany, and France, but no representatives of the EU institutions) dealing directly with the conflict, which negotiated the Minsk agreements. Second, a trilateral Russia-European Commission-Ukraine format on gas delivery and transit was instrumental in reaching interim agreements in this sphere. The third, and most important for Moscow, has been a trilateral Russia-European Commission-Ukraine dialogue on the consequences for Russia of Ukraine's association with the EU.

eventual full DCFTA provisional implementation on January 1, 2016).³⁸

Additionally, there were internal political consequences of the war that proved very positive for the Kremlin. The annexation of Crimea, the first territorial expansion of Russia since the end of World War II (after many years of perceived shrinkage), has led to an unprecedented internal mobilization of societal support for Vladimir Putin.³⁹ This was especially important in the circumstances of worsening economic situation in Russia. The war in Ukraine tends to be presented to the Russian public by the state-controlled media as a defensive war against the anti-Russian advance of the West, almost as a proxy war with the United States.⁴⁰ A new social contract has been offered by the Kremlin to the Russian society. Instead of the promise to improve living standards, which is no longer possible, the Kremlin is offering to raise national pride by demonstrating Russia's military power and challenging the West, which distracts the Russian people from growing economic and social hardships.

³⁸ Moscow sought the possibility of *de facto* renegotiating some important provisions of the agreement (possibly in the form of annexes on implementation mechanisms). Russia presented its far-reaching demands on amendments to the DCFTA in September 2014. These would have undermined the agreement by substantially cutting the number of trade categories liberalized as well as by the creation of a special privileged trade regime for Russia in Ukraine. See http://zn.ua/static/file/russian_proposal.pdf. "Hardened Russian position during the negotiations contributed to their failure, admitted by the EU." Cf. The trilateral talks on DCFTA implementation, (December 21, 2015), http://trade.ec.europa.eu/doclib/docs/2015/december/tradoc_154126.pdf

³⁹ According to Levada Center opinion polls, support for Putin has risen from 69 percent in February 2014 (before annexation) to 82 percent in April 2014 and peaked at 89 percent in June 2015. See <http://www.levada.ru/eng/>.

⁴⁰ Russia's resilience toward the Western sanctions (presented as a weapon of war) is praised and even occasionally compared to the Soviet Union's defense against Nazi Germany during the Great Patriotic War (World War II); this message has been used for further consolidation of Russian society behind the Putin regime.

Moscow Turns to a Step-By-Step Approach

Despite those partial successes, a political deadlock occurred in Donbas that has not favored Russia. Mainly due to the developing economic crisis in Russia, Moscow decided to prioritize some "normalization" of its relations with the West (mainly the EU) and it de-escalated in Donbas in late summer 2015, seeking to break the EU's consensus needed for further continuation of economic sanctions on Russia.⁴¹ These moves were meant to demonstrate the good will of Russia and create pressure on Ukraine to compromise on constitutional reform that would allow some form of "autonomy" for Donbas, or to blame Kyiv for lack of progress.

It seems that Moscow realized that it would be difficult to achieve its strategic goals toward Ukraine in the short term. Therefore it has focused on gradual steps. First, Moscow seeks to create some institutional levers giving it influence on Ukrainian politics (mainly through constitutional reform and autonomy for Donbas). It seems that Moscow prefers a situation in which part of Donbas (the Donetsk People's Republic and Luhansk People's Republic, or even better Donetsk and Lugansk oblasts in their entirety) have some separatist leaders or their appointees re-elected in local elections and are formally recognized as the legal local government, while Russia-funded and equipped separatist forces change their label to local police forces. In such a case, Russia would still *de facto* control this part of Ukraine, only formally reintegrated with the rest of the country, while its war-torn economy would be additional burden for

⁴¹ Moscow pushed separatist leaders to agree on the withdrawal of another category of heavy weaponry from the conflict zone as well as to postpone planned local elections in the separatist "people's republics" (from October/November 2015 to February/March 2016) to allow them to be held under Ukrainian legislation (to be prepared). Moscow apparently hoped for an eventual breach of consensus among EU member states on rolling over sanctions, if not in December 2015 (which has not succeeded), than no later than mid-2016 (before another six-month roll-over due at the end of July 2016).

A new social contract has been offered by the Kremlin to the Russian society. Instead of the promise to improve living standards, which is no longer possible, the Kremlin is offering to raise national pride.

It seems that Moscow realized that, at least at this stage of the conflict, military instruments have largely lost their utility in winning Ukraine.

Kyiv and its mostly pro-Russian population would return to Ukraine's electorate, empowering political forces sympathetic to Moscow.

Second, Moscow seeks to exploit the socio-economic crisis in Ukraine with a view of increasing internal instability, which would benefit both radical (those that might damage Ukraine's reputation in the West) and "pragmatic" (those seeking to improve relations and foster economic cooperation with Russia) political groups, allowing more opportunities for Russia to advance its policy goals in the country. Increasingly good electoral results for the moderately pro-Russian Opposition Bloc (consisting mostly of former activists of Yanukovich's Party of Regions) in parliamentary and especially in local elections in October 2015 in some eastern and southern regions of Ukraine certainly raise some hopes in Moscow in that context.⁴²

Third, Moscow looks forward to deepening and exploiting mutual disappointment between the West and Ukraine/Ukrainians, which may rise especially if pro-European reforms, which are sometimes painful and difficult, are slowed down or partly abandoned⁴³ and deficits remain

in the implementation of European standards in the country (especially regarding corruption, weak administrative capacity, the political role of oligarchs, and other phenomena typical of Ukraine's post-Soviet system).

In geopolitical terms, Russian policy goals seem not to have changed. In the short to mid-term, Moscow is looking for opportunities to push the West (especially the EU with Germany as its leader) into at least a tacit understanding to keep Ukraine as *de facto* an "in-between" state. It should lead not only to a neutral/non-aligned status (with no possibility to join NATO) but also a *de facto* blocking of the process of Ukraine's integration into European the political-economic space (not to mention denial of the possibility of its membership in the EU) as an interim status quo. However, it seems that in the mid to long term, when political and economic circumstances allow, Moscow will try again to push for full strategic control over Ukraine, possibly through its association and membership in the EEU or some alternative Russia-led integration project. It is highly unlikely that Moscow will abandon such plans for good. It would be contrary to the political priorities Russia has consistently and with determination pursued over many years.

It seems that Moscow realized that, at least at this stage of the conflict, military instruments have largely lost their utility in winning Ukraine. Due to the growth of Ukraine's resilience and military potential, Kyiv's ability to impose casualties on the

⁴² Opposition Bloc received 9.4 percent nationally in the October 2014 parliamentary elections, while in the three eastern regions — Donetsk and Luhansk (where voting took place on less than half of the territory due to conflict) as well as Kharkiv — it received between 32 and 39 percent. In the October 2015 local elections, Opposition Bloc received 13.6 percent nationally, while winning in six southeastern regions (receiving between 20 and 48 percent). See T.A. Olszański, "The local government elections in Ukraine," Centre for Eastern Studies (OSW), (November 4, 2015), <http://www.osw.waw.pl/en/publikacje/analyses/2015-11-04/local-government-elections-ukraine>; <http://opposition.org.ua/news/zgidno-z-poperednimi-rezultatami-golosuvannya-opozicijnij-blok-bude-predstavlenij-v-18-obladakh-z-24.html>.

⁴³ A good assessment of Ukraine's reform process can be found in the Carnegie Endowment for International Peace's regular Ukraine Reform Monitors; see "Ukraine Reform Monitor: October 2015," (October 5, 2015), <http://carnegieendowment.org/2015/10/05/ukraine-reform-monitor-october-2015/iik7>. Decreasing enthusiasm toward the West is already apparent in opinion polls, see Sakhno.

Russian/separatist side has grown,⁴⁴ making war more costly, in economic as well as in political terms. Additionally, any military escalation would increase the risk that the West would not only continue sanctions against Russia but even expand them — a scenario highly undesirable in Russia's economic crisis. Therefore it seems Moscow has turned its focus to mostly non-military instruments at its disposal: political, diplomatic, economic, and energy tools.

There are clear signs that Russia increasingly uses its economic instruments against Ukraine, whether as political levers or ways to deepen the economic crisis in Ukraine. First, Moscow has refused to participate in negotiations on restructuring Ukraine's debt, demanding repayment of \$3 billion on treasury bonds purchased by Moscow in December 2013 as a way to support the Yanukovich regime. It could have resulted in Ukraine's financial default if the IMF has not decided to interpret the

rules in a way favorable for Kyiv.⁴⁵ Second, starting on November 1, 2015 Russia cancelled beneficial terms for accepting migrants from Ukraine, which worsens the chances for Ukrainian citizens to stay and work in Russia (currently their number is estimated at 2.6 million). This may adversely influence Ukrainian unemployment and lower private remittances. Third, on December 31, Putin signed a law (passed by the State Duma on December 22) on unilateral withdrawal of Russia from the CIS Free Trade Agreement in regards to Ukraine, meaning Russia raises its duties for Ukrainian goods to the regular level of World Trade Organization members. The same day, Putin signed a decree establishing the trade embargo against Ukrainian agricultural goods and raw materials. In both cases the EU-Ukraine DCFTA implementation from January 1 was mentioned as the main impetus. The overall economic effect of these Russian measures has been assessed at between \$300 and 450 million annually by the Ukrainian Ministry of Trade. Moreover, by Putin's decree, on January 1, 2016, Russia introduced strict limitations on transit of goods through Ukraine to Kazakhstan, which may lead to the loss of another few hundred million dollars. Fourth, in September 2015, Russia's gas export monopoly

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⁴⁴ There are no verifiable figures on losses among both regular Russian armed forces in Ukraine and separatists (including Russian volunteers). Conservative assessments on the former put figures between 200 and 500 dead, while the latter probably number in thousands. Cf. "Открытая Россия устанавливает личности погибших из списка 'Груз-200'" [Open Russia identifies dead from "Gruz-200" list] April 1, 2015, <https://openrussia.org/post/view/1772/>; "Putin.War. An Independent Expert Report," <http://4freerussia.org/putin.war/Putin.War-Eng.pdf>; "Nuland: At least 400-500 Russian soldiers killed in Ukraine," *UNIAN*, (March 11, 2015), <http://www.unian.info/world/1053938-nuland-at-least-400-500-russian-soldiers-killed-in-ukraine.html>.

⁴⁵ Russia and Ukraine disagree about the nature of the debt. While Moscow maintains it is a state debt that has to be repaid, Ukraine maintains (due to a complicated purchase scheme) that it is a private debt that should be restructured along with other private debts. See N. Doff and D. Krasnolutska, "Ukraine Readies for Russia Court Battle After Debt Vote Passes," *Bloomberg Business*, (October 15, 2015), <http://www.bloomberg.com/news/articles/2015-10-15/ukraine-passes-debt-deal-in-13-bonds-as-russia-only-outlier>. The offer made by Putin to Ukraine in late November 2015 to pay \$1 billion immediately and postpone payment of the remaining \$2 billion was in fact the result of Moscow's failure to make Ukraine default. See I. Arkhipov, K. Galouchko, and O. Tanas, "Putin Makes Ukraine Debt Offer in Thaw After Paris Attacks," *Bloomberg Business*, (October 15, 2015), <http://www.bloomberg.com/news/articles/2015-11-16/putin-says-russia-has-offered-to-restructure-ukrainian-debt>. When Ukraine did not settle the debt, Russia took Kyiv to court. Cf. J.Farchy, "Russia initiates legal proceedings against Ukraine over \$3bn debt," *Financial Times*, (January 1, 2016).

The military instrument can still be used, especially if the Western/EU unity over the sanction regime toward Russia is lost for good, if Russia's economic situation clearly improves, and/or if non-military instruments prove insufficient in breaking the political deadlock in Ukraine and gradually advancing Russian interests there.

Gazprom entered into shareholders agreement with several European energy companies (Germany's BASF and E.ON, Austria's OMV, Netherland's Royal Dutch Shell, and France's Engie) to build two more sections of the Nord Stream gas pipeline from Russia under the Baltic Sea to Germany. If implemented, the agreement will have a serious negative impact on Ukraine, which may cease to be a transit country for gas delivery between Russia and EU customers (due to gradual redirection of gas flow by Russia after the current transit agreement with Ukraine ends in 2019). This will remove any benefits resulting from transit fees (currently roughly \$2 billion annually). Moreover, it will increase the costs of gas imports for Ukraine due to the necessity of relying on reverse flows from the West.

Still, the utility of Russia's non-military instruments also has its limits. It would require much patience and political subtlety (which Russian policy has often lacked before) to successfully play the economic problems, social moods, and political differences in Ukraine. Also, some coercive measures (such as trade blockades or cuts in gas flows) would also have a backlash on Russia (e.g. Ukraine responded to the Russian trade embargo with the expansion of its economic sanctions against Russia through a reciprocal trade embargo). Therefore, it does not necessary mean that Moscow

is ready to abandon military instruments for good (as these proved to be partially effective in the course of the conflict). It is rather unlikely Russia will allow the real and full disarmament of the Donbas separatists. The Russian armed forces have proved their ability to mobilize a large military potential in a very short time on many occasions (in a series of very large snap military exercises performed regularly since 2013 as well as in requiring only several days to take over Crimea in 2014). The military instrument can still be used, especially if the Western/EU unity over the sanction regime toward Russia is lost for good, if Russia's economic situation clearly improves, and/or if non-military instruments prove insufficient in breaking the political deadlock in Ukraine and gradually advancing Russian interests there.

The Russian-Ukrainian conflict will not be over for the foreseeable future, but will continue, occasionally changing its patterns. Consequently, if neither Russia nor the West (the United States and the European Union) abandon their policy principles and goals concerning the area sometimes called the "common neighborhood," of which Ukraine is crucial part, the preconditions for tensions in the Russian-Western relations will continue. The long strategic game in and over Ukraine will go on.

4 WESTERN RESPONSES: ACCOMMODATION OR CONTAINMENT?

Why the West Should Care

Russia's illegal annexation of Crimea, as part of a war on Ukraine since 2014, has created a dangerous precedent on a global scale, while its military demonstrations and provocations toward the NATO member states and non-aligned states in Europe have increased regional tensions. If not checked, resisted, and proven a failure, Russia's aggressive policy toward Ukraine may be replicated by Moscow in some form in other parts of Europe, including the EU and/or NATO member states, in the future, challenging and undermining these Euroatlantic structures.

Ukraine itself is a major European state (with the second-largest territory and sixth-largest population on the continent, if one excludes Russia and Turkey), directly bordering four EU and NATO member states, with an educated society, a majority committed to European values, developed industry and agriculture, strategically located on northern shore of the Black Sea, and still playing important role in the transit of Russian energy to EU customers. Ukraine is also the biggest and the most important state among the six countries of Eastern Europe and South Caucasus that are part of the EU's Eastern Partnership initiative, as well as one of the three (along with Russia and Kazakhstan) biggest and most important countries in the post-Soviet area. Ukraine's political, economic, and cultural links with both Europe's West and East, combined with its large size and potential, makes Ukraine a country crucial for the fate of Eastern Europe. Whether Ukraine will be able to successfully transform itself into a full-fledged European democracy and market economy based on EU standards and norms or fail to do so and remain another example of a post-Soviet half-democratic, half-authoritarian regime with massive corruption and ineffective state institutions, possibly joining Russian-led Eurasian integration based on non-European standards or descending

into chaos, will not only define Ukraine's future but it may also strongly influence the future of the whole region.

The question is what the proper Western policy toward the Russian challenge in general and to the Russian-Ukrainian conflict in particular should be. In the debate, recommendations usually range between two approaches that can be described as accommodation and containment of Russia.

Why an Accommodation Policy is Wrong

An accommodation policy in general suggests the West should re-engage with Russia and seek compromise with Moscow over Ukraine.⁴⁶ However, an accommodation policy underestimates the crucial place of Ukraine in Russia's strategy and the thinking of Russia's ruling elite. Various statements from the Russian leadership clearly suggest Ukraine is considered a core element of the natural community of the Russian World (*Russkiy Mir*), part of "historic Russia." The Ukrainian and Russian nations are seen as one. Russia's foreign policy for many years has prioritized bringing Ukraine into Russia-led structures of economic and political integration. In that respect, comparing Ukraine to Cold War Finland (by invoking "finlandization") is simply absurd.

Such a policy overestimates the economic and security considerations in Russia's policy toward Ukraine while it underestimates Moscow's geopolitical and internal political considerations.

⁴⁶ Various proposals of what such a compromise might look like include guaranties of non-aligned status of Ukraine (a formal or informal ban on its NATO membership), "finlandization" of Ukraine (a vague idea that Ukraine should refrain from external policies that may be interpreted in Moscow as provocative, while continuing a process of gradual European integration), slowing down the process of Ukraine's EU integration, the de facto amendment of the EU's DCFTA with Ukraine in response to Russia's demands, the forging formal ties and dialogue between the EU and the Eurasian Economic Union, and the creation of some new arrangements of European security architecture (possibly through increasing the role of the OSCE).

An accommodation policy underestimates the crucial place of Ukraine in Russia's strategy and the thinking of Russia's ruling elite.

Any successful European transformation of Ukraine would seriously undermine the political legitimacy of Putin's regime in Russia, proving that its idea of the "Russian World" being incompatible with modern Western standards is false.

Russia did not start a war in Ukraine because it feared that country would join NATO (the prospects of Ukrainian NATO membership in the foreseeable future became close to zero after the Russian-Georgian war of 2008). Russian demands concerning amendments in the EU-Ukraine DCFTA show that Moscow wants, in fact, to derail the process completely, not just to limit its alleged economic losses. This is the case because geopolitical, not economic or security considerations, have driven Russia's policy toward Ukraine. Moscow has shown that openly when rejecting Yanukovich's offer to allow Ukraine to integrate with the EU in exchange for guarantees that amount to giving up Ukrainian sovereignty in security policy. The stakes are high for Moscow because they are related to Russia's internal politics. Due to the cultural closeness between Ukraine and Russia, any successful European transformation of Ukraine would seriously undermine the political legitimacy of Putin's regime in Russia, proving that its idea of the "Russian World" being incompatible with modern Western standards is false.

An accommodation policy, forgetting the lessons of modern history, also wrongly assumes Russia (under its current regime) could be somehow positively fitted into the existing or a new European security architecture, and that compromise on Ukraine can be reached with Moscow. But an authoritarian, aggressive Russia pursuing expansionist projects cannot fit into an architecture based on European norms and standards. Attempts to do so will lead to the crisis or even collapse of these Western structures rather than change Russia and its policies. The necessary precondition for such a process to succeed is the internal transformation of Russia, based at least partially on Western economic and political standards, which is possible only after regime change in Russia.

An accommodation policy would send the wrong political signals to Russia. First, it may suggest

to Moscow that its aggressive policy pays off, in that after each of Russia's wars on its neighbors, the West is ready to "reset" relations and offer some concessions. Second, it may be interpreted as the West's tacit recognition of Russia's sphere of influence in the post-Soviet area, an agreement on the informal division of Europe. Even the appearance of such tacit recognition (however incompatible with both the principles and interests pursued by the West) would not lead to stability in Europe. Instead, it would create strong incentives for Russia to pursue an even more assertive/aggressive policy toward its neighbors (e.g. attempting to force them into deeper integration with Russia-led structures), therefore increasing conflicts between and within them (as most nations of neighboring states would not voluntarily accept such a policy). Third, it could also provoke Russia to raise its geopolitical ambitions and direct them, firstly, toward the Baltic States (e.g. with attempts to undermine them from within), directly challenging both the EU and NATO.

Finally, an accommodation policy tends to view Ukraine (as well as other Eastern neighbors apart from Russia) as objects rather than subjects of a political process, which is not only in conflict with Western principles but also politically unfeasible. The West cannot successfully pressure Ukraine's government, and above all Ukrainian society, to accept limits on the country's sovereignty or to abandon its European aspirations.

"Smart Containment" as an Alternative

The classical "containment" policy toward Russia cannot be repeated mechanically as circumstances are very different than they were during the Cold War. Nevertheless elements of containment — such as resisting Russia's policy of derailing the European project within the EU and its neighborhood — should be applied. Three elements are key: pressuring the Kremlin, supporting Ukraine, and strengthening resilience.

Pressuring the Russian Government While Engaging the Russian People

It is important to maintain pressure on the Russia government and hold it accountable for its aggressive policies, proving their ineffectiveness. Therefore, while channels of communication and political dialogue should be maintained, sanctions against Russia should be maintained as long as the reasons they were adopted continue. In particular, the so-called “Crimean sanctions” should be maintained as long as Crimea remains under Russian occupation. Later sanctions may be gradually relaxed only in the case that Russia and Russia-controlled separatists in Ukraine fully comply with their Minsk obligations. However, some limitations, such as the freeze in cooperation with Russia in sensitive areas (especially military-related), should be maintained to slow down the buildup of Russia’s offensive military capabilities, which pose a threat for EU and NATO member states.

On the other hand, as a part of its positive policy, the West should increase its engagement with Russian society, including through support for Russian independent initiatives in education, research, and the spread of information both within Russia and among growing Russian diasporas abroad. Support for human contacts, without Russian government direct control, should be also enhanced. All these initiatives should lead indirect Western assistance to a future regime change in Russia, which can only be achieved by the Russians themselves and which is a necessary precondition for Russia to become a real, constructive partner of the EU and United States, bringing long-term stability to Europe.

Targeted Support for Ukraine and Other Neighbors

Targeted support for Ukraine (and other eastern neighbors committed to a European path) should be enhanced. Security and defense cooperation and

assistance (the U.S. and NATO roles are especially important) is necessary to build Ukraine’s resilience and create minimum deterrent capabilities toward Russia. But what is even more important, especially with the current economic crisis in Ukraine, is substantial financial support from various sources (national, EU, and international financial institutions), which should be expanded and kept conditional on gradual reforms. Support should be focused on key areas, where the biggest deficits of reforms are identified (e.g. fighting corruption, building independent judiciary, strong self-government, deregulation, and de-monopolization of the economy). More “intrusive support” mechanisms for implementation of EU Association Agreements (with DCFTAs) could be applied with use of groups of advisors and mentoring mechanisms as well as legal assistance. In Ukraine, as well as in some other neighboring countries, support for media (especially local media and watchdogs) should be prioritized to help societies make respective governments accountable for necessary reforms. One should remember that such a policy also indirectly addresses Russia, as successful transformation in Ukraine is crucial as a role model.

Western Resilience Toward Russian Negative Policies

It is important to develop comprehensive measures increasing Western resilience toward Russian negative policies, decreasing the ability of Russia to influence the West’s eastern policy in a negative way and to undermine the cohesion and integrity of the West. The measures should include developing the military capabilities of NATO (furthering changes started with the decisions of NATO summit in Newport in 2014) and its member states as well as Europe’s non-aligned states (with increased security and defense cooperation with the latter); increasing business transparency and anti-corruption measures, including through changes in legislation

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if necessary; intensifying and developing counter-intelligence capabilities and cooperation; increasing awareness, cooperation, and response to Russian propaganda targeting Western societies; and continuing European energy market liberalization, increasing energy linkages and pursuing policy of diversification of sources of energy supply in Europe, and abolishing obstacles for U.S.-European energy trade and cooperation.

A free, stable, and prosperous Europe cannot be achieved without a successful European

transformation of Ukraine, paving a road for a possible future transformation of Russia. Transatlantic cooperation in using comprehensive instruments, prioritizing economic and technical assistance, is obviously the key for execution of above-mentioned policies. Without policy coordination between the United States and the EU and its member states through NATO and other Western or Western-dominated structures, none of these policies could be effective.

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