

UKRAINE'S FOREIGN POLICY AUDIT

T TRUMAN

INDEX OF RELATIONS

JANUARY – MARCH / 2017

№ 3





Dear colleagues, partners and friends,

TRUMAN Agency and IWP are happy to present our third issue of the “Index of Relations”. This publication offers in-depth analysis of the current situation in Ukraine’s foreign policy with several key partners: the EU, the US, China and Russia.

The way we calculate our index is that each foreign policy event – key public statement, meeting, agreement, decision – is given positive or negative points, depending on whether the event had a positive or negative impact on bilateral relations. The sum of points for events related to each partner form the Index of Relations with that country.

Over January-March 2017, Ukraine continued to develop its key bilateral relationships in a generally positive way, despite a high level of uncertainty associated with both Russian actions against Ukraine and the transition period of the new American administration.

In Ukraine–EU relations, the first three months of 2017 were broadly mutually beneficial for both Ukraine and the European Union. Dialogue between Brussels and Kyiv was fairly predictable and was less politicized than in the past. While the main issues on the bilateral agenda remain combating corruption and reforming Ukraine’s judiciary, Ukraine–EU relations also managed to reach a breakthrough on visa liberalization.

Much like Trump’s campaign slogan, Ukraine’s relations with the United States were guided by the principle, “America First”, with the main rationale being to establish and manage a relationship with the incoming administration that would keep the US as an active partner in deterring Russian aggression, if not as an ally of Ukraine. To that end, Ukrainian officials initiated a striking series of contacts in the Trump Administration.

As to relations with China, the beginning of the 2017 saw a surge in cooperation. Overall, the relationship with China has shown a steady trend towards improvement and has finally taken its place in the spotlight for Ukraine’s leadership, alongside the country’s other key bilateral partners, the US and the EU.

Russia keeps setting the negative record in relations with Ukraine: the overall points obtained by events during this quarter were twice as bad as in the previous Index. In the first trimester of 2017, Russia mostly made itself felt in covert operations, a major escalation in Avdiivka, and its position on trials pending in a number of international courts.

The special topic in this third issue of the Index of Relations is an analysis of Ukraine’s defense industry. While Russian aggression has been the main driver of developments in the country’s military-industrial-complex in the last three years, a number of serious obstacles facing the MIC can be overcome by expanding infrastructure and drawing international support.

We will be happy to share more details on these topics during our presentation of the third issue of the Index of Relations.

Thank you for your interest in Ukraine in the international context.

Cordially,
Viktoria Zakrevskaya
Partner, TRUMAN Agency
vzakrevskaya@trumanagency.com

Content:

3 Research Methodology

Summary:

4 Ukraine – EU

10 Ukraine – US

18 Ukraine – China

24 Ukraine – Russia

31 Index of Relations

32 Special Topic: Rebuilding Ukraine's MIC: a joint effort

RESEARCH METHODOLOGY

The publication “Ukraine’s Foreign Policy Audit. Index of Relations” is based on the monitoring and analysis of the events in the foreign policy of Ukraine by key areas: the EU, the US, China and Russia. The document is issued regularly, at least once every four months, to monitor the dynamics in the developments. In addition to the permanent areas, the expert group will provide an analysis of a special topic, i.e. the most important event, issue or trend for the reporting period. Besides by the experts’ observations, an important component of the research is exclusive interviews with Ukrainian officials responsible for certain areas in the foreign policy, Ukrainian and foreign diplomats. Furthermore, the document is based on numerous discussions with foreign opinion leaders and officials.

The report presents an analysis of foreign political events in Ukraine in each area, as well as that of the partner country’s (region’s) approaches to Ukraine within the period under research. The document discloses the context of the events and provides the assessment of factors that affect the country’s reputation. A forecast of the developments is made based on the facts presented.

Along with the qualitative analysis, the researchers have performed a quantitative analysis, assessing each area on a ten-grade scale.

Step criteria (0.5 points each):

- Discussion
- Agreement
- Document signing
- Implementation commencement
- Finance allocation
- Political support
- Headline-making public statements
- Partial implementation of agreements
- New initiatives
- Full implementation of agreements.

A “minus” will be applied to the score if the criteria assessment is negative.

Total score for the area is the sum of points for the criteria, which characterize the area within the reporting period.

The expert group takes the BISS ¹ methodology as the basis: they have developed a clear scale for foreign policy events assessment.

Event assessment scale:

- Economic and political integration, entry of agreements for more intensive cooperation into force – **7-10 points**
- Signature/ratification of an important agreement (on cooperation, trade, tariffs etc., signature of agreements on integration), provision of loans or economic aid – **4-6 points**
- Official visits at the ministerial level (key ministers: Foreign Affairs, Interior, Defence, Economy and Finance), negotiations on the conclusion of agreements, Top level (President or Prime Minister) official visit by any of the parties – **1-3 points**
- Positive statements made by the key politicians of the state and by the Ministry of Foreign Affairs on the foreign policy direction, parliamentary resolutions – **1-2 points**
- Official visit at the vice minister (or non-key minister) level, a visit of a parliamentary delegation, exhibitions, business forums, national culture days, important diplomatic contacts and negotiations – **1 point**
- Negative statements made by the key politicians of the state and by the Ministry of Foreign Affairs on the foreign policy direction, parliamentary resolutions – **minus 1-2 points**
- Delays in agreement ratifications, denial of invitations to events, denial of support at the international level – **minus 2-4 points**
- Breach of an agreement or mutual obligations – **minus 3 points**
- Trade wars, antidumping investigations, boycott of goods, embargos, expulsion of diplomats, recall of ambassadors – **minus 4-6 points**
- Severing of diplomatic relations, provocations or hostilities – **minus 7-10 points.**

¹ BISS (Belarusian Institute for Strategic Studies). Source: <http://belinstitute.eu/ru/tags/индекс>

UKRAINE – EU RELATIONS

January – March 2017

Positive: +59

Negative: -6

Overall: +53

SUMMARY

Broadly speaking, the first three months of 2017 have been mutually beneficial for Ukraine and the EU. The dialog between Brussels and Kyiv was fairly predictable in nature and less politicized this quarter, moving cooperation more in a technical direction.

On the positive side, Ukraine-EU relations saw a breakthrough in the visa liberalization process, which is now pending the approval of the Council and entry into force by mid-June. The ratification of the Association Agreement by the Dutch Parliament and the result of recent parliamentary elections gave cause for optimism regarding full ratification of the AA. Finally, despite outstanding issues on the EU-Ukraine agenda, especially the moratorium on the export of unprocessed timber, the EU approved and disbursed a second tranche, worth €600 million, of macro-financial assistance to Ukraine.

The top issues on the bilateral agenda are the fight against corruption and the reform of Ukraine's judiciary. Two issues that caused serious damage to Ukraine-EU relations were inconsistencies in selecting an auditor for NABU and amendments to the law on e-declarations. Both prompted a negative response from the EU at various levels, as they were interpreted as backtracking on the fight against corruption.

TIMELINE

The final step to free movement

Relations between Ukraine and the EU regarding visa liberalization progressed significantly in the first three months of 2017. As predicted in the Q4'16 Index of Relations, the EU adopted the suspension mechanism, on February 13, which opened the way to fast-track the entire procedure. Agreement between MEPs and the European Council to waive visa requirements for Ukraine came on February 28, a positive decision in COREPER on March 2, and a decision in LIBE on March 9.

The crucial step was taken on April 6, when the EU parliament adopted the report and voted visa liberalization for Ukraine: 521 MEPs were in favor, 75 against and 36 abstained. Compared to Georgia – 553 for and 66 against – Ukraine got fewer positive votes, but compared to Moldova – 460 for and 40 against – it got more. Of course, the 75 votes against Ukraine represent quite a bloc in the European Parliament. Indeed, one day earlier, on April 5, many MEPs brought up issues that Ukraine is confronting and, although they praised Ukraine's reforms, they also criticized Kyiv during the debate on the visa liberalization report.

The negative remarks can be divided in two groups. First, the MEPs who said that they would vote in favor of liberalization but nonetheless saw a series of problems in Ukraine. The second group declared visa liberalization for Ukraine a mistake, clearly buying into the Russian narrative: they argued that Ukraine did not deserve visa liberalization and that the only aim pursued by EU when offering visa-free travel to Ukraine was to split Ukraine

even more from Russia. Interestingly, 60 of the 75 votes against came from far-right and radical parties that, consciously or not, are "Russia understanders". The remaining 15 negative votes came from leftist MEPs and those who don't belong to any faction. Only one vote came from the European People's Party, from the French MEP associated with the party of Francois Fillion – which was quite unexpected for EPP.

The national dimension of the negative vote is also noteworthy: 18 Italians, 16 Britons, 16 French, 7 Dutch, 6 Greeks, 4 Austrians, 4 Germans, 2 Swedes and one MEP each from the Czech Republic, Poland and Belgium. The position of the Italian, French, Dutch, and so on, far-right is understandable, given their message in their own countries, but the position of the UK MEPs is difficult to digest. It seems illogical that a country that is leaving the EU and has never been part of the Schengen zone is against visa liberalization for Ukraine.

After the vote in the European Parliament, the proposal will be submitted to the Council and, once adopted, Ukraine will be transferred to the list of third countries whose nationals are exempt from visa requirements. The transfer could take place as early as 20 days after the adopted Regulation is published in the EU Official Journal. In real terms, as we noted in the previous Index, it means that the Council should approve and then sign it by mid-May. Twenty days after publication, the liberalized visa regime should enter into force, or by mid-June: Yevropeiska Pravda calculates the exact date as June 11.

Looking back at the visa liberalization process, it's clear that Ukraine lost a lot of time on loose talk with the EU, trying to implement convenient reforms while negotiating the non-implementation of other ones.

Compared to two other EaP countries that embarked on the visa liberalization process, Ukraine spent much more time getting there. After all, Kyiv received first the Visa Liberalization Action Plan (VLAP) from the EU in November 2010, Moldova in January 2011 and Georgia in February 2013. Chisinau has enjoyed visa-free travel since April 2014 while Georgia is somewhat ahead of Ukraine in the queue. In short, it took Moldova 3 years and 3 months from VLAP to visa-free, it took Georgia 4 years and 3 months, and it's taken Ukraine 6 years and 6 months. What Ukraine needs to learn from this process is that it should deliver on its commitments and not try to cut deals on technical issues. Certainly, in the end, the process – meaning the vote – is political, but by not meeting the technical requirements, Ukraine was offering an open invitation for political forces to vote against. In fact, Ukraine only started to consistently implement the VLAP in summer of 2014, which means the path to visa liberalization could have been much shorter than it was. Most importantly, the visa liberalization process has been a highly beneficial pathway to modernization and reform, and not simply a steeplechase to free travel – although this is precisely how most Ukrainians view it.

Many people who want to see a reformed and successful Ukraine are now concerned with that the EU will lose influence over Ukraine and Kyiv will rollback or freeze reforms in the anti-corruption sector and other areas that have been pushed in the VLAP implementation process. From the EU side, that is not really the case, since the EU and other partners have enough leverage, including financial, to keep Ukraine on the reform track. Ultimately, say EU sources, the suspension mechanism, which was analyzed in detail in the previous Index, provides enough ways to “pour a cold shower” on Ukrainian officials should these derail the country's commitments. Unlike with the past suspension mechanism, the current one, for instance, can be activated for a broader set of reasons and by more stakeholders, including member states. In the meantime, there is clearly broad consensus that Ukraine fully deserves visa liberalization, which will also help ordinary Ukrainians to feel what the EU means.

An amicable election season

The 2017 wave of elections in a handful of key EU member states have been an issue of high concern in Kyiv. The Dutch general election was a litmus test for both the Netherlands and the EU-Ukraine Association Agreement. From a domestic perspective, the main problem for Ukraine and many other countries was the possibility that the far-right Party of Freedom (PVV) led by Geert Wilders would defeat the incumbent PM Mark Rutte's People's Party for Freedom and Democracy (VVD), and form the governing coalition. As it happened, VVD came first although down 8 seats and PVV came second, having picked up 5 more seats. The biggest surprise came when the Green Left (GL) gained 10 seats. Coalition talks are now taking place and although no details were available when the report was written, it is clear that the VVD will lead the process, together with the Christian Democrats and Liberals of D66. The VVD victory of Rutte's party was

also helped along by an unexpected conflict between Turkey and the Netherlands, when Holland took a strong position against Turkish referendum rallies and took some of the wind out of Wilders' anti-immigrant sails.

On the wave of this conflict, many Dutch voters forgot that on February 23 their House of Representatives had voted to ratify the EU Association Agreement with Ukraine, and thus the most important milestone was passed. To conclude the ratification process, the Dutch Senate is next to vote, then comes the King's signature, and the ratification document is submitted to Brussels. According to EU officials in Kyiv, the voting in the Senate should not be a problem. Once the process is complete, Ukraine-EU relations will fully make use of AA along with visa liberalization, which are the two core elements of EU-Ukraine rapprochement.

Although the EU and Ukraine breathed more easily after the Dutch election, the upcoming elections in France and Germany are even more important. In the French presidential vote, which took place on April 23, with a second round scheduled for May 7, the stars are also aligning in favor of Ukraine. Until recently, the two leading candidates were the far-right Marine Le Pen, both anti-EU and Putin-friendly, and Francois Fillion, seen as a Russia sympathizer. The unexpectedly successful campaign of the centrist former economy minister Emmanuel Macron and the corruption charges against Fillion changed the shape of the race entirely. Emmanuel Macron came first in the first round and will compete with Le Pen in the second round. Current polls suggest that the FN leader will likely be beaten 65% to 35% in the second round.

If the polls are right, the election of Macron would be a serious step towards stabilizing EU, given that France would now follow the pro-EU line that Macron and his party, En Marche, propose. It would also significantly weaken the influence of the far right and reverse the negative course set by Brexit and the Dutch Referendum that made 2016 such a nightmare year for the EU. It is also critical for Ukraine because of France's presence in the Normandy format and the fact that Germany might be less confident about pushing certain Ukraine policies without the support of Paris. Another important event would be the French parliamentary elections in June. The elections in the French legislature are also very important for support of the future president.

The German election scheduled for September 2017 also seems headed for positive outcome for Ukraine, with the two main candidates, current Chancellor Angela Merkel and recent European Parliament President Martin Schulz both supportive of Kyiv. The nomination of Schulz as the leader of Social Democratic Party and candidate for Chancellor has significantly increased the SPD's ratings in the run-up to federal elections. Ukraine supports both candidates and will likely maintain a neutral position towards the elections, so that it does not fall into the same trap as it did with the 2016 US election.

The list of positive news for Ukraine was topped up by the re-election of Donald Tusk as President of the

European Council. Tusk has always played an important role in issues related to Ukraine and his re-election is somewhat of a guarantee that Ukraine has an advocate in the Council and in the EU. However, Ukraine has to find a balance on certain issues, given the conflict between the current Polish administration and Tusk and his former party, which has already made itself felt at the EU level.

Dampening the anti-corruption spirit

The first three months of 2017 have been broadly mutually beneficial for Ukraine and EU. The dialog between Brussels and Kyiv was fairly predictable and less politicized, aimed at cooperation in more technical areas. In March, however, relations suddenly worsened over the process of selecting an independent auditor for the National Anti-corruption Bureau of Ukraine (NABU) and the passing of a law that, among others, obliges NGOs and other organizations combating anti-corruption, including third-parties servicing such organizations, to submit e-declarations.

The law was severely criticized by the EU. Commissioner Hahn noted, "E-declarations should target corruption in public administration, not hamper work of civil society". Clearly, the EU considers the new amendments a step back that should be reconsidered. Official critiques from the EU were backed up by the US Embassy in Kyiv, which also called the decision a regression in the reform process. The law reverberated in other ways as well: during plenary debates in the European Parliament regarding visa liberalization, a number of MEPs mentioned the new law and portrayed it as an attempt to intimidate those fighting against corruption in Ukraine. Sources in the EU even stated openly that the law was causing serious damage to EU-Ukraine relations and stirring negativity abroad. Instead of supporting the fight against corruption, say European officials, Ukraine's political elite is trying to silence the voices that put pressure on corrupt officials.

However, Ukrainian MPs argue that those fighting against corruption should first prove that they are themselves clean and only then fight corruption among officials. Even more strikingly, the law was authored by an MP who used to be a civil society activist. EU diplomats and Ukrainian officials dealing with the EU share the thought that the purpose of the law might be vengeance against individual activists who have crossed certain red lines and have a political agenda. Sources point out that the idea of the law originated with several MPs and Bankova, the Presidential Administration, but not with the President himself. In fact, its adoption was a great disservice to President Poroshenko, because he was unable to veto it as it was bundled with provisions that affect Ukraine's military and a veto risked turning civil society and the international community against him.

The law galvanized anti-Poroshenko critique on various sides. First, CSOs criticized the law, perceiving it as an attempt to control the civil society. In fact, the number of CSOs that fall under the law is not as large as may seem, but those entities are very vocal and well connected to

decision-makers and the international community. This could hamper implementation and turn it into another campaign against the President, giving more traction to activist messages among Ukrainian voters and weakening public support for the country's leadership. Second, the EU, US and other donor criticism of the amended law has made the relationship with Ukraine more negative and is potentially a destabilizing factor. Negative perceptions are further amplified by the fact that the law affects foreign entities that have been working against corruption in Ukraine. This means that EU, US and other experts, advisors, and others who have helped Ukraine with anti-corruption reforms may also have to file e-declarations. In response, a number of diplomats have pointed out that the legislative changes are very similar to the Russian style of controlling the fight against corruption, by turning anti-corruption activists/experts into foreign agents. Third, the opposition used the law to take credit for setting up a negative environment for Poroshenko. The Tymoshenko faction proposed removing the amendments regarding NGOs and returning to the previous version of the law. Many recognize that this is an opportunistic position aimed against Poroshenko, but it has support among some CSOs, since Yulia Tymoshenko's party did not simply ignore the issue.

It is very unlikely that these amendments will remain in place in their current form. There have been discussions at various levels how to "adjust" the law, and the President and certain MPs will find a mechanism to change the law within a month so that it does not intimidate civil society or foreign experts working on anti-corruption. Moreover, certain civil society activists should be able to find MPs who are prepared to appeal to the Constitutional Court to challenge the constitutionality of the law. Widespread opinion, including among diplomats, considers the law discriminatory. The argument is often made that the civil society cannot be asked for e-declarations since the individuals involved do not hold the public office and have no decision-making powers. Some civil society activists say they will gladly file e-declarations if they are given the same powers and authority that officials enjoy. The President has already announced his proposal that NGOs file e-declarations beginning in 2018 and a working group be set up to work on the law so that political pressure and restrictions on NGOs are removed. Sources in the diplomatic community say that Bankova has promised to alleviate the impact of the law as soon as possible and diminish the damage to Ukraine-EU relations.

Entrenching anti-corruption gains in Ukraine

Prior to this tempest over e-declarations, the main prickly issue was the audit of the National Anti-corruption Bureau of Ukraine. This audit is important because it is the only way that the current director, Artem Sytnyk, can be dismissed. The law on NABU deliberately includes a complicated procedure to fire its director in order to protect the individual from political pressure: if all three auditors, nominated each by the Verkhovna Rada, the Cabinet and the President, give a negative assessment of NABU, then Sytnyk could be fired. Although the election

of the auditor from the VR seemed predictable, the situation dramatically changed prior to his approval by the legislators. US Department of Justice's Robert Storch discovered that Nigel Brown, a British private detective, was also competing for the same position, as Poroshenko Bloc MP Ihor Hryniv had nominated Brown. In the end, neither was elected. The press and EU officials saw the situation as an attempt by Bankova to have a partisan auditor designated by the Rada, which would ensure a majority once the President nominated his auditor.

The EU and US both issued strong statements on March 9, emphasizing that "the pending NABU audit must be independent, transparent and lead to an objective analysis of NABU's operations over the last year". In addition to the joint statement, EU and US officials in Ukraine made private efforts to keep the process independent of influences outside the legislature. Several EU ambassadors also privately noted that the desire to nominate a "pocket auditor" was clearly an attempt to subordinate NABU. The independent operation of NABU together with the Specialized Anti-corruption Prosecutor (SAP) is not only of crucial importance for Ukraine's success in this area, but also for further support from the EU. It was particularly significant when NABU may have finally netted its first big fish: the director of the State Fiscal Service, Roman Nasirov. Nasirov is suspected to have helped embezzle US \$75 million and is a test case that will show how Ukraine's anti-corruption institutions actually work and demonstrate whether the country's system of institutionalized corruption can really be dismantled. The EU is especially keen to see a proper cooperation between NABU and the General Prosecutor's Office, as there is widespread opinion that the two are at odds.

Overall, the EU is positive about the steps that have been taken in anti-corruption efforts. The key benchmarks here have been the dismantling of a scheme in the gas sector that was costing around US \$10bn each year, the cleaning-up of the banking system, and the establishment of better procurement policies: after the introduction of the Prozorro system, transparency has increased and costs have gone down. In addition, in March, an electronic VAT refund system was launched – an area that has long been highlighted as a source of corruption. Officials say the system is now fully automated and there is no option for handling VAT refunds in manual mode.

The EU is keen to see the gains made in Ukraine's government system properly entrenched, to ensure that there are no rollbacks based on political convenience. High priority will be given to complete the establishment of an Anti-Corruption Court and an independent and competent Supreme Court. The privatization process is also seen as a tool to diminish corruption. Ukraine has about 3,000 state-owned companies, many of them a burden on taxpayers and long suspected of corruption. The privatization of state assets should attract investments to Ukraine and bring higher quality to managing these assets.

The EU's flexible support of Ukraine

Brussels always sets specific conditions before delivering support to Ukraine, and rightly so: otherwise, many reforms would have never happened. EU macro-financial assistance worth €1.8bn agreed in 2015 kept being delayed until March 2017, when Kyiv finally received the second tranche of €600mn. The first installment came in 2015, straight after signature, while the other two were supposed to have been delivered by the end of 2016. However, the disbursement of the second and third tranches was conditioned by the EU through a MoU with Ukraine that contained a series of measures that Ukraine had to implement, despite the fact that this macro-financial assistance is really a long-term cheap loan.¹ The list of measures included issues ranging from public finance and business to energy and social issues. By 2017 Ukraine had implemented many of the measures, specially those also contained in IMF documents or the VLAP, but the process stalled on a number of issues. The 10-year moratorium on unprocessed timber imposed by the Rada in 2015 became an additional problem. This caused dissatisfaction in the EU because the timber ban violated Ukraine's commitments as a WTO member and provisions of the Association Agreement. When the moratorium was not lifted, the EU – allegedly the office of Commissioner Hahn – conditioned the disbursement of the second installment with lifting the timber ban.

In the end, the EU transferred the second tranche to Ukraine in early April although, in fact, there had been no progress on several issues in the MoU and on the timber ban. Officials say the EU decided to move forward with the disbursement because the term for issuing macro-financial assistance is due to expire and the funds will then be re-allocated for other needs. Ukrainian MPs responded in a puerile and populist manner – saying that the price of the EU loan was selling the Carpathian forests.

In fact, the primary stated aim of the timber ban, to reduce illegal logging, has not been achieved. Annual statistics have remained pretty much the same: about 20mn cu m of forest are logged every year. Yevropeiska Pravda says the real number is at least twice as much. The EU was quite vocal on the issue but did not manage to get the ban lifted. Moreover, the Union itself has been talking about a ban on illegal logging in specific areas, but this would apply equally to all forests and not discriminate between Ukrainian and non-Ukrainian.

Expectations for the next three months

The EU-Ukraine relations should continue to progress smoothly, with the main achievements being the entry into force of the Association Agreement after the Dutch senate vote and the visa-free travel regime. Issues that will continue to harm relations between the two include the law on NGO e-declarations, the selection of auditors for NABU, and the ban on unprocessed timber exports.

¹ Macrofinancial Assistance to Ukraine, a line of credit from the European Union worth up to €1.8 billion, Memorandum on Mutual Understanding between Ukraine as the borrower and the European Union as the lender. http://zakon2.rada.gov.ua/laws/show/984_015#n27

The issue that could cause serious damage to relations would be a snap VR election. EU officials, both in Brussels and in Kyiv have repeatedly warned that elections should take place as scheduled and the focus should be on delivering reforms.

Other EU priorities will focus on continuing the fight against corruption by setting up the Anti-Corruption Court, ensuring the independence of the judiciary starting with the Supreme Court, starting a new round of privatizations,

tackling land reform, focusing on energy efficiency, and dealing with a number of social issues.

On Ukraine's part, aside from ratification of the AA and visa liberalization, there are expectations that the EU will continue to support sanctions against Russia, will better understand the conditions in which Ukraine finds itself and put less pressure on certain issues, and will unblock the Open Sky Agreement that is currently suspended because of a dispute between Spain and the UK over the airport in Gibraltar.

Events in Ukraine-EU relations (January-March 2017). Point-based evaluation

Date	Event	Points
January 17	State Aviation Service signs an agreement to converge certification during a meeting with the European Commission	+3
	Twining project is launched with State Border Service.	+1
January 31	EU Spokesperson issues a statement on the human rights situation in Crimea.	+2
February 1	The EU in cooperation with Denmark launches the Anticorruption Initiative in Ukraine with a €16 million budget.	+1
February 8	Ukraine ratifies the Agreement on Cooperation between Ukraine and the European Organization for Justice.	+3
	The Government passes a Decree "Approving the Action Plan in preparation for introducing a Common Aviation Area between Ukraine and European Union and its Member States."	+2
February 10	The European Investment Bank (EIB) launches a new program to support the private sector in Ukraine.	+3
February 13	The European Parliament approves the suspension mechanism for its UA visa-free regime.	+3
February 20	The EU allocates €18 million of humanitarian aid to victims of the conflict in eastern Ukraine.	+4
February 22	Ukraine ratifies an Agreement between Ukraine and the EU on Ukraine's participation in the EU Competitiveness of Small and Medium Enterprises program (COSME).	+2
February 23	Dutch Lower House of Parliament ratifies the EU-Ukraine Association Agreement.	+4
February 28	MEPs and Council negotiators agree to waive EU visa requirement for Ukrainians	+2
March 1-2	Ukraine and the EU start a high-level Ukraine-EU dialog on horizontal issues and individual industrial sectors and a number of working groups meet: <ul style="list-style-type: none"> • on eliminating technical barriers to trade; • on SMEs; • on cooperation in the space sector; • on public procurements; • on industrial issues (automotive). 	+2
March 2	The Committee of Permanent Representatives of EU member states (COREPER) approves the decision on visa liberalization for Ukraine.	+3
March 3	The EU Council extends the decision to freeze the accounts of 15 persons suspected of embezzling state property of Ukraine or abuse of power that led to budgetary losses for Ukraine—until March 6, 2018.	+4
March 7	The European Union issues a statement in support of NABU and SAPO and notes the need to establish anti-corruption courts.	-2
March 9	The European Parliament Committee on Civil Liberties, Justice and Home Affairs (LIBE) passes final reading of a resolution to add Ukraine to the list of third countries for whose nationals visa requirements are waived.	+3
	The US Embassy and the EU Delegation in Ukraine issue a statement on the NABU audit.	-2
March 13	The Council extends the validity of restrictive measures imposed against actions that limit or threaten the territorial integrity, sovereignty and independence of Ukraine—until September 15, 2017.	+3
March 15	An International Conference of EU Member States and Eastern Partnership countries on integrated management and a common border takes place in Ukraine.	+1
March 16	The European Commission approves the disbursement of a second tranche of macro-financial assistance to Ukraine worth €600 million.	+4
	The European Parliament urges Russia to free Ukrainian prisoners.	
	The EU-Ukraine Parliamentary Association Committee meets.	+2
March 17	On the third anniversary of the illegal annexation of Crimea and Sevastopol, the EU commits itself to continued non-recognition.	+3
March 24	New funding of €3 million under the Instrument Contributing to Stability and Peace is approved to provide timely and focused assistance to the OSCE, with satellite imagery.	+4
	EU Commissioner Johannes Hahn issues a statement on changes in Ukraine's e-declaration law.	-2

UKRAINE-US RELATIONS

January – March 2017

Positive: +34

Negative: -6

Overall: +28

SUMMARY

“America First” is not merely a slogan that helped Donald Trump win the White House. It’s also the principle that has guided Ukraine’s foreign policy in recent months, as every effort was made to build bridges to the new US Administration. The main purpose of Ukraine’s “America First” approach was to maintain the United States, if not as an ally, then at least as an active partner in restraining Russia’s aggression.

So far, American officials see Ukraine’s efforts to establish ties with the new and still understaffed Administration in terms of Ukraine as having mixed results.

On one hand, at the point when Trump was elected president, Ukraine had a network of contacts that even some of the US’s closest allies might have envied, let alone the average Washington partner. On the other, all American sources, without exception, confirm that the problem for Ukraine is who and how represents it in Washington. And so it’s hard to understand what the state of Ukraine’s key message is and what is the meaning of the story about itself that the state of Ukraine wants to get across to the new US president and his inner circle. American diplomats also suggest that Ukraine avoid a situation where the process of building bridges with Washington leaves Ukraine’s potential supporters in Berlin and Paris dangling.

“The position of the newly-elected president and his team regarding Ukraine was one thing in December–January, and it has become something else in February–March,” says one highly placed official in the Ukrainian Government. Thanks to a slew of fact and factors unrelated to it, Ukraine has managed to slowly eliminate its title as “biggest international loser from the Trump victory.” Beyond this, there are a number of indicators that Ukraine’s strategy towards the US effectively lay in not only preserving what it had gained during the Obama years, but to try to get even more under Trump.

But in raising an ambitious bar of expectations, two things must not be confused: a more skeptical policy towards Russia on the part of the new Administration will not automatically make this White House pro-Ukrainian. Anti-Russian and pro-Ukrainian positions may typically go hand-in-hand in the political circles of many countries around the world, but they aren’t the same thing.

Job One for Ukraine’s foreign policy is to make Ukraine attractive to the new Administration, regardless of the dynamics of US relations with Russia. Since this is not an easy task, what remains is to take maximum advantage of the point when disenchantment with Russia opens the door to greater interest in Ukraine.

TIMELINE

Competing for who meets Trump first

The transition from the old to the new US Administration took place without any pathos on the part of Ukraine’s leadership. In January, after some doubts and hesitation, Vice President Joe Biden visited Ukraine. There were questions in Kyiv about the appropriateness of such a visit, but not to receive such a distinguished guest with such an evident emotional bond to the country would have been churlish. Biden had come to emphasize one more time how important it was for Ukraine to focus on combating corruption and to make clear how important the next half-year would be for Ukraine in this context. For the American vice president, this was his last foreign visit, which made it symbolically significant. Inside sources say that Biden made his farewell with the Ukrainian president completely painless when, as he was about to depart, he invited ex-premier Arseniy Yatseniuk on board his plane for a 45-minute conversation on what

was effectively US soil. Some Ukrainian politicians took it as a slap in the face, for Biden to have invited the ex-premier after having completed all his meetings with the president and current PM – let alone on board his plane and not just in the Boryspil VIP lounge. In any case, the Ukrainian administration was already busy thinking about and planning with the new US Administration. The main value in Biden at that moment was in how he would hand off affairs to his successor, Mike Pence, so that the new Veep would understand the importance of the Ukraine portfolio – which he, in fact, did.

Since Donald Trump was elected in the US, Ukraine’s assets include two telephone conversations with the president, a meeting and a telephone call between the President of Ukraine and the Vice-President of the United States, and several conversations between the president and the Secretary of State. Add to that a meeting between the Foreign Minister and the Secretary of State, another with the National Security Advisor, as well as a visit to Washington by the newly-appointed first deputy

FM Vadym Prystaiko. Given that the White House under President Trump likes to use eloquent epithets even in its minutes of meetings, it seems significant that it called the phone call between Trump and Poroshenko “very good”. Kyiv was also pleased with both conversations, **mainly because Trump clearly called Russia’s aggression “aggression” and the annexation of Crimea “annexation”**.

Some of these contacts were aimed at ensuring that Poroshenko and Trump would meet at the highest level – not just ensuring a meeting but ensuring that it took place before Trump met with Putin.

Negotiations over a potential bilateral meeting in the near future primarily took place during telephone conversations between the two leaders. The Presidential Administration began to test the waters for this to possibly take place as early as February. Poroshenko announced his intentions to meet with Trump in February during an interview for the Wall Street Journal. His office began to even talk about a preliminary date, February 21.

Kyiv was counting on the idea that, if hints about a meeting with Trump were dropped publicly, this might obligate the American side to take the request seriously. For Ukraine, to have Poroshenko meet Trump before Putin does is a matter of principle. However, there is an upside to meeting with Trump after Putin does: Poroshenko will be able to counter the Kremlin version of events in eastern Ukraine and persuade his American counterpart why a “grand bargain” with Moscow is not only not in Kyiv’s interests, but also not in Washington’s.

The chances of Poroshenko meeting Trump face-to-face before Putin does are marginal. There are two reasons, at least, why the White House was not prepared to receive the Ukrainian leader. First of all, some American decision-makers think that for Trump to meet with Poroshenko before meeting with Putin would set the wrong background for future negotiations between the American and Russian leaders. On the other hand, given the pressure the new US Administration was over its contacts with Russia during the election campaign and then growing tensions over Syria, meeting the Ukrainian president first might, on some levels, be good for Trump’s image.

Secondly, any visit needs to be properly prepared for. The main challenge that Ukraine’s diplomats need to face is **not when the meeting takes place, but how well-prepared it will be**.

Trump sees himself as a master dealmaker, but he is not necessarily the one who puts the deals together. It is unlikely that he will be the one who puts together a deal to resolve the situation around Ukraine. Trump needs to be offered a few options so that he can choose one that he thinks is the best one in terms of the political line-up at home and US security priorities. Diplomatic sources say that Ukraine has the opportunity to test three options for settling the situation with Russia in Washington.

The US side will also have to be properly prepared for this meeting. So far, the Trump Administration is clearly lacking a vision of how it should go forward on the question of Ukraine.

Conditions for dialogue with Trump are better today than even just a few months ago. But that does not mean that Kyiv should not continue to formulate answers to the question why supporting Ukraine is not just in the interests of this country but also of the United States. So far, as those who have had a chance to communicate with Trump’s people can testify, the best argument, surprisingly, is the tried and true argument put forth by Zbigniew Brzezinski: supporting Ukraine is important so that Russia doesn’t become an empire again, some kind of USSR 2.0.

The US and a Resolution in the Donbas: “Nuland-Surkov” upgraded?

Investigating Russian influence on the new president’s team gave Ukraine one important benefit: for Russia to reset with the Trump Administration will be pretty much impossible unless there is progress in resolving the conflict in Ukraine. Moreover, it’s pretty clear that the first step will have to come from Russia’s side.

This is not to suggest that Kyiv can allow itself to simply forget about Minsk. The latest information is that some US negotiators have been telling their Russian colleagues openly: “Ensure progress on the security side and we will press the Ukrainians on the political side”. Indeed, some visiting US officials have been interested to know just how genuine is President Poroshenko’s position that even just a Bill on elections in the occupied territories will never pass in the Verkhovna Rada. Their point is, “you can’t or you won’t”

The Minsk accords and the Normandy format continue to be the tactical platform for resolving the conflict over Donbas for the Trump Administration as well, so far. “They don’t want to move away from the rationale of Minsk,” says one highly-placed Ukrainian diplomat who is familiar with the positions of the new US administration. And this is despite the fact that Trump himself and members of his team made it clear on more than one occasion that they give precedence to bilateral negotiations over multilateral ones.

One positive development was the fact that, without progress on Russia’s part regarding Minsk, it will be hard to argue in favor of easing, let alone lifting sanctions. The downside is that Ukraine must constantly be proactive in carrying out its part of Minsk which, given the domestic policy blockade against Poroshenko, both literally and figuratively, becomes harder and harder to do.

Today, US officials assigned to the Minsk process would advise Poroshenko to more actively come up with initiatives to add to the Minsk accords. For instance, he could propose a kind of stabilization plan: an outline of specific steps that might ensure a more lasting ceasefire. Alternatives to Minsk itself, Poroshenko is in no position

to offer because he has become hostage to his own approach to the accords: this is the peace plan of the President of Ukraine.

The Ukrainian side was also actively testing the waters, as planned immediately after Trump was elected president, regarding the “official” inclusion of the US in the Normandy format. Kyiv was counting on Berlin not being opposed to the inclusion of Trump, given that the Germans were also interested in finding a direct channel to the US president, for whom they did not feel great enthusiasm. How ready the White House is to being involved is hard to say. But the reactions in Berlin and Paris to the formalization of Washington’s participation in Normandy were more unmistakable: negative.

Based on information from different channels, Paris and Berlin think it will be more effective for the US to continue to engage in the negotiating process on a parallel track to Normandy. Given the skepticism in the German and French capitals towards the previous parallel track involving Nuland and Surkov, this is a surprising and interesting position. It’s quite possible that this track will actually be launched. The question is only who will become the #1 American negotiator for Ukraine. One name that has been discussed to replace Nuland is Kurt Volker, one time US ambassador to NATO and executive director of the McCain Institute. However, there’s also debate going on in the US about whether this should be a classical bureaucrat or a politician.

Ukraine is ready to seriously talk about a reset the Normandy format on the G7 platform.

A big deal with big questions

Although Washington is in no hurry to drop the idea of a grand bargain with Moscow altogether, it’s looking more and more doubtful that it will take place, as we predicted in the previous Index. Except that, earlier the high level of toxicity around the issue of Russia stood in the way of such a deal, other factors were added to the mix in recent months. According to various sources, Trump has experienced a series of disenchantments and even annoyance over actions by Russia that Washington sees as provocations – from the placement of land-based cruise missiles on Russian territory in violation of related US-RF agreements, to the double game Russia has been playing in Syria. Interestingly, Ukraine, which has not been particularly prominent in its position about conflicts in other regions of the world, immediately supported US actions in Syria in response to the recent chemical attack. And the Trump Administration noticed: according to some sources, a note of appreciation for this was what led to the last telephone conversation between VP Pence and President Poroshenko.

However, some members of the new US administration also served to hamper the situation, generally individuals with a military, security or investigative background. Knowledgeable American sources note that that the resignation of security advisor Michael Flynn marked

a changing attitude towards Ukraine in the Trump Administration. Meanwhile, Kyiv was quite upset when word came out of his conversations with the Russian ambassador. After one Government official had what he thought was a very constructive meeting with Flynn at the end of 2016, Kyiv cheered itself with the thought that Flynn “wasn’t such a bad guy as people say”.

An even better bit of news for Ukraine was the appointment of General McMaster to replace Flynn as National Security Advisor. McMaster had studied the hybrid war Russia was waging against Ukraine in depth in recent years. According to inside sources, he came to the conclusion that the US was not prepared for a hybrid war with Russia and this issue remains high on his list of priorities. Some even say that during his meeting with FM Klimkin he asked very specific and precise questions about the course of military action in Donbas.

Another general, Defense Secretary James Mattis, is also managing to keep the Trump Administration at the necessary level of clear-headedness regarding any resets with Russia. Surprisingly, Mattis and the Pentagon he now heads have been far more active and visible in formulating the new Administration’s policies than Secretary of State Rex Tillerson and his department. This is also good for Ukraine, given the consensus in the security sector regarding the significance and impact of Russia’s actions on US interests.

Even if Tillerson manages to find more room to maneuver in, it looks like Tillerson the business executive will always be forced by a variety of factors to hold to the line of Tillerson the diplomat. Significantly, after the first meeting between Tillerson and Lavrov, American observers drew an interesting conclusion: John Kerry was much better at finding common ground with Lavrov than Lavrov was with Tillerson.

It’s not quite clear, so far, how much of a visible role Fiona Hill, a well-known expert from the Brookings Institute, will have in the White House as advisor on Russia and Eurasia. However, the very fact that one of the most professional researchers on Russia and one that is not known for her pro-Putin sympathies has been appointed to this post is also a positive sign. Ukraine needs to make good use of these individuals in the new Administration because it’s not known how long or influential their role in the White House will be, including Gen Mattis. However, it should be said that, at this point, the odious Steve Bannon is far weaker than either Mattis or McMaster.

Despite any number of restraining factors, the main issue today needs to be framed thus: to what extent does US President Donald Trump personally believe in a “grand bargain” with Russia that might reflect US interests more than Russia’s? Or, like many other American decision-makers, has he come to the conclusion after Syria that it makes more sense to talk to Moscow about some kind of agreement on managing risks to minimize the threat of a military confrontation between the two countries, rather than about some abstract grand bargain?

Congress en garde for sanctions

The more questionable the grand bargain with Russia becomes air, the more questionable any easing of sanctions against Russia becomes, too. One of several factors that stopped rocking the sanctions boat in the US was the Congress's demonstrative resistance to the idea and its readiness to codify the sanctions in law, making them mandatory.

Both Houses continue to build a reputation as among the US branches of power that are the most dedicated to restraining Russia and punishing it appropriately for its aggressive behaviors. At the beginning of this year, at least five bills were submitted by members of the Senate and the House of Representatives that were in response to Russia's actions in Ukraine. The House repeatedly submitted the "Stand for Ukraine Act" to a vote. On February 8, three Republican and three Democrat members submitted a separate bill in the Senate called the "Russia Sanctions Review Act", which establishes that the Congress has the final say in the matter of revisiting sanctions against Russia. A week later, a similar bill was submitted to the House of Representatives.

Still, it's worth noting that this was probably the first time since the sanction regime was instituted that the leadership of the US on the issue of international sanctions came under question. Moreover, the position of individual European capitals is at least as important for maintaining them today, as is Washington's, all the more so that the EU, unlike the US, will have to decide whether to continue them or not already this summer. At the moment, there seems to be something like a game of "who'll blink first" between Washington and Brussels: the White House is waiting to see whether the EU will extend sanctions this summer, while the European Union is carefully watching the signals out of Washington on this issue. These signals are growing more in favor of maintaining sanctions as long as the situation with implementing the Minsk accords does not change substantially.

About Ukraine without Ukraine: A sometimes useful thing

Those who are familiar with environment in New York City, where Donald Trump is used to operating, know that when you meet with a partner, you need to know the answer to the question, "Who's your rabbi?" Translated into ordinary English, it means "Who's your protection?" In the last few months, Ukraine has been working to arrange a cover for itself in the shape a good cross-section of those international partners who have managed to gain an early audience with President Trump and to send Trump signals from Ukraine through them. These include Teresa May, with whom President Poroshenko was able to discuss some messages at Davos, just before she went to Washington.

This is especially the case with Angela Merkel. Despite all of Trump's remarks about what Germany owes the US and NATO for defense, insiders say that the German

chancellor was able to have a proper briefing with the American president regarding Russia's long-time aggression in the region. Apparently Merkel brought along a map of the Soviet Union in 1982 in order to explain to the US president, in an easy-to-understand way, just how Russia has been promoting its own interests in the region by establishing conflicts, one after another, on post-soviet territory. Still, it's not entirely clear how further collaboration between Trump and Merkel might go. Some American observers say that, so far, Trump has found the most common ground with Japanese PM Shinzo Abe, whom he has already met twice, once before and once after his inauguration.

Some US embassies continue to actively work on behalf of Ukraine from sheer inertia. In Europe, the US mission to the OSCE is probably the most active, despite that fact that Ambassador Daniel Baer tendered his resignation, as did all political appointees as heads of missions. UN Ambassador Nikki Haley has actually outdone her predecessor, Samantha Power, in her criticism of Russia's actions in Ukraine and in Syria.

Alternative messages from Ukraine harm Ukraine

In the opinion of US partners, one serious obstacle to defending Ukraine's interests in Washington is wrangling over who gets to represent the country in the United States – and how. On the one hand, the answer should be obvious: the Ukrainian Embassy in the US. However, because of a media campaign rolled out against the mission, supposedly because it supported Hillary Clinton during the campaign last year, effectively representing Ukraine has turned into a major challenge for the country's diplomatic team.

Effectively representation has been complicated further by the steady influx of Ukrainian politicians of all stripes and calibers. Ukrainian-American relations have always suffered because of the enormous number of fruitless and often even damaging visits to Washington. Today, friends of Ukraine in the Congress and at US think-tanks are having to almost openly tell Ukrainian politicians to take their visits to Washington a lot more seriously and focus on quality rather than quantity. Still, with a new US administration that is fairly eccentric in its work in foreign policy, this trend has only grown worse. According to some estimates, in the first two months of 2017, some 150 Ukrainian MPs visited Washington, without even counting their aides.

In Ukraine's main government offices, there has always been too much effort put into 'alternative' channels of communication with official Washington. First of all, this tends to water down Ukraine's positions on key issues, such as resolving the conflict in Donbas and Crimea. Secondly, 'alternative' contacts tend to go hand in hand with campaigns to discredit the country's current leadership, especially President Poroshenko. During the Obama presidency, Poroshenko had little to lose: attitudes towards him were skeptical during the first year

that he held office. But under the Trump Administration, he has an opportunity to make a proper impression on the US president, despite the Manafort factor and other reputation-damaging elements.

And so, since Trump's election, the fear of such 'alternative' contacts has become even stronger: concerns over such individuals as Mikheil Saakashvili with his access to the US media and his previous acquaintance with Trump were palpable in the corridors of power in Kyiv. But in fact, the greatest impact was felt from a meeting between Ukrainian MP Andriy Artemenko, hitherto relatively unknown at home, and Trump lawyer Michael Cohen to discuss a peace plan no one knew about. Some American sources say that this plan ended up on Michael Flynn's desk.

Notably, this incident found little traction in the US and was important not because of the plan and even less so because of who Artemenko was, but only because of how easily questionable foreign agents with potential Russian influence are able to gain access to the White House with their ideas.

The question of who is fueling this lively 'peacekeeping' activity by Ukrainian politicians overseas, and how, is a matter for a separate study. We can only presume that these plans are intended to (1) check out the readiness of both the US and Ukraine itself to resolve the situation based on the principle, "the main thing is to calm Russia down"; (2) to show that there are forces in Ukraine that are prepared for "peace at any price"; and (3) to discredit the country's current leadership. One American diplomat compared these plans to launching a bunch of balloons. Those who are releasing them want to see which ones will burst first and which will reach a decent height.

Lethal weapons and a security agreement: diplomacy of symbols in action

"For me, the US means security," then-FM Petro Poroshenko once told a circle of his friends. After the start of Russian hostilities, this comment took on new meaning and became real for all of Ukraine's policy towards the US.

In the first few months of the Trump Administration, it has become clear that official Kyiv intends to promote the idea of security, something that the previous administration did not want to hear. In other words, Ukraine's de facto strategy towards the United States today is not just to preserve what was achieved under President Obama but to achieve even more under President Trump.

In the first place, this means signing a bilateral security agreement with the United States similar to those the US has with a number of Southeast Asian countries. Indeed, Ukraine has been raising this issue with admirable regularity since at least 2008, when its application for the NATO Membership Action Plan (MAP) was turned down at the Bucharest Summit. At the time, during the lame-duck presidency of George W. Bush, Ukraine's ambitions to sign an agreement with the US similar to Washington's

NATO treaty with its Art. 5 but on a bilateral basis was reduced by the Americans into a Charter on Strategic Partnership that offered little in the way of meaning or commitments, signed by Ukraine's FM and the US Secretary of State. A security agreement with the US is one, and possibly the most important, component of Kyiv's strategy to sign such agreements with key international partners since the chances of being integrated into NATO in the foreseeable future are marginal to none. Indeed, Ukraine is talking to Poland about signing a similar bilateral agreement.

Another concept that has been revived, although more at the level of the Verkhovna Rada, is gaining status as the US's main non-NATO ally or MNNA, which Kyiv had already brought up actively with the Obama Administration. But one highly placed US diplomat, when asked about this, responded with two words: "Stupid idea."

The previous administration argued that the entire idea was pointless because (1) Ukraine was being considered for possible membership in NATO and (2) there was no particular added value in MNNA status. Truthfully, the practical merit of this status is questionable: in reality, the level of assistance Ukraine has been getting from the US since the beginning of Russia's aggression is already more today than for many countries that actually have MNNA status. The main benefit of MNNA status is to be able to buy surplus American materiel at reduced prices. Still, sometimes there is the impression that Ukraine is interested in far more than just the pragmatic aspects of cooperation and ***the country continues to place a lot of value on the diplomacy of symbols.***

The support of friends of Ukraine in the Congress has also become more active, along with the subject of Ukraine being provided with lethal weapons from the US. This issue has once again turned into the most obvious symbol of US support for Ukraine, along the lines of "Tell me whether you favor giving Ukraine lethal weapons and I'll tell you how much you support Ukraine". The Ukrainian side has to convince that Americans that it's prepared to take on all the risks should the situation escalate. All the more so since no one can predict with certainty whether such an escalation might take place on Putin's part should Ukraine receive lethal weaponry or, on the contrary, curb his aggression.

It is much more probable that the security programs for Ukraine will be extended. American sources say that, more than likely, the Trump Administration intends to expand them further: the approach of the new US Administration, even more so that that of the previous one, is for Ukraine to shore up its armed forces and become able to independently raise the cost of aggression for Russia.

Right now, bilateral security programs are more important than the amorphous status of a non-NATO ally, given that professional training and joint military exercises make it possible to modernize and renew Ukraine's army on a permanent basis. The best evidence of the

effectiveness of these programs was shown during the recent escalation of hostilities near Avdiivka, where, among others, soldiers trained by American instructors in Yavoriv took part.

What about corruption?

Significantly, even some officials from the State Department and other US agencies who worked in the Obama Administration are saying now that Vice President Biden's strategy of a clear focus on fighting corruption in Ukraine did not work. Washington was counting on Ukraine taking advantage of the window of opportunity that had opened after the Euromaidan revolution for civil society and the West to exercise real pressure to get the anti-corruption ball rolling in a short time. The Obama Administration as a whole and Vice President Biden in particular would then be able to point to the fight against corruption as one of the success stories of the "new Ukraine" before they left the White House. And so considerable effort, nerves and resources were invested in setting up independent anti-corruption agencies, among which the only thing the Ukrainian government "owed" was to set up a specialized anti-corruption court.

The question – what has been achieved to a greater degree: real anti-corruption reform or an even stronger image of Ukraine as a "thoroughly corrupt country" – remains open. The other question is to what extent Donald Trump's own attitude towards Ukraine in general and to President Poroshenko in particular will determine the willingness to fight corruption in the country. But that's not what's most important: the ineffective struggle with corruption remains the most obvious excuse for all those decision-makers in the US, and in the West as a whole, who are always looking for an answer to the question "Why 'no' for Ukraine?" rather than "Why 'yes' for Ukraine?"

The association of Ukraine with corruption is so serious that even those in the new US Administration who might want to put the issue of corruption on the back burner, at least as long as there's a war with Russia, are forced to pay attention to it. In this situation, the traditional American bureaucracy will make itself felt more than once by the untraditional president and his circle. And although Trump has not brought up the issue of corruption in his phone conversations with Poroshenko, it was already in Vice President Pence's talking points in Munich.

Still, the US Embassy remains the most dedicated stakeholder in the fight against corruption in Ukraine. Taking advantage of the institutional vacuum in Washington as regards Ukraine and the temporary absence of clear instructions, it is taking advantage of its broad *carte blanche*. That's well understood in Kyiv as well. This means a growing risk that every statement or recommendation coming from the embassy will be accompanied by interpretations in the corridors of power as to whether that demand comes from the US or "merely" from the US ambassador in Ukraine.

This, however, brings up the question, to what extent the short-term risks to dialog with the US Embassy in Kyiv are likely to turn into risks to relations with the US administration as a whole. The most dangerous short-term risks for Ukrainian-American relations are well known and are, of course, related to the issue of corruption. This means, among others, the selection of an auditor for NABU, where the US made it very clear that it has not invested so much time, energy and resources in the anti-corruption process to close its eyes against attempts to install a "loyal" auditor.

Another issue is the changes to the Law on e-declarations that added an unheard-of requirement for representatives of NGOs and CSOs that are directly or indirectly involved in combating corruption to also declare their assets. The US saw this as a step backwards, an assessment that is hard to disagree with.

Whatever the two sides might say, the key will be the answer to the question whether this law will complicate or simplify the work of community organizations. Right now, it seems to be complicating things. These legislative changes also look like a backhanded way to lustrate civil society, something that only civil society itself should have the right to do, and not the government with its laws. If the necessary amendments are not made to this law, there is a huge risk that those fighting corruption in Ukraine will find themselves under even greater pressure than those engaged in it. Can anyone really call this, let alone "sell it" to the civilized world as an effective fight against corruption? Without any doubt, people will immediately be found to persuade Trump and other world leaders: no serious effort to fight corruption + no serious support.

Events in Ukraine-US relations (January-March 2017). Point-based evaluation

Date	Event	Points
January 12	The US Senate considers a bill by Senator Cardin to challenge the RF's hostile acts. The second part of the bill makes the effect of the sanctions instituted by President Obama for Russia's actions in Ukraine binding.	+1
	In the US House of Representatives, Bill 463, the Crimean Annexation Non-Recognition Act is brought to the floor again. This bill establishes US policy of not recognizing, de jure or de facto, RF sovereignty over Crimea, its airspace or its territorial waters.	+1
January 16	US Vice President Joe Biden arrives in Ukraine for a farewell tour during which he talks to the President and Premier of Ukraine.	+1
January 19	In an interview with the Wall Street Journal as part of the WEF in Davos, President Poroshenko says that he expects to meet with the new US president, Donald Trump, in February 2017.	-1
January 31	The US State Department issues a statement calling for a ceasefire as the conflict escalates around Avdiivka and reaffirms US support of complete compliance with the Minsk accords.	+1
February 2	The STAND for Ukraine Act (H.R.830) is brought out for second reading in the US House of Representatives. At this time, 33 representatives of both parties support the bill.	+1
	In her maiden speech at the UN Security Council, US Ambassador to the UN Nikki Haley focuses on Russia's aggression against Ukraine, condemning the aggression in Donbas and demanding that the Russian Federation stop the escalation. Ms. Haley also confirms that US sanctions over Crimea will be maintained until the peninsula is returned to Ukraine's control.	+1
	In a letter to the President of the United States, Senator John McCain, chair of the Senate Armed Forces Committee, called on Donald Trump to provide Ukraine with lethal weapons.	+1
February 5	In a telephone conversation, the presidents of Ukraine and the United States confirm that they will work together to restore peace on the borders of Ukraine and discuss the options for a future meeting.	+2
February 8	A group of Senators brings a bill to the upper house of the Congress called the Russia Sanctions Review Act, whose main purpose is to ensure that the final decision about sanctions against Russia will lie with the Congress.	+1
	Ukraine and the US sign the Foreign Account Tax Compliance Act or FACTA, an intergovernmental agreement, to improve transparency on tax issues between the two countries. Signing FACTA will allow Ukrainian banks to provide information to the IRS regarding the bank accounts of American citizens.	+1
February 14	Michael Flynn resigns as National Security advisor to President Trump. Flynn favored normalizing relations with Russia in order to counter Islamic State.	+2
	White House spokesman Sean Spicer announces that the US President has made it clear that he expects the conflict in eastern Ukraine to be de-escalated and Crimea to be returned to Ukraine.	+2
February 15	The House of Representatives considers a bill to review sanctions against Russia and to ensure that the final word on this issue will be with the Congress.	+1
February 16	Ukraine's FM Pavlo Klimkin travels to the US on a working visit, where he meets with the Deputy Secretary of Defense Robert Work. During their talk, Work reconfirms US support for reforms in Ukraine's security sector.	+0,5
	The US Embassy issues a statement expressing concern over the blockade of coal deliveries from ORDiLO to the rest of Ukraine and calls on all sides to resolve the confrontation before the situation deteriorates further. The statement also calls on the Government of Ukraine to speed up modernization in the electricity sector.	-1
February 17	President Poroshenko and US Secretary of State Rex Tillerson speak over the phone about ways of countering Russia's aggression and restoring Ukraine's sovereignty.	+1
February 18	President Poroshenko and US Vice President Mike Pence talk during the Munich Security Conference, after which Poroshenko states that Pence is well-informed about the situation in Ukraine and that the country is an important foreign policy priority for the US.	+3
February 19	The New York Times reports that Ukrainian MP Andriy Artemenko (RPL) has been trying to present a plan to resolve the conflict between Ukraine and the Russian Federation to members of the Trump team that involves withdrawing Russian troops from eastern Ukraine and organizing a referendum to lease Crimea to Russia for 50-100 years.	-1
February 20	The State Department issues a statement on the third anniversary of the tragic events on the Euromaidan and calls on Ukraine's political leadership to speed up reforms to honor the memory of those who died.	+1
	President Trump appoints Herbert McMaster National Security Advisor. Shortly afterwards, McMaster calls Russia one of the main threats to the existing world order.	+1

Date	Event	Points
February 28	The US ambassador to the UN issues a statement at a Security Council meeting that Russia must carry out its obligations under the Minsk accords, including a proper and complete ceasefire, and the withdrawal of all heavy weapons, and providing access to OSCE monitors.	+1
March 7-8	Ukrainian FM Klimkin visits the US again and talks with SecState Tillerson and NS Advisor McMaster. Klimkin says that Tillerson reassures him that the Ukrainian issue will be a separate priority in US foreign policy and Ukraine will not become a bargaining chip. Klimkin reports that he has also participated in a hearing in the US Senate.	+2
March 7	During a State Department briefing, Mark Toner notes that sanctions against Russia will not be eased until it fulfills its obligations in eastern Ukraine and Crimea.	+1
	A joint statement by the US Embassy and the EU delegation praises the actions of SAP, the special anti-corruption prosecutor, and NABU in arresting SFS boss Nasirov, noting that this case made it clear that a special anti-corruption court needs to be set up.	+1
March 8	The House of Representatives passes the defense budget for 2017, which allocates US \$150mn to improve Ukraine's defense capabilities and carry out joint military exercises.	+2
March 15	Ukraine and the US sign an intergovernmental agreement on financing US \$54mn through USAID to continue combating corruption and carrying out reforms.	+1
March 16	State Dept. Deputy Spokesman Mark Toner notes that Ukraine's blockade of ORDiLO could have dangerous consequences and that the US would like to see the situation resolved.	-1
	The State Department reaffirms non-recognition of Russia's annexation of Crimea and continuing sanctions until Russia returns the peninsula to Ukraine.	+1
March 21	The US supports Ukraine's claims against the RF in the WTO regarding Russia's attempts to restrict Ukrainian transit through Ukraine's own territory.	+0,5
March 22	The Verkhovna Rada passes Resolution №6111 in which it appeals to the US Congress and the Presidential Administration to grant Ukraine status as "Major non-NATO ally" and to sign a bilateral defense agreement.	+0,5
March 23	The US Embassy in Ukraine refers to amendments to the law on e-declarations that add a requirement for representatives of CSOs working on corruption issues to declare their incomes as "a step backward."	-2
March 28	US Ambassador Marie Yovanovitch attends the launch of the "New Face of the Border" project, which is intended to improve services to travelers and prevent corruption at border crossings. The project involves the law enforcement department of the US Embassy in Ukraine.	+0,5
March 31	SecState Tillerson affirms at a meeting of the Ukraine-NATO Commission that the US will not drop sanctions against the RF as long as Russia refuses to stop the actions that led to sanctions in the first place. For the first time a US government official admits that, unless the security situation in eastern Ukraine improves, there can be no progress in the political components of the Minsk accords.	+1

UKRAINE-CHINA RELATIONS

January – March 2017

Positive: +27

Negative: 0

Overall: +27

SUMMARY

The main event in Ukrainian-Chinese relations during the first quarter of 2017 was a meeting between President Poroshenko and PRC President Xi Jinping at the World Economic Forum in Davos on January 17. During their meeting, Xi Jinping noted that China supported the territorial integrity and sovereignty of Ukraine and the choice of the Ukrainian people. Poroshenko expressed the hope that China would support a peaceful resolution to the situation in Donbas and a stop to Russia's aggression against Ukraine, and the restoration of Ukraine's territorial integrity, including Crimea.

This meeting not only managed to end the risks that had arisen during a period of uncertainty in bilateral relations but also ensured the further development of Ukrainian-Chinese relations in two key ways: an official state visit at the highest level and the Third Session of the Commission on Cooperation between Ukraine and the PRC, both of which are supposed to take place this year.

The main item on the agenda for this Third Session of the Intergovernmental Commission is a discussion of the status quo and prospects of major investment projects that were included on the agenda in the Program for a Strategic Partnership between Ukraine and China approved back in December 2013. Although the "Air Express" project is pretty much dead, there are two large Chinese lines of credit still available: a grain credit worth US \$3 billion and an electricity credit worth US \$3.6bn. At the end of Q1'17, the grain credit appears to be secured. The electricity credit unfortunately expires in December 2017, so the options there remain complicated by unresolved issues.

However, this quarter has shown that interest in wide-ranging cooperation in Ukraine's farm sector and food production continues to grow in China.

China has also been paying attention to Ukraine's need to upgrade infrastructure, evidenced by its inclusion of Ukraine in the development of the New Silk Road that is supposed to link Europe and China. This is clearly demonstrated in the fact that Chinese corporations are involved in building new bridges across the Dnipro River. Links between Ukraine and China in IT have also become more active since late 2016, as have been humanitarian links and regional cooperation.

Altogether, it's clear that Ukrainian-Chinese relations have moved to a new level and show a steady tendency towards improvement. China is once again a component in Ukraine's foreign policy and is moving to center focus in the Ukrainian government.

TIMELINE

2017 began with an event that was significant for Ukraine-China relations: On January 4, President Poroshenko greeted PRC President Xi Jinping on the 25th anniversary of diplomatic relations between China and Ukraine. "I firmly believe that the main accomplishments of this quarter-century of history in relations between our two countries are the strong friendship between the Ukrainian and Chinese people, our mutual respect of sovereignty and territorial integrity, respect for one another, and growing cooperation that is egalitarian and mutually beneficial," said Poroshenko. "This provides a solid basis for further fruitful strategic partnership between Ukraine and the People's Republic of China". President Poroshenko went on to recall his meeting with the Chinese leader on April 1, 2016, in Washington, and repeated his interest in extending their dialog, officially inviting the Chinese leader to visit Kyiv. Poroshenko concluded by wishing Xi Jinping good health and boundless energy, and the Chinese people peace and prosperity.

That same day, the PRC President greeted President Poroshenko and the Ukrainian people on the 25th anniversary of establishing diplomatic relations between the two countries. "In the 25 years since diplomatic relations

were established, Chinese-Ukrainian relations continue to develop in a healthy and stable manner," said Xi Jinping. Cooperation between our two countries in trade and economic activity, in agriculture, in science and technology, culture and other spheres has achieved considerable results. China and Ukraine's strategic partnership is growing in substance and is bringing serious benefits to both countries and their people". The Chinese leader went on to emphasize: "On our part, China is keen to see relations with Ukraine develop further and is prepared to use this great occasion, 25 years of diplomatic relations, based on mutual respect and mutual benefit to move to further strengthening of friendly cooperation between the two countries, and to promote bilateral relations and cooperation in all areas in order to reach even greater results". President Xi Jinping ended with the hope that the friendly relations between China and Ukraine would be "eternal".

It's important to understand that, under the current circumstances, the exchange of greetings between the leaders of the two countries is far more significant than usual. It was a kind of shorthand statement of their basic approach to increasing bilateral interactions, which makes both the content and the tone important. The Ukrainian

President spoke about “mutual respect of sovereignty and territorial integrity” as the main achievement of the last 25 years, while the Chinese leader noted bilateral relations that “continue to develop in a healthy and stable manner”. Clearly, the nearly three-year period of uncertainty in bilateral relations is finally over.

The pro-forma exchange of greetings was a prologue to the very important meeting between Petro Poroshenko and Xi Jinping that took place in Davos, Switzerland. On January 17, the two leaders met during the World Economic Forum. This time, the Ukrainian President personally congratulated his Chinese counterpart on 25 years of diplomatic relations, noting: “We’re keen to expand political and economic cooperation between Ukraine and China”. He emphasized the strategic nature of China-Ukraine relations and once again mentioned respect for the sovereignty and territorial integrity of both countries. The Chinese President responded that China supported the territorial integrity and sovereignty of Ukraine and the choice of the Ukrainian people. Poroshenko then expressed the hope that China would support a peaceful resolution to the situation in Donbas, an end to Russia’s aggression against Ukraine, and the restoration of Ukraine’s territorial integrity, including the return of Crimea.

The two agreed that they would continue to work together to support peace and stability, both at the regional and at the global level, including in the context of the UN Security Council. The leaders of both countries also spoke about increasing economic cooperation between Ukraine and China, and agreed to hold the Third Session of the Ukrainian-Chinese Intergovernmental Commission on Cooperation in 2017. President Poroshenko also mentioned that Ukraine was interested in participating actively in China’s “One Belt, One Road” initiative and had considerable potential to offer. The two leaders agreed to continue active political dialogue at the highest level.

Here, Xi Jinping’s second time mentioned China’s respect for “the choice of the Ukrainian people”. The first time he said this was in August 2016 when he congratulated Ukraine on 25 years of independence. By “the choice of the Ukrainian people” is clearly meant the Euromaidan Revolution of Dignity, which, at the time, China met with considerable caution. Now, talk is about respect for the revolutionary changes in this country among China’s leadership, which is a strategic step forward.

Poroshenko’s comment about expecting China’s participation in a peaceful resolution to the situation in Donbas and Crimea is no less significant. In this way, he reminded the world that China was one of the guaranties of the country’s sovereignty and territorial integrity in 1994, which considerably strengthened its weight and influence in world affairs. Based on Xi’s speech at the Davos forum, which referred to China’s readiness to take on its share of responsibility for the development of the situation in the world, it can safely assume that there may be a serious re-organization of those participating in the resolution of the “Ukrainian crisis”.

On February 2, during a UNSC session on the escalation around Avdiivka, the Chinese ambassador to the UN stated that China was carefully monitoring the situation in Ukraine and was concerned about the latest escalation, which led to civilian deaths. He called on both sides to immediately

respect the ceasefire and favored a political solution. “There should be found a fundamental, long-term solution to this conflict that reflects the rights and expectations of all regions and ethnic groups to find a balance among the interests of all the parties,” the Chinese representative stated. He also emphasized that China was of the opinion that all parties should carry out UNSC Resolution #2202 to ensure that all hostilities and violence cease. Interestingly, China has consistently supported a peaceful resolution of the situation around Russia’s aggressions against Ukraine and it has become much more active in UNSC sessions related to the Ukraine question since August 2016.

Meanwhile, a fairly minor incident took place that nevertheless has considerable symbolic value. During a February 14 meeting, National Guard Commander Lt.-Gen. Yuriy Allero and the Chinese defense attaché in Kyiv, Sr. Col. Cao Xiaojian, agreed to cooperation on internal security, the preservation of the public peace, and the security of key state properties. They also established priority areas for the further development of bilateral cooperation, including the exchange of experience in using special units and improving the system for training members of the National Guard of Ukraine. Notably, this discussion was about interactions among the law enforcement agencies of both countries in the face of Russian aggression.

As to other notable events in political relations between the two countries, four stand out in particular:

- On January 13, on the occasion of the 25th anniversary of diplomatic relations, China gave Ukraine’s Foreign Ministry telecommunications equipment worth nearly US \$100,000. The related transfer document was signed by MFA State Secretary Andriy Zayets and the Chinese Ambassador to Ukraine Du Wei. Ambassador Wei expressed confidence in relations between the countries: “We have good national leaders with strategic vision who are making smart decisions regarding our development in 2017. We are confident that together we will achieve new successes in 2017”.
- That same day, the MFA opened a photo display in honor of the anniversary and showed the high level, pace and richness of the bilateral agenda and contacts between the two states.
- On January 17, the PRC Ambassador Du Wei held an official reception on the 25th Anniversary of diplomatic relations between Ukraine and China that was attended by Ukraine’s second president, Leonid Kuchma, current First Vice Premier and Minister of Economic Development Kubiv, Vice Premier and Minister of Regional Development, Construction and Residential Services Zubko and other ministers and top officials.
- On February 28, the Chinese People’s Association for Friendship with Foreign Countries organized a grand reception in honor of the 25th anniversary in Beijing. The event was attended by Chinese People’s Political Consultative Conference Vice Chair Lin Wenyi, CPPCC Deputy Secretary General Zhang Qiuqian, Assistant to the Foreign Minister Jian Xunshan, CPAFFC Deputy Director Son Jingwu, and the Ukrainian Ambassador to China, Oleh Dyomin.

At the end of Q1 2017, a key international event took place that could potentially have a serious impact on the way Ukraine cooperates with China. On March 27, an agreement to set up a Free Trade Area was signed at the GUAM summit in Kyiv. Georgia, Ukraine, Azerbaijan and Moldova agreed to recognize each other's customs procedures for the movement of goods and vehicles across their state borders. Ukrainian PM Volodymyr Groysman also stated that Ukraine was counting on the launch of a fully functioning FTA among GUAM countries by the end of 2017. He added that GUAM members were in the process of signing documents that will deepen cooperation between these countries and the New Silk Road: "Today, the interdependence and complementarity of our countries mean that we cannot remain outside of international initiatives, which is why I see our countries participating in the New Silk Road". This suggests that the Government of Ukraine is looking for deeper cooperation in the Black Sea-Caspian basins as one component in developing China's "One Belt, One Road" strategic initiative.

In terms of **trade and economic cooperation between Ukraine and China**, an important outcome of the Davos meeting was an agreement at the highest level to finally hold the Third Session of the Ukraine-PRC Intergovernmental Cooperation Commission that was supposed to have taken place in Kyiv back in 2015. The session has tentatively been scheduled for May and the outcome of such a meeting should have a major impact on further bilateral collaboration.

The main item on the agenda of the Third Session should be discussing the current status of and prospects for developing major infrastructure projects that were originally included in the Program for a Strategic Partnership between Ukraine and the PRC signed in December 2013. Although the "Air Express" project is pretty much dead, there are still two other major Chinese lines of credit: the "grain credit" worth US \$3 billion and the "electricity credit" worth US \$3.6bn.

The unsuccessful decision to privatize the State Food and Grain Corporation of Ukraine (SFGC) in 2016 led to problems in using the Chinese credit to make advance payments to farm businesses for spring fieldwork in early 2017. However, the Agro Policy Ministry showed a statesmanly approach and did everything to support the resolution of the problems facing the state corporation. On January 12, the council on investment projects in the framework of Ukrainian-Chinese cooperation held a working meeting in the Cabinet of Ministers that was chaired by the First Vice Premier and Economy Minister Stepan Kubiv. The meeting included Farm Policy Minister Taras Kutoviy and the directors of the State Property Fund and SFGC. The participants were informed about the progress of the UA-PRC grain project, which is being implemented in line with a General Agreement on Cooperation in the Agricultural Sector signed between SFGC and the China National Complete Engineering Corporation, CCEC. It was reported at the session that SFGC had exported 3.357mn t of grain to CCEC over 2013-2016. The Grain Purchasing Plan for Ukraine's Chinese partners in 2017 and the Forward Program for winter crops have both been agreed. Since October 2016, there has been more activity and positive expansion in SFGC's cooperation with its Chinese partners CCEC and Chinese Ex-Im Bank. The session also considered the procurement of grain railcars for SFGC

for the corporation to set up its own rolling stock: 500 grain cars to be purchased in 2017, another 1,000 in 2018, and final 1,500 in 2019, for a total of 3,000, as planned in the project.

By the end of the first quarter of 2017, the situation with the grain credit appeared to be settled. Unfortunately, the same cannot be said about the electricity credit, which expires this coming December. First of all, unlike the Agro Ministry, which regularly reports on its efforts regarding any issues with the Chinese loan, the Ministry of Power and Coal has not been providing any serious information in this regard. Secondly, according to unofficial sources, the electricity proposals submitted by Naftogaz Ukrainy, which is the officially designated recipient of the electricity credit, have been wandering the halls of power in search of approvals that don't seem to be coming.

On February 16, President Poroshenko reported to a meeting of the National Security Council on the agreements that had been reached with Ukraine's Polish and Chinese partners regarding the modernization of domestic power generating enterprises. "We spoke with our Polish colleagues about the options for getting loans and during my recent meeting with Chinese President Xi Jinping, to reorient our Chinese line of credit," said Poroshenko. "All the necessary elements are in place for this to happen". At this time, however, no more information about what is happening with electricity credit has been forthcoming.

By the end of Q1 2017, interest on the part of China in broad-based **cooperation in the farm sector and food processing** was clearly growing stronger. On January 20, a Chinese inspection group met with specialists from the State Food Safety and Consumer Protection Service of Ukraine. The PRC representatives thus ended their professional visit to Ukraine, during which they evaluated the regulation of beet pulp processing for fodder and also inspected Ukrainian enterprises that produce this product to see if it might be exported to China. The Chinese inspection reported to the State Food Safety Service on the preliminary results of their work. The mission officials noted that their assignment included becoming familiar with the way that Ukrainian state agencies, production facilities and transshipment stations operate, checking out logistical schemes, the laboratory control system, and the oversight of risks during the potential export of such products to China. The inspectors gave fairly high marks to state oversight and company operations in Ukraine, and also expressed interest in a broad spectrum of Ukrainian agricultural products.

On February 28, the UkrSadProm Association, a gardening and berry-growing organization, met with China Haisum Engineering Co., Ltd. to sign a Memorandum of Mutual Understanding. It includes plans for US \$500mn in investment in building and modernizing processing facilities, fruit storage facilities, and a processing and warehousing complex. The Chinese are interested in Ukraine's potential for growing grains and other crops, and in their processing as well as in building warehousing complexes. Last year, the two countries began to ally their phytosanitary regulations in order to export fruit and berries to the Chinese market.

On March 15, SFGC Director Oleksandr Hryhorovych announced that China's CCEC was prepared to invest in

reconstructing the Mykolayiv port elevator. “Our Chinese partners understand that it’s not enough to just buy grain,” said Hryhorovych. “It also needs to be delivered to a port in time and transshipped in the agreed quantity. That’s why they are supporting our projects to set up a fleet of grain cars and increase our handling capacity”. Hryhorovych noted that the transshipment capacities of the terminals at the Mykolayiv and Odesa ports were nearly 2.8mn t, but the two have never operated at full capacity. So the SFGC plans to use credits on its corporate accounts at UkrExIm Bank to carry out this project. Overall investment could be as much as US \$75mn.

In March 21, Ukraine’s Agricultural Policy Deputy Minister Olha Trofimtseva met with Export-Import Bank of China Vice President Yuan Xingyong at the Ministry in Kyiv, where they discussed the progress of a bilateral grain project currently being implemented the State Food and Grain Corporation of Ukraine and China’s CCEC. This is currently the largest project being undertaken by the two countries in agriculture. “The Ministry’s position is very clear: the success of this project will be possible only if we can constantly coordinate upcoming steps in those areas for which the line of credit has already been approved by the Chinese side,” noted Trofimtseva. The deputy minister emphasized the importance of continuing active dialogue between the two sides to successfully carry out the current project and thanked Xingyang for his constructive position on resolving working issues. The Chinese bank official, in turn, gave high marks to the work of the Ministry and SFGC in running the project, noting that the Ex-Im Bank of China was prepared to be flexible in removing hurdles that might get in the way of a successful result. “Only through joint effort can we achieve the necessary result that both countries are hoping for from this project,” Xingyang added. “We remain interested in continuing actively cooperation with Ukraine, knowing its exceptionally important role as an agricultural player in Europe and the world”.

On March 22, Agro Policy Minister Taras Kutoviy reported that the Ministry persuaded the Ex-Im Bank of China to reduce the interest rate on a US \$1.5bn credit that was issued to SFGC in 2012. The size of the cut is still under negotiations and is expected to be approved by the Chinese side. Kutoviy noted that Ukraine’s Chinese partners also agreed to allow some of the credit to be used for Ukraine to procure grain cars via open tender and for the supply of plant protection products to Ukraine.

In Q1 of 2017, China continued to be engaged further in **major infrastructure and transport and logistics projects** in Ukraine.

On January 25, the Kyiv Municipal State Administration announced that the ring road, the Nyvky-Brovary trunk road and an interchange near the Shuliavska Metro station in Kyiv would be built by the China Road and Bridge Corporation (CRBC). CRBC proposed running feasibility studies and carrying out these projects on a turnkey basis with financing provided by China. CRBC plans to expand transport infrastructure in the capital for US \$1.5bn.

On March 16, UkrZaliznytsia President Wojciech Balczun went to China on a working visit, where he announced that he anticipated that CRRC, China’s largest manufacturer of rolling stock propositions to upgrade Ukraine’s diesel

locomotives. Balczun noted that the Ukrainian state railway corporation had ambitious plans to substantially upgrade its rolling stock and infrastructure over the next five years. The Chinese side proposed offering PAT UkrZaliznytsia a Chinese-made electric locomotive for demonstration purposes. In addition to upgrading its fleet of locomotives, UkrZaliznytsia wants to expand its network of high-speed transport in Ukraine. The two sides agreed to set up a number of joint expert working groups.

On March 21, UkrAvtoDor, the state roadways agency, signed a Memorandum of Cooperation with the China Road and Bridge Corporation (CRBC) that includes designing and financing the construction of the bypass of Kremenchuk and a bridge over the Dnipro on M-22/E-584, the Poltava-Oleksandria highway. The MoC was signed by UkrAvtoDor Director Slavomir Novak and CRBC Vice President Du Fei. Currently, the only bridge across the Dnipro near Kremenchuk has only two lanes for road traffic. In addition to serving local traffic, two important national highways cross this bridge: Ukraine’s H-08, which runs Boryspil–Kremenchuk–Dnipro–Zaporizhzhia–Mariupol, and the international M-22 between Poltava and Oleksandria, which is part of the European Corridor E-584, running Poltava–Chisinau–Slobozia, Romania and of the 9th pan-European transport corridor. A new bridge will not only provide a high-quality link across the Dnipro River but will also make the Dnipro Valley more attractive to investors and generate tens of thousands of new jobs. Once this project is completed, the two-level Kriukivskiy Bridge will be used exclusively for traffic within the city and its new configuration will be capable of carrying a light subway link between the left and right bank parts of Kremenchuk.

China’s attention to modernizing infrastructure in Ukraine is evidence of its serious approach to including Ukraine in building up the New Silk Road intended to link Europe and the People’s Republic. This is the context in which the Chinese corporation’s involvement in building new bridges across the Dnipro should be seen.

The frequency of contact between Ukraine and China in **the information sector** has grown noticeably since late 2016. On February 8, National Broadcasting Company President Oleksandr Nalyvaiko met with the Deputy Director of State Administration of the Press, Publishing, Radio, Film and Television (SAPPRFT) Chen Ting to sign a MoC between the two organizations. Nalyvaiko noted that cooperation between Ukraine and China in broadcasting and publishing is based on interagency agreements. Ukraine’s National Television Company has been exchanging content with the Central Television of China, while the Kyiv branch of the NBC is working together with Heilongjiang TV. In this context, they held a “Week of Heilongjiang TV” and arranged to collaborate on other issues. UkrInform, a national news agency, has also established a partnership with Xinhua, the Chinese state news agency, and with the Chinese Government’s official bulletin, Renmin Ribao or the People’s Daily newspaper. The head of the Chinese delegation stated that the purpose of their visit was to expand cooperation with Ukraine in radio and television broadcasting so that the people of both countries might know and understand each other better. The two groups also agreed to consider the possibility of cooperation between the NBC’s Ukrainian

Institute for the Professional Development of Broadcasting and Print Media Specialists and SAPPRFT's Training Center. In addition to that, they committed themselves to support the preparation and airing of China Today in Ukraine.

Over January–March, **humanitarian ties** also continued to expand between Ukraine and China. On January 19, Deputy Minister of Economic Development and Trade Mykhailo Titarchuk, officials from MEDT's Department of Tourism and Resorts (DTR), the MFA and Ukraine International Airlines (UIA) met with members of the Chinese Mission in Kyiv to discuss greater cooperation in tourism. Ukraine instituted a streamlined visa regime for citizens of the PRC who want to enter Ukraine for business or tourism via Boryspil and Odesa International Airports. During this meeting, the issue of increasing operator-organized tours from China to Ukraine was also brought up. It was also suggested that the two sides focus on the practical aspects of the MoC signed between DTR and the National Tourism Administration of China to foster group tours of Chinese tourists to Ukraine, dated December 5, 2013, and joint participation in expositions in China.

On January 20, a celebration took place in Boryspil International Airport to honor the Chinese New Year and 25 years of diplomatic relations between the two countries. Officials from the Chinese Embassy in Ukraine and the Chinese diaspora were in attendance. Among others, First Secretary Ye Sheng and diaspora leader Li Xiang greeted those present. Airport Manager Yevhen Dykhne introduced the guests to Jiang Wei of airport passenger services, who will be responsible for taking care of visitors from China. Wei was hired to eliminate the language barrier and ensure the maximum of comfort in serving passengers from China.

On January 25, Smart Mentor, a Chinese investment company, bought the Sumy FC, a professional football club, and is expected to completely take over managing the team by the end of the current season. The contract of intent was signed between Smart Mentor, the Sumy State Oblast Administration, and PAT SMNVO, the previous owners of the club.

Over January 28-30, Lviv celebrated the Chinese New Year aka Festival of Spring. This was the sixth year in a row that Lvivians and their foreign guests celebrated this day with officials from the Middle Kingdom who live in the city. The party lasts three years and includes fairs, a New Year's party, culinary master classes from a Chinese restaurant, an athletics show, entertainment for children, and performances by folk groups.

On February 7, the "New Silk Road—Famous Chinese artists and their pupils" exhibition opened at the National Academy of Fine Arts and Architecture in Kyiv in honor of the 25th anniversary of diplomatic relations between Ukraine and the PRC. The event was attended by National Academy of Arts President and NAFAA Rector Andriy Chebykin, officials from the Ministry of Culture, students, the general public and the press, together with Chinese artists, including People's and Merited Artists Gao Jie and Wang Renbo. As part of their visit to Kyiv, the Chinese delegation and NAFAA management met and reached an agreement that students

from the Academy would visit the Chinese Academy of Contemporary Art in Beijing.

Over March 13-16, a Ukrainian delegation headed by third Ukrainian President Viktor Yushchenko visited China, where they met with the President of the Silk Road City Alliance, Song Ronghua, took part in a roundtable called "Taras Shevchenko's House of Dreams," and opened an exhibition of Ukrainian folk art called "Petrykivskiy Decorative Art" and a show of the Ukrainian sculptor Znoba. They also participated in the launch of the Ukrainian-Chinese Biological Research Institute and in a business forum on the commercialization of scientific developments that took place in the business center of the Hangzhou City of Dreams Technical Park.

Over Q1 2017, **regional cooperation** between Ukraine and China also picked up pace. In January, a delegation from Vinnytsia Oblast led by First Deputy Governor Andriy Hyzhko went to China on a working visit. During the course of their stay in Zhejiang Province, they made a presentation on the economic potential of Vinnytsia, such as supplying agricultural products: grain, sunseed oil, poultry, and dried milk. The two sides also discussed the possibility of establishing the manufacture of solar panels and electric cars in Vinnytsia Oblast.

On February 13, Kirovohrad Governor Serhiy Kuzmenko met with members of the Academy of Agricultural Sciences from the city of Xuzhou in Jiangsu Province. The purpose of the visit was an exchange of experience between the Jiangsu scientists and Kirovohrad agrarians in cultivating environmentally clean crops. The Chinese delegation visited the Kirovohrad State Experimental Farm under the National Academy of Agricultural Sciences and the local branch of DershGruntOkhorona, the state soil protection institute. Kuzmenko also presented the oblast's farm sector to the delegation and talked about the manufacture of farming equipment in the oblast.

That same day, Odesa Governor Maksym Stepanov met with the Chinese Consul in Odesa, Zhao Xiangrong. "I'm determined to establish close cooperation between the Odesa region and your country, especially with regard to tourism," said Stepanov. "I'm setting up a unit in the oblast administration that will specifically deal with investments in tourism. Hopefully, with concerted joint effort, we will hold a business and investment forum together with recreational and promotional events". The Chinese officials congratulated the governor on his appointment and noted that Odesa Oblast had enormous resources to attract investment and create new jobs for the local population.

On March 10, during a meeting between the Lviv Governor Oleh Syniutka and the PRC Commercial Attaché Liu Jun, the Chinese diplomat mentioned that two Chinese state corporations were interested in constructing a waste recycling plant in Lviv Oblast and that there were also plans to expand Lviv's air links in order to promote the exchange of tourists. Syniutka reported that, in addition to a solid waste processing plant, Chinese investors were prepared to build roads and TETs or co-generation plants, upgrade mines and invest in the farm sector.

Events in Ukraine-China relations (January-March 2017). Point-based evaluation

Date	Event	Points
January 4	President Poroshenko congratulates Chinese President Xi on the 25th anniversary of diplomatic relations between the two countries.	+1
	Chinese President Xi congratulates Ukraine and its people on the 25th anniversary of diplomatic relations between the two countries.	+1
January 13	China presents the Ukrainian MFA with telecommunications equipment worth nearly US \$100,000.	+1
January 17	During the World Economic Forum in Davos, Presidents Poroshenko and Xi meet to talk.	+5
	During an official reception on the 25th anniversary of diplomatic relations between Ukraine and China, Chinese Ambassador Du Wei notes the growing cooperation in 2017, especially in trade.	+1
	A delegation from Vinnytsia Oblast led by First Deputy Governor A. Hyzhyk arrives in China on a working visit.	+0,5
January 19	Deputy MEDT Titarchuk and officials from MEDT's Department of Tourism and Resorts, the MFA, and Ukraine International Airlines (UIA) meet with officials from the Chinese Embassy in Kyiv.	+1
January 20	A Chinese inspection group holds a working meeting with specialists from the State Food Safety and Consumer Protection Service of Ukraine.	+0,5
	A celebratory event takes place at Boryspil International Airport in honor of the Chinese New Year and 25 years of diplomatic relations between Ukraine and PRC.	+0,5
January 25	Kyiv City Council issues a press release announcing that the China Road and Bridge Corporation (CRBC) will be developing the Greater Ring Road, the Nyvky-Brovary highway and an interchange at the Shulavska Metro station.	+0,5
	Smart Mentor, a Chinese investor, buys the Sumy professional FC.	+0,5
January 28-30	Lviv celebrates the Chinese New Year.	+0,5
February 2	During a session of the UN SC regarding the intensified conflict around Avdiivka, the Chinese representative notes that China is paying close attention to the situation in Ukraine and is concerned about the latest escalation, which has led to civilian deaths.	+2
February 7	The National Academy of Fine Arts and Architecture opens a show called "New Silk Road: Renowned Chinese painters and their pupils" in Kyiv, in honor of the 25th anniversary of diplomatic ties between Ukraine and PRC.	+0,5
February 8	National Broadcasting Corporation President O. Nalyvaiko and Deputy Director of the Main Administration of the Press, Printed Press, Broadcasting, Cinematography, and Television Xian Kin sign a memorandum of cooperation between the NBC and its Chinese counterpart.	+1
February 12	The Cabinet of Ministers holds a working meeting to discuss investment projects related to Ukraine-China cooperation, chaired by First Deputy PM and Minister of Economic Development and Trade S. Kubiv.	+1
February 13	Odesa Governor M. Stepanov meets with Chinese Consul in Odesa Madame Zhao Xiangrong.	+0,5
	Kirovohrad Governor S. Kuzmenko meets with members of the Academy of Agricultural Sciences of the city of Xuzhou in Jiangsu Province, China.	+0,5
February 14	National Guard Commander Lt.-General Yuriy Allerov agrees with the Chinese Military Attaché Sr. Col. Cao Xiaojian to expand cooperation between the Guard and the People's Armed Militia in China.	+2
February 16	President Poroshenko announces that he has agreed with Polish and Chinese partners to modernize Ukraine's power-generating companies.	+1
February 28	The Chinese Association of Friendship Abroad organizes a celebratory evening in Beijing in honor of 25 years of diplomatic relations between Ukraine and China.	+0,5
	The Ukrsadprom Association and China Haisum Engineering Co., Ltd. sign a Memorandum of Mutual Understanding.	+1
March 10	Lviv Governor O. Syniutka meets with Trade Counsellor Liu Jun of the Chinese Embassy in Kyiv.	+0,5
March 15	State Food and Grain Corporation (DPZKU) President O. Hryhorovych announces that CCEC, a Chinese company, is prepared to invest in the reconstructing the port elevator in Mykolayiv.	+0,5
March 16	UkrZaliznytsia President Wojciech Balczun starts a working visit to China.	+0,5
March 22	China agrees to reduce the interest rate on its line of credit to the State Grain Corporation of Ukraine.	+0,5
March 27	At the Summit of GUAM members in Kyiv, PM Groyzman announces deeper cooperation in the Black Sea-Caspian basin as a component of developing China's "One Belt, One Road" strategy.	+2

UKRAINE-RUSSIA RELATIONS

January – March 2017

Positive: +1

Negative: -62

Overall: -61

SUMMARY

The start of this year looked very promising for Russia, based on political developments around the world. The Kremlin was counting on fruitful results from an upcoming electoral season in key European capitals. Based on the mood during his election campaign, warmer relations were due between Washington and Moscow with the coming of Donald Trump to power in the US. The Kremlin also expected a crisis in relations between Kyiv and Brussels, over the collapse of visa-free talks, over a failure to get the Association Agreement ratified across the EU board, or over the failure to implement the Minsk accords. But US relations have not warmed up, Ukraine's visa-free regime with the EU has gone into the home stretch, and the US and EU continue to support Ukraine. Nor are things looking especially pink for Russia's bets in the French and German elections at the end of the first quarter.

Moscow's much-expected victorious political and diplomatic blitzkrieg against Ukraine has been postponed—if not actually squelched. One severe test in the last three months was the military standoff outside Avdiivka at the end of January–early February. It proved to be a very clear demonstration of Russia's real purpose: to restore dialogue with key world players and to discredit Ukraine as much as possible.

In the meantime, a kind of competition emerged between Ukraine and Russia as to who would be first leader, Poroshenko or Putin, to meet with their American counterpart. On the home front, it came out that there had been at least two telephone conversations between the presidents of Ukraine and Russia in the last three months. Last August, after much-ballyhooed supposed sabotage in Crimea planned by Ukrainians, Vladimir Putin had refused any and all contact with the Ukrainian president. This time, it's likely that one of the topics discussed was the blockade of occupied Donbas.

The last three months, like the last three years, saw any number of special ops taking place. It seems that these now constitute the essence of Ukrainian-Russian relations: special ops instead of co-ops. As economic, political and other kinds of cooperation decline between the two countries, the number of special operations being announced has grown. The blockade of the occupied territories, Russia's recognition of documents issued to Ukrainians by the illegal statelets, the murder of a former Russian MP—all of these Ukraine considers special operations organized by Moscow.

Meanwhile, Ukraine has placed a good part of its bets on international law in the hopes of standing up for its position and finding justice against Russia's aggression. The case before the International Court of Justice in the Hague is probably the key suit among all the claims submitted by Ukraine to various world courts, ranging from the case of the "Yanukovich loan" of US \$3 billion that is being heard in London and the arbitration of a natural gas dispute between Kyiv and Moscow being heard in Stockholm, to claims before the European Court of Human Rights in Strasbourg.

TIMELINE

Big flop instead of big deal

Based on the world situation, the beginning of the year looked very promising for Russia. The Kremlin was counting on an election season in key European capitals that was expected to start bearing fruit. Donald Trump's election rhetoric suggested that a warming up was due between Washington and Moscow. A looming crisis between Kyiv and Brussels – over the visa-free regime, or the ratification of the Association Agreement, or the Minsk accords – was also looking favorable for Russia. However, the warming up never happened, the visa-free regime is now in the final stretch, and the US and EU continue to support Ukraine. Nor is it looking quite so rosy for Russia's bets in the French and German elections – at least at the end of Q1 2017.

The Kremlin's victorious political and diplomatic blitzkrieg over Ukraine has been postponed, and may never actually take place. Still, there is an impression that Russia's confident expectations were shaken more the first three months of 2017 than in the previous three years since Moscow began hostilities with Ukraine. What's more, the master of the Kremlin needs diplomatic victories right now, because he is coming up for re-election soon. A foreign policy victory or two might be perceived as just about the only victories, given that dissatisfaction with their living standards is leading to growing anger among ordinary Russians.

In the last three months, the escalation of conflict outside Avdiivka in late January and early February was, in fact, the most obvious indication of the Kremlin's interests as it insists, on one hand, that dialogue with key world players be renewed and, on the other, does everything it can to discredit Ukraine. The interrelation of these two

goals can even be formulated thus: reconciliation with the West through the discreditation of Ukraine.

Putin's assessment of the battle of Avdiivka came out in the form of several simultaneous soundbites that the Russian propaganda machine had actively used as grist for its mill recently. First of all, he said that Ukraine was provoking conflict in order to present itself as a "victim of aggression"; secondly, Kyiv needed to draw attention to itself to get its western partners to provide financial support; thirdly, Ukraine was thus looking for ways to establish contact with the new US president. At the same time, Putin's spokesman Dmitry Peskov reported that the latest clashes in Donbas were "yet another reason to immediately restore dialogue and cooperation between Russia and America". By some strange coincidence, the escalation happened just when the American and Russian presidents were in the midst of a telephone conversation.

If we look at the reaction in most of the world press, however, the escalation at Avdiivka did not play into Vladimir Putin's hands at all. Despite the spin he tried to put on it, the escalation was clearly seen as the fault of Russia itself, which was trying to check the reaction of the international community and to push western leaders, starting with Donald Trump, to get back to the negotiating table. The speech of the new US ambassador to the UN SC proved a cold shower for Moscow: Nikki Haley made it clear that Washington was not about to turn a blind eye towards Russia's provocations in Ukraine.

In the meanwhile, a kind of competition was observed between Russia and Ukraine: which president, Poroshenko or Putin, would meet with his American counterpart first. In Ukraine, the official line was that a meeting with the US leader was important and symbolic. Kremlin officials, by contrast, played down the significance of this symbolic race. Yet it was quite obvious that being first to enjoy a meeting was very important for Moscow, as Russian diplomats have been hustling to arrange a meeting between the two in Hamburg at the G-20 meeting slated for July 7-8. It seems that such a race has not been seen before in international relations: switching from an arms race to a meeting-first race.

Telephone diplomacy has played a major role in this competition. In Ukraine, the fact that Poroshenko has twice spoken with Trump is a point of pride, the second of which took place almost immediately after the call between the White House and the Kremlin and may well have been to Ukraine's advantage, as the Ukrainian leader was able to provide very detailed information about what was going on in Avdiivka. In effect, Ukraine had the last word. Since then, a competition for the so-called "Trump Cup" probably makes no sense: at this point, what's important is not when a face-to-face meeting takes place, but what will be discussed at it and what results it will bring.

In the meantime, the presidents of Ukraine and Russia spoke over the telephone at least two times in the first three months of 2017. Apparently last August, after the

purported "Ukrainian diversion" in Crimea, Vladimir Putin refused to have any contact with his Ukrainian counterpart. A leak in the Russian press indicated, however, that four telephone conversations took place between the two in recent months. Bankova had to respond to this news, clarifying that the two had spoken twice in February, with the main subjects being the escalation in Avdiivka, the release of hostages in Donbas, and the transfer of political prisoners being held in Russian jails.

However, rumors circulated that in one of the conversations the issue of the blockade of the occupied territories was also raised, which at that point was being carried out by Ukrainian veterans of the ATO and members of opposition political parties. Based on the public statements of Russian officials, especially Russia's MFA, about Ukraine setting up something like a ghetto, it's quite clear that Putin probably demanded that Poroshenko stop the blockade campaign. It's also quite possible that some form of blackmail was also threatened, which eventually took place. On February 18, Russia decided to recognize documents issued to the residents of the two pseudo-republics, DNR and LNR, and on March 1, the "nationalization" of enterprises that were still operating under Ukrainian law began.

The phone calls between the presidents of Ukraine and Russia were supposedly arranged with the support of the French and German leaders, with Angela Merkel undoubtedly playing the main role here. Interestingly, the Russian side was not especially interested in restoring contact with Poroshenko, because Putin himself had declared that continuing talks were "pointless" after the Crimean scandal. However, it was in Russia that leaks about their conversations took place. Most likely the Kremlin understood that this would pour oil on the fire: from time to time, Ukraine's opposition was already accusing President Poroshenko of colluding with Russia, and these accusations became exceptionally sharp given what was happening around the blockade. The phone calls were meant to confirm this conjecture: obviously Russia's leadership was deeply offended that things had not worked out according to Kremlin plan. The leaks about the conversations were meant to be a kind of revenge, but they failed to have the desired effect. The "scandal" survived only a few days.

Special operations vs cooperation

That the leak about the phone calls was vengeful was made clear by the coinciding dates: publications about the conversations appeared on March 1, the same day that Russia's pseudo-statelets announced the nationalization of Ukrainian enterprises in occupied Donbas. In its now-standard hybrid fashion, Russia decided to pull a number of levers at the same time, economically and informationally.

The last three months, like the last three years, were oversaturated with all kinds of special operations. Indeed, this is probably the main essence of Ukrainian-Russian relations at the current stage: special operations instead of cooperation. The number of announcements of special

ops has been growing proportionally to the decline in the levels of economic, political and any other kind of cooperation between the two. In fact, the phrase “special operation” is possibly the most common one heard in the statements of Ukraine’s leadership addressed to Russia. Of course, Russia denies all such accusations, claiming that Ukraine is conveniently blaming everything on “Moscow’s hand”. However, attributing all problems to Russian special operations sometimes arouses skepticism at home as well—especially it comes to allegations of corruption against top officials.

In the corridors of power in Ukraine talk is of two strategies that Moscow has towards Ukraine. The first is to break the country up from within by giving regions greater autonomy, which began to be implemented under the Novorossiia project back in 2014. The second is destabilizing the country politically, a project nicknamed Shatun or connecting rod towards the end of 2016. As Ukrainians see it, when Novorossiia went bust, Moscow put the main accent on weakening Ukraine’s government and spurring social unrest and protests so that the international community would see Ukraine as a failed state and not worth supporting.

According to Ukraine’s leadership, five events in the last three months were Russian special ops:

1. **The blockade of ORDiLO:** “In reality, all of this looked like a special operation intended to push the occupied counties from Ukraine’s Donbas into the Russian Federation,” said President Poroshenko, although he stopped short of blaming Moscow openly. Among politicians themselves, a wide variety of hypotheses circulated as to who was behind the blockade. The first was that Russia, realizing that Ukraine had no intention of complying with the Minsk accords as Moscow wanted, decided to go for broke and take away Ukrainian businesses. The second was that Ukraine’s own opposition parties were stirring the pot in anticipation of a snap election. The third is that the oligarchs were settling accounts amongst themselves. The fourth is that one of the oligarchs was venging himself against the president. Some even say that this same oligarch is trying to make amends with the Russian leader and thus started this campaign, which was intended to lead to the takeover of Ukrainian enterprises. Some of these hypotheses seem to be grounded in reality while the likelihood of others is a real stretch. Still, facts are facts: a special operation would not have been needed if the Poroshenko Administration had admitted openly from the start that Ukrainian companies were continuing to operate in ORDiLO. Arguments in favor of stopping the blockade were made at the stage when emotions had the upper hand and public opinion was no longer had on the government’s side. This last factor seems to have won out when the National Security Council was making its decision to stop transport links with the occupied territories. As it happens, Russia was going to win no matter what developed further: if the blockade continued, it could accuse Ukraine of creating a humanitarian crisis in the region – an estimation that is shared in the European Union; if the blockade ended,

the Ukrainian press would have been swamped with accusations of “trading in blood”. Yet the one point that offered the best argument against those running the blockade did not actually come up among the points made by the Ukrainian government. For years, Moldova also demanded that its companies work under Moldovan law in Transnistria, but in 2006, the separatist regime, under pressure from Ukraine, among others, accepted this demand and Transnistrian document are now drawn up by the Moldovan customs service. However, this amounts to only formal acknowledgement of Moldovan jurisdiction over foreign trade going through Transnistria. The money collected by customs nevertheless goes into the pockets of the unrecognized statelet. Ukraine had a unique situation where the taxes still went into the Ukrainian budget. Incidentally, Russia also accused Ukraine of an “economic blockade” in 2006. Whatever happens next, the story of the blockade will make itself felt again.

2. **The recognition of DNR/LNR documents:** Where the takeover of Ukrainian enterprises by Russia’s proxies failed to make an impression in western capitals, Putin’s decree recognizing documents issued by the illegal self-proclaimed republics roused unanimous condemnation. The most significant aspect was the context of this decision. On one hand, Putin has begun to realize that he will not be able to reach a “grand bargain” as the Avdiivka ploy failed to bring Moscow the desired results. On the other, Ukraine showed that it wasn’t prepared to step back from its positions in the context of the Minsk accords: first guarantee security and then start implementing the political provisions. The Putin ukase, thus, was just more evidence of a desperate revenge and attention-getting device. The decision was announced right after the latest talks with the Normandy foreign ministers in Munich. What especially calls attention to itself is that, no matter how Vladimir Putin tries to demonstrate arrogant self-confidence, Russia’s official statements attempt to stay within the standards of decorum – at least on a legal level. So the decree itself says nothing about “citizens of DNR or LNR”, but “citizens of Ukraine. What’s more, there is absolutely no mention of the unrecognized “republics”. It merely refers to “the territory of separate counties of Donetsk and Luhansk Oblasts of Ukraine”, referred to colloquially as ORDiLO. Moreover, the decree is explicitly defined as temporary in nature “until a political resolution based on the Minsk accords”. Traditionally, the Kremlin covered itself with “norms of international humanitarian rights”, expecting possibly to find sympathy among European partners. In any case, Russia failed to move EU officials. Of course, judicial casuistry, in which Russia could offer master classes, does not signify any concessions, but it can indirectly suggest that Vladimir Putin is violating international law with a certain amount of trepidation. This is especially true given the cases currently under examination in the UN’s International Court of Justice in the Hague and in the European Court of Human Rights, where decrees like this could actually be used as evidence.

3. **Political terrorism:** The murder of former Russian Duma Member Denys Voronkov in broad daylight in downtown Kyiv was declared a special op by the FSB within an hour. Back in January, NSC Secretary Oleksandr Turchynov warned that Russia was moving into a new phase of its hybrid war: killing politicians, civic activists and journalists in order to destabilize the situation. Turchynov's statement was in response to an assassination attempt against Ukrainian MP Anton Herashchenko, supposedly because he had exposed Russians connected to crimes on the occupied territories. According to Ukrainian officials, Voronkov was a particularly valuable witness who might have provided invaluable information both about the workings of Russia's secret service, about the graft and embezzlement schemes of Russia's top leadership, and about the case against ex-President of Ukraine Viktor Yanukovich. Herashchenko announced that the killer had "gone through special training in a school for commandos set up back in the time of Stalin's NKVD". Actually, the SBU was not able to confirm his claims later. President Poroshenko called the murder of Voronkov "an act of state terrorism on the part of Russia," drawing attention to the "obvious fingerprints of Russia's security service, which had shown themselves more than once in European capitals in the past". Moscow responded by casting doubts that the investigation had been objective. The RF MFA spokeswoman called the Ukrainian government a "murderous regime".

4. **The recruitment of Ukrainians and ethnic autonomies:** The Security Bureau of Ukraine (SBU) made a number of announcements in the first quarter that demonstrated greater activity on the part of Russia's security service. For instance, the FSB has been recruiting Ukrainian citizens who visit occupied Crimea and Donbas. SBU top officials also pointed out that lately there was an "unprecedented level of activity" in intelligence, sabotage, and subversion aimed at expanding the zone of instability to other regions of Ukraine. Ukraine's own security services note that the ethnic factor is now being used in western and southwestern Ukraine, with Moscow working to turn around Hungarian, Romanian, Bulgarian, Gagauzian, and Rusin communities.

5. **Peace initiatives:** The first three months of 2017 saw a real boom in peace initiatives from Ukrainian citizens: analysts, oligarchs, little-known politicians – with some of the biggest debates going on around plans drawn up by oligarch Viktor Pinchuk and MP Andriy Artemenko. Whatever goals the authors of these peacemaking concepts might have, they mostly roused a storm of criticism and anger, and were accused of promoting Russia's interests, not Ukraine's. Indeed, the President's Administration openly said that it thought these "peace plans" were nothing more than more examples of the hybrid war directed at distracting attention, especially from demands that Russia stop shooting in Donbas. The would-be peacemakers themselves, of course, denied Moscow's involvement. Most of these peace plans belonged to the discourse of a predetermined agreement – or, more plainly put, collusion – of the global players,

the US and Russia, without taking Ukraine's interests into account. With time, as the grand bargain between Trump and Putin looked more and more unlikely, the number of those who wanted to "reconcile" Ukraine with Russia also shrank. Pinchuk's plan appeared just around the New Year, Serhiy Taruta's plan emerged in February, and Artemenko's came towards the end of the month. Most of the plans expected Kyiv to make concessions, leading to a storm of criticism. One of the main ones was to reconsider its position on the status of Crimea: to rent it to Russia long-term, or to agree that the peninsula was "no one's", or to forget about the Crimean Tatars altogether for the sake of peace. If Moscow really thought that it could cut a grand deal with Washington at Kyiv's initiative to play up to such an agreement by offering a plan of concessions, then the notion failed. What's more, the fact that nearly a dozen peace plans appeared in those three months discredits the other possible scenario: that Russia had decided to try out the option of a resolution that was Kyiv's idea. The cacophony that resulted from so many "plans" vying for attention nipped this possibility in the bud, had it ever existed, given that every author had enough personal motives for coming up with a peace-making proposal.

The Hague process

International law is the one sphere on which Ukraine is probably placing most of its hopes for defending its positions and seeking justice in the face of Russia's aggression. The case before the UN's International Court of Justice in the Hague is probably the central one among all the suits that Ukraine has launched in many different international courts, whether the case of the so-called "Yanukovich debt" of US \$3bn being heard in London, or arbitration in a gas dispute between Ukraine and Russia being heard in Stockholm, or a suit before the European Court of Human Rights in Strasbourg.

It took Ukraine three years to be able to file suit against Russia in the ICJ. The bulky file essentially tackles two main claims: Russia's sponsorship of terrorism on Ukrainian soil and discrimination against Crimean Tatars and Ukrainians in Crimea, based on Russia's violations of commitments it made in signing the International Convention on combating the financing of terrorism and the International Convention on eliminating all forms of racial discrimination. Ukraine's diplomats approached the case seriously, taking into account the mistakes that Georgia had made: Georgia had also sued Russia for violating the International Convention on the elimination of all forms of racial discrimination but because it ignored proper procedure, it lost. Tbilisi filed its suit with the ICJ right after the August 12, 2008 war with Russia, accusing Russia of both directly and through its proxies in Abkhazia and Southern Ossetia carrying out systematic discrimination against the ethnic Georgians starting in 1990. In 2011, the Court finally issued a ruling and denied Georgia's suit: it ruled that Georgia had not satisfied the requirements of Art. 22 of the International Convention, which required that other measures had to be taken to resolve the dispute before turning to the Court: engaging

in proper bilateral negotiations. Ukraine promised to submit to The Hague the entire body of evidence that proved that it had tried dozens of times to regulate the dispute through negotiations. Indeed, more than 70 diplomatic notes had been exchanged between Ukraine and Russia in reference to the two conventions.

It will still be fairly difficult for Ukraine to defend its position for many reasons: it needs solid, irrefutable evidence that will not allow Russia to engage in manipulation. The unprecedented nature of these cases requires Ukraine's lawyers and international partners in law to also have unprecedented qualifications. And the court proceedings need to be maximally public, so engaging the world press could be the best way to ensure a just review of the issues.

Ukraine is pursuing three main objectives in the International Court of Justice:

1. To have the ICJ issue a ruling that clearly states that Russia violated international conventions.
2. To require Russia to immediately cease and desist from violating its international commitments: to stop supporting illegal groups that engage in terrorist activities, to allow the Mejlis to function, and to stop persecuting Crimean Tatars and ethnic Ukrainians in Crimea.
3. To require compensation from Russia for damages incurred.

At this time, there is no information about the amount of compensation involved. Still, given that Russia's aggression is ongoing, it would be untimely to present specific accounts to Moscow: the amount will continue to grow geometrically.

Russia is taking Ukraine's lawsuits no less seriously. A look at the arguments of the Russian side partly reflects the Kremlin's strategy, both now and further on, regarding the ICJ case. Moscow's position is twofold: (1) Ukraine deliberately refused to resolve the problems bilaterally, with only goal in mind, to submit a lawsuit to the ICJ. (2) Ukraine is providing falsified materials that do not confirm that Moscow has been in violation of international conventions.

Content analysis of pro-government Russian media shows a series of other arguments that will be used to build the Kremlin's line of defense before its own citizens: (1) Russia should have sued Ukraine first for persecuting Russian-speakers. (2) The United States does not recognize the primacy of international law, so why should Russia? (3) The Court made its mind up long ago and of course Russia will be blamed for everything. Using logical dodges has been a favorite trick in Russia for a long time, including to create the image of a wronged country that is then used to justify its aggression against Ukraine: "If Russia hadn't annexed Crimea, NATO would have established a base there long ago", and "NATO was expanding and now Russia is reacting", and "Why

do Americans recognize the independence of Kosovo but we can't annex Crimea?"

From these arguments, it's clear that Russia is keeping itself the option of simply leaving the field and declaring that it does not recognize the jurisdiction of the ICJ. In this situation, Ukraine will likely ask the Court to keep hearing the case without Russia's participation: cases like this have occurred in the past at the ICJ. Ukraine's diplomats are maintaining the position that if Russia refuses to participate, it will simply underscore its guilt.

Can we predict the decision of the International Court of Justice? Sometimes it's possible, but the current case is gaining the reputation as the most unpredictable. In informal discussions, Ukraine's diplomats make no bones about being worried. At first glance, Ukraine should win the case hands down, as it's no secret how the conflict started – little green men, a rushed pseudo-referendum that no one has recognized, and the annexation of Crimea. Russia has also not hidden its involvement in supporting illegal armed groups in the Donbas. Still, this may not be enough to prove Russia's guilt in relation to these specific conventions, especially, the accusation of financing terrorism.

Nor is it worth assuming that none of the judges will play the Russian position. It's important to remember that the rulings of ICJ judges and the positions of their governments sometimes coincide: each of the 15 judges makes a separate ruling on a given case, and so that side will win on whose side the majority of the servants of international law stand in the end. This rule doesn't always work in 100% of cases: all the ICJ judges are recognized specialists, the *crème de la crème* in law, but there are any number of factors that can affect the position of any one judge, which is referred to as state bias. The best-known research in this area has been done by Eric Posner, Professor at the University of Chicago. Posner studied the rulings of individual judges and reached the conclusion that the position of the country that appointed the judge strongly affects rulings in specific cases. The study did not confirm that judges do so intentionally, just that their concerns about their career beyond The Hague might affect their opinion on an unconscious level.² If we look at those countries that have their judges in the ICJ today, the situation is neither clearly pro-Ukrainian nor clearly pro-Russian. It's only possible to completely confirm the bias of one judge, the one that represents Russia in this ad hoc process. The Posner study confirms that, if the state whom the judge represents is a party to the dispute, then in 90% of cases, the judge will rule in favor of his homeland.

Of course, any assumptions about the dependence of a judge's decision on the position of their country are extremely speculative and to speak about a 100% correlation would be inappropriate. Still, for a judge's decisions to coincide with those of their government is not against the rules of international law. With democratic countries, this kind of coincidence seems

² E. Posner and M. Figueiredo, *Is the International Court of Justice Biased?* in *Journal of Legal Studies*, Vol. 34, June, 2005. Accessed at <http://www.ericposner.com/Is%20the%20International%20Court%20of%20Justice%20Biased.pdf>.

normal and even inevitable: if a French judge and French Government were to have the same view of Russia's violations of international conventions, that would be less a matter of bias than of professional execution of duties and understanding of international law. In the case of an authoritarian country, this kind of coincidence is also inevitable, but for different reasons – and manipulative attitudes towards international law are much more likely to play a part.

In Table 1, we have tried to analyze the positions of countries whose judges are currently hearing the case of Ukraine vs Russia at the International Court of Justice. These positions have been determined based on the vote of a given country on two resolutions related to Ukraine that were put to the UN General Assembly: on Ukraine's territorial integrity in 2014 and on violations of human rights in Crimea in 2016. Countries that either abstained or did not vote make it hard to determine the position of their governments. Most likely these countries recognize the rightful position of Ukraine, but are reluctant to

quarrel with Russia. So far the situation looks as though half the countries whose judges are on this case openly condemned Russia's aggression, while the other half were generally more ambiguous.

The April 19 decree of the International Court of Justice on temporary measures that Russia is obligated to carry out, including restoring the activities of the Mejlis, showed just how complicated the future process will be. Ukraine needs to be able to show that Russia has deliberately done things like support illegal armed groups with the purpose of committing acts of terror. Obviously, providing irrefutable evidence of this will not be easy and Ukraine's diplomats acknowledge that they have a major challenge and have already engaged international experts in the search and presentation of convincing evidence. Still, the main challenge is not so much this as how to force Russia to carry out even the current international rulings, let alone the future ruling of the UN's International Court of Justice.

Table 1.

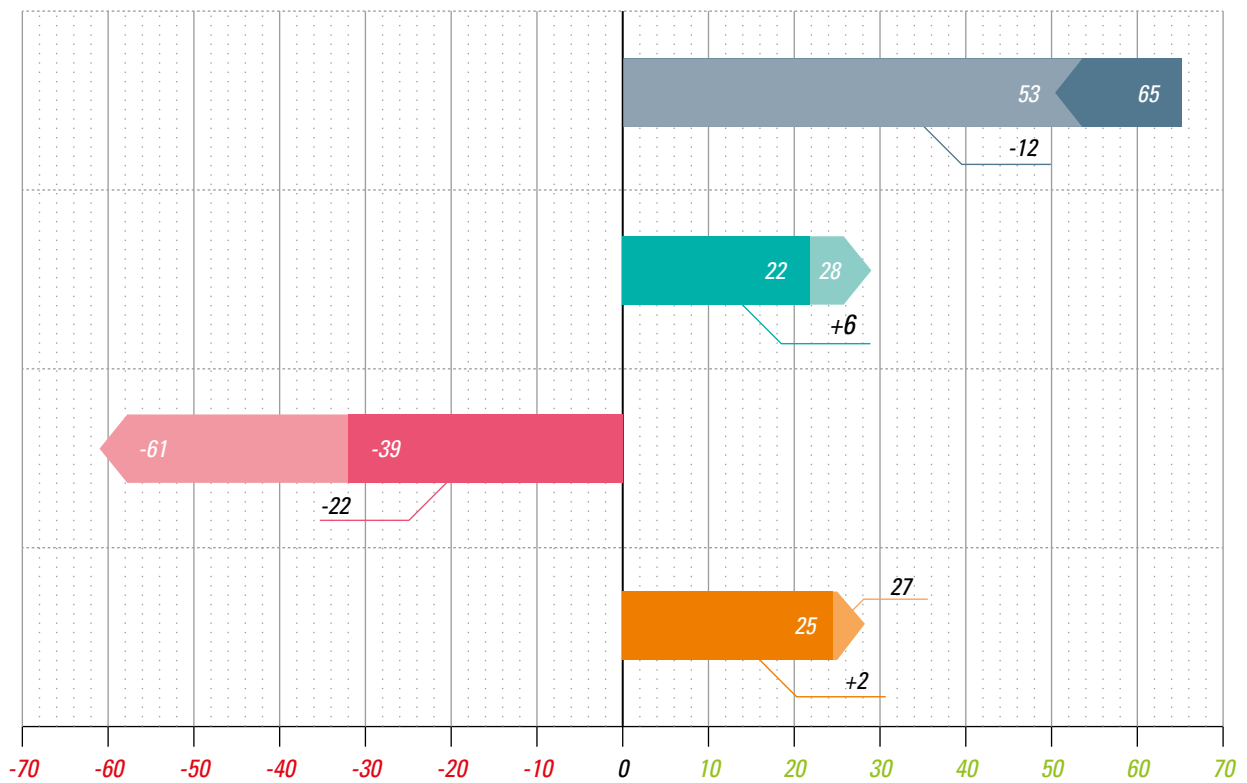
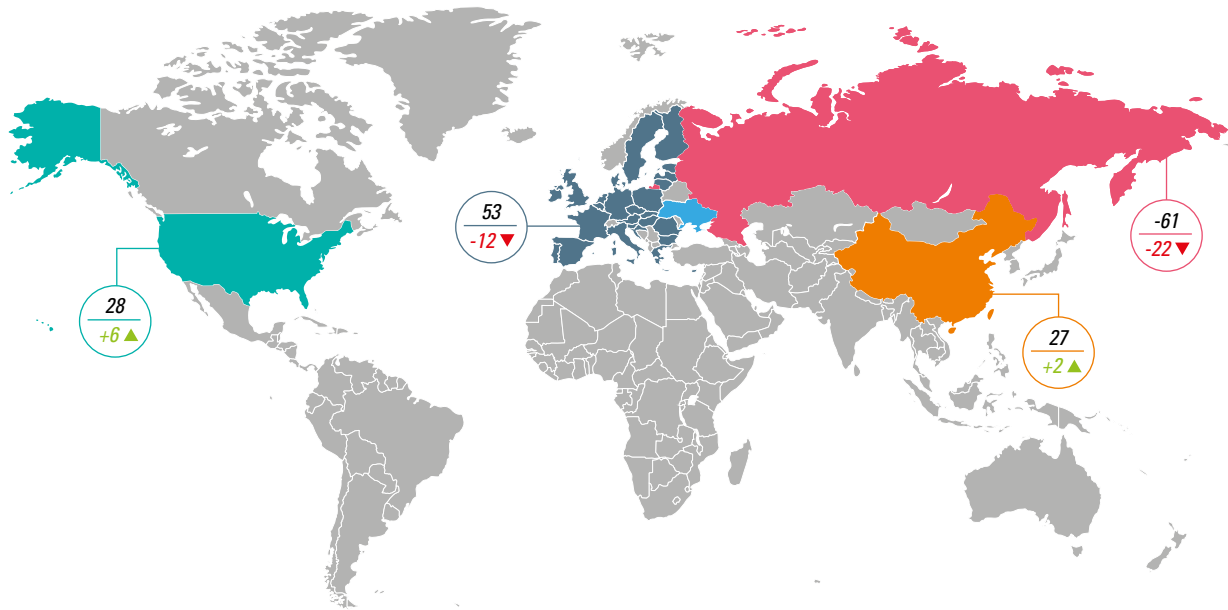
Potential votes in International Court of Justice regarding Ukraine's claim against Russia

Country	Term ends	Vote on March 27, 2014 UNGA resolution on the territorial integrity of Ukraine	Vote on November 16, 2016 UNGA resolution on human rights in Crimea	Probable vote by individual judges based on the position of their country's government
Slovakia	2021	Pro	Pro	Highly likely to favor Ukraine
Jamaica	2024	Abstained	Abstained	Highly likely to favor Russia
Japan	2021	Pro	Pro	Highly likely to favor Ukraine
France	2018	Pro	Pro	Highly likely to favor Ukraine
Australia	2024	Pro	Pro	Highly likely to favor Ukraine
Morocco	Re-elected in 2015	Did not vote	Did not vote	Highly likely to favor Russia
Russia	2024	Con	Con	Highly likely to favor Russia
The UK	2018	Pro	Pro	Highly likely to favor Ukraine
Somalia	2018	Pro	Did not vote	Highly likely to favor Russia
Brazil	2018	Abstained	Abstained	Highly likely to favor Russia
China	2021	Abstained	Con	Highly likely to favor Russia
The US	2015	Pro	Pro	Highly likely to favor Ukraine
Italy	2021	Pro	Pro	Highly likely to favor Ukraine
Uganda	2021	Abstained	Abstained	Highly likely to favor Russia
India	2018	Abstained	Con	Highly likely to favor Russia

Events in Ukraine-Russia relations (January-March 2017). Point-based evaluation

Date	Event	Points
January 16	Ukraine submits claim against Russia to the International Court in the Hague.	-7
January 23	NSC Secretary announces that Russia has moved into a new phase in its hybrid war against Ukraine, political terrorism—killing political and community activists.	-2
January 25	A number of MPs announce the launch of a permanent blockade of ORDiLO. Rail movement is blocked in Luhansk Oblast.	-5
January 29	The conflict outside Avdiivka intensifies. By February 10, President Poroshenko reports that 15 soldiers and 1 rescuer have been killed in battle.	-9
February 2	The UN Security Council holds an emergency session in which most participants condemned Russia's aggression outside Avdiivka.	-2
February 8	A field commander of the Russian proxies, Mikhail "Givi" Tolstikh, is killed. Putin's spokesman calls the assassination "an attempt to destabilize the situation in the Donbas," suggesting that Ukraine was involved.	-1
February 18	A field commander of the Russian proxies, Mikhail "Givi" Tolstikh, is killed. Putin's spokesman calls the assassination "an attempt to destabilize the situation in the Donbas," suggesting that Ukraine was involved.	+1
	Russia recognizes documents issued by LNR and DNR.	-7
March 1	The "nationalization" of enterprises operating legally in Ukraine begins in the occupied territories of Donbas.	-7
March 6-9	Hearings begin in the International Court of Justice over Ukraine's lawsuit against Russia.	-7
March 9	Russia's Prosecutor General denies claims that Viktor Yanukovich had appealed to the RF to interfere militarily in Ukraine in 2014.	-2
March 15	The NSC passes a resolution halting all freight movement across the line of contact.	-6
March 19	The agencies that will be engaged in "integrating Donbas in the RF" are announced in Crimea.	-3
March 22	The SBU bars Russia's choice for the Eurovision Song Contest from entering Ukraine. Russia's Foreign Ministry issues a sharp statement against Kyiv.	-2
March 23	President Poroshenko reports that a former Duma deputy, Denis Voronenkov, who was a key witness of "Russia's aggression against Ukraine," has been assassinated.	-2

INDEX OF RELATIONS



European Union	■ October-December, 2016	Russia	■ October-December, 2016
	■ January-March, 2017		■ January-March, 2017
US	■ October-December, 2016	China	■ October-December, 2016
	■ January-March, 2017		■ January-March, 2017

SPECIAL TOPIC

REBUILDING UKRAINE'S MIC: A JOINT EFFORT

Russia's aggression revealed a slew of problems that have long existed in Ukraine's security and defense sector. For the third year running, the government has been trying to resolve these issues with the help of international donors and its own resources, with mixed results. The key element in this process is, without doubt, developing the domestic defense industry, which is the main factor in rearming the military and attracting western investors. To date, however, it's too soon to say that all the necessary conditions for defense manufacturers to work effectively as a state system or that the evident industrial potential is being realized.

Russia's occupation of Crimea and its further military aggression in Donbas became the catalysts for domestic development and manufacturing of military equipment and arms to sharply pick up pace, in both the private and the public sectors. Still, the defense industry was oriented towards exporting and ties with Russian enterprises for decades, and it proved unable to quickly supply its own army. Moreover, historically, the arms being produced in Ukraine could not completely cover the needs of the Armed Forces in a broad range of weapons and military equipment.

For instance, Ukraine has never manufactured combat aircraft, or anti-aircraft defense system, aircraft carriers, naval weapons, attack, strategic or tactical UAVs (drones), combat helicopters, many guided air weapons, most ammunition, small arms, and much more. Undoubtedly, two components have to play a major role in this situation: international assistance and maximum mobilization of the country's own resources. Still, this has not been as straightforward as one might have hoped.

International assistance

With the constant threat of armed escalation in the Donbas region, Ukraine's leadership has more than once turned to the international community with requests for military support, including helping organize military technical cooperation between domestic and foreign companies. Finally, at the NATO summit in September 2014, the members of the alliance agreed to provide more support to Ukraine. Six trust funds were set up that were intended to improve things such as logistics, cyber security, management, communications and so on. In short, foreign assistance amounted to the supply of non-lethal materiel and services. As of March 2017, NATO had provided assistance to Ukraine worth nearly €35 million. Field exercises were held for more than 2,000 Ukrainian service personnel and civilians.

Beyond NATO, major countries also helped improve Ukraine's defense capabilities. Altogether, according to the Defense Ministry, as of H2 2016, the Ukrainian Armed Forces received material, technical and humanitarian assistance from various countries worth nearly UAH 3 billion or €100mn between 2014 and 2016.

Note: As part of technical assistance from the US, Ukraine received: material, medical and technical goods worth around UA \$111mn, including expensive medical equipment, first aid kits, armored HMMWV-type vehicles and spare parts, multi-channel Harris radios, night vision equipment, a chemical lab for rapid analysis of chemical substances, demining equipment, AN/TPQ-36 firefinder radars, tactical gear, summer and winter camouflage uniforms, body armor, kevlar helmets, scarves, sleeping mats, and microfleece caps. As part of its humanitarian assistance, the US gave the UAF a mobile field hospital, food kits, generators, and indoor heaters, and gave the Air Force diving gear and

other equipment. In addition, they bought Ukraine a slew of weapons and military equipment, including RQ-11B Raven Mini-UAVs or drones.

At the beginning of the year, the US is planning further assistance. On December 8, 2016, the US Senate approved the US Budget for 2017, which includes US \$350mn in assistance to Ukraine in the defense sector. Former US President Barack Obama signed it into law.

Canada has shipped ballistic masks aka facial armor to the Ukrainian Armed forces, as well as night vision equipment, body armor, kevlar helmets, sleeping bags, and a huge quantity of winter clothing. Poland sent up bedding, long-lasting rye bread, dried rations, and other goods worth nearly US \$10mn. Australia sent winter clothing worth over US \$4.5mn. Great Britain sent goods and medical supplies, tactical gear, winterized diesel fuel, night vision gear and GPS navigators. China sent equipment for an ophthalmological clinic. Slovakia sent power generators, lighting kits, plastic dishes, sleeping bags, other goods and a broad range of medical equipment. Turkey sent basic goods. France sent body armor and medical supplies worth around US \$600,000. The Netherlands sent power generators and winter supplies worth US \$500,000. Spain sent body armor and kevlar helmets, Czechia and Albania sent equipment and clothing, Norway, Latvia, Denmark and Japan sent a variety of equipment.

The UAF have decided that their priority for 2017 is to expand the marines and navy. The US has already been providing Ukraine's fleet with advice in a number of areas: expanding anti-mine capacities, training marine units and naval officers, setting up a maritime situational system, and developing a system of administration and personnel management for the Navy. Over the past two

years, the Ukrainian Navy received high-speed boats, diving gear and communication equipment from the US.

Ukraine's Navy has received assistance from the UK in the form of training marine sergeants, while Italy has helped train service personnel in amphibious operations, and Turkey has trained seagoing crews. Sweden, Norway, Bulgaria, Romania and other countries have helped Ukraine develop the Navy command and administration system.

In addition to this, the US, UK, Italy, France, Poland, Bulgaria, and Romania have been assisting the UAF in training future naval officers through courses and practica on warships for cadets from the Naval Institute.

Over the next few years, the US is also expected to provide assistance in developing marine situational systems, increasing the capacity of the naval fleet, the marines and select units of the Navy, and expanding coastal infrastructure.

One of the key areas in which Ukraine's defense industry has been getting support is in instituting NATO standards. In summer 2016, the management of UkrOboronProm, the state munitions corporation, announced that it was starting to put together system for testing developments, upgrades, the manufacture and repair of weapons and military technology to NATO standards under real conditions. This project is being sponsored by the NATO Liaison Office in Ukraine. Technical standards that govern the application of AQAP 2000 series management systems and quality control will be applied at all stages of the life-cycle of weapons.

This, however, is actually not enough. For Ukraine to receive lethal weapons that would ensure effective defense against Russian aggression would be a much more important factor in improving the country's defense capabilities. Over 2014-2016, aid to Ukraine's defense sector was very limited. In its attempts to purchase munitions on the open market, Ukraine was not given any breaks. On the contrary, some European countries refused to sign contracts for the delivery of military equipment and munitions. And foreign companies found it impossible to operate successfully in Ukraine, too.

All told, a slew of different factors affected the development of military cooperation with other countries in terms of receiving weaponry. These can be grouped into external and domestic factors:

External factors include such aspects as:

- the international political and economic situation around the world. This had a serious impact and continues to influence the organization of military technical cooperation, both in terms of buying and selling of arms, and in the links between manufacturers of munitions. (For a long time now, the question of delivering arms to Ukraine has depended on who is president in the United States, how harmoniously relations between Ukraine and other countries are evolving under the current historical circumstances,

what foreign policy orientation the leadership of potential partner countries has, and so on);

- export regulations in individual countries that forbid selling weapons and military equipment to countries that are in a conflict situation. This is the case with Norway and a slew of other European countries;
- the ripple effect of the sanctions instituted by western countries against the Russian Federation. These have indirectly affected Ukraine as well. Domestic firms are regularly refused when they try to buy software, equipment and spare parts or ready-made weapons abroad because of the risk of high-tech military products or dual-purpose goods finding their way to Crimea or occupied Donbas and thence to Russia;
- reluctance among the military and political leadership of individual countries to get into a conflict of interests with the RF. This is particularly true of countries with close economic ties with Russia, where Russian influence is quite significant, such as Hungary and Italy;
- previous experience of collaborating with Ukraine among foreign manufacturers, prior to the occupation of Crimea and the start of the war in Donbas. For instance, a number of international defense projects being carried out on behalf of Ukraine's Armed Forces stopped looking promising some time ago. One example is developing a corvette for Ukraine's navy in cooperation with a number of leading international companies and upgrading the Mi-24 helicopter with France's Sagem. Too often the implementation of these projects is given to foreign partners as an example of how difficult it is to cooperate with the Ukrainian side.

Domestic factors include:

- the poor quality of domestic legislation and the absence of structural changes in the way Ukraine's defense industry is run. In the last three years, a slew of important basic laws on security and defense have been passed, but the proper conditions for international manufacturers to want to invest developing the country's MIC are still not in place. Nor is there an effective algorithm for interacting with foreign manufacturers in the defense sector. Ukraine's main state-owned defense enterprise, UkrOboronProm, still hasn't been corporatized, despite plenty of talk on the subject. SOEs still don't have the right to set up JVs with foreign partners to manufacture munitions, with the exception of Antonov, the aviation giant. And so on. All this leads, among others, to a slew of promising projects with foreign partners being on hold to this day. For instance, there was a major announcement about a joint enterprise with Lubawa, a Polish manufacturer of body armor, and a few other such projects are facing enormous organizational, financial and bureaucratic hurdles on the Ukrainian side. Western defense companies are not happy to consider propositions for projects in which 51% is supposed to belong to the state and that

no one in Ukraine is prepared to paying royalties to the developers of military technology;

- overly dilatory access key documents that allow potential partners to see the prospects of industrial development and actual domestic demand. One example is the adoption of the Concept for a State Targeted Program to Reform and Develop the Military-Industrial-Complex through 2020. Moreover, only after three years of constant war, on March 22, 2017, did the President of Ukraine bring into effect the State Program to Develop the Ukrainian Armed Forces through 2020;
- a high risk of corruption that has not, unfortunately, improved significantly since the war began. So far, the newly-established anti-corruption agencies have not demonstrated their full capacity.

If the situation does not improve radically in the next three to five years, any strengthening of the country's defense capabilities and its military will effectively have to be based entirely on the government's own possibilities, which are not exactly all-encompassing.

The domestic market

Nevertheless despite all these problems, Ukraine's defense sector has managed to display some considerable achievements.

1. Feeling that it was needed, the defense industry has come to life again and begun to work to supply domestic demand to the extent that it was capable, and even more. A slew of new players showed up while the old ones began to expand their product lines. The private sector side of the MIC grew substantially and soon began to catch up to the state side. Lately, it has taken over the initiative in terms of volume and services offered. For instance, while in 2015 state defense procurements from companies that form UkrOboronProm amounted to 67% and the remaining 33% went to variously owned companies, including private ones, in 2016 things shifted dramatically, with the state giant getting only 53.3% of the orders while 46.7% went to others. For one thing, new ideas come to life several times more dynamically in the private sector than in the state sector.

Note: According to the Ministry of Economic Development and Trade (MEDT), Ukraine currently has 166 state-owned companies and 92 private ones, with 133 of the defense companies being part of the UkrOboronProm conglomerate. Of these, 6 exporters of high-precision weapons and ammunition, and around a dozen plants and R&D bureaus are effectively on territory occupied by Russia. A significant portion of defense companies, 25, are part of the State Space Agency of Ukraine (SSA) and the Defense Ministry runs an additional 8 specialized plants, mostly enterprises that restore weapons and military equipment. Some companies belong to other ministries: MEDT operates four, MIA operates two, and so on.

In the private sector, companies like Praktyka, MotorSich, Tekhimpex, Ukrspetstechnika, Adron, Leninska Kuznia—which has been renamed Kuznia na Rybalskomy—, Stiletto Ukraina, Temp-3000, Atlon Avia, UkrSpecSystems, Telekar-Prylad, UA.RPA, an advanced research project agency, and many more are operating successfully today.

Still, private companies are not yet financially strong enough to take on large projects. It's one matter when they have to develop a small drone, but another matter altogether when what's needed is an air defense system or an aircraft worth many times more. This is where the state must come into play.

What needs to happen now is for a series of enterprises to be divested from UkrOboronProm, including, but not only, the Luch R&D Bureau, the Kyiv, Lviv, Zhytomyr and Mykolayiv tank factories, the Malyshev tank factory in Kharkiv, the Morozov Machine-Building R&D Bureau in Kharkiv, and the Mayak Plant. In addition to producing new equipment, they are busy repairing and upgrading the existing arsenal of weapons on behalf of the Ukrainian Armed Forces and National Guard, which are at the forefront of raising Ukraine's defense capabilities.

Just since the beginning of 2017, the UAF have received somewhat more than 3,000 units of weaponry and military equipment, and almost 60,000 of ammo from state enterprises. However, these are not especially impressive numbers, given that the UAF have restored nearly 50,000 of its 54,000 pieces of military equipment using its own labor and material resources.

2. UkrOboronProm, like other state-owned and private companies, has pretty much completely stopped buying Russian parts and components. According to the corporation, only about 55% of components for military equipment and weapons were being manufactured in Ukraine at the beginning of the war: 10% were being imported from western suppliers and 35% came from the Russian Federation. Now, about 70% are being manufactured in Ukraine while 30% come from the West. In 2016, 400 private and public companies across the country that together manufacture more than 1,700 substitute components, assemblies and spare parts were included in the import substitution program. For instance, the armored tank manufacturing branch already produces about 87% of the parts needed in Ukraine and only about 13% is currently being bought from western partners.

3. In the last three years, a slew of new models of weapons and military equipment have appeared on the market. Some of them are already being supplied to the army, including in the war zone. These include a line of various 4x4 vehicles: Kozak-2 from Praktyka, BARS-8 from Bohdan Motors, the Cougar and Spartan from AvtoKRAZ, and the Triton from the Kuznia na Rybalskomu plant. Some of them are already being used in the field. For instance, 64 Kozak-2s have come off the assembly lines and are being used by the State Border Service and the National Guard. At least 120 armored KRAZ Spartans and Cougars have gone to a series of enforcement agencies, and a few Tritons are being used by border patrols as well.

Fury A1-C drones by Atlon Avia are already operating successfully, as are PD-1s from the Narodniy Proyeht All-Ukrainian Volunteer Center and UkrSpecSystems, as is the multipurpose Leleka-100 from the DeViRo innovative manufacturing company, Carboline's Mara-2M, and Army SOS's Valkyrie. Not many assemblies have been shipped so far, but the main point is that the situation with munitions for the army has begun to change.

Privately-owned Motor Sich has been developing its new versions of helicopter models Mi-2MCB-V and Mi-8MCB-V on its own, but so far none have been handed over to the military. Meanwhile, UA.RPA has been developing a tactical reconnaissance and strike system, a laser-based sniper detection system, ballistic helmets, and a portable VHF modem for transmitting data in pseudo-random tuning of frequencies.

In addition to this, the Mayak Plant, part of the UkrOboronProm conglomerate, has developed a Molot 120-mm mortar that is being used in the war zone. Incidentally, UOP subsidiaries produced the first Ukrainian attack robot, Phantom, while Luch has been collaborating with State Space Agency enterprises to produce Vilkha rockets based on the Smerch MLRS.

On the other hand, the military is already using munitions developed since Ukraine became independent: anti-tank rocket assemblies like the Stuhna-P from the Luch Design Bureau, armored personnel carriers like the BTR-4 8x8 made by the Morozov Machine-Building Plant in Kharkiv and the BTR-3 from the Kyiv Tank Plant, the Dozor-B 4x4 from the Lviv Tank Plant, and a variety of navigation systems and much more. Since 2014, the National Guard has received at least 50 APCs of the BTR-4 type. Since that time, Kharkiv's Morozov Plant has been supplying orders from the Defense and Interior Ministries for nearly 200 BTR-4s. A bit more than 100 BTR-3 ACVs have been distributed among various forces agencies and the first 10 Dozor-Bs were transferred to the Armed Forces in summer 2016.

Nevertheless, all these achievements on the domestic market are overshadowed by a slew of problems. Right now, a clear state monopoly has been established and private defense companies are finding it very hard, even when they have competitive models of weapons and equipment, to be able to supply them in the interests of the country's military. At the same time, there is a definite pro-Administration lobby on behalf of certain private companies that either belong to members of the government or are under their control in some way and are clearly favored in the defense procurement process.

The eternal question: How to respond and what do to?

Over the three years of ongoing war, opinion in Ukraine has already come to the conclusion that increasing the country's defense capabilities under the current military and political circumstances depends entirely on Ukrainians themselves. The international aid being provided by partner countries is an important factor in raising capacity but it's merely a form of external support and cannot resolve all the problems facing Ukraine. The lion's share of vital challenges need to be dealt with independently.

The question of supplying the army with modern munitions depends completely on how smoothly and properly the state mechanism works in establishing internal conditions for available resources and capacities to be effectively used. To this end, the minimum that is needed is for an appropriate defense industry agency to be established to ensure that military logistics policy in building the defense industry is formulated as suitably, and that there is a healthy competitive environment and the same transparent rules apply to every company, public or private, in state procurements and foreign trade alike. The conditions for organizing investment in the industry also need to be liberalized and the legal conditions for setting up joint ventures between state companies and foreign partners ensured. The case of the Antonov aviation enterprise should not be an exception to the rule.

At the same time, the potential for working with foreign partners should be used to the maximum of efficiency, as that kind of cooperation will be the only way to overcome the limitations of the domestic defense industry. This also means Ukraine needs some success stories with foreign partners in terms of jointly coming up with new models of military equipment and systems. Here it makes sense to take advantage of cooperation with countries that are prepared to engage in really deep cooperation, such as Poland. Successful projects with Polish partners could help convince foreign partners that it is possible to cooperate in this sphere with Ukraine. So far, however, grand announcements about joint projects with Poland have not, in reality, led to anything so far.

Aside from that, it's important to establish common ground in the defense sector with the United States and European countries and to eliminate as many political, organizational, bureaucratic and other hurdles as possible.

But most importantly, Ukraine needs to understand, once and for all, that, under the current circumstances, all energy must be focused on resolving a single issue: to make its defense capabilities strong enough to withstand Russian aggression and keep it from expanding.



TRUMAN Agency

TRUMAN Agency's activities are aimed at the resolution of sensitive communication issues in Ukraine and for Ukraine.

Our experts create and implement communication programmes that engage the political establishment and other target audiences in a constructive dialogue at local, regional, national and international levels. The result of this work will always be the growth of goodwill, increased trust and more opportunities for our clients.

Contacts: 12 Melnykova Str., Kyiv 04050
Tel.: +380 98 175 97 46
www.trumanagency.com

Institute of World Policy (IWP)

IWP represents a new generation of analysts committed to the European choice of Ukraine. The mission of the Institute is to develop analytical research and implement project activities in order to promote European standards and practices inside Ukraine, as well as to increase support of the foreign opinion leaders, EU and NATO officials for the European and Euro-Atlantic aspirations of Ukraine.

The IWP products include political analysis and recommendations, discussion platforms for all-round public discussions of core foreign policy issues and challenges, maintenance of regular dialogue with the world's leading scientists, thinkers and experts in international relations.

Contacts: 32 V Esplanadna Street, Kyiv 01001
Tel.: +380 44 374 03 11
e-mail: info@iwp.org.ua



Experts:

Daria Gaidai
Alyona Getmanchuk
Andriy Goncharuk
Viktor Kiktenko
Leonid Litra
Anton Mikhnenko
Sergiy Solodkyy

© This study may not be reproduced, in full or in part, without the project creators' consent.

