

**Eastern Partnership in Ukraine: between the ‘European choice’ and the
Russian-led Customs Union**

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Abstract

With the introduction of the Eastern Partnership (EaP) project in 2009, the European Union declared a more comprehensive policy *vis-à-vis* Eastern Partnership member states (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). In response to the EaP later on in 2009 Russia declared about its Eurasian economic integration project with post-Soviet republics. While the political affiliation of the EaP participant countries was relatively clear, Ukraine remained to be the only country with a balancing foreign policy thus becoming a subject of foreign influence. The tug-of-war over Ukraine between the EU and Russia reached its apex in November 2013, when the Yanukovich administration suspended the signature of the Association and Deep and Comprehensive Free Trade Agreements. The decision of the Ukraine's authorities led to the ongoing crisis.

The thesis examines the essence of external factors that shaped Ukraine's foreign policy and made the Yanukovich administration suspend the signature of the Association and Deep and Comprehension Agreements thus leading the country to the crisis. It analyses the roots of the crisis from the realist perspective while scrutinizing the latent realist force as well as the shortcomings of the European Neighborhood Policy in the EaP in Ukraine, and Russia's realist countervailing neighborhood policy *vis-à-vis* Ukraine.

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Introduction

The European Union (EU) as a political and economic actor is based on continuous enlargement without a predetermined end point.¹ Enlargement of the EU has often been considered to be the most successful tool of its foreign policy.² As a result of the fourth and fifth enlargements in 2004 and 2007 the frontiers of the EU now extend to the boundaries of the former Soviet Republics (FSR). In responding to new geopolitical realities stemming from the enlargements the union was forced to introduce new forms of cooperation with its new neighbors.

In 2004, together with its fourth, ‘big bang’ enlargement, the EU introduced the European Neighborhood Policy (ENP) as an alternative foreign policy format vis-à-vis its southern and eastern neighbors through which, the EU would be able to share ‘everything but institutions.’³ The ENP is a combination of policy learning and adaptation from the enlargement experience introduced by the EU in response to the altered post-enlargement environment.⁴ The objectives of the ENP were to avoid the emergence of dividing lines between the enlarged EU and its neighbors, and at the same time to ensure prosperity, stability, and security in its near abroad, based on the values of democracy, rule of law and

¹ David Rinnert, “The Eastern Partnership in Georgia, Increasing Efficiency of EU Neighborhood policies in South Caucasus?” *Working Paper* FG 5, 2011/No 1, March 2011

² Mila Anna Vachudova, *Europe Undivided: Democracy, Leverage and Integration After Communism*, (Oxford University Press, 2005)

³ Romano Prodi, “Remarks of the former President of the EU Commission Romano Prodi.” Brussels, December 2002 http://europa.eu/rapid/press-release_SPEECH-02-619_en.htm

⁴ Judith Kelley, “New Wine in Old Wineskins: Promoting Political Reforms through the New European Neighborhood Policy,” *Journal of Common Market Studies* (2006): 2006 Volume 44. Number 1. p.29–55

human rights. The ENP, however, did not clearly envisage the prospects of membership.⁵ Thus, introducing the ENP the EU manifested the expansion concept without enlargement.

However, the concept of the ENP received much criticism due to structural weaknesses,⁶ particularly in the eastern dimension, as it lacked strong incentives and well-defined and appropriate conditionality. Many analysts believed that the ENP was also inadequate to meet new challenges in the region, especially after the Russian-Georgian war and the Russia-Ukraine 2008-2009 gas dispute.⁷ According to Henderson and Weaver the transformation of the ENP “call the hitherto existing structure and idea behind this policy into question.”⁸

Consequently, on May 26, 2008 the foreign ministers of Poland and Sweden, Radoslaw Sikorski and Carl Bildt, submitted a joint initiative on the Eastern Partnership (EaP) project to the European Council. A year later, approved by all EU member states, the EaP project with eastern partner states Belarus, Ukraine, Moldova, Armenia, Georgia and Azerbaijan was officially launched with the adoption of the Prague Declaration at the first summit in Prague on May 7, 2009. The EaP project was presented at the EU’s General Affairs and External Relations Council.⁹

Unlike the ENP, the EaP format itself envisages stronger political interaction between the Eastern European neighborhood and the EU. This more comprehensive cooperation has aimed to develop more updated Association Agreements, integration into the

⁵ European Commission, “What is European Neighborhood Policy,” http://ec.europa.eu/internal_market/ext-dimension/neighbourhood/index_en.htm

⁶ “Structural weaknesses of the European Neighbourhood Policy, strong and balanced relationship with Russia needed,” *Instituto Internazionali*, <http://www.eu-27watch.org/?q=node/161> (accessed April 2013)

⁷ Ibid

⁸ Karen Henderson and Carol Weaver, *The Black Sea Region and EU Policy: The Challenge of Divergent Agendas*. (Farnham, Surrey, England: Ashgate, 2010), p.10

⁹ Harry de Quetteville, ‘Poland takes on Russia with 'Eastern Partnership' proposal,’ *The Telegraph*, 25 May 2008 <http://www.telegraph.co.uk/news/2027636/Poland-takes-on-Russia-with-Eastern-Partnership-proposal.html> (accessed April 20, 2013)

EU economy via a Deep and Comprehensive Free Trade Agreement, people-to-people exchange via a visa liberalization agreement and mobility partnership, and cooperation in energy security and environmental policy.

Indeed, Russia's leadership did not downplay the EU's 'soft power' expansion on former Soviet space, where the Russian Czars and the Soviet Union once ruled. For quite some time since the introduction of the ENP in 2004, Moscow did not perceive the EU as a strong revisionist actor in the common neighborhood. It underestimated the EU's ability and willingness to significantly change the *status quo* in post-Soviet space.¹⁰ Thus, being relatively lukewarm towards the Partnership and Cooperation Agreement (PCA) and later on the ENP, Moscow immediately voiced concerns in response to the EU's EaP initiative. It perceived the EaP project as an attempt to expand the EU's influence on the FSR, where although at first glance gradually declining, Russia still maintains leverage and influence.

Vladimir Putin, Russia's then prime minister, called the EaP initiative "an alternative to NATO's expansion to the east,"¹¹ while then-president Dmitriy Medvedev warned the EU that the program should not be anti-Russian.¹² Moscow was bewildered by the fact that together with the European-oriented countries Georgia, Ukraine, and Moldova, the EaP embraced Russia's strategic allies Belarus, Armenia and energy-rich Azerbaijan.¹³ Moscow itself refused to cooperate with the EU within the ENP format, preferring a separate EU-Russian strategic partnership.¹⁴ Russian leadership which has been trying to re-insert Russia's influence in the post-Soviet space, was maintaining a stance of opposition towards the

¹⁰ Alexander Duleba (ed.) "Searching for New Momentum in EU-Russia Relations," Bratislava: *Research Center of the Slovak Foreign Policy Association*. (2009) p.129

¹¹ Paweł Dariusz Wiśniewski, "The Eastern Partnership – It Is High Time to Start a Real "Partnership," *Carnegie Moscow Centre*, November 2013

¹² Kateryna Zarembo, "The EU, Russia and Eastern Partners, who is the odd one out?" *Institute of World Policy*, 2011 <http://iwp.org.ua/eng/public/413.html> (accessed April 12, 2013)

¹³ Ibid

¹⁴ Hannes Adomeit, "Russia and its near neighborhood: Competition and Conflict with the EU," *College of Europe*, April, 2011

Eastern Partnership, perceiving the EaP project as a zero-sum game. Therefore, to counterbalance EU influence in the FSR, on January 1, 2010 the Russian Federation created the Customs Union with Belarus and Kazakhstan.

For Russia, having exerted firm influence over Belarus, Ukraine was and still remains to be the key country for Moscow's regional economic integration project. Russian leadership was persistently offering Ukraine accession to the BRK-Customs Union and promising cheap energy resources, which together with trade is the strongest leverage Moscow has used. After the 2011 Warsaw Eastern Partnership Summit, Putin did not miss the opportunity to point out that Ukraine would probably not join the European Union because of the EU crisis. Instead of joining the EU, Putin offered Ukraine a partnership with Russia, which would ensure more competitive and productive economic processes.¹⁵

Meanwhile for the EU, especially for the central and eastern European states (CEE), Ukraine remains strategically important as the largest state within the EaP project, without which, the EaP project may become meaningless. It is also important since Russia has successfully exerted control over Armenia and Belarus, while Azerbaijan is absolutely lukewarm towards the EaP calling it "inadequate for Azerbaijan."¹⁶ For Brussels, economic cooperation with Ukraine also represents a zero-sum game. At the EU-Ukraine summit in February 2013 European Commission President Jose Manuel Barroso excluded Ukraine's possible options of simultaneously being a member of the Russian Customs Union and the

¹⁵ "Polsha: Uvidev procvetayushuyu v ES Ukrainu, Rossiya sama poprosit ob ekonomicheskoi integracii s nami," *Regnum.ru*, September 30, 2011, <http://www.regnum.ru/news/1451106.html> (accessed on April 12, 2013)

¹⁶In the interview with Deputy Foreign Minister of Azerbaijan Araz Azimov about the perspectives of Azerbaijan in the Eastern Partnership project. <http://www.euractiv.com/east-mediterranean/eus-eastern-initiative-adequate-news-499387> (Accessed on May 20, 2013)

EU free trade area.¹⁷ Such zero-sum approach thus made Ukraine's leadership to face a dilemma of the 'European choice' versus the Russian-led Customs Union.

The purpose of this thesis is to investigate EU policy shortcomings within the EaP framework in Ukraine and examine Russia's responsive actions. The time frame taken into consideration is the period between the introduction of the EaP in 2009 and the EaP Vilnius summit in November 2013. This thesis investigates Russia's leverage and the effectiveness of policy instruments in Ukraine. Focusing on external factors, which impeded Ukraine's European integration and led to the failure of Ukraine to sign the AA/DCFTA, the thesis explains why, despite Ukraine's further progress within the EaP, it failed to sign the AA/DCFTA; and why, Ukraine was being reluctant to join the Russian-led Customs Union.

Purpose of the study and the research problem

Among the EaP member states Ukraine has been regarded as a front-runner in European integration as it was the first to be offered an Association Agreement in negotiations in 1998, which were launched in 2007, two years before the Eastern Partnership took place. However, according to the European Integration Index for EaP countries, since the introduction of the EaP Ukraine's progress within EaP had been limited. Despite having a declining economy and being in serious need of external financing, Ukraine also refrained from moving closer to Russia. Nevertheless, the latter invited Ukraine to join its Customs Union, promising GDP growth in the short- and mid-term as well as natural gas supplies at a discounted price. The Kremlin presumed the Yanukovich administration to be pro-Russian. However, it has been reluctant to join the Russia-led Customs Union, as a result of which, the country would have received short-term economic benefits. The Yanukovich administration

¹⁷Jose Manuel Barroso, "16th EU-Ukraine summit," (Press Conference, Brussels, February 25, 2013) European Commission http://europa.eu/rapid/press-release_SPEECH-13-157_en.htm (accessed on April 12, 2013)

in turn was aspiring towards the EU. This thesis question are: why Eastern Partnership in Ukraine was not as effective; why the Yanukovich administration failure to sign the AA/DCFTA; and why Ukraine's leadership also chose not to join the Russian-led Customs Union with Belarus and Kazakhstan (BRK-CU).

The hypothesis of the thesis is that Ukraine faces a multiple challenges when it comes to closer engagement with the EU: on the one hand Ukraine had to comply with EU conditionality within the EaP framework while facing vague and inconsistent policies from the EU, and on the other hand, Ukraine was subjected to Russia's geopolitical interests that aim to keep the country within its sphere of influence. Specifically, the first hypothesis argues that Ukraine's stagnation in regard to European integration is related to EU's inconsistent policies and inappropriate conditionality coupled with divergence between EU member states. The second hypothesis argues that Ukraine has been refraining from joining the BRK-Customs Union because of maximization of benefit through free trade compatibility with both the EU and the BRK-CU.

Methodology

In my thesis I have applied qualitative analysis of EU policy within the Eastern Partnership as well as Russia's countervailing policies in the case study of Ukraine. This method is applied to analyze the strengths and limitations of EU conditionality as well as of Russia's countervailing political, economic and energy influence on Ukraine's compliance with EU conditionality within the context of the Eastern partnership. This method is appropriate for proper research to investigate both the ENP in Ukraine since the introduction of the EaP on the one hand, and the impact of Russia's political, economic and energy policies on the other.

First, I provide an overview of historical and institutional backgrounds that frame the Eastern Partnership. Second, using documents and official sources of the EU commission I examine the Eastern Partnership-envisaged conditionality as well as the format of cooperation per se. Third, I introduce a press analysis in chronological order, which will help me to construct a logical sequence of the political events and implications. To provide more insights in support of my hypothesis I will also conduct interviews with European integration think tanks.

The EU conditionality and Russia's influence, *inter alia*, economic and energy influence on the countries of the case study comprise the independent variable of the research. The dependent variable will be Ukraine's regression in European integration and still tense relations with Russia. I will measure independent variables by examining both countries economic and energy dependence on Russia. In particular, I will examine the turnover of both countries with Russia as well as the amount of foreign direct investment inflow. Measuring the dependent variable I will rely on the official report of the EU commission since launch of the Eastern Partnership framework. However, to make the measurement more valid I will also rely on the "European Integration Index For Eastern Partnership Countries"¹⁸ published by International Renaissance Foundation in cooperation with the Open Society Foundation.

Limitations of the Case Study

This thesis is comprised of the synthesis of theoretical framework and empirical evidence on the problem of the EU and Russia's policies vis-à-vis Ukraine and Ukraine's foreign policy. However it is driven by the incentive to explore an empirical puzzle. In this

¹⁸ "European Integration Index for Eastern Partnership Countries," Open Society Foundation 2011-2014 <http://www.eap-index.eu/>

regard data collection was very important to provide the evidence of the case study. In my research I have analyzed the economic, energy and political dependence of Ukraine on the EU and Russia providing the statistical data of the trade turnover (export/import) with Russia and EU. I have also examined press articles, official reports, and statements of high-level officials.

Qualitative case study is however limited by the sensitivity and impartiality of the researcher.¹⁹ Firstly, my primary method was data collection and analysis has been limited due to the lack of transparency and necessary data on the governmental websites. Secondly, case study methodology also faces difficulties in assessing relative causal weights of various factors influencing particular outcome.²⁰ Considering all the abovementioned limitations I relied on my own analytical abilities throughout most of this research effort.

¹⁹ Rick Reis, "Strengths and Limitations of the Case Study," Tomorrow's Professor Mailing List <http://cgi.stanford.edu/~dept-ctl/tomprof/posting.php?ID=1013> (accessed on April 17, 2013)

²⁰ Andrew Bennet and Alexander L. Georgie, "Process Tracing in Case Study Research," MacArthur Foundation Workshop on Case Study Methods, Harvard University, October 17-19, 1997, <http://users.polisci.wisc.edu/kritzer/teaching/ps816/ProcessTracing.htm> (accessed on April 17, 2013)

Chapter 1 – A Theoretical Framework of the EU-Ukraine-Russia triangle

After the collapse of the Soviet Union, the Central and Eastern European states of the former Socialist camp were eager to join the European Union and North Atlantic Treaty Organization (NATO).²¹ The CEE states perceived the entry to these international organizations as a guarantor of security of the newly gained independence and stable transformation to market economies and democracies. Meanwhile, Russia undergoing a complex period of transformation with its economic downturn was severely weakened. Thus, the CEE states considered no other alternative but finding a shelter the strong and democratic EU.

With the EU's fourth and fifth enlargements in 2004 and 2007 respectively, it incorporated twelve new member states, increasing its total membership to twenty-seven. Extending its borders eastwards the EU also created new neighbors – the Former Soviet Republics approaching much closer to Russia and its “near abroad.” After the launch of the European Neighborhood Policy (ENP) in 2003-2004 the EU stepped up in its engagement with the former Soviet states.²² After the launch of the EaP in 2009, the new policy vis-à-vis the EU's six eastern partners is frequently analyzed in the broad context of the European Neighborhood Policy. The EaP, on the one hand, aimed to “strengthen the specific Eastern dimension.”²³ However on the other hand, unlike the Southern dimension, where “neighbors of Europe” do not geographically belong to Europe, in the EaP at least four of the six member states geographically belong to Europe and openly declare their EU membership aspirations.

²¹ Vojtech Mastny, “Eastern Europe and the Early Prospects for the EC/EU and NATO membership,” *Cold War History* 9:2, 2009

²² Henderson and Weaver 2010, p.45

²³ Council of the European Union, “Joint Declaration of the Prague Eastern Partnership Declaration,” Brussels, May 7, 2009, p.4 http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/prague_summit_declaration_en.pdf (accessed on April 14, 2013)

Nonetheless, whether the EaP will bring the EU's enlargement or not depends firstly on its member states and secondly on another regional player – Russia, which with its countervailing policies also makes the eastern dimension of the ENP different from the southern one. Therefore, this part of the chapter will analyze the interests of the EU within the EaP with regards to its neighborhood as well as Russia's perception and realist response.

1.1 Theoretical discussion

When analyzing the ENP many scholars refer to the relatively recent concept of European Normative Power, which aims to contribute to the academic discourse by examining the ideational aspects of the European Union,²⁴ which, according to Manners, developed, due to the historical context of its appearance, its exceptional policy and constitutional norms of moral value.²⁵ NPE proponents argue that during almost seventy years since its establishment, the EU has transformed into a single international actor, whose range of capabilities goes beyond material power.²⁶ Furthermore, Manners argues that the EU's interests are shaped around community major and minor values.²⁷ Among five gist values, Manners lists democracy, liberty, peace, rule of law and the respect of human rights and freedoms;²⁸ and among four minor ones he emphasizes social solidarity, anti-discrimination, sustainable economic development and good governance.²⁹ Therefore, this moral aspect of the EU has contributed to the establishment of the EU's identity as an

²⁴ Ian Manners, "Normative Power Europe: A Contradiction in Terms," *Journal of common market studies* 40, no. 2 (2002): p.238-239

²⁵ Ian Manners, "The Concept of Normative Power in World Politics," *DIIS BRIEF*, (2009) p.2-3

²⁶ Bogdana Deppo, "Theorizing the interests of the EU Member States in the Eastern Partnership," paper presented at ISA BISA Conference, Edinburgh, June 2012

²⁷ Ian Manners, 2002, p.242-243

²⁸ Ibid

²⁹ Ibid

international actor promoting through cooperation a set of norms and ethical values within the EU and throughout its neighborhood including the EaP format.

The EU “tends to present itself as a force of goodness in international society”³⁰ promoting its moral values through the Eastern Partnership member states, particularly Ukraine. Ukraine also underwent a normative lecturing within the framework of the Eastern Partnership Prague Summit Declaration, where they proclaimed commitment to “the principles of international law and to fundamental values, including democracy, the rule of law and the respect for human rights and fundamental freedoms, as well as to, market economy, sustainable development and good governance.”³¹ Commitment to these values is also enhanced by the political conditionality of the EU such as ‘more-for-more’ approach, in compliance of which, the EaP member states are rewarded with directly proportional financial aid, market access as a result of the free trade agreement, and visa liberalization.

However, the explanation of the ENP through the NPE is not profound enough. It explains the ideational aspects only at the level of the single foreign policy actor, disregarding the national interests, to be more specific, the divergence between the EU member states on the EU foreign policy. Therefore, this theoretical approach to studying is not completely adequate for discussing the normative aspects of EU foreign policy, the interests of the Union’s member states – foreign policy makers have to be scrutinized.

It must be noted that the EaP project was lobbied for mostly by the V4 Group and Baltic States with the moderate support of Sweden. According to Gerrits, this theoretical approach does not examine the interests of the EaP-lobbyist member states, the discourse of

³⁰ Helene Sjursen, “The EU as a ‘normative power: How can this be?’” *Journal of European Public Policy* 13 no 2, (March 2006) p.240

³¹ Council of the European Union, “Joint Declaration of the Prague Eastern Partnership Summit,” Brussels, 7 May 2009.p.4 http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/prague_summit_declaration_en.pdf

NPE remains virtual.³² Wagnsson, going deeper into this debate, points out the existing tensions within the EU member states, the leaders of which maintain balance between the normative justification and rationalization of interests.³³ Developing the discourse around the NPE, Youngs goes further, arguing that when promoting human rights the EU's interests and rational considerations are very well hidden, although present.³⁴ According to Doyle and Brown, the concept of NPE clashes with power politics,³⁵ therefore, according to realists, integrating the rationalism of states as primary actors in the international system, the realist approach should be applied to explain the rationalization of the normative interests behind the EU's international image as a normative actor.

Looking for opportunities to alter the balance of power in their favor, states employ different means in the spheres of economy, diplomacy and military.³⁶ Applying economic tools the EU offers the EaP partner states a DCFTA, whereas Russia offers its counterbalancing Customs Union. The format of the Eastern Partnership with its main incentive of the Association Agreement, which includes the DCFTA and visa liberalization agreements, can be explained by neo-liberal theory. Neo-liberalism argues that economic, trade and institutional cooperation of the EU with its eastern partners will increase their interdependence while making their behavior more predictable.

Liberal Intergovernmentalism theory analyzes the economic interests of EU member states within the EaP discourse, is Liberal Intergovernmentalism. Liberal

³² Andre (ed) Gerrits et al., "Normative Power Europe in a Changing World. A Discussion," ed Andre Gerrits, Clingendael European Papers No 5 (December 2009) (n.d.) p.6
http://www.clingendael.nl/sites/default/files/20091200_cesp_paper_gerrits.pdf

³³ Charlotte Wagnsson, "Divided power Europe: normative divergences among the EU big 'three,'" *Journal of the European Public Policy* 17, no.8 (2010) p.1090 in Bogdana Deppo, 2012

³⁴ Richard Youngs, "Normative dynamics and strategic interests in the EU's external identity," *Journal of Common Market Studies*, (2004): p.420

³⁵ Ibid. p.419-421

³⁶ John Mearsheimer, "Struggle for Power," in *Essential Readings in World Politics*, ed. Karen A. Mingst and Jack L. Snyder, 4th ed. (New York, W.W. Norton and Company, 2008) p.60-79

Intergovernmentalism (LI) contributes to the neo-realist arguments as it sees states as rational actors, however, unlike the neo-realist approach, LI sheds light on the realist perception of states as black boxes and analyses the national interests and preferences within the state.³⁷ At the same time, LI analyses the concept of power differently from neo-realism; in particular it does not regard state security concerns as the primary motivation. It argues that states' main interest lies in the sphere of economic cooperation, therefore in comparison to realism, the emphasis of power shifts from security to economic interests.³⁸

1.2 Theoretical framework

Having found the gap in the theoretical explanation of the EU-Russia tug-of-war in Ukraine and the puzzle of Ukraine's strategic balancing, I employ synthesis of the realist and neorealist theories and a theory of complex interdependence. Namely, I argue that neorealism best explains the EU's attempts to engage Ukraine and take it out from under Russian influence. At the same time I argue that neorealism and complex interdependence theories propose the explanation of Ukraine's strategic balancing between the EU and Russia to maximize personal advantage.

Throughout the history of international relations realism has been developed as a cornerstone theoretical framework of international relations. The realist and neorealist theoretical framework help to explain the security interests of the EU member states, especially those CEE states, which inherited profound fear and insecurity during the post-WWII occupation by the Soviet army and the institution of the Cold War.

³⁷ Bogdana Deppo, 2012

³⁸ Daniel Wincott, "Institutional Interaction and European Integration: Towards an everyday critique of Liberal Intergovernmentalism," *Journal of Common Market Studies* (1995)

The classical realists argue that “realism defines the actors and states and sees the main process in international relations as constituting a search of security, where states are monoliths with interests, and the main interest of each is maximization of power.”³⁹ Hans Morgenthau argued that national interests and not moral sentiments define the international behavior of states.⁴⁰

When analyzing the ENP it is necessary to examine it at the level of the member states. Even though after the Lisbon treaty the EU has been presented as a single foreign policy actor, it still lacks a sovereign foreign policy as it represents the collective interests of member states, which collectively shape the Union’s foreign policy.⁴¹ The EU foreign policy is one of the areas where convergence of interests of all members remains difficult. According to realists, the EU’s member states are primarily concerned about their own security and survival in a competitive anarchic international system.⁴²

The EU member states cooperate to insure stability and security in their neighborhood. Regardless of divergence on certain issues the member states within the EU confront security challenges through cooperation, and the ENP and EaP are best examples of it. While aiming to establish security and stability in its neighborhood, most member states propose regional cooperation. Therefore, in the neo-realist discourse the ENP and in particular the EaP can be defined as a project of cooperation where the EU can increase its relative gains in Ukraine while crowding out Russia.

³⁹ Martin Hollis and Steve Smith, *Explaining and Understanding International Relations*, (Oxford: Oxford University Press, 1991), p.38

⁴⁰ Hans. J. Morgenthau, *Politics among nations: the struggle for power and peace*, 2nd rev an. (New York: Knopf, 1954).

⁴¹ Adrian Hyde-Price, “Normative’ power Europe: a realist critique,” *Journal of European Public Policy* 13, no. 2 (March 2006): 217-234

⁴² Joseph M Grieco, "Anarchy And The Limits Of Cooperation: A Realist Critique Of The Newest Liberal Institutionalism." *International Organization*, 42, no. 03 (1988): p.485

Further explanation of the EaP can also be explained through the realist concept of balance of power. According to Morgenthau, whenever the equilibrium in the balance of power is undermined by either side within the system or due to external factors the international system trends to reconstruct equilibrium.⁴³ Therefore, the realists would argue that the EaP project has emerged as a strategy of balance of power between the EU member states, particularly the CEE states and a long-time regional hegemon over the post-Soviet space – Russia.⁴⁴

Realist theory argues that states seek opportunities to change the balance of power in their favor by increasing their power. Thereby the EU and Russia employ various means to increase their power in Ukraine and other EaP countries. Among the means to acquire more power are the application of economic, diplomatic, and military leverage.⁴⁵ Economic leverage used by the EU and Russia includes offering Ukraine the opportunity to join either the European free trade zone or the Russian-led Customs Union.

Syuzanna Vasilyan argues that the EU discourses confirms its aspiration to present itself on the global political scene “by operating as a continental power and global economic and political player.”⁴⁶ In this context, she argues that the ENP’s Eastern Partnership “dearly embraces” a neo-realist theoretical framework.⁴⁷ The EU promotes its vital interests with the help of the ENP by tackling issues such as security of energy supply, migration, provision of security through democratization of its neighborhood governance.⁴⁸ At the same time,

⁴³ Morgenthau, 1954

⁴⁴ Ruth Deyermond, “Matrioshka hegemony? Multi-leveled hegemonic competition and security in post-Soviet Central Asia,” *Review of International Studies*, 35, No 01, January 8, 2009 pp 151-173

⁴⁵ John Mearsheimer, “Struggle for Power,” in *Essential Readings in World Politics*, ed. Karen A. Mingst and Jack L. Snyder, 4th ed. (New York: W.W. Norton & Company, 2008), p.60-79

⁴⁶ Syuzanna Vasilyan, “Moral Power”? *The Policy of the European Union towards the South Caucasus*, (Ghent: University of Ghent, 2010) p.26

⁴⁷ Ibid

⁴⁸ Ibid

extending its influence on the FSR, the EU faces competition from the historically dominant player – Russia.

Vasilyan argues that as a result of security concerns and energy interests “balancing occurs whereby the big actors [EU and Russia] try to win allies – in this case the EaP countries – and shape the conditions of international environment to their advantage.”⁴⁹ According to her, Ukraine and Georgia are eager to engage the EU primarily due to the significant security threats emanating from Russia; thereby cooperation within the EaP represents a “bandwagoning” move.⁵⁰ Stephen Walt argues that states generally balance the international system by allying against a threat, although he also points out that weak states sometimes are likely to bandwagon with a rising threat in order to ensure their own security and survival.⁵¹ Therefore, the strategic balancing in Ukraine’s foreign policy can be explained by striking a balance between the bandwagon move with the EU and allying with the rising threat – Russia.

In order to give further explanation to strategic balancing I employ the theory of complex interdependence introduced by Robert Keohane and Joseph Nye. Complex interdependence theory is a synthesis of realist and liberal theories that scrutinizes the complex transnational connections and interdependencies between states and societies.⁵² It analyzes international politics from two different perspectives. The first, the modernist approach of the theory, argues that increasing economic and other forms of interdependence and the decline of military force should bolster states’ propensity for cooperation. The second is the realist approach, which assumes that first of all states are the main units in the

⁴⁹ Ibid

⁵⁰ Ibid, with references to Kenneth Waltz, “Structural realism after the Cold War,” *International Security*, Vol. 25, No 1, Summer 2000

⁵¹ Stephen M. Walt, *The Origins of Alliance*, Cornell University Press, 1987 p.17-50

⁵² Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, (New York: Longman, 2001), p.3-5

international system; secondly it assumes that force is the most effective foreign policy tool; and third, high politics rules the sphere of international relations.⁵³ Keohane and Nye admit the underestimation of the significance of military power while admitting the overestimation of the changes that emerge in international politics.⁵⁴ By combining the values of both theories and establishing a bridge between them, Keohane and Nye developed a concept of complex interdependence.

Keohane and Nye argue that mutual dependence between international actors establishes interdependence between them when actors are reciprocally exposed to costly effects.⁵⁵ The authors argue that any alteration in a relationship provoked by either of actors or a third party may have costly consequences for both actors which “people care about.”⁵⁶ Thus authors argue that the conflict of interests in conditions of interdependence still exists, and power continues to play the prominent role in scope of interdependence between two international actors.⁵⁷

Based on this theory, the existing interdependence of Ukraine with the EU and Russia, including the especially sharp economic and energy interdependence of Ukraine’s western and southeastern regions on the EU and Russia respectively, is crucial for the county’s survival as an international actor. Consequently, I have argued that the synthesis of realism and neorealism coupled with complex interdependence theory provide an adequate theoretical framework for explaining the EU’s and Russia’s geopolitical interests and Ukraine’s strategic balancing in its foreign policy.

⁵³ Ibid, p.23-24

⁵⁴ Ibid, p.4

⁵⁵ Keohane and Nye, p.236

⁵⁶ Ibid

⁵⁷ Ibid

In order to support this theory, the following chapters provide the empirical analysis of the research.

Chapter 2 – The EU’s Lackluster Policy in Ukraine

Over the last decade the European Union policy framework in Ukraine has undergone a fundamental evolution due to the fourth and fifth enlargements. Prior to the 2004 enlargement the EU embarked on the ‘wider Europe’ policy.⁵⁸ The communication to the commission to the Council and the European Parliament noted “...the EU should aim to develop a zone of prosperity and a friendly neighborhood – a ‘ring of friends’ - with whom the EU enjoys close, peaceful and co-operative relations.”⁵⁹

After the 2004 ‘big bang’ enlargement the EU embraced the borders of the former Soviet republics, particularly Ukraine’s western borders. Since then it has sought new methods of engagement, trying to modify its instruments and policies. The wider Europe policy transformed into the European Neighborhood Policy (ENP) in 2004 and initially received a positive assessment from the EU leadership. The ENP aimed to respond to the new EU neighboring states as a result of 2004 enlargement that made the EU reconsider its role and influence in its eastern neighborhood.⁶⁰ Its premises were outlined in the first ENP Strategy Paper in 2004.⁶¹ The strategy paper reads the following:

The objective of the ENP is to share the benefits of the EU’s 2004 enlargement with neighboring countries in strengthening stability, security and well-being for all concerned. It is designed to prevent the emergence of new dividing lines between the enlarged EU and its neighbors and to offer them the chance to participate in various EU activities, through greater political, security, economic and cultural co-operation.⁶²

⁵⁸ European Commission, “Europe — Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors. Brussels, March 11, 2003

⁵⁹ Ibid, p.4

⁶⁰ European Commission, “What is the European Neighborhood Policy?” http://ec.europa.eu/world/enp/policy_en.htm (Accessed on May 15, 2013)

⁶¹ European External Action Service, “European Neighborhood Policy Strategy Paper,” Europa http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/eastern_europe_and_central_asia/r17007_en.htm (Accessed on May 15, 2013)

⁶² Ibid

In other words the ENP has been a way to establish a ‘ring of partners’ with Ukraine among them by extending its influence through cooperation around mutual values and interests. However, the final aim of the ENP was never clearly articulated: was it intended to enhance stability, security and economic prosperity through cooperation with the EU? Was it supposed to serve as a buffer zone between the EU with its newly joined CEE members states, which have had a inherent sense of insecurity given the recent historical legacy? Or perhaps it was designed to serve as a stepping-stone towards membership? ⁶³ Whatever the answer to the abovementioned questions, all answers would provide a common ground to the ENP, which is: shared values, joint ownership and emphasis on conditionality to foster the transformation process. ⁶⁴

Later on however, the ENP was criticized due to its structural weaknesses. ⁶⁵ According to Korosteleva, ENP needed a more appropriate framework, clearly defined incentives and differentiation. ⁶⁶ The ENP framework included the Mediterranean, Middle East, the Eastern Europe and the South Caucasus it proved to be too broad to develop an adequate and consistent strategy. Cianciara notes that Spain and France prioritized Mediterranean dimension, whereas ENP in regard to the eastern dimension was not tailored to regional political realities. ⁶⁷

In this connection, the EU divided the ENP in more region specific categories. After establishing the Union for the Mediterranean under France’s initiative, the eastern dimension of the ENP transformed into Eastern Partnership format including bordering FSR Belarus,

⁶³ Sieglinde Gstöhl, Erwan Lannon and Peter Van Elsuwege, “Democratic Transitions, Conflict Resolutions and the Search for a New Economic Model of Integration” in Erwan Lannon (ed), *The European Neighbourhood Policy’s Challenges* (P.I.E. Peter Lang, 2012) 411

⁶⁴ Elena Korosteleva, *The European Union and its Eastern Neighbors: towards a more ambitious partnership?* Routledge 2012

⁶⁵ Agnieszka K. Cianciara, “Eastern Partnership’ – opening a new chapter of Polish Eastern policy and the European Neighbourhood Policy?” *The Institute of Public Affairs* No.4, (June, 2008) p.6

⁶⁶ Korosteleva, 2012 p.2

⁶⁷ Ibid

Moldova, Ukraine as well as three SCR of Armenia, Azerbaijan and Georgia. The regional differentiation of the ENP was supposed to revitalize the eastern dimension of the neighborhood policy. It must be noted that in the EaP framework first-runner Ukraine remained a priority for the EU. The EaP project, unlike the ENP, has more specific initiatives included in the Association Agreement, such as DCFTA and visa liberalization agreements, which were supposed to be main incentives for transformation and compliance of participant states to EU requirements. According to Korosteleva,

The new initiative (...) offers the whole range of original projects, tools and resources. It has innovatively launched a dual-track approach to the region, which envisages both deepening EU's bilateral relations with the interested parties, and also, through a multilateral dimension, developing new relations with those that hitherto lacked structured relations with the EU (...) and one another.⁶⁸

The EaP framework was supposed to be a good update for Ukraine's European integration. Ukraine as frontrunner within the EaP six, as Kyiv had the negotiations on AA already underway since 2007. However, since the introduction of the EaP Ukraine moved backwards from the EU. Ukraine was lagging behind Moldova and Georgia according to the European integration index for the Eastern Partnership countries.⁶⁹ The EaP project partially failed to be effective for Ukraine. On the other hand the Yanukovich administration failed to implement reforms to comply with EU conditionality and eventually failed to sign the AA/DCFTA agreements opting for the Customs Union with Russia, Belarus and Kazakhstan. This chapter analyses the EU policy shortcomings vis-à-vis Ukraine within the EaP framework.

⁶⁸ Ibid

⁶⁹ European Integration Index, *International Renaissance Foundation* (2012-2013) <http://www.eap-index.eu/contacts> (accessed on December 3, 2013)

2.1 The problems of the ENP and EaP in Ukraine

Various indicators such as the European Integration Index, Freedom house, and Transparency International indices proved that EU policies within the EaP in Ukraine failed to bring about consistent and extensive reforms in legislative approximation, institutional arrangements for European integration, trade and economic integration, rule of law and democracy, and people-to-people contacts. The number of crucial problems and shortcomings of the ENP were inherited by the EaP project, thus they drew back Ukraine from the EU, and finally led Ukrainian authorities to refuse to sign the AA/DCFTA at the 2014 EaP summit in Vilnius.

2.1.1 Problem of Ukraine's accession perspective

One of the main structural shortcomings of the ENP and EaP was absence of clear and coherent strategy vis-à-vis Ukraine.⁷⁰ While the EU member states' stances regarding Ukraine's membership perspective were divergent, ambivalent statements by EU officials regarding the EaP project caused misunderstanding among Ukrainian authorities.

The factor of membership, which should have become a subject of differentiation within the ENP and EaP frameworks, was irreversibly neglected from the neighborhood agenda in 2004. Being a frontrunner in the negotiation on AA/DCFTA Kyiv hoped to realistically envisage a membership perspective.⁷¹ However, the EU neutralized expectation

⁷⁰ Dimitar Bechev, "Of Power and Powerless: The EU and its Neighbors," *Comperative European Politics* 9, n4, (2011), p.417

⁷¹ Stefan Meister, Marie-Lena May, "The EU's Eastern Partnership – A Misunderstood Offer of Cooperation," *Deutsche Gesellschaft für Austwärtige Politik*, 2009

of Kyiv as all EaP partners were offered AAs regardless their aspirations toward the EU.⁷² The joint declaration on the EU-Ukraine Association Agreement reads that: “The EU acknowledges the European aspirations of Ukraine and welcomes its European choice.”⁷³ However, while giving an ambivalent hope to Ukraine’s membership ambitions neither of the EU’s statements clearly envisaged the country’s membership perspectives – an incentive that would have served as a powerful carrot in the long-term.

While the majority of EaP countries praised the Swedish-Polish project from the inception, it had a negative reaction from Ukraine and Moldova.⁷⁴ Ukraine’s leadership took increasingly critical stances vis-à-vis the EaP initiative due to its grouping together with other states that were “far less advanced in their integration with the EU.”⁷⁵ Realizing its importance on the regional scale Kyiv has been seeking for a special treatment.⁷⁶ The EaP deserved criticism even from pro-European leader Victor Yushchenko, previously criticizing the ENP for lacking an action plan for the EU membership for his country.⁷⁷ For Yushchenko the membership prospective was a crucial omission also made in the EaP as his administration was operating on the assumption of Ukraine’s eventual accession to the EU.

Lannon and Elsuwege argue that the future political meaning of the AAs to be concluded with the EaP member states, and the alterable geopolitical realities will determine whether those agreements can develop into pre-accession instruments, or be an alternative to accession.⁷⁸ Considering the EU policy vis-à-vis Ukraine, it is clear that Ukraine has been a

⁷² Anatoliy Klugashov, “Ukraine’s Ticket to Europe: Who Sells, Where to Buy?” in Gilles Rouet and Peter Terem (eds), *L’Ukraine, entre intégration et partenariat*, Bruylant, 2010) p.341

⁷³ “Joint Declaration on the EU-Ukraine Association Agreement,” Brussels, September 9, 2008, 12812/08

⁷⁴ Meister, 2009

⁷⁵ Ibid.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Erwan Lannon and Peter Van Elsuwege, “Democratic Transitions, Conflict Resolutions and the Search for a New Economic Model of Integration” in Erwan Lannon (ed), *The European Neighbourhood Policy’s Challenges* (P.I.E. Peter Lang, 2012) p.411

key player for the EU in the Eastern dimension as Ukraine was the first with which the EU launched negotiations on AA. At the same time, EU country reports on Ukraine's implementation of EaP are not positive what makes it difficult for the EU to play down its values and emphasis on transformation and reform process.⁷⁹ Therefore, giving a membership prospective to Ukraine, which is lagging behind fast-moving Moldova and Georgia,⁸⁰ would mean to promise membership to other EaP member states as well.

Many scholars argue that the lack of membership prospective has been one of the shortcomings of the ENP before and after the EaP. However, EU officials have made several clear statements regarding the EaP's membership prospective. The EU Commissioner of Enlargement and Neighborhood Policy Štefan Füle has clarified the membership prospective.

A couple of years ago there was no connection between Eastern Partnership and the eventual EU membership perspective. This has changed with the new Neighborhood Policy. In the new policy we tried to define an endgame of this partnership. The only logical decision with regard to our Eastern neighborhood was to commit ourselves to what the Lisbon Treaty says, and article 49 says that any European country, promoting the values and the principles the EU is founded on, can become an EU member state. Therefore, we put down the wall between Eastern Partnership and the perspective of membership. However, make no mistake: there is an extremely long way between these two.⁸¹

Therefore, the EU does not rule out the future accession perspective of Ukraine. According to Füle, the EaP framework was supposed to bring Ukraine closer to EU, preparing the country to apply for membership in the long-term future. However, being a frontrunner, Ukraine's leadership had high expectations regarding its membership

⁷⁹ European Commission, "ENP Country Progress Report 2012 – Ukraine," Brussels, March 2013

http://europa.eu/rapid/press-release_MEMO-13-257_en.htm (accessed on May 15, 2013)

⁸⁰ "European Integration Index for Eastern Partnership Countries," Open Society Foundation, May 2012

<http://www.eap-index.eu/sites/default/files/EaP%20Index%20%202012.pdf> (accessed on May 15, 2013)

⁸¹ Remarks of Štefan Füle, EU Commissioner for enlargement and the European Neighbourhood Policy, Answering questions from civil society and students at Kyiv-Mohyla Academy he made the following remarks:

<http://euukrainecoop.com/2013/02/08/fuele/> (Accessed on May 16, 2013)

perspectives within the EaP framework. With the introduction of the EaP, the EU faced a challenge increasing its cooperation without its effective soft-power tool – the carrot of future membership.

2.1.2 Problem of conditionality, differentiation, incentive and funds

The key characteristic in the EU's external relations including the neighborhood policy is based on political conditionality to ensure convergence of a third country's political, economic and legal development with the EU standards. Political conditionality according to Schimmelfennig and Scholtz is “the adoption of democratic rules and practices as conditions that the target countries have to fulfill in order to receive rewards such as financial assistance, some kind of contractual association, or – ultimately – membership.”⁸²

Political conditionality the EU applies within the EaP has been mainly positive, which means that the EU offers carrot, but does not punish for non-compliance with a “big stick”⁸³ unless a situation in regard of democracy and human rights is grave, like in Belarus. The EU conditionality went through transformation since the introduction of the EaP. At the Warsaw 2011 Eastern Partnership summit in the EU announced its ‘more for more’ approach. In other words the concept of “more for more” conditionality envisaged by EaP means that neighborhood countries implementing more reforms in economic and democratic dimension would have more financial and economic support from the EU. However, here too the ENP lack a clear benchmarking and differentiation. Firstly, implementation of reforms in small states like Georgia and Moldova is much easier than in Ukraine with its burdening Soviet legacy. Secondly the idea of ‘more for more’ is complicated as ‘more’ can imply ‘more

⁸² Frank Schimmelfennig* and Hanno Scholtz, “EU Democracy Promotion in the European Neighborhood: Political Conditionality, Economic Development, and Transnational Exchange,” (NCCR) Challenges to Democracy in the 21st Century Working Paper No. 9 2007, p.5

⁸³ Ibid

democracy but less economic reforms” or vice-versa.⁸⁴ Therefore the direction of the ‘more for more’ is also questionable.

The EaP framework presents its conditionality through clearly distinguished incentives – proposed agreements, which aim to upgrade or deepen the relations with its Eastern Partners. As the EaP does not envisage the accession prospective, the economic integration agreement together with visa-facilitation is the main pillars of the AA. While the ENP and its conditionality have been relatively successful in small countries such as Moldova and Georgia, the ENP largely failed to bolster Ukraine’s leaderships for drastic reforms and compliance to its conditionality. Solonenko argues that:

At first glance, developments in Ukraine over the past years seem to suggest that the ENP has by and large failed.... Yet, in the years following the Orange Revolution and the launch of the ENP (2004) Ukraine made almost no progress in the reform process and experienced constant political instability or even crisis.⁸⁵

Solonenko’s statement is true since, even if the Yushchenko administration achieved a certain progress in certain areas of cooperation, since the introduction of the EaP the Yanukovich administration has by far failed to comply with EU conditionality.

Conditionality is usually effective when it is accompanied by certain incentives. According to Schimmelfennig and Sedelmeier affirmation, conditionality should work if the benefits of the EU-promised rewards will exceed the domestic adoptions costs.⁸⁶ The second shortcoming in the EU policy was the distant incentive. The incentive of economic integration with the EU internal market should be strong as the EU is the main economic

⁸⁴ Peter Munk Jensen, “Getting on the Right Track: The EU Eastern Partnership,” *Eastern Partnership Community*, July 27, 2011 <http://www.easternpartnership.org/publication/2011-07-21/getting-right-track-eu-eastern-partnership11> (accessed on December 2013)

⁸⁵ Iryna Solonenko, “EU’s ‘transformative power’ towards the Eastern neighborhood: the case of Ukraine,” *SPES Policy Papers*, (2010) p.1

⁸⁶ Frank Schimmelfennig and Ulrich Sedelmeier, “Governance by conditionality: EU rule transfer to the candidate countries of Central and Eastern Europe,” *Journal of European Public Policy* (2004) p.671

partner of Ukraine. Not less strong is the incentive of prospect of visa-free travel to the EU. However, both “rewards” were offered to Ukraine long before the EaP took place,⁸⁷ and considering Ukraine’s ambition of accession to the EU, these promises within the EaP fell short from the expectations of both the Yushchenko and the Yanukovich administrations’ expectations. Yet, another criticism regarding the EU conditionality was on the agenda. Both of the abovementioned rewards are seen in Kyiv as a mid- and long-term prospective, but in Ukraine - a country where a mid-or long-term perspective is understood no longer than six months, such perspectives seem to be too vague and distant.⁸⁸ As Katarina Wolczuk points out: “... the pursuit of the Free Trade Area in the short-term, and inclusion in the EU’s single market in the longer term, does not seem to be able to sway the Ukrainian elite and society in the same way as the accession process in East and Central Europe and thereby overcome domestic barriers to reforms ...”⁸⁹

Summarizing the criticism of the EU policy in Ukraine, Wolczuk emphasizes the lack of membership perspective, the divergence between long-term promised incentives and short-term economic interests coupled by the domestic political interest; and the negative cost-benefit ratio of these incentives due to the country’s economic capability.

The problem of incentives discussed above is also coupled with claim about unilaterality of the EU policies vis-à-vis Ukraine. Nevertheless already introduced principles of shared values and joint ownership in the ENP and later on in the EaP, unilateralism has

⁸⁷ Iryna Solonenko, “Added Value? Eastern Partnership and EU-Ukraine Bilateral Relations,” *IPG*, (March, 2011) http://library.fes.de/pdf-files/ipg/2011-3/11_solonenko.pdf

⁸⁸ Balazs Jarabik and Jana Kobzova, “The EU’s relationship with Ukraine: fling or partnership?” European Council on Foreign Relations March 2013 http://ecfr.eu/content/entry/commentary_the_eus_relationship_with_ukraine_fling_or_partnership (Accessed on May 28, 2013)

⁸⁹ Kataryna Wolczuk, “Ukraine and its Relations with the EU in the Context of the European Neighbourhood Policy” in Sabine Fischer (ed) *Ukraine : Quo Vadis* (Institute for Security Studies, Chaillot paper no 108, 2008) p.88

been remained in the EU-Ukraine relations.⁹⁰ While pushing Ukraine to comply the *acquis*, the two main incentives the EU's internal market remained closed for Ukrainian exports and visa regime restricted. Even if the EaP was envisaged to enhance the relationship between the two sides, the policies were implemented “unilaterally... without due consultations with Ukrainian leadership,” which since the Orange revolution was ‘accepting all EU initiatives as a *fait accompli*’.⁹¹

The third crucial problematic aspect the EU did not anticipate in the EaP framework was insufficient and inefficient distribution of funds.⁹² The policies of the EU within the EaP could have been relatively more effective in Ukraine; however, the post-2008 crisis complications in Ukraine's economy have affected them. Initially the EU allocated €600 million to the EaP member states. Later on, Poland's Prime Minister Donald Tusk announced about €150 million more to be allocated too eastern partner countries.⁹³ These overall €750 million, however, were distributed inappropriately among the participant countries. For example the within the Comprehensive Institutional Building program the largest state Ukraine was allocated only €40 million, whereas Moldova within the same program was allocated €50 million.⁹⁴ Such allocation of the eastern partnership budget indeed reflected inappropriate results.⁹⁵ Such budget increase for such a small country like Moldova was a good boost to reform. While in Ukraine, which is fifteen times bigger in terms of population and territory, such a pitiful budget increase was not and could not be as fruitful as in other, much smaller EaP member states.

⁹⁰ Commission of the European Communities, European Neighborhood Policy Strategy Paper, Brussels, 2004

⁹¹ Stegnyy Oleksandr, “Ukraine and the Eastern Partnership: ‘Lost in Translation’?” *The Journal of Communist Studies and Transition Politics* Vol 27, Number 1, March 2011, p.50-72

⁹² Solonenko, 2011.

⁹³ Ibid

⁹⁴ Eastern Partnership Funds, *EaP Community*. <http://www.easternpartnership.org/content/eastern-partnership-funds> (accessed December 12, 2013)

⁹⁵ Ibid

2.1.3 People-to-people contacts and EU visa facilitation

One of the biggest incentives of the EU's Eastern Partnership project is visa liberalization, including the consequent abolition of visa requirements. Ukraine was the first eastern partner country to start the negotiation on visa liberalization with the EU in October 2008, before the introduction of the EaP.⁹⁶ However, the visa facilitation is another aspect, which the EU failed to implement properly in the EaP framework as a carrot, especially in Ukraine.

While the EU introduced the visa free travel roadmaps for the Western Balkans countries, the EU remained lukewarm on offering Ukraine a similar plan, which would effectively lead towards full visa liberalization.⁹⁷ Instead, the EU offered an Action Plan on Visa Liberalization (VLAP) in November 2010.⁹⁸ However, unlike the visa-free roadmaps offered to the Western Balkan countries, the VLAP only reduced the visa simplified the bureaucratic requirements proving the purpose of travel to the same category of applicants, who were eligible to received the Schengen visa before the visa facilitation agreement was signed.⁹⁹ In particular, they are government officials, civil society representatives, journalists and media technical crew, students and participants of various international seminars and conferences.¹⁰⁰

Wilson and Popescu also point out:

⁹⁶ "European Commission assesses the implementation of Visa Liberalization Action Plans by Moldova, Ukraine and Georgia," Brussels, November 15, 2013. http://europa.eu/rapid/press-release_IP-13-1085_en.htm

⁹⁷ Natalia Shapovalova, "Visa-Free Travel For EU's Eastern Partners: Time To Act – Analysis," *Eurasia Review*, (November 8, 2013) http://www.fride.org/descarga/08.11.2013_EurasiaReview_NS.pdf (accessed on December 15, 2013)

⁹⁸ Ibid

⁹⁹ Interview with Oleg Kokoshinskiy, July 05, 2013, Mukachevo, Ukraine.

¹⁰⁰ European Parliament, "Parliament approves EU visa facilitation agreements with Ukraine and Moldova," *Press Release*, Brussels, April 18, 2013 <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20130412IPR07192+0+DOC+XML+V0//EN> (accessed on December 15, 2013)

Visa facilitation benefits only a small percentage of the population, and is currently poorly implemented by EU member states, while readmission agreements will impose huge costs on the neighbors. After Romania, Poland and Slovakia joined the EU, they had the potential to become role models driving the Europeanization of Moldova, Ukraine and maybe Belarus; but their restrictive visa policies have made them symbols of isolation to those behind the Schengen wall.¹⁰¹

Therefore, instead of promoting and enhancing people-to-people contacts, Ukrainians remained isolated by the EU member states. According to Shapovalova, Ukrainians who traveled to the EU and have been exposed to good standards of governance, liberalized economies and high-quality of education in the western countries will demand and implement alike practices in Ukraine.¹⁰² Furthermore, for Ukrainians, visa-free travel to the EU has a symbolic value, proving that the EU's openness to the neighbor, which is willing to become a part of the Union.¹⁰³ Shapovalova also notes that visa-free travel could make a mobilizing effect on pro-European constituency.¹⁰⁴ Shapovalova points out the survey conducted by the Democratic Initiatives Foundation and the Razumkov Centre, proving that more Ukrainians who have been to a western country openly support pro-European opposition parties.¹⁰⁵

2.2 The EU's AA/DCFTA - zero-sum approach and post-Vilnius assistance

Notwithstanding the aforementioned shortcomings in the ENP, the EU made a significant oncoming step with regards to Ukraine's integration in 2013 offering the Yanukovich administration to sign the deal. Ukraine was one step away from signing the Association and Deep and Comprehensive Free Trade Agreements with the EU. The Yanukovich administration however decided to suspend the signature of the AA with the EU to be offered more beneficial conditions and financial assistance that would partly

¹⁰¹ Wilson and Popescu, 2009, p.325

¹⁰² Shapovalova, 2013

¹⁰³ Ibid

¹⁰⁴ Ibid

¹⁰⁵ Ibid

compensate losses occurred as a result of Russian threats to embargo Ukraine's imports. The Russian factor was excluded from with ENP strategy, thus the EU could not juxtapose effective policies, which would alleviate detrimental consequences for Ukraine.

One of the core reasons why Yanukovich suspended the signature of the agreement was incompatibility of Ukraine's free trade engagement with multiple parties, including Russia and the EU. The Article 39 of the Association Agreement between the EU and Ukraine clearly stipulates that the DCFTA "... shall not preclude the maintenance or establishment of customs unions, free trade areas or arrangements for frontier traffic except insofar as they conflict trade arrangements provided for in this agreement and consultations regarding these matters will take place within the Trade Committee."¹⁰⁶

Given the fact that Ukraine's economic interests are relatively evenly split between the EU and Russia, incompatibilities and polarization of the standpoints of both the EU and Russia should have been re-negotiated in the EU-Ukraine-Russia format to find room for compromise. Free trade incompatibilities are not only utterly counterproductive with respect to Ukraine which remains sandwiched between the two regional superpowers, but also ultimately affect EU-Russia relations.¹⁰⁷

The second reason for Ukraine's decline of the EU deal was lack of financial assistance in the EU's pre-Vilnius policy. As of November 2013, Ukraine was already on the brink of default and needed a loan and financial assistance. Ukraine's Prime Minister Mykola Azarov requested the EU for 20 billion euro aid to compensate the cost of signing the

¹⁰⁶Full text of the Association Agreement between the European Union and Ukraine. p.29
<http://static.euractiv.com/sites/all/euractiv/files/EU%20Ukraine%20Association%20Agreement%20English.pdf> (accessed on December 12, 2013)

¹⁰⁷ Peter Havlik, "Vilnius Eastern Partnership Summit: A Milestone in EU-Russian relations-not just for Ukraine," *The Vienna Institute for International and Economic Studies*, No. 11, November 25, 2013

agreement.¹⁰⁸ The EU offered a loan of 610 million euros in macro-financial assistance, assuming that Ukraine continues to meet the conditions of an IMF on hold loan of 11.15bn euros, agreed in 2010.¹⁰⁹ The Yanukovich administration however declined the implementation of the IMF-imposed conditions and accordingly the EU refused to provide financial assistance to Ukraine.

¹⁰⁸ Richard Balmforth, "Kiev protesters gather, EU dangles aid promise," *Reuters*, December 12, 2013 <http://www.reuters.com/article/2013/12/12/us-ukraine-idUSBRE9BA04420131212> (accessed on December 13, 2013)

¹⁰⁹ "EU summit shows no sign of reviving Ukraine deal," *BBC news*, November 29, 2013, <http://www.bbc.com/news/world-europe-25134682> (accessed on December 13, 2013)

Chapter 3 – Russia’s realist policy vis-à-vis Ukraine as a limit to EU Eastern Partnership

The aforementioned EU policies including the Eastern Partnership project, indeed do not take place in a separate EU-Ukraine bilateral dimension. It must be noted, that although EU policies towards Ukraine have been considered ineffective, the development of EU-Ukraine bilateral relations and Ukraine’s European integration were determined by the significant presence and paramount influence of Russia.¹¹⁰ Russia holds the weakening but still enormous advantages of having more profound historical, cultural, linguistic ties and economic and energy leverage over Ukraine. Therefore, the failure of the EU policies within EaP framework in Ukraine must be considered in relation to the other integral part of the thesis puzzle – Russia’s influence.

Russia’s perception of Ukraine’s geopolitical importance is widely described in international relations literature. One of the first sentences international relations students are taught about Russian neo-imperialism, is that “Russia without Ukraine is just Russia: Russia with Ukraine is an empire.”¹¹¹ Kyiv-based analysts Alexander Bogomolov and Oleksandr Lytvynenko agree that for Moscow “maintaining influence over Ukraine is more than a foreign policy priority; it is an existential imperative.”¹¹² Furthermore, they state that the vast

¹¹⁰ Sandra Lavenex and Frank Schimmelfenning, “EU Rules Beyond EU Borders: Theorizing EU governance in European politics,” *Journal of European Public Policy* 16, n.6 (September 2009): p.791-812
<http://www.tandfonline.com/doi/pdf/10.1080/13501760903087696>

¹¹¹ Daniel W. Drezner, “The Hard Limits of Economic Power,” *Foreign Policy*, December 2, 2013
http://www.foreignpolicy.com/posts/2013/12/02/the_hard_limits_of_economic_power#sthash.BI3CPcgo.broRKzZN.dpbs
 (accessed December 5, 2013)

¹¹² Alexander Bogomolov and Oleksandr Lytvynenko, “A Ghost in the Mirror: Russian Soft Power in Ukraine,” *Chatham House*, Briefing Paper, January 2012.

majority of Russia's political elite perceives Ukraine and Ukrainians as an integral part of Russia's own identity.¹¹³

Indeed, for Moscow, Ukraine in the EaP project with its clearly envisaged AA/DCFTA and visa facilitation agreements, is a zero-sum game between Russia and the EU. Moscow also announced that Ukraine's free trade regime with the EU was incompatible with the Russian-led Customs Union. Kremlin realized that economic and trade engagement with the EU will only weaken Russia's influence in the country, with the possibility to undermine not only Russia's hard power, but significantly weaken its soft power. Moreover, Russia's political struggle for Ukraine does not only mean the loss of Ukraine geopolitically, but also the premature end of Russia's Eurasianist integration project – the Eurasian Union. Therefore, Moscow had to juxtapose its already existing trade and energy leverages against EU's inconsistent policies, which would lead to promised bright future perspectives. Korosteleva points out that "Russia's pragmatic policy of short term benefits and its traditional presence and growing leverage over the country, evidently outmaneuvers EU's ambiguous framework of partnership premised on long-term diffuse reciprocity and limited benefits for the immediate future."¹¹⁴

The ties between Russia and Ukraine are quite multifaceted, evolving from common ethnic and historic bequest to interdependence transformed into Ukraine's dependence on trade and energy sectors, where Russia has an advantageous position. However, the Russian-Ukrainian ties are far from being limited only by energy and economic integration inherited from the USSR. Ukraine's 'eastern' choice goes beyond its economic interests and energy dependence, "it also reflects the extent to which the Slavic and former Soviet republics were

¹¹³ Ibid.

¹¹⁴ Elena Korosteleva, *The European Union and Its Eastern Neighbours: Towards a More Ambitious Partnership?* London: Routledge, 2012.. n.d.16

and still continue to represent a human community, with lengthy common frontiers, a common language, huge number of border crossings in both directions, and family association of all kinds.”¹¹⁵

Indeed, against the background of this reality, even a slight shift in Ukraine’s foreign policy upsets Russia’s entire political establishment, which profoundly comprehends Ukraine and Ukrainians as part of Russia and Russian identity. This mobilizes all political forces to apply leverage. Russian leverage, in turn, directly undermined EU policies in Ukraine leading it to rejection of the AA agreement by Ukrainian government. Dimitrova and Rilka Dragneva emphasize that Russia’s power over Ukraine has the potential to interfere with the EU’s external governance.¹¹⁶ Therefore the failure to sign the DCFTA and AA by Ukraine, as well as a failure of the EaP in Ukraine in general has largely be attributed to Russia’s multiple interfering actions. This chapter describes the combination of Russia’s hard and soft power against Ukraine. It also shows how the Russia’s neighborhood policy limits Ukraine’s foreign policy choice and indirectly affects the ENP.

3.1 Ukraine’s trade dependence and Russia’s economic leverage

In contemporary international relations one of the main tools to gain leverage in the balance of power in bilateral relations are trade relations. Therefore in international system export and import dependent countries are frequently exposed to political pressure restricting their foreign and security policy. Lavenex and Schimmelfennig argue that third mode of external governance is based on market competition and trade interdependence thus giving

¹¹⁵ Stephen White, Ian McAllister, and Valentina Feklyunina, “Belarus, Ukraine and Russia: East or West?” *The British Journal of Politics and International Relations* 12, no. 3 (2010)

¹¹⁶ Antoaneta Dimitrova and Rilka Dragneva, “Constraining External Governance: Interdependence with Russia and the CIS as limits to the EU’s Rule Transfer in Ukraine,” *Journal of European Public Policy* 16, no. 6. (September 2009) p.854-855, <http://www.tandfonline.com/doi/pdf/10.1080/13501760903087894>

the EU the leverage extensively applied in the Eastern Partnership.¹¹⁷ However, in the case of Eastern Partnership, this leverage did not work as the EU-offered free trade agreement put Ukrainian authorities in a dilemma. The Yanukovich administration had to choose either to sign AA, expect long-term benefits and modernization from it and simultaneously withstand short- and mid-term losses due to Russian economic sanctions or to join the Customs Union and start having immediate benefits from Russia.

Ukraine foreign trade is highly dependent on the Russian market. According to the Ukrainian Department of statistics over the last three years Russia has been the number one trading partner for Ukraine whereas the EU is only second. In 2012 Ukraine's exports to the EU 27 and Russia amounted to around USD 17 billion. Exports to Russia accounted 26% of country's exports and the export to BRK-CU (including Belarus and Kazakhstan) 33% of Ukraine's exports in 2012. Meanwhile, 25% of Ukraine's exports were destined for the enlarged EU 28 in 2012(See figure 1). As for Ukraine's imports the picture is also similar: about 30% of country's import originated from the EU, 32% of Ukraine's import came from Russia, and slightly more than 40% of the country's imports came on BRK-CU (See figure 2). It can be seen that although Ukraine's trade statistics with Russia and the EU is relatively even, the trade with BRK-CU is much higher thus making Ukraine dependent on its eastern partners.

¹¹⁷ Lavenex and Schimmelfenning, 2009, p.799

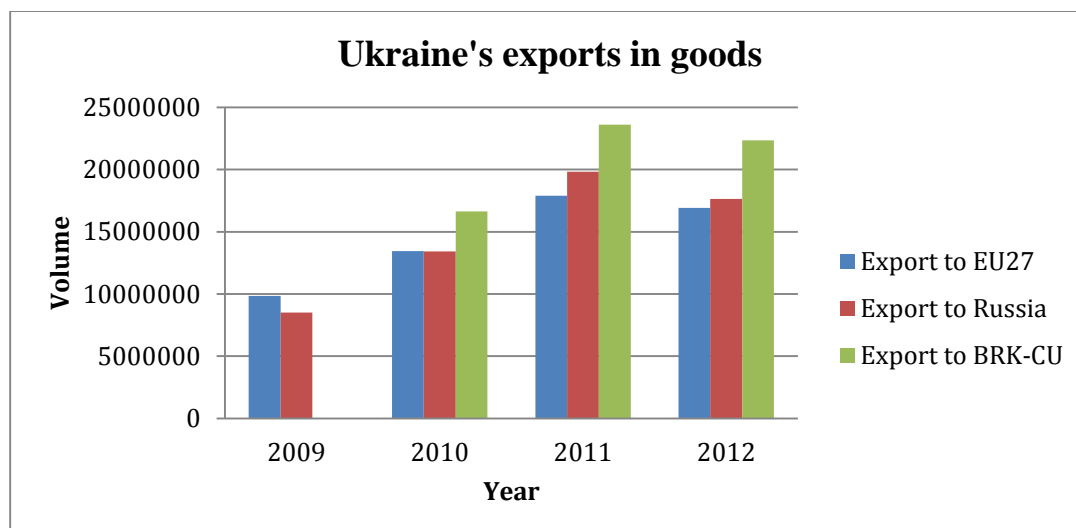


Figure 1: Ukrainian's exports in goods to the EU, Russia, and BRK-CU¹¹⁸

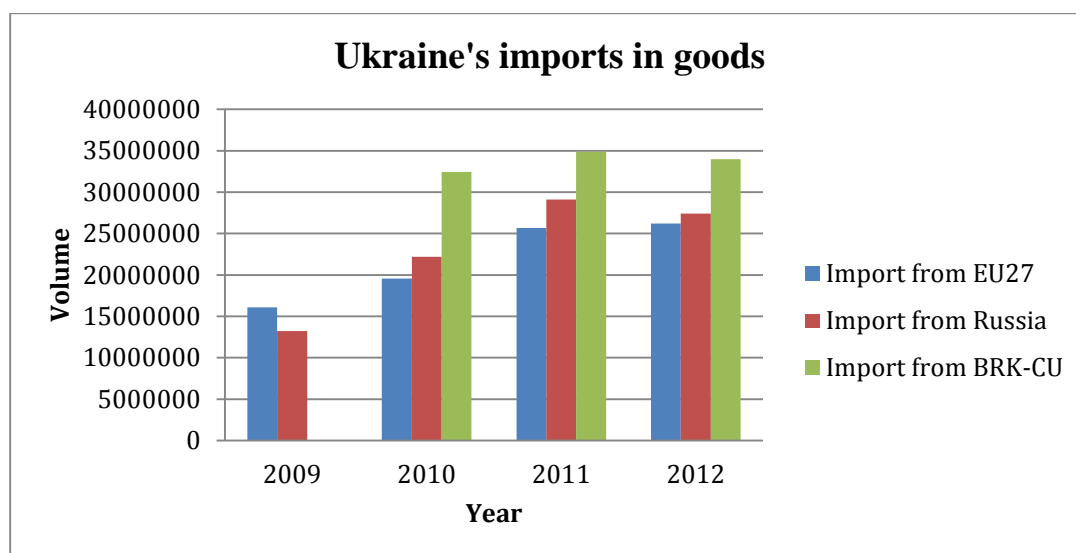


Figure 2: Ukraine's imports in goods from the EU, Russia and BRK-CU¹¹⁹

However, structural aspects of Ukraine's foreign trade play crucial role. For Ukraine, the structure of its exports to Russia is more industrialized since Ukraine's exports of machinery and transports contribute more to the country's GDP.

¹¹⁸ Own calculations based on the data retrieved from Ministry of Economic Development and Trade
<http://ukrexport.gov.ua/eng/economy/trade/?country=ukr>

¹¹⁹ Ibid

Ukraine's exports to the EU, however, predominantly consist of agricultural products and other raw materials such as base metals and mineral products (including refined products from Russian oil imports).¹²⁰ Ukraine imports from Russia predominantly consists of mineral products such as gas and oil, whereas chemicals, machinery and transport equipment dominate imports from the EU (See figure 3).¹²¹

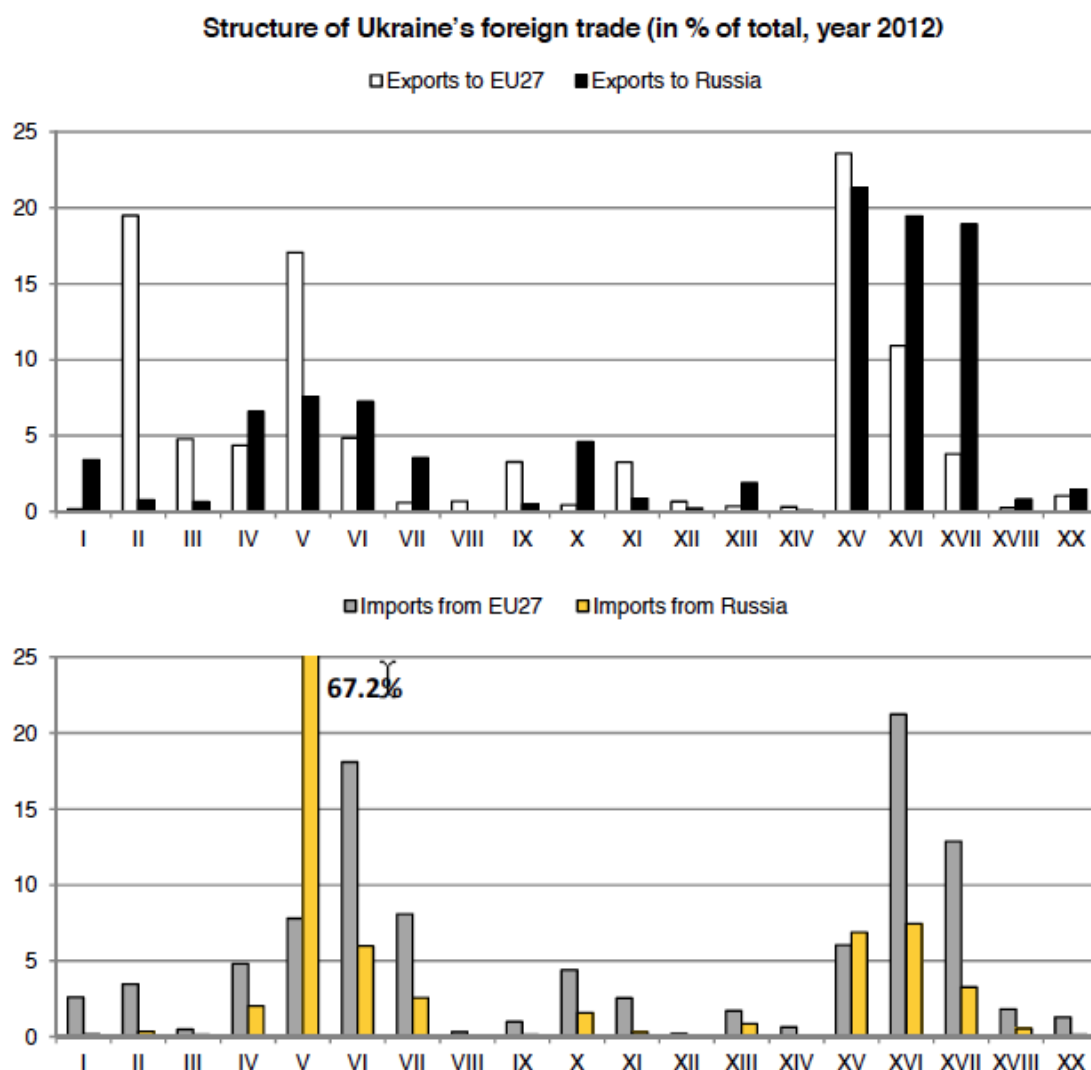


Figure 3: Structure of Ukraine's Foreign Trade with the EU and Russia¹²²

¹²⁰ Peter Havlik, 2013

¹²¹ Ibid

¹²² Peter Havlik, 2013; Author's calculations based on the data from the State Statistics Committee of Ukraine;

Note:

I Live animals, animal products;

II Vegetable products;

III Animal or vegetable fats, oils, waxes, prepared edible fats;

IV Prepared foodstuffs, beverages, tobacco and substitutes;

V Mineral products;

VI Products of the chemical or allied industries;

VII Plastics and articles thereof, rubber and articles thereof;

VIII Raw hides and skins, leather, furskins and articles, etc.

IX Wood and articles of wood, wood charcoal, cork, etc.

X Pulp wood, paper or paperboard (incl. recovered) and articles

XI Textiles and textile article;

XII Footwear, headgear, umbrellas, walking sticks, etc.

XIII Articles of stone, plaster, cement, ceramic products, glassware

XIV Natural or cultured pearls, precious stones and metals, etc.

XV Base metals and articles of base metal;

XVI Machinery, mech. Appliances, electr. equipment

XVII Vehicles, aircraft, vessels and associated transport equipment

XVIII Optical, measuring, medical instrum., clocks, musical instr., etc.;

XX Miscellaneous manufactured articles

As it can be seen from charts, from a trade point of view both trading directions are equally important for Ukraine. Thus the possibility of restricted access to the Russian market in the form of Russian-imposed economic sanctions as a punishment for European integration would immediately and harshly hit the industrial (advanced) sector of Ukraine's economy mainly concentrated in the Eastern part of the country.¹²³ It must also be noted that the so called advanced sector of Ukraine's economy is largely inherited from the Soviet Union and is not updated enough to be competitive on EU markets in short- and mid-term prospective.

On the other hand, Ukraine's integration into the Russian-led Customs Union would conduce the development of existing technological ties, however without modernization which would make Ukraine's industry competitive on European market. The figure 3 clearly shows the difference between the exports of Ukraine's advanced sector. Meanwhile the European integration choice would boost Ukraine's industrial sector with higher FDI inflow due to relatively cheaper labor force.¹²⁴ Such perspectives, however, could be possible only in

¹²³ Ibid

¹²⁴ Yuriy Skolotyanyi, "Jerome Vacher, IMF Resident Representative in Ukraine:

mid- and long-term perspective, thus not appealing enough neither economically due to pre-default Ukraine's economy nor politically to Yanukovich administration, which was additionally pressured by Russian officials.¹²⁵

3.1.2 Russia's pre-Vilnius pressure on Ukraine

The recent history reveals that Russia frequently employs economic sanctions to retaliate for undesirable political developments and promote its interests in its 'near abroad'.¹²⁶ During the recent decade, Russian-imposed sanctions range from full embargo on Georgian products in 2006 due to the spy scandal to interruption in gas supply to Ukraine in order to undermine president Yushchenko's image prior to elections while also undermining Ukraine's reputation as a reliable gas transit country. Moreover, economic sanctions concerned the import restriction on Ukrainian chocolates and other dairy products, etc.¹²⁷ The list of the countries Russia imposed its embargo on is not however limited to the FSR but includes the EU member states as well. For instance among most recent cases are Russia's an embargo on Polish pork meat and Lithuanian dairy products.¹²⁸

In relation to Ukraine Russia stayed loyal to its 'reliable' and fruitful foreign policy, comprising of economic sanctions, and spared no effort to prevent Ukraine from signing the DCFTA and AA with the EU. Prior to the Vilnius summit, Russian officials intensified the pressure on Ukraine, explaining the feasible adverse consequences Ukraine could have faced

The Fund stands ready to support the economic reforms in Ukraine," *Zierkalo Niedieli*, December 7, 2013
<http://www.imf.org/external/country/UKR/rr/2013/120713.pdf>

¹²⁵ In the interview with Oleg Kokoshinskiy, December 20, 2013.

¹²⁶ Havlik, 2013

¹²⁷ "A trade war sputters as the tussle over Ukraine's future intensifies," *The Economist*, August 24, 2013.

<http://www.economist.com/news/europe/21583998-trade-war-sputters-tussle-over-ukraines-future-intensifies-trading-insults> (accessed on October 16, 2013)

¹²⁸ "Moscow's dairy 'embargo' sparks confusion in Vilnius," *VoxEurop*, October 8, 2013

<http://www.voxeurop.eu/en/content/news-brief/4211351-moscow-s-dairy-embargo-sparks-confusion-vilnius> (accessed on October 10, 2013)

in case of signature of the AA/DCFTA, meanwhile ‘luring’ Ukraine to join its Customs Union. Sergey Glazyev, Putin’s economic advisor, held a comprehensive briefing lecturing on the feasible adverse consequences for Ukraine’s economy excluding Russian factor while simultaneously threatening with sanctions for ‘protectionist measures’.¹²⁹ Moscow intensified its pressure even more prior to the Vilnius summit. Russian Prime Minister Dmitry Medvedev warned his Ukrainian counterpart Mykola Azarov if Ukraine had signed the DCFTA/AA Ukraine would have had ‘zero chances’ of a full-scale membership in the RBK-Customs Union. Russian President Vladimir Putin also warned Ukraine about the possible outcome of signature the DCFTA/AA. Putin explicitly said that Russia would retaliate with protectionist measures if Ukraine joined the EU proposal, rather than entering the Customs Union.¹³⁰ He warned, that cheap European goods of better quality would crowd out Ukrainian goods to Russian market, thus Russia would have to introduce protectionist measures.¹³¹

Indeed Moscow did not restrict itself only with verbal statements. Moscow introduced border controls on Ukraine exports on a trial basis¹³² thereby violating the existing CIS FTA agreement while praising Ukraine’s economic benefits from joining the Customs Union. This action was painfully perceived by Ukrainian authorities and business circles, complaining that border controls can run up billions of losses.¹³³

¹²⁹ Havlik, 2013

¹³⁰ Alexei Anishcuk, “Putin warns Ukraine over Europe ambitions,” *Reuters*, September 19, 2013

<http://uk.reuters.com/article/2013/09/19/uk-russia-ukraine-putin-idUKBRE98I0VH20130919> (accessed October 21, 2013)

¹³¹ “Putin ”straightforwardly and honestly warned Ukraine about the consequences of the European integration,” *unian.net*, September 19, 2013, <http://www.unian.net/news/595949-putin-vyibirat-prioritetyi-i-soyuznikov-suverennoe-pravo-kiyva.html> (accessed on October 12, 2013)

¹³² Stephen Blank “Russia Leans on Its Neighbors” *The New York Times*, August 28, 2013.

http://www.nytimes.com/2013/08/29/opinion/global/russia-leans-on-its-neighbors.html?_r=1& (accessed on October 20, 2013)

¹³³ Roman Olearchyk, “EU warns Russia over punishing Ukraine” *Financial Times* August 20, 2013

<http://www.ft.com/cms/s/0/6b93d30a-09b2-11e3-ad07-00144feabdc0.html#axzz2qIhSaX45> (accessed on October 23, 2013)

3.2 Ukraine's energy over-dependence and future transit capacity

In addition to foreign trade dependency, energy interdependence is another complicated aspect for the Ukrainian authorities in the EU-Russia-Ukraine triangle. Ukrainian cold winters, obsolete and inefficient energy infrastructure together with energy-dependent industrial sector makes the country dependent on Russian gas supplies.¹³⁴ Industrial or otherwise referred 'advanced' sector of country's economy consumes approximately 40% of country's annual domestic consumption, followed by households consuming over 30% thereof.¹³⁵ Municipal buildings and governmental sector consume approximately 20% of gas, and about 9% of annual gas consumption is wasted.¹³⁶ Given this reality, it is not surprising that Ukraine's gas distributing company Naftogaz operates at losses selling gas to Ukrainian consumers at much lower price than it buys from Russian GazProm.¹³⁷ Therefore, to avoid bankruptcy, the NaftoGaz continuously faces, it has to be largely subsidized by the state.¹³⁸

A decade ago, Russia set a new policy of gradually increasing the gas tariff for its not Russia-friendly governments in its near abroad to the level of European countries in order to retaliate to their ambivalent foreign policy.¹³⁹ After the 2004 Orange revolution in Ukraine, Moscow was no longer interested in subsidizing Ukraine ruled by either clearly pro-western or presumed political opponents and withdrew the longstanding subsidies on natural gas

¹³⁴ Olga Shumylo-Tapiola, "Ukraine and Russia: Another Gas War?" *Carnegie Europe*, (February 21, 2012) <http://carnegieeurope.eu/publications/?fa=47240> (accessed October 26, 2013)

¹³⁵ Arkadiusz Sarna, "Kyiv's gas strategy: closer cooperation with Gazprom or a genuine diversification" *Ośrodek Studiów Wschodnich*, (July 15, 2013) <http://www.osw.waw.pl/en/publikacje/osw-commentary/2013-07-15/kyivs-gas-strategy-closer-cooperation-gazprom-or-a-genuine> (accessed on October 23, 2013)

¹³⁶ "Ukraine's Energy Strategy for the period until 2030," Ministry of Energy and Coal Industry of Ukraine, p.63-64 mpe.kmu.gov.ua/fuel/doccatalog/document?iId=222032 (accessed on September 7, 2013)

¹³⁷ *Segodnia News*, "Naftogaz" loss doubles," [segodnia.ua](http://www.segodnya.ua/economics/enews/Naftogaz-velichil-svoi-ubytki-pochti-v-dva-raza-436037.html), <http://www.segodnya.ua/economics/enews/Naftogaz-velichil-svoi-ubytki-pochti-v-dva-raza-436037.html> (accessed October 20, 2013)

¹³⁸ Richard B. Andres; Michael Kofman, "European Energy Security: Reducing Volatility of Ukraine-Russia Natural Gas Pricing Disputes" *Strategic Forum* no. 264 (February 2011) http://www.ciaonet.org/wps/inss/0021469/f_0021469_17763.pdf (accessed on October 26, 2013)

¹³⁹ Carlo Gallo, "Strain in the EU-Ukraine-Russian Energy Triangle," *Global Policy*, March (2012)

supply in Ukraine.¹⁴⁰ Since 2004 Russia has been steadily raising the gas price for Ukraine, eventually bringing it to the level paid by European countries and beyond (see figure 4).¹⁴¹ The volatile price envisaged by Tymoshenko-Putin agreement reached to some USD 506 per thousand cubic meter (tcm), which was later in 2010 discounted by USD 100 in exchange for the Russian navy presence in Sevastopol harbor until 2047.¹⁴² The discounted price of USD 406 tcm, in turn, was also higher than the price of Ukraine's European neighbors. In 2013 in order to reduce spending, Ukraine imported gas from Hungary at USD 380 per tcm.¹⁴³ However, Ukraine still remains significantly dependent on Russian gas supply.

¹⁴⁰ Daragh McDowell, "In Ukraine-Russia Gas Dispute, Kiev Runs Out of Leverage" *World Politics Review* 2011. <http://www.worldpoliticsreview.com/articles/10217/in-ukraine-russia-gas-dispute-kiev-runs-out-of-leverage> (Accessed on May 10, 2013)

¹⁴¹ Sarna, 2013.

¹⁴² "Ukraine begins importing gas via Hungary," *Ukrainian Journal*, March 28, 2013, <http://www.ukrainianjournal.com/index.php?w=article&id=16257> (accessed on October 26, 2013)

¹⁴³ Ministry of Foreign Affairs of Ukraine <http://uk.mfa.gov.ua/en/press-center/ukraine-digest/7-issue-6-april-04-2013/48-ukraine-launches-gas-imports-via-europe> (accessed on October 27, 2013)

Changes in gas price imported by Ukraine (USD per 1000m³)

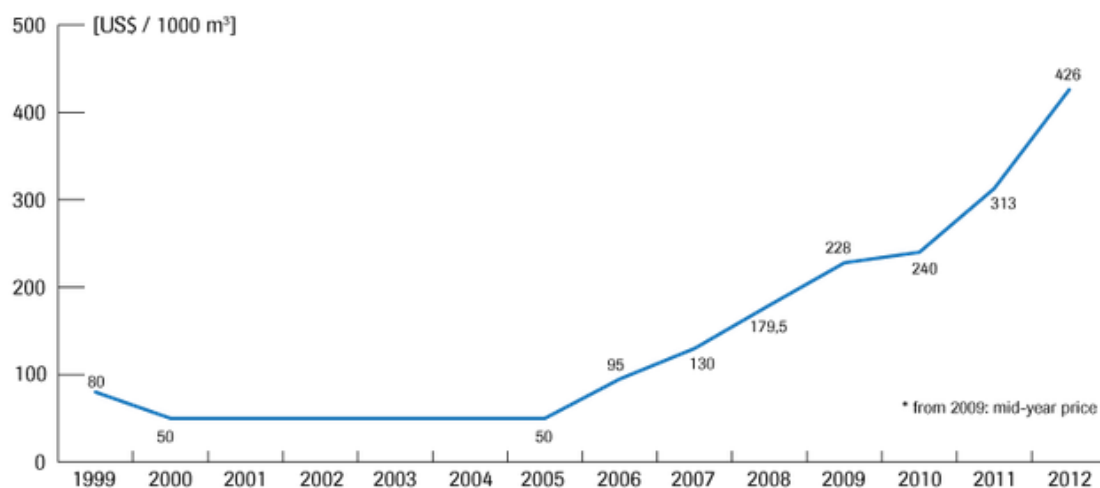


Figure 4: Source: Ukraine's Office for National Statistics, Ministry of Energy and Coal Industry of Ukraine, Razumkov ¹⁴⁴ Centre.

Volume and origin of Ukraine's gas imports 2006 – 2013 (bcm)

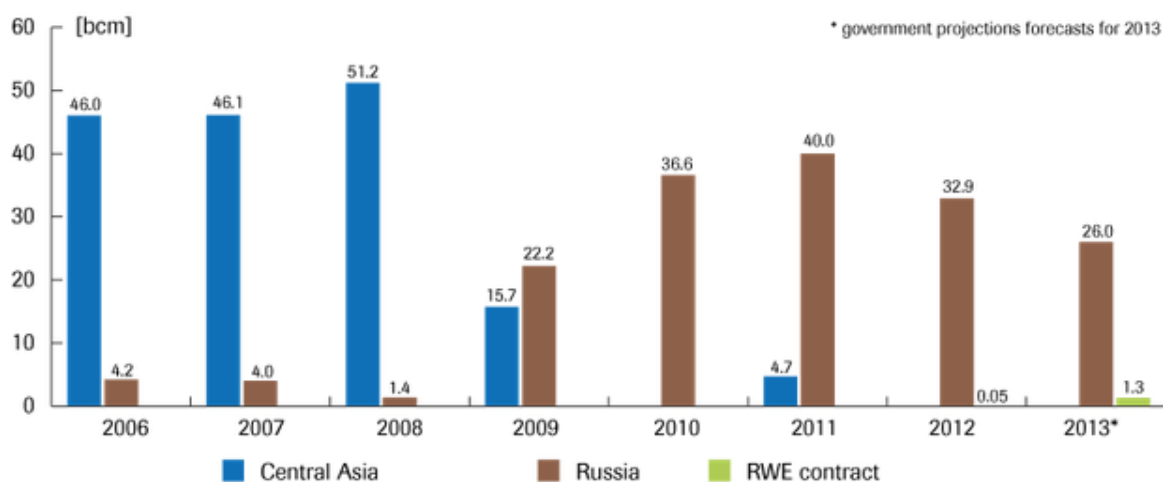


Figure 5: Source: Ukraine's Office for National Statistics, Ministry of Energy and Coal Industry of Ukraine, Razumkov Centre. ¹⁴⁵

¹⁴⁴ Arkadiusz Sarna, 2013

¹⁴⁵ Ibid

3.2.1 Nord and South Stream project and Ukraine's gas transit future

The discourse of Russian-Ukrainian energy interdependence has to be considered more comprehensively either. At first glance, Russia is also dependent on Ukraine, as 80% of Russia's gas exports to the EU go through Ukraine's transit system, and in order to maintain the image of a reliable gas supplier it had to compromise the gas price too.¹⁴⁶ However much has been changed since the gas dispute in 2008-2009.

After the construction of the Nord Stream and the South Stream twin pipeline routes, through which Russia directly delivers gas to the EU bypassing Ukraine, the gas transit volumes have been steadily decreased.¹⁴⁷ In 2004 Ukraine transited more than 120 bcm, and after the launching the Nord Stream route only, this figure declined to 84 bcm as of 2012.¹⁴⁸ The transit capacity of Nord stream and South stream projects are 55 bcm and 63 bcm respectively. Theoretically, this transit diversification leaves Ukraine without its main leverage that could help to renegotiate the gas price with Russia and becoming politically vulnerable. Besides that, the Ukrainian gas transit systems are obsolete and require upgrade, which requires investments of billions of dollars.¹⁴⁹ Ukraine however does not have enough funds to invest in rehabilitation and upgrading of its GTS, meanwhile European energy companies are reluctant to invest USD 5-7 billion in upgrading Ukraine's GTS as they are

¹⁴⁶ Richard B. Andres; Michael Kofman, 2011;

¹⁴⁷ Sarna, 2013;

¹⁴⁸ Ibid

¹⁴⁹ Gallo, 2012;

already involved in the Nord and South Stream projects.¹⁵⁰ Therefore, for European energy security the aforementioned bypass pipelines are more favorable.¹⁵¹

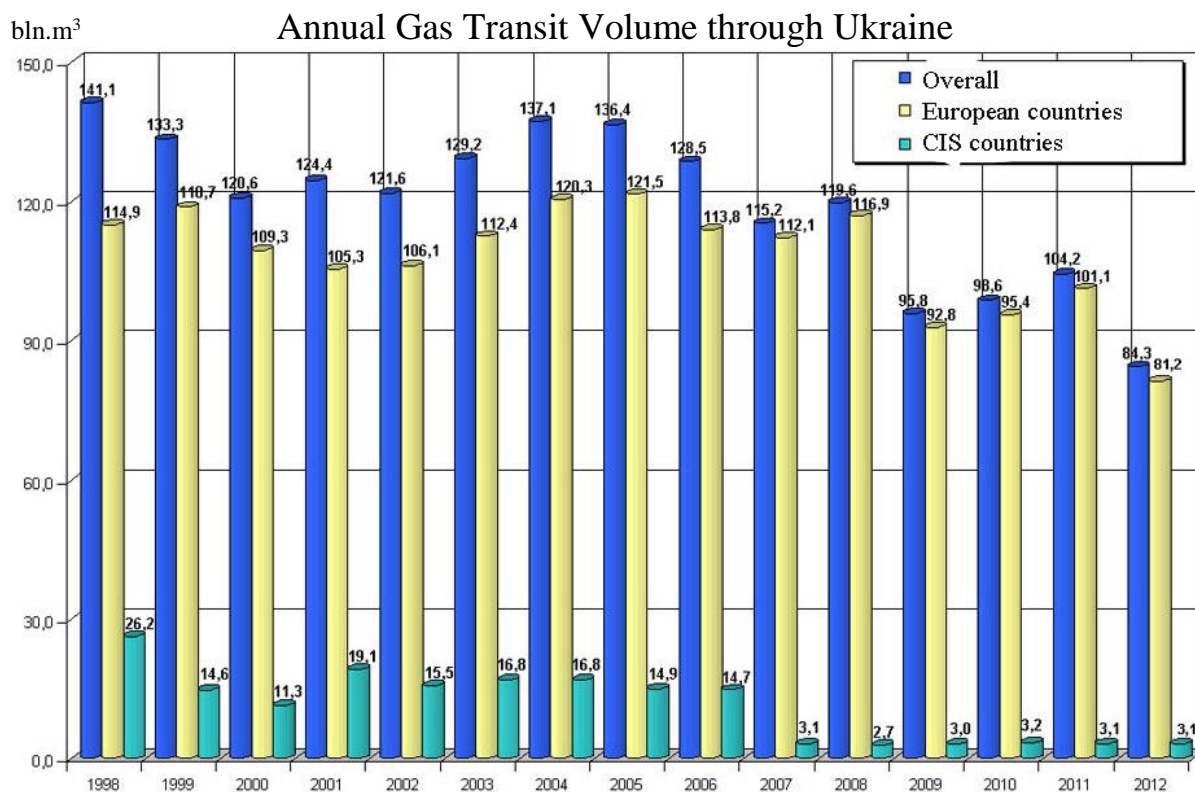


Figure 6: Source: Naftogaz of Ukraine.¹⁵²

Ukraine's sharp energy dependence against the background of already declining transit volume (see Figure 6), makes Ukraine politically vulnerable to Russia's pressure when it comes to Russia-Ukraine gas relations, in particular gas price negotiation.¹⁵³ Ukraine's possible loss of the transit capacity will also trigger negative economic consequences.

¹⁵⁰ Ibid

¹⁵¹ Ibid

¹⁵² Naftogaz Ukraine.

<http://www.naftogaz.com/www/3/nakwebru.nsf/0/D4ED4865785DF23EC2257AD80027FC43?OpenDocument&Expand=2> & (accessed on December 20,2013)

¹⁵³ "Nord Stream Pipeline Could Be A Game-Changer For Ukraine, Belarus," *Radio Liberty*, January 21, 2014

http://www.rferl.org/content/nord_stream_pipeline_could_be_a_game_changer_for_ukraine_belarus/24384944.html (accessed on October 27)

Currently Ukraine still remains the main transit route of Russian gas to the EU. Ukrainian Naftogaz earns over USD 3 billion as a result of the annual transit fees (USD 2.97 billion in 2012)¹⁵⁴, which are around 2 percent of Ukraine's GDP as of 2012.

3.2.2 Russia's applied stick and offered carrot policy and Ukraine's energy dependence

The overall picture of Russian-Ukrainian interdependence in the energy sector shows that Ukraine is heavily dependent on Russian natural gas at a price it cannot afford. The perspectives of Ukraine as a transit country are also questionable due to the obsolete gas transit system and new gas routes bypassing it. Therefore, Ukraine's incapability to renegotiate the gas price made the Yanukovich administration politically vulnerable to Russia's retaliation for 'European choice'.

In order to prevent the signature of AA/DCFTA Moscow employed its stick and carrot policy. In early November, before the EaP Vilnius summit Russia's Prime Minister Medvedev reminded Ukrainian authorities about USD 900 million payments for gas deliveries, requiring immediate debt repayment, and prepayment for extra gas deliveries as envisaged in the contract while ironically suggesting Ukrainian authorities to ask the EU for financial assistance.

Meanwhile Ukraine was also squeezed by IMF, which induced the government to decrease subsidies to NaftoGaz, and increase gas tariffs for households by 40%¹⁵⁵ and other domestic consumers while urging to implement other structural reforms to regain access to

¹⁵⁴ "Naftogaz reduced the revenue from gas transit by 18% as a result of the first quarter," *Unian.net* <http://economics.unian.net/> May 15, 2013. Reduced <http://economics.unian.net/energetics/787785-naftogaz-v-1-m-kvartale-sokratil-dohod-ot-tranzita-gaza-na-18.html> (accessed on October 27, 2013)

¹⁵⁵ Skolotyanyi, 2013

credit.¹⁵⁶ Furthermore, Kyiv's refusal to follow the IMF's recommendations caused it to put a USD 15 billion financial assistance program on hold.¹⁵⁷ President Yanukovich's government however, was reluctant to increase the gas price for domestic consumers due to the presidential elections in early 2015.

Therefore, President Victor Yanukovich had to re-negotiate the gas price with Russia and find a bailout package to prevent Ukraine's possible default. Consequently, one step away from the signature of AA/DCFTA Viktor Yanukovich's government made a U-turn towards Russia and almost joined the BRK-Customs Union. As a result of this possible engagement with the CU, Moscow promised to bail out Ukraine with USD 15 billion, and slashed the gas price to USD 268.5 per tcm.

3.3 Effectiveness of Russia's countervailing soft power and its limits in Ukraine

The Russian concept of neighborhood policy, emerged in early 2000, together with customary hard power also included soft power. While Russia's bullying hard power in form of economic sanctions has been fruitful enough to impede the Yanukovich administration from the European choice, Russia's soft power also proved effective in the southeast regions of Ukraine. Normally, Russia's blackmailing policy vis-à-vis Ukraine should have triggered off an adverse public resonance. In fact, it did so in Ukraine's western and central regions, which strive to integrate the EU. Russia's bullying policy however has had a converse effect in the southeast regions. According to Kyiv-based Razumkov Centre 50.7% in the southern and 45.2% in the eastern expressed their support to integrate the RBK-Customs Union, whereas only 23.5% in the southern and 24.4% in the eastern regions expressed their will to associate

¹⁵⁶ Statement by IMF Mission to Ukraine, Press Release No. 13/419 October 31, 2013
<http://www.imf.org/external/np/sec/pr/2013/pr13419.htm>

¹⁵⁷ "Update 2-IMF renews pressure on Ukraine to raise domestic gas prices, reform economy," *Reuters* (October 31, 2013)
<http://www.reuters.com/article/2013/10/31/ukraine-imf-idUSL5N0IL1TI20131031> (accessed November 28, 2013)

with the EU.¹⁵⁸ While at first glance, the main rationale behind such a high public support to join the BRK CU are purely economic interests, the social and linguistic as well as strong cultural ties coupled with historic legacy provide a fertile ground for Russia's policies.¹⁵⁹

3.3.1 Russian language in Ukraine

There are two important features in the Russian-Ukrainian linguistic bridge. Ukraine still remains a bilingual country, being divided into two dominant linguistic communities: Ukrainian linguistic community with a Russian as a second language populated predominately in the western and central part of the country and Russian speaking community in the south and eastern regions of the country.¹⁶⁰ According to a survey conducted by Razumkov Centre, as of 2006 54% and 52% of respondents in the south and east considered Russian as a native language.¹⁶¹ Dominance of the Russian language is also coupled with an imperfect ethnic-linguistic ratio. Many ethnic Ukrainians in the south and east still consider Russian as their native language. This reality derives from the Soviet educational system as only Russian language could ensure an access to higher education, science and administration.¹⁶² Therefore linguistic preference in Ukraine could prevail over ethnical identity, which consequently still remains a ground for political orientation and regional integration.

¹⁵⁸ Razumkov Centre, "Which direction Ukraine should integrate?" (віковий, регіональний розподіл," October 4, 2011, http://www.razumkov.org.ua/ukr/poll.php?poll_id=599 (accessed on December 1, 2013)

¹⁵⁹ Bogomolov and Lytvynenko, 2012

¹⁶⁰ Ibid

¹⁶¹ Razumkon Centre, "What is your native language?" (regional distribution dynamics 2006-2008), October 19, 2008 http://www.razumkov.org.ua/ukr/poll.php?poll_id=436 (accessed on December 2, 2013)

¹⁶² Bogolomov and Lytvynenko, 2012

The Ukrainian language however has been expanding. This trend was intensified especially during the Yushchenko administration. Former Ukrainian President Victor Yushchenko issued a decree on further promotion of Ukrainian language in the regions predominantly populated by Russian speakers. The decree envisaged opening of new educational establishments where Ukrainian language would be introduced. It also included the educational TV and radio programs, libraries, as well as implementation of other cultural events in Ukrainian language. Consequently, the Russian language became a subject of dispute between Kyiv and Moscow. President Yushchenko's counterpart, Dmitry Medvedev reproached him for "displacement of the Russian language from social life, science, education, culture, mass media and jurisprudence' in Ukraine."¹⁶³ Later on, the Yanukovich administration reinstated the Russian language as a secondary in Ukraine. The influence of Russian language is not only an internal issue. The Russian language enables Ukrainians to communicate at least with the CIS countries thus obtaining more international meaning. Although with globalization the English language becomes more widely spoken in Ukraine, it still is spoken by few thus cannot be effective means to approximate Ukrainian society the European and global culture.¹⁶⁴

3.3.2 Influence of the Russian media in Ukraine

The widely spoken Russian language in the south and east of Ukraine creates a benign ground for one of the most effective tools of Russian soft power – mass media, especially the cable television. The core influence of Russian television in Ukraine is news and other

¹⁶³ Poslanie Prezidentu Ukrainy Viktoru Yushchenko in Bogolomov and Lytvynenko, 2012

¹⁶⁴ Ibid

analytical programs, which are immensely political in emphasis.¹⁶⁵ Such programs are very detailed in their purpose and structure, and contain intellectual debate, which, taken into consideration the misstatements and distortion of facts, can shape the electoral preference of Ukrainian constituency.¹⁶⁶ Bolomolov and Lytvynenko note that Russian government established a “*de-facto* monopoly” over Russian TV broadcasting while emphasizing the fact that “... the Russian mass media have managed to create a hermetic, virtual world of mass culture that effectively blocks public communication on a set of important policy areas and promotes cognitive frameworks that help sustain the current political set-up.”¹⁶⁷

The only alternative, which can countervail pro-Russian information policy in Ukraine, is the internet, independent media websites and blogs. However, Russian authorities have responded to this accordingly by sponsoring bloggers and embarking on cyber warfare.¹⁶⁸ Some of the most effective information portals are formally privately owned Regnum and Novy Region, however they have a close ties with Kremlin.¹⁶⁹ Nevertheless the direct effect of the Russian internet media is very obvious, the indirect impact of it is not less important. The Russian internet media sources are also firsthand, thus Ukrainian journalist have to rely on them. However, Ukrainian journalists considering themselves independent or pro-Ukrainian consider the aforementioned sources inappropriate.

The overall influence of Ukrainian media is quite significant in Ukraine. Together with its hard power, Russian media in Ukraine helps to mobilize constituencies around very

¹⁶⁵ Ibid

¹⁶⁶ Ibid

¹⁶⁷ Bogolomov and Lytvynenko, 2012

¹⁶⁸ Ibid

¹⁶⁹ Ibid

sensitive issues such as political integration, economy, together with its common ethnical Slavic identity cultural and historic heritage.¹⁷⁰

For example, on the eve of the Eastern Partnership Vilnius summit and long before that, Russian channels were actively propagandizing the BRK-Customs Union narrative. While describing all the benefits Ukraine could get from the membership in RBK-Customs Union, the narrative also included distortions and half-true facts about AA/DCFTA. Therefore, according to Bogomolov and Lytvynenko, Russia relies on its myths to contrive narratives about its Customs Union and Eurasian Union intended “to bind Ukraine in a ‘common future’ with Russia and other post-Soviet states.”¹⁷¹

3.4 Ukraine’s price for visa free regime with Russia

Apart from the aforementioned elements of Russia’s soft power, Russian-Ukrainian socio-linguistic ties are essentially bolstered with the existing visa-free regime – an important aspect missing from the ENP. Together with Belarus, Russia appears to be the most accessible country for Ukrainians. Ukrainian citizens enjoy not only a visa-free regime with Russia, but also a passport-free regime can cross the Russian Ukrainian border having only domestic identification card. While having such a free access to Russia, Ukrainian citizens’ travel opportunities to the EU are significantly restricted by visa policy, which regardless the visa facilitation agreement signed between the EU and Ukraine remains to be an obstacle on people-to-people contact between the EU and Ukraine.

¹⁷⁰ Ibid

¹⁷¹ Ibid

However, this easy accessibility has hidden threats to Ukraine. The border between Ukraine and Russia is still not demarcated.¹⁷² While there is a borderline agreed on the map by both sides, physical border, outside of the crossing points is absent.¹⁷³ According to Solonenko, the Russian-Ukrainian border permeability exposes Ukraine to illegal migration from the third countries citizens, who use Ukraine as a transit country to enter the EU.¹⁷⁴ Border management and control, however, is one of the pre-conditions for the visa liberalization perspectives with the EU.¹⁷⁵ Therefore the maintenance of the status quo presented Russia's interests as thereby it could obtain an additional leverage to impede Ukraine's closer integration with the Europe. Accordingly, as Solonenko notes, Russian side "...made clear that a unilateral demarcation of the border by Ukraine might lead to the introduction of visa requirements for Ukrainian citizens."¹⁷⁶ Nevertheless, Ukraine managed to adopt the law on border demarcation to proceed with the EU requirements on border demarcation and management. In May 2010 the agreement on Russian-Ukrainian border demarcation was signed in Kyiv by presidents Medvedev and Yanukovich.¹⁷⁷

However, despite the signed agreement, Russia continued bullying Ukraine in this respect too. Prior to EaP Vilnius summit, Sergey Glazev, advisor to President Putin, threatened to introduce a visa-regime if Ukraine would refuse to join the RBK-Customs Union.¹⁷⁸ Such perspectives, indeed, could have been fatal for the Yanukovich administration as visa regime would be immensely unpopular among the electorate-rich regions in eastern

¹⁷² Solonenko, 2009

¹⁷³ Ibid

¹⁷⁴ Ibid

¹⁷⁵ "Ukraine started demarcation of the land border with Russia," *Visa Free Europe Coalition*, November 4, 2012, <http://visa-free-europe.eu/2012/04/ukraine-started-demarcation-of-land-border-with-russia/> (accessed on December, 10, 2013)

¹⁷⁶ Solonenko, 2009

¹⁷⁷ See n. 129

¹⁷⁸ "Russia has threatened Ukraine to introduce a visa regime," *Novosti Mira*, October 10, 2013 <http://www.novostimira.com.ua/news-eng-72086.html> (accessed on December 10, 2013)

Ukraine. Therefore, visa policy to was one of the leverages Russia applied to impede Ukraine's European integration and force to join the Russian-led Customs Union.

3.5 Russian-Ukrainian relations as a limit to country's European integration

The potential of the EU policies and offered incentives in Ukraine within the EaP format cannot be analyzed without the understanding of the integral part of the puzzle. Russia's influence on Ukraine's leadership and constituency limits the country's European integration.

With a good combination of hard and soft power, Russia's realist foreign policy directly undermined the EU policies within the EaP and Ukraine's European choice. It became obvious when Russia first condemned the EaP project, claiming that it was anti-Russian and second with forcing the country to join Russian-led Customs Union while making it incompatible for Ukraine to participate in the EU-offered AA/DCFTA.

Russia's ability to limit Ukraine's European integration largely relies on its applied carrot in the aftermath of the Soviet break up, and stick which Russia has successfully been using since the 2004 Orange revolution in Ukraine. Comparing the neighborhood policies of the EU and Russia, Wilson and Popescu point out: "whereas the EU pursues an under-resourced technocratic neighborhood policy, Russia pursues a well-resourced geopolitical neighborhood policy that touches raw nerves throughout the neighborhood."¹⁷⁹

Russia has been trying to re-establish its influence in its 'near abroad', which is the former Soviet since the fall of the Soviet Union. Therefore, acting on already familiar ground, Russia's bullying neighborhood policy proves to be more 'fruitful' at least in a short-term perspective. The colored revolutions, as a result of which emerged clearly pro-western

¹⁷⁹ Wilson and Popescu, 2009, p329.

governments, coupled with the introduction of the ENP made Russia work pro-actively to implement its neighborhood policy to outweigh the EU's ENP.

Furthermore, Russia applies for multiple soft power leverages, which indirectly limit the effectiveness of the EU' policies in Ukraine. Strong socio-linguistic ties enable Russia to extend its soft power by contributing with media and non-governmental sector. This comprehensive soft power used by Russia helps it to maintain the existing kinship and sympathy of pro-Russian constituency in the southern and eastern regions of Ukraine. Ukrainian presidential elections in 2009 exactly reveal the outcome of the policy. Wilson and Popescu point out that "this policy might be moderately effective in reasserting a Russian sphere of influence in the region, but it is very effective in undermining the ENP's objectives."¹⁸⁰

Russia's policy in its near abroad is not limited by the direct economic and energy influence on Ukraine and its leadership. Owing to its energy policy, Russia is also closely tied with some energy-concerned EU member states, mainly Germany and France, which are reluctant to provoke Russia when it comes to enhance EU policies in Ukraine.¹⁸¹ Therefore, Russia's strong leverage in Ukraine both directly and indirectly affects the effectiveness of EU policy in Ukraine and accordingly limits country's political 'European choice.'

¹⁸⁰ Ibid

¹⁸¹Richard Youngs, "A door is neither closed nor open: EU policy towards Ukraine during and since the Orange." *International Politics* 46, No 4, (2009), p.371

Conclusion

The purpose of this thesis was to analyze why the progression of Ukraine's European integration slowed after the introduction of the Eastern Partnership (EaP) and what factors eventually caused the Yanukovich administration to suspend the signature of the Association Agreement and Deep and Comprehensive Free Trade Agreement (AA/DCFTA) with the European Union. I argued that while the EU policies in Ukraine were very vague and inconsistent, Ukraine was also subjected to Russia's countervailing pressure to impede the country's affiliation with the EU. On the other hand, Ukraine's dense interdependence with the EU and divergent population with regards to political affiliations precluded the country from joining the Russian Customs Union.

While the EU attempted to extend its influence in Ukraine, thereby crowding out Russian influence, the EU's policy in Ukraine was under-resourced in economic and financial terms and ineffective in political and social terms. Firstly, the EaP project introduced by the EU inherited structural problems from the ENP. In the political realm, the ENP lacked the main political carrot – Ukraine's accession perspective – that could have inclined Ukraine towards the EU. Political conditionality, lack of funding, and divergence among the EU member states to develop consistent policy *vis-à-vis* Ukraine also negatively influenced the country's European integration. In social realm, the EU visa policy contributed to the isolation of Ukrainian citizens and limited EU soft power on the Ukrainian constituency.

Furthermore, the crucial mistake of the ENP was to engage Ukraine in a zero-sum game. When offering zero-sum political and trade agreements the EU should have realized Ukraine's deep dependence on Russia and its consequent countervailing economic sanctions, which would have been detrimental for the country's economy and led to geo-political crisis. The EU should have also considered the factor of Ukraine's heterogeneous population.

Notwithstanding the high public support in favor of the European integration, Ukraine's population in southeastern regions (which comprise the country's advanced economic sector) have not been supportive of affiliation with the EU at the expense of alienation from Russia.

While the EU's policy towards Ukraine was inconsistent and lacked material incentives, Russia developed a combination of hard and soft power which proved to be more effective in economic terms. With Ukraine dependent on its consumer market and energy resources, Moscow's stick and carrot policy in action worked more effectively than what the EU could offer. Russia welcomed Ukraine to its Customs Union (carrot) while threatening Kyiv with increased gas tariffs and closure of the Russian consumer market, implementing a trade embargo on Ukrainian goods (sticks). Maintaining the high gas tariff, Russia has also challenged Ukraine's gas transit capability by building Nord and South stream pipelines, and therefore eroding whatever geopolitical leverage it may have had.

Brussels and Moscow were engaged in a tug-of-war over Ukraine, and due to the country's heterogeneous population it could not accept either of the zero-sum offers. Due to the internally divided population and economic and energy dependence on Russia the Yanukovich administration sought for compatibility between the EU-offered DCFTA and the Russian-led Customs Union. However neither the EU nor Russia considered such a perspective. Thus, by suspending the signature of AA/DCFTA the Yanukovich administration pursued 'strategic balancing' in order to maximize the country's economic benefits and reduce political threats. The decision of the Ukrainian authorities however triggered off the ongoing two-level crisis in Ukraine – domestic and international.

In response to the crisis the EU and Russia should jointly develop effective economic relations with Ukraine, namely trade mechanisms that would enable the compatibility of both free trade unions. Ukraine's strategic balance in its foreign policy should become a guarantor

of the country's territorial integrity within the internationally recognized borders, thereby preventing Ukraine from federalization and the possible dangerous perspective of separation.

Overall, this thesis contributes to the body of work the effect of external factors such as EU and Russian policies on Ukraine's foreign policy. Namely, it emphasizes the limitations of the ENP within the EaP project and shows how Russia's countervailing influence limits Ukraine's decision-making in foreign policy. It clearly demonstrates that Moscow discouraged Kyiv from signing the AA/DCFTA, as it was unwilling to join the Russian-led Customs Union.

This thesis provides a good basis for further research of the ENP and Russia's neighborhood policy as well as Ukraine's foreign policy. The findings of this thesis, however, are limited as it is mostly driven by the external factors shaping Ukraine's foreign policy. It would also benefit from further research of domestic factors that shape Ukraine's foreign policy; such as the effect of special interest groups, including business leaders, and the partition of Ukraine's population in linguistic and religious matters and divergent constituencies.

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