



Focus on Ukraine

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I. Overview of political events of the week

August 12

The Pechersk District Court of Kyiv passed down a ruling to detain Petro Melnyk. A spokesperson of the state prosecutor's office added that after this ruling an international all-points bulletin in search of Melnyk may be put out.

As a reminder, the former member of parliament and dean of the National University of the Tax Service was detained on suspicion of accepting a bribe and put under house arrest from which he managed to escape.

August 13

According to the ruling of the Pechersk District Court in Kyiv an international all-points bulletin was put out against Petro Melnyk. Corresponding information was entered into databases and sent to other member countries of the CSI.

August 14

Ukrainian boxing champion Vitaliy Klychko promised that he will run for the presidential office during talks with President of the World Boxing Council Jose Suleiman. Klychko announced that he will not step back into the ring in 2013 due to an injury and will continue to engage in politics and run for the seat of president in 2015.

The press service of the Ukrainian Federation of Employees announced the blockade of the export of Ukrainian products by Russia. "This implies that means of transport that ship products of Ukrainian manufacturers are subjected to total ungrounded inspection at the Russian border, including unloading and re-weighing of freight and downloading for shipment back to the original point," according to the official statement.

The federation also appealed to Ukraine's Premier Mykola Azarov with a request to immediately resolve this problem.

August 15

Russia associated the problem of export of Ukrainian products with the Customs Union. Chairman of the Russian State Duma on CIS Issues Leonid Slutskiy said: "Unfortunately, Ukraine is still not a member of the Customs Union even though we have an agreement on free trade. Regarding several products resolving the issue is much more complicated than it would be if Ukraine was a member of the Customs Union in the 3+1 format."

In addition to that, Slutskiy denied that there are any political undertones in the situation that has evolved.

Ukraine's Premier Mykola Azarov told journalists in Luhansk that the problems with the export of Ukrainian products are exaggerated. "At the moment, Ukrainian mass media is exaggerating the problem of a seemingly existing conflict. There are indeed problems, but there is no need to artificially blow them out of proportion," said the Ukrainian premier.



Representative of Ukraine in the Eurasian Economic Commission – the regulatory body of the Customs Union – Viktor Suslov stated Ukraine will resolve its export problems within the framework of the CU. He promised to raise the issue of blockading the export of Ukrainian products at the next session of the commission scheduled for August 16.

The government of Ukraine was assigned the task of resolving the situation with the blockade of export of its commodities, stated authorized representative of Ukraine on Cooperation with Russia and CIS Member Countries Valeriy Muntian. He said he was granted such authority by Premier Mykola Azarov.

August 16

Head of the Russian Federal Service for Supervision of Consumer Rights Protection Gennadiy Onyshchenko said the extended list of claims against the quality of Ukrainian products is the reason for the actions at the Russian customs border over the past few weeks. “The issue is about the compliance of the quality of products with the requirements of legislation on consumer rights. If this is what is considered to be a trade war, let it be so,” Onyshchenko pointed out.

The EU has called on Russia and Ukraine to immediately resolve their trade problems, said EU Trade Representative John Clancy. He said the solution to the problem must be found in the obligations that both countries assumed as members of the World Trade Organization.

Ukraine’s Premier Mykola Azarov wrote on his Facebook page that there will not be a trade war between Ukraine and Russia. He also informed about a meeting between the Ukrainian government delegation and its Russian colleagues and planned talks between the customs authorities of both countries. “In short, the work on those issues that require additional review and consent is currently in full swing,” Azarov noted.



II. Analytical reference

✓ *International relations*

RUSSIA'S TRADE WAR AGAINST UKRAINE: RESULTS MAY BACKFIRE

On August 14 the Ukrainian Employers' Federation disseminated information that Russia's customs authorities suspended the import of Ukrainian goods to Russia. Several Ukrainian companies, in particular Metinvest controlled by Rinat Akhmetov, confirmed the problem with the export of its products to Russia a few days later. In response, head of the Russian Parliamentary Committee on CIS Issues Leonid Slutskiy explained that Ukrainian companies are facing such difficulties due to the fact that Ukraine is not a member of the Customs Union (CU), whose members are Russia, Belarus and Kazakhstan. The official reaction of the Ukrainian side was a promise to raise the issue of the problem with the Russian customs authority during the meeting of the Eurasian Economic Commission, which is the regulatory body of the CU.

*How can the actions of the Russian customs authorities be explained?
What repercussions will they have?*

Flexing muscles

It can be said that the series of economic sanctions that Russian stated bodies have imposed against Ukrainian made goods have become par for the course. Although the most recent extreme measure is Russia's ban on the import of chocolates produced by the Ukrainian confectionary company Roshen, inspections conducted by members of the Customs Union and Moldova on the grounds of the decision of the Russian side did not reveal any detrimental substances. This clearly points to the political nature of the ban. Moreover, similar bans on not only products made in Ukraine, but also by other neighbors of Russia, leaves little doubt that this is a tactic of Russian foreign policy, first and foremost, a method of political and economic pressure on other countries.

Accordingly, the blockade of the import of Ukrainian goods became the next, more serious, instrument of influence on the position of the Ukrainian government. The association of customs problems of Ukrainian companies with the fact that Ukraine has not joined the CU made it clear that the actions of Russia's customs authorities were not an

independent initiative, rather a result of directives by the higher echelons of power. In addition to that, there is no shadow of a doubt regarding the main objective of such a stance – namely, pressure on Ukraine's leadership to force the country to join the CU.

Russia's enhanced offensive can be attributed to the upcoming European Union summit in Vilnius, which is scheduled to take place this November where Ukraine will have a chance to sign the EU Association Agreement. Be that as it may, although the Ukrainian side must make serious efforts to achieve this goal, Russia is seriously concerned that the probability of Ukraine's official harmonization with the EU will mean that Russia's southern neighbor will fall out of the latter's sphere of influence in the nearest future.

The boomerang effect

In any case, the policy of show of force on the part of Russia could lead to a notable fiasco. Clearly, the "trade war" is an attempt to change the subjects of influence. While earlier Russian President Vladimir Putin tried to use different methods of convincing his



Ukrainian counterpart Viktor Yanukovych to join the CU, now the Russian leadership has decided to take a different approach by dealing a blow to the most powerful Ukrainian oligarchs, in particular Rinat Akhmetov and Dmytro Firtash (the latter heads the Ukrainian Federation of Employers). However, it is highly probable that the public reaction of Firtash in the mass media was not part of Russia's grand designs. Although it is too premature to say whether pressure on the part of Russia will lead to any agreements between the leaders of the two countries, the publicity of the customs issue dealt a serious blow to Russia's position.

An even more important factor could be that Russia's pressure could evoke a counter reaction of Ukraine and the EU. For Ukraine's leadership this could send out a signal that the signing of the Association Agreement is the only effective method to safeguard itself from similar economic sanctions in the future, which is why it must make additional efforts in this direction.

Representatives of the EU, in their turn, may once again be convinced of the reality of the Russian threat to Ukraine's economic and political situation, as a result of which the number of proponents of signing such an agreement among them could significantly

grow. The main thing is that the Ukrainian side does not overestimate the importance of this factor and does not jump to the conclusion that the agreement with the EU is a "done deal" as this could have a directly opposite result.

Moreover, the behavior of the Ukrainian leadership was typically surprising. Indeed, over the course of a few days it failed to express a concrete position regarding the export issue. While President Yanukovych did not give a single commentary on this issue, Premier Mykola Azarov initially denied the systemic nature of the problem and only later instructed the government to deal with the problem. Such a lackadaisical reaction to the situation compounded the lack of desire to take active measures to rectify the problem. In particular, the Ukrainian side has yet to appeal to the World Trade Organization, which could be a more effective step in this situation, and instead decided to resolve the problem with Russia within the framework of the CU integrating structure. The lack of desire to renounce a multi-vector foreign policy has on more than one occasion shown its ineffectiveness in terms of Ukraine's economic development. For this very reason, the expediency of continuing along this path is rather doubtful.

Conclusions

As such, blockading of Ukrainian export by the Russian customs authorities clearly became the next major stage in Russia's trade war against Ukraine in which the Russian side is applying instruments of pressure in order to readjust the foreign policy priorities of Ukraine. This time around Russia's plans may backfire and instigate Ukraine and the EU to more actively seek ways to the signing of the Association Agreement this coming November. At the same time, much depends on the behavior of the Ukrainian leadership and its readiness to renounce its excessive political and economic dependence on its northern neighbor.



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