



## REP Roundtable Summary

# Ukraine's Political Crisis: The Domestic and Foreign Policy Implications of the Georgia Conflict

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This presentation will seek to explain the strategy of President Victor Yushchenko, and the thinking which lies behind his decision to dissolve the Verkhovna Rada and call a snap election for December.

First we have to look at the causes of the collapse of the Government coalition in early October. The Western media have recycled many of the accusations against Prime Minister Yulia Tymoshenko made by Yushchenko after the war in Georgia. These included claims that Tymoshenko has entered a secret deal with the Kremlin to reorientate Ukraine's foreign policy in favour of Russia in return for support from Moscow. This is not the case. After the disaster of the Orange Revolution, Russia has learnt to take a more balanced approach to Ukrainian politics and not put all its eggs in one basket. Indeed, since 2006 Russia has maintained something of a working partnership with Yushchenko, as shown by the introduction of a new intermediary energy company, RosUkrEnergo.

Disagreement over Georgia was not enough in itself to warrant the collapse of the ruling coalition. After the invasion of Georgia, the Ukrainian Parliament failed to pass any of the nine resolutions put forward relating to the conflict. This was because of existing disputes, and did not reflect serious division on the Georgia issue. As Prime Minister, Tymoshenko should not have been expected to take a pronounced position on Georgia, given the fact that foreign policy in Ukraine is a presidential prerogative. In the event, Tymoshenko and Yushchenko's positions on Georgia were fairly similar. The differences were less pronounced than, for example, those within the British Conservative Party over Europe. It was strange that Yushchenko accused Tymoshenko of treason, rather than the Party of the Regions, given that some members of the latter actually supported the recognition of Abkhazia and South Ossetia. This was a very unusual position for the leadership of the Party of the Regions to take, and was not supported by the party's more pragmatic wing. Even pro-Russian Belarus demurred over recognition. During the crisis, Tymoshenko adopted a more moderate line, closer to that of the EU. Deputy Prime-Minister Nemyria supported the Medvedev-Sarkozy agreement. Yushchenko, by contrast, took a hard-line pro-Georgian position which was closer to the US stance. Tymoshenko claimed she was forced into a Catch-22 situation by Yushchenko. Our Ukraine demanded that she adopt a tough line vis-à-vis Russia's actions, but then threatened to blame her for any future increase in the gas price. Unlike foreign policy, energy is a governmental (prime ministerial) prerogative, and it would have been folly for Tymoshenko

to have jeopardised an advantageous gas deal with Russia by loudly opposing it over Georgia.

Yushchenko's reaction to the war in Georgia was to declare war on Tymoshenko. His office prepared a 350-page document accusing her of treason. This was a disgraceful waste of administrative time. The Prosecutor's office returned the document in two days. Nevertheless, an accusation of treason is serious in any country. In addition, for reasons that are unclear, Tymoshenko was called in to give evidence on the poisoning of Yushchenko in 2004. Tymoshenko was also accused of being involved in a plot to murder Victor Baloha, the head of the Presidential Administration.

These actions pushed Tymoshenko into a voting alliance with the Party of the Regions. One can't understand this move without looking at what preceded it. Tymoshenko could have acted better on 2 September, but one emotional response followed another. In response, Our Ukraine withdrew from the Orange coalition. It should be noted that there was only a very slender majority in favour of withdrawing.

After the withdrawal of Our Ukraine, the Government had thirty days to form a new coalition. This could easily have been achieved. Indeed, the ruling majority could even have been strengthened through the addition of the Lytvyn Bloc, which would have increased the number of deputies within the coalition to 248. All of the Lytvyn bloc, all of Tymoshenko's deputies, and half of Our Ukraine agreed to form a new coalition. Only Yushchenko's people said no. Yushchenko had no interest in allowing a strong coalition with Tymoshenko to return to government, as it would be harder for the presidential administration to exert control through political blackmail.

It's clear, therefore, that the President wanted to impose pre-term parliamentary elections on the country. This is a disaster for Ukraine. Foreign investors cannot understand why Yushchenko is acting like this. Continuing political instability damages Ukraine's prospects of joining NATO. One Western ambassador told me a couple of days ago that it had been made clear to Yushchenko that if the Orange coalition is disbanded then there is no way Ukraine will be recommended for a Membership Action Plan (MAP) in December. Political logic dictates that you don't have an election during an economic meltdown, you don't hold an election when no one wants it, and you don't call an election when you don't know the outcome. Yushchenko's popularity is currently just 7 per cent. His people recently failed to win seats on the Kyiv City Council, where the electoral barrier was 3 per cent!

Yushchenko's strategy is focussed on removing Tymoshenko from office; he wants her out of the picture. This is part of his strategy for achieving a second Presidential term. He has three options here. Firstly, he could run an election campaign on his own. But this has almost no chance of success given his single-digit popularity ratings. Secondly, he could go into coalition with Tymoshenko, as before. However Yushchenko openly detests Tymoshenko – in a particularly cheap move he recent denied her an official plane to fly to Moscow to sign a gas deal. Finally, he could do some sort of deal with the Party of the Regions. This would be extremely hypocritical, given his earlier criticism of Tymoshenko for courting the Party of the Regions. This is, nevertheless, the option he appears to have chosen.

In the forthcoming parliamentary elections, Yushchenko hopes to get around 15–16 per cent of the vote for his supporters and then enter into a grand coalition with the Party of the Regions. This would give Yushchenko about 50 seats in the December elections, but the President still expects to be able to appoint the Prime Minister. He wants to appoint a 'technical' figure such as the speaker of the Rada, Arseniy Yatsenyuk. Yushchenko is only able to work with a technical Prime Minister (an office holder who lacks a distinct political identity of his own). By forming such a coalition, Yushchenko expects the Party of the Regions to support his presidential campaign. He will put the case to the oligarchs in Eastern Ukraine that Tymoshenko is the real danger to their interests and present himself as the status quo president.

This strategy has many drawbacks and could easily fail. For a start, Yushchenko may not win 50 seats; the number of deputies supporting him could be closer to 20. Tymoshenko will campaign on the basis that she didn't want the election, Yushchenko did. At the same time, however, the election has come at a very opportune moment for Tymoshenko. She could get 35–37 per cent of the vote, which, as some parties do not cross the threshold for representation in the Rada, would translate to over 40 per cent of the seats. This means she would only need Lytvyn's support in order to form a ruling coalition. Tymoshenko may return as Prime Minister, at which point the West will certainly ask itself and Ukraine's executive what the point of this all was. Alternatively, the Party of the Regions could form a coalition with the Communists and Lytvyn. They will then make the case to the Akhmetov clan that they are in a strong enough position to put forward Yanukovich as prime minister and eventual presidential candidate. If this occurs, Yushchenko is finished.

Yushchenko has thrown the dice up in the air, hoping for the best, but he has little idea how they will land. Everyone is amazed that he is going into an election with a popularity rating of just 7 per cent. This is the end of the Yushchenko–Tymoshenko alliance. It's very hard to see how they could patch things up now. The outcome of the election depends on the next few months, and the economic crisis will also play a role here.

## Discussion

**Could we explore another option: does Yushchenko have to work on the basis of coalition-building? Maybe he aims to go into opposition with the Party of Regions. This could form the basis of a presidential bid; it would give him a target to aim at.**

If Yushchenko gets into Parliament with 50 delegates they could form a formidable opposition with the Party of Regions, but it is hard to imagine this scenario working. The Party of Regions finds it hard to be in opposition. They haven't formed a shadow government. If they had to work with Our Ukraine this would give power to the pragmatic wing of the party around Akhmetov and undermine Yanukovich.

**What are Russia's interests in the forthcoming election? Given Yushchenko's position on many issues, presumably they would prefer not to work with him?**

Russia would prefer to work with Yanukovich or Tymoshenko. There is a lot of *kompromat* on Yushchenko, which provides leverage, but he is seen as an unreliable partner. The problem with Russia is that it doesn't understand the situation on the ground in Ukraine, for example, over NATO. Because of his weakness and incompetence, Yushchenko is actually the main obstacle to further integration with NATO – so paradoxically a Yushchenko presidency would further Russia's interests. Bilateral relations are extremely strained at the moment. Sergei Markov said recently that Russia–Ukraine relations don't exist. This is an exaggeration, but they are in a very bad state.

**What are the implications of the outcome of the war in Georgia for Ukraine's Foreign Policy?**

Even leaving the Georgia crisis to one side, Ukraine has no foreign policy. You can't have a foreign policy when you are in a constant state of internal struggle. With the exception of WTO accession (which was largely the work of Hryhoriy Nemyria) there has been no progress in Ukraine's foreign policy in the last four years. Ukraine needs stability if it is to be taken seriously abroad.

***Chairman's Comment:** It's difficult to know to what degree the Georgia conflict has improved Ukraine's chances of MAP. There has been a certain shift of thinking amongst defence and security circles in Ukraine: a recognition that MAP is a symbolic and provocative gesture and that what is really needed are practical measures to improve capabilities and diminish vulnerabilities.*

**Does it really matter that Ukraine is politically unstable? What are the real effects?**

It's true that in the period 2005–7 GDP and FDI appear to have been unaffected by the political instability. Foreign investment in this period has been close to \$10 billion a year. The indications are, however, is that the situation has changed, particularly in light of the current global economic crisis. Domestic problems make it far harder to reach an acceptable deal on energy on Russia. Ukraine could have huge leverage in these negotiations; it controls 80% of the pipelines and storage for Russian gas exports to Europe. But Ukraine always appears weaker because of elite factionalism. In 2006 Ukraine received a huge amount of support from Europe in the gas dispute with Russia, but Yushchenko threw it away.

One should also not forget the negative impact this has on the development of civil society. Endless political instability alienates voters, and encourages a belief that nothing can change. This is particularly the case among young people, who have become very politically active in the last few years and were one of the most prominent groups in the Orange Revolution.

**What has been the impact of the War in Georgia on popular opinion?**

The population of Ukraine supported Georgia, even in the east, because there is a strong attachment to the principle of territorial integrity. Contrary to what many outsiders believe, the status of Crimea is not an issue which divides elites. The Communists and the Party of the Regions are not separatists.

Russia's actions in Georgia have damaged its standing in Ukraine among the general population. NATO support is back up to 31%, having fallen in recent years due to various factors, such as the invasion of Iraq. We have Russia to thank for pushing support for NATO membership in Ukraine back up to a respectable figure. Nevertheless, the country is being held back by the inability of elites to form a strong coalition on NATO. In 2006 Ukraine had a strong chance of being granted MAP, but Yushchenko threw away the chance by continuing to pursue his feud against Tymoshenko.

**What role, if any, do you believe the use of administrative resources will play in the forthcoming election?**

If the situation looks completely desperate for Yushchenko, there will be a temptation to use measures to try to influence the vote. People around Yushchenko who depend on him entirely for their careers may consider this, people like the Head of the Presidential Secretariat, Victor Baloha, who is really a nobody without Yushchenko, as Medvedchuk was without Leonid Kuchma. It is within Baloha's character to contemplate such a move, but doing so would completely undermine Yushchenko's legacy. We should also be careful not to overestimate the ability of the administration, particularly on a local level, to swing the vote. Yanukovich made this mistake in 2004. It's possible in Donetsk, where the state machinery and oligarchic clans work together closely, but this is not the case in other parts of Ukraine. Conceivable a few blocs might scrape into Parliament that would otherwise fail to cross the 4 per cent threshold. But the effect would be marginal. If the authorities try to influence the vote they will fail. As the former president Leonid Kuchma famously observed, Ukraine is not Russia.

**It is clear that the global financial downturn will impact heavily on Ukraine. Ukrainian businesses are seriously overleveraged, and there is a real risk to the economy. To what extent can Yushchenko pin the blame for the crisis on Tymoshenko, given that the economy falls under the mandate of the Prime Minister?**

Some Ukrainian banks will probably be forced to close as a result of the credit crunch, but this is probably a good thing as the country currently has too many banks. More banks will also move into foreign ownership. The fall in commodity prices is a real danger to the Ukrainian economy. The valuation of stocks and shares in Ukraine has fallen by 70 per cent and it is very difficult to raise credit. All kinds of expansion plans have had to be abandoned. Ukrainian banks are leveraged, but not as seriously as their parent companies. The problem though is that these parent companies are seeking

to repatriate their funds. ProminvestBank is said to be at risk. The government would prefer a private concern to take over the bank rather than nationalise it. The Russian company Metalinvest has expressed an interest in acquiring the bank. Given that ProminvestBank provides a high level of financing to Ukrainian's metallurgical industry the risk is self-evident. Metalinvest could control the capital flows for all of Ukraine's metallurgical business. Private Russian investors have a game plan to take advantage of the crisis.

***Observation from the floor:*** *You can bet that when the economic crisis ends all the Russian banks will still be standing in Ukraine!*

According to the 2006 Constitution, the President has no mandate to be involved in matters of the economy or privatisation. Yushchenko was in breach of this.

He will not be able to pin the blame for the crisis on Tymoshenko. Thanks to him, she is only acting Prime Minister now. Now that the ruling coalition has collapsed he will have to deal with the fallout from the economic downturn alone.

**What is the future of Russia's Black Sea deployment at Sevastopol? Could this contentious issue be used by Russia to increase separatist tensions in Crimea? Why doesn't Ukraine charge Russia 'world prices' for use of the base?**

First of all, the Ukrainian Constitution prohibits the stationing of foreign troops on its territory, and it has made only a provisional exception for the Black Sea Fleet. Of course, Russia has a terrible record of withdrawing from foreign bases. If Russia refuses to withdraw in 2017 in accordance with the May 1997 agreements, then there is no chance that a vote would pass in the Rada to change the Constitution. The Party of the Regions advocates a position of neutrality for Ukraine. Ironically, this is a more anti-Russian stance than that of other, pro-NATO, parties. The logic of neutrality is that Russia should quit the base now.

***Chairman's comment:*** *By contrast NATO's position is that the presence of the Black Sea Fleet would not necessarily preclude Ukraine's membership in the alliance provided it were based on terms that were codified, adhered to by Russia and fully accepted by Ukraine.*



If Russia refuses to withdraw the fleet by 2017 and Ukraine is not in NATO by then, Ukraine will really be in trouble. Russia is trying to create a situation which forces Ukraine to bargain and make concessions.

Ukraine cannot demand world prices for Russia's tenure of the base until it starts to pay European prices for Russian gas.