

# Principles and Key Policy Areas for Western Engagement with Ukraine after the 2019 Elections

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## Introduction

On 21 February 2019, the Ukraine Forum at Chatham House held a meeting that assembled an independent, non-governmental, international group of leading experts to discuss the principles and policy priorities that should guide Western engagement with Ukraine after the 2019 elections.

The meeting included former ambassadors, business leaders, journalists and academic experts on various aspects of Ukraine, including its reform agenda, foreign policy, military, judicial system, economy and media. All the participants offered contributions on how Western governments and international donors should adjust their engagement with Ukraine considering lessons learnt over the past five years.

The meeting was held under the Chatham House Rule.<sup>1</sup>

## Political context

Five years on from the annexation of Crimea and the instigation of conflict in Donbas, the reasons for continued sanctions on Russia have not gone away. Crimea is still occupied. War grinds on in Donbas, bringing more deaths and injuries every week. But in the wider world there is a growing weariness with these issues, and a desire to move on. There are many other ongoing preoccupations for the international community: trade disputes, particularly between the US and China; migration; conflicts in Syria and Yemen; the breakdown of the nuclear agreement with Iran; and the political situation in Venezuela.

Ukraine will hold presidential and parliamentary elections in 2019. Whatever the election results, events in Ukraine are important and have far-reaching consequences. Ukraine is the largest country in Europe and has rich mineral resources. It has a population of some 40 million people and overall levels of education are high. The country is in a strategic location, between the EU, Russia and Turkey. Instability in Ukraine – which is Russia’s strategic goal if it cannot control Ukraine – will have destabilizing effects in Europe, including increased migration, trade disruption and cyberattacks.

As discussed at the meeting, the most important principles and policy priorities for Western governments in their engagement with Ukraine after the 2019 elections are listed below.

## Principles

- **Demonstrate unconditional commitment to Ukraine’s sovereignty and territorial integrity.**

Western governments need to reinforce the message that Ukraine’s territorial integrity is non-negotiable. This will communicate the West’s red lines and deter further Russian encroachment. It will also demonstrate solidarity with Ukraine. Stressing that the violation of international law will not go unpunished will have an impact on Russia’s calculus.

It is important that Western governments resist the temptation to accept that Crimea is ‘lost’ and reinforce the message that the annexation of Crimea will not be recognized. Given the imperative of defending the rules-based international order, the West cannot afford a precedent of unpunished border revisionism.

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<sup>1</sup> When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

- **Fine tune conditionality**

So far Western financial support has focussed on fiscal discipline. This was necessary to stabilize public finances while implementing macroeconomic policy changes. The Ukrainian population has suffered as a result, so as a preventive measure against populism (which thrives in times of economic hardship), Western supporters should acknowledge these sacrifices, use more carrots and fewer sticks, and be ready to offer more if Ukraine shows signs of successful financial reform.

In this respect, Western governments and international financial institutions should tighten conditionality by making new requirements more detailed and not focusing on quick wins (such as deregulation). Sustainable ways of tracking legislative implementation need to be designed. Strengthening technical assistance teams on the ground in Kyiv would be a helpful measure in this regard. It is key that conditionality also protects reform achievements since the Euromaidan (which include strengthening the independence and governance of the National bank of Ukraine, cleaning up the banking sector, improving transparency at Naftogaz, and the nationalization of Privatbank).

The IMF should be the economic policy anchor. Western governments may have to consider adopting the ‘nuclear option’ of withdrawing assistance if reforms are reversed. The IMF and the new Ukrainian leadership should scale up the current 14-month stand-by arrangement (worth \$3.9 billion) by quickly agreeing on the conditionality to expand the programme into an extended financing facility. This issue is urgent as Ukraine is facing a peak in its external debt repayment over the next three years. A Western ‘champion for Ukraine’ could be responsible for bringing Kyiv and its financial supporters together when the two sides disagree.

- **Supporting principles and policies, not personalities**

Whatever the outcome of the elections, Western capitals cannot go back on their commitment to support Ukraine’s Euro-Atlantic integration. This means ensuring free and fair elections but not supporting a particular candidate. Inevitably, the US and EU governments will reassess their view of the political situation in Ukraine after the elections. It is essential that they press the new president and parliament to uphold the country’s European path and the reform agenda associated with it.

The possibility of new protests in Ukraine cannot be excluded. Russia would take advantage of any resulting chaos in Ukraine.

- **Strategic thinking: establishing a coherent Western front and showing solidarity to Ukraine**

Western governments should treat events in Ukraine as an opportunity for improving their coordination in signalling their position and acting together. Lack of coherence plays to Moscow’s advantage.

The West should call out Russia’s abuses of Ukraine’s sovereignty without hesitation. The European Council’s approval of the ‘Azov package’ of sanctions is encouraging. However, its delayed introduction demonstrates the weak resolve of EU member states.

The more holistic approach in the recent bipartisan bill from the US Senate offers a template for Western punitive measures. It includes sanctions on individuals responsible for the capture of Ukrainian sailors and Russia’s shipbuilding and energy sectors.

Keeping Ukraine high on the West's agenda goes hand in hand with the question of whether the EU's Eastern Partnership framework is still relevant for Ukraine. Supporting Ukraine is a long-term investment in a model that other countries could imitate.

- **Strategic patience and adjusting expectations accordingly**

EU members and the US must acknowledge that Ukraine's reform agenda and the resolution of the conflict with Russia will take time. As such, there is the risk of 'Ukraine fatigue'. However, since there has been no fundamental change in how Moscow understands Ukraine and its attempts to reduce its neighbour to a satellite, Western governments and international financial institutions must remain on the ball. The international community cannot afford to lose interest in such a strategically important country. Taking Ukraine off the agenda would give Moscow an opportunity to obstruct and potentially even reverse the country's path towards European integration and closer ties to the West, which would be to the detriment of the entire European continent.

- **Showing support for Ukraine's achievements**

It is important that the West does not fall for the Russian line that Ukraine is a 'failed state'. An evidence-based counter narrative that demonstrates the country can succeed should be the cornerstone of Ukraine's relations with Western audiences. Impact assessments should be used to evaluate the quality of the reforms rather than just the speed and quantity. At the same time, Western partners should increase the ownership of Ukrainian citizens in the reform process and amplify the message that changes are occurring that benefit citizens. Boosting this narrative is crucial for maximizing success of future reforms and confronting attempts to reverse the reform agenda.

## Key policy areas

- **Renewing sanctions until Russia changes its behaviour**

Upholding sanctions against Russia over the past five years has been a significant achievement. Concern that Kremlin-friendly EU member states or the Trump administration might veto the renewal of sanctions has so far been unfounded. However, the disruptive potential of 'recalcitrant' EU member states should not be underestimated. Italy, for example, resents Germany for applying what it sees as double standards to the EU Third Energy Package by blocking the South Stream project but not Nord Stream 2, even though both are Russian-led and have raised similar concerns over lack of ownership unbundling. Inevitably, this resentment against what is seen as Germany's attempts to become the main energy hub for Russian gas exports to the EU feeds into the broader narrative of an EU dominated by Berlin, which southern member states already criticize for its austerity policies and its handling of the migrant crisis. Given the unanimity required for the renewal of sanctions, EU member states should be aware of how frictions of this kind can weaken the West's ability to maintain a unified front in deterring Russia. Should the West fail to renew sanctions before Ukraine's territorial integrity is restored, Ukraine would feel betrayed and populist and Kremlin-aligned political forces could strengthen their resolve to further obstruct pro-European reforms.

At the same time, the US government should persuade Ukraine to match its sanctions list. Local activists have pointed out that some 40 entities and 25 individuals that appear on the US list have been 'forgotten' by Ukraine. These include shipping, logistics and construction companies involved in the building of the Kerch Bridge and the delivery to Crimea of 'dual use' hardware and gas turbines manufactured by Siemens; as well as individuals such as Vladislav Surkov and Evgeniy Prigozhyn.

Prigozhyn is bankrolling the Internet Research Agency and the private security company, Wagner, whose contingents have fought in eastern Ukraine.

- **Increasing multilateral efforts in countering Russian propaganda**

The West must continue to counter the distorting narratives distributed by Russian disinformation campaigns. The EU's East StratCom Taskforce, set up in 2015 to tackle Russian disinformation, is a low-level operation. In preparation for the European parliamentary elections in May 2019, Brussels has increased the budget (from €1.9 million in 2018 to €5 million in 2019). But this is nothing in comparison to what the Russian government spends on its disinformation (allegedly €1.1 billion).<sup>2</sup> Ukraine is at the forefront of the disinformation war. Western governments should boost multilateral platforms for deconstructing Russian propaganda. More resources are needed to build cognitive resilience among citizens in the West and Ukraine to disinformation, polarizing narratives and tribalism, all of which is stirred by the Kremlin.

- **Boosting defence cooperation including defence assistance to Ukraine**

Western governments should admit that the difference between lethal and non-lethal equipment is largely artificial. Following the example of the US shipment of Javelin anti-tank missile systems in April 2018, other Western states should consider supplying lethal defensive aid to Ukraine. Supporting Ukrainian resolve to defend itself is the real deterrent against Russia rather than sanctions.

NATO should consider opening the Enhanced Opportunities Programme for Ukraine, which is currently available to Sweden, Finland and Georgia. The crisis in the Azov Sea has demonstrated Ukraine's need to strengthen its coastal defence. NATO reacted promptly when it announced that it would assist Ukraine in improving its naval capabilities, logistics and cyber defence and supply it with secure communications equipment. At the same time, Russia's control over the Crimean Peninsula allows it to unlawfully expand its maritime boundaries and seize oil and gas infrastructure to access deposits that are within Ukraine's economic zone. Against this background, NATO should consider a reinforced presence in the Black Sea.

Ukraine could also be involved in operations under PESCO (Permanent Structured Cooperation). Launched in 2017, the EU's programme among 25 member states allows for joint procurement and a joint military force. Third countries could be invited on a case-by-case basis depending on the capacities, expertise and financial contributions they can offer.

- **Clarifying Ukraine's realistic perspectives of EU/NATO membership**

President Poroshenko's promise to apply for EU membership and receive a NATO Membership Action Plan in 2023 sounds overly ambitious. Both Ukrainian and Western officials need to manage expectations as to what Ukraine can deliver, and what the West can offer. EU member states should acknowledge the complexity of the tasks Ukraine is facing and accept that evolution takes time. For its part, beyond formal EU membership criteria, Ukraine needs to realize that there are informal criteria to be met, not least the EU's readiness to absorb such a new member.

Although Ukraine's NATO membership is unrealistic in the near term, EU membership should still be on the table and achievable. This would provide the most powerful anchor for reforms in Ukraine. If

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<sup>2</sup> European Commission (2018), 'Statement by Vice-President Ansip on the action plan to counter disinformation and progress achieved so far (press conference)', statement, [https://ec.europa.eu/commission/commissioners/2014-2019/ansip/announcements/statement-vice-president-ansip-action-plan-counter-disinformation-and-progress-achieved-so-far-press\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/ansip/announcements/statement-vice-president-ansip-action-plan-counter-disinformation-and-progress-achieved-so-far-press_en) (accessed 11 Mar. 2019).

Ukraine demonstrates solid progress in implementing the EU–Ukraine Association Agreement and Deep and Comprehensive Free Trade Agreement (DCFTA), other forms of deeper integration could be discussed. Policymakers should look to offer Ukraine a similar relationship to the UK’s after Brexit or the Customs ++ proposals being designed for Turkey.

- **Encouraging military/security reform**

It is inevitable that the imperative of state survival dominates the Ukrainian government agenda. But, so far, military reform has been largely conflict-driven and Ukraine should move away from this dynamic.

Military procurement remains opaque. The Russian and Ukrainian defence industries have some interdependence. Since Ukraine terminated its military cooperation with Russia in 2014, both countries have struggled to find alternative markets for their procurement plans. In order to survive, some Ukrainian firms violated the government’s ban on defence cooperation with Russia. As an alternative NATO members could help by assisting Ukraine with launching and sustaining large-scale import substitution programmes and cooperating within multinational projects.

In this context, Western governments should support substantial reforms in the Ministry of Internal Affairs and the Security Service of Ukraine (SBU). The SBU remains an opaque institution, often accused of favouring the president’s cronies, engaging in business extortion and cooperating with criminal networks. Its law enforcement functions have no parliamentary oversight.

- **Ensuring judicial reform is not botched**

Judicial reform is the guarantor of all other reforms. Without functioning, reliable and independent courts, other reforms will not stick. If Ukraine fails to build trust in the courts by renewing its corps of judges, this role could be outsourced to a special judicial body formed of International (foreign) legal professionals, similar to the Astana Financial Centre Court.. In this context, Western governments should take responsibility for failing to understand the scale of the changes they required of Ukraine. They should accept that while the establishment of a High Anti-Corruption Court can strengthen accountability, it is not a silver bullet. Reforms of the Prosecutor General’s Office are also likely to be problematic, in which case Ukraine should be encouraged to consider disbanding it and starting afresh.

- **Promoting electoral reform**

Ukraine’s fragile political order is built on a system of pluralism that is restricted to the participation of big financial and industrial groups. Democracy is yet to be consolidated in the country and the political representation of citizens is weak. Strengthening the resilience of Ukraine’s democracy should be a top priority. The current mixed electoral system in Ukraine – whereby half of MPs are elected from single-member constituencies in a first-past-the-post system and half are elected through a closed party-list proportional representation system – allows for abuse of power and corruption. An electoral system based on proportional open party lists would be a move in the right direction. In addition, EU and US governments should adopt a broader view of abuses of power in Ukraine. More attention needs to be devoted to legislation on political campaign financing and advertising as well as electoral reform.

- **Financial support, stimulating growth, investment and the business environment**

Over the next three years, Ukraine is facing around \$20 billion of external debt repayments. The Ukrainian government will need to raise approximately \$4–5 billion of external financing annually to finance its budget deficit. If the right accountability is in place and conditionality is met, Western governments should consider increasing budget support to help the country balance its books and ensure continuity of reforms. This would also increase the West's influence in the reform process.

While macro-economic stability and growth have been restored in Ukraine, businesses complain they cannot access affordable loans to develop or expand. These difficulties reflect the lack of competition on the Ukrainian market. Western governments should encourage anti-trust and anti-monopoly legislation to limit the control of tycoons, who still dominate key sectors of the country's economy.

The country's poor business climate discourages foreign investors. This gives Ukraine's wealthiest tycoons more scope to maintain their power. The lack of alternative finance and commercial competition has left some state-owned companies with hefty debts, which has obstructed important reforms. For example, the privatization of the Odessa Portside Plant has been delayed as the company is in debt to Dmytro Firtash, who is subject to sanctions. International donors should pressure Ukraine into adopting a policy to deal with these debts and the associated problems of transferring money to sanctioned entities.

Western governments and international donors should invest in Ukraine's infrastructure. This will create jobs, facilitate internal connectivity between Ukraine's regions, and strengthen cohesion by exposure to different ideas and regional realities.

- **Contributing to a free Ukrainian media**

Ukraine's public service broadcaster Suspilne remains chronically underfinanced and under constant threat of political takeover. Western partners from the public and private sectors would gain political leverage by helping to finance it. More also needs to be done to diversify ownership of the media, particularly television.

Independent quality media and journalist projects must be further supported as an alternative to the current media landscape, which is mainly owned or dominated by senior figures in business or politics. Examples of independent media projects include Hromadske.tv, Hromadske Radio, Bihus.info, Texty.org, and regional web sites. Organizations that monitor and analyse the media space, such as Detector Media, Institute of Mass Information or Internews Ukraine should be supported as well.

- **Supporting civil society in Ukraine**

Since the Euromaidan protests, Ukrainian civil society organizations have had a key role in pushing the reform agenda and keeping the government in check. In this respect, representatives from civil society (and the private sector) contribute to building a culture of trust and strengthen civil ownership of reforms. As a result, it is essential that international donors and Western governments enhance their support to local and regional NGOs. It is important to remember that the quality of civil society plays a key role in institutional success. Abundance of civic associations, citizen engagement in local governance and support for egalitarian politics defines the nature of local governance. In view of this and rolling decentralization, particular attention should be given to civil society in Ukraine's Southern and Eastern regions and Transcarpathia. The focus should be on developing human capital and investing in younger generations.

- **Boosting energy security by further integration in the EU energy market**

Once the current transit contract between Russia and Ukraine ends (it is valid until 31 December 2019), it is likely that Russia will terminate gas flows through Ukraine. The fact that both Nord Stream 2 and the second string of TurkStream are planned to become operational in late 2019 will allow Russia to maintain its gas supplies to Europe. At the same time, by ceasing to be a transit country, Ukraine will come down in the order of priority for some EU states.

When the transit of Russian gas through Ukraine stops, it will cause losses amounting to some 3 per cent of Ukrainian GDP, according to one participant. That said, the loss of Russian gas transit could be an opportunity for Ukraine. First, corruption related to transit flows would be significantly reduced. Second, Ukraine would be able to boost its own gas production and use the pipeline network for export to the EU.

- **Emphasize Ukraine being part of the European family**

EU member states should treat Ukraine as a member of the European family, not as a distant relative. The UK should consider visa liberalization for Ukraine, as already granted by the Schengen zone.

At a time when the Russian state seems to be unable to reinvent itself, Western policymakers need to craft a clearer concept of the different directions Ukraine and Russia are heading in, and the relations they wish to build with these countries accordingly. In other words, supporting Ukraine is more important than better relations with Russia in its present state.

## About the Ukraine Forum

The Ukraine Forum at Chatham House is a unique research forum and platform for debate. Launched in 2015 in response to the challenges with transformation in Ukraine and subsequent Western engagement, the forum provides insight for European audiences on internal Ukrainian dynamics. It offers diverse perspectives from government, the private sector and civil society.

To date the forum has held over 50 events with more than 80 Ukrainian and 40 European policymakers, journalists, civil society activists and academics. In the multi-media sphere, we have created approximately 40 video interviews with a variety of experts on reforms, and seven short documentaries about change-makers. The major Chatham House report *The Struggle for Ukraine*, analysing the changes in Ukraine since the Euromaidan, was downloaded or read online over 11,000 times across 76 countries.

More information about Ukraine Forum research and events can be found at:

<https://www.chathamhouse.org/about/structure/russia-eurasia-programme/ukraine-forum-project>