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Russia and Ukraine: The Zero-Sum Fallacy

by Gary Soroka
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POLICY PAPER

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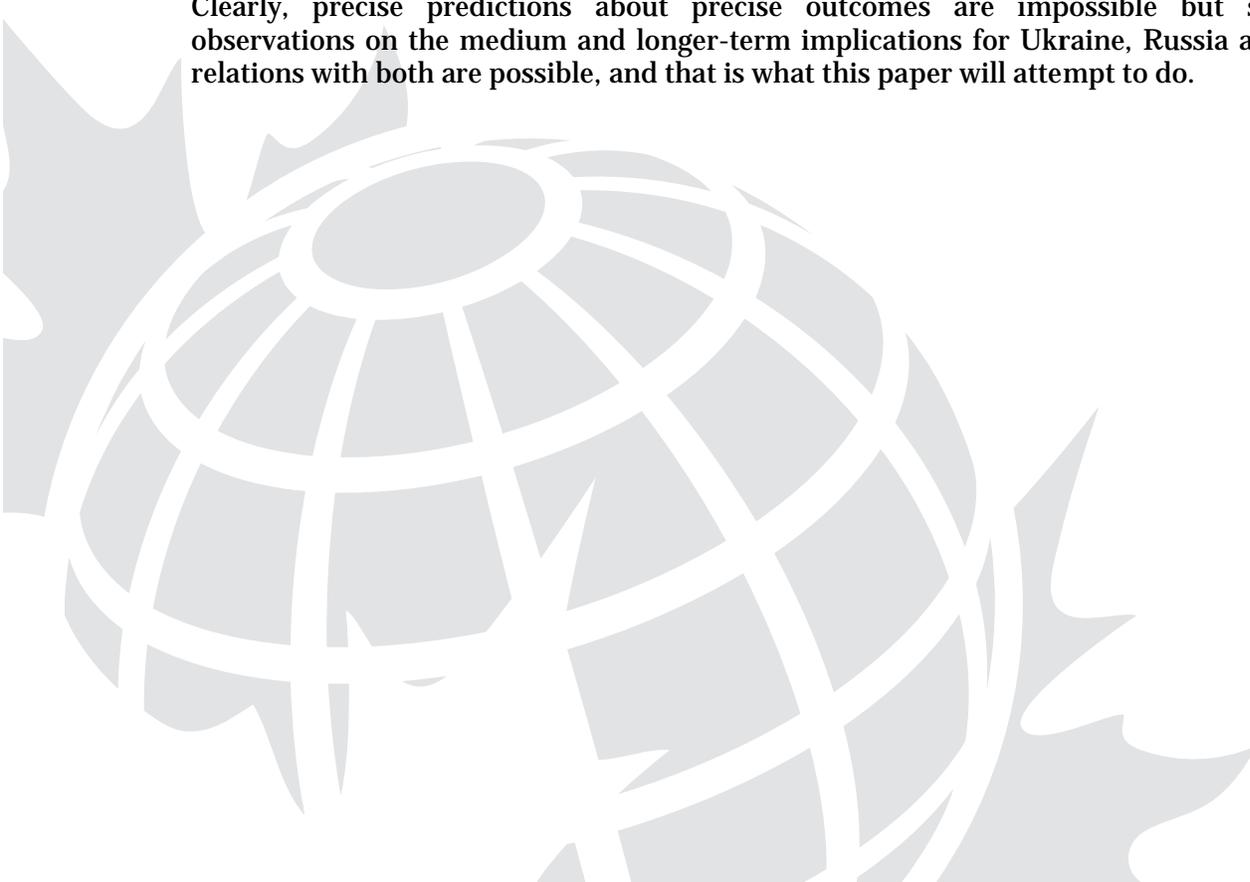
► Executive Summary

It is commonplace to describe all political crises as complex, but the policy challenges raised by the current situation in Ukraine are more complicated than most: first, there is the immediate situation of what to do about the Russian annexation of Crimea and aggressive interference in eastern Ukraine, including the tragic shooting down of a Malaysian Airlines plane over rebel-held territory; second, there is the challenge of how best to support Ukraine's political and economic development in a pragmatic and sustainable way; and third, there is the need to develop a coherent medium-to-long term strategy towards Russia. Each policy cluster engages the world's major political powers as well as an entire alphabet soup of our most important institutions, ranging from NATO and the EU to the IMF, EBRD and OECD with many in between. We can distinguish between the various challenges but we cannot separate them; they intersect and interact at many levels and action on any one set of problems can lead to new and unforeseen consequences in others. People often invoke the image of an onion when talking of layers of complexity but, in this case, when we peel back the onion we seem to discover only... another *verdammte* onion.

This paper will look at each set of challenges and the potential policy responses. The perspective is Western European, not only because the European Union and its member states have been so central to the deliberations about appropriate responses but also because much of the heavy lifting in the years to come will have to be done by the Europeans.

One caveat: the situation on the ground changes rapidly; as this is being written, a few weeks have passed since the terrible tragedy of Malaysian Airlines Flight MH 17. There were hopes that the events might lead to efforts by the main parties to the conflict to try to cool things down but that proved not to be the case. Tougher sanctions on Russia have been imposed and the Russian response has been to increase military and political support for the rebels. There are genuine worries that we could soon see a direct and open (as opposed to the current "covert") Russian military intervention on Ukrainian soil.

Clearly, precise predictions about precise outcomes are impossible but some general observations on the medium and longer-term implications for Ukraine, Russia and the West's relations with both are possible, and that is what this paper will attempt to do.





“MISSION ACCOMPLISHED”?

Public perception in the West is that Russia, under President Putin, is getting its way, and that weak, or conflicted, European and American governments can be pushed around by a determined leader with public opinion behind him and a clear set of objectives. The first sets of sanctions imposed on Russia were minimal and treated with scorn.¹ Serious divisions within the European Union on possible tougher measures² were seen as indicative of a lack of resolve and, hence, powerlessness. From the beginning of the crisis, Putin has seemed to keep the West off-balance and scrambling for some kind of response to the latest outrage. There are talks, followed by vague undertakings, followed by recriminations and new provocations, a cycle that seems to favour Putin and advance his ambitions; they have certainly boosted his support domestically as he successfully taps into widespread Russian resentment over the “humiliations” many feel they suffered at the hands of the West since the Soviet Union crumbled.

So much for perceptions: the reality is very different and Russia could eventually bear a terrible cost for its rash behavior.

The June 27th signature by Ukraine’s new President Poroshenko, of a trade deal³ with the European Union could well be seen in the future as the decisive blow that broke Putin’s apparent control over events in Ukraine (and beyond); the trade agreement follows the signature by Ukraine’s interim government in March of a political Association Agreement with the EU,⁴ and completes a process that began several years ago but was derailed last November when former Ukrainian President Yanukovich, under intense Russian pressure, reneged on his commitment to sign. Yanukovich’s about face led to the protests in Maidan square and the series of crises that we have witnessed ever since. Throughout this period, Putin has made it very clear that Ukraine must stay within Russia’s orbit and that its future lies not in the European Union, but in the proposed Eurasian Economic Union led by Russia. Ukraine has been repeatedly warned⁵ of dire economic consequences, including a cutting off of its duty-free access to the Russian market (“do what I say or I’ll raise prices in Russia”). He has shown in Crimea and eastern Ukraine just how far he is prepared to go to bring Ukraine to heel.

¹ See, for example, the CNN interview with Sergei Ryabkov, Russia’s Deputy Foreign Minister where he called the new sanctions by the USA in May “meaningless” and promised a reply that would be “painfully felt in Washington” Levs, Josh and Labott, Elise “Russia Vows Painful Response to New U.S. Sanctions over Ukraine”, CNN World, May 7, 2014 <http://www.cnn.com/2014/04/27/world/europe/russia-ukraine-sanctions/>

² See Spiegel Online, “Why EU Sanctions Are A Bluff”, May 12, 2014, <http://www.spiegel.de/international/world/strong-eu-economic-sanctions-against-russia-unlikely-a-968913.html>

³ The “EU-Ukraine Deep and Comprehensive Free Trade Area” agreement includes far more than simply trade measures. See the guide published by the EU, http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150981.pdf

⁴ The Agreement covers many areas of cooperation, see “EU-Ukraine Association Agreement ‘Guide To The Association Agreement’” http://eeas.europa.eu/images/top_stories/140912_eu-ukraine-associatin-agreement-quick_guide.pdf

⁵ See, for example, Sergei Glazyev, an economic advisor to Putin, who described the possible signature as “economic suicide” for Ukraine, in Russia Times of June 25, 2014, <http://rt.com/business/168360-glazyev-ukraine-economic-suicide/>



And yet, Ukraine signed with the EU. The government made a choice, despite the very real prospects of economic losses in the short-to-medium term and continuing violence and threats of secession in its eastern region. Ukraine's future is in Europe. That does not in any way prevent them from having positive, beneficial relations with Russia in the future, but that is unlikely under Putin.

The signature also commits Europe in a new way. It is one thing to make brave sounds when decrying Russian aggression and to argue that Ukraine must be given a chance to make its own decisions freely. Ukraine has now decided and that puts a special responsibility on the EU to make the relationship with Ukraine work. The EU cannot back off from its commitments; they will have to provide considerable financial, commercial and political support, both to offset the costs that Russia will impose as well as build a Ukraine capable of delivering on some of its promises to its citizens.

Exacerbating the loss for Putin were the signatures on the same day of new EU Association Agreements with Moldova and Georgia, two countries with much to lose if Russia punishes them. Both countries have breakaway regions with large Russian populations and Russia could move to annex these areas as it did Crimea. Additionally, both have extensive economic ties with Russia that could unravel. Nevertheless, they went ahead with the agreements in favour of a freer and more prosperous future in Europe.

CAN UKRAINE CHANGE?

Much depends on Ukraine, and that is not an especially secure bet. Since the breakup of the Soviet Union, Ukraine has been subjected to pressures and outright threats that would have tested the capacities of even the best-governed states – and Ukraine has been very far from that ideal. Despite considerable human capital, natural resources and good will, and support from Western governments, institutions and the Ukrainian diaspora, the country has been mired in corruption, incompetence and outright thuggery since its birth as an independent nation in 1991. A few citizens have become extraordinarily wealthy while most of the rest live in poverty. An obvious point of comparison is Poland and the numbers are striking:⁶ in 1992, the Ukrainian economy was slightly larger than the Polish economy; today, the Polish economy is more than double the size of the Ukrainian one and it has a healthy democracy. Although most of the successor states that emerged from the breakup of the Soviet Union experienced sharp economic contractions, only Ukraine has an economy that is still smaller than it was in 1992. Complicating matters even further are the tensions between its western and eastern regions, with the former looking more towards Europe for its future and the latter, with its sizeable Russian-speaking population, remaining close to Russia.

Many of Ukraine's problems are of its own making, but hovering over everything has been Russia, doing its best to keep Ukraine weak. The Orange revolution of 2004, which seemed to promise so much, ended in failure, recrimination and bitter disappointment. Whenever Ukraine threatened to slip out of its control, Russia would increase the pressure, including cutting off natural gas supplies in 2005 and 2009. But the protests in Maidan Square seemed to mark a new chapter; people demanded a fresh beginning, a clear choice of Europe over Russia. It was

⁶ See a BBC report on Ukraine, which includes some comparisons with Poland, "Ukraine Was In Crisis Long Before The Protests", February 21, 2014. <http://www.bbc.co.uk/news/business-26297539>



too much for Putin. (There is also the view that the last thing Putin and his circle wanted on their doorstep was a popular uprising against a corrupt and repressive oligarchy.)⁷

Ukraine has stood firm. It elected a new President with a decisive majority. Its government is making the right noises about moving quickly on long-overdue reforms.⁸ It has made its determination virtually irrevocable with the signature of political and economic agreements with the EU. The greatest riposte to Russia – and the result that Putin no doubt fears the most – is to make good on its promise to improve the lives of its citizens. Now, it's down to business.

The EU agreements promise considerably more than the standard measures on greater trade access and political cooperation.⁹ The EU will not only open its markets gradually over the coming years, but will also provide major support for economic transformation in Ukraine, including raising the quality and safety of its products to EU standards. Ukraine has pledged itself to adopt over time international norms on investment protection, procurement, competition policy, intellectual property and many other indicators of economic maturity, all with substantial EU training and assistance. In addition to issues of energy security, the Ukraine and EU will work on efficiency and conservation, nuclear safety and alternative technologies. Visa regulations will be eased over time along with intensified cooperation on criminal matters like money laundering and terrorism. The EU has also pledged billions in assistance over the coming years.¹⁰

Among bilateral EU donors, the Germans probably have the most to offer; it has deep expertise in public sector management issues, but it also has a vast range of institutions and foundations with long experience in fields such as democratic development, parliamentary exchanges, education, cultural interchange, scientific cooperation, media training and more. There is also considerable experience in the German private sector and its internationally active Chambers of Commerce that can be tapped to assist Ukrainian business.

International institutions are readying measures to assist the country. In addition to the IMF making \$17 Billion available to assist Ukraine, other organizations such as the OECD, the European Bank for Reconstruction and Development and the European Investment Bank are developing projects. The USA has pledged \$1 Billion in loan guarantees, \$48 Million in a crisis response package and millions more in security assistance.¹¹

⁷ In its “Corruption Perceptions Index” for 2013, Transparency International listed Russia in a nine-way tie for the 127th place in the list. <http://www.transparency.org/cpi2013/results> Although direct comparisons are difficult because of new methodologies and more countries in the survey, nevertheless Russia ranked 82nd on the list in 1999, the year that Putin became Prime Minister; he became President in 2000.

http://archive.transparency.org/policy_research/surveys_indices/cpi/previous_cpi/1999

⁸ See the International Monetary Fund Release of April 30, 2014 issued after they had approved a \$17.01 Billion economic support package, Press Release No. 14/189

<http://www.imf.org/external/np/sec/pr/2014/pr14189.htm>

⁹ See Endnote 3 above

¹⁰ See EU Publication “Support Package For Ukraine”, March 5, 2014.

http://europa.eu/newsroom/files/pdf/ukraine_en.pdf

¹¹ See “Fact Sheet: U.S. Assistance to Ukraine”, issued by the White House on June 7, 2014.

<http://www.whitehouse.gov/the-press-office/2014/06/07/fact-sheet-us-assistance-ukraine>



There is, by any standards, a full array of measures to help Ukraine weather the storm with Russia, offset the costs of the turn towards Europe, and manage the transition to a more open, prosperous and free country. The short-term costs will be high and there is always the risk of backsliding, both by the international community and by Ukraine itself, but the political will is there (at least for now) and people seem eager to get on with the job.

RUSSIA, OR THE SPY WHO WENT BACK INTO THE COLD

It is reasonable, when looking at President Putin's actions, to ask what his strategic objectives are, the "end game", the place he wants Russia to be in 10 or 20 years. The short answer is he doesn't really seem to have one other than to reconstitute a virtual Soviet Union, a sphere of influence that will make Russia once again a superpower to be reckoned with. But that seems more an impulse than a plan, and his actions in Ukraine will make it harder, rather than easier to achieve.

In fact, there is something oddly retrograde in Putin's behavior, not just the politics but also the swagger. There's more than a hint of the former Cold War KGB spy in the way he seems to view everything as a zero sum game – your gain is my loss. It is a truism of contemporary politics in advanced countries, especially in Europe with its bloody history, that nations are better off when their neighbours prosper and are at peace with each other. But Putin, with his anachronistic idealization of the thrusting nation-state, clearly prefers a weak, semi-failing Ukraine on his doorstep rather than a successful country that can look both West and East.

Putin's approach to Russia's relations with NATO is a case in point. When the Soviet Union collapsed, Western policy makers saw NATO as a way to reach out to Russia and establish a new relationship with mutually beneficial cooperation political and security interests. From the beginning, this goal was complicated by NATO's other policy objective of offering membership to former states of the Soviet empire in Central and Eastern Europe. When the two objectives came into direct conflict, it was usually the Russians that had to back down. President Yeltsin put up with it because he saw little alternative to greater cooperation and, besides, Russia was in a state of chaos. When Putin took over, he too was reasonably accommodating including allowing, in the aftermath of 9/11, American use of Central Asian air bases to pursue their war against the Taliban.

Then, with the second round of NATO expansion over Russian objections, Putin's attitudes began to harden. There were efforts to improve dialogue, but much of that was wishful thinking. With his election victory in 2004, Putin felt more secure politically and Russia itself was emerging from its various economic catastrophes as a significant global economic force, especially in the energy sector. His disaffection with NATO and the "cooperation: agenda came to a head with Putin's blistering attack at the Munich Security Conference of February, 2007 on US Foreign Policy, NATO, the OSCE and the unipolar mentality that did not treat Russia with sufficient regard.¹² President Obama's efforts to improve the political atmosphere by hitting the "reset" button with Russia brought some easing of tensions but, in all essential ways, Putin had

¹² For an excellent summary of the steps--and missteps--in the NATO-Russia relationship up to 2008, see Smith, Julianne "The NATO-Russia Relationship: Defining Moment or Déjà Vue", a paper published by the IFRI and CSIS, November, 2008.

http://csis.org/files/media/csis/pubs/081110_smith_natorussia_web.pdf



decided on a new course for Russia; greater insecurity in Europe and elsewhere is an acceptable – perhaps a welcome – cost of pursuing great power status for Russia.

His one success so far in this crisis has been the annexation of Crimea. Despite the rattling of a few (very small) sabres, he has probably gotten away with it. Analysts point out that delivering on his promises to Crimea will turn out to be very expensive,¹³ but that carries little or no weight within Russia itself. A substantial number of Crimeans identify more with Russia than Ukraine. It is also true that Russia has critical strategic interests in maintaining control of its Black Sea fleet. No one accepts the manner in which it was done, but no one has had any plans for reversing the annexation. President Poroshenko, with his initial successes against the rebels, says he will retake Crimea, but it is hard to see how he can do that without inviting a full Russian military response. Score one for Putin and Russia.

From there, it starts to go downhill.

Politically, it is tough to be a great power at the table if you are not even at the table. Russia's exclusion from the G-7 meetings this year may seem relatively trivial, but those things matter. Back in the days of the Soviet Empire and Cold War competition around the globe, Soviet leaders had their own sizeable international audience to play to, but those days are over. Putin appears to have thought his annexation of Crimea would bring considerable acclaim as a brave move against Western imperialism, but it hasn't; leaders around the world are not rushing to support countries that bite off a chunk of territory from their weaker neighbours. China's abstention on the UN Security Council vote condemning the referendum in Crimea can, when seen against the background of China's votes on some other Western-backed resolutions, be seen as diplomatic support for the resolution.¹⁴

The Eurasian Economic Union – first proposed by Kazakhstan's President Nazarbayev 20 years ago – was supposed to be a pillar of the new, powerful Russia, a reconstitution of the former Soviet economic space (with a few missing pieces like the Baltic States) with enormous energy and other resources to exploit. Even before the Ukraine crisis, it was looking shaky on economic grounds alone; now, even though Russia, Belarus and Kazakhstan signed the treaty on May 29, 2014 bringing it into effect in January 2015, current and potential members worry it is more political than economic, a vehicle for Russian irredentism and not regional economic advancement.¹⁵ The biggest setback by far is the loss of Ukraine to the EU "sphere"; Putin has overplayed his hand and the Eurasian Union, his great hope for a counterweight to the economic might of Europe, the USA (and, unspoken, China) looks pretty anemic.

¹³ See Bush, Jason "Factbox-Costs and benefits From Russia's Annexation Of Crimea", Reuters Edition: UK, April 8, 2014. <http://uk.reuters.com/article/2014/04/08/uk-ukraine-crisis-crimea-costs-factbox-idUKBREA370NY20140408>

¹⁴ See, for example South China Morning Post, "Russia Isolated As China Abstains in UN Security Council Vote on Crimea", by Agence France-Presse, March 16, 2014. <http://www.scmp.com/news/world/article/1449547/russia-isolated-china-abstains-un-security-council-vote-crimea>

¹⁵ Initial Russian plans saw the Treaty as containing major political elements, but other members succeeding in restricting the document to economic issues, paring it from 2,000 pages to 600 pages. See "Eurasian Economic Union (EEU) planned as political bloc according to Kazakh official", reprinted on Borderlex from Business New Europe, <http://www.borderlex.eu/eurasian-economic-union-planned-political-bloc-according-kazakh-official/>



Economically, energy has been the trump card for Putin; the fact that a number of EU states are largely dependent on Russian gas has dampened European enthusiasm for strong economic sanctions. This will, however, be a short-term “victory”. As it did in 2005 and 2009, Russia has shown itself to be an unreliable supplier, willing to use commercial contracts as political weapons. EU nations now seem determined to develop measures to counter their reliance on Russia. The EU is “re-exporting” to Ukraine some of the gas it buys from Russia, despite the cries of anguish from Russia. The Baltic States and Poland are intensifying efforts to boost their capacity to import liquefied natural gas (LNG) from other countries. The relatively high price for LNG is forecast to decline over the next decade as new sources, including shale gas in the USA, expand. Ukraine is planning to invite foreign participation in its gas transmission and storage sector, which should make it more productive and efficient. The development of shale gas in some European countries is hotly debated, but Ukraine itself seems determined to develop its own shale reserves, estimated to be the third largest in Europe. Germany is putting in place extensive measures to improve energy efficiency and expand its use of renewable energy.¹⁶ If only some of what is being discussed moves forward – and that is always a big “if” – then the energy picture in Europe could look very different in 5-10 years’ time. And if Iran gets back into the world energy market in a big way, that could further upset Russian calculations that their energy supremacy gives them the upper hand in any conflicts with European countries.

The EU also has leverage over the proposed South Stream pipeline that would carry Russian gas from the Black Sea through Southern and Central Europe to Italy. The project is strongly supported by the countries that would benefit from the pipeline’s construction as well as the gas. The European Commission, however, has said the Gazprom monopoly violates EU competition policy in the energy sector. Bulgaria stopped construction June 6 on the project to meet EU demands that the project not go ahead until the legal and regulatory issues are settled, but it is not at all clear how long the EU can delay the project. The Russians are saying it can meet any objections and the project will go ahead; the Austrian deal between its largest energy company OMV and Gazprom signed on June 24 was seen as a blow against any purported EU solidarity, but the Austrians acknowledge that any future actions must be compliant with EU policies and so there is still considerable EU authority over the entire project.¹⁷

The energy deal Gazprom signed with China was touted as an example of how Russia was immune to Western threats of energy diversification. The details are not public, but experts treat Russian claims that the terms are at least as good as those they have with EU countries with skepticism.¹⁸

¹⁶ For a concise overview of the energy diversification issue, see the written testimony of Amos J. Hochstein, Deputy Assistant Secretary for Energy Diplomacy, before the Senate Committee on Foreign Relations, July 8, 2014.

<http://iipdigital.usembassy.gov/st/english/texttrans/2014/07/20140708303543.html>

¹⁷ Serbia, Hungary and Austria announced plans July 8, 2014 to defy the EU “stop work” order and resume work on South Stream. EU reaction has been muted so far, and it is not clear how much would actually be done if the EU holds fast to its objections to the project. See Associated Press story “EU’s united front on Russia falling amid gas needs”. http://www.washingtonpost.com/business/eus-united-front-on-russia-falling-amid-gas-needs/2014/07/08/ff6cab82-0683-11e4-9a71-264773a2ffc8_story.html

¹⁸ See Bloomberg story “Gazprom’s China Gas Price Said To Be Near German Level”, July 3, 2014. <http://www.bloomberg.com/news/2014-07-02/gazprom-gas-price-in-china-deal-said-to-be-near-germany-s-level.html>



Finally, the crisis with Ukraine will not help Russia deal with its own economic woes.¹⁹ The first sets of sanctions may have looked mild, but their effects have been considerable; foreign investment is down, many plans are on hold and potential investors are leery of the direction the country is taking. External debt markets have been largely closed to Russian companies since Crimea. In the short term, growth will be even lower than the already poor forecast; the new, tougher sanctions aimed at specific sectors could throw the economy into a period of contraction. Higher interest rates have been necessary to defend a falling ruble and inflation is rising. Putin believes the state can make up for the shortfalls; state enterprises now account for over 50% of the economy by some estimates, up from 30% when Putin took office as Prime Minister in 1999. The popular support Putin receives at home could dissipate when the economic costs of fulfilling his promises to Crimea come due. The longer-term prospects are not bright either. The IMF says that Russia has not done enough to integrate itself into the global economy, at a cost to its productivity, competitiveness and prospects for growth.²⁰ If relations with the West deteriorate further, even without the imposition of tougher sanctions, international confidence in Russia as a destination for investment and technology transfers will erode, with serious consequences for the health of the country.

A further blow was the July 28 ruling by the Permanent Court of Arbitration in The Hague ordering Russia to pay \$50 Billion to the former majority owners of Yukos Oil Co.²¹ The Court ruled that the Russian State had dismantled Yukos for illegitimate reasons rather than for the stated reason of tax evasion. Russia will appeal but, even if it loses, it is unlikely to pay the penalty. Nevertheless, the decision is bad for Russia's economic health: it will only increase foreign investor fears about the lack of a fair and functioning system of justice in Russia; and Rosneft, the Russian oil company, and Gazprom both benefited from the forced sale of Yukos' assets and they may be liable to actions in foreign jurisdictions to recover some of the money owed to Yukos' owners.

As Russia is learning, interdependence cuts both ways. Putin brought greater discipline and predictability to the Russian economy (though they still have a way to go) but that has also meant greater integration into the global economy.²² While he may succeed in the short-to-medium term in increasing European dependence on Russian gas, that also increases Russia's vulnerability to changes in the international energy market, including new sources, lower prices, and an economic downturn with reduced demand in their foreign markets.²³ The Russian oil

¹⁹ For a useful survey of some of the challenges, see Bloomberg, "Putin Under The Spotlight", reprinted in Business Report, June 29, 2014. <http://www.iol.co.za/business/companies/putin-under-the-spotlight-1.1711342>

²⁰ For a useful and concise summary of the IMF's report on Russia, see IMF, "Russian Federation—Concluding Statement for the 2014 Article IV Consultation Mission", April 30, 2014. <http://www.imf.org/external/np/ms/2014/043014a.htm>

²¹ See "Yukos Owners Win \$50 Billion in 10-Year Fight With Russia" Reznik, Irina, Meyer, Henry and Morris, Jessica in Bloomberg News, July 28, 2014. <http://www.bloomberg.com/news/2014-07-28/yukos-owners-win-50-billion-damage-award-vs-russia-gml-says.html>

²² Russian exporters are clearly worried about sanctions that would target specific economic sectors. See Itar-Tass "Russian exporters fear sanctions, ask for revenue insurance—deputy minister", July 8, 2014. <http://en.itar-tass.com/world/739518>

²³ Although the collapse of the Soviet Union may have many different causes, there is a strong argument made by some that the single greatest blow was the collapse of its foreign markets for oil, in part because of a drop in world prices and in part because the Soviet Union couldn't afford to subsidize the price any longer and its clients in the Soviet sphere couldn't afford world prices. For an insider's view, see the



and gas sectors accounted for 70% of total exports and 52% of total Russian Government revenues;²⁴ the overwhelming bet that Putin has made on rising demand for Russian energy at high prices could, in the absence of economic reforms elsewhere in the economy, prove disastrous at some point in the future.

THE ROAD AHEAD

The immediate challenge is to get out of the current situation with as little bloodshed as possible and with reasonable prospects that relations with Russia will become more manageable and predictable, if not good. There is a feeling that the Russian business community is “getting the message”.²⁵ It is not clear what is going on in the inner sanctums of the Kremlin, but any easing of the current tensions by Russia will be due to economic realities finally beginning to sink in. Some Russia watchers believe Putin is “looking nervous” but that is no guarantee that he will be searching for a way out of this mess.

Two institutions are key players to watch —Gazprom and Russian television, both very close to Putin and both central to the way he has played his hand, both domestically and abroad. If their unrelenting hard lines continue, then it will be seen as signs that Putin will not back down. But, if the domestic propaganda throttles back a little and Gazprom becomes more reasonable in its demands on Ukraine, then it could signal that Putin too wants to find a way out of the current situation.

It may not, however, be an easy exit. While it is unquestionable that Russia has supported and sponsored the separatists in eastern Ukraine, this does not mean they can easily get that particular genie back in the bottle. There are plenty of examples around the world of countries sponsoring violent uprisings in neighbouring countries only to see their control over events slip away as the insurrections take on a life of their own. There is an interesting paradox: if Putin can call the separatists off, enforce a ceasefire and support effective negotiations towards a solution, it shows he has been without doubt the driving force behind the violence; if he cannot get them to stop, then he has lost much of his value as a force to be reckoned with on Ukraine.

The Malaysian Airlines tragedy brings this into sharper focus. The evidence so far points to the plane being shot down by a surface-to-air missile fired from rebel-held territory in Eastern Ukraine. OSCE-led efforts to secure the site, transport the victims home and investigate the event were frustrated by the rebels, deepening the sense of loss and shock. We may never know exactly what happened; the likeliest scenario at the moment is that a rebel anti-aircraft crew, using either captured missile systems or ones provided directly by Russia, made a mistake and thought they were firing at a Ukrainian military plane.²⁶ The Russian propaganda machine’s

speech by former acting Prime Minister of Russia (1991-1994) Yegor Gaidar to the American Enterprise Institute, “The Soviet Collapse”, April 19, 2007. <http://www.aei.org/issue/foreign-and-defense-policy/regional/europe/the-soviet-collapse/>

²⁴ See U.S. Energy Information Administration report on Russia, revised March 12, 2014.

<http://www.eia.gov/countries/cab.cfm?fips=rs>

²⁵ See the Wall Street Journal story of July 5, 2014 “Russians afraid of expanded Western sanctions over Ukraine”, reprinted in The Australian. <http://www.theaustralian.com.au/news/world/russians-afraid-of-expanded-western-sanctions-over-ukraine/story-e6frg6so-1226978215332?nk=54f8593e2f28334809cc0ac461cbb306>

²⁶ For a useful summary of the military factors surrounding the downing of MH 17, see Cordesman, Anthony H., “The Downing Of The Malaysian Airliner: Avoid Rushing to Judgment”, Center for Strategic



efforts to explain the tragedy away as the result of Ukrainian Government actions may go down well at home but simply disgust the rest of the world.

The Independent newspaper reported that a deal was being worked on by Chancellor Merkel of Germany and Putin that would involve major concessions on both sides. It would go something like this: Russia stops all support for the rebels and Ukraine agrees not to apply for NATO membership; the international community would recognize Crimea's independence and subsequent decision to join Russia and Russia would pay Ukraine \$1 Billion in compensation for rent foregone for the Russian naval base in Crimea; Ukraine would be offered a long-term agreement with Gazprom for gas at a stable price; Russia would not interfere in Ukraine's trade and economic relations with the EU. The report was denied by the German Government and a British Foreign Office spokesman is reported to have said that, were such a deal tabled, it would be unlikely that the USA and UK would recognize the annexation of Crimea.²⁷

Short of an outright defeat of Putin and the rebels, there will have to be a deal that allows Putin to back off while declaring a victory to his audience at home. The alleged plan with Merkel may be "on hold" or may not even exist in fact, but the elements of the "plan" are the kinds of trade-offs that may be needed to pull back from the crisis. And, despite the obvious misgivings raised by such trade-offs, on balance this kind of package would be a significant defeat for Putin.

On the other hand, Putin is raising the ante with greater support for the rebels, whether to strengthen his position in eventual negotiations with the West or because he is determined to see the crisis through to the end on his terms alone. If he decides to increase his military support further, he could initiate a series of provocative steps to "protect" ethnic Russians from Ukrainian forces such as the insertion of Russian "peacekeepers" between the rebels and the Ukrainian military or the establishment of Russian "humanitarian corridors" into the region. At that point, the downward spiral may be unstoppable.

Let's assume, however, that somehow a way is found out of the current crisis. What then for the longer term?

The first thing to recognize is that, for us, the relationship with Russia is not a zero-sum game. True, there will always be people who see relations with Russia in Manichean terms, but that is not where the policy decisions are made. Russians do feel aggrieved at the fall in their global status and resent deeply the kind of triumphalism we have sometimes seen in the past regarding the disintegration of the Soviet Union. On a very human point, it is with noting that, when the Soviet Union broke up, 25 million Russians found themselves living "abroad". NATO has, at times, been maladroit in its handling of relations with Russia and its Secretary General's comments in the early days of the crisis made it sound like war was just around the corner. Greater sensitivity towards understandable Russian concerns will be important. At some point, we will once again have to consider ways in which to engage Russia constructively in European and global security architectures.

and International Studies, Washington D.C. <http://csis.org/publication/downing-malaysian-airliner-avoid-rushing-judgment>

²⁷ See Pagano, Margareta "Land for gas: Merkel and Putin discussed secret deal could end Ukraine crisis", The Independent, July 31, 2014. <http://www.independent.co.uk/news/world/europe/land-for-gas-secret-german-deal-could-end-ukraine-crisis-9638764.html>



Second, as a corollary to the first point, we have no interest in driving Russia down. The Russian economy is in no danger of collapsing, but the events of the last six months – combined with their own economic mismanagement – could do major damage to Russia. If Russia does pull back in the coming days and weeks, it will be more because of the costs to their economy than to any desire to re-establish cooperative relations with the West. And those costs flow directly from the degree of Russian interdependence with the global economy that has developed over the last 20 years. We should press on with efforts to diversify the sources of energy in Europe while also encouraging Russia to modernize and broaden its economy. A prospering Russia tied into the global economy is in everyone's interest. This will not be easy with Putin in charge, but the economic problems he faces will limit his options for further provocations and, besides, leaders do change.

Third, Ukraine has to shake off its recent past and get on with its reforms. It is considered unlikely that Putin wants to annex parts of eastern Ukraine but the troubles there will not simply melt away. The Ukrainian Government will have to develop realistic plans quickly for greater political autonomy in the east, something that President Poroshenko has said he wants to do. Without a satisfactory political settlement for the east, Ukraine will find it difficult to proceed with its reform plans for the country as a whole. Quite separate from the eastern crisis, there will also be entrenched interests that try to undermine any challenges to the status quo. There has always been a hope that a prosperous and democratic Ukraine could sit comfortably between Western Europe and Russia: as utopian as that may sound now, with a combination of good policies and good luck that idea might take root sometime in the future.

Fourth, the European Union faces a test of its capacity in making good on its agreements with Ukraine (and Moldova and Georgia). The risks of political confrontation with Russia will not go away any time soon; the “demonstration effects” of an EU failure would suit President Putin's ambitions for his own Eurasian Economic Union. The EU has taken on a massive project in Ukraine and the risks of failure are considerable. The political and economic agenda is ambitious and could easily overwhelm Ukrainian capabilities, even if there is strong support in the government and the population to move forward. Despite the risks and misgivings, however, the commitment of the EU is genuine and deserving of support.

And fifth, although we have not discussed specific USA policies, we see once again that American engagement in Europe remains critically important. American sanctions and continuing pressure on Russia have been important in moderating Russian behaviour, but they have also helped prod the EU into more concerted and robust positions. America's influence in the world may be declining, but it remains the only essential country.

► About the Authors

Gary Soroka, born in Montréal, was educated in Canada and the University of Edinburgh where he received his PhD in Political Philosophy. He joined the Department of External Affairs in 1976, and served at Headquarters in the Political and Strategic Analysis Division, the Cabinet Liaison Division, the Policy Planning Secretariat, the Personnel Bureau and the Consular Policy Division.

He became Director of Political and Security Policy in the Policy Planning Bureau in September 1993, and senior policy advisor in 1995.

Dr. Soroka has served abroad in Canadian Embassies and Consulates in Washington, New Delhi, London, San José Costa Rica and Berlin. In 1986-87, he was the Canadian Exchange Officer in the Australian Department of Foreign Affairs in Canberra, Australia.

Dr. Soroka spent most of his career within the Department as a specialist in the area of foreign policy: he worked on four major foreign policy reviews during his career as well as on many specific policy issues. In 1990, he was brought back from India on special duty to develop the central concepts for a major review of Canadian security policy. In 1993, he was brought back from London on special duty to work on a task force looking at the role of, and appropriate structures for, a forward-looking, relevant and adaptable foreign ministry. In 1993, he was awarded the first ever Minister's Award for Foreign Policy Excellence.

Dr. Soroka was one of the Department's lead foreign policy speechwriters, and he has written many speeches for Canadian Prime Ministers, Foreign Ministers, Ambassadors and senior officials on diverse foreign policy subjects.

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