

# The Ukrainian Week

International edition

#10 (92) October 2015

The threats of continued  
neutrality policy for Ukraine

Political landscape and voter  
preferences in Dnipropetrovsk Oblast

How immune Ukraine is to upcoming  
new trade embargo from Russia

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ТИЖДЕНЬ







## BRIEFING

# Dead Heat in Normandy

Alla Lazareva

**I**t came as little surprise that the briefing that was to include Hollande, Merkel, Poroshenko, and Putin at the end of the Paris conference was cancelled. A French journalist writing about the Normandy talks called it a dead heat: “Nobody was prepared to compromise and no one got that what they had come for.”

The first to leave the Palais de l’Élysée was Russian President Vladimir Putin. Looking pale and pissed off, he scrambled into a car with a Russian flag and sped away, not even glancing at the journalists waiting there.

Some 10 minutes later, Ukrainian President Petro Poroshenko emerged, pleased and smiling, waved his hand at the journalists, and sped off in his car. Half an hour later, the press found out that Poroshenko had orga- »

PHOTO BY UNIAN



nized his briefing at the Ukrainian Embassy in France, but only for the pool that had come with him from Kyiv—at exactly the same time as France’s François Hollande and Germany’s Angela Merkel were holding their briefing at the Palais.

Since even Harry Potter could not have attended both events at the same time, the world press was left little choice. Meanwhile, Putin was prepping “his” journalists at the airport. So, what does it mean when the four participants in negotiations all address their own media at the same time? One thing only: that they did not agree on the positions that were strategically important to each of them.

To some extent, this is all to the good. Putin was clearly avoiding the press because there was nothing to brag about regarding his current pet project, Syria. “I told Putin pretty clearly that in Syria only ISIS positions should be bombed, and no other ones,” Hollande told his briefing. Neither he nor Merkel admitted immediately that the negotiations over Ukraine also concerned Syria. Both leaders came in with agreed positions and tried initially to bluff that there was no connection between the two wars. But that didn’t work. Under pressure from journalists, they each hesitated and then admitted that, yes, each party spoke its piece and reached no conclusion.

Like Putin, Poroshenko decided that it would be best to avoid a confrontation with his western colleagues in a public forum, most likely because of the slippery concept of an amnesty for all participants in the local elections in the occupied territories of Donbas and its sensitivity for domestic Ukrainian politics. Possibly Ukraine’s president wasn’t too happy to admit to the world why he agreed to this amnesty on these very terms.

The other element that is very troublesome for Ukraine was brought up by Hollande—the sequence of the processes. First, elections, then returning territory, and finally control over the border. How voters are expected to freely express their will under the muzzles of cannons is hard to imagine. This is also more in line with the illogical order proposed in the February Minsk accords and pressed for at that time by Moscow. For Kyiv, it would be far more strategically rational to do the opposite: regain control over the border, remove all Russian military and arms, and then hold elections.

The other aspect that is strategically important for Kyiv is voter lists on the occupied territories. If only those who have physically remained on the territory currently under Donetsk and Luhansk People’s Republics (DNR and LNR) go to vote, the “separatists” will win for obvious reasons. So Ukraine considers it critical to allow all the IDPs who are temporarily living elsewhere in the country to vote. It’s hard to know how this crucial issue was treated in the latest Paris talks.

Indeed, Hollande and Merkel were so pleased in discussing the prospects for elections that it looks as though these very hypothetical elections are the only, teeny-tiny step forward in the Minsk process, which has been frozen in time and space. But even this is all relative.

“How confident can anyone be that the Russian side will uphold any agreements?” writes Le Monde’s Benoit Vitkine with little conviction. Such doubts are more than legitimate. Those in Donbas who took power at gunpoint would rather jump in the river than organize

elections according to Ukrainian law. The Verkhovna Rada can, of course, pass the law and set the clock ticking the countdown for the mandatory 90 days to the actual vote. But there are no guarantees that occupied Donbas and Putin who, according to Hollande, “to some extent represented DNR and LNR in Paris” will join this new game according to Ukrainian rules. Words, words, words... Putin’s eloquent absence at the press conference makes them quite unconvincing.

This explains why Putin left the talks in an angry rush. He is now faced with a fairly difficult challenge: to demonstrate real control over the situation in Donbas. He has to force Oleksandr Zakharchenko and Ihor Plotnysky to change their minds about the “elections” planned for October 18 (in DNR) and November 1 (in LNR)—which will be anything but straightforward. The monster that Russia has created in Eastern Ukraine is not one that can easily be domesticated.

How the Kremlin autocrat handles the challenge of delaying these elections will tell the rest of the world what his real influence over the Donbas militant leadership is. The Morel Plan proposed accepting the “elections” planned in DNR and LNR by nominally giving them democratic legitimacy through the visible presence of Ukrainian and international observers would have suited Russia far more. But it looks like Hollande and Merkel agreed to forget about this plan. In any case, there was absolutely no mention of it at the post-conference briefing.



## **FOR KYIV, IT WOULD BE STRATEGICALLY RATIONAL TO REGAIN CONTROL OVER THE BORDER, REMOVE ALL RUSSIAN MILITARY AND ARMS, AND THEN HOLD ELECTIONS**

Perhaps the only consequence of this meeting of the Normandy foursome of any value to Ukraine is the clear message from Merkel and Hollande: any fake elections in the occupied territories will not be recognized or legitimized by the West. This very mild support for Kyiv and the 25th line in the sand with Russia. Piffle, you say? Aw, c’mon, it’s kind of nice!

The second specific result of the talks is, of course, Merkel’s and Hollande’s clear refusal to agree to an alliance with the Syrian dictator, closing their eyes to the many crimes of his regime, as Putin has been insisting. “Europe needs to clearly show Putin that Ukraine’s independence, its free choice and territorial integrity will not be exchanged for Russian assistance with Bashar al-Assad,” writes former Le Monde manager and one-time Kyiv correspondent Natalie Nougayrède in The Guardian. “Russia’s steps in Syria cannot be rewarded by tolerating its aggression and compromising Europe’s security architecture.”

This minimum will hold. We should assume that nothing more was ever expected from the Normandy format. The European Union Statutes does not say anywhere that two of the 28 member countries are authorized to carry out any representative steps in the name of the entire union. And so the Minsk accords hang on the good word of those who negotiated it. How good this word is—each side can draw its own conclusions. ■

# The Next Weakness to Exploit

Edward Lucas

**T**he biggest mistake we can make in dealing with Vladimir Putin is to believe that he thinks the way we do. Seen from outside, Russia is in a dire state and the Russian president is to blame. He has failed to diversify the economy away from natural resources, to modernise the state, or to integrate the country into the outside world. He launched a costly and unsuccessful war in Ukraine, which has turned Russia's biggest friendly neighbour into a wounded and resentful foe. Now he is starting a new military adventure in Syria, sending east-west relations into the deep freeze and attracting the ire of Sunni Muslims across the world.

His personal reputation for truthfulness and even sanity is in shreds. Angela Merkel, the German leader, says he inhabits another world. His diplomatic isolation at international gatherings is palpable. Even Russians privately roll their eyes at the personality cult stoked by the fawning official media. Meanwhile the European Union has brought a snarling Gazprom to heel, sanctions are biting, the low oil price is taking its toll, and NATO is mustering a decisive military response to the Kremlin's sabre-rattling towards the front-line states.

In short, time is on our side. Sooner or later he will be toppled or be forced to change course. Russia will then become a country we can do business with. We need strategic patience and a dose of con-



tainment, but there is no need to panic. If he does anything really bad we will cut him off from the SWIFT international financial-transactions system, bringing Russia's economy to a grinding halt.

All this is true, but the real picture is different. Mr. Putin does not judge himself by Western standards, but by those of his alma mater, the KGB. The only rule is to exercise power by finding other people's weaknesses and exploiting them. Setbacks can be blamed on someone else, endured or simply ignored. Reality is something you create in other people's minds with fear and lies.

His first target is always Russian public opinion. The soap opera in Ukraine is over, at least for the current season. The heroic separatists, their evil fascist foes, and the cynical Western meddlers have been retired. The new entertainment is a thrilling and exotic epic set in Syria, with the Assad regime as the heroic defenders of civilised values, Russian their valiant allies, and the West as the defenders of jihadist barbarians. The most important thing is to reduce the conflict to a binary choice between the regime and ISIS, in which the West will inevitably be forced to side with Russia.

His second target is the West. He does not want to destroy it (his money is there). Nor can he af-

**THE WEST COULD GIVE PUTIN REAL PROBLEM WITH WIDESPREAD WITHDRAWAL OF VISAS FROM THE RUSSIAN ELITE, OR ASSET FREEZES AND MONEY-LAUNDERING INVESTIGATIONS**

**Foreign Policy** writes that Russia's military operation in Syria is linked to the conflict in Ukraine, so the situation there cannot be left out of sight even if Donbas is quieter. The publication quotes OSCE monitors who report increasing militant forces in Donbas and assumes that Putin will try to use the truce to undermine the arguments of those Europeans who support tougher sanctions on Russia. **Politico** says that Russia's military operation in Syria does not mean that Putin intends to forget his No1 concern – Ukraine. Quite on the contrary, the Russian President will attempt to use the situation in Syria to reinforce his position on the international arena, which will inevitably affect the developments in Ukraine. "In the short term, Vladimir Putin's air offensive in Syria will help Bashar Assad retain power. But in the long term, it seems Russia's presence there is a bargaining chip," Moscow-based contributor to **Politico**, Alec Luhn comments. "Putin has already ended Russia's diplomatic isolation over Ukraine and scored a meeting with Barack Obama. What's being discussed behind the scenes? Tacit recognition of Russia's interests in Ukraine? An end date for sanctions? It's all suddenly on the table now," he adds.

ford a full-scale confrontation. But he can divide us, influence us and outmanoeuvre us. He sees the fault-lines—between countries and inside them—more clearly than we do. We assume our political, economic and security systems are fundamentally resilient and that despite problems we will muddle through as we always do. He thinks the era of Western ascendancy is over; time is on his side.

Some moves by the West would give him real problems: the widespread withdrawal of visas from the Russian elite, and their spouses, siblings, parents and offspring, for example. Asset freezes and money-laundering investigations would hurt even more, especially if the bankers, lawyers and accountants concerned could be induced to switch sides and explain how and where the money is hidden.

But he knows the West will not do this. He thinks we are ruled by greed, not principle. Perhaps he is right. ■

# A Deeply Resented Term

Michael Binyon

What the term “finlandization” means in the West and modern Finland.  
How possible is the peaceful co-existence of the Cold War time in the modern world



**Special "friends".** After Stalin, soviet leaders often visited Helsinki. On every such visit, they heard nice speeches addressing Brezhnev or others

**A**fter the Second World War Stalin was determined that no military threat would ever again come from the West or from any country bordering the Soviet Union. And to enforce this policy, Moscow imposed communist governments on all those countries liberated from Nazi occupation. The result, as Churchill noted with alarm in 1946, was that an “iron curtain” had descended across Europe “from Stettin in the Baltic to Trieste in the Adriatic”.

Yet throughout the Cold War there remained one country, with a capitalist economy and a Western lifestyle, that shared a long border with the Soviet Union, yet which co-existed with its giant neighbour in apparent harmony for more than 40 years. It was never invaded — unlike East European countries rash enough to challenge Soviet domination — and was never formally allied with Moscow, either militarily or economically. That country was Finland.

At its height, the Cold War divided Europe into two. Western, and especially American, politicians

took the view that Russia’s neighbours were “either for us or against us”. And when they looked at Finland, they decided that successive governments in Helsinki were allowed relative freedom only because they had voluntarily and supinely emasculated themselves by giving in to Soviet power in all but name. In 1961, a West German academic, Richard Lowenthal, coined the term “Finlandisation” in the wake of the Berlin crisis, to warn about the Soviet Union’s efforts to gain influence in Europe by the same oppressive methods that they used on Finland. And from then on, the word became a political insult, used to deride countries that refused to stand up for their own rights.

The Finns deeply resented the term. They insisted it was wrong. They argued that Finland was not a Soviet satellite and that their policies were the only ones possible that would guarantee their freedom and Western way of life. The price, Finns agreed, was to remain permanently neutral in every sense, not joining any Western alliance against Moscow or allowing their territory to be used for any movement seen as



anti-Soviet. They went further: Finland never publicly denounced Soviet policies, never voted against Russia at the United Nations and never allowed its press and political figures to speak out against Soviet communism. Any Soviet defector who made it to Finland was promptly sent home again.

The arguments continued for decades. But when the Soviet Union collapsed, Finland's policies changed. It no longer isolated itself from its Western neighbours. It joined the European Union. It co-operated with NATO (though did not join the alliance) and allowed much greater freedom of speech to its press and politicians. It dismantled the system of bilateral trade with Russia. And at the same time it used a web of good neighbourly relations, built up over many years, to take swift advantage of the new opportunities to invest in Russia and expand its cultural and economic influence into the Russian heartlands. The policy, long derided by Finland's Western neighbours, had been a success, Finnish politicians argued.

Was it a viable policy? And could it now be applied to other countries, such as Ukraine, that are in deep conflict with Russia?

In discussing finlandisation, two important things must be remembered. First, Finland had indeed attempted to resist Soviet military expansionism. In 1939 it fought the Winter War against Russia, and, to the amazement of outsiders, briefly held the Red Army at bay. But by 1940, the Russians, hugely outnumbering the Finns, prevailed. They forced a peace treaty on Helsinki under which Finland lost some 11 per cent of its territory to the Soviet Union. It was a bitter peace for the Finns.

The second consideration was that Finland briefly and short-sightedly allied itself with Nazi Germany in the effort to regain its territory. That alliance was doomed. Finland was again defeated in the so-called Continuation War and lost the sympathy and support of Western friends. When the Second World War ended, it was therefore left to deal with the Russians on its own.

Helsinki's solution—to placate Moscow and to renounce any policy that might provoke a hostile Soviet reaction—was worked out by the government of President Paasikivi, who signed the treaty of Paris with Russia in 1947. The following year he signed a treaty of friendship with Moscow—which gave so many assurances that Stalin did not see any need to impose a communist government. Finland was left alone. Finns felt they had escaped. The treaty became a cornerstone of national policy, and was vigorously upheld by President Kekkonen, who during his long rule assumed responsibility for relations with Moscow and vigorously championed Finnish neutrality.

To the outside world, it looked as though Finland was firmly in the Soviet orbit. The Russians thought so too, and frequently trumpeted the example of Soviet friendship with its non-communist neighbour to impress Europeans and the Third World that the Soviet Union was not an aggressive power and believed in peaceful co-existence.

But in staking so much on this propaganda victory, the Russians fell into a trap. After Stalin, Soviet leaders frequently visited Helsinki. Each occasion was marked by fine speeches and praise for Brezhnev and

others. But quietly, away from the headlines, Finland vigorously resisted all Soviet attempts to meddle in Finnish affairs. The Finnish communist party was isolated. Its links with Moscow were exposed. And whenever Russia pushed too hard, the Finns threatened to reveal this pressure to the world—which would show Moscow's boast of friendship to be a lie. On one famous occasion Dmitry Ustinov, the Soviet defence minister, privately proposed during a session in the sauna with Kekkonen that Soviet and Finnish military units should exercise together. Kekkonen's furious response was said to be unprintable. Nothing was said in public. But the Soviet proposal was never put forward again. Russia could not afford a public quarrel with "friendly Finland".

To bolster its domestic freedom, Finland built up a web of economic contacts that became more and more essential to Russia. As the Soviet economy stagnated in the 1970s and 1980s, Finland supplied all the essential Western consumer goods that the Soviet system was unable to produce. In return for energy, ships and raw materials, Finland supplied Russia with everything that its consumers demanded. The trade was in roubles, so that Moscow did not need hard currency. By the mid-eighties, Finland had become Russia's Hong Kong, as essential to its economy as the former small British colony was to communist China.

Could the example of Finland work for Ukraine? There are many similarities. Both were once ruled by Moscow. Both have fought disastrous wars

## **FINLAND NEVER PUBLICLY DENOUNCED SOVIET POLICIES, NEVER VOTED AGAINST RUSSIA AT THE UNITED NATIONS AND NEVER ALLOWED ITS PRESS AND POLITICAL FIGURES TO SPEAK OUT AGAINST SOVIET COMMUNISM**

against Russia and suffered defeats. Both know that they are condemned to live next door to a large, sometimes paranoid, bully.

If the example were to be tried, it would have to work in the way the Finns made the policy work for them, and not become the complete surrender to Moscow's dictates which is how many outsiders saw finlandisation. This means, above all, that Ukrainian public opinion has to be fully united, that Russia is given no splits or internal divisions which it could exploit and that Ukraine has to be so much further advanced economically that Russia becomes dependent on its trade and good relations. None of those things seem at present to apply to Ukraine.

Finlandisation remains a policy that worked just for one country—Finland. It led to some things considered ridiculous nowadays—Moscow insisted that even such gestures as spitting at Russia across the border was a criminal offence. But in the end, Finland learnt that Moscow leaders hated to lose face. And by playing down differences, standing firm and united and offering themselves as mediators in Soviet foreign policy, Finland got what it wanted—its own way of life. There doesn't seem much prospect of that now happening in Ukraine. ■

# Neutrality, Ukrainian-Style

Bohdan Yaremenko and Oleh Bilokolos, Maidan of Foreign Affairs

What dangers does it represent to Ukraine?

First having appeared back during the early years of the Cold War, in international politics the term “finlandization” meant a country that maintained neutral status and fostered equal, neighborly and mutually beneficial relations with all countries and blocks.

After 1945, Finland established this kind of relationship with Western Europe, the USSR and the socialist camp. In actual fact, some analysts recognize the condescending aspects of this term as it meant, in the case of Finland, a de facto voluntary restriction on the country’s own sovereignty, including in the foreign policy sphere. There is even evidence that it had to prohibit anti-soviet campaigns — which meant censorship. Some sources even suggest that there were times when Moscow actively interfered in Helsinki’s domestic policies.

Today, some western experts are so determined to not annoy or calm Russia down that they are proposing in various guises that Ukraine take on neutral status, claiming that there is supposedly a “tradition of close Ukrainian-Russian relations” and some kind of “historical, legitimate” Russian interests.

## THE BALD TRUTH ABOUT FINLANDIZATION

Clearly, this kind of Ukrainian-style finlandization would amount to capitulation to the aggressor, a complete ban on accession to NATO, a freeze on relations with the EU at the level of the Deep and Comprehensive Free Trade Agreement, and even then there would be exclusions, restrictions and amendments, Moscow’s right of veto on any foreign policy steps on the part of Kyiv that it claimed might potentially be anti-Russian in nature or that Russia simply deemed in conflict with its real or imagined interests. In effect, this would lead to the ultimate loss of Ukraine’s European prospects and would leave the country a satellite of Russia, which is precisely what Ukrainian students began protesting against in November 2013 and which was the catalyst for the Euro-maidan and the Revolution of Dignity.

Subsequently, Russia would trample any presence or interests on the part of western countries in Ukraine, not only in the foreign policy sphere, but even at the level of trade, investment, access to capital, technology and so on. In fact, this would be less about “voluntary” restrictions on certain foreign policy decisions, but about simple vassal status, transforming Ukraine to a Russian market and a colonial economy.

What’s more, this dependent status in relation to its northern neighbor in no way suggests that security threats from Russia will be removed or even minimized for Ukraine. The best examples are Belarus and Kazakhstan, countries that are Russia’s military and political allies, yet simultaneously have to counter in-

formational, propagandistic, economic, expansionist and security challenges coming from Russia.

Kyiv clearly needs to unambiguously reject these worthless concepts meant to isolate Ukraine in a grey zone at the edge of Europe and to impose “limited sovereignty” of a pro-Moscow type on Ukrainians at the beginning of the 21<sup>st</sup> century. Indeed, it needs to underscore that the Putin Doctrine considers the territorial integrity and sovereignty of weaker states a matter open to deal-making by stronger ones. The Kremlin considers Ukraine a non-state that cannot and does not have any right to seriously count on Moscow’s adhering to any commitments or treaties it signs.

The Russian Federation has already ignored and violated an entire series of its own international legal multilateral and bilateral commitments regarding Ukraine and has no reason to change this approach as long as it suits its leadership. Indeed, this is typical of both soviet and contemporary Russian foreign policy, of which the Budapest Memorandum of 1994 is only the most obvious example.

This means that, regardless of any possible guarantees to the contrary, Moscow will undoubtedly constantly interfere in Ukraine’s internal affairs as well



**THE MAIN THING FOR UKRAINE IS NOT TO GET CAUGHT UP IN STRANGE FORMATS AND STATUSES, BUT INSTEAD TO PRESENT A TRULY STRATEGIC VISION OF ITS OWN EXTERNAL POLICIES AND TO FINALLY BEGIN FUNDAMENTAL, VALUES-BASED REFORMS**

and will attempt to influence them to be to its own benefit, regardless of the context. Suffice it to objectively compare the historical development, experience and contemporary state of Ukraine and Finland to see enormous differences. And yet, some in the West and Russia, consciously or otherwise, not only distort historical facts but are even trying to use such distortions to deceive the world community and Ukrainians.

## COMPARING FINLAND AND UKRAINE

It is well known that Finland was part of the Russian empire as an autonomous republic. Unlike Ukraine, however, it never had the same specific — one might say even sacred and mystical — significance for Russia. During the Civil War of 1918 and the Winter War of 1940, Finland was well and truly “vaccinated” against Russia. And it was during the period between 1918 and 1940 that Finland formed itself as a political nation. For the Finns, memories of their army’s successful resistance against soviet forces and the expe-





**High alert.** Jarmo Lindberg (left), the commander of Finland's defense forces, Margot Wallström, Sweden's Defense Minister, Carl Haglund, Finland's Defense Minister, King Carl Gustaf and President Sauli Niinistö observe the EU crisis management military exercise in Finland

rience of national unity and combined forces to resist a foreign aggressor are incredibly important.

In his memoirs, Carl Gustaf Mannerheim (1867-1951), Marshall and Commander-in-Chief of the Finnish Armed Forces, wrote: "Closing ranks at a time of danger, the Finnish people won the right to continue to live an independent life in the community of free nations." In Ukraine, by contrast, the process of forming a contemporary unified political nation continues to this day. Moreover, it is taking place with great difficulty and pain.

Other differences between the two nations include:

- Unlike Ukraine, Finland is an economically developed country with strong democratic traditions, a multi-party system with a matching political culture, fully functioning state institutions that have been entrenched through daily practice, a free press, and a strong civil society.
- Although a group of pro-Russian sympathizers developed in Finland during the post-war period of active economic cooperation between the USSR and Finland, it has never had any decisive influence over policy. By contrast, Moscow has always used economic relations and specifically the energy component as a kind of whip in its relations with Ukraine and a powerful pro-Russian industrial lobby has continued to exert excessive influence, especially in Eastern Ukraine.
- Unlike Ukraine, Finland has no aggressive pro-Russian and anti-Finnish minority poisoned by the propaganda of Russki Mir.
- Unlike Finland, Ukraine suffers from widespread corruption, including political corrup-

tion that has been cleverly taken advantage of in the past by Putin and will indubitably continue to be so.

- Based on available information, it is safe to assume that should Moscow resort to military aggression, Helsinki can count on support and active assistance from its Scandinavian neighbors, including military support. Finland is also a member of the Nordic Defense Cooperation or NORDEFCO, which includes Sweden, Norway, Denmark, and Iceland. The annexation of Crimea by Russia pushed Finland and Sweden to agree on deeper cooperation in the defense sector in May 2014, as regards infantry, aviation, navy, logistics and secured communication.
- Finland closely cooperates in many ways with NATO, which considers the country "one of our most active and closest partners." Against the background of Russia's aggression against Ukraine, Helsinki and Stockholm agreed in 2014 to continue to expand their relations with the Alliance, declaring these "special."

Finally, unlike Ukraine, it is clear that Finland, being a member of the EU since 1995 and part of the Euro zone since 1999, has long been an integral part of policy in the West, which will allow it to be neither occupied nor defeated by Russia. So Ukraine can take advantage of the current interaction between Finland and NATO as a basis for a common vision of priorities and threats and, most of all, not to get caught up in all kinds of strange formats and statuses that some quarters are trying to impose upon Ukraine. The country needs to present a truly strategic vision of its own external policies and to finally begin fundamental, values-based reforms. ■

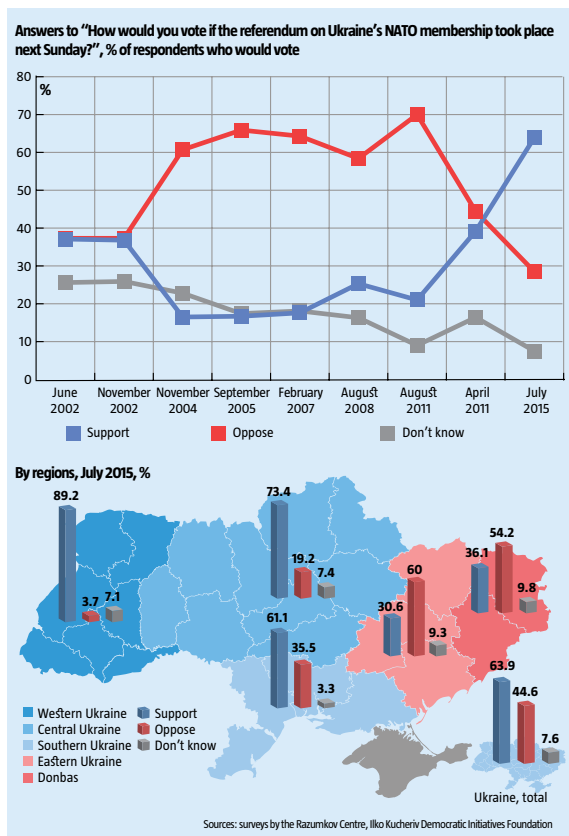
# Life on the Frontline

Oleksandr Kramar

## Alternative security guarantees for Ukraine

**T**hough actively promoted recently, the idea of finlandization is not viable for Ukraine, as it doesn't serve the interests of any of the parties. First of all, it will not make Moscow happy. The common belief that it will is probably based on rational thinking, while the motives of today's Russian elites are mostly irrational. The difference in Moscow's perception of Finland and Ukraine is that the former has always been seen as something nearby but entirely alien. In the case of Ukraine, the concept of "Ukrainians and Russians as one nation" and Ukraine being "not a state" but a "bur in the saddle" that has led to the "division of the nation" and was a "farfetched design of geopolitical enemies" prevails in Russia.

Therefore, the current Russian political elite cannot see Ukraine as a buffer or as neutral territory. In fact, Ukraine already was largely finlandized in the 1990s and 2000s. Most of the local economic and political elites preferred the status quo of sitting of two stools. They benefitted from remaining in the post-Soviet gray area that allowed them to imitate pro-European and pro-NATO activities while staying in soft dependence on Russia.



After Putin's rise to power, it was Moscow that started sending signals that the status quo could no longer be preserved and pressing for Ukraine's reintegration into its neo-imperial project. Just a few months after Viktor Yanukovich, then Premier, formed his Cabinet in November 2002, Moscow began to proactively impose on Ukraine the concept of the Common Economic Space. The goal of the future integration within CES would be free circulation of goods, labor force and services, as well as exemption of customs duties between Russia, Belarus, Ukraine and Kazakhstan. The Russian side did not hide the fact that it wanted ruble to be used as the CES's single currency. The Top Level Group that was in charge of Ukraine's preparations included Mykola Azarov who was Vice Premier and one of the key lobbyists of Eurasian integration for Ukraine at that point. The deal to set up the CES was signed on September 19, 2003. Pressed by Moscow and the Yanukovich-Azarov Government, the Verkhovna Rada ratified it on April 20, 2004, six months before the upcoming presidential election that would trigger the Orange Revolution. It was with the signing of the CES Agreement that Moscow made its first serious provocation threatening Ukraine's territorial integrity: the Russians began to build a dam to link the Ukrainian island of Tuzla to the Russian Taman peninsula and annex it in that manner in September 2003. The move triggered resistance and pushed Ukraine in the opposite direction. Therefore, a discussion of opportunities, advantages and disadvantages of finlandization for Ukraine would be similar to suggesting the idea to Hitler for Austria or Czechoslovakia as an alternative to Anschluss and dismemberment in 1938. Moscow may only be interested in finlandization and similar interim options as temporary scenarios for the time it needs to find some ultimate solution for Ukraine issue. Nor can finlandization diffuse tensions in the Kremlin and win time—something many in the West expect. The Kremlin's only interest is in scenarios aimed at weakening Ukraine in the long run and making future takeover easier, so it will not tolerate internal consolidation or reforms in Ukraine. Finlandization will be tolerated for as long as Moscow sees it instrumental in discrediting Ukraine as a failed state and improving chances for a comeback for a pro-Russian puppet regime.

The ultimate goal of such policy is the Anschluss and complete elimination of Ukrainian statehood, followed by a fundamental transformation of Europe's geopolitical arena. If Moscow succeeds at annexing Ukraine, the battleground will automatically move to Central Europe, and eventually to the whole of Europe.

### TOO MUCH

For Ukraine, finlandization is unacceptable for two reasons: it is much harder to implement in the modern Ukrainian realm than it was in Finland and it poses far greater dangers to the statehood of Ukraine.



Unlike Finland, which always had a clear national identity that Russia could not destroy even in the times of the Russian Empire, Ukraine is only in the process of building one. Moreover, this nation-building process is largely based on the concept that “Ukraine is not Russia,” which the Russian aggression has lately made all the more relevant. The Kremlin has undoubtedly played a major role in the shaping and evolution of Ukrainian identity, especially for the Russian-speaking Ukrainians and Ukrainian citizens of Russian descent. Finlandization of Ukraine in such an environment would mean degrading this catalyst and undermining the nation-building process.

The problem of Ukraine is that a large percentage of both its citizens and its political and economic elites after the collapse of the Soviet Union played the role of a fifth column, seeing themselves as part of the Russian, and not Ukrainian political nation. It is not about geopolitical choice of Ukraine between Moscow and, say, Washington, Brussels, or Berlin. It is about the political choice of a part of its society and elites to be aligned with Moscow rather than Kyiv. This is a major difference between the modern Ukraine and the late 20<sup>th</sup>-century Finland, which only had the choice of geopolitical orientation on the agenda, but not informational and ideological expansion, russification, intrusion of the Russian Church, etc. In the case of Ukraine, these are the key items on Moscow's agenda. Thus, Moscow is now unlikely to abandon its plans of internal political subordination of Ukraine by bringing to power its more or less covert agents of influence that would usurp power, undermine Ukraine's constitutional framework at Moscow's instructions, and

make the finlandized Ukraine ever more dependent on Russia. All of the above has already happened under Viktor Yanukovich.

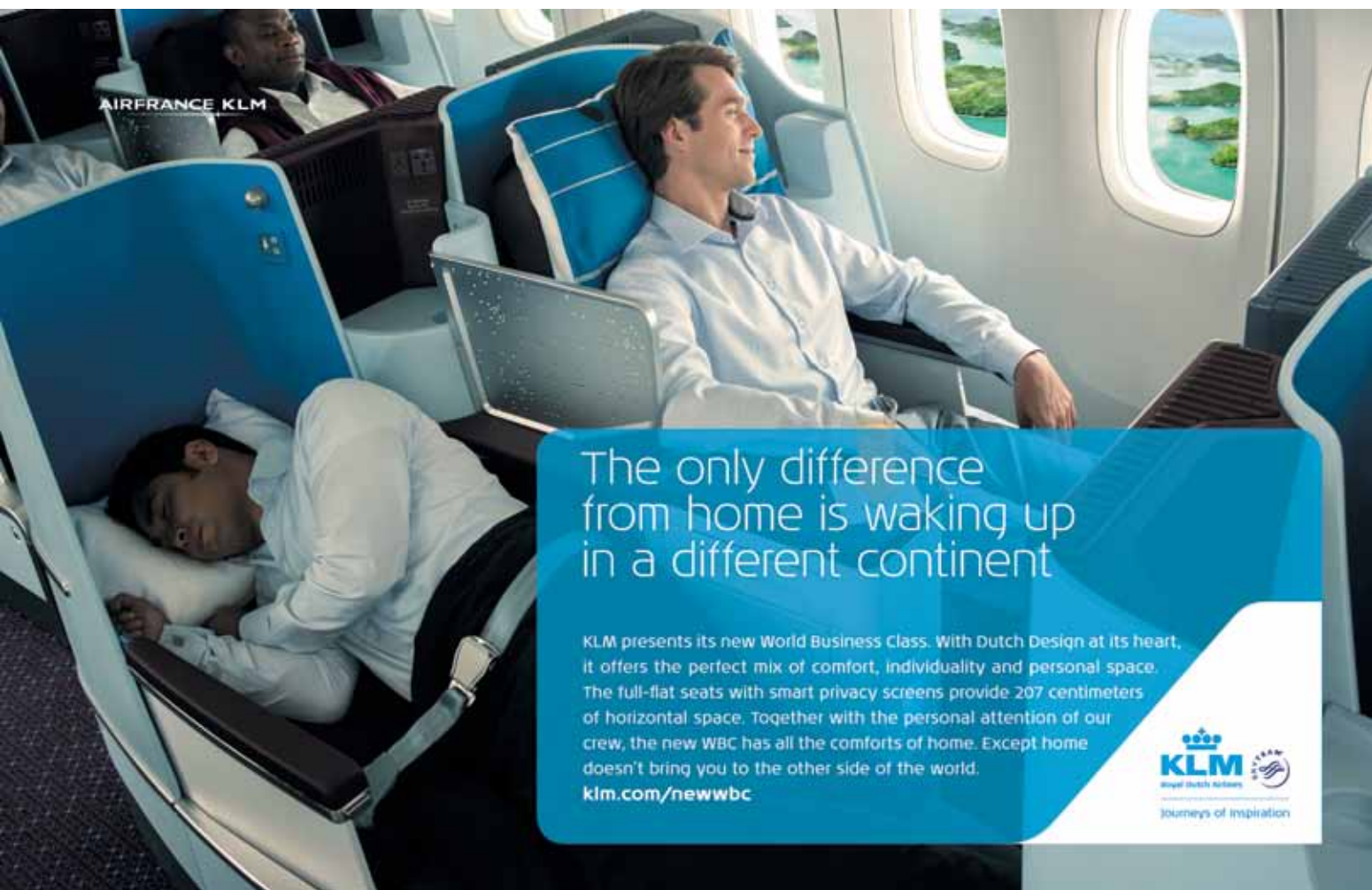
The concept of finlandization implies the absence of politicians and political forces from the Ukrainian parliament and mainstream politics that irritate Moscow, perceived by it as anti-Russian, nationalist, etc. A large part of today's Ukrainian political spectrum whose rhetoric enjoys support of the most of Ukraine's population, effectively meets under these criteria. Popular support for these forces is unlikely to wane; quite on the contrary, it

**UNLIKE FINLAND, WHICH ALWAYS HAD A CLEAR NATIONAL IDENTITY THAT RUSSIA COULD NOT DESTROY EVEN IN THE TIMES OF THE RUSSIAN EMPIRE, UKRAINE IS ONLY IN THE PROCESS OF BUILDING ONE**

will grow if Ukraine is offered any options of “limited sovereignty”. Any attempts to eliminate or suppress them by force will result in a new wave of destabilization at home. This is probably what the Russian lobbyists of finlandization are counting on.

Finally, to accept finlandization, Ukraine should lose the war and suffer the relevant psychological wreckage from the defeat. Otherwise, society will simply reject this option as unnecessary capitulation and betrayal of national interests by the government.

There are no forces today that could curb the national sentiment and its military wing inside Ukraine in the long

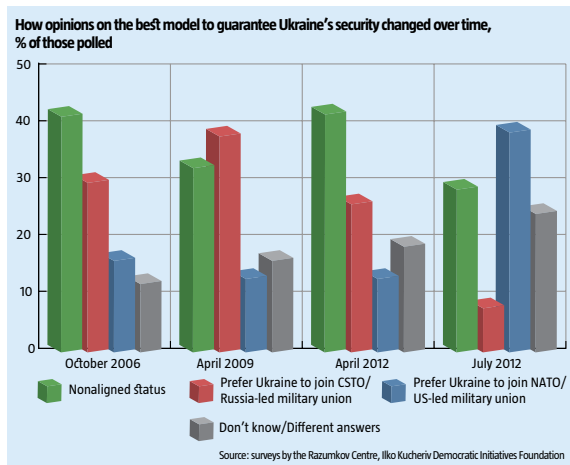


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run. Any foreign intervention to that end would mean the end of the finlandization format and raise the issue of preserving Ukrainian statehood. This brings to mind Soviet interventions in Czechoslovakia and Hungary in 1950-1960s, followed by the establishment of totalitarian regimes in these countries.

If Ukraine is defeated in the war, Russia will no longer be interested in finlandization. Instead, it will demand the establishment of a pro-Russian regime, the removal of barriers to Russian media and ideological expansion, renunciation of the Association Agreement and the Free Trade Agreement with the EU, conservation of Soviet technical standards in the economy, and gradual involvement in Russia-led satellite alliances, such as the Eurasian Economic Union, Collective Security Treaty Organization, and the like.

### AN ALTERNATIVE

In today's situation, the idea of finlandization has no grounds in Ukraine. Too many changes have happened in the recent years in Ukraine's perception of Russia and its role in Ukraine. The country is moving in the opposite direction, actively redeveloping and shedding its residual economic dependence on Russia, while preparing to contain Russian aggression. The West should focus on supporting Ukraine as an outpost, as it was the case with West Germany, South Korea, or Taiwan.

For a long time, most Ukrainians believed that neutrality could guarantee their security and help avoid a confrontation with Russia. Back in 2012, Ukraine's non-aligned status was supported by 42% of respondents surveyed by the Razumkov Centre, a sociology research company. The Russian aggression has dispelled these illusions and radically changed the way Ukrainians perceive Russia.

In a survey conducted in July 2015 by the Ilko Kucheriv Democratic Initiatives Foundation and the Razumkov Centre, NATO membership supporters outnumbered those who preferred a nonaligned status. 64% of respondents told the pollsters that they would support joining NATO for Ukraine if a referendum on that took place, while 28.5% said they would vote against. A regional snapshot of public opinion on the issue in the survey made by Rating Group Ukraine in August 2015 showed that in the oblasts, the share of NATO supporters is larger than the share of its opponents not only in the West, but also in Central and Southern Ukraine. The East is the only part of Ukraine where the opponents of

Ukraine's NATO membership outnumbered the supporters by 1.5 times.

Even if NATO is not ready for Ukraine's entry in the coming years, it is unlikely that sufficient arguments can be found to convince Ukrainians that military-political neutrality, which has proven completely useless in defending the country from aggression, will manage to guarantee security in the future, especially when Russia's leadership remains unchanged.

Ukraine's new Military Doctrine approved by the National Security Council on September 2 and signed by President Poroshenko on September 24 is also not in line with the concept of finlandization. It defines Russia as Ukraine's top military opponent, identifies the high probability of large-scale use of Russian military force against Ukraine as the main threat to the national security, renounces nonalignment, reaffirms Ukraine's strategic course for the Euro-Atlantic integration, and subordinates military policy and industry to the concept of curbing the Russian aggression. The Doctrine identifies possible scenarios of a conflict with Russia, including a full-scale Russian offensive using ground, air and naval forces, also from the territory of Transnistria. Given the Russian threat, military infrastructure of the Ukrainian Armed Forces is planned to be concentrated in the eastern and southern regions, rather than in the Center and in the West, as it is today.

One of the priorities set for the reform of Ukraine's Armed Forces is improving operational and technical interoperability with NATO forces, reforming the security system to a level acceptable for EU and NATO membership, and achieving full interoperability with NATO forces by 2020. The emphasis is made on developing Ukraine's military industry in cooperation with Western countries and replacing production chains previously tied to Russia. However, the Doctrine states that in the

### THE WEST SHOULD FOCUS ON SUPPORTING UKRAINE AS AN OUTPOST, AS IT WAS THE CASE WITH WEST GERMANY, SOUTH KOREA, OR TAIWAN

medium term, Ukraine will only rely on its own resources to protect its sovereignty. Defense expenditures are set at at least 3% of GDP, which is much higher compared to NATO member states.

Preparations for the complete implementation of the FTA with the EU, regardless of Moscow's threats of a trade embargo against Ukraine, indicate that the concept of finlandization has also lost firm ground in the trade and economic areas. Following recent negotiations with the Russian delegation, Ukraine's Foreign Minister Pavlo Klimkin stated that most Ukrainian exporters "are looking to enter new markets rather than relying on the Russian market, because they believe that politically motivated decisions of the Russian government do not give reasons to expect any predictable economic measures to be taken by the Russian Federation in the future." The share of Russian exports in the Ukrainian export structure has decreased to 12.7% since the beginning of 2015, and this share is bound to shrink in case of further trade restrictions. By way of comparison, the share of Finland's exports to the Soviet market exceeded 20% during the heyday of its cooperation with the USSR in the 1970s and 1980s. ■



# How to Avoid a “Global Minsk”

**Maksym Bugriy** Research Fellow, International Center for Defense and Security in Estonia

In the run-up to the opening of the current session of the UN’s General Assembly, Vladimir Putin made a predictable statement presenting his views of the Euroatlantic security system. Among others, he believes in the “indivisibility of security” and the impermissibility of supporting “state coups.” This idea of a new world order was presented in more refined language in an article by former Russian Foreign Minister Igor Ivanov, who said that the next session of the UN General Assembly could initiate a world conference similar to the “post-revolutionary” Vienna Congress of 1815. Would Ukraine then face the threat of a “global Minsk agreement”? Can Ukraine counter this with the alternative strategy of becoming a member of NATO?

There are no easy answers to these questions. A new “Vienna Congress” is highly unlikely to be convened just now. Russia’s military conflict with Ukraine has placed all international security treaties under question, especially those in which the Russian Federation is supposed to participate. Moscow is prepared to use energy and even financial leverage to pressure both Kyiv to accept a ban on NATO membership and to slow down integration into the EU as much as absolutely possible. Despite its optimistic messages, the Government in Kyiv knows Ukraine’s economy is very dependent on Russia’s, which makes the latter’s pressure on it real and painful.

Ukraine’s Euroatlantic integration options also need to be looked upon with caution. Unfortunately, the major NATO countries, especially Germany, have not changed their positions regarding Kyiv’s membership in the Alliance. This was made amply clear by a recent statement by Germany’s FM, Frank-Walter Steinmeier: “I can see Ukraine working with NATO as partners, but not membership.” The Spiegel article went on to muse, that, while NATO membership is generally supported “by the Baltics and Poland, it’s hard to see what benefit Ukraine might bring to the Alliance.”

For this very reason, the official policy of the Poroshenko Administration and Government is completely appropriate. After all, Ukraine is a recipient of aid and a partner to the Western world and security system, but not a member on any level. The issue is not about insurmountable civilizational factors, but about stereotypes and about the lack of progress in the country’s institutions. In its new National Security Strategy, Ukraine properly states, “... institutional weakness, lack of professionalism, the unbalanced structure of government agencies in the security and defense sectors, ...lack of resources, and the inefficient use of resources...”

Yet another source of risk that Russia is in a position to take advantage of is to attempt to renew the debate on whether to join NATO or not. This would likely radicalize public opinion in Ukraine. For political reasons and sometimes for lack of professionalism, some Ukrainian political forces tend to interpret the



provisions of the Budapest Memorandum as legal international guarantees. Quite possibly, this is happening because the international security system is still seen, not as the result of agreements and a balance of powers and interests, but as similar to the Warsaw Pact, with the US and NATO expected to replace the USSR in subsidizing security in Ukraine. In fact, Ukraine has plenty security partners today; it just doesn’t have a single state ally. The fair assertion that the Armed Forces of Ukraine are holding back Russia’s aggression is offset by widespread strategic belief in the West that the Russian war



## THERE’S NO POINT IN KYIV ACCEPTING MOSCOW’S PROPOSAL—PROMISING THAT IT WILL NEVER JOIN NATO

on Ukraine is nevertheless a limited conflict and the likelihood that “little green men” might show up in the countries of Old Europe is really rather small.

Still, leaving things with this kind of “pessimistic” view would be too lopsided. The US and the countries of Old Europe are not coming to terms with Russia’s revisionism, and so American military vessels keep visiting the Black Sea, EU sanctions continue to be in place, and NATO keeps holding large-scale exercises in Ukraine—largely for pragmatic reasons. NATO’s Deputy Assistant Secretary General for Emerging Security Challenges Jamie Shea remarked very aptly: “... Supporting Ukraine is not just a moral duty to help the country deal with challenges to its democracy: it’s also in the security interests of all members of the Alliance.”

This is precisely the kind of situation that tells Kyiv that partnering with NATO makes sense. Interestingly, Ukraine’s National Security Strategy specifies developing interoperability with North Atlantic states, help with developing Special Operations Forces, reforming security agencies, training Ukrainian officers, retraining, and so on. Beyond this, the US and NATO are avoiding direct answers about whether they would intervene in the current armed conflict should things escalate, but the option has not been completely excluded. In short, it makes sense to follow the recommendations of experts about stationing weapons with Ukraine’s immediate neighbors.

In this way, Kyiv needn’t adhere to Moscow’s propositions—guaranteeing that Ukraine would never, under any circumstances, join NATO. Still, the country could end up “Finlandizing,” as did Finland in its time, due to the unfortunate situation. But that will be a consequence of resisting aggression, not in any way signaling the end of Ukraine. In the end, this kind of security ambiguousness is better than remaining in the grey zone where Ukraine has been so far. Today, the country is a reliable NATO partner, whereas the Alliance’s partnership with Russia is pretty much dead. ■

# Henrik Meinander:

“Any kind of Ukraine’s neutrality would be a Russian-dependent one”

Interviewed by Vitaliy Rybak



**T**he *Ukrainian Week* spoke to the Finnish historian about the relations between Finland and USSR after World War II, the prospects of neutrality for Ukraine, and the future of a new Cold War.

## Did Finland have any alternative to neutrality after the WWII?

It is not an honest description to call Finland a neutral country in all respects. Finland lost in two wars against the Soviet Union, but was not occupied by the Red Army. Still, the soviet dominance was obvious in Finnish politics in the 1940s and 1950s. During those decades, Finnish politicians did not claim that Finland was a neutral country. It was only declared that Finland tried to stay aside of the confrontation between great powers.

In 1948, Finland signed a treaty with the Soviet Union by which it was obliged to defend its territory against all attacks that would be directed through Finland towards the Soviet Union. That is why Finland was not a neutral country as Sweden or Switzerland. It is really only in principle that a country can be totally neutral. In reality, it very much depends on its geographical and political position. From the 1960s and onwards, President Kekkonen was practicing a neutral policy, but there were double standards. The relations were very complicated and historians still struggle to analyze the whole thing.

## Were the Finns happy with such developments?

Apart from those many obvious problems in this neutrality, the agreement suited Finland very well. As long as Finland did not annoy Soviet Union, it was allowed to maintain its parliamentary democracy. Plus, the Soviet Union allowed it to integrate with Western Europe economically step by step. This happened very slowly as a result of a very prolonged dialog with the soviet government, but it happened. Finland was not a part of the Warsaw Pact, but it was neither a member of NATO, so it was a kind of an odd beast in the Cold War. The reason why Finland was able to remain aside was that it was actually in the geographical periphery from Moscow’s point of view.

This was favorable for the common people but had a very negative impact on our parliamentary policy, because certain parties were never allowed to run in elections. Otherwise, Finland’s economic development was happening even faster than in Western European countries. Swift industrialization took place.

PHOTO BY ANDRIY LOMAKIN

### Does the modern Finnish society feel any consequences of this Finnish-Soviet “friendship” from the Cold War times?

“Friendship” may not be the right word, but it was a kind of acceptance of each other’s security needs. Finland has accepted the fact that the Soviet Union wanted to secure Leningrad. Again, the Soviet Union had to accept that occupation of Finland would demand too much blood and efforts. So this cooperation was based on the experiences of WWII. If the Red Army had occupied Finland, the story would have been totally different.

Therefore, there was no friendship in political rhetoric. But Finnish trade with the Soviets was reasonably deeper. Until the early 1980s, 20% of our foreign trade was with the Soviet Union. Finland was buying energy, and the Soviet Union was buying all kinds of consumer goods. Those agreements were very favorable for the Finns. At the same time, there was a requirement that the Soviet Union should not be openly criticized in our media and public life. Our pro-soviet leaders were supported by Moscow and therefore remained in power. This political culture was called a «Finlandization». After the end of the Cold War many things in public life of Finland were wounded by «finlandization». All our European neighbors claimed that Finland is still being pulled down by this tradition; that it tries to avoid the criticism of Russia.

I belong to those who think that we don’t gain anything from criticizing Russia. We have the longest border with Russia compared to any country of the European Union. We had several bloody wars with Russia and this is something we don’t want to experience again. At the same time, this doesn’t change the fact that Finland is a member of the EU now, it cooperates with NATO very closely. For example, our air forces are integrated with the U.S. Air Force.

### Could «finlandization» be a viable way for Ukraine out of the conflict with Russia?

I don’t think that it is possible to export our experience to any other country. Our dealings with Russia began in the 19<sup>th</sup> century, when Finland, as well as Ukraine, was a part of the Russian Empire, but managed to maintain its Swedish societal structure. When Finland became independent, it managed to keep things going that way.

Those who are recommending Ukraine to advance the same way as Finland probably do not understand, that the cases are very different. Knowing how Russians tend to think, one can question whether they will ever let Ukraine get a position which could be called neutral. Any kind of backing off would be followed by Russian dominance, so any kind of Ukrainian neutrality would be a Russian-dependent one. If Ukraine wants to develop in the EU direction, it must continue moving this bold way you are now taking—fighting against corruption and developing a political culture where you respect different political opinions.

### So we have to continue cooperation with NATO then?

One has to keep in mind that this balancing that Finland did after WWII was possible due to its peripheral position as long as it didn’t annoy Russia. That’s not an option for your country. There is a crucial

**Henrik Meinander** is a Finnish historian and journalist. He specializes in Scandinavian history, as well as in sociology and history of art. He is member of the Royal Swedish Academy of Sciences and the holder of its Finland award from 2007. Mr. Meinander is Professor at the University of Helsinki. He is also an author of numerous books on modern history of Finland, including *A History of Finland* published in 2011 and *Finland 1944: War, Society, Emotional Landscape* published in 2009.

question: in case of neutrality how to convince the Russians that Ukraine will never be a starting point for a conflict with NATO in the future? I don’t think that is possible. Still, if Ukraine wants to stabilize its relations with Russia somehow, it should not talk about NATO membership that much.

Here you could look up for Finland and Sweden. They are technically already members of NATO. Their defense systems are well synchronized with NATO, and Russia knows it very well. But we never made a step and established this marriage official. It seems that Russia is trying to pretend that Finland has no dealings with NATO. It works for us.

Then again, Russia has experience with the Baltic States. Russia understood too late that membership in the EU and security issue goes hand in hand. It would not be realistic to think that Ukraine could become a member of the European Union without being a NATO-member, as it would not have happened in the Baltic case. There are many challenges in the current situation, but I don’t think that it would be correct to operate with the concept of neutrality.

### The current tension between Russia and Western countries is sometimes called the new Cold War? Is that correct?

Indeed, it may be called the new Cold War, but I suspect that in a few decades it will be called in a different way, because the situation nowadays is very different in many ways. During the Cold War, there

**THOSE WHO ARE RECOMMENDING UKRAINE TO ADVANCE THE SAME WAY AS FINLAND DID PROBABLY DO NOT UNDERSTAND, THAT THE CASES ARE VERY DIFFERENT**

were two clear ideological alternatives that were competing with each other. The Soviet Union was reasonably understood as a threat for the Western military power and societal model. The concept of “welfare state” was considered to be a vaccine against communistic propaganda.

Modern Russia is not an alternative for our societies. Even if Russia is involved in the Ukraine war—that is undeniable—and acts aggressively, its military force (not counting nuclear weapons) is not a threat to the West. Russia wants to give an impression that it is a great power, but has no technology and military capacity to support this claim. Russia of course will be opposed to the USA and its allies in a future conflict, but it is definitely China that will be the leader of that side. ■



# The Return of the Many-Headed Hydra

Denys Kazanskyi

The Party of Regions supposedly no longer exists in current Ukrainian politics, but it's sent several columns out to the local elections

**T**he Party of Regions is like the mythological Hydra: cut one head off and three more grow in its place. Instead of the thrashed 'regionals,' Ukrainians will be treated to three parties laced with former Yanukovych allies: Vidrozhennia (Rebirth), Nash Krai (Our Region), and the Opposition Bloc. What's more, all three have realistic chances of forming the local government in individual counties and towns.

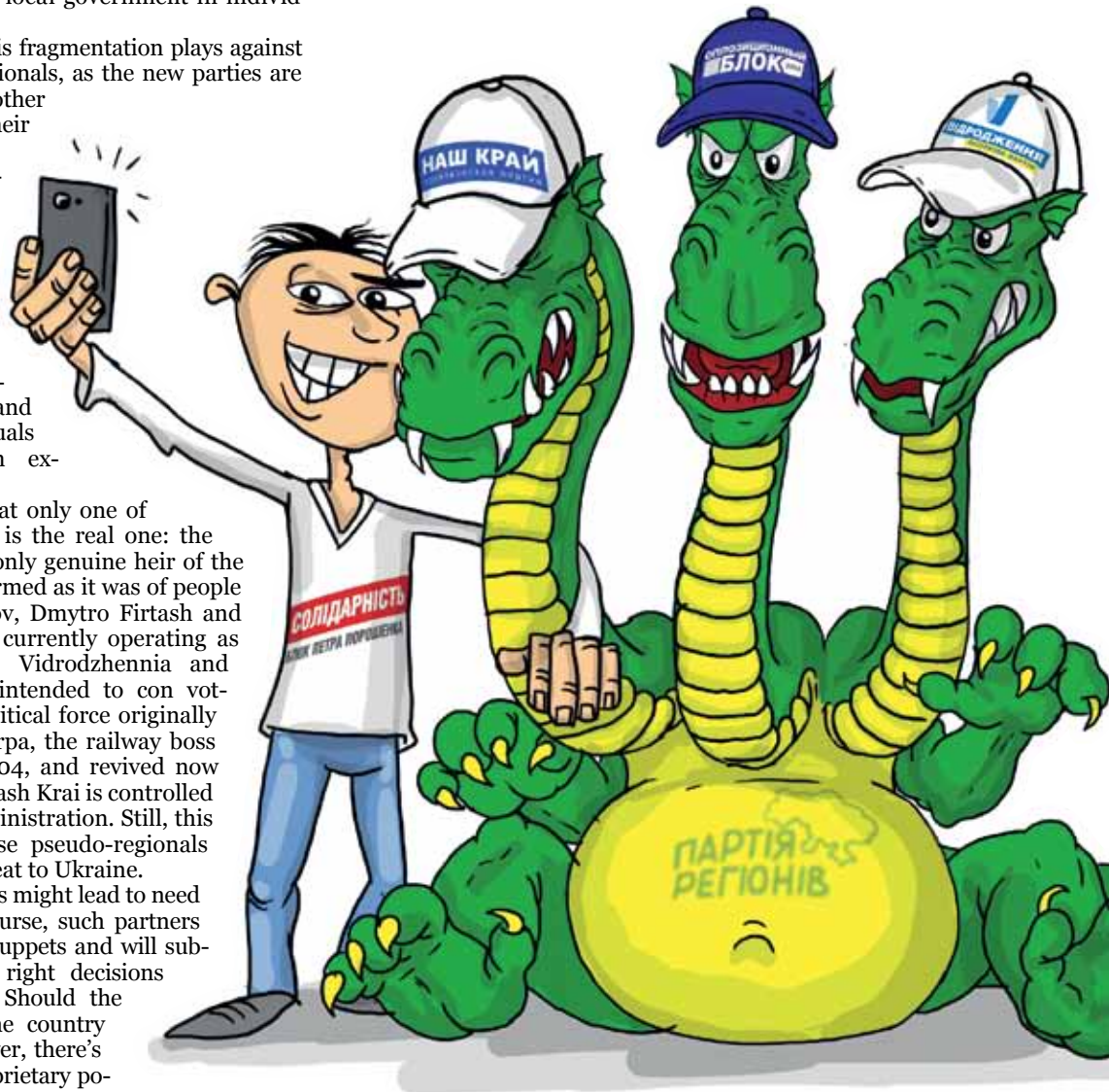
On the one hand, this fragmentation plays against the once monolithic regionals, as the new parties are likely to drown each other out and cannibalize their own electorate. On the other hand, a worrisome trend has developed. Instead of helping bury the debris of Yanukovych's party once and for all, the current administration and Ukraine's oligarchs are openly approaching regionals and to draw certain individuals into power-sharing in exchange for their loyalty.

It has to be said, that only one of the three Hydra heads is the real one: the Opposition Bloc is the only genuine heir of the Party of the Regions, formed as it was of people loyal to Rinat Akhmetov, Dmytro Firtash and Serhiy Liovochkin and currently operating as an independent force. Vidrozhennia and Nash Krai are clones intended to con voters. The former is a political force originally founded by Heorhiy Kirpa, the railway boss assassinated in late 2004, and revived now by Ihor Kolomoyskiy. Nash Krai is controlled by the Poroshenko Administration. Still, this doesn't mean that these pseudo-regionals will not constitute a threat to Ukraine.

What end such games might lead to need not be explained. Of course, such partners will likely be obedient puppets and will subserviently support the right decisions coming from upstairs. Should the political situation in the country change suddenly, however, there's no doubt that these proprietary po-

litical prostitutes will in fact run to the other camp and stick a knife in the back of their former allies. It has to be admitted that regionals are very talented at betrayal.

Vidrodzhennia is going into the election campaign under the tutelage of Kolomoyskiy's one-time deputy in the Dnipropetrovsk Oblast State Administration, Sviatoslav Oliynyk. Oliynyk himself is running for the oblast



council under its banner. The fact that Vidrozhennia's ranks are mostly filled with former regionals, including such odious politicians as Vitaliy Khomutynnyk and Kharkiv Mayor Ghennadiy Kernes doesn't seem to perturb Oliynyk in the least. As he puts it, Vidrozhennia has welcomed those regionals who were generally against separatism and consider themselves patriots, while all the "bad guys" joined the Opposition Bloc. This is being seen as a blatant lie and says a lot more about Oliynyk and his boss than about the political entity they have formed.

"With local elections happening right now, I see that the radical elements of Ukrainian society are demanding new revolutions and is saying that those now in power have failed to live up to the people's hopes," Oliynyk said in a speech at the parties congress on September 22. "Still, the Opposition Bloc is running in this election, although it has nothing to offer other than its desire for a comeback and a return to the trough. Vidrozhennia is the one party that's been able to keep the lines of communication open and to unify healthy, creative social forces."

For those who believed in Kolomoyskiy as the Patriot, this turn of events has been a very unpleasant surprise. It turns out that the tycoon has no qualms about befriending Kernes, whose hand, according to many witnesses, was deeply involved in the anti-Ukrainian chaos that took place in Kharkiv last year. In fact, he was known for a series of Ukrainophobic attacks even prior to that.

For Kolomoyskiy to ally himself with Yanukovych's former party members leads to yet another fairly obvious conclusion: the UKROP party, which has gained the trust of many ATO volunteers and veterans, and which has been proclaiming itself the party of patriots, is being managed out of the same office as Vidrozhennia. Regardless of their apparent ideological differences, the two political forces are akin to communicating vessels and those who are campaigning in their ranks actually have no ideology whatsoever.

The situation with the Nash Krai project raises even more concerns, as it is being run from government offices. In order to attract and use a part of the regional electorate in the southern and eastern oblasts, the Poroshenko team has thrown together a 7-day wonder consisting of former Party of the Regions members who were rank-and-file rather than high-profile figures. Unfortunately, they also include separatists and collaborationists. For instance, in Mariupol, the candidate for mayor from Nash Krai is the incumbent, Yuriy Khotlubey, who spoke at anti-Ukrainian rallies in the spring of 2014, issued an invitation to the Russian invaders, and cooperated with DNR militants during the occupation of his city.

Moreover, the Presidential Administration is not especially hiding its management of the Nash Krai project. At the beginning of September, Poroshenko Bloc MP Maksym Yefimov chaired the Nash Krai council in Kramatorsk and is now promoting the party on billboards. When Yuriy Lutsenko, the Poroshenko Bloc faction leader in the Verkhovna Rada, was asked about this, the one-time Interior Minister and high-profile Orange Revolution figure acted as though he knew nothing

about Yefimov's newest political favorites and promised to get to the bottom of it. That was as far as it went, needless to say.

The head of the military-civilian administration in Donetsk Oblast, Pavlo Zhebrivskiy, also makes no bones about his ties to Nash Krai and has openly expressed support for it.

"Maybe they did some things that weren't quite above-board yesterday, but today they are prepared to carry out our platform," Zhebrivskiy told journalists by way of explanation regarding his strange bedfellows. "Why not? Let's cooperate with them. Let's forget their past sins and work for the good of the country today. Because, as I've said before, there's a real shortage of smart people."

Like Kolomoyskiy's people, Poroshenko's team say that these PR clones they have set up consist of only good managers and righteous, patriotic regionals. "Imagine that there is a good, experienced and well-respected manager in a city who is ready to uphold the laws of Ukraine," Zhebrivskiy told Dzerkalo Tyzhnia with remarkable candor in a recent interview. "But he

## THOSE WHO ARE NOW IN POWER ARE REPEATING THE MISTAKES OF VIKTOR YUSHCHENKO WITH REMARKABLE CONSISTENCY, PAVING THE WAY FOR A COMEBACK OF ROGUES AND TRAITORS

was once in PR. Now somebody's ready to give him a certain niche, a chance to show what he's worth and to manage a city. This is something between the Poroshenko Bloc and PR. What you might call roughly a holding tank, a transfer point. Why? Because the government is suffering from a desperate shortage of qualified professionals."

It's easy to see what the consequences of such a devil's pact might be. What's more, given the actual state of the region, the phrase "good manager from Donbas" has a hollow ring to it, if not an absurd one. Those who are now in power are repeating the mistakes of Viktor Yushchenko with remarkable consistency, paving the way for a comeback of rogues and traitors. This is what Nash Krai is today: a political Frankenstein completely managed by and dependent on the Presidential Administration. But tomorrow, the situation could turn in such a way that the leftovers of PR will pull themselves together into a formidable force that will do everything in their power to stop Ukraine's progress, following orders from the Kremlin.

At one time, President Yushchenko kept fighting with Yulia Tymoshenko, whose power kept growing, reviving the vanquished Yanukovych with his own hands and signing the death warrant of thousands of Ukrainians. Having risen from the political grave, Yanukovych ran roughshod over Yushchenko and his "dear friends," whose numbers included the current governor of Donetsk, Zhebrivskiy.

Despite such painful experience in their past, the one-time Orange team is happily handing the ax over to Ukraine's executioners in the foolish hope that they will only use it to cut a kovbasa. ■



# A Quasi-Victory

Stanislav Kozliuk, Dnipropetrovsk — Zaporizhzhia

Despite its patriotism, the region remains a stronghold of the Party of Regions and oligarchs

**T**he comeback of the Party of Regions is possible: this is a concern shared by both activists and politicians from different camps in Dnipropetrovsk region. They believe that the reasons are many: the reluctance of Kyiv to change the old system of relations between the authorities and the citizens, preservation of the old schemes established under the Donetsk regime, economic problems, and poor choice of candidates whom the President could use to patch all the cadre holes locally. Still, the locals believe that despite their desire to return to power, the regionals will get fewer votes than several years ago.

## CEO OF DNIPROPETROVSK INC.

Dnipropetrovsk and the surrounding oblast was never an easy region. It has both large plants and small farms, and electoral preferences vary radically. Local politicians believe the east of Dnipropetrovsk Oblast to be more similar to the traditional Donbas that supports the Party of Regions, the north to Poltava, the territories adjacent to Zaporizhzhia to political preferences of Southern Ukraine, and the western districts to Kirovohrad. However, activists point out that there is no doubt as to who is the "boss" in the oblast. Despite the presence of all major Ukrainian and even Russian oligarchs, Ihor Kolomoisky is the one who has the most control, although achieving that had not been easy before volunteer battalions were established. They have provided a sort of security support to this ambition.

At the same time, locals complain that despite his ample opportunities, Kolomoisky has not changed the system that existed under the Donetsk regime. It's not that he failed: he never even tried. Officials from the Party of Regions in most cases stayed their offices. The only noticeable post-Maidan figure in the city for a while was Vadym Shybanov, acting Deputy Head of the Oblast State Administration, but he was removed by the Party of Regions functionaries following a court decision. The web of corruption that was in place several years ago is still functioning, say local businessmen. They still have to pay bribes for an "undisturbed life", as they did before, to regulatory authorities, utility providers, and law enforcement agencies. The situation did not change after the replacement of the Head of the Oblast State Administration. Valentyn Reznichenko, appointed for the post in April, also failed to turn the tide.

Civil society in the region, however hard it tries, has little to put against the system. According to local activists, there is no demand for any changes in society. They also say that there are no teams of people capable of successfully competing with the

system in the oblast. Most people that could have replaced the old cadres are busy with internal problems that push politics into the background.

Most people *The Ukrainian Week* spoke found it hard to say exactly how much the President controls the region. But all agreed that local functionaries of the Party of Regions are probably irreplaceable. Poroshenko only removed the key figures that could be replaced quickly, including the Head of the Oblast State Administration. Appointments to lower level positions are the responsibility of the head of the oblast. According to local activists, the central government resolved the situation quite simply, by instituting the posts of advisers. They were granted tacit authority, giving them control over the processes in the region. Sometimes, they were quite successful. One of the positive developments, according to activists, is the installment of e-procurement practices using ProZorro system. In Dnipropetrovsk, the city council voted down the initiative three times, while the oblast completely switched to the system on September 21. Local businesses are also interested in the system. According to activists,



**DESPITE AMPLE OPPORTUNITIES, KOLOMOISKIY HAS NOT CHANGED THE SYSTEM THAT EXISTED UNDER THE DONETSK REGIME. IT'S NOT THAT HE FAILED: HE NEVER EVEN TRIED**

the last seminar dedicated to ProZorro was attended by 450 business representatives, as opposed to 100 expected. To accommodate all visitors, the organizers had to change the venue twice.

## ELECTIONS TAINTED WITH REVANCHISM

Despite the widespread myth of Dnipropetrovsk's sudden switch to patriotism, the former Party of Regions is likely to lead in local elections, the latest polls suggest. The Opposition Bloc could win about 25% of vote. Petro Poroshenko Bloc, UKROP, Hromadska Syl'a (Civil Force) and Vidrodzhennya (Rebirth) are likely to gain seats in the city council. Vidrodzhennya party consists of the regionals and Communists and is reportedly controlled by Kolomoisky. Samopomich and Batkivshchyna parties also have chances of passing the threshold. The main contenders for the mayor post will be, predictably, Borys Filatov and Oleksandr Vilkul.

Both in Dnipropetrovsk and in the oblast, the former regionals are likely to gain the upper hand.



There are several reasons for this. The first one, singled out by most activists, is the nationwide economic downturn. Most of the population remember the days of "stability" and wouldn't mind going back in time. Against the backdrop of the economic turmoil, the former Party of Regions' oblast head Oleksandr Vilkul has more chances than Reznichenko or Filatov who came to the scene in the time of turmoil. After all, during his tenure there was "order" and "at least something was being built in the region." However, it should be remembered that large factories employing thousands are still owned by the regionals, and people's mindset would not allow to vote against their employer. In this regard, Kolomoiskiy could be better off in Nikopol (where his Ferroalloy Plant is located). Overall, the situation is painfully reminiscent of the times of Yanukovych revenge following the Orange Revolution.

Activists say that gaining such a high rating did not cost the Opposition Bloc much. Electoral moods in the region are such that the wait-and-see approach and timely criticism of the government is enough to increase the numbers of supporters. Similarly, in some regions Batkivshchyna started gaining votes by exploiting the issue of increasing utility tariffs.

By its electoral sympathies, Dnipropetrovsk Oblast takes the niche exactly between the East and West of Ukraine. The regionals, along with Vidrod-

zhennya, can get up to 30% of the vote there, but not 70%, as it used to be in Donbas. At the same time, the support for the Party of Regions and the Communist Party in Dnipropetrovsk is slowly but surely waning. Compared with the previous local elections, it is now twice lower.

There are several strange candidates as well. For instance, Viktor Marchenko, a former communist and head of the Union of Soviet Officers NGO, was recently nominated for the mayor position. This person is known for being linked to Viktor Medvedchuk's Ukrainian Choice project and for raising the Russian flag in Dnipropetrovsk in 2014. Local activists are outraged: an outspoken separatist is running for office. However, politicians assume that Marchenko is running under the tacit consent of the Oblast State Administration to dilute pro-Russian votes that would otherwise go to Vilkul.

### LACK OF COMPETITION

In Zaporizhzhia, unlike in Dnipropetrovsk, the situation is more predictable. In the absence of more or less influential business elites, almost all available space in the oblast has been taken up by Rinat Akhmetov, who moved there after the outbreak of the war in Donbas. At the time, »



Ukraine's major oligarch almost destroyed the real estate market by renting all largest office centers.

Local civic activists call the oblast "a feudal kingdom," with the representatives of a few businesses competing with each other. These include Vyacheslav Bohuslayev (a standard "red director", co-owner of Motor Sich, a top manufacturer of helicopter and airplane engines worldwide), the Kaltsev brothers (Volodymyr and Serhiy), and Yevhen Chernyak. However, they cannot compete with Akhmetov.

Nevertheless, it is fair to say that this division of interests has played a role in preventing the establishment of a "Zaporizhzhya People's Republic". At the time of Yanukovych and Co., when the region was controlled by Yevhen Anisimov, local businessmen established a media holding in an attempt to fight this protégé of the Donetsk regime in their city and to protect their businesses. It published biased articles against Anisimov, and the media scene was actually split between two camps controlled by Chernyak and Anisimov. The situation with local activists was similar: each camp had its own "tame" people to engage in rallies and protests. With the beginning of Maidan in Kyiv, the media and the activists not controlled by the regionals used the slogan of overthrowing the Yanukovych government for their own purposes: the dismissal of Mayor Oleksandr Sin and the Head of Regional Oblast Administration Oleksandr Peklushenko (both directly linked to Anisimov). Due to this war in the media, the idea of "Russki Mir" did not find enough supporters, and the functionaries of the Yanukovych regime decided to cooperate with the new government.

Meanwhile, activists complain that despite the power shift, almost all officials appointed under the Donetsk regime remained in office. Anisimov is now on the wanted list; however, reports have it that he never stopped controlling the oblast through his own people. Currently, local politicians, according to activists, are aligned with the Opposition Bloc. Party of Regions members have reserved their posts in county administrations, which, given the strong pro-Russian sentiments in the areas close to Donbas, creates certain risks. Meanwhile, according to the representatives of local political elites, in Zaporizhzhia, similar to Dnipropetrovsk, Poroshenko has no cadres to ensure the oblast's manageability.

The schemes of "cooperation" with business that existed several years ago still remain in place. Local authorities are not interested in eliminating them. They are still trying to extort money from businesses. It starts low. Say, to be able to work at a bazaar, small entrepreneurs have to pay bribes to the police department, district police officers and regulatory authorities. The total figure is around UAH 500. According to activists, the intermediaries are not to blame. It is the system that works for the benefit of current municipal and oblast authorities.

As for the investigation into the Maidan events, there has been little progress. Viktor Mezheyko was sentenced for the dispersal of protesters as a principal offender for five years, with the execution of sentence suspended for one year. Peklushenko, who was also accused of dispersing Maidan and coordinating titushky, shot himself. This scenario, however, receives little creditability.

## BUILDING A "SMALL DONETSK"

The residents of the oblast are not original in their political preferences. Similar to the residents of the neighboring Dnipropetrovsk Oblast, they will vote for the Opposition Bloc in the upcoming local elections, despite their veneer of patriotism. After all, Zaporizhzhia can be seen as the Party of Regions' backbone region, since most local factories are owned by the Donetsk clan. In the meantime, according to activists, Petro Poroshenko Bloc representatives keep their leading positions in politics. Even Hryhory Samardak, who replaced Reznichenko after his transfer to Dnipropetrovsk, joined the Poroshenko Bloc ranks. The future Zaporizhzhia city council is likely to include the Opposition Bloc, Poroshenko Bloc, Samopomich, and maybe Batkivshchyna. Instead of Vidrodzhennya, it may get a group of former regionals from Nash Kray party (a project allegedly created by the spin doctors of the Presidential Administration).

As for the mayor position, the situation is more complicated. According to local politicians, Akhmetov is trying to establish his own "Small Donetsk" in Zaporizhzhia. To this end, they say, he nominated Zaporizhstal Chief Engineer Volodymyr Buryak, a man with almost no negative record, for Zaporizhzhia Mayor, with the support of the "opposition". The election campaign is well underway, with the mayoral candidate actively manipulating potential voters. Recently, the "opposition" candidate organized a "Mega Disco Dance of the 80s" for the employees of Akhmetov's local plants, accompanied by the dis-



## ACCORDING TO LOCAL POLITICIANS, AKHMETOV, WHO CONTROLS MOST FACTORIES IN THE OBLAST, IS TRYING TO ESTABLISH HIS OWN "SMALL DONETSK" IN ZAPORIZHZHIA

tribution of campaign materials, bringing Boney M, Savage and Eruption for the nostalgic electorate. They believe that the event cost the main Donetsk oligarch just UAH 5mn.

Mykola Frolov, President of Zaporizhzhia National University, is trying to compete with Buryak. Activists believe his election campaign to be rather dull and rough. However, he allegedly has the support of Bohuslayev, who is competing with Akhmetov. Besides the above mayoral candidates, Kaltsev Senior supported by Nash Kray party also plans to run for the mayoral seat. He is not likely to win, but he will draw some of Buryak's votes. Ihor Pozhydayev, a former traffic cop, also planned to run for the Mayor of Zaporizhzhia. He even staged a long-term image campaign, but disappeared before the election.

In general, activists say, most locals want no change, while the Maidan generated more freaks than individuals capable of making a difference in the oblast. However, there are reasons to be cautiously optimistic, since both in Dnipropetrovsk and in Zaporizhzhia former officials are slowly losing popular support. Time will show whether these changes will accelerate. ■



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# Clan Wars

Denys Kazanskyi

Why the Dnipropetrovsk clan lost to the Donetsk clan and the chances of a comeback

**F**or a long time, Dnipropetrovsk claimed to be the political capital of Ukraine, just like Donetsk. At the time of independence, when the Donetsk clan was only beginning to emerge and take shape, the Dnipro clan took power into their hands and completely controlled the country for many years. As many renowned political figures as produced the Dnipro Valley, no other region of Ukraine came close. Oddly enough, neither Ukraine's first nor its second capital, Kharkiv, ever produced a clan that might compete with the provincial upstarts. The only one to challenge the Dnipro clan was the Donetsk, although their success was short-lived and their fall disastrous.

When a one-time Red Director of the largest soviet missile plant called Leonid Kuchma won the presidential race in 1994, the Dnipropetrovsk star shone brightly in the political firmament. Still, the Dnipropetrovsk clan was not monolithic. By the end of the 1990s, it had split into several large rival groups. In Donetsk, they saw this kind of splintering as a fatal flaw in the Dnipropetrovsk clans. And in the end, it did cost them their place in power, but ultimately, it also made it possible for them to remain in big politics. Yulia Tymoshenko, Serhiy Tihipko, Ihor Kolomoyskiy, Viktor Pinchuk, and Oleksandr Turchynov may have lost some of their influence, but they are still major players both in politics and in business. The close-knit nature of the Donetsk clan helped them gain absolute power in the country for a short while, but when it fell, it was like a single long domino chain: a catastrophe that took everyone in the clan down, along with the region that it came from.

There is nothing strange about the fact that it was the Dnipro clan that first established its hegemony in Ukraine. In fact, the Dnipro Valley, and not depressed, decrepit Donbas, was always the engine that drove the Ukrainian economy. In soviet times, Dnipropetrovsk grew to become the scientific and industrial heart of the union, where not only steel and heavy machinery were manufactured, but technology was king. This heavily influenced the quality of the local elite. Dnipro oligarchs and politicians were generally the offspring of wealthy families—by soviet standards—and had earned prestigious degrees in the USSR. The Donetsk clan, by contrast, was run by men from the impoverished and criminal underclass.

The peak of the stand-off between the Dnipropetrovsk and Donetsk clans was in 1996, manifesting itself in a brief but bloody gang-style war. The most high-profile of its victims was Donetsk politician Yevhen Shcherban, whose murder led to the short-lived success of the Dnipropetrovsk clan. The Dnipropetrovsk clan was in full bloom and had no trouble eliminating rivals. It seemed as though no one would be able to shake Dnipropetrovsk from its leaderboard position. Yet just one year later, Dnipro was falling

apart from within and its members began to devour one another with considerable relish.

## ENTER THE GAS PRINCESS

Having become president, Leonid Kuchma strengthened and entrenched his power. Together with him, Pavlo Lazarenko moved to Kyiv from their home town and also began his rise in power. In 1995, he was appointed deputy premier and in 1996 became premier. Lazarenko's ambitions were legend and unstoppable, turning power to gold at every opportunity. Moreover, most of his attention was directed at Donbas, where a local power clan was in the process of establishing itself.

In 1996, Lazarenko worked closely with Yulia Tymoshenko who was then in charge of Yedyni Energetychni Systemy Ukrainy (YESU), a natural gas monopoly as its name suggests. Taking advantage of its leverage within the Government, YESU soon became the biggest gas trader in Ukraine, with annual turnover of several billions of dollars. At that time, there were no dollar millionaires in Ukraine yet and this scale was considered enormous.



## THE DNIPRO VALLEY BOYS WHO MADE MONEY IN THE EARLY 1990s WERE TOO VARIED AND TOO AMBITIOUS TO BE ABLE TO WORK IN A SINGLE TEAM

Tymoshenko's company was supplying natural gas to state enterprises. However, Donetsk Oblast had its own gas trader, the Industrial Union of Donbas (IUD), which had been set up by Yevhen Shcherban in 1995. The bosses of the largest companies in Donetsk Oblast persuaded the oblast state administration to sign a gas supply contract with IUD, pointing out that they should be buying fuel from their own, and not from Dnipro. The oblast became the only region in Ukraine that did not buy its natural gas from YES. Given that Donetsk consumed more energy than any other oblast in the country, this could only annoy Lazarenko.

## DNIPRO TAKES ON DONBAS

This divvying up of the gas market is generally seen as the reason for the gangland-style war that took place in Donetsk in 1996. On May 16, one of the founders of IUD and a powerful Donetsk businessman, Oleksandr Momot, was killed near the entrance to his building. In November 1996, an even more dramatic crime took place when Yevhen Shcherban and his wife were mowed down by killers dressed as airport workers in Donetsk Airport. At that time, he was recognized as the leader of the Donetsk clan and was considered the most influential politician in the region. His death effectively beheaded the Donetsk clan and put a halt to its ascendancy for sev-



**Golden years.** With President Kuchma & Premier Lazarenko, the Dnipropetrovsk clan enjoyed its political heyday

eral years. Now YESU became the only supplier of gas to enterprises in Donetsk Oblast as well.

Another regional boss who was against the Dnipropetrovsk expansion, Governor Volodymyr Shcherban—no relation to Yevhen—, was also hit. In the summer of 1996, a series of strikes hit the Donbas region, with miners blocking roads and demanded the removal of the governor, the premier and President Kuchma. In those days, massive demonstrations by coal industry workers were an annual event, but this particular strike provided a handy excuse to dismiss Volodymyr Shcherban and his people, which Lazarenko promptly did. And so, in less than a year, the hegemony of the two Shcherbans in Donetsk came to an end.

Some even connect the assassination of criminal boss Akhat Bragin, known as Alik Grek, a year earlier, although the interpretation of this gangland killing are many and it's possible that the bomb that killed Bragin and his two bodyguards at the Shakhtar Stadium was not related to the Dnipro-Donetsk wars at all. In any case, 1996 was a black year in the history of the Donetsk clan, which was completely shattered and crushed. Yet a hot spot never stays empty long and the bloodied arena soon had a new president: Rinat Akhmetov, whose "gang" included Viktor Yanukovych and Borys Kolesnikov. It's hard to say how the Donetsk clan might have fared had Shcherban not been killed, but it's certain that his death cleared the path upward for Yanukovych, then the little-known director of DonetskAvtoTrans, a small transportation company, who became Ukraine's fourth president in 2010 and was to play a truly sinister role in the fate of his country.

### HUMPTY DUMPTY HAD A GREAT FALL

Strangely enough, the Dnipro clan did not enjoy the laurels of victory for long. Considered by many to have been behind the thrashing of the Donetsk clan, Premier Lazarenko seemed to lose touch with reality as he basked in

glory of his own greatness and found himself on the wrong side of President Kuchma. By 1997, he had lost the premiership and soon afterwards fled Ukraine. As soon as he fell, YESU fell with him.

Interestingly, Lazarenko tried to establish his own party, Hromada or Community, and had circumstances been more favorable, might have become what Party of the Regions was later to be for many years. With immense administrative leverage in Dnipropetrovsk Oblast, Hromada managed to break into the Verkhovna Rada in the 1998 elections. The only region where Hromada actually led, however, was Dnipropetrovsk Oblast. All the neighboring oblasts voted for the Communist Party.

The Donetsk clan began to gain force only at the end of the 1990s, when the Dnipro clan had split into several rival groupings. By 2000, an alliance emerged between the Kuchma family and Donetsk organized criminal groups who legitimated themselves through politics. During the 2002 elections, the Za Yedynu Ukrainu bloc made it into the Verkhovna Rada, with both Kuchma and Donetsk people in it. Like Hromada in 1998, this party made headway only in one region, Donetsk Oblast—and that thanks to administrative leverage. It was at this time that Dnipropetrovsk's Yulia Tymoshenko joined the "enemy camp" that turned into the Orange team, becoming an opposition politician. Lucky for her, her bet paid off, and after Kuchma left politics, the role of the main representative of the Dnipropetrovsk clan fell to her.

The confrontation between Tymoshenko and Yanukovych began in the mid 2000s, but it was far more than just a confrontation between the Dnipro and Donetsk clans. By 2010, both were already politicians at the national level who represented not just regional business interests but financial industrial groups that covered the entire country. What's more, the Dnipro Valley was typically associated with southeastern Ukraine and typically supported the Donetsk-based Yanukovych in elections, while Dnipropetrovsk's own Tymoshenko generally won Kyiv and the western oblasts. During the 2010 presidential race, third place went to another Dnipro man, Serhiy Tihipko. Still, he failed to establish himself as his own man and was soon absorbed into the Donetsk team and that was that for his political career.

### FUGUE IN D MINOR

It's hard to say how things would have gone for Ukraine had the Dnipropetrovsk clan been able to establish a monolithic clan like Donetsk did. Quite possibly they would have remained in power to this day and the country would have gone down an entirely different path. But the Dnipro Valley boys who made money in the early 1990s were too varied and too ambitious to be able to work in a single team.

At one point, after Yanukovych won and Tymoshenko was arrested, it looked like the Dnipropetrovsk clan was well and truly finished, and would soon stop having any serious role in Ukrainian politics. But history has shown that Dnipropetrovsk is not that easy to break.

The growing rating of Ukraine's own "energizer bunny" Tymoshenko and the crazy intrigues of Ihor Kolomoyskiy promise to keep Ukrainians glued to their TV sets to watch the unfolding Dnipro saga. Who knows, maybe Dnipropetrovsk will once again become the political center of Ukraine now that their eternal foes, the Donetsk boys, appear to be broken and no longer stand in their way. ■

<sup>1</sup> Administrative leverage is a corrupt practice referring to both access to public resources, including money and goods, and the power to coerce public sector employees into voting a particular way.

# The Myth of Rinat Akhmetov

Denys Kazanskyi

Reliable information about Ukraine's richest oligarch is scarce, so all attempts to understand this figure come down to exploring rumors and legends

**O**ligarch Rinat Akhmetov, Ukraine's richest man, is also one of its most sinister political figures. Or so goes the common belief. In Ukraine, Akhmetov has an extremely ill name. The trail of crimes linked to him dates back to the 1990s. Neither journalists nor ordinary townsfolk can say for sure what exactly Akhmetov was doing back in those days. There are all kinds of rumors. The oligarch's personality is still largely shrouded in myths and speculations, which can be neither proved nor disproved.

In general, such mythical aura is typical not only of Akhmetov, but also of many other key figures of Ukrainian politics. Any Ukrainian politician or businessman would probably gladly forget the period of primitive capital accumulation. Today, they prefer to keep silent about their past, and when facts are scarce, they are inevitably replaced with speculations and rumors. Yet, Akhmetov's biography has far too many gaps even by the standards of Ukrainian politics.

The oligarch's official curriculum says nothing of his early years. It states that Akhmetov became known in the mid-1990s, after becoming the president of FC Shakhtar Donetsk and founding Dongorbank in 1995. In 2001, he graduated from the University of Donetsk. No earlier information is available. Akhmetov did not come to big business from the Komsomol (Soviet Young Communist League) like Serhiy Tihipko or Oleksandr Yefremov. He did not make a career at a plant like Yuriy Boyko, did not marry the president's daughter like Viktor Pinchuk, and did not make quick money by buying and selling like Petro Poroshenko. He is reluctant to talk about his youth, but admits that he was very poor.

"We lived in a 20 square meter house. We slept on the floor or on a cot. The house had neither toilet nor sink. The toilet was outside, we also washed outside from a cup," says Akhmetov about his youth.

Of course, when a man who lived in such poverty suddenly becomes an oligarch in a few years, this will raise questions. In 2006, journalist Tetyana Chornovol came to Rinat Akhmetov's home village of Pivnichne on the outskirts of Donetsk and talked to the people who remembered his early years and witnessed his ascent to the top of the oligarchic world. Akhmetov's neighbors and acquaintances told the journalist that as a youth he made a living playing cards and taking part in criminal shootouts and extortions. The businessman reacted vehemently to the publication of a series of her articles, filing a defamation lawsuit in London against Obozrevatel, a web-based Ukrainian publication that ran Chornovol's investigation, on March 30, 2007. The court ruled in favor of the Donetsk oligarch. No representatives of

Obozrevatel were present at the court hearing in the British capital.

The court took the side of Akhmetov, since it was next to impossible to verify or prove the information provided in the publication. In fact, Chornovol only published recollections and reports by Akhmetov's fellow villagers, who could well be telling lies and rumors. But in Ukraine, almost no one doubts the authenticity of this information. Even in Donetsk, which to this day remains loyal to the oligarch, hardly anyone would deny that he had to do with the criminal world. It's just that for many Donetsk residents this is not a reason for resentment. In this way, Akhmetov's gangster past is both reality and a myth: the court ruling does not permit us to accuse Rinat Akhmetov of criminal ties, while reason inexorably leads us to believe it. It is common knowledge that, before 1996 Akhmetov was the right hand of the Donetsk crime boss Akhat Bragin, also known as Alik Grek, killed by an explosion at the Shakhtar football stadium. After Bragin's death, Akhmetov replaced him as president of FC Shakhtar Donetsk. Close cooperation with such a controversial character would have stained any reputation.

In 1994, the then head of the Donetsk police Arkady Boldovsky in an interview with a local newspaper openly called Akhat Bragin "the head of the largest



**THE COLLAPSE OF THE DONETSK REGIME DID NOT RESULT IN THE COLLAPSE OF AKHMETOV'S EMPIRE. THE INFLUENTIAL BUSINESSMAN IS STILL THE RICHEST MAN IN UKRAINE, AND DREAMS OF REVENGE**

mafia clan in Donetsk" involved in contract killings. Back in those days, bandits had not yet merged with the police or taken control of the Donetsk media, so such statements by law enforcement officers published in local newspapers were still possible. Later on, the mafia bought both the police and the major media of Donetsk.

For what we know, Bragin's business empire (which Colonel Boldovsky called a "mafia clan") was inherited not by the relatives of the deceased, which would have been logical, but by his associate Rinat Akhmetov. However, the Donetsk media referred to the latter primarily as a businessman, philanthropist and benefactor, because it was him who soon bought all major newspapers and TV stations in the city. In the 2000s, Akhmetov was already appointing his own governors and ministers, and Akhmetov's media called business and politics the same things for which Bragin was called a bandit.





PHOTO BY UNIAN

**Candid archives.** Donetsk newspapers of the 1990s run reports on Akhmetov's criminal environment



In the 2000s, he reportedly achieved unprecedented power and high-handedness. There were rumors that a major political player of Donbas, Viktor Yanukovich, was not an independent figure, but just the oligarch's errand boy. Stories about Akhmetov beating up and humiliating Yanukovich whenever he made wrong moves gained huge popularity. Reportedly, Rinat Akhmetov was especially harsh after the failure of Yanukovich as Donetsk candidate in 2004 presidential elections. Rumor has it that Viktor Yanukovich was then beaten up at the ramp of his plane right in front of the eyes of his suite.

Another popular legend has Akhmetov crushing the cars of FC Shakhtar players with a baseball bat after games they lost. The story has been handed down for many years in different versions. The source of the legend was a publication in the German weekly *Der Spiegel* on July 22, 2005. In it, German journalist Alexander Schwabe wrote that Rinat Akhmetov broke expensive cars of FC Shakhtar Donetsk players after it lost 1–5 to FK Austria Wien. Captain Anatoliy Tymoshchuk said then that the publication was defamatory and discredited the club, threatening to sue *Der Spiegel*. However, the lawsuit was never filed, so the story could well be real.

Later, after Yanukovich won the presidential election and quickly consolidated great power in his hands, the myth of the omnipotent Akhmetov and the controlled Yanukovich was quickly destroyed. The Yanukovich "Family" emerged on the political arena, its interests often running in conflict with Akhmetov's interests. In particular, illegal coal extraction controlled by Yanukovich's son Oleksandr interfered with Akhmetov's interests. The media controlled by Akhmetov eagerly published articles about illegal quarries and coalmines that sold coal at dumping prices, affecting DTEK sales.

However, it never came to an open war. During Yanukovich's presidency, Akhmetov's revenues kept

growing, his empire kept acquiring new assets, and in general the oligarch had nothing to complain about. The overthrow of Yanukovich, of course, dealt a blow to Rinat Akhmetov. However, the collapse of the Donetsk regime did not result in the collapse of Akhmetov's empire. The influential businessman is still the richest man in Ukraine, and dreams of revenge.

After the war in Donbas broke out, the old legends tied to his image faded away and became irrelevant. The top news now is the debate on Akhmetov's role in inciting the war and organizing the anti-Ukrainian coup in Donbas. The past sins are of little interest to anyone today. Akhmetov, like Kolomoisky, could have been absolved from any blame had he saved Donbas from war, quickly crushing the separatist coup. But he took a different stance: during the spring of 2014, he supported the territorial integrity of Ukraine in word, but in deed he promised to prevent the dispersal of the separatist gangs, did not respond to looting and violence of the Donetsk People's Republic militants in Donetsk, and urged Kyiv authorities to hear the Russian terrorists Strelkov and Boroday, claiming their demands to be the "voice of Donbas."

The debate about the role Akhmetov played in establishing DPR still goes on. It is still not clear whether the oligarch puppeteered the leaders of the anti-Ukrainian uprising, or just tried at some point to "ride" the coup and use the protests in Donbas for his own purposes. However, he definitely played a major role in inciting the war in Donbas. At some stage of the conflict, he clearly lost control of the situation and preserved his business only because Moscow did not order its expropriation.

Another myth says that Putin actually turned over the control of the occupied Donbas territories to Akhmetov, with the oligarch becoming the voice of the Kremlin in Ukraine and acting in cahoots with the Russian leadership. Like most myths about Akhmetov, this one also sounds more like the truth than the rumor. ■

# Another Trade War Looms

Oleksandr Kramar

Ukraine faces a new round of trade and economic pressure from Russia with a much stronger position, but a number of sectors are still vulnerable

In early August, the Russian government expanded the list of countries against which it extends food embargo. It now includes Albania, Montenegro, Iceland, Liechtenstein and Ukraine, the countries that joined the EU sanctions against Russia introduced in response to the occupation of Crimea. However, in the case of Ukraine, the food embargo will come into force only on January 1, 2016, assuming that Kyiv does not withdraw from the economic part of the Ukraine–EU Association Agreement, which provides not only for free trade area with the EU, but also for the adaptation of Ukrainian production standards (including food safety and quality) to European regulations, which would equal to permanent alienation from the Soviet past. It is this real economic part of the Association Agreement, and not the declarative political one, that the Kremlin fears most, because it will put an end to Ukraine's status of a part of the post-Soviet economic space and minimize chances of its being drawn into Russia-led unions.

## DEVELOPING IMMUNITY

As is often the case with repeated problems, trade embargos, too, boost immunity. Ukraine has developed its immunity over the past few years as it faced Russian restrictions against various products that had then been an important component of Ukraine's economy. Thus, despite the threats of Russian officials, potential losses for the Ukrainian agriculture will in fact be minimal today. The cost of Ukraine's response to the embargo, however, may be high for the Russian suppliers.

Russia has already banned a large share of Ukrainian food it used to import, including meat and dairy products. Overall, in the first half of 2015, total Ukrainian food exports to Russia amounted to mere USD 126.4mn, which equals to 1.9% of Ukraine's total food exports and to 5.5% of total Ukrainian exports to the Russian market (**see Crumbs from the table**).

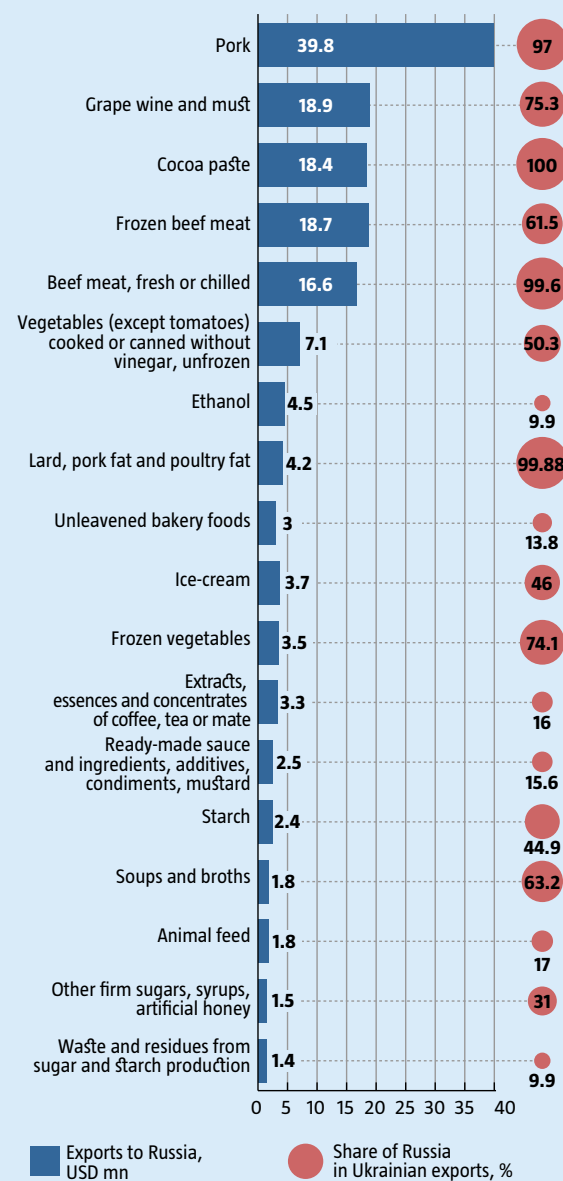
At the same time, exports of most of the above products to Russia are rapidly decreasing. For example, only USD 2mn worth of pork was exported to Russia in August 2015 compared to USD 37.8mn, or an average of USD 5.4mn per month, in the previous seven months. Exports of beef amounted respectively to USD 1.5mn in August 2015 compared to USD 33.8mn in January–July (or to an average of USD 4.8mn per month). Exports of canned vegetables (except tomatoes) in August amounted to only USD 0.4mn, whereas in the previous seven months they were USD 6.7mn, or an average of USD 0.95mn per month. If this trend continues, exports of these key food exports to Russia may come to a minimum by the time the embargo is implemented.

Significant volumes of food products currently sold to the Russian market are already being rechanneled to other markets, often new ones. For example, starch

## CRUMBS FROM THE TABLE

In the recent years, Ukrainian food exporters virtually left the Russian food market.

Major items in Ukraine's food exports to Russia (worth of over USD 1mn exported annually, January–August 2015)



Source: State Fiscal Service

(44.9% still exported to Russia) is now supplied to Indonesia in large quantities (33%). Ice-cream industry sees a similar trend: 46% is going to Russia while Moldova is now buying 29.7% and Israel 19.5%. Ukraine exports far more extracts and essences of tea and coffee to Moldova (25.3%) than to Russia (16%). The same goes for ready-made sauces and condiments.

Exporters of a number of other food products, for which Russia was once a major market, have shifted their focus to other markets, either offsetting their losses on the Russian market, or significantly reducing the total volume of exports. The main markets for poultry, for example, are now Iraq and the Netherlands (these two now account for 40.8%, or USD 70mn), for eggs—Iraq and the United Arab Emirates (86.1% or USD 43.8mn), for cheese—Kazakhstan and Moldova (79%, or USD 12.1mn), and for butter—Morocco and Egypt (41.1%, or over USD 8.2mn). Foreign markets for other dairy products are diversified much better today (the share of major foreign consumers usually does not exceed 10–15% per one).

In the recent years, a widespread Russian propaganda myth portraying "Ukrainian food products as not competitive on the European market" has been dispelled. So was the belief that the EU can only import agricultural raw materials, whereas finished Ukrainian food products only have a chance to be sold in Russia and in other CIS countries. The reality turned out to be quite different: in the first half of 2015, Ukraine sold almost 32.4% of its total exports of processed food products to the EU, and only 5% to Russia.

In the first half of 2015, the European market was far more important than the Russian one for all sectors of Ukrainian food industry. The exceptions are cocoa products, of which 18.2% are exported to Russia and only 9.7% to the EU, and, to a lesser extent, wine. In other cases, the European market is already much more important to the local manufacturers of finished food products than the Russian one. For instance, in the first half of 2015, 1.6 times more meat and fish products were exported to the EU than to Russia, 2.5 times more coffee and tea, 3.7 times more flour-and-cereals industry products, 4.4 times more finished grain products, 8 times more sugar and sugar confectionery (without added cocoa), 9 times more canned vegetables, and 20 times more tobacco products. Besides, the European Union also got 2.1 times more Ukrainian fresh vegetables and 74 times more fruits and nuts than Russia.

For the moment, exports in absolute figures are relatively low: Ukrainian food product supplies to the EU in the first half of 2015 amounted to USD 387.6mn. However, this means that in annual terms, the European market can already now consume UAH 20bn worth of Ukrainian food products, with good growth prospects after Ukraine adapts its food quality and safety standards to the European ones. In contrast, USD 56.3mn worth of Ukrainian food products was exported to Russia in the first half of 2015; however, as shown above, these volumes reduce every month, and this year (without the embargo) they are unlikely to exceed UAH 1.5–2bn. Thus, Ukraine has already managed to cope with shrinking food exports to Russia, once a major market for Ukrainian food products. Now, we will look at how the loss of the Russian market has affected the output of various agriculture and food produce.

Trade wars with Russia affected mostly the manufacturers of chocolate and sugar confectionery, whose output

in the first half of 2015 dropped 40.4% compared to the same period of 2010; of tinned vegetables, where the drop in output was 28%, and of dairy products, with a decrease of 7.6%. Industrial production of meat and meat products, on the contrary, grew 23.5%. Egg producers did not notice the loss of the Russian market either: in the first half of 2015, they sold 12.5% more products compared to the same period of 2010 (9.17 bn eggs against 8.15 bn). Also, 22.1% more meat on hoof was grown (1.55 mn tons against 1.27 mn tons).

The output of butter and various types of liquid milk has also recovered from the loss caused by Russian sanctions, exceeding the figures of July 2012 by 19.1% and 2.6% respectively in July 2015 in physical terms (i.e., kilograms and liters). The output of dairy products and cheese is still 18.6% and 24.5% lower than it was three years ago.

Since the figures on vegetables, fruits and berries yield in 2015 are not yet available, we can only compare the data for 2014 and 2010. A substantial increase in output can be seen there as well: from 8.12 mn tons to 9.64 mn tons (or by 18.7%) for field vegetables, and from 1.75 mn tons to 2 mn tons (or by 14.4%) for fruits and berries.

The drop in supplies to Russia was offset not only by the relatively successful refocusing of manufacturers to new markets, but also by the fact that most Ukrainian food industry sectors, as well as animal husbandry, horticulture and gardening, are primarily focused on the domestic market. The share of their products sold abroad was and remains negligible. In the first half of 2015, only about 0.9% of meat industry products were exported, 1.4% of sugar products, 5.8% of dairy products, 6% of brewing

**THE DROP IN UKRAINIAN EXPORTS TO RUSSIA WAS OFFSET NOT ONLY BY THE RELATIVELY SUCCESSFUL REFOCUSING OF MANUFACTURERS TO NEW MARKETS, BUT ALSO BY THE FACT THAT MOST UKRAINIAN FOOD INDUSTRY SECTORS ARE PRIMARILY FOCUSED ON THE DOMESTIC MARKET**

industry products, 10% alcoholic beverages, 11.7% of pastry, 16% of wine, and 21% of canned vegetables.

The only export-oriented sectors of Ukrainian food industry are arguably tobacco products (41.5%), chocolate and sugar confectionery (40.8%), and ready meals (30.6%). However, the figures here are still lower than in most sectors of mechanical engineering or metallurgy. The sector of the Ukrainian food industry that depends the most on external markets (51% of oil and fat products are exported) is in fact absent from the Russian market, and has a very diversified geography in the world market.

**POTENTIAL RESPONSE**

Unlike in 2014, when an agreement was reached to postpone the implementation of the economic part of the Ukraine–EU Association Agreement, this year Ukraine seems to be ready to put up resistance to Moscow. For instance, after the recent negotiations with the Russian delegation, Ukraine's Foreign Minister Pavlo Klimkin stated that most Ukrainian exporters were "looking to enter new markets rather than relying on the Russian market, because they believe that the purely politically motivated decisions of the Russian government do not give reason to expect any predictable economic measures to



be taken by the Russian Federation in the future." Prime Minister Arseniy Yatsenyuk promised that "Despite all warnings and intimidations of our northern neighbor in respect of possible embargo and further economic pressure on Ukraine, we clearly declare that the Agreement will enter into force; that Ukraine is part of the European economic area; that we are prepared for an embargo by the Russian Federation; and that we will give a decent response in case Russia doesn't cancel its decision to introduce the embargo."

In case of a trade confrontation, it is not the suppliers of food products that will suffer. The most painful restrictions may affect the suppliers of a number of industrial commodities from Ukraine. While the manufacturers of most engineering products and strategic raw chemicals are likely to escape problems thanks to close cooperation and dependence of Russian clients on them, the suppliers of many finished products, especially consumer goods, are likely to come under pressure.

The data for the first half of 2015 indicate that Russia remains the main consumer of Ukrainian exports of paper and board industry products (USD 165.44mn, or 61.8%, compared to USD 21.8mn of exports to the EU), plastics and polymeric materials (USD 80.7mn, or 50.9%, vs USD 39.5mn to the EU), ceramic products (USD 37.8mn, or 54.3%, vs USD 8.5mn to the EU), some finished metal products and other consumer goods, such as household chemicals (USD 24.8mn, or 55.9%, vs only USD 5.5mn worth of exports to the EU). Ukrainian furniture exporters are also largely dependent on the Russian market (USD 63.8mn, or 34.7%, vs USD 79.7mn worth of exports to the EU). Paper and board, metal-processing and chemical industries export almost a third of their products, and 42.3% of ceramic industry products and 55% of furniture industry products are sold abroad. These industries are potentially the most vulnerable to Russian restrictions.

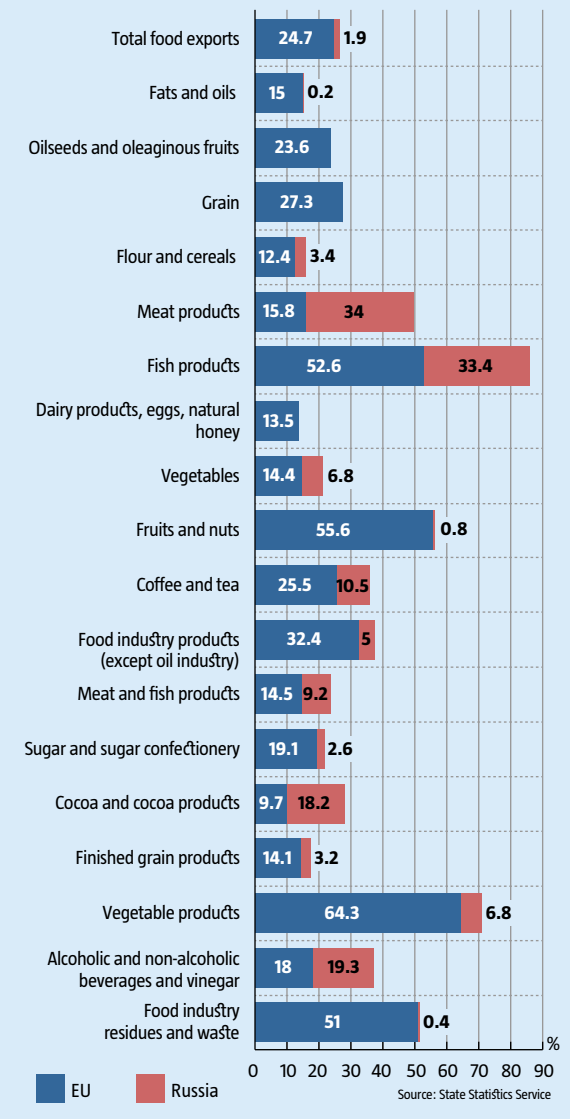
In case of embargo, their interests can only be protected by the mechanisms of WTO and threatening the introduction of countermeasures against Russian goods supplied to Ukraine. The prevailing stereotype whereby Ukraine cannot afford these countermeasures because it imports critical supplies from Russia, primarily fuels, and restriction of those would harm the interests of Ukraine, is false. The decrease in Russian gas purchased by Ukraine in the recent years and reduced gas prices in the world market pushed down the share of energy in Russian imports to Ukraine to 44.9% in the first half of 2015. The non-energy component of Russian imports amounts to USD 1.58bn, which is just 1.5 times less than total exports of Ukrainian products to Russia. So, Ukraine has room for countermeasures. For instance, it imported USD 582.1mn worth of chemical products (fertilizers, plastics and polymers, essential oils, elastic gum and rubber) from Russia in the first half of 2015. USD 390.6mn worth of engineering products, primarily finished goods rather than components for Ukrainian manufacturers, is imported from Russia. Ukraine could embargo these products. During the same period, USD 116.4mn worth of steel products were imported from Russia, and USD 94.9mn worth of ferrous metals.

Finally, Russian food exports to Ukraine in the first half of 2015 totaled USD 72.2mn, plus another USD 39.5mn worth of tobacco products. This deserves special attention in the context of Russian threats to introduce a food embargo. Food imports from the Russian Federa-

## EUROPEAN INTEGRATION IN ACTION

**With a few exceptions, Ukraine sells much more of its food, including products with high added value, in the EU market than in Russia.**

Share of the EU and Russian markets in Ukrainian exports of some food groups in H1'2015, %



tion to Ukraine are mostly of finished food products (USD 66.7mn, with only USD 5.5mn worth of agricultural products as such). This means that Russia supplies more food products to Ukraine than Ukraine does to Russia, not to mention significant volumes of tobacco products imported from Russia, in the absence of their exports to Russia from Ukraine.

These are just six-month figures, and annual volumes are roughly twice as much. For the Russian economy experiencing a collapse in energy prices and financial sanctions, this means potential significant losses amounting to several billion dollars of foreign exchange earnings shortfall. Therefore, a trade war with Ukraine seems unpromising and undesirable from Russia's perspective. However, given the Kremlin leadership's irrational policies, this, of course, is not an argument. ■

# Merge and Acquire

Lyubomyr Shavalyuk

Ukraine's banking sector faces massive consolidation and change of owners

**T**he recent foreign debt saga and the looming sovereign default stole all spotlight from a series of news that may turn out to be far more important in the long run.

## CRUCIAL FACTS

On July 16, Agro Holdings (Ukraine) Limited, a company owned by the US-based NCH Capital, acquired 100% of Astra Bank that had been announced insolvent in March 2015. By August 13, Astra Bank received cash injections needed to bring its capital adequacy and liquidity back to normal.

On August 7, Primestar Energy FZE, a UAE-based company that is part of the Primestar group, bought 100% of UkrGazPromBank deemed insolvent in early April 2015.

On August 13, Finansy i Kredyt, one of Ukraine's biggest banks that was put on the problem bank list in spring, registered an issue of additional securities worth slightly under UAH 2bn. According to Ukraine's central bank, NBU, other biggest banks have also met recapitalization requirements.

In early August, UniCredit group announced transfer of control over UkrSotsBank to Alfa-Bank for a stake in ABH Holdings SA, the manager of Alfa Group's banking assets. The merger of UkrSotsBank and Alfa-Bank will create the fourth biggest credit corporation in Ukraine. At the end of August, the Deposit Guarantee fund announced a purchase of 100% of PBC, a bank in transition established on the basis of the insolvent Omega Bank, by the Ukrainian Business Group.

The European Bank for Reconstruction and Development (EBRD) intends to acquire 35% of Reiffeisen Bank Aval's shares from the additional issue scheduled for October. The decision was taken on July 23.

News of the mergers and acquisitions of Ukrainian banks are only emerging in the media, but it is obvious that they are the early signals of a wide-scale process that will have a serious impact on Ukraine's banking system.

## BANKS IN RETROSPECT

Ukraine saw two major waves of bank mergers and acquisitions over its recent history. The first one took place before the 2008-2009 global financial crisis. Stakes in Ukrainian banks were mostly acquired by non-residents who hoped that Ukraine's economy and banking system would soon begin to grow rapidly and had cheap cash to bring to Ukraine and lend out. The owners were willing to sell banks because they were offered good prices, and they were aware of the low quality of their assets, but preferred to keep investors uninformed of that. At that point,

Ukraine's banking system was a market of sellers: investors would buy banks at prices that were five to seven times above their actual value.

The second spate came under the Yanukovich regime and was of a completely different nature. Bank owners, mostly foreigners by now, no longer believed that the banking sector and economy overall had any prospects in Ukraine under the then government. They were fleeing the country and selling assets to Ukrainian businessmen close to the government. These new buyers had much better prospects thanks to friends in power. That was the market of buyers who paid 0.5-1.0 of the bank's capital worth for an institution. After the regime collapsed and Ukraine tumbled into a full-scale financial and economic crisis, mergers and acquisitions of banks virtually stopped. The owners were struggling to clean up the mess they had on their hands and keep what they had afloat. Potential buyers saw no sense in acquiring credit facilities with unattractive balance sheets and obscure prospects operating in an extremely difficult environment.

The fact that mergers and acquisitions resume in Ukraine's banking sector signals that there is a number of agents (buyers) who see good prospects in the country's economy and financial sector, or believe that benefits are far more likely than the

**THE FACT THAT MERGERS AND ACQUISITIONS RESUME IN UKRAINE'S BANKING SECTOR SIGNALS THAT THERE IS A NUMBER OF AGENTS (BUYERS) WHO SEE GOOD PROSPECTS IN THE COUNTRY'S ECONOMY AND FINANCIAL SECTOR**

risk of continued recession and bankruptcies. Confident of seeing the light at the end of the tunnel, they want to do deals quickly, before economic revival becomes obvious and the assets go up in price. There is also another category of agents (sellers) who do not believe in Ukraine's prospects overall, or in the short run. As a result, the market for mergers and acquisition has acquired some balance, even if as fragile as Ukraine's economic balance achieved recently.

## DRIVERS OF FOREIGN INTEREST

Foreign investors still have different motives for acquiring banks in Ukraine. NCH Capital intends to create a bank focusing on lending to agribusiness. The company has been working with agriculture in Ukraine for many years. It now hopes to »

benefit from a synergy of expertise it has accumulated and the bank it just acquired. **The Ukrainian Week's** sources claim that NCH has long been looking for a bank to buy in Ukraine but was asked exorbitant prices under Yanukovych. Now, it sees a good opportunity to implement its plans at minimal cost. The management board headquartered in New York eyes the deal with a lot of skepticism but relies on the Kyiv office managers for this decision so far. It is to be seen how well the local team copes with the task. However, the move is undoubtedly well-justified.

The UAE investors' deal with UkrGazPromBank is less straightforward. Many experts doubt that Primestar Energy FZE is the ultimate beneficiary of the newly-acquired bank. The company may well be acting in the interests of people who are much closer to Ukraine than the residents of the UAE. On the other hand, Arabic investors are flush with cash accumulated over the period of high oil prices. Primestar Energy FZE is in the oil trade business itself. It may be looking to acquire depreciated assets in countries like the post-crisis Ukraine since projects elsewhere are far more expensive. Moreover, Arab investors have already shown interest in the privatization campaign the Government is preparing in Ukraine.

The EBRD's motivation is clear. It is part of the pool of Ukraine's financial donors. Therefore, its move to acquire the bank in Ukraine provides the much-needed support to the country and sends a strong positive message that Ukraine's economy and finance are past the most dangerous stretch to the global business community. EBRD representatives have actually stated their intention to send out such a signal.

The motives of the Russian Alfa Group are quite straightforward. The Russians have been expanding into the Ukrainian financial market strategically, and crises play into their hands by helping them increase their presence at minimal cost. The pattern was similar in 2008-2009 and remains unchanged today. The only difference now is that Russia is an aggressor state.

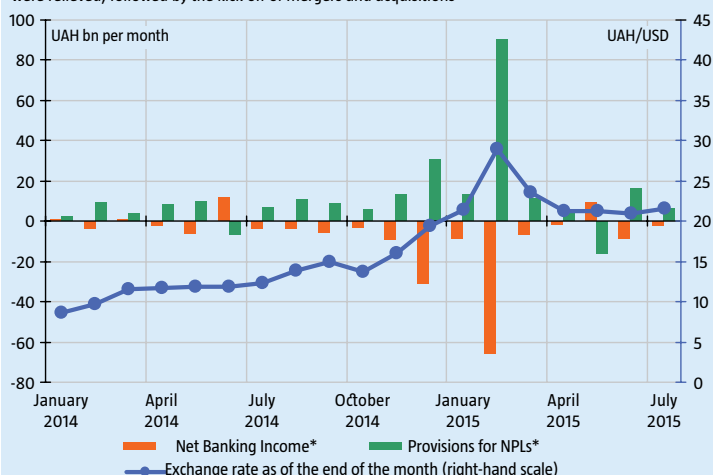
## SIGNALING OPTIMISM

All these deals have a number of things in common. Firstly, non-residents assume that FX risks are acceptable, i.e. further devaluation of the hryvnia is unlikely. If they assumed otherwise, the deals would hardly take place: non-residents could wait out a bit more and get the same banks for less money. This definitely sends a positive signal to Ukrainians.

Secondly, foreigners believe that Ukraine's banking sector has passed its worst period in terms of bankruptcy risks. It is one thing when NBU chair claims that the clean-up of the banking sector is completed: theoretically, Valeria Hontareva can say this to calm down Ukrainians. It is something altogether different when a non-resident decides to invest capital in a Ukrainian bank. Clearly, such a decision sends a positive signal not only to other investors, but to average Ukrainians, too. When an asset hunt begins, the balance of payments improves, the economy fills with cash and starts to grow.

## Toxic assets cleaned up

The devaluing hryvnia was tearing banks' balance sheets apart. They were forced to do huge write-offs and NPL provisions, as well as report losses. Once the exchange rate stabilized, the banks were relieved, followed by the kick-off of mergers and acquisitions



\*Net income and allowance for bad debts for July 2014 and 2015 does not take into account insolvent banks

Sources: NBU, kurs.com.ua, author's estimates

Thirdly, non-residents are confident that most of the ballast of the past years has been cleaned up. They are probably right about this. Write-offs and provisions for non-performing loans have peaked already (**see Toxic assets cleaned up**), losses are accounted for. According to the NBU, total allocations to reserves for bad debts over the period from January 2014 to June 2015 amounted to UAH 222bn or over 17% of assets as of early 2014. In short, balance sheets have been cleared of all assets that had to be written off, so they now reflect the real status of banks far better than they used to and can thus be reliable indicators for a purchase. For Ukrainians, this means mass bankruptcies of banks and loss of deposits are over. Of course, some banks can still go broke, but people can now largely return to depositing their savings.

Would it not be easier to establish a new bank rather than pay for assets with an obscure balance sheet? The answer is simple: an established bank can be acquired for a sum worth half its capital and

**IF CURRENT OWNERS DO NOT HAVE NECESSARY CASH FOR RECAPITALIZATION AND CAN'T DRAW IT BECAUSE OF IMPERFECT REPUTATION, THEY WILL SELL THEIR ASSETS TO OWNERS THAT ARE MORE TRANSPARENT AND PROFESSIONAL**

less. With it will come client base, market share, established network and a trained team. This will save investors time and money. The only risk is that banks still have residue toxic assets on their sheets after the clean-up. Since non-residents acquire banks, not merge with them, they obviously believe that the scales of write-offs reflect the amounts of remaining toxic assets. Skeptics may say that foreigners don't know the specifics of the local market and can be mistaken about the prospects of Ukraine's economy. However, NCH Capital, EBRD and Alfa Bank have operated in Ukraine



for a long time and are very well aware of the local specifics. The fact that Ukrainian shareholders have acquired Omega Bank is evidence that local capitalists are also optimistic.

### TIPS FOR THE NBU

Acquisitions of Ukrainian banks by foreign investors will benefit Ukraine: it brings in the badly needed foreign currency. Therefore, the NBU should support this wave to a certain extent and with specific recipients, and it has plenty of room to do so given two aspects.

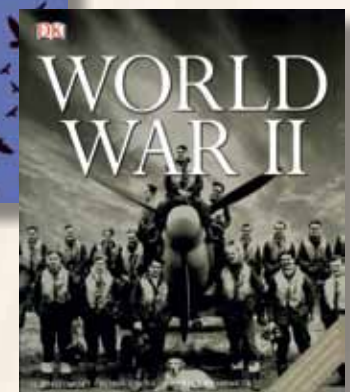
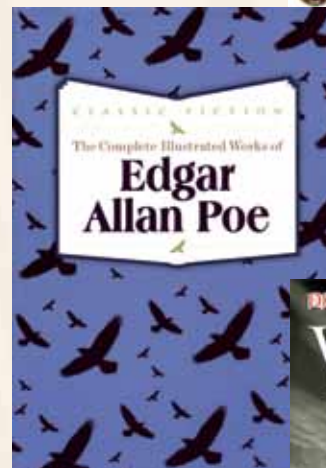
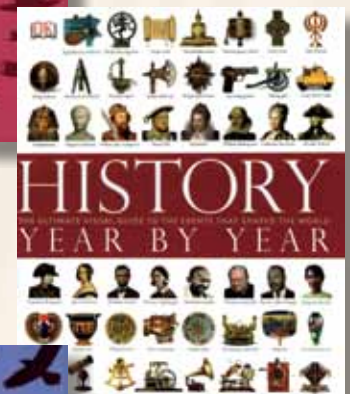
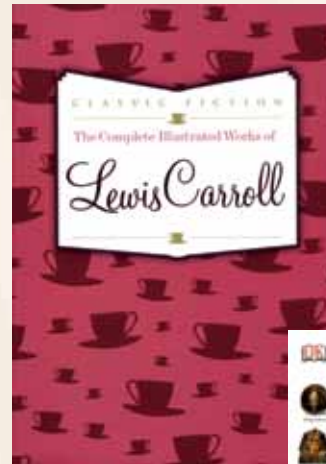
Firstly, most Ukrainian-owned banks were until recently used as pocket banks. They took in deposits from people and lent the money to the projects of their owners. Whenever a bank was sold, all loans issued to the founder's entities were left hanging in the air. Forum Bank was the most telling example. At a certain point, loans to the companies of its founder Leonid Yurushev reportedly amounted to half of the bank's loan portfolio. When the bank was sold to Commerzbank before the 2008-2009 crisis, the German investor had to do huge write-offs for the next couple of years because the recipients of the loans would not pay them back. Eventually, it failed to clean up the bank's balance sheet and sold it to oligarch Vadym Novinsky for peanuts in 2012.

Similar cases were many. With each, Ukraine lost another bit of reputation in the eyes of foreign investors. To stop this practice, the NBU decided to restrict the share of loans issued to affiliated entities legislatively. The central bank should complete this initiative. Ukrainian banks will then have an environment that will dictate them a different quality of operation. That will make them more attractive to foreign investors.

Another aspect is criminal background of the capital used to found banks. Until recently, anyone who had previously earned several million dollars could set up an own bank. Many did so to launder criminal money and earn a pretty penny on helping others do so. Bank managers were often non-professionals. That caused huge risk management problems, particularly for depositors who often ended up losing their money. Whenever that happened, bank owners would get refinancing, siphon off capital and leave Ukraine to avoid responsibility and abandon defrauded depositors at the mercy of the government.

Now, the NBU should take every effort to shut out such practices in the future. Banks should be owned and run by professionals with impeccable reputation and years of experience. One way to accomplish this could be to radically raise capital requirements for banks. If current owners do not have necessary cash for recapitalization and can't draw it because of imperfect reputation, they will sell their assets to owners that are more transparent and professional. This will create an environment where Ukrainians will trust banks more. This will also benefit the country's financial sector by pushing small banks to consolidate into big ones that are more stable and prepared for foreign investors.

Therefore, the unfolding series of bank mergers and acquisitions sends many good signals and gives reasons for optimism. The government should seize the opportunity to increase trust for banks, draw foreign investment and make banks more transparent — and depositors happier. ■



# Jerome Vacher:

“Economic populism is always tempting during periods of hardship, but it has not served Ukraine in the best way”

**O**n September 22, the International Monetary Fund mission came to Kyiv for the second review of the Extended Fund Facility program. *The Ukrainian Week* spoke to Jerome Vacher, the IMF Resident Representative in Ukraine, about the IMF's assessment of the reform process, the progress in fulfilling the Extended Fund Facility conditions by the Ukrainian government, and the restructuring of Ukraine's foreign debt.

**How would you assess the progress Ukraine's government has made in reforms and in the meeting of conditions for the EFF program?**

The Mission is precisely here to assess the performance under the program. The mission will look at the performance criteria and structural benchmarks in the fiscal and monetary areas, as well as at the economic situation. This is basically the backward-looking part of the discussion. We also have a forward-looking part which is to discuss our economic forecasts but more importantly the policies and reforms that can be put in place.

Because of the timing of the mission, a lot of the discussion focuses on the 2016 Budget and how the Ukrainian authorities see it. There are also other important areas to discuss.

We have seen progress on macroeconomic stabilization, there are some early signs of bottoming up. I will also note the good handling and execution of 2015 Budget and a prudent fiscal policy. We have seen stabilization of deposits in the banking sector, mostly in hryvnia, but these are still early signs. The foreign exchange market was stabilized as well. The cleanup of the financial sector has started in a decisive manner.

**One of the most important questions is the increase of social benefits. We have heard the Premier's statements about increase in salaries and pensions starting in September, the President mentioned a significant rise next year. Does the IMF support this policy?**

The government decided to move the indexation which was initially scheduled for December 1, 2015, forward to the September 1. We were indeed consulted on this, as per the commitment of the Ukrainian authorities under the Letter of Intent and the Memorandum of Economic and Financial Policies to discuss actions affecting the EFF program. We have given our advice and opinion.

In that context we discussed fiscal performance so far, as well as the prospects for 2015 as we and

Interviewed by  
**Lyubomyr Shavalyuk**

the Minister of Finance saw them. We agreed with the government that even though there is not much room in the budget, it was sufficient to proceed with this important move thanks to prudent management of the budget so far.

**Yulia Tymoshenko has stated that we need a 73% increase in social benefits. How would you assess this suggestion and options for the implementation of such policy?**

We are well aware, that the Ukrainian population faces a difficult situation in the context of high inflation, even though it should be coming down partly thanks to the NBU's focus on price stability.

The increase which was moved forward from December to September was based on available resources in the budget. But the fiscal situation re-

**WE HAVE SEEN PROGRESS ON MACROECONOMIC STABILIZATION, EARLY SIGNS OF STABILIZATION OF DEPOSITS IN THE BANKING SECTOR AND THE FINANCIAL MARKET**

mains tight. It is easy to promise an increase even above the rate of inflation without taking into account fiscal consequences. Economic populism is always tempting during periods of hardship, but it has not served Ukraine well in the past. Some real thinking needs to be done on how to do better with the same envelope. It has already started in some areas with cuts of staff. Other important steps would be civil service reform and the fight against corruption.

**What do you think of the debt restructuring deal Ukraine has managed to strike?**

The agreement is a result of long negotiations between the main holders of Eurobonds and the Ukrainian government. The first step was to persuade the creditors to sit at the negotiation table — that took some time, but the whole process was done in good faith. Negotiations showed that Ukraine can be a strong and responsible partner. In my opinion, this is the best deal that could be achieved in those difficult circumstances, and it satisfied both parties. We supported the deal because it fulfills the conditions that allow us to continue to lend. It allows us to see clearly how the available financing can support the needs of Ukraine over the years. In addition to that, it improves debt sustainability in the

medium term. There was a good discussion in the parliament about the agreement and I am glad that Ukrainian members of Parliament supported it.

**What is the IMF's official stance on Ukraine's debt held by Russia? Does it qualify as private or public debt?**

It's quite a complex and unique issue. The determination of whether the debt should be considered public or private has to be made by the IMF executive board. This has not been done yet, because Ukraine has been doing its coupon payments on time. However, the principle payment is due in December. The intention of the Ukrainian authorities has been to offer the holders of these bonds to participate in the restructuring deal. So, it is not determined yet.

**Ukraine is in the process of drafting tax reform. Few options are on the table. Which one does the IMF consider a better one?**

There are indeed a lot of different proposals and many ideas are floating around. It is clear that everybody – including ourselves – wants to see a modern tax system which would be less distortive.

But that also has to be discussed in the context of 2016 Budget. It is important to understand that the room for maneuver will be limited with the budget for the next year. There are some sources of revenue which were temporary in 2015 and will not be available in 2016. These are mostly the extraordinary NBU profits that went to the budget and the temporary import surges. The combination of these two is 0.5% of GDP. This will not be available next year. Moreover, there will be important expenditures that everybody wants to see. These include

increased subsidies to compensate the rising energy tariffs. Plus, the government has defense and security priorities.

As a result, the discussion about the tax reform should take that into account. The authors have to pay attention to what is affordable in the current situation. However, there are opportunities to simplify the tax system and reduce distortions caused by it, including the ones created by the level of social security contributions. There is also room to expand the tax base in some areas and to improve compliance in terms of tax revenues, including from some large taxpayers.

**Many experts assume that administration of taxes is the key problem in Ukraine's tax system, so the reform should be based on changes in the tax system and the customs. Does that meet the IMF's perspective?**

There is no doubt that a lot of changes are to be made in tax administration. It is an important issue for business and households. At the same time, tax compliance is currently not what it should be in Ukraine, and we see a lot of governance issues in the tax and customs areas. That's where everybody, including the IMF, would like to see improvements. It's not only a matter of fiscal revenues, but also an important matter for the business environment and the level of corruption in the country.

The reform of the tax system takes a lot of efforts, just as the reform of justice and prosecutorial system. The State Fiscal Service employs a lot of people and needs a comprehensive reform. We have been providing technical assistance for a few months already to prepare the reform of this service. It has already been agreed with the head of the State Fiscal Service and with the government. We hope to see it put in place.

One of the ideas of the reform is to make the State Fiscal Service more efficient and accountable, and to make sure that there are checks and balances in the taxation system which would avoid abuses of power. We also want to see a reduction of corruption in the tax police and the customs services. Anything that can make the system more transparent and relying less on manual management would be a significant progress.

Clearly there are a lot of things that can be done in terms of institutional framework. We certainly expect more progress on that front in the next few months.

**There have been talks in Ukraine about changes in political arrangements: changes in the parliament coalition are taking place and some experts speak of early parliamentary elections in 2016. Could that be a threat to the cooperation between Ukraine and the IMF?**

Of course, election periods can occasionally lead to some delays and changes in the schedule of the IMF programs, but what matters to us is the dialogue with the Ukrainian authorities and the capacity and willingness to commit to the necessary macroeconomic policies and reforms. These are the important aspects that are taken into consideration by the IMF Board. Ukraine gets exceptional access to IMF resources, therefore the commitment of the authorities is particularly important. ■



PHOTO BY ANDREY LOVAKIN

**Jerome Vacher** has acted as IMF Resident Representative in Ukraine since May 2013. Born in France, he graduated from the Paris Institute of Political Studies, Pantheon-Sorbonne University and the Kiel Institute for the World Economy. Mr. Vacher joined the IMF in 2002. Over the time of his service there, he gained extensive experience in cooperation with Spain, Lithuania, Belarus, South Africa, United Arab Emirates, as well as Ukraine.



# Dominant and Dangerous

As America's economic supremacy fades, the primacy of the dollar looks unsustainable

If hegemony is good for anything, it is for conferring stability on the systems they dominate. For 70 years the dollar has been the superpower of the financial and monetary system. Despite talk of the yuan's rise, the primacy of the greenback is unchallenged. As a means of payment, a store of value and a reserve asset, nothing can touch it. Yet the dollar's rule has brittle foundations, and the system it underpins is unstable. Worse, the alternative reserve currencies are flawed. A transition to a more secure order will be devilishly hard.

For decades, America's economic might legitimised the dollar's claims to reign supreme. But a faultline has opened between America's economic clout and its financial muscle. The United States accounts for 23% of global GDP and 12% of merchandise trade. Yet about 60% of the world's output, and a similar share of the planet's people, lie within a de facto dollar zone, in which currencies are pegged to the dollar or move in some sympathy with it. American firms' share of the stock of international corporate investment has fallen from 39% in 1999 to 24% today. But Wall Street sets the rhythm of markets globally more than it ever did. American fund managers run 55% of the world's assets under management, up from 44% a decade ago.

The widening gap between America's economic and financial power creates problems for other countries, in the dollar zone and beyond. That is because the costs of dollar dominance are starting to outweigh the benefits.

First, economies must endure wild gyrations. In recent months the prospect of even a tiny rate rise in America has sucked capital from emerging markets, battering currencies and share prices. Decisions of the Federal Reserve affect offshore dollar debts and deposits worth about USD9 trillion. Because some countries link their currencies to the dollar, their central banks must react to the Fed. Foreigners own 20-50% of local-currency government bonds in places like Indonesia, Malaysia, Mexico, South Africa and Turkey: they are more likely to abandon emerging markets when American rates rise.

At one time the pain from capital outflows would have been mitigated by the stronger demand—including for imports—that prompted the Fed to raise rates in the first place. However, in the past decade America's share of global merchandise imports has dropped from 16% to 13%. America is the biggest export market for only 32 countries, down from 44 in 1994; the figure for China has risen from two to 43.

A second problem is the lack of a backstop for the offshore dollar system if it faces a crisis. In 2008-09 the Fed reluctantly came to the rescue, acting as a lender of last resort by offering USD1 trillion of dollar liquidity to foreign banks and central banks. The sums involved in a future crisis would be far higher. The offshore dollar world is almost twice as large as it was in 2007. By the 2020s it could be as big as America's banking industry. Since 2008-09, Congress has grown wary of the Fed's emergency lending. Come the next crisis, the Fed's plans to is-

sue vast swaplines might meet regulatory or congressional resistance. For how long will countries be ready to tie their financial systems to America's fractious and dysfunctional politics?

That question is underscored by a third worry: America increasingly uses its financial clout as a political tool. Policymakers and prosecutors use the dollar payment system to assert control not just over wayward bankers and dodgy football officials, but also errant regimes like Russia and Iran. Rival powers bridle at this vulnerability to American foreign policy.

Americans may wonder why this matters to them. They did not force any country to link its currency to the dollar or encourage foreign firms to issue dollar debt. But the dollar's outsize role does affect Americans. It brings benefits, not least cheaper borrowing. Alongside the "exorbitant privilege" of owning the reserve currency, however, there are costs. If the Fed fails to act as lender of last resort in a dollar liquidity crisis, the ensuing collapse abroad will rebound on America's economy. And even without a crisis, the dollar's dominance will present American policymakers with a dilemma. If foreigners continue to accumulate reserves, they will dominate the Treasury market by the 2030s. To satisfy growing foreign demand for safe dollar-denominated assets, America's government could issue more Treasuries—adding to its debts. Or it could leave foreigners to buy up other securities—but that might lead to asset bubbles, just as in the mortgage boom of the 2000s. Ideally America would share the burden with other currencies. Yet if the hegemony of the dollar is unstable, its would-be successors are unsuitable. The baton of financial superpower has been passed before, when America overtook Britain in 1920-45. But Britain and America were allies, which made the transfer orderly. And America came with ready-made attributes: a dynamic economy and, like Britain, political cohesiveness and the rule of law.

Compare that with today's contenders for reserve status. The euro is a currency whose very existence cannot be taken for granted. Only when the euro area has agreed on a full banking union and joint bond issuance will those doubts be fully laid to rest. As for the yuan, China's government has created the monetary equivalent of an eight-lane motorway—a vast network of currency swaps with foreign central banks—but there is no one on it. Until China opens its financial markets, the yuan will be only a bit-player. And until it embraces the rule of law, no investor will see its currency as truly safe.

All this suggests that the global monetary and financial system will not smoothly or quickly wean itself off the greenback. There are things America can do to shoulder more responsibility—for instance, by setting up bigger emergency-swaplines with more central banks. More likely is a splintering of the system, as other countries choose to insulate themselves from Fed decisions by embracing capital controls. The dollar has no peers. But the system that it anchors is cracking. ■



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# The Dirty Word “Nationalism”

Philippe de Lara

Why absurd opinions on “Ukrainian nationalists” are so persistent, and need to be refuted again and again

**T**he reactions abroad to the violent demonstration in Kyiv on August 31<sup>st</sup> remind us of a twisted complication in the mutual relations between Ukraine and Europe. Europe is the future of Ukraine, Ukraine is the future of Europe. This should be obvious. But one dirty word mixes up the obvious: “nationalism”.

Europe backs the struggle of the Ukrainian nation for freedom from imperial domination, but Europe too often understands itself as beyond nations if not against them, and is therefore prevented from giving full support to Ukraine. This situation introduces reluctance and misunderstanding in the midst of Europe’s commitment for Ukraine. Europe is happy to support a revolution based on its values, aiming at establishing a modern State, efficient and respectful of human rights and free speech. But it is not fully in line with the national aspiration of Ukrainians because Europe should be a “post national” entity, according to current European ideas. This is even the ultimate European value: free circulation, “constitutional patriotism” — that is a community based exclusively on political principles and not on shared history and culture, and on the overcoming of national identities, suspected of parochialism if not xenophobia.

Since the beginning of the Maidan revolution, there has been a recurring tendency in the West to overrate the importance of “nationalists”, “radicals”, “fascists”, even “neo-Nazis” in the uprising against Yanukovich. This rhetoric is used and abused by pro-Kremlin people of course, but it also finds an echo among people more sympathetic to the Maidan.

Three contentions are pretty commonly held, although they are not so much false as absurd: 1) Radical nationalists in Ukraine are far right activists, even fascists, even neo-Nazis for some of them; 2) they constitute a danger for Ukrainian democracy, threatening the elected government, and creating a climate of civil war; 3) it is a big mistake from the government and Maidan activists to work together with these groups, to allow them to contribute to the war in Donbas or any other policy.

The first one is based on a very confused perception of the extreme right in Europe. The second is at best (or at worst!) a self-fulfilling prophecy, far from truth: even if discontent and impatience towards the government are growing and can be manipulated, they have nothing to do with civil division (West versus East, Russian-speaking versus Ukrainian-speaking people, Catholics versus Orthodox, Nationalists versus Democrats, or the like). These

are typically bottom-up tensions, whereby simple folk and activists wonder whether the political elite is worth their trust. As a friend from abroad, I understand them sometimes, but I often feel that they should not be so impatient nor underestimate the steps already completed. The third contention is ridiculous considering the poor results of Svoboda and Pravy Sektor in elections or in polls. Besides, however narrow-minded and alien to liberal values, these parties are decent members of the democratic game, far better integrated in it than, for instance, the Sinn Féin in Ireland or the religious Right in Israel.

So if these opinions on “Ukrainian nationalists” are absurd, how do they come to be so persistent, and need to my regret to be refuted again and again? The problem is that these myths are not only generously fuelled by Kremlin’s propaganda; they also meet deeply entrenched beliefs in the old democracies.



**THE WESTERN MIND FEELS UNEASY  
WITH IDENTITY AND CULTURAL ISSUES.  
IT FANTASIZES A NEUTRAL SOCIETY**

Since 1945, Soviet propaganda has succeeded in equating any enemy of the USSR with “fascism”, changing the notion of fascism into a fuzzy scarecrow, a moral label used for all kinds of enemies, creating a subconscious identification of the US, “bourgeois democracy”, nationalism, liberalism, etc. with the worst evil, Hitler. This fantasy is a gross lie: if fascists were once the enemy of the USSR, it does not mean that every enemy of the USSR is a fascist, or that Russian regime is clean from fascism. Indeed, there used to be red fascism under Brezhnev, and Andrei Piontkovsky rightly labels Putin’s regime as “hybrid fascism”. Under the spell of the soviet vision of history, some people fall into the trap: Ukrainian nationalists are collaborators of Nazism, anti-Semitic, no crime is worse than being a “banderite”, yesterday and today. Lack of historical consciousness helps in confusing very different things, past and present, far-right, neo-Nazis and nationalists, under the fuzzy headings of “populism” or “nationalism”. It should be obvious that fascists are not nationalists, that the far-right in Europe, from the neo-Nazis of Golden Dawn in Greece, Jobbik in Hungary, or NPD in Germany to less radical parties, like the National Front in France, Alleanza





**The division line.** Europe is happy to support a revolution based on its values, but the current European idea is of a “post national” entity. This is not fully in line with the national aspiration of Ukrainians

Nazionale and Lega Nord in Italy, are today in love with Putin. The European extreme right is divided between national xenophobes (FN, UKIP) and ethnic Regionalist enemies of the nation State; but it is united in the hatred of Ukraine, fuelled by the Kremlin’s support, notably through the World National Conservative Movement launched in Saint Petersburg. The German neo-Nazis marched with Donetsk People’s Republic flags in August (Gerhard Schröder and the pro-Putin establishment must have felt very uncomfortable!). It is then completely odd to confuse these parties with the Ukrainian nationalists of Pravy Sektor and Svoboda.

This fatal tendency is the lever where the Kremlin’s denial of Ukrainian legitimacy can rely on a convergence with European most democratic feelings. Whenever Russian propaganda equates (Ukrainian) nationalism with “fascism”, it uses a threadbare soviet argument, but it also rings a friendly bell to

the democratic ears in the West. Openness to otherness has turned to self-hatred in the Western mind. People feel uneasy with identity and cultural issues, they fantasize a neutral society where every culture, religion, way of life should have an equal share, something like an international airport rather than a genuine country where different people live together, bump up against one another, instead of passing one another by. Paradoxically, the ultimate brand of liberal-democratic values meets here the imperial ideology, and offers it a fertile ground against Ukraine. The Ukrainian revolution brings Europe to clarify this mess. The true Europe is not a “post national” entity, something like an empire without weapons; it is rather a scheme against empires, devoted to freedom, prosperity and sovereignty of small homelands in a globalized world. This is not the least good, the least revelation that may result from the Ukrainian revolution. ■

# The Minsk Mirage

Ihor Losev

Will those in power use the ceasefire time to prepare?



**The uneasy calm.** The unpredictable enemy forces Ukraine to stay ready at all times and expect an attack any moment

**T**he Poroshenko Administration happily points out that, finally, thanks to its tireless efforts, we—supposedly—have peace in Donbas. In fact, this looks like a temporary lull. No one has any idea how long it will last—once Vladimir Putin’s speech at the UN General Assembly has been applauded and the Russian dictator has paraded in front of the world community in the guise of a peacemaker.

There are no guarantees behind this “peace.” Indeed, the fate of the 1994 Budapest Memorandum has likely persuaded most Ukrainians that the guar-

antees of any of the leading western countries are fairly worthless.

At this point, everything depends on the internal processes in the mind of the Russian leader, because the Russian Federation lacks the mechanisms to restrain any further autocratic adventures. It’s entirely possible that Putin will decide to untie the geopolitical knot in one fell swoop, by a frontal attack on Kyiv, Dnipropetrovsk and Odesa, leaving the world to deal with a fait accompli. Other than the babbling of politicians, how do we know that this will not happen?

And so, Ukraine must hope for the best but prepare for the worst. If a frontal attack by Russian Federation troops is probable, it will most likely take place in a number of most strategically promising directions.

What can and should Ukraine do, to protect itself from such a dreadful eventuality? Time is running out. What should have been taken care of in emergency mode for a year and a half will be hard to accomplish in the two or three weeks of Putin's "truce."

For instance, a system of fortifications should have been set up long ago in the border counties running from Chernihiv in the north to Berdiansk in the south, a kind of eastern ramparts that would cover the left bank of the Dnipro, and fortifications around Kharkiv, Dnipropetrovsk and Zaporizhzhia.

Ukraine also needs a strategic "curtain" all long its border with Belarus, at least for as long as that country remains a protectorate of Moscow.

Sooner or later, all of this will have to be done if Ukrainians or the government of Ukraine intend to survive as an independent state. This is the main, decisive factor, not holding local elections that will not fundamentally change anything. And if the campaign must go on, then make it presidential and Verkhovna Rada elections, since the current lot have demonstrated for all to see their phenomenal ineffectiveness.

For instance, a good Administration would understand that, while using the break from active military action, the top leadership of the Armed Forces needs to be removed with talented, experienced mid-level commanders replacing them in key positions, those who have shown themselves the best in active battle in the East. Incidentally, President Poroshenko has already given the nod to a proposal from this author, among others, to institute in Ukraine's military chain-of-command the rank of Brigadier General for those officers who have particularly distinguished themselves in war. Still, this is not about epaulettes, but about providing a career opportunity to talented soldiers and getting around the soviet bureaucratic system of promoting command personnel in the army.

The real problem is how to separate the wheat from the chaff, the really capable, skilled commanders from the hopeless and useless ones, and to hand over the running of the Armed Forces to the former while eliminating the influence of the second group on military command. A Brigadier General is essentially a candidate for joining the country's top brass. The potbellied soviet throwbacks filling Ukraine's military posts need to be removed as quickly as possible, as they are only getting in the way of a properly running national defense system, spending their time looking for ways to increase military paperwork, and avoiding actually going to military positions for months on end.

Soldiers and officers need to see their generals and to trust them. In successful armies, top commanders run their forces directly on the frontlines, risking their own lives and limbs. How can Ukraine expect this kind of dedication from men whose military spirit was completely degraded during the unabashed corruption of the post-soviet period?

Judging by its actions so far, the 'strategy' of the current government in this war comes down to sitting it out or outlasting Putin. And this kind of 'smart strategy' guarantees that Ukraine will lose. Fortifications are needed, defensive battles are needed, but no one seems capable of stopping a maneuver, engaging in mobile actions, or providing a rapid response to the actions of the enemy, let alone establishing Ukraine's own agenda at the front. For this reason and without further ado, the deep rear-guard needs to be forming three or four mobile divisions of about 50-60,000 soldiers in total, armed to the teeth and properly outfitted, including with quality officer ranks. These could then be used to respond to the potentially most threatening points of attack that the aggressor's forces are likely to use and themselves constitute a serious threat to the enemy. This would be Ukraine's strategic mobile reserve.

Since no one can guarantee that Russia won't continue using its air force against Ukraine, the country also very much needs an anti-aircraft defense system. Right now, Ukraine's air forces are very weak, thanks to the four previous presidents, and a full-fledged air force is far too expensive a form of armed forces, as is a navy. Many countries cannot afford themselves a modern air force: NATO members Estonia, Latvia and Lithuania have no air force at all. Their airspace is defended by military planes from allied countries like Great Britain, Canada, Belgium, Denmark and the Netherlands. Ukraine could compensate for its paucity of fighter



**THE DEEP REARGUARD NEEDS TO BE FORMING THREE OR FOUR MOBILE DIVISIONS OF ABOUT 50-60,000 SOLDIERS IN TOTAL, ARMED TO THE TEETH AND PROPERLY OUTFITTED, INCLUDING WITH QUALITY OFFICER RANKS**

jets by having a large field of surface-to-air missile systems (SAMs) and electronic warfare (EW) capabilities. All the more so, that Ukraine has its own MIC production facilities and can re-profile them to make this kind of weaponry. However, this means that all of Ukraine's industries should be put on a war footing, along with the government and all its institutions.

This brings up another important point. Some of Ukraine's territory may be occupied for now, but enough of the population under occupation is really patriotic and could realistically be organized into partisan units and underground resistance groups. Unfortunately, it seems that those in power are deathly afraid of a patriotic movement among the people, because it recognizes that these Ukrainians are realistically not only against external enemies of their country, but also against those who some patriots call "the internal occupation."

For now, I'm more than certain that the current Administration will not make effective use of the temporary "truce"—at least not in the interests of Ukraine—because that is also its standard modus operandi. ■



# How Much Longer This War?

Interviewed by **Stanislav Kozliuk**

***The Ukrainian Week*** polls the military, officials and politicians about the prospects for a longterm ceasefire



**RUSLAN TKACHUK,  
Commander, Military-Civilian  
Administration, Triokhizbenka,  
Luhansk Oblast**

It's quiet in Triokhizbenka now, but the threat of terrorist acts is still there. We're constantly finding arms and ammo in Luhansk country. The biggest problem for us right now is mines and tripwires. There are almost no maps of mined fields and how do you defuse tripwires? It can sometimes be that one day is quiet and the next day, guys blow themselves up. This ceasefire came as a surprise and while it's quiet, we want to get buildings up before the cold sets in. Most of them are without roofs or glass. We also need to get furnaces that burn hard fuels as there is no gas to heat outpatient clinics, kindergartens, schools, or our administration. What's worse, some of our villages are in a grey zone. For now, we're re-registering locals so that they can cross into Ukrainian territory. It's painstaking work because there's always the danger of giving the militants opportunities to move into Ukraine, so you have to check people over and over again. We also have to make sure that food gets to these areas. At the moment, we're doing this through local shops, which are organizing mobile kiosks. Not long ago, we resolved the issue of vehicles going through checkpoints with firewood, coal and foodstuffs. There's a problem also with informing people. Our mobile communication is patchy, while televisions only broadcast the national channels, which have little of value to tell the people of Triokhizbenka. So we collected some money and installed a small radio transmitter to cover 30 kilometers. Now we plan to issue receivers to locals and then we'll be able to let them know what's going on in the general area. We're behind on our winter preparations. To heat Triokhizbenka, we need an entire convoy of vehicles. The only thing that might save us is if the natural gas starts flowing again. But it will not be coming from Severodonetsk as announced, but from Sloviansk [territory controlled by the militants. Ed.] If this happens, then it will be confirmation that this ceasefire is for the longer term.



**IHOR LUTSENKO,  
National Deputy, Batkivshchyna faction**

I think we can count on a lull, but I wouldn't go so far as to call it a ceasefire. A ceasefire means both sides are putting in an effort. This is simply the result of obvious social and military processes. Both sides are exhausted, and have neither the opportunity nor the desire to engage actively right now. And this inevitably leads to a lull. Later on, other factors could emerge that might lead to renewed escalation, but right now they aren't there. This is the time for us to counterattack, but not in the military arena. On other fronts: legal, political and economic. If not for the initiative of the Crimean Tatars to blockade Crimea, time would be wasting. But right now we are counterattacking on the informational front. This is the right thing to do. The annexation of the peninsula is once more under discussion. When it comes to Donbas, we have to protect ourselves against the occupied territories. In contrast to Crimea, we're being shot at from there. So we need to arm, to undertake military training and establish a system for preventing terrorist attacks. Any attacks needs to be exposed and there has to be some form of prevention. And if the terrorists manage to attack, our response has to be hard. Maybe this isn't quite in line with Minsk, but it's obvious that no one's about to carry them out "as is" anyway.



**YEGOR SOBOLEV,  
National Deputy,  
Samopomich faction**

During this truce, the Armed Forces are faced with a major challenge: to establish a proper General Staff. Unfortunately, we have not taken advantage of the experience of the fighting commanders and continue to be led by ex-soviet generals. This is a tragedy for all of Ukraine, not just the soldiers. Our second challenge is to replace all the courts and the prosecutors in order for rule of law to work. Challenge #3 is to get the state out of the economy as much as possible. If we succeed, we will return to economic growth, which will allow us to rearm our military. I see three possible Minsk outcomes, each of them being pushed by one side or another. In committing himself to Minsk, President Poroshenko wants to win the battle for independence with the help of western sanctions and economic pressure on the Russian regime. Putin wants to use Minsk to set up heavily-armed anti-Ukrainian enclaves within Ukraine that is formally under Ukrainian law but effectively run by the Kremlin. The third scenario is that of Western countries: let Ukraine and Russia work things out on their own without causing us any problems. Unfortunately, none of these approaches will lead to lasting peace. What's more, we longer we kid ourselves that there are other ways of defending independence besides a strong army, a healthy economy and a consolidated society, the longer this war will last.



**TARAS CHMUT,  
marine,  
Ukrainian Armed Forces**

In principle, the ceasefire is being upheld by both sides right now. We have orders not to open fire, even if they start shooting at us. From what we can gather from intercepting radio communications, it's the same on the militant side. At this time, the army should continue to make itself more battle-ready, repair equipment and get new equipment ready to use, buy more weapons, prepare defensive lines, establish alternative positions, a second line and a third line. To some extent this is already happening. New units are being formed, staff is being expanded, equipment is being repaired and replaced. It's a slow process and for obvious reasons it can't be any faster. I don't see the conflict escalating significantly right now. There can't be any attack from either side as no one has the forces or the resources at this point. There might possibly only be some kind of accidental exacerbation, but it won't promote any strategic goal. It can only lead to losses, like the militants suffered outside Mariyinka. If Ukraine tries to attack, the situation will be the same. For now, it's all working towards a frozen conflict similar to Transnistria. I don't think that we will properly control the occupied territories, but they won't be able to bother us, either.



**YEGOR FRISOV,  
National Deputy,  
Petro Poroshenko Bloc  
faction**

We have a ceasefire and so far it's holding. Every day, we're seeing now that not a single soldier has been wounded or killed because of military action. This ceasefire is important for Ukraine because it gives us a chance to strengthen our defense capabilities. We need to keep in mind that conflict could flare up with new force any day. It could happen after the UN General Assembly [at which Putin will be speaking. Ed.] or after the fake elections — if they even take place. As far as I'm concerned, Ukraine needs to learn to live as an integral state without looking at Donbas too closely. This conflict could continue a year, two, five. It won't be seriously resolved tomorrow or the day after. As long as Putin's regime is strong, the confrontation will continue. But we have to move on and carry out our own agenda. First of all, this means reforming the defense sector. As to the occupied territories, we need to follow a policy of moderate isolation. As long as this territory is out of control, as long as the Minsk accords are not being carried out — that is, heavy artillery is not moved away and the Ukrainian border is not under our control — we should not provide electricity, supply gas, or issue social benefits to the people there. So far, we're doing the right things, but we need to speed things up in some areas, starting with defense and ending with the civil service. It's hard to know which way things will go. Putin is constantly stirring the pot and the latest statements about the elections are just a way of raising the stakes a bit higher. The RF president is going to go to the UN General Assembly and he's certain to try to get some concessions in exchange for cancelling these "elections." The rest of us all have to understand one thing: if they do take place, that's the end of Minsk.



**MUSA MUHAMEDOV,  
General Manager,  
Avdiyivka Coking Plant**

So far the ceasefire is holding. During this time, we are trying to restore everything that was damaged by shelling. For instance, on the fifth day of the ceasefire, we were able to de-mine the area leading up to the power transmission lines. We're patching up holes, bringing in materials and producing coke. Railway workers and sappers are helping us assess the damaged railway lines between Yasynuvata and Avdiyivka. The other side is doing the same thing. We're trying to calculate the damage. Of course, if we really are to restore the railway, we're going to need the support of certain services, such as the border patrols. We're restoring the town as well. We bought materials to restore the central heating system and handed it all over to Avdiyivka. We're also helping the hospital move to another building. The municipal services are working the same as us. It's important to understand that this is work that has to be carried out in order for the city to survive the cold season. I hope that the lull in active fighting will give us this opportunity. I know that the Ukrainian side has issued strict orders not to fire and they are being followed. As far as I know, similar orders have been issued on the other side. Earlier, everybody talked a lot about unruly units on both sides that were continuing to fight. As it turns out, everything is deliberate and it can all be controlled. Of course, if there's a political solution, the ceasefire will last. No one in particular's going to start shooting. But if no political solution is found, we can expect to see the conflict flare up again.



BOOKSTORE





# Norman Naimark:

“One thing you feel in Ukraine, Donetsk or Crimea is this almost unbearable pressure that Russia is putting”

Interviewed by  
**Hanna  
Trehub**

**T**he *Ukrainian Week* spoke to the American historian about propaganda and political manipulations as triggers of genocides in the 20<sup>th</sup> century, forced resettlements in Europe and repressions against Crimean Tatars as part of Russia's war crimes today.

**The genocide of Armenians and the forceful expulsion of Pontic Greeks preceded the collapse of the Ottoman Empire and the establishment of the modern Turkey. Why do you place an accent on those developments? What role do they play in our comprehension of the 20<sup>th</sup> century genocides?**

My newest book which will come out in spring-summer next year is called “World History of Genocide”. The phenomenon of genocide has been present in three millennia of human history. It's not that we are evil within ourselves. But humans living in the society have a proclivity to turn on minorities or others in one way or another, and eliminate them.

The 20<sup>th</sup>-century genocide actually does not begin with Armenians, but with the genocides of the Herero and Nama people in South-Western Africa by the Germans in 1904-1907. The next major case is the Armenian genocide at the end of the Ottoman Empire. It then carries forward to the present, where we have cases of genocide in Darfur, Rwanda and others.

Why does it happen? There are different periods in the history of mankind. The 20<sup>th</sup> century has a lot to do with what you might call “race thinking” and the development of modern states, which went in the hand of people who were ready and able to use it. As a way to build their own power, they were willing to exploit some popular feelings of resentment against other people, whether it was Jews, gypsies or Ukrainians, and try to eliminate them. That is pretty much genocide by the UN definition of 1948.

The genocide of Armenians and expulsion of Pontic Greeks happened in 1915, i.e. way before Atatürk, and it was part of a larger story of Turkey, meaning the Ottoman Empire under the Young Turks. The movement's leaders, Talaat Pasha, Enver Pasha and Djemal Pasha, were worried about the preservation of their empire in 1915. The Russian Empire was one of their main opponents—it supported Armenian attempts on autonomy within the Ottoman Empire. The Young Turks interpreted this as a danger to their very existence. Another danger, in their view, came from the British who, after the war, more or less forced the new “regime of human rights” for Armenians within the Ottoman Empire. The Armenians themselves—some of them, more specifically,—did look to the West to help them protect their rights, because they had experienced some massacres and pogroms under the Turks. All of this together worked to gather a storm of resent-



ment and anger against Armenians on the part of the Young Turks. So, their first measure between 1914 and 1915 was to deport several hundred Armenian intellectuals from what is Istanbul today. And that was the beginning of “a gathering storm”, where deportations turned into the mass shooting of men and driving women and children across the desert, towards Mesopotamia (modern Syria and Iraq). When they started to die in huge numbers, the Young Turks basically decided to let them die. Even when American Ambassador Henry Morgenthau went to Talaat Pasha and said that “tens of thousands of people are dying. We have to do something about it”, Talaat Pasha basically said that it was the fault of Armenians, so let them die. We don’t know exactly how many Armenians were killed then. Estimates range somewhere around 1 million people. Armenians claim it’s a million and a half. That was genocide because the Turkish government more or less created the conditions for those people to die, and did not stop even knowing that they would.

Under the Ottomans, Armenians lived in so-called *millet*s, or religious communities. They were able to trade, live as they wanted and practice their religion. Then, gradually, the system started to break down in the 19<sup>th</sup> century. By the early 20<sup>th</sup> century, Armenians saw big pogroms and increasing resentment as they looked outside the Empire for help and protection, which the Turks didn’t like. The result was a terrible catastrophe.

**Do you trace any common aspects in all genocides of the 20<sup>th</sup> century, from those committed by the German Reich to the slaughter in Darfur? What are they, if any?**

These are political decisions made by the leadership of the countries for their own purposes. And they find excuses. Take Ukrainians: Stalin thought in the 1930s that, should the Poles invade and take over the soviet territory, there would probably be quite a few Ukrainians interested in joining the Poles against the Russians. Or take the example of Yugoslavia, the Serbs and Milosevic. I spent a lot of time in the Balkans to comprehend the history of resentment between Bosnians, Serbs and Croats. This sentiment had been very muted, things were actually good between them for decades after WWII. But then, it was something that could be exploited by political leaders like Miloshevic, who managed to convince Serbs that Muslims were terrible enemies. The same thing happened to Croatia. The Croats began to look at the Serbs as terrible people and enemies. Without that political manipulation you wouldn’t have genocide. You need state armed forces to create one.

Take *pogroms*. Some, like the ones against Jews in the 19<sup>th</sup>-century Russian Empire, happened spontaneously. But that’s different from genocide, where the state gets involved in elimination and persecution of part of its people, while convincing others that there are good reasons for doing this. It’s about politics and political leadership. They can prevent mass killing, they can be indifferent to it, or they can perpetrate it. Genocide is almost always about perpetration of mass killing.

**You’ve talked of two sides — political regimes and victims. But the third one is societies. Do they affect the way genocides unfold?**

It’s crucial. In almost every case of genocide you see a kind of propagandistic exploitation of people’s lowest instincts to make them hate, dislike and remove the people who are being persecuted. The population is vulnerable to this, especially in hard times of economic troubles or social upheaval. People are vulnerable to the idea that others are to blame, that it’s not their own responsibility. Again, the classic case is the Jews or Armenians. In Ruanda, the Hutu would blame everything on the Tutsi. Stalin’s killings involved propaganda, but they were much more about a police state. Propaganda was used to justify what had been done, to tell party members or colleagues that “these people are to blame”, i.e. Ukrainians were to blame for their own troubles during collectivization. However, Stalin was not interested in drumming up popular hatred against Ukrainians. He was using the police state apparatus instead. For that, you need less popular involvement. And still, Stalin’s repressions had hundreds of thousands of people involved.

**Nazi crimes, including the Holocaust, faced the Nuremberg tribunal. Stalin was the leader of the Soviet Union, one of the victorious parties in WWII, therefore he faced no trial that would give just assessment to his genocides, deportations of entire peoples or other crimes. Is it possible to have at least a symbolic trial for the crimes of Bolsheviks and Communists today? Who would have to initiate one?**

The symbolic court right now is history. As to judicial options, there seem to be few. Right after the fall of the Soviet Union, soviet dissident Vladimir Bukovsky tried very hard to set up a kind of Nuremberg for Stalin and the soviet system, as well as Communism in general. There was hope early on that there would be some kind of judicial coming to terms with Stalinism and Communism. Bukovsky was able to get a lot of documents that were published in the West, but he never managed to get the Russians to be involved in a court and bring this in front of judicial proceedings.

Not all Russians admire Stalin today: about 50-55% do. This means that 45% know about his crimes. But the way the Russian increasingly authoritarian government, as well as the press, TV and propaganda are working now, results in a feeling that the West is out to get them in Russia. So, it wouldn’t do any good to have such a court of justice against Stalin and his crimes in the West. They would just say that it’s one more anti-Russian activity on our part. All we can hope for in terms of judicial procedures is groups like Memorial which do a fantastic job, but they’ve been having troubles recently. They can no longer get money from »

**Norman Naimark** is Professor at Stanford University and a senior fellow at the Hoover Institution. One of the top experts in soviet history, Mr. Naimark specializes in the rise of Bolshevism and Communist regimes in Eastern Europe, nationalism in the USSR, the role of Eastern Europe in World War II, Russian and Polish revolutionary movements, ethnic cleansing and genocides. He wrote a number of books, including *A Question of Genocide: Armenians and Turks at the End of the Ottoman Empire* (2011), *Stalin’s Genocides* (2010), *Fires Of Hatred: Ethnic Cleansing In 20<sup>th</sup> Century Europe* (2001), and *The Russians In Germany: The History Of The Soviet Zone Of Occupation* (1995), among others.

the West without being accused of being spies. It really is quite a terrible situation.

Still, there are people who know exactly what happened. There are books published in Russian, with plenty of documents about Stalin's crimes. There are few radio stations, such as Echo Moskvy, which have very honest historians who talk about Stalin's crimes. I don't think there is going to be any reckoning judicially. It is now really about historians to sit down and do their job properly, trying to understand what Stalin did and why he did it. It's important to understand that there is still disagreement among historians about this. Some of my friends and colleagues don't like my books about Stalin's genocide, and thought that "you can't accuse Stalin of genocide".

**The history of mass deportations of certain ethnic groups is not only about Crimean Tatars or Chechens expelled by Stalin. It is also about the Germans, the Poles and Ukrainians who had been driven out from where they lived and resettled to different places after new borders were set as a result of WWII. Were these deportations really unavoidable in the process of redrawing borders?**

Some people would say that you had to have ethnically pure Poland, Ukraine or Turkey. But my view is that there was absolutely no good reason or need for these mass deportations. I was just in Lviv—you can smell and see the multinational city that is was with Poles, Ukrainians, Jews, Austrians, Germans, Tatars, Armenians and others. It was a wonderful mix of peoples who lived next to each other. There wasn't a lot of assimilation. They didn't intermarry very much, kept separate, and had their own church, economies and sections of the town. It's wonderful to see all this in the architecture, but it's also sad and unnecessary that the peoples had to become "unmixed". This "unmixing" of populations, an artificial one, which happened throughout Eastern Europe and included ethnic cleansing, killings and driving people out of their homes, was a terrible thing.

At the end of the war and the beginning of peace, the Poles and the Czechs basically got the permission of the allies to drive out the Germans. Nobody really cared much about the Germans in 1945 given what they had just done. So they were driven out violently—I called this "ethnic cleansing" in one of my books. Some Polish, Czech and German historians don't like that. Many of those Germans were killed, some of them committed suicide, some were raped and driven out. That was one of the biggest mass movements of people in history of Europe, involving 11.5-12 million. Now, those parts of Europe don't have Germans, just like they don't have Jews left. That's a shame, because many of them had been there for centuries.

The other part of the story has to do with the Polish-Ukrainian problem and the fact that the Polish Communist-run government and the Soviet one had an agreement whereby they would exchange populations, conduct "repatriation". But it wasn't repatriation. The Poles had lived in the East—places like Lviv or Vilnius—for years. But they were mostly forcibly removed, although they didn't want to go. My wife's father lived in a small village outside of Lviv. The family was packed up and told to go. They had no choice. They were sent to Silesia, a town called Gnadenfeld (today, the village

of Pawlowiczki in south-western Poland—Ed.) that was all German. The Germans were, too, packed up and sent out. Ukrainians were sent out from south-eastern Poland in Operation Vistula to parts of western Poland where few people were left by that time.

In some parts of Eastern Europe, such as Poland, you see a revival of interest both in the Germans and in the Jews. They are rebuilding Jewish monuments in Poland, including a new fantastic Jewish museum where they talk about the fact that for hundreds of years the fifth of the population in Poland was Jewish, and it gave a lot to Polish culture and society. In Wrocław, they are rebuilding German monuments. They want to talk about the past together. It is as if there are ghosts of all these peoples there. But you don't want to live just with ghosts. That's why Ukrainians worry about Crimean Tatars who may be expelled from their peninsula again.

**Stalin's deportations of Crimean Tatars and Chechens continue in modern time with two wars in Chechnya, then the annexation of Crimea. In all of these, Russia is involved. What should we remember and note in order to prevent another possible genocide or ethnocide in our days?**

The wars in Chechnya were terrible, brutal confrontations, where what you might call "counterinsurgency" on the part of the Russians went beyond any reasonable attempt to hold on the territory. In other words, their idea was to keep the Chechens from separating. On the next level, they destroyed so much and so many people that it became a horrible case of what I would call "crimes against humanity", massacres, torture. Those are probably the rubrics where the Chechen wars fit.

In the case of today's Crimea—the last time I went to teach there was probably four summers ago, and one thing I noticed there was that many people felt that they belonged in Russia, not in Ukraine—Putin's attacks were against international law. This is a war of aggression and it's certainly possible that war crimes are being committed by the Russians in Crimea. Look at the two Ukrainians—Oleh Sentsov and Oleksiy Kolchenko (sentenced to 20 and 10 years in Russian prison



**IN ALMOST EVERY CASE OF GENOCIDE YOU SEE A KIND OF PROPAGANDISTIC EXPLOITATION OF PEOPLE'S LOWEST INSTINCTS TO MAKE THEM HATE, DISLIKE AND REMOVE THE PEOPLE WHO ARE BEING PERSECUTED**

respectively—Ed.). But this is not genocide or crimes against humanity. It is putting pressure. One thing you feel in Ukraine, Donetsk, Crimea is this almost unbearable pressure that Russia is putting on Ukraine. There is a lot pressure on people in Crimea to leave or say they are Russians. The same thing with Crimean Tatars—they can leave for the continental Ukraine, but actually they have nowhere to go; the peninsula is their home. They fought hard to get back there after the exile in 1944. I don't think they will submit or leave easily despite even this pressure on their land and ability to support themselves, and amidst the economic situation that's going downhill. ■



# Jerzy Onuch:

“Very few cultures are global, so it’s not worth being creative for export”

Interviewed by  
**Anastasia  
Levkova**

**J**erzy Onuch is one of those rare people with whom it is possible to have a really meaningful discussion about arts management. Onuch has worked in this area for many years, running the Polish Institute in Kyiv from 2005 through 2010, then the Polish Cultural Institute in New York. Prior to that, he was the director of the Center for Contemporary Arts funded by the George Soros Foundation in Ukraine’s capital.

But management is not the only topic worth discussing with Onuch. An artist himself, he has never looked at being a manager in the arts as a goal in and of itself, but rather as an alibi that provides him with a means to develop his own ideas about what art and culture are meant to be, in general.

**How does the role of art change in relation to the time and place in which it is created?**

All things change and when life in a society changes, art, as one of its components, changes too. The question is whether it serves a different function. We can look at art from the point-of-view of different epochs and find many differences, but there are certain components that remain unchanged, certain fundamen-

tal issues that art attempts to answer: about human fate, about who we are, what our place is in our society, in this world as a whole. There aren’t many such questions but there are different ways of approaching them. For instance, there were chairs hundreds of years ago and there are chairs today, but a chair remains a chair, even if every epoch and every maker tries to find a suitable form for it.

At this point I’ve come to the conclusion that the most important thing for an artist is to be working in their art. The debate about what is more important, form or content, has been going on for centuries, but content is pretty limited. There really isn’t that much you can talk about. What distinguishes art from era to era, from country to country is its form. And the artist offers a particular form to convey immutable content in a new way.

**In your presentation at the Eastern Partnership Culture Congress in Lviv, you noted a category of artists who create with the purpose of providing the contemporary individual with interesting entertainment. Are there really a lot of people who look on art as something to fill their free time with?**

»



Of course, there are. People often don't care to answer complicated questions or to even raise them, let alone have someone else raise them, but they do want to fill time, which has become far more expansive than in any previous era. So it's hardly surprising that artists often try to first understand what their society is most prepared to accept, to understand the tastes of their target groups, and then to create something that will satisfy this.

**So for you, as an artist and a consumer, what's the most important thing about art?**

Simple questions and simple answers. I don't mean simplistic, or primitive, or superficial, but simple and fundamental. They need to have been distilled. Creative people allow their environment, their civilization and their culture to permeate them and they then offer this distillate. The calling of an artist—and the true artist can be seen as the descendant of prophets, priests and sage—is to think about fate, the meaning of life, the possibilities for being one with the world... that is, to raise fundamental questions and at the same time to cultivate form.

In my life, I've also had the opportunity to work with an artist in other categories: maybe this wasn't art for entertainment purposes—even if it sometimes had some entertainment value, it was with a different purpose—but I was actively involved in art as commentary on social events. Now I understand that social commentary and propaganda in art are not that interesting, for me.

**OK, if we're going to talk about propaganda, then we all remember the example of Leni Riefenstahl: high art with unhealthy values can effectively work for evil. How should this be seen? Can art be damaging?**

This is a very difficult question. You can't just say yes or no. When it comes to Leni Riefenstahl, her work was clearly at a very high level of awareness from an academic and formal point-of-view. She herself always said that the formal aspect was very important to her. But this raises the question of ethics. I remember a conversation in Venice during the Biennale, where one artist said that he didn't care how his art was used, he was only interested in producing artefacts and in completing his works. Another one responded, "Well, fine, if someone asked you to paint a fence, would that cause you any problems?" The first one answered, "Not at all. I can do an exquisite job of painting a fence." "Well, if you were asked to do an exquisite job painting the fence of a concentration camp?"

Artists understand that their work can be used in one way or another. And surely, as a human, they are interested in knowing exactly how? The real question is, are we mere executors or are we aware and responsible for our creations? The Leni Riefenstahl question does not have a right answer. On the one hand, it's great art; on the other hand, it promotes something evil, even if it is at a high level. We can take something out of its context, or we can contextualize it, but that merely raises other questions. Right now in Ukraine the question being most hotly debated is, can we and should we be destroying art from the soviet era? It seems to me that, the further the distance from the critical moment, the more tolerant a society becomes, as if to say, "This no longer has anything to do with us."

But if we are close to that critical moment, then our positions tend to be moral rather than esthetic.

**How do you feel about art being judged from a moral standpoint?**

I'm very much in favor of that. For me, the ethical aspect is possibly even more important than the esthetic one. I don't want to talk in Marxist notions, where esthetics is seen as a superstructure. For me, esthetics is an immutable part of being human, but the ethical aspect represents the depth of human existence. Incidentally, the slogan at one of the Venetian biennales was "Less esthetics, more ethics."

**What do you think played the decisive role in Polish culture over the last decade and how did it affect institutes, the artistic environment, and individual artists? Specifically under the previous Minister of Culture, Waldemar Dombrowski (2003-2005).**

Well, let's consider whether we can even talk about "development." I would say that, for Poland, it was more of a civilizational leap, rather than a cultural one. Whether its culture became somehow different than it had been until then, I can't say. I do think Dombrowski was the best Minister of Culture in the last 25 years, though. Of course, there are things that he can be criticized for, but this man was able to bring to life ideas that were floating in the air. He said that most of the ideas that he implemented were not his alone. Dombrowski was clearly a talented man, someone able to see what was in the air, to make it happen, and to fit into the political system at the same time. In the Cabinet, Dombrowski was seen as a major player, so he prevented culture from becoming marginalized. Before going to sessions, he would make a point of studying reports from the Finance Ministry, the Economy Ministry, and other key agencies. He was thus able to identify the cultural aspect of their projects and to persuade the managers of key agencies of its importance. Many of the projects he initiated are still going today. But let's not forget that Poland also joined the EU at that time. It may sound obvious, but this did bring in money for new projects, as well as opportunities to take advantage of structural funds set up for new EU members.

**To what extent do you think the state should be active in culture?**

Without any doubt, the state makes a big difference. If we decide that our society must be socialist, then culture and its role will be one thing; if it's a social-democratic society, it will be different, and so on. I prefer the classic liberal model, where the highest value is freedom. And the less of the state in culture, the better. The purpose of a state is to provide the conditions for us to be able to create culture. It can establish a certain framework as an indivisible part of the process. I sometimes get the impression that many of my Ukrai-

**Jerzy Onuch**, born in Lublin in 1954, is a Polish artist and art curator focusing on installations and performance. In 1997-2010, he headed the Center for Contemporary Arts in Kyiv. In 2005-2010, Mr. Onuch was Director of the Polish Institute in Kyiv. His current position is Director of the Polish Cultural Institute in New York.

nian colleagues want to establish the framework within the process: to nail it down like a peg. Lots is being said about strategy. Based on my own experience, I understand strategy as a means, not an end. Unfortunately, too many arts managers in Ukraine look at it the other way around. I don't deny that you have plenty of individuals who are highly educated, who have worked with many different institutions, who have travelled, seen how this works and who can tell us something about how to properly manage the arts. But there's just one problem. It's a bit like brain surgery. The surgeon can tell you how to do it, and as an intelligent person you can repeat all that later on. But if someone puts a scalpel in your hand, you aren't going to go ahead and do the operation.

This is the problem with many Ukrainian managers: they are great theorists but practice is a very different matter and you have to be able to make it happen, not just to talk about it. People in Ukraine often talk about applying arts management models from other countries, say, the British model—which I really like, incidentally. The question I have is, how do they plan to actually do this? Do they plan to move Big Ben from London or some other landmark? Let's understand that a certain model works in a certain country because of certain traditions and we want to just borrow it like a blanket. I'm not saying to ignore the practice of other countries, but this is just one element of a very complicated game.

**So you think there are few people with practical experience in Ukraine's art circles? Or is it that they simply aren't being asked how to reform the arts in Ukraine?**

Ukraine has plenty of practitioners who are capable of working under the old conditions but we're talking about reform. Someone once told me, "To be a successful fundraiser in Ukraine, you have to learn to go to the steam room." Of course, I can go there to cut deals with officials or oligarchs about money for specific projects. But the point is that we need to be building a transparent funding system. If we want to reform the country, we have to change conditions. And then, most likely, the standard practices will become unnecessary, while those who were once successful will prove to be incompetent.

**What would you do if you were the director of the Polish Institute in Kyiv today?**

It seems to me that it's in a different place than it was when I was the director there. Ukraine's in a unique position right now, whereas Poland has the immense experience of its own transformation, which means that it's in a position to help in many cases. I think that now is not the time for organizing Polish concerts and being enthralled by Poland's marvelous culture. We all know that it's marvelous. Instead, what needs to be shown is Poland's understanding, Europeanness and experience. That would be the best way to promote my country. This, as far as I'm concerned, is the best that can be done today: to work with the basics.

**How is Ukraine's international image changing?**

Ukraine has obviously become better known and has appeared on the mental maps of many people in different countries. And if we're talking about culture and the arts, then Ukrainian artists are visible in

world art circles, no longer as part of the "Russki mir." But there is still the issue that Ukraine's image is based on the western narrative, on how its problems are seen in Europe and America, at best. At worst, the narrative is the one set by Russia. You see, a country's image should be the work of the entire nation. People need to start thinking about the fact that Ukrainian culture, Ukrainian anything, is first of all needed by Ukrainians themselves. Do you imagine that Germans came up with the Mercedes or the BMW for someone else? No, they did it for themselves. To tell the truth, very few cultures are present at the global level and it's probably not worth getting caught up on making things specifically for export.

**What do you think about the fact that our modern moneybags are keen on the arts and rush to buy the latest artefact? Is this simply a clichéd badge of success?**

Tycoons buy art because they are fabulously wealthy. Still, there should be some cultivation. If you plant a tree, you have to cultivate it and this takes many years. It's no coincidence that the word culture comes from the same roots as cultivation. Ukraine's tycoons are people who grew immensely wealthy in a very short

**THE CALLING OF AN ARTIST IS TO THINK ABOUT FATE, THE MEANING OF LIFE, THE POSSIBILITIES FOR BEING ONE WITH THE WORLD... THAT IS, TO RAISE FUNDAMENTAL QUESTIONS AND AT THE SAME TIME TO CULTIVATE FORM**

time. They may simply not have had the time to reach a certain level of subtlety and refinement. Whenever this comes up for discussion, we always look to the example of Viktor Pinchuk. Initially, his interest in contemporary arts was an image-making project. This gave him carte blanche to the bigger world. Many people do this and it's probably the right step to take. It's a different issue that Pinchuk's collection is very glamorous, because it was put together by two world-famous galleries: London's White Cube and New York's Gagosian. But it has created a distorted image of contemporary art.

Art is not a Top 10 kind of thing, but an immense field, and it can be popularized in different ways altogether. Every time I go into the National Museum of Art in Kyiv and see those crumbling stairs and the doors that don't close properly, I think, "If only one of these oligarchs, say even Pinchuk himself, would sell off a single one of their cars, they could fix those stairs and these doors." When you go into the Metropolitan Museum of Art in New York, you see galleries sponsored by one or another wealthy patron. Why not do the same here? But no, everyone here wants to have their own gallery for themselves. So far, there is no sense that you're laying a brick to build a common home. The government could offer conditions that would make this convenient and worthwhile, but so far it hasn't done so. The oligarchs had a lot of influence over legislation, yet never considered that it could be formulated in such a way to provide the right conditions. Indeed, this would be very beneficial for them, their heirs and Ukrainian society as a whole. ■

# A Beautiful Dissenting Mind

Leonidas Donskis

Russia has recently lost one of her towering personalities in the fields of political dissent, human rights defence, political memory, social criticism and humanities. Professor Yuri Nikolayevich Afanasiev (1934–2015) was a prominent historian and democratic activist. The founder of the Russian State University for the Humanities, Professor Afanasiev appears to have been the voice of humanism, conscience and liberty in Russia and beyond.

People of my generation in Lithuania will never forget the fact that Yuri Afanasiev was the first Russian (and Soviet) historian who openly spoke about the occupation and annexation of the Baltic States in 1940 and then repeatedly in 1945, putting it black on white that Lithuania, Latvia, and Estonia have never been legitimate part of the USSR. In doing so, he dealt a blow to the regime and its legitimacy acting side by side with the great Andrei Sakharov, both members of the Soviet Parliament at that time.

His was a time of hope. No matter how flawed and troubled, the era of Perestroika allowed room for visionaries, former dissidents, dissenting minds, naysayers, and humanists. To compare to Vladimir Putin's Russia with its aggressive opportunism, cynicism, instrumentalism, and total absence of conscience and ethics in politics and public morality, Mikhail Gorbachev's USSR and Boris Yeltsin's Russia seem to have been a miracle in terms of hope and possibilities to change the unfortunate pattern of Russian history.

Afanasiev has always been mercilessly straight and overt about that describing it as the pattern of political serfdom, no matter whether traditional or slightly modernized. When Vladimir Putin succeeded Boris Yeltsin as President of the Russian Federation, Afanasiev became especially outspoken on what he termed the "matrix of the un-changeability of Russian history."

His ideas shed new light on the most dramatic encounters and clashes of ideas and political forces in Russian history, from Piotr Chaadayev and Alexander Herzen to Soviet political dissent in the twentieth century. He implied that every short-lived moment of freedom and liberalization of political life in Russia is inexorably followed by a backlash and an outbreak of political reaction and autocracy with nearly zero chances to reach out to the realm of freedom.

Courageous, strong, decisive and resolute in action, Afanasiev was sombre, gloomy and pessimistic in his words and commentaries. I have always had a feeling that he was a Hamlet-like hero of his time—the one who knows the value of inner and political freedom, and who is aware of how rotten and hopeless his country is to attain it. His was a brave and beautiful mind coupled with pessimism deeply embedded in the twentieth-century Russian intelligentsia. Yet Afa-



nasiev's mind tinged with a sort of cultural pessimism did not prevent him from acting as a fearless fighter on the political stage.

I remember Afanasiev from our personal exchanges, as I had him on my TV show when I acted as the host of an intellectual and political debate programme on Lithuanian TV. At the same time, I had a privilege to invite him to several seminars and conferences held in Vilnius, Kaunas, Lithuania, and in Brussels during my mandate as a member of the European Parliament (2009–2014). To his credit, Yuri Afanasiev never sought cheap popularity or quick claptrap. He was able to challenge or even dismiss his friends' opinions never allowing himself to caricature or demonize the political forces he disliked and was wary of the most.

The architect of the winged expression "the aggressively submissive majority" with which he described, with the stroke of genius, the unimaginable degree of conformism and opportunism in Russian politics and public affairs, Afanasiev



**WHEN PUTIN SUCCEEDED YELTSIN AS RUSSIA'S PRESIDENT, AFANASIEV BECAME ESPECIALLY OUTSPOKEN ON WHAT HE TERMED THE "MATRIX OF THE UN-CHANGEABILITY OF RUSSIAN HISTORY"**

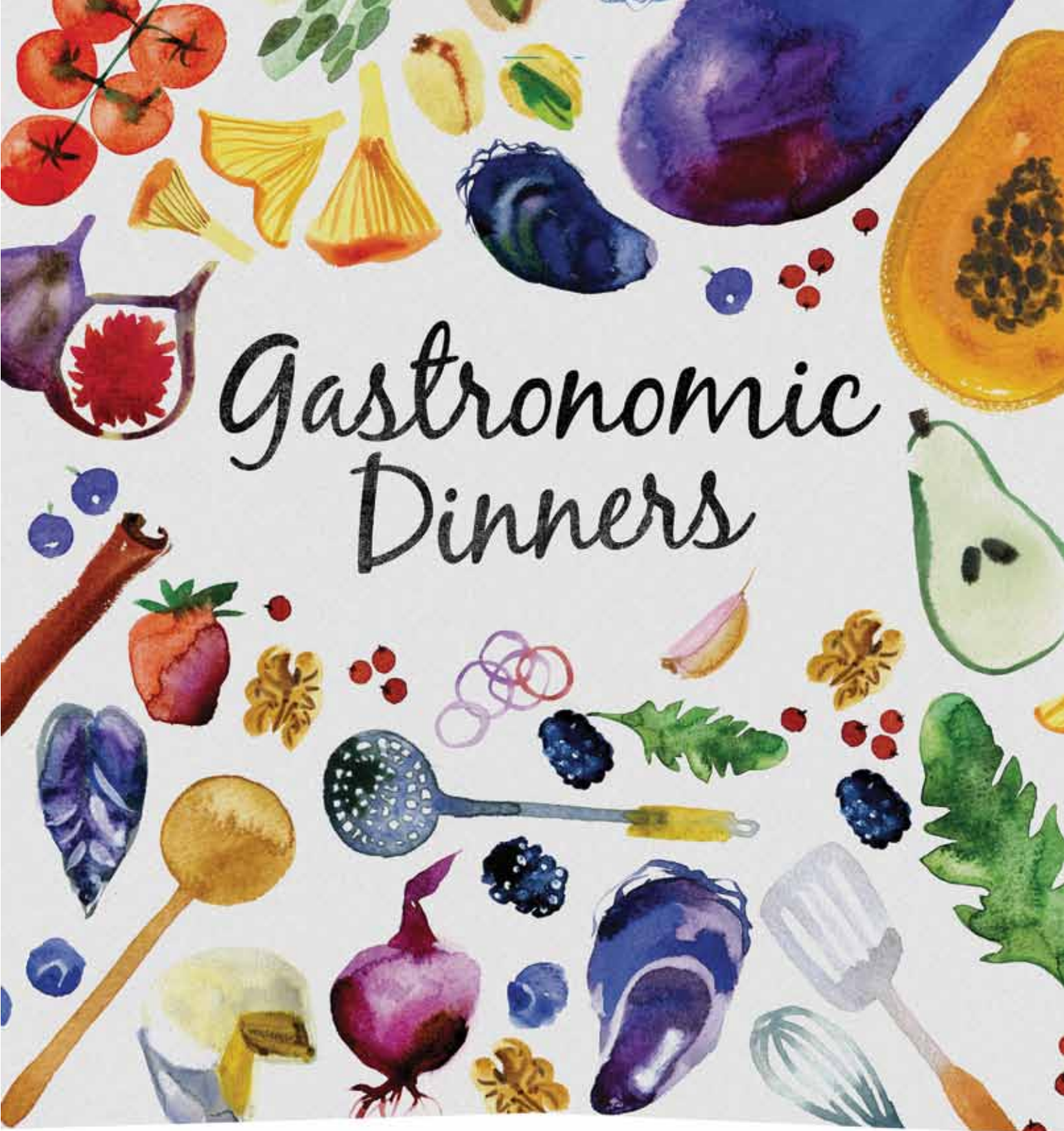
remained deeply pessimistic about the future of his country. In this, he differed from his friends, fellow dissidents and human rights defenders, who were far more optimistic.

Yuri Afanasiev lacked the optimism of Andrei Piontkovsky coming from Piontkovsky's confidence in progressive and freedom-loving forces of Russia without being naïve about her dark forces. Yet Afanasiev sounded like Andrei Piontkovsky or Sergei Kovalev when it came to the universality and indivisibility of human rights. A committed and unbreakable, albeit pessimistic public intellectual, Afanasiev appears to have been nearly a perfect embodiment of the Russian dissidents' slogan "For our hopeless fight." You stand up and fight being perfectly aware that eventually you will be stopped on your way—at best, ignored, or worse... we all know what.

Whatever the case, Yuri Afanasiev fought for the right cause and lived the life of a true hero of his time. Writers and thinkers who never compromise on the moral grounds and who never betray their creed or the mode of grasp of life, may fail to reach the minds and hearts of their contemporaries, yet the generations to come will be their true audience and readership.

This is more than true of a beautiful dissenting mind—Yuri Afanasiev. ■





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- 30, TC "King Kross Leopolis",  
Stryiska str., Sokilnyky, Lviv
- 147, TC "Ukraine", Lenina str., Zaporizhya

[www.kleynod.ua](http://www.kleynod.ua)

