Ukraine: What to watch for in 2016
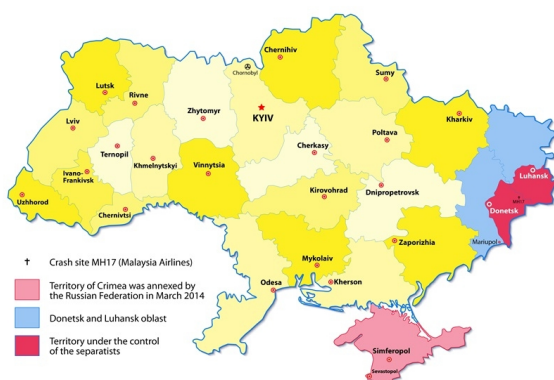
SUMMARY

With the entry into force of the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA) as part of the Association Agreement (AA) on 1 January 2016, Ukraine has taken a significant step forward on its long road to European integration. However, 2016 will entail a new series of tests for the country.

While Kyiv is under continued pressure to fulfil the February 2015 Minsk II ceasefire agreement, the interruption of electricity supply to Crimea — occupied by Russia since March 2014 — has added fuel to bilateral tensions over the peninsula, which could intensify in 2016. Ukraine's default on its US$3 billion debt to Russia, and Moscow's response will further strain bilateral ties.

The growing fragility of the pro-European government coalition could increase the likelihood of early parliamentary elections and impede the on-going reform process. At the same time, the national security situation – precarious overall as it is – could be further undermined by cyber-attacks.

In addition, a number of external developments, for example, the split within the EU vis-à-vis the Russia-backed 'Nord Stream 2' gas pipeline and the forthcoming Dutch referendum on the EU-Ukraine Association Agreement, planned for April 2016, will require attention.

† Crash site MH17 (Malaysia Airlines)

Territory of Crimea was annexed by the Russian Federation in March 2014

Donetsk and Luhansk oblast

Territory under the control of the separatists

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Background: how the current crisis started
At the Eastern Partnership summit in Vilnius on 28-29 November 2013, Ukraine's then President Viktor Yanukovich refused to sign the Association Agreement (AA) with the EU, including the Deep and Comprehensive Free Trade Agreement (DCFTA). In return for his move, President Yanukovich received a US$15 billion loan and a lucrative gas deal from Moscow. The decision sparked major pro-European protests in Ukraine. In February 2014, the Ukrainian Parliament, the Verkhovna Rada, voted to impeach President Yanukovich, who fled Kyiv. Russia perceived the power shift as a coup d'état and responded by annexing the Crimean peninsula in March 2014, in violation of international law, and by launching an undeclared 'hybrid war' – involving strong economic pressure and targeted disinformation measures – against Ukraine. The EU, the United States and other countries imposed sanctions on Russia, which retaliated with counter-sanctions.

The AA/DCFTA: one step forward

A long-standing bone of contention between Ukraine and Russia
The EU-Ukraine DCFTA was signed on 27 June 2014 as part of the Association Agreement (AA), and came into force on 1 January 2016. Russia immediately retaliated by cancelling free-trade privileges for Ukraine. While the EU suspended visa liberalisation talks with Russia in 2014 over its role in Ukraine, the European Commission announced in December 2015 that it would present a legislative proposal to the Council and the European Parliament in early 2016 to lift visa requirements for Ukrainian citizens with a biometric passport. However, the country's on-going reforms — not least anti-corruption measures — are key to further progress.

On 6 April 2016, the Netherlands will hold an advisory referendum on the AA, which has been initiated following signatures collected by the website, GeenStijl. If a majority votes against approving the AA, the Dutch Government would be under pressure to revisit its ratification. European Commission President Jean-Claude Juncker has warned that the vote could spark a 'continental crisis', with Russia 'plucking the fruits of an easy victory'.

Growing friction over Crimea

Crimean Tatars play increasingly visible role in geopolitical power struggle
Meanwhile, Crimea (which lost visibility after the March 2014 annexation) is recapturing international attention. Since November 2015, when attacks on power lines in southern Ukraine caused a blackout on the peninsula, Crimean authorities have upheld a state of emergency. Ukrainian far-right nationalists and Crimean Tatar activists, who are striving for an economic blockade of Crimea in protest against Russia's annexation, prevented workers from repairing the lines. Ukrainian Prime Minister Arsenyi Yatseniuk announced in December 2015 that trade with Crimea would be suspended in 2016.

The Crimean Tatars (some 260 000 Turkic speakers) suffered severe repression under Soviet rule and remain marginalised by the new Russian de facto authorities in Crimea. However, the Crimean Tatars were recognised as indigenous people of Ukraine by the pro-European government in March 2014 and are playing an increasingly visible role in the power struggle between Moscow and Kyiv. In January 2016, Crimea's Prosecutor-General issued arrest warrants for Mejlis (the council of representatives of the Crimean Tatar people) leaders Mustafa Dzhemilev, Revat Chubarov and Lenur Islyamov, over their roles in food and energy blockades of Crimea in autumn 2015. In December 2015, Islyamov announced that a naval blockade of the peninsula would start in 2016.

Ukraine plans to 'press forward' to recover Crimea; Russia refuses talks
After Crimea's energy contract with Ukraine expired on 1 January 2016, Ukrainian President Petro Poroshenko stated that power would only be restored if Crimea re-joins Ukraine. Ukrainian Finance Minister Natalia Jaresko said that Kyiv would press forward 'on a process to return Crimea' in 2016, anticipating Poroshenko's statement that Ukraine would submit international lawsuits over the annexation. As expected, Russian Foreign Minister Sergei Lavrov ruled out 'any talks with anyone on returning Crimea', stressing that it is Russian territory in accordance with the 'will of its peoples'.

The Council of Europe assesses human rights in Crimea
On 25 January 2016, Council of Europe Secretary-General Thorbjørn Jagland announced his decision to send a delegation to Crimea, to assess the human rights situation. Swiss diplomat Gérard Stoudmann, who led this first international delegation to Crimea since its annexation, met with members of the Mejlis as well as with Crimean Tatar and Ukrainian (human rights) activists. The report and recommendations will be submitted to the Secretary-General in late February or March.

Ukraine's debt default intensifies tensions amid economic woes

In December 2015, Ukraine defaulted on its US$3 billion debt to Russia. Less than two weeks earlier, the International Monetary Fund (IMF) had changed its bailout policy, allowing Ukraine to receive IMF loans — Kyiv's main source of external funding — even if it does not pay back Russia's 2013 'political' loan to ex-President Yanukovich. On 1 January 2016, Russia's Finance Ministry announced that 'a formal legal complaint against Ukraine' would 'soon be filed in an English court'.

Ukraine's economic hardship to continue in 2016
Ukraine's economy will likely continue to struggle. On 28 January 2016, the National Bank of Ukraine downgraded its forecast for real GDP growth from 2.4% to 1.1%. Inflation, which has risen sharply since the conflict erupted in 2014, reached 43.3% in 2015, the highest rate since 1995, but is expected to decrease slightly in 2016.

Internal rifts will further test government coalition

Corruption allegations and internal rivalry within the pro-European government coalition are likely to continue over the coming months, further alienating voters and eroding parliamentary support for the government. Several internal spats have gone viral, most recently when Odessa Governor, Mikhail Saakashvili (former President of Georgia, and Ukraine's most popular politician), publicly accused Interior Minister Arsen Avakov and the rest of the cabinet of corruption. The latest escalation reflects the tensions between Saakashvili (who was appointed governor by Poroshenko in May 2015) and the unpopular Prime Minister Arsenyi Yatseniuk. Yatseniuk is expected to face a vote of non-confidence in 2016 despite international calls for unity in the government.

The government coalition suffered a severe blow on 3 February 2016 when one of the government's key reformers, Economy Minister Aivaras Abromavičius resigned, accusing senior government officials of blocking reforms. Western envoys stated that they were 'deeply disappointed' over Abromavičius' resignation, which could increase the likelihood of early parliamentary elections and further stall the reform process. IMF Managing Director Christine Lagarde on 10 February warned that Ukraine's 'slow progress' in improving governance and fighting corruption could jeopardise the IMF programme.

Further developments to follow in 2016

Recent cyber-attacks spark cyber defence review amid fears of fresh attempts

Cybersecurity experts say that a power outage in western Ukraine in December 2015 caused by a cyber-attack was not an isolated incident, sparking concern that other countries are potential targets. Ukraine's Security Service blamed Russia for the attack. Following similar attacks against Kyiv's airport, reported in January 2016, Ukraine will review government computer-systems defences. New attacks are expected in 2016.

Potential Ukraine-Turkey cooperation to combat Russian disinformation

Ukrainian and Turkish officials have discussed potential cooperation to combat Russian disinformation, said Ukraine's Deputy Minister of Information Policy on 19 December 2015. Kyiv has significantly stepped up its efforts to counter Russian 'aggression in the information sphere' since the hybrid conflict started in 2014.

New Dutch investigations of alleged Russian involvement in MH17 crash

Dutch authorities stated on 3 January 2016 that they would investigate claims by British citizen investigative group, Bellingcat, that Russian soldiers were involved in the crash of Malaysian Airlines flight MH17. The plane was shot down over eastern Ukraine in July 2014 by a Russian-built surface-to-air-missile, killing all 298 on board.

Rifts over Nord Stream 2 project likely to grow

The Russia-backed Nord Stream 2 project will likely continue to divide EU Member States. The pipeline would boost gas deliveries to Germany via the Baltic Sea, bypassing Ukraine, which earned US$2 billion (6% of its budget revenues) in transit fees in 2014. Yatseniuk stated on 1 February that Kyiv had filed a lawsuit over Nord Stream 2, which he called an 'anti-European, anti-Ukrainian' 'political project'.

The European Parliament (EP) has continually deplored the illegal annexation of Crimea and Russia's 'hybrid war' against Ukraine. On 20 January 2016, MEPs urged the EU to support Ukraine in current and future disputes with Russia. In a 4 February 2016 resolution, the EP condemned the 'unprecedented levels of human rights abuses' against Crimean Tatars.

The 3 July 2015 Memorandum of Understanding between the EP and the Verkhovna Rada aims at parliamentary support and capacity-building for the Rada. Ex-EP President Pat Cox has led a mission to identify the scope of these efforts. The report on, and roadmap for, capacity-building will be presented at a three-day high-level conference ('Ukraine week') on 29 February-2 March 2016. Hosted by the EP and organised by the Democracy Support and Election Coordination Group, it will see high-level discussions on key areas. Over 50 Ukrainian MPs, as well as representatives from EU national parliaments and EU institutions, have been invited.

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