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How Putin Lost Ukraine

By Anders Åslund

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President Vladimir Putin's policy on Ukraine is tragicomic. It is as aggressive as it is unsuccessful. Although Ukraine is high on his political agenda, Putin seems to get it all wrong. His latest mistake is to toy with a trade war. His adviser, Sergei Glazyev, said, "We are preparing to tighten customs procedures if Ukraine makes the suicidal step to sign the association agreement with the EU."

In 2003, Putin started working hard on Ukraine, launching the Common Economic Space of Russia, Ukraine, Belarus and Kazakhstan. Shrewdly, then-President Leonid Kuchma went along, and in 2004 Putin saw Kuchma literally every month. During the 2004 presidential campaign, Putin went to Ukraine twice to campaign for his preferred candidate, Viktor Yanukovych. Despite gross election fraud, Putin congratulated him three times on his victory. Even so, he did not think much of Yanukovych.

But Kuchma was a clever politician. During the Orange Revolution in November 2004, when hundreds of thousands of Ukrainians protested against the rigged election of Yanukovych, he refused to order his troops to shoot on the demonstrators. Putin objected. He thought the state should not give in to popular sentiments. So did Yanukovych, who now allows

Ukrainian courts to claim that Kuchma was responsible for the murder of the journalist Georgy Gongadze. Meanwhile, Yanukovych could not care less about the journalists who were murdered under his own watch.

Ukraine's Orange Revolution remains Putin's greatest nightmare. He rendered Russian legislation more repressive so that all preconditions for an Orange Revolution, such as independent political parties, television and nongovernmental organizations, would be eliminated. Predictably, he never got along with Viktor Yushchenko when he was president, while he actually could do business with Prime Minister Yulia Tymoshenko.

In his fury over the Orange Revolution, Putin cut Russian gas deliveries to Ukraine and a large part of Europe twice: in January 2006 and January 2009. The resulting 2006 gas agreement was considered corrupt, while the 2009 gas agreement set too high a gas price for Ukraine. European Union gas policy came to life, and Gazprom's sales started to decline since it had proven itself an unreliable and excessively expensive quasi-monopolist.

In February 2010, Yanukovych won in a reasonably free and fair presidential election with a slight margin over Tymoshenko. Admittedly, an overwhelming amount of money was illegally delivered to Yanukovych, who also dominated television. Now, Putin thought he had his chance. So did Yanukovych.

The Yanukovych government's top priority was to reach a favorable gas price agreement with Russia. It appears to have been too eager. The two countries concluded an agreement in Kharkiv in April 2010. For a purported discount on the gas price of 30 percent or $100 per one thousand cubic meters, Yanukovych prolonged the Russian lease of Sevastopol, the naval base of Russia's Black Sea fleet, until 2042.

Both sides were disappointed. Most Ukrainians thought this was a bad deal for Ukraine, and the gas price Ukraine paid did not fall. Putin's key aim was not the Sevastopol lease but to integrate Ukraine into the Customs Union of Russia, Belarus and Kazakhstan.

Yanukovych realized that membership in the Customs Union would make Ukraine completely dependent on Russia. A member of the Customs Union has to raise 11,500 customs tariffs to the higher Russian level. That would harm the Ukrainian economy, violate its membership in the World Trade Organization and make it impossible for Ukraine to conclude any bilateral free trade agreement. Belatedly, Kazakhstan realizes that it cannot enter the WTO as intended because of its membership in the Customs Union. Instead, he sensibly opted for an Association Agreement with a deep and comprehensive free trade agreement with the EU, which the Orange government had started negotiating in 2007.

The relations between Putin and Yanukovych broke down during Putin's visit to Kiev in October 2010. Putin demanded that Ukraine joined the Customs Union and complained about two major Russian-owned companies in Ukraine having been raided by Ukrainian oligarchs: the Kremenchuk oil refinery and Zaporozhstal. Putin made clear that Russia would cut transit of both oil and gas through Ukraine, as is currently being done.

Yanukovych did nothing to accommodate Putin. It did not help that feminist group Femen protested against Putin with posters such as "we do not give ourselves to the dwarves in the Kremlin." Furious, Putin departed and demonstratively skipped the planned dinner with

leading Ukrainian businessmen.

After this disastrous meeting, Putin and Yanukovych have met on a few occasions. Yanukovych and his administration are dying for a serious discussion with Putin about gas prices, which Putin has avoided. He remains fixated on Ukraine joining the Custom Union.

As usual, Yanukovych tried to be clever, which does not come naturally to him. Last May, Ukraine signed an agreement with the Customs Union to become an observer, but that step lacks legal significance.

Meanwhile Ukraine has minimized its gas purchases from Russia, violating its January 2009 agreement with Gazprom. It is trying to develop alternative gas supplies and is intent on developing shale gas, which Putin hates above anything else, purportedly because of his deep environmental concerns.

Yanukovych has a clear choice. If he frees Tymoshenko from prison, the EU may sign the important Association Agreement that was concluded in 2011 at its summit in Vilnius in late November. This agreement would offer Ukraine major benefits.

On July 27-28, Putin went to Ukraine to celebrate the 1025th anniversary of the christening of Kievan Rus. Despite standing next to Yanukovych, he once again managed to avoid talking to him. Back home, Putin quietly escalated his anti-Ukrainian actions with a full-fledged trade war without any official declaration, blocking imports of steel pipes, chocolates and various agricultural products. Undeterred, Putin has imposed a near complete boycott against Ukrainian imports using red tape as his chief weapon. Considering that Russia last year imported one fifth of Ukraine's exports, this is a heavy blow to Ukraine.

This blow is all the greater because Yanukovych has put the Ukrainian economy in a miserable state. It has been in recession for the last year, and its international reserves are in quick decline, having fallen from a peak of $38 billion two years ago to $22.7 billion at present, covering only 2 1/2 months of imports. Neither the International Monetary Fund nor the EU is prepared to help Ukraine, given Yanukovych's poor economic and human rights policies.

Putin's actions suggest that he is intent on forcing Yanukovych down on his knees. But Putin is more likely to isolate Russia and force Ukraine into the European community.

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