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Putin's Bold $15Bln Bet on Ukraine

By [Gilbert Doctorow]

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The television broadcasts Tuesday showing President Vladimir Putin and Ukrainian President Viktor Yanukovych announcing their agreement on rapprochement, sealed by $15 billion in loans and a steep discount on natural gas, was remarkably revealing. Some ministers and other bureaucrats present at the news conference applauded — presumably, a knee-jerk reaction — while others had grim expressions on their faces. Their obvious skepticism over the generous handout to their dodgy southern neighbors no doubt is shared by many ordinary Russians.

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election
in Ukraine.

Putin clearly did his realist calculations with great care and may have landed a master stroke with the $15 billion bailout package plus gas discounts. If Russia "bought" Ukraine, as the protesters on Kiev's Maidan would have us believe, then he did so with a bid that takes your breath away. Russia is putting up nearly the entire sum that Ukraine needs to ensure it meets its debt repayments and other convertible currency obligations for the coming year. In this way, Moscow is buying financial stability that is a precondition for political stability in the run-up to the 2015 presidential election in Ukraine. The European Union's offer of financial assistance was only a small fraction of Russia's.

Putin has shown Senator John McCain, Assistant Secretary of State for European and Eurasian Affairs Victoria Nuland and other Western politicians who posed for the cameras among protesters last week to be empty-handed blusterers.

Fifteen billion dollars may be a big stake to put up. This is nearly 20 percent of Russia's National Welfare Fund, and it is being invested in sovereign bonds that have a risky, low B rating. But it is only one-third of the amount that Russia has vowed to put up to complete its South Stream project, a gas pipeline to transport Russian natural gas through the Black Sea to Europe, bypassing Ukraine.

A little more than a year ago, when Ukraine was still negotiating earnestly with the EU over an association agreement and when Russia was completing all the paperwork to initiate its anti-Ukrainian South Stream project, Yanukovych proposed returning to the notion of a three-way consortium to manage the transit pipelines to Europe. One way or another, Russia and Ukraine will now find a solution to ownership and management of that critical infrastructure that gives Russia the assurance of reliability it needs.

The question of an accommodation with Ukraine over gas transmission has taken on special importance in the past several weeks because the EU commission has overplayed its hand in the broader geopolitical and economic contest with Russia. The ruling of the commission that South Stream violates its legislation on unbundling energy producers and pipelines, its call for Russia and the six EU member states who are participants in South Stream to rip up their contracts and start over, and its refusal to give any indication of a time frame for accepting any such revised deal was a hostile act, which elicited a stern Russian refusal to acknowledge EU law as superior to the international law that the bilateral contracts on South Stream represent.

While it is unlikely that the call of the commission, made during the tenure of the Lithuanian president as head of the rotating European Council presidency, will survive when the baton is passed to Greece in 2014, the risks surrounding South Stream are presently greater than risks surrounding a deal with Ukraine for delivering Russian gas to West European consumers.

What is the risk that after the February 2015 presidential election, Yanukovych will be ousted and a pro-European opposition figure takes power? This will depend on whether the EU reverses its anti-Russian stance under pressure from the new powers in Germany's coalition government. If Europe continues to be a U.S. proxy in some new Cold War against Russia, it is likely to end up with a foreign policy loss still greater than what has occurred over the past month.

The eastern portions of Ukraine, where most Russian speakers live and where most of the country's manufacturing industry is located, do not have to fall back on common Slavic roots to justify seceding from Ukraine and joining Russia. They have purely economic reasons, much like the secessionist Catalans have in Spain or the Flemish have in Belgium. They are tired of subsidizing what they see as the freeloaders in the western portions of Ukraine. As the biggest consumers, Ukrainian citizens and businesses in the east will now be the biggest beneficiaries of the heavily reduced price of $268 per cubic meter price on natural gas that Russia is introducing in January. Any future government in Kiev that tries to cut a deal with the EU at the expense of the economic interests of eastern Ukraine will run into serious political problems.

Of course, there are always contingencies that might overturn the logic behind Putin's big bet on Ukraine in the coming several months, if not years. But in difficult situations, boldness can be the greatest virtue.

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