

# 34

## Ukraine, out of sight<sup>1</sup>

Vladimir Putin's recent excursion into the heat and turbulence of Middle Eastern conflicts was undertaken for a number of reasons. But, probably key among them, was the desire to improve his standing with the West enough to weaken or eliminate sanctions and secure his acquisitions in Crimea and eastern Ukraine. Russia's active military involvement in Ukraine has moderated in recent months, though it has not ceased, and it could resume at short notice. Where does that leave the Ukrainian struggle for independence and closer relations with the West?

Even if the gunfire has fallen silent or become merely intermittent, Western policymakers need to remind themselves that a Leninist *kto kogo* struggle (who is defeating or dominating whom) is still being fought by the other side, and in a variety of ways. Putin wants to win, not to settle for an honourable draw, and his attention span is much longer even than German Chancellor Angela Merkel's, and certainly than French President François Hollande's.

War is the continuation of politics by other means, while, for the Leninists and their modern legatees, the Putinists, politics (and information, culture, trade, population movements, etc.) is the continuation of war by other means. They see many different paths to victory, and so it is with Ukraine.

---

1 First published in *Inside Story*, 21 Dec. 2015, [insidestory.org.au/ukraine-out-of-sight](http://insidestory.org.au/ukraine-out-of-sight).

In recent years, Moscow has essentially been replicating in countries to its west the sorts of operations it undertook at the end of, and just after, World War II to communise Central and Eastern Europe. This time the target countries are former Soviet republics rather than what were once Warsaw Pact countries-to-be, though Ukraine fits into both camps. The ideological bait and the mix of preferred instruments are also slightly modified to suit the times and, happily, the use of military conquest and the violent repression of ungrateful new subjects are so far much less massive in scale.

But the pattern is broadly similar: outright invasion and seizure of territory; deployment of freshly minted partisan militias under Kremlin auspices; creation of pseudo-state structures, often with tell-tale Stalinist monikers like 'people's republic'; police state methods against whole categories of dissenters; international negotiations on the basis of these faits accomplis; intensive propaganda to discredit the victims ('fascists'), legitimise the proxies ('rebels', 'separatists'), and reduce the outside world's readiness to resist the new dispensation; and trade wars, using arbitrary and crippling sanctions for no legitimate reason to undermine the target country's economy or generate coercive pressure (by cutting off sources of heating in winter, for example).

Also in the mix are exported corruption, especially bought or hired politicians; subverting and destabilising target states by organising violent takeovers of media outlets, administrative buildings and so on; bankrolling receptive parties; setting up pseudo-independence movements in areas where a military incursion might lend wings to a 'national liberation movement' that is otherwise incapable of independent flight; and recruiting neighbouring states or peoples who may wish to cooperate in a possible carve-up of territory.<sup>2</sup>

Though skirmishes have resumed in Eastern Ukraine in recent weeks, the outright military phase seemed to plateau at a lower level several months ago. Negotiations, manoeuvres and contacts have continued in various formats, but they seem to match Moscow's plans and desiderata less closely than before. Reinforced by the slump in oil and gas prices and Russia's overall economic malaise, sanctions are holding

---

2 On the postwar events and present-day similarities, see respectively Anne Applebaum's book *Iron Curtain: The Crushing of Eastern Europe 1944–1956*, New York: Doubleday, 2011; and her article 'Russia and the great forgetting', *Commentary*, 1 Dec. 2015, [www.commentarymagazine.com/articles/russia-great-forgetting/](http://www.commentarymagazine.com/articles/russia-great-forgetting/).

Moscow back from attempting to create further ‘facts on the ground’ in Ukraine. And Putin’s costly insertion of his armed forces into Syria has yielded added complications that threaten further conflicts on multiple fronts and reduce his room for manoeuvre.

The Ukrainian armed forces and associated militias have continued to display unexpected resilience in defending the line of contact with Russian-dominated proxy forces. Even more surprisingly, the West’s unity on the sanctions has proved greater than Russia, or indeed many Western observers, were expecting. But that unity is still precarious, and much of what Russia has been saying lately about the need for a new grand alliance against terrorism, in the spirit of World War II, points to the Kremlin’s reasonable calculation that EU sanctions could be rolled back in the relatively near future.

The West has agreed on the line that relief from sanctions should be linked to implementation of the Minsk ceasefire agreements, which sought to end the fighting in Ukraine. But those agreements are unclear, and flawed, appearing to place more definite obligations on Kyiv than on Moscow or its proxies. Russia hopes that it will be able to persuade a few European friends and potential veto-wielders that it has more or less met the terms of Minsk. But it has not met the requirement to withdraw its forces and weaponry (indeed, it still pretends it has not deployed either), much less to concede control of its ‘border’ with the ‘people’s republics’. Few people really believe it ever will.

The last few months have seen renewed signs of pressure from the pro-Moscow camp in the European Union for a review of sanctions and a fresh ‘engagement’ with Russia, notably via statements from EU Commission President Jean-Claude Juncker and various senior national figures. But despite the growing agitation for a return to business as usual with Moscow, it is now clear that sanctions will nonetheless be extended for another six months when they expire at the end of January.

Because a unanimous decision is required to extend sanctions, a determined veto by even one EU member state would be enough, in theory, to revoke them. In practice, it doesn’t work that way. But, if a stronger wave of sentiment were to develop with one or two senior and influential EU leaders behind it, the outcome may be different. In the second week of December, Italian Premier Matteo Renzi caused

a brief sensation by twice appearing to demand a reconsideration of the sanctions issue at the EU summit on 17–18 December, taking more adequate account of Russia's 'help' in the Middle East.

As of 14 December, however, his Foreign Minister, Paolo Gentiloni, was 'clarifying' that Italy would not block extension of the sanctions. But Gentiloni did emphasise that EU states are increasingly keen to come to terms with Russia over Ukraine. So, if not now, perhaps sanctions will be lifted in six months. And Luxembourg Foreign Minister Jean Asselborn has reminded everyone that sanctions could end earlier if the situation in Ukraine improves.<sup>3</sup> This is clearly a space to keep watching.

From the outset, the Minsk agreements had a number of disadvantages for Ukraine and the West. As the distinguished Chatham House expert on Russia and Ukraine, James Sherr, has commented, 'If Poroshenko, Merkel and Hollande received military advice when negotiating, there is no sign of it'.<sup>4</sup> To be fair, while Ukraine President Petro Poroshenko must have known that the deal had grave flaws from Kyiv's point of view, he had limited influence over the negotiating tactics and objectives of his Western supporters.

The central problem was that the agreements recognised the invaders and fifth columnists in eastern Ukraine as legitimate representatives of a domestic constituency rather than the placement of a foreign power that had annexed by force a large part of Ukraine and was manifestly intent on doing more of the same. Russia was treated not as a guilty participant but as an honest broker with 'legitimate interests' in the outcome of the 'conflict'. (Ukraine has experienced tensions during its 24 years of independence, but never violent subversion of the kind that conveniently 'broke out' across eastern Ukraine in the weeks immediately after the invasion of Crimea.)

---

3 See Andrew Rettman, 'Italy clarifies position on Russia sanction', *EU Observer*, 15 Dec. 2015, [euobserver.com/foreign/131514](http://euobserver.com/foreign/131514).

4 See James Sherr, 'Russia's Minsk and Yalta projects', *The Intersection Project: Russia/Europe/World*, 29 May 2015, [intersectionproject.eu/article/russia-europe/russias-minsk-and-yalta-projects](http://intersectionproject.eu/article/russia-europe/russias-minsk-and-yalta-projects).

Under the Minsk agreements, Ukraine was required to change its constitution to guarantee autonomy to ‘certain regions’ in the Donbas – and to do this in a way that met with the approval of the Moscow-controlled cliques in charge of the nascent police states of Donetsk and Luhansk.<sup>5</sup>

Most Ukrainians don’t see why being attacked by Russians and their Trojan horses in the Donbas should mean that they must make constitutional changes that will shore up the position of the aggressors. Meeting this Minsk provision, therefore, requires Kyiv to take an extremely unpopular decision at a time when the governing parties’ public standing is in steep decline. One of the key reasons for the decline is that they had to impose painful economic reforms on the population to clean up the fiscal mess left by predecessors, notably the deposed president Viktor Yanukovich, and meet the prerequisites for a desperately needed International Monetary Fund (IMF) bailout. While this has been going on, the Ukrainian economy has contracted by 7 per cent and a projected 12 per cent in 2014 and 2015, respectively, and incomes and living standards have slumped even more sharply.<sup>6</sup> GDP seems likely to register a small increase in the current quarter, but any turnaround will be slow, and much damage has been done.

Given their own desperate situation, most Ukrainians have no desire to pay for the despoliation of the east of their country by Moscow and its proxies. Some even argue for cutting the people’s republics loose and allowing them to secede de facto to Russia, forcing Moscow to pay for the damage it has caused, and leaving Ukraine reduced but more united. The Minsk agreements, however, gave Kyiv responsibility for the social security of the Donbas inhabitants and the rehabilitation of the war zone, presumably including the cost of mopping up after the looting and gratuitous damage the proxies inflicted on Ukrainian and foreign businesses, above and beyond the armed conflict.<sup>7</sup>

---

5 For a recent depiction of life there by a Russian reporter who has been on the ground throughout, see Pavel Kanygin’s article, ‘The Donbass war: Assessing the aftermath’, *Meduza*, 14 Nov. 2015, [meduza.io/en/feature/2015/11/13/the-donbass-war-assessing-the-aftermath](http://meduza.io/en/feature/2015/11/13/the-donbass-war-assessing-the-aftermath).

6 See ‘Ukraine: Reforms helped to stabilize economy, but continued and faster reforms are key’, World Bank press release, 5 Oct. 2015, [www.worldbank.org/en/news/press-release/2015/10/05/ukraine-macroeconomic-update-october-2015](http://www.worldbank.org/en/news/press-release/2015/10/05/ukraine-macroeconomic-update-october-2015).

7 See Michael Bird et al., ‘The great looting of Donbass’, *EU Observer*, 10 Dec. 2015, [euobserver.com/investigations/131428](http://euobserver.com/investigations/131428).

For reasons of its own, Russia wants the Donbas people's republics to be reintegrated into Ukrainian state structures but given such far-reaching autonomy that they can block any westward moves by the Kyiv Government. And for any national government to acquiesce legally to further excisions from Ukraine's sovereign territory after Russia's military surgery in Crimea and elsewhere would be political suicide.

In fact, Kyiv has curtailed much of its support for the population that is still living in the people's republics.<sup>8</sup> It is thereby pressuring a reluctant Moscow to come to the aid of the Donbas population. Some humane Ukrainian commentators deplore Kyiv's policy in this matter, saying it will lead to the permanent estrangement of the Donbas population, and reporting from the region suggests they are probably right. But the state's coffers are bare.

Two years on from the Euromaidan uprising, the population in Kyiv-dominated regions is growing impatient with the government's weak performance in tackling Ukraine's endemic corruption (a common feature of most of post-Soviet Europe, apart from the Baltic states and Georgia). Sympathetic Western leaders, notably from the United States, take a similar view and have been expressing it forcefully. Other major sources of public resentment include the notorious influence of powerful oligarchs and the failure to find and prosecute those responsible for the violent repression of protesters during the Maidan demonstrations.

Supporters of President Poroshenko and the Prime Minister, Arseny Yatsenyuk, argue that fighting a war, keeping a stricken economy afloat and implementing painful measures to restore the fiscal balance are exhausting their political capital, and that they cannot afford to alienate the powerful oligarchs and other influential figures they need to keep in the tent. As for prosecuting those responsible for the violent attacks on Maidan demonstrators, they claim nearly all of them have fled to Russia after destroying the evidence, making prosecutions hard to mount.

---

8 Current estimates, almost certainly on the low side, put war fatalities at more than 9,000, with at least three million displaced, one million of them to Kyiv-controlled Ukraine.

A corruption scandal has recently engulfed the self-styled 'kamikaze' prime minister himself, whose popularity had already sunk through the floor. One of his close allies is being pursued by Swiss prosecutors for accepting bribes, and has been forced to resign his seat in the Verkhovna Rada (parliament).<sup>9</sup>

Earlier it was revealed that Poroshenko's personal wealth, despite punitive Russian measures in Russia and Ukraine, has surged above the US billion dollar mark since he took office, a point eagerly picked up by Russian propaganda outlets. He is also justly criticised for having failed to divest himself of much of his wealth, as he promised to do before assuming office. But while no clear evidence of corruption by the President or Prime Minister has emerged, the public is not convinced by the government's explanations for its failures, and impatience is growing.

Meanwhile, populist and nationalist solutions to complex economic and political issues are starting to gain traction in the Verkhovna Rada and more widely. A battle is being fought in the Rada and beyond over a populist counterproposal to the radical tax and budgetary package proposed by the highly competent American-Ukrainian Finance Minister Natalie Jaresko, in consultation with the IMF. The rival bill, which would bust Ukraine's precarious fiscal position, has elicited an IMF warning that its further support (without which the country may face default) could be withheld.

There is a serious risk that ambitious and irresponsible political groups could use or somehow precipitate violence in their efforts to exploit the current volatile political situation. The issue of the special autonomy to be bestowed upon the 'people's republics' in Donbas under the Minsk agreements has done so already, and could again be a trigger. Extreme turbulence accompanied the first stage of the relevant legislation's passage through the parliament on 31 August, despite the measures falling far short of the expectations of Moscow and its proxies. A violent hand-grenade attack outside the parliament, staged

---

9 See 'Switzerland officially confirmed case Martynenko. He faces 5 years', *Ukrainian Crisis*, 23 Oct. 2015, [ukrainiancrisis.net/news/14573](http://ukrainiancrisis.net/news/14573).

by one of the militant nationalist parties, resulted in police casualties.<sup>10</sup> Fisticuffs inside the parliament are not unknown, but violence of this kind is a most unusual and ominous development.

Given all this, the passage of legislation necessary even to meet Ukraine's Western supporters' expectations may yet prove beyond the Poroshenko administration's capacity. For their part, Russia and its proxies will almost certainly say that whatever legislation is passed is insufficient. They have been demanding not just decentralisation or autonomy, but effectively 'federalisation'. Cobbling together a parliamentary majority to pass the unpopular legislation will be very difficult, and could possibly even bring about the Kyiv Government's collapse.

Whatever their flaws, the Minsk agreements were presumably as much as Merkel and Hollande felt they could get from Moscow. With the absence of the United States from the negotiating process, Poroshenko had no alternative way of gaining the reduction in fighting that he desperately needed to rescue the gravely ill Ukrainian economy. Apart from the few weeks of calm after 1 September 2015, though, there never really has been a genuine ceasefire in place. And Russia has continued to supply heavy weaponry and infiltrate personnel through the over 300 kilometres of border that it jointly controls with its Donbas proxies.

Throughout the occupation, with Russian connivance, the proxies have denied international monitors from the Organization for Security and Co-operation in Europe (OSCE), access to the border and most other areas they hold.<sup>11</sup> In recent months they have even been blocking international charitable organisations seeking to bring relief to the suffering civilian population in the Donbas;<sup>12</sup> these charities are acting as hostile 'foreign agents', the proxies allege, in another loyal echo of one of the worst xenophobic features of Putinism. The Donetsk and Luhansk regimes, on the other hand, have been welcoming towards

---

10 See 'Death toll rises to three from grenade attack near Ukrainian parliament', *Radio Free Europe/Radio Liberty*, 1 Sep. 2015, [www.rferl.org/content/ukraine-second-national-guardsman-dies/27220213.html](http://www.rferl.org/content/ukraine-second-national-guardsman-dies/27220213.html).

11 See Daniel Baer, 'Russia's ongoing violations in Ukraine', US Mission to OSCE, 3 Sep. 2015, [osce.usmission.gov/sep\\_3\\_15\\_russias\\_violations.html](http://osce.usmission.gov/sep_3_15_russias_violations.html).

12 See Halya Coynash, 'Why are the Kremlin's proxies in Donbas provoking a humanitarian catastrophe?', *Kyiv Post*, 28 Sep. 2015, [www.kyivpost.com/opinion/op-ed/halya-coynash-why-are-the-kremlins-proxies-in-donbas-provoking-a-humanitarian-catastrophe-398863.html](http://www.kyivpost.com/opinion/op-ed/halya-coynash-why-are-the-kremlins-proxies-in-donbas-provoking-a-humanitarian-catastrophe-398863.html).

selected Western journalists, enabling them to see, record and display to the world the damage and suffering the civilian population has sustained. Often the news reports uncritically present the devastation as being essentially Kyiv's fault, without saying much if anything about the real causes of the conflict or the thuggish behaviour of the journalists' hosts.

Russia has up till now sent 45 'humanitarian convoys' to proxy-held territory since the Donbas regions were seized, none of which they have allowed Ukrainian or OSCE officials to inspect. Many reports suggest that weaponry and other non-humanitarian cargo have been transported in this way. Russia has also provided financial support, but with its own economy under stress it doesn't seem to see repairing its damage in Ukraine as a high priority. It does maintain close political control of the regions, however.

As it currently stands, the Minsk outcome only meets the Kremlin's minimum requirements – to devastate the Ukrainian economy, and to seize enough territory to prevent the country from integrating with Western institutions. Even with the additional land the proxies grabbed after the Minsk II ceasefire supposedly came into effect last February, they occupy less than half of the Donetsk and Luhansk regions. Putin would like ideally at some point to take over both in their entirety, and more besides, but the present moment is not propitious. Efforts continue aimed at destabilising the two largest and most Russified regions of Kharkiv and Odessa, the scene of repeated, mysterious bombings that were never typical of Ukraine before the Russian aggression began. The Transcarpathian region of western Ukraine, bordering Slovakia, has also been subject to transparently Kremlin-inspired attempts to create a separatist movement.

Where does this leave Putin's Novorossiia project – the idea of seizing the entire eastern and southern regions of Ukraine, creating a land bridge to Crimea, and linking up with the Russian-sponsored breakaway territory of Transnistria in Moldova? This seems to have been the Kremlin's preferred option at one stage, but Ukrainian resistance, Western reactions and the slump in energy prices and

the rouble forced a reappraisal. Putin has not publicly mentioned it for well over a year, and he seems to have settled, for now anyway, on another 'frozen conflict' in the Donbas.<sup>13</sup>

As the Georgian precedent indicates, the Kremlin could easily decide to 'unfreeze' the conflict at some opportune moment, but for the time being that seems unlikely. In recent months it has restrained some of its domestic hypernationalists, once tacitly encouraged, who have been calling for Moscow to invade Ukraine and condemning Putin for failing to do so. Keeping Ukraine a failed state and out of Western institutions is the minimal requirement. But what the Putin regime would like ultimately is a Ukraine subordinate to Moscow, with a compliant government in Kyiv, its economy integrated in the Eurasian Economic Union and Russian as an official, and effectively the dominant, language.

If the Ukrainians don't oblige, the Donbas front could always be reactivated and the destabilisation of other regions renewed. But there are other ways of exerting severe pressure. Trade boycotts, 'energy diplomacy' and manipulating prices have all been used repeatedly.

It is true that such measures may be starting to exhaust their potential. As Moscow has intensified its trade boycotts, Ukraine has been tearing itself away from its dependence on Russian imports and exports. Quite recently, Russian and EU trade with Ukraine were each roughly a third of the total, but Ukraine's trade with the European Union is now more than double that with Russia.

In an ideal world this would not be the optimal trade pattern between the two countries but, as Putin has turned trade – like culture and broadcasting – into a coercive weapon, Kyiv feels that it has no choice but to greatly reduce contact with Russia in all fields. If Putin's methods ultimately fail in the struggle to dominate Ukraine, he will have done severe and gratuitous damage to Russia as well as to his victim along the way.

But, while the economic weapons are starting to lose effectiveness because of gross overuse, they are still potent. Moscow has foreshadowed yet another cut-off of gas supplies during the coming

---

13 See Robert Ortung & Christopher Walker, 'Putin's frozen conflicts', *Foreign Policy*, 13 Feb. 2016, [foreignpolicy.com/2015/02/13/putins-frozen-conflicts/](http://foreignpolicy.com/2015/02/13/putins-frozen-conflicts/).

winter; it has abruptly curtailed all agricultural imports from Ukraine; and when Ukraine banned civilian Russian flights into Ukraine on ostensibly national security grounds, Moscow quickly responded in kind. These recent measures build on nearly two years of a severe and punitive trade war waged by the Kremlin.

The gas weapon is less potent than it once was thanks to efforts by Ukraine to build up reserves and acquire more of its gas imports from other sources. But it has other vulnerabilities and Moscow will exploit them. As well as cutting off gas supplies, it has curtailed coal and nuclear fuel supplies. Kyiv is partly to blame for this: it failed to contain the blockade of Crimea, mounted by mainly Crimean Tatar activists and aimed at preventing essential supplies being delivered from Ukraine to the peninsula. The Crimean Tatars have suffered heavily from Russian imperialism in various forms, including genocide at the hands of Stalin and systematic persecution by the new regime installed since the Russian annexation last year. But the activists went from obstructing land exports to sabotaging electricity supplies and then preventing Ukrainian services from carrying out repairs. In failing to block the blockaders, however understandable given Moscow's behaviour in Crimea, Kyiv gave Putin an excellent excuse to retaliate painfully. The ban on coal supplies in particular could be very damaging to Ukraine during the winter.

After blandly lying that he would not impose further sanctions on Ukraine, Putin has now ordered the imposition of tariffs on Ukrainian exports when Kyiv's free-trade deal comes into force on 1 January 2016, on the grounds that without them, cheap EU goods would flood into Russia. EU officials and independent observers regard these Russian claims as groundless, and a smokescreen for measures aimed at preventing Kyiv from proceeding with its Association Agreement (AA) with the European Union. It has been estimated that the tariffs will cost Ukraine US\$1.5 billion annually.<sup>14</sup>

Moscow is trying hard to damage the battered Ukrainian economy in other ways too. Not widely reported in the Australian press has been Russia's unremitting campaign to use a US\$3 billion debt owed it by Ukraine to tip its unruly little brother over the economic precipice.

---

14 See Andrew Rettman, 'Russia imposes Ukraine trade measures', *EU Observer*, 17 Dec. 2015, euobserver.com/foreign/131564.

The money, provided by Moscow to President Viktor Yanukovych just before he was deposed, has been described (not unfairly) by Prime Minister Yatsenyuk as a bribe to induce Yanukovych to abandon any thought of integration with the European Union.

As a condition for approval of a US\$40 billion bailout package from the IMF, the Poroshenko administration was required to secure a negotiated restructuring of the US\$18 billion owed to private creditors. After long and arduous negotiations, the creditors agreed to a 20 per cent haircut and some easing of the terms of repayment, which financial observers saw as a favourable outcome for the creditors in the circumstances. Russia refused to negotiate on its US\$3 billion share of US\$18 billion, maintaining that the debt was state-to-state, not private.

IMF policy has been not to disburse loans to states in arrears to other states. In this case, though, the IMF let it be known that it would continue to disburse tranches of the bailout even if Ukraine remained in arrears to Russia. No doubt it was also taking into account the fact that, as the IMF's president Christine Lagarde emphasised publicly, Kyiv had taken some heroic decisions to meet the fund's tough conditions. Perhaps it also saw as relevant the fact that Russia had invaded Crimea after making the loan, seizing land and resources worth many tens of billions of dollars, and had also implicated itself heavily in the tens of billions of dollars' damage done by the armed subversion of eastern Ukraine. All this suggested that Russia's bonds might ultimately be judged to be odious debt and unenforceable in the technical legal sense.

As the IMF mood seemed to be hardening against him, Putin attempted to step round this obstacle by declaring a readiness to accept the US\$3 billion over three years, plus interest, starting with an upfront US\$75 million and subject to guarantees of repayment by Western institutions. Although the 'offer' was conspicuously less generous than the deal accepted by the private creditors, it was widely hailed at first by ever gullible Western media as a sign of Russia's flexibility. Ukraine argued that it could not offer more generous terms to Russia than it had done to the other non-official creditors.

Last week the IMF confirmed publicly that, in Ukraine's case, it was prepared to set aside its usual rule of not extending support to countries in arrears to another sovereign.<sup>15</sup> But, shortly afterwards, the Fund announced that it had upheld Russia's contention that the US\$3 billion lent to Yanukovych by Putin was an official not a commercial debt, and called on Kyiv to negotiate with Moscow on repayment of the debt. This is unfavourable for Kyiv, which will refuse to pay; and the issue will probably become another matter between the two countries that will end up in court.

Another good example of Putin's methods is Gazprom's latest pipeline project, Nord Stream II, to be built in collaboration with big German and other Western European companies. Like Nord Stream I, it will cost at least US\$10 billion but has no economic justification. (Existing pipelines through eastern and central Europe could do the same job.) The purpose is geopolitical: to bypass the Eastern European countries, depriving them of transit fees and any leverage in price negotiations, and making it easy for Gazprom to cut off their gas supplies for punitive effect at any time. Western energy companies are apparently being drawn into a cosy deal with Gazprom to blackmail Russia's western neighbours and profitably monopolise gas supplies to much of Europe.

After lengthy controversy, the European Union seems to be preparing to decide whether it should disallow this project as contrary to its Third Energy Package and anti-trust policies. In a more amenable age, Nord Stream I slipped through the net quite smoothly, aided and abetted by former German chancellor Gerhard Schroeder. His influence is still detectable. When Merkel's Deputy Chancellor, Social Democrat leader Sigmar Gabriel, made a 'personal' trip to Moscow on 28 October 2016, he spent two hours with Putin and Gazprom head Aleksei Miller, during which time the visitor expressed the hope that the project would go through with as little 'outside interference' as possible.<sup>16</sup> For her part, Merkel seems also to be a supporter, if more cautious, of Nord Stream II, while still envisaging some residual role for Ukraine as a transit state. Ukraine, Slovakia, Poland and other affected states have protested loudly against Nord Stream II, and EU

---

15 See 'IMF backstabs Russia by lifting loan ban vs. debt-dodging Ukraine', *Covert Geopolitics*, 10 Dec. 2015, [geopolitics.co/2015/12/10/imf-backstabs-russia-by-lifting-loan-ban-on-ukraine/](http://geopolitics.co/2015/12/10/imf-backstabs-russia-by-lifting-loan-ban-on-ukraine/).

16 See Julia Smirnova, 'Gabriel spielt in Moskau den Gerhard Schroeder', *Die Welt*, 29 Oct. 2015, [www.welt.de/politik/ausland/article148156440/Gabriel-spielt-in-Moskau-den-Gerhard-Schroeder.html](http://www.welt.de/politik/ausland/article148156440/Gabriel-spielt-in-Moskau-den-Gerhard-Schroeder.html).

energy commissioner Maroš Ševčovič (a Slovak) has also expressed deep scepticism. At the EU summit on 17–18 December, strong opposition was expressed by a number of countries against allowing Nord Stream II to go ahead.

If, however, Nord Stream II does proceed, Ukraine will suffer a further loss of more than US\$2 billion in transit fees annually on top of what it lost earlier from the effects of Nord Stream I.

Given the desperate state of Ukraine's economy and public finances, and even with the IMF support that has raised its international reserves to a princely US\$13 billion, sums like US\$2 billion here and US\$3 billion there may be enough to bankrupt the country.<sup>17</sup> Russia, by contrast, still has US\$375 billion in its reserves, despite the steady and damaging drain by Putin's various geopolitical projects.

While it has noted progress by Ukraine in its regular reports, the IMF usually adds the caveat that the country's already clouded outlook for economic recovery depends on no further worsening of the military situation in eastern Ukraine. For the moment, Moscow is constrained in that respect by its desire to obtain sanctions relief. But another 'outbreak' of fighting in eastern Ukraine at some point could be economically ruinous for Ukraine; and it would not be too difficult for Moscow to devise other punishments that would bring Ukraine financially undone.

Moscow's recent military restraint is thus not a sign of a newly felt moderation on the part of Putin and his colleagues, but rather a result of the pressure he is under because of low energy prices and Western sanctions on Russia's economy. GDP growth dwindled to close to nothing even before the sanctions were applied; a decline of some 4 per cent is expected this year, and if sanctions are not lifted, a further decline is likely next year. But with his heavy military commitment in Syria, and now his extensive economic sanctions against his latest enemy, Recep Tayyip Erdoğan's Turkey, Putin has demonstrated yet again that no economic price is too great for his adoring subjects to pay when his geopolitical projects demand it.

---

17 See Anders Åslund, 'Ukraine must not pay Russia back', Atlantic Council, 2 Nov. 2015, [www.atlanticcouncil.org/blogs/new-atlanticist/ukraine-must-not-pay-russia](http://www.atlanticcouncil.org/blogs/new-atlanticist/ukraine-must-not-pay-russia).

He would much prefer that sanctions be removed, of course, and he is working to that end with his numerous EU allies and sympathisers along the political spectrum – people like Sigmar Gabriel; Viktor Orbán, the authoritarian right-wing Prime Minister of Hungary; Greece’s present leadership and Cyprus, regardless of leadership; Miloš Zeman and Václav Klaus, President and former president of the Czech Republic; Slovak Prime Minister Robert Fico on some issues, though not on Nord Stream II; European Commission President Juncker; and EU ‘foreign minister’ Federica Mogherini and her patron, Italian Prime Minister Matteo Renzi. More broadly, there is a widespread and apparently growing desire among many European elites to get back to ‘business as usual’ with Russia, a sentiment that Juncker embodies, together with his perceptible distaste for US influence on European affairs.

To date, these currents have been held in check with great determination by Merkel. Now, however, the Chancellor’s capacity to maintain support for sanctions against such widespread scepticism is coming under greater pressure from various quarters, both domestically and in the European Union more generally. Moreover, her own political position has been weakened by her quixotically generous response to the huge influx of would-be migrants into Europe, which, like many in the humanitarian German intelligentsia, she seems to see as a chance for Germany to put the seal on its European leadership role and to atone finally and decisively for sins past. This has damaged her domestic standing both in her party and the population.

The migration issue has also preoccupied many EU members desperate to find a short-term fix, and has created severe tensions and divisions between member states. While still trying to defend her initial position, Merkel is now championing the idea, most clearly enunciated by European Council President Donald Tusk, that preserving Schengen and beginning to repair the whole chaotic situation requires adequate protection of Europe’s external borders, a radical diminution of the inflow and the safe return of those not found to be refugees.

Along the way, and via her serious further preoccupations with Putin in Syria, the Paris atrocities, and other migration/terrorism issues, the Chancellor’s capacity and will to ensure that the European Union holds the line on sanctions may have been damaged. Rolling back sanctions while Russia is still ensconced in Ukraine would be a

severe blow to EU and transatlantic unity and a huge boost for Putin's fortunes both domestically and internationally. Merkel, the pacifist and nuanced supporter of Putin's Nord Stream II operation, is arguably at this point a more crucial pillar of Western resistance to Russian aggression in Europe than NATO itself.

This text is taken from *A Difficult Neighbourhood: Essays on Russia and East-Central Europe since World War II*, by John Besemeres, published 2016 by ANU Press, The Australian National University, Canberra, Australia.