THE EU AND UKRAINE: TAKING A BREATH

BALÁZS JARÁBIK, GWENDOLYN SASSE, NATALIA SHAPOVALOVA, AND THOMAS DE WAAL | FEBRUARY 28, 2018

Ukraine and the EU are closer than ever before. But events over the last four years have also shown how far apart they still are in economic capacity, governance, and their visions for the future.

The idea of European integration has won over Ukraine's elites and mobilized society in support. Even as public trust in the elites' promises has fallen, public support for the EU remains solid. According to a December 2017 poll, 50 percent were in favor of EU integration, only a slight drop from the 59 percent high in 2014 and much higher compared to a mere 16 percent of Ukrainians in favor of integrating with the Russia-led Eurasian Economic Union. There is opposition to the EU from both the extreme left and from far right groups, but this is no greater than in actual EU member states. As the 2019 presidential and parliamentary elections approach, rhetoric about a sovereign Ukraine—not giving into policy agenda directives from the East or West—is emerging from opposition ranks and even the presidential administration.

The high level of public support for the EU reflects how much Ukraine's situation has changed since 2014. The Euromaidan revolution, the Russian annexation of Crimea, the Donbas war, and Western sanctions on Russia have moved Ukraine away from its previous multivector foreign policy of balancing between the West and Russia.

The European vector is now institutionalized in the form of the Association Agreement between the EU and Ukraine that came into full force in September 2017. It was an impressive affirmation of the EU's soft power. The Ukrainian state can benefit from an assistance package worth almost 15 billion euros (about $18.5 billion), the growing presence of EU institutions, and around 400 technical assistance projects from the EU and member states on the ground.

Some benefits are immediately available. Thanks to the agreement finally struck on June 11, nearly 400,000 Ukrainians traveled visa-free to the EU's Schengen Area in 2017. Even though that is less than 1 percent of Ukraine's population, most of whom continue to live in poverty and cannot afford travel, the change has a wider symbolic importance: one-quarter of Ukrainians considered it the main political event of 2017.

Yet the hardest work remains to be done, and further EU approximation will not be achieved so easily. There is frustration in Kiev that a deeper relationship with the EU has not brought a membership perspective or the kind of large-scale

ABOUT THE AUTHORS

Balázs Jarábik *is a nonresident scholar at the Carnegie Endowment, focusing on Eastern and Central Europe with particular focus on Ukraine.*

Gwendolyn Sasse *is a senior fellow at Carnegie Europe, where her research focuses on Eastern Europe and the former Soviet Union, EU enlargement, and comparative democratization. She is also the director of the Centre for East European and International Studies (Zentrum für Osteuropa- und internationale Studien, ZOiS) in Berlin.*

Natalia Shapovalova *is a visiting fellow at Carnegie Europe. She focuses on Eastern Europe, particularly Ukraine and EU policy toward the Eastern neighborhood.*

Thomas de Waal *is a senior fellow with Carnegie Europe, specializing in Eastern Europe and the Caucasus region.*

financial assistance that new member states have received. The government has drawn up an ambitious plan: joining the EU's Schengen Area, Customs Union, Energy Union, and the Digital Single Market. According to President Petro Poroshenko, Ukraine can be integrated into the EU by policy area and then "the issue of membership would be a formality and matter of time."

This agenda looks overly ambitious, especially as Ukraine is lagging behind with the implementation of the Association Agreement. Ten out of a total eighty-nine legal provisions, or 11 percent, were roughly implemented in 2017 according to independent monitors. The declared ambitions are also belied by the lack of capacity in high levels of government. Public administration reform is under way and key players are getting more competent, such as the office of the deputy prime minister responsible for European integration, but the government is still a long way from being able to deliver European integration related reforms efficiently.

The gap between ambitions and realities lends credence to the suspicion that a large part of the ruling elite just imitates European integration, as their predecessors did before 2014, and are engaged in "declarative Europeanization"—a phrase coined back in 2000. Some authoritative politicians mainly view the EU as a declarative resource for the elite, which wishes to maintain Western support as manifested by its sanctions on Russia, engagement on the Minsk agreements, and economic assistance. Worse, some observers now write about a "counterrevolution" in Ukraine, where the same elites who were brought to power by the Euromaidan on pro-EU slogans are now sabotaging reforms.

Privately, many in Brussels share this skeptical outlook. There is an emerging consensus that Ukraine is not liable to be quickly fixed by EU-sponsored reforms, and frustration is growing that the country is returning to business as usual and still has many features of a captured state. This will remain the pattern for the near future as the government almost entirely focuses on the elections in 2019 and is therefore inclined to ignore Western policy prescriptions.

The coming period will see the EU consolidate the achievements in Ukraine from the last four years. The hope is that the Association Agreement is a robust commitment that will keep Ukraine on the right path, despite potential turmoil created by the elections. The EU-Ukraine relationship is also cemented by one key factor: a shared distrust of Russia. Thus, the EU is not so much withdrawing from Ukraine as it is taking a breath, while it hopes that the country muddles through the 2019 election.

A TECHNOCRATIC ANSWER TO POLITICAL PROBLEMS?

The EU is now bound to Ukraine—and also to Georgia and Moldova—by their Association Agreement (AA). The agreement covers a range of sectors where reforms to approximate European standards are expected, including energy, transportation, environmental protection, industrial cooperation, social development and protection, equal rights, consumer protection, education, and cultural cooperation. Three-quarters of the agreement covers the economic agreement known as the Deep and Comprehensive Free Trade Area (DCFTA), offering Ukraine greater access to EU markets.

The AA also includes a political dialogue on reforms related to political association, democratic institutions, human rights, and convergence in the fields of foreign and security policy. This political section is not binding but has great symbolic value as the embodiment of Ukraine's European aspirations. For civil society, the agreement is linked to hopes of reducing the oligarchs' grip on the state and of making the country's rulers accountable to society.

The DCFTA sets out a new economic relationship with the EU by promising access to the EU single market, conditional on meeting EU regulatory standards on food safety, public procurement, competition policy, intellectual and property rights, and a host of other issues. Thus far, the newly adopted autonomous trade measures have had only a minor impact. Overall, however, the DCFTA has helped exports to the EU increase to 35.4 percent of all exports in 2017, while the total volume of exports has largely returned to pre-crisis levels.

There are questions about Ukraine's overall ability to meet the challenges offered by the DCFTA. As a recent Chatham House report reflects, the EU's acquis was developed for advanced market economies to form a single market, rather than for countries that are struggling to modernize their economies

and governance, such as Ukraine. As the report asserts, the institutional challenges the reforms aim to address—limited administrative capacity, weak rule of law, and a weak economy—are also those that hamper the implementation of the AA and DCFTA and lead to a slow approximation process.

Another concern is that complete trade liberalization and regulatory integration with the EU, as foreseen by the agreement, may impose costs on domestic actors that are not remedied by corresponding EU assistance, as happened in Central Europe. Some of these costs may be political. For example, the impact of the DCFTA is likely to be uneven throughout Ukraine. The process of implementing the DCFTA entails significant

structural changes to the country's economy and carries with it costs that will disproportionately affect southeastern Ukraine, where the bulk of heavy industries are located. The projected benefits from growth in the agricultural and IT sectors are unlikely to compensate for losses due to the contraction of Ukraine's inefficient heavy industries. This could result in more significant opposition to overall economic reforms and reignite long-standing regional differences.

Efforts to restructure the economy in Ukraine so far have not been accompanied by assistance to local industries, though this is standard practice for membership candidates. While the Ukrainian government's investments were under pressure from

Table 1: EU Support to Ukraine 2014–2020 (as of November 2017)

SOURCE OF FINANCING	ALLOCATED (IN MILLIONS OF EUROS)*	DISBURSED (IN MILLIONS OF EUROS)*
European Commission (2014–2020)	**Up to 4,975**	**3,689.2**
1 Overall development assistance (grants)	1,565	879.2
Bilateral envelope, where		
Annual action program (AAP) for 2014	140–200	
AAPs (average) for 2015–2020	780	
Umbrella program (more for more) for 2015–2020	240–300	
Neighborhood Investment Facility (NIF)	200–250	
Instrument contributing to stability and peace (IcSP)	20	
Common Foreign and Security Policy (CFSP)	15	
2 Macro-financial assistance (including new loans agreed for 2019)**	5,410	2,810
International Financial Institutions	**Up to 8,000**	**5,700**
European Investment Bank	Up to 3,000	3,000
European Bank for Reconstruction and Development	5,000	2,700
Grand Total	**14,800–15,000**	**9,389.2**

* Authors' calculations based on EEAS and European Commission data and the European Court of Auditors 2016 report.
** At the 2017 Eastern Partnership Summit, a new macro-financial assistance plan for 2018–2019 of 2 billion euros was agreed (Source: European Parliament).

austerity and plagued by corruption, there is no appetite in the EU to deliver this level of assistance to Ukraine. The rejection in the 2016 Dutch referendum of the AA was partly driven by concerns that even though the agreement does not include a membership perspective, Ukraine would sneak into the EU with de facto access to the cohesion and regional funds.

UNPRECEDENTED ASSISTANCE

To its credit, the EU reacted quickly to the Ukraine crisis of 2014 by allocating generous funding for macro-economic stabilization. Since then, the EU has mobilized 3.4 billion euros (over $4.2 billion) through three packages of macro-finance assistance (MFA) for Ukraine, of which 600 million euros are still on hold. This is the largest MFA the EU has ever provided to a non-EU country. An additional 2 billion euros in MFA was promised during the Eastern Partnership Summit in December 2017, which would increase the overall assistance framework to 15 billion euros (see table 1).
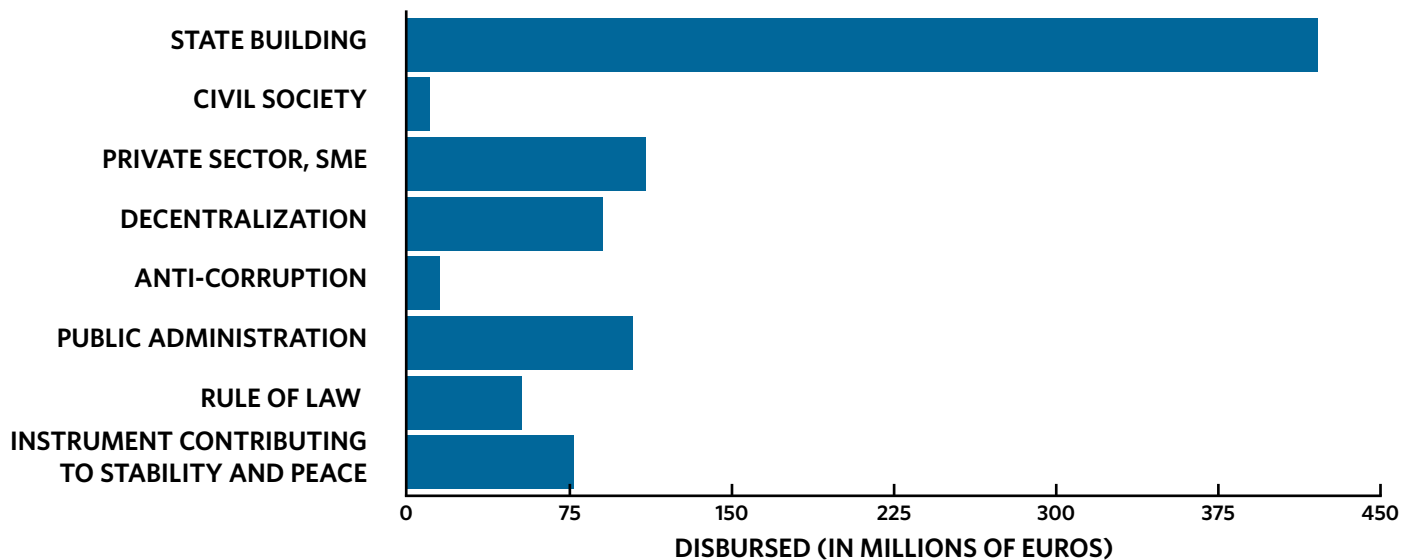
The EU's MFA is supposed to be aligned with the IMF's program, but the union has not been as firm as the IMF in enforcing conditionality. No disbursements from the IMF program to Ukraine have been approved since April 2017 because of unmet conditions. But as in 2016, MFA tranches were released in 2017 on the assumption that Ukraine would comply with conditions eventually. Some of the unresolved issues are the creation of an anticorruption court and the raising of gas prices. The EU's and the IMF's leverage has been somewhat reduced since Kiev's macroeconomic fundamentals have stabilized and its ability to borrow from financial markets has been restored. Nonetheless, Western financial backing remains crucial to guarantee stability ahead of the election year.

The EU argues that there is a lack of absorption capacity for its funds. Peter Wagner, head of the Support Group for Ukraine (SGUA), said in an interview that "there are billions of funds which have been committed and signed up to, but which are not implemented for numerous, sometimes bureaucratic, reasons." He also argued that "enormous private investment" is needed to turn Ukraine around. This raises the question of how, despite Kiev's efforts, private investors can be persuaded to contribute big sums in the still-turbulent political and economic circumstances. Foreign investors were initially upbeat about the possibilities offered by land reform, but this is a politically sensitive issue and has been postponed.

The EU also provides Ukraine with direct support in other ways: via the European Neighborhood Instruments, Neighborhood

Figure 1: EU Assistance in Grants (2014–2017)

Investment Facility, Stability and Peace Instruments, and Common Foreign and Security Policy. With a total of 880 million euros so far allocated out of the 1.5-billion-euro framework, Brussels is the major backer of reforms such as the fight against corruption, decentralization, public administration, the judiciary and rule of law, the constitution, and the electoral framework (see figure 1). In 2017, the EU added supporting energy efficiency and public finance management to this list, showing that it is engaged in all reform areas. The European Commission and the German government jointly funded about one-quarter of the humanitarian aid provisions in 2017 for conflict-affected areas in eastern Ukraine that are under government control.

A VARIETY OF ACTORS

The EU's response to the Ukraine crisis has created a unique institutional setup. The Brussels-based SGUA, under the directorate general for neighborhood and enlargement negotiations in the European Commission, has established itself as a key institution in its three years of existence. With around forty full-time sectoral experts focusing on various aspects of Ukraine reforms, the commission possesses the necessary sectoral knowledge about the country, has direct access to the Ukrainian government, and has managed to make planning EU assistance more integrated into the ongoing reform processes.

Since the emergence of the SGUA, the role of the Eastern Partnership department at the European External Action Service (EEAS) has shifted toward policy planning as well as monitoring and reporting on the implementation via the EU delegation.

In July 2014, the European Union set up an Advisory Mission (EUAM), a comprehensive project to aid civilian security sector reform in Ukraine. The mission was designed to support law enforcement and reforms to the rule of law at a time when military assistance was the most vital issue. The EUAM was not involved in setting up the National Patrol Police and has been criticized for having had a limited effect, despite being the most expensive EU project in Ukraine. It was able to raise its visibility and had more impact by broadening its mandate to include practical projects such as supporting criminal investigations or community policing.

Ukraine's parliament, the Verkhovna Rada, is a constant bottleneck for reforms, reflecting the challenging domestic political realities and limited receptivity to reform, among other factors. The European Parliament enacted the Parliamentary Support and Capacity Building program to help it cope with the enormous volume of legislative work. This kicked off with an assessment led by Pat Cox, the former European Parliament president in 2016. A larger consensus-building process, known as the Jean Monnet Dialogues, began as part of this program, but has gained little traction so far. For example, none of the Cox report's recommendations have been implemented even though there is now an informal consultation process between the parliamentary factions.

Last but not least, the EU has 250 technical assistance projects, with member states providing many more. There are now hundreds of advisers (both international and local) working directly in state institutions whether via the Reform Support Teams, the Strategic Advisory Group for Reforms (SAGSUR), or the Reform Offices in the region to promote decentralization. Although this makes assistance fragmented and coordination an uphill battle, it also gives the EU unprecedented insight and avenues of influence.

The variety of EU actors is a challenge. It means that, to paraphrase Henry Kissinger, there is no telephone number for Europe on Ukraine. The fact that there is no single person with overall responsibility for Ukraine policy (naming one would be the responsibility of the EU high representative for foreign affairs and security policy) does not give the otherwise robust EU engagement the visibility it deserves and also gives the Ukrainian authorities more opportunity to shop among different EU actors and member states and to mitigate criticism. The United States has demonstrated with its own special representative for Ukraine negotiations the added value in outreach and communication, while the G7 remains the most influential player in Kiev.

The EU is trying to address this challenge, notably by expanding the size and influence of the delegation office in Kiev and delivering higher-profile public messages. Brussels delivered tough messages at the end of 2017 about the undermining of the anticorruption agenda; this made the Ukrainian government pull back from some of its plans to weaken the new anticorruption institutions.

A MULTITUDE OF NEIGHBORS

Many of Ukraine's EU neighbors have developed their own bilateral relations with Kiev, which do not always reflect a coordinated policy.

Germany's Chancellor Angela Merkel personifies continuity for the Normandy format, the EU sanctions regime vis-à-vis Russia, and, more generally, the visibility of Ukraine on the EU's agenda, without promising major policy initiatives. The role of Germany in restoring the Donbas to Ukraine after "significant steps to implement the Minsk agreements" and ensured by a UN mission, is part of the new coalition agreement, along with reforms and strict conditionality to provide assistance.

The communication channels among Berlin, Paris, Kiev, and Moscow, established by the Normandy format, are functioning well from Berlin's perspective and are not only measured against the implementation of the Minsk agreements. The processes of conflict management and internal reforms are seen as inextricably linked, based on the belief that successful domestic reforms will be the best basis for Ukraine to withstand challenges from outside.

The German development assistance earmarked in 2017 was 377 million euros (nearly $500 million), in addition to 23 million euros of humanitarian aid; 6.8 million euros in support of the three thematic priorities civil society, rule of law, and dialogue and mediation; and 3.2 million euros for German-Ukrainian projects from a program aiming to extend cooperation with civil society in the Eastern neighborhood and Russia. Germany communicates through various channels in Kiev, including the G7, whose ambassadors are important interlocutors with the government. It has a special envoy in the field of decentralization, Georg Milbradt. Such a multitude of actors offers a degree of flexibility but can also be confusing.

France has gained greater visibility and clout in relations with Ukraine through its high-profile involvement in the Normandy format. Since the beginning of President Emmanuel Macron's term in office, both conflict resolution and the reform process in Ukraine have risen on the French policy agenda. Against the backdrop of the Normandy talks, bilateral links between

France and Ukraine in general have intensified, in particular at the ministerial level. These channels offer a degree of flexibility and allow Paris to voice concerns and suggestions related to the Ukrainian reform process. In early 2018, Macron expressed dissatisfaction with the deadlock on the implementation of the Minsk agreements, indicating a more active approach.

Like Berlin, Paris emphasizes that the Normandy format has established a close-knit communications network. This is particularly valuable in the current international climate where trust is in short supply. French diplomats have confirmed the even more intensive contact with their German counterparts in matters concerning Ukraine.

France's bilateral assistance programming, at 2.7 million euros, is smaller than Germany's yet sizable by French standards. It focuses on governance reforms, support for higher education with a focus on training new administrative personnel, assistance for civil society, and humanitarian aid for the conflict zone.

The *United Kingdom* has tried to become more visible in its efforts to support Ukraine, with mixed success. From London's viewpoint, Germany and France dominate the process of conflict resolution and occupy a central position in coordinating support for Ukraine's reform process. Nonetheless, Ukraine has been a priority for the UK since the Euromaidan uprising, and the UK government is popular for its consistently tough line on Russia. It is also a leading foreign actor in security sector reform. This is set to continue after Brexit, say British officials. However, Britain will inevitably lose leverage and the multiplier effect it has had by being a leading member of the EU. The EU will also lose a strong voice that has traditionally championed Ukraine.

Britain's bilateral aid provision to Ukraine consists of three main strands: humanitarian funding for conflict, security assistance, and funding for reform from the Good Governance Fund. Each of these is worth approximately 10 million pounds (nearly $14 million). However, a much bigger amount comes from Britain via the European Commission, which receives about 1.5 billion pounds for its aid budget from the UK annually. There has been no clarity from London about what

will happen to this aid allocation after Brexit—as there has been no clarity about a host of other issues, which is likely to be the case for quite a long time.

Several of Ukraine's immediate EU neighbors have more complicated relations with Kiev than they did four years ago, although this has not yet affected EU policy as a whole. In the immediate period after the uprising, unconditional support was the main talking point. More recently, Kiev added Estonia to its list of offshore zones, while relations with Hungary and Romania have worsened due to the language clause of the recently adopted education law. There are ongoing arguments with Poland over how to remember World War II.

The common denominator in these disputes is Ukraine's new patriotic agenda, directed toward a belated process of nation building, which includes strengthening the status of the Ukrainian language among other features. This clashes with genuine concerns about the status of ethnic minorities in post-Euromaidan Ukraine and also with nationalist politics in some of these countries, where Ukraine's policies have become a domestic, political campaign issue.

Poland is a prime example of this complicated dynamic. Poland also contributes to the war on memory, having, for example, passed a law banning the so-called Bandera ideology, which denies "the crimes of Ukrainian nationalists and Ukrainian units who collaborated with the [Third] Reich," thereby making it clear that it considers Ukraine's new patriotic agenda incompatible with its EU integration ambition. However, PiS leader Jarosław Kaczyński has been a notable supporter of Ukraine, and Poland is still perceived positively in post-Euromaidan Ukraine. Disputes do not prevent Warsaw or Budapest from actively recruiting Ukrainian workers to address their labor shortage.

LOOKING AHEAD

The choreography of EU-Ukraine relations in the near future can be easily predicted. Kiev will push the EU for more declarative and financial support, and Brussels will speak out for a greater commitment to reform, especially in the fight against corruption. The potential for change is limited by the presidential and parliamentary elections of 2019, as Poroshenko

calculates the potential electoral costs of any policy move he makes. In this context, the implementation of the Association Agreement and the overall pace of reform will remain slow. By default, Russia will continue to play an important role in cementing the relations between the two.

The 2019 elections mark a paradoxical point in Ukraine's political development. On the one hand, they will test Ukraine's reform credentials, but on the other hand, there are currently no realistic alternatives to the candidates and parties that have dominated Ukrainian politics since even the pre-Euromaidan era. Despite their overall low popularity ratings, which are in the low double digits, Poroshenko and former prime minister Yulia Tymoshenko and their respective blocs or parties remain the key contenders in both elections.

Both Brussels and Kiev are looking to the post-election period. As agreed at the last Eastern Partnership Summit, the European Commission will prepare a feasibility study on the impact of the Customs Union on Ukraine and a road map for Ukraine (and Moldova and Georgia) to join the EU's Energy Union and the emerging Digital Single Market. As outlined above, this approach risks overemphasizing integration mechanisms, whose costs can be high. The lessons from the integration of Central and Eastern European countries into the EU also suggest that the fundamental questions of the state's role and the effectiveness of domestic institutions should not be left for EU integration to tackle. These questions are at center stage even after a country becomes a member of the EU.

That lesson suggests that in Ukraine the EU must also focus on interventions that directly facilitate the overhaul of state institutions but with a greater sense toward what is possible. The EU is already engaged in the process of fine-tuning reforms, largely thanks to the work of the Ukraine Support Group. This has often run against the vested interests of the ruling elites as well as lack of competence or weak management, and has been possible largely due to direct Western financial support and direct pressure.

The EU is taken as a political actor in Ukraine, despite its avowed technocratic methods. That logically suggests that it needs to address the costs and benefits of reforms for the

population as a whole. In that context, the EU should aim to direct more of its resources toward southeastern parts of the country where socioeconomic conditions are worse, and toward the increasingly disillusioned youth. Sectors such as public health, education, social services, and infrastructure are of key importance for the Ukrainian public—and should therefore receive more attention and assistance from the EU if it aspires to keep up the currently high levels of support in the country for a pro-European vector.

A continued deeper reform process led by the EU will inevitably lead to a backlash from parts of society and vested interests that see that they are losing out. That makes it ever more important for the EU to communicate its ideas in clear language that the Ukrainian public will understand. The EU believes that approximation with the rest of Europe is a long-term and sometimes costly process but also one that will deliver many benefits—even without a membership perspective. That process has begun but still has a long way to go.

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