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Donbas Trade Blockade Poses a Challenge to Ukrainian Authorities

Daniel Szeligowski

Ukrainian President Petro Poroshenko's ad-hoc decision to authorise the trade blockade of Russia-occupied parts of the Donetsk and Luhansk regions was taken to diminish the risk of political instability in the country. However, the blockade will not solve the problem of the lack of a coherent state policy towards that area and poses a challenge to Ukraine's energy security. Poland, for its part, has instruments it can use to support the modernisation of Ukraine's energy system.

Donbas Trade Blockade. On 15 March, Ukrainian President Petro Poroshenko approved a decision by the National Security and Defence Council to introduce a temporary prohibition on the movement of goods across the separation line in Donetsk and Luhansk regions (one side controlled by the government and the other by irregular, Russia-backed forces, or “separatists”). The blockade affects road and rail connections, but exempts humanitarian cargo and small amounts of goods carried for personal use. The official reason is the exacerbation of the situation in Donbas and the takeover of Ukrainian enterprises in the occupied territories. Ukraine's authorities have declared they will end the blockade if the first two points of the Minsk-II agreement are fulfilled, that is, a full ceasefire along with removal of all heavy weapons from the front line and the return of all the taken enterprises to their Ukrainian owners.

Regardless of the official explanation, the decision was made by Poroshenko to prevent further political crisis in Ukraine. At the end of January, Ukraine *Anti-Terrorist Operation* veterans (ATO fighters who, in fact, fought against Russian forces in Donbas) started an illegal blockade of trade with the occupied territories without prior agreement from Ukrainian authorities. The declared goal was to force the other side to release captured Ukrainian soldiers. Soon after, Ukraine security services attempted to break up the blockade and on 13 March detained more than 40 participants, however, public protests erupted on the night of 13 to 14 March. As a result, the local authorities from several western Ukraine regions turned to Poroshenko, demanding trade be stopped with the occupied parts of Donbas. Some had voiced their support for the blockade as early as mid-February. Afraid of further increasing tensions, Poroshenko—who remains a firm critic of the blockade—formally authorised it the next day.

Poroshenko's decision was criticised by Germany and France, both highly involved in settling the situation in Donbas through the Normandy Four grouping. Concern was also expressed by the European Union, which advocates a policy of maintaining social and economic ties to the occupied territories with the view that such an approach will make their reintegration easier in the future. On the other hand, the blockade is supported by a significant number of Ukrainians. In an opinion poll carried out in November 2016 by the Razumkov Centre, a Ukraine-based think tank, found 44% of respondents said they would vote for complete isolation of the occupied territories if a referendum were held (23% favour a special status for Donbas).

Consequences of the Blockade. The trade blockade will result in significant losses to the Ukrainian economy. According to estimates by the National Bank of Ukraine (NBU), the pace of economic growth in 2017 will likely slow by 1.3 percentage points to 1.9%. Because of mines in the contested regions of the country, Ukraine's metallurgy sector, which amounts to 25% of the country's exports, will be hardest hit at first. A fall in export revenues will deepen the current account deficit and negatively affect currency reserves (NBU already has revised down its forecast in those areas). The hryvnia exchange rate may also further weaken. Consequently, Ukraine's government will have to carry on with reforms necessary to obtain the next tranches of an IMF credit.

The blockade also poses a challenge to Ukraine's energy security. Every year, Ukraine uses over 9 million tonnes of anthracite coal (a third of its total coal usage), which is extracted in the occupied territories. So, until just the end of 2017, it will need to import 5 million tonnes from another source since, on the day the blockade was authorised, it had only enough for the next 28-60 days. Ukraine Energy and Coal Industry Minister Ihor Nasalyk excluded the possibility the country would import anthracite from Russia, although Ukraine bought some from it at the beginning of 2017. Instead, the additional coal will likely be bought from South Africa and the United States. The first delivery, though, needs to take place in May, so the state of emergency in the energy sector introduced by the Ukrainian government in mid-February will remain for a few more weeks.

The Political Dimension. Against the backdrop of the blockade, conflict has intensified between President Poroshenko and the mayor of Lviv, Andriy Sadovyi, who is a potential rival to the current head of state in the presidential election in 2019. Sadovyi's political party, Self-Reliance (Samopomich), supported the veterans' blockade. A Self-Reliance member of parliament, Semen Semchenko, even was one of its organisers. Sadovyi's party demands the government officially declare that territories outside its control are occupied by Russia (a draft law was registered in the Verkhovna Rada in July 2015). However, the Ukrainian authorities have tried to avoid the term "occupied," instead referring to Russia exercising "effective control" over parts of the Donetsk and Luhansk regions.

Poroshenko criticises the Self-Reliance initiative as one that would make any future reintegration of the occupied territories impossible. Instead, he announced he is preparing his own draft law on the restoration of Ukraine's territorial integrity. In addition, Poroshenko accused Self-Reliance of acting to the detriment of Ukraine's interest. He says the party started the illegal blockade and forced authorities to accept it under public pressure. In the near term, Poroshenko will likely maintain his aggressive rhetoric against Sadovyi and put pressure on the mayor and his political party. One example came from General Prosecutor Yuriy Lutsenko, who is connected to Poroshenko, who signalled that Sadovyi may be charged with criminal liability for a fire that occurred at one of the landfills near Lviv in May 2016, in which three firefighters died.

Perspective. Poroshenko's decision to approve the blockade temporarily diminishes the risk of political destabilisation in Ukraine but does not solve the problem of the lack of a coherent state policy towards the parts under Russian occupation. Although the president declared his desire to elaborate such a policy, he will have to consider the contradictory forces of, on one hand, Ukrainian society, which largely supports the isolation of the occupied territories, and foreign partners that demand keeping socio-economic ties with these areas. If faced with a further decline in public support, Poroshenko will likely lean toward some form of isolation. However, this may result in reduced support from Germany and France, since both countries would see such a move as an obstacle to settling the situation in Donbas based on the Minsk agreements.

Any settlement, though, should not negatively affect the internal stability of Ukraine, although Russia is trying to do just that by pushing Ukrainian authorities to hold local elections in the occupied parts of Donbas, with a view to legalising "separatist" control there. Full implementation of the Minsk agreements seems impossible for now as long as Russia seeks the status of mediator, which would allow it influence over Ukrainian politics while maintaining armed forces in Donbas. Instead of pressing Ukraine to unilaterally implement the Minsk provisions regardless of Russia's actions, the EU should increase its efforts to strengthen the Ukrainian state.

In considering Ukraine's problems, Poland may consider offering again to help modernise Ukraine's energy sector, which it initially proposed in 2015 (Ukraine's authorities decided to use a €100 million credit line from Poland for trans-border infrastructure development). The transformation of anthracite coal-fired power stations into power stations that use coal with less carbon content will be essential in this context, since that type of coal is extracted in western Ukraine and may be imported from Poland.