

What the Mainstream Misses: Observations on the Ukraine Crisis

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A great deal has been written regarding the Ukraine events of February and March leading to the overthrow of Viktor Yanukovich. In their attempts to explain the upheaval, most of those weighing in have primarily focused on the internal dynamics - the domestic political terrain, the east/west ethnic divides, some inchoate desire to join the EU and “the West,” the influence of organized fascists, and the corrupt and oligarchical nature of the ousted leader.

With Yanukovich ousted, the ever myopic US press rapidly shifted its attention to Russia’s response, or more accurately to the behavior of Vladimir Putin. Dutifully describing the Russian moves in the Crimea as an outright “invasion” or “act of aggression” in violation of international norms and sovereignty, mainstream commentators resorted to to-be-expected simplistic explanations focused primarily on Putin. All context and understanding of even the very recent history disappeared, only to be replaced by facile talk of a “new Cold War” and “good” versus “evil” framings.

So how do we begin to decipher recent developments?

Ukraine currently straddles a complex fault line on the tectonic plates of Russian and US imperial concerns — geo-strategic, energy-related and economic. Numerous forces and competing interests, in play well before the demonstrations in Kiev’s Maidan, led to the recent seismic tremors along that geopolitical fault.

Through February and into March, all the “news” networks parroted the line that the protests in Kiev were solely the result of Yanukovich’s refusal of an offer to join the EU, rather than the “conditionalities,” the strings attached to the \$15 billion financial assistance package. Rejecting what turned out to be “an offer he couldn’t refuse,” the Ukraine leader pivoted instead toward a Moscow “bail out,” actually an extended credit line free of EU-style “economic reform” demands. Casting the regime as nothing more than a clique of kleptocratic oligarchs, and the opposition gathered at the Maidan as an indistinguishable mass yearning for EU inclusion as the road to “freedom,” the dominant media disregarded some essential contemporary history.

Breadbasket cum Basket Case

Once the “breadbasket of Europe,” Ukraine has been an economic basket case pretty much since the implosion and 1991 dissolution of the Soviet Union. Privatization of what were formerly socialized

assets and the handing over of key economic sectors, technically still state owned, to politically connected insiders, left whole segments of the society exposed and dispossessed. That system, rife with graft, “grey market” corruption mafia-like patron-client politics and rival political clans, gave rise to competing sets of oligarchs, many of whom remain at the “commanding heights.”

Transparency International in 2013 listed Ukraine as the most corrupt country in Europe [1], tying globally with Cameroon, Nigeria, Iran and the Central African Republic. The Ukrainian shadow economy is one of the biggest in the world—at around 50% of GDP, according to the IMF [2], and Ukraine’s new prime minister early in March estimated that \$37 billion had gone missing during Yanukovich’s time at the top. (It should be noted that many of Yanukovich’s Party of Regions colleagues, not to be left out in any reshuffle, distanced themselves from their former leader.)

The plight of the popular classes had been worsening for some time as their purchasing power and standard of living continued to decline. Following a deplorable situation throughout the 1990s, per capita income improved somewhat [3], but fell precipitously following the “Orange Revolution” of 2004-05. Then came the global downturn of 2008.

The “Great Recession,” from which the Ukraine economy has never recovered, dried up credit and investment from abroad, raised the price on imports, slowed exports, depleted the country’s hard currency reserves, increased the national debt, and resulted more recently in the devaluation of the nation’s currency by 20% in relation to the dollar. All segments of the society — the under- and unemployed, the youth, pensioners, and working class families — experienced diminished buying power. All, that is, except the nouveau riche robber barons and politicians at the top or those somehow connected to them.

Clearly, it was the worsening conditions in the country, compounded by graft and political corruption at all levels but especially by the unregulated piratical capitalists at the helm, that fueled the discontent leading up to Maidan. The mass demonstrations and the state’s tough response to the protests, in turn, opened the door for parties and organized formations of ultra-nationalists able to inflame the deteriorating situation on the ground and thereby veto any resolution of the crisis short of Yanukovich’s ouster and a changing of the oligarchic guard.

“Shock Therapy”?

It must be understood, as well, that the IMF had a hand in creating the volatile situation. (One could construct an argument, based upon a close reading of the record, that the aim of its strategy all along was to draw the country into the Western orbit.)

In the country since the early 1990s, in October 2008 the IMF granted Ukraine a \$16.4 billion loan to be doled out over period of years. It froze installments in late 2009 after Ukraine raised minimum wages and pensions in violation to IMF “conditionalities”. In late July 2010, the financial consortium approved another 29-month \$15.15 billion loan, conditioned on putting an end to long-established consumer price subsidies for natural gas. (The government, incidentally, had been charging consumers a quarter of the price being payed to providers, primarily Russia’s Gazprom.) The country’s trade unions warned at the time that resulting 50 percent increases on household gas utility prices would “stoke social unrest [4] and uncontrolled inflation.”

According to the since deposed Ukrainian Prime Minister Mykola Azarov, it was “the extremely harsh conditions” of a renewed November, 2013 IMF loan offer that set the stage for the Yanukovich government’s decision to put off signing an the “Association Agreement” between Ukraine and the European Union. The November turn away from the EU became a catalyst for the

Maidan protests.

“It’s the Energy, Stupid...”

While some have described the heightened tensions over Ukraine as the possible beginning of a “new Cold War”, the dispute may best be understood as but one salvo of what Michael Klare, writing on the geopolitics of energy [5], has described as a globally intensifying “race for what’s left” [6].

The heightening international scramble for control of the world’s vital resources, essential among them the hydrocarbon fuels vital for the operation and stability of the world’s major economies, provides an important backdrop for the Ukraine events.

Not to be overlooked, “energy security” has moved to the fore as a central strategic concern, not just of the major multi-national energy corporations - Exxon Mobil and the rest - but for capitalist state and private sector planners, and development strategists at the IMF, the World Bank and other IFIs. Innumerable think tanks and NGOs, and of course, the military, industrial and intelligence establishments of all the major powers are all now deeply invested in the race.

In the particular scramble for control of oil and, increasingly, natural gas, the major capitalist states and corporations have sought to influence those regimes sitting atop known reserves and as of yet untapped sources of hydrocarbon wealth. In addition, a number of countries with pipelines or ports, key transit and distribution points, have acquired increased in “strategic value” as the rush for “black gold,” gas and other strategic minerals (notably coal, uranium, and gold) continues to intensify.

Russia is a gas and oil rich hydrocarbon state. A high percentage of its recent development and relative prosperity has been fueled by the high price of gas and oil exported to energy dependent Central and Eastern Europe, and more recently India and China. The country’s development, hampered by the decline in energy prices following the 2008 global slowdown, has benefitted more recently from the rebound in international demand.

Russian exports currently account for nearly a third of European gas imports. Upwards of 80 percent of that supply has flowed through Ukraine enroute to other Eastern European states and points West. As of 2009, two-thirds of annual revenue of Russia’s state-owned Gazprom came from the sale of gas transiting through Ukraine.



Ukraine, itself, has been dependent on those same gas lines for upwards of 60 percent of its domestic needs. Russia has consistently sold that gas to Naftogaz, Ukraine’s national gas company at subsidized prices, up to 30 percent below the international market price, as part of the transit agreements. Fuel has also been handled by opaque, for profit go-between firms [7], apparently serving no other purpose than to skim off earnings through speculation and gray market trading.

Despite favorable conditions, Kiev has consistently been unable to pay its gas bill, in part because of the general state of its economy, but also because of the billions of dollars siphoned off annually by well-connected kleptocrats lording over the energy sector. In 2006, Russia cut off the flow after it determined that the state owned gas company, Naftogaz, had been diverting Europe-bound supplies to domestic use.

Due to unpaid gas bills, Russia again cut off the country's flow during January, 2009. In response, Ukraine again drew supplies for domestic consumption from the European stream. That, in turn led to severe fuel shortages or diminished supplies in a total of eighteen countries, among them Poland, Hungary, the Czech Republic, Greece, Austria and Germany.

That month-long situation sent serious signals to the EU [8], its members still unevenly caught in the vice grips of the "Great Recession." The immediate Russo-Ukraine crisis then subsided as Kiev borrowed the money to start paying what it owed (by borrowing from Russian banks!) and the "special relationship" resumed, built upon a mounting Ukrainian debt owed Gazprom and other creditors.

Partly in response to that vulnerable situation but also as part of a broader strategy already long underway, US and EU state strategists, IFIs, allied energy company "majors," and mega construction firms accelerated plans for various east-west gas line projects extending from as far away as Azerbaijan and Kazakhstan in Central Asia. Carried on in cooperation with numerous regimes of Russia's "near abroad," those projects have been consciously planned, in part, to wean Central and Eastern Europe away from a dependency on Russian energy.

Ukraine took its first major step away from dependency on Russian gas imports when it signed a \$10 billion shale gas deal with Royal Dutch Shell in mid-January 2013 [9]. That 50-year production sharing agreement at the time marked the biggest contract yet to tap shale gas in Europe and the largest direct foreign investment in the former Soviet republic.

(Partly out its own concern over the unreliability of Ukrainian and other Eastern European transit routes, Russia's Gazprom in turn has proceeded with the construction of its "Nord Stream" gas pipeline [10] running under the Baltic Sea from Russia to Germany. With Gazprom holding a 51 percent interest, the Swiss-headquartered joint stock company heading up the project, Nord Stream AG, is comprised of a number of Western European energy and construction companies as well as German, French and Russian investment banks.)

As energy politics journalist Steve Horn has shown [11], amidst all the hubbub regarding the Maidan demonstrations, the Kiev coup, and subsequent Russian response in the Crimea, multibillion dollar joint shale gas exploration ventures between Exxon-Mobil and other energy "majors" and the Russia's Gazprom and oil giant Rosneft have continued full bore in Siberia, the Gulf of Mexico and yes, the Black Sea off Crimea, unimpeded by limited Washington sanctions.

To NATO or not to NATO...

While barely scratching the economic undercurrents of the Ukraine story, mainstream Western media have consistently given short shrift to any possibly legitimate Russian concerns. Key among them, certainly from Moscow's perspective, has been the eastward march of NATO, understood primarily as a US led military alliance.

Founded in 1949 for the "collective defense" of Western Europe against improbable "Soviet aggression", the alliance in the Russian view has always been a US-led offensive force. (The Soviet bloc's mutual defense Warsaw Pact came about in 1955, well after NATO's formation.)

As the Cold War came to end, Germany reunified in 1990, making the former East Germany an ipso facto part of NATO. In exchange for his assent to the reunification, Mikhail Gorbachev received a US promise from then US Secretary of State, James Baker that the alliance would expand "not one inch to the east" [12].

In 1999, Poland, Hungary, and the Czech Republic joined the organization, despite Russian opposition. Expansion continued as seven Central and Eastern European countries — Estonia, Latvia, Lithuania, Slovenia, Slovakia, Bulgaria, and Romania — were integrated into the organization in March 2004. Albania and Croatia joined in April 2009, while Bosnia and Herzegovina, Montenegro, and Georgia have the stated goal of eventually joining.

In addition, virtually all the former Soviet republics now have some form of bilateral military cooperation with the Organization, under its “Partnership for Peace” (PfP) program [13]. Ukraine became the first former Soviet republic to join the PfP initiative in February 2005, after deepening its ties through a November, 2002 “NATO-Ukraine Action Plan”. It soon entered into the “Intensified Dialogue” program with NATO.

In March 2008, under then President Viktor Yushchenko and his Prime Minister Yulia Tymoshenko, Ukraine sent an official letter of application for a Membership Action Plan (MAP), the first step in joining NATO. Facing objections from his opposition, Yushchenko at the time guaranteed that membership in any military alliance would not take place without a public referendum. Russian leaders at the time made clear their opposition to Ukraine membership.

At the 2008 NATO summit in Bucharest, to which Vladimir Putin was invited, he listed Russia’s grievances with NATO [14], among them deployment of a “defensive missile shield” on the country’s western frontier. He at the time called Ukrainian membership “a direct threat” to his country. The then NATO Secretary General nevertheless declared shortly afterward that Ukraine, along with Georgia, would someday join the alliance, but that their respective MAPs were deferred to some later date.

According to numerous independent polls conducted since 2002, Ukrainian public opinion on NATO membership was split, with the majority of those polled generally opposed to joining the alliance. A Pew Research Center poll in March 2010 showed that opposition was particularly high, at 74%, among ethnic Russians while earlier polls among the entire population reflected general disfavor. The 2010 election returned Yanukovych as President and marked a turnaround in Ukraine’s relations with NATO. In February 2010, he stated that there was “no question of Ukraine joining NATO” and later that year announced that Ukraine would remain a “European, non-aligned state.”

On June 3, 2010 the Ukrainian Rada rejected the goal of “integration into Euro-Atlantic security and NATO membership” as part of the country’s national security strategy. The enactment forbade Ukraine’s membership in any military bloc, but allowed for bilateral co-operation.

Yanukovych’s February ouster signaled a possible change back in the direction of at least western Ukraine’s association with the EU, and by extension NATO. Russia’s annexation of Crimea reshaped the political terrain even further, however.

The US-favored, newly-installed Prime Minister Arseniy Yatsenyuk, in an apparent attempt to assuage Russian concerns, on March 18 stated that Ukraine was not seeking NATO membership. U.S. President Barack Obama echoed that position a week later, while nevertheless calling for a greater NATO presence in Eastern Europe. But NATO head Anders Fogh Rasmussen stated afterwards that Ukraine membership was still an option.

Writing in *The Nation* on February 11, noted Russia scholar Stephen Cohen stated that the “most crucial media omission” in all the mainstream analyses of the recent situation had been “Moscow’s reasonable conviction that the struggle for Ukraine [was] yet another chapter in the West’s ongoing, US-led march toward post-Soviet Russia.”

Cohen went on to note the following: “Whether this longstanding Washington-Brussels policy is wise or reckless, it—not Putin’s December financial offer to save Ukraine’s collapsing economy—is deceitful. The EU’s ‘civilizational’ proposal, for example, includes ‘security policy’ provisions, almost never reported, that would apparently subordinate Ukraine to NATO.

Vilified in conservative quarters as a Russian dupe for his utterances, Cohen dared to point out that that encroachment began in the 1990s, despite the Gorbachev-era US agreement to hold the line NATO eastward movement. Russia’s civilian leadership and national security apparatus, witnessing that US-led “Drang nach Osten” and not about to imperil its warm-water Black Sea port at Sevastopol, drew a line in the sand of the Crimean peninsula.

Then again, Russian perceptions regarding conceivable threats from “the West” and encroachments into its sphere of influence, especially in what it considers its “near abroad,” may just be a bit paranoiac. After all, there really hasn’t been much of a military threat from the west for some time. Not since Napoleon marched on Moscow.

“I’ve Seen the Future, Brother... It Is Murder”?

Ukraine’s woes will continue to deepen. The country currently owes Russia billions for its gas bill and has a national debt equaling as much as 40 percent of its GDP, and Russia immediately canceled its long standing discount on gas prices following Yanukovich’s ouster. The country has also lost a significant portion of its industrial capacity, located in the Crimea. As a result, living conditions of its subordinate classes are not likely to improve and will more than likely deteriorate further as projected EU and IMF assistance will not come without deepened “economic reform” austerity demands. A mere billion dollars in US aid will barely matter. (An amount far exceeding that annually gets paid out in bribes in the country!)

The country certainly is not about to become some liberal capitalist democracy. Certainly not as long as the state and the economy are dominated by bands of oligarchs and certainly not as long as Svoboda and Right Sektor members head key domestic ministries and their militants rule the streets.

A rapacious primitive accumulation will continue unabated in the meantime, while much of the nation’s dwindling wealth finds its way to IFI ledgers and sheltered accounts in “the West”. The situation will continue to deteriorate, despite the feeble sanctions and posturing of the US and its erstwhile allies, feigning indignation over Russia’s real politik assertions of its own national interests.

Allen Ruff, April 3, 2014

P.S.

* <http://www.solidarity-us.org/site/node/4141>

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Footnotes

- [1] <https://www.kyivpost.com/content/ukraine/transparency-international-slams-ukraine-as-most-corrupt-in-europe-332965.html>
- [2] <http://www.economist.com/blogs/freeexchange/2014/03/ukraine-and-russia>
- [3] <http://www.counterpunch.org/2014/03/07/the-ukraine-economic-crisis/>
- [4] <http://www.kyivpost.com/content/ukraine/gas-price-hike-to-raise-tension-in-ukraine-75957.html>
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- [6] <https://www.youtube.com/watch?v=A61rKqvK1-s>
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- [10] <http://www.nord-stream.com/about-us/>
- [11] <http://www.desmogblog.com/2014/03/17/exxonmobil-russia-rosneft-gas-export-weapon>
- [12] <http://www.spiegel.de/international/world/nato-s-eastward-expansion-did-the-west-break-its-promise-to-moscow-a-663315.html>
- [13] http://www.nato.int/cps/en/natolive/topics_50349.htm
- [14] <http://www.unian.info/world/111033-text-of-putins-speech-at-nato-summit-bucharest-april-2-2008.html>