

# Russia's Black Sea fleet in Sevastopol beyond 2017

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Unexpectedly, and cloaked in secrecy, both Russian President Dmitry Medvedev and his Ukrainian counterpart, Viktor Yanukovich, announced on 21 April 2010 a new agreement concerning the extension of the lease on Russia's Black Sea naval base in the Ukrainian port city of Sevastopol, one of Russia's most important military installations. The agreement aims to extend the 1997 lease accord on the Russian base in Sevastopol, set to expire in 2017, for twenty five more years, until 2042, with the possibility of further extension by another five years. In return, Russia will invest in Sevastopol's economic and social development, and, most importantly, will cut prices on natural gas exports to Ukraine by about 30% of the market price, an estimated US\$40 billion, according to Russian Prime Minister Vladimir Putin.

Due to the Ukraine's very perilous economic situation, close to bankruptcy, the agreement seems to come at a much needed time, reinstating political and, most importantly, economic ties between the two neighbors, while restoring Ukraine's hope of staying on track for International Monetary Fund (IMF) loans. As for Russia, the base has always been a symbol of its strength and national identity, with a historical presence dating over two centuries, to the times of the Russian Empire. The large majority of residents in the city of Sevastopol, although Ukrainian citizens, still consider themselves to be ethnic Russians, a community which obviously supports the extension of the

lease. Failing to renew the lease could exacerbate ethnic tensions in the region and possibly trigger armed conflicts, a situation largely provoked by poorly mobilized Ukrainian nationalists.

Beyond sentimental considerations of national pride, the reasons behind this new and sudden agreement are nothing more than political and economic, as generosity is rarely found in international agreements. In this context, both parties understood that reconciling political positions would bring mutual gains, and they were quick enough to capitalize on the deal.

## Ukrainian deal of the century

The agreement, which was reached in the Ukrainian city of Kharkiv, seems to be the deal of the century for Ukraine, whereas it appears to be a great sacrifice for Russia.<sup>1</sup>

Ukraine has been in a dire economic situation since the world financial crisis hit the former Soviet republic in the fourth quarter of 2008. This accord will enable Kiev to save about US\$2.8 billion this year alone, and US\$4

<sup>1</sup> The agreement was ratified by the Ukrainian and Russian Lower Houses of Parliament five days after the presidents' meeting. In Kiev, 236 deputies out of 450 voted in favor, while in Moscow, 410 out of 450 did the same. See Anatoly Medetsky, "Eggs, Smoke Dominate Ukrainian Parliament Sessions" (*The Moscow Times*, 28 April 2010).



billion annually from 2011 throughout 2020 (or nearly US\$40 billion over the period), in exchange for extending the Russian Black Sea fleet's lease in Sevastopol until 2042.<sup>2</sup> This means that Russia will give a 30% discount on Ukraine's gas imports, or approximately US\$100 per 1000 cubic meters. The rebate will apply for 30 billion cubic meters sold this year and 40 billion cubic meters annually from 2011 to 2019, according to Gazprom, the Russian national energy company. Ukraine also agreed to increase its gas imports by 10% this year, from 33.75 to 36.5 billion cubic meters.

From the second quarter of 2010, Ukraine will already pay US\$236 per 1000 cubic meters instead of US\$336. In the view of Mikhail Korchemkin, "the new price will no doubt help Ukraine's economic recovery".<sup>3</sup> In fact, the latest economic reports show that Ukraine is coming out of the deep recession in which the country has been stuck for more than a year. It will also help the government to resume talks with the IMF and renegotiate the loan of US\$16.4 billion that was suspended amid political turmoil in 2009.

Nevertheless, this economic compromise seems to be a huge price paid by Russia to help its cash-strapped southern neighbor. Russian Prime Minister Putin described the gas bill discount for the naval base extension as "exorbitant", saying "there's no military base in the world that costs this much money". Alexander Golts argued that Russia got duped, because while Ukraine can immediately save about US\$4 billion per year, Russia will only enjoy the extension lease after 2017.<sup>4</sup>

### Was it worthy for Russia?

In fact, the sole loser will be the Russian federal budget, which could run a 5% to 6% deficit in 2010. The rebate will not affect Gazprom's financial situation, as the cuts will be achieved by the removal of the export customs duty. Under the current lease agreement, Moscow annually pays Kiev a fee of US\$98 million for the Sevastopol base, an amount that has been considered too small by all the Ukrainian governments since 1997. But, in 2010 alone, Russia will swap US\$98 million for

2 In 1997, Russia and Ukraine signed a deal under which the Russian Black sea navy could remain in Sevastopol until 2017 in exchange for a 98 million dollars annual rent.

3 Anatoly Medetsky, "Deal struck on gas, Black Sea Fleet" (*The Moscow Times*, 22 April 2010). Mikhail Korchemkin is the director of East European Gas Analysis, a U.S.-based consultancy.

4 Alexander Golts is deputy editor of the online newspaper *Yezhednevny Zhurnal*.

US\$2.8 billion (the gas discount), and then US\$4 billion starting 2011, which, economically speaking, is a gross aberration. Furthermore, the Yanukovich-Medvedev agreement goes against the current Russian policy in the Commonwealth of Independent States (CIS) – that is, ending all Russian subsidies and bringing economic relations in line with those of market economies.

Additionally, to the best of our knowledge, the Russian fleet in Sevastopol is almost obsolete and not combat ready, as the ships and infrastructure, which date back to the Soviet times, have not been modernized. "The base is not worth even US\$0.5 billion", argued Ariel Cohen, a leading expert at the Heritage Foundation. This is likely why the Russian government is insistent on purchasing the French Mistral-class amphibious assault ship; if everything goes according to schedule, Moscow and Paris will strike a deal by the end of 2010.<sup>5</sup>

At the same time, though, Russia has been building a new naval base in Novorossiysk (in Krasnodar Krai on the Russian Black Sea coast) since 2003. That year, acting President Vladimir Putin signed a presidential decree setting up the base and allocating about US\$480 million for its construction between 2003 and 2012, which is no token investment. The construction of the other facilities and infrastructure (aviation, logistics, and coastal troops) are also underway and should be finished by 2020. In the meantime, the Russian military victory against Georgia in early August 2008, and the recognition of the breakaway regions of Abkhazia and South Ossetia by Moscow at the end of the same month, enabled Russia to build up its military presence ever since. Russia is now building a naval base in Gudauta on the Abkhazian coast, where 1500 soldiers are already stationed, and whose number may be increased up to 4000 when the entire infrastructure is completed.

Given these facts, we can argue that Russia had an alternative to the Sevastopol since at least 2003, and that the military expansion in Abkhazia provides Moscow with another option. Contrary to Kremlin analysts' opinion, the building of these bases would cost far less than staying in Sevastopol, and, more importantly, these forces would be combat ready and prepared to face modern threats.

5 The French Mistral-class ship is able to carry and deploy sixteen helicopters, four landing barges, up to seventy vehicles including thirteen tanks, and 450 personnel. It costs between €400 and €500 million. See "Russia to buy French warship by yearend – federal agency" (*RIA Novosti*, 21 April 2010).

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Yet, Russia has insisted on keeping its Black Sea fleet in Sevastopol because it expects economic benefits from Ukraine. According to Sergei Markov "the US\$40 billion rebate is an investment on which Russia expects a return. Russia is likely to get a lot of profit from joint Russian-Ukrainian economic projects".<sup>6</sup>

### Economic benefits

Three days after the ratification of the Yanukovich-Medvedev agreement, Russian Prime Minister Putin and his Ukrainian counterpart, Nikolay Azarov, met in Sochi and proposed to start the integration of several industrial sectors between the two countries. Thus, Russia and Ukraine are planning to merge their civilian nuclear sectors, which will give Moscow access to uranium deposits on its southern neighbor's territory, as reserves on Russian soil are shrinking. The two Slavic countries also plan to integrate their aviation industry, once ranking second in the world, which has fallen apart since the collapse of the Soviet Union at the beginning of the 1990's. Russia could purchase a controlling stake in the Ukraine's Antonov design bureau and incorporate it into its own aviation holding, United Aircraft Corporation (UAC). The aim of this strategy is, above all, to jointly produce the An-148 regional jet and resume serial production of the An-124 heavy-lift transport aircraft. This merger makes sense as the two aircrafts are in high demand in Russia and could even get good prospects worldwide.

The two countries are also interested in developing cooperation in space services, spacecraft controls and ship-building construction. Moreover, Russia expects to get at least fair, if not preferential, access to the Ukrainian metallurgical, chemical and telecommunications sectors, in case of privatization, property redistribution or sale by businesspeople. Thus there is great potential for economic integration on a mutually advantageous basis.

The current situation in the euro zone demonstrates that the European Union (EU) is not only experiencing a serious financial disorder, but is also plunged in a crisis regarding its administrative model. It seems to us that the EU has ceased to be an attractive alternative in the near term. Under these circumstances, Russia should clearly take advantage of the circumstances and show Ukraine (and other countries in the CIS) that they will be better-off by speeding up the integration process between the two Slavic nations that share the same history, culture and ancestral ties. More significantly, keeping its base in Sevastopol until 2042 enables Russia to score a great political victory in the mid-term and deliver a heavy blow to NATO expansion.

The Sevastopol agreement closely follows Russia's 2010 Military Doctrine, which identifies the Atlantic Alliance as a serious threat to its sovereignty and to its presence in supposed Russian areas of influence, commonly referred as the 'near abroad'. Thus, the new lease agreement suggests that Ukraine will not be able to join NATO until 2042, by the time the lease expires and a new agreement would have to be reached.

### Containing NATO

Although Ukraine achieved enormous economic benefits, politically, Russia comes out with very significant gains from this agreement. The Black Sea fleet has always been close to Russia's heart and a priority in its foreign policy. The prospect of having to pack up and leave was indeed gloomy, as it would mean having to quicken the pace in building the new base in Novorossiysk, which in the meantime could expose Russia's southwestern border, severely decreasing security in the Black Sea and in the Caucasus. Russia could not afford to lose this strategic position, so it moved to an 'all in' agreement with President Yanukovich.

Behind the scenes, one of the major underpinnings of the Russian position and its most generous financial deal with Ukraine is the fact that the Black Sea fleet presence in Sevastopol blocks Ukraine's accession to NATO, while containing the Atlantic organization.

Although NATO has not yet clarified its position regarding the renewed lease, membership cannot be granted to a country housing a non-member's military base in its territory. The Sevastopol agreement closely follows Russia's 2010 Military Doctrine, which identifies the Atlantic Alliance as a serious threat to its sovereignty and to its presence in supposed Russian areas of influence, commonly referred as the 'near abroad'. Thus, the new lease agreement suggests, in principle, that Ukraine will not be able

<sup>6</sup> Roland Oliphant, "A dubious victory" (*Russia Profile*, 22 April 2010). Sergei Markov is a political analyst and a State Duma deputy for the pro-Kremlin United Russia party.



to join NATO until 2042, by the time the lease expires and a new agreement would have to be reached. The agreement also assures the Russian leadership that no other former Soviet country besides the Baltic states will be granted NATO membership, a move Russia has been strongly opposing since the collapse of the Soviet Union.

Although several groups and opposition politicians in Ukraine have criticized the agreement, suggesting it weakens Ukraine's sovereignty and national identity while turning the country's 'back' on the West, the fact is that both NATO and the European Union never seriously engaged with Ukraine or promised it full membership. Under former President Yushchenko, the mood was Western-oriented, with talks of joining NATO and the EU, opening a fresh new page in Ukraine's relations and orientation towards the Western world and its values. But 'Partnerships for Peace' and 'Neighborhood Policies' do not entail membership, which was a low priority, especially at a time when both organizations and their member states are busy managing two wars and the biggest financial crisis since 1929. NATO is still redesigning its new Strategic Concept and attempting to resolve the conflicts in Afghanistan and Iraq, while the EU is deeply overstretched and burdened by the Greek financial crisis and prospects of slow economic growth across the continent.

Under Yushchenko's leadership, Ukraine tried to find economic, security and defense guarantees in the West, constantly fearing Russian intervention in its domestic issues and possible violations of its territorial integrity, especially after the August 2008 war in Georgia. Ironically, Russia is now the one providing such guarantees.

### A renewed stance

Whether opposition politicians in Ukraine accept it or not, the Black Sea fleet is a beacon of security for the entire Black Sea region. At a time when the prospects of Russia invading the Ukraine are slim to none, especially due to the large economic interdependence both countries share, the Black Sea fleet in Sevastopol, together with the Ukrainian Navy, represents a substantial security apparatus, sufficient to disrupt drug trade and human trafficking, keep in check terrorist influence from the Middle East and the Caucasus in both Western Russia and Ukraine, and assure ethnic stability in Crimea.

Stationed in a strategic geographical point, the Black Sea fleet under the new agreement will not only maintain, but will even reinforce the security system in the region, while also helping to fight international human trafficking, a dark reality in both countries. Moreover, terrorist agendas in the Caucasus and projecting from the Middle East will encounter a much stronger oppositional force in the Black Sea, ultimately weakening their efforts and disrupting several extremist plans.

The extension of the lease will also bring ethnic stability to Sevastopol and to the Crimean region in general. Several Ukrainian nationalists have protested and threatened local civilians, ethnic Russians, in the city of Sevastopol because of Russia's military presence there. But without Russia's naval presence, nothing can assure that the conflict would not escalate and result in a bloody war, as without the Black Sea fleet, local ethnic Russians would

be exposed to numerous pressures from nationalist agendas. Thus, while maintaining the status quo, the agreement will avoid exacerbating ethnic tensions, as the base is not being built in Ukraine, but on the contrary, it is already there.

As for Ukraine, the new lease represents a clear shift from seeking membership in the Western world towards the priority of restoring the country's economy. Based on an economically individualistic position underpinned by partnerships – as opposed to membership – with both Russia and the West, Ukraine's foreign policy is today largely dictated by the needs of its economy.

But certain measures and compromise must be given. Viktor Yanukovich won the February elections with 48.95% of the vote against Yulia Tymoshenko's 45.47% share, results seen as democratic but nonetheless controversial. There also appears to be a larger, growing division within Ukraine, not only in Parliament but within the general public as well. Opposition politicians are trying to depict the new lease as some sort of Russian economic irredentism, aimed at increasing its influence in Crimea and its position in Ukrainian domestic affairs, mobilizing the public against the President and Russia's image in general.

This is the reason why President Yanukovich must not forget the electoral results of February and negotiate both with the opposition at parliament and with Ukrainian nationalists, especially in Crimea, in order to maintain peace and stability across the country. The perception must not be of economic irredentism by Russia,

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but of two neighbors with ancient, common historical backgrounds, celebrating very significant economic and military accords, from which not individual, but common profits are to be gained.

### Yanukovich's second mandate

However, questions arise concerning Viktor Yanukovich's second mandate and if it will happen. If Yanukovich fails to win the next presidential elections and some renewed kind of Orange movement politician takes control, there is a possibility that the lease will be cancelled and relations between the two countries go back to a 'Yushchenko' era. The leader of the Liberal Democratic Party of Russia, the famous Vladimir Zhirinovskiy, took this question to the Russian Duma, asking what will happen if the next president of Ukraine renounces the renewed lease. Although the agreement contains several clauses of suppression and disruption of Russia's economic generosity in case the current posture is changed,<sup>7</sup> conflict would nonetheless emerge in Sevastopol and in Crimea, as the prospects of finding a solution would be bleak, something the Russian leadership might not be ready to accept.

Therefore, due to the agreement's very delicate nature, President Yanukovich must balance his political weight and convince the country that the economy is the new foreign policy focus of Ukraine, and that both NATO and the EU will not be able to help it in the short-to-medium term, while the United States appears to have lost its interest in Eastern Europe. He will also have to negotiate with the opposition to reach a compromise, and bring the public together without antagonising any of its partisan spheres.

<sup>7</sup> Nikolai Troitskiy, "Russian billions to save Ukraine" (*RIA Novosti*, 29 April 2010).

### Conclusion

The agreement signed on 21 April between the Russian and Ukrainian presidents demonstrates the will to go forward in their relations, a kind of 'reset' for the Slavic states. In the economic field, if joint projects in nuclear energy, aviation and in other strategic sectors are achieved, they will help the integration process that could be beneficial for both countries and offset, to a great extent, the 'exorbitant' price of US\$40 billion sacrificed by Moscow. Also, it should put Ukraine on the right track to robust and sustainable growth, consequently helping President Yanukovich to secure a second term.

In the political field, Russia is the undisputable winner. Sevastopol, which has been home to the Russian Black Sea fleet since it was set up by Catherine II the Great at the end of the 18<sup>th</sup> century, will continue to be so until 2042. Consequently, given the fact that NATO's charter prevents country members from having foreign military bases on their territory, Ukraine will not become a member of the Western military alliance until the lease expires or is subverted. Thus, the entire northern Black Sea sector, from the Abkhazian coast to the Romanian border, will remain a Russian zone. Even if not completely combat ready, the base remains a stabilizing force in the region, able to fight, in cooperation with Kiev's authorities, common threats like human, drug and arms trafficking. Moreover, it maintains a fragile but positive balance by offering guarantees to ethnic Russians in Crimea that serious provocation from Ukrainian nationalists will remain slim due to the balance of force. Most importantly for Moscow, it can continue to influence, although with serious limitations, the Ukrainian domestic political scene and foreign policy to its advantage, reasserting its power in the region.

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