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UKRAINE- AUSTRIA

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1. INTRODUCTION

"Are you aware that Vienna is closer to Ukraine than to the Austrian border with Switzerland?" Almost every discussion on Ukrainian-Austrian relations begins with this phrase. Then the interlocutors mention that only a century ago the Western regions of modern Ukraine were a part of the Austro-Hungarian Empire. However, in reality, multiple cultural, political and economic ties, that united the two nations in the past, now are almost forgotten both in Ukraine and in Austria. Until 2014, the Austrians, as, indeed, a large part of EU citizens, often confused Ukraine and Russia, because they knew almost nothing about the former.

The memory of belonging of some Ukrainian regions to the Austro-Hungarian Empire was only an interesting fact in the bilateral relations, but not their foundation. And, unfortunately, it was sometimes even used as a pretext for neo-imperial jokes. For example, in 2014 the President of the Austrian Federal Economic Chamber, Christoph Leitl, during a visit of President Vladimir Putin called Ukraine an area of common interests and said that "in 1914, Ukraine was a part of Austria, and now, one hundred years later, Ukraine ..."¹ "I am afraid of what you are going to say", – Putin stopped him. The friendly exchange of jokes on dividing Ukraine in less than four months after the annexation of the Crimea did not cause any adverse reactions of Austrian businessmen who attended the meeting. Not to mention that according to the Russian propaganda it is the Austrian General Staff who "invented" Ukraine in order to confront Russia.

Austrian delegations often visited Ukraine after independence and with interest and enthusiasm they re-discovered Ukraine's Austrian patrimony. Unfortunately, Ukrainian authorities could not or did not want to make full use of this interest. Let us assume that one of the reasons is that the memory of the Austrian past is limited to Western regions of Ukraine (Galicia, Bukovina and Transcarpathia). For Kyiv

1 *The Head of the the Austrian Federal Economic Chamber: Russia and Europe have common interests in Ukraine, RIA News, <http://ria.ru/world/20140624/1013438140.html>*

and other Ukrainian regions Vienna was the capital of a successful but faraway central European country.

In all fairness it should be noted that such historical amnesia has also affected the Austrian society, for which after the Second World War the imperial past became rather a vivid myth, a fairy tale, but not a foreign policy guide. Eventually, the interest of Austrian citizens in Ukrainian topics of Austrian history, not being fed from the political side (as in the case of the Western Balkans), has faded even more, especially for the younger generation. Today Ukraine for Austria is a region which is close geographically, but is quite distant politically.

Meanwhile, Austria has become a favourite holiday and, even, settlement destination for dozens of Ukrainian politicians and businessmen. A part of the service sector in Vienna has long been adapted for such “successful people” from the former Soviet Union by hiring Russian-speaking staff. Most paradoxically, those who have taken root in Vienna are representatives of the so-called Ukrainian elites that are critical of Ukraine’s European integration, of the Euro-aidan etc. (Olexiy Azarov, son of former prime minister, Dmytro Firtash, a known oligarch who is under investigation by the FBI, Serhiy and Andriy Klyuyev). However, it is worth mentioning that they were perceived not as Ukrainians, but as Russians, with whom they maintained close ties and spoke the same language. The level of integration of Ukrainian politicians and their families in the Austrian environment has become even more evident when shortly after the Revolution of Dignity the Ukrainian Ministry of Foreign Affairs asked Austria to facilitate the return of funds, smuggled by former officials. Austria was the first country in the EU that decided to freeze the accounts of Ukrainians suspected of corruption².

Ukraine for Austria is a region which is close geographically, but is quite distant politically

This analysis aims to determine main interests of the parties and points of contact, besides giving a general assessment of Ukrainian-Austrian bilateral relations over the last decade. Currently, Austria, with its close ties with Russia, is considered mainly as a barrier to

² *Austria to freeze assets of 18 Ukrainians: foreign ministry, Reuters, <http://www.reuters.com/article/us-ukraine-crisis-austria-idUSBREA1ROIR20140228>*

Ukraine's rapprochement with the EU. But there is "another" Austria that saw and sees Ukraine's considerable economic potential, wants to be a mediator between East and West and that is not afraid of difficulties of doing business in post-Soviet realities. This brief is an attempt to slightly change the angle and look at Austria as a valuable partner for Ukraine, as another "door" through which our state can enter into the common European economic and cultural space.

In the short- and mid-term perspective, Ukraine's interests regarding Austria are centered around two things: sanctions and investments. Today, Ukraine's key interest is in preserving the unity of the European Union in its support for Ukraine and the continuation of sanctions against Russia until clear progress is achieved in the implementation of the Minsk Agreement. Ukraine's second key interest is increasing Austrian investments in the Ukrainian economy. It is these interests that Ukrainian representatives mention most often, while difficulties arise with defining other priority areas of cooperation. This is attributed to both a lack of understanding of Austria's interest regarding Ukraine and a lack of strategic vision of Ukraine's interests.

Among other Ukraine's important interests regarding Austria, the following stand out: joint fight against economic crimes, particularly money laundering and tax evasion; adopting successful Austrian experience in public health, energy efficiency, alternative energy, environment protection, and tourism.

Austria's interests regarding Ukraine are closely linked to its economic interests in the region in general. In general, Vienna's interests can be formulated as follows:

- forming a general free-trade area from Lisbon to Vladivostok, i.e., promotion of close economic cooperation between the EU member states and the members of the Eurasian Economic Community;
- the soonest possible restoration of peace and stability in the region;
- reducing tensions in the region by establishing multilateral security dialogue;

- strengthening economic cooperation with Ukraine by getting new opportunities for Austrian investors;
- expanding economic and cultural ties with Ukraine's Western regions which used to be part of the Habsburg Monarchy.

2. “ECONOMIZED” FOREIGN POLICY OF AUSTRIA

The Austrian foreign policy can be described as inert, which is still strongly influenced by the experience of postwar Austria. Observers point to the lack of ideals, resources and clear guidances in the formation of the country's foreign policy. Nevertheless, in Austria the lack of foreign policy ambitions is compensated by powerful economic interests. In fact, the objective of the Austrian diplomacy today is to promote Austrian exports abroad, explore new markets and make Austrian business to participate in profitable investment projects.

In Austria the lack of foreign policy ambitions is compensated by powerful economic interests

Austrian domestic and foreign policy is based on the economic success. As for a small Central European state, it is its high economic performance that provides Austria an important voice within the EU and influence on the international stage. According to Eurostat in 2015, Austria ranked fifth in the EU in terms of gross domestic product per capita³. During recent years Austria has been actively working to become the “Land of Start-Ups”. Last year, the Ministry of Economy even published a list of 40 steps to improve the entrepreneurial spirit in Austria.

The Austrian Federal Economic Chamber's activity should be mentioned particularly. The Chamber has a branched structure aimed to represent interests of the Austrian business abroad and to assist individual companies. As an independent organization, the Chamber, in fact, provides and coordinates activities of the Austrian trade missions abroad. This system, designed for the Austrian business, may serve as the fulcrum for Ukrainian companies seeking to enter the Austrian and/or European market. Even before the introduction of the Free Trade Area with the EU, the Austrian Trade Office organized workshops for Ukrainian companies.

Simultaneously, the national investment promotion company, ABA-Invest in Austria, is increasing its activity. The ABA-Invest reports

³ *The statistical yearbook 2015, Austrian Economic Chambers (WKO), http://wko.at/statistik/jahrbuch/2015_Englisch.pdf*

directly to the Federal Ministry of Science, Research and Economics. In 2015, the Agency demonstrated their best of its 33-year history result: in the first six months 152 foreign companies appeared in Austria and the total investment amounted to 140 million euros.

The Western Balkans is a region of special interest for Austria. Its integration into the EU became Austrian foreign policy priority. Today, Austria, which actively helped Slovenia and Croatia to gain the EU membership, has expanded its area of interests to rest of the Balkans and now Austria's interests include all the republics of the former Yugoslavia and Albania⁴. The economy is the foundation of close political and cultural ties of Vienna with countries in the region: there are hundreds of Austrian companies and banks and it makes Austria the main investor in these countries.

After the fall of communist regimes in Eastern Europe, Austria, not being yet an EU member, assumed the role of a mediator between Western and Eastern Europe; Vienna wanted to become a kind of hub for democratic transformation of states which had been beyond the Iron Curtain. Thus, thanks to the active assistance of their former metropolis, the nations, who once had belonged to the great Habsburg Empire, were "returning" to the European family. Ukraine was also a part of this process⁵, until the situation in the Balkans has fully absorbed the Austrian leadership's attention. Erhard Busek, a Vice Chancellor and Minister of Education of Austria (in 1991-1995), was one of the ideologues of this process. His idea was to develop, above all, people-to people contacts through cultural and educational programs.

Now, there are no people like Erhard Busek, who thinks in pan-European categories, in the leadership of Austria. Therefore, his suggestions

4 *The Western Balkans – A Priority of Austrian Foreign Policy, MFA of Austria, <https://www.bmeia.gv.at/en/european-foreign-policy/foreign-policy/europe/western-balkans/>*

5 *1989, Austria initiated a new format of regional cooperation, which transformed later into the Central European Initiative (CEI). CEI is a platform for coordination and implementation of joint projects between 18 countries in Central, Southern and Eastern Europe. Ukraine is one of the members of the CEI.*

to start a process for Ukraine similar to the Berlin one (created for EU integration of the Western Balkans), get no support in Austrian circles⁶. Austria expects Germany to take main responsibility for developing and implementation of some coordinated European process to support Ukraine's reform course. Although in the mid-1990s, when Austria joined the EU, its government was eager to play a more prominent role in European affairs, bearing in mind that Austria was at the origin of the European project itself. Otto von Habsburg, the eldest son of the last Austrian emperor, was one of the ideologues of a united Europe and often drew parallels between the Habsburg Empire and the European Union. Commenting on the accession of Austria to the EU in 1995, one high rank Austrian diplomat even said that the Union got "the seventh founding member"⁷. Today Austria has pulled out of debates on EU foreign policy, giving the lead to Brussels and Berlin.

Meanwhile, the Austrian diplomatic service strengthens its activity in the countries of the Eastern Partnership, putting the eastern neighborhood of the EU on the list of its priorities. By 2018 Austria intends to launch a diplomatic mission Georgia and to close its Embassies in the Baltic states. Officially this step is explained by strategic considerations and by the need to make better use of available funds, but more importantly – it is in the interest of the Austrian business. In the countries of the former Soviet Union, especially in those which declared the European integration course and signed the Association Agreement with the EU, the Austrian business will get new opportunities, and the diplomatic service is to serve them as a support. Michael Linhart, the General Secretary of the Austrian Foreign Minister, is the key person in this process; he opened in February 2016 an Austrian Embassy in Minsk and announced large-scale joint projects⁸. Today, Austria ranks second in terms of direct investments in Belarus: in 2015 they accounted for more than 2 billion euros.

6 *Speech by Dr. Erhard Busek in the IWP's public debate October 12, 2015 in Vienna, <http://iwp.org.ua/ukr/public/1764.html>*

7 *Thomas Mayer, Letter From Vienna, April 3, 2015, <http://carnegieeurope.eu/strategieurope/?fa=59636>*

8 *Austria opened an embassy in Minsk, Belsat, February 2, 2016, <http://belsat.eu/ru/news/avstriya-otkryla-v-minske-posolstvo>*

Austrian Embassy in Moldova has been opened in March 2013. Moldova and Georgia are among the priorities of the Austrian Development Cooperation program (ADC). Ukraine also receives aid under the special ADC program, but the level of cooperation is significantly lower. For instance, in early April, the Strategy of Moldovan-Austrian cooperation for 2016-2020⁹ has been launched in Chisinau. This strategy includes significant Austrian support for economic and social development of the Republic of Moldova. Over 34 projects have been implemented in Moldova with Austrian support; 16 of them are still ongoing.

Vienna opposes the approach "either-or" in its foreign policy when certain "political differences" cost them the economic cooperation. Austria seeks to differentiate its relations with different countries, keep clear of any confrontation and maintain contacts with a wide range of partners. This intention to "make friends with everyone" is a practical expression of the central element of the Austrian vision – the neutrality. The Austrians consider the neutrality to be a key to success in today's globalized world. Moreover, the neutrality is seen as a prerequisite and guarantee of Austria's independence and sovereignty¹⁰. In fact, after the World War II the neutral status enabled the Austrians, sandwiched between the military power of the Warsaw Pact and NATO, to restore their statehood.

Vienna opposes the approach "either-or" in its foreign policy when certain "political differences" cost them the economic cooperation

However, a feature of the Austrian neutrality should be pointed out: it does not mean that Vienna avoids important international issues. Austria is ready to participate in military operations abroad if there is a UN mandate¹¹. The Austrian approach is sometimes described as "realistic neutrality", highlighting the Austrians' pragmatic approach to foreign policy issues and the focus on national interests. This "realistic neutrality" might sometimes take strange forms, e.g. when during

⁹ *Officials unveil Moldovan-Austrian cooperation strategy for 2016-2020, Moldpres, 5.04.2016, <http://www.moldpres.md/en/news/2016/04/05/16002699>*

¹⁰ *Eric Solsten, ed. Austria: A Country Study. Washington: GPO for the Library of Congress, 1994, <http://countrystudies.us/austria/128.htm>*

¹¹ *Austria is ready to participate in a peacekeeping operation, Kommersant, October 1, 2015, <http://www.kommersant.ru/doc/2822565>*

the meeting of the heads of Russian and Austrian military headquarters in Moscow on April 5 this year, amid the war unleashed by Russia in Europe, the head of neutral Austrian military Othmar Commenda expressed his willingness to discuss cooperation prospects with his Russian counterpart Valeriy Gerasimov in a “friendly atmosphere.”¹²

The pragmatic approach of the Austrian government is usually interpreted as disadvantageous for Ukraine, as a losing one due to differences in economic opportunities of Ukraine and Russia. But Austria’s pragmatism and the desire to increase its economic power is not an obstacle but an advantage for Ukraine. The officials of the regime of Viktor Yanukovich understood it well; they felt themselves quite comfortable in Vienna despite strained relations with the EU. As then, so now, Austria is ready to differentiate its relations with Ukraine from its other commitments.

¹² *Nachspiel eines Besuchs in Moskau, Die Presse, 12.04.2016, <http://diepresse.com/home/politik/aussenpolitik/4965925/Nachspiel-eines-Besuchs-in-Moskau?from=suche.intern.portal>*

3. INTERESTS OF AUSTRIA IN UKRAINE, UKRAINE'S INTERESTS IN AUSTRIA

3.1. AUSTRIA AS A WEAK LINK OF EUROPEAN UNITY

Austria is often referred as a member of “Russian club” in the EU. Vienna was the first European capital that hosted Vladimir Putin after the annexation of the Crimea. The visit was organized at the highest level, which was to emphasize the strength of the Austrian-Russian relations, despite the new security and political situation in Europe. Austria was also among those EU member states that expressed the greatest skepticism concerning the introduction of sectoral sanctions against Russia.

Vienna's support of the sanctions policy concerning Russia and European unity concerning Ukraine is a priority interest of Ukraine with regard to Austria. Until recently, the Vienna only expressed doubts about the expediency and effectiveness of the sanctions, but now strong statements about the need to lift the sanctions are heard more and more often.

The President of the Federal Economic Chamber, Leitl, openly said at the already mentioned meeting with Putin that economic issues are more important than political differences. Moreover, he revived the ancient idea of a united Europe “from Lisbon to Vladivostok”, but only in its economic dimension as a FTA. In February 2016, Reinhold Mitterlehner, Austrian Vice-Chancellor and Chairman of the People's Party, visited Moscow, where he said that the EU had not achieved a political progress applying its sanctions policy while both parties suffered economic losses.

Vienna's support of the sanctions policy concerning Russia and European unity concerning Ukraine is a priority interest of Ukraine with regard to Austria

However, the issue of sanctions is not as simple as it might seem at first glance. Although the Austrians oppose radical actions in regard to Russia, the majority (53%) supported the sanctions in 2014. Only about a third of the Austrians (28%) believed that a diplomatic solu-

tion to the conflict must be used instead of sanctions¹³. At the same time, only 9% said that the EU sanctions are too soft, and called for tougher sanctions, while 40% rated the sanctions as sufficient and 38% as too rigid, causing harm to Austria¹⁴.

The Austrian-Russian friendship is based on three pillars: economic interests, energy and similar views on international politics

The Austrian-Russian friendship is based on three pillars: economic interests, energy and similar views on international politics. Austrian investments in Russia amount to about 8.5 billion euros; in turn, Russian investments in Austria reach 10.15 billion euros. For comparison, the Austrian investments in Ukraine are about 2.3 billion euros. The turning point in the Austrian-Russian business cooperation was the Winter Olympics in Sochi. The total volume of orders, developed by the Austrian business in Sochi exceeded 1.65 billion dollars¹⁵. Active negotiations have been conducted since 2012 on the participation of Austrian companies in projects related to the preparation of the World Cup 2018 that will exceed in scope the Sochi Olympics. The sports industry, especially winter sports, is a kind of “bridge” that brings together the elites of the two countries and helps to establish trusting relationships.

Austrian banks have 36 billion euros of outstanding loans issued to Russian borrowers¹⁶. However, although a collapse of the Russian market will definitely cause substantial losses for Austria, analysts note that, currently, the reason for the Austrian resentment (both in

¹³ *Soll Russland im Zuge der Ukraine-Krise mit noch härteren wirtschaftlichen Sanktionen bestraft werden?* <http://de.statista.com/statistik/daten/studie/316666/umfrage/meinung-zu-haerteren-sanktionen-gegen-russland-in-oesterreich/>

¹⁴ *Sind die neu verhängten Sanktionen von der EU gegenüber Russland Ihrer Meinung nach angemessen?* <http://de.statista.com/statistik/daten/studie/319751/umfrage/umfrage-zur-verhaeltnismaessigkeit-der-sanktionen-gegen-russland-in-oesterreich/>

¹⁵ *Putin invited the Austrians to build objects for the World Cup 2018 in Russia*, Lenta.ru, June 24, 2014, <https://lenta.ru/news/2014/06/24/austria2/>

¹⁶ *Benjamin Wolf and Florian Peschl, Russia & Austria: a friendship built on history, skis and gas*, 30 June 2014, <https://euobserver.com/foreign/124784>

2014 and in 2015) is not current losses but the inability to realize new beneficial joint projects.

The second powerful factor is energy. Austria imports over 70% of gas from the Russian Federation. In 2010, Russia and Austria signed an intergovernmental agreement on construction of a gas pipeline "South Stream". Russian Gazprom and OMV (an Austrian energy company) signed a basic agreement on cooperation. The state company OMV invited Gazprom to invest in local infrastructure, hoping to become the Central European distributor of Russian gas¹⁷. In addition, Austrian officials promised their Russian partners to use all their influence to launch the project "North Stream-2"¹⁸. Austrian OMV has 10% of shares in the project. The fact that an influential Austrian investor Siegfried Wolf participated in talks with the German business from the Russian side might be a good demonstration of Austria's involvement in lobbying Russian projects in the EU¹⁹.

The governments in Vienna and Moscow often emphasized that their views coincide on most international issues. In particular, that Russia must be a part of the "new" European security system or architecture; that Western countries should take into account Russia's interests; that Austria, like Russia, stands for the "multipolar world"²⁰. At the same time, opposing certain decisions made in Brussels, Austria tries to avoid open confrontation with its EU partners and follows the lead of Berlin; therefore, it is unlikely that it will dare to be the one who will break European unity. Instead, Austrian politicians, under pressure from the business, will insist harder to persuade their colleagues, particularly the Germans, that the sanctions are hazardous.

¹⁷ *Gustav Gressel, How should Europe respond to Russia? The Austrian view, 21 January, 2015, http://www.ecfr.eu/article/commentary_how_should_europe_respond_to_russia_the_austrian_view405*

¹⁸ *Mitterlehner: Austria and Russia advanced in the "Nord Stream-2" issue, RIA News, February 3, 2016, <http://www.interfax.ru/business/492895>*

¹⁹ *Eduard Steiner, Siegfried Wolfs russische Mission, Die Presse, 15.2.2016, <http://diepresse.com/home/wirtschaft/international/4926536/Siegfried-Wolfs-russische-Mission>*

²⁰ *Details: Martin Malek and Paul Luij, Austria //: National Perspectives on Russia. European foreign policy in the making? London/New York 2013, pp. 209-221.*

In the absence of active hostilities in Donbass it will be more and more difficult for Kyiv to convince the key EU states of the opposite.

Obviously, it is hard for Ukraine to compete with Russia in the area of economic cooperation, and any comparisons will not be in favor of Ukraine. However, this does not mean that Austria does not appreciate the partnership with Ukraine and is not interested in its expansion. In 2015, the same Federal Economic Chamber held a very successful forum on doing business in Ukraine, in which more than 100 representatives of Austrian companies and 30 Ukrainian representatives participated. And in 2014, Christoph Leitl visited Kyiv with an Austrian government delegation. The Austrian business does not want to choose between Ukraine and Russia; they perceive negatively any attempt to bring the Russian factor into the Ukrainian-Austrian relations.

3.2. SECURITY: COMMON INTEREST, DIFFERENT UNDERSTANDING

The restoration of the regional stability is the key interest of Austria regarding Ukraine, as it is a necessary condition for the Austrian economic prosperity. The lack of progress in the implementation of the Minsk agreements and continuation of hostilities in the East of Ukraine not only cause significant losses to Austrian investors, but also make new projects impossible. However, although Austria, like Ukraine, is interested in establishing peace in the region, Kyiv and Vienna currently have a fundamentally different vision on how to achieve it.

Neutral Austria, valuing stability above all else, opposes any geopolitical decisions that endanger this stability. The debate on possible Austria's membership in NATO that took place after the collapse of the Soviet Union, shook the internal political stability in Austria. Now, there is a negative consensus on Austria's NATO membership, and on the Alliance itself. Austria perceives Kyiv's course to deepen cooperation with NATO and the issue of EU membership as a destructive and dangerous position. Since the beginning of protests in 2013 Austrian representatives at different levels strongly advised

Ukraine to become a neutral state in order to avoid conflicts²¹. As a Ukrainian diplomat said, Austria respects the political choice of the Ukrainian nation, but, by and large, it does not coincide with the Austrian political choice.

Today, Austria and Ukraine have a different understanding of security threats in the regions and ways to overcome them. While a rapprochement with NATO is a guarantee of security for Kyiv, the enlargement of NATO in the Eastern Europe is a new source of instability in the region for Vienna. Vienna sees value in establishing a multilateral security dialogue as a way to reduce tensions in the regions. This is the so-called "alignment of interests" between Russia and the West. However, if in the case of Donbass Austria supports the soonest possible resolution of the conflict through the full implementation of the Minsk agreements, then the Crimea issues is almost absent from the Austrian discourse, what, in fact, means preservation of the status quo regarding peninsula.

Neutral Austria, valuing stability above all else, opposes any geopolitical decisions that endanger this stability

Austria has always considered the Ukrainian question in the regional context, especially in the context of relations with Russia²². This approach, when Ukraine is not perceived as a separate entity with its own interests and rights, but as a "subject of negotiations" between the EU and Moscow, according to the Austrians, is nothing but a realistic assessment of the situation. Although publicly Austrian representatives usually refrain from expressing their own estimates and refer to the official statements of the EU.

Another Ukraine's interest in the medium term is related to Austria's role in the OSCE. Currently, Ukraine is in talks to expand the mandate and the presence of the OSCE mission in Donbass to provide security during local elections. Next year, Austria will chair the OSCE and since January 1, 2016 it is one of the three co-chairs of the Organisation. In addition, since June 2015, the Austrian diplomat Mar-

²¹ Heinz Gärtner, *Neutrality for Ukraine according to the Austrian Model, March 2014* http://www.oip.ac.at/fileadmin/Unterlagen/Dateien/Kurzanalysen/UkrEU_HG1.pdf

²² *Interview with Dr. Martin Malek, an Austrian researcher and expert on post-Soviet countries*

tin Sajdik is the special representative of the OSCE Chairman in the Trilateral Contact Group on implementation of the peace plan in the East of Ukraine. Although Russia does not hide that it expects a lot from Austria's involvement in the settlement process, especially during its presidency in the OSCE²³, to date there is no evidence of the pro-Russian bias of Austrian representatives. It should be noted that Austria, where the headquarters of the OSCE is located, is an active advocate of strengthening the role of the OSCE, in particular concerning the prevention and resolution of conflicts in Europe²⁴.

However, as in the sanctions case, Austria is likely to play a minor role in this process. It is not only related to Austria's limited influence, but also to Vienna's traditional reluctance to interfere in a conflict. Knowing this, Ukrainian diplomats in Kyiv tend to negate the importance of the position of Austria, stressing the need to focus on communication with other countries. Indeed, it is unlikely that Ukraine and Austria will manage to reach agreement on the basics of regional security and stability, therefore, in order to continue the dialogue each party must be prepared to respect the other's position, even if it contradicts its own.

3.3. AUSTRIA AS THE FIFTH INVESTOR IN UKRAINE

'Investments' is the word the most often heard in the context of the Ukrainian-Austrian relations. Undoubtedly, for Austria, a country with a developed banking sector, capital is a major, if not the main, product exported. The Austrian business is in constant search of new opportunities, new partners and markets. Economic divisions of Austrian diplomatic missions are a developed and established mechanism designed specially to help the Austrian usiness abroad. The economy plays so important role in Austria's external contacts that sometimes

²³ *The RF expects Austria's chairmanship in the OSCE to contribute to the settlement of the crisis in Ukraine, ITAR-TASS, October 7 2015, <http://tass.ru/mezhdunarodnaya-panorama/2325684>*

²⁴ *Austrian Security Strategy, July 3, 2013, <https://www.bka.gv.at/DocView.axd?CobId=52251>*

3. Interests of Austria in Ukraine, Ukraine's interests in Austria

it seems that the promotion of the Austrian business abroad is the main task of the Austrian Embassies.

For last several years, Austria has been one of the main investors in the Ukrainian economy. In late 2014 Austria ranked fifth among all countries in terms of investing in Ukraine (2.7 billion dollars or 5.5% of total investments). Austria is willing and able to invest, and Ukraine, in turn, desperately needs additional financial resources. Here the interests of both countries coincide. Moreover, Austrian businessmen, unlike their colleagues from Germany and other EU countries, shows more “understanding” concerning the “ways” of doing business in former Soviet countries. A pragmatic approach to business is expressed in Austrian companies' readiness to play by the established rules, in particular, by hiring local attorneys. However, this scheme works only if the rules are more or less stable, and the people who make decisions do not change as a result of endless political crises.

Since 2004, Austria has continuously increased its economic presence in Ukraine, which was considered as one of the main markets for further expansion. Austrian banks (Raiffeisen Bank International AG, UniCredit Bank Austria AG, Erste Bank) were the first to surge to the country. In 2012, the share of Austrian financial institutions in the banking sector of Ukraine was 15%. Early and big scale involvement of Austria financial sector in Ukraine has strongly contributed to help transform Ukrainian banking sector. Today Austrian analysts recognize that at that time the risks of doing business in Ukraine were largely underestimated and the shortcomings of the institutional sphere were simply ignored.

Austrian businessmen, unlike their colleagues from Germany and other EU countries, shows more “understanding” concerning the “ways” of doing business in former Soviet countries

In 2010, in an assessment of prospects for foreign investors, Austrian analysts²⁵ noted a promising combination of two factors in Ukraine: the proximity to the EU market, cheap and skilled labor and significant industrial and agricultural potential. Moreover, analysts

²⁵ *In 2010, analysts from the Institute for the Danube Region and Central Europe (IDM) prepared a report on the Integrated Regional Programme for the Black Sea region. It was a unique attempt to develop a strategic vision for Austria's relations with Armenia, Azerbaijan, Georgia, Moldova, Russia, Ukraine and Turkey.*

concluded that there is a structural convergence between Austria and Ukraine that is as close as the match between Austria and its main trading partner, Germany²⁶. That means that Austria's structure of exports to Ukraine coincided with Ukraine's market needs (and vice versa); it created long-term opportunities for bilateral trade. The report also mentioned the presence of conditions and resources in Ukraine (among seven countries in the region) for development of 10 out of 11 priority areas of cooperation²⁷.

Seeing large opportunities in Ukraine, the Austrian business was ready to take certain risks and pay "additional" costs. It should be noted that this process was bilateral. Ukraine was the country which most actively used the mechanism of the Oesterreichische Kontrollbank AG (OeKB), which served as a kind of insurance for foreign entrepreneurs seeking to establish cooperation with Austrian investors. In 2012, 8.54% of the 34.8 billion euros guarantees issued by the OeKB accounted for Ukraine.

According to the Austrian analysts the promising areas are: energy efficiency, renewable energy, infrastructure modernization (e.g. processing waste and wastewater management), health care, telecommunications, transit and development of biomass²⁸. Austria is one of the world leaders in the use of alternative energy sources. Ukraine, in turn, is interested in implementing joint investment projects for modernization and construction of new power generating plants. It includes the construction of hydropower plants, thermal power plants reconstruction and modernization of district heating networks. Today, there are already significant Austrian investments in the wood sector, but investors suffer losses due to the new legislation that limits felling.

²⁶ *Abschlussbericht zum Integrierten Regionalprogramm Schwarzmeerregion, Redigiert von: Bot. i.R. Dr. Walter Siegl (stv. Vorsitzender) Mag. Daniel Rosenauer (wissenschaftlicher Mitarbeiter) Institut für den Donauraum und Mitteleuropa (IDM), 9. Juli 2010, p. 31.*

²⁷ *Namely in the fields of energy, infrastructure, agriculture, tourism, environment, planning, culture, education and science, health care, social policy, civil society. In Russia and Turkey there were only 8 out of 11, in other countries – 5 or less.*

²⁸ *Abschlussbericht zum Integrierten Regionalprogramm Schwarzmeerregion, p. 64.*

3. Interests of Austria in Ukraine, Ukraine's interests in Austria

The possibility of joint projects in the tourism sector warrants a particular mention. Austria has a considerable experience in this area, and not only in the development of tourist sites, but in elaboration of comprehensive plan for tourism development in the area, including staff training. Austrian investors could help Ukraine in building a ski infrastructure of the European level in the Ukrainian Carpathians. The Austrian companies took part in the development of tourist complex "Bukovel", and the Austrian technologies are still actively used there. Winter sports and everything related with them are a subject of special pride for the Austrians.

For a long time Austria has been interested in Ukraine's energy market. The deterioration of Ukrainian-Russian relations opened new opportunities for Austrian companies in Ukraine. There is no more need to compete with Russian companies. Thus, in 2015 AMIC Energy (Austria) finalized the acquisition of 100% of FDI "Lukoil-Ukraine" (240 filling stations and 6 tank farms). Dr. Wolfgang Ruttenstorfer, a former CEO of the OMV Group and a former Secretary of State of the Austrian Ministry of Finance, is the Chairman of the Supervisory Board of AMIC Energy. However, there are also some significant losses: for example, plans of the Austrian OMV to develop oil and gas fields in the Black sea. The annexation of the Crimea put an end to this long-anticipated project.

The cooperation in energy efficiency area and alternative energy sources remain attractive for the Austrians. In the past, the Austrian Agency for efficient use of electricity faced the lack of interest from the Ukrainian side. After the Russian aggression the need for fundamental changes in Ukraine's energysphere became undeniable. For the first time Austrian investors can get a real partner in Ukraine, who is interested in the development of significant country's potential in the field of alternative energy. Of course, after the bankruptcy of Activ Solar GmbH (which is associated with brothers Klyuev) in February 2016 Austrian investors will be much more cautious.

Despite the great interest of the Austrians in the above mentioned areas, almost 70% of Austrian investments in Ukraine account for financial and insurance activities. One of the main reasons for the modest investment in the real economy is the

Almost 70% of Austrian investments in Ukraine account for financial and insurance activities

“overregulation”, which complicates activities of foreign investors even more than corruption. Among successful exceptions we should mention the opening of a large Ukrainian branch of an Austrian company Agrana in Vinnytsia region which is specialized in processing fruits and berries.

Today, the Raiffeisen Bank is the main Austrian investor in Ukraine. In Ukraine, a subsidiary bank, the Raiffeisen Bank Aval (RBA), ranks seventh in size among all operating banks. In the retail banking market the Raiffeisen ranks third. The amount of the Raiffeisen’s assets in Russia is five times bigger than in Ukraine, but in Ukraine the bank has three times more of offices and two thousands more of staff²⁹. Now EBRD is new stakeholder of RBA, adding more capital and expanding loan activity. The agricultural sector is one of the main priorities of RBA.

In 2015, RBA suffered 1.443 billion UAH losses, and, although the bank cut its losses by 2.6 times compared with the previous year, analysts do not foresee restoration of positive trends in the short-term. In 2012, the Erste Group Bank AG sold its Ukrainian branch and, in 2016, the UniCredit Group left the Ukrainian market. Although RBA reassures that it does not plan to follow suit, it is obvious that now Ukraine is considered rather in terms of risks than opportunities. Meanwhile, there is a growing presence of the Raiffeisen bank in Central and Southern Europe. The Austrian capital is actively exploring financial markets of the southern EU countries and former Yugoslavia republics. At the same time all Austrian banks have downsized business in Russia because of political risk.

During the first year of hostilities the volume of Austrian investments in the Ukrainian economy decreased by 500 million dollars³⁰ and the trade turnover between Ukraine and Austria – almost by a half. It should be noted that raw materials (ore and steel) are still the basis

²⁹ *Geschäftsbericht 2015*, http://investor.rbinternational.com/fileadmin/ir/2015_FY/2016-03-16_2015_Geschaeftsbericht_RBI.pdf

³⁰ *Investment cooperation*, <http://austria.mfa.gov.ua/ua/ukraine-at/investyciyne-spivrobitnytvo>

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of the Ukrainian export to Austria (about 60%)³¹. Ukraine risks losing its fifth investor that has long been working here and is ready to expand its presence on the Ukrainian market, if provided with favorable business climate. While ten years ago Ukraine was assessed by investors as a country with great potential, now they estimate it as a country with high political and geopolitical risks.

Those Austrian investors who already have assets in Ukraine do not hurry to curtail their business. Firstly, at the moment it is impossible to sell a business in Ukraine on favorable terms. Secondly, if there are improvements, it will be much more expensive to return to the Ukrainian market than to maintain existing assets in "standby mode". According to experts, Austrian investors are well aware of the mood in the Austrian business circles and today they are at "crouch start" and look forward to concrete progress in deregulation, anti-corruption and judiciary reform areas. They want to develop business in Ukraine, use the opportunities that a free trade zone between Ukraine and the EU offers, but they do not want to risk again.

The implementation of Austria's economic aspirations in Ukraine will have far-reaching political consequences. Thus, opening of new business opportunities in Ukraine will significantly reduce tension in the Austrian business and political circles caused by Russia-related losses. Despite different economic potential of Russia and Ukraine, the latter, for several reasons, was considered as a more attractive direction, especially for medium and small businesses. Close mutually beneficial economic ties certainly are among long-term interests of Austria and Ukraine, which have more in common than it seems today in Kyiv and Vienna.

3.4. UKRAINE AS A TERRA INCOGNITA FOR AUSTRIANS

If we disregard the Western Ukrainian region that once belonged to the Habsburg Empire, Ukraine remained a terra incognita for most Austrian citizens. The events of the Revolution of Dignity and Russian

³¹ Trade, <http://austria.mfa.gov.ua/ua/ukraine-at/trade>

aggression have put Ukraine into the center of public debate; however, we cannot talk about a fundamental change in the situation. Therefore, one of the long-term interests of Ukraine in Austria is to overcome the myths and stereotypes in the perception.

Projects in educational and cultural spheres are perceived positively by different communities, regardless of political orientation

In this context the humanitarian dimension of bilateral relations and the implementation of various Ukrainian cultural initiatives in Austria become of particular importance. Projects in educational and cultural spheres, as Ukrainian activists have observed, are perceived positively by different communities, regardless of political orientation. In addition, the cultural diplomacy has always been one of the priorities for Austria, a country with a rich cultural heritage.

Numerous Austrian cultural initiatives and institutions are working in Ukraine; they include Austrian libraries, the Cultural Forum in Kyiv, the Coordination Centre of Science and Culture “KulturKontakt” in Odessa, a representative office of Austrian exchange programs in Lviv. For the last 8 years a group of students of the Vienna Diplomatic Academy has been coming to Kyiv every year to learn more about Ukraine. This initiative has been existing since a long time thanks, primarily, to Rector Hans Winkler, a former Secretary of Austria’s Ministry of Foreign Affairs. This is the resource that, if provided with an active participation of the Ukrainian side and support, can help to bridge the gap of misunderstanding between the two countries.

The positive image of Russia in Austria is largely attributed to the Austrian-Russian Friendship Society, which used a broad palette of tools: from cultural and educational to purely economic. For Ukraine, which currently has limited resources, public initiatives and projects implemented with government support should substitute large government initiatives in cultural area. This form of cooperation has proved already its effectiveness and efficiency. Thus, in November 2015, the Days of Ukrainian Culture were held in Vienna (organizers – NGO “Center for Ukrainian initiatives” and Ukrainian Embassy, lead partner – City Hall of Vienna, Department of European and international cooperation). In the history of bilateral relations this is the first cultural and art festival of such scale.

There is still an evident asymmetry in the area of regional cooperation between Ukraine and Austria – it is the Austrian side that predominantly takes the initiative. Attempts of the Austrians to create partnership between Austrian provinces and western regions of Ukraine faced the Ukrainian bureaucracy and inertia of regional elites. Some progress can be noted only in the field of culture³². The most successful example is a cooperation between Bukovina and Carinthia, in which former Honorary Consul of Ukraine in Austria Dr. Horst H. Schumi played a significant role. Since 1995, when the protocol on cooperation between the Chernivtsi regional council and the federal state of Carinthia was signed, there have been number of joint cultural and educational projects.

The interregional cooperation between Ivano-Frankivsk and the Tyrol stopped before starting. In 2013, the Ivano-Frankivsk Regional Administration called for renovation of the cooperation by declaring its interest in Austrian experience in the medical field, including the possibility of joint production of medicines based on herbs³³.

In Lviv region and Transcarpathia interregional contacts are more productive. In an updated agreement on cooperation, Lviv Regional State Administration and the Government of the federal state of Styria prioritize, besides investments, joint projects in education and sports, as well as in energy efficiency. The construction of a modern hospital in Lviv, based on an Austrian design, was announced in 2013. Delta Group, an Austrian company, was to develop the hospital's design, select equipment and put it into operation, as well as organize managerial and technological processes. Moreover, the plan was that 10-15 Austrian specialists would constitute the hospital's management at the first stage.

There is still an evident asymmetry in the area of regional cooperation between Ukraine and Austria – it is the Austrian side that predominantly takes the initiative

³² *Kooperationen Regionale Zusammenarbeit Kärnten – Czernowitz*, http://www.oesterreich-bibliotheken.at/kooperationen.php?nam_stadt=Cernivci/Czernowitz&zahl=7

³³ *The Ivano-Frankivsk region intends to restore cooperation with the federal Province of the Tyrol, Austria, 4.07.2013* <http://styknews.info/novyny/sotsium/2013/07/04/ivano-frankivska-oblast-maie-namir-vidnovyty-spivpratsiu-z-federalnoiu-pro>

Transcarpathia and Burgenland found common ground in areas such as wine production, tourism and hydropower. Bordering four EU countries, Transcarpathia is actively working to attract foreign, including Austrian, investments to the region's economy. Overall, there are 37 companies with Austrian capital in the region. As of 2014, one in ten dollars of investments in Transcarpathia came from Austria³⁴. Fischer, a company producing skis which is located in Mukachevo, is often mentioned as a positive example of the Austrian-Ukrainian business cooperation. The firm re-export 90-95% of their products.

The beginning of cooperation between Kyiv and Vienna was promising. Since 2005, the pompous annual Viennese Ball has been held in Kyiv, the highest Ukrainian officials participated in it. In 2012, a delegation from the Austrian capital, headed by the Mayor of Vienna Michael Häupl (re-elected in 2015), visited Kyiv. Large-scale 'Days of Vienna' in Kyiv and a joint business forum were the immediate result of friendly negotiations with the head of Kyiv City State Administration, Oleksandr Popov. As in other areas, ambitious plans of sister cities were hindered after the name of the Ukrainian official had changed. Mayor Klitchko has been invited to Vienna many times, never made it.

Today, Austria has five honorary consulates in Ukraine: in Odessa, Chernivtsi, Kharkiv, Lviv, and Dnipropetrovsk³⁵. The latter has been opened on April 14, 2016, with Valery Kipytk, the co-owner of such companies as EVA, VARUS and Mist-City-Centre, becoming the Honorary Consul. The priority of the consulate's activities, as spoken by Mr. Kipytk himself, will be attracting Austrian investments and expertise.

According to representatives of Austria's Foreign Ministry, Vienna is currently developing a strategic plan to provide assistance to Ukraine of 7 million euros in total; it includes an additional funding of 1 million euros in 2016. Although it is not clear yet for which specific areas these funds will be allocated, it is planned that a special emphasis

³⁴ *Transcarpathian Chamber of Commerce and Industry*, <http://www.tpp.uzhgorod.ua/ukr/page-463.html>

³⁵ *There was a Honorary Consulate in Donetsk until 2014.*

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will be made on training and development of rural areas in Western Ukraine³⁶. In the past four years, the total Austrian assistance to Ukraine (in the framework of various multilateral projects) amounted to some 160 million euros. Moreover, there are a number of charitable initiatives and organizations that are actively helping Ukraine. For example, several hundred Ukrainian children had their vacations in Austria in the past year, while Austrian hospitals admitted wounded Ukrainian soldiers for rehabilitation.

At present, Ukraine is essentially not involved in the EU Strategy for the Danube Region, an initiative actively supported by Austria. The EU strategy for the Danube region, which covers 14 countries, was adopted in 2011. It envisages some 200 projects aimed at the region's integration, development and environment protection and will be implemented by 2020. Participation in the Strategy's implementation will allow attracting resources to finance Ukrainian projects, particularly those of the European Commission and individual EU member states. In October 2015, an international conference on ways to intensify Ukraine's participation in the EU's Strategy for the Danube Region was held in Odesa with Austria's support. However, this is just the first step, as there is a lack of comprehensive vision of Ukraine's participation in this initiative and of the direct involvement of key ministries (the Ministry of Infrastructure, the Ministry of the Economy and Trade, and the Ministry of Ecology).

³⁶ *Data of the Embassy of Austria in Ukraine.*

4. INTERESTED PARTIES AND GROUPS OF INFLUENCE

Austrian foreign policy extremely lacks resources and attention from politicians³⁷. Seeing foreign policy issues largely as a source of internal and external conflicts, Austrian politicians tended to ignore them in the past two decades. It led to a personnel shortage that the Ministry of Foreign Affairs satisfied, particularly, with members of the ultra-right Freedom Party. Today, the main diplomatic agency – the Federal Ministry for Europe, Integration and Foreign Affairs – combines under its roof the functions of communication with Brussels and the rest of the World, and solving the refugee crisis.

Sebastian Kurz before taking the post of Minister of Foreign Affairs, worked as a secretary of state for integration. At his request the issue of social integration was included in the portfolio of Foreign Minister in 2013. As a result, foreign policy issues were shifted not even to the second but to the third position on the agenda of the Austrian diplomatic department.

In the political sphere Austria is going through a critical period related with the end of the so-called “era of big coalitions”. The fall in ranking of the two major parties – the People’s Party and the Social Democratic Party is accompanied by the growing popularity of the radical right Freedom Party. Having recognized in time fears and preferences of the electorate, a former secular political force, the Freedom Party, headed by a new leader Heinz-Christian Strache, began to appeal to traditional Christian values with harsh criticism of the EU, anti-NATO and anti-immigrant messages.

Such rhetoric, backed, in the opinion of many observers, by significant financial injections, turned the new Austrian far-rights into loyal allies of the Kremlin. Today, the Freedom Party is mentioned among the

³⁷ Thomas Roithner, *A Foreign Policy Strategy for Austria*, http://www.thomasroithner.at/cms/images/publikationen/roithner_foreign_policy_strategy_austria.pdf

most evident agents of Russian influence in the EU³⁸. Before 2014, the party had invited Russian politicians and nationalist activists (Konstantin Malafeev, Aleksandr Dugin) to its meetings. In 2009 in Austria a scandal broke out around a former far-right leader Jorg Haider, who, allegedly received a bribe of almost one million euros, helped two Russian businessmen to obtain citizenship³⁹.

The Freedom Party popularity is growing against the background of the Austrians' discontent with the influx of immigrants and Brussel's politics. In the parliamentary elections of 2013 the far-rights won 20.5% of vote, and in the elections in some federal states the Freedom Party came second. In October 2015 the extreme rights got more than 30% of vote in Vienna. Although the Social Democratic Party, which had been leading Vienna for the last half-century, still retained the majority (they received 39.5%), these elections demonstrated that old political forces could no longer ignore the radicalization of the Austrian electorate. The change of political discourse affects the rhetoric of major political parties – the Social Democratic and People's parties.

The low level of knowledge about Ukraine, in combination with traditional Austrian anti-Americanism and euroscepticism, was the main reason for hasty conclusions on the Ukrainian-Russian relations and the impact of the EU and the US on the events in Ukraine. Most of Austrian politicians, businessmen, journalists, as well as ordinary citizens, tend to consider the confrontations in Donbas a "civil war", not a war with Russia. Although representatives of academic and intellectual circles that are better informed about events in Ukraine show, in general, a friendly or neutral attitude, a cool or even hostile attitude towards Ukraine dominates

In Austria, dominant opinion is that the confrontations in Donbas is a "civil war", not a war with Russia

³⁸ *Russia accused of clandestine funding of European parties as US conducts major review of Vladimir Putin's strategy, The Telegraph, 16 Jan 2016, <http://www.telegraph.co.uk/news/worldnews/europe/russia/12103602/America-to-investigate-Russian-meddling-in-EU.html>*

³⁹ *Kärntens Landesvater Haider verkaufte Staatsbürgerschaften an reiche Russen, Trend, 25. 8. 2011, <http://www.trend.at/politik/kaerntens-landesvater-haider-staatsbuergerschaften-russen-305274>*

among the general population, including the idea of “anti-constitutional coup” in 2014.

In 2014, when asked who should be blamed for the crisis in Ukraine, 44% of the Austrians chose the joint responsibility of Ukraine and Russia. About a third (28%) put the responsibility on the leadership of Russia, 7% – on the leadership of Ukraine, and 21% were undecided⁴⁰.

The Ukrainian diaspora in Austria is too small to influence public opinion in the country. However, their actions and initiatives, as well as activities of the Embassy of Ukraine (and personally the Ambassador, Olexander Scherba), help to keep the Ukrainian issue on the agenda and undermine the Russian discourse monopoly⁴¹. Among periodicals that regularly highlight the situation in Ukraine we should mention «Die Presse», but it is rather an exception. In Austria they sorely lack positive information about Ukraine, especially about its progress in reforming. In rare articles not related to war, the leading topics are corruption, ineffective governance and political instability.

In September 2015 an office of the ORF (the Austrian national public service broadcaster) was opened in Kyiv; this had to demonstrate the high level of interest of Austria to Ukrainian events. A famous journalist Christian Wehrschütz, who covered events of the Revolution of dignity for the ORF, and later the confrontations in the Crimea and Donbas, headed the office. His reportages from Donetsk were often criticized by Ukrainian activists for de facto legitimization of self-proclaimed republics. There is no evidence so far that the launch of the ORF’s office in Kyiv has significantly improved the situation with media coverage of Ukrainian events on the leading Austrian TV.

⁴⁰ *Wer trägt die Schuld an der Krise in der Ukraine?* <http://de.statista.com/statistik/daten/studie/318008/umfrage/meinung-zur-schuld-an-der-ukraine-krise-in-oesterreich/>

⁴¹ *Alyona Getmanchuk: How the Viennese strudel is served to Ukraine?*, <http://iwp.org.ua/ukr/public/1782.html>

5. EXISTING AND POTENTIAL RISKS

CHANGES IN AUSTRIA'S POLICY TOWARD UKRAINE IF THE FREEDOM PARTY COMES TO POWER

The Freedom Party is currently the most popular political force in Austria, and it is increasing its presence in local government bodies. It has already entered the governments of Burgenland and Upper Austria. According to a poll conducted in June 2015 and published by Der Standard, the party had the highest popularity rating (28%) among all Austrian political entities. Austria will hold its next general elections in the second half of 2018.

Probability. Despite the Freedom Party's undisguised sympathies for Russia, there is no reason to expect a fundamental shift in Austria's policy toward Ukraine. Even though the Social Democratic Party and the People's Party, which make up the ruling coalition at present, are more reserved in their statements, they do not hide their desire to restore friendly relations with Russia as soon as possible despite the events in Ukraine. The former shares powerful anti-American sentiments with Russia, while the conservatives from the People's Party have close ties to Austria's big business. It should be noted that this big business used to be the main engine also in the Ukraine-Austria relations.

How to avoid? The internal situation in Ukraine will be decisive for shaping Austria's policy toward Ukraine. Political instability and deterioration of the economic and social situation will make Ukraine "not interesting" for Austrian investors and, thus, decision makers. Only if Ukraine turns from a European problem into a European chance will Kyiv be able to count on support in Vienna. The absence of clear successes with reforms only boosts the position of those in Austria who criticize the EU's policy toward Ukraine, regardless of their party affiliation.

ENTRENCHMENT OF THE RUSSIAN NARRATIVE AS THE DOMINANT ONE

Even though experts are unanimous that economy is key to Austria's foreign policy decision making, Austrian sympathy for Russia cannot, for justice's sake, be attributed exclusively to economic motives. According to the German mass media, the Kremlin drew up a list of EU countries that are most susceptible to Russian propaganda, and Austria made the list, together with Hungary and the Czech Republic.⁴² However, Austria is special in that, unlike its neighbors, Austrian society has traditionally had strong sympathy for Russia, dating back to Cold War times.

Probability. Very high. Before the 2014 events, Austria consistently avoided any actions or critical remarks that could complicate its relations with Russia (as in the Golovатов case in 2011⁴³). Russia's aggression against Ukraine, which led to Russia-EU confrontation only laid bare the level of influence that Moscow had in Vienna. There are no political forces or mass media in Austria that would criticize the Kremlin or call for a revision of the bilateral relations.

How to avoid? Ukraine should not make its relations with Austria hinge on the latter's relations with Russia. Ukraine needs to intensify cooperation at the interparliamentary and ministerial level. Having Austria engaged in Ukraine's reform process could have a significant positive effect. Austria is willing to support Ukraine through small-

⁴² *Russlands geheimer Feldzug gegen den Westen, Frankfurter Allgemeine Zeitung, March 11, 2016, <http://www.faz.net/aktuell/politik/fluechtlingskrise/putin-manipuliert-gezielte-medienkampagne-gegen-deutschland-14117555.html>*

⁴³ *Ex-KGB Colonel Mykhail Golovатов, who is a suspect in a case about the January 13, 1991 events in Vilnius (the attack on the TV tower), was arrested in Austria under Lithuania-issued European order. However, he was released within less than a day, causing outrage in Lithuania which even recalled its ambassador to Austria for consultations.*

scale targeted assistance projects in the framework of anticorruption reforms.

Similar initiatives will not only help increase Ukraine's information presence in Austria but also show the country's achievements with reforms. Ukraine's friends in Austria are a narrow circle of caring individuals who have complete information about the situation in Ukraine. Expanding this circle through various exchange programs and cultural and social projects will lay the foundation for the rapprochement between the two states in the future.

AUSTRIA'S DISAPPEARANCE FROM UKRAINE'S POLITICAL AGENDA

Political contacts between Ukraine and Austria in the past decade have been marked by high intensity. The relations between countries had significantly intensified during the presidency of Viktor Yushchenko, and reach its peak under Yanukovich: Ukrainian representatives were frequent guests in Vienna on both official and unofficial visits and participated in Austria's various regional initiatives. In the past two years, considering a shift in the priorities of the Ukrainian leadership, Austria has found itself on the margins of Ukraine's foreign policy.

Probability. High. Intensive political dialogue in the past reflected the high level of interest that Austrian investors had in Ukraine and the desire of big business to settle in Austria. Now, Austria is viewed by Ukrainian officials and the public through the prism of its close ties to Russia and as a place where former Ukrainian officials and businessmen have settled. And the corruption scandals are not limited to dubious financial transactions, occurred before 2014. Decreasing interest in contacts with Austrian partners at the governmental, non-governmental and regional level leads to a situation in which Austria and Ukraine may lose the contacts they have been building in culture, politics and economy for the past 25 years.

How to avoid? While the dialogue remains highly intensive on a diplomatic level (the foreign ministers of both countries met 5 times⁴⁴ just over 2015), maintaining these contacts requires specific projects of bilateral cooperation. In the past big business had been the engine of the Ukrainian-Austrian relations, employing non-transparent and patently corrupt schemes. Today, this role has to be played by medium-sized and small business. A boost should also come from interstate projects in areas where Austria has achieved high results, such as environment protection, renewable energy (construction of wind and water power plants and solar batteries) and tourism. At the same time Ukraine has to demonstrate that it is ready, not only in words but in deeds also to combat money laundering and tax evasion, occurred through the Austrian financial institutions. The first step toward establishing cooperation to combat corruption was taken when in early April Head of the National Anticorruption Bureau Artem Sytnyk and Deputy Prosecutor General Nazar Kholodnytsky came to Austria on a working visit. They visited, inter alia, the International Anti-Corruption Academy whose training resources can greatly raise the level of Ukrainian anticorruption prosecutors. Proactive position of Ukraine is essential for encouraging Austrian side to investigate financial crimes with Ukrainian roots.

AUSTRIAN INVESTORS' DECREASING INTEREST IN UKRAINE

Austrian investors have placed Ukraine among countries with high risks and dubious advantages. Austrian business circles are quite skeptical of Ukraine's successes in reforming itself and the an-

⁴⁴ *After the Revolution of Dignity the Austrian Minister of Foreign Affairs Kurtz had been in Kyiv four times, and met with President Poroshenko at least three times. In 2014, there was a meeting of Chancellor Faymann and Poroshenko in Milan.*

nounced new rules of the game. This is no surprise, considering Kyiv's earlier lackluster record of reform efforts. Austrian business analysts indicate the same negative factors preventing investment flow as they did a decade ago: an unstable political situation, inefficient governance, corruption, and a lack of the independent judiciary.

Probability. High. Despite certain stabilization in 2016, investors continue to be cautious regarding Ukraine as they await convincing evidence of improving business climate. In order to outweigh the negative experience of the past decade, Kyiv will have to exert a lot of effort to regain investors' trust. Drawn-out political crises hurt Ukraine's investment climate no less than the continuation of warfare in the Donbas.

How to avoid? Austria is not alone in the EU in its desire to be dealing with a successful country rather than another problematic state. In order to obliterate Ukraine's image as a dysfunctional state, it is necessary to communicate better about the existing positive changes achieved through reforms, regional development and combatting corruption. This can only be done by creating formal and informal communication platforms both in Ukraine and in Austria. The Ukrainian Circle Vienna is one such long-term project. Launched by Ukraine's Embassy in Austria, it is aimed at establishing and developing cooperation between Ukrainian and Austrian businessmen. In January 2016, this business club for investors met for the first time, with the participation of the Ukrainian Minister of Foreign Affairs Pavlo Klimkin. In March, the Club met for the second time, the speaker was Chumak founder Johan Boden. The program of the Club is quite intense: in May Deputy Head of the Presidential Administration Dmytro Shymkiv will come to tell about the Ukrainian reforms, and in the same month there will be a close fair. The goal of the fair is to help Ukrainian food producers

to establish contacts with the Austrian retailers.⁴⁵ The Ukrainian-Austrian Joint Commission on Trade and Economic Relations also needs to resume active operation.

The cause of rebuilding the trust of Austrian investors who want to truly develop in Ukraine rather than be a cover for the corruption machinations of Ukrainian businessmen will be greatly served if Ukraine takes real steps to combat corruption.

⁴⁵ <http://austria.mfa.gov.ua/ua/press-center/news/43844-posolystvo-zapochatkuvalo-novij-format-spivpraci-biznes-klub-dlya-investoriv-pid-nazvoju-ukrainian-circle-vienna>

6. RECOMMENDATIONS

1. At present, Vienna and Kyiv have different views on how to overcome the crisis that arose after the annexation of Crimea and what caused it in the first place. Meanwhile, Ukrainian diplomats need to continue dialogue with their Austrian counterparts to most extensively involve OSCE tools and resources in resolving the situation in the Donbas.
2. Ukraine needs to become more active in the Danube Regional Project which is highly important for Austria's interests. Ukraine has been outside the project so far. Meanwhile, the EU strategy on the Danube region, adopted in 2010,⁴⁶ is a convenient platform for establishing effective communication with Central European states and implementing specific projects.
3. Ukraine should involve its German partners in a dialogue with Austria. Joint trilateral activities, projects, and initiatives will be more successful than Ukraine's independent efforts to communicate with Austrians.
4. The key to the future of the Ukraine-Austria bilateral relations is the restoration of Austrian investors' trust and interest in Ukraine. No matter who forms the next government in Austria (even if it is the Freedom Party), economic ties are a guarantee of mutually beneficial, productive relations. The creation of various communication platforms, such as the Vienna Circle, both in Ukraine and in Austria with the involvement of high-ranking Ukrainian officials will greatly contribute to awareness-generating efforts regarding Ukraine's progress with economic reforms.
5. Ukraine's diplomatic mission in Austria should be reinforced with a trade and economic office. The promotion of Ukraine's trade interests and the establishment of contacts between Austrian

⁴⁶ *European Union Strategy for Danube Region*, <http://www.danube-region.eu/component/edocman/communication-of-the-commission-eusdr-pdf>

and Ukrainian businesses should be handled by specialists who have the necessary resources.

6. Austrian investors are particularly interested in such areas as energy efficiency, renewable energy sources, infrastructure modernization, agriculture, and tourism. Creating an effective and transparent mechanism of attracting foreign investments to these areas, in particular by providing state guarantees, would partly allay Austrian investors' fears.
7. An issue that demands special attention is the expansion of Austrian investors' involvement in building the infrastructure of the Carpathian ski resorts. This will not only bring economic benefits but also help Ukraine improve its tourism service to make the Ukrainian Carpathians one of the top European resort destinations.
8. Cooperation for combatting corruption can become the defining factor of bilateral cooperation. In practice, it is about using the resources and expertise of the International Anti-Corruption Academy in Vienna to raise the professional level of Ukrainian prosecutors. However, the effective investigation of financial crime requires political will from both the Austrian and Ukrainian side. The establishment of the international investigation team (with EU and Ukraine experts) to conduct anti-corruption investigations could serve as a proof of existence of such political will.
9. Ukraine should initiate and support joint cultural and research projects to increase awareness of the Habsburg period in Ukrainian history. In particular, this year there will be the 100th anniversary of the death of Emperor Franz Joseph, ruler of the Habsburg Empire for 68 years. As with the Western Balkans, common cultural and historical heritage can become a platform for rapprochement and, for Ukraine, also a way to restore its connections with Europe. However, these connections can only be strong if they are backed up by economic interests, and not by big business with its dubious schemes but by medium-sized and small business.

10. Currently, there is an active network of Austrian honorary consulates in Ukraine, covering almost all major cities. These consulates could become effective platforms to attract Austrian investments at the regional level, implementation of best Austrian practices in the fields of environmental protection, infrastructure development, agriculture, energy, etc. However, this requires facilitation of the consulates' activities by the regional and central government institutions.
11. The Ukrainian government and expert community should more actively communicate with the leading think tanks and mass media in Austria. The tools for establishing cooperation could be working visits to Ukraine, the involvement of Austrian experts as consultants in reform development and evaluation, and joint research and public events. It is necessary to carry out an audit of analytical and intellectual platforms in Austria and ensure the presence of Ukrainian speakers there.
12. Ukraine receives aid under the special Austrian Development Cooperation program (ADC). It is necessary to make this cooperation more systematic, particularly through the development of the strategy of Ukrainian-Austrian cooperation for the next five years, or at least identifying the specific priorities and objectives of bilateral cooperation in the field of development.
13. Ukraine needs to intensify interregional cooperation by revitalizing partnerships between Austrian provinces and Ukraine's western regions (Lviv, Ivano-Frankivsk, and Chernivtsi), as well as between Kyiv and Vienna. In the past years, Austria has expanded its presence in Odesa, which can join the list of Ukrainian regions that have special partnerships with Austrian provinces.

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