



**B | S | T** The Black Sea Trust  
for Regional Cooperation  
A PROJECT OF THE GERMAN MARSHALL FUND



**Leonid Litra  
Florent Parmentier  
Cyrille Bret  
Anastasiya Shapochkina**

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*Photos:*

Presidential Administration,  
the Embassy of Ukraine in France

*Authors:*

Leonid Litra  
Florent Parmentier  
Cyrille Bret  
Anastasiya Shapochkina

*Editor and project coordinator:*

Kateryna Zarembo

## CONTENTS

1. Introduction	4
2. Ukraine's Interests in France and French Interests in Ukraine: Possible Conversion Points	8
2.1. France as a Mediator: an auxiliary actor	8
2.2. French Investors, Economic Actors	12
2.3. The French interest and participation in the promotion of reforms in Ukraine	18
3. Existing and Potential Risks and Conflicts	21
4. Who is Who? Interest Groups in France and Ukraine	33
5. Recommendations	41
6. Acknowledgements	43

## 1. INTRODUCTION

Relations between Ukraine and France have long been limited, due to the main orientations of the French foreign policy, more directly concerned with the Southern rather than the Eastern neighbourhood and focused much more on Russia in the East. On the other side, Ukraine has been inconsistent in developing its relations with the EU countries since its independence, including France. However, over the last two years, the two countries have developed new areas of cooperation, especially within the 'Normandy format'. Therefore, as a side effect of the conflict between Ukraine and Russia, relations between Kyiv and Paris became the right thing for the wrong reason, boosting an intense cooperation between the two. Despite Paris's focus on the South, Ukraine became a top-10 foreign policy priority after the start of Russian aggression in Ukraine.

The importance of France for Ukraine is paramount, since France is a staunch defender of Ukraine's sovereignty and enforcer of European security, including Paris's role within the "Normandy format." However, France's policy towards Ukraine is crippled by a lack of expertise on Ukraine and a pro-Russian political and business lobby. Paris is genuinely lacking an independent voice on matters related to Ukraine, falling in the footsteps of Germany and bandwagoning at Minsk-2.

Like many other EU Member-States, France hesitates between two options in its foreign policy toward Ukraine: developing a separate track, or making Ukraine subordinate to France's own foreign policy toward Russia. France's stance in the "Russia-Ukraine" dilemma is the following: it sees Russia as an EU rival in the East, but as a partner in the South. The "Russia first" approach has been seriously questioned due to the conflict in Ukraine, but the terrorist attacks in Paris and Brussels and the refugee crisis have contributed to shifting the focus of public opinion on the Syrian conflict.

Ukraine can raise its profile in France if it brands itself as 'a country of solutions,' rather than 'the defender of European identity against Russia'. Providing a positive message should be an essential part of the communication efforts of Ukrainian authorities at a time when the government is criticized for its insufficient reforms and modest results in fighting corruption.

Kyiv formulates the key general interest of Ukraine toward France as follows:

1. Engaging a key state for the European integration process in order to make sure that, in the medium-run, Ukraine remains among French priorities. Engaging France on a long-term basis would certainly help to strengthen a European consensus on supporting domestic reforms in Ukraine.
2. France as an important country that has the ability to significantly contribute to a united EU policy on the current conflict between Russia and Ukraine, including the maintenance of the EU sanctions against Russia.
3. A fair partner in conflict settlement efforts, including the implementation of the Minsk package.
4. France is a country that could represent a source of investments in Ukraine, not only in the traditional areas (agriculture, banking, etc.), but also in ICT, infrastructure, military, etc.

French interests towards Ukraine are driven by political and economic factors, and shaped to some extent by its relations with Russia. They can be summarised as follows:

1. Stopping the conflict in Eastern Ukraine, as it could undermine the stability of other regions in the country, and heralding Ukrainian sovereignty over the Crimea;
2. Preventing the destabilization and disintegration of Ukraine and deterioration of its socio-economic conditions;
3. Consolidation of Ukraine, both politically and through a comprehensive set of reforms;
4. Supporting Ukraine's transformation according to the European model, though not necessarily pushing for a new EU enlargement in the coming years.

Along with many of its EU partners, France shares the assumption that the economic, social and political transformation of Ukraine

is in line with the process of European integration. Yet, the 'Brexit' debate and the rise of anti-EU movement have now made this idea more difficult to sell to the public. From this perspective, the recent Dutch Ukraine – European Union Association Agreement referendum (6 April 2016), which saw a low but sufficient turnout (32.2%) and a tiny victory for the 'No camp' (61.6%), might represent an obstacle on this path. Although the referendum is suspensory and non-binding, it will likely have implications on the ratification process, as it cannot simply go ahead because of political reasons. The referendum is another illustration that the irreversibility of the process of European integration can be jeopardized. Moreover, an opinion poll shows that a large majority (63%) of French society would also be in favour of holding a referendum on the Association Agreements that the EU signs with its neighbours, similar to the Germans (63%) and Italians (66%).<sup>1</sup> The French view European integration as a modernization project rather than a geopolitical one. More precisely, France is more concerned with the idea of European 'balance of power' than with the aim of rolling back Russian influence, as long as Russian actions do not contradict Paris's interests.

The 'Euromaidan movement' of 2013 has offered new opportunities for cooperation, both at the level of authorities and society. French elites are generally far more concerned with Southern rather than Eastern neighbourhood, both for historical and political reasons. Yet, the 'Euromaidan movement' has received much empathy in the media and from the general public and has symbolised a desire for Europe. The question is, how far France will go to support Ukrainian efforts of European integration?

The opportunities are also accompanied by risks. France, like other European countries, is distracted by diverging priorities – especially the Syrian crisis and the issue of refugees. Moreover, France works together with Germany in order to improve the functioning of the European Union, which is in bad shape following the Dutch referendum and the 'Brexit' debate. Finally, France will have presidential and parliamentary elections in 2017, and some right-wing and left-wing

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<sup>1</sup> *Le jugement sur la nécessité d'un référendum sur les accords d'association avec l'UE, IFOP, [http://www.ifop.com/media/poll/3339-1-study\\_file.pdf](http://www.ifop.com/media/poll/3339-1-study_file.pdf)*

politicians seem more pro-Russian in their orientation. This might affect the further deepening of relations between Kyiv and Paris.

In the medium term, France's interest towards Ukraine depends on two factors, the first of which is the possible deterioration of the security situation in East Ukraine. Under conditions of strained relations and further escalation of the conflict, Ukraine may attract France's public attention once again. The second factor is Ukraine's political and economic transformation, including fighting corruption and ensuring stability. As long as the military situation in East Ukraine does not re-escalate, and as long as the progress on reforms is slow, Ukraine risks dropping to the back seat of the European security agenda unless some shared interest for common actions are identified.

In France, there is a political consensus that any kind of NATO enlargement in the post-Soviet area is counter-productive, as this would increase tensions between NATO countries and Russia. This stance prevailed at the Bucharest Summit in 2008, when Ukraine and Georgia were denied the NATO Membership Action Plan, and the situation has not fundamentally changed since then. However, a dialogue on defence and security would prove beneficial for both partners, and could lead to the implementation of extensive reforms in the armed forces.

The objective of this policy brief is to examine the real situation in relations between Ukraine and France in three partnership areas: political, security and economic. Beyond that, the paper seeks to find possible avenues of closer cooperation between Ukraine and France, as well as potential risks.

## **2. UKRAINE'S INTERESTS IN FRANCE AND FRENCH INTERESTS IN UKRAINE: POSSIBLE CONVERSION POINTS**

### 2.1. FRANCE AS A MEDIATOR: AN AUXILIARY ACTOR

As a Permanent Member of the UN Security Council and a proactive EU security actor, France is a major player in European security, looking out for the stability of the continent. Its involvement is of the utmost importance for the resolution of the crises in Ukraine, the Balkans and in the Caucasus.

France's role as a pillar of European security makes it an honest broker in the mediation between Russia and Ukraine in the framework of the 'Normandy format' and a leader among EU Member-States.

In order to assess the French position in the conflict, it is necessary to take into consideration its track record in regional conflicts. Thus, France has played a mediator role in several conflicts of the post-Soviet area: Nagorno-Karabakh, Georgia and now Ukraine. France is part of the OSCE Minsk Group created in 1992 to encourage a peaceful, negotiated resolution to the conflict with Azerbaijan, Armenia and Nagorno-Karabakh, and shares the co-chairmanship with Russia and the USA. During the Russian-Georgian war of 2008, President Sarkozy took the lead among EU leaders as the President-in-office of the European Union to draft a six-point peace plan. This was at a time when EU presidency had more importance than before the Lisbon Treaty. Now, France has been involved in the 'Normandy format', together with Ukraine, Russia and Germany. The only exception is the Moldovan conflict: France has no particular stake in Transnistria, and neither does any other EU member-state. In this conflict, the EU is an observer to the negotiation conducted under the aegis of the OSCE.

In all these processes, French diplomacy has favoured solutions and negotiation processes with two main characteristics: a search for stability and balance. For obvious geopolitical reasons, France is generally more concerned with the Southern neighbourhood and somewhat less with the Eastern neighbourhood, especially compared with Germany or Poland. Nevertheless, it has defined its policy in a reactive way in the aftermath of the dissolution of the USSR, in 2008



## 2. Ukraine's Interests in France and French Interests in Ukraine: Possible Conversion Points

and in 2014. It is fair to say that Ukraine has never been at the top of the French military's post-Soviet agenda, unlike Poland. In regards to the Budapest Memorandum on Security Assurances, a guarantee for Ukrainian sovereignty in exchange for its implementation of the Nuclear Non-Proliferation Treaty (NPT), France was not among the three nuclear signatories (the Russian Federation, the United States of America, the United Kingdom), but it provided individual assurances in separate documents along with China.

France's involvement in the Ukrainian crisis is the result of its responsibilities as a member of the European Union, the G7, and the United Nations Security Council, as well as its own security interests in the European neighbourhood, rather than on a bilateral basis with Ukraine. First, it has been involved in the Ukrainian conflict through its membership in the 'Weimar triangle', a loose grouping also including Germany and Poland. Warsaw took the initiative to organise a visit of the three foreign Ministers (Laurent Fabius, Frank-Walter Steinmeier and Radek Sikorski) within this format in late February 2014, at the height of the crisis in Kyiv. This visit culminated in the February 21st memorandum on a political compromise between the Ukrainian authorities and the opposition, which Laurent Fabius signed. Second, in early March 2014, France hosted an international conference devoted to the security of Lebanon within the context of the Syrian crisis. The French diplomacy intended to raise the issue of Ukraine at the conference, but unfortunately, Sergei Lavrov refused to meet with Ukrainian foreign minister Andrii Deshchytzia. Two days later, two of the most prominent leaders of the opposition, Vitali Klitschko and Petro Poroshenko, then both candidates in the forthcoming presidential election, arrived in Paris. Beyond the meeting with the Ukrainian diaspora in Paris, the key moment was their meeting with President François Hollande; this event was arranged by French philosopher Bernard-Henry Lévy, a fierce critic of the Kremlin's conduct and a strong lobbyist for military intervention in Libya in 2011. Third, France was very much involved in the negotiations of the Minsk protocol, both in Minsk-1 (September 2014) and Minsk-2 (February 2015). The 'Normandy Format', which includes Ukraine, Russia, Germany and France, was designed in a meeting of the four heads of state, which was held on 6 June 2014 at Château de Bénouville in Normandy. It is important to note that in most of the cases, and especially in the Minsk process, France was brought into the format due

to the involvement of Germany and Berlin's insistence to act together with France, so that it would not be perceived as a German initiative. Certain Ukrainian officials say bluntly that if not for Germany, then it is highly unlikely that France would have been part of the process.<sup>2</sup>

The special French efforts in conflict settlement that stood out in Ukraine and received a high attention in the media and expert circles was the "Morel Plan", named after the veteran French diplomat Pierre Morel. The plan was envisaged as a compromise between Ukraine and Russia to organize elections in the occupied territory of East Ukraine according to a special law, but without full withdrawal of armed people and foreign forces, alongwith other derogations from the initial blueprint. Kyiv has been very sceptical to the Morel Plan, president Poroshenko calling it "Morel's personal opinion", despite the fact that Pierre Morel was tasked to prepare the plan after the issue was discussed, among others, with Victoria Nuland and Grogori Karasin. Experts also viewed the Morel Plan sceptically, broadly sharing the opinion that Russia had attempted to "Chechnify" the problem, and that the implementation of the plan would lead to formal affiliation of the region with Ukraine but de facto control by Moscow, including the rest of Ukraine through proxy regimes in the de facto republics.<sup>3</sup> Ukraine could have rejected the plan based on the Minsk Protocol, which is the main document in the settlement process and recognized by the all parties. However, constrained by economic and political situation as well as by dependence from the West, Ukraine accepted certain elements of the plan in principle during the "Normandy" format meeting in Paris last autumn.

Within the European Union, France generally adopts a balanced position toward Russia, comparable to Germany or Italy, and softer than that of the UK or Poland. France sees Russia as a competitor in the East, but also as a partner in the South, for all the developments in the Middle East. Although the French and Russian diplomacies took opposite positions concerning the Iranian and Syrian crises, the November 13th terror attacks have somehow allowed a rapprochement

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<sup>2</sup> *Interview with an Ukrainian official, Kyiv, March 2016.*

<sup>3</sup> *The Morel Plan: Will Kyiv swallow the bitter pill?*, <http://www.dw.com/en/the-morel-plan-will-kyiv-swallow-the-bitter-pill/a-18756951>

between the two countries. U-turns seem to take place at times in France when such force-majeure situations pop-up, as in the case of the Paris terrorist attacks. Inadvertently, France's U-turns are seen by some as eroding the EU's cohesion,<sup>4</sup> and consequently Ukraine might become a collateral victim of these decisions. At the same time, France, a founding member of NATO, insists on the relevance of NATO regarding its mission of collective defence under Article 5 of the Washington Treaty. On 2 March, 2014, Paris did not hesitate to become one of the first European countries to announce the suspension of its participation in the G8 Summit in Sochi, which was eventually cancelled.

In this context, it is easy to understand why the buzzword in Paris has been "désescalade" (de-escalation), and why the French authorities were eager to follow Merkel's idea of creating a "Contact Group". Given the relatively good personal relationship between the German chancellor and Russian President Vladimir Putin, the French have positioned themselves close to the Germans in order to work jointly on a solution. This is in contrast to examples of military cooperation, such as the joint operation with the British during the conflict in Libya.

France has probably spent more political resources in Ukraine in the last two years than in the previous decade. Yet, French-Ukrainian relations still depend on French-Russian relations within the context of the Middle East crises, which are currently at the top of the French security agenda. France may have cancelled a 2010 military contract with Russia regarding two Landing Helicopter Docks (LHD) and amphibious assault ships (known as Mistral), but it has by no means cut all political and military cooperation with Russia. France is in favour of a full implementation of the Minsk Agreement, though a political consensus has emerged that this conflict could take many years to be solved, as is the case with other 'frozen conflicts' in which France (and Russia) has been involved.

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<sup>4</sup> Francis Ghilès, *Responsibility for the Disintegration of Europe is Shared*, [http://www.cidob.org/en/publications/publication\\_series/opinion/europa/responsibility\\_for\\_the\\_disintegration\\_of\\_europe\\_is\\_shared](http://www.cidob.org/en/publications/publication_series/opinion/europa/responsibility_for_the_disintegration_of_europe_is_shared), CIDOB.

At the societal level, the French public had mixed feelings about the events in Ukraine and the role of Paris. It is important to note that more of the French people (46%) agree with the statement that the armed conflict in Ukraine was triggered by Russia than disagree (27%), while 38% (against 37%) agree with the statement that a war between Russia and Ukraine is taking place. The share of population who think a civil war is taking place in Ukraine is also high (42% against 34%), which is somehow alarming from the Ukrainian perspective. It is also interesting to note that 27% of French society thinks that Ukraine's membership in the EU would be the way to protect Ukraine from further Russian aggression, because Ukraine is a part of Europe (21%), and there is no reason why Ukraine should be rejected as a member while other countries have been accepted (19%). However, French society believes that in order for Ukraine to achieve EU integration, it must achieve certain conditions. Many believe that Ukraine must fight against internal corruption (33%) and prove that is devoted to European values (23%). Another important barrier highlighted is the oligarchic system (19%). Unfortunately for Ukraine, most of the people associate Ukraine with war (47%) and with Russia (28%).<sup>5</sup>

## 2.2. FRENCH INVESTORS, ECONOMIC ACTORS

France is a relatively small trading partner for Ukraine. Although 170 French companies have registered in Ukraine – one fourth of them in the agricultural sector – France is only the 26th-largest recipient of Ukrainian goods by volume, behind Russia, Turkey, China, Poland, Italy and Germany. In 2014, exports to France accounted for under 1% of Ukraine's total, worth just \$538 million out of \$53.9 billion in total exports. France is also the number 10 source of imports for Ukraine, after Russia, China, Germany, Belarus and Poland, accounting for 2.33% of Ukraine's imports. In 2014, imports from France were worth 773 million euros (out of \$54.3 billion in total imports) and occupied 2% of Ukraine's market. In 2015, the trade volume between

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<sup>5</sup> *What do EU citizens think about Ukraine, TNS at the request of IWP, <http://iwp.org.ua/eng/public/1570.html>*

France and Ukraine rose by 15%, from \$1.3 billion to almost \$1.5 billion.<sup>6</sup> However, Ukraine's exports remained at the level of 2014. Trade volumes may see more significant growth in 2016 given Ukraine's economic recovery the entry into force of the DCFTA with the EU.

The key French exports to Ukraine are pharmaceuticals, cosmetics and perfumes, cars, cereals and agricultural vehicles – all sectors that have been heavily affected by the current crisis, with the exception of pharmaceuticals. France is the 8th biggest foreign direct investor in Ukraine (after Cyprus, Germany, the Netherlands, Russia, Austria, United Kingdom and British Virgin Islands),<sup>7</sup> responsible for 3.5% of the \$46 billion FDI in 2014 (a slight increase versus 2013). The key sectors for the French FDI in the country are banking, retail, industry, agriculture and food products. For France, Ukraine is the 54th export destination and 67th source of imports. Thus, the trade volume between France and Ukraine is relatively small, amounting to just above \$1.3 billion in 2014- an 18% decline compared to the previous year. This was likely due to the lack of exports from the Donbas.<sup>8</sup>

### Key economic sectors and businesses in Ukraine:

**The French business in Ukraine is present in ten key sectors. First is agriculture,** where Louis Dreyfus (a historic actor present in the country since the early 1990's) and Agritel operate in the grain, wheat and corn sectors, and Lactalis, Belle and Bongrain in the field of vegetation and animal products. The country presents the most attractive opportunity in the agricultural sector, with low operating costs and the lowest salaries in Europe but with the challenges of a lack of qualified personnel, high administrative cost and endemic corruption.

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<sup>6</sup> *Gregorie Datte, EU-Ukraine Trade is win-win for France and Ukraine, Business Ukraine, France in Ukraine, March 2016*

<sup>7</sup> *Robert Kirchner, Vitaliy Kravchuk, Julian Ries, Foreign Direct Investment in Ukraine: Past, Present, and Future, Policy Paper Series [PP/02/2015], German Advisory Group, Institute for Economic Research and Policy Consulting*

<sup>8</sup> *Business France, The French Embassy in Ukraine, "Guide des Affaires: Ukraine," November 2015.*

**The second sector is banking and financial services**, where French companies have increased their presence in the country after the Orange Revolution of 2004. BNP Paribas bought 51% of UkrSibBank investment bank in Kharkiv, in 2006, and Credit Agricole acquired Index Bank in 2008, following the global financial crisis. The exception to this rule is LCL, which has been operating in the country since 1993, when it became the first French bank to do business in Ukraine, opening an office in Saint-Petersburg at the same time. As for the financial services, Mazars and Axa (the only French insurance company in Ukraine) are present in the country.

**The third key sector is retail distribution and supermarkets**, where Auchan, Leroy-Merlin and Vinolioub (a wine distributor) are among the big French players.

**The fourth sector is transport**, where CMA-CGM has a project to build a terminal for large ship lines in Odessa, and Alstom has a city tram production contract with City Transport Group (LAZ).

**The fifth important sector for the French business in Ukraine is industry**, featuring Saint-Gobain, Verallia (once part of Saint-Gobain, before it split off and bought a factory in Rivne), Lafarge (which owns an isolation factory in Artyomovsk and a mine in the Kyiv region), and Renault. As opposed to the agricultural sector, the industry is facing significant decline in activity, as the military conflict in parts of the Donetsk and Luhansk industrial regions, a decline in consumer purchasing power, the devaluation of the hryvna and high inflation are behind the plummeting sales.

**The sixth sector where the French firms are firmly present in the Ukraine is cosmetics**, where L'Oreal and its subsidiary brands have won a solid popularity with Ukraine's clients.

**The seventh sector is the pharmaceuticals**, where Sanofi occupies an important market share. This is the one area where sales have remained relatively stable, despite the crisis.<sup>9</sup>

**The eighth sector is construction:** Bouygues Construction and VINCI are the two companies working on the Chernobyl reactor sarcophagus and the confinement structure (a 50/50 Novarka joint venture financed by the EBRD).<sup>10</sup>

**The ninth sector is energy**, where increasing energy independence from Russia is of strategic importance to Kyiv. In this realm, Engie has become a key gas exporter to Ukraine, while Areva signed an agreement with Energoatom in November 2015 to work on safety upgrades and live extension of Ukraine's nuclear reactors.<sup>11</sup>

**The tenth sector is defence**, where Thales was contracted for military equipment deliveries to the Ukrainian army in late 2014 (for undisclosed amounts) and for radio communication systems in April 2015.<sup>12</sup> In the same month, Thales signed a memorandum of coopera-

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<sup>9</sup> *Bureau Business France en Ukraine, "Guide des Affaires: Ukraine," Kyiv, Ukraine, November, 2015. Only big companies, which carry significant financial weight, can do business in the Ukraine, which explains a very limited presence of the French SME's in the country. The investors have to have the resources to be present on the ground to control their business (instead of running the risk to go through a representative); Interview with Dominique Menu, Head of Representative Office of BNP Paribas in Kyiv, 30 March 2016.*

<sup>10</sup> *Bouygues Construction, <http://www.bouygues-construction.com/en/achievements?ouvrage=1330&region=b-link-2>, <http://www.bouygues-construction.com/en/press/release/chernobyl-sarcophagus-confinement-structure-jacking-operation-successfully-completed-ukraine>; Interview with French Ambassador Isabelle Dumont, France backs Ukraine's reform efforts, Business Ukraine, France in Ukraine, March 2016.*

<sup>11</sup> *WNA, Nuclear Power in Ukraine, March 2016, <http://www.world-nuclear.org/information-library/country-profiles/countries-t-z/ukraine.aspx>.*

<sup>12</sup> *Unian, "France's Thales Group to supply military equipment to Ukrainian army," 5 December 2014 Read more on UNIAN: <http://www.unian.info/society/1018186-frances-thales-group-to-supply-military-equipment-to-ukrainian-army.html>.*

tion with Ukraine on a joint production of patrol aircraft, while Airbus Helicopters committed to sell H125 helicopters to the country.<sup>13</sup>

### **Main challenges for the French companies in Ukraine:**

The main challenge of doing business in Ukraine today is the entanglement among the legislative, the executive, the judiciary branches of government on the one hand and business on the other. Despite the government's intention to open and reform the economy, most importantly through the signing of the Association Agreement with the EU and by embarking upon a long list of reforms, vested interest remains a key feature of Ukraine's business environment, and oligarchs still play a major role in the political decision-making process. Ukraine's president Petro Poroshenko is an embodiment of the system: having made his fortune through the chocolate business in the 1990s, he has kept a factory in Russia, despite his electoral campaign promise to sell it in the face of the on-going Ukraine-Russia conflict. Poroshenko was further discredited as the country's top executive after his name surfaced in the Panama files. Systemic corruption and political infighting is a result of merging politics and business, a concern that Aivaras Abramovicus voiced before leaving his position as Economics Minister in February of 2016. Corruption undermines competition, distorts the level-playing field and nullifies the notion of the rule of law, which is crucial for building trust in business relations.

The second major challenge for the French firms doing business in Ukraine today is the war, which has not only military and security costs, but economic cost as well. In addition to weighing on Ukraine's budget, the war elevates the country's political risk, limiting the scope of business for cautious companies, which prefer to wait for better times. This caution limits foreign direct investment in the country, raising the cost of finance and limiting long-term credit opportunities (today available only from international financial institutions). High inflation and the devalued currency further erode profits of the

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<sup>13</sup> *Unian, "France to supply helicopters and radio systems to Ukraine," 23 April 2015, <http://www.unian.info/politics/1070587-france-to-supply-helicopters-and-radio-systems-to-ukraine.html>.*



## 2. Ukraine's Interests in France and French Interests in Ukraine: Possible Conversion Points

French businesses in the country. Private property rights continue to be challenged: either by the state-authorized racketeering for the “family” during the Yanukovich years, or through general across-the-board corruption from regional and local interests today. French investors are finding political sensitivity more important than ever in developing business relationships, especially as it is often difficult to know which partner is on what side of the fence in the Russia-Ukraine conflict. Thus, one of the challenges for French businesses as a result of the war is finding the right interlocutors.

In addition to destabilizing the country's economic environment, the conflict in Donetsk and Luhansk has turned the occupied territories into lawless zones resembling a free-for-all. As a result, no foreign business is active in the occupied territories. Among French businesses, Air Liquide has lost a project it had concluded with Metalinvest before the conflict, Auchan had to close one supermarket in the occupied territories, and Imerys has suffered losses in Slavyansk, where it had invested in a clay mine for ceramics production. More generally, the companies remaining in the parts of Donetsk and Luhansk under the separatist control have seen a human resources drain, with part of the population leaving and much of the remaining population drafted to fight on one of the two sides of the conflict.

The EU, US, Ukrainian and Russian sanctions imposed in response to the war are also affecting businesses in Ukraine. Thus, a lot of companies involved in Ukraine cannot sell their Ukrainian products in Russia and vice-versa. However, Societe Générale and many others maintain activities both in Russia and Ukraine. Also, while Ukrainian origin products cannot be exported to Russia directly, they are entering Russia through Belarus and Kazakhstan. Russian products are boycotted by a large part of Ukraine's population.<sup>14</sup>

Following the start of the conflict in early 2014, Ukraine experienced negative GDP growth in 2014 (-7%) and 2015 (-12%). External debt is now 98% of GDP and public debt is 79%, while unemployment has grown from 7% in 2013 to 9.7%. In 2014, investment outflows have

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<sup>14</sup> *Interview with Dominique Menu, Head of Representative Office of BNP Paribas in Kyiv, 30 March 2016.*

increased (-23% in 2014 and -25% in 2015), and industrial production in the first three quarters of 2015 has been lost, mainly due to the on-going war in parts of Donetsk and Luhansk. Inflation was 43% in 2015, and the hryvnia suffered incremental devaluation against the US dollar between January 2014 and May 2016,<sup>15</sup> driving down business profitability and consumer purchasing power – key factors contributing to the worsening business climate. Yet, no French company that had invested in Ukraine before the war has left the country since the start of the conflict. For foreign businesses, the most important aspect of Ukraine is a large undeveloped market potential and a hope that the country will follow through with the reforms that it has embarked upon.<sup>16</sup>

Another problem that French businesses often struggle with in Ukraine is the harsh business climate which has resulted from fiscal pressure and other services with controlling functions. The difficulties in receiving the VAT refunds are also an issue, not only for French businesses, but other European businesses as well. Finally, the automatic conversion of foreign currencies into hryvnia is a burden for those who import goods from abroad, generating additional cost.<sup>17</sup>

### 2.3. THE FRENCH INTEREST AND PARTICIPATION IN THE PROMOTION OF REFORMS IN UKRAINE

**The support of the IMF:** The IMF, which is headed by former French Economy Minister Christine Lagarde, is the main driver of reform in Ukraine. It has required 8 major legislative changes as preconditions for receiving financial aid, on which Ukraine's budget depends (the country is IMF's #2 credit recipient in absolute terms and #1 credit recipient relative to GDP). The role of the IMF is even more important as

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<sup>15</sup> *The Central Bank of Ukraine for hryvnia devaluation against the US dollar, accessed on May 16, 2016, <http://www.bank.gov.ua/control/en/curmetal/detail/currency?period=daily>.*

<sup>16</sup> *Business France, The French Embassy in Ukraine, November 2015.*

<sup>17</sup> *Interview with French Ambassador Isabelle Dumont, France backs Ukraine's reform efforts, Business Ukraine, France in Ukraine, March 2016.*

its credit is a door to international private borrowing for the country, while the IMF and the EBRD are the only sources of long-term credit for businesses in the Ukraine today, as commercial banks only issue short-term credit up to one year.<sup>18</sup>

**Decentralization reform:** France has also supported Ukraine's most controversial decentralization reform, pushed for by Russia and a source of deep-running divisions among Ukraine's politicians and the public. In February 2015, in the aftermath of Minsk-2 Accords, the President of the French Senate Gérard Larcher (UMP) undertook a trip to Moscow. There, he and two other French senators – Gérard Longuet (UMP) and Jean-Yves Leconte (PS) – had a personal audience with Vladimir Putin and his aides to discuss the idea of decentralization in Ukraine. M. Larcher then continued his trip with a visit to Berlin in March, where he met with the President of Germany Joachim Gauck, Angela Merkel's Chief of Staff Peter Altmaier and his counterparts in the Bundesrat. What transpired was M. Larcher's initiative to organize a series of meetings and exchanges with Ukrainian, French and German officials with the goal of transmitting the know-how of the French decentralization experience in Corsica and its overseas territories. This knowledge would then help shape Ukraine's regional and administrative districts reform according to the the French pattern. The results have been difficult to point out so far though, as (with the exception of the initial visits to Moscow and Berlin), M. Larcher's actions were concentrated around several meetings and exchanges among the French senators and Ukrainian parliamentarians.<sup>19</sup>

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18 *The World Bank, Ukraine Economic Update, October 2015*, <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/34131444107623273/UA-MacroeconUpdate-Oct-2015-en.pdf>.

19 *Le Monde*, "A Moscou, Vladimir Poutine reçoit des sénateurs français pour parler de l'Ukraine", 26.02.2015, [http://www.lemonde.fr/international/article/2015/02/26/a-moscou-vladimir-poutine-recoit-des-senateurs-francais-pour-parler-de-l-ukraine\\_4584311\\_3210.html](http://www.lemonde.fr/international/article/2015/02/26/a-moscou-vladimir-poutine-recoit-des-senateurs-francais-pour-parler-de-l-ukraine_4584311_3210.html); *Le Figaro*, "Quand Gérard Larcher propose à l'Ukraine une «décentralisation» à la française," <http://www.lefigaro.fr/international/2015/03/06/01003-20150306ARTFIG00133-quand-gerard-larcher-propose-a-l-ukraine-une-decentralisation-a-la-francaise.php>; *The French Senate official website*, "Visite d'une délégation de parlementaires ukrainiens," 6 au 8 juillet 2015, [http://www.senat.fr/international/sri/cooperation\\_ukraine\\_2015.html](http://www.senat.fr/international/sri/cooperation_ukraine_2015.html).

The decentralization and the administrative reforms linked with anti-corruption measures are also important for French businesses in the country. The central government remains the main economic agent for foreign businesses, as it collects taxes and issues obligations (except in large cities of over 800 000 inhabitants). The state has also historically been the originator of the multi-sector system of inspections (environmental, sanitation inspectors, fire-fighters, etc.), which in Ukraine are synonymous with systemic corruption and represent a historical thorn in the side of local businesses and foreign investors alike. According to one foreign investor in the energy sector, European businesses have to anticipate a 50% investment surcharge for bribes. While regional and local authorities have limited autonomy to tax or control businesses directly by the letter of the law, they have numerous ways of creating obstacles and slowing down business development in their territory. For French businesses, there is a high hope that Ukraine's reforms will impact both the centralized and the local branches of the government to achieve more transparency and cut red tape.

### 3. EXISTING AND POTENTIAL RISKS AND CONFLICTS

#### 3.1. STABILIZATION WILL CAUSE THE NEGLECT OF UKRAINE

Even a precarious appeasement of the conflict in the Donbass is very likely to minimise the geopolitical importance of Ukraine to French authorities. Indeed, Ukraine is at the forefront of the public debate in France essentially in times of crisis, when Ukrainian sovereignty is clearly in jeopardy, when the Russian presidency is explicitly targeting the Ukrainian authorities and when civilian casualties are increasing. In other words, Ukraine is less of a concern when the crisis evolves into a “frozen conflict”.

For example, the Ukrainian crises have been dramatically overshadowed by the beginning of the Russian military operation in Syria, announced by President Putin at the United Nations on September 28, 2015. The French media (generally quite hostile to the Putin administration) were taken aback. French laymen became rightly obsessed with terrorist threats and started to forget about the situation in Eastern Europe. The French political elites (sharply divided between pro- and anti-Russian groups) began discussing a new alliance with Russia against international terrorism. Politicians like Mrs. Elisabeth Guigou, who has remained constant on the Crimean and Donbass issues, are quite rare.

**Probability** The risk of a “Ukrainian fatigue” is quite high in the general opinion; Ukraine may become a secondary sub. It is clearly fostered by the French conservative party’s admiration for the Kremlin administration.

**How to avoid?** Ukraine should demonstrate a real ability to carry out drastic reforms in two major fields: the first is the fight against corruption, which will be interpreted as an index of success of transformation. The second is the decentralisation process: France, which until recently was a highly centralised country, has specific experience in the area – its decentralisation process has developed over more than 30 years. It is likely that involving local actors as part of French-Ukrainian

cooperation would have a greater effect on the general level of cooperation than only top-level meetings.

### 3.2. CLOSER COOPERATION WITH RUSSIA WILL MARGINALISE THE DONBAS ISSUE

A closer cooperation between France and Russia in the fight against terrorism might be to the detriment of Ukrainian-French bonds. The issue of a 'linkage' between Russian involvement in Syria and its presence in Eastern Ukraine might be a very sensitive issue for Kyiv. The feelings of anger and fear of the Russian strategy in Eastern Europe are progressively fading out because of the reactivation of the traditional partnership with Russia (including in the NATO-Russia Council in April 2016). France and Russia seem to share common concerns in certain areas: international terrorism, refugee migration from the Middle East, etc. Even though the historical alliance cannot be resumed in the short run as demonstrated in our previous papers, the image of Russia is shifting from a threat to a partner, likely at the expense of Ukraine.

**Probability** High. The risks of a renewed alliance between France and Russia are quite high in the political sphere, notably in the Middle East. French and Russian interests in Syria converged dramatically after the November 2015 terrorist attack in Paris, when Paris, for the sake of Russian partnership, agreed to deprioritize fighting Assad regime and focus on ISIS.

**How to avoid?** Ukrainian foreign policy should display a real interest in the French involvement in the region. Also, a clear-cut connection between Ukraine and Syria should be excluded, as the only common factor in both conflicts is the Russian military involvement.

### 3.3. THE INCREASING POPULARITY OF RUSSIA AMONG FRENCH POLITICIANS

The refugee crisis and the terrorist attacks of November 13 have changed the perception of Russia in public opinion. The French far right candidate Marine Le Pen is probably the most dependent on France's links with Russia, mostly through financial relations, but conservative parties are also increasingly showing a pro-Russian bias. Among the candidates in the 'primaries' of the right-wing party, 'Les Républicains', François Fillon is probably the most pro-Russian, before Nicolas Sarkozy, but he is currently the 4th candidate in the process. Russia has strong supporters among a small group of MPs in both the National Assembly and the Senate. Among them, ten (mostly right-wing) participated in a July 2015 visit to Russia, along with a tour of the Crimea: Thierry Mariani, Yves Pozzo di Borgo, Nicolas Dhuicq, Claude Goasguen, Jacques Myard, Patrice Verchère, Sauveur Gandolfi-Scheit, Marie-Christine Dalloz and Jérôme Lambert (a left-wing parliamentarian). It is important to note that these "Pro-Kremlin MPs" are effective in using institutional proceedings to lobby for the Russian position. This was the case with the resolutions adopted recently by French lawmakers. On April 28, 2016 the lower house of French parliament adopted a resolution that called for lifting sanctions against Russia. The resolution was adopted by a tiny group of MPs (55 out of 577) who took advantage of a low presence of MPs at the session. Despite this, on June 8 the Senate (the upper house of Parliament) voted to support a similar resolution with an absolute majority of deputies (302 votes "for" and 16 votes "against"). Both resolutions are non-binding; however, their political implications should not be underestimated, especially in the context of an electoral struggle.

**Probability** Relatively high. The upcoming elections in 2017 will likely see victory for conservative parties on the political spectrum, and these are more likely to be in favour of the Kremlin administration. However, Alain Juppé and Bruno Le Maire seem to lean less toward Moscow than Kyiv.

**How to avoid?** Ukraine should be aware that Russia has attempted to exert its influence within the French political system. It has been more efficient among the right-wing

politicians than among the French media, which is generally critical of Russia. Ukrainian political parties should seek more cooperation with French political forces. The 2017 elections in France will likely bring more problems for Ukraine even if Alain Juppe is to be elected as president. The growing sympathies for Russia within the French political circles will have an impact on the president. Given the extent of Franco-German cooperation, it might be efficient if the Ukrainian MPs and officials engage in a trilateral communication with French and German MPs and officials.

### 3.4. THE FAILURE OF THE MINSK PROCESS

In addition to the lack of progress in fulfilling the Minsk Accords, the biggest failure of the Minsk process may lay ahead: the lifting of sanctions against Russia by the European Union, irrespective of the process's outcomes. The official position of the Elysee Palace and the Foreign Affairs Ministry remains firm: the ending of sanctions is conditional on the fulfilment of the Minsk Accords. However, the January remarks of the Economics Minister Emmanuel Macron and the April 28 non-binding resolution enacted by the National Assembly to lift the EU economic sanctions against Russia<sup>20</sup> (before the Accords have been fulfilled) points to sharp divisions and increasing pressure inside the French political establishment.

Disconnecting the sanctions from the Minsk process would amount to a loss of face and to giving up on an international agreement that France itself initiated. However, there has been little progress on the fulfilment of the Minsk Accords, augmenting the risk that they may remain forever unfulfilled. In the eyes of the French elites, business is paying an increasingly high price for a process with little political will to show for. Aside from Minsk, Kyiv has lost much of the political

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<sup>20</sup> *Le Figaro*, «L'Assemblée vote par surprise une résolution pour la levée des sanctions contre la Russie», 28 April 2016, <http://www.lefigaro.fr/politique/le-scan/2016/04/28/25001-20160428ARTFIG00178-l-assemblee-vote-par-surprise-une-resolution-pour-la-leeve-des-sanctions-contre-la-russie.php>.



capital it had with the EU in early 2014, especially in the light of the current political permutations. As French businesses operating in Russia and/or Ukraine continue to lose money, their voices are beginning to fall closer to the political ears of Paris. As a result, the French official position in favour of sanctions is drifting away from political discussions behind closed doors. In private, French officials close to the matter recognize that their perception of the Minsk Accords' conditions differs greatly from that of their Ukrainian counterparts.

Thus, while Kyiv keeps insisting on the observation of the ODIHR rules as a precondition for holding local elections, Paris is leaning toward a compromise with Moscow on the issue, allowing a separatist presence in the occupied territories. This latter position is in sync with Moscow, which does not want any surprises in the local elections and would not agree to "free and fair" elections, as this would risk a loss of control over the separatist leaders.<sup>21</sup> Furthermore, François Hollande has never put his own name under the Minsk Accords; neither did Angela Merkel, nor Petro Poroshenko, nor Vladimir Putin – their representatives did. It remains to be seen if this juridical formality may help France escape the political deadlock of Minsk, after having demonstrated a hefty diplomatic investment in the Normandy format negotiations. Finally, as the Budapest Agreement has shown, international alliances do not all pass the test of time, and Minsk would not be the first, nor the last in this category.

**Probability** High. Beyond the separate points of the Accords, the longer the conditions of Minsk remain unfulfilled, the more the legitimacy of the Accords themselves is undermined, transforming them from a tool for ending the hostilities into a shell of diplomatic talk without the substance of practical results. Two years into the conflict and one-and-a-half years after Minsk-1, a media fatigue has settled around Ukraine, lowering the lights from the lack of progress on the Accords and reinforcing the talk-shop dynamics of the Normandy Format negotiation process. The Ukraine fatigue has been reinforced by the political crisis in Kyiv that

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<sup>21</sup> *Interview with a French expert.*

questioned the ability of the president to focus on the Minsk Accords implementation. As the media noise around the conflict is getting quieter and the business and political voices are getting louder, all while Kyiv is struggling to show progress on reform and the Minsk Accords remain largely unfulfilled, the risk of freezing the conflict by the means of a diplomatic process is turning into reality.<sup>22</sup>

**How to avoid?** It will be difficult to avoid the freezing of the conflict in parts of Donetsk and Luhansk. However, Ukraine could try to exercise diplomatic pressure on France through joint governmental and parliamentary groups between Ukraine, France and Germany that would discuss the issue of Ukraine. The cooperation and trust between Germany and France should positively affect the debate on Ukraine if their German counterparts would address the issue to French officials and MPs. Chances that the conflict in the East of Ukraine will be frozen are high, but they would be even higher without the active involvement and support from Paris and Berlin.

### 3.5. FRANCE'S FOCUS ON OTHER EU PRIORITIES

The EU may soon be paralysed by existing trends and challenges. Some of these issues are common within Germany: the 'Brexit' and the risks of European disintegration, the prolonged economic crisis of Greece and the concern for political freedoms in Poland. The Syrian crisis and the flood of refugees are other challenges shared at the European level. Finally, France has its own security interests regarding the MENA region (Middle-East – North Africa), in other words, the 'Southern Neighbourhood', and in Africa more broadly. While the Syrian crisis is now at the top of the French foreign policy agenda, it is definitely only one of the challenges that Europe is facing.

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<sup>22</sup> *The Minsk Accords*, <http://www.elysee.fr/assets/Uploads/Package-of-Measures-for-the-Implementation-of-the-Minsk-Agreements.pdf>; *The Minsk Dialogue Conference, Minsk, Belarus, February 11-12, 2016*.

**Probability** Very high. The Syrian crisis and its resolution is likely to attract the attention of the international community in the forthcoming months, before anything else. Besides, the risks of putting aside the Ukrainian question is very high for the two political seasons to come. The 2017 general election (presidential and parliamentary) campaign will probably focus on issues that will very likely put Ukraine low on the agenda. The domestic economic reforms, the reset of the French-German relations and the influence of France on the world stage will overshadow the question of solidarity with Eastern Europe. Regularly reminding France of Ukrainian issues will be of importance.

**How to avoid?** Given the weakening Polish position in European circles, Ukraine has to seek the support of France and Germany to promote its interests effectively. It would be useless if Ukraine tried to position itself as a country that would save the EU from Russian aggression. It would much better if Ukraine would position itself more as part of Europe and as a country that makes efforts to decrease the problems of Europe (for example, as an efficient refugee/migration manager).

### 3.6. PRESSURE OF FRENCH BUSINESS TO REOPEN TOWARDS RUSSIA

In his New Year wishes to the French diplomatic corps on January 6, 2016, the then Foreign Affairs Minister Laurent Fabius outlined three major priorities for the French foreign policy. He cited international security and peace as the number one foreign policy priority for France. He listed Ukraine and the Minsk Accords as an example of the French diplomatic leadership and engagement, alongside the French efforts in Syria, Libya, Mali, and with respect to the Israel-Palestinian

conflict.<sup>23</sup> According to an interview with a French diplomat in April 2016, France remains committed to the Minsk Accords and will only envisage the lifting of sanctions against Russia after the Accords have been fulfilled.

However, the French Economics Minister Emmanuel Macron's comments during his trip to Moscow later in January 2016 indicate the opposite. Contradicting the official government position, M. Macron expressed a straightforward hope that the anti-Russian sanctions should be over by August this year. His words reflect the aspiration of the French big business community, who believe that France and its European partners are shooting themselves in the foot with the anti-Russian sanctions, while the place of EU businesses in Russia is quickly being taken by the Chinese and other players.

The French government is under pressure from French businesses, which consistently complain about the significant economic cost of the countersanctions imposed by Russia. In fact, the actual damage to French enterprises seems to be significantly exaggerated. The European Parliament study estimates that in the year following the introduction of sanctions, the export of French agriculture products to Russia fell by roughly 200 mln EUR<sup>24</sup>. However, since France's overall exports to Russia fell from 7,7 bn EUR in 2013 to 4,5 bn EUR in 2015<sup>25</sup>, the public discourse tends to (falsely) attribute this decrease in trade to the effect of sanctions.

The French companies operating in Russia and Ukraine are often the same (Société Générale, Sanofi, Renault). However, there are other members of CAC40 whose high-stake projects in Russia dwarf the

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<sup>23</sup> *French Foreign Affairs Ministry, New Year Wishes to the Employees of Quai d'Orsay by Laurent Fabius, « Вѣих aux agents du Quai d'Orsay – Discours de Laurent Fabius », January 6, 2016, <http://www.diplomatie.gouv.fr/fr/le-ministre-les-secretaires-d-etat/anciens-ministres/laurent-fabius/discours/article/voeux-aux-agents-du-quai-d-orsay-discours-de-laurent-fabius-06-01-2016>.*

<sup>24</sup> *European Parliament. Economic Impact on the EU of Sanctions over Ukraine Conflict, October 2015, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS\\_BRI\(2015\)569020\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI(2015)569020_EN.pdf).*

<sup>25</sup> *Trade Map – International Trade Statistics, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx).*

total volume of trade between France and Ukraine (Total, Schneider Electric, Alstom, Technip). These businesses are a powerful part of the pro-Russian lobby in France, whose influence helps explain Emmanuel Macron's comments about the anti-Russian sanctions last January in Moscow.

It is true that some French companies have been heavily investing in Ukraine. Take Engie, for example, which has taken a market share from Gazprom after Ukraine slashed its 2015 gas imports from Russia in half, to 6.1 bcm/year from 14.5 bcm/year the year before,<sup>26</sup> before stopping them altogether twice in 2015. Engie's engagement in the country is emblematic of Ukraine's evolution as an energy actor for Europe. While Ukraine's importance as a transit country of Russian gas to Europe has declined with the construction of the Nord Stream and may further diminish after building Nord Stream II, Ukraine is becoming an attractive market for European gas exporters (Ukraine imported over 10 out of 16 bcm of its 2016 natural gas imports from Europe), like Engie, and a possible provider for gas storage services. While, Engie also holds 10% of Nord Stream II in partnership with Gazprom (see "Who Is Who?" section for details), its direct engagement in Russia remains limited. The opposite is much more wide-spread phenomena for large French businesses, with incomparable stakes in Russia vs Ukraine, maximizing the pressure of the business lobby on their government in favour of Russia, and thus diminishing even further the weight of Ukraine's interest in the Parisian couloirs of power.

**Probability** High. Until the French big business keeps investing in Russia, where the stakes are higher than in Ukraine, Paris will have a hard time to keep its political discourse on Ukraine aligned with its economic interests in Russia.

**How to avoid?** Ukraine needs to successfully complete its ambitious reforms program and respond to the hopes of the international community for change within the country. *Despite all odds, Ukraine holds an important advanta-*

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<sup>26</sup> Naftogaz of Ukraine.

***ge over Russia for the French business: a hope that things may change for the better.*** While in Russia investors observe a backward movement with Cold War overtones, characterized by anti-Western rhetoric and a possibility to lose your business overnight without any recourse, they see an attempt to change that in the Ukraine. In Russia, you cannot do business and be against the regime, while in Ukraine you can be on either side of the spectrum and keep operating. Nevertheless, big French business gravitates toward Russia first, then toward Ukraine, because of a bigger population, larger market, more spending power, giant resources, and big projects – because Russia holds the promise of a super-opportunity at high risk, while Ukraine remains a smaller of big countries. At the same time, despite the signing of the Association Agreement, replacing Russia with the EU as the main trading partner for Ukraine will take time and effort (as the Dutch referendum has shown). In what will be a long and difficult process, when the country's economic stability is being challenged from the outside, it is crucial that Ukraine continues with the reforms and does not contribute to destabilizing itself.

### 3.7. THE PROGRESS AND FAILURE OF REFORMS IN UKRAINE

Pressured from bottom-up by the Ukrainian civil society and from top-down by the IMF and the World Bank, the Ukrainian government has embarked upon a large set of reforms, which, if completed, hold a transformational promise for the country. The five main areas of the reforms are anti-corruption effort, the constitutional and public governance reform, including decentralization, the police and judiciary reforms, a new energy policy, and state property management and privatization reforms. As the constitutional reform and the role of France in decentralization have been addressed above, this part will focus on the reforms most relevant to the French business community, which has a tangible stake in their success on the ground, and this community's perception of the reforms' progress.

Importantly, the image of the Ukrainian government is degrading among French elites. The resignations of Minister Abrovamicius and PM Yatsenyuk gave rise to doubts in France concerning the ability of the Poroshenko administration to carry out efficient institutional and economic reforms. The risk of a “Ukrainian fatigue”, i.e. of a certain kind of distrust towards the Ukrainian officials in France, is getting higher since the beginning of 2016.

For the French business in Ukraine, the reforms which will have an immediate effect on the operations are the public policy and the energy policy reforms.

One of the most publicized reforms relevant for the French business competing for public tenders is a new e-procurement system Pro-Zorro. It has a large potential in curbing corruption, but has been operating at a pilot level so far. The results of its implementation on the national level remain to be seen.

Two other important business-related public sector reforms are the deregulation and administrative procedure simplification reform, especially important for obtaining licences and the tax code reform. The latter especially should decrease the level of social payments for companies from the current 41% to 20%, halving this part of the tax burden. A new electronic TVA administration system, with greater transparency potential, is also welcome.<sup>27</sup>

**The energy sector reform** is a landmark reform not only for the French energy interests in the country, but for defining Ukraine’s potential role in Europe’s energy policy. Liberalizing Naftogaz Ukrainy is not only a key milestone in reforming Ukraine’s energy field, but also a litmus test for the overall progress of the country’s reforms. It is one of the main reform expectations by the World Bank and the IMF (and thus a precondition for a continued credit to the Ukraine). Among the French businesses Engie has a special interest in the Naftogaz reform

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<sup>27</sup> *Official statements, made by the representatives of the Ukrainian Parliament, the Ministry of Foreign Affairs, and the Embassy of Ukraine in France.*

as a major gas supplier to the country and therefore a key partner of Naftogaz.<sup>28</sup>

As the reforms are still fresh, French businesses on the ground have not yet observed clear benefits. Although the administrative processes have been eased, any ground-breaking change is still to come.

**Probability** Existing: Despite certain progress on some reform items from the list, Ukraine's government still has a long road ahead. The main roadblock is corruption reform package.

**How to avoid?** The short answer is: just do it. However, the reality is more complex. While most of the reforms – anti-corruption efforts, the police, administrative, financial and energy sector reforms, among others – reflect the aspirations of Ukraine's civil society and foreign partners, the decentralization process and constitutional reforms remain deeply controversial and are perceived as being imposed from the outside, while inside political infighting is a major impediment to any progress. On the realization of this latter group of reforms, the Ukrainian government finds itself in the “doomed if you do, doomed if you don't” position: while the government is pressured by the IMF, EU, and the US to implement this and other controversial reforms (including on public finance and taxes), their successful implementation may backfire right in its face. A true hope for Ukraine is its civil society and its ability to maintain the urgency of the moment and to ensure the reforms are implemented through transparent procedures.

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<sup>28</sup> *Interview with a French business representative in the Ukraine, April 2016.*

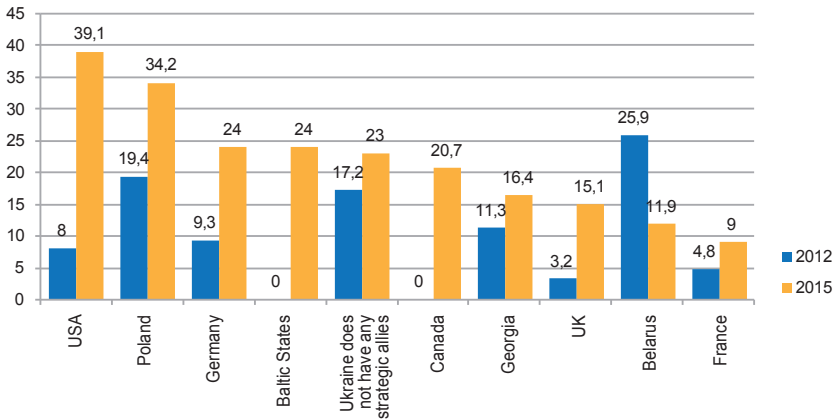


## 4. WHO IS WHO? INTEREST GROUPS IN FRANCE AND UKRAINE

### 4.1. HOW DO THE UKRAINIANS VIEW FRANCE AND THE FRENCH VIEW UKRAINE?

In 2012, only 4.8% of Ukrainians considered France to be a strategic ally. Despite France's participation in the 'Normandy format', it was viewed as a trusted strategic ally by only 9% of Ukrainians in 2015, in comparison to 24% for Germany. Paradoxically, the UK, a guarantor of the Budapest memorandum, is now more trusted than France as a strategic ally (15.1% in 2015).

**Chart 1.** Which countries can be considered our strategic allies?<sup>29</sup>  
(the respondents could choose several options)



<sup>29</sup> Results of the sociological study "Citizens of Ukraine on Security: Assessment, Threats, Solutions to Problems." This study has been conducted by the sociological service of the Razumkov Centre from November 6 to November 12, 2015. Overall, the study had involved 2008 respondents aged above 18 from all regions of Ukraine, except Crimea and occupied territories of Donetsk and Luhansk regions. The sample represents the adult population of Ukraine by the major social and demographic indicators. [http://www.razumkov.org.ua/upload/1412757450\\_file.pdf](http://www.razumkov.org.ua/upload/1412757450_file.pdf).

According to a poll of the Pew Research Center (June 2015), the French public opinion on Ukraine is more positive than expected<sup>30</sup>: a majority would support Ukraine in NATO, and up to 46% would agree that Ukraine may join the EU. The idea that Western countries should send economic aid to Ukraine has reached 67% (compared with 62% in the USA).

The Russian conflict with Ukraine has contributed to the division of the politically aware French public. The “Russian understanders” among political elites, business elites and other upper-middle class seems to be numerous, which implicitly affects the support of Ukraine. A particular problem is the rise of anti-EU sentiments in France, which is in harmony with the Russian narrative. Also, the growing reluctance of the US is also influencing public opinion. In France, many believe that Ukraine is not a region of economic and political interest, and therefore they would rather favour a policy of non-implication on the side of Paris (19%). Half of the French population thinks that Ukraine is a region of Russian interest.<sup>31</sup> This also explains the fact that the French public is not very supportive of sanctions; a large majority of the population (76%) considers these to have been initiated by the US and then followed by the EU.<sup>32</sup>

#### 4.2. WHO SHOULD UKRAINE BEWARE OF?

In the political area, one could broadly position the centre right and centre left parties as the one that advocate for a greater engagement on the issue of Ukraine. These parties are the Socialist Party, Modem party and the Greens. On the other side, the Left Front and the Union

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<sup>30</sup> *NATO Publics Blame Russia for Ukrainian Crisis, but Reluctant to Provide Military Aid*, <http://www.pewglobal.org/2015/06/10/nato-publics-blame-russia-for-ukrainian-crisis-but-reluctant-to-provide-military-aid/>

<sup>31</sup> *Enquête d'opinion auprès des Français sur l'Ukraine*, [http://www.bva.fr/data/sondage/sondage\\_fiche/1645/fichier\\_bva\\_-\\_enquete\\_dopinion\\_aupres\\_des\\_francais\\_sur\\_lukraine\\_-\\_decembre\\_2014fc742.pdf](http://www.bva.fr/data/sondage/sondage_fiche/1645/fichier_bva_-_enquete_dopinion_aupres_des_francais_sur_lukraine_-_decembre_2014fc742.pdf).

<sup>32</sup> *Les Français, La Perception du Conflict Ukrainj-Russe et lla Livraison de Navires de Guerre a la Russie*, [http://www.ifop.com/?option=com\\_publication&type=poll&id=2912](http://www.ifop.com/?option=com_publication&type=poll&id=2912).

for a Popular Movement seem to be more distant regarding the Ukraine issue and are becoming increasingly Euro-sceptic. While on the extreme, one could underline the clear anti-Ukrainian, anti-EU and pro-Russia party National Front. It is noteworthy that in the recent years the UMP has become more isolationist and Euro sceptic, which has moved the party closer to Front National. Certainly, in some parties there are exceptions on both “sides”.

The risk of a “Russian revival” among the French elite is quite high due to the pro-Putin trends in the right wing parties that are likely to win the next elections. Strangely enough, among the 24 members of the French-Ukrainian group of the National Assembly (out of 577 Members of Parliament), several members are considered as close to Moscow’s position – such as Thierry Mariani or Pascal Terrasse. The former, as the deputy for French residents overseas (covering French citizens resident in most of Asia, the whole of Oceania, and part of Eastern Europe), is extremely well-connected to the post-Soviet area, while Thierry Mariani is has very close ties with Russia, given that he is the co-president of the organisation “French-Russian Dialogue” which promotes the political and cultural exchange between France and Russia.

Among the French politicians, one can’t help but notice that former PM Francois Fillon and Dominique de Villepin, both of whom have been critical of Ukraine while simultaneously showing a greater propensity to Russia, attended the Valdai conference as guest speakers. Broadly speaking, others that have a similar position include Hubert Vedrine (former FMA) and Jean Pierre Chevenment (former Mol and of Defence). There are also politicians from various parties that made several trips to Russia. Others, such as Jean Claude Mignon (together with Thierry Mariani) invited the Russian speaker Sergey Naryshkin to Paris which organised an meeting with various businessman, politicians, etc, including Nicolas Dupont-Aignan, Jean-Yves Leconte and Aymeric Chaupparde. Finally, one has to note the French MPs that visited illegally annexed Crimea: Thierry Mariani, Yves Pozzo di Borgo, Nicolas Dhuicq, Claude Goasguen, Jacques Myard, Patrice Verchère, Sauveur Gandolfi-Scheit, Marie-Christine Dalloz and Jérôme Lambert.

One has to notice that the most anti-Ukraine position is expressed by the Marine Le Pen and Jean-Luc Melenchon, who both openly supported the illegal annexation of Crimea. The two parties led by the politicians mentioned above are broadly replicating their views. Others, like the extreme right politician Philippe de Villiers, who does business with the pro-orthodox Putinist billionaire Konstantin Malofeev, is also a fierce “Russia understander” and critic of Ukraine.

Those on the side of the thought leaders are people like the journalist Eric Zemmour, the academic Helene Carrere d’Encausse, the economist Jacques Sapir and the journalist Alexandre Adler, etc. These “thought leaders” have been noted for having a negative attitude on Ukraine along with a Russian friendly and anti-EU opinion<sup>33</sup>.

The French businesses with large presence in Russia are the loud advocates for the end of sanctions against Russia, especially against the backdrop of the Minsk stalemate, the internal political crisis in Ukraine, and the overall media fatigue around what is fast becoming another frozen conflict on the post-Soviet space. While the French farmers might have attracted media attention with respect to the Russian “anti-sanctions” against the EU, it is big international companies with multi-billion stakes in Russia, which exercise far greater influence on political decisions. A big promoter of Russian business interests in Emmanuel Quidet, who is the head of the Moscow based Chambre de Commerce Franco-Russe (CCIFR).

When considering the role of the French business in the Franco-Russia and Franco-Ukrainian relations, it is important to understand that while some of these companies do business predominantly in Russia (Total, Société Générale, Renault) and others in Ukraine (BNP Paribas), most of the big French firms are involved in both countries (L’Oreal, Danone, Alstom...). The businesses positioned both in Russia and Ukraine may consider the two countries as part of the same region in their annual reports and in their projects on the ground. This makes it hard for these companies to advocate for Ukraine at the expense of Russia, especially as Russia is often a bigger market of

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<sup>33</sup> *Books and publications by Cecille Vaissie and Nicolas Henin on Russian networks and lobbies in France present a more nuanced view of the problem.*

the two. This same tendency is present in the transportation, airspace and energy sectors.

In the transportation sector, Alstom Transport is a good example of a business present in Ukraine and Russia. The company has signed a contract with Ukraine's City Transport Group, a subsidiary of LAZ, in June 2013 to produce Citadis model city trams in Ukraine. On the surface of it, Alstom should be an advocate of Ukraine and should not care about the worsening geopolitical climate around doing business in Russia. But in reality Alstom owns 33% of TransMashHolding, part of Russian Railways (RZD), in partnership with which it offers a variety of projects for export, including Citadis for the CIS markets, offered by 50/50 JV between Alstom and TramRus.<sup>34</sup>

In the airspace, an example of the French/European business with stakes in both countries is Airbus. Airbus Helicopters has signed a deal with Ukraine's government in April 2015 to supply H125 helicopters. However, it can hardly be expected to be an anti-Russia advocate. Airbus Defence and Space lost revenues from two satellite deliveries destined for Russia, which the company had to cancel as a result of the sanctions (the satellites contained US manufactured parts). Russia also supplies 50% of Airbus's titan – a key ingredient of planes and space rockets production. The way Airbus sees the sanctions is from the market loss perspective, and it does not appreciate what it sees.<sup>35</sup>

The French energy companies especially interested in normalizing of the EU-Russia relations are those which have lost business with Russia due to sanctions. Total is a good examples of this group. The

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<sup>34</sup> Alstom Press Centre, «Alstom signs an agreement for the production of trams in Ukraine», 24 June 2013, <http://www.alstom.com/press-centre/2013/6/alstom-signs-an-agreement-for-the-production-of-trams-in-ukraine/>; Alstom Consolidated Financial Statements 2015, p 13, <http://www.alstom.com/Global/Group/Resources/Documents/Investors%20document/Financial%20results/2015-16/FY15-16%20Notes%20annexes%20VA.pdf>.

<sup>35</sup> Challenges, 14 May 2014, <http://www.challenges.fr/entreprise/20140514-CHA3731/l-activite-spatiale-d-airbus-affectee-par-les-sanctions-contre-l-ukraine.html>; Unian, "France to supply helicopters and radio systems to Ukraine," 23 April 2015, <http://www.unian.info/politics/1070587-france-to-supply-helicopters-and-radio-systems-to-ukraine.html>.

importance of Russia for Total is hard to overestimate: it accounts to near one fifth of the company's hydrocarbon reserves, and is home to two giant natural gas development projects: Bazhenov tight oil field and Yamal LNG. The sanctions hit Total's projects in Russia directly: the company froze its partnership with LUKOil on the Bazhenov development in 2014, resulting in the transfer of shares of the JV to LUKOil in July 2015. While Yamal LNG project with Novatek continues (Total owns 19% of Novatek and 20% of Yamal LNG), it was affected by financial sanctions restricting the use of the US dollar to finance energy projects with Novatek (on the US sanctioned companies list), before it has recently secured a loan from China.<sup>36</sup>

What is important for the French businesses, most of which operate both in Russia and Ukraine, is not the fulfilment of the Minsk Accords or any other political agreement, but the ability to do business unaffected by sanctions and other political barriers in every region in which they have planted their investment. It means that while French businesses abide by sanctions (Total in oil and gas, DCNS with *Mistral*), they could only benefit from the lifting of sanctions and a return to business as usual.

#### 4.3. WHO ARE THE FRIENDS OF UKRAINE IN FRANCE?

A general pattern observed in French politics is that all politicians who support Ukraine are in principle pro-European. Notably, aside from the current leadership and members of the ruling incumbent, one could notice the former MFA Laurent Fabius, the Alain Juppe, Alain Lamassoure, Claude Malthuret (all three from Republicans – UMP), Herve Morin, Marielle de Sarnez, Jose Bove and Noel Mamere. Out of the presented list, a special attention has to be paid to Alain Juppe, who is going to compete against former president Sarkozy for nomination for presidential candidate of the Republicans. Although in Ukraine many think that Alain Juppe would be a totally different president in terms of policy towards Ukraine, this might not be enti-

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<sup>36</sup> *Total Annual Report 2015*, p 273, [http://www.total.com/sites/default/files/atoms/files/registration\\_document\\_2015.pdf](http://www.total.com/sites/default/files/atoms/files/registration_document_2015.pdf).

rely true, since provided that Juppe wins, it will have to consider the positions of the party.

In terms of opinion leaders, Bernard-Henri Levy was already noted in this paper. He, along with other journalists, writers, etc. has founded a "Ukrainian Committee" that was aimed to create a counterbalance against Russian propaganda. However, in certain circles in Ukraine, there are mixed feelings on Levy, especially after he proposed the "Marshall Plan" for Ukraine along with controversial businessman Dmytro Firtash.

Thus, the key French allies of Ukraine, the big businesses operating in the country (see the business section for details) are also more often than not big investors in Russia, only on a much larger scale. This phenomenon explains Minister Macron's comments on the sanctions in January. The exceptions are the businesses which are present only in Ukraine or whose dealings in Ukraine overshadow their operations in Russia (BNP Paribas, Engie). Even then, the focus of the French business is ensuring their shareholders against economic and political risks, which goal is best achieved through geographic diversification. In the energy sector, Engie is an example of a French firm, which has won from the geopolitical crisis between Russia and Ukraine, as it has largely replaced Gazprom as the main supplier of natural gas to Ukraine. However, Engie operation in Eastern Europe is guided by pure economic interest and can also play to Ukraine's detriment. Engie raised its stake in Nord Stream II project with Gazprom from 9% to 10% in November 2015, a project that would endanger Ukraine's role as a key transit hub of the Russian natural gas to Europe.<sup>37</sup>

Thus, while Ukraine cannot count on unconditional loyalty by the French business community, the French (and other European) business interest is in the de-escalation of the geopolitical and military confrontations.

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<sup>37</sup> *Engie Annual Report 2015*, p 110, <https://www.engie.com/wp-content/uploads/2016/03/engie-2015-management-report.pdf>; *Engie press release 13 November 2015*, <http://www.engie.com/en/journalists/press-releases/engie-and-gazprom-celebrate-40-years-commercial-cooperation/>.

Another important ally of Ukraine in France are the French written media: Le Monde, Libération or La Croix generally have a positive view on Ukraine, like. By contrast, the right-wing newspaper Le Figaro, is more critical and regularly leaning towards pro-Kremlin views, such as right-wing weekly magazines L'Express or Le Point. However, the radio and TV coverage showed unfortunately a limited understanding of the situation. The weakness of this ally is its total dependence on the news cycle, which cannot turn around the same topic for over six months. The reality of the media industry explains its diminishing role and the growing media fatigue over Ukraine. Within political circles, the most anti-Putin constituency is composed by the ecologists (notably around Alexis Prokopiev), who are supporters of Ukraine's European's course.

The main reason Ukraine has been unable to rally as much support among the France business community as Russia is its lack of diplomatic and financial resources, which are incomparably small compared to those manipulated by Moscow, as well as the relatively small size of Ukraine's market and resources.



## 5. RECOMMENDATIONS

1. Ukraine should develop dialogue with France on all levels: not only at the presidential level (in charge of foreign policy), but also at the level of inter-parliamentary cooperation (National Assembly and Senate).
2. Ukraine has to make sure that its efforts in keeping France involved in Minsk are converted in mid and long term in a separate policy track of Paris towards Ukraine that is not dependent or less dependent on Russia.
3. Ukraine has to think about creative ways to keep French politicians more interested in Ukraine. For instance, Ukraine could create joint groups between Ukraine, France and Germany, especially at the level of MPs, that would discuss the issue of Ukraine. The cooperation and trust between Germany and France should positively affect the debate on Ukraine if their German counterparts would address the issue to French officials and MPs.
4. Ukraine should engage a dialogue with France on the decentralisation process: France, a highly centralised country until recently, has a long experience of reforming local authorities. Ukraine may benefit from the 'lessons learned' through the French experience.
5. Ukraine should push for better conditions in regards to visa policy. Today, foreign investors have to renew their visas in the Ukraine every year. Their families have to go through a separate process, which can start only after the investor is granted his visa. Moreover, the documents required change from year to year. These processes are time-consuming and create significant administrative cost and add a layer of complexity for French businesses in what is already a difficult investment climate.
6. Ukraine should implement legal changes on dividend payment: a legal prohibition of dividend payments outside of the country remains a distinct characteristic of doing business in Ukraine

for foreign companies, one which it shares with other former members of the Soviet bloc. In other words, all dividends earned by foreign direct investors through their operations in Ukraine have to be reinvested back into the business, effectively blocking the investors' money in the country. A possibility to repatriate the dividends would ease the doing business in the country.

7. Ukraine should maintain cooperation in the field of security with France, especially since France intervenes in many places on behalf of European security. A symbolic participation of the Ukrainian Army in a non-European theatre, as Georgia does, might be a good way to improve the level of cooperation in the security domain.
8. Ukraine should rely more on civil activists, artists, experts and representatives of local authorities in its communication with France. Ukraine should engage a larger audience among French political circles and think tanks in order to explain the result of reforms and existing opportunities in Ukraine.
9. Ukraine also needs events at the level of public diplomacy that would trigger media interest and publicity. Unlike Russia, Ukraine is not able to fund large-scale events and court certain individuals by financial means. However, Ukraine has a lot to show from its culture and other non-political areas.
10. Ukraine has to attract French companies in the upcoming process of privatization, which would greatly increase France's interest in the region.
11. Through a successful combination of the actions described above and permanent diplomatic contact at all levels, France has to develop a separate track of French foreign policy towards Ukraine which is not subordinated or connected to Russia.

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Office 1, Str. Esplanadna 32 V, Kyiv, 01001, Ukraine  
Tel. +38 044 374 03 11  
e-mail: [info@iwp.org.ua](mailto:info@iwp.org.ua)



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