

# The Donbas Blockade: Another blow to the Minsk peace process

Hrant Kostanyan and Artem Remizov

No 2017/08, June 2017

## Abstract

The Minsk peace process that was set up to address the Ukraine crisis has had a bumpy ride from the start. The current conflict has its origins in the Kremlin's reaction to the Euromaidan revolution in Ukraine: Russia annexed Crimea in March 2014 and has orchestrated a war in the east of Donbas. In January 2017, some veterans of Ukraine's volunteer battalions blockaded pro-Russian separatist-held territories in the eastern Donbas, the so-called 'Donetsk People's Republic' (DPR) and 'Luhansk People's Republic' (LPR). After unsuccessful attempts to disperse the veterans and activists blocking several checkpoints, Ukrainian President Petro Poroshenko gave in to increasing public support for the blockade and transformed a rogue operation into official Ukrainian government policy. Russian President Vladimir Putin responded with a decree to recognise certain personal identity documents issued by the breakaway 'republics', and separatists 'nationalised' Ukrainian companies in the eastern Donbas.

These events have led the National Bank of Ukraine to revise downwards its previous economic growth forecast for 2017; indeed, the blockade poses a major challenge to companies located in both the eastern and western Donbas due to the interconnection of their production cycles. The blockade exposed the failure of the so-called 'Rotterdam Plus' formula – a new methodology for calculating wholesale market prices on electricity, intended to help Ukraine diversify its energy sector. But ultimately, the blockade by Kyiv, the recognition by Russia of the separatist republics' identity documents and the 'nationalisation' of Ukrainian companies in the eastern Donbas amount to yet another blow for the Minsk peace process.

Hrant Kostanyan is a Researcher at CEPS, a Senior Key Expert at the College of Europe Natolin and an Adjunct Professor at Vesalius College. Artem Remizov is a Visiting Fellow at CEPS and an Erasmus Mundus PhD Fellow at LUISS Guido Carli / ULB.

CEPS Working Documents give an indication of work being conducted within CEPS' research programmes and aim to stimulate reactions from other experts in the field. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of CEPS.

## CONTENTS

---

Introduction .....	1
The contradictory positions of Ukraine’s leadership .....	1
Moscow and the separatists react .....	3
Political economy of the blockade.....	5
The blockade and price of coal .....	9
Consequences for the Minsk process.....	14
Conclusion.....	17
Bibliography .....	18

### List of Table and Figures

Table 1. Ukraine Ministry of Finance – scenarios of blockade’s economic impact .....	5
Figure 1. Russian iron-ore supply and transport scheme.....	8
Figure 2. Electricity production in Ukraine (2016).....	10
Figure 3. Ownership of anthracite-dependent TPPs .....	12

# The Donbas Blockade: Another blow to the Minsk peace process

Hrant Kostanyan and Artem Remizov

CEPS Working Document No 2017/08, June 2017

---

## Introduction

The saga of the Donbas blockade began on 16 December 2016, when former Ukrainian servicemen and ex-commanders gave an ultimatum to pro-Russian forces in the eastern Donbas to release or exchange all hostages,<sup>1</sup> or else face a blockade. The pro-Russian forces refused and the blockade began on 25 January 2017, aimed at halting the transport of metal, wood, cigarettes and alcohol into occupied Ukrainian territories, as well as the transport of all goods including much needed anthracite coal from the separatist-held areas to the rest of Ukraine.

The blockade soon gained the political backing of a few members of the Rada (Ukraine's parliament), such as Semen Semenchenko and Igor Sobolev of the Self Reliance party and Volodymyr Parasyuk, an independent. Support then spread to several regional and city councils across Ukraine, beginning on February 2<sup>nd</sup> with the Volyn Regional Council's appeal to President Petro Poroshenko to support the blockade.<sup>2</sup> Blockade supporters demonstrated in Kyiv's city centre on February 19<sup>th</sup>, but police thwarted their attempts to pitch a tent in front of the Presidential Administration building.

In March, pro-blockade forces attempted to extend the blockade beyond the Donbas to the Konotop region, home to a main railway hub that connects Ukraine and Russia, but the attempt failed owing to local resistance.

## The contradictory positions of Ukraine's leadership

There are different views within Ukraine's leadership on the case for or against economic ties with the separatist-held areas of the Donbas region. Although the president and a majority in the government initially opposed the blockade, others in the leadership have favoured isolating the eastern Donbas. For example, in an interview prior to the December 2016 ultimatum,

---

<sup>1</sup> According to the Security Service of Ukraine (SBU), 128 hostages are held in the 'LPR' and 'DPR' ("[SBU Updates Info on Number of Ukrainian Hostages in Russia, Donbas](#)", UNIAN, 6 May 2017).

<sup>2</sup> Волинська обласна рада (2017), [Рішення № 10/74 від 2 лютого 2017 р. про звернення Волинської обласної ради до Верховної Ради України, Президента України, Кабінету Міністрів України щодо підтримки торговельної блокади](#) [Volyn regional Council (2017), Decision № 10/74 of 2 February 2017 on the appeal to the Supreme Council of Ukraine, the President of Ukraine, the Cabinet of Ministers of Ukraine regarding support for a trade blockade].

Oleksandr Turchynov, Secretary of the National Security and Defense Council of Ukraine (NSDC), stated that he personally would opt for a complete economic isolation of the separatist-held territories, because this radical option would accelerate the liberation of Ukraine's territories.<sup>3</sup> When the blockade was imposed, Ukraine's leadership initially presented a united front. Both the Ukrainian government and the president made clear that the veterans' campaign contradicted Ukraine's national interests and undermined its economy. After an initial 'wait and see' approach, the government tried to persuade the blockaders to leave their checkpoints and attempted to stop those who were heading to join them as reinforcements.

Initially, Ukraine's leadership painted a very negative picture of the effects that the blockade could have on Ukraine. Prime Minister Volodymyr Groysman claimed that Ukraine would lose 75,000 jobs and approximately \$3.5 billion in foreign-exchange earnings by end of 2017.<sup>4</sup> Moreover, on February 15th the government introduced a month-long provisional state of emergency (prolonged already twice) following the Ministry of Energy and Coal Mining's recommendations regarding the shortage of anthracite coal for thermal power plants. In addition to restricting the use of coal supplies for energy generation and reinforcing the production of electricity by nuclear power plants, the temporary measures envisaged the possibility of rolling power cuts.

In the meantime, on 1 March 2017, the government adopted a decree regarding transportation of goods across the demarcation line. It was the first time since the conflict erupted in 2014 that the government adopted an official decree regulating trade between Ukraine-controlled and separatist-held areas of the Donbas. Previously, the movement of goods was subject to temporary regulations approved by the 'Anti-terrorist operation' (ATO) headquarters of the Security Services of Ukraine (SBU). Since 2015, legal ambiguity and a lack of transparency only contributed to the uncontrolled movement of goods in this war zone and, as a consequence, corruption flourished within state services such as the military, SBU, police and fiscal bodies. Smugglers operated freely across the administrative line. When caught, they were released almost immediately via court decision and avoided any serious sanctions because of legal loopholes. Although the level of smuggling has decreased since the government introduced special mobile groups in ATO zone, the problem did not disappear.<sup>5</sup>

---

<sup>3</sup> П. Шуклинов (2016), [Интервью с Александром Туриновым](#), *LIGA.net* [P. Shuklinov (2016), An interview with Aleksandr Turchinov, *LIGA.net*].

<sup>4</sup> K. Jacobsen, (2017), ["New Fears in Ukraine's Coal Country: a factory and its workers face economic hardship from conflict and blockades"](#), *U.S. News*, 28 March.

<sup>5</sup> І. Купріянова (2015), ["Боротьба з контрабандою в зоні АТО – хто стріляє в спину?"](#), *Deutsche Welle (DW)*, 4 вересня [I. Kupriianova (2015), "The Fight against Smuggling in the ATO Zone – Who does Shoot in the Back?", *Deutsche Welle (DW)*, 4 September]; Д. Куришко (2015), ["Як мобільні групи борються з контрабандою в АТО"](#), *ВВС Україна*, 23 вересня [D. Kuryshko (2015), "How do the Mobile Groups Fight against Smuggling in the ATO Zone", *BBC Ukraine*, 23 September].

The March 1<sup>st</sup> decree was a positive, if overdue, step. At least formally, it considerably restricted the possibilities of exploiting ‘grey’ zones, by limiting the list of goods permitted to cross the demarcation line, and also constraining their transport means, e.g. registered enterprises have to use the railways. An exception was made for the shipment of goods to humanitarian logistical centres that function on the demarcation line and in proximity to checkpoints between Kyiv-controlled areas and the territory held by the so-called ‘Donetsk People’s Republic’ (DPR) and ‘Luhansk People’s Republic’ (LPR).<sup>6</sup>

It was only on March 13<sup>th</sup> that the government attempted to disperse veterans and activists that were blocking several checkpoints: 43 people were detained and eventually released. Simultaneously, Ukrainian officials continued to strongly criticise the blockade. Kostiantyn Yeliseyev, Deputy Head of the Administration of the President of Ukraine, claimed that the blockade

prevents the European partners of Ukraine from imposing additional targeted sanctions on the Russian companies or intermediaries that would have any relationship with Ukrainian enterprises in the Donbas, which have been ‘nationalized’ by separatists.<sup>7</sup>

Only two days after his failed attempts to halt the blockade, President Poroshenko decided to stop trying. On March 15<sup>th</sup>, the National Security and Defense Council of Ukraine (NSDC) authorised a blockade of the Donbas until the self-proclaimed authorities of the DPR and LPR restored the ‘nationalised’ enterprises to their rightful private owners. This decision has stopped the transportation of goods, including coal to and from DPR and LPR. Thus, despite his administration’s sharp criticism and initial efforts to stop the blockade, President Poroshenko gave in to popular support for the actions of its initiators, which, according to media reports, had increased over two months from 7% to more than 50%.<sup>8</sup>

## Moscow and the separatists react

Moscow and the separatists it backs reacted swiftly and strongly to the as yet unofficial blockade. Russian Ministry of Foreign Affairs spokesperson Maria Zakharova urged Kyiv to stick to the Minsk agreements and prevent the blockade, which, she said, could lead to further escalation of “the Ukrainian domestic crisis”.<sup>9</sup> Russian Foreign Minister Sergei Lavrov also called

---

<sup>6</sup> Кабінет міністрів України (2017), [Постанова № 99 від 1 березня 2017 р. про затвердження Порядку переміщення товарів до району або з району проведення антитерористичної операції](#) [The Cabinet of Ministers of Ukraine (2017), Regulation № 99 of 1 March 2017 on the movement of goods across the line of contact in the area of the anti-terrorist operations].

<sup>7</sup> “Yeliseyev: Blockade of ORDLO Prevents EU from Imposing New Sanctions on Russia”, *Ukrinform*, 13 March 2017.

<sup>8</sup> С. Рахманін (2017), “оГРАБЛинный президент”, *Зеркало Недели*, № 10, 17 марта [S. Rakhmanin (2017), “oGRABLInnyi President”, *Zerkalo Nedeli*, № 10, March 17].

<sup>9</sup> МИД РФ (2016), [“Ответ официального представителя России М.В.Захаровой на вопрос СМИ относительно заявлений “ветеранов” украинских т.н. добровольческих батальонов о необходимости торговой блокады](#)

on Kyiv to take all possible measures to end the blockade,<sup>10</sup> and later, once it had become official, he called the blockade an unacceptable instrument for pushing the DPR and LPR to capitulate.<sup>11</sup>

For his part, citing “humanitarian law principles”, Russian President Putin signed a decree recognising documents such as passports, driving licences and diplomas issued by the DPR and LPR.<sup>12</sup> In fact, the blockade was not directed at citizens who cross the demarcation line between the two parts of the Donbas, although limits have been imposed on the amount (up to 75 kg per person) and type of goods they can transport to/from the separatist-held territories.<sup>13</sup>

On March 2<sup>nd</sup>, pro-Russian separatists reacted to the blockade by ‘nationalising’ companies operating in the eastern Donbas, which were functioning within Ukrainian legal space and thus paying taxes to the Ukrainian government. Most of the more than 40 companies expropriated by the separatists belong to the richest Ukrainian oligarch, Renat Akhmetov. Thus, the leadership of the LPR and DPR moved one month earlier than they had said they would in a previous ultimatum released on February 10<sup>th</sup>, when they adopted ‘laws’ requiring all financial entities to register with the ‘republics’ and start paying taxes.<sup>14</sup>

In addition, on March 13<sup>th</sup> DPR leader Alexander Zakharchenko signed a decree that defined the current demarcation line as a state border between DPR and Ukraine. It should be noted that the self-proclaimed leader emphasised that this ‘border’ is rather a fluid one and in future could be moved further inland and include the rest of the Donbas, which is, according to Zakharchenko, “temporarily” controlled by Ukraine.<sup>15</sup> His actions and words, to the Ukrainian government, made the blockade a policy dilemma no longer: he made it evident that the

---

[Донбасса, 28 декабря 2016](#) [MFA of the Russian Federation (2016), “The answer of the official representative of MFA of the Russian Federation M.V.Zakharova on a question posed by media about statements of “veterans” of so-called Ukrainian volunteer battalions regarding the necessity of a trade blockade of the Donbass, 28 December].

<sup>10</sup> [“Transport Blockade of Donbas Unacceptable – Lavrov”](#), *Interfax-Ukraine*, 9 March 2017.

<sup>11</sup> [“Лавров назвал неприемлемыми попытки блокады Донбасса в расчёте на капитуляцию региона”](#), *Russia Today*, 27 марта 2017 [“Lavrov called the Attempts to Blockade the Donbass an Unacceptable Instrument for Pushing the Region to Capitulate”, *Russia Today*, 27 March 2017].

<sup>12</sup> [“Что означает признание паспортов ДНР и ЛНР для жителей Донбасса”](#), *Русская служба BBC*, 20 февраля 2017 [“What the Recognition of LPR and DPR Passports Means for the Donbas Residents”, *BBC Russian Service*, 20 February 2017].

<sup>13</sup> *Служба Безпеки України (2017)*, [Наказ №222 від 14.04.2017 про тимчасовий порядок контролю за переміщенням осіб через лінію зіткнення у межах Донецької та Луганської областей](#) [The Security Service of Ukraine (2017), Order № 99 of 14 April 2017 on the Temporary Control Procedure over the Movement of Persons across the Line of Contact within Donetsk and Luhansk regions].

<sup>14</sup> *Д. Кириллов (2017)*, [“Донбасс забирает активы олигархов: ДНР и ЛНР объявили о введении “временных администраций на предприятиях Донбасса”](#), *Газета.Ру*, 11 февраля [D. Kirillov (2017), “The Donbass takes Oligarchs’ Assets: DPR and LPR have Announced the Introduction of “Interim Administrations at Donbass Enterprises”, *Gazeta.Ru*, February 11].

<sup>15</sup> *М. Катерининский (2017)*, [“Граница ДНР”: Прохождение и наказание”](#), *Новости Донбасса*, 24 марта [M. Katerininskiy (2017), “The DPR border”: Crossing and Punishment”, *Novosti Donbassa*, March 24].

separatists would not renounce the expropriation process, leading the Ukrainian leadership, via the March 15<sup>th</sup> NSDC decision, to make the veterans' blockade official state policy.

Following the NSDC's decision, the leaders of both self-proclaimed republics were welcomed in Crimea to participate in founding the "Integration Committee Russia-Donbas", which aims at "strengthening processes of humanitarian, social, and cultural integration of the Donbas and the Russian Federation."<sup>16</sup> This has further escalated the tensions.

### Political economy of the blockade

The blockade began with the aim of freeing Ukrainians held hostage by the LPR and DPR, then turned into a protest against 'trading in blood with the enemy'. Since the conflict between Ukraine and Russia erupted three years ago, approximately 10,000 Ukrainian civilians and 2,655 soldiers (72 in 2017) have been killed (as of April 23).<sup>17</sup> The Ukrainian leadership initially opposed breaking economic relations with the breakaway territories, arguing that it would severely damage the country's economy and push separatist-held territories further under Russia's influence.<sup>18</sup> However, after the 'nationalisation' of Ukrainian companies, the blockade's establishment as official policy, the authorities were forced to re-evaluate the economic effects and indicators. This was notably after the IMF's decision, in response to the blockade policy, to postpone delivery of a fourth aid tranche worth \$1 billion and normally due March 20<sup>th</sup>, the leadership, the National Bank and the Ministry of Finance were forced to re-evaluate the economic effects and indicators. The Ministry of Finance presented optimistic and pessimistic scenarios concerning the effects of the blockade (see Table 1).<sup>19</sup>

Table 1. Ukraine Ministry of Finance – scenarios of blockade's economic impact

Scenarios	Outcomes
Optimistic	GDP decreases by 1.2 percentage points Depreciation of hryvnia (UAH) against the dollar: UAH 3 per \$1 by the end of 2017 (from 27.2 UAH to 30.2 UAH per \$1) Exports decrease by \$1.2 billion UAH 2.2 billion (\$82 million) increase in budget deficit

<sup>16</sup> ["В Крыму учрежден интеграционный комитет "Россия – Донбасс"](#), Интерфакс-Россия, 17 марта 2017 [The Integration Committee "Russia – Donbass" has been established in Crimea", *Interfax-Russia*, 17 March 2017].

<sup>17</sup> ["Ukraine: UN Warns of Civilian Casualties in 'Face to Face' Fighting in Country's East"](#), UN News Center, 14 February 2017; ["Ukraine's Death Toll Rises amid Escalation in Avdiivka"](#), UNIAN, 20 April 2017; ["ATO HQ: One Ukrainian Soldier Killed in Action near Avdiivka"](#), UNIAN, 23 April 2017.

<sup>18</sup> ["Порошенко назвал блокаду ОРДЛО спецоперацией по выталкиванию "ДНР" и "ЛНР" в Россию"](#), УНИАН, 20 марта 2017 [Poroshenko called the Blockade of ORDLO (the Separate Districts of Donetsk and Luhansk Regions) a Special Operation on pushing out "DPR" and "LPR" into Russia", *UNIAN*, 20 March 2017].

<sup>19</sup> Н. Непряхина (2017), ["МВФ просит уточнить: у Кабмина есть первые расчеты финансовых потерь от блокады ОРДЛО"](#), РБК-Украина, 20 марта [N. Nepriakhina (2017), "IMF asks for Clarification: the Cabinet of Ministers has First Estimates of Financial Losses due to the Blockade of ORDLO", *RBK-Ukraine*, March 20].

Pessimistic	<p>GDP decrease by 2.5 percentage points</p> <p>Depreciation of hryvnia against the dollar: UAH 5.6 per \$1 by the end of 2017 (from UAH 27.2 to UAH 32.8 per \$1)</p> <p>Exports decrease by \$1.8 billion</p> <p>UAH 21 billion (\$780 million) increase in budget deficit</p>
-------------	--

The German Advisory Group characterised the effects of the blockade as a shock to – but not a catastrophe for – the economy of Ukraine, that would cut GDP by 1.6%.<sup>20</sup> Considering both the effects of the trade blockade and more favourable external conditions, the National Bank of Ukraine revised its previous 2017 growth forecast from 2.8% to 1.9%. The trade ban is not expected to have a considerable impact on 2017-18 headline inflation, and is likely to have limited impact on the hryvnia exchange rate.

Consequently, the IMF confirmed the fourth aid tranche on April 3<sup>rd</sup>. According to the National Bank of Ukraine, IMF experts concluded that the trade blockade would have a relatively moderate impact on economic growth and the balance of payments and would not put at risk the National Bank’s inflation target.<sup>21</sup>

In terms of the real sectors of economy, the blockade poses a major challenge for companies in both parts of the Donbas, owing to the interconnection of their production cycles. The Metinvest Group (SCM) and ISD Corporation suffer the most, as they own metallurgical factories and resource-extracting companies that are part of integrated industrial chains and are located on both sides of the demarcation line. Industries in Ukraine-controlled territory depend on eastern supplies of coal, ferrous metals and coke, while those in LPR and DPR areas need iron ore from ‘mainland’ Ukraine (coal was also sent from Ukraine-held territories to separatist-held areas before the blockade). The first effects of the blockade were already observed during its unofficial phase and became more evident after the NSDC’s policy decision.

For example, back in February experts calculated that as a result of Enakievo Metallurgical Plant and Krasnodon Coal Company halting their production, Akhmetov’s Metinvest would lose between \$5-10 million per month.<sup>22</sup> Coke is crucial for metallurgy giants operating in Ukraine-controlled territory, for example Metinvest’s Azovstal and Ilyich Iron and Steel Works of Mariupol, while ISD-owned Dnieper Metallurgical Combine already ceased activity on March 30<sup>th</sup>. The situation will harm export volumes of metallurgy goods, which in 2016 totalled 22.9% of all Ukrainian exports, and consequently shrink the Ukrainian metallurgy sector’s global

<sup>20</sup> Ю. Шейко (2017), [“Блокада Донбасса и отсрочка кредита МВФ - для Украины шок, но не катастрофа”](#), *Deutsche Welle (DW)*, 21 марта [Yu. Sheiko (2017), “The Donbas Blockade and Postponement of IMF’s Credit – it is a Shock for Ukraine but not a Catastrophe”, *DW*, March 21].

<sup>21</sup> The National Bank of Ukraine (2017), [IMF Fourth Loan Approval: a “Vote of Confidence” in Ukraine’s Bank Reform](#), press release, 3 April.

<sup>22</sup> [“Blockade of Donbas and “Nationalization” in DPR / LPR: end of Akhmetov’s Empire?”](#), *Ukraine Crisis Media Center*, 6 March 2017.



market share.<sup>23</sup> Moreover, breaking industrial chains will lead to financial losses and stagnating transport networks (railways and sea ports). The initial consequences for the industry are already evident. According to the association of metallurgical enterprises ‘Ukrmetallurgprom’, during January-April 2017 the production of (rolled) steel, cast iron, and coke decreased by 16%, 20%, and 25% respectively compared to the same period of 2016, while the production of pipes increased by 25%.<sup>24</sup> Metallurgy production dropped by 2.2% in January 2017 and 4.3% in February 2017 compared to the same months in 2016.<sup>25</sup> Moreover, in April 2017 the industrial production decreased by 6.9% compared to March 2017 and demonstrated a drop by 6.1% compared to April 2016.<sup>26</sup>

At the same time, despite the blockade, Ukraine’s GDP grew 2.4% in the first quarter of 2017 compared to the same period in 2016.<sup>27</sup> According to experts of the investment company Dragon Capital, Ukraine’s economy continues to grow due to the low base for comparison with 2016 when it suffered significantly because of worsening trade relations with Russia, as well as due to continuing restoration of domestic demand. In this respect, GDP growth in 2017 is expected to constitute around 2-2.5%.<sup>28</sup>

While Ukrainian businesses are looking for alternative sources of supply outside of the country, the self-proclaimed authorities of LPR and DPR also have to tackle the shortage of raw material to guarantee that ‘nationalised’ enterprises keep their doors open. Russia stepped in to support the separatists. On April 14<sup>th</sup>, Dmitriy Gogin, Head of Russia’s Federal Agency on State Reserve (Rosrezerv), confirmed that the agency was sending humanitarian assistance to Donbas companies. This was after another Russian official, Sergei Nazarov, head of an interdepartmental commission on providing humanitarian assistance to the Donetsk and Luhansk regions, made a similar statement, although he denied that Russia was supplying the

---

<sup>23</sup> В. П. Горбулін, О.С. Власюк, О.М. Ляшенко та ін. (2017), [Тимчасове припинення переміщення вантажів через лінію зіткнення у межах Донецької та Луганської областей: оцінки, наслідки, рішення: аналіт. оцінки НІСД](#), Київ [Horbulin, V.P., Vlasjuk, O.S., Liashenko, O.M. et al. (2017), The Temporal Cessation of Movement of Goods across the Contact Line within Luhansk and Donetsk Regions: Assessments, Consequences, Solutions. Analytical Assessments, the National Institute for Strategic Studies. Kyiv], p. 24.

<sup>24</sup> [“В Україні рухнуло виробництво сталі і проката”](#), Новое Время - Бизнес, 3 мая 2017 [“The Production of Steel and Rolled Steel has Collapsed in Ukraine”, *Novoe Vremia - Biznes*, 3 May 2017].

<sup>25</sup> Dragon Capital (2017), [“Падение промпроизводства замедлилось до -2,7% марте, другие индикаторы реального сектора демонстрировали смешанную динамику”](#), 24 апреля [Dragon Capital (2017), “The Drop in Industrial Manufacturing has Slowed down to -2,7% in March Compared to the Previous Year, other Indicators of the Real Sector of Economy Demonstrated Mixed Dynamics,” 24 April].

<sup>26</sup> [“В апреле промышленное производство сократилось на 6%”](#), Экономическая Правда, 23 мая 2017 [“The Industrial Production has Decreased by 6% in April,” *Ekonomicheskaja Pravda*, 23 May 2017].

<sup>27</sup> [“В первом квартале экономика Украины выросла на 2,4%”](#), Экономическая Правда, 15 мая 2017 [“Ukraine’s Economy has Grown by 2,4% in the First Quarter,” *Ekonomicheskaya Pravda*, 15 May 2017].

<sup>28</sup> Dragon Capital, *op.cit*; *Ekonomicheskaya Pravda, op.cit*.

DPR and LPR with iron ore.<sup>29</sup> Yet, according to Russian media reports, Rosrezerv receives iron ore concentrate and pellets from the Kovdor Mining and Processing Plant (part of the Russian-owned company EuroChem) and sends it to CJSC Vneshtorgservis, a newly created company that controls all expropriated companies in the eastern Donbas and, according to media reports, is headed by ex-vice-governor of Russia's Irkutsk region.<sup>30</sup>

In addition, Russian Railways has provided a 25% discount for transporting iron raw materials shipped to regions that are close to the LPR and DPR. According to media reports, the discount was created to support a scheme (see Figure 1) to help the DPR and LPR economies while guaranteeing that companies owned by Russian oligarchs would avoid lawsuits or sanctions.<sup>31</sup> Also, according to reports by Russian media, because of the amount of raw materials required for eastern Donbas companies, several other Russian firms, e.g. Metalloinvest and Severstal, were asked by the Russian government to consider supplying iron ore to Rosrezerv, a charge they denied.<sup>32</sup> Meanwhile, Rosrezerv received 10 bn of Russian roubles from the Russian government for the purchase of raw materials for the metallurgical industry. According to media, this replenishment of stocks was not envisaged for 2013-17.<sup>33</sup> In this way, the Russian Federation will supply the necessary amount of raw materials to keep 'nationalised' businesses afloat. Moreover, Russia is likely to support the sale of goods produced in the eastern Donbas.

Figure 1. Russian iron-ore supply and transport scheme



<sup>29</sup> [“Rosrezerv подтвердил, что Россия оказывает гуманитарную помощь предприятиям Донбасса”](#), ТАСС, 14 апреля 2017 [“Rosrezerv has confirmed that Russia Provides Humanitarian Assistance to the Donbas enterprises,” TASS, 14 April 2017].

<sup>30</sup> С. Бурмистрова, И. Парфентьева (2017), [“Руду в ДНР и ЛНР будут поставлять через Rosrezerv”](#), РБК, 13 Апреля [S. Burmistrova, I. Parfent'eva (2017), “Ore will be Supplied to DPR and LPR via Rosrezerv,” RBC, 13 April 2017]; И. Барабанов (2017), [“Партнер у нас один — Российская Федерация”: Кто управляет заводами на территории самопровозглашенных ДНР и ЛНР](#), Коммерсантъ, 6 мая [I. Barabanov (2017), “We Have the only one Partner — Russian Federation”: Who Manages the Factories on the Territories of Self-proclaimed DPR and LPR,” Kommersant, May 6].

<sup>31</sup> S. Burmistrova, I. Parfent'eva (2017), op.cit.

<sup>32</sup> Ibid.

<sup>33</sup> С. Бурмистрова, И. Ткачев (2017) [“Медведев выделил 10 млрд рублей Rosrezervу на закупку руды”](#), РБК, 11 мая [S. Burmistrova, I. Tkachev (2017), “Medvedev has Allocated 10 bn of Rubles to Rosrezerv for Purchase of Ore,” RBC, 11 May].

Further, on April 25<sup>th</sup> Ukraine halted the supply of electricity to the uncontrolled parts of the Luhansk region due to debts (around \$89 million, accumulated since 2014), and is considering a similar move in the case of the DPR's frontline city of Avdiivka, which is connected to the Ukraine-controlled electricity grid.<sup>34</sup> The Russian authorities already stated that they will supply the necessary amount of electricity to LPR as a "humanitarian support". According to an approved support scheme reported by Russian media, this assistance will cost around 4.6 billion of Russian roubles per year (\$35-80 million).<sup>35</sup>

Supporting the expropriated enterprises is crucial to avoid a social crisis in the DPR and LPR, which could be triggered by possible delays in salary payments and/or massive job cuts. For example, 45,000 people are employed in Ukraine's metallurgy sector, of whom 20,000 work in the separatist-held territories of the Donbas. Add to this the deteriorating situation in the coal industry, and the picture looks very gloomy. Specifically, 97 out of 127 Donbas coal mines (both private and state-owned) are in the separatist-held territories. Miners working for previously Ukrainian state-owned companies in these territories were disadvantaged even before the blockade: mines had stopped receiving state subsidies and workers' salaries were half those of their colleagues in Ukraine-controlled territories.<sup>36</sup> Owing to 'nationalisation', miners working for the private coal mines in separatist-held territories that are owned mainly by the DTEK (owned until 'nationalisation' by Rinat Akhmetov) will face problems similar to those of their previously state-employed colleagues in terms of irregular and insufficient payments and possible unemployment. Dissatisfaction is growing among miners, some of whom recently protested in front of the DPR's 'Ministry of Coal Industry'.<sup>37</sup> Moreover, one could assume that small and medium-sized enterprises located on the uncontrolled territories, which have already significantly suffered from the previous regime of the movement of goods, people and vehicles across the contact line (not taking into account military hostilities),<sup>38</sup> are negatively affected by the blockade.

## The blockade and price of coal

The stopping of trade in anthracite coal across the border with the separatist territories has been the most important direct economic consequence of the blockade. Once the blockade

---

<sup>34</sup> O. Grytsenko (2017), "[Russian-controlled Donbas Splits further from Ukraine](#)", *Kyiv Post*, April 28.

<sup>35</sup> Т. Дятел (2017), "[Луганск запитают от российского тарифа: Электроэнергию для ЛНР спишут с ФСК](#)", *Коммерсантъ*, 27 апреля [T. Diatel (2017), "Luhansk will be Powered via Russian Tariff: Electric Energy for LPR will be write off at the expense of Federal Grid Company", *Kommersant*, 27 April].

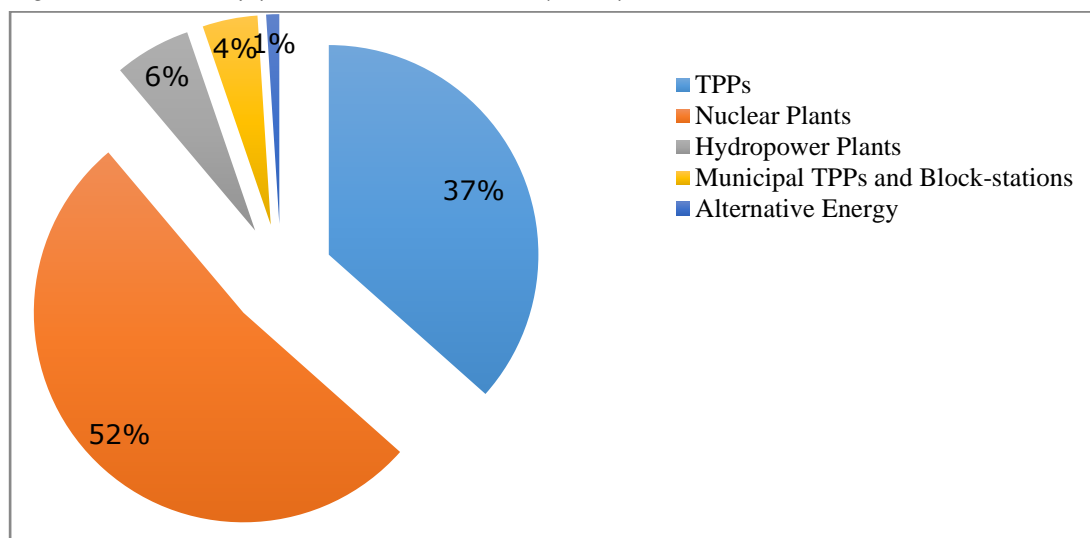
<sup>36</sup> D. Kazanskyi, A. Nekrasova, I. Pavlov *et al* (2017), [The Real Price of Coal in the Wartime in Donbas: A Human Rights Perspective \(Summary of the Report\)](#), Kyiv: East-Ukrainian Center for Civic Initiatives, pp. 8-9.

<sup>37</sup> "[ДНР сорвала митинг шахтеров в Донецке "народными гуляниями"](#)", *Новости донбасса*, 19 апреля 2017 ["DPR" has Disrupted a Rally of Coal Miners in Donetsk by Organising "Public Festivals", *Novosti Donbassa*, 19 April 2017].

<sup>38</sup> N. Mirimanova (2016), "Business Opportunities Lost . . . and Found: Small and Medium Sized Enterprises from Donbass Responding to the Conflict", Centre for Humanitarian Dialog, Geneva, November.

became official, the direct supply of anthracite (as well as other types of coal) from DPR/LPR stopped. This particular type of coal is mined only in separatist-held territories, and is used by metallurgical combines<sup>39</sup> and, crucially, Ukrainian thermal power plants (TPPs) that generate electricity. The share of TPPs producing electricity in Ukraine in 2016 constituted around 37% of the total (see Figure 2), half of which use anthracite, which accounts for approximately 12-15% of Ukraine's electricity. TPPs (together with hydropower plants) are responsible for managing daily power supplies and are thus crucial to the stability of Ukraine's energy system.

Figure 2. Electricity production in Ukraine (2016)



Source: Authors' compilation based on Razumkov Centre data.<sup>40</sup>

Out of the 24.5 million tonnes of coal that Ukraine needs annually for its industry and energy sector, 9 million tonnes are anthracite.<sup>41</sup> This amount was delivered in 2016 while around 24.7 thousand tonnes were shipped daily in the beginning of 2017 from the uncontrolled territories that produce 100% of anthracite Ukraine needs.<sup>42</sup> The negative impact of the blockade is already evident: due to the shortage of coal, five out of six TPPs in Ukraine-controlled territories have shut down. The subsequent electricity production gap is bridged by hydropower and, especially, nuclear power plants that increased their input. This might not be sustainable, however. When the hot summer comes to Ukraine, TPPs will be needed to mitigate the

<sup>39</sup> Ю. Самаева (2017), "[Сливаем](#)", *Зеркало Недели*, №10, 18 марта [Yu. Samaeva (2017), "We are Nixing it," *Zerkalo Nedeli*, №10, 18 March].

<sup>40</sup> К. Маркевич (2017), "[Енергетична сфера: куди прямуємо](#)", *Рейтинг*, Випуск № 1, Березень [Markevych, K. (2017), "Energy Sector: where we are heading," *Reitynh*, Issue 1, March], pp. 50-57.

<sup>41</sup> В. Омельченко (2017), "[Чи можна не купувати вугілля з "ЛНР"-«ДНР»?](#)", Центр Разумкова, 8 лютого [V. Omelchenko (2017), "Is it possible not to buy coal from "LPR"-«DPR»?", *Razumkov Center*, 8 February].

<sup>42</sup> Д. Кириллов (2017), "[Донбасс можно вернуть только дипломатией](#)»: Эксклюзивное интервью с украинским министром по делам оккупированных территорий", *Газета.Ru*, 19 января [D. Kirillov (2017), "The Donbass can be Returned only by Diplomacy": an Exclusive Interview with the Ukrainian Minister on the Issues of Occupied Territories, *Gazeta.Ru*, January 19].

fluctuation in daily electricity consumption. Thus, state and private owners of TPPs (see Figure 3 for ownership structure) are looking for various options on how to reduce the anthracite deficit. Ukraine needs to import 4.7 million tonnes by the end of this year. The Ukrainian government hopes to import 2.5-3 million tonnes from the US, while Akhmetov's DTEK has already secured imports of 0.6 million tonnes (with the possibility to buy up to 1 million tonnes) from South Africa.<sup>43</sup> Moreover, the state-owned company Tsentroenergo has recently finished, ahead of schedule, modification of one of two power units of the Zmiivska TPP in order to shift away from the use of anthracite to gas group coal, and also plans to transform the Trypilska TPP.<sup>44</sup> Until recently, DTEK has been reluctant to modify its TPPs, which amount for 70% of power capabilities of all anthracite-type TPPs, owing to guaranteed supplies of anthracite from its own mines in the separatist-held territories, and, since the blockade started, its choice to import to cover the loss of its resource base in the eastern Donbas. However, at the end of April, the CEO of DTEK stated that the company had already started the modification of two power units of Prydniprovaska TPP, which should be completed before the next heating season while the full conversion of the TPP is expected to be completed the year after. Also, according to its CEO, DTEK might take a decision on the modification of Kryvorizka TPP.<sup>45</sup> Notably, Ukraine continues to import anthracite coal from Russia despite the recent statement by the Ukrainian minister Ihor Nasalyk on the intention to ban it completely.<sup>46</sup> This allows Russia to rebrand coal mined in the LPR/DPR and sell it to other consumers, including Ukraine, as its own, thus helping separatists to partly avoid the blockade imposed by Ukraine.

---

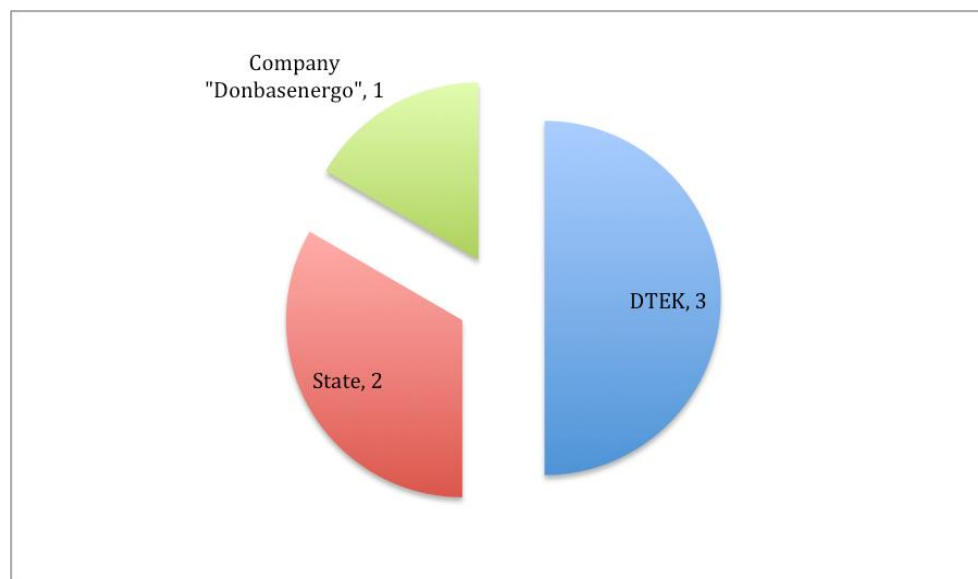
<sup>43</sup> ДТЭК (2017), [“ДТЭК подтвердил закупку 600 тыс. тонн антрацита из ЮАР, первые отгрузки ожидаются в июне”](#), Пресс-релиз, 13 апреля [DTEK (2017), “DTEK has Confirmed the Purchase of 600 thousand tonnes of the Anthracite from the South African Republic,” Press-release, 13 April].

<sup>44</sup> [“ПАТ “Центрэнерго” активно працює над заміщенням антрацитового вугілля”](#), ПАТ “Центрэнерго”, 17 лютого 2017 [“PJSC “Tsentroenergo” is Actively Working on the Replacement of the Anthracite Coal”, “PJSC “Tsentroenergo”, 17 February 2017]; [“На енергоблоці №2 Зміївської ТЕС розпочато пусконаладжувальні роботи”](#), ПАТ “Центрэнерго”, 31 травня 2017 [“Starting-up and adjustment works have been launched at the Power Unit №2 of Zmiivska TPPs”, “PJSC “Tsentroenergo”, 31 May 2017].

<sup>45</sup> Д. Рясний (2017), [“Глава ДТЕК: Ми люди виховані, щоб не відкривати двері в міністерство ногами, відкриваємо руками”](#), Економічна Правда, 27 квітня 2017 [D.Riasnyi (2017), “The Head of DTEK: We are well-mannered people to allow ourselves to open doors with hands not feet”, *Ekonomichna Pravda*, 27 April 2017].

<sup>46</sup> [“Міненерго пропонує заборонити ввозити вугілля з Росії – Насалик”](#), Радіо Свобода, 19 квітня 2017 [“The MinEnergo Proposes to Prohibit the Import of Coal from Russia – Nasalyk,” *Radio Svoboda (RFE/RL)*, 19 April 2017].

Figure 3. Ownership of anthracite-dependent TPPs



Source: Authors' chart based on data from the Delo.ua portal.<sup>47</sup>

In addition to diversifying supply channels, modifying TPPs was recognised as one of the measures necessary to strengthen the country's energy security by several presidential decrees even back in 2014 and 2015.<sup>48</sup> Yet virtually no practical steps were taken to fulfil those commitments.

One of the government's initiatives to support the diversification of energy supplies, the so-called 'Rotterdam Plus' formula, was introduced in June 2016 as a means of calculating wholesale market prices on electricity that takes into account the new price of coal for electricity produces. The formula aimed to equalise domestic coal prices with the international

<sup>47</sup> В. Ильченко (2017), ["F.A.Q. по ТЭС и ТЭЦ: кого отключат от света из-за блокады и дефицита угля"](#), Delo.ua, 23 февраля [V. Ilchenko (2017), "F.A.Q. regarding TPPs and CHPs: who will Experience Electricity Cuts Because of the Blockade and the Shortage of Coal", Delo.ua, 23 February].

<sup>48</sup> [Указ Президента України №876/2014 від 14 листопада 2014 року про рішення Ради національної безпеки і оборони України від 4 листопада 2014 року "Про стан забезпечення енергетичної безпеки держави та невідкладні заходи щодо сталого проведення опалювального сезону 2014/15 року"](#) [Decree of the President of Ukraine №876/2014 of 14 November 2014 regarding the decision of the National Security and Defense Council of Ukraine of 4 November 2014 "About the condition of provision of the energy security of the state and urgent measures on the stable conduct of the 2014/2015 heating season"]; [Указ Президента України №298/2015 від 28 травня 2015 року про рішення Ради національної безпеки і оборони України від 6 травня 2015 року "Про стан виконання рішення Ради національної безпеки і оборони України від 4 листопада 2014 року "Про стан забезпечення енергетичної безпеки держави та невідкладні заходи щодо сталого проведення опалювального сезону 2014/15 року" та додаткові заходи для гарантованого забезпечення вітчизняних споживачів енергоносіями"](#) [Decree of the President of Ukraine №298/2015 of 28 May 2015 regarding the decision of the National Security and Defense Council of Ukraine of 6 May "About the condition of the execution of the decision of the National Security and Defense Council of Ukraine of 4 November 2014 "About the condition of provision of the energy security of the state and urgent measures on the stable conduct of the 2014/2015 heating season" and about additional measures on guaranteed provision of the domestic consumers with energy carriers"].

price by defining the price of coal as the cost of coal in the port of Rotterdam plus the cost of its delivery to Ukraine. This increased the domestic price of coal from the equivalent of \$44 to \$63 per tonnes, and thus of the price of electricity, therefore TPPs were supposed to import coal from outside of Ukraine and thus diversify energy supply. However, the TPPs continued to a significant degree to buy coal from the separatist-held territories at the lower, 'pre-Rotterdam' formula domestic price, while still selling the resulting electricity in accordance with the 'Rotterdam'-calculated domestic price of coal. Thus, the price of electricity was calculated based on Rotterdam Plus formula, despite the fact that a significant part of the coal used by energy producers was mined in Ukraine by lower domestic cost. This made for substantial profits for the electricity producers.

In 2016, Ukraine imported slightly less than 1 million tonnes of the anthracite coal at the average price of \$73.5 per tonnes,<sup>49</sup> while international coal prices varied from \$50 to \$80.<sup>50</sup> For example, the price of South African coal dramatically decreased from \$96 in 2015 to \$62 in 2016.<sup>51</sup>

Following a request by a member of parliament, the National Anti-Corruption Bureau of Ukraine started an investigation into possible abuse of powers by officials of the Ukrainian Energy Regulator (NEURC).<sup>52</sup> The Rotterdam Plus formula was also criticised by European Commission Vice-President Maroš Šefčovič in his March 13<sup>th</sup> letter to President Poroshenko.<sup>53</sup> The letter, leaked to Ukrainian media, states:

The controversies about recent decisions of the Energy Regulator, notably on the methodologies for setting coal prices and for calculating access fees to the electricity grid, show how important not only the independence but also the professionalism and credibility of the Energy Regulator is for ensuring urgently needed investments for Ukraine's economy. The EU has offered support and expertise to the Energy Regulator, which has so far been barely used. An analysis of these recent decisions by EU experts has shown that unfortunately the methodologies used do not fully correspond to best European practice.

According to media investigations, coal was procured not only from DTEK, but also through limited liability companies (LLCs) whose structure of ownership is not transparent.<sup>54</sup> It is likely

<sup>49</sup> DiXi Group (2017), "[Торгівля антрацитом. Факти](#)" [DiXi Group (2017), "The Anthracite Trade. Facts"].

<sup>50</sup> D. Kazanskyi, A. Nekrasova, I. Pavlov *et al*, *opt.cit*, p. 12.

<sup>51</sup> DiXi Group, *op. cit*.

<sup>52</sup> "[НАБУ начало расследование по делу "Роттердам+"](#)", *Интерфакс-Украина*, 6 апреля 2017 ["The NABU launched an investigation regarding the case of "Rotterdam+", *Interfax-Ukraine*, 6 April 2017].

<sup>53</sup> "[Вице-президент Еврокомиссии раскритиковал формулу "Роттердам + \(Документ\)"](#)", *Бизнес Цензор*, 20 марта 2017 ["The Vice-President of the European Commission Criticized the "Rotterdam+" Formula (the document)", *Biznes Cenzor*, 20 March 2017].

<sup>54</sup> Е. Головатюк (2015), "[Янукович, Иванющенко, Аврамов: Кто еще поставляет уголь в Украину](#)", *ЛІГАБізнесІнформ*, 3 августа [E. Golovatiuk (2015) "Yanukovych, Ivaniushchenko, Avramov: Who else Supplies Coal to Ukraine, *LIGABiznesInform*, 3 August].

that many of these companies cooperated with and/or were directly controlled by the LPR and DPR leaderships.<sup>55</sup>

The blockade has now stopped this 'grey' trade with the LPR and DPR, however, and with it the profiteering, when taken together with the Rotterdam+ formula for electricity prices.

Nonetheless, this episode of non-transparent profiteering from the movement of goods between the two parts of the Donbas, and the lack of clear public messages and a single strategy towards the separatist-held territories, have increased Ukrainians' distrust of their political elite. A December 2016 national poll conducted by the Kiev International Institute of Sociology (KIIS) found that 65.5% of respondents believed that the Ukrainian government and oligarchs profit from the war.<sup>56</sup> Thus, defining the status quo between Ukraine and the DPR and LPR as 'trading in blood with the enemy' echoes with a considerable part of the population. However, 70.7% of respondents simultaneously agreed with the statement: "The war goes on because Russia does not withdraw troops from the Donbas and does not stop supporting 'DPR/LPR'".

### Consequences for the Minsk process

Politically, the blockade has negative repercussions for Ukraine. It is the subject of criticism by Ukraine's western partners and it further damages the Minsk peace process. Both the EU and its member states that are part of the Normandy format, which includes Ukraine, Russia, Germany and France, have expressed concerns about the blockade. While voicing its commitment to the territorial integrity and sovereignty of Ukraine, EU Delegation Head Hugues Mingarelli cautioned that the blockade would negatively influence the civil population on the both sides of demarcation line.<sup>57</sup> In their statement, G7 ambassadors referred to Ukraine's positive economic growth of the past year, but voiced concern that the blockade can undermine the progress. The ambassadors called upon the Ukrainian authorities

to set out a transparent and accountable framework for energy supplies and to reinforce confidence that public utilities are being operated for public benefit. More importantly, the government needs to modernize plants and undertake critical reforms to ensure long-term security of the nation's energy supply.<sup>58</sup>

The statement from the US Embassy to Ukraine mirrored that of the G7, urging the Ukrainian government to reform its energy sector.<sup>59</sup>

---

<sup>55</sup> D. Kazanskyj, A. Nekrasova, I. Pavlov *et al*, *opt.cit*, p. 13.

<sup>56</sup> Detector Media (2017), "Survey of Russian Propaganda Influence on Public Opinion in Ukraine: Findings".

<sup>57</sup> "EU Ambassador Concerned about Railway Blockade in Donbas", *Interfax-Ukraine*, 14 February 2017.

<sup>58</sup> [Statement of G7 Ambassadors on Disruption of Coal Supplies](#), 17 February 2017.

<sup>59</sup> [Statement from the Embassy of the United States of America to Ukraine](#), 16 February 2017.



Once the blockade became official policy, the Ukrainian government both asked all of its partners to treat the decision with understanding and blamed it on Russian and separatist provocation.<sup>60</sup> Despite the request, Mingarelli expressed his surprise at Ukraine's decision, which in his view implied a departure from Kyiv's previous, more inclusive approach.<sup>61</sup> This inclusive approach was also emphasised by the spokesperson for EU High Representative Federica Mogherini.<sup>62</sup>

The blockade contradicts both the letter and spirit of the Minsk agreements, but so do the recognition by Russia of breakaway 'republic' 'passports' and the 'nationalisation' of Ukrainian enterprises. These actions only exacerbate the situation on the ground and dim the possibility of implementing the Minsk agreements.<sup>63</sup>

The issue of the blockade and "nationalisation" of Ukrainian companies was raised during the bilateral meeting between German Chancellor Angela Merkel and Russian President Vladimir Putin on May 2<sup>nd</sup> in Sochi.<sup>64</sup> In particular, Merkel underlined the need to reverse these processes as they lead to further separation of the Ukrainian territories. At the same time, the meeting did not bring any kind of breakthrough in the conflict while demonstrating that neither Russia nor Germany wish to abandon the Normandy format. This is despite the fact that over the last years, discussions in the Normandy format between heads of state and government, as well as foreign ministers, have also failed to produce significant results in terms of conflict resolution.<sup>65</sup> In addition to the non-implementation of the Minsk agreements by parties involved in the conflict, the peace process has also been complicated by the electoral campaigns in France and Germany, and indirectly, by the presidential elections in the United States that brought Donald Trump to the White House. Thus, major stakeholders were focused on preserving the status quo and the existing format. The newly elected French President Emmanuel Macron who replaces the ex-President François Hollande in the Minsk talks might bring new ideas and fresh drive to the negotiation table.

Taking into account the challenges that the Minsk process faces, lifting the blockade is a necessary but not sufficient condition for implementing the Minsk agreements. The positions of the conflicting parties remain far apart and the implementation of some the provisions of the agreements is politically costly.

---

<sup>60</sup> MFA of Ukraine (2017), [Verbatim Record of the Briefing by the Speaker of the MFA of Ukraine](#), 17 March 2017.

<sup>61</sup> "[European Union Surprised By Ukraine's Donbas Blockade Decision](#)", *UATV English*, 16 March 2017.

<sup>62</sup> "[EU to monitor impact of blockade on civilians in Donbas](#)", *Ukrforum*, 18 March 2017.

<sup>63</sup> OSCE (2014), [Protocol on the Results of Consultations of the Trilateral Contact Group, Signed in Minsk, 5 September 2014](#); OSCE (2014), [Memorandum of 19 September 2014 Outlining the Parameters for the Implementation of Commitments of the Minsk Protocol of 5 September 2014](#); "Package of Measures for the Implementation of the Minsk Agreements", *UN Peacemaker*, 12 February 2015.

<sup>64</sup> K. Hille (2017), "[Merkel and Putin Struggle to Conceal Tensions at Sochi Summit](#)", *Financial Times*, May 2.

<sup>65</sup> For more background on the complexity of the implementation of the Minsk agreements please see H. Kostanyan and S. Meister (2016), "[Ukraine, Russia and the EU: Breaking the Deadlock in the Minsk Process](#)", CEPS Working Document No. 423, CEPS, Brussels, June.

Instead of prioritising the security aspect, Russia pushes for a ‘direct dialogue’ between Kyiv and separatists in the eastern Donbas, constitutional change in Ukraine, granting a ‘special status’ to and conducting elections in DPR and LPR to legitimise the leadership of separatist authorities. Yet, at its core of conflict resolution is Russia’s and the separatists’ implementation of a genuine ceasefire and the withdrawal of armed forces, illegal groups and military equipment. When the ceasefire is established, OSCE monitors can guard the Ukrainian-Russian border before handing it to the Ukrainian border guard. Moreover, the Minsk agreements need to be amended to facilitate deployment of at least 1,000 international peacekeeping forces to the separatist-held areas of Donbas. This peacekeeping force has to be granted a robust mandate to effectively conduct its mission on the ground. Deployment of the border and peacekeeping missions will provide the necessary security for conducting elections once modalities are agreed. In the short term, to reverse recent developments that have undermined the possibility for positive action, both Russia and Ukraine can take a constructive step and exchange all hostages at the earliest possible date.

The blockade only complicates the implementation of the agreements. The proponents of the blockade argue that stopping deliveries of coal from the eastern Donbas will deprive the self-proclaimed authorities of the ‘republics’ of the cash they need to sustain their rule, but Russia is ready to provide support by delivering raw materials, purchasing coal, and otherwise subsidising the DPR and LPR. In this way, the blockade makes any possible future reintegration of the eastern Donbas more complicated. By isolating the eastern Donbas, Kyiv puts greater distance between itself and separatist-held territories and pushes them even closer to Moscow. The blockade not only affects business – one of the few remaining links between Kyiv and the separatist-held territories – but will also negatively influence people-to-people contacts by increasing general tensions along the demarcation line. Also, given the media environment in the separatist-held territories, the separatists will take advantage of the isolation to intensify propaganda against Ukraine.

There is no consensus in Ukrainian society regarding the suitable direction of state policy towards the separatist-held territories. According to another opinion poll, conducted by the Ilko Kucheriv Democratic Initiatives Foundation in December 2016, 29% of the Ukraine population supports full and unconditional renewal of the pre-war status quo; 17.5% supports recognising the separatist-held territories as occupied and thus favours isolation; 14% supports providing the separatist-held territories a “special status”; 14% supports continuing existing policies (soft isolation); and 25% of the population did not have an opinion on what to do with the separatist-held parts of the Donbas.<sup>66</sup> The data from both polls clearly indicates how ambivalent the Ukrainian public opinion feels about the ongoing ‘hybrid war’ in the east.

---

<sup>66</sup> Ilko Kucheriv Democratic Initiatives Foundation (2017), *“The Future of Occupied Territories in the Donbas: Possible Variants”*, Weekly Informational-analytical News Bulletin “Focus on Ukraine”, 13-19 February, pp. 4-7.

## Conclusion

By formalising the blockade, the president and the government of Ukraine chose to adopt a policy for short-term political gain. Consequently, Ukraine's immediate economic and long-term political interests are likely to suffer. From the start of the crisis Ukraine's leadership struggled to control the country's political agenda and was not able to convey to people its message about the steps it was taking regarding the separatist-held territories.

The blockade did, however, stop the 'grey' export of anthracite from the LPR and DPR to government-controlled Ukraine, which had been much criticised when combined with the introduction of the 'Rotterdam Plus' formula for setting electricity prices, and had resulted in major financial gains for interested parties. The European Commission Vice-President Maroš Šefčovič, who is responsible for energy policy, criticised the formula in a letter addressed to President Poroshenko.

By isolating the eastern Donbas, Kyiv has put greater distance between itself and the LPR and DPR and pushed separatists even closer to Moscow, which jeopardises any future reintegration of the eastern Donbas. What it should do instead is invest more in programmes to improve the lives of ordinary people in the separatist-held territories, particularly by improving the infrastructure of checkpoints so that citizens can buy all necessary goods and receive administrative services. More support from Ukraine is also needed to accommodate internally displaced persons (IDPs) to improve their economic and social situation (access to the job market, housing, education, social benefits, guarantee voting rights) and create better conditions for their social integration. Education and cultural policies devoted to children and youth require more attention. The Kyiv-controlled parts of the Donbas also need reconstruction and improved living conditions to make them a showcase for those living in the DPR and LPR.

Russian recognition of the 'official' identity documents issued by the self-proclaimed DPR and LPR authorities and the 'nationalisation' of Ukrainian companies operating in the separatist-held territories escalate the conflict in the Donbas. Consequently, the chance of effective negotiations between Russia and Ukraine based on the implementation of the Minsk agreements is slim and any breakthrough towards resolving the conflict looks remote.

Our main conclusion is that the blockade should be lifted, while the financial abuses permitted by the Rotterdam Plus formula should also be corrected for any resumption of coal trade. Moreover, the recognition of the identity documents and the 'nationalisation' should be reversed. At the same time, a real ceasefire and the withdrawal of armed forces and illegal groups is a precondition for any resolution of the conflict over the Donbas.

## Bibliography

(Translations by the authors)

["ATO HQ: One Ukrainian Soldier Killed in Action near Avdiivka,"](#) UNIAN, 23 April 2017.

["Blockade of Donbas and "Nationalization" in DPR / LPR: end of Akhmetov's Empire?"](#) *Ukraine Crisis Media Center*, 06 March 2017.

Detector Media (2017), ["Survey of Russian Propaganda Influence on Public Opinion in Ukraine: Findings"](#).

DiXi Group (2017), ["Торгівля антрацитом. Факти"](#) [DiXi Group (2017), "The Anthracite Trade. Facts"].

*Dragon Capital* (2017), ["Падение промпроизводства замедлилось до -2,7% марте, другие индикаторы реального сектора демонстрировали смешанную динамику"](#), 24 апреля [Dragon Capital (2017), "The Drop in Industrial Manufacturing has Slowed down to -2,7% in March Compared to the Previous Year, other Indicators of the Real Sector of Economy Demonstrated Mixed Dynamics," 24 April –].

["EU Ambassador Concerned about Railway Blockade in Donbas"](#), *Interfax-Ukraine*, 14 February 2017.

["EU to Monitor Impact of Blockade on Civilians in Donbas"](#), *Ukrinform*, 18 March 2017.

["European Union Surprised By Ukraine's Donbas Blockade Decision"](#), *UATV English*, 16 March 2017.

Grytsenko, O. (2017), ["Russian-controlled Donbas Splits further from Ukraine"](#), *Kyiv Post*, April 28.

Hille, K. (2017), ["Merkel and Putin Struggle to Conceal Tensions at Sochi Summit"](#), *Financial Times*, 2 May.

Ilko Kucheriv Democratic Initiatives Foundation (2017), ["The Future of Occupied Territories in the Donbas: Possible Variants"](#), Weekly Informational-analytical News Bulletin "Focus on Ukraine", 13-19 February, pp. 4-7.

Jacobsen, K. (2017), ["New Fears in Ukraine's Coal Country: a Factory and its Workers Face Economic Hardship from Conflict and Blockades"](#), *U.S.News*, 28 March.

Kazanskyi, D., A. Nekrasova, I. Pavlov et al. (2017), ["The Real Price of Coal in the Wartime in Donbas: A Human Rights Perspective \(Summary of the Report\)"](#), Kyiv: East-Ukrainian Center for Civic Initiatives, p. 25.

Kostanyan, H. and S. Meister (2016), "Ukraine, Russia and the EU: Breaking the Deadlock in the Minsk Process", CEPS Working Document No. 423, CEPS, Brussels, June.

MFA of Ukraine (2017), [Verbatim Record of the Briefing by the Speaker of the MFA of Ukraine](#), 17 March.

Mirimanova, N. (2016), "Business Opportunities Lost . . . and Found: Small and Medium Sized Enterprises from Donbass Responding to the Conflict", Centre for Humanitarian Dialog, Geneva, November.

National Bank of Ukraine (2017), [IMF Fourth Loan Approval: a "Vote of Confidence" in Ukraine's Bank Reform](#), Press Release, 3 April.

OSCE (2014), [Memorandum of 19 September 2014 Outlining the Parameters for the Implementation of Commitments of the Minsk Protocol of 5 September.](#)

- OSCE (2014), [Protocol on the Results of Consultations of the Trilateral Contact Group, Signed in Minsk, 5 September](#).
- [“Package of Measures for the Implementation of the Minsk Agreements”](#), UN Peacemaker, 12 February 2015.
- [“SBU Updates Info on Number of Ukrainian Hostages in Russia, Donbas”](#), UNIAN, 6 May 2017.
- [Statement from the Embassy of the United States of America to Ukraine](#), 16 February 2017.
- [Statement of G7 Ambassadors on Disruption of Coal Supplies](#), 17 February 2017.
- [“Transport Blockade of Donbas Unacceptable – Lavrov”](#), *Interfax-Ukraine*, 9 March 2017.
- [“Ukraine: UN Warns of Civilian Casualties in ‘Face to Face’ Fighting in Country’s East”](#), UN News Center, 14 February 2017.
- [“Ukraine’s Death Toll Rises amid Escalation in Avdiivka”](#), UNIAN, 20 April 2017.
- [“Yeliseyev: Blockade of ORDLO Prevents EU from Imposing New Sanctions on Russia”](#), *Ukrinform*, 13 March 2017.
- [“В апреле промышленное производство сократилось на 6%”](#), *Экономическая Правда*, 23 мая 2017 [“Industrial Production decreased by 6% in April,” *Ekonomicheskaya Pravda*, 23 May 2017].
- Барабанов, И. (2017), [“Партнер у нас один — Российская Федерация”: Кто управляет заводами на территории самопровозглашенных ДНР и ЛНР](#), *Коммерсантъ*, 6 мая [Barabanov, I. (2017), “We have the only one partner — the Russian Federation: Who manages the factories on the territories of self-proclaimed DPR and LPR,” *Kommersant*, May 6].
- Бурмистрова, С., Парфентьева, И. (2017), [“Руду в ДНР и ЛНР будут поставлять через Росрезерв”](#), *РБК*, 13 Апреля [Burmistrova, S., Parfent’eva, I. (2017), “Ore will be supplied to DPR and LPR via Rosrezerv,” *RBK*, 13 April 2017].
- Бурмистрова, С., Ткачѳв, И. (2017) [“Медведев выделил 10 млрд рублей Росрезерву на закупку руды”](#), *РБК*, 11 мая [Burmistrova, S., Tkachev, I. (2017), “Medvedev has allocated 10 bn of Roubles to Rosrezerv for purchase of ore,” *RBK*, 11 May].
- [“В Крыму учрежден интеграционный комитет “Россия – Донбасс”](#), *Интерфакс-Россия*, 17 марта 2017 [The Integration Committee “Russia – Donbass” has been established in Crimea,” *Interfax-Russia*, 17 March 2017].
- Волинська обласна рада (2017), [Рішення № 10/74 від 2 лютого 2017 р. про звернення Волинської обласної ради до Верховної Ради України, Президента України, Кабінету Міністрів України щодо підтримки торговельної блокади](#) [Volyn regional Council (2017), Decision № 10/74 of 2 February 2017 on appeal to the Supreme Council of Ukraine, the President of Ukraine, the Cabinet of Ministers of Ukraine regarding support for a trade blockade].
- [“В первом квартале экономика Украины выросла на 2,4%”](#), *Экономическая Правда*, 15 мая 2017 [“Ukraine’s Economy has Grown by 2,4% in the First Quarter,” *Ekonomicheskaya Pravda*, 15 May 2017].

- [“В Украине рухнуло производство стали и проката”](#), *Новое Время - Бизнес*, 3 мая 2017 [“The production of steel and rolled steel has collapsed in Ukraine”, *Novoe Vremia - Biznes*, 3 May 2017].
- [“Вице-президент Еврокомиссии раскритиковал формулу “Роттердам + \(Документ\)”](#), *Бизнес Цензор*, 20 марта 2017 [“The Vice-President of the European Commission criticised the ‘Rotterdam+’ Formula (the document)”, *Biznes Cenzor*, 20 March 2017].
- Головатюк, Е. (2015), [“Янукович, Иванющенко, Аврамов: Кто еще поставляет уголь в Украину”](#), *ЛИГАБизнесИнформ*, 3 августа [Golovatiuk, E. (2015) “Yanukovyich, Ivaniushchenko, Avramov: Who else supplies Coal to Ukraine? *LIGABiznesInform*, 3 August].
- Горбулін, В. П., Власюк, О.С., Ляшенко, О.М. та ін. (2017), *Тимчасове припинення переміщення вантажів через лінію зіткнення у межах Донецької та Луганської областей: оцінки, наслідки, рішення: аналіт. оцінки НІСД, Київ* [Horbulin, V.P., Vlasiuk, O.S., Liashenko, O.M. et al. (2017), *The Temporal Cessation of Movement of Goods across the Contact Line within Luhansk and Donetsk Regions: Assessments, Consequences, Solutions. Analytical Assessments, the National Institute for Strategic Studies. Kyiv*], 64 p.
- [“ДНР” сорвала митинг шахтеров в Донецке “народными гуляниями”](#), *Новости донбасса*, 19 апреля 2017 [‘DPR’ has disrupted a rally of coal miners in Donetsk by organising ‘public festivals’, *Novosti Donbassa*, 19 April 2017].
- ДТЭК (2017), [“ДТЭК подтвердил закупку 600 тыс. тонн антрацита из ЮАР, первые отгрузки ожидаются в июне”](#), *Пресс-релиз*, 13 апреля [DTEK (2017), “DTEK has confirmed the purchase of 600 thousand tonnes of anthracite from the South African Republic,” *Press-release*, 13 April].
- Дятел, Т. (2017), [“Луганск запитают от российского тарифа: Электроэнергию для ЛНР спишут с ФСК”](#), *Коммерсантъ*, 27 апреля [Diatel, T. (2017), “Luhansk will be powered via Russian tariffs: Electric Energy for LPR will be written off at the expense of Federal Grid Company”, *Kommersant*, 27 April].
- Ильченко, В. (2017), [“Ф.А.О. по ТЭС и ТЭЦ: кого отключат от света из-за блокады и дефицита угля”](#), *Delo.ua*, 23 февраля [Ilchenko, V. (2017), “F.A.O. regarding TPPs and CHPs: who will experience electricity cuts because of the blockade and shortage of coal?”, *Delo.ua*, 23 February].
- Кабінет міністрів України (2017), [Постанова № 99 від 1 березня 2017 р. про затвердження Порядку переміщення товарів до району або з району проведення антитерористичної операції](#) [The Cabinet of Ministers of Ukraine (2017), *Regulation № 99 of 1 March 2017 on the movement of goods across the line of contact in the area of the anti-terrorist operations*].
- Катерининский, М. (2017), [“Граница ДНР”: Прохождение и наказание”](#), *Новости Донбасса*, 24 марта [Katerininskiy, M. (2017), “The DPR border”: Crossing and Punishment”, *Novosti Donbassa*, March 24].
- Кириллов, Д. (2017), [“Донбасс забирает активы олигархов: ДНР и ЛНР объявили о введении временных администраций на предприятиях Донбасса”](#), *Газета.Ru*, 11 февраля [Kirillov, D. (2017), [“The Donbas takes oligarchs’ assets: DPR and LPR have announced the introduction of ‘Interim Administrations at Donbas Enterprises”, *Gazeta.Ru*, February 11].

Кириллов, Д. (2017), [“Донбасс можно вернуть только дипломатией”: Эксклюзивное интервью с украинским министром по делам оккупированных территорий](#), *Газета.Ru*, 19 января [Kirillov, D. (2017), “The Donbas can be returned only by diplomacy”: an exclusive interview with the Ukrainian Minister on the issues of occupied territories, *Gazeta.Ru*, January 19].

Купріянова, І. (2015), [“Боротьба з контрабандою в зоні АТО – хто стріляє в спину?”](#), *Deutsche Welle (DW)*, 4 вересня [Kupriianova, I. (2015), “The fight against smuggling in the ATO Zone – Who shoots in the back?”, *Deutsche Welle (DW)*, 4 September].

Куришко, Д. (2015), [“Як мобільні групи борються з контрабандою в АТО”](#), *ВВС Україна*, 23 вересня [Kuryshko, D. (2015), “How do the mobile groups fight against smuggling in the ATO zone?”, *BBC Ukraine*, 23 September].

[“Лавров назвал неприемлемыми попытки блокады Донбасса в расчёте на капитуляцию региона”](#), *Russia Today*, 27 марта 2017 [“Lavrov called attempts to blockade the Donbas an unacceptable instrument to pushing the region to capitulate”, *Russia Today*, 27 March 2017].

Маркевич, К. (2017), [“Енергетична сфера: куди прямуємо”](#), *Рейтинг*, Випуск № 1, Березень [Markevych, K. (2017), “Energy Sector: where are we heading?” *Reitynh*, Issue 1, March], pp. 50-57.

МИД РФ (2016), [“Ответ официального представителя России М.В.Захаровой на вопрос СМИ относительно заявлений “ветеранов” украинских т.н. добровольческих батальонов о необходимости торговой блокады Донбасса, 28 декабря 2016](#) [MFA of the Russian Federation (2016), “The answer of the official representative of MFA of the Russian Federation M.V.Zakharova to a question posed by media about statements of ‘veterans’ of so-called Ukrainian volunteer battalions regarding the necessity of a trade blockade of the Donbas, 28 December].

[“Міненерго пропонує заборонити ввозити вугілля з Росії – Насалик”](#), *Радіо Свобода*, 19 квітня 2017 [“The MinEnergo proposes to prohibit the import of coal from Russia – Nasalyk”, *Radio Svoboda (RFE/RL)*, 19 April 2017].

[“НАБУ начало расследование по делу “Роттердам+”](#), *Интерфакс-Украина*, 6 апреля 2017 [“The NABU launched an investigation regarding the case of “Rotterdam+”, *Interfax-Ukraine*, 6 April 2017].

[“На Донбассе увеличили норму провоза вещей через линию разграничения”](#), *Новости Донбасса*, 29 мая 2017 [“The amount of goods allowed for transportation across the Contact Line in the Donbas has been increased”, *Novosti Donbassa*, 29 May 2017].

[“На енергоблоці №2 Зміївської ТЕС розпочато пусконаладжувальні роботи”](#), ПАТ “Центренерго”, 31 травня 2017 [“Starting-up and adjustment works have been launched at the Power Unit №2 of Zmiivska TPPs”, “PJSC “Tsentroenergo”, 31 May 2017].

Непряхина, Н. (2017), [“МВФ просит уточнить: у Кабмина есть первые расчеты финансовых потерь от блокады ОРДЛО”](#), *РБК-Украина*, 20 марта [Nepriakhina, N. (2017), “IMF asks for clarification: the Cabinet of Ministers has first estimates of financial losses due to the blockade of ORDLO”, *RBK-Ukraine*, March 20].

Омельченко, В. (2017), [“Чи можна не купувати вугілля з “ЛНР”-“ДНР”?”](#), Центр Разумкова, 8 лютого [Omelchenko, V. (2017), “Is it possible not to buy coal from ‘LPR’-‘DPR’?”, Razumkov Center, 8 February].

[“ПАТ “Центренерго” активно працює над заміщенням антрацитового вугілля,”](#) ПАТ “Центренерго”, 17 лютого 2017 [“PJSC “Tsentroenergo” is actively working on the replacement of the anthracite coal”, “PJSC “Tsentroenergo”, 17 February 2017].

[“Порошенко назвав блокаду ОРДЛО спецоперацією по виталкиванню “ДНР” и “ЛНР” в Россию”](#), УНИАН, 20 марта 2017 [Poroshenko called the blockade of ORDLO (the separate districts of Donetsk and Luhansk Regions) a Special Operation on pushing out ‘DPR’ and ‘LPR’ into Russia”, UNIAN, 20 March 2017].

Рахманин, С. (2017), [“оГРАБЛИнный президент”](#), Зеркало Недели, № 10, 17 марта [Rakhmanin, S. (2017), “oGRABLIInnyi President”, Zerkalo Nedeli, № 10, March 17].

[“Росрезерв подтвердил, что Россия оказывает гуманитарную помощь предприятиям Донбасса”](#), ТАСС, 14 апреля 2017 [“Rosrezerv has confirmed that Russia provides humanitarian assistance to Donbas enterprises,” TASS, 14 April 2017].

Рясний, Д. (2017), [“Глава ДТЕК: Ми люди виховані, щоб не відкривати двері в міністерство ногами, відкриваємо руками”](#), Економічна Правда, 27 квітня 2017 [Riasnyi, D. (2017), “The Head of DTEK: We are well-mannered people to allow ourselves to open doors with hands not feet”, Ekonomichna Pravda, 27 April 2017].

Самаева, Ю. (2017), [“Сливаем”](#), Зеркало Недели, №10, 18 марта [Samaeva, Yu. (2017), “We are Nixing it,” Zerkalo Nedeli, №10, 18 March].

Служба Безпеки України (2017), [Наказ №222 від 14.04.2017 про тимчасовий порядок контролю за переміщенням осіб через лінію зіткнення у межах Донецької та Луганської областей](#) [The Security Service of Ukraine (2017), Order № 99 of 14 April 2017 on the Temporary Control Procedure over the Movement of Persons across the Line of Contact within Donetsk and Luhansk regions].

[Указ Президента України №298/2015 від 28 травня 2015 року про рішення Ради національної безпеки і оборони України від 6 травня 2015 року “Про стан виконання рішення Ради національної безпеки і оборони України від 4 листопада 2014 року “Про стан забезпечення енергетичної безпеки держави та невідкладні заходи щодо сталого проведення опалювального сезону 2014/15 року” та додаткові заходи для гарантованого забезпечення вітчизняних споживачів енергоносіями”](#) [Decree of the President of Ukraine №298/2015 of 28 May 2015 regarding the decision of the National Security and Defense Council of Ukraine of 6 May “About the condition of the execution of the decision of the National Security and Defense Council of Ukraine of 4 November 2014 “About the condition of provision of the energy security of the state and urgent measures on the stable conduct of the 2014/2015 heating season” and about additional measures on guaranteed provision of the domestic consumers with energy carriers”].

[Указ Президента України №876/2014 від 14 листопада 2014 року про рішення Ради національної безпеки і оборони України від 4 листопада 2014 року “Про стан забезпечення енергетичної безпеки держави та невідкладні заходи щодо сталого проведення](#)



[опалювального сезону 2014/15 року](#) [Decree of the President of Ukraine №876/2014 of 14 November 2014 regarding the decision of the National Security and Defense Council of Ukraine of 4 November 2014 “About the condition of provision of the energy security of the state and urgent measures on the stable conduct of the 2014/2015 heating season].

[“Формула “Роттердам+” принесла тепловой генерации Украины более 10 миллиардов - эксперт”](#), УНИАН, 14 февраля 2017 [The “Rotterdam+” Formula Provided Ukraine's Thermal Generation industry with more than UAH 10 bn – the Expert”, UNIAN, 14 February 2017].

[“Что означает признание паспортов ДНР и ЛНР для жителей Донбасса”](#), Русская служба BBC, 20 февраля 2017 [“What the recognition of LPR and DPR passports means for the Donbas residents”, BBC Russian Service, 20 February 2017].

Шейко, Ю. (2017), [“Блокада Донбасса и отсрочка кредита МВФ - для Украины шок, но не катастрофа”](#), Deutsche Welle (DW), 21 марта [Sheiko, Yu. (2017), “The Donbas Blockade and Postponement of IMF’s Credit – it is a Shock for Ukraine but not a Catastrophe”, DW, March 21].

Шуклинов, П. (2016), [Интервью с Александром Турчиновым](#), LIGA.net [Shuklinov, P. (2016), An interview with Aleksandr Turchinov, LIGA.net].