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# Ukraine: Current Issues and U.S. Policy

**Steven Woehrel**

Specialist in European Affairs

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## Summary

Many observers have expressed concern about Ukraine's democratic development, including the government's use of the courts to neutralize opposition leaders, most notably former Prime Minister Yuliya Tymoshenko, who was sentenced to a seven-year prison term in 2011. The government's effort in November 2013 to violently disperse pro-European Union protests backfired, resulting in mass demonstrations in Kyiv and elsewhere in Ukraine. For over two months, the government alternated between attempted crackdowns against the protestors and conciliatory gestures. The most serious violence has occurred during and after a massive government crackdown on February 18-20, resulting in at least 88 deaths, mainly among protestors but also including some police officers. The violence led to a collapse in support for the government of President Viktor Yanukovich, who fled from Kyiv, as did many of his supporters, and the seizure of power by opposition parties, with the support of the protestors. The parliament is expected to approve a new, pro-reform, pro-Western government by early March. The parliament has scheduled new presidential elections for May 25, 2014.

Ukraine's new government will face serious economic problems. Ukraine has long-standing problems in attracting foreign investment, in part due to rampant corruption and other shortcomings in the rule of law. Living standards for many Ukrainians remain low. In the near term, the government's dwindling foreign exchange reserves have raised the prospect of a default on sovereign debt later this year, unless the government can secure new loans quickly.

The Obama Administration reacted positively, but cautiously, to the revolution in Kyiv, saying it could be a step forward to the U.S. goal of a strong, prosperous, unified, and democratic Ukraine. The Administration is working with the EU, the IMF, and other international financial organizations to support a new Ukrainian government committed to reforms. Last year, the Obama Administration requested \$95.271 million in U.S. bilateral aid for Ukraine for FY2014.

President Obama and Administration officials have made statements that appear to be aimed at dissuading Moscow from seeing the situation in Ukraine as a geopolitical competition between the United States and Russia. However, this effort has met with limited success, judging by the harsh public reaction from Moscow over the fall of the Yanukovich regime. Although it formally expresses support for Ukraine's territorial integrity, some experts have expressed concern that Russia may take steps to "punish" the new leadership in Kyiv by imposing economic sanctions or encouraging separatism in Ukraine's Crimea region.

Congress has considered legislation on the current crisis in Ukraine. On January 7, 2014, the Senate passed S.Res. 319. The resolution urges the United States and EU to work together to promote a peaceful resolution of the crisis that moves Ukraine toward a future in the Euro-Atlantic community and states that, in the event of further government violence against peaceful protestors, the President and Congress should consider targeted sanctions, including visa bans and asset freezes, against individuals responsible for ordering or carrying out the violence. On February 10, 2014, the House approved H.Res. 447. The resolution is broadly similar to S.Res. 319. The resolution expresses support for the visa bans that the United States has already imposed on Ukrainian officials responsible for violence against protestors, and urges the Administration to consider additional sanctions against those responsible for the use of force.

After the collapse of the Yanukovich regime in February 2014, congressional action may shift from a focus on possible sanctions to how the United States should aid the new Ukrainian government to achieve stability and conduct reforms.



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## Background

Ukraine, comparable in size and population to France, is a large, important, European state. The fact that it occupies the sensitive position between Russia and NATO member states Poland, Slovakia, Hungary, and Romania adds to its geostrategic significance. Many Russian politicians, as well as ordinary citizens, have never been fully reconciled to Ukraine's independence from the Soviet Union in 1991, and feel that the country belongs in Russia's political and economic orbit. The U.S. and European view (particularly in Central and Eastern Europe) is that a strong, independent Ukraine is an important part of building a Europe whole, free, and at peace.

From the mid-1990s until 2004, Ukraine's political scene was dominated by President Leonid Kuchma and oligarchic "clans" (groups of powerful politicians and businessmen, mainly based in eastern and southern Ukraine) that supported him. His rule was characterized by fitful economic reform, widespread corruption, and a deteriorating human rights record.

Ukraine's 2004 presidential elections were marred by electoral fraud, which triggered massive street protests. The oligarchs chose Prime Minister Viktor Yanukovich as their candidate to succeed Kuchma. The chief opposition candidate, former Prime Minister Viktor Yushchenko, was a pro-reform, pro-Western figure. After a November 21 runoff vote, Ukraine's Central Election Commission proclaimed Yanukovich the winner. Yushchenko's supporters charged that massive fraud had been committed. Hundreds of thousands of Ukrainians took to the streets, in what came to be known as the "Orange Revolution," after Yushchenko's chosen campaign color. They blockaded government offices in Kyiv and appealed to the Ukrainian Supreme Court to invalidate the vote. The court did so and set a repeat runoff vote. Yushchenko won the December 26 re-vote, with 51.99% of the vote to Yanukovich's 44.19%.

The "Orange Revolution" sparked a good deal of interest in Congress and elsewhere. Some hoped that Ukraine could finally embark on a path of comprehensive reforms and Euro-Atlantic integration after years of half-measures and false starts. However, subsequent events led to disillusionment among Orange Revolution supporters, both in Ukraine and abroad. President Yushchenko soon fell into squabbling with Yuliya Tymoshenko, his main backer during the Orange Revolution and his first prime minister. Yanukovich, who also served briefly as prime minister during this period, also was involved in this infighting. As Ukrainian leaders engaged in this three-sided political battle, an overwhelming majority of Ukrainians grew disgusted with the Ukrainian political class, according to opinion polls.

What little remained of the ideals of the Orange Revolution came to an end with the victory of Yanukovich over Tymoshenko in the presidential election of February 2010. Yanukovich won 48.98% to Tymoshenko's 45.47%. As in past elections, the results showed a sharp regional split, with Yanukovich winning in Russian-speaking eastern and southern Ukraine, while Tymoshenko prevailed in central and western Ukraine, where Ukrainian nationalism is stronger. International monitors praised the conduct of the election.

Yanukovich's government was criticized over its human rights record. In particular, U.S. and EU officials expressed strong concern over the government's targeting of opposition leaders for selective prosecution. In the most prominent case, in October 2011 Tymoshenko was convicted of abuse of power arising out of her role in signing a natural gas supply agreement with Russia and sentenced to seven years in prison. Ukraine's October 2012 parliamentary elections fell short of international standards, according to international election observers.

After the elections, the Party of Regions was able to form a working parliamentary majority with the help of the Communist Party and independent deputies. Ukrainian commentators noted that the new government formed after the election included several new figures that were part of the personal entourage of the President and his son, Oleksandr (colloquially known as “the Family.”) These analysts claimed that these moves marked the “Family’s” consolidation of political power, which has in turn assisted the group’s ongoing efforts to seize control of a large share of Ukraine’s economic assets.

Until a few months ago, many observers have believed that, despite growing dissatisfaction with the government, there was little likelihood of public unrest in Ukraine, given widespread disillusionment with the outcome of the Orange Revolution. However, this situation changed suddenly in November 2013. On November 21, the government made a last-minute decision to not sign an Association Agreement with the European Union, due to Russian pressure. The about-face sparked anti-government demonstrations. The first demonstrations in Kyiv in late November were relatively modest in size.

However, on November 30, Ukrainian special police attacked and viciously beat peaceful protestors (many of them young people) in Kyiv’s central *Maidan Nezalezhnosti*, or Independence Square. The action outraged many Ukrainians, and resulted in a massive upsurge in participation in the protests in Kyiv. Smaller protests occurred in other Ukrainian cities, mainly in opposition strongholds in western and central Ukraine. According to some observers, the turnout in Kyiv at times even exceeded those during the Orange Revolution.

Observers noted that demonstrators were not just protesting against Ukraine’s failure to sign the Association Agreement, but against the government’s lack of respect for the basic human dignity of Ukraine’s citizens, as exemplified in the November 30 beatings, but also in other areas, such as the rampant corruption among government officials. An attempt by riot police to clear the square on December 10 failed due to the resistance of the protestors.

By mid-January, the *Maidan* protests were continuing, but with fewer protestors than at their peak in early December. Perhaps seeing a chance to “restore order,” on January 16, the Party of Regions and its allies in the Ukrainian parliament rapidly approved, by a show of hands, a series of laws sharply increasing criminal penalties for many of the activities associated with the protests, such as seizing public buildings, wearing helmets, setting up tents or a stage, etc. Another law requiring all organizations receiving foreign funding to register as foreign agents appears to be based on a similar Russian law.

The new measures were fiercely condemned by the opposition parties and the protestors as the “dictatorship laws.” After their adoption, violence between the most militant of the protestors and police increased sharply. At least four persons were killed in the violence, while scores of others were brutalized by police. Several government ministry buildings in Kyiv were either blockaded or seized by protestors. In addition, protestors seized control of or blockaded government buildings outside of Kyiv, mainly in western and central Ukraine, but also in some places in the east. After this setback, the government again appeared to adopt a strategy of backpedaling and playing for time. On January 28, Prime Minister Mykola Azarov resigned. On the same day, the Ukrainian parliament voted to repeal the “dictatorship laws” and adopted a law to give amnesty to the protestors.

## Current Political Situation

After pausing for several weeks to gather its forces once again, on February 18 the government embarked on its most violent crackdown attempt against the *Maidan*, one that quickly resulted in the regime's own demise. Elite "*Berkut*" riot police attempted to clear protestors from the *Maidan* and other areas of Kyiv, with the support of roving gangs of street thugs hired by the government. 88 persons, mostly protestors but also some police officers, were killed on the 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup>. Many hundreds more were injured. Many casualties were caused by firearms, mainly used by the police, including by snipers. The government reportedly had plans to use snipers much more extensively and also unsuccessfully tried to order the army to join the crackdown.

The death toll may have caused support in the Ukrainian parliament for the crackdown and the regime to collapse. On February 20, it approved a resolution calling for the pullout of the Interior Ministry and military forces from Kyiv to their bases and a ban on the use of firearms. Of the 450-member body, 239 were present for the vote; 236 voted for the resolution. Once the police and military complied with the resolution, groups of protestors seized key government buildings. Yanukovich and scores of his supporters in the government and parliament fled the capital by the 21<sup>st</sup>, many heading for the eastern and southern parts of the country, while others continued into Russia.

The Ukrainian parliament, now composed mainly of opposition deputies, has rapidly passed sweeping measures with little or no opposition. The parliament deposed Yanukovich as President on February 22 for abandoning his duties. On the same day, Yuliya Tymoshenko was released from prison. Oleksandr Turchynov, a long-time top aide of Tymoshenko, was elected as speaker of the parliament, replacing the resigned incumbent from the Party of Regions. The parliament also voted to make Turchynov acting president until new presidential elections are held, which the parliament set for May 25. The parliament restored the provisions of the 2004 Ukrainian constitution, eliminating changes made by Yanukovich to strengthen the presidency. Ex-President Yanukovich and dozens of other top officials of the former regime are being sought by police for their part in killing and injuring *Maidan* protestors and other regime opponents. Yanukovich was last seen in Crimea, and his

### Key Parties in Ukraine's Parliament

**Party of Regions:** Until February 2014, the party of the ruling regime and by far the largest faction in the Ukrainian parliament. It has drawn its support from eastern Ukraine, where suspicion of Ukrainian nationalism is high and support for close ties with Russia is strong. It defends the economic interests of powerful oligarchic business groups. Since the collapse of the Yanukovich regime in February 2014, scores of deputies have fled from Kyiv or left the party, with most of the rest apparently unwilling or unable to offer serious resistance to the new leadership, at least for now.

**Fatherland:** Founded by Yuliya Tymoshenko, Fatherland has run on a populist, anti-corruption platform. It draws its support from western and central Ukraine, where Ukrainian nationalism is strongest. After the collapse of the Yanukovich regime in February 2014, Fatherland effectively became the leading faction in Ukraine's parliament.

**Ukrainian Democratic Alliance for Reform (UDAR):** Founded by heavyweight boxing champion Vitali Klitchko (the acronym "UDAR" means "punch" in Ukrainian), UDAR relies chiefly on the personal popularity of Klitchko. Its platform, while expressing opposition to the former regime's corruption, has been criticized for lacking in specifics.

**Freedom:** A party espousing extreme Ukrainian nationalism and economic populism, Freedom receives its support from western Ukraine, where Ukrainian nationalism is strongest. Some observers have attributed its success to disillusionment with the Fatherland and other opposition groups rather than a surge in support for extreme Ukrainian nationalism. Its activists played a key role in fighting against riot police in the *Maidan* protests. The party is led by Oleh Tyahnybok.

**Communist Party:** The Communist Party has been overtaken by the Party of Regions in its eastern Ukraine strongholds and has a largely elderly electorate. It opposes market economics and favors strong ties to Russia.

present whereabouts are unknown. Meanwhile, Yanukovich-appointed governors and other local officials have resigned in many regions of Ukraine, although mainly in western and central Ukraine.

The parliament has dismissed the members of the former government, and parties in the parliament are putting together a “government of national trust” to govern the country, at least until a new president is elected. The proposed choices for a new government were presented to a crowd of tens of thousands in the *Maidan* on February 26. They include both representatives of the opposition parties and *Maidan* activists. Fatherland leader Arseniy Yatsenyuk was nominated as Prime Minister.

Ukraine’s new government will face serious political challenges. One is maintaining the support of the social and political forces that have emerged from the *Maidan*. Throughout the protests, the opposition parties have been playing catch-up with sentiment on the streets. Observers have witnessed expressions of scorn at times from demonstrators as opposition party leaders spoke at the *Maidan*. On February 21, the foreign ministers of Poland, Germany, and France brokered an agreement between the regime and the main opposition party leaders that appeared to *Maidan* protestors to allow the regime to play for time yet again, frustrating the protests’ main objective, which was to oust Yanukovich and his government. The agreement was almost instantly rendered moot when the regime collapsed and armed protestors took over central Kyiv. Many *Maidan* protestors view the opposition parties very skeptically, suspecting that they are nearly as opportunistic and corrupt as the Yanukovich regime, as demonstrated by the failure of the Orange Revolution 10 years earlier. Yatsenyuk was reportedly booed on the *Maidan* when his name was read out as Prime Minister-designate.

Also potentially troublesome is the future role of the far-right nationalist groups such as *Pravy Sektor* (Right Sector). Due to their key role in defending the *Maidan* and even taking the fight to the regime, and therefore suffering a significant number of deaths and injuries, they are highly respected among many protestors. Some members of the former regime have alleged intimidation and even violence at their hands. As is the case in many revolutions, it is unclear what role the most determined revolutionaries can play when the fighting is or should be over and a return to stability could potentially marginalize them.

Another issue is possible separatism in the eastern and southern regions of the country, where the former regime drew most of its support. Top leaders from eastern and southern Ukraine met in Kharkiv on February 22 and issued a statement declaring that they did not recognize the new authorities in Kyiv and that they would assume responsibility for their regions. Many of the leaders, perhaps sensing a lack of public support for separatism, later denied that this was their goal and that they sought “federalization” or “decentralization.” Clashes between pro and anti-*Maidan* forces in these regions, although relatively small-scale so far, could also inflame tensions.

The veiled threat of separatism may be a bargaining chip local leaders and oligarchs in the east and south could try to use against the new authorities to secure immunity from prosecution and guarantees for their (often vast and ill-gotten) property. Some observers believe the situation in Crimea could pose the biggest threat, due to what may be somewhat greater support among ethnic Russians in Crimea for union with Russia, and the stated willingness of Russia to “support” its citizens in Crimea. Previous efforts by Crimean leaders to promote union with Russia were headed off in part by deploying “*Berkut*” and other special forces to the peninsula. However, the current Ukrainian government is disbanding the *Berkut*, and the perceived weakness of the authorities in Kyiv could potentially be exploited by Crimea and Russia.



## Current Economic Situation

Ukraine is much poorer than other European countries, despite advantages such as rich soil, a strategic location, and a substantial heavy industrial sector. In 2011, Ukraine's Gross Domestic Product (GDP) per capita in purchasing power parity terms was only 21% of that of the EU average and only 43% of Russia's. In 2010 its foreign direct investment (FDI) per capita was \$979, less than half of that in Russia and about a quarter of Poland's FDI per capita. Foreign companies often cite such issues as rampant corruption and serious shortcomings in the rule of law (including a weak judiciary) as key stumbling blocks to foreign investment. The privatization process under the Yanukovich administration apparently served mainly as a division of spoils among the oligarchs and the "Family" of Yanukovich.

Due in part to these shortcomings, Ukraine was hit very hard by the global economic crisis. Ukraine's real GDP fell by 15.1% in 2009. The economy soon rebounded, growing by 4.2% in 2010 and by 5.2% in 2011. However, growth slowed to 0.2% in 2012, due to a downturn in the EU and Russia. Real GDP dropped by an estimated 1% in 2013.

In 2010, the International Monetary Fund (IMF) approved a \$15.15 billion standby loan for Ukraine to support its reform efforts. Two tranches of the loan were disbursed, but the IMF declined to release additional ones, due to Ukraine's refusal to take politically unpopular steps such as increasing energy prices for domestic consumers and devaluing Ukraine's currency, the hryvnia. Ukraine received loans from Russia and China to try to make up for the suspension of the IMF loan. Ukraine also raised large additional loans on the Eurobond market and on domestic debt markets.<sup>1</sup>

However, this policy appeared to have reached a dead end in late 2013, even before the political turmoil that started in November 2013. Ukraine's foreign exchange reserves dropped to dangerously low levels, raising fears that Ukraine could default on its sovereign debt in 2014. Efforts to seek additional money on the Eurobond market in mid-2013 failed, due to a lack of confidence in Ukraine's economic policies and the global impact of the U.S. Treasury's decision to taper its bond-buying program. In December 2013, Russia took advantage of this situation to offer to buy up to \$15 billion in Ukrainian bonds at a favorable interest rate. The first purchase of \$3 billion was made in late December. Given the fall of the Yanukovich regime in February 2014, it appears unlikely that Russia will make further bond purchases.

Ukraine's political crisis has exacerbated the country's economic problems. Ukraine's currency has slid by nearly 30% between the start of the crisis on November 21, 2013, and late February 2014. Tax receipts have plunged, and the government is running out of money to pay pensions and government salaries.

Ukraine's acting finance minister had called for international donors to supply \$35 billion in macroeconomic financing over the next two years. However, the IMF, the EU, and other potential donors have warned that Ukraine must have a new government in place and provide assurances that it is willing to engage in needed reforms before funding can be made available.

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<sup>1</sup> Economist Intelligence Unit Country Report: Ukraine, February 2014.

## **Ukraine's Foreign Policy**

Since achieving independence in 1991, conflict between Ukraine's political forces has led its foreign policy to appear incoherent, as the contending forces pulled it in pro-Western or pro-Russia directions or simply neglected foreign policy as less important than domestic political combat and the division of the spoils of victory. Ukrainian leaders gave lip service to joining NATO and the European Union, but did little to meet the standards set by these organizations. Ukrainian leaders also promised closer ties with Russia in exchange for Russian energy at subsidized prices, but balked at implementing agreements with Russia that would seriously compromise Ukraine's sovereignty, such as ceding control over Ukraine's energy infrastructure to Moscow. President Yanukovich's foreign policy appeared to fit into this pattern, although he broke with previous Ukrainian presidents by formally rejecting NATO membership for Ukraine. However, Yanukovich's last-minute decision in November 2013 to decline to sign an Association Agreement with the EU, due to Russian pressure, caused many observers to express concern about the independence of Ukraine's foreign policy. His failure to do so touched off a popular revolt that led to the collapse of his regime three months later, and the emergence of what is likely to be a pro-EU, pro-Western government.

A new government will have to be installed before Ukraine's new foreign policy course is formally determined. However, it is likely that Ukraine will sign the Association Agreement in the next few weeks or months. The new government may face a backlash from a furious Russian leadership. Russian responses could involve de facto trade sanctions, manipulation of energy prices and debts, harassment of Ukrainian citizens working in Russia, and even support for separatist activity in southern and eastern Ukraine.

## **European Union**

Ukraine seeks eventual EU membership, but most EU countries have opposed raising this issue, in part due to the huge burden a large, poor country like Ukraine could place on already-strained EU coffers. In 2009, the EU launched the Eastern Partnership program, a regional approach to cooperation with the region that includes Ukraine, Belarus, Moldova, Georgia, Armenia, and Azerbaijan.

Ukrainian President Viktor Yanukovich was expected to sign an Association Agreement (AA) with the European Union at a summit of the Eastern Partnership in Vilnius, Lithuania, on November 28-29, 2013. The Association Agreement is the EU's main instrument to promote European values in these countries and deepen economic ties with them. The agreement includes a free trade agreement with the EU, formally known in EU jargon as a Deep and Comprehensive Free Trade Agreement (DCFTA). Although the DCFTA further opens potentially lucrative EU markets to Ukraine, it also requires it to adopt EU legislation and standards and to expose its own firms to tough competition from EU imports. Approximation to EU norms could also lead to increased foreign investment in Ukraine. Under intense pressure from Russia, which strongly opposed Ukraine's intention to sign the AA, the Ukrainian government announced on November 21 that it would not sign the agreement at the Vilnius summit, the start in a series of events that led to the regime's demise three months later.

EU officials and officials of EU member governments condemned violence by the Ukrainian government and their allies against peaceful protestors. They called on the Ukrainian government to quickly adopt the steps needed to end the political crisis in Ukraine peacefully. In particular,

German Chancellor Angela Merkel and European Commission President Jose Manuel Barroso reportedly combined with Vice President Joseph Biden to press Yanukovich on these issues by near-daily telephone calls. On February 21, the foreign ministers of France, Germany, and Poland came to Kyiv and brokered a peaceful settlement of the crisis, which was almost immediately rendered obsolete by the collapse of the regime.

The EU at first refrained from imposing sanctions against Ukrainian leaders responsible for the violence, due to divisions among its member states. Some countries, such as Lithuania, have supported the adoption of sanctions to deter the government from further violence. Other countries, including Germany, have called for caution, believing the deterrent effect of the prospect of sanctions is sufficient for now, but that actually applying sanctions could lead Ukraine's leaders to cut off talks with the EU and United States on a peaceful solution. However, after a sharp escalation of the violence on February 18 and 19, the EU decided to impose a visa ban and asset freezes on Ukrainian officials responsible for violence.

The EU budgeted €470 million (\$682 million) in aid for reforms in Ukraine for 2011-2013.<sup>2</sup> The assistance covers such areas as energy cooperation, strengthening border controls, bolstering the judiciary and the rule of law, and addressing environmental concerns. Funding totals for Ukraine's reforms for 2014-2020 are expected to be determined soon. This amount would be in addition to any macrofinancial aid that may be provided by the EU as part of a possible emergency program to stabilize Ukraine's finances.

The collapse of the Yanukovich regime in February 2014 appears to have brightened prospects for a closer relationship with the EU. Parliament speaker and acting President Turchynov has called for Ukraine to sign the Association Agreement soon after the new government is formed. However, a spokesman for the European Commission has suggested that the signature should wait until after a new president is elected in May or June. In any case, EU officials are working with the United States, the IMF, and other international financial institutions on an aid package for Ukraine, part of which could go into effect soon after a new government is formed.

## **Russia**

Ukraine's closest, yet most difficult and complex, relationship is with Russia. Ethnic Russians make up 17.3% of Ukraine's population, according to the 2001 Ukrainian census. They are concentrated in the southern and eastern parts of the country. They form a majority in the Crimea (a peninsula in the Black Sea in southern Ukraine), where they make up 58.3% of the population. In the Crimean city of Sevastopol, the home base of the Russian Black Sea Fleet, 71.6% of the population is Russian. In addition, ethnic Ukrainians in the east and south also tend to be Russian-speaking, are suspicious of Ukrainian nationalism, and support close ties with Russia. Soviet leaders concentrated important heavy industries in eastern Ukraine, which tied them to Russia economically and fostered what many analysts have viewed as a lingering Soviet-style mindset there. This is particularly true of the Donbas region, from which many key figures of the former Ukrainian government come. Russian officials have often tried to play on the ethnic, cultural, and economic ties between Russia and these regions, but not always successfully.

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<sup>2</sup> See March 2011 EU press release at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/250&format=HTML&aged=0&language=EN&guiLanguage=en>.

Russia has expressed strong opposition to Ukraine's possible signing of an Association Agreement with the EU. Russian officials have urged Ukraine to join the Customs Union it has created with Belarus and Kazakhstan. Many experts in Russia and elsewhere have claimed that the Customs Union and a Eurasian Union planned for 2015 would be economically much less attractive to Russia without the participation of Ukraine, the second-largest country in the region. For its part, the EU has made clear that Customs Union membership for Ukraine would be incompatible with Ukraine's proposed free trade agreement with the EU.

Russian officials asserted that if Ukraine signed the Association Agreement, the Customs Union would have to put up customs barriers against Ukrainian products to prevent their own markets being flooded by EU goods. Moscow claimed that the effect of the customs barriers in the east and a surge of EU imports from the west would devastate the Ukrainian economy. In addition to economic concerns, Russian leaders may also fear the impact of the possible expansion of EU standards of democracy and human rights in the region on the long-term stability of the current Russian regime.

Given this situation, it is perhaps not surprising that Russia did not limit itself to verbal warnings. Starting in August 2013, Russia banned imports of Ukrainian chocolates from Roshen, a company owned by a strong supporter of the Association Agreement. Russian officials also briefly held up steel and other key Ukrainian exports to Russia at the border for detailed customs checks.

After Ukraine bowed to Russian pressure and declined to sign the Association Agreement, Russia moved to reward Ukrainian leaders. On December 17, Ukrainian officials announced that Moscow had granted a large aid package to Ukraine, including an offer to purchase up to \$15 billion in Ukrainian government bonds and cut the price of Russian natural gas supplied to Ukraine by one-third. Ukraine's energy minister estimated the yearly savings to Ukraine of the price cut at \$7 billion. The terms of the package seemed to indicate that Moscow wanted to keep Ukraine on a short leash. The gas price cut will be reviewed on a quarterly basis. The first \$3 billion purchase of Ukrainian bonds was made in December 2013. However, Russia declined to make additional bond purchases due to the unstable situation in Ukraine. The collapse of the regime in February 2014 will likely put an end to the bailout package.

Russia reacted with hostility to the collapse of the Yanukovich regime in February 2014 and the emergence of a new, more pro-Western leadership. Prime Minister Dmitry Medvedev denounced Yanukovich's ouster as an "armed mutiny" and said that Russia would find it hard to work with a government composed of "Kalashnikov-toting people in black masks." He said the situation in Ukraine posed a threat to the lives of Russian citizens there. A Russian foreign ministry statement on February 24 claimed that "terroristic methods" were being used to suppress dissent in the Russian-speaking regions of the country. The statement also criticized "Western partners" for acting not out of concern for the people of Ukraine, but out of "unilateral geopolitical considerations."

Although Russia officially supports Ukraine's territorial integrity, before the collapse of the Yanukovich regime, a key advisor to President Putin called for Ukraine's "federalization," which many Ukrainian observers fear is a code word for the breakup of the country. In February 2014, before the collapse of the Yanukovich government, a Russian diplomat in Ukraine claimed that a de facto federalization was already taking place in Ukraine, prompting a rebuke from the Ukrainian government.

Some analysts expressed concern that Russia may now step up support to separatist elements in Ukraine, particularly in Crimea. This could involve speeding up the issuing of passports to those in Crimea desiring Russian citizenship. Some observers fear that the move could lay the groundwork for a possible future Russian intervention in the name of “protecting Russian citizens.” On February 26, Russia announced that its army and naval forces would hold readiness exercises on Ukraine’s borders starting February 28.

Even if it stopped short of military intervention, given its prior record in Ukraine and other post-Soviet countries, Russia could attempt to pressure, punish, or destabilize Kyiv by imposing de facto trade sanctions against Ukraine; expelling or harassing the large number of Ukrainian citizens working in Russia; or manipulating Ukraine’s dependence on Russia for energy.

## **Energy Issues**

Energy is a key factor in Russian-Ukrainian relations. Ukraine is heavily dependent on Russia for its energy supplies. In the recent past, about 80% of its oil and natural gas consumption came from Russia. However, Ukraine’s vulnerability to Russian pressure has been mitigated by the fact that the main oil and natural gas pipelines to Central and Western Europe transit its territory. In 2012, according to EU Energy Commissioner Gunter Oettinger, about 60% of Russian natural gas destined for Europe transited Ukraine. Ukraine rivals Germany as Gazprom’s largest gas consumer. Until the Yushchenko presidency, Russian firms supplied energy to Ukraine at prices far below market rates. Energy sales have been conducted by non-transparent intermediary companies, offering the elites of both countries opportunities to profit. Russia’s efforts to greatly increase gas prices for Ukraine provoked a crisis that resulted in cutoff of Russian gas to Western Europe for several days in January 2006. A second gas crisis occurred in January 2009, resulting in a gas cutoff of nearly three weeks.

Russia has sought control of Ukraine’s natural gas pipelines and storage facilities. Its efforts have been unsuccessful so far, due to Kyiv’s refusal to cede control of one of its key economic assets. This fact, as well as the 2006 and 2009 gas cutoffs, has led Russia and some European countries to plan and build pipelines to bypass Ukraine. Gazprom has developed gas pipelines under the Baltic Sea (called Nord Stream) and through the Balkans (called South Stream) to Western Europe. Nord Stream made its first gas deliveries in 2011. South Stream has started construction, with first deliveries projected for 2015. Ukraine’s reduced share of gas transport to Europe could give Russia more leverage to demand that Ukraine sell it control of its gas pipeline system at a lower price than it otherwise could. Russia could also feel it would have a freer hand to put greater pressure on Ukraine on other issues, including political ones. Key Western European countries could feel they have less of a stake in Ukraine’s future, if they, like Russia, were no longer dependent on Ukrainian gas transport infrastructure.

The Yanukovich regime was supported by oligarchs who control gas imports and own energy-hungry steel and chemicals industries. Yanukovich sharply criticized the gas agreement between Russia and Ukraine, signed by then-Prime Minister Tymoshenko in 2009, saying that the gas was far too expensive for Ukraine. Underlining the political nature of Russia’s natural gas pricing policy, after Ukraine announced that it would not sign the Association Agreement with the EU, Russia announced in December it would reduce its natural gas prices for Ukraine by one-third. However, the price cut was to be reviewed on a quarterly basis.

The collapse of the Yanukovich regime in February 2014 may lead to the termination of the gas price cut agreement and the intensification of Russian pressure on Ukraine over energy prices and debts owed or allegedly owed to Gazprom by Ukraine.

## U.S. Policy

After Yanukovich's election in 2010, U.S. policy makers focused on improving cooperation with Ukraine in such fields as nuclear non-proliferation and energy. However, they expressed increasing concern about backsliding in the country's democratic development. After a meeting on the eve of the Nuclear Security Summit in Washington, DC, in April 2010, President Obama and President Yanukovich agreed that Ukraine would rid itself of its entire stock of highly enriched uranium (HEU) by the time of the Nuclear Security Summit in March 2012. The United States agreed to help Ukraine to develop its nuclear research capabilities and diversify its sources of fuel supply for its nuclear reactors. The United States also pledged to continue to cooperate with Ukraine on nuclear safety issues, including the cleanup of the Chernobyl nuclear reactor site. The two countries are cooperating on energy issues as well. U.S. officials have repeatedly stressed that Ukraine's security depends on diversifying its energy supplies and increasing energy efficiency.

In October 2011, the White House press secretary issued a statement saying the United States was "deeply disappointed" with Yuliya Tymoshenko's conviction and sentencing in a "politically motivated prosecution." The statement said that the trial and other incidents raised "serious concerns" about the government's commitment to democracy and the rule of law. In a brief meeting with President Yanukovich at the March 2012 Nuclear Security Summit, President Obama praised Ukraine for removing all of the highly enriched uranium from its territory. President Obama stressed that Ukraine should hold free, fair, and transparent parliamentary elections in October, and expressed concerns about selective prosecutions of the political opposition. After the October 2012 parliamentary election, the State Department issued a statement saying that the Ukrainian election was a "step backward" from the progress made during previous elections.

## U.S. Reaction to Anti-Government Protests

The United States has strongly urged Ukraine to sign the Association Agreement with the EU, and has worked closely with the EU to promote the region's democratic development, rule of law, and closer integration with Western countries. On December 5, 2013, U.S. Assistant Secretary of State Victoria Nuland visited Kyiv to participate in the Organization for Security and Cooperation in Europe (OSCE) Ministerial conference, but also discussed the situation in Ukraine with government officials and protestors in the *Maidan*. She stressed U.S. support for those in Ukraine who see the country's future aligned with Europe and called on the government and protestors to resolve the country's problems peacefully. She reportedly received government assurances that force would not be used against the protestors.

After Ukrainian authorities attempted to clear the protestors from the *Maidan* on December 10, Secretary of State John Kerry issued a statement expressing the United States' "disgust" with the Ukrainian government's actions. The statement noted that, in a call by Vice President Biden to

President Yanukovich the previous evening, the Vice President underscored that “respect for democratic principles, including freedom of assembly, is fundamental to the United States’ approach to Ukraine.”<sup>3</sup>

On December 15, Senator Christopher Murphy and Senator John McCain visited the *Maidan* and spoke to the protestors. Senator Murphy said that “Ukraine’s future stands with Europe, and the U.S. stands with Ukraine.” Senator McCain said “we are here to support your just cause: the sovereign right to determine [Ukraine’s] destiny freely and independently. And the destiny you seek lies in Europe.”<sup>4</sup>

Administration officials responded to another escalation of Ukraine’s political crisis in mid-January 2014. On January 27, Vice President Biden called President Yanukovich to underline U.S. support for peaceful negotiations to solve the crisis and condemn the use of violence by any side. He warned Yanukovich against taking harsh security measures and urged the government to ensure the repeal of “anti-democratic laws” by Ukraine’s parliament. On February 4, Biden made his fourth call during the crisis to reinforce the need for a peaceful solution to the crisis.

At the Munich Security Conference on February 1, Secretary Kerry said that Ukrainians were “fighting for the right to associate with partners who will help them realize their aspirations. And they have decided that that means their futures do not have to lie with one country alone, and certainly not coerced. The United States and EU stand with the people of Ukraine in that fight.... (W)e will continue to speak out when our values and our interests are undercut by any country in the region.”<sup>5</sup> Ukrainian opposition leaders met with Secretary Kerry and key European officials at the conference.

The Administration responded sharply to the Ukrainian government’s attempted crackdown on February 18. Vice President Biden called Yanukovich on February 18 to urge him to pull back government forces in the streets and exercise maximum restraint. On February 19, Secretary Kerry said that Yanukovich had a choice between “compromise and dialogue versus violence and mayhem. We believe the choice is clear, and we are talking about the possibility of sanctions or other steps with our friends in Europe and elsewhere in order to try to create the environment for compromise.”

At a press conference in Mexico on February 19, President Obama made his first personal public remarks on the Ukraine crisis, warning Ukrainian leaders to “not resort to violence in dealing with peaceful protesters.” He said “there will be consequences if people step over the line,” adding “that includes making sure that the Ukrainian military does not step into what should be a set of issues that can be resolved by civilians.”

Perhaps in an effort to assuage Russian suspicions about U.S. motives in Ukraine, President Obama stressed “our approach as the United States is not to see [Ukraine] as some Cold War chessboard in which we’re in competition with Russia. Our goal is to make sure that the people of

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<sup>3</sup> “Statement on Ukraine,” December 10, 2013, from the State Department website at <http://www.state.gov/secretary/remarks/2013/12/218585.htm>.

<sup>4</sup> “In Ukraine, Sens. McCain, Murphy Address Protestors, Promise Support,” December 15, 2013 from the *Washington Post* website at [http://www.washingtonpost.com/world/in-ukraine-us-sens-mccain-murphy-address-protesters/2013/12/15/be72cffe-65b0-11e3-997b-9213b17dac97\\_story.html](http://www.washingtonpost.com/world/in-ukraine-us-sens-mccain-murphy-address-protesters/2013/12/15/be72cffe-65b0-11e3-997b-9213b17dac97_story.html).

<sup>5</sup> “Remarks at Munich Security Conference,” February 1, 2014, from the State Department website at <http://www.state.gov/secretary/remarks/2014/02/221134.htm>.

Ukraine are able to make decisions for themselves about their future.” President Obama admitted that despite “strong disagreements” with Moscow on some issues, the United States “will continue to pursue cooperation with Russia on areas where we had shared concerns.”<sup>6</sup>

On February 21, President Obama called President Putin to discuss the situation in Ukraine and other issues. A readout of the call provided by the White House website said the leaders exchanged views on the need to implement the political settlement reached that day between the opposition parties and the Yanukovich government, the need for economic stabilization and reforms, and the need for an end to violence. However, as noted above, the agreement was rendered moot within hours by the collapse of the Yanukovich regime. These events provoked angry accusations from Moscow that the agreement had been used by “Western partners” as a cover for an effort to overthrow the Yanukovich regime out of “unilateral geopolitical considerations.”

The Administration reacted positively, but cautiously, to the collapse of the Yanukovich regime. A statement released by the White House on February 22 said that that day’s developments “could” move Ukraine toward the long-standing U.S. goals of a “de-escalation of violence, constitutional change, a coalition government, and early elections.” It stressed that “(t)he unshakeable principle guiding events must be that the people of Ukraine determine their own future.” It added that the United States will “work with our allies, with Russia, and with appropriate European and international organizations to support a strong, prosperous, unified, and democratic Ukraine.”

Administration officials have said the United States is working with the new Ukrainian leadership, the EU, and the IMF and other international financial organizations, on an aid package to support the new government in Kyiv to stabilize its finances in the short term and move forward with reforms in the longer term.

## **Congressional Response**

### **U.S. Aid to Ukraine**

According to the USAID “Greenbook” website, the United States obligated over \$3.6 billion in aid to Ukraine from FY1990 through FY2011. According to the FY2014 Congressional Budget Presentation for Foreign Operations, Ukraine received \$103.593 million in U.S. aid in FY2012. According to other State Department figures, the United States allocated \$102.576 million in aid for Ukraine in FY2013.

For FY2014, the Administration requested \$95.271 million in aid for Ukraine. Of this amount, \$53.957 million is in the Economic Support Fund account; \$4.2 million is in Foreign Military Financing; \$28.704 million is in AID and State Department Global Health Programs; \$1.9 million is in International Military Education and Training funding; \$4.1 million is in INCLE law enforcement aid; and \$2.41 million is in the NADR account, for non-proliferation, antiterrorism, demining, and other programs.

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<sup>6</sup> For a text of the press conference, see <http://www.whitehouse.gov/the-press-office/2014/02/19/press-conference-president-obama-president-pe-nieto-and-prime-minister-h>.



A significant portion of U.S. aid to Ukraine in the ESF account is dedicated to improving the safety of the Chernobyl nuclear facility, including finishing the construction of the containment structure over the damaged reactor and securing and storing spent nuclear fuel. Other ESF programs are aimed at improving governance and increasing the accountability and effectiveness of the justice system. Global Health funding helps Ukraine fight its HIV/AIDS crisis, which is the most severe in the region, as well as Ukraine's serious tuberculosis problem.

Security assistance for Ukraine is aimed at helping Ukraine's defense reform efforts, improving interoperability with U.S. and NATO forces, and boosting the capabilities of Ukraine's armed forces. Law enforcement aid will help Ukraine implement its new Criminal Code and other legal reforms. U.S. aid also helps Ukraine deal with its serious problems with trafficking in persons and cybercrime. U.S. assistance has helped Ukraine destroy its stock of SCUD short-range missiles and make progress toward the elimination of its stock of propellant for SS-24 ICBMs. It is also helping Ukraine strengthen its export controls and dispose of excess conventional weapons.

### **Other Legislation**

The 113<sup>th</sup> Congress has considered legislation in response to the current political crisis in Ukraine. On January 7, 2014, the Senate passed S.Res. 319. Among other provisions, the resolution sponsored by Senator Murphy urges the United States and EU to work together to promote a peaceful resolution of the crisis that moves Ukraine toward a future in the Euro-Atlantic community; encourages all parties to avoid violence and engage in dialogue; and states that, in the event of further government violence against peaceful protestors, the President and Congress should consider whether to apply targeted sanctions, including visa bans and asset freezes, against individuals responsible for ordering or carrying out the violence.

On February 10, 2014, the House passed H.Res. 447 by a vote of 381-2. The resolution, introduced by Representative Eliot Engel on December 16, 2013, contains provisions broadly similar to those of S.Res. 319, including raising the possibility of sanctions against Ukrainian leaders if they use violence against protestors. The House Foreign Affairs Committee approved an amended version of H.Res. 447 on January 29. The new version takes into account the events that had occurred since the resolution's introduction. The resolution expresses support for the visa bans that the United States has already imposed on Ukrainian officials responsible for violence against protestors, and urges the Administration to consider additional sanctions against those responsible for the use of force.

On February 12, Senator Menendez introduced S.Res. 357. The resolution says the President should increase democracy and human rights assistance to Ukraine, while halting any security assistance to organizations in Ukraine engaged in repression. The resolution says the Department of State should "immediately consider" sanctions, including visa bans and asset freezes, against "perpetrators of state-sanctioned violence" in Ukraine.

### **Policy Issues**

Perhaps the most important issue currently for Members of Congress and other U.S. policy makers is how to help the new government stabilize the situation in Ukraine and move forward quickly with reforms and its path toward European integration. Western officials agree that the United States and EU should not provide massive aid to a Ukrainian government that is not clearly committed to reform, merely for geopolitical reasons. One question is what evidence

Western governments will accept that a new government is genuinely committed to reform? Should Western governments or the IMF show flexibility in setting conditions for loans for a new government, particularly on politically sensitive issues such as consumer utility prices? Most observers agree that the IMF, other international financial institutions, and the European Union will play the largest role in providing grant aid and loans to Ukraine, but there is also the question of what the United States can or should do bilaterally to help Ukraine.

On the other hand, some experts are skeptical whether the United States should play a key role in resolving Ukraine's crisis. They question Ukraine's importance to U.S. interests. Others note that the country is divided politically, that a large minority in Ukraine doesn't appear to favor a Western orientation and that therefore a strong U.S. and EU push for a pro-Western Ukraine could exacerbate that split.

Some analysts also believe that a high-profile U.S. and European role could further irritate Russia, for which Ukraine is a highly sensitive issue. As Moscow has many powerful means of pressuring Ukraine, this could have a negative impact on the situation in Ukraine and on Western relations with Moscow generally, they claim. Instead, they call for working with Russia to stabilize Ukraine. Others are skeptical that close cooperation with Russia on Ukraine, while perhaps desirable in theory, can work well in practice. Moscow, they claim, aims at subordinating Ukraine, or at least the eastern and southern parts of it, to its control. They note Russian official statements since Yanukovich's ouster have made it clear that Moscow views itself to be involved in a zero-sum competition with the West over Ukraine and is deeply suspicious of U.S. and EU motives.

## **Author Contact Information**

Steven Woehrel  
Specialist in European Affairs  
swoehrel@crs.loc.gov, 7-2291