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## Ukraine: Current Issues and U.S. Policy

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## Summary

In January 2005, Viktor Yushchenko became Ukraine's new President, after massive demonstrations helped to overturn the former regime's electoral fraud, in what has been dubbed the "Orange Revolution," after Yushchenko's campaign color. The "Orange Revolution" sparked a good deal of interest in Congress and elsewhere. Some hope that Ukraine may finally embark on a path of comprehensive reforms and Euro-Atlantic integration after nearly 15 years of half-measures and false starts. However, subsequent events have led to a certain amount of disillusionment among Yushchenko's supporters. These include infighting within his governing coalition and a political non-aggression pact Yushchenko made with his opponent from the presidential election, Viktor Yanukovich. Economic reforms were hampered by political conflict, including over an effort to reprivatize firms sold to the previous regime's cronies at very low prices. Economic growth slowed after the Orange Revolution.

On March 26, 2006, Ukraine held parliamentary elections. No party won a majority of the vote, resulting in protracted talks to form a coalition government. Analysts interpreted the election results as a sharp rebuke to President Yushchenko and his Our Ukraine bloc. The largest vote-getter in the elections was the Party of Regions, headed by Yanukovich. After the failure of protracted attempts to reconstitute the Orange Revolution coalition, the Socialist Party formed a coalition with the Party of Regions and the Communists, which put forward Yanukovich as its candidate for Prime Minister. President Yushchenko reluctantly appointed Yanukovich as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006.

After taking office as President, Yushchenko said that Ukraine would seek integration into the global economy and Euro-Atlantic institutions. The Ukrainian government's main foreign policy goal is to join the World Trade Organization (WTO) by the end of this year. In the longer term, Ukraine's leaders seek to join the European Union and NATO. Ukraine is seeking to retain good ties with Russia, but relations have been troubled since Yushchenko has taken power, particularly after Russia cut off natural gas supplies to Ukraine in January 2006. The supplies were quickly restored, but only after Ukraine agreed to a hefty increase in gas prices. Yanukovich's return to power may result in closer Ukrainian ties to Russia and less effective Ukrainian government support for the country's efforts to join the WTO and make progress toward Euro-Atlantic integration.

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as adopting legislation needed for WTO membership and in improving media freedom, while acknowledging difficulties in others. Administration officials have also praised Ukraine's efforts to hold a free and fair parliamentary election on March 26, 2006 and have vowed to work with the new government led by Prime Minister Yanukovich. This report will be updated as needed.

# Contents

|                                   |    |
|-----------------------------------|----|
| Background .....                  | 1  |
| Current Political Situation ..... | 2  |
| Economic Situation .....          | 5  |
| Ukraine's Foreign Policy .....    | 6  |
| NATO .....                        | 6  |
| European Union .....              | 7  |
| Russia .....                      | 7  |
| U.S. Policy .....                 | 9  |
| Congressional Response .....      | 11 |

# Ukraine: Current Issues and U.S. Policy

## 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 new 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 should be in Russia's political and economic orbit. The U.S. and European view, especially in Central and Eastern Europe, is that a strong, independent Ukraine is an important source of regional stability.

From the mid 1990's until recently, Ukraine's political scene was dominated by President Leonid Kuchma and the oligarchic "clans" (groups of powerful politicians and businessmen, mainly based in eastern and southern Ukraine) that supported him. Kuchma was elected President in 1994, and re-elected in 1999. He could not run for a third term under the Ukrainian constitution. His rule was characterized by fitful economic reform (albeit with solid economic growth in recent years), widespread corruption, and a deteriorating human rights record.

Ukraine held presidential elections on October 31, November 21, and December 26, 2004. The oligarchs chose Prime Minister Viktor Yanukovich as their candidate to succeed Kuchma as President. The chief opposition candidate, former Prime Minister Viktor Yushchenko, was a pro-reform, pro-Western figure. International observers criticized the election campaign and the first and second rounds of the election as not free and fair, citing such factors as government-run media bias in favor of Yanukovich, abuse of absentee ballots, barring of opposition representatives from electoral commissions, and inaccurate voter lists. Nevertheless, Yushchenko topped the first round of the vote on October 31 by a razor-thin margin over Yanukovich. Other candidates finished far behind.

After the November 21 runoff between the two top candidates, 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 Kiev and appealed to the Ukrainian Supreme Court to invalidate the vote. The court invalidated the runoff election on December 3, and set a repeat runoff vote on December 26. Yushchenko won the December 26 re-vote, with 51.99% of the vote to Yanukovich's 44.19%. After court challenges by Yanukovich were rejected, Yushchenko was inaugurated as President of Ukraine on January 23, 2005. On February 4, 2005, the Ukrainian parliament approved President Yushchenko's appointment of Yulia Tymoshenko as Prime Minister of Ukraine by

a vote of 373-0. Tymoshenko is a charismatic, populist leader with a sometimes combative political style who campaigned effectively on Yushchenko's behalf. She is a controversial figure due in part to her alleged involvement in corrupt schemes as a businesswoman and a government minister during the Kuchma regime.

The "Orange Revolution" sparked a good deal of interest in Congress and elsewhere. Some hope 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 a certain amount of disillusionment among Orange Revolution supporters. Yushchenko's efforts were hampered by infighting within his governing coalition. In September 2005, Yushchenko dismissed Prime Minister Tymoshenko's government. The atmosphere between the two leaders was poisoned by accusations of corruption lodged by supporters of each against the other side's partisans, including over the highly lucrative and non-transparent natural gas industry. The two leaders also clashed over economic philosophy, with Tymoshenko favoring populist and statist methods in contrast to Yushchenko's preference for a more orthodox free-market approach.

In order to secure support for a new government led by Yuri Yekhanurov, a technocratic figure, Yushchenko then made a political non-aggression pact with his opponent from the presidential election, Viktor Yanukovich, and promised not to prosecute Yanukovich's key supporters for electoral fraud and other crimes. Some supporters of the Orange Revolution viewed the move as a betrayal of one of the key principles of their movement. Some even began to question whether the new government was better than the old regime, given ongoing government corruption scandals and the perception that the Orange Revolution might be reduced to squabbling over the redistribution of property among the "old" oligarchs and would-be, new "Orange" ones.<sup>1</sup>

## Current Political Situation

On March 26, 2006, Ukraine held parliamentary elections. The elections were considered important in determining whether Ukraine will be able to move forward with political and economic reforms, and maintain its support for Ukraine's Euro-Atlantic integration. Analysts interpreted the results as a sharp rebuke to President Yushchenko and his Our Ukraine bloc. The largest vote-getter in the elections was the Party of Regions, headed by Yushchenko's former presidential election rival Viktor Yanukovich. It received 32.12% of the vote, and received 186 seats in the 450-seat Ukrainian parliament. The Yuliya Tymoshenko Bloc received 22.27% and 129 seats. The Our Ukraine Bloc, backed by Yushchenko, won only 13.94% of the vote and 81 seats. The Socialist Party won 5.67% and 33 seats. The Communist Party was the only other party to surmount the 3% minimum vote requirement needed to receive seats in the parliament. It won 3.66% of the vote and 21 seats.

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<sup>1</sup> Jamestown Foundation, Eurasia Daily Monitor, September 9, 2005; RFE/RL Belarus, Ukraine, Moldova Report, September 16, 2005.

Observers have noted that the voting, as in the presidential election, was heavily polarized along regional lines. Yushchenko and Tymoshenko are unpopular in eastern and southern Ukraine, where most ethnic Russians live and most Ukrainians speak Russian almost exclusively. People in these regions tend to favor very close ties with Russia. The Party of Regions won crushing victories in southern and eastern Ukraine, for example gaining 73.63% in Donetsk, its eastern Ukraine power base. It did very poorly in the center and west of the country, winning only 3% of the vote in the nationalist stronghold of Lviv in western Ukraine.

Yushchenko and Tymoshenko draw their support from western and central Ukraine, which have more Ukrainian-speakers and where support for a Western orientation for Ukraine is higher. The Yuliya Tymoshenko Bloc and Our Ukraine split the vote in western and central Ukraine. However, the Tymoshenko Bloc easily bested Our Ukraine in central Ukraine and the capital Kiev, and even made deep inroads into Our Ukraine's core electorate in western Ukraine. This may have been due to feelings of betrayal among in these regions (which were the strongholds of the Orange Revolution) over Yushchenko's dismissal of Tymoshenko and rapprochement with the Party of Regions. Both blocs did very poorly in eastern and southern Ukraine. For example, the Tymoshenko Bloc won only 2.45% in Donetsk, and Our Ukraine only 1.4%. The Socialist Party's appeal was concen-

### Ukraine's Main Political Groups

**Party of Regions:** The largest party in Ukraine's parliament and the leading party in Ukraine's government. It draws 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 groups in eastern Ukraine.

**Yulia Tymoshenko Bloc:** Mainly a vehicle for the ambitions of the charismatic Tymoshenko, it has little ideological cohesion of its own. It is the second largest group in the Ukrainian parliament largely because many Ukrainians see Tymoshenko as the most stalwart defender of the populist, anti-corruption ideals of the Orange Revolution. It is the largest opposition group in the Ukrainian parliament.

**Our Ukraine bloc:** The main political group supporting President Yushchenko. Our Ukraine favors free market economic reforms and a pro-Western foreign policy. It draws its main support from western Ukraine, where Ukrainian nationalism is strong. It suffered a serious defeat in the March 2006 parliamentary elections, due to Yushchenko's sharply declining popularity.

**Socialist Party:** Once part of the Orange Revolution coalition, this rurally-based party took a strong stand against the corruption of the Kuchma regime. After the March 2006 parliamentary elections, the Socialists switched their support to the Party of Regions-dominated government. The Socialists are skeptical of free market policies and, like the Party of Regions, oppose NATO membership for Ukraine.

**Communist Party:** Now a shadow of its former self, overtaken by the Party of Regions in its eastern Ukraine strongholds and faced with an aging electorate. It strongly opposes market economics and favors strong ties to Russia. It has two ministers in the current Ukrainian government.

trated in rural areas of central Ukraine, while the Communists did best in southern and eastern Ukraine.<sup>2</sup>

After the failure of protracted attempts to reconstitute the Orange Revolution coalition, the Socialists, formerly part of it, changed sides and formed a coalition with the Party of Regions and the Communists, which put forward Yanukovych as its candidate for Prime Minister. President Yushchenko considered the possibility of dissolving the parliament and calling new elections but rejected it, perhaps in part because opinion polls showed Our Ukraine faring even worse than it had during the March vote. Yushchenko appointed Yanukovych as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006.

The new government is dominated by figures from the previous Yanukovych government, during the Kuchma era. Some observers are concerned that the government could return to the anti-democratic ways of the former regime. Others assert that Ukrainian democracy has matured as a result of the Orange Revolution, making such a reversal unlikely or impossible, due in part to greater civic involvement and media freedom. The government will also face a well-organized and vociferous opposition, led by Yuliya Tymoshenko.

It is also possible that President Yushchenko could play a watchdog role over the government, although it should be noted that constitutional reforms that entered into force with the new government have reduced the powers of the presidency and increased those of the prime minister and the parliament. Moreover, Yushchenko showed little inclination or ability to guide the government's actions even when it was filled with his supporters and he had greater formal powers. It is therefore open to question whether he can do so when it is controlled by his former adversaries, with his power reduced and his personal popularity in steep decline.

Under the constitutional reforms, President Yushchenko appoints the foreign and defense ministers. The President also chooses the Prosecutor General and the head of the SBU, Ukraine's security agency, but can dismiss them only with the permission of the parliament. Yushchenko also successfully pushed Yanukovych to appoint Yuri Lutsenko as Interior Minister. Lutsenko, who served in the same post in the Orange coalition government, has vowed to continue to fight corruption.

After taking power, Yanukovych downplayed prior statements by Regions of Ukraine leaders calling for Russian to become an official language in Ukraine and for a federal system for Ukraine's government (which Ukrainian nationalists view as a code-word for secession of eastern Ukraine), saying that they were provoked by the emotional atmosphere in eastern Ukraine after the Orange Revolution. However, he has called for local government powers to be increased and for ensuring that Russian-speakers are not discriminated against.

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<sup>2</sup> Central Election Commission of Ukraine website, [<http://www.cvk.gov.ua/vnd2006/w6p001.html>].

## Economic Situation

After taking office, President Yushchenko vowed to accelerate economic reforms in Ukraine. However, policy disagreements within the government and a balky parliament hampered progress. A government initiative to reprivatize key firms sold to the old regime's cronies at cut-rate prices was mired in conflicting policy statements from Ukrainian leaders (Prime Minister Tymoshenko favored a much larger reprivatization effort than Yushchenko) and court challenges from the current owners. The parliamentary election campaign further delayed some reforms.

Economic growth declined sharply after the victory of the Orange Revolution. Growth in Gross Domestic Product (GDP) was 12.1% in 2004 and only 2.6% in 2005. Yanukovich (who was Prime Minister in 2004) and his supporters pointed to the figures as proof of the failure of the Orange Revolution. Yushchenko's supporters claim that the previous regime "cooked" the 2004 figures to boost its electoral chances. Experts also cite a fall in exports, especially steel, due to decreased international demand and the strength of Ukraine's currency, the hryvnya. The Ukrainian central bank has informally pegged the hryvnya to the U.S. dollar. High steel prices and increased domestic demand led to a revival in 2006, with real GDP growth from January to July at 5.5%, on a year-on-year basis. Ukraine's current account surplus has dwindled from 10.5% of GDP in 2004 to a deficit of 2.1% of GDP in the first half of 2006.<sup>3</sup> On the other hand, foreign direct investment has increased rapidly in 2005 and the first half of 2006.

Ukraine's consumer price inflation rate is currently under control; it was a relatively modest 6.8% in June 2006, year-on-year. However, Ukrainian government officials warn that further steep price increases for Russian natural gas supplies to Ukraine will have a devastating impact on Ukraine's economy. They say they plan to put in place policies to encourage energy conservation and to stimulate domestic oil and natural gas exploration.

Ukrainian wages are increasing rapidly, as they did before the Orange Revolution. Average monthly wages were up by 23% in real terms in February 2006, as compared to February in the previous year. Domestic demand has been strong, fueling an increase in imports. However, most Ukrainians remain poor; the average Ukrainian wage is only about \$5 per day, which is about half that of Russia's.<sup>4</sup>

Prime Minister Yanukovich has vowed to restore the economic growth that Ukraine enjoyed under his previous tenure. However, there are concerns that he could also bring back the rampant corruption and cronyism that marked it as well. First Deputy Prime Minister Mykola Azarov has vowed to restore the "free economic zones" that many economists viewed as little more than tax dodging schemes for favored firms. The presence of the Communists in the government could have a negative impact on reform, especially given that they control the agriculture ministry in the new government.

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<sup>3</sup> Global Insight Report: Ukraine, May 2004.

<sup>4</sup> Economist Intelligence Unit Country Report: Ukraine, August 2006.

## Ukraine's Foreign Policy

Until Yushchenko's election in 2005, Ukrainian foreign policy was characterized by an effort to balance ties with Russia with those with the United States and Western countries. President Kuchma and his supporters gave lip service to joining NATO and the European Union, but did little to meet the standards set by these organizations. On the other hand, 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.

After taking office as President, Yushchenko put integration into the global economy and Euro-Atlantic institutions at the center of Ukraine's foreign policy. In the short term, the Ukrainian government's main foreign policy goal is to join the World Trade Organization (WTO). Ukraine has signed bilateral market access agreements with the United States and other WTO countries and has passed important legislation needed to comply with WTO standards. However, market access agreements with a few other countries, additional legislation, and a protocol of accession are needed before Ukraine can join the WTO. In the longer term, Yushchenko wants Ukraine to join the European Union and NATO. Ukraine has sought to retain good ties with Russia, but relations have been troubled after Yushchenko took power.

The emergence of the Yanukovich government in August 2006 has cast Ukraine's foreign policy course into doubt. The foreign and defense ministers are Yushchenko appointees, and President Yushchenko retains the main constitutional role in setting Ukraine's foreign and defense policies. On the other hand, Yanukovich and most of the government's other ministers are hostile to NATO membership. They are leery of making economic concessions to join the WTO, let alone hypothetical EU membership. Yanukovich has said that WTO membership might have to wait until next year and that proposed WTO legislation would be reexamined to see if it is in the interest of Ukrainian manufacturers. The new government also includes strong supporters of closer relations with Russia, particularly in the economic sphere. Some experts are concerned that if coordination between Yushchenko and Yanukovich is poor, Ukraine's foreign policy could be marked by conflict and incoherence. Ukraine could pursue a course similar to that of President Kuchma before the Orange Revolution: balancing pro-Western and pro-Russian rhetoric with little concrete action taken.

### NATO

Before the March 2006 parliamentary elections, Ukrainian officials said that they wanted Ukraine to join NATO as early as 2008, after they made progress in military reform and have built public support for the move within Ukraine. NATO officials have declined to suggest a timetable for Ukraine's possible entry, stating only that Ukraine needs to make further efforts to professionalize its armed forces, reform its security sector, and fight corruption in order to improve its membership chances. Ukraine currently has an "Intensified Dialogue" with NATO, but has sought a Membership Action Plan (MAP), a key stepping-stone to joining the Alliance. The

MAP gives detailed guidance on what a country needs to do to qualify for membership.

President Yushchenko and other pro-NATO leaders face serious domestic political obstacles to NATO membership. The parliament has a majority opposed to NATO membership. Prime Minister Yanukovich and most of the ministers of the Ukrainian government are opposed to NATO membership, except Yushchenko appointees at the foreign and defense ministries. Public opinion polls have shown that NATO membership lacks majority support in Ukraine. In August 2006, the new Ukrainian government postponed making a formal request for a MAP, saying that more time was needed to educate the Ukrainian public about NATO and for Ukraine and NATO to improve cooperation under existing agreements. In an effort to mollify critics, President Yushchenko has also said that Ukraine will hold a referendum on NATO membership before joining the Alliance.

## **European Union**

Ukraine seeks to open talks on an Association Agreement with the European Union. Association Agreements are aimed at preparing a country for eventual EU membership. Many countries in the EU have been cool to Ukraine's possible membership, perhaps because of the huge burden a large, poor country like Ukraine could place on already-strained EU coffers. Indeed, EU officials have tried to dissuade Ukraine from even raising the issue. However, not all EU states are reluctant to consider Ukraine's eventual membership. Poland and the Baltic states have advocated Ukraine's joining the EU, in part because they see a stable, secure Ukraine as a bulwark against Russia. However, even supporters of Ukraine's EU membership acknowledge that it could be a decade or more before Kiev is ready to join, but believe that formal EU recognition of Ukraine's candidacy could speed the reform process in Ukraine.

Ukraine currently has a Partnership and Cooperation Agreement with the EU, as well as a Ukraine-EU Action Plan within the context of the EU's European Neighborhood policy. These agreements envisage EU designation of Ukraine as a market economy, assistance for Ukraine's WTO candidacy, a feasibility study for an EU-Ukraine free trade area, and other forms of assistance. At an EU-Ukraine summit in December 2005, the EU announced that it would grant Ukraine market economy status. The move should make it easier for Ukrainian firms to export to the EU without facing antidumping duties.

## **Russia**

Ukraine's most difficult and complex relationship is with Russia. President Putin strongly backed Yanukovich's fraudulent "victory" during the 2004 presidential election campaign and reacted angrily at the success of the Orange Revolution. Russian observers with close ties to the Kremlin charged that the Orange Revolution was in fact a plot engineered by the United States and other

Western countries. For his part, President Yushchenko offered an olive branch to Moscow, calling Russia a “permanent strategic partner” of Ukraine.<sup>5</sup>

Nevertheless, relations have been rocky. Russia has been irked by Yushchenko’s efforts to support greater democratization in the region and impose tighter border controls on Transnistria, a pro-Moscow, separatist enclave within neighboring Moldova. Russia has been troubled by Ukraine’s efforts to strengthen the role of the GUAM group, which is an acronym of its four members — Georgia, Ukraine, Azerbaijan, and Moldova. These countries, which have in common a desire to avoid domination by Russia, are working on a number of projects, particularly efforts to diversify energy resources. Ukraine has sought to have the group play a larger role in regional democratization. In May 2006, the group’s name was changed to “Organization for Democracy and Economic Development — GUAM,” reflecting this goal. The United States has backed Ukraine’s efforts to strengthen GUAM. However, wishing to avoid offending Moscow, Yushchenko has refrained from calling for Ukraine to leave the Russian-dominated Commonwealth of Independent States, despite his dissatisfaction with the organization.<sup>6</sup>

Ethnic Russians make up 17.3% of Ukraine’s population, concentrated in the southern and eastern parts of the country. Moreover, ethnic Ukrainians in these same regions tend to be Russian-speaking, are suspicious of Ukrainian nationalism, and support close ties with Russia. Russian officials have tried to play on these regional and ethnic ties, not always successfully, as demonstrated by the 2004 Ukrainian presidential election.

The most severe crisis in Russian-Ukrainian relations in recent years occurred in January 2006. In 2005, the Russian government-controlled natural gas monopoly Gazprom insisted on a more than fourfold increase in the price that it charges Ukraine for natural gas. When Ukraine balked at the demand, Russia cut off natural gas supplies to Ukraine on December 31, leading also to cuts in gas supplies to Western Europe. The gas supplies were restored two days later after a new gas supply agreement was signed.

Western observers have expressed concern that Moscow may be using the “gas weapon” to try to secure foreign policy or economic concessions from Yushchenko. Putin may also hope to achieve Russia’s long-standing goal of ownership of Ukraine’s natural gas pipelines and storage facilities. Another issue is the involvement of a shadowy company, RosUkrEnergo, as the nominal supplier of Russian natural gas to Ukraine. Some analysts are concerned about possible involvement of organized crime groups in the company, as well as corrupt links with Russian and Ukrainian officials. The U.S. Justice Department is reportedly investigating the firm.<sup>7</sup>

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<sup>5</sup> Jamestown Foundation, *Eurasia Daily Monitor*, January 25, 2005.

<sup>6</sup> RFE/RL *Belarus, Ukraine, and Moldova Report*, June 2, 2006.

<sup>7</sup> Glenn R. Simpson and David Crawford, “Supplier of Russian Gas Draws Investigation,” *Wall Street Journal*, April 21, 2006, 1. For background on the gas crisis, see CRS Report (continued...)

One of the key foreign policy goals of the Yanukovich government is to improve relations with Russia, in part in hopes of avoiding future sharp price increases for Russian energy supplies. As the new government includes ministers with close ties to RosUkrEnergo, it is unlikely that it will be removed as a middleman from the Ukrainian natural gas market. Despite the fact that most of the members of the new government have close ties to Moscow, it is unclear whether Ukraine will be able to avoid sharp energy price increases next year and thereafter without making further concessions to Moscow. However, Yanukovich has ruled out ceding effective control of Ukraine's gas pipelines and other installations to Russia, a long-standing Russian demand.

Yanukovich also faces pressure from Moscow to join the Single Economic Space (SES) and the Eurasian Economic Community, Russian-led projects aimed at integrating the economies of former Soviet countries, with the ultimate goal of forming a common market similar to the European Union. Since taking office, Yanukovich has supported the SES in vague terms, saying that Ukraine could participate to the extent that it corresponded with its national interests. President Yushchenko has been more cautious about the SES, supporting the idea of a free trade area, but opposing deeper integration, such as a customs union, which could negatively affect his goal of EU membership.

## U.S. Policy

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. President Yushchenko visited the United States from April 4-7, 2005 and had meetings with President Bush and Secretary of State Rice. Yushchenko's address to a joint session of Congress on April 6 was interrupted by several standing ovations. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as adopting legislation needed for WTO membership and in improving media freedom, while acknowledging difficulties in others. Administration officials also praised Ukraine's efforts to hold a free and fair parliamentary election on March 26, 2006. However, protracted wrangling over forming the new government forced President Bush to cancel a proposed visit to Ukraine in June 2006.

President Yushchenko withdrew Ukraine's troops from Iraq in December 2005, in fulfillment of a campaign pledge, but promised to continue participation in Iraqi troop training efforts. Ukraine has not contributed troops to Afghanistan, at least in part due to bad public memories of the Soviet occupation of Afghanistan in the 1980s.

In recent months, the United States has taken several steps to upgrade its economic relations with Ukraine. On January 23, 2006, the United States reinstated

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<sup>7</sup> (...continued)

RS22378, *Russia's Cutoff of Natural Gas to Ukraine: Context and Implications*, by Bernard Gelb, Jim Nichol, and Steven Woehrel.

tariff preferences for Ukraine under the Generalized System of Preferences (GSP). Ukraine lost GSP benefits in 2001 for failing to protect U.S. intellectual property, particularly CD and DVD piracy. U.S. officials hailed Ukraine's efforts in the past year to improve its record on this issue.

On March 6, 2006, the United States and Ukraine signed a bilateral agreement on market access issues, a key step in Ukraine's effort to join the WTO. U.S. officials said that Ukraine committed itself to eventual duty-free entry of U.S. information technology and aircraft products, as well as very low or zero duty on chemical products. U.S. firms will also receive more open access in such areas as energy services, banking and insurance, telecommunications, and other areas. The bilateral agreement also addressed other key concerns such as protection of undisclosed information for pharmaceuticals and agricultural chemicals, imports of information technology products with encryption, the operation of state owned firms based on commercial considerations, and reduction of export duties on non-ferrous and steel scrap.

The Administration has approached the issue of NATO membership for Ukraine with some caution. During an April 4, 2005 press conference with Yushchenko, President Bush said, "I'm a supporter of Ukraine becoming a member of NATO. I think it's important." But he warned that Ukraine's NATO membership "is not a given," noting that Ukraine has to make reforms before it can join the Alliance.<sup>8</sup> U.S. officials say no invitations for new countries to join NATO are likely before 2008, at the earliest. U.S. officials are backing Ukraine's request to join the Alliance's Membership Action Plan program in the future. If the United States decides to strongly advocate Ukraine's NATO membership in the near future, it would likely have to cope with Moscow's strident opposition, as well as tension with several European NATO allies more eager to accommodate Moscow on the issue.

The Administration was sharply critical of Russia's behavior during the January 2006 natural gas standoff between Russia and Ukraine. State Department spokesman Sean McCormack criticized Russia for using "energy for political purposes." He stressed that while the Administration supported a gradual increase in prices to market levels, it disagreed with a "precipitous" increase and cutoff. Secretary of State Condoleezza Rice likewise on January 5 stated that Russia had made "politically motivated efforts to constrain energy supply to Ukraine."<sup>9</sup> In May 2006, Vice President Dick Cheney characterized Russia's energy policy toward vulnerable countries as "blackmail" and intimidation.<sup>10</sup> The United States has favored helping Ukraine and other countries reduce their dependence on Russian energy supplies. The United States advocates the building of multiple means of supplying energy from

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<sup>8</sup> Transcript of President Bush's press conference with President Yushchenko, April 4, 2005, from the White House website, [<http://www.whitehouse.gov>].

<sup>9</sup> The State Department. Statement, January 1, 2006; Daily Press Briefing, January 3, 2006; Secretary Condoleezza Rice, Remarks at the State Department Correspondents Association's Breakfast, January 5, 2006.

<sup>10</sup> "Vice President's Remarks at the Vilnius Conference," May 4, 2006, from the White House website [<http://www.whitehouse.gov>].

Central Asia and Azerbaijan to Europe, including a pipeline from the Ukrainian oil terminal at the port of Odesa to Brody, on the border with Poland.

The Administration has responded positively to the formation of the Yanukovich government in August 2006. After Yanukovich took office, a State Department spokesman said that the United States would work with the new government, given that it came to power in a democratic way. Nevertheless, analysts believe that the United States will be watching the new government closely to see if it will try to reverse progress in democratization and other areas made during the previous government.

## **Congressional Response**

During the Ukrainian presidential election campaign and during the ensuing electoral crisis, the 108th Congress approved legislation calling for free and fair elections in Ukraine and urged the Administration to warn Ukraine of possible negative consequences for Ukraine's leaders and for U.S.-Ukraine ties in the case of electoral fraud. The 109th Congress passed resolutions after President Yushchenko was inaugurated. On January 25, 2005, the House passed H.Con.Res. 16 and the Senate passed S.Con.Res. 7 on the 26th. The identical resolutions included clauses congratulating Ukraine for its commitment to democracy and its resolution of its political crisis in a peaceful manner; congratulating Yushchenko on his victory; applauding the candidates, the EU and other European organizations and the U.S. Government for helping to find that peaceful solution; and pledging U.S. help for Ukraine's efforts to develop democracy, a free market economy, and integrate into the international community of democracies.

Congress has also dealt with the issue of U.S. aid to Ukraine. The FY2005 Iraq-Afghanistan supplemental appropriations bill (P.L. 109-13) provided \$60 million in aid to help the new government in the run-up to the March 2006 parliamentary election. Including funds appropriated in FY2005 foreign operations appropriations legislation, Ukraine received \$156 million in U.S. assistance in FY2005.

The FY2006 foreign operations appropriations legislation (P.L. 109-102) allocated \$84 million in Freedom Support Act (FSA) funds to promote reforms in Ukraine. Five million of that amount was earmarked for nuclear safety initiatives and \$1 million for mine safety programs in Ukraine. Total FY2006 U.S. aid to Ukraine is expected amount to \$106.5 million. In addition to Freedom Support Act funds, Ukraine is expected to receive \$2.18 million in Child Safety and Health (CSH) funds; \$10.89 million in Foreign Military Financing (FMF); \$1.68 million in IMET military training funds; \$3.53 million in NADR funding to fight terrorism and proliferation; and \$5.08 in Peace Corps funding.

The committee report of the House-passed version of the FY2007 foreign operations bill (H.R. 5522) recommends \$80 million in FSA funding for Ukraine, with no breakdown listed for other accounts. The committee report of the version of the bill approved by the Senate Appropriations Committee recommended \$58.292 million in FSA funding, \$25 million in Development Assistance, \$10 million in FMF, \$1.725 million in IMET, \$1.36 million in the NADR account, and \$5.132 for the Peace Corps, for a total of \$111.756 million. The House report highlighted the

need for democracy aid in Ukraine, while the Senate report expressed concern about corruption in Ukraine's energy sector.

U.S. aid to Ukraine is also focused on anti-corruption and rule of law efforts, fighting trafficking in persons, media and NGO development, and election monitoring and other democracy-building programs. The United States also seeks to increase exchange programs between the two countries. Other programs include efforts to help Ukraine prepare for WTO membership, encourage the growth of small business, strengthen export and border controls, assist defense reform and interoperability with U.S. and NATO forces, and building a "sarcophagus" around the damaged Chernobyl nuclear reactor.<sup>11</sup> In 2005, the Millennium Challenge Corporation (MCC) selected Ukraine for Millennium Challenge Account (MCA) Threshold status.

Congress has dealt with a long-standing stumbling block in U.S.-Ukrainian relations by passing legislation to terminate the application of the Jackson-Vanik amendment to Ukraine, granting the country permanent Normal Trade Relations Status. On March 8, 2006, the House passed H.R. 1053 by a vote of 417-2. It was approved by the Senate by unanimous consent on March 9, and was signed by the President on March 23.<sup>12</sup>

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<sup>11</sup> FY2007 Congressional Budget Justification for Foreign Operations, from the State Department website, [<http://www.state.gov>].

<sup>12</sup> CRS Report RS22114, *Permanent Normal Trade Relations (PNTR) Status for Ukraine and U.S.-Ukrainian Economic Ties*, by William H. Cooper.