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 hoped that Ukraine might finally embark on a path of comprehensive reforms and Euro-Atlantic integration after nearly 15 years of half-measures and false starts. However, infighting within his governing coalition hampered economic reforms and led to disillusionment among Orange Revolution supporters.

On March 26, 2006, Ukraine held parliamentary elections. 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 Viktor Yanukovych, Yushchenko’s opponent in the 2004 presidential vote. 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 Yanukovych as its candidate for Prime Minister. President Yushchenko reluctantly appointed Yanukovych as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006. Political developments in Ukraine since then have been characterized by a power struggle between Yushchenko and Yanukovych. Yanukovych’s government and the parliamentary majority have worked steadily to whittle away at Yushchenko’s powers and political influence. On April 2, 2007, Yushchenko issued a decree dissolving the parliament and calling for new parliamentary elections. Yanukovych rejected the decree as unconstitutional and called on the government and parliament not to implement it.

After taking office as President, Yushchenko said that Ukraine would seek integration into the global economy and Euro-Atlantic institutions. Ukraine hopes to join the World Trade Organization (WTO) this year. In the longer term, Yushchenko seeks Ukrainian membership in the European Union and NATO. However, political conflict between Yushchenko and Yanukovych has caused Ukraine’s foreign policy to appear incoherent at times, with the president giving one set of signals and the government and parliament another. Yanukovych and most government ministers oppose NATO membership, are less eager to pursue EU membership, and are more favorable to closer ties with Russia, especially in the economic sphere.

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 praised Ukraine’s conduct of a free and fair parliamentary election on March 26, 2006, and called for the peaceful resolution of the crisis caused by Yushchenko’s April 2, 2007, decree. This report will be updated as needed.
Contents

Background ............................................................................................................. 1
  March 2006 Parliamentary Elections ............................................................. 2

Current Political Situation .................................................................................. 4

Economic Situation ............................................................................................. 5

Ukraine’s Foreign Policy ..................................................................................... 6
  NATO ................................................................................................................ 6
  European Union ............................................................................................. 7
  Russia ............................................................................................................. 7

U.S. Policy ........................................................................................................... 9
  Congressional Response .............................................................................. 10
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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 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 1990s until 2004, 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 later 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 Yanukovych 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 Yanukovych, 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 Yanukovych. Other candidates finished far behind.

After the November 21 runoff between the two top candidates, Ukraine’s Central Election Commission proclaimed Yanukovych 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 Yanukovych’s 44.19%. After court challenges by Yanukovych 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
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, Yushchenko then made a political non-aggression pact with his opponent from the presidential election, Viktor Yanukovych, and promised not to prosecute Yanukovych’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.¹

**March 2006 Parliamentary Elections**

On March 26, 2006, Ukraine held parliamentary elections. The elections were considered important in determining whether Ukraine would 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 Yanukovych. 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.²


² Central Election Commission of Ukraine website, [http://www.cvk.gov.ua/].
Observers have noted that the voting, as in the presidential election, was heavily polarized along regional lines. The Party of Regions won by an overwhelming margin in eastern Ukraine. Most ethnic Russians live in eastern and southern Ukraine, and most Ukrainians there speak Russian almost exclusively. People in these regions tend to favor very close ties with Russia. Yushchenko and Tymoshenko drew virtually all of their support from western and central Ukraine, which have more Ukrainian speakers and higher support for a Western orientation for Ukraine.

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 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.

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**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.

**Yuliya 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.
**Current Political Situation**

Political developments in Ukraine since the March 2006 parliamentary elections have been characterized by a power struggle between Yushchenko and Yanukovych. Yanukovych’s government and the parliamentary majority, led by the Party of Regions, have worked steadily to whittle away at Yushchenko’s powers and political influence. The government and parliament removed ministers appointed by Yushchenko and rejected his proposed candidates to replace them. The government refused to implement Yushchenko’s decrees. In January 2007, the parliament approved a law on the Cabinet of Ministers that sharply reduces Yushchenko’s latitude in appointing ministers, implementing presidential decrees, and influencing the work of the government. Yushchenko contests the constitutionality of the Cabinet of Ministers law.

In what apparently was the final straw for Yushchenko, the parliamentary majority persuaded several members of Our Ukraine and the Yuliya Tymoshenko Bloc to join it in March 2007, with hopes of encouraging other defections in order to increase the majority to 300 members (two-thirds of the 450-member parliament), which would be able to impose constitutional changes to diminish Yushchenko’s powers even further. Opposition leaders have charged that the majority has used bribery or threats to release compromising materials to sway legislators. Discipline within Ukrainian parliamentary factions has been weak; they have often grown or crumbled as their members sensed shifts in the power relationship between the government and opposition. Analysts note that Ukrainian business groups are particularly uneasy in opposition roles, since they cannot lobby effectively for their interests, and are vulnerable to attacks by the government and business groups aligned with it. They therefore often seek to cooperate with or join the government, whatever its ideological cast.

On April 2, 2007, claiming that the defection of individual members of the opposition to the majority (as opposed to a whole faction) made the ruling majority illegitimate, President Yushchenko dissolved the Ukrainian parliament. He called for new elections to be held on May 27, 2007. Tymoshenko, who had been pushing strongly for new elections, hailed the move. Prime Minister Yanukovych condemned Yushchenko’s decree as unconstitutional. The parliament voted to dissolve the Central Election Commission and to block funding to hold the election. Yanukovych called on the government and parliament to ignore Yushchenko’s decree and keep working, pending a ruling by the Constitutional Court. Supporters of the Yanukovych government held protests against Yushchenko’s actions.

If a new election is held, the Yuliya Tymoshenko Bloc and the Party of Regions would at least hold their own, but Our Ukraine would do poorly, according to recent public opinion polls. The Socialist Party could risk falling below the 3% threshold for representation in a new parliament, due to what former supporters may see as its betrayal of the Orange Revolution in helping Yanukovych form his government in August 2006.
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.

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. Yanukovych (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 an economic revival in 2006, with GDP growing by 7%.\(^3\)

Ukraine’s consumer price inflation rate increased sharply to 11.6% in 2006, due to increases in utility rates and agricultural prices. Ukrainian wages are increasing rapidly. Average monthly wages were up by over 20% in real terms in January-October 2006, as compared to the same period in the previous year. However, most Ukrainians remain poor; the average Ukrainian wage is only about $7 per day, which is about half that of Russia’s.\(^4\)

President Yushchenko and the government have battled each other over economic policy. Yushchenko has opposed tax breaks favoring the interests of business groups connected with the government, such as the restoration of special economic zones, which had been used by businessmen connected with the Kuchma regime to dodge taxes. Although both the president and the government favor privatization, they have differed on details. Some observers have expressed concerns that the Yanukovych government could revert to the non-transparent privatization deals of the Kuchma era. The government’s will to engage in structural reforms and de-monopolization is also open to question, given its links to powerful business groups.

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\(^3\) Economist Intelligence Unit, Ukraine: Country Report, March 2007.

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, his main foreign policy goal is for Ukraine to join the World Trade Organization (WTO). Ukraine has signed bilateral market access market agreements with the United States and other WTO countries and has passed legislation needed to comply with WTO standards. However, market access agreements with a few other countries and a protocol of accession are needed before Ukraine can join the WTO. Analysts believe that Ukraine could join the WTO later this year. 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 were troubled after Yushchenko took power.

The emergence of the Yanukovych government in August 2006 cast Yushchenko’s foreign policy course into doubt. Political conflict between Yushchenko and Yanukovych has caused Ukraine’s foreign policy to appear incoherent at times, with the president giving one set of signals and the government and parliament another. In general, Yanukovych and the government are less eager to pursue rapid integration into Euro-Atlantic institutions and more favorable to closer ties with Russia, especially in the economic sphere.

NATO

Before the March 2006 parliamentary elections, Ukrainian officials said that they wanted Ukraine to join NATO, after they made progress in military reform and 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 President Yushchenko 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. Public opinion polls have shown that NATO membership lacks majority support in Ukraine. The parliament has a majority opposed to NATO membership. Prime Minister Yanukovych and almost all government ministers (with the exception of Defense Minister Anatoli Hrytsenko,
a Yushchenko appointee) are opposed to NATO membership. 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. The lack of domestic consensus in Ukraine on NATO membership could shelve the issue for the foreseeable future.

**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 (PCA) with the EU, as well as a Ukraine-EU Action Plan within the context of the EU’s European Neighborhood policy. The agreements are aimed at providing aid and advice to assist Ukraine’s political and economic transition and to promote closer ties with the EU. 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.

In March 2007, the EU and Ukraine announced the opening of negotiations on an Enhanced Agreement to replace the current PCA, which is scheduled to expire in 2008. EU officials say that once Ukraine joins the WTO, talks can start on an EU-Ukraine free trade area. The EU plans to spend 494 million Euro ($658 million) from 2007-2010 to support reform in Ukraine, in such areas as energy cooperation, strengthening border controls, bolstering the judiciary and the rule of law, and addressing environmental concerns.5

**Russia**

Ukraine’s most difficult and complex relationship is with Russia. President Putin strongly backed Yanukovych’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,

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calling Russia a “permanent strategic partner” of Ukraine. 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.

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. In 2007, with the more pro-Russian Yanukovych government in power, Russia and Ukraine agreed to gradually increase the price of Russian natural gas to Ukraine over the next five years, at which time it will reach the world market price.

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 an organized crime kingpin in the company, as well as corrupt links with Russian and Ukrainian officials. The U.S. Justice Department is reportedly investigating the firm. As the current 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.

Putin still hopes to achieve Russia’s long-standing goal of owning a controlling stake in Ukraine’s natural gas pipelines and storage facilities. In February 2007, Putin announced that he and Prime Minister Yanukovych had agreed on joint Russian-Ukrainian control of Ukraine’s natural gas assets, in exchange for a Ukrainian stake in Russian natural gas fields. However, this statement provoked a strongly negative reaction in Ukraine, and in February 2007 the parliament approved a law banning any transfer of control of the pipelines by a vote of 430-0. Through its role in RosUkrEnergo, Russia also appears to be seeking control over Ukraine’s domestic natural gas infrastructure.

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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.

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.

The United States has taken several steps to upgrade its economic relations with Ukraine. On January 23, 2006, the United States reinstated 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.8 U.S. officials say no invitations for new countries to join NATO are likely before 2008, at the earliest. 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

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8 Transcript of President Bush’s press conference with President Yushchenko, April 4, 2005, from the White House website, [http://www.whitehouse.gov].
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.”9 In May 2006, Vice President Dick Cheney characterized Russia’s energy policy toward vulnerable countries as “blackmail” and intimidation.”10 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 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 responded positively to the formation of the Yanukovych government in August 2006. After Yanukovych 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 is watching the government closely to see if it will try to reverse progress in democratization and other areas made by the Orange Revolution. U.S. officials called on Ukrainian leaders to resolve peacefully the political crisis caused by President Yushchenko’s April 2, 2007, decree dissolving parliament and calling new elections.

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.

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9 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.

10 “Vice President’s Remarks at the Vilnius Conference,” May 4, 2006, from the White House website [http://www.whitehouse.gov].
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) provided $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 was $100.1 million. In addition to Freedom Support Act funds ($82.16 million were actually allocated in FY2006, according to the Administration), Ukraine received $2.18 million in Child Safety and Health (CSH) funds; $10.89 million in Foreign Military Financing (FMF); $1.75 million in IMET military training funds; and $3.1 million in NADR funding to fight terrorism and proliferation.

Congress did not pass an FY2007 foreign operations bill, and the administration has not provided an estimate of FY2007 aid for Ukraine under a continuing resolution (P.L. 110-5). It is expected to be less than FY2006 funding, although not dramatically so. For FY2008, the Administration has requested $84 million for Ukraine. The request includes $71 million in FSA funding, $9 million in FMF aid, $1.9 million in IMET funds, and $2.1 million in NADR anti-terrorism and non-proliferation aid.

U.S. aid to Ukraine is focused on anti-corruption and rule of law efforts, fighting trafficking in persons, civil society development, energy sector reform, and fighting HIV/AIDS. 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. In 2005, the Millennium Challenge Corporation (MCC) selected Ukraine for Millennium Challenge Account (MCA) Threshold status. MCC funding in Ukraine is focused on fighting the country's severe corruption problem. In November 2006, Ukraine was made “compact-eligible” by the MCC board.11

Congress 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 23.12

Congress has expressed support for Ukraine’s possible membership in NATO. The NATO Freedom Consolidation Act was passed by the Senate on March 15 and

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11 FY2008 Congressional Budget Justification for Foreign Operations, from the State Department website, [http://www.state.gov].

the House on March 26. The bill (S. 494) expresses support for further enlargement of NATO and authorizes U.S. aid to Ukraine to assist it in preparing for possible NATO membership.