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# Ukraine: Current Issues and U.S. Policy

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March 24, 2014

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

RL33460

## Summary

After a failed effort to violently disperse pro-European Union protests, the government of President Viktor Yanukovich collapsed on February 21, 2014. He fled from Kyiv, as did many of his supporters, and protestors took over Kyiv. The Ukrainian parliament approved a new pro-reform, pro-Western government on February 27. The parliament has scheduled new presidential elections for May 25, 2014. Russia has condemned the new government in Kyiv as illegitimate and responded by sending troops to seize Ukraine's Crimea region. Ignoring U.S. and international condemnation, Russia annexed Crimea on March 18. Ukrainian officials charge that Russia is also trying to stir unrest in eastern and southern Ukraine, where many Russian-speakers live, perhaps in order to provide a pretext for an invasion of those regions.

Ukraine's new government faces 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. 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.

On March 5, the European Commission unveiled an 11.175 billion Euro (about \$15.5 billion) aid package for Ukraine. On March 17, the day after Crimean authorities held a referendum on joining Russia, the European Union imposed a visa ban and an asset freeze on 21 figures from Ukraine and Russia who played roles in Russia's seizure of Crimea.

The Administration is working with the EU, the IMF, and other international financial organizations to support a new Ukrainian government committed to reforms. The Ukrainian government is currently discussing the terms of an IMF loan for Ukraine, which could amount to \$15 billion. The Administration has requested funding from Congress for \$1 billion in loan guarantees for Ukraine. Other U.S. aid will also help Ukraine stabilize its finances and hold free and fair elections in May 2014. The Administration strongly condemned Russia's annexation of Crimea. The Administration has announced visa bans and asset freezes against 16 senior Russian officials, 4 wealthy figures from Putin's "inner circle," and one Russian bank.

Congress has passed legislation on the current crisis in Ukraine. Since the overthrow of the Yanukovich regime, Congressional action has focused on providing assistance to the new Ukrainian government and condemning the Russian occupation of Crimea. On March 6, the House passed H.R. 4152 by a vote of 385-23. The bill funds the loan guarantees requested by the Administration for Ukraine from amounts already provided for FY2014 and earlier years. On March 12, the Senate Foreign Relations Committee approved S. 2124. The bill includes sanctions against Russia and approves \$1 billion in loan guarantees for Ukraine.

On March 11, the House of Representatives approved H.Res. 499 by a vote of 402-7. Among other provisions, the resolution calls on NATO allies and European Union member states to immediately suspend military cooperation with Russia, including arms sales; calls for the United States and its allies to adopt visa, financial, trade, and other sanctions on senior Russian Federation officials, Russian and Ukrainian oligarchs and others complicit in Russia's intervention and interference in Ukraine, majority state-owned banks and commercial organizations, and other state agencies, as appropriate; and calls on the United States to work with its allies and other countries to aid Ukraine's economic recovery efforts.

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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. For Ukraine's 2004 presidential elections, 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. 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 Yushchenko won the December 26 re-vote.

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 and massive high-level corruption, in part committed by Yanukovich's own family and associates. 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.

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, in November 2013, 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. 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.

Through the next three months, the Yanukovich government alternated between attempted crackdowns and conciliatory gestures, the latter apparently made in an effort to play for time. 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. Over 100 persons, mostly protestors but also some police officers, were killed. Many hundreds more were injured. Many casualties were caused by firearms, mainly used by the police, including by snipers.

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 February 21, many heading for the eastern and southern parts of the country, while others continued into Russia.

After the flight of Yanukovich and his supporters, the Ukrainian parliament, now composed mainly of opposition deputies, 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 and made 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.

On February 27, the Ukrainian parliament approved a new government, headed by Arseniy Yatsenyuk, a former Prime Minister and leader of the Fatherland Party. The government includes members of Fatherland and Freedom, as well as *Maidan* activists, but no key figures from the former ruling regime.

## Current Political Situation

Ukraine's new government faces 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 were playing catch-up with sentiment on the streets. Many *Maidan* protestors view the new governing 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.

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. 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. In one of several incidents that have occurred in the past month, on March 18, three members of parliament from Freedom and others broke into the office of the head of Ukraine's main television station, beat him up, and forced his resignation. On March 21, the government announced that it would disarm the armed groups. Government officials hope at least some of the men will join the army or a new National Guard that the parliament recently approved.

Ukraine's new government faces other serious political and economic challenges. The most urgent issue is Russia's invasion and seizure of Ukraine's Crimean peninsula. Starting on February 27, heavily armed Russian-speaking troops poured into Crimea, seizing airports and other key installations throughout the peninsula. The troops did not wear insignia of the Russian armed forces, leading them to be referred to ironically in the Ukrainian press as the "little green men," from the color of their uniforms.

Russian President Vladimir Putin claims that the troops were not Russian Federation military forces, but only local Crimean self-defense forces. Most observers on the ground have noted the

### 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 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. Former party leader Arseniy Yatsenyuk is Prime Minister in the new government. Many of the ministers of the new government also come from Fatherland.

**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. UDAR has no members in the new Ukrainian government.

**Freedom:** A party espousing extreme Ukrainian nationalism and economic populism, Freedom receives its support from western Ukraine, where Ukrainian nationalism is strongest. Its activists played a key role in fighting against riot police in the *Maidan* protests. The party is led by Oleh Tyahnybok. Freedom members hold several important posts in the new government.

**Communist Party:** The Communist Party was 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. It is hostile to the new government in Kyiv.

training, equipment, vehicle license plates, and even statements by the soldiers themselves all point to the Russian armed forces, not unofficial, local militia. Ukrainian, U.S., and EU country officials have flatly rejected Putin's statement as a falsehood, charging that Russian Federation military forces have in fact invaded and occupied Crimea in a clear violation of international law. On March 11, Ukraine's Foreign Ministry said there were nearly 19,000 Russian troops in Ukraine. Until March 18, the takeover had been achieved with no bloodshed with the Ukrainian government forces on the peninsula, even in cases where Russian troops have forcibly seized Ukrainian installations. However, on that day one Ukrainian soldier was killed when Russian forces stormed a Ukrainian base in Simferopol. On March 24, after its main bases had reportedly been stormed by Russian troops, Ukraine announced that it would withdraw its remaining military personnel from Crimea, due to threats against them and their families made by Russian forces.

On March 16, the Crimean authorities held a referendum on Crimea's annexation to Russia. According to Crimean officials, Crimea's union with Russia was allegedly approved by 96.77% of those voting, with a turnout of 83.1%. Ukraine, the United States, the European Union, and other countries denounced the referendum as illegal and not held in a free or fair manner. Russian President Vladimir Putin signed a "treaty" with Crimean leaders on March 18 formally incorporating Crimea into Russia. This move was also denounced by Ukraine, the United States, the EU, and other countries as a blatant violation of Ukraine's sovereignty and territorial integrity and a violation of international law.

The Ukrainian government is struggling to establish control over eastern and southern Ukraine. Thousands of pro-Russian protestors have demonstrated in the region, especially in the cities of Donetsk and Luhansk in the Donbas region and in Kharkiv. Some demonstrators favor union with Russia, others only greater autonomy from the government in Kyiv. Demonstrators have seized and relinquished government buildings. They have also faced off against pro-*Maidan* demonstrators. The Ukrainian government complains that many of the most militant (and armed) demonstrators have come from Russia. The government says that it is tightening border security to stop the Russian demonstrators from entering Ukraine. Ukrainian police, perhaps suffering from low morale due to the events of the past three months, have generally tried to avoid conflict with both pro- and anti-government demonstrators. The new government in Kyiv has tried to enlist the support of some of the oligarchs of the old regime to try to quiet the situation in the Donbas, Kharkiv, and other areas where they own large businesses.

Ukraine has started preparations for May 25 presidential elections. Only one minor candidate has formally registered his candidacy so far. Vitali Klitchko and Yuliya Tymoshenko have expressed their intention to run. Another possible major candidate is pro-Western wealthy businessman Petro Poroshenko. Pravy Sektor leader Dymytro Yarosh has said he will be a candidate, but he is not expected to mount a serious challenge. Oleh Tyanybok of the Freedom Party may also be a candidate but is also not expected to win. It is unclear whether a serious candidate will emerge from eastern and southern Ukraine, given the fact that top leaders of the previous regime are on the run from the law, and the Party of Regions is demoralized by their defeat. One possible Regions candidate could be Sergei Tihipko, who is not part of the Donbas "clan" of former President Yanukovich. There is currently debate among Ukrainian political figures on whether to hold early parliamentary elections as well, and if so, when.

## 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. 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. After the fall of the Yanukovich regime in February 2014, Russia stopped further bond purchases.

Ukraine's political crisis has exacerbated the country's economic problems. Ukraine's currency slid by nearly 30% between the start of the crisis on November 21, 2013, and late February 2014. It has dropped further since then, as the government lacks the reserves to support the currency. Tax receipts have plunged, and the government is running out of money to pay pensions and government salaries. Ukraine's new government is in negotiations with the IMF over the loan terms. Prime Minister Yatsenyuk has said that his is a "kamikaze" government, given the political unpopularity of some of the decisions that will be required as part of a reform program. However, the IMF has signaled that it will not be rushed in preparing a loan for Kyiv and wants firm commitments on reforms, given the failure of previous Ukrainian governments to abide by the terms of previous agreements with the IMF. Loans from other sources may have to wait until Ukraine's reform program receives the seal of approval provided by an IMF loan agreement.

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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. Yanukovich's foreign policy appeared to fit into this pattern, although he broke with previous Ukrainian presidents by formally rejecting NATO membership for Ukraine. Yanukovich's last-minute decision in November 2013 to decline to sign an Association Agreement with the EU touched off a popular revolt that led to the collapse of his regime.

Ukraine's new government's main foreign policy priorities are to secure international support for Ukraine's sovereignty and territorial integrity, and non-recognition of Russia's annexation of Crimea. Kyiv is seeking urgent international assistance to ameliorate the country's dire financial situation. The government also strongly supports European Union integration for Ukraine, but says that NATO membership aspirations are not a current priority.

In addition to the annexation of Crimea, Ukraine may face further pressure from a hostile Russian leadership, which does not recognize the legitimacy of the new government. This could include direct military intervention in eastern Ukraine. Russia has implemented some de facto trade sanctions against Ukraine, and used natural gas prices and debts as a weapon against Ukraine. Russia could also harass or expel Ukrainian citizens working in Russia.

## **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. The Association Agreement is the EU's main instrument to promote European values and deepen economic ties with Ukraine and other former Soviet countries. 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, 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 former 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. 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. 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 collapse of the Yanukovich regime appears to have brightened prospects for a closer relationship with the EU. The EU and Ukraine signed the parts of Ukraine's Association Agreement dealing with political issues on March 21, 2014. The parts of the AA dealing with economic issues would be signed later this year, after the new Ukrainian President takes office. However, the EU has said that it will allow Ukraine to benefit unilaterally from the DCFTA before the signature of the economic parts of the AA.

On March 5, the European Commission unveiled an 11.175 billion Euro (about \$15.5 billion) aid package for Ukraine. The package includes 1.6 billion Euro (about \$2.2 billion) in macro financial assistance loans to support Ukraine's government finances. The EU will also provide 1.565 billion Euro (about \$2.17 billion) in grant aid between 2014 and 2020 to assist Ukraine's reform efforts. The package includes up to 3 billion Euro (about \$4.16 billion) in loans from the European Investment Bank and 5 billion Euro (nearly \$7 billion) from the European Bank for Reconstruction and Development. In addition, the EU will establish a High Level Investment Forum/Task Force; help modernize Ukraine's natural gas transit system and work on reversing the flow of pipelines through Slovakia so that Ukraine can receive gas from the west; acceleration of Visa Liberalisation Action Plan; and technical assistance on a number of areas from constitutional to judicial reform and preparation of elections.<sup>2</sup>

On March 17, the day after Crimean authorities held a referendum on joining Russia, the European Union imposed a visa ban and an asset freeze on 21 figures from Ukraine and Russia who played roles in Russia's seizure of Crimea. Analysts noted that senior Russian leaders were lacking from the list, which nevertheless included several members of the Russian parliament and Russian military commanders in Crimea. On March 21, the EU imposed sanctions on 12 additional Russian leading figures, after President Putin signed an agreement with Crimean leaders incorporating the region into Russia.<sup>3</sup> However, the EU still stopped short of sanctioning leading business figures who support the Russian regime or key Russian banks and other firms. Some EU countries may have been reluctant to do so given the important economic ties many EU countries have with such persons and institutions.

## 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

<sup>2</sup> See [http://europa.eu/rapid/press-release\\_MEMO-14-159\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-159_en.htm)

<sup>3</sup> See <http://www.consilium.europa.eu/homepage/highlights/council-condemns-the-illegal-referendum-in-crimea?lang=en>

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.

Russia has expressed strong opposition to Ukraine's 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 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. 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.

Russia reacted with hostility to the collapse of the Yanukovich regime in February 2014 and the emergence of a new, more pro-Western leadership. 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." Moscow has not recognized the new government in Kyiv as legitimate, and still recognizes Yanukovich, now residing in Russia, as President.

Observers have speculated about Russia's goals and next moves with regard to Ukraine. The seizure and annexation of Crimea appeared to surprise some policy makers by its speed and brazenness. Russia's moves in Crimea could be one stage in a multi-stage effort that could involve an effort to seize control over eastern and southern Ukraine. Ukrainian officials say they have proof that Russia is playing a key role in stirring up demonstrations in eastern Ukraine. Russian officials have said the situation in eastern Ukraine is "chaos," which could provide a pretext for invasion. Ukraine's armed forces have only 6,000 combat-ready soldiers at present, according to acting President Turchynov. However, Ukraine is mobilizing what forces it has to resist a potential Russian invasion.

Russia has taken other steps against Ukraine, including imposing some de facto trade sanctions against Ukraine. Ukrainian government servers have been hit by sophisticated cyberattacks, which may have come from Russia, although no proof of this has been publicly disclosed so far. Russia could harass or expel some of the large number of Ukrainian citizens living and working in Russia.

## 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. (Press reports citing various sources put the current figure somewhat lower, at about 50%-55%.) 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 may have led Russia to feel it would have a freer hand to put greater pressure on Ukraine on other issues, including political ones. Key Western European countries may also feel they have less of a stake in Ukraine's future, if they, like Russia, were no longer dependent on Ukrainian gas transport infrastructure. Indeed, in March 2014, Oettinger said that only 14% of the EU's natural gas consumption came from Russia via Ukraine, and that fact, along with ample gas in storage in EU countries, has diminished Russia's leverage over the EU in a possible gas crisis. If relations between the EU and Russia continue to deteriorate, South Stream could be scrapped, and western European countries could be more serious in taking effective actions to find alternatives to Russian gas.

The Yanukovich regime was supported by oligarchs who control gas imports and own energy-hungry steel and chemicals industries. After the collapse of the Yanukovich regime, Gazprom warned Ukraine that it could cut off supplies to Ukraine if it does not pay the debts it owes. Such a move by Gazprom could spark a third natural gas crisis in Europe in less than 10 years. Russian Prime Minister Dmitri Medvedev has said Russia will renounce the Kharkiv agreements, which provided Ukraine a natural gas price discount in exchange for basing rights for the Russian Black Sea Fleet in Crimea. Ukrainian leaders say that in such a case Gazprom could start charging Ukraine as much as \$500 per thousand cubic meters of gas, about a third more than it charges any other country in Europe.

Ukraine has few short-term alternatives to Russian natural gas. One plan currently pursued by the Ukrainian government is to import gas from western Europe through Slovakia. In the long term, Ukraine could develop its own shale gas reserves, import liquefied natural gas, or import gas from Azerbaijan, Central Asia, and elsewhere via pipelines through the EU's planned Southern Energy Corridor. Ukraine will also have to make much greater strides in energy conservation; it currently consumes about as much Russian gas as Germany, but with a much smaller economy.

## U.S. Policy

After Yanukovich's election in 2010 until the beginning of anti-government protests in November 2013, 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. During Ukraine's political upheaval, statements by Obama Administration officials urged Ukrainian leaders and the protestors to find a peaceful, democratic solution to the crisis. Vice President Biden telephoned Yanukovich repeatedly and at length to urge him to pursue a peaceful settlement.

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

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." 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 Ukraine are able to make decisions for themselves about their future..."<sup>4</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 a political settlement reached that day between the opposition parties and the Yanukovich government. However, 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 efforts 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 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. Administration officials have stressed that the IMF will provide the lion's share of the rescue package for Ukraine, at about \$15 billion.

The Administration's proposed aid package for the new Ukrainian government includes a proposal for \$1 billion in loan guarantees in order to help "insulate vulnerable Ukrainians from the effects of reduced energy subsidies." A reduction in energy subsidies is one of the most politically-sensitive conditions the IMF is likely to place on a loan for Ukraine. The United States

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<sup>4</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>

is also providing technical advisors to help the Ukrainian government deal with its financial crisis and to implement energy sector reforms. Other technical assistance would be provided to help Ukraine recover assets stolen by the previous regime and fight corruption. The United States would also provide help so that Ukraine can hold free and fair presidential elections in May 2014. The United States would provide technical assistance on how Ukraine can use its rights as a WTO member to combat potential Russian trade sanctions. The Administration package would also provide advice and financing to help Ukrainian firms find new export markets and to enhance Ukraine's energy efficiency, so that it can reduce its dependence on Russia.<sup>5</sup>

## Reaction to the Russian Military Intervention in Crimea

The United States has strongly condemned the Russian military intervention in Crimea. On March 3, President Obama said “the world is largely united in recognizing that the steps Russia has taken are a violation of Ukraine’s sovereignty, Ukraine’s territorial integrity; that they’re a violation of international law...” President Obama acknowledged Russian ties to Ukraine, adding that “all of those interests I think can be recognized. But what cannot be done is for Russia, with impunity, to put its soldiers on the ground and violate basic principles that are recognized around the world.” Perhaps in response to criticism of U.S. policy by some Members of Congress, the President added that “I’ve heard a lot of talk from Congress about what should be done, what they want to do. One thing they can do right away is to work with the administration to help provide a package of assistance to the Ukrainians, to the people and that government.”<sup>6</sup>

Ukrainian Prime Minister Yatsenyuk has called on the United States and the other signatories of the 1994 Budapest Memorandum to safeguard Ukraine’s territorial integrity. The Memorandum was signed by the United States, Russia, and the United Kingdom after Ukraine agreed to give up the Soviet nuclear weapons arsenal on its territory. Among other provisions, the signatories affirmed that they would refrain from the threat or use of force against the territorial integrity or political independence of Ukraine, and that none of their weapons will ever be used against Ukraine except in self-defense or otherwise in accordance with the Charter of the United Nations.

President Obama has warned that there will be costs for Russia if it does not withdraw its troops from Ukraine. The Administration has decided that it will not participate in the G8 summit in Sochi, Russia, in June 2014. The United States has also suspended military cooperation with Russia and talks on economic issues.

On March 6, the Administration issued an Executive Order imposing visa bans and asset freezes against persons who “undermine democratic processes and institutions in Ukraine; threaten its peace, security, stability, sovereignty, and territorial integrity; and contribute to the misappropriation of its assets...”<sup>7</sup> Administration officials have said that some unnamed persons have been placed under a visa ban for threatening the sovereignty and territorial integrity of Ukraine.

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<sup>5</sup> For a fact sheet detailing proposed U.S. aid for Ukraine, see <http://www.whitehouse.gov/the-press-office/2014/03/04/fact-sheet-international-support-ukraine>

<sup>6</sup> For a text of the press conference, see <http://www.whitehouse.gov/the-press-office/2014/03/03/remarks-president-obama-and-prime-minister-netanyahu-bilateral-meeting>

<sup>7</sup> See <http://www.whitehouse.gov/the-press-office/2014/03/06/executive-order-blocking-property-certain-persons-contributing-situation>

The United States has imposed additional sanctions on Russian officials as a result of Russia's seizure of Crimea. On March 17, the Administration announced visa bans and asset freezes against several senior figures from Russia and the secessionist Crimean government. On March 16 and 20, after Russia moved to annex Crimea, the Administration issued two additional Executive Orders expanding the scope of sanctions. They permit the Administration to freeze the assets of persons working in key areas of the Russian economy, including "financial services, energy, metals and mining, engineering, and defense and related materiel."

So far, there are 16 high-ranking Russian government officials subject to U.S. visa bans and asset freezes. They include leadership figures in the Russian parliament, and government, including top-ranking aides to Putin. Four additional persons, all wealthy businessmen, are sanctioned as members of Putin's "inner circle." One bank, Bank Rossiya, is also sanctioned due to its role as the personal bank of senior Russian officials.<sup>8</sup> Russia responded to the sanctions by imposing its own visa bans against Speaker of the House John Boehner, Senator Reid, Senator Landrieu, Senator Coats, Senator Menendez, and Senator McCain, as well as presidential advisors Caroline Atkinson, Daniel Pfeiffer, and Benjamin Rhodes.

## 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.

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

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<sup>8</sup> For a list of Russian figures currently under these sanctions, see <http://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx>. For the text of the Executive Order greatly expanding the scope of sanctions, see <http://www.whitehouse.gov/the-press-office/2014/03/20/executive-order-blocking-property-additional-persons-contributing-situat>

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.

In its FY2015 Congressional Budget Justification, likely drafted before the crisis in Ukraine, the Administration requested \$57 million in Economic Support Fund assistance for Ukraine. According to the document U.S. assistance will “help to strengthen democratic institutions and processes; enhance government accountability; support civil society, independent media, judicial reform, and anti-corruption efforts; improve conditions for investment, economic growth and competitiveness; improve energy security and clean energy investment; and help bring the damaged Chernobyl nuclear facility to an environmentally safe and stable condition and properly store its nuclear waste.” However, the document notes that given the recent changes in Ukraine, the “longer-term specifics of the program will be reviewed in light of changing circumstances.” Ukraine is also expected to receive \$6.5 million in USAID Global Health funding, \$22 million in State Global Health Funding, \$2.5 million in INCLE law enforcement aid, \$1.9 in IMET military training assistance, and \$2 million in Foreign Military Financing.

### **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 March 6, the House passed H.R. 4152 by a vote of 385-23. The bill funds the loan guarantees requested by the Administration for Ukraine from the amounts appropriated for FY2014 for the Economic Support Fund, and from unobligated balances for State Department and Foreign Operations funding for prior years. The Senate is expected to take up broadly similar legislation shortly. However, press reports claim it may include an IMF quota increase, which could be controversial among some Senate and House Members.

On March 11, the House of Representatives approved H.Res. 499 by a vote of 402-7. Among other provisions, the resolution calls on NATO allies and European Union member states to immediately suspend military cooperation with Russia, including arms sales; calls for the United States and its allies to adopt visa, financial, trade, and other sanctions on senior Russian Federation officials, Russian and Ukrainian oligarchs and others complicit in Russia's

intervention and interference in Ukraine, majority state-owned banks and commercial organizations, and other state agencies, as appropriate; and calls on the United States to work with its allies and other countries to aid Ukraine's economic recovery efforts.

On March 12, the Senate Foreign Relations Committee approved S. 2124. The bill provides \$1 billion in loan guarantees for Ukraine; requires the U.S. government to assist Ukraine to recover assets stolen by the previous regime through corruption; authorizes \$50 million in U.S. aid in FY2015 to help Ukraine carry out political and economic reforms; authorizes \$100 million in security assistance for Ukraine and other central and eastern European countries for FY2015-FY2017; and requires the President to impose visa bans and asset seizures against persons in Ukraine and Russia who are responsible for violence or undermining the peace, security, stability, sovereignty, or territorial integrity of Ukraine. The bill also "encourages" the President to impose these sanctions on Russian figures responsible for corruption in Russia; requires an annual report by the Secretary of Defense on military and security developments involving the Russian Federation; and includes rescissions to various Department Of Defense and foreign relations accounts. Finally, the legislation includes an increase in the U.S. quota to the IMF. This last provision has sparked opposition among some Senators.

On March 21, Representative Royce introduced H.R. 4278, the Ukraine Support Act. Among other provisions, it authorizes \$50 million in appropriations to aid Ukraine's political and economic reforms; authorizes \$10 million for increased broadcasting by Radio Free Europe/Radio Liberty and Voice of America to Ukraine and surrounding countries and \$8 million for law enforcement reform in Ukraine; and calls for enhanced security cooperation between Ukraine and central European NATO countries and U.S. security assistance to Ukraine.

The bill also includes sanctions against persons responsible for violence or undermining the peace, security, stability, sovereignty, or territorial integrity of Ukraine, based on the three Executive Orders issued by the President as of March 20. It calls for additional sanctions against person responsible for the acts mentioned above, plus those responsible for corruption in Ukraine or human rights abuses in Russia or Ukraine. It requires reports to Congress on those sanctioned, as well as reports at the request of the chairpersons and ranking Members of the appropriate committees on whether a person is involved in activities for which they could be sanctioned under the legislation. Another report is required on foreign financial institutions that are involved in activities illegal under U.S. law, and are organized under the laws of the Russian Federation or by a person subject to sanctions under the legislation, as well as foreign financial institutions involved in violating Ukraine's sovereignty and territorial integrity. The bill also calls on the Administration to greatly expand the number of Russian officials (currently 18) sanctioned under the Sergei Magnitsky Rule of Law Accountability Act of 2012.

## **Policy Issues**

Perhaps the most difficult issue currently for Members of Congress and other U.S. policy makers is how to respond to Russia's occupation of Ukraine's Crimea region. The United States and other countries have ruled out military action to eject Russian forces from Crimea or even stop an invasion of eastern Ukraine. The United States and its NATO allies have limited their military actions so far to a modest increase in air assets to the Baltic states and Poland to signal NATO's resolve to defend its member states.

The main tool at the disposal of U.S. policy makers to pressure Russia to negotiate its withdrawal from Crimea is far-reaching financial sanctions against the Russian political and financial elite.

Indeed, long before the recent events in Crimea, many observers believed or hoped that Russia would not take the steps that it has already taken, for fear that the Russian elite could lose its vast assets in Europe and elsewhere.

However, now that the deterrent effect of possible sanctions has failed, policy makers may be faced with the possibility that the implementation of sanctions may not be powerful enough to compel Russia's compliance. The sanctions would then be mainly a mechanism to show Russia the "cost" of its violation of international norms or perhaps to deter it from occupying additional Ukrainian territory. However, given Russia's economic importance, particularly for Europe but also for some U.S. firms, the cost could also be substantial for those imposing it. Cooperation between Russia and the United States on other issues, such as the withdrawal of U.S. military cargoes from Afghanistan, could also come to an end.

The prospect of an open-ended deep freeze in relations with Russia may be enough for U.S. and EU policy makers to decide to not impose serious financial sanctions, or to lift or weaken them later. A key issue is whether to attack key Russian businessmen and companies, which could have a serious impact on Russia's economy, or to limit sanctions to a few of Putin's most outspoken advisors and subordinates, which could have a mainly symbolic impact. U.S. and EU policy makers might feel compelled to keep sanctions in place once they are imposed, even if they seem unlikely to achieve their goals, fearing the loss of credibility that could result if they do not.

Some observers continue to call for trying to work with Russia to stabilize Ukraine, due to a lack of workable alternatives. They assert that Russia will always have the superior means and stronger motives to influence Ukraine than Western countries will. They say the United States and the EU should at least be willing to discuss issues raised by Russia, including alleged dangers to Russian-speakers in Ukraine and questions about the legitimacy of the new government. Others are skeptical that close cooperation with Russia on Ukraine is possible. They view many of Russia's stated concerns as bogus, and meant to conceal other designs which are presumably unacceptable to U.S. and EU policy makers. 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.

Another issue is whether to provide military aid to Ukraine, and if so, whether it should include lethal aid. Those arguing for the aid say the United States needs to show resolve in the face of Russian aggression against Ukraine's territorial integrity and sovereignty. They argue such aid could serve to deter Putin from invading eastern Ukraine. Some objections to military aid for Ukraine are that it could foreclose a diplomatic solution to the crisis; that it could actually provoke Putin to attack eastern Ukraine; and that it could end U.S.-Russian cooperation in such issues as the withdrawal of U.S. equipment from Afghanistan. There could also be concerns in the near term about the aid absorption capacity of Ukraine's armed forces, which are in a poor state at present.

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