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Ukraine: Current Issues and U.S. Policy

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Summary

After a failed effort to violently disperse pro-European Union protests, the government of Ukrainian President Viktor Yanukovich collapsed on February 21, 2014. The Ukrainian parliament approved a new pro-reform, pro-Western government on February 27. New presidential elections are scheduled for May 25. Russia has condemned the new government in Kyiv as illegitimate and responded by sending troops to seize Ukraine's Crimea region. Ignoring international condemnation, Russia annexed Crimea on March 18. In April and May 2014, armed men seized government buildings in several cities in eastern Ukraine, mainly in the Donbas region. On May 11, the separatists held "referendums" on self-rule, after which they proclaimed their independence from Ukraine. U.S. and Ukrainian officials charge that Russian intelligence officers in Ukraine are coordinating the unrest. U.S. officials have expressed concern that Russia's efforts to destabilize eastern Ukraine may be the prelude to an invasion by an estimated 40,000 Russian troops on Ukraine's borders.

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 raised the prospect of a default on sovereign debt. The United States is working with the EU, the IMF, and other international financial organizations to support a new Ukrainian government committed to reforms. In May 2014, the Ukrainian government received the first installment of a \$17 billion IMF loan. The European Union has unveiled an 11.175 billion Euro (about \$15.5 billion) aid package for Ukraine. The EU has also imposed sanctions on 61 persons from Ukraine and Russia held responsible for undermining Ukraine's sovereignty and territorial integrity, as well as two Crimean companies.

The Administration requested and received 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 presidential and local elections on May 25. The Administration strongly condemned Russia's annexation of Crimea. In March the Administration announced asset freezes against 16 senior Russian officials, four wealthy figures from Putin's "inner circle," and one Russian bank. In April, the Administration added seven senior Russian officials and 17 companies.

Congressional action has focused on providing assistance to the new Ukrainian government and supporting sanctions against Russia for its occupation of Crimea. On March 27, the Senate approved an amended version of H.R. 4152 by voice vote. The Senate-passed version of H.R. 4152 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 and requires an annual report by the Secretary of Defense on military and security developments involving the Russian Federation.

On April 1, the House passed the Senate-amended version of H.R. 4152 by a vote of 378-34. On April 3, President Obama signed H.R. 4152 into law, as well as S. 2183, a related bill requiring Radio Free Europe-Radio Liberty and Voice of America to increase broadcasting in eastern Ukraine, Crimea, and Moldova.

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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.

For much of its history as an independent state, Ukraine's political scene has been dominated by oligarchic "clans" (groups of powerful politicians and businessmen, mainly based in eastern and southern Ukraine). President Viktor Yanukovich, who was elected in February 2010, drew his main support from oligarchs from the Donetsk Basin (Donbas) region of eastern Ukraine. His government was criticized for 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 human rights record, especially the targeting of opposition leaders for selective prosecution. In the most prominent case, Yuliya Tymoshenko, Yanukovich's opponent in the 2010 presidential vote, was convicted of abuse of power in 2011 arising out of her role in signing a natural gas supply agreement with Russia and sentenced to seven years in prison.

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 political class as a whole. 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. 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. 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 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. Once the police and military complied with the resolution, groups of protestors seized key government buildings. Yanukovich and many of his supporters in the government and parliament fled the capital by February 21. Yanukovich and some of his supporters are currently in 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. Nevertheless, many *Maidan* protestors view the new governing parties very skeptically, suspecting that they are nearly as opportunistic and corrupt as the Yanukovich regime.

Another challenge comes from 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. 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 has been created. There have been several disturbing incidents involving nationalist groups since March 21, including clashes in central Kyiv.

Russia responded to the change of government in Kyiv by seizing 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. At the time, Russian President Vladimir Putin claimed that the troops were not Russian Federation military forces, but only local Crimean self-defense forces. In April 2014, Putin admitted that Russian Federation military forces did in fact invade Crimea. 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.

In addition to Russia's annexation of Crimea, the Ukrainian government has been struggling to establish control over eastern and southern Ukraine. In March 2014, thousands of pro-Russian protestors 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 seized government buildings. They also faced off against pro-*Maidan* demonstrators. Unrest in eastern Ukraine has taken an even more ominous turn since April 2014. Armed men stormed and occupied key government buildings and broadcast facilities in the key cities of Donetsk and Luhansk, as well in Slovyansk and more than a dozen other towns in the Donbas region. They have erected roadblocks on major roads in the region.

Current Political Situation

The Ukrainian government says it has arrested Russian intelligence agents that it accuses of orchestrating the separatists' attacks and has released video, photographs, and audio recordings allegedly identifying others. Senior U.S. officials and NATO Supreme Allied Commander General Philip Breedlove have also said that they believe Russia is directing the activities of the armed separatist groups in eastern Ukraine.

Russia may be using the threat of invasion to deter Ukraine from using its armed forces to neutralize the armed groups within Ukraine, thereby permitting them to continue their efforts at destabilization unhindered. After Ukraine re-launched an "anti-terrorist operation" on April 23 (following setbacks on a first attempt) that resulted in several dead and wounded among the separatists, Russia announced it would hold military exercises near Ukraine's borders. Russian Defense Minister Sergei Shoigu warned that if Ukraine did not halt its operations and large numbers of casualties resulted, Russia would have to react.

One striking factor in the conflict noted by Ukraine's acting President Oleksandr Turchynov, Prime Minister Yatsenyuk, and other Ukrainian leaders is the repeated failure of Ukrainian police and security forces to maintain or restore order in eastern and southern Ukraine. Turchynov has admitted that local police in Donetsk and Luhansk regions are "helpless" against separatist forces and will have to be rebuilt from scratch. Explanations given for this phenomenon include low morale, corruption, and a lack of professionalism; alleged covert political games played by oligarchs once affiliated with the previous regime; and sympathy for the separatists. Efforts by supposedly elite security forces to restore order have often met with humiliating failure and substantial casualties. Moreover, both Ukrainian and Western experts believe Ukrainian intelligence and security forces are thoroughly penetrated by Russian agents. Ukrainian leaders may increasingly use armed volunteers to supplement the regular security forces.

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.

As another part of its strategy, the government has tried to enlist the support of some oligarchs to try to quiet the situation in the Donbas, Kharkiv, Dnipropetrovsk, and other areas where they own large businesses, with mixed success. In mid-May Rinat Akhmetov, Ukraine's most powerful and richest oligarch, organized steelworkers and other employees of firms he owns to try to restore order in the city of Mariupol, in the Donbas. If Akhmetov is successful in Mariupol and elsewhere in the Donbas, he may be in a good position to bargain with Kyiv for effective control of the region in the guise of "decentralization" within a united Ukraine, which he says he supports. However, it is unclear whether he will succeed, and separatist leaders have threatened to seize his businesses if he does not pay "taxes" to them.

On May 11, the armed separatist forces, in the guise of the "Donetsk People's Republic" and the "Luhansk People's Republic" held "referendums." The "referendum" question was, "Do you support the Act on State Self-Rule of the Donetsk (or Luhansk) People's Republic?" According to the organizers, the question was approved by 89% of those voting in Donetsk region, and by 96% in Luhansk region, with a turnout of 75%. No international observers monitored the vote, and witnesses reported rampant irregularities. The leaders of the "Donetsk People's Republic" and the "Luhansk People's Republic" declared their entities to be sovereign states after the vote.

The Ukrainian government denounced the referendums as illegal. Acting President Turchynov said the real turnout for the vote was 32% in Donetsk region and 24% in Luhansk. In doing so however, Turchynov may have tacitly conceded that the "republics" and/or independence may be supported by a significant minority of people in these regions, which is in fact consistent with recent public opinion polls. The day after the vote, the leader of the Donetsk "republic" called on Russia to annex his "country."

Ukraine is preparing to hold presidential elections on May 25. According to opinion polls, the leading candidate by far is pro-Western billionaire and chocolate tycoon Petro Poroshenko, who held high-ranking government posts during Yushchenko's presidency, but also under Yanukovich. In most polls he has about 50% support, plus or minus a few percent. Other candidates, including Tymoshenko, usually score in the single digits. If he falls short of the winning majority on May 25, Poroshenko will have to enter a runoff in June, perhaps against Tymoshenko. Local elections will be held at the same time as the presidential vote.

It is uncertain whether the situation in much of the Donbas will be secure enough to permit the holding of elections there. Separatist leaders have said they will prevent the vote in the region. Separatists have already kidnapped election officials in some areas and seized election offices. Over 2,000 international election observers from the Organization for Security and Cooperation in Europe (OSCE) and other organizations are expected to monitor the vote.

The Ukrainian government is trying to reach out to people in the east and south of the country, where the government is not widely trusted. With the support of the OSCE, Ukraine is holding a series of "round tables" with leading political figures and NGOs in various regions of the country. The government has rejected participation by the separatist groups who have engaged in violence. The Ukrainian government supports constitutional amendments and legislation that would confirm a special status for the Russian language and decentralize some powers from Kyiv to the regions.

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. Ukraine's real GDP growth dropped by an estimated 1% in 2013. In late 2013, Ukraine's foreign exchange reserves dropped to dangerously low levels, raising fears that Ukraine could default on its sovereign debt. Ukraine's political crisis has exacerbated the country's economic problems. Ukraine's currency, the hryvnia, has slid by nearly 30% this year. The fall in Ukraine's currency increases Ukraine's real debt burden (which is denominated in foreign currencies) and hurts ordinary Ukrainians, in part because it makes imported consumer items more expensive.

On April 30, 2014, the IMF approved a \$17 billion loan for Ukraine. Including the IMF loan, the accord is expected to unlock \$27 billion in international aid to Ukraine over two years. Ukraine has received the first \$3.2 billion tranche of the loan. Subsequent tranches will be released if Ukraine meets loan conditions.

One of the main goals features of the IMF-supported reform plan is to reduce Ukraine's deficits. The budget deficit and the deficit of the state-owned gas firm Naftogaz would have reached a combined 12% of GDP this year, which would have been impossible to finance, according to the IMF. The reform plan will involve significant expenditure cuts, including cancelling wage and pension increases, cutting government employment and social spending, and cutting corruption through a new government procurement law. Revenue increases are also envisioned, including ending tax evasion schemes and other frauds.

Naftogaz's deficit (7.5% of GDP in 2012) is targeted for elimination by 2018, partly by reforming the company, and partly by substantial increases in currently heavily subsidized domestic natural gas prices. Ukraine is obliged to keep a "flexible" exchange rate, which will likely mean a weak currency for the near future, although the IMF loan appears to have restored some degree of confidence in the hryvnia.

Prime Minister Yatsenyuk has said that his is a "kamikaze" government, given the political unpopularity of some of the decisions that are required as part of the IMF-mandated reform program. Ukraine's government already announced that natural gas prices for domestic consumers would increase by 73% starting May 1, and further increases are planned. The new government expects inflation of 15.7% in 2014 and a drop in real GDP of 5%. The European Bank for Reconstruction and Development has predicted a GDP drop of 7% for 2014 and no growth for 2015. Ukraine's GDP dropped by 1.1% in the first quarter of 2014. IMF officials claim that the amount of fiscal consolidation required of Ukraine by the program is moderate; under the plan budget deficits are permitted to increase this year over last year, due to the poor performance of Ukraine's economy, before being required to head down in 2015.¹

¹ See <https://www.imf.org/external/pubs/ft/survey/so/2014/new043014a.htm>.

Ukraine's Foreign Policy

The Ukrainian government's main foreign policy priorities are to secure international support for Ukraine's sovereignty and territorial integrity, including non-recognition of Russia's annexation of Crimea, as well as international assistance to ameliorate the country's dire economic situation.

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.

The government says that NATO membership aspirations are not a current priority. However, Ukraine has requested assistance from NATO for its military. NATO has agreed to support the country's defense reforms, including advice on the protection of critical infrastructure.²

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. 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 are expected to be signed in June, after a new Ukrainian President takes office.

² For more on NATO's response to the Ukraine crisis, see CRS Report R43478, *NATO: Response to the Crisis in Ukraine and Security Concerns in Central and Eastern Europe*, coordinated by Paul Belkin.

However, the EU has lifted tariffs from almost all Ukrainian imports through November 2014, when the economic parts of the DCFTA will have come into force.

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.³

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. 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.⁴ On April 28, the EU added 15 more names to the list. On May 12, 2014, the EU added 13 additional names of Russian officials, and two companies based in Crimea.

The EU list includes some senior government officials and members of the Russian parliament, but also fairly low-level figures directly involved in the Crimea operation and efforts to destabilize Ukraine. In contrast to the United States, the EU has stopped short of sanctioning Putin's "inner circle" or key firms associated with them. Some EU countries have been reluctant to do so, given the important economic ties many EU countries have with such persons and institutions.⁵

Russia

In some ways, recent Russian actions in Ukraine are the culmination of long-standing Russian resentment of the outcome of the Cold War. In 2005, Russian President Vladimir Putin called the collapse of the Soviet Union "a major geopolitical disaster." Russian leaders have also asserted that the post-Soviet region is an area of privileged interests of Russia. Part of the justification for that assertion is an alleged right to protect Russian citizens and "compatriots" (persons deemed to be linked to Russia by language, culture, or ethnicity).

³ See http://europa.eu/rapid/press-release_MEMO-14-159_en.htm.

⁴ See <http://www.consilium.europa.eu/homepage/highlights/council-condemns-the-illegal-referendum-in-crimea?lang=en>.

⁵ For the sanctions decision and the initial list of names, see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0145&rid=5>. For the March 21 additions, see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0151&rid=2>. For the April 28 additions, see <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0238&rid=1>. For the May 12 additions, see http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_2014.137.01.0009.01.ENG.

Moreover, Ukraine has a particularly important place in Russian psychology, according to many experts. Putin has referred to Ukrainians as “brothers” of the Russian people. Eastern Orthodox civilization, in which Russians see themselves as the leading force, got its start in Kievan Rus (a state centered on what is now part of Ukraine) when Prince Vladimir converted to Christianity in 988. Russians often point out that their ancestors spilled a great deal of their blood to incorporate most of what is now Ukraine into the Russian empire, and a great deal more to keep it within the empire (and its successor, the Soviet Union) through many wars.

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 make up 58.3% of the population in the Crimea (a peninsula in the Black Sea in southern Ukraine). In addition, many 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 (including defense industry) in eastern Ukraine, which tied the region 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, on the border with Russia.

Nevertheless, until the collapse of the Yanukovich regime in February 2014, Putin preferred using indirect methods of influence in Ukraine. These include “carrots,” such as lucrative business deals with Ukrainian politicians and oligarchs, but also “sticks” such as de facto economic sanctions and using Russian media (which are very popular in Ukraine) to attack uncooperative leaders.

Russia reacted with great hostility to 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. Russian forces invaded Ukraine’s Crimea region in February 2014 and annexed it in March.

Russia has also made strident demands on the subject of Ukraine’s political future. In an interview on Russian television on March 29, Russian Foreign Minister Lavrov called for the disarming of *Pravy Sektor* and other armed Ukrainian nationalist forces; making Russian the second official language in Ukraine; and that constitutional reforms on “federalization” of Ukraine should begin under which the regions would have wide autonomy in the areas of the economy, finances, culture, language, education, and external economic and cultural ties with neighboring countries or regions. The new constitution would confirm Ukraine’s neutral status. Legitimate election could only occur after such constitutional changes are made, according to Lavrov. Russia still considers Viktor Yanukovich to be the legitimate President of Ukraine. Ukraine has rejected a “federalization” of Ukraine that would give very broad autonomy to the eastern and southern parts of Ukraine, which Ukrainian leaders fear could be used by leaders there to break up the country eventually.

Russia’s federalization proposal appears to some analysts to be an effort to permanently cripple the central government in Kyiv, giving forces in eastern Ukraine under Moscow’s sway a veto power over important decisions, including on Ukraine’s current pro-Western orientation. Russia’s plan appears to be broadly similar to the Dayton Peace Accords in Bosnia or the Kozak Memorandum, a 2003 Russian federalization proposal for Moldova. Federalization could also be

used to give Russia enhanced control over key economic assets in the east, including defense industries.

From statements by Russian officials, as well as its actions in Crimea and eastern Ukraine, many analysts have deduced that one of Russia's real goals in Ukraine appears to be to stir up trouble to discredit and delegitimize the current government in Kyiv. Creating a chaotic situation makes the government look weak and may help Moscow claim that the May 25 presidential elections in Ukraine will be illegitimate, particularly if elections are not held in eastern Ukraine or there is low turnout due to potential violence and intimidation.

However, on May 7, Putin made one of his most conciliatory statements during the crisis so far, saying that the separatists in eastern Ukraine should postpone their planned May 11 referendum, even adding that Ukraine's May 25 presidential election was "a movement in the right direction." He also claimed that Russian troops had been pulled back from Ukraine's border to their permanent bases. U.S. and NATO officials say they have seen no signs of a Russian pullback and it is unclear whether Putin's statement signals a genuine desire to compromise or merely an effort to deny responsibility (and possible sanctions) for ongoing Russian efforts to destabilize Ukraine.

Despite Putin's advice, the separatists held their referendums on May 11. Russia has reacted cautiously. A Kremlin press statement said that Russia "respects the will of the people in Donetsk and Lugansk and hopes that the practical realization of the outcome of the referendums will be carried out in a civilized manner." The statement added that a dialogue was needed between "representatives of Kiev, Donetsk and Lugansk." Moscow has so far declined to recognize the Donetsk and Luhansk "people's republics" as independent countries or annex them to Russia. However, the statement does seem to indicate that Moscow is asserting that the "referendums" are a legitimate expression of the public will in the Donbas and that the leaders of the "republics" are legitimate interlocutors for Kyiv in determining the future of Ukraine. Both contentions are strongly rejected by Kyiv, which views the "republics'" leaders as mere Kremlin puppets with blood on their hands.

If Moscow cannot pressure Kyiv to agree to its federalization plans, some analysts believe Russia may use the same tactics it has used in other former Soviet territories, including Transnistria in Moldova, and South Ossetia and Abkhazia in Georgia; to support and protect these self-declared independent states, leaving open the option of recognizing it later or even incorporating it into Russia. However, if such support and protection would include the introduction of alleged "peacekeeping forces" from Russia (also on the Moldova and Georgia model), Ukraine would be likely to resist militarily (including perhaps in the form of a guerrilla war) and Russia could face much stronger Western sanctions, including against key sectors of Russia's economy.

Russia has taken other steps against Ukraine, including imposing some de facto trade sanctions against Ukrainian imports. Russia could decide to expand these sanctions into economic warfare 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 2012, 63% of Ukraine's natural gas consumption came from Russia as well

as nearly three-quarters of its oil and other liquid fuels.⁶ 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 put the figure for 2013 somewhat lower, at about 52%.) Past Russian 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, 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 West 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 gas storage facilities and pipeline interconnections 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, European countries could take more serious steps to find alternatives to Russian gas.

On March 31, the Russian parliament renounced the 2010 Kharkiv agreements, which provided Ukraine a natural gas price discount in exchange for basing rights for the Russian Black Sea Fleet in Crimea. Gazprom then said it would start charging Ukraine \$485 per thousand cubic meters of gas, about a third more than it charges any other country in Europe. In May, President Putin warned European leaders that Russia will require Ukraine to pay its current debt to Gazprom (which Gazprom puts at \$3.5 billion) as well as pay in advance for gas, starting on June 1. If Ukraine does not comply, Putin warned that Russia could cut off supplies to Kyiv. Russian officials warn that in such a case Ukraine could siphon off Russian gas supplies meant for Western Europe. Such a move by Gazprom could spark a third natural gas crisis in Europe in less than 10 years.

Ukraine has few short-term alternatives to Russian natural gas. The best hope is to import cheaper gas from Central Europe, using the former Soviet gas transit pipelines in "reverse flow" mode. In April, Ukraine began to import small amounts of gas from Poland. Kyiv is seeking gas supply agreements with Hungary and Romania as well. However, a significant dent in Ukraine's dependence on Russia cannot be made unless Kyiv can reach agreement with Slovakia, since the biggest capacity pipelines run through that country. In April 2014, the two sides reached agreement for Slovakia to supply a modest amount of gas to Ukraine, but Slovakia has declined so far to supply Ukraine with the much larger amounts of gas it needs, due to fear of retaliation from Gazprom.

⁶ U.S. Energy Information Agency Country Brief: Ukraine, <http://www.eia.gov/todayinenergy/detail.cfm?id=15411>.

In the long term, Ukraine could develop its own shale gas reserves, improve exploitation of its own domestic 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

During Ukraine's political upheaval in late 2013 and early 2014, Obama Administration officials urged Ukrainian leaders and the protestors to find a peaceful, democratic solution to the crisis. President Obama and Administration officials tried unsuccessfully to reassure Russia that the United States was not in a geopolitical competition with Moscow over Ukraine. 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."

Reaction to the Russian Annexation of Crimea and Efforts to Destabilize Other Parts of Ukraine

The United States strongly condemned the Russian military invasion of 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."⁷

President Obama has warned that there will be costs for Russia if it does not withdraw its troops from Ukraine. The United States has suspended some bilateral cooperation with Russia. On April 2, the Administration announced that it was suspending several projects planned under the aegis of the U.S.-Russia Bilateral Presidential Commission as well as some law enforcement cooperation activities and planned to use that funding for aid to Ukraine. The United States has also placed additional restrictions on defense-related exports to Russia.

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..."⁸ 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

⁷ 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>.

⁸ See <http://www.whitehouse.gov/the-press-office/2014/03/06/executive-order-blocking-property-certain-persons-contributing-situation>.

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.”

On March 20, the Administration announced asset freezes on 16 high-ranking Russian government officials and members of parliament. Four additional persons, all wealthy businessmen, were sanctioned as members of Putin’s “inner circle.” One bank, Bank Rossiya, was also sanctioned due to its role as the personal bank of senior Russian officials.⁹

On April 28, the Administration imposed asset freezes on an additional seven senior Russian officials. They include Igor Sechin, the president of Rosneft, Russia’s leading oil company, and former chief of staff to Putin. The Administration also sanctioned 17 entities, including banks and other businesses. The companies appear to have been chosen due to their links to sanctioned persons in Putin’s inner circle, such as energy trader Genneddy Timchenko and bankers Arkady and Boris Rotenberg, or to Bank Rossiya.¹⁰ Due to privacy laws, the names of those receiving visa bans have not been made public, but it is likely that they include those persons under asset freezes.

In a press conference in the Philippines on April 28, President Obama said the goal of the sanctions was to “change [Putin’s] calculus with respect to how the current actions that he’s engaging in in Ukraine could have an adverse impact on the Russian economy over the long haul, and to encourage him to actually walk the walk and not just talk the talk when it comes to diplomatically resolving the crisis in Ukraine.” He added that “... Russia has not yet chosen to move forward, and these sanctions represent the next stage in a calibrated effort to change Russia’s behavior. We don’t yet know whether it’s going to work. And that’s why the next phase if, in fact, we saw further Russian aggression towards Ukraine could be sectoral sanctions, less narrowly targeted, addressing sectors like banking or the defense industry.”¹¹ The sanctions imposed so far appear to have had little effect on Russian behavior. Indeed, Russian-supported gunmen accelerated their seizures of buildings in the Donbas after the sanctions were imposed.

U.S. officials have accused Russia of organizing the seizure of buildings and the erection of roadblocks in eastern Ukraine. Secretary Kerry and other U.S. officials have repeatedly called for the estimated 40,000 Russian troops on Ukraine’s borders to be returned to their barracks immediately.

Despite continuing Russian efforts to destabilize and dismember Ukraine, the Administration continues to seek a diplomatic solution to the crisis. On April 17 in Geneva, Switzerland, Secretary of State John Kerry reached agreement with Foreign Minister Lavrov, Ukrainian Foreign Minister Andrei Deshchytsia, and EU foreign policy chief Catherine Ashton on an agreement aimed at de-escalating the Ukraine crisis. It called for illegal armed groups to be disarmed, illegally occupied buildings and roadblocks cleared, amnesty to be given to

⁹ For a list of Russian figures sanctioned in March, 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>.

¹⁰ For a list of Russian figures sanctioned in April, see <http://www.treasury.gov/press-center/press-releases/Pages/jl2369.aspx>.

¹¹ Please see <http://www.whitehouse.gov/the-press-office/2014/04/28/remarks-president-obama-and-president-benigno-aquino-iii-philippines-joi>. For more on the sanctions on Russia, see CRS Report IN10048, *U.S. Sanctions on Russia in Response to Events in Ukraine*, coordinated by Dianne E. Rennack.

demonstrators who give up arms and occupied places, an OSCE military mission to monitor compliance with the agreement, and an “inclusive, transparent, and accountable” constitutional reform process. However, the accord has not been implemented by Russia so far. In a speech at the Atlantic Council on April 29, Secretary Kerry praised Ukraine’s efforts to comply with the agreement and sharply condemned Russia for not taking a single step to implement the accord, but instead trying to exacerbate the crisis.

Administration officials condemned the May 11 “referendums” held by the separatists in eastern Ukraine as illegal and invalid. President Obama and Administration officials have warned that the United States will impose additional sanctions on Russia if it disrupts Ukraine’s May 25 presidential election.

Congressional Response

U.S. Aid to Ukraine

According to the USAID “Greenbook” website, the United States obligated over \$4 billion in aid to Ukraine from FY1990 through FY2012. According to other State Department figures, the United States allocated \$92.391 million in aid for Ukraine in FY2013 and \$86.125 million in FY2014.

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.

In March, the Administration unveiled the first details of an aid package for the new Ukrainian government. It includes \$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 put on its loan to Ukraine. The United States 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.¹²

¹² For a fact sheet detailing proposed U.S. aid for Ukraine, see <http://www.whitehouse.gov/the-press-> (continued...)

On April 21, the Administration unveiled a new aid package totaling \$50 million. Of this amount, \$11.4 million is being used to help Ukraine hold free and fair elections on May 25 and send experts to Ukraine on such issues as constitutional reform, local governance, public participation, and judiciary reform. The Administration package includes additional technical assistance to Ukraine to help the country on economic reform issues. In addition to three banking advisors already in Kyiv, the Administration says it will send additional advisors in such areas as public debt management, macroeconomic policy, and budget and tax administration. U.S. experts are advising Ukraine on securing reverse flows of natural gas from Poland, Hungary, and Slovakia; increasing its domestic conventional gas supply; implementing contracts signed in 2013 for shale gas development in Ukraine; and improving energy efficiency. The United States will expand technical help to Ukraine on fighting corruption and will help coordinate international efforts to repatriate to Ukraine funds stolen by members of the Yanukovich regime. To improve people to people ties, the United States plans to extend the validity of visas for businesspeople and tourists to 10 years from the current 5.¹³

In March 2013, Ukraine requested military aid from the United States. A full list of what Ukraine is seeking has not been disclosed, but press reports claim that Ukraine has asked for arms and ammunition, communications gear, intelligence support, aviation fuel, night-vision goggles, mine-clearing equipment, vehicles, medical gear, and other items. The Administration has declined so far to send lethal military aid to Ukraine, out of concern that it could make a diplomatic settlement of the crisis more difficult.

In an April 2014 fact sheet, the White House detailed an \$18 million security assistance package for Ukraine. The amount includes 300,000 Meals Ready to Eat (MREs) to Ukraine in March, at a cost of about \$3 million. The Administration is also providing an additional nearly \$7 million in health and welfare assistance to Ukraine's armed forces. An additional \$8 million in non-lethal includes explosive ordinance disposal equipment and handheld radios for Ukraine's military and engineering equipment, communications equipment, vehicles, and non-lethal individual tactical gear for Ukraine's border guards. The Administration says it is "actively reviewing" other Ukrainian requests.¹⁴

Other Legislation

The 113th Congress has passed 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.

(...continued)

office/2014/03/04/fact-sheet-international-support-ukraine.

¹³ For a fact sheet detailing the \$50 million aid package, see <http://www.whitehouse.gov/the-press-office/2014/04/21/fact-sheet-us-crisis-support-package-ukraine>.

¹⁴ See <http://www.whitehouse.gov/the-press-office/2014/04/21/fact-sheet-us-crisis-support-package-ukraine>.

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 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 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.

On March 27, the Senate approved an amended version of H.R. 4152 by voice vote. The bill includes the loan guarantees for Ukraine, but also provisions of S. 2124, which had been approved by the Senate Foreign Relations Committee on March 12. These portions of the Senate-passed version of H.R. 4152 require the U.S. government to assist Ukraine to recover assets stolen by the previous regime through corruption; authorize \$50 million in U.S. aid in FY2015 to help Ukraine carry out political and economic reforms; authorize \$100 million in security assistance for Ukraine and other Central and Eastern European countries for FY2015-FY2017; and require 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 and requires an annual report by the Secretary of Defense on military and security developments involving the Russian Federation.

On April 1, the House passed the Senate-amended version of H.R. 4152 by a vote of 378-34. Representative Royce, who introduced a broadly similar bill (H.R. 4278) passed by the House on March 27, expressed his preference for the "more comprehensive" H.R. 4278, but supported passage of the Senate version of H.R. 4152 to "demonstrate bipartisan support for Ukraine." President Obama signed the bill into law on April 3.

On April 1, the House also passed S. 2183, which requires Radio Free Europe-Radio Liberty and Voice of American to start a programming "surge" to provide accurate information to eastern Ukraine, Crimea, and Moldova in order to counteract inflammatory Russian propaganda. The bill authorizes up to \$10 million in appropriations for this effort. The provisions of S. 2183 were originally part of H.R. 4278, and were passed by the Senate as a separate bill on March 27 by unanimous consent. President Obama also signed S. 2183 into law on April 3.

On May 1, Senator Corker introduced the Russian Aggression Prevention Act of 2014 (S. 2277). The measure seeks to impose wide-ranging economic and diplomatic sanctions on Russia, to take steps to strengthen NATO, and to support Ukraine and other states of the former Soviet Union currently or potentially faced with Russian aggression. On May 14, 2014, the House Armed Services Committee reported the FY2015 National Defense Authorization Act (H.R. 4435), which would prohibit U.S. funding for military-to-military cooperation, information sharing, and cooperative threat reduction and other nonproliferation activities with Russia.

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 and its effort to destabilize eastern and southern Ukraine. There appears to be a consensus in the United States and other countries against taking military action to eject Russian forces from Crimea or to 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 and troop deployments 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 and stop destabilizing Ukraine is 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.

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 in effect 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 Iran, Syria, and the withdrawal of U.S. military cargoes from Afghanistan, could also come to an end.

The prospect of an open-ended new Cold War with Russia may be enough for U.S. and EU policy makers to be reluctant to impose serious sanctions on Russia. One issue is the goals sanctions are expected to achieve. Are they expected to persuade Russia to disgorge Crimea? Or just to get Russia to stop orchestrating efforts to destabilize eastern Ukraine? Or only to prevent an overt Russian invasion of Ukraine?

A related issue is whether additional sanctions should attack key Russian businessmen, banks, and energy and other companies, which could have a serious impact on Russia's economy. Alternatively, one could continue to limit sanctions to a few of Putin's most outspoken advisors and subordinates, which could have a mainly symbolic impact. Once they are imposed, U.S. and EU policy makers might feel compelled to keep sanctions in place, 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 engage 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. Even if diplomatic efforts are initially unsuccessful, some say, the United States should have the patience to allow sanctions to

work over the medium term, and to not be moved to take rash and potentially dangerous short-term actions out political pressures to “do something.”

Another issue is whether to provide lethal aid. Those arguing for such 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.

Figure I. Ukraine



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