

CRS Report for Congress

Ukraine: Current Issues and U.S. Policy

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Summary

In January 2005, Viktor Yushchenko became Ukraine's new President, after massive demonstrations helped to overturn the former regime's electoral fraud, in what has been dubbed the "Orange Revolution," after Yushchenko's campaign color. The "Orange Revolution" sparked a good deal of interest in Congress and elsewhere. Some hoped that Ukraine might finally embark on a path of comprehensive reforms and Euro-Atlantic integration after nearly 15 years of half-measures and false starts. However, infighting within his governing coalition hampered economic reforms and led to disillusionment among Orange Revolution supporters.

On March 26, 2006, Ukraine held parliamentary elections. The largest vote-getter in the elections was the Party of Regions, headed by Viktor Yanukovych, Yushchenko's opponent in the 2004 presidential vote. President Yushchenko reluctantly appointed Yanukovych as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006. A power struggle soon developed between Yushchenko and Yanukovych. On April 2, 2007, Yushchenko issued a decree dissolving the parliament and calling new parliamentary elections. After a protracted political and legal struggle over the constitutionality of the decree, the two sides agreed to hold new parliamentary elections on September 30, 2007. Although the elections confirmed the Party of Regions as the largest party in the parliament, the party of former Prime Minister Yuliya Tymoshenko performed well. On December 18, 2007, the parliament approved by a razor-thin majority a new coalition government of pro-Western, "Orange" parties, with Tymoshenko as Prime Minister.

After taking office as President, Yushchenko said that Ukraine would seek integration into the global economy and Euro-Atlantic institutions. Ukraine is expected to join the World Trade Organization (WTO) this year. In the longer term, Yushchenko seeks Ukrainian membership in the European Union and NATO. Yanukovych and the Party of Regions oppose NATO membership, are less eager to conduct reforms in pursuit of EU membership, and are more favorable to closer ties with Russia, especially in the economic sphere. 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.

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as completing the steps needed for WTO membership, as well as in holding free and fair elections and improving media freedoms, while acknowledging difficulties in others, such as fighting corruption, establishing the rule-of-law, and constitutional reforms. While supportive of Ukraine's aspirations to join NATO, Administration officials have not yet publicly advocated granting a Membership Action Plan to Ukraine at the NATO summit in Bucharest in April 2008, cautioning that all candidates must make progress in political, economic, and military reforms. This report will be updated as needed.

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Background

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

From the mid 1990s until 2004, Ukraine's political scene was dominated by President Leonid Kuchma and the oligarchic "clans" (groups of powerful politicians and businessmen, mainly based in eastern and southern Ukraine) that supported him. Kuchma was elected President in 1994, and re-elected in 1999. He could not run for a third term under the Ukrainian constitution. His rule was characterized by fitful economic reform (albeit with solid economic growth in later years), widespread corruption, and a deteriorating human rights record.

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

After the November 21 runoff between the two top candidates, Ukraine's Central Election Commission proclaimed Yanukovich the winner. Yushchenko's supporters charged that massive fraud had been committed. Hundreds of thousands of Ukrainians took to the streets, in what came to be known as the "Orange Revolution," after Yushchenko's chosen campaign color. They blockaded government offices in Kiev and appealed to the Ukrainian Supreme Court to invalidate the vote. The court invalidated the runoff election on December 3, and set a repeat runoff vote on December 26. Yushchenko won the December 26 re-vote, with 51.99% of the vote to Yanukovich's 44.19%. After court challenges by Yanukovich were rejected, Yushchenko was inaugurated as President of Ukraine on January 23, 2005. On February 4, 2005, the Ukrainian parliament approved President Yushchenko's appointment of Yuliya Tymoshenko as Prime Minister of Ukraine by

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

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

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

On March 26, 2006, Ukraine held parliamentary elections. The largest vote-getter in the elections was the Party of Regions, headed by Yushchenko's former presidential election rival Viktor Yanukovich. After the failure of protracted attempts to reconstitute the Orange Revolution coalition, the Socialist Party, formerly part of it, changed sides and formed a coalition with the Party of Regions and the Communists, which put forward Yanukovich as its candidate for Prime Minister. Yushchenko reluctantly appointed Yanukovich as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006. Yanukovich's government and the parliamentary majority, led by the Party of Regions, worked steadily to whittle away at Yushchenko's powers and political influence. The government and parliament removed ministers appointed by Yushchenko and rejected his proposed candidates to replace them. The government refused to implement Yushchenko's decrees.

Hoping to stem the threat to his power, President Yushchenko dissolved the Ukrainian parliament on April 2, 2007, claiming that the defection of individual members of the opposition to the majority (as opposed to a whole faction) made the ruling majority illegitimate. Prime Minister Yanukovich condemned Yushchenko's

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

decree as unconstitutional and called on the government and parliament to ignore Yushchenko's decree and keep working. On May 27, after weeks of political and legal turmoil, Yushchenko, Yanukovych, and parliament chairman Oleksandr Moroz agreed that new parliamentary elections would be held on September 30, 2007, to end the crisis.

According to many observers, this political crisis underlined the fact that the country still needs to make substantial progress in developing a smoothly functioning democracy. The poorly defined separation of powers in Ukraine's constitution has invited conflict and needs to be clarified. Another key problem is the persistence of a post-Soviet political culture in which "winner-take-all" attitudes and unscrupulous tactics take precedence over a genuine respect for the rule of law.

Current Political Situation

On September 30, 2007, Ukraine held early parliamentary elections. The Party of Regions remains the largest party in the new legislature. It won 34.37% of the vote and 175 seats in the 450-seat parliament. The Yuliya Tymoshenko Bloc, which won 30.71% and 156 seats, is the second largest. Our Ukraine-People's Defense came in a distant third, with 14.15% and 72 seats. The Communist party received 5.39% of the vote and 27 seats. The Lytvyn Bloc was the only other party to reach the 3% vote barrier for representation in the parliament. It won 3.96% of the vote, and secured 20 seats.

These results were not a dramatic departure from the results of the March 2006 election. The Party of Regions lost 11 seats, but its Communist allies gained six. The Our Ukraine bloc lost nine seats. However, its former Orange Revolution partner, the Yuliya Tymoshenko Bloc, gained 27 seats. The Socialists, perhaps

Ukraine's Main Political Groups

Party of Regions: The largest party in Ukraine's parliament. It draws its support from eastern Ukraine, where suspicion of Ukrainian nationalism is high and support for close ties with Russia is strong. It defends the economic interests of powerful oligarchic groups in eastern Ukraine.

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

Our Ukraine-People's Self Defense bloc: The main political group supporting President Yushchenko. It favors free market economic reforms and a pro-Western foreign policy. It draws its support from western Ukraine, where Ukrainian nationalism is strong.

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

Lytvyn Bloc: A centrist bloc headed by Volodymyr Lytvyn, former top official in the Kuchma regime. Lytvyn has changed sides several times in recent political struggles, backing the side with the upper hand at the moment.

punished by the electorate for betraying their former Orange allies, fell below the 3% and lost all of their parliamentary seats. The Lytvyn Bloc was not represented in the previous parliament, as it fallen below the 3% threshold.²

As has occurred in elections since Ukraine became an independent country in 1991, support for the parties was heavily regionalized. The Party of Regions was dominant in eastern and southern Ukraine, but did poorly in western and central Ukraine. Support for the Communists was also concentrated in the east and south. Our Ukraine-People's Self Defense did well in western Ukraine, but poorly in the east. The Yuliya Tymoshenko Bloc is strongest in western and central Ukraine, beating Our Ukraine-People's Self Defense in all districts of these regions but one. The Tymoshenko Bloc is much weaker in eastern and southern Ukraine, but made moderate inroads there as compared to the previous election just over a year earlier, perhaps opening the way to a future as democratic Ukraine's first truly country-wide party.

Negotiations over a new government were protracted. On December 6, the parliament approved Arseniy Yatsenyuk as chairman of the Rada. Yatsenyuk, from Our Ukraine-People's Self Defense, was formerly Ukraine's foreign minister. President Yushchenko nominated Tymoshenko as his candidate for Prime Minister. However, in parliamentary vote on December 12, she received only 225 votes, one short of the total needed to be elected. The Orange parties blamed an alleged breakdown of the voting system. Yushchenko resubmitted Tymoshenko's nomination for Prime Minister to the parliament. The parliament approved Tymoshenko as Prime Minister on December 18 by a vote of 226-0, in a show of hands. The parliament then approved Tymoshenko's government. The Party of Regions, Communist Party and Lytvyn Bloc did not take part in the votes.

The extreme fragility of her majority has made Tymoshenko's task as Prime Minister difficult. Since mid-January 2008, the Party of Regions and the Communist Party have blocked the parliament from meeting. Their ostensible reason was Yatsenyuk's signature on a letter with Yushchenko and Tymoshenko to NATO Secretary General Jaap de Hoop Scheffer requesting a Membership Action Plan (MAP) for Ukraine at the NATO summit in Bucharest on April 2-4, 2008. They said Yatsenyuk had no right to speak for the parliament on such a controversial issue without their consent.

However, there are likely other motives for their actions as well. Yanukovych has made clear that he wishes either to force the inclusion of his party in the government or to provoke Yushchenko into dissolving the parliament and calling new elections. Yanukovych has also threatened to call for street protests against the government's support for a MAP. Yanukovych could also exploit regional differences in Ukraine between the largely Russian-speaking, pro-Russia east and south and the pro-Western and Ukrainian-speaking west.

² For the 2007 Ukrainian parliamentary elections results, see the Ukrainian Central Election Committee website, [<http://www.cvk.gov.ua/vnd2007/w6p001e.html>].

Another problem has been tension between Tymoshenko and Yushchenko. Yushchenko has often criticized Tymoshenko's policies, including her privatization plans and efforts to renegotiate energy relations with Russia. He has pressed for legislation and constitutional reforms giving the Presidency greater powers over the government. Yushchenko also appointed a (now former) high-ranking leader from the Party of Regions as secretary of the National Security and Defense Council, to the surprise of Yanukovich. Analysts speculate that Yushchenko may be building bridges to pragmatic elements in the Party of Regions (especially key businessmen such as Rinat Akhmetov) in order to balance Tymoshenko's power. These moves may suggest early jockeying for power in advance of presidential elections in 2009 (in which Tymoshenko and Yushchenko could both be candidates) and could threaten the stability of the government.

Economic Situation

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

After the victory of the Party of Regions in the 2006 parliamentary elections, President Yushchenko and the Yanukovich government also battled each other over economic policy, hindering progress on reforms. Yushchenko opposed tax breaks favoring the interests of business groups connected with the government, such as the restoration of special economic zones, which had been used by businessmen connected with the Kuchma regime to dodge taxes. Although both the president and the government favored privatization, they differed on details. Observers have charged that the Yanukovich government reverted to the non-transparent privatization deals of the Kuchma era. The government's will to engage in structural reforms and de-monopolization was also questionable, given its links to powerful business groups. The government was able to extend a moratorium on land sales over Yushchenko's veto, with the support of the Tymoshenko Bloc.

Ukraine is experiencing strong economic growth. GDP grew by 7.3% in 2007. However, consumer price inflation rate is high, at a rate of 19.4% in January 2008, on a year-on-year basis. Ukrainian wages are increasing rapidly, but most Ukrainians remain poor; the average Ukrainian wage is only about \$10 per day, which is only a little more than half that of Russia's. Ukraine's total stock of foreign direct investment (FDI) is low, at \$21.2 billion in January 2007, but net FDI inflows are rising rapidly. Net FDI was a record \$7.1 billion in the period January-September 2007. Foreign investment has been particularly strong in the banking and insurance sectors.³

³ Economist Intelligence Unit Country Report: Ukraine, March 2008.

A key priority of the Tymoshenko government is to master Ukraine's rising inflation. On the other hand, Tymoshenko has made populist promises during the campaign that will increase government spending, such as a commitment to reimburse Ukrainians for money frozen in Soviet-era savings accounts. She plans to rapidly privatize the telecommunications monopoly Ukrtelecom and the Odesa Portside Plan chemical firm. She also appears determined to reprivatize several key firms controlled by government opponents, which may also unsettle the political and economic situation in the country, as in 2005. She says she will battle corruption in Ukraine, which many experts and U.S. officials view as a key problem hindering Ukraine's economic development. She expects a crackdown on tax evasion and customs fraud to substantially increase government revenues.

Ukraine's Foreign Policy

Until Yushchenko's election in 2005, Ukrainian foreign policy was characterized by an effort to balance ties with Russia with those with the United States and Western countries. President Kuchma and his supporters gave lip service to joining NATO and the European Union, but did little to meet the standards set by these organizations. On the other hand, Ukrainian leaders also promised closer ties with Russia in exchange for Russian energy at subsidized prices, but balked at implementing agreements with Russia that would seriously compromise Ukraine's sovereignty, such as ceding control over Ukraine's energy infrastructure to Moscow.

After taking office as President, Yushchenko put integration into the global economy and Euro-Atlantic institutions at the center of Ukraine's foreign policy. In the short term, his main foreign policy goal is for Ukraine to join the World Trade Organization (WTO). Ukraine has completed the necessary steps to join the WTO, and is expected to formally become a member by July 2008. In the longer term, Yushchenko wants Ukraine to join the European Union and NATO. Ukraine has sought to retain good ties with Russia, but relations were troubled after Yushchenko took power.

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. In general, Yanukovich and the Party of Regions are less eager to pursue rapid integration into Euro-Atlantic institutions and more favorable to closer ties with Russia, especially in the economic sphere.

NATO

Before the March 2006 parliamentary elections, Ukrainian officials said that they wanted Ukraine to join NATO, after they made progress in military reform and built public support for the move within Ukraine. NATO officials have declined to suggest a timetable for Ukraine's possible entry, stating only that Ukraine needs to make further efforts to professionalize its armed forces, reform its security sector, and fight corruption in order to improve its membership chances. Ukraine currently has an "Intensified Dialogue" with NATO, but President Yushchenko has sought a

Membership Action Plan (MAP), a key stepping-stone to joining the Alliance. The MAP gives detailed guidance on what a country needs to do to qualify for membership. However, in August 2006, the Yanukovych government postponed making a formal request for a MAP, saying that more time was needed to educate the Ukrainian public about NATO and for Ukraine and NATO to improve cooperation under existing agreements.

The new Ukrainian government chosen after the September 2007 parliamentary has turned Ukrainian policy in a more pro-NATO direction. President Yushchenko and the Our Ukraine-People's Self-Defense bloc continue to support NATO membership. In the past, Prime Minister Tymoshenko has not viewed NATO membership among her top priorities. Nevertheless, on January 15, 2008, she joined President Yushchenko and parliament speaker Arseniy Yatsenyuk in sending a letter to NATO Secretary General Jaap de Hoop Scheffer requesting a Membership Action Plan for Ukraine at the April 2-4 NATO summit in Bucharest, Romania.

The Party of Regions and the Communists responded to the letter by blocking the functioning of the parliament. Yanukovych has threatened to hold public demonstrations against the government's request for a MAP. The Party of Regions may stir up anti-NATO sentiment in the eastern and southern parts of the country, as they did during the election campaign. Many public opinion polls have shown that less than one-quarter of the population supports NATO membership at present. Both President Yushchenko and Prime Minister Tymoshenko have noted that an extensive and effective public information campaign will be needed to educate Ukrainians about NATO. They have also agreed that Ukraine's entry into NATO would have to be endorsed beforehand by a public referendum.

In February 2008, perhaps in an effort to defuse domestic and Russian criticism over his decision to seek a MAP, President Yushchenko said that Ukraine will not allow the establishment of NATO bases on Ukrainian soil. He noted that the Ukrainian constitution does not permit the establishment of foreign military bases, with the temporary exception of Russia's current Black Sea naval base, the lease for which runs out in 2017. In a similar vein, Yatsenyuk has said that it would be at least a decade until Ukraine was ready to join the Alliance.

European Union

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

Ukraine currently has a Partnership and Cooperation Agreement (PCA) with the EU, as well as a Ukraine-EU Action Plan within the context of the EU's European Neighborhood policy. The agreements are aimed at providing aid and advice to assist Ukraine's political and economic transition and to promote closer ties with the EU. At an EU-Ukraine summit in December 2005, the EU announced that it would grant Ukraine market economy status. The move makes it easier for Ukrainian firms to export to the EU without facing antidumping duties.

In March 2007, the EU and Ukraine announced the opening of negotiations on an Enhanced Agreement to replace the current PCA, which is scheduled to expire in 2008. EU officials say that once Ukraine joins the WTO, talks can start on an EU-Ukraine free trade area. The EU plans to spend 494 million Euro (\$658 million) from 2007-2010 to support reform in Ukraine, in such areas as energy cooperation, strengthening border controls, bolstering the judiciary and the rule of law, and addressing environmental concerns.⁴

Russia

Ukraine's most difficult and complex relationship is with Russia. President Putin strongly backed Yanukovich's fraudulent "victory" during the 2004 presidential election campaign and reacted angrily at the success of the Orange Revolution. Russian observers with close ties to the Kremlin charged that the Orange Revolution was in fact a plot engineered by the United States and other Western countries. For his part, President Yushchenko offered an olive branch to Moscow, calling Russia a "permanent strategic partner" of Ukraine.⁵ Nevertheless, relations have been rocky. Russia has been irked by Yushchenko's efforts to support greater democratization in the region and impose tighter border controls on Transnistria, a pro-Moscow, separatist enclave within neighboring Moldova.

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

The most severe crisis in Russian-Ukrainian relations in recent years occurred in January 2006. In 2005, the Russian government-controlled natural gas monopoly Gazprom insisted on a more than fourfold increase in the price that it charges Ukraine for natural gas. When Ukraine balked at the demand, Russia cut off natural gas supplies to Ukraine on December 31, leading also to cuts in gas supplies to Western Europe. The gas supplies were restored two days later after a new gas supply agreement was signed. In early 2007, with the more pro-Russian Yanukovich government in power, Russia and Ukraine agreed to gradually increase the price of Russian natural gas to Ukraine over the next five years, at which time it will reach

⁴ "Commissioner Ferrero-Waldner Announces Substantial Increase in Financial Assistance to Ukraine," EU press release, March 7, 2007.

⁵ Jamestown Foundation, Eurasia Daily Monitor, January 25, 2005.

the world market price. Gazprom has announced a natural gas price of \$179.50 for 2008, a significant increase over the \$130 Ukraine paid this year, but still well short of world market levels.

Another issue is the involvement of a shadowy company, RosUkrEnergo, as the nominal supplier of Russian natural gas to Ukraine. Some analysts are concerned about possible involvement of an organized crime kingpin in the company, as well as corrupt links with Russian and Ukrainian officials. The U.S. Justice Department has reportedly investigated the firm.⁶

Perhaps more troubling for Ukraine, the 2006 accord with Gazprom called for the creation of UkrGazEnergo, a joint venture between RosUkrEnergo and the Ukrainian state-controlled gas firm Naftogaz that grants the former access to one-half of Ukraine's domestic market. Ukraine's intelligence service reportedly believes the owners of RosUkrEnergo are using their control over energy supplies to secure ownership of energy intensive industries such as fertilizer plants and a titanium plant.⁷ Naftogaz is teetering on the verge of bankruptcy, in part because UkrGazEnergo has been allocated more solvent customers in the industrial sector, while Naftogaz has been left with less well-off residential consumers.

Prime Minister Tymoshenko has sharply criticized the presence of RosUkrEnergo as a middleman from the Ukrainian natural gas market. In January 2008, she sharply reduced the amount of gas UkrGazEnergo can sell to Ukrainian consumers. The role of middlemen in the Ukrainian gas market may also be reduced by market forces. RosUkrEnergo's profits are based on selling cheap Central Asian gas at higher prices to Ukraine. As Central Asian countries demand that prices for their gas move closer to market rates, the intermediary's margins may be squeezed. Tymoshenko is also reportedly seeking a steep rise in transit fees from Gazprom. Russian President-elect Dmitri Medvedev has expressed support for removing RosUkrEnergo as an intermediary, but it still remains unclear whether Russia supports a genuinely transparent energy relationship with Ukraine.

On March 3-5, 2008, Gazprom reduced gas supplies to Ukraine by 50%, alleging non-payment of debts by Ukraine. Ukrainian gas company officials warned that they might divert gas intended for Western Europe to make up the difference. The two sides reached agreement on the debt on March 5 and supplies were restored. However, uncertainties remain over future deliveries and the role of RosUkrEnergo, perhaps providing pretexts for additional crises this year.

Russia still hopes to achieve its long-standing goal of owning a controlling stake in Ukraine's natural gas pipelines and storage facilities. At present, more than two-thirds of Russian gas exports to Europe (a critical source of revenue for the Russian

⁶ Glenn R. Simpson, "U.S. Probes Possible Crime Links to Russian Natural-Gas Deals," *Wall Street Journal*, December 22, 2006, 1. For background on the gas crisis, see CRS Report RS22378, *Russia's Cutoff of Natural Gas to Ukraine: Context and Implications*, by Bernard Gelb, Jim Nichol, and Steven Woehrel.

⁷ Roman Kupchinsky, "Russia/Ukraine: Pipeline Conflict Resurfaces," Radio-Free Europe Radio Liberty Newsline, June 28, 2007.

government) transit Ukraine. In February 2007, Putin announced that he and Prime Minister Yanukovich had agreed on joint Russian-Ukrainian control of Ukraine's natural gas assets, in exchange for a Ukrainian stake in Russian natural gas fields. However, this statement provoked a strongly negative reaction in Ukraine, and in February 2007 the parliament approved a law banning any transfer of control of the pipelines by a vote of 430-0.

Russia is also working on developing energy export routes through the Baltic Sea and the Balkans to western Europe that could bypass Ukraine by 2011, at least in part. If successful, these efforts could reduce Ukraine's leverage over Russia on energy issues.

U.S. Policy

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. President Yushchenko visited the United States from April 4-7, 2005 and had meetings with President Bush and Secretary of State Rice. Yushchenko's address to a joint session of Congress on April 6 was interrupted by several standing ovations. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as finishing the steps needed to join the WTO, holding largely free and fair elections, and improving media freedom, while acknowledging difficulties in others, such as fighting corruption, establishing the rule of law, and constitutional reform.

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

The United States has taken several steps to upgrade its economic relations with Ukraine. On January 23, 2006, the United States reinstated tariff preferences for Ukraine under the Generalized System of Preferences (GSP). Ukraine lost GSP benefits in 2001 for failing to protect U.S. intellectual property, particularly CD and DVD piracy. U.S. officials hailed Ukraine's efforts in the past year to improve its record on this issue.

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

based on commercial considerations, and reduction of export duties on non-ferrous and steel scrap.

The Administration has approached the issue of NATO membership for Ukraine with some caution. During an April 4, 2005 press conference with Yushchenko, President Bush said, "I'm a supporter of Ukraine becoming a member of NATO. I think it's important." But he warned that Ukraine's NATO membership "is not a given," noting that Ukraine has to make reforms before it can join the Alliance.⁸

In December 2007, David J. Kramer, Deputy Assistant Secretary of State for European and Eurasian Affairs warned that there must be support for the MAP "across the government spectrum" in Ukraine, that Ukraine must continue defense reforms, and that Ukraine needs to conduct a serious information campaign to educate the public on NATO. They have warned that Ukraine must "have its act together" on these issues and not make "premature appeals" for membership.⁹ The January 15 letter to NATO by Ukraine's top three leaders may have allayed at least the first of these concerns, but U.S. officials have yet to publicly commit the Administration to support a MAP for Ukraine. If the United States decides to advocate a MAP for Ukraine at the April 2008 NATO summit in Bucharest, it would have to cope with Moscow's strident opposition, as well as tension with several European NATO allies more eager to accommodate Moscow on the issue.

The Administration was sharply critical of Russia's behavior during the January 2006 natural gas standoff between Russia and Ukraine. State Department spokesman Sean McCormack criticized Russia for using "energy for political purposes." He stressed that while the Administration supported a gradual increase in prices to market levels, it disagreed with a "precipitous" increase and cutoff. Secretary of State Condoleezza Rice likewise on January 5 stated that Russia had made "politically motivated efforts to constrain energy supply to Ukraine."¹⁰ In May 2006, Vice President Dick Cheney characterized Russia's energy policy toward vulnerable countries as "blackmail" and intimidation.¹¹ A State Department spokesman reiterated U.S. opposition to the use of energy supplies as a political weapon after the March 3-5, 2008 gas supply incident.

The United States has favored helping Ukraine and other countries reduce their dependence on Russian energy supplies. The United States has advocated extending an existing oil pipeline that currently runs from the oil terminal at Odesa in Ukraine

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

⁹ Transcript of remarks by David J. Kramer, Deputy Assistant Secretary of State for European and Eurasian Affairs, December 7, 2007, from the State Department website [<http://www.state.gov>].

¹⁰ The State Department. Statement, January 1, 2006; Daily Press Briefing, January 3, 2006; Secretary Condoleezza Rice, Remarks at the State Department Correspondents Association's Breakfast, January 5, 2006.

¹¹ "Vice President's Remarks at the Vilnius Conference," May 4, 2006, from the White House website [<http://www.whitehouse.gov>].

to Brody, on the Polish border. This pipeline could then be extended to Gdansk in northern Poland. However, the project remains stalled due to a lack of financing.

U.S. officials called on Ukrainian leaders to resolve peacefully the political crisis caused by President Yushchenko's April 2, 2007, decree dissolving parliament and calling new elections. The State Department issued a statement welcoming the May 2007 agreement to hold early parliamentary elections on September 30, 2007 as demonstrating the "resiliency of Ukrainian democracy," but stressed that the country still needed to clearly define the roles of the executive, legislative, and judicial branches of government. U.S. officials said they agreed with OSCE assessments that the September 2007 parliamentary elections were conducted mostly in line with international standards.

Congressional Response

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

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

The FY2006 foreign operations appropriations legislation (P.L. 109-102) provided \$84 million in Freedom Support Act (FSA) funds to promote reforms in Ukraine. Five million of that amount was earmarked for nuclear safety initiatives and \$1 million for mine safety programs in Ukraine. Total FY2006 U.S. aid to Ukraine was \$100.1 million. In addition to Freedom Support Act funds (\$82.16 million were actually allocated in FY2006, according to the Administration), Ukraine received \$2.18 million in Child Safety and Health (CSH) funds; \$10.89 million in Foreign Military Financing (FMF); \$1.75 million in IMET military training funds; and \$3.1 million in NADR funding to fight terrorism and proliferation.

Congress did not pass an FY2007 foreign operations bill, instead approving a continuing resolution (P.L. 110-5). In FY2007, U.S. aid to Ukraine was \$96.5 million. Of this total, \$80 million was in FSA funding, \$9.5 million in FMF, \$2.17 million in Child Survival and Health funding, \$1.86 million in IMET, \$1.36 million in NADR, and \$1.63 million in Global HIV/AIDS Initiative funding. The

Administration estimates FY2008 funding for Ukraine at \$82.9 million. Of this amount, \$72.4 million is in FSA, \$4.7 million in FMF, \$2.1 million in NADR, \$1.81 million in IMET, and \$1.9 million in CSH. For FY2009, the Administration requested a total of \$86.48 million in aid for Ukraine. Of this amount, \$67.58 million is slated for FSA, \$8 million for FMF, \$5.4 million for CSH, \$1.8 million for NADR, and \$1.75 million for IMET.

U.S. aid to Ukraine is focused on anti-corruption and rule of law efforts, stopping trafficking in persons, media and civil society development, energy sector reform, and fighting HIV/AIDS. Aid will help Ukraine prepare for presidential elections in 2010 and improve local governance, particularly in eastern and southern Ukraine. The United States also seeks to increase exchange programs between the two countries. Other programs include efforts to help Ukraine implement WTO accession, encourage the growth of small business, strengthen export and border controls, assist defense reform and interoperability with U.S. and NATO forces. In 2005, the Millennium Challenge Corporation (MCC) selected Ukraine for Millennium Challenge Account (MCA) Threshold status. MCC funding in Ukraine is focused on fighting the country's severe corruption problem. In November 2006, Ukraine was made "compact-eligible" by the MCC board. The MCC will spend about \$45 million on anti-corruption efforts over the next two years.¹²

Congress dealt with a long-standing stumbling block in U.S.-Ukrainian relations by passing legislation to terminate the application of the Jackson-Vanik amendment to Ukraine, granting the country permanent Normal Trade Relations Status. On March 8, 2006, the House passed H.R. 1053 by a vote of 417-2. It was approved by the Senate by unanimous consent on March 9, and was signed by the President on March 23.¹³

On April 17, 2007, Representative Hastings introduced H.Con.Res. 116, which called on all sides in Ukraine's political crisis to solve the issue peacefully and in accordance with the rule of law. The resolution reaffirms U.S. support for Ukraine's transition to democracy and a free market economy, as well as for the country's independence, sovereignty, and territorial integrity. A Senate version of the resolution (S.Con.Res. 30) was introduced by Senator Dodd on May 2. On July 23, Mr. Hastings introduced H.Con.Res. 189, which called on Ukrainian leaders to abide by the May 27 agreement to hold new parliamentary elections, and to hold those elections in accordance with OSCE standards.

On September 21, 2007, the Senate passed S.Res. 320. The resolution expresses hope that Ukraine will hold its September 30 parliamentary vote in a way that is consistent with OSCE standards, urges Ukrainian leaders to work together to solve Ukraine's problems, and pledges continued U.S. friendship for and assistance to Ukraine. On October 4, Mr. Hastings introduced H.Res. 173, which congratulated Ukraine on conducting the September 30 elections in accordance with OSCE

¹² FY2009 Congressional Budget Justification for Foreign Operations, from the State Department website, [<http://www.state.gov>].

¹³ CRS Report RS22114, *Permanent Normal Trade Relations (PNTR) Status for Ukraine and U.S.-Ukrainian Economic Ties*, by William H. Cooper.

standards and pledging continued U.S. support for Ukraine's efforts to achieve a democratic political system, a free market economy, and full integration with the West.

Congress has expressed support for Ukraine's possible membership in NATO. The NATO Freedom Consolidation Act was passed by the Senate on March 15, 2007, and the House on March 26. The bill (S. 494) expresses support for further enlargement of NATO and authorizes U.S. aid to Ukraine to assist it in preparing for possible NATO membership. President Bush signed the bill into law on April 9 (P.L. 110-17). On February 14, 2008, the Senate passed S.Res. 439, which expresses the "strong support" of the Senate for a MAP for Ukraine and Georgia. On February 25, 2008, Representative Wexler introduced H.Res. 997, the House version of S.Res. 439.

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