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Summary

November 2016 marked the third anniversary of the popular uprising that erupted in Kyiv's Maidan Square in late 2013 over the government's decision to reject closer relations with the European Union (EU). February 2017 will mark the third anniversary of the collapse of the Kremlin-favored government of Viktor Yanukovych. The regime's demise was brought about by bitter protests and by civil society's reaction to a brutal government response to the Maidan protestors. In the aftermath of the turmoil of the Maidan and the collapse of the government, Ukraine saw the emergence of a pro-Western government promising reform and generally anxious to lessen Moscow's influence, as well as an energized civil society committed to pressing for the implementation of serious reform measures and determined to draw closer to the EU and the United States.

The current government of President Petro Poroshenko and Prime Minister Volodymyr Groysman, appears, to many, to be moving slowly and cautiously in a positive direction, implementing much-needed government reform, addressing endemic corruption, and achieving economic progress. For some, the government has already achieved what they believe has been the most substantial reform wave seen in Ukraine in the last 25 years.

Under Groysman, the adoption of a public asset and income declaration law required of all government officials has been hailed as a significant anticorruption achievement. Significant reforms also have taken place in the federal prosecutor's office, energy and banking sectors, and health care system. Economic progress has begun to increase slowly as the government has reduced its budget and accounts deficits. Exports have begun to increase. Shortcomings in the rule of law that have plagued the country are also reportedly being overcome. The judicial system, however, remains a problem, and attempts to promote privatization have not been successful.

At the same time, the government's cautious approach has failed to impress some sectors of a frustrated public that continues to pressure the government for more progress. The influence of a small group of old-time oligarchs and politicians, who initially refused to relinquish power or support reform, remains a distraction, and the opposition continues to criticize the government. And although the international community appears to be more encouraged by government action, many concede more work needs to be done.

Ukraine's problems have not been solely political and economic. Russia responded to the change of government in Kyiv by seizing Ukraine's Crimea region and annexing it March 2014. In April 2014, armed pro-Russian separatists supported by Moscow seized parts of the Donbas region of eastern Ukraine. A 12-point agreement to end the conflict, known as Minsk-2, was reached by the leaders of Russia, Ukraine, France, and Germany and took effect in February 2015. Since then, however, the separatists and their patrons in the Kremlin have shown little interest in fulfilling their responsibilities to implement Minsk-2, whereas Europe and the United States have continued to press Kyiv to move forward with implementing the agreement.

The United States and the EU strongly condemned Russia's incursions into Ukraine and have imposed sanctions on Russian individuals and key Russian economic and business sectors. The United States has committed close to $1.5 billion in foreign assistance to Ukraine to advance reforms and strengthen democratic institutions, including some $135 million in humanitarian assistance provided through the United Nations and $3 billion in loan guarantees.

The U.S. Congress has been a strong advocate for assisting Ukraine. In 2014, the Ukraine Freedom Support Act (H.R. 5859) was adopted, which, among other provisions, authorized increased military and economic assistance for Ukraine. In the Fiscal Year 2017 Defense

Authorization Act (NDAA), Congress supported an expansion and enhancement of security assistance for Ukraine that was initiated by the U.S. government in 2015. In September 2016, the House adopted the STAND for Ukraine Act (H.R. 5094, Engel), which, among other provisions, clarified the position of the United States on Russia's illegal occupation of Crimea. A Senate version of the legislation was introduced in the waning days of the 114th Congress, but the legislation was not enacted.

Nevertheless, some observers believe there is a growing Ukraine fatigue in Europe and a euro-skepticism taking hold in Ukraine, fueled by those who oppose the government and its reform effort and by those who have become disenchanted by Europe's lack of actions to support the pro-Europe movement in Ukraine. Concerns about the new U.S. Administration's commitment to Ukraine also are raising the level of anxiety among many in Kyiv.

This report provides an overview of the situation in Ukraine.

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Figure 1. Ukraine

Sources: Map created by CRS. Map information generated by Hannah Fischer using data from the National Geospatial Intelligence Agency (2016), Department of State (2015), Esri (2014), and DeLorme (2014).

Background

Ukraine was the center of the first eastern Slavic state, Kyivan Rus, which during the 10th and 11th centuries was one of the largest and most powerful states in Europe. Eventually, Kyivan Rus was incorporated into the Grand Duchy of Lithuania and into the Polish-Lithuanian Commonwealth. During the latter part of the 18th century, most Ukrainian territory was absorbed by the Russian Empire. Following the collapse of czarist Russia in 1917, Ukraine achieved a short-lived period of independence (1917-1920) but was reconquered and incorporated into the former Soviet Union.[1]

Today, Ukraine—comparable in size and population to France—is a large, important, European state. Occupying the sensitive position between Russia and North Atlantic Treaty Organization (NATO) member states Poland, Slovakia, Hungary, and Romania, Ukraine has played a prominent role in the geopolitical competition between the West and Russia. Ethnic Russians make up approximately 17% of Ukraine's population and are concentrated in the southern and eastern parts of the country. They form a majority in the Crimea, where they make up close to 60% of the population. In the Crimean city of Sevastopol, the home base of Russia's Black Sea Fleet, approximately 72% of the population is Russian. In addition, ethnic Ukrainians in the east

[1] CIA , *The World Factbook*, 2016.

and south also tend to be Russian-speaking, have generally been suspicious of Ukrainian nationalism, and have supported close ties with Russia.

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. This historical sense of "ownership" was witnessed in the strong Russian support for the 2014 annexation of Crimea. It has been reported that in 2008, Russian President Putin told U.S. President George W. Bush that Ukraine was not a state and that while the western part of the country may belong to Eastern Europe, eastern Ukraine was Russia's.[2] On the other hand, 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 that is whole, free, and at peace.

Since achieving its independence in 1991, Ukraine's political scene has been largely dominated by a powerful political elite and politically well-connected businessmen, or "oligarchs," who regularly manipulated the government for their own security and profit. Ukraine's recent political unrest involved, for the most part, former President Viktor Yanukovych. In the early 2000s, Yanukovych served as prime minister. He was elected president in 2004 through questionable elections and was ousted from power that year by the "Orange Revolution." He was reelected president in February 2010. Yanukovych drew his main political support from oligarchs from the Donets (Donbas) region of eastern Ukraine, which was also fairly pro-Russian. Yanukovych's government was criticized for high levels of corruption, in part among Yanukovych's own family and close associates. U.S. and European Union (EU) officials expressed strong concern over the government's human rights record, especially the targeting of opposition leaders for selective prosecution and Yanukovych's flirtations with Moscow.

Many observers had believed that, despite growing dissatisfaction with the Yanukovych government beginning in 2013, there was little likelihood of public unrest in Ukraine, given the failure of the government that emerged after the 2004/2005 pro-democracy "Orange" revolution as well as widespread disillusionment with the political class as a whole. However, in November 2013, the Yanukovych government, under pressure from Moscow, made a last-minute decision to reject an Association Agreement (AA), including a free trade pact, with the EU that would have aligned Ukraine more toward Europe, at least in the areas of economics and trade. Yanukovych appeared to bend to pressure from the Kremlin, which opposed the AA, and instead opted for closer economic links to Moscow. The decision sparked antigovernment demonstrations in Kyiv's central *Maidan Nezalezhnosti*, or Independence Square. Smaller protests occurred in other Ukrainian cities, mainly in opposition strongholds in western and central Ukraine. Observers noted that when government security forces took forceful actions against the demonstrators, public reaction shifted from just protesting against Yanukovych's failure to sign the association agreement, to the government's lack of respect for the basic human dignity of Ukraine's citizens.

In February 2014, when the Yanukovych government embarked on its most violent crackdown against the Maidan protestors, resulting in more than 100 persons being killed, the regime sealed its own demise. The death toll likely caused the support for the crackdown in the government-controlled Ukrainian Rada (parliament) to evaporate and, ultimately, the regime to collapse. On February 20, 2014, the Rada approved a resolution calling for the withdrawal of the Interior Ministry and military forces from the streets of Kyiv to their bases. As protestors began occupying government buildings, and as the situation in the streets became more chaotic,

[2] Stephen Blank, "Perspectives on Russian Foreign Policy," Army War College Strategic Studies Institute, September 2012.

Yanukovych and many of his supporters in the government and parliament fled, including to Russia.

After Yanukovych and his supporters abandoned Ukraine, the Rada, now composed mainly of former opposition deputies, rapidly passed sweeping measures to address the unrest and reform the government. The parliament formally deposed Yanukovych as president on February 22 for abandoning his duties. The Rada restored many democratic provisions of the 2004 Ukrainian constitution, eliminating changes made by Yanukovych to strengthen the presidency, and ordered new presidential elections to be held on May 25, 2014. On February 27, 2014, the Ukrainian parliament approved a new, interim government, headed by Arseniy Yatsenyuk, a former prime minister. Despite the rapid changes and formation of a new government, many Maidan protestors viewed the new government skeptically, suspecting that it was nearly as opportunistic and corrupt as the Yanukovych regime.

The collapse of the Yanukovych government did not sit well in Moscow. The Kremlin reacted with great hostility toward the events in Kyiv, referring to them as an illegal coup. The emergence of the new, pro-Western leadership in Ukraine also unsettled Moscow because of the presence of the large Russian Black Sea fleet stationed in Crimea. In February 2014, heavily armed Russian-speaking forces, aided by Russian troops, began seizing airports and other key installations throughout the Crimean peninsula. At the time, Russian President Vladimir Putin claimed that many of the troops that poured into Crimea were not Russian Federation military forces but only local Crimean self-defense forces or volunteers from Russia. Following the military operation, Moscow announced it was annexing Crimea and making it a permanent part of Russia. On March 16, 2014, Crimean authorities held a referendum in support of the annexation by Russia. The referendum was allegedly approved by 96% of those voting, with a turnout of 83%. Ukraine, the United States, the EU, and others denounced the referendum as illegal and claimed it was not held in a free or fair manner. Russian President Vladimir Putin signed a “treaty” with Crimean leaders on March 18, 2014, formally incorporating Crimea into Russia. At the same time, pro-Russia, armed rebels, aided by Moscow, began to seize government facilities and territory in the eastern regions of the country referred to as the Donbas. These actions quickly evolved into a full-scale conflict requiring Ukraine to commit its military forces against the separatists.

Ukraine's Political Situation[3]

On May 25, 2014, Ukraine elected Petro Poroshenko, a wealthy businessman, as its new president. Poroshenko pledged to move Ukraine closer to the West, to clean up rampant corruption, and to deal with the conflict that had emerged in the eastern part of the country. In October 2014, Ukraine held national elections for the 450-seat Rada (Ukraine's parliament). The main victors were the Petro Poroshenko Bloc and the People's Front, led by Arseniy Yatsenyuk, who proposed a pro-Western, reform coalition of several parties that included the Samopomich (Self-Reliance) Party, the populist Radical Party, and the Fatherland Party of former prime minister Yulia Tymoshenko. This coalition gave the incoming government a majority of 288 seats in the Rada.

Ukraine: Basic Facts

Area: Land area approximately 315,028 sq. mi.; slightly smaller than Texas.

Capital: Kyiv

Population: approximately 42.6 million (July 2016 est.).

Ethnicity: 78% Ukrainian; Russian: 17%

Languages: Ukrainian is the official language and first language of 67% of the population. Russian is spoken by 29%.

Religion: 67% Orthodox Christian

Gross Domestic Product: $345 billion, purchasing power parity (2016 est.); per capita GDP: $8,200 (2016 est.).

Political Leaders: *President:* Petro Poroshenko (since 2014); *Prime Minister*: Volodymyr Groysman (since 2016); *Foreign Minister*: Pavlo Klimkin; *Defense Minister*: Sepan Poltoral

Source: CIA, *The World Factbook*, Economist Intelligence Unit.

The Opposition Bloc, composed of supporters of the former Yanukovych regime, won 29 seats. Far-right groups, often held up by Russian propaganda as neo-Nazi gangs dominant in Ukraine, won only a few seats. One group, Svoboda, won only six seats; another group, Right Sector, won only one seat. Due to the inability to hold elections in districts in eastern Ukraine, threatened by Russian-backed sympathizers, several of the 450 seats in the parliament remain unfilled.

The overall election result was seen as a victory for forces in favor of closer ties with the EU and the United States. On December 2, 2014, the incoming parliament approved the new coalition government, again led by Yatsenyuk as prime minister. Representatives of the leading political groups were all included in the government. With the Poroshenko/Yatsenyuk coalition commanding the majority of seats, many believed the government not only would be able to adopt much-needed reform legislation but also would be in a strong position to garner the 300 votes needed to pass amendments to the Ukrainian constitution to strengthen democracy and rule of law.

Prime Minister Yatsenyuk maintained that his government's primary goal was to adopt European standards, with the ultimate objective of EU membership for Ukraine. He consistently reiterated that a key focus of his government would be to fight corruption, including by reducing government regulation and the size of the bureaucracy and by minimizing the influence of certain oligarchs in Ukraine's society. He stated that the government would cut the number of taxes it collected and devolve more budgetary power to local authorities.

In important symbolic moves, Yatsenyuk appointed a U.S. citizen and former State Department official, Natalie Jaresko, as Ukraine's finance minister; Aivaras Abromavicius, a Lithuanian citizen, as economy minister; and a health minister from Georgia. The former president of Georgia, Mikhel Saakashvili, was appointed mayor of Odessa. These moves were likely intended to signal that the new government was dedicated to initiating reforms and moving the country

[3] Some of the information in this report appeared in previous versions written by Steven Woehrel.

toward the West and that these key figures were not from what many Ukrainians believed was the country's morally compromised political elite.

Ongoing Challenges: Political Reform

After taking office, President Poroshenko launched several political, economic, and judicial reform initiatives designed to reassure the population, and the West, that the changes they demanded would be implemented. Through the remainder of 2014 and well into 2015, the record of passage of reform measures was mixed. In testimony before the Senate Foreign Relations Committee in October 2015, Assistant Secretary of State Victoria Nuland noted that the government was setting up an Anti-Corruption Bureau that would investigate corruption among government officials and that new anticorruption laws passed in 2014, including stricter provisions against bribery and conflicts of interest, would require annual disclosures of income by public officials. She noted that, "[w]ith U.S., EU, and UK help, new local prosecutors are being hired, old ones are tested and retrained, and all will now submit to periodic performance evaluations to root out corruption and malfeasance."[4]

On the other hand, some reforms were slow to be implemented. In October 2015, according to Secretary Nuland, "much difficult work [remained] to clean up endemic corruption throughout government and society, at every level; to stabilize the economy; break the hold of corrupt state enterprises and oligarchs; and reform the justice system." She also noted that, at the time, only 5% of the Ukrainian population completely trusted the judiciary. Secretary Nuland stated, "the Prosecutor General's Office (PGO) has to be reinvented as an institution that serves the citizens of Ukraine, rather than ripping them off." For the Secretary, that meant the PGO "must investigate and successfully prosecute corruption and asset recovery cases—including locking up dirty personnel in the PGO itself." She added that the newly created Inspector General's Office within Ukraine's prosecution service must be able "to work independently and effectively, without political or judicial interference."[5] Nuland's comments were given renewed importance when, on February 14, 2016, the reform-minded deputy prosecutor resigned, complaining that his efforts to address government corruption had been consistently stymied by his own prosecutor general, Viktor Shokin, as well as other government officials. After President Poroshenko complained that Shokin was taking too long to clean up corruption even within the PGO itself, he asked for Shokin's resignation.

Others also observed that it was very difficult initially to keep reform progress moving forward. According to the Economist Intelligence Unit (EIU), "dismantling ingrained structures of corruption will continue to meet with considerable resistance from organized business-political-criminal networks, including some that are still influential in the pro-Western government."[6] In a return appearance before the Senate Foreign Relations Committee in March 2016, Assistant Secretary Nuland appeared to echo this sentiment when she stated,

> Ukraine's European future is put at risk as much by enemies within as by external forces. The oligarchs and kleptocrats who controlled Ukraine for decades know their business model will be broken if Maidan reformers succeed in 2016. They are fighting back with a vengeance, using all the levers of the old system: their control of the media, state owned

[4] Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Testimony on Ukraine*, hearings, 114th Cong., 1st sess., October 8, 2015.

[5] Ibid.

[6] Economist Intelligence Unit, *Country Report on Ukraine*, January 18, 2016.

> enterprises, Rada deputies, the courts and the political machinery, while holding old loyalties and threats over the heads of decision-makers to block change.[7]

The difficulties some reformers in the government were experiencing in moving the process forward was reflected in the resignation in early February 2016 of the economy minister, Abromavicius, who complained of political interference from advisers to the president and members of the Rada and accused some political elites of systematically blocking much-needed reforms and interfering in the fight against corruption.[8] U.S. Ambassador Geoffrey Pyatt, along with several other European ambassadors, praised Abromavicius for his efforts and expressed disappointment with the resignation.[9] The International Monetary Fund (IMF), which had already postponed the 2015 delivery of the third and fourth installments of funds for Ukraine because of the slow pace of reform, including the lack of tax reform, further delayed the payment after the Abromavicius resignation.

There were other signs of potential trouble ahead for the governing coalition. In August 2015, the first reading of a controversial constitutional amendment on administrative decentralization for the Donbas region (required by the Minsk-2 agreement, see below) was passed by the Rada, but not with the 300 votes necessary to amend the constitution. According to some, the debate opened up serious splits within the governing coalition.[10] President Poroshenko found himself in the middle of a struggle between those, including the EU and United States, that wanted to move forward toward a settlement of the conflict in the east at all costs and those more hardline elements in the country that did not want to make any further concessions to Russia or the separatists until they took significant steps to end the conflict and moved to help reunify Ukraine.

In September 2015, the first rupture of unity in the government took place when the Radical Party quit the governing coalition over the decentralization issue. In January 2016, the leadership of the Self-Reliance Party called for a no-confidence vote against Prime Minister Yatsenyuk, threatening to leave the coalition if the vote was not held. The same day, Rada chairman Volodymyr Groysman announced that the legislature would conduct a review of the work of the Yatsenyuk Cabinet, which would precede a vote of no confidence on the Yatsenyuk government. At that point, questions arose as to whether Prime Minister Yatsenyuk could retain his position as his detractors began to accuse him of treating with deference some of the wealthy oligarchs whom Yatsenyuk vowed to reform. Some believed that changes would have to be made in the government to retain any semblance of stability.[11]

On February 15, President Poroshenko asked for Yatsenyuk's resignation over the slow pace of reform and because he felt the prime minister no longer enjoyed the support of the government coalition or the Rada. Yatsenyuk refused to resign and took his case to the Rada. On February 16, Yatsenyuk barely survived a vote of "no confidence" in the Rada when only 194 members of parliament voted against him. The outcome of the vote further complicated the political environment because although Poroshenko argued that change was necessary to reassure the public, a majority in the Rada, including many in Poroshenko's own political bloc, refused to support the ouster of Yatsenyuk. After the vote, Yatsenyuk noted that while he would not step down, he would consider replacing some of his Cabinet. Despite these promises, the number of

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[7] Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Ukraine Reforms Two Years After the Maidan Revolution and Russian Invasion*, hearings, 114th Cong., 1st sess., March 15, 2016.

[8] "Resignation of Reformist Minister Sheds Light on Rampant Corruption," *EURAtive.com*, February 3, 2016.

[9] Ibid.

[10] Op. cit.

[11] "Ukraine: What Happens in the East Starts in Kiev," Stratfor, February 4, 2016.

votes against Prime Minister Yatsenyuk and the fact that Poroshenko called for his resignation created doubts within the government and among the population regarding Yatsenyuk's future effectiveness.

Following the "no-confidence" vote, the Fatherland Party quit the coalition on February 17, 2016. The next day, the Self-Reliance Party, expressing its frustration with the reform effort, also pulled out of the coalition. The loss of both parties left the Poroshenko/Yatsenyuk government with only 215 votes in the Rada, 11 votes short of a majority. However, Ukrainian law prohibits the Rada from considering additional "no-confidence" votes against a government for six months, so Yatsenyuk was given time to form a new government, make changes, and move the reform process forward, if possible. Observers believed that although the government had been weakened, all three former coalition partners likely would have continued to support the government's reform agenda and provide the votes needed to pass such legislation. Despite this assessment, neither a new coalition government led by Yatsenyuk nor a new prime minister had materialized by late March 2016. Speculation became centered on Volodymyr Groysman, the Speaker of the Rada and Poroshenko supporter, as a replacement for Yatsenyuk. Nevertheless, Yatsenyuk refused to resign until a new governing coalition was agreed to. This stalemate led to typical Ukrainian political maneuverings among the parties.

The United States and the EU, despite their concerns over the pace of reform, did not want the government to collapse, as failure to form a new government would have required new national elections. The idea of new elections, which could have generated nationwide political and economic instability, weakened the parties of both Poroshenko and Yatsenyuk, and further slowed reform, appeared not to be a viable option. In addition, new elections could have called into question the ability of a new government to be any more dedicated to reform or successful in achieving such reforms.

For some Ukraine observers, the shift among the various political leaders triggered fear among reformers that Ukraine might have repeated the failure of the earlier Orange Revolution—the leaders of which, Prime Minister Yulia Tymoshenko and President Victor Yushchenko, quarreled bitterly after attaining power. Although conditions this time around were not exactly like those of the Orange Revolution, observers recalled how the mutual hostility between the leaders paralyzed the government, alienated voters, and delivered the presidency to Victor Yanukovych in 2010.[12] For these observers, history seemed about to repeat itself.

The political turmoil surrounding the Yatsenyuk government was not, however, all bad news. As noted above, U.S. Secretary Nuland, again testifying before the Senate Foreign Relations Committee, said,

> Here's the good news: since I last testified before this Committee five months ago, Ukraine has largely stabilized its currency and is rebuilding its reserves; seen some modest growth in the economy; passed its first winter without relying on gas from Gazprom; approved a 2016 budget in line with IMF requirements; passed civil service reform to create competition and transparency; recruited a new corporate board for Naftogaz; broke its own record for greatest wheat exports; stood up an independent Anti-Corruption Bureau and Special Prosecutor; and, begun to decentralize power and budget authority to local communities to improve services and policing for citizens. The very week in February that the current government survived a no-confidence vote, Rada deputies also approved five critical pieces of reform legislation to stay on track with IMF conditions and advance Ukraine's bid for visa-free travel with the EU, including laws on: Privatization of state owned enterprises; Improvements in corporate governance of state owned enterprises;

[12] Elizabeth Pond, "Gunfight at the Ukraine Corral," Institute for International Strategic Studies, February 4, 2016.

> Asset seizure and recovery; The appointment process for anti-corruption prosecutors; and, mandatory asset disclosure for public officials.[13]

Despite the recognized progress made in passing some reform legislation, opinion polls indicated that public skepticism remained high regarding the Poroshenko/Yatsenyuk government's ability to implement those reforms. The polls questioned the government's commitment to make a serious impact in fighting the country's deeply ingrained, crippling problem with corruption or to adopt additional legislation seen as necessary to move Ukraine forward. As evidence of what appeared to be a growing trend of disenchantment, some pointed to the October 2015 local elections held throughout the country, in which Yatsenyuk's People's Front party did not even participate because polls indicated that the party had experienced a significant decline in support in some regions of the country. In a public opinion poll conducted in November 2015 for the International Republican Institute, only 27% of those polled expressed a favorable view toward President Poroshenko, and only 12% looked favorably on Prime Minister Yatsenyuk.[14]

Although Yatsenyuk initially survived the political uprising, a new level of disenchantment on the part of an already skeptical public as well as among some within the Rada who felt Yatsenyuk no longer held a mandate for governing made it unclear just how much success in addressing corruption Yatsenyuk, or a successor, could have achieved and how much trouble was in store for Poroshenko.

When Yatsenyuk failed to form a new government by early April 2016, he indicated that he would resign, but only if a new prime minister was agreed to. On April 14, 2016, the Rada, by a very slim margin (257 votes out of a possible 450), approved Volodymyr Groysman as the new prime minister. Groysman had to rely largely on the Petro Poroshenko Bloc and Yatsenyuk's People's Front, along with a few independents and lawmakers from oligarch-linked parties, to confirm his new position. Former coalition parties, including Fatherland, Self Help, and the Radical Party, all of which had left the ruling coalition for the opposition, opposed Groysman, all for different reasons.

Groysman's coalition started out in a weakened state, with serious doubts about his ability to move the agenda forward in the very Rada he recently led. In addition, Groysman's close association with Poroshenko raised some doubts about his determination or ability to effectively carry out major reforms on which Poroshenko himself may have been lukewarm.

These initial concerns were noted by many, including the *Washington Post*, which wrote,

> Mr. Poroshenko and his new prime minister talked a good game as Mr. Groysman presented his cabinet to parliament last week. They said they were committed to continuing an International Monetary Fund program that is keeping Ukraine financially afloat, to fighting corruption and to rejecting the economic populism proposed by many in parliament. But neither man has a record of supporting the radical steps Ukraine needs, including a sweeping reform of the judiciary, big increases in energy prices for consumers, and an uncompromising assault on corrupt oligarchs and vested interests.[15]

In a phone conversation, U.S. Vice President Joseph Biden congratulated Prime Minister Groysman on his election and on the new Cabinet. The Vice President stressed that, to maintain

[13] Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Ukraine Reforms Two Years After the Maidan Revolution and Russian Invasion*, hearings, 114th Cong., 1st sess., March 15, 2016.

[14] Public opinion survey of residents of Ukraine conducted between November 19, 2015, and November 30, 2015, by the Rating Group of Ukraine for the International Republican Institute.

[15] "Ukraine's President consolidates his control," *Washington Post*, April 16, 2016.

international support for Ukraine, the new team should move forward quickly on Ukraine's reform program, including fulfilling its IMF commitments, as well as on Minsk-2 implementation and the confirmation of a new, reformist prosecutor general.[16]

The period since the formation of the Groysman government has been marked by slow but increasingly successful progress both in addressing reform and strengthening the economy. Some believe the move to oust former prime minster Yatsenyuk was driven by his reluctance to challenge certain oligarchs and politicians or his failing to address corruption, particularly in the office of the Prosecutor General. Yury Lutsenko, the head of the Poroshenko parliamentary group, was subsequently appointed the new prosecutor general. Seen initially as a political move (Lutsenko was not an attorney or from the legal world) to consolidate Poroshenko's influence and to satisfy critics, including in the United States, observers, despite some internal problems including a dispute between staff members from the prosecutor-general's office and members of the new Anti-Corruption Bureau, continue to express optimism that Lutsenko appears committed to move forward on needed reforms and prosecutions of corrupt officials of both the former and current governments.

Groysman also replaced Natalie Jaresko, the highly popular minister of finance, with Oleksandr Danyliuk, formerly with McKinsey & Company. Danyliuk, seen by some as a progressive technocrat, raised some initial concern as to whether he would be willing or able to undertake meaningful reforms over the long term, particularly if it meant an occasional disagreement with Poroshenko. Since then, Danyliuk appears to have won increasing support for his efforts.

Over the first 10 months in office, the Groysman government has, according to some, achieved some notable successes, particularly on the issues of energy subsidies, corruption, transparency, and banking reform. What is unclear, however, is how much of the reform effort has been initiated due to a real desire to clean up the country and how much of it has been motivated by the need for outside financial assistance. The IMF has had to consistently warn Kyiv that more difficult reforms were needed in the banking and pension sectors, a new initiative regarding the electronic declarations (of assets) by high officials had to be put into place, land reform needed to get under way, and the important issue of privatizations needed to be pursued if the country wished to receive additional increments of IMF funding.[17]

Nevertheless, the government has been able to move forward with the further reduction of household energy subsidies demanded by the IMF, even though the prospect of increased electricity prices spurred several street protests. Similarly, corruption was viewed as rampant throughout the Ukrainian banking system. Some believe the chairwoman of the National Bank of Ukraine (NBU), Valeriya Hontareva, has made significant progress in cleaning up the industry, including closing some 180 banks that were undercapitalized or not functioning in a constructive manner. On December 19, 2016, in one of the biggest shake-ups of the country's banking system since Ukraine plunged into economic and political turmoil more than two years ago, the government took over its largest bank, PrivatBank, in response to the Central Bank's claim that PrivatBank had not fulfilled its recapitalization program. The takeover was backed by Kyiv's international donors as necessary to protect the country's financial system.[18]

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[16] White House, "Readout of Vice President Biden's Call with Prime Minister Volodymyr Groysman," press release, April 14, 2016, at https://www.whitehouse.gov/the-press-office/2016/04/14/readout-vice-president-bidens-call-prime-minister-volodymyr-groysman.

[17] "Next IMF aid traunche demand tough Ukraine official warns," Reuters, October 25, 2016.

[18] "Ukraine's Largest Bank Rescued by State, Poroshenko urges Depositors to Stay Calm, *New York Times,* December 19, 2016.

These and other examples of reform initiatives, however, have generated opposition to the government and have raised concerns about who in Kyiv wins and who loses from the success of the reform efforts. Some fear that those who have the most to lose will act to slow the reform process down. For instance, Anders Aslund warned that an attempt has been under way in the Ukrainian parliament to deprive the NBU of its independence and oust Hontareva. This, according to Aslund, would have been a major reversal of Ukraine's economic reforms.[19]

Despite some concerns, these examples, along with others, led U.S. Assistant Secretary of State Victoria Nuland to say that she was encouraged by signs of commitment to reform from Ukraine's government. And despite early concerns over the government's appetite for reform, the EU and the IMF seemed satisfied that the Groysman government has been setting the right tone for moving the country forward. In fall 2016, the IMF approved another $1 billion for Ukraine as part of the IMF's $17 billion assistance program for the country. An IMF mission visited Ukraine again between November 3 and November 17, 2016, to assess whether enough progress had been made to warrant the release of additional funds to Kyiv. Apparently, the IMF decided that the government needed more time to meet international demands for progress and that no additional funds would be provided in 2016. According to some, this particular IMF mission devoted atypical attention to governance, specifically to corruption, and the Ukrainian government must convince a skeptical IMF that it is doing something more about corruption either through deeds or credible policies.[20]

In one of his last public appearances before he departed Ukraine, U.S. Ambassador Geoffrey Pyatt, speaking to a Ukrainian youth club, reviewed some of the progress he had seen Ukraine achieve during his time as ambassador. According to Pyatt, this progress included a Ukrainian civil society that is perhaps one of the strongest and most active anywhere in Europe today; the establishment of new anticorruption institutions; a new prosecutor general; the transformation of the energy sector; increased media freedom; accountability of democratically elected politicians, and some important first steps toward reform, including constitutional reforms on the judiciary that would make it easier to prosecute corruption. At the same time, Pyatt indicated that if he had to identify the single area that still required the greatest sustained focus and the greatest sustained pressure and engagement from civil society, it would be rule of law—building a judiciary, a prosecutorial service, and a court system in which the Ukrainian people have confidence.[21]

Still, the Poroshenko/Groysman government has not entirely succeeded in winning over a solid majority in the Rada, former Maidan reformists, or among the general public at large. Part of the reason, according to some, is the continued presence and influence of a small number of powerful oligarchs. In a recent assessment of this matter published by Carnegie Europe, oligarchs have managed to retain their status as important players in Ukraine's politics and economy due to a number of factors. One is the oligarchs' continued dominance of certain strategic sectors of the economy through their financial capabilities and their organizational strength. Another factor is that oligarchic groups still possess powerful instruments to defend their positions, in particular control over dozens of members of parliament and ownership of nearly all major television stations or other media outlets. Four oligarchs together own almost 80% of the Ukrainian TV market. A third factor is simply that any attempt to genuinely strip the strongest oligarchs of influence, including by prosecuting them, could lead to open political conflict and possible

[19] Anders Aslund, "Old Ukraine Launches Campaign against Ukraine's Most Influential Woman and Top Banker," Atlantic Council, October 24, 2016.

[20] "Here's Why Ukraine Failed to Get More IMF Funding," Anders Aslund, Atlantic Council, November 30, 2016.

[21] Remarks of Ambassador Pyatt at an "open World" youth discussion Club in Ukraine, U.S. Embaasy Kyiv, July 26, 2016.

retaliatory action by those oligarchs who control many sectors of the economy, which could seriously destabilized Ukraine's internal situation. The Carnegie study concluded that the process to get control over the influence of the oligarchs will take time, but that the success of any efforts to weaken their influence will depend primarily on whether Ukraine's present-day institutions can be reformed with institutions that are robust and independent. [22]

Despite the progress that must be attributed to the Poroshenko/Groysman government, several incidents since summer 2016 have called into question the stability and public acceptance of the Poroshenko/Groysman government, which could present problems in 2017. In June 2016, criticism of the government came from Ukrainian war hero Naydia Savchenko, who had recently been released from prison in Russia. While in prison, Savchenko was elected to the Rada as a member of the opposition Fatherland party led by Yulia Tymoshenko. In an interview with the Associated Press, Savchenko apparently said that the Ukrainian government had failed public expectations and that the Ukrainian people deserved a better government than they had. Savchenko then called for early parliamentary elections to "infuse fresh blood" into Ukraine's politics and spoke of her own presidential ambitions.[23] Coming from a national icon, these comments sent shock waves across the frustrated nation and throughout the international community, which continued to oppose new national elections as potentially destabilizing. In August 2016, Savchenko announced a hunger strike to speed up the release of 25 other Ukrainian prisoners of war, accusing Ukraine's president of ignoring their plight.[24] Recently, however, there were reports that in December 2016, the Fatherland party expelled Savchenko from their parliamentary faction, forcing Savchenko to sit in the Rada as an independent MP.

In early July 2016 a new push to form a European liberal political party was reportedly launched by many young, former Maidan activists who are now in the government, Rada, or civil society. The new movement backs free-market approaches and specifically supports the small- and medium-sized business community. The group is steadfastly libertarian on matters of personal choice and a staunch proponent of tough anticorruption measures that emphasize a strong rule of law and a professional, impartial judiciary. The group intends to rely on social media, Internet-based news, civic networks, and crowd funding to spread its message and build support.[25] Some believe that if this movement can evolve into a full-fledged political party with public support, it could present challenges to the current dominance of the Poroshenko Bloc and the People's Front party.

In July 2016, increased fighting broke out in eastern Ukraine, reminding the public that security had not yet been achieved. According to the Ukraine Defense Ministry, the deaths of some 27 Ukrainian soldiers (with another 120 wounded) made July the deadliest month for the Ukrainian military in nearly a year. The tensions remained high through August.

Also in July, a car bomb explosion in Kyiv killed a well-known Belarussian investigative reporter, Pavel Sheremet. Sheremet worked for *Ukrainian Pravda* (Truth), an outspoken Ukrainian investigative website that has riled politicians, government officials, and business tycoons with its piercing investigations into their dealings. Sheremet was known for his criticism of Russia's leadership and his friendship with the slain Russian opposition leader Boris Nemtsov. It is still unclear whether his killing was internally motivated by individuals who may have been

[22] "Ukraine's Omnipresent Oligarchs," Wojciech Kononczuk, Carnegie Europe, October 13, 2016.

[23] "Savchenko calls for early elections in Ukraine," AP, June 10, 2016.

[24] "Ukraine's Savchenko Launches Hunger Strike over Political Inaction," Reuters, August 2, 2016.

[25] "Euromaidan Leaders Launch New Party in Ukraine: Can It Succeed," Adrian Karatnycky, Atlantic Council, July 11, 2016.

the target of an ongoing investigation by Sheremet or carried out by external forces. Responding to the incident, President Poroshenko said the killing was an attempt to destabilize Ukraine.[26]

In the same month, the government was dealt another headache when Amnesty International released a report documenting widespread prisoner abuse by Russian-backed separatists. The report also said that Ukrainian authorities and pro-Kyiv paramilitary groups illegally imprisoned and in some instances tortured prisoners.[27] These allegations forced the government to defend what had been seen by the public as a well-respected armed forces institution.

Finally, on July 17, Ukraine held special elections in seven districts to fill seats vacated by members of the Rada who had been appointed to the Cabinet of Prime Minister Groysman and one Rada member who had died. One of the districts was Stansiya Lughansk, part of which borders an area occupied by the separatists. These special elections were seen as symbolic tests of the public's mood toward the government. The Poroshenko Bloc did not win any of the seven races. Independent candidates won two elections. Two winners were supported by Yulia Tymoshenko (Fatherland party), and two were supported by the Renaissance faction.[28]

As Ukraine transitioned into fall 2016, the Poroshenko/Groysman government seemed to feel it had achieved much. In a major development, and a surprise to many, in early November, the Rada adopted a landmark anticorruption reform requiring thousands of government officials, including the president and prime minister, to declare their wealth in an online database. This system was a key requirement of the IMF in exchange for the release of funds and was one of the conditions set out by the EU for an agreement on visa-free travel for Ukrainians. According to some, the disclosure would ensure that the country would move away from a culture that tacitly allowed bureaucrats to amass wealth through cronyism and graft. Since its adoption, more than 100,000 submissions have been reported, with the amount of wealth coming as a major surprise to most Ukrainians. All three of the anticorruption bodies—the General Prosecutor's Office, the National Agency for Corruption Prevention, and the National Anti-corruption Bureau—have announced their intentions to start investigations into the sources of such wealth among officials. According to many, and despite its flaws, the disclosure initiative was seen as a significant step in tackling corruption. The publicly available database makes it possible to uncover the sometimes murky connections between public officials via their involvement in different companies and can thus help to reveal conflicts of interest. It is important for civil society and journalists to keep up the pressure for criminal investigations to be completed.[29]

At a discussion sponsored by the Atlantic Council in October 2016, Natalie Jaresko, Ukraine's former Finance Minister, suggested that Ukraine had indeed gone through the "longest and most successful reform process," which not only has spurred GDP growth but also has seen inflation drop, lending reduce, and credit expand. This process has occurred in spite of Russia's occupation of Crimea, the ongoing conflict in eastern Ukraine, hybrid warfare carried out by the Kremlin, and an estimated 1.7 million internally displaced persons resulting from the conflicts in Crimea and eastern Ukraine.

[26] "Ukraine Sees Ulterior Motives After Car Bomb Kills Journalist," Reuters, July 20, 2016.

[27] "Ukraine Gets the Jitters as Fatalities Spike," Nolan Peterson, *Newsweek,* July 27, 2016.

[28] "Tymoshenko and Kolomoyskyi Score Wins in Ukraine's Special Elections," Brian Mefford, Atlantic Council, July 19, 2017.

[29] Kateryna Boguslavska, "Full Disclosure: Tackling Corruption in Ukraine," Chatham House, November 30, 2016.

However, Jaresko noted that the reforms were not yet irreversible and required continued international support.[30] Still others, such as Anders Aslund, have warned that if the new Ukrainian government becomes complacent the country's gains could be lost. According to these observers, Ukrainians know that corruption remains endemic, and little progress has been made in breaking the old elite's power structure. As people continue to tire of poverty and war, the appeal of populism will grow. With fresh IMF and U.S. financing coming through, the new government has a window of opportunity to push through additional reforms and continue the economic recovery. Otherwise, according to Aslund, it risks an early parliamentary election—which it might not survive—next spring 2017.[31]

Jaresko issued the same kind of warning, but she blamed a large share of the country's slow progress on opposition parties and populist politicians. Parliamentary elections are not slated until 2019, but populist parties, whose numbers are high in the polls, have been urging early elections. Jaresko saw early elections as negative for Ukraine.[32] This concern was heightened recently when Ukraine's populist, anti-Russia, but euro-skeptic Azov Battalion apparently decided to form its own political party. Although small in number, the far-right leaning ideology of the group could align itself with others and present a challenge to the Poroshenko/Groysman government.[33]

In a recent briefing by the International Crisis Group, the authors suggested that "the new government was given a year to push through reforms." For the authors, the government has had mixed results. They believe politicians of all persuasions are convinced that Groysman will lose a confidence vote in the spring and that Poroshenko's majority in the Rada will collapse, with most politicians and observers believing new elections will follow."[34] Continuing on, the Crisis Group claimed that

> the parties gaining ground are sympathetic to the Russian world view and in many cases keen to restore the pre-Maidan state of affairs.... The steady decline in the opinion poll ratings of both President Poroshenko and his supporters in the Rada has galvanized the opposition, in particular two parties: former Prime Minister Yuliya Tymoshenko's Batkivshchyna (Fatherland Party) and what is essentially the new incarnation of Yanukovych's Party of the Regions, the Opposition Bloc (OB).[35]

Despite the apparent failure to improve their image among the population and perhaps even within the Rada, Poroshenko and Groysman have vowed to continue their efforts to meet the demands for reform and economic progress while carefully watching the mood of the country and the potential demand for new national elections.

For Poroshenko and Groysman, another major concern continues to be the strength of support Ukraine will continue to receive from the United States and the European Union. Observers believe any wavering of U.S. or EU support could signal to Moscow that Ukraine "fatigue" is growing and that Moscow could take additional steps to destabilize the government. Many in Ukraine have become concerned over the EU's ability to sustain its support in the wake of the Brexit vote in the UK and with the outcome of the recent presidential elections in the United States. Recently, however, Russia's actions in Syria and Moscow's failure to ease the conflict in

[30] Comments of Natalie Jaresko at the Atlantic Council, October 11, 2016.

[31] "Safeguarding Ukraine's Progress," Anders Aslund, Project Syndicate, October 4, 2016.

[32] Op. cit.

[33] "Azov Battalion Enters Ukraine's Political Arena," RFE/RL, October 14, 2016.

[34] "Ukraine: Military Deadlock, Political Crisis," Briefing #85, The International Crisis Group, December 19, 2016.

[35] Ibid.

the Donbas seem to be hardening the EU position on Russia, which may benefit Kyiv for a while longer.

Current Economic Situation

After Russia proper, the Ukrainian republic was the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic. Its fertile soil generated more than one-fourth of Soviet agricultural output.[36] (According to the U.S. Department of State, this remains the case as Ukraine exported a record 33.5 million tons of grain in 2014.)[37] In addition, Ukraine's diversified heavy industry, concentrated in the eastern portion of the country, supplied equipment and raw materials to industrial facilities and mining sites within Ukraine and Russia.

Although its economy was in decline in 2013, some believe Ukraine's primary economic challenges were not all self-inflicted. Many were the result of Russia's aggressive actions against Ukraine. Russia's annexation of Crimea in March 2014 seized 4% of Ukraine's GDP. Subsequently, Russia's support for separatists in eastern Ukraine, a region that accounted for 10% of the country's GDP in 2013, resulted in the region's production plummeting by 70%, costing Ukraine some 7% of its 2013 GDP.

Russian trade sanctions imposed in 2013, even before the Maidan, slashed Ukraine's exports to Russia by 70%—accounting for a drop of 18% in Ukraine's total exports. In 2014, Ukraine's exports to Russia—which included machinery, steel, agricultural goods, and chemicals—fell by half. Logistical issues, the lack of commercial links, and the specialization of some products meant that Ukrainian goods could not be redirected in the short term away from the Russian market to other markets, particularly in Europe. It was estimated by some that the loss of the Russian market likely resulted in an overall 6% decline in Ukraine's GDP. In addition, with Russia's aggression in Ukraine still unsettled, few had wanted to invest in what some felt could become an extended war zone. As a consequence, Ukraine's net foreign direct investment, which was slightly over 3% of GDP before the start of hostilities, evaporated.[38] An example of this lingering concern was seen when, according to the State Property Fund, the tender for a 99.6% stake in the Odessa Port Plant, a large chemicals-production complex, that was supposed to lay the groundwork for the wider relaunch of the government's privatization plan failed to attract any bidders, particularly any international companies.

Beginning in 2015, some good news was noted. According to some, signs of financial and economic stabilization began to appear as a result of a series of measures, including the first payments of the $17.5-billion program loan approved by the IMF in March 2015. A rise in interest rates helped to support the *hryvnya* (Ukraine's currency). In August 2015, the government announced that a deal on the restructuring of up to $18 billion of Ukraine's public debt had been reached with private creditors. In December 2015, the IMF tweaked its rules regarding lending to countries in arrears to other states, allowing Ukraine to continue to receive IMF funding even though the government has thus far refused to repay a $3 billion bond, issued by the previous government and held by Russia.

In December 2015, the Rada adopted a 2016 budget that included some changes to the tax code but did not go as far as the finance minister had wanted. The approved budget was an attempt to

[36] CIA, *The World Factbook*, January 5, 2016.

[37] Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Testimony on Ukraine*, hearings, 114th Cong., 1st sess., October 8, 2015.

[38] Anders Aslund, "Russia's War on Ukraine's Economy," July 9, 2015.

reduce the budget deficit target to 3.7% of GDP, down slightly from the 2015 target of 4.3% of GDP. According to the EIU, this target is in line with the government's commitments made as part of its April 2014 request for an IMF loan of $17 billion. Passage of the budget would have allowed the IMF to continue to lend money to Ukraine as long as other reforms continued. Other commitments made to the IMF included maintaining a flexible currency exchange rate and increasing household gas prices to 56% of the import price and heating prices to about 40% of the import price in 2014. The IMF also wanted a commitment to make rapid progress on reforms, including energy price increases, bank restructuring, governance reforms of state-owned enterprises, and legal changes to implement anticorruption and judicial reforms.[39]

In February 2016, with progress on the IMF's demands moving too slowly, IMF Director Lagarde warned then-Prime Minister Yatsenyuk that reforms were taking too long and that continued IMF support for Ukraine was in jeopardy unless the pace of reforms was increased. After Yatsenyuk was replaced by Groysman as prime minister—ushering in a new emphasis on reform, the hiring of a new prosecutor general, and the passage of legislative fixes to the energy subsidy program—the IMF sent a new assessment team to Ukraine. The IMF agreed that progress was being made and that the next tranche of IMF funding, around $1.6 billion, would be forthcoming. In September, the IMF voted to release $1 billion of Ukraine's $17.5 billion bailout package, not as much as Ukraine had hoped for, but nevertheless a welcome infusion of assistance. The new funding brought total funding from the IMF so far to $7.7 billion.

The 2016 budget debate in the Rada was difficult, as many parliamentarians noted that the fiscal austerity focus of the budget, the ongoing conflict in the east, and recession all contributed to a downturn in living standards, which in turn contributed to a rapid decline in public support for the government. Reductions in the energy subsidies have resulted in a rise in electricity prices, which, has spurred some public outrage and protests. In late 2016, however, it was reported that electricity prices had declined somewhat.

As noted above, when the free-trade agreement with the EU went into effect in January 2016, Russia suspended its own free-trade deal with Ukraine and banned all imports of Ukrainian food—to which Ukraine has responded in kind. Russia's tightening of trade restrictions resulted in Ukrainian exports to Russia being cut by 50%, although Russia is still an important market for Ukrainian metals and machine-building. Ukraine has been successful in reorienting its trade to other markets, particularly to the EU. However, Ukraine's economic outlook for the longer time could be inhibited by a continued stagnation in the economic outlook for the EU and by a rise in uncertainty as the UK and the EU begin Brexit negotiations in 2017.

The EIU forecasted growth in real GDP of around 1.1% in 2016 and 2.5% in 2017.[40] Natalie Jaresko, in her comments at the Atlantic Council, suggested that Ukraine could see 1.5% GDP growth this year.[41] The EIU also forecasts unemployment will remain at about 9% and inflation holding at around 12%. An increase of almost 50% in domestic gas tariffs, a reform measure enacted by the Rada—also needed to pave the way for the release of a delayed IMF loan tranche—could spur a new round of inflation.

One area where Ukraine is making a great deal of progress is in agriculture, although more reforms are needed, according to some. Ukraine possesses some of the richest agricultural soil in

[39] See IMF, "Statement by IMF Managing Director Christine Lagarde on Ukraine," press release, February 12, 2015, at https://www.imf.org/external/np/sec/pr/2015/pr1550.htm.

[40] EIU Country Report: Ukraine, December 9, 2016.

[41] Op. cit. Jaresko.

all of Europe. Ukraine sold $7.6 billion of bulk farm commodities worldwide in 2015, quintupling its revenue from a decade earlier and topping Russia, its closest rival on world markets. In 2016, the government estimated that grain sales will top 60 million tons, up 7% over 2015. By the mid-2020s, "Ukraine will be No. 3, after the U.S. and Brazil" in food production worldwide, says the top representative in Ukraine for Cargill.[42]

With respect to its need for direct foreign investment, at the end of 2015 the value of Ukraine's foreign investments was over $60 billion. Partly to blame for the low investment figures appears to be international concern over the pace of reforms to improve governance, support investment, and raise standards. Cutting red tape and other reforms raised Ukraine to the 83rd position in the World Bank's 2016 Doing Business ranking, from 152nd position in 2012. Ukraine fell six spots to 85th place in the World Economic Forum's Global Competitiveness Index. According to an investors' survey, obstacles include corruption; lack of trust in the judiciary; the conflict with Russia; an unstable financial system; restrictive capital and foreign exchange controls; complicated tax administration; and cumbersome legislation.[43]

On the other hand, in a recent article for the Atlantic Council, James Brooke, a foreign correspondent, made several observations regarding the business climate in Ukraine in 2016. He quoted an official from Briggs Capital LLC, a fund based in Dedham, Massachusetts, saying, "a new culture of determined entrepreneurs is finally emerging.... The old guard, with their misconceptions of a free economy, is slowly being sidelined. New, trusted Ukraine business owners of small to medium-sized firms are operating in a westernized fashion." In addition to pointing out statements made by several U.S. and European business representatives in Ukraine to size up the market and workforce, Brooke noted the recent signing of a Canada-Ukraine free trade pact, which followed the first Canada-Ukraine Business Forum, an event held on June 20 in Toronto and attended by representatives of 250 Canadian companies and 150 Ukrainian companies.[44] Similarly, in Lviv, Japan's Fujikura has recently opened a car parts factory.[45]

Energy Issues

For many, Ukraine's energy sector is a key to the success of Ukraine's economic reforms and its efforts to address corruption.[46] Ukraine possesses large energy resources, although the sector has performed, according to many, below its potential and has traditionally operated in an environment of low energy prices, subsidies, and high consumption. This sector became one of the first areas in which international donors demanded the new Ukrainian government concentrate its reform efforts. The Poroshenko/Groysman government made a serious effort to address the corruption surrounding the energy sector and initiated several reforms, including reducing or eliminating subsidies, which has resulted in lower consumption.

Energy has long been an important factor in Ukraine's relations with Russia and a key to the success of Ukraine's economic reforms.[47] Ukraine has historically been heavily dependent on Russia for its energy supplies and for the transit fees associated with the flow of gas through Ukraine to Europe. In 2012, 63% of Ukraine's natural gas consumption came from Russia, as

[42] "That Boom You Hear is Ukraine's agriculture," *Bloomberg Business Week*, October 2016.

[43] "Reform Is Essential to Attract Foreign Companies," *Financial Times*, October 17, 2016.

[44] "No Longer a Secret: Ukraine is Europe's New Frontier," Atlantic Council, July 11, 2016.

[45] Op. cit.

[46] Anders Aslund, "Securing Ukraine's Energy Sector," Atlantic Council, April 2016.

[47] Ibid.

well as nearly three-quarters of its oil and other liquid fuels.[48] Ukraine also imports Russian coal and enriched uranium for Ukraine's nuclear power plants (Ukraine ships raw uranium to Russia for enrichment). Russia long sought control of Ukraine's natural gas pipelines and storage facilities. Moscow's efforts were unsuccessful, even with friendly governments in Kyiv, due to Kyiv's refusal to cede control of one of its key economic assets.

Ukraine's vulnerability to Russian political pressure through energy policy has been mitigated somewhat by the fact that the main oil and natural gas pipelines to Central and Western Europe transit Ukraine's territory. In 2014, about 40% of Russian natural gas destined for Europe transited Ukraine. Past Russian efforts to greatly increase gas prices for Ukraine provoked a crisis that resulted in the 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.

In recent years, Russia, in an attempt to pressure Ukraine over the pipelines, negotiated with several European countries to build pipelines that would bypass Ukraine. Gazprom (Russia's state-controlled energy company), in agreement with Germany, constructed a gas pipeline under the Baltic Sea called Nord Stream and is currently working with Germany on a second pipeline (Nord Stream 2). Moscow had also proposed a pipeline under the Black Sea to Bulgaria and through the Balkans (called South Stream) to Western Europe. However, after the EU raised objections that the project violated EU competition rules, Russia canceled the South Stream project in December 2014. Russia then announced that beginning in 2019 it would no longer ship gas to Europe through Ukraine and would build a pipeline through Turkey to the Greek border (dubbed Turkish Stream).

Russia has also used gas prices as a tool in its policies toward Ukraine. Russia had raised the natural gas price for Ukraine from $268 per thousand cubic meters (tcm) while President Yanukovych was in power to $485 per tcm of gas when Ukraine's new government took power, an increase of about 80%. Ukraine refused to pay the increased amount and demanded a new gas contract with a lower price. Russia responded in June 2014 by cutting off natural gas supplies to Ukraine for non-payment of debts. (Ukraine continued to allow gas destined for Western Europe to transit its territory.) In October 2014, the EU brokered a deal between Gazprom and Ukraine on gas supplies at a lower price through March 2015 in exchange for Ukraine's repayment of some of its debts to Gazprom. That agreement was further extended to the end of 2015. Ukraine and the EU are now facing another possible problem with Gazprom that could affect Europe's supply of gas during winter 2017. Recently, a court in Ukraine upheld a government decision to impose a $6.6 billion fine on Gazprom on the grounds that the Russian company had abused its monopoly position in the natural gas market between 2009 and 2015. Gazprom called the fine illegal. Some in Ukraine believe Gazprom may be preparing another gas crisis by threatening to cut gas supplies through Ukraine to pressure the EU to convince Ukraine to back off from insisting on the fine.[49]

Ukrainian leaders acknowledge that in order to avoid likely future Russian efforts to use energy supplies as a political weapon, Ukraine would have to sharply reduce its overall energy consumption, which was driven by low energy prices, and its dependence on Russian gas. In 2015, Ukraine began to import more significant amounts of gas from Poland, Hungary, and Slovakia by reconfiguring the pipelines to "reverse flow" supplies. The Ukrainian Rada passed legislation reducing the energy subsidy provided to consumers, resulting in higher prices for gas or electricity but some reductions in energy consumption. According to some, the modest gas

[48] U.S. Energy Information Agency, Country Brief: Ukraine, http://www.eia.gov/todayinenergy/detail.cfm?id=15411.

[49] "Ukraine Invites EU monitors to prevent another gas crisis," Georgi Gotev, EurActive.com, December 19, 2016.

price increases implemented in 2015 resulted in a 20% reduction in gas consumption in 2015, and such consumption reductions have continued in 2016.[50]

By November 2015, buoyed by lower energy consumption due to the economic slowdown in Ukraine and greater availability of gas from EU countries, and the fact that the government no longer had to supply the energy-consuming region of the Donbas, the Ukrainian government ordered Naftogaz, the state-run gas monopoly, to cease buying gas from Russia. The Ukrainian government's decision to stop buying gas from Gazprom is part of a broader trend toward the dismantling of bilateral Russia-Ukraine economic ties. However, according to the EIU, in 2015, Ukraine was able to do without Russian gas only because a deep economic contraction in Ukraine had reduced demand.[51] In 2016, Ukraine filled some of its underground storage facilities with gas to help get through winter 2016-2017. Ukraine, however, has relied on the EU to act as a mediator with Russia to secure the ability of Ukraine to purchase Russian gas in the event more supply is needed.

In the long term, some believe Ukraine could develop its own hydrocarbon reserves—including shale gas deposits—and improve exploitation of its conventional gas reserves; import liquefied natural gas; implement a new gas market law; and 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.

Foreign Policy

Given the significant domestic problems facing the Poroshenko government, the scope of Ukraine's foreign policy is focused on a few main foreign policy priorities. These include securing continued international support for Ukraine's sovereignty and territorial integrity, including nonrecognition of Russia's annexation of Crimea; reorienting its economy as quickly as possible toward Europe; and seeking continued international assistance to ameliorate the country's economic situation.

In December 2014, the Ukrainian parliament overwhelmingly renounced Ukraine's former neutral, "non-bloc" status and indicated a preference for closer relations with NATO. After taking office, President Poroshenko requested assistance from NATO for its military. At the September 2014 NATO summit in Wales, the alliance agreed to set up four trust funds to help Ukraine's military in such areas as logistics, command and control, military personnel issues (including wounded soldiers), and cyber defense.[52]

Relations with Russia

Ukraine achieved independence in 1991, following the dissolution of the Soviet Union. Although independent, Russian political and economic influence over Ukraine remained strong, with Moscow determined to ensure that despite any changes in the government in Kyiv, Ukraine would remain on good terms with Russia.

In some ways, recent Russian perspectives on Ukraine are seen as the culmination of long-standing Russian resentment of the outcome of the Cold War. In 2005, Russian President

[50] Aslund, "Securing Ukraine's Energy Sector,"

[51] Economist Intelligence Unit, *Country Report on Ukraine*, December 2015.

[52] 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. See also http://www.nato.int/cps/en/natohq/news_112695.htm.

Vladimir Putin called the collapse of the Soviet Union "a major geopolitical disaster." Russian leaders have also asserted that nations in the post-Soviet region should remain of privileged interest to 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).

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. Russians often point out that their ancestors spilled a great deal of blood to incorporate Crimea and most of the rest of Ukraine into the Russian Empire, and a great deal more to keep it within the empire (and its successor, the Soviet Union) through several wars. Finally, Russia has consistently reminded everyone of the strong religious connections between Russia and Ukraine through the Eastern Orthodox Church. Russia has also made demands on the subject of Ukraine's political future. Russian Foreign Minister Lavrov has called for making Russian the second official language in Ukraine, and for constitutional reforms that would confirm Ukraine's neutral status. Russia has taken other steps against Ukraine, including imposing trade sanctions against Ukrainian imports and cutting all gas and coal deliveries to Ukraine.

As noted earlier, ethnic Russians are concentrated in the southern and eastern parts of the country where ties to Russia remain strong. Soviet leaders concentrated important heavy industries (including defense industries) 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.

Until the collapse of the Yanukovych regime in February 2014, the Kremlin preferred using indirect methods of influence in Ukraine. These included "carrots," such as favorable loan terms or lucrative business deals with Ukrainian politicians and oligarchs, but also "sticks," such as de facto economic sanctions and using Russian media (which was and is still popular in Ukraine) to attack uncooperative leaders.

Since the change in government, Ukrainian officials have reported increased Russian interference, particularly in Ukraine's domestic political affairs and economy. One example has been the hosting in Moscow of representatives from the two largest opposition political parties, the Party of the Regions, once led by former president Yanukovych, and the Fatherland party, currently led by Yulia Tymoshenko.[53] Russian disinformation and propaganda activities also have been on the rise. For instance, the EU's East Stratcom Task Force, which documents cases of fake news and other disinformation in Europe, recently showed a parallel between the rise of disinformation targeting Ukraine in the information space and military activity on the ground. As the fighting in Donetsk and Luhansk escalated in December 2016, so did the discrediting of Ukraine in pro-Kremlin media. Ukrainian forces were accused of hitting a civilian car with a tank.[54] Ukraine also was accused of violating Russian airspace over Crimea,[55] though the airspace over Crimea is not Russian but Ukrainian. Further claims were made that the Ukrainian Deputy Foreign Minister accused the EU of betrayal;[56] that Ukrainian soldiers sell fuel to buy clothes;[57] and that there are

[53] Op. cit. International Crisis Group.

[54] See http://bit.ly/2hVWJTU.

[55] See http://bit.ly/2gVFDSP.

[56] See http://bit.ly/2gP7yCf.

[57] See http://bit.ly/2gZ7wuI.

only three ways forward for Ukraine—to be returned to Russia, to be divided, or to be subjected to a coup.[58]

Ukraine has also been the target of numerous cyberattacks, all pointing to Russia. Ukrainian government officials have reported that government computer servers have been hit by numerous and sophisticated cyberattacks, which some experts suggest may have come from Russia. Speculation indicates the attacks seem to come from both Russian government sources and sources supported by the Kremlin, although the exact sources are rarely named, if known.

One example of a group identified as launching attacks is Black Energy, a known cybercrime toolkit that has been around since 2007 and was active in Georgia during its conflict with Russia. As tensions rose between Russia and Ukraine, a new version of malware reportedly was detected being used by a mysterious group of hackers targeting Ukrainian government officials, specifically their office and cellular phones, to harvest information. It was suspected that Black Energy was active again.

In 2015, Black Energy hackers apparently targeted government infrastructure in Dnipropetrovsk, a city in the southeast of Ukraine, as well as the Ukrainian railway, creating proxy servers at those locations to divert traffic. An *International Business Times* article in 2015 suggested that intelligence services (using Black Energy) would be able to hide, for "plausible deniability," behind groups such as Black Energy because the group is a widespread cybercrime tool used by hackers around the globe. Another reported attack came in December 2015, when Ukrainian power companies experienced unscheduled power outages impacting a large number of customers in Ukraine.[59] In addition, there were reports of malware found in Ukrainian companies in a variety of other critical infrastructure sectors. In January 2016, the Kyiv airport computer systems were apparently hacked, an attack blamed on Russian sources.[60]

Sentiments toward Russia among a majority of Ukrainians have clearly declined since the events of 2014. In June 2014, President Poroshenko announced that Ukraine would ban military cooperation with Russia despite the economic impact such a move would have on close to 80 Ukrainian defense firms that had been closely linked to Russian firms as a result of their former Soviet heritage. It was estimated at the time that a ban, with a few exceptions such as for dual technologies, including helicopter engines that were under contract, could cut close to 70% of Ukrainian-made military goods exported to Russia and force the closing or downsizing of the Ukraine military industrial base. On October 20, 2016, Ukraine's Rada, with 243 deputies voting in favor, approved a document holding the former Soviet Union responsible for the outbreak of World War II because of its signing of Molotov-Ribbentrop Pact with Germany.

Crimea

In Crimea, with the exception of the suppression of the Crimean Tatars, the region has been relatively stable as the likelihood of its return to Ukraine continues to fade. Tensions in Crimea and southern Ukraine flared briefly in August 2016 when Moscow, after Russian forces allegedly captured several Ukrainians trying to enter Crimea, accused Ukraine of "resorting to terrorism" and threatened to take swift action against Kyiv. Ukraine's military was placed on high alert. Tensions spiked again in November 2016, when Kyiv announced that the Ukrainian military

[58] *Disinformation Review,* East Stratcom Task force, European Union External Action Service, December 20, 2016.

[59] "Ukraine investigates suspected cyber-attack on Kiev power grid," Reuters, December 27, 2014.

[60] "Ukraine Says Cyber-attack on Kyiv airport was launched from Russia," EuroNews, January 18, 2016.

would conduct missile tests in the region just north of the Crimean border. Moscow warned Kyiv to keep the missiles out of Crimea air space or risk the possible shoot down of the missiles.

Since 2014, Russia has connected an extensive electricity grid from Russia to Crimea and announced plans to construct a bridge that would span the Kerch Strait, providing an 11-mile roadway connecting Crimea and Russia. Russia has significantly increased its military presence in Crimea. With some 30,000 Russian servicemen already in Crimea (most supporting the Black Sea fleet), Moscow, in August 2016, announced the deployment of the S-400 anti-aircraft missile system to Crimea. The S-400, effective at a range of 400 kilometers, is designed to destroy cruise and medium-range missiles and aircraft and can also be used against ground targets. This missile system poses a significant threat to the Ukrainian air force, which would be needed for the Ukraine government's defense of the city of Mariupol. In another sign regarding the future of Crimea, elections were held in Crimea on September 18, 2016, for eight seats in the Russian Duma. Four elected deputies represented single district and 4 were elected from party lists. The ruling United Russia (UR) party won 73% of the vote and captured the most seats in Crimea. The elections were termed illegal and the results illegitimate by the United States, Europe, and the OSCE. Nevertheless, the elected members now sit in the Duma. Finally, it was reported in Russian press that the Kremlin's latest state budget has pledged to boost the Crimean economy with a 37.8 billion rubles ($593 million) subsidy in 2017.

Annexation has not been all positive for Crimea. The local population has dealt with increased inflation in food prices and a collapse of tourism, a vital sector of the local economy. On December 19, 2016, the United Nations General Assembly voted 70 to 26, with 77 countries abstaining, for a resolution that recognizes Crimea as "temporarily occupied" by Russia and condemns the "abuses" and "discrimination" against Crimean Tatars, ethnic Ukrainians, and other groups on the peninsula. The resolution also calls on Russia, as an "occupying power," to end all abuses against people living in Crimea, including arbitrary detentions, torture, and other "cruel, inhumane, or degrading treatment."[61]

Conflict in Eastern Ukraine

In addition to Russia's annexation of Crimea, in March 2014, thousands of pro-Russian protestors began organized demonstrations in eastern Ukraine, especially in the major cities of Donetsk and Luhansk in the Donbas region and in Kharkiv. Some demonstrators favored union with Russia; others sought only greater autonomy from the government in Kyiv. Demonstrators seized government buildings. They also faced off against pro-Maidan demonstrators. Unrest in eastern Ukraine took an even more ominous turn in April 2014, when armed men stormed and occupied key government buildings and broadcast facilities in Donetsk and Luhansk, as well as in Slovyansk and more than a dozen other towns in the Donbas region.[62] The government in Kyiv responded with military force and employed local militias to help push back the separatists.

The Ukrainian government said Russian intelligence agents orchestrated the separatists' attacks and released video, photographs, and audio recordings allegedly identifying them. Senior U.S. officials and NATO Supreme Allied Commander General Philip Breedlove stated that they believed Russia had played a leading role in the activities of the armed separatist groups in eastern Ukraine by providing arms, troops, and material support.

[61] "UN General Assembly Approves Resolution on Russian Abuses in Crimea," Radio Free Europe/Radio Liberty, December 20, 2016.

[62] The Donbas region refers to area comprised of the Donetsk and Luhansk Provinces.

In 2014, the leaders of the armed separatist forces, Alexandre Zakharchenko, of the so-called Donetsk People's Republic (DNR) and Igor Plotnitsky of the Luhansk People's Republic (LNR) held "referendums" on their "sovereignty." According to the organizers, the question of independence from Ukraine 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 Ukrainian government denounced the referendums as illegal.

After a brief unilateral cease-fire by Ukraine in late June 2014 failed to lead to progress on a peace plan put forward by newly elected Ukrainian President Poroshenko, Ukraine restarted an "anti-terrorist operation" against the separatist forces. In July and August 2014, the Ukrainian armed forces successfully dislodged the gunmen from strongholds in Slovyansk, Kramatorsk, and other towns, and began to move on separatist forces in the key cities of Donetsk and Luhansk. It was during this time that the tragedy of Malaysian Airlines Flight 17 occurred. The plane, which was flying over Ukraine, was downed by a surface-launched missile on July 17, 2014. Accusations flew on both sides as to who fired the missile, but for some it was clear—and more recently determined by the Dutch government after a lengthy investigation—that the missile was fired by the separatist forces using a Russian-supplied Buk missile.[63]

In late August and early September 2015, Russia stepped up its support to the separatists, including by deploying thousands of Russian troops to fight in Ukraine (a contention that Russia denied despite overwhelming evidence to the contrary).[64] Although again mostly denied by Moscow, the separatists were apparently supplied with tanks, armored personnel carriers, artillery, surface-to-air missiles, and other military equipment from Russia. Fighting a heavily supplied separatist force, joined by Russian regular troops, Ukrainian forces lost ground and suffered heavy casualties.

[63] Report of the Dutch Safety Board, October 13, 2015, and final Dutch Joint Investigative Team press conference, September 28, 2016.

[64] For an unofficial translation of the Russian-language original, see, for example, http://www.ft.com/intl/cms/s/0/21b8f98e-b2a5-11e4-b234-00144feab7de.html#axzz3RXfwD5VC.

Figure 2. Separatists Areas in Ukraine

Sources: Map created by CRS. Map information generated by Hannah Fischer using data from the National Geospatial Intelligence Agency (2016), Department of State (2015), Esri (2014), and DeLorme (2014).

Perhaps fearing further casualties and the loss of more territory, Ukraine agreed to a cease-fire plan during talks with separatist representatives and Russian officials and several European leaders in Minsk, Belarus, on September 5, 2014.

Among other provisions, the plan (Minsk-1) called for a cease-fire along the then-lines of control, an exchange of hostages and/or prisoners, the monitoring of the cease-fire and of the Russian-Ukrainian border by the Organization for Security and Cooperation in Europe (OSCE), and the withdrawal of "illegal armed groups as well as militants and mercenaries from the territory of Ukraine." The Minsk-1 agreement also called for Ukraine to adopt a law on amnesty for those involved in the conflict in the Donbas, and other provisions.

The signing of the agreement led to the end of the Russian-supported offensive against Ukrainian forces but did not fully end the fighting. Nor were any of the points of the Minsk-1 protocol fully implemented. Sporadic, sometimes intense, fighting continued, resulting in over 1,300 deaths since the Minsk protocol was signed. Ukrainian officials also indicated that the separatists had seized over 500 additional square kilometers of Ukrainian territory since the protocol's signature.

In January 2015, President Poroshenko said Russia had 9,000 troops inside Ukraine, along with hundreds of tanks, armored fighting vehicles, and artillery pieces.[65]

In response to the Russian annexation of Crimea and the conflict in the Donbas region, both the United States and the European Union initiated a series of sanctions and travel bans against those Russian and Ukrainian personnel who were identified as being part of the destabilization of Ukraine (see below). Both the United States and the EU made the full implementation of the Minsk protocol a precondition for easing sanctions on Russia.

A particularly violent flare-up of attacks by the pro-Russian separatists against Ukrainian-held territory in late January 2014 and early February 2015 led the United States and the EU to warn Russia that it faced possible additional sanctions for its military intervention in Ukraine.

While actively engaged with U.S. allies in Europe in seeking a resolution of the crisis, the Obama Administration had, for the most part, left the leading role in negotiating a settlement to France, Germany, and Ukraine, whose representatives met with those of Russia in the so-called Normandy format, named after the place where the meetings first occurred in 2014. Nevertheless, President Obama and Administration officials had been in regular contact with the main figures in the talks, including President Putin, President Poroshenko, German Chancellor Angela Merkel, and President Francois Hollande of France.

A Second Attempt at a Cease-Fire—A New Frozen Conflict

Recognizing the failure of the Minsk-1 protocol to end the conflict and begin the process of achieving a political resolution to the Donbas, the presidents of France, Russia, and Ukraine and Chancellor Angela Merkel of Germany met again in Minsk in early February 2015 to try to secure a new agreement to stop the fighting. On February 12, a new cease-fire agreement was signed. The Minsk-2 agreement entered into force on February 15, 2015 (see box).[66]

As most of the terms of the agreement were similar to those of the original Minsk-1 protocol, which failed to secure the peace, some observers expressed skepticism about whether this agreement was any more likely to be implemented than the previous one.

Under Minsk-2, the cease-fire was to be monitored by the OSCE. The agreement called for local elections in rebel-held regions and, more importantly and controversially for Kyiv, for legal and constitutional reforms to be negotiated with the rebels to give a special "decentralized" status to the region as well as amnesty for the separatist leaders. The elections and reforms were to be implemented before the end of 2015 (now slipped indefinitely). The return of control to Ukraine of its side of the Russia-Ukraine border was conditioned on the implementation of the decentralization reforms.

Some expressed concern that the Minsk-2 agreement amounted to a step toward transforming the occupied parts of Donbas into a new Transnistria[67] and that the main difference between the

[65] Some experts believe Russian troop levels in Ukraine are significantly lower. U.S. Ambassador to NATO Douglas Lute has said Russian troops in Ukraine are mainly intelligence officers serving a command and control function and Russian servicemen operating highly sophisticated, specialized equipment, such as that used for electronic warfare and air defense. See http://www.reuters.com/article/2015/02/04/us-ukraine-crisis-nato-usa-idUSKBN0L81S220150204.

[66] For an English-language translation of the Minsk protocol, see http://www.kyivpost.com/opinion/op-ed/osce-releases-the-12-point-protocol-agreements-reached-between-ukraine-russia-and-separatists-in-minsk-363816.html. For the Russian-language original, see http://www.osce.org/ru/home/123258?download=true.

[67] Transnistria is a strip of eastern Moldova that separated from Moldova and is supported by Moscow, including with some 1,500 Russian military personnel on the ground.

Minsk-1 agreements and the Minsk-2 agreement was that more conditions had been placed on Ukraine. Another point made by skeptics was the fact that Putin, the architect of the crisis, managed to avoid binding himself through the agreement. In fact, Minsk-2 contains no obligations whatsoever for Russia, which is not even mentioned in the agreement. The agreement calls for the removal of all "foreign" troops but does not mention Russian troops. Furthermore, Minsk-2 was signed not by Putin but by Mikhail Zurabov, Russia's ambassador to Ukraine.[68]

As of the end of December 2016, few believe much has been accomplished in fully implementing the provisions of Minsk-2 by either side, despite commitments by both sides to do so.

A total bilateral cease-fire has not been put in place. Under Minsk-2, both sides agreed that the cease-fire would be monitored by the OSCE. However, while an OSCE Special Monitoring Mission (SMM) is monitoring the cease-fire along the line controlled by Ukraine, Russia-backed separatists have restricted the operational area of the SMM, shot down or jammed SMM drones used to verify compliance, and denied the SMM any opportunity to go inside the rebel-controlled areas. Although there have been some lulls in the fighting since February 2015, the OSCE's SMM has consistently reported daily cease-fire violations—mostly artillery, mortar and rocket exchanges, and mostly on the part of the separatists. The SMM has reported that the total cease-fire violations for 2016 will number in the thousands. These cease-fire violations continue to result in numerous civilian and Ukrainian military casualties, estimated at more than 9,000 dead since 2015.

Minsk-2

1. Immediate, full bilateral cease-fire as of February 15.
2. Withdrawal of all heavy weapons by both sides, to be completed within 14 days.
3. Effective monitoring regime for the cease-fire and withdrawal of heavy weapons by the OSCE.
4. Launch of dialogue on modalities of local elections in accordance with Ukrainian legislation.
5. Pardon and amnesty of figures involved in the conflict.
6. Release of all hostages and other illegally detained people, based on the "all for all" principle.
7. Safe delivery of humanitarian aid to those in need, based on an international mechanism.
8. Restoration of full social and economic links with affected areas.
9. Full Ukrainian control over its border with Russia throughout the conflict zone.
10. Withdrawal of all foreign armed groups, weapons, and mercenaries from Ukrainian territory.
11. Constitutional reform in Ukraine with decentralization as a key element; a new constitution by the end of 2015.
12. Local elections in Donetsk and Luhansk regions to be held according OSCE standards.

Fighting in July 2016 became particularly intense. The Ukraine Defense Ministry noted that heavy fighting had taken place along the line of contact, resulting in the death of 27 Ukrainian soldiers and wounding an additional 123. This action made July the deadliest month for the Ukrainian military in nearly a year.

Speaking at a meeting of the OSCE Permanent Council in Vienna in late July, U.S. Ambassador Daniel Baer stated that [in July],

> armed separatists refused to allow an [OSCE] Monitoring Team to cross the line of contact. Separatist forces also block monitors' access at transit hubs, in front of compounds suspected of holding weapons or fighters, near the pedestrian bridge at Stanytsia-Luhanska, and even at sites proposed for disengagement. Combined Russian-separatist forces continue to disable SMM cameras and unmanned aerial vehicles (UAVs) in order to blind monitors. Most recently, a third SMM long-range UAV was brought down—in an area

[68] Anders Aslund, "Minsk-2: President Putin's Tactical Victory," RBC Daily, February 13, 2015.

> near the Line of Contact and near where Russian separatist heavy weapons had recently been reported by the SMM—on July 26.[69]

In July 2016, separatist units captured an OSCE Mission observer and accused him of spying for Kyiv. Other incidents have involved direct threats against the monitors.

Although the OSCE continued to report sporadic fighting throughout August 2016, heavy fighting seemed to have subsided. In September 2016, both sides agreed to a "back to school" cease-fire, along with an agreement that Ukrainian and separatists' heavy weapons and the Russian military personnel supporting the separatists were to be withdrawn from three areas along the contact line. According to Ukrainian sources, 19 Ukrainian soldiers were injured in fighting along the line of conflict after the new cease-fire took effect. As a result, Ukraine's military postponed a planned parallel withdrawal with pro-Russian separatists from one town on the eastern frontline, saying the rebels had disregarded the agreement and fired artillery at Ukrainian positions.[70] These violations were noted in an October statement by the U.S. ambassador to the OSCE.[71]

On October 17, 2016, Arseny Pavlov, a Russian national and prominent figure in the Donetsk People's Republic, was killed by a bomb in his apartment building in Donetsk. Although other prominent separatists have recently met with suspicious deaths, the separatists immediately blamed the government in Kyiv and vowed to retaliate. On December 19, the Ukrainian government reported that separatist forces had launched an artillery barrage and ground assault against Ukrainian military forces in the area around Svitlodarsk, west of the strategic town of Debaltseve.[72] Debaltseve itself is under separatist control, but the area is an important rail center. The OSCE SMM had reported almost 3,000 explosions in the region in the build-up to the assault. The Ukrainian military reported five Ukrainian military personnel killed and a large number of wounded during the assault.[73] The level of fighting, according to the SMM, represented the most serious flare-up along the front line in some months.

The withdrawal of heavy weapons from the front lines, particularly in the separatist-held areas, has been sporadic at best. Where the SMM has been able to access territory in the Donbas, the withdrawal of some of the heavy weapons appears to have taken place. However, the OSCE has also reported that much of the separatists' heavy weapons and the military personnel supplied by Russia have been repeatedly repositioned along the front lines but not removed from Ukraine, as required by Minsk-2. In fact, according to President Poroshenko, there are more than 700 Russian tanks, more than 1,250 artillery systems, more than 1,000 personnel carriers and more than 300 rocket launchers in Donbass."[74]

At the OSCE Permanent Council meeting mentioned above, Ambassador Baer stated,

> we note that the SMM observed 874 weapons withdrawal violations between April 20 and July 22 in areas controlled by the so-called "DPR" and "LPR"—three times the number observed on government-held territory, and almost 50 percent more than in the previous reporting period. The SMM continues to find weapon systems in separatist-held territory that are only available in the Russian arsenal.[75]

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[69] Remarks of U.S. Ambassador Daniel Baer to the OSCE Permanent Council in Vienna, July 2016.

[70] "Germany, Ukraine Agree More Talks Needed Before Four-Way Summit," Reuters, October 14, 2016.

[71] Statement of U.S. Ambassador, Daniel Baer to the OSCE Permanent Council, October 27, 2016.

[72] "Ukraine Army 'repulsed rebel attack' near Debaltseve in east," BBC News, December 19, 2016.

[73] Press Release of the Ukraine Ministry of Defense, December 19, 2016.

[74] Petro Poroshenko, "Das Ende de Maskerade," Frankfurter Allegmeine, October 14, 2016.

[75] Op. cit. Ambassador Baer.

The separatists' refusal to cooperate in a cease-fire has resulted in the OSCE being unable to ascertain the full extent to which the separatists or Russians are participating in or facilitating the flow of arms, funding, and personnel to support the separatists in the region or withdrawing heavy weapons to Russia.

Several prisoner exchanges have taken place between Kyiv and the separatists. According to the *Minsk Monitor*, the Ukrainians have released some 287 prisoners and the separatists have released 317.[76] The Ukrainian government in December 2016 estimated that it continued to hold some 220 prisoners, whereas the separatists held approximately 100 Ukrainian soldiers. The government in Kyiv announced on December 15, 2016, that it would release additional prisoners.[77] On the humanitarian issue, the UN has estimated that some 3.8 million Ukrainians on both sides of the contact line continue to require humanitarian assistance. Early on in the conflict, both sides were reluctant to allow aid to flow into the eastern regions. Lately, however, although humanitarian assistance continues to be restricted in the Donetsk region, aid is being provided. The EU has reported a distribution of some €26 million in 2016 to organizations in Ukraine and the Donbas to provide aid, including €4 million in December.[78] In December 2016, the UNHCR reported that some 500 tons of aid was allowed to flow into the Luhansk region, and the International Committee of the Red Cross in December reported that they had delivered some 300 tons of humanitarian assistance to Luhansk. Russia continues to report that it is also providing assistance to the people of the Donbas region, but international inspectors rarely have the chance to observe the kinds of assistance or its distribution.

On many of the Minsk-2 requirements placed on Kyiv, progress has also been mixed. In Kyiv, the Rada has passed an amnesty law and adopted a special status law for the citizens of the Donbas. Neither law has been signed by President Poroshenko, who has been reluctant to grant blanket amnesty due to the failure of the separatists to meet their Minsk obligations and until the International Criminal Court can investigate charges of crimes against humanity and war crimes against the leaders of the separatists.[79] The Rada has completed the first reading of a constitutional amendment that would provide a certain level of self-government in the Donbas. However, the 300 votes needed to pass the amendment cannot be reached, as many Rada members have refused to support it until a total cease-fire is reached. The separatists have also rejected the provisions and demanded more far-ranging autonomy.

Russia and the separatists also have denied the return of approximately 380 kilometers of the Russia-Ukraine border along the Donbas to the control of Ukraine. They say the border cannot be restored until elections are held in the Donbas. The OSCE SMM has had access to only two checkpoints along the contested border, in Gukovo and Donetsk.

Since the conflict, Kyiv has stopped providing pensions and social payments to the citizens of the Donbas who live under separatist control. However, individuals who cross into Ukrainian-held areas and register with the government can receive some form of social benefits. Normal commerce between the two sides does not take place, although there is apparently a thriving black market for goods. Some eastern companies, such as coal producing companies, who are registered tax payers in Kyiv apparently have been able to sell a limited supply of coal to the government.

[76] The Minsk Monitor is a running publication produced by the European Council on Foreign Relations. The latest report was filed on December 11, 2016.

[77] "Ukraine to Release 15 Prisoners in a 'goodwill gestor' to pro-Russian Rebels," Voice of America News, December 15, 2016.

[78] Press Release by the EU Delegation in Ukraine, December 12, 2016.

[79] Op. cit.

Elections in the Donbas have become a major sticking point in the peace process. Ukraine claims that Russia and the separatists have not honored the steps necessary to move the election process forward, including the provision of security and Russian troop withdrawal. Because there is no real cease-fire, OSCE observers cannot safely enter the disputed areas to begin preparations. Although both sides have agreed to hold any elections in accordance with Ukrainian law, the Rada has yet to pass an election law because it is unclear whether Ukrainian government officials or political parties will be allowed into the region to help set up polling stations, print ballots, or even determine how ballots would be counted and reported. The Ukrainian government also wants guaranteed open media coverage of the election and the ability of displaced persons to vote in their home areas. The separatist's demand that a total amnesty law be passed before elections can be held and apparently have not agreed to any of the election process demands by Kyiv.

On October 20, 2016, the Normandy Group, including Putin, met in Berlin for several hours of apparently heated debate on what to do about Minsk-2. The Ukrainians initially stated that no elections law would be passed in the Rada until a real cease-fire went into effect, Russian heavy weapons and troops were withdrawn, and the OSCE was given unfettered access to the Ukraine-Russia border. Control of the border is critical for Kyiv in halting the continuous flow of Russian forces and equipment to the separatists, although for some, there is a question whether the OSCE can handle such a mission. Some Ukrainian politicians insist that the border should be controlled by the Ukrainian Armed Forces as a precondition to elections.

Russia seems little inclined to push for a resolution of the conflict despite Moscow's continued participation in the Normandy group. According to reports, Putin continued to insist on the elections, a special status for the Donbas and amnesty—without any guarantees from Moscow on a ceasefire, withdrawal of troops, and the transfer of border control to the OSCE or Ukraine.[80] In the end, Poroshenko apparently agreed to draw up a more precise road map for implementing the Minsk-2 peace accords. The plan, according to some, was to have been ready in November 2016 and could have included a provision deploying an armed OSCE mission to the east to better protect the monitoring mission. It was unlikely that the separatists would have agreed to such a provision, and since Russia continued to insist that it has no military forces in eastern Ukraine, it was unclear what exactly the road map would envision. By December, no road map was considered.

As noted above, although President Poroshenko won a hard-fought victory in initially moving legislation through the Rada to grant the increased autonomy for the Donbas called for in the Minsk-2 agreement, he does not have the necessary votes to pass this legislation as an amendment to the constitution. He is unlikely to secure those votes unless major progress is made by the other side to stop the fighting or to ensure free and fair elections are held in the disputed regions.

Moscow so far has declined to recognize the Donetsk and Luhansk "People's Republics" as independent countries or to annex them to Russia. However, Russian official statements and the Minsk-2 agreement view the separatist regimes as legitimate interlocutors for Kyiv in determining the future of Ukraine. Moscow has insisted on the decentralization of Ukraine, under which the various regions would have wide autonomy in the areas of the economy, finance, culture, language, education, and external economic and cultural ties with neighboring countries or regions.

What had largely disappeared from official Russian rhetoric since the start of the conflict was is the concept of *Novorossiya*—that is, expanding Russia's dominant control of the area to include most of eastern and southern Ukraine, perhaps linking Russian-controlled areas in southern

[80] "Details of the Talks with Putin in Berlin," Liga.net, October 21, 2016.

Ukraine with Crimea. This goal may have seemed easily achievable to Putin in mid-2014, when he first used the term. Since then, however, Ukrainian military forces have become somewhat more capable, and it may appear to Putin that realizing such an objective would now likely require a massive and perhaps politically unacceptable infusion of Russian military forces, with casualties.

Many experts on Russia have stated that Putin's key objective in Ukraine has been and continues to be to weaken and discredit the pro-Western government in Kyiv and Western policy generally. And, according to some, Moscow's policy in Ukraine's east continues to look more likely to strengthen the Donetsk and Luhansk People's Republics. For instance, according to the International Crisis Group (ICG), after showing little interest in building political institutions in the DNR and LNR or enthusiasm for funding social policies, Moscow has been bankrolling pensions, social benefits, and salaries of local officials and the separatist military. Others have suggested that most of the daily activities in the two areas, including financing, taxation, and electric power, are actually planned and administered by Russian ministries in Moscow, making the two regions somewhat like Russian statelets. The ICG suggested that these measures are increasingly clear signs that Moscow has decided to transform the crisis into a frozen conflict.[81]

At best, the situation in the east is likely to remain unresolved, with no cease-fire in place, Russia continuing to control the Russia-Ukraine border, and an agreement between Kyiv and the separatists on elections, amnesty, and decentralization remaining unlikely. Such a status will continue to provide Moscow with leverage over Kyiv but might not afford the same opportunity to destabilize Ukraine as stepping up the conflict. One unanswered question through this lack of progress is whether the leadership of the DPR and LPR would continue to adhere to Moscow's strict line if little or no progress were made with Kyiv or whether Moscow would attempt to exercise more control over the regions. Some believe the DPR, for instance, would like to become more independent of Moscow, exercising more control over the economic and business assets and decisionmaking of the region.[82] Recently, one report suggested that the DPR and the LPR were about to unite into one entity, reviving the concept of Novorossiya. Such a union would, for some, represent a dangerous action, as it likely would make the DPR the dominant local player and set the stage for more Russian aggression deeper into Ukraine. On the other hand, some suggest that because there is more enthusiasm for this idea among DPR leaders than among their counterparts in Luhansk, the former may be prepared to use a show of force, including open military conflict with the LPR, to secure such an outcome.[83] In December 2016, as noted above, some in the region apparently decided to take matters into their own hands when they launched a military assault against Ukrainian forces in the Svitlodarsk area, with the intent, according to the Ukrainians, of seizing more territory.

By contrast, some observers believe that Putin may eventually create the conditions for an election and reintegration of the Donbas region into the country, not because he is prepared to give up the region but because he believes such a move would further weaken European resolve to continue the sanctions regime on Russia. Some Europeans had already suggested that sanctions could be incrementally lifted as parts of Minsk-2 are implemented. When the EU agreed to extend its sanctions on Russia until July 2017, the idea of a deal was apparently dropped.

Some observers now believe that Putin senses that the incoming U.S. administration, which has signaled a different approach to Russia and a questionable commitment to Ukraine, may be

[81] "Russia and the Separatists in Eastern Ukraine," International Crisis Group Briefing No. 79, February 5, 2016.

[82] According to an interview with Ukrainian Viktor Kovalenko by IHS Jane's 360 in Kyiv in May 2016.

[83] "Are the Kremlin's LPR and DPR About to Unite or Fight Each Other," Paul Goble, *Eurasia Daily Monitor*, December 14, 2016.

willing to entertain a compromise offered by Moscow, which some claim may fit Putin's long-range goal for the Donbas. In this scenario, outlined by Alexander Motyl in a February 2016 article, Moscow appears to believe that by reintegrating the Donbas into Ukraine and having pro-Russia legislators elected to the Rada, Moscow could gain even more leverage in Kyiv. Russia's proxies, when allied with existing opposition parties, could control a certain bloc of votes on key issues in the Rada, effectively blocking some reform progress and perpetuating political instability. Such a move by Putin also would force Kyiv and the Rada either to honor democratically elected MPs from the Donbas and offer them protection if they came to Kyiv or to ignore the will of the people of Donbas and refuse to seat them in the Rada, potentially inviting criticism from the West.

This scenario has raised some concern in Kyiv and has led some to suggest this could only become a politically divisive problem.[84] Motyl further wrote, "Putin doesn't want peace. He wants to make Ukraine into a permanent backwater state dependent on the Kremlin ... by forcing Kyiv to reintegrate the now occupied, politically poisoned, and economically ravaged Donbas into Ukraine." He went on to write that "the Donbas ... may wind up saddling the country with a burden so heavy it would crush its sovereignty and its democracy.... This would be suicide."[85]

Some, including the United States and Europe, have been pushing the Ukrainian government to move forward with the implementation of Minsk-2 to put pressure on Moscow to forge a settlement. These officials initially believed there were additional financial consequences, created by continued low oil prices, Western sanctions, and Russian commitments in Syria that Moscow did not want to continue to incur in the current economic environment by prolonging the crisis. However, Moscow seems able to weather the economic problems and has not waivered in support of its commitment to the separatists.

Other observers, however, believe these arguments miss the entire point of why Putin seized Crimea and supported the separatists in the first place—the destabilization of Ukraine and the reversal of its Western orientation. For these observers, the EU and U.S. pressure on Ukraine to comply with Minsk-2, something not favored by many Ukrainians, is misplaced, as few believe that neither the pro-Russia separatists nor the Kremlin have any intention of complying with their parts of the Minsk-2 agreement. These observers contend that Putin is not interested in a solution that would otherwise allow Kyiv to turn its full attention to its Western ambitions.

In a statement on this issue, Ukrainian war hero Naydia Savchenko said that although she welcomed a Minsk cease-fire agreement, she disagreed with key aspects of the deal, including giving eastern Ukraine more autonomy and holding local elections in the Donbas.[86] As noted above, however, Savchenko found herself in some political hot water when in December she met with representatives of the separatists in Minsk, although her purpose was not clear.

In an opinion piece written on February 12, 2016, Roman Sohn, a columnist for *Ukrainska Pravda* and a civil society activist, suggested that Minsk-2 was essentially a "farce" and that U.S. and EU leaders pursued it to avoid a larger conflict in Europe "at almost any cost to Ukraine." He also argued that Putin knows "that it is much easier for the West to put pressure on Ukraine to accept bad terms than to forge a consensus [to keep or retain] tougher sanctions on Russia."[87] In his article, Mr. Sohn reminded the reader that while President Putin has not insisted that the

[84] "Why Reintegrating the Donbas is Suicide for Ukraine," Alexander Motyl, *World Affairs*, February 25, 2016.

[85] Ibid.

[86] "Among Political Sharks Ukrainian pilot Savchenko to be a "small piranha.", Reuters, June 10, 2016.

[87] "Minsk-2: The big farce of Western policy on Russia," *EURActive.com*, February 12, 2016.

separatists comply with one single point in the Minsk agreement, blaming Kyiv instead for not living up to its commitments, the EU is piling pressure on Ukraine to fulfill its part of the Minsk agreement by devolving more power to the Russia-occupied part of Ukraine.[88]

This pressure seemed to be on full display when the foreign ministers of France and Germany met with President Poroshenko in February 2016. While praising some of the reforms already implemented to address corruption and the economy, they reiterated their desire to see enacted constitutional reforms aimed at the Donbas region.[89] Similarly, Denmark's foreign minister, Kristin Jensen, suggested on February 5 that Ukraine had to uphold its part of the Minsk agreement or risk collapse of support for EU sanctions against Russia.[90] This pressure also seemed evident in the October 2016 meeting of the Normandy group, as noted above. These "suggestions" (threats for some) from some Europeans have led others to question the motivations of the Europeans. For some, the pressure on Kyiv to meet the Minsk-2 requirements, including amending the Ukrainian constitution, would permanently reward the separatists, seen by many as mere street thugs with guns, for taking sovereign territory from their own country at the point of a gun. Since then, however, the Europeans seem to have backed off from pressuring Kyiv to take the controversial actions many wanted while still insisting that both sides meet their obligations under Minsk-2.

August 1, 2016, marked the 41st anniversary of the signing of the Helsinki Final Act. For many, by its illegal occupation and annexation of Crimea and its aggression in eastern Ukraine, Russia continues to flagrantly flout all of the OSCE principles enshrined in the agreement, to which Russia is a signatory, including territorial integrity, inviolability of borders, and sovereignty. For members of the Rada, amending the county's constitution to "reward" the separatists could label those members who vote for these measures as national traitors. This approach, in the eyes of some, reinforces resentment of the West and suspicions of Europe's commitment to its own principles of rule of law and raises the question of whether Europe's real priority is lasting peace and political reform or simply implementation of the Minsk agreement.[91]

In a December 2016 report on Ukraine, the International Crisis Group wrote, "Kyiv's main tactic in the confrontation with Russia has been procrastination: faced with a disadvantageous 2015 Minsk agreement imposed by Russian arms, President Petro Poroshenko has hunkered down, arguing plausibly that key terms are politically unpalatable to his country."[92] In an April 2016 article, David Kramer of the McCain Institute suggested that because "Minsk is a terribly flawed deal [that] unfairly imposes conditions on Ukraine ... and because Russia refuses to uphold its part of the deal [conditions of Minsk], it may be time to scrap the Minsk agreement ... and come up with a better game."[93] Others, such as former U.S. Ambassador to Ukraine John Herbst, argue that although Minsk-2 may be flawed, it is the only game in town.[94]

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[88] Ibid.

[89] "France and Germany tell Ukraine 'time is running out,'" *EURActive.com,* February 23, 2016.

[90] "Denmark loses patience with Ukraine over Minsk compliance," *EURAtive.com*. February 8, 2016.

[91] "Note from Berlin: How to react to Kyiv's political crisis," Gustav Gressel, European Council on Foreign Relations, March 2016.

[92] "Ukraine: Military Deadlock, Political Crisis," Briefing 85, International Crisis Group, December 19, 2016.

[93] "The Best Way to Help Ukraine," David Kramer, The American Interest, April 29, 2016.

[94] Comments by Ambassador John Herbst at an Atlantic Council discussion of Ukraine, June 2106.

Relations with the European Union

Ukraine has been a priority country within the EU's Neighborhood Policy and the Eastern Partnership for several years. The EU policy is intended to forge a close relationship that encompasses political association and economic integration, which could prepare Ukraine for eventual membership in the union. The desire among a least some segments of the Ukrainian public for stronger relations with the EU and the West fueled the initial protests in late 2013 that culminated in the collapse of the Yanukovych regime.

In response to the crisis in Ukraine, in March 2014, the European Commission unveiled an initial support package of €11 billion (about $15.5 billion) focusing on the comprehensive reform process initiated by the new government in Ukraine. The package included €1.6 billion (about $2.2 billion) in macro-financial assistance loans to support Ukraine's government finances. The EU also agreed to provide some €1.5 billion (about $2.17 billion) in grant aid between 2014 and 2020 to assist Ukraine's reform efforts. The Commission's package includes up to €9 billion (about $11.16 billion) in financing from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The EIB has already obligated approximately €3 billion, including infrastructure projects involving energy efficiency, modernization of water systems, and transport improvement projects.[95] The package also included close to €110 million (approximately $112.5 million) aimed at developing the private sector, including small and medium enterprises.

The EU's main instrument to promote European values (such as human rights, fundamental freedoms, rule of law, political dialogue, and reform) and deepen economic ties with Ukraine is the Association Agreement (AA). The AA includes a free-trade agreement with the EU, formally known as a deep and comprehensive free trade agreement (DCFTA). Although the DCFTA further opens potentially lucrative EU markets to Ukraine, it also requires Ukraine to adopt EU legislation and standards and to gradually expose Ukrainian firms to tough competition from EU imports. Approximation to EU norms could also lead to increased foreign investment in Ukraine.

The EU and Ukraine signed the parts of Ukraine's AA dealing with political issues in March 2014 and the parts dealing with economic issues (including the DCFTA) on June 27. Ratification of the pact was initially delayed due to Russian threats to block Ukrainian imports from Russian markets unless the pact was modified to protect Russia's interests. The EU and Ukraine refused to do so, and the European Parliament and the Ukrainian parliament ratified the accord on September 16, 2014. Moscow responded by closing off the import of selected Ukrainian products. However, the EU and Ukraine did appear to bow to Russian threats by agreeing to postpone implementation of the DCFTA until 2016. In the interim, Ukraine was granted unilateral trade preferences from the EU.

The AA with the EU partially came into effect on January 1, 2016. Provisional application rather than complete application occurred because the agreement must be ratified by all 28 EU member states. In April 2016, voters in the Netherlands rejected the agreement, forcing the government to withhold ratification. The Dutch government and the EU then began negotiations to reach a compromise that would allow the Dutch to ratify the AA. In December, the Dutch presented a document stating that the Netherlands wanted to make it clear that the AA was not a "stepping stone" for Ukraine to become a member of the EU, nor did it contain an obligation for the EU or its member states to provide collective security guarantees or other military aid or assistance to Ukraine. The EU Council, at its December summit, accepted the Dutch proposals, although not

[95] "Tangible Results on the Road to Reform in Ukraine," Vazil Hudak, EurActiv.com, December 19, 2016.

without some dissention among a few member states, and are now awaiting a ratification vote by the Dutch parliament.

The AA does provide Ukraine with the possibility of a gradual improvement in the Ukrainian economy as the trade relationship begins to take hold and matures. As expected, as soon as the agreement went into force, Russia suspended its own long-standing free-trade deal with Ukraine and banned imports of Ukrainian food.

In addition to the aid package and the AA, the EU established a High Level Investment Forum/Task Force and created a dedicated Ukraine Support Group, composed of experts from EU institutions and member states in different sectors, to provide advice and support to the Ukrainian authorities in the mentioned reform sectors.[96] The EU also helped modernize Ukraine's natural gas transit system and worked on reversing the flow of pipelines through Slovakia so that Ukraine can receive gas from the West. Finally, the EU agreed to accelerate its Visa Liberalization Action Plan to allow Ukrainians to travel throughout the EU, although that agreement had not been implemented by the end of 2016.

Despite hopes for a closer association with Europe promoted by veterans of the Maidan protests, some in Ukraine and Europe believe that post-Maidan disenchantment with Europe may be growing. These observers claim that oligarch-run media outlets, which oppose reform and populist leaders who want a change in government, are increasingly promoting anti-EU messages. Pointing to the difficulty in the EU's ratification of the AA with Kyiv and the delays associated with implementation of the visa liberalization agreement, some in Ukraine are beginning to conclude that key EU member states are dragging their feet and have failed to honor their promises to Ukraine.[97]

EU and U.S. Sanctions

The United States and the European Union strongly condemned the Russian military invasion and annexation of Crimea and Russia's ongoing efforts to destabilize eastern Ukraine as violations of international law. Since 2014, the United States, in coordination with the EU and other countries, has imposed sanctions against Russia in order to increase the costs to Russia of its aggression, with the objective of pressing it to implement a genuine political settlement with Ukraine.

On March 17, 2014, 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. In March 2014, after President Putin signed an agreement with Crimean leaders incorporating the region into Russia, the EU imposed sanctions on 12 additional Russian figures. By May 2014, the EU had added at least 28 additional names of Russian officials and two companies based in Crimea.

The EU list included 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.[98]

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[96] See http://europa.eu/rapid/press-release_MEMO-14-159_en.htm.

[97] "Ukraine's Rising Euroscepticism," Francisco de Borja Lasheras, European Council on Foreign Relations, December 22, 2016.

[98] 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/?

For its part, the United States suspended most bilateral cooperation with Russia. On April 2, 2014, 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 instead to Ukraine. The United States has also placed additional restrictions on defense-related exports to Russia.

In March 2014, 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.... "[99] The Administration then issued two additional executive orders (EO) expanding the scope of the sanctions and announced visa bans and asset freezes against several senior figures from Russia and the secessionist Crimean government. The EOs permitted the Administration to freeze the assets of persons working in key areas of the Russian economy, including "financial services, energy, metals and mining, engineering, and defense and related materiel."

Up to this point, the EU was hesitant to impose additional sanctions on Ukraine despite Russia's support for the destabilization of eastern Ukraine and its assault on Ukraine's territorial sovereignty. However, after the Malaysian Airlines tragedy on July 17, 2014, the EU largely matched and even in some cases went beyond U.S. sanctions. On July 22, EU foreign ministers agreed to expand Ukraine-related sanctions against Russia by adding individuals and companies to the existing travel ban and asset freeze list, including some persons in Putin's inner circle.

On July 29, 2014, the EU agreed to impose sanctions on Russia's financial, defense, and certain energy sectors. These sanctions were strengthened in September 2014, in response to a massive Russian-supported offensive in Ukraine.

Observers have noted that the sanctions had been crafted to minimize the economic harm to EU countries, for example by not targeting the sensitive natural gas sector or the sale of dual-use technologies to civilian firms. Nevertheless, some business sectors in Europe that were geared toward the Russian market as well as the agriculture sectors have continued to complain. On the other hand, Russia has implemented counter-sanctions against Europe, such as in the agriculture sector, among others, which continue to have a negative impact on some countries, despite the ability of some of those sectors to find new markets. A study by the European Parliament's Research Service analyzes the impact of the various sanctions and Russian counter-sanctions on European economies.[100]

Since January 2015, the United States and the EU have added to and extended the sanctions on Russian individuals and entities several times. Key sectoral sanctions were set to expire in July 2016 but were renewed again until January 2017. Although the EU sanctions were extended again, an agreement had to be reached between the member states that the EU would conduct a thorough review of the sanctions and hold a debate over their continued implementation. That debate began at an EU Council meeting on October 20-21, 2016. Individual EU member states have different views on how to deal with Russia in the future. Several countries have argued that the sanctions have not forced a change in Russia's policies toward Ukraine. Others have complained about the economic impact of the EU sanctions and Russian counter-sanctions on

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.

[99] See http://www.whitehouse.gov/the-press-office/2014/03/06/executive-order-blocking-property-certain-persons-contributing-situation.

[100] The EPRS publication on the Russian agrifood can be found at http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2016)581971.

their economies and have expressed a desire to see the sanctions eased or lifted altogether. Italy, Greece, Cyprus, and Hungary have been among the more skeptical. Both the French General Assembly and the French Senate passed nonbinding resolutions asking the French government to support lifting the sanctions. In the meantime, European Commission President Jean-Claude Juncker met President Putin during a June 16, 2016, economic forum in St. Petersburg. Although Juncker in a meeting with Putin stated the EU's intention to renew the sanctions, some felt Juncker's attendance at the forum was to lay the ground for a softer policy toward Russia in the second half of the year.[101]

By contrast, Poland and the Baltic states, which have lost economic markets in Russia, have repeatedly pressed for maintaining pressure on Moscow. The Merkel government in Germany, which has been thrust into the role of seeking EU consensus on Russia while seeking a solution to the Ukraine crisis, has been under serious pressure from Germany's business community to lift the sanctions. German Foreign Minister Frank Walter Steinmeier floated the possibility of a "step by step" reduction of sanctions even if the Minsk agreements for resolving the Ukraine conflict are not entirely fulfilled.[102] Merkel, however, has remained fairly strong in her desire not to lift the sanctions until Russia shows some positive actions in resolving the conflict in the Donbas.

Arguing in favor of retaining the sanctions, Guy Verhofstadt, a former Belgian prime minister and president of the Alliance of Liberals and Democrats for Europe Group in the European Parliament, stated,

> this is no time for Europe to "go soft" on Russia. EU leaders must remain firm and united in ensuring that existing economic sanctions are lifted only if the Minsk agreement is implemented fully. This includes the full withdrawal of Russian forces and military equipment from Ukrainian territory, and restoration to Ukraine's government of complete control over its border with Russia. A weakening of sanctions on Russia might please European business leaders, but it would come at a steep long-term cost. Even with sanctions in place, the frozen conflict in Ukraine looks increasingly permanent. Easing sanctions now, with so little progress having been made under the latest Minsk agreement, would amount to a catastrophic collapse in Europe's impact and credibility—and a major loss for Ukraine.[103]

In December 2016, the EU again extended its sanctions until July 2107. Extending the sanctions required a unanimous vote among all 28 EU member states. Despite the extension, some EU member states are concerned about the commitment of the incoming U.S. administration and whether U.S. support for the sanctions will continue. Most believe that should the United States ease up on its sanctions, the EU will have no choice but to reverse its sanctions policy given current opposition to them, as noted above.

On September 1, 2016, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) updated the Specially Designated Nationals List and the Sectoral Sanctions Identifications List to target sanctions evasion and other activities related to the conflict in Ukraine. Included in the new sanctions were an additional 37 individuals, 11 Crimean officials, multiple subsidiaries of Russian gas giant Gazprom, and some 18 companies operating in Crimea, including a number of defense and shipbuilding firms and companies directly involved in the construction of the 11-mile road-and-rail connection across the Kerch Strait separating Russia and

[101] "Moscow's offensive to split Europe," Janusz Bugajski, Center for European Policy Analysis, June 8, 2016.

[102] Ibid.

[103] "Don't Appease Putin," Guy Verhofstadt, Project Syndicate, June 15, 2016.

Crimea.[104] In December 2016, the U.S. administration blacklisted an additional 15 Russian individuals and companies for their dealings in Crimea and Ukraine.

(For additional information on U.S. sanctions, see **Appendix**.)

Relations with NATO

Although the 2008 NATO summit in Bucharest declared that Ukraine would eventually become a NATO member, no date was ever set for that goal to be accomplished. Due to the current military instability in Ukraine's east, the annexation of Crimea by Russia, and concerns among several NATO allies over Russia's actions to keep Ukraine from becoming too close to Europe and the United States, it is unlikely that Ukraine would receive a Membership Action Plan (MAP) from NATO in the near future. Nevertheless, NATO is assisting Ukraine.

At the July 8-9, 2016, NATO summit in Warsaw, the NATO-Ukraine Commission met. NATO pledged additional training and technical support for the Ukrainian military and endorsed a previously proposed Comprehensive Assistance Package (CAP). The CAP is intended to streamline and enhance NATO's ongoing support for Ukraine in the following areas:

- Advisory support: Resident and nonresident NATO and allied advisers are assisting Ukraine in a broad range of defense issues, including logistics and strategic-level reform.
- Defense reform: Key assistance includes capacity and institution building, professional development of civilian employees, and strategic communications.
- Defense education: Allied experts are cooperating with eight defense education institutions, three training centers, and the Diplomatic Academy in Ukraine to improve staff skills and develop curricula that meet Western standards.
- Countering Improvised Explosive Devices (IED) and demining: NATO is conducting humanitarian demining operations and will implement a project to increase Ukraine's capabilities to counter IEDs.
- Explosive ordnance disposal: Allies are supporting Ukraine in disposing of obsolete small arms/light weapons, ammunition, and anti-personnel mines.

In addition, the Alliance restated its commitment, made at the 2014 Wales Summit, to established five trust funds to support Ukraine. These trust funds include Command, Control, Communications and Computers (C4); Logistics and Standardization; Cyber Defense; Military Career Transition; and Medical Rehabilitation.[105]

Relations with the United States

The United States established diplomatic relations with Ukraine in 1991, following Ukraine's independence from the Soviet Union. The U.S.-Ukraine Charter on Strategic Partnership highlights the importance of the bilateral relationship and outlines enhanced cooperation in the areas of defense, security, economics and trade, energy security, democracy, and cultural

[104] U.S. Department of the Treasury, Press Release, September 1, 2016.

[105] Ibid.

exchanges. It also emphasizes the continued commitment of the United States to support enhanced engagement between Ukraine and the EU and NATO.[106]

The United States is strongly committed to Ukraine's turn to the West and to the Ukrainian government's commitment to reform and anticorruption initiatives. The United States has committed significant financial and technical assistance to Ukraine to achieve those goals. Visits by Vice President Biden, Secretary of State Kerry, USAID Assistant Administrator Tom Melia, and, on several occasions, Assistant Secretary of State Victoria Nuland have reaffirmed this support, most recently during Assistant Secretary Nuland's June 22, 2016, visit and Secretary Kerry's July 6, 2016, travels to Kyiv. On May 13, Vice President Biden spoke with President Poroshenko and Prime Minister Groysman and informed President Poroshenko that the United States had approved a third $1 billion loan guarantee agreement, which will support continued progress on Ukrainian reforms.

The United States has granted Ukraine market economy status, giving Ukraine permanent normal trade relations status. Ukraine is currently the United States' 80th-largest goods trading partner, with $2.2 billion in total (two-way) goods trade during 2014. Goods exports totaled $1.2 billion; goods imports totaled $0.9 billion. U.S. exports to Ukraine include coal, machinery, vehicles, agricultural products, fish and seafood, and aircraft. U.S. imports from Ukraine include iron and steel, inorganic chemicals, oil, iron and steel products, aircraft, and agricultural products.

U.S. Aid to Ukraine

According to the U.S. Agency for International Development (USAID) "Greenbook" website, the United States obligated over $4 billion in aid to Ukraine from FY1990 through FY2012.[107] According to USAID, since the crisis began in late 2013, the U.S. government has committed more than $1.3 billion in foreign assistance to Ukraine to advance reforms, strengthen democratic institutions and civil society, stimulate economic growth, and help Ukraine more safely monitor and secure its borders and preserve its territorial integrity. This amount includes some $135 million in humanitarian assistance provided through the U.N., and three $1 billion loan guarantees.

U.S. advisers and technical assistance support almost a dozen Ukrainian ministries and localities and have been aimed at helping Ukraine stabilize its financial sector; carry out reforms in the agricultural sector; improve the business climate; support constitutional reforms; bolster civil society to participate and monitor the reform process; and support independent media.[108]

In its FY2017 budget request, the Administration asked for $192.4 million in Economic Support Funds (ESF) for Ukraine to continue to address corruption, government reform, support for civil society, and other initiatives. The Administration also requested $15 million in International Narcotics Control and Law Enforcement (INCLE) funding to support justice and law enforcement reform. The request also included $2.9 million in International Military Education and Training (IMET) funds and $42 million in Foreign Military Financing (FMF) aid for Ukraine from the Overseas Contingency Operations (OCO) account.[109] In December, the Department of State notified Congress that is was obligating $445 million to Ukraine for FY2016.

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[106] United States Department of State: Country Notes: Ukraine, 2106.

[107] See https://eads.usaid.gov/gbk/.

[108] Testimony of Assistant Secretary of State Victoria Nuland, in U.S. Congress, Senate Committee on Foreign Relations, *Testimony on Ukraine*, hearings, 114th Cong., 1st sess., October 8, 2015.

[109] Department of State, *Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs, Fiscal Year 2016*, February 2, 2015, at http://www.state.gov/documents/organization/236395.pdf.

U.S. technical assistance has been aimed at helping Ukraine stabilize its financial sector; carry out reforms in the agricultural sector; improve the business climate; support constitutional reforms; bolster civil society to participate and monitor the reform process; and support independent media.

Assistance is also devoted to helping Ukraine develop laws and regulations to fight corruption, one of Ukraine's biggest challenges. Technical assistance is also being used to improve its energy security, including by enhancing energy efficiency. In addition, the United States provides humanitarian assistance to Ukraine in cooperation with the U.N. High Commissioner for Refugees (UNHCR) and other international organizations to improve Ukraine's ability to assist internally displaced persons (IDP). U.S. aid has been used by Radio Free Europe/Radio Liberty and Voice of America to produce Russian-language news broadcasts that are aired in Ukraine.

In her March 2016 testimony before the Senate, U.S. Assistant Secretary Nuland stated,

> Since there can be no reform in Ukraine without security, much of our support has been in the security sector, training nearly 1200 soldiers and 750 Ukrainian National Guard personnel and providing: 130 HMMWVs, 150 thermal goggles and 585 night vision devices, over 300 secure radios, 5 Explosive Ordnance Disposal robots, 20 counter-mortar radars, and over 100 up-armored civilian SUVs. In FY16, we plan to train and equip more of Ukraine's border guards, military, and coast guard to help Ukraine secure its border, defend against and deter future attacks, and respond to illicit smuggling.[110]

The U.S.-Ukraine defense relationship is transitioning from "crisis-response" to an enduring partnership aimed at developing more capable, NATO-interoperable Ukrainian Armed Forces. This partnership is intended to help Ukraine's 100,000-strong security forces effectively preserve and enforce its territorial integrity, deepen defense institutional reforms, and improve processes for developing defense requirements and managing resources.

In 2015, the United States announced a comprehensive $335 million bilateral security assistance package for Ukraine for FY2016, bringing total committed U.S. security assistance to more than $600 million since 2014. The FY2016 package includes bilateral support in three main areas:

- Training: 350 U.S. personnel training up to five battalions of Ukrainian conventional forces and one battalion of special operations forces, while developing a long-term institutional training capacity.
- Equipment: including counter-artillery and counter-mortar radars, secure communications, training aids, logistics infrastructure and IT systems, tactical UAVs, and medical equipment.
- Advisers: advancing implementation of key defense reforms, such as promoting civilian oversight, greater efficiency and transparency, and combatting corruption.

In February 2015, Lieutenant General Ben Hodges announced that a U.S. Army battalion had been training Ukrainian forces in Poland, including on how to operate against Russian electronic warfare and how to protect themselves from Russian and rebel artillery.

On July 28, 2016, 24 RQ-11B Raven Unmanned Aircraft Systems (comprised of 72 aircraft and associated equipment) arrived in Ukraine. The Raven UAV System is a hand-launched reconnaissance and surveillance tool. The system transmits live airborne video images and location information to a ground control station. This capability can provide day or night aerial intelligence and enables operators to navigate, recognize terrain, and record information for

[110] Op. cit.

analysis. The Raven system is part of the European Reassurance Initiative package and ongoing security assistance efforts in Ukraine. Several dozen Ukrainian soldiers already have completed training on Raven UAVs in Huntsville, Alabama. Recently, however, it was reported that the drones have been less effective than anticipated and that Russia and the separatist forces it supports can intercept and jam their video feeds and data.[111]

The Multinational Joint Commission on Defense Reform and Security Cooperation with Ukraine (MJC), led by the United States in partnership with Canada, Lithuania, and the United Kingdom, also assesses Ukrainian requirements and prioritizes training, equipment, and advisory initiatives.

The United States and Ukraine also host two military exercises each year in Ukraine—a ground forces peacekeeping exercise (RAPID TRIDENT) and a naval exercise (SEA BREEZE) in the Black Sea. These exercises seek to enhance interoperability and strengthen regional security through realistic training, while also sending an important signal of reassurance to Ukraine and other regional partners. Ukraine also participates in other U.S.-hosted exercises elsewhere in Europe.[112]

In early September 2016, Secretary of Defense Ash Carter met with Ukrainian Minister of Defense Stepan Poltorak and signed a bilateral partner concept that provides a framework for the United States and Ukraine to enhance the defense capacity of Ukraine's military forces, advance critical Ukrainian defense reforms, improve resource management processes, and boost defense technology cooperation. Secretary Carter also named General John Abizaid (Ret.), former CENTCOM commander, as a senior defense adviser to Ukraine for military affairs and modernization.[113]

Congressional Response to Ukraine Crisis

The U.S. Congress has been an active participant in the effort to address the Ukraine crisis. Congress has focused on providing assistance to the Ukrainian government and supporting sanctions against Russia for its occupation of Crimea and its efforts to destabilize Ukraine. As early as January 2014, the Senate passed S.Res. 319. Among other provisions, the resolution urged the United States and the EU to work together to promote a peaceful resolution of the crisis that moves Ukraine toward a future in the Euro-Atlantic community; encouraged all parties to avoid violence and engage in dialogue; and stated that, in the event of further government violence against peaceful protestors, the President and Congress should consider whether to apply targeted sanctions, including visa bans and asset freezes, against individuals responsible for ordering or carrying out the violence. On February 10, 2014, the House passed H.Res. 447 by a vote of 381 to 2. The resolution contained provisions broadly similar to those of S.Res. 319, including raising the possibility of sanctions against Ukrainian leaders if they use violence against protestors.

In April 2014, President Obama signed into law H.R. 4152, which authorized aid to help Ukraine carry out reforms; provided security assistance to Ukraine and other Central and Eastern European countries; and required the President to impose visa bans and asset seizures against persons in Ukraine and Russia who were responsible for violence or for undermining the peace, security, stability, sovereignty, or territorial integrity of Ukraine. The President also signed S.

[111] "U.S.-supplied Drones Disappoint Ukraine at the Front Lines," Reuters, December 21, 2016.

[112] Fact Sheet: "U.S. and NATO Efforts in Support of NATO Partners," published by the U.S. Government and NATO.

[113] Department of Defesne Press Release, September 8, 2016.

2183, a related bill requiring Radio Free Europe-Radio Liberty and Voice of America to increase broadcasting in eastern Ukraine, Crimea, and Moldova.

Several other pieces of legislation were adopted by the House and Senate over the period of the crisis, including urging NATO allies and European Union member states to immediately suspend military cooperation with Russia; to adopt visa, financial, trade, and other sanctions on senior Russian and Ukrainian officials and oligarchs complicit in Russia's intervention and interference in Ukraine; requiring the U.S. government to assist Ukraine to recover assets stolen by the previous regime through corruption; to provide accurate information to eastern Ukraine, Crimea, and Moldova in order to counteract inflammatory Russian propaganda; authorizing increased military and economic assistance for Ukraine; and authorizing support for Russian civil society and democracy organizations.

Perhaps the most important piece of legislation passed near the end of the 113th Congress was the Ukrainian Freedom Support Act (P.L. 113-272). In it Congress called on the President to increase the pressure on Russia by targeting Rosoboronexport and Gazprom, and prohibiting Export-Import Bank programs, government procurement contracts, exports of arms and dual-use goods and services, access to property, the U.S. banking system, or entry into the United States. The act also authorized the President to target Russian financial institutions and foreign financial institutions that engaged in Russia's defense and energy sectors. At its signing, the President stated that while he did not intend to make use of the additional authorities, he would continue to work with international allies to respond to developments in Ukraine.

One issue that sparked significant congressional debate was whether the United States should supply defensive weapons to Ukraine. Some Members of Congress have expressed support for going beyond the nonlethal support given by the United States so far to provide "defensive weapons" such as man-portable anti-tank weapons. Other suggested assistance includes additional nonlethal items, such as secure communications equipment, reconnaissance drones, and radars capable of tracking longer-range heavy artillery, not just mortars.[114]

In February 2015, a bipartisan group of 15 Senators sent a letter to President Obama urging him to act on the authorization provided by the Ukrainian Freedom Support Act to supply an "immediate infusion of effective defensive military equipment and financial aid to thwart Putin's naked aggression. Defensive military assistance—such as anti-tank weapons, counter-battery radars, armored Humvees, and increased training—are all critical to ensuring Ukraine has the capabilities to defend its territory and its citizens."[115]

Advocates of arming Ukraine stated that sanctions alone were unlikely to stop Russian aggression and that boosting Ukraine's defense capabilities was essential to stop further Russian conquest of Ukrainian territory and to pressure Putin to agree to a genuine peace agreement. Those opposed to arming Ukraine argued that Putin could use the move as an excuse to escalate the conflict beyond the desire to respond, thereby increasing the level of violence. Some experts concluded that escalation could have resulted in a new Cold War, eliminating the possibility for U.S.-Russian cooperation on key issues elsewhere. Others felt it would also split Western unity on Russia policy, as France and Germany were strongly opposed to arming the Ukrainians.[116]

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[114] For a report by former senior U.S. officials advocating U.S. defensive arms for Ukraine, see http://www.thechicagocouncil.org/sites/default/files/UkraineReport_February2015_FINAL.pdfhttp://www.thechicagocouncil.org/sites/default/files/UkraineReport_February2015_FINAL.pdf.

[115] See http://www.durbin.senate.gov/newsroom/press-releases/durbin-portman-lead-bipartisan-senators-calling-for-increased-military-assistance-to-ukraine.

[116] See for example http://www.brookings.edu/research/opinions/2015/02/06-aiding-ukrainian-military-goad-putin-war-gaddy-hill.

In the 2015 Defense Authorization Act (NDAA), Congress supported an enhanced security assistance package for Ukraine, and expanded that initiative in the 2016 NDAA. In the FY2017 NDAA, Congress extended the authority to provide additional security assistance to Ukraine through December 31, 2018, and authorized the use of up to $350 million in FY2017. The NDAA, however, would limit the obligation or expenditure of funds to $175 million of the funds authorized to be appropriated in FY2017 until a certification is made that Ukraine has taken substantial action on defense institutional reforms.

On September 21, 2016, the U.S. House adopted the STAND for Ukraine Act (H.R. 5094, Engel). The legislation addresses the ongoing crisis in Ukraine by clarifying the position of the United States on Russia's illegal occupation of Crimea, tightening sanctions on Russia, and addressing new options to provide support for Ukraine.

H.R. 5094 would link any sanctions relief to Russia fulfilling its obligations under the Minsk Agreement, and it would make Crimea-related sanctions permanent so long as the Russian occupation there continues. The legislation would also have tightened sanctions enforcement with a new anti-evasion framework and require regular reports on banks illegally controlling Ukrainian assets—particularly Russian banks in Crimea. Additionally, the bill would try to drive new private-sector investment to Ukraine, clamp down on Russia buying defense equipment or services from NATO allies, target human rights abuses in Russian-occupied areas, and call for a strategy to push back against Russian propaganda.[117] In the waning hours of the 114th Congress, a Senate version of the act was introduced by Senator Menendez of New Jersey. However, that legislation was not considered by the Senate.

Outlook

Ukraine continues to face two serious political challenges. First, the prolonged discord at the beginning of 2016 over how to replace Yatsenyuk, create a new government, and avoid national elections stymied the political process and fueled doubts among the public regarding the reform agenda. For some, reforming Ukraine is not rocket science, but it is also not easy and has had to be forced all along the way.[118] Prime Minister Groysman, who came into office with little public confidence in his willingness to seriously tackle the root causes of much of the country's corruption, has since shown a relatively strong commitment to enact reforms and has appeared to be less intimidated than feared by those who oppose those reforms. The potential for a significant period of instability and the possible necessity of a new national election in 2016, especially in mid-summer, when the government was hit with several political developments and challenges, was avoided. Nevertheless, after 10 months of the Groysman government, those doubts still persist. Instability has recently increased, in part due to the reemergence of powerful oligarchs and others with entrenched interests in not seeing too much change and attempting in subtle ways to derail the reformist agenda. These attempts by some to stall the reforms have presented additional challenges to the reform agenda which Groysman must quickly overcome in 2017 or, as some have suggested, his government could be confronted with a no-confidence measure, which could result in a new national election. The United States and Europe, while urging a faster pace for reforms and more confidence-building among the public, would like to avoid a new national election in 2017, as signs indicate that opposition forces could present a strong challenge—aided, for many, by Moscow.

[117] See statement of Representative Eliot Engel (NY) before the House Foreign Affairs Committee, July 14, 2016.

[118] "Keeping up appearances: How Europe is supporting Ukraine's transformation," Gustav Gressel, European Council on Foreign Affairs, October 5, 2016.

The other major challenge for Kyiv is of course eastern Ukraine but also, fundamentally, Vladimir Putin. To Putin, according to many, Ukraine is not a legitimate state and Ukrainians are not an independent people. Ukraine is merely a territory that Russia has a right to or a state that Moscow should have influence over, regardless of who lives there. As long as these attitudes persist in Moscow, there can be no real solution to the conflict, regardless of how hard the West tries.[119]

The fighting between Russian-supported separatists and the Ukrainian military along the demarcation line continues to flare up at times, resulting in continued fatalities and casualties. These flare-ups in fighting, despite the attempts to carry out long-term cease-fires and troop withdrawals, have been seen as another indication that the Kremlin-supported separatists have no intention of honoring the cease-fire provisions of the Minsk-2 agreement. In addition, according to the OSCE Monitoring Mission, there have been periodic reports that weapons and ammunition continue to cross into eastern Ukraine from Russia. Nevertheless, many analysts believe that the resumption of large-scale fighting in eastern Ukraine is not likely in the short term, although with Kyiv showing no sign of bending, heavy fighting could resume. At the very least, the region continues to evolve into a frozen conflict.

Beyond the need for a cease-fire, the separatist rebels in the Donbas do not seem to be moving forward in implementing other parts of the Minsk-2 agreement. Although elections are supposed to take place in the disputed territory, it appears unlikely at this time that the separatists would allow a totally free or fair election. And, although President Putin apparently told the Normandy Group that the OSCE would have total access to the area to monitor the elections, many seem doubtful that the rebels would allow such access to all voting places or guarantee the election observers' safety. The facts on the ground in the Donbas have also created an internal challenge to the government in that the stalemate in the Donbas continues to fuel the growing gap between those individuals, particularly inside Ukraine, who do not want to implement parts of the Minsk-2 agreement—particularly by amending the Ukrainian constitution—or to accommodate the separatists at all until the separatists fulfill their responsibilities to Minsk-2 and those, under pressure from the outside, who want to keep the process moving forward as long as the other side appears willing to do so.

This, of course, could change as Putin and his supporters try to stir up political chaos in Kyiv or conclude that the mood of European countries and United States to support Kyiv is diminishing. Putin could offer to hold elections anyway, though such elections likely would be flawed. Because some European leaders have suggested that sanctions could be incrementally reduced as individual elements of the Minsk-2 agreement, rather than the agreement in its entirety, are achieved, Putin could conclude that for the West, progress—however imperfect—would nevertheless be progress, and that would be good enough for Putin's overall plans for Ukraine.

The dilemma for Poroshenko and Groysman would be whether to accept the Kremlin's conditions. Kyiv's response could serve to weaken European resolve to continue to impose sanctions on Russia, even though the sanctions were initially imposed in reaction to Russia's annexation of Crimea and its activities in eastern Ukraine, and not because of the Minsk-2 agreement. The new unknown factor for Ukraine's future also will be the position of the new U.S. administration. If Washington signals a willingness to step back from its support for Ukraine and the sanctions on Russia, many believe EU solidarity will crack and Ukraine could find itself quickly searching for a way to accommodate Moscow.

[119] Ibid.

At the same time, although a period of political stability and progress in the economic and reform efforts of the Groysman government would be good for Kyiv and the West, despite the continued conflict in the east, such progress could also cause problems for Kyiv. Continued success in reform, coupled with the EU's decision to renew sanctions on Russia until July 2017 and continued NATO military deployments in Eastern Europe, could force Putin to react. Putin and his allies have not reacted well to Europe's continued sanctions or to recent NATO actions, and faced with actual reform successes in Kyiv, could be forced to react in some way to protect his position at home. Some also feel that with Putin's objectives in Syria well on their way to being realized, Putin could turn his attention back to Ukraine. For instance, the Kremlin could support an increase in fighting in eastern Ukraine to slow the reforms and to generate opposition to the government for its inability to control the conflict. The Kremlin's disinformation and cyberattack efforts could increase in anticipation of national elections in the spring. Increased support channeled to opposition political groups intended to stir the skeptical public could place additional pressure on the Groysman government. Or Putin could offer some kind of deal to the incoming U.S. administration to try to draw a wedge between Washington and Brussels.

All of these options would pose substantial risks for the interests of the United States and the EU to promote stability, security, and economic development in Ukraine.[120]

[120] Steven Pifer, "Crisis over Ukraine," Council on Foreign Relations, October 2015.

Appendix. U.S. Sanctions

After an initial round of sanctions imposed on Russia for its annexation of Crimea and military activity in eastern Ukraine, the United States and the EU continued to add additional travel freezes, visa restrictions, and economic sanctions on Russia for its failure to cease its support for the pro-separatists' actions in the Donbas regions of eastern Ukraine.

On March 20, 2014, 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.[121]

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.[122] 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.

On July 16, 2014, the United States imposed sanctions unilaterally on key firms in Russia's financial, energy, and military technology sectors—including Gazprombank, Vnesheconombank (VEB), Novatek, and Rosneft. U.S. firms and persons are barred from dealing in new equity or loans of greater than 90 days maturity for these companies. On July 27, the Administration responded by adding Bank of Moscow, VTB Bank, and Russian Agricultural Bank to the list of companies with restricted access to U.S. capital markets. In addition, the U.S. assets of United Shipbuilding Company were frozen.

In September 2014, in response to a separatist offensive in Ukraine supported by Russian combat troops, the United States imposed sanctions against additional key Russian companies, including Transneft, Lukoil, Gazprom Neft, Rostec, Surgutneftegaz, and Sberbank.[123]

On December 19, 2014, the President issued an executive order to bar any U.S. person from participating in new investment in Crimea; imports from and exports to the Crimea region; and any financing, facilitation, or guarantee of any related transaction by a U.S. person.[124]

After the Malaysian Airlines tragedy on July 17, 2014, the EU largely matched and even in some cases went beyond U.S. sanctions. On July 22, EU foreign ministers agreed to expand Ukraine-related sanctions against Russia by adding individuals and companies to the existing travel ban and asset freeze list, including some persons in Putin's inner circle.

On July 29, the EU agreed to impose sanctions on Russia's financial, defense, and energy sectors. These sanctions were strengthened in September, in response to a massive Russian-supported

[121] 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-situation.

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

[123] See http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20140912.aspx.

[124] For more on the economic impact of sanctions on Russia, see CRS Report R43895, *U.S. Sanctions on Russia: Economic Implications*, by Rebecca M. Nelson.

offensive in Ukraine. The sanctions barred EU nationals and companies from providing loans to five major Russian state-owned banks and barred trade in new bonds, equity, or similar financial instruments with a maturity exceeding 30 days, issued by the same banks. The same restrictions were also extended to three major Russian defense companies and three major energy companies. The EU banned certain services necessary for deep water oil exploration and production, Arctic oil exploration or production, and shale oil projects in Russia. The EU has also banned exporting dual-use goods and technology for military use in Russia. The EU also added new persons to its travel ban and asset freeze list.

In December 2014, the EU banned or restricted most European investment, trade, and tourism with Russian-occupied Crimea. As of January 2015, the EU has sanctions on 150 persons and 28 entities. The EU is currently considering additional sanctions in response to Russian support for a separatist offensive in eastern Ukraine in January and February 2015.

In an announcement published in the U.S. *Federal Register* on September 2, 2015, the U.S. Administration said it was adding 29 people to its sanctions list. Some of those added have ties to Kremlin-linked insiders and companies who were previously sanctioned, including Gennady Timchenko, a wealthy oil trader believed to be close to President Vladimir Putin.

A total of 33 companies or other entities were cited, including subsidiaries of state-owned oil giant Rosneft, headed by Putin ally Igor Sechin, and the company that manufactures Kalashnikov assault rifles.

On September 1, 2016, the Department of the Treasury's Office of Foreign Assets Control (OFAC) updated the Specially Designated Nationals List and the Sectoral Sanctions Identifications List to target sanctions evasion and other activities related to the conflict in Ukraine. Included in the new sanctions were some 37 individuals, as well as multiple subsidiaries of Russian gas giant Gazprom, some 18 companies operating in Crimea, including a number of defense and shipbuilding firms, 11 Crimean officials, and 7 companies directly involved in the construction of the 11-mile road-and-rail connection across the Kerch Strait in Crimea.

On December 20, 2016, the United States blacklisted an additional 15 Russian individuals and companies for their dealings in Crimea and Ukraine. The Treasury Department designated seven individuals and eight corporate entities involved in a range of projects, including the construction of a bridge connecting Russia to the Crimean peninsula. It also targeted businesspeople who are associates of President Vladimir V. Putin or are involved in activities that aid in Russia's destabilization of Ukraine.[125]

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[125] "Treasury Sanctions Individuals and Entities In Connection with Russia's Occupation of Crimea and the Conflict in Ukraine," Department of the Treasury Press Release, December 20, 2016.

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