Ukraine: Background and U.S. Policy

Cory Welt
Analyst in European Affairs

November 1, 2017
Summary

In February 2014, protests over the Ukrainian government’s decision to postpone concluding an association agreement that would lead to closer relations with the European Union (EU) culminated in violence and the collapse of then-President Viktor Yanukovych’s government. The government that followed pledged to embrace pro-Western reforms, and an energized civil society supported its efforts. Within weeks, the new government was forced to confront Russian armed interventions in southern and eastern Ukraine. These culminated in Russia’s occupation of Ukraine’s Crimea region in March 2014 and a protracted conflict in eastern Ukraine, where observers consider that the Russian government has fostered and supported pro-Russian separatists.

Even while waging a defensive conflict, Ukraine’s government under President Petro Poroshenko has professed a commitment to economic reform, Western integration, and democratic norms. At the same time, many observers consider that Ukraine’s reforms remain fragile and that the government has progressed slowly in certain areas. International donors and domestic civil society organizations continue to encourage the Ukrainian government to implement necessary measures, including with regard to fighting corruption. After an economic decline in 2014-2015, some signs of financial and economic stabilization have emerged, due in part to international assistance including a multibillion dollar International Monetary Fund (IMF) loan package. Observers caution, however, that economic growth depends on continuation of critical reforms.

The United States has long supported Ukraine’s pro-Western orientation and reform efforts. It supports the restoration of Ukraine’s territorial integrity, including with respect to Crimea, as well as implementation of the Minsk agreements that would establish a cease-fire and conflict settlement in eastern Ukraine. In 2014, the United States, in coordination with the European Union and others, imposed sanctions on Russia for its actions in Ukraine.

The United States is a leading contributor of foreign assistance to Ukraine, including over $300 million a year since FY2015 in nonmilitary, nonhumanitarian assistance. The United States also provides substantial military assistance to Ukraine, including via a newly established Ukraine Security Assistance Initiative that provides “appropriate security assistance and intelligence support” to help Ukraine defend against aggression and support its sovereignty and territorial integrity.

The Trump Administration has continued a policy of support to Ukraine. President Donald Trump and Ukrainian President Poroshenko have met twice, in June and September 2017. The Administration requested relatively substantial economic and military assistance to Ukraine for FY2018. In July 2017, Secretary of State Rex Tillerson announced the appointment of a new U.S. Special Representative for Ukraine Negotiations, elevating the U.S. role in the conflict settlement process. Secretary Tillerson has stated repeatedly that Ukraine-related sanctions on Russia will remain in place “until Moscow reverses the actions that triggered” them.

The U.S. Congress has actively participated in efforts to address the Ukraine conflict since its onset. Many Members have condemned Russia’s annexation of Crimea and support for separatists in eastern Ukraine and pushed to impose and retain sanctions against Russia for its actions. Congress has also supported substantial economic and security assistance for Ukraine. Key legislation includes the Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014 (P.L. 113-95), the Ukraine Freedom Support Act (P.L. 113-272), and the Countering Russian Influence in Europe and Eurasia Act of 2017 (P.L. 115-44, Title II).
Contents

Politics and Governance .................................................................................................................................................. 1
Russia-Ukraine Conflict .................................................................................................................................................. 5
  Crimea ........................................................................................................................................................................... 5
  Eastern Ukraine ......................................................................................................................................................... 6
Economy ........................................................................................................................................................................ 8
  Energy ........................................................................................................................................................................ 10
U.S.-Ukraine Relations .................................................................................................................................................. 11
  Congress and the Russia-Ukraine Conflict .................................................................................................................. 14
  Ukraine-Related Sanctions ........................................................................................................................................ 15
Relations with the EU and NATO .................................................................................................................................. 17
Outlook .......................................................................................................................................................................... 18

Figures

Figure 1. Ukraine ............................................................................................................................................................. 2
Figure 2. Separatist Regions in Eastern Ukraine ......................................................................................................... 8

Contacts

Author Contact Information .............................................................................................................................................. 19
Politics and Governance

Ukraine is one of the largest successors, by territory, population, and economy, to the Union of Soviet Socialist Republics (USSR, or Soviet Union) (for map, see Figure 1). Historically, Ukrainians trace their lineage to the medieval Kievan Rus, an early Orthodox Christian state that Russians also consider to be a core part of their heritage. Most of Ukraine’s territory was incorporated over time into the USSR’s predecessor, the Russian Empire, although several western regions of Ukraine were first annexed by the Soviet Union only during World War II. In December 1991, Ukraine’s leaders joined those of neighboring Russia and Belarus to dissolve the USSR.

In over a quarter-century of independence, Ukraine has had periodic swings toward greater and lesser democracy. Throughout this time, many observers have considered Ukraine’s government to be a “hybrid” regime with both democratic and nondemocratic elements. The U.S. government-funded nongovernmental organization (NGO) Freedom House gives Ukraine a “freedom rating” of “partly free.” According to Freedom House, Ukraine’s democratic credentials have improved since the ouster of former President Viktor Yanukovych in 2014, following the so-called Euromaidan protests. In Ukraine, these events came to be known as the Revolution of Dignity.

The Revolution of Dignity

In February 2014, protests over the Ukrainian government’s decision to postpone an association agreement with the EU culminated in violence, the collapse of then-President Viktor Yanukovych’s government, and Yanukovych’s departure to Russia. Before leaving Ukraine, Yanukovych had agreed to a deal with the opposition that was to lead to an early presidential election. Afterward, however, Yanukovych departed for eastern Ukraine amid signs of government defections, and Ukraine’s parliament voted to remove Yanukovych from office. He then left Ukraine for Russia. Yanukovych is on trial in absentia in Ukraine for treason.

Many observers considered Yanukovych to be a corrupt and authoritarian president, who preferred to preserve power with Russia’s economic and political assistance rather than pursue Western-oriented reforms. Yanukovych also appeared reluctant to fulfill a key demand of the EU, the release from prison of Yulia Tymoshenko, a former prime minister whom he defeated in the 2010 presidential election. In 2011, Tymoshenko was sentenced to seven years in prison for abuse of power and other charges that many observers considered to be politically motivated. She was freed from prison in February 2014, the day before Yanukovych was removed from office.

1 Freedom House ranks all countries in the world on a “freedom” scale, which includes measures of political rights and civil liberties. In addition, Freedom House scores post-Communist states on an index of “democratic progress” ranging between 1 (most democratic) and 7 (least democratic). States that receive a “Democracy Score” between 4 and 5 are considered “transitional governments or hybrid regimes.” Ukraine has received a Democracy Score between 4 and 5 since at least 1999. Annual scores reflect the state of affairs at the start of the year. See the annual reports for Ukraine in Freedom House, Freedom in the World 2017, at https://freedomhouse.org/report/freedom-world/freedom-world-2017, and Freedom House, Nations in Transit, at https://freedomhouse.org/report/nations-transit/nations-transit-2017.

2 “Maidan” means public square in Ukrainian.
Ukraine: Background and U.S. Policy

The government that replaced Yanukovych in 2014 pledged to embrace pro-Western reforms, and an energized civil society supported its efforts. Within weeks, however, the new government had to confront Russian armed interventions in southern and eastern Ukraine. These culminated in Russia’s occupation of Ukraine’s “autonomous” (quasi-federal) republic of Crimea in March 2014 and a protracted conflict in eastern Ukraine, where observers consider that the Russian government has fostered and supported pro-Russian separatists (see “Russia-Ukraine Conflict” below). As a result, the Ukrainian government’s readiness to implement reforms had to be balanced with the need to move to a war footing with an underdeveloped military and to grapple with the economic consequences of conflict.

Figure 1. Ukraine

Ukraine’s post-Euromaidan government took shape after presidential and parliamentary elections in May and October 2014, respectively. Ukraine has a mixed system of governance in which the president shares power with a prime minister nominated by parliament. The winner of the presidential election was Petro Poroshenko (aged 51), a former official, businessman, and supporter of the Euromaidan protests, who received 55% of the vote. As a candidate, Poroshenko

---

3 Ukraine’s government structure is the product of power-sharing constitutional reforms introduced during Ukraine’s Orange Revolution, an episode of mass protest in 2004 that at the time prevented Yanukovych from becoming president through electoral fraud. After Yanukovych was elected president in 2010, he revoked the amendments and strengthened the presidency. As part of his agreement with the opposition in February 2014, Yanukovych agreed to restore the 2004 reforms. Although the agreement was never implemented, the new Ukrainian government retained these reforms.
pledged to move Ukraine closer to the West, fight corruption, and address the conflict that had emerged in the eastern part of the country. In October 2014, Ukraine held elections to its 450-seat parliament (Verkhovna Rada), elected equally through party lists and single-mandate races. The main victors were the Petro Poroshenko Bloc (21.8% of the vote and 31% of single-mandate seats) and the People’s Front (22.1% of the vote and 8% of single-mandate seats), led by Arseniy Yatsenyuk, a former government official turned protest leader, who became prime minister.

The Petro Poroshenko Bloc and the People’s Front together headed a pro-Western reform coalition 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 clear majority in parliament. Due to various disagreements, however, the latter three parties left the coalition by early 2016, leaving the Poroshenko Bloc, the People’s Front, and a handful of independent deputies with a slim majority. In April 2016, an increasingly unpopular Yatsenyuk was replaced as prime minister by parliamentary chairman Volodymyr Groysman (aged 39), a former mayor and Poroshenko’s ally.

Other parties represent different parts of the political spectrum. The Opposition Bloc, a successor to Yanukovych’s former ruling Party of Regions, won 9% of the popular vote in 2014 and currently has around 10% of seats in parliament. Far-right nationalist groups, which Russian officials and media often sought to characterize as key drivers of the Euromaidan, won a handful of seats.

Many observers believe the Poroshenko/Groysman government has made impressive strides in its reform agenda. Others consider that Ukraine’s reforms remain fragile and that the government has progressed too slowly in certain areas. In April 2017, the International Monetary Fund (IMF), which supports Ukraine with a $17.5 billion loan package, called on the government to accelerate the pace of its reforms, noting that “progress in advancing structural reforms has been mixed,” with “important achievements in the energy and financial sectors” but “limited progress in reforming and privatizing state-owned enterprises, land and pension reforms, and effectively tackling corruption.”

International donors and domestic civil society organizations continue to encourage the government to implement necessary reforms. In October 2017, the government moved forward on some key measures: supporting the establishment of an anticorruption court and passing legislation on pension and health care reform. Some observers expressed concern that new reforms did not go far enough or could be coupled with other measures that may limit their effectiveness.

Some observers also have noted that a particular challenge to reform efforts stems from the influence of so-called “oligarchs,” many of whom became wealthy in Ukraine’s free-wheeling economic environment prior to 2014, particularly in areas like energy, metals, and mining.

According to the Economist Intelligence Unit, “the continuing influence of their networks

---


remains the most serious domestic impediment to the judicial and economic reforms needed to strengthen Ukraine’s political and economic outlook.”

### Select Governance Reforms in Ukraine

In addition to reforms in the energy and financial sectors (discussed in “The Economy,” below), the Ukrainian government has implemented reforms to combat corruption, empower local governments, and reform the judiciary and law enforcement organs. Some observers consider these reforms fragile and subject to ongoing challenges.

**Anti-Corruption:** Combating corruption has been a major focus of Ukrainian reform since 2014. Reforms include the establishment of three new institutions: the National Anti-Corruption Bureau of Ukraine (NABU); the Specialized Anti-Corruption Prosecutor’s Office; and the National Agency for the Prevention of Corruption (NAPC). The first two constitute the law enforcement arm of Ukraine’s anti-corruption efforts. The third institution, the NACP, develops and implements anti-corruption policy, with a focus on prevention.

Some observers consider the primary achievement of the NACP to be the creation of a public electronic system for mandatory asset and income disclosures of government officials. Over 100,000 officials submitted the first required declarations in 2016, with members of parliament (many of whom come from the business world) appearing to openly report their assets; declared cash holdings of around 420 parliamentary deputies reportedly totaled over $500 million (the average annual salary in Ukraine was around $2,400).

The Ukrainian government has also initiated reforms related to the police, public procurement, civil service, beneficial ownership, and energy tariffs that are intended, among other things, to help combat corruption. In October 2017, President Poroshenko agreed to establish a special Anti-Corruption Court.

Still, observers consider that corruption remains high in Ukraine and that many government officials still resist anti-corruption measures. In public opinion polls, respondents rank corruption as one of the country’s most important issues. Transparency International (TI), a nongovernmental organization (NGO), ranks Ukraine 131 out of 176 countries on its 2016 Corruption Perception Index, similar to Kazakhstan, Iran, Nepal, and Russia.

**Local Government:** New laws have helped initiate a process to restructure municipalities and other localities, empowering them with greater authority, areas of responsibility, and increased budgets. The process of restructuring is, for now, optional; by the end of 2016, reportedly around one-quarter of the anticipated newly established local government units had formed. A plan to constitutionally reform local government, which would also have addressed the status of separatist regions in eastern Ukraine, stalled in 2015 after protests against granting the separatist regions special status turned violent.

**Judiciary and Law Enforcement:** In addition to a broad restructuring of the judiciary, reforms have centered on increasing the independence of the judicial branch while reducing the scope for judicial corruption. After some delay, reforms were also initiated in the Prosecutor General’s Office, including diminishing past powers of surveillance, establishing a system of inspector generals, and recertifying local prosecutors and office personnel.


In June 2016, then-U.S. Ambassador to Ukraine Geoffrey Pyatt suggested that “the single area that still requires the greatest sustained focus and the greatest sustained pressure and engagement from civil society [is the] rule of law—building a judiciary, a prosecutorial service, a court system in which the Ukrainian people have confidence.”

---


In opinion polls, Ukrainian respondents express relatively low levels of support for the country’s political leaders. In a June-July 2017 poll, 15%-17% of respondents expressed approval of the government. Among likely voters, eight parties from across the political spectrum had between 4% and 12% support. The next round of elections in Ukraine is scheduled for 2019.

**Russia-Ukraine Conflict**

Many observers consider that of all the post-Soviet states, Ukraine has been the most difficult for Russians to accept as fully independent. Many Russians traditionally have considered much of Ukraine to be a historical province of Russia and Ukrainians to be their close ethnic brethren. Most Ukrainians can speak Russian, whether as a secondary or primary language. Ethnic Russians are estimated to make up 15%-20% of the population, mostly concentrated in the south (Crimea) and east (Donbas), where ties to Russia are stronger. In Soviet times, eastern Ukraine became home to a heavy industrial sector (including defense-related manufacturing) that retained close economic ties to Russia after independence.

Even before 2014, however, the Russia-Ukraine relationship suffered turbulence, with disputes over Ukraine’s ties to NATO and the EU, the status of Russia’s Crimea-based Black Sea Fleet, and the transit of Russian natural gas via Ukraine to Europe. Under ex-president Yanukovych, such disputes were largely papered over. By the end of 2013, Yanukovych appeared to make a decisive move toward Russia, postponing the conclusion of an Association Agreement that would establish closer political and economic ties with the EU and agreeing instead to substantial financial assistance from Moscow. This decision provoked the Euromaidan protests and, ultimately, Yanukovych’s removal from power.

**Crimea**

Ukraine’s conflict with Russia arose soon after Yanukovych fled to Russia in February 2014. Moscow covertly deployed forces to Crimea and, after what many observers consider to have been an illegal referendum on secession in March 2014, declared that it was incorporating the region directly into the Russian Federation. In explaining these actions, Russian government officials characterized the change in power in Kyiv as a Western-backed “coup” that, among other things, could threaten the security of the Russian population in Crimea, eject Russia’s Black Sea Fleet from the region, and potentially even bring Ukraine into NATO, something that Moscow firmly opposed.

Russia has since significantly increased its military presence in Crimea. Observers estimate that up to 30,000 Russian troops are stationed in the region. In addition, the Office of the United Nations High Commissioner for Human Rights (OHCHR) has documented “multiple and grave”

---


human rights violations in Crimea and stated that minority Crimean Tatars, who are generally opposed to Russia’s occupation, have been “particularly targeted.”

To connect Crimea to Russia, a 12-mile bridge is being constructed across the Kerch Strait connecting the Azov Sea, northeast of Crimea, to the Black Sea. Observers have noted that the bridge, scheduled to open by the end of 2018, includes a single passage for ships to traverse and could limit access to and from ports in eastern Ukraine. The Ukrainian government is seeking to uphold its maritime rights in international arbitration under the United Nations Convention on the Law of the Sea.

Much of the international community does not recognize Russia’s annexation of Crimea. In March 2014, the United Nations General Assembly voted 100 to 11, with 58 countries abstaining, to affirm Ukraine’s territorial integrity. In December 2016, the General Assembly voted 70 to 26, with 77 countries abstaining, for a resolution that “condemned the temporary occupation” of Crimea and reaffirmed nonrecognition of its annexation.

### Eastern Ukraine

Moscow also appeared to engineer the rise of new separatist movements in eastern Ukraine (the Donetsk and Luhansk regions, collectively known as the Donbas; see Figure 2). In 2014, militantly forcibly took power in regional centers; asserted the establishment of two new political entities, the “Donetsk People’s Republic” (DNR) and the “Luhansk People’s Republic” (LNR); and gradually expanded their control over Ukrainian territory (although government counteroffensives restored state control over some areas). For Moscow, such developments may have multiple purposes: to “protect” relatively pro-Russian populations in the region, complicate Ukraine’s domestic development and foreign policy, and increase Russian leverage in potential negotiations over Ukraine’s future trajectory.

Moscow officially denies Russia’s involvement in the conflict in eastern Ukraine. Most observers agree, however, that the Russian government has unofficially deployed troops to fight, helped recruit other “volunteers,” and supplied Donbas separatists with weapons and equipment. Estimates of the number of Russian troops in eastern Ukraine have declined since peaking in 2015. In March 2017 testimony to a Senate Appropriations Subcommittee, Ukrainian Minister


(continued...)
of Foreign Affairs Pavlo Klimkin said that there were now about 4,200 Russian troops in the region (and around 40,000 militants in all, presumably a combination of local and Russian fighters).\footnote{16}

Efforts at conflict resolution are structured around a set of documents known as the Minsk agreements (named after the city in Belarus where they were reached). In September 2014, the leaders of France, Germany, Russia, and Ukraine, together with separatist representatives in eastern Ukraine, negotiated a cease-fire agreement, the Minsk Protocol. However, the protocol failed to end fighting or prompt a political resolution to the conflict. The parties met again in February 2015 and reached a more detailed cease-fire agreement known as Minsk-2. This agreement mandated a total cease-fire, the withdrawal of heavy weapons and foreign troops and fighters, and full Ukrainian control over its border with Russia, among other provisions (see “Summary of Minsk-2 Provisions” box).

To date, most observers perceive that little has been achieved in implementing the provisions of Minsk-2, despite the commitments made by all sides. Although the conflict’s intensity has subsided, the fighting continues. As of mid-August 2017, OHCHR estimated that the conflict had led to at least 10,225 combat and civilian fatalities.\footnote{17} As of May 2017, the Ukrainian government also reported 1.6 million internally displaced persons (IDPs).\footnote{18}

Until recently, the Ukrainian government still permitted a certain amount of trade with the separatist regions of eastern Ukraine,

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
\textbf{Summary of Minsk-2 Provisions} \\
\hline
1. Immediate and full bilateral cease-fire. \\
2. Withdrawal of all heavy weapons by both sides. \\
3. Effective international monitoring regime. \\
4. Dialogue on (1) modalities of local elections in accordance with Ukrainian legislation and (2) the future status of certain districts in Donetsk and Luhansk. \\
5. Pardon and amnesty via a law forbidding persecution and punishment of persons involved in the conflict. \\
6. Release of all hostages and other illegally detained people based on a principle of “all for all.” \\
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. Restoration of full Ukrainian control over its border with Russia alongside the conflict zone, beginning from the first day after local elections and ending after the introduction of a new constitution and permanent legislation on the special status of districts in Donetsk and Luhansk. \\
10. Withdrawal of all foreign armed groups, weapons, and mercenaries from Ukrainian territory and disarmament of all illegal groups. \\
11. Constitutional reform in Ukraine, including decentralization and permanent legislation on the special status of districts in Donetsk and Luhansk. \\
12. Local elections in districts of Donetsk and Luhansk, to be agreed upon with representatives of those districts and held according to OSCE standards. \\
13. Intensification of the work of the Triilateral Contact Group (Ukraine, Russia, OSCE), including through working groups on implementation of the Minsk agreements. \\
\hline
\end{tabular}
\end{table}

\footnote{(continued)
Russian military presence in Ukraine and combat deaths is James Miller et al., \textit{An Invasion by Any Other Name: The Kremlin’s Dirty War in Ukraine}, The Interpreter (Institute of Modern Russia), September 2016, at http://www.interpretermag.com/an-invasion-by-any-other-name-the-kremlins-dirty-war-in-ukraine/.


especially in coal used in domestic power plants and sold abroad. Specifically, energy companies in the separatist regions owned by Ukrainian oligarch Rinat Akhmetov recognized Ukrainian authority and paid taxes. After some Ukrainians launched an unofficial blockade against this trade in January 2017, however, separatist officials reportedly took control of the energy companies. In response, the Ukrainian government officially suspended cargo traffic in March 2017, until the separatists return control to their proper owners.

**Figure 2. Separatist Regions in Eastern Ukraine**

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

**Economy**

As part of the Soviet Union, Ukraine was responsible for a large share of the country’s agricultural and industrial production. Since independence, Ukraine has experienced uneven economic growth. After the Soviet Union collapsed in 1991, the 1990s were a decade of decline; Ukraine’s GDP reportedly dropped by over 60% from 1989 to 1999. Ukraine’s economy recovered for much of the 2000s, but Ukraine was hit hard by the 2008-2009 global recession.

---


with GDP declining by almost 15% in 2009. After some growth, the economy stagnated in 2012-2013 and then declined with the outbreak of conflict in 2014. Ukraine’s GDP declined by 6.6% in 2014 and 9.8% in 2015.

In recent years, observers have reported some signs of financial and economic stabilization, due in part to international assistance, including a $17.5 billion IMF loan package (around half of which has been disbursed). In April 2017, the IMF positively cited key reforms, including reduction of the fiscal deficit, an increase in gas prices, reform of the banking system, and reduction in inflation (which had risen to over 60% in April 2015). Ukraine’s GDP grew by 2.3% in 2016, and the IMF and World Bank project growth of 2% in 2017 and over 3% in 2018. In September 2017, Ukraine raised $3 billion in sovereign bonds.

Observers caution, however, that Ukraine’s continued economic growth depends on continuation of critical reforms. Both the IMF and the European Bank for Reconstruction and Development (EBRD), which says it is Ukraine’s largest international investor, have called on Ukraine to combat “rampant” and “widespread” corruption. Both also have noted the importance of privatizing state-owned enterprises and allowing land sales, on which a moratorium has been imposed since 2001. The World Bank estimates that the percentage of Ukrainians living in moderate poverty rose from 15% in 2014 to 22% in 2015. The official unemployment rate for the first three quarters of 2016 was around 10%.

Ukraine’s overall merchandise trade has declined since 2013. That year, Russia, Ukraine’s largest trading partner, began to impose restrictions on trade in response to Ukraine’s plans to conclude a free trade agreement with the EU. Further restrictions followed in 2014-2015, and Russia suspended its own free trade agreement with Ukraine in January 2016. Ukraine also introduced trade restrictions against Russia.

Excluding exports from occupied Crimea and separatist territories in eastern Ukraine, the total value of Ukraine’s merchandise exports declined 15% in 2014, 29% in 2015, and 5% in 2016. The value of merchandise exports to Russia declined by 35% in 2014, 51% in 2015, and 26% in 2016.

In 2016, Russia remained Ukraine’s top merchandise trading partner ($8.75 billion), followed by China ($6.49 billion) and Germany ($5.74 billion). Overall, over 40% of Ukraine’s trade was with members of the EU. The top three destinations for Ukraine’s merchandise exports were Russia (10%), Egypt (6%), and Poland (6%), while its top three sources of imports were Russia, China ($6.49 billion) and Germany ($5.74 billion).

---


26 Ukraine’s total merchandise imports also declined from 2013 to 2015, before rising again in 2016; imports from Russia declined steeply from 2013 to 2016. Trade data is from the State Statistics Service of Ukraine, at http://ukrstat.gov.ua/.

(13%), China (12%), and Germany (11%). Its main exports included iron and steel, cereals, fats and oils, electrical machinery, and ores.

After declines in 2013–2014, Ukraine’s foreign direct investment (FDI) began to recover in 2015-2016. According to official statistics, total FDI in 2016 amounted to $4.4 billion. Growth in FDI in 2015-2016 was mainly in the banking sector. In 2016, Russia was reportedly the main source of FDI (38%), followed by Cyprus (10%) and the United Kingdom (9%).

Energy

According to many observers, Ukraine’s energy sector is critical to the success of its economic reforms. Although Ukraine has significant energy resources, the sector has performed below its potential and has traditionally operated in an environment of low domestic energy prices, subsidies, and high consumption. After the outbreak of conflict in 2014, Ukraine’s government began to reform the energy sector, including raising tariffs for households (while retaining subsidies for lower-income households).

Ukraine has traditionally depended on Russia for its natural gas supplies. Many observers argue that Russia has used price hikes, debt repayments, and energy cutoffs as leverage in various disputes with Ukrainian governments. Since 2015, however, Ukraine has reduced its dependence on Russian gas imports. In 2013, 92% of Ukraine’s natural gas imports came directly from Russia (51% of Ukraine’s total gas consumption). By 2015, just 37% of Ukraine’s natural gas imports came from Russia (18% of consumption), and in 2016, Ukraine halted Russian gas imports entirely. In addition to reducing its gas consumption, Ukraine managed this reduction in Russian imports by importing gas from Slovakia, as well as from Poland and Hungary.

Although observers have commended Ukraine for initial energy reforms, concerns have arisen among key stakeholders that energy reforms slowed in 2017. Four of five members of the supervisory board of Ukraine’s state-owned gas company, Naftogaz, resigned in 2017, citing delays in further reform and government interference in Naftogaz operations. In September 2017, the EBRD, which provides loans to Naftogaz to purchase gas, said that further reforms will be necessary to conclude a new loan agreement in 2018.

In recent years, Russia has sought to reduce the amount of its gas that flows through Ukraine to Europe by working with various countries to build pipelines that bypass Ukraine. Since the 2011 opening of the Nord Stream gas pipeline connecting Russia directly to Germany via the Baltic

---

31 Natural gas consumption in Ukraine was already in decline since 2012-2013 (by around 8% a year), and it declined even more markedly in 2014 and 2015 (by 16% and 20%, respectively) due to a decline in industrial production, the halting of gas supplies to separatist regions, and higher tariffs. In 2016, the annual decline in consumption slowed to 2%. Naftogaz of Ukraine, Annual Report 2016, p. 75, at http://www.naftogaz.com/files/Zvity/Annual_report_eng_170608.pdf.
Sea, around 40%-50% of Russian natural gas destined for Europe still transits Ukraine.\(^{34}\) This transit reportedly earns Ukraine around $2 billion or more a year.\(^{35}\)

Currently, Russia is seeking to construct a parallel pipeline, Nord Stream 2, with the financial support of several European energy companies. If the project moves forward, Ukrainian gas officials say that Nord Stream 2 will reduce Russian gas transit through Ukraine even further and potentially eliminate it entirely.\(^{36}\) Some observers say this would not only lead to a loss of revenue for Ukraine but also increase its vulnerability to Russia, since Moscow’s dependence on Ukraine for gas transit would no longer be a constraining factor in its policies toward Ukraine.

### U.S.-Ukraine Relations

The United States has long supported Ukraine’s pro-Western orientation and reform efforts. An anchor of the bilateral relationship is the 2008 U.S.-Ukraine Charter on Strategic Partnership, which established a variety of areas for enhanced cooperation.\(^{37}\) Especially since 2014, the United States has committed significant financial and technical assistance to Ukraine (for details, see below). The United States firmly supports Ukraine’s territorial integrity, including with respect to Crimea, as well as implementation of the Minsk agreements to resolve the conflict in eastern Ukraine.

President Trump and President Poroshenko have met twice, in June and September 2017. According to the White House, the meetings focused on resolving the conflict in eastern Ukraine, implementing reforms, and promoting economic growth. In Moscow in April 2017, U.S. Secretary of State Rex Tillerson called on Russia to “make progress in implementation [of the Minsk agreements] by de-escalating violence and taking steps to withdraw separatist armed forces and heavy weapons so that OSCE observers can fulfill their role.”\(^{38}\) Two days before visiting Kyiv in July 2017, Secretary Tillerson announced the appointment of former U.S. Ambassador to NATO Kurt Volker to the newly established position of U.S. Special Representative for Ukraine Negotiations.\(^{39}\) On several occasions, Secretary Tillerson has stated that Ukraine-related sanctions on Russia will remain in place “until Moscow reverses the actions that triggered” them.\(^{40}\)

---


\(^{36}\) See, for example, the 2016 annual report of Naftogaz of Ukraine, p. 71.


The United States is Ukraine’s 10th-largest trading partner, with $1.7 billion in total merchandise trade in 2016. Exports to Ukraine in 2016 totaled $1.1 billion (down from around $2 billion annually in the three years before the conflict); imports from Ukraine totaled $578 million in 2016 (and have been in decline since 2011).41 In July 2017, President Trump and President Poroshenko agreed on the sale of U.S. coal to Ukraine to help replace now-halted supplies of coal from separatist territories in eastern Ukraine; shipments of coal began the following month.42

The United States has been a leading contributor of foreign assistance to Ukraine. Nonmilitary, nonhumanitarian assistance in FY2014 amounted to around $80 million and rose to around $315 million in FY2015.43 In FY2016, nonmilitary, nonhumanitarian assistance totaled $575 million, around half of which ($290 million) was the subsidy cost of a $1 billion sovereign loan guarantee, the third the U.S. government had extended to Ukraine since 2014.44 For FY2017, the Senate Appropriations Committee recommended $323 million in such assistance (S.Rept. 114-290 to S. 3117), although FY2017 foreign aid allocations by country are not yet available.

The Trump Administration’s FY2018 request for Ukraine was $201 million in nonmilitary, nonhumanitarian assistance. The House Appropriations Committee has recommended allocating $313 million in such assistance (H.Rept. 115-253 to H.R. 3362), and the Senate Appropriations Committee has recommended $323 million (S.Rept. 115-152 to S. 1780).45

In addition, the United States provides humanitarian assistance to Ukraine in cooperation with the U.N. High Commissioner for Refugees (UNHCR) and other countries to assist internally displaced persons (IDPs) and other victims of conflict. In July 2016, the State Department noted that humanitarian assistance provided to Ukraine since 2014 totaled more than $135 million.46

The United States has also provided military assistance to Ukraine. In July 2016, the White House stated that the United States had committed over $600 million in total security (mostly military) assistance since the Ukraine conflict began in 2014 (this included funds for FY2014 and FY2015).47 In addition to foreign military financing and other programs, military assistance has

(...continued)


41 Data are from the U.S. Department of Commerce and State Customs Committee of Ukraine, as presented in Global Trade Atlas.


43 This total includes economic, global health, and nonmilitary (i.e., INCLE and NADR) security assistance.


45 Both committees have also recommended $95 million in foreign military financing and $2.9 million in international military education and training. H.R. 3362 was incorporated into H.R. 3354, which the House passed in September 2017.


included a new Ukraine Security Assistance Initiative (P.L. 114-113, §9014) to provide “appropriate security assistance and intelligence support” to help Ukraine defend against further aggression and support Ukraine’s sovereignty and territorial integrity. Congress first appropriated $250 million for this initiative in FY2016 and appropriated an additional $150 million in FY2017. For FY2018, the Trump Administration requested another $150 million.

In September 2016, then-Secretary of Defense Ash Carter and Ukrainian Minister of Defense Stepan Poltorak signed a framework document “for the United States and Ukraine to enhance the defense capacity of Ukraine’s forces, advance critical Ukrainian defense reforms, improve resource management processes, and boost defense technology cooperation.” The United States also joins Ukraine in hosting two annual military exercises—RAPID TRIDENT (ground forces peacekeeping) and SEA BREEZE (naval).

The United States has not provided lethal aid to Ukraine, although Congress has supported the provision of defensive lethal weapons (most recently in 2017 appropriations, P.L. 115-31, §9014). In December 2016, a bipartisan group of 27 Senators asked the incoming Trump Administration to provide defensive lethal assistance “to help Ukrainians better defend themselves” and “deter future aggression.”

By contrast, arguments against the provision of lethal assistance have centered on Russia’s ability and willingness to steadily escalate conflict in response. In Kyiv in August 2017, U.S. Secretary of Defense James Mattis said that the United States was “actively reviewing” the question of lethal assistance.

The United States has also supported Ukraine in the area of cybersecurity. U.S. interagency teams visited Ukraine in 2016 regarding December 2015 cyberattacks against Ukrainian power companies. In July 2016, the Department of State reported its intention to obligate $2.7 million to be used by the Department of Energy for energy resiliency planning and cybersecurity programs in Ukraine. The United States and Ukraine held an inaugural Bilateral Cybersecurity Dialogue in Kyiv in September 2017.

(...continued)

nato-efforts-support-nato-partners-including-georgia.


49 The 2016 National Defense Authorization Act (P.L. 114-92, §1250) included as examples of lethal assistance “anti-armor weapon systems, mortars, crew-served weapons and ammunition, grenade launchers and ammunition, and small arms and ammunition.”


Congress and the Russia-Ukraine Conflict

The U.S. Congress has actively participated in efforts to address the Ukraine conflict since its outbreak. Even before ex-president Yanukovych fled Ukraine in February 2014, the House and Senate passed resolutions to support Ukrainians’ democratic aspirations, call for a peaceful resolution to the standoff between the government and protestors, and raise the prospect of sanctions “against individuals responsible for ordering or carrying out the violence” (S.Res. 319, H.Res. 447).

Many Members have condemned Russia’s annexation of Crimea and support for separatists in eastern Ukraine and pushed to impose sanctions against Russia for its actions. Congress has also provided considerable economic and security assistance to Ukraine. In April 2014, Congress passed, and President Obama signed into law, the Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014 (P.L. 113-95). This act authorized aid to help Ukraine pursue reform, provided security assistance to Ukraine and other countries in Central and Eastern Europe, required the U.S. government to assist Ukraine to recover assets linked to corruption by the former government, and established a variety of sanctions (see “Ukraine-Related Sanctions” below). At this time, Congress also passed, and the President signed into law, a bill authorizing increased funds to boost programming in Ukraine, Moldova, “and neighboring regions” by U.S. government-funded broadcasters Radio Free Europe/Radio Liberty (RFE/RL) and Voice of America (VOA) (P.L. 113-96).

In December 2014, Congress passed, and President Obama signed into law, the Ukraine Freedom Support Act (P.L. 113-272). This act stated that it is the policy of the United States “to further assist the Government of Ukraine in restoring its sovereignty and territorial integrity [and] to deter the Government of the Russian Federation from further destabilizing and invading Ukraine and other independent countries in Central and Eastern Europe, the Caucasus, and Central Asia.” The act required or authorized a variety of expanded sanctions (see “Ukraine-Related Sanctions” below), authorized increased nonmilitary and military assistance to Ukraine, and authorized an expansion of RFE/RL and VOA broadcasting throughout the post-Soviet states, giving priority to Ukraine, Georgia, and Moldova.\(^{55}\)

In 2015, the House and Senate passed additional resolutions condemning Russia’s invasion of Crimea (H.Res. 499, S.Res. 378) and aggression in eastern Ukraine (S.Res. 52, S.Res. 72, H.Res. 50), and expressing support for increased aid to Ukraine (H.Res. 162, H.Res. 348).

Since the onset of conflict, Congress has supported expanded security assistance for Ukraine (see “U.S.-Ukraine Relations” above). Since FY2016, much of this assistance has been provided through the Ukraine Security Assistance Initiative. The FY2017 National Defense Authorization Act (P.L. 114-328, §1237) authorized $350 million but limited the amount of funds available to half this amount, until the Secretary of Defense certifies that Ukraine “has taken substantial actions to make defense institutional reforms.” Congress ultimately appropriated $150 million in FY2017 for the initiative. For FY2018, the House has supported a presidential request for another $150 million (H.R. 3219, H.R. 3354); Senate action is pending.

In August 2017, Congress passed, and President Trump signed into law, the Countering Russian Influence in Europe and Eurasia Act of 2017 (P.L. 115-44, Countering America’s Adversaries

Through Sanctions Act, Title II). This act codifies sanctions on Russia provided for in existing Ukraine-related and cyber-related executive orders, strengthens additional sanctions, and requires or recommends several new sanctions. In addition, the act establishes a congressional review of any potential presidential move to ease or lift sanctions. The act also authorizes $30 million in FY2018-2019 to promote energy security in Ukraine (§257).

In addition, the act states that it is the policy of the United States “to never recognize the illegal annexation of Crimea by the Government of the Russian Federation or the separation of any portion of Ukrainian territory through the use of military force” (§257).

Although President Trump signed the Countering America’s Adversaries Through Sanctions Act, he said in a signing statement that the legislation was “significantly flawed” and stated his reservations with various provisions, noting he would implement them “in a manner consistent with the President’s constitutional authority to conduct foreign relations.”

Current foreign operations appropriations restrict funds for implementing policies and actions that would recognize Russian sovereignty over Crimea, and there are restrictions on foreign assistance to the central governments of countries that support Russia’s annexation of Crimea (P.L. 115-31, Division J, §7070).

Ukraine-Related Sanctions

Since 2014, the United States has imposed sanctions on nearly 600 individuals and entities in response to Russia’s invasion and annexation of Crimea and Russia’s subsequent support of separatists in eastern Ukraine. President Obama, in issuing decisions to impose economic sanctions on Russia, declared that Russia’s activities in Ukraine threatened the peace, security, stability, sovereignty, and territorial integrity of its neighbor and constituted a threat to U.S. national security. The United States, in coordination with the EU and others, said it would impose increasing costs on Russia until it “abides by its international obligations and returns its military forces to their original bases and respects Ukraine’s sovereignty and territorial integrity.”

A series of executive orders issued in 2014 (13660, 13661, 13662, and 13685) form the basis for designating individuals and entities subject to Ukraine-related sanctions. In August 2017, these executive orders were codified into law in the Countering Russian Influence in Europe and

---

56 In addition, the act authorizes $250 million for assistance to NATO and EU members and aspirants to strengthen their democratic institutions and counter Russian disinformation and cyberattacks.

57 It also states that the United States generally “does not recognize territorial changes effected by force, including the illegal invasions and occupations” of Crimea and eastern Ukraine, as well as of Abkhazia and South Ossetia (in Georgia) and Transnistria (in Moldova) (§253).


59 This section draws on CRS In Focus IF10552, U.S. Sanctions on Russia Related to the Ukraine Conflict, coordinated by Cory Welt; CRS In Focus IF10694, Countering America’s Adversaries Through Sanctions Act, by Dianne E. Remack, Kenneth Katzman, and Cory Welt; and CRS In Focus IF10614, EU Sanctions on Russia Related to the Ukraine Conflict, by Kristin Archick, Dianne E. Remack, and Cory Welt.


Eurasia Act of 2017 (P.L. 115-44, Countering America’s Adversaries Through Sanctions Act, Title II).

In issuing the orders, President Obama identified individuals and entities subject to economic restrictions for having undermined the stability of Ukraine, misappropriated its state assets, annexed Crimea to Russia, used illicit armed force in Ukraine, or conducted business, trade, or investment in occupied Crimea. Among those designated are Ukrainian individuals and entities, including former government officials and de facto authorities in Crimea and the Donbas.

Any individual or entity designated pursuant to these orders is subject to the blocking of assets under U.S. jurisdiction and denial of entry into the United States. In addition, U.S. persons are prohibited from engaging in transactions with designated entities or persons. The Department of the Treasury’s Office of Foreign Assets Control (OFAC) continues to investigate transactions and designate persons and entities, most recently in June 2017.

In addition, in what are known as sectoral sanctions, OFAC restricts transactions by persons under U.S. jurisdiction related to investment and financing for designated state-controlled companies in Russia’s financial sector and financing for designated companies in Russia’s energy and defense sectors and prohibits transactions related to the development of deepwater, Arctic offshore, or shale oil projects within Russia. P.L. 115-44 directs the Secretary of the Treasury to further restrict financing in Russia’s financial and energy sectors and to extend prohibitions related to the above oil projects to projects worldwide that involve any designated entities that have an ownership interest of not less than 33%. The Departments of State and Commerce also deny export licenses for military, dual-use, and energy-related goods for almost 200 designated end-users (most of which are also subject to Treasury-administered sanctions).

In addition, the Ukraine Freedom Support Act of 2014 (P.L. 113-272), as amended by P.L. 115-44, requires sanctions that were previously discretionary on foreign persons who make “a significant investment” in deepwater, Arctic offshore, or shale oil projects in Russia, and on foreign financial institutions that fund such projects or engage in transactions for any person subject to Ukraine-related sanctions. The act also requires sanctions against Russian state-run arms exporter Rosoboronexport, Russian entities that transfer weapons to Ukraine and other specified states, and foreign financial institutions that engage in related transactions.

The Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014 (P.L. 113-95) requires sanctions on government officials (and those acting on their behalf) who were responsible for violence and human rights abuses during the Euromaidan protests, on persons undermining “the peace, security, stability, sovereignty, or territorial integrity of Ukraine,” and on Russian officials and their associates responsible for “acts of significant corruption in Ukraine.”

The EU has imposed similar, though not identical, sanctions (or restrictive measures in EU parlance) that require the unanimous agreement of all 28 EU member states. Most EU sanctions are imposed for a defined period of time, usually six months or a year, after which they require renewal to remain in place. Unanimity among EU member states is required to extend EU sanctions. A number of other states, including Australia, Canada, Japan, Norway, and Switzerland, have also imposed Ukraine-related sanctions on Russia.

---

Relations with the EU and NATO

The EU’s main framework for political and economic engagement 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 Area (DCFTA). The AA requires Ukraine to adopt EU legislation and standards in various areas and gradually exposes Ukrainian firms to competition from EU imports while providing access to EU markets.

In June 2014, the EU and Ukraine signed the AA. The European Parliament and the Ukrainian parliament ratified the AA in September 2014 but postponed implementation of the DCFTA until 2016. In April 2016, voters in the Netherlands rejected the AA, forcing the Dutch government to delay ratification, which all EU members had to complete for the AA to fully come into effect. After negotiations with the EU to clarify certain terms, the Dutch parliament approved the agreement, and in July 2017 the EU formally approved the AA. The EU also granted Ukrainian citizens visa-free travel starting in June 2017.

In addition, the EU has provided substantial economic assistance to Ukraine since 2014. This includes €3.4 billion (around $4 billion) in macro-financial assistance (MFA) loans, over 80% of which has been disbursed. The EU has also committed to almost €880 million ($1 billion) in assistance grants. Assistance also includes €5.7 billion ($6.7 billion) in financing from the European Investment Bank (EIB) and the EBRD.

NATO and Ukraine also have a strong history of partnership. Ukraine was the first post-Soviet state (after the three Baltic states) to join NATO’s Partnership for Peace in 1994, and NATO allies and Ukraine signed a Charter on a Distinctive Partnership and established the NATO-Ukraine Commission in 1997. At the April 2008 NATO summit in Bucharest, NATO members agreed that Ukraine and Georgia would eventually become NATO members, although the statement did not specify a timeline or road map for membership. In 2010, under ex-president Yanukovych, Ukraine adopted a “non-bloc” (i.e., nonaligned) status, rejecting aspirations of NATO membership, but still invited NATO to launch a Defense Education Enhancement Programme (DEEP) in 2012. After the onset of conflict in 2014, Ukraine’s parliament rejected its “non-bloc” status; in June 2017, it voted to make cooperation with NATO a foreign policy priority.

---

63 For more information, see European Council, “EU Relations with Ukraine,” at http://www.consilium.europa.eu/it/policies/eastern-partnership/ukraine/.

64 In December, the EU agreed to a Dutch proposal to issue a special statement that clarifies that the AA does not imply Ukraine’s future candidate status, nor does it obligate the EU or its members “to provide collective security guarantees or other military aid or assistance to Ukraine.” RFE/RL, “Netherlands, EU Reach Deal On Ukraine Association Agreement,” December 15, 2016, at https://www.rferl.org/a/eu-netherlands-ukraine-association-agreement/28178787.html; RFE/RL, “Dutch Senate Backs Key EU-Ukraine Pact,” May 30, 2017, at https://www.rferl.org/a/ukraine-netherlands-senate-ratify-eu-pact/28518512.html.


Although most observers do not expect Ukraine to come closer to NATO membership in the near future, NATO and Ukraine remain partners. At the July 2016 NATO summit in Warsaw, NATO pledged additional training and technical support for the Ukrainian military and endorsed a Comprehensive Assistance Package (CAP). The CAP includes “tailored capability and capacity building measures ... to enhance Ukraine’s resilience against a wide array of threats, including hybrid threats.”68 According to a 2016 White House fact sheet, the CAP’s areas of focus include advisory support, defense reform, defense education, countering improvised explosive devices and demining, and explosive ordnance disposal.69 In addition, NATO established six Trust Funds of two to three years’ duration to support Ukraine.70

Many advocates have called for greater NATO support to Ukraine. Among other things, NATO remains limited by differences among allies on whether to provide more substantive military support, such as intelligence capabilities or weapons systems.

Outlook

Almost four years after Ukraine’s Euromaidan protests and onset of conflict with Russia, Ukraine continues to face a number of internal and external challenges. Questions that Members of Congress may consider in seeking to influence or shape U.S. relations with Ukraine could include the following:

- How can Ukraine’s government be encouraged to continue political and economic reforms that are supported by the international community and Ukrainian civil society?
- What are the prospects for vibrant democratic competition in Ukraine’s next election cycle in 2019?
- How might greater U.S. engagement in negotiations on the Ukraine conflict contribute to implementation of the Minsk agreements and settlement of the conflicts in eastern Ukraine and Crimea?
- How might the provision of defensive lethal weapons to Ukraine alter the conflict dynamic?
- What other kinds of U.S. assistance will be especially important to Ukraine in the coming years?
- How long can Ukraine expect to receive high levels of economic assistance from the United States and other international donors?
- How can Ukraine’s economic recovery be sustained?
- How can Ukraine best benefit from its free trade and association agreement with the EU?

69 The White House, “Fact Sheet: U.S. and NATO Efforts in Support of NATO Partners, including Georgia, Ukraine, and Moldova.”
70 The Trust Funds focus on Command, Control, Communications and Computers (C4); Counter-Improvised Explosive Devices and Explosive Ordnance Disposal; Cyber Defense; Logistics and Standardization; Medical Rehabilitation; and Military Career Transition. For more, see Fact Sheets available at NATO, “Relations with Ukraine.”
Author Contact Information

Cory Welt
Analyst in European Affairs
cwelt@crs.loc.gov, 7-0530