Order Code RL30984

Ukraine's Future and U.S. Policy Issues

Updated February 27, 2004

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Summary

Since the collapse of the Soviet Union in 1991, many Western analysts have viewed a stable, independent and sovereign Ukraine as a key element in European security, pointing to its size, strategic location and economic potential. Those who are concerned about Russia's motives and goals in the region see an independent Ukraine as a guarantee against the revival of a Russian empire that would threaten the security of central Europe. Conversely, analysts worry that a weak or unstable Ukraine could fall under Russian domination or become a focus of conflict between Russia and the West. The spillover effects of crime, illegal immigration and other problems from an unstable Ukraine could hurt other countries in the region. Ukraine continues to undergo a difficult transition from communism to democracy and a free market economy. It is also undergoing a related search for its international identity, whether as an independent central European state or as a state closely aligned with Russia, with which most of Ukraine has close linguistic, cultural and historic ties.

A series of recent events have clouded Ukraine's relationship with the United States. In November 2000, an audio tape produced by a former bodyguard of Ukrainian President Leonid Kuchma purportedly captured Kuchma's orders to top officials to neutralize independent journalist Georgiy Gongadze, whose headless, mutilated body had been found by police. In September 2002, the United States authenticated another tape which implicated Kuchma in the possible sale of sophisticated anti-aircraft radars to Iraq. These incidents led to a deterioration of U.S.-Ukrainian ties. However, relations improved in 2003, when Ukraine deployed 1650 troops to Iraq as part of a Polish-led peacekeeping force.

However, despite recent setbacks, there is a consensus among U.S. policymakers that a strong, multi-faceted relationship with a stable, democratic, prosperous and sovereign Ukraine, integrated with Europe and the wider world, is key to Europe's stability, a vital U.S. interest. The United States has tried to bolster Ukraine with political support and over $3 billion in U.S. aid from FY 1992 to FY 2001, although aid has declined in recent years. U.S. policy has had notable successes, particularly in the areas of security policy and nuclear safety. Achievements since Ukraine's independence in political and economic reform have been significant, but U.S. policymakers have often been frustrated by Ukraine's slowness to reform and fight corruption. Congressional support has remained consistent despite Ukraine's troubles.

Ukraine's current problems raise important issues for U.S. policy. One problem is how to deal with President Kuchma and the opposition to his rule. More broadly, the United States must decide how to better support the building of the political, economic and social infrastructure that will provide a foundation for democracy, rule of law and a market economy in the long term. Another problem U.S. policymakers face is how to support Ukraine's sovereignty and independence and promote closer ties with the West. Efforts could include helping reduce Ukraine's energy dependency on Russia, and promoting greater security ties with the United States and NATO, in the face of possible Russian pressure against such a relationship.

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Introduction: Why is Ukraine Important?

More than a dozen years after achieving independence, Ukraine continues to undergo a difficult transition to democracy and a free market economy. It is also undergoing a related search for its identity, as either an independent, central European state or as a close partner of Russia, with which most of Ukraine has close linguistic, cultural, religious and historic ties. The possibilities for Ukraine's long-term future run a spectrum from participating in a prosperous, democratic, free market Europe, to being part of a poor, semi-authoritarian, corrupt post-Soviet region.

Since the collapse of the Soviet Union in 1991, many Western analysts have viewed a stable, independent and sovereign Ukraine as a key element in European security. They point to Ukraine's size (about the same land area as France), its population of nearly 50 million people, its natural resources, and strategic position on the Black Sea between Russia and Central Europe. They focus on the positive influence that a stable and prosperous Ukraine could play as a neighbor to NATO and the European Union. Some hope that Ukraine could one day join one or both of these organizations. Ukraine could also play an important role as a regional leader among former Soviet countries seeking to retain their sovereignty and independence.

Those who are concerned about Russia's motives and goals in the region see an independent Ukraine as a guarantee against the revival of Russian power that could threaten the security of central Europe. Conversely, analysts worry that a weak or unstable Ukraine could fall under Russian domination or become a focus of tension between Russia and the West. The removal of nuclear weapons from Ukraine, which was completed in 1996, improved Ukraine's relations with the West and diminished Western fears about the impact of possible instability in Ukraine. However, concerns remain about the possible proliferation of weapons technologies and spillover effects of crime, illegal immigration and other problems.

Political Situation in Ukraine

Ukraine's political system may be described as a mixture of democracy, authoritarianism, and oligarchy. Independent Ukraine has held three parliamentary elections and two presidential elections. In 1996, the country adopted a new, more democratic Constitution, replacing one from the Soviet era. After the 1994 presidential vote, power changed hands peacefully from incumbent Leonid Kravchuk to Leonid Kuchma. Kuchma was reelected in 1999, in an elected that international observers viewed as less than free and fair. A variety of views are expressed in Ukraine's parliament, the Supreme Rada. A few independent media voices exist in

Ukraine, often providing a highly critical perspective of those in power, although these have faced harassment and persecution by government authorities. Broadcast media are under the control of supporters of President Kuchma.

The country's regional diversity has had an important impact on the country's political scene. There are cultural, religious, linguistic and historical differences between western Ukraine and the eastern and southern regions of the country. However, in contrast to other parts of the former Soviet Union, there has been no significant ethnic tension or violence in Ukraine. In general, western Ukrainians are more nationally conscious than those in other regions. Western Ukraine played a catalytic role in the drive for Ukrainian independence in the early 1990s, although it has become politically marginalized, as leaders from eastern and southern Ukraine, where most of Ukraine's industry is concentrated, have gained power. People in eastern and southern Ukraine, subjected to centuries of Russification, tend to look more skeptically on Ukrainian nationhood or are indifferent to it. People in these regions are more likely to support economic and/or political union with Russia.

Like other countries of the former Soviet Union, Ukraine's democratic development remains deeply flawed. President Kuchma's powers under the constitution are formidable and give him significant authority over the government, as well as the legislative and judicial branches. President Kuchma rules through a large presidential administration and a network of presidential appointees reaching down to the local level. He also controls the interior ministry, intelligence agencies and the tax authorities. He has used these as weapons to harass political opponents and independent media. Associated with Kuchma are prominent businessmen, often dubbed "oligarchs," who receive lucrative concessions from the state in return for providing political and financial support to Kuchma. Some oligarchs are linked to organized crime figures. Ukraine's current Prime Minister Viktor Yanukovych is a representative of the powerful Donetsk oligarchic "clan." Viktor Medvedchuk, a leader of a Kiev-based oligarchic group, heads the presidential administration. Both these groups, and a third oligarchic center based in Dnipropetrovsk, hold other key posts in the government, parliament and other institutions. Kuchma has tried to balance these oligarchic groups against each other in order to preserve his own power.

Current Issues

Despite government efforts to use their control of the media and administrative resources to bolster their supporters, parliamentary elections in March 2002 resulted in a victory for Our Ukraine, an opposition pro-reform bloc led by former Prime Minister Viktor Yushchenko. Our Ukraine won the largest share of the vote but fell short of a majority. It currently holds about one-quarter of the seats in the parliament. The Communist Party suffered a heavy defeat, partly due to alleged fraud by local officials in the Donetsk region, where the Communists had traditionally done well. Kuchma was able to cobble together a shaky parliamentary majority of pro-oligarch factions. Part of his success was due to efforts to coopt some members of parliament (including Our Ukraine) by using material incentives and threats. Nevertheless, the pro-government bloc is riven with conflicts due to the competing interests of the oligarchs, who strongly mistrust each other.

According to recent public opinion polls, Kuchma has extremely low public support, with popularity ratings in the single digits. In addition to public dissatisfaction with living standards and widespread government corruption, Kuchma's public image has been tarnished by scandal. In November 2000, an audio tape produced by a former Kuchma bodyguard purportedly captured Kuchma's orders to top officials to neutralize independent journalist Georhiy Gongadze, whose headless, mutilated body had been found by police. The bodyguard who produced the tapes claims that they show that Kuchma is at the center of a vast criminal enterprise involving the oligarchs, the police and security services.[1]

Ukraine's current political scene is dominated by the question of who will succeed Kuchma as President, or if the political system should be changed to make that point moot. Kuchma is constitutionally barred from running for a third term as President after his current one expires in October 2004. Kuchma and the oligarchic groups are reportedly concerned that they may not unite on a viable candidate to defeat Yushchenko in the 2004 vote, who remains Ukraine's most popular political figure. The current leadership fears that the Western-oriented Yushchenko could move to clean up corruption if he is elected, which could expose Kuchma and other current leaders to criminal prosecution. Even if Yushchenko and other opposition leaders guaranteed that they would not prosecute Kuchma and others, in exchange for allowing free and fair elections, Kuchma and his supporters may not trust them, given that the new leadership would be supported by new would-be oligarchs bent on seizing property held by the old regime's supporters.

In order to avoid a possible Yushchenko victory, Kuchma and his powerful chief of staff Viktor Medvedchuk (head of the anti-reform, Kiev-based political clan) have put forward a political reform plan. This proposal to amend Ukraine's constitution – which was adopted in first reading in December 2003 – would reduce the powers of the presidency; provide for a presidential election for a shortened term from 2004 to 2006 (when new parliamentary elections are scheduled); and call for the election of a new president in 2006 by the parliament, not the public. This plan may have been designed to hamper Yushchenko from being elected in 2004 to a full term as president with the post's current extensive powers.

In February 2004, the parliament approved an amendment to the bill, dropping the election of president by the parliament. The amendment thereby removed the most objectionable part of the bill, to some observers. However, the revised bill may still serve the purposes of the ruling elite, in that the future president, perhaps Yushchenko, will still have weakened powers and the government (including Prime Minister Yanukovych) will be strengthened.

It remains unclear whether oligarchic groups can secure the necessary two-thirds majority in the parliament to adopt the revised bill. The Communists and Socialists, whose support is vital to final passage, condition their continued support on having the parliament elected entirely by proportional representation, a proposal not favored by some in the pro-presidential camp, who could lose ground under such a system to

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[1] Patrick Tyler, "From Under a Couch, an Effort to Stop Ukraine Corruption," New York Times, February 26, 2001.

groups with stronger party organizations, such as the Socialists and Communists.

Until recently, it was believed that Kuchma was constitutionally barred from running for a third 5-year term as President after his current one expires. Kuchma himself has said repeatedly that he is not interested in a third term. On December 30, 2003, the ruling elite further hedged its bets by securing a Constitutional Court ruling that would permit Kuchma to run for a third term. However, since the decision, Kuchma has repeated that he will retire from politics at the end of his current term.

Economic Reform

Ukraine's efforts at economic reform have been marked by modest successes and periods of inertia. Ukraine has generally pursued responsible monetary and fiscal policies since 1994, with occasional but significant lapses. Macroeconomic stability permitted Ukraine to successfully introduce a new currency, the hryvnya, in 1996. However, this "stability" was in part achieved in part by huge arrears in payments of wages and pensions. Enterprise tax arrears and tax exemptions for politically powerful sectors have had a negative impact on Ukraine's budget. Living standards for most of the population have declined. In 1999, real wages were half of their 1990 level. Real GDP fell by about 60% from 1991 to 1999.

In addition to this mixed record in macroeconomic stabilization, Ukraine has achieved only limited results in restructuring its economy. Privatization of most small firms was completed by the end of 1997. However, Ukraine needs to make greater progress in such areas as agricultural reform, energy sector reform (including privatization of the coal industry), restructuring of the banking sector, and improving public administration (including deregulation, reducing the size of the government bureaucracy and fighting corruption). Privatization of agriculture has progressed since a December 1999 decree by President Kuchma abolishing collective farms, but has not yet led to a substantial impact on the sector's productivity. The country, once the Soviet Union's "breadbasket," is famed for the fertile black soil that covers its key agricultural regions.

Ukraine's economic reforms received a boost from the election of Viktor Yushchenko as Prime Minister in April 2000. As head of Ukraine's central bank in mid-1990s, Yushchenko was credited with keeping inflation in Ukraine at moderate levels and successfully launching the hryvnya. He is considered by many to be Ukraine's leading reformer and among its most Western-oriented political figures. Yushchenko attempted to implement an ambitious reform program, including cuts in government spending, tax reform, accelerated privatization of industry, rapid privatization of land, and reductions in the size of the government bureaucracy. The government also attempted to make taxation and government spending more transparent and to increase cash payments to the state instead of barter. These moves were aimed in part at choking off sources of corruption. Ukraine registered GDP growth in 2000, for the first time since independence. Real wages also showed modest growth.

Yushchenko's government was toppled in a vote of no-confidence by the parliament in April 2001, with the tacit support of President Kuchma. Nevertheless, Ukraine's economic rebound has continued, fueled in large part by economic expansion in Russia. Gross Domestic Product grew by 9.1% in 2001, 4.8% in 2002 and 8.5% in 2003.[2] The government has pursued effective macroeconomic policies. Inflation was 8.3% and Ukraine ran a state budget surplus in 2003. Salaries rose by 22.8% in nominal terms in 2003. However, living standards for most Ukrainians remain low. The average monthly salary in 2003 was less that $100 per month.[3] The government of Prime Minister Yanukovych has scored several legislative successes, including the adoption of anti-money laundering legislation, pension reforms and some tax reforms. Nevertheless, the vested interests of the oligarchs, who tend to favor the status quo, stand in the way of more sweeping economic reforms. The impending presidential succession may also limit reform efforts this year.[4]

Ukraine's Foreign Policy

Ukraine's foreign policy has been successful in some respects. Ukraine has established good relations with the United States, other Western countries and leading organizations such as NATO and the European Union. It has also built excellent ties with its neighbors, including NATO and future EU members Poland, Hungary and the Czech Republic. Ukraine formed a loose association with Georgia, Uzbekistan, Azerbaijan and Moldova (dubbed GUUAM), all former Soviet states wanting to preserve their independence. In its potentially most troublesome relationship, Ukraine has avoided major crises with Russia, and has secured at least nominal recognition of Ukraine's sovereignty.

On the other hand, critics note a certain "hollowness" to Ukraine's foreign policy. Ukraine's foreign policy moves often lack the political, economic and military underpinnings that are needed to improve the stability, security and prosperity of Ukraine in concrete and durable ways. President Kuchma describes Ukraine's foreign policy as having a "multivector" approach. Observers note that this strategy involves balancing pro-Western and pro-Russian moves, depending on the direction from which the regime is feeling the greatest pressure at a particular time. However, these efforts are not usually translated into binding long-term commitments. Ukrainian political leaders and oligarchs feel that they can not afford to alienate Moscow, with which they have close economic and other links, but nevertheless need to keep lines of communication open with the West to avoid becoming wholly dependent on Russia.

Scandals in the past few years (such as the murder of Gongadze and the alleged sale of sophisticated air defense equipment to Iraq) as well as Ukraine's overall lack of progress in democratization and market reform have lowered Ukraine's international standing, at least among Western countries. It should be noted that

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[2] Global Insight report on Ukraine, September 11, 2003.

[3] Oxford Analytica Daily Brief, February 16, 2004.

[4] Economist Intelligence Unit Country Report on Ukraine, April 2003.

Ukraine's foreign policy reflects not just the political strategies of one man, but a lack of consensus among Ukrainian elites on the country's identity and its geopolitical orientation. This lack of consensus reflects political, regional and social cleavages within Ukrainian elites and society.

Ukraine's Future Between Russia and the West

Analysts have expressed concerns about some aspects of Ukraine's relationship with Russia. Observers have noted that under Russian President Vladimir Putin, Russian policy toward Ukraine has become more pragmatic than during the Yeltsin era. Instead of sweeping if vague promises of partnership, Russia has increasingly focused on concrete concerns such as repayment of Ukrainian energy debts to Russia and bilateral trade frictions. Some analysts are concerned that Kuchma has sought support from Putin in exchange for greater Russian political and economic influence in Ukraine.

Another potential cause for concern, according to some experts, is a surge in Russian investment in Ukraine. In recent years, Russian firms, flush with cash as a result of high oil prices, have bought key industrial firms in Ukraine. While Russian investment in Ukraine could be highly beneficial to Ukraine's economy, some fear that Russia could come to dominate Ukraine politically and economically if the Russian presence is overwhelming. Ukraine's future may also be affected by the domestic political and economic climate in Russia. Russia's improving economic situation has benefitted Ukraine, due to the close links between the two countries. However, Russia's apparent drift toward a less democratic political system could have a negative impact on Ukraine by encouraging authoritarian tendencies there.

The Russian government and Gazprom, the partly state-owned natural gas giant, have pressed Ukraine to hand over control of the Ukrainian pipeline system to Gazprom in payment for Ukraine's energy debts to Russia. U.S. policymakers have expressed concern about an October 2002 agreement between Kuchma and Putin, which foresees the creation of a Russian-Ukrainian consortium to control the Ukrainian natural gas pipeline system, the largest in the world. The consortium is a 50-50 split, which could give Russia a veto on key issues. However, a final agreement on the issue has not been reached, due to continued Ukrainian reluctance to give Russia such a large measure of control over a vital sector of its economy.

Ukraine is trying to reduce its dependence on Russia oil by completing an oil terminal at its port city of Odesa and constructing a pipeline from the terminal to Brody, Poland. Ukraine and its partners in GUUAM have explored options for a supply route from gas and oil fields in Azerbaijan and Central Asia to Ukraine and Western Europe that would bypass Russia. After discussions on the issue between Prime Minister Viktor Yanukovych and Vice President Dick Cheney, Ukrainian officials opened talks with with ChevronTexaco on using Odesa-Brody to transport Caspian oil to Europe.

In August 2003, the state-owned Russian oil pipeline company Transneft cut off oil shipments to Odesa, claiming that it lacked oil to supply to port. Transneft has used the same tactic to pressure Latvia to sell part of its Ventspils oil terminal to Transneft. Some observers believe that the move was meant to signal Russian

displeasure about the Odesa-Brody project. Russia and Russian oil firm TNK (which has been bought by British Petroleum) are pressuring Ukraine to reverse the flow of the Odesa-Brody pipeline in order to export Russian crude oil from Odesa.

A border dispute between Russia and Ukraine has increased tensions between the two countries. In October 2003, Russia began construction of a dike to link Russia's Taman Peninsula to the tiny island of Tuzla, which lies in the Kerch Strait between the Black Sea and the Sea of Azov. Ukraine strongly protested the construction of the dike toward Tuzla, which it views as its territory. Russia responded by questioning Ukraine's claim to the island. After a buildup of Ukrainian forces in the area to defend Ukraine's claim to Tuzla, Moscow and Kiev agreed to negotiate over the issue in a wider economic and territorial context, including on the use of the Sea of Azov and the Kerch Strait by both parties.

The attitudes of Ukraine's oligarchs may be an important factor in determining Ukraine's position between Russia and the West. At present, Ukraine's oligarchs have not assumed a high foreign policy profile, even on issues one might believe would be of interest to them, such as World Trade Organization membership. Rather than developing a coherent foreign policy approach, they have instead made ad hoc decisions aimed at consolidating their internal economic and political positions within Ukraine. They have generally been reluctant to take steps to alienate Moscow, given their close economic ties with Russia. Ukrainian oligarchs are wary about letting their Russian counterparts gain too much power in Ukraine, fearing that the richer and more powerful Russians could dominate them.[5]

Another important issue will be the impact of European Union and NATO enlargement. EU enlargement into Central Europe to include Poland, Hungary and the Czech Republic may help stimulate Ukraine's economy, but may have negative psychological consequences, as well as practical ones, such as visa restrictions for Ukrainian migrant workers and reductions in Ukrainian exports to the new EU states. Ukrainians may feel increasingly excluded from Europe. This is especially true given that EU officials say they do not believe that Ukraine should become a candidate for EU membership in the near future, given its slow progress on political and economic reform. EU officials claim that Ukraine's economy will be enhanced in the long run by EU enlargement. NATO enlargement, and Ukraine's aspirations to join NATO could lead to increased Russian pressure on Ukraine to distance itself from the Alliance, particularly if conservative forces gain more power in Moscow. Advocates of enlargement say that Ukraine's security will be enhanced by bringing closer to Ukraine's borders the zone of security that NATO represents.

U.S. Policy

On the eve of Ukraine's independence and in the early post-independence period, U.S.-Ukrainian relations were difficult. In 1991, President Bush urged Ukraine to remain within the Soviet Union, warning of "suicidal nationalism." Nevertheless, the United States recognized Ukraine's independence after the collapse

[5] Discussions with U.S. and European experts on Ukraine.

of the Soviet Union. In the early post-independence period, U.S.-Ukrainian ties were troubled by Ukraine's reluctance to permit nuclear weapons on its soil to be withdrawn without guarantees of its security. A turning point was reached in January 1994, when the United States, Russia, and Ukraine signed a Trilateral Statement that committed Ukraine to transfer nuclear weapons on its territory in exchange for Russian fuel for its nuclear power plants and security assurances that the United States and Russia would respect Ukraine's sovereignty and territorial integrity. While Ukraine's reluctance to give up nuclear weapons on its territory irritated U.S. policymakers, it may have also helped to form the current U.S. policy consensus that a strong, multi-faceted relationship with a stable, democratic, prosperous and sovereign Ukraine, integrated with Europe and the wider world, is key to Europe's stability, a vital U.S. interest.

U.S.-Ukrainian relations suffered serious setbacks from late 2000 until early 2003. U.S. officials repeatedly expressed concern about political pressure on the media and the harassment of journalists. The United States called on the Ukrainian government to conduct a credible investigation of the Gongadze affair. In 2001, the United States granted political asylum to Mykola Melnychenko, the ex-bodyguard who had produced the tapes allegedly implicating Kuchma in the murder of Gongadze. However, perhaps the lowest point in U.S.-Ukrainian relations was reached in late 2002. In September 2002, the Administration announced that it had authenticated a conversation taped by Melychenko in July 2000, in which Kuchma gave approval for the sale of four Kolchuga early warning radar systems to Iraq, a sale banned by a U.N. Security Council arms embargo.[6] A November 2002 U.S. and British fact-finding mission to Kiev issued a report saying that Kiev had been evasive in its response to the group. The investigators said they could not rule out the sale of the systems, but had no clear proof they had taken place, either. There have been no public reports of U.S. forces finding Kolchugas in Iraq after the defeat of Saddam's army in 2003.

In the wake of the Kolchuga incident, the Administration conducted a review of its Ukraine policy. In early 2003, it concluded that, despite recent setbacks, the United States continues to have an interest in Ukraine's development as a modern, democratic state integrated into Euro-Atlantic institutions and that the United States must continue to be engaged with Ukraine in a wide variety of areas.[7] U.S.-Ukrainian ties have improved substantially as a result of the war in Iraq. The Administration listed Ukraine as a member of the coalition to disarm Saddam Hussein. Before the war, Ukraine deployed a 200-man nuclear, biological, and chemical weapons defense battalion to help Kuwait to defend against a possible attack. In August 2003, Ukraine deployed 1,650 troops to participate in a Polish-led peacekeeping division in south-central Iraq. A Ukrainian officer commands one of the brigades in the force, while Spain and Poland lead the two others.

The United States is also cooperating with Kiev to promote closer ties between Ukraine and NATO. In May 2002, Ukraine announced for the first time that it was seeking NATO membership. Despite the fallout from the Kolchuga affair, Ukraine

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[6] State Department Press Briefing, September 24, 2003.

[7] Remarks by Stephen Pifer.

and NATO agreed on a NATO-Ukraine Action Plan at the November 2002 NATO summit in Prague. The plan, which appears to be modeled on NATO's Membership Action Plan program, but does not commit NATO to supporting Ukraine as a candidate for membership, includes a series of commitments by Ukraine to meet objectives in political, economic, and military reforms. U.S. officials have said that, if Ukraine takes real strides toward reform, and meets the qualifications for NATO membership, it should have the opportunity to join the Alliance. Most analysts estimate that NATO will not embark on another round of enlargement until 2007, at the earliest. Nevertheless, the woeful state of Ukraine's armed forces will require rapid moves toward reforms to meet even this hypothetical deadline.

The United States is also trying to help Ukraine prepare for World Trade Organization membership. Progress on this issue has been slowed by resistance from members of parliament from rural areas and by some oligarchs, who fear foreign competition. Another stumbling block to WTO membership for Ukraine is its failure to respect intellectual property rights of U.S. firms.

The OECD's Financial Action Task Force (FATF) imposed sanctions on Ukraine in early 2003 for not doing enough to stop money laundering. The sanctions were lifted in February 2003, after Ukraine passed an anti-money laundering law. In February 2004, Ukraine was removed from the FATF's "blacklist" of non-cooperating countries, reflecting an evaluation that Ukraine is implementing its money laundering legislation effectively.

U.S. Aid to Ukraine

Foreign aid has been an important tool of U.S. policy toward Ukraine. This assistance has gone to support efforts to build democracy, civil society, and the rule of law in Ukraine, and to promote economic reform and the development of small and medium-sized businesses. U.S. aid has also been spent to destroy nuclear weapons on Ukrainian territory and help Ukraine prevent the proliferation of technology that could be used in creating weapons of mass destruction. The United States has provided humanitarian and other assistance to help Ukraine deal with the consequences of the Chernobyl nuclear accident and promote nuclear safety. The United States has provided security assistance to help Ukraine participate in joint exercises under NATO's Partnership for Peace program. The United States provided funding for Ukraine's participation in KFOR, the NATO-led peacekeeping force in Kosovo, in a joint unit with Polish troops. It is also providing assistance for Ukrainian forces in Iraq.

U.S. aid to Ukraine has been substantially reduced in recent years. In its FY2005 foreign aid request, the Administration proposed $79.5 million in Freedom Support Act assistance for political and economic reform in Ukraine. In FY2003, the United States provided $138.7 in FSA aid and an estimated $92.6 million in FY2004.[8] The Administration has proposed $6.5 million in Foreign Military Financing (FMF) aid for Ukraine in FY2005, up from an estimated $3 million in FY2004. The Administration has justified the reduction in FSA funding by asserting

[8] State Department FY2005 Foreign Operations Congressional Presentation.

Ukraine's successes in reform permitted the reduction. It said it was developing a multi-year strategy leading to Ukraine's "graduation" from U.S. foreign aid. Other analysts have noted that funding to Ukraine may have been rendered vulnerable by other, more pressing needs, such as funding the reconstruction of Iraq and assisting U.S. allies in the fight against terrorism, including FSA recipients in Central Asia and the Caucasus region.

U.S. aid to Ukraine has had notable successes, particularly in the security sphere and with regard to nuclear safety. Specific achievements include the complete withdrawal of nuclear weapons from Ukraine and the destruction of associated infrastructure remaining in the country; cooperation in heading off the transfer of nuclear and ballistic missile technologies to rogue regimes; and Ukraine's closure of the Chernobyl nuclear plant in 2000. Achievements in political and economic reform have been significant, but less clear-cut. U.S. aid has helped to support independent media in Ukraine and build a nascent civil society and small business sector. However, U.S. policymakers have often been frustrated by Ukraine's slowness to reform some areas of its economy and fight corruption. Particularly since President Kuchma's re-election campaign in 1999, U.S. officials have also expressed concern about Ukraine's democratic development, including the government's treatment of independent media and NGOs. This situation appears to have worsened as the October 2004 elections has approached.

Congressional Role

Ukraine has enjoyed strong across-the-board support in Congress since independence. In the early 1990's, Congress pushed the Bush and Clinton Administrations for more aid and a comprehensive relationship with Ukraine, as opposed to a near-exclusive concern with nuclear weapons issues. Congress has often underlined its support by specifically earmarking funds for Ukraine. At times in the past decade, Ukraine was the third largest recipient of U.S. aid, after Israel and Egypt. Congress has focused particular attention on issues with a humanitarian dimension, such as providing aid to Ukraine to help it deal with the consequences of the Chernobyl nuclear disaster, HIV/AIDS and other public health issues, and assisting efforts to fight trafficking in women, a serious problem in Ukraine.

This support has been due to a number of factors. One is Ukraine's perceived strategic importance in U.S. interests in Europe. Also, at least initially, Ukraine's foreign policy was perceived as generally pro-Western in Congress, and the U.S.-Ukrainian relationship did not have the obstacles that the U.S. relationship with Russia has had, such as the war in Chechnya and proliferation concerns with Iraq, Iran and other countries. Another important factor in Congressional interest in Ukraine is the role of Ukrainian-Americans. While not large in number when compared with other ethnic groups that influence U.S. foreign policy, many Ukrainian-Americans live in states in the Midwest and Northeast that often play a key role in national elections. In addition, the Ukrainian-American community has been active in lobbying Congress, and there are several Members of Ukrainian ancestry. There is also a Congressional Ukrainian Caucus, an informal organization that promotes awareness of Ukrainian issues.

However, Congressional attitudes toward Ukraine have also been marked by disappointment. Concerns have focused on the relatively slow progress in economic reform and rampant corruption. Members of Congress have increasingly expressed concern about the state of democracy in Ukraine, especially since the Gongadze murder, as well as other crimes allegedly detailed on the audio tapes from Kuchma's office, including corruption and manipulating the 1999 presidential election. These problems are of course not unique to Ukraine; they are seen in many countries in the region. After several American businessmen charged that they were cheated by their Ukrainian partners, Congress added certification provisions to U.S. aid to Ukraine in FY1997, FY1998 and FY1999. The provisions called for part of U.S. aid for Ukraine to be withheld until the Secretary of State certified that there had been progress in resolving these issues. The Secretary of State made the required certifications, but criticized the pace of reform in Ukraine. The certification process was dropped in 1999 as potentially counterproductive, and as progress was made on individual cases.

In FY2000, FY2001 and FY2002, Congress switched to "soft" earmarks for Ukraine, which specify that the Administration "should" provide a specified amount to Ukraine, but do not formally require it. The FY2002 bill (P.L. 107-115) required a report by the State Department to the Appropriations committees on the progress made by Ukrainian authorities in investigating and bringing to justice those responsible for the murder of Ukranian journalists.

In the FY2003 bill (P.L. 108-7), Congress did not earmark an overall figure for Ukraine, and said that of the funds expended for Ukraine, $20 million "should" be made available for nuclear safety and $1.5 million for mine safety. The bill also contained a provision stating that no funds could be made available for Ukraine until the Secretary of State certified that Ukraine had not facilitated or engaged in arms deliveries to Iraq since September 30, 2000. However, this aid cutoff would exclude aid for fighting infectious diseases, nuclear safety, stopping trafficking in persons, and denuclearization assistance. The FY2 004 omnibus appropriations bill (P.L. 108-199) does not contain an earmark for total aid to Ukraine, although it does contain a subearmark of $19 million for nuclear reactor safety initiatives and $1.5 million for a mine safety program.

Policy Issues

Ukraine's current problems raise important issues for U.S. policy. One issue is balancing Ukraine's usefulness to the United States in Iraq with less desirable aspects of its behavior in other areas, including whether the United States should overlook the possible involvement of President Kuchma and other high-ranking officials in the Kolchuga affair, now that Ukraine is cooperating with U.S. policy on Iraq. Another concern is whether the warming trend in U.S.-Ukrainian ties will serve to bolster the legitimacy of the Kuchma regime and create the perception among regime supporters that the United States is turning a blind eye to the undemocratic actions of the regime. This is a particularly important issue given the fact that the Ukrainian political elite is currently engaged in a struggle to determine who will succeed Kuchma when his term expires this year. U.S. policymakers could influence the

process by making clear that efforts to keep Kuchma in power by unconstitutional means would lead him to be viewed as an illegitimate leader by Western countries.

A related issue is how to deal with the Ukrainian opposition. Should the United States take an active role in helping the fractious opposition to achieve unity in time for the presidential elections? Should the United States support Yushchenko as the leader of the opposition? Such moves could have a negative impact on relations with Kuchma and the government. They could discredit opposition leaders among some Ukrainian voters. Some analysts believe that the United States should avoid becoming directly involved in the political conflicts in Ukraine and instead stress its support for the rule of law and a free and fair electoral process.

There is also the issue of whether the United States should reach out to selected oligarchs. While many of them have engaged in questionable activities, they also represent an important power center in the country, perhaps far more important than many pro-reform groups. Some of them may also have an interest in developing the rule of law in order to safeguard their property, which currently can be placed in jeopardy with a reversal of their political fortunes. U.S. policymakers could try to convince them to encourage a smooth transition of power to a more democratic post-Kuchma future.

Although these questions are significant, many experts stress that Ukraine's problems do not stem from the personal failings of one or another leader, and conversely that Ukraine's success does not hinge on the fate of a particular reformer. Ukraine's problems, they underline, are more fundamental. These analysts call on the United States to focus on helping to build the political, economic and social infrastructure that will provide a foundation for democracy, rule of law and economic reform in the medium and long-term. They advocate emphasis on aid to independent media, "think-tanks" and other non-governmental organizations, and small business. They say more of this aid should take the form of direct grants rather than technical assistance.[9] Many also call for an expansion of exchange programs between Ukraine and the United States to introduce emerging leaders in Ukraine to the U.S. example. However, U.S. policymakers may face increasing difficulties in achieving these goals, given the substantial decreases in aid to Ukraine planned for FY2005 and subsequent years.

Another problem U.S. policymakers face is how to shore up Ukraine's sovereignty and independence and promote closer ties with the West. Perhaps the biggest obstacles to this goal are economic. Ukraine's sovereignty would be bolstered if the United States and other Western countries could help Ukraine deal with such issues as Ukraine's energy dependency on Russia. Solutions could include new pipelines from the Caspian Sea region to diversify Ukraine's sources of energy supplies, upgrading Ukraine's current pipeline system and reform of the energy sector, and restructuring of Ukrainian industries to make them more energy efficient.

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[9] Testimony of Adrian Karatnycky to the Commission on Security and Cooperation in Europe, May 2, 2001. See also Karatnycky's article in Foreign Affairs, "Meltdown in Ukraine," May-June 2001.

To achieve these goals, Ukraine needs balanced investment, both from the West and Russia. But while Russian firms are adept at fishing in the murky waters of Ukraine's political and economic system, Western firms demand transparency, and have been reluctant to invest in Ukraine. The U.S. government can only play a limited role in encouraging private investment, except by continuing to push for transparency in Ukraine and by helping U.S. firms learn of opportunities that emerge if the situation improves. The United States is also trying to help Ukraine prepare for World Trade Organization membership. Progress on this issue has been slowed by resistance from members of parliament from rural areas and by some oligarchs, who fear foreign competition.

Ukraine's announced desire to join NATO and its deployment of forces to Iraq also open up increased possibilities of cooperation in the security sphere. The United States and other NATO countries can offer much to Ukraine's military, including aid to promote military reform in Ukraine. Such aid could help not only Ukraine's military solve its real problems, including low living standards and the impact of downsizing the officer corps, but could also raise its prestige in Ukrainian society.