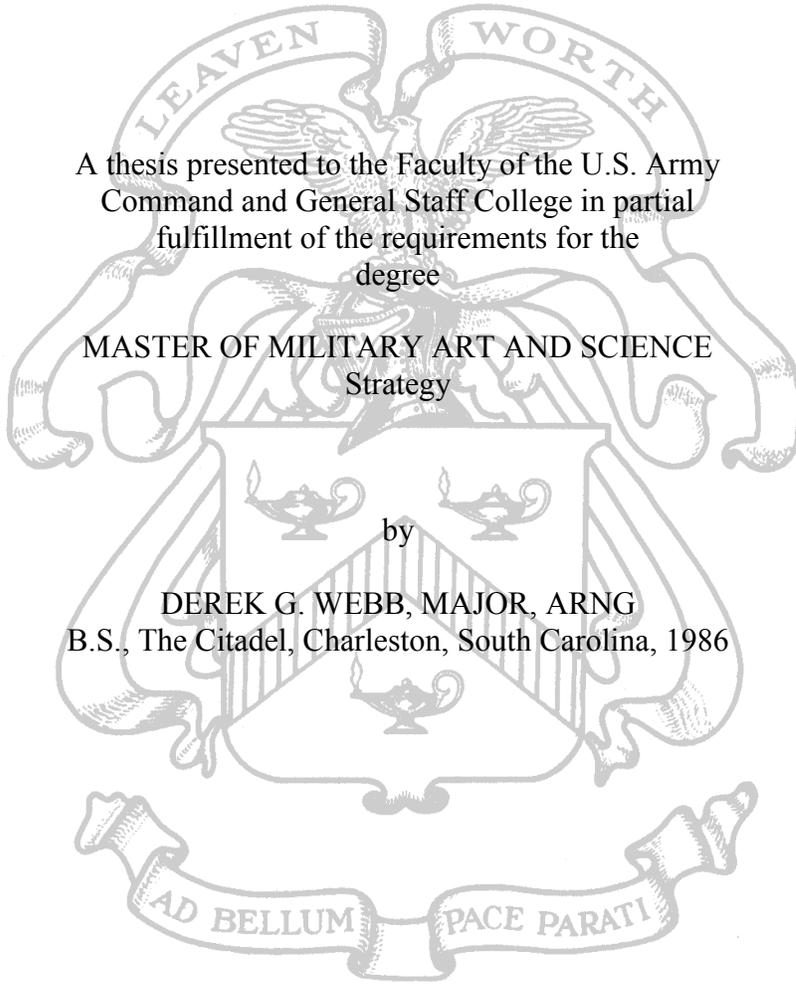


RUSSIAN INFLUENCE ON UKRANIAN STRATEGIC POLICY



A thesis presented to the Faculty of the U.S. Army  
Command and General Staff College in partial  
fulfillment of the requirements for the  
degree

MASTER OF MILITARY ART AND SCIENCE  
Strategy

by

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2011-01

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<b>REPORT DOCUMENTATION PAGE</b>			<i>Form Approved</i> OMB No. 0704-0188		
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<b>1. REPORT DATE (DD-MM-YYYY)</b> 10-06-2011		<b>2. REPORT TYPE</b> Master's Thesis		<b>3. DATES COVERED (From - To)</b> AUG 2010 – JUN 2011	
<b>4. TITLE AND SUBTITLE</b>  Russian Influence on Ukrainian Strategic Policy			<b>5a. CONTRACT NUMBER</b>		
			<b>5b. GRANT NUMBER</b>		
			<b>5c. PROGRAM ELEMENT NUMBER</b>		
<b>6. AUTHOR(S)</b>  Major Derek G. Webb			<b>5d. PROJECT NUMBER</b>		
			<b>5e. TASK NUMBER</b>		
			<b>5f. WORK UNIT NUMBER</b>		
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b> U.S. Army Command and General Staff College ATTN: ATZL-SWD-GD Fort Leavenworth, KS 66027-2301			<b>8. PERFORMING ORG REPORT NUMBER</b>		
<b>9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b>			<b>10. SPONSOR/MONITOR'S ACRONYM(S)</b>		
			<b>11. SPONSOR/MONITOR'S REPORT NUMBER(S)</b>		
<b>12. DISTRIBUTION / AVAILABILITY STATEMENT</b> Approved for Public Release; Distribution is Unlimited					
<b>13. SUPPLEMENTARY NOTES</b>					
<b>14. ABSTRACT</b> Ukrainian strategic policy decisions have a direct impact on US policy in Eastern Europe. Ukraine is often at the forefront of political tensions between the US, EU and Russia. The gas crisis of 2009 resulted in natural gas supplies to Europe being cut off for nearly two weeks highlighting the importance of Ukrainian-Russian relations to Europe and the West. The Ukrainian government is still struggling with the democratic process and a weak economy. Economic demands are the driving component of Ukrainian strategic policy decisions. Ukraine's requirements for western economic aid and attempts to gain NATO membership have raised tensions between Russia and Ukraine. Russia has been perceived as increasingly assertive in its foreign policy actions in the region, particularly after the invasion of Georgia. Using energy policy and an increasing use of soft power, Russia has attempted to influence Ukrainian strategic policy. The current government of Ukraine has set a course balancing their needs from the west while placating some of Russia's issues such as the Black Sea Fleet, NATO and energy issues. The challenges that Ukraine faces and how they develop strategic policy will have important implications on United States foreign policy in the region.					
<b>15. SUBJECT TERMS</b> Ukraine, Russia, Strategic policy					
<b>16. SECURITY CLASSIFICATION OF:</b>			<b>17. LIMITATION OF ABSTRACT</b>	<b>18. NUMBER OF PAGES</b>	<b>19a. NAME OF RESPONSIBLE PERSON</b>
<b>a. REPORT</b>	<b>b. ABSTRACT</b>	<b>c. THIS PAGE</b>			<b>19b. PHONE NUMBER (include area code)</b>
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Standard Form 298 (Rev. 8-98)  
Prescribed by ANSI Std. Z39.18

MASTER OF MILITARY ART AND SCIENCE

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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

## ABSTRACT

RUSSIAN INFLUENCE ON UKRAINIAN STRATEGIC POLICY, by Major Derek Grayson Webb, 84 pages.

Ukrainian strategic policy decisions have a direct impact on US policy in Eastern Europe. Ukraine is often at the forefront of political tensions between the US, EU and Russia. The gas crisis of 2009 resulted in the cutoff of natural gas supplies to Europe for nearly two weeks highlighting the importance of Ukrainian-Russian relations to Europe and the West. The Ukrainian government is still struggling with the democratic process and a weak economy. Economic demands are the driving component of Ukrainian strategic policy decisions. Ukraine's requirements for western economic aid and attempts to gain NATO membership have raised tensions between Russia and Ukraine. Russia has been perceived as increasingly assertive in its foreign policy actions in the region, particularly after the invasion of Georgia. Using energy policy and an increasing use of soft power, Russia has attempted to influence Ukrainian strategic policy. The current government of Ukraine has set a course balancing their needs from the west while placating some of Russia's issues such as the Black Sea Fleet, NATO and energy issues. The challenges that Ukraine faces and how they develop strategic policy will have important implications on United States foreign policy in the region.

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## CHAPTER 1

### INTRODUCTION

If you want to make peace, you do not talk to your friends. You talk to your enemies.

— Moshe Dayan, *Newsweek*, 17 October 1977

#### Background

The purpose of this research is to determine the effect of Russian actions on the strategic security policy of Ukraine. Since the breakup of the Soviet Union, strategic planning by NATO and the United States has undergone major policy modifications. The relationship between Russia and Ukraine will have ramifications to both NATO and U.S. policy development. The republics of the former Soviet Union play significant roles both militarily and economically for NATO, the United States, and the European Union. Therefore, it is not surprising that the changes in the strategic security policy of the former Soviet Republics have significant global and regional implications. As such, the future interactions between the West and the former Soviet Republics in Eastern Europe present both economic and military issues that require attention. Further, a re-emerging Russia has interests in how the former republics align themselves regionally. The Russian government demonstrates this interest through its use of all aspects of Diplomacy, Information, Military, and Economic (DIME) powers to exert influence in the region. This research concentrates on the diplomatic and economic forces of Russia and examines how these forces affect Ukrainian policy. The level of military cooperation and the progress of these republics to develop western transparent business practices are key topics of discussion for western policy planners. The economic challenges that Ukraine

faces play a significant role in the direction of their military and political planning. Facilitating a western model for economic stability is a key element in the economic and political progress in Ukraine.

This research provides insight to the strategic policy decisions incorporated by Ukraine, and how those decisions affect the United States' international policies in the region. The dynamic changes brought about by the Ukrainian political system add an element of difficulty in predicting the direction of Ukrainian foreign policy objectives. Accurate evaluations of Ukraine's foreign policy objectives are important in effectively addressing these issues in relation to United States policy development in the region. The scope is necessarily broad to encompass the large number of methods used by Russia to influence Ukrainian foreign policy direction.

What are the strategic implications of Russian assertiveness on Ukrainian security policy? To answer this question, the research addresses several subsequent areas. First, it is important to determine the national interests of Russia and Ukraine as accurately as possible, which provides insight into why certain actions are taking place. Second, establishing the current state of Russian/Ukrainian political and economic relations assists in setting the baseline position. This baseline shapes future policy and helps the U.S. anticipate the most productive course of action. Third, in order to predict changes in policy direction, it is necessary to determine how Russian economic power affects Ukrainian planning. Finally, the research examines Ukrainian strategic policy and its effect on NATO/U.S. strategic planning in the region. The research dedicated to these questions frames the situational environment and provides insight into the planning factors for U.S. policy development in the region.

The scope of this thesis is broad, although it limits its focus to the diplomatic and economic aspects of DIME. How Russia utilizes its power to influence Ukraine, ultimately determines Ukrainian priorities and policy. The economic condition of both Russia and Ukraine is vital to how Russia uses these policy drivers and how Ukraine reacts to them. To understand Ukrainian policy planning, it is necessary to determine what impact Russian diplomatic and economic actions have on Ukrainian strategic policy. The focus of this research seeks to determine the implications of Russian actions on the direction of Ukrainian strategic policy. The end state is to identify and correlate changes in Ukrainian strategic policy with the changes in Ukraine's economic situation, political climate, and Russian actions.

This research is important because Ukraine is a major strategic player in the region and influences NATO/U.S. regional planning. Ukraine's ability to maintain a stable democratic government, to develop transparent business practices, and to maintain its independence from Russian influence determines how much cooperation Ukraine receives from the West. Acting as a supplier of energy, Russia exerts a tremendous amount of pressure on the European Union and Ukraine. The NATO/U.S. policy towards Ukraine has profound tandem effects on NATO/U.S. relations with Russia. The development of a model to recognize the dynamics of the Russian/Ukrainian relationship assists NATO/U.S. planners in formulating policy to achieve NATO/U.S. strategic goals without alienating Russia. This research facilitates greater understanding of policy decisions within Ukraine and the relationship to NATO/U.S. policy decisions in the region.

Ukraine is comparable in size and population to France. Its geostrategic significance to the region is that it lies between Russia and newly admitted NATO states Poland, Slovakia, Hungary, and Romania.<sup>1</sup> Ukraine became part of the Russian Empire in the late 1600s and had a brief period of independence after the First World War. The Soviet Army re-conquered Ukraine and made it a republic in the Soviet Union in 1922.<sup>2</sup> Throughout most of its history, Ukraine has been part of the Russian/Soviet sphere of influence. In 1991, the Soviet Union dissolved and Ukraine was once again a sovereign nation. The eastern part of Ukraine has a substantial ethnic Russian population whose first language is Russian. Eastern Ukraine is the heavily industrialized part of the country with large coal and steel industries. Many of these industries remain integrated with Russian businesses across the border. The western and central parts of Ukraine are much more nationalistic and agrarian than the eastern portion of the country. Many Russian nationalists believe re-union with Ukraine is desirable and inevitable.<sup>3</sup>

The United States, European Union (EU), and especially the former Soviet Republics in Eastern Europe see Ukraine as the focal point of regional stability.<sup>4</sup> Ukraine serves as a buffer between possible Russian military aggression and the rest of Europe. Energy issues are a point of contention, and many EU members appear reluctant to

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<sup>1</sup>Steven Woehrel, *Political Crisis and U.S. Policy Issues* (Washington, DC: Congressional Research Service, 1 February 2005).

<sup>2</sup>Steven Woehrel, *Ukraine: Current Issues and U.S. Policy* (Washington, DC: Congress Research Service, 13 August 2009).

<sup>3</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report," [http://sentinel.janes.com/subscribe/sentinel/country\\_report\\_doc.jsp?Prod\\_Name=CISS&Sent\\_Country=Ukraine](http://sentinel.janes.com/subscribe/sentinel/country_report_doc.jsp?Prod_Name=CISS&Sent_Country=Ukraine) (accessed 7 April 2010).

<sup>4</sup>Woehrel, *Current Issues and U.S. Policy*.

support any actions towards Ukraine in fear that their actions may offend Russia. Many EU members maintain that preserving positive relations with Russia is in their economic interest particularly in the area of energy. Members of the EU and NATO are also concerned that deepening the ties between Ukraine and the West will affect regional stability, by ignoring Russian interests.<sup>5</sup> Ukrainian status with the EU and NATO has created points of friction between Russia and the West. However, former Soviet Republics view an independent democratic Ukraine as a counter to perceived Russian neo-imperialism.

This research begins with the election of President Kuchma, who first came to the Presidency in 1994, and was then re-elected in 1999. The Ukrainian constitution permits only two terms as President. President Kuchma's term in office witnessed mixed economic reform while maintaining a generally pro-Russian political agenda.<sup>6</sup> There was economic growth during this period, but widespread corruption, the influence of the oligarchs, and a poor human rights record were also prevalent. Politically, President Leonid Kuchma and the oligarchic "oligarchs" that supported him dominated Ukraine throughout his rule.<sup>7</sup>

No discussion of Ukrainian politics is complete without an understanding of the oligarchs influence in Ukraine. The oligarchs in Ukraine, as in Russia, represent a powerful force in Ukrainian politics. To succeed Kuchma, the oligarchs chose the Prime

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<sup>5</sup>Ibid.

<sup>6</sup>Ibid.

<sup>7</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report," [http://sentinel.janes.com/subscribe/sentinel/country\\_report\\_doc.jsp?Prod\\_Name=CISS&Sent\\_Country=Ukraine](http://sentinel.janes.com/subscribe/sentinel/country_report_doc.jsp?Prod_Name=CISS&Sent_Country=Ukraine) (accessed 7 April 2010).

Minister Viktor Yanukovich, a representative of the Donetsk clan in Eastern Ukraine, as their candidate. Yanukovich and other members of the Ukrainian government advocated closer ties with Moscow and did not support NATO membership or a closer EU integration. This faction held a distinctly anti-American position throughout the 2004 campaign.<sup>8</sup> During the first two rounds of the election process, international observers criticized multiple aspects of the election and asserted that the process was not free or fair. No one candidate received 50 percent of the vote per the Ukrainian constitution so a runoff election occurred between Yanukovich and the main opposition candidate, Viktor Yushchenko.<sup>9</sup> Yushchenko was a pro-western candidate that ran on a pro-reform platform. Many in the Kuchma regime feared that he would alleviate corruption, exposing current leaders to prosecution if he won the election.<sup>10</sup> During the 21 November 2004 election, the Central Election Commission proclaimed Yanukovich the winner. Yushchenko's supporters charged fraud, sparking the "Orange Revolution," with hundreds of thousands of protesters taking to the streets. The protesters were successful and the court invalidated the election.

Corruption and instability have been at the forefront of the Ukrainian political process. According to most international observers, Ukrainian authorities violated free and fair elections during the 2004 campaign by harassing voters and hampering rallies.

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<sup>8</sup>Ibid.

<sup>9</sup>Woehrel, *Current Issues and U.S. Policy*.

<sup>10</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report," [http://sentinel.janes.com/subscribe/sentinel/country\\_report\\_doc.jsp?Prod\\_Name=CISS&Sent\\_Country=Ukraine](http://sentinel.janes.com/subscribe/sentinel/country_report_doc.jsp?Prod_Name=CISS&Sent_Country=Ukraine) (accessed 7 April 2010).

The contentious environment of the 2004 campaign intensified when Yushchenko was poisoned with dioxin while dining with the chief of the Ukrainian Security Service.<sup>11</sup>

During the repeat election on 26 December 2004, Yushchenko won with 52 percent of the vote. President Putin did not welcome Yushchenko until all legal challenges to the election were complete. President Putin strongly backed Yanukovich's 2004 presidential campaign, which had the effect of undermining Yanukovich in the eyes of some of the Ukrainian people.<sup>12</sup>

Russia became outraged at the success of the Orange Revolution and charged that it was a plot of the western powers to influence Ukrainian politics.<sup>13</sup> Once in power President Yushchenko referred to Russia as a "permanent strategic partner" of Ukraine in order to improve relations. Russia remained aloof to Yushchenko primarily due to his policies of greater democratization and his pro-western policies. Greater democratization and increased transparency in Ukrainian business practices directly reduce Russia's ability to influence Ukrainian politics.<sup>14</sup> As the democratic process became more entrenched and popular support wielded more influence, Russia's ability to maneuver pro-Russian politicians into power diminished. Greater business transparency, particularly in the energy sector, represented the most significant challenge to Russian

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<sup>11</sup>Dennis Sammut, "Ukraine's Election Was a Victory for the Colored Revolutions," *Radio Free Europe/Radio Liberty* (11 February 2010).

<sup>12</sup>Woehrel, *Political Crisis and U.S. Policy Issues*.

<sup>13</sup>Woehrel, *Ukraine: Current Issues and U.S. Policy*.

<sup>14</sup>Celeste Wallander, "Russian Transimperialism and its Implications," *The Washington Quarterly* 30, no. 2 (Spring 2007).

influence.<sup>15</sup> The ability to utilize companies such as Gazprom and the Ukrainian oligarchs to influence policy decreased with greater transparency.

Corruption issues continue to have significant influence in determining the political makeup of the Ukrainian system.<sup>16</sup> After Yushchenko's inauguration as President in January 2005, he appointed Yuliya Tymoshenko as Prime Minister. She was a controversial figure who contended with allegations of corruption stemming from her time as a businessperson and government minister under Kuchma. After the success of the Orange Revolution, the United States, Europe, and the Ukrainian people were optimistic that comprehensive reforms would finally gain traction in Ukraine. By September 2005, Yushchenko dismissed Tymoshenko due to accusations of corruption made by the supporters of both individuals. Many of these charges involved the highly lucrative and non-transparent natural gas industry.<sup>17</sup>

Continual infighting and political instability characterized the Yushchenko presidency. Yushchenko's conflicts were primarily with his Prime Ministers, first Tymoshenko and, following her dismissal, with Yanukovich. He was also in conflict with the parliament over the distribution of power between the offices of the president and the prime minister. This continual vying for power by three of the most powerful politicians in the country did little to facilitate positive reform in Ukraine. The inability to implement domestic economic reforms led to disillusionment among the Orange

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<sup>15</sup>Ibid.

<sup>16</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report," [http://sentinel.janes.com/subscribe/sentinel/country\\_report\\_doc.jsp?Prod\\_Name=CISS&Sent\\_Country=Ukraine](http://sentinel.janes.com/subscribe/sentinel/country_report_doc.jsp?Prod_Name=CISS&Sent_Country=Ukraine) (accessed 7 April 2010).

<sup>17</sup>Woehrel, *Ukraine: Current Issues and U.S. Policy*.

Revolution supporters.<sup>18</sup> During this period relations between Ukraine and Russia plummeted to their lowest point. Gas supplies, gas prices, and Yushchenko's pro-western policies were the root causes of conflict.<sup>19</sup> Yushchenko did meet with some success on foreign policy issues. His foreign policy goals were to foster closer ties with the EU, to gain designation as a market economy, to achieve WTO membership, to establish itself as a free trade zone, and to start the EU membership process through an association agreement in 2007. Through successes with the WTO and trade agreements, the EU was Ukraine's largest export market.

Yanukovych was elected President in January-February 2010 with 48 percent of the vote. Although he was elected with only a 3 percent margin of victory and won less than half of the regions, his presidency has the potential for a period of relative political stability.<sup>20</sup> Possibly, due to a lack of political will and the disruption caused by successive political crisis, the Party of Regions (Yanukovych's party) has voted against several pieces of legislation intended to combat corruption. Yanukovych has stated that he wishes to balance foreign policy between the EU and Russia. To demonstrate this, his first two official trips after election were to Brussels and then to Moscow.

Even under the presidency of Yanukovych, certain border issues remain. With Ukrainian membership in NATO no longer an issue, Russia will most likely not facilitate

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<sup>18</sup>Ibid.

<sup>19</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

<sup>20</sup>Adrian Karatnycky, "Re-Introducing Viktor Yanukovych," Atlantic Council (2 August 2010), <http://www.acus.org> (accessed 6 June 2011).

Crimean separatist activities.<sup>21</sup> The threat has not gone away, but no longer provides an option for Russia to leverage in the current political environment. Since Yanukovych has agreed to the extension of the Black Sea Fleet beyond 2017, it is apparent that, unlike Yushchenko, he does not see the fleet as a threat to stability in the Crimea.

Non-transparent business practices, particularly involving the energy sectors, are a vital element in the oligarchs' ability to wield power in Ukrainian politics. In order to gain support from Yanukovych, Yushchenko agreed not to prosecute individuals for electoral fraud and other crimes from the previous election. The populace was disillusioned with the regime, and the perception was that ongoing corruption and business as usual tactics had not changed.

The ability to determine national interest is vital to developing an accurate action/reaction understanding of the situation. In order to evaluate the effect of change, it was necessary to set a baseline relationship between Ukraine and Russia using a historical context. Because of the great number of variables in the process, accurate assumptions about the policy direction of the new Ukrainian leadership may be difficult to determine. An assumption made during this research was that it is possible to determine, with some degree of accuracy, the national interests of Russia and Ukraine. The particular Ukrainian political party in power will directly affect strategic planning considerations in regards to both Russia and NATO. A second set of assumptions took into account the economic condition of Russia. Internal economic conditions determine how assertive Russia can be in utilizing diplomatic and economic tools to achieve its

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<sup>21</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

national interests. The assumptions made during this research are first, that the relevant facts, policies, and conditions remain unchanged in terms of the near future. A second assumption is that past actions and policies function as a tool to predict future policy changes. A third assumption is that the global economic crisis does not grow significantly worse. Finally, no military confrontation between Russia and Ukraine will occur. An overarching assumption is that Ukraine will direct its major strategic policy objectives to support economic and security issues for the good of Ukraine, rather than the interests of the oligarchs.

### Key Terms

DIME. The instruments of national power Diplomatic, Informational, Military, and Economic that can be employed by a state to achieve national security objectives.

National Interests, Objects or outcomes that a state determines are vital to the military or economic security of the nation and which contribute to the development of national objectives.

Oligarchs. regionally based groups of powerful politicians and businessmen that developed after Ukraine gained independence in 1991 and in Russia after the collapse of the Soviet Union.

Siloviki. Russian politicians from the security or military services, often officers of the former KGB, the FSB, the Federal Narcotics Control Service and military or other security services who came into power. They act much in the same light as the oligarchs.

Strategic Policy. An overarching strategy summarizing the national vision for developing, applying, and coordinating all instruments of national power in order to

accomplish the grand strategic objectives such as preserving national security, bolstering national economic prosperity, and promoting national values.

Strategic Security Planning. Planning, applying, and coordinating the instruments of national power (DIME) to achieve objectives that contribute to national security.

The limitations of this paper relate to the currency of information and the lack of access to actual Ukrainian/Russian classified documentation. Limitations to this research stem from the specific window of time and the reliance upon current and relatively recent diplomatic and economic actions. Information used to determine Ukrainian national interests, Russian National interests, current Ukrainian/Russian relations, and the affect of Russian economic influence on Ukraine derived from public sources. Classified documents have not used in the course of this research. The level of corruption and its effect on Ukrainian strategic policy decisions, while not addressed in detail, could have significant influence.

### Current Political Environment

Ukraine has functioned in a turbulent domestic political environment since gaining independence. Transitioning from the Soviet political economic system towards a western style democracy and free market economy has not been as straightforward as was predicted. The political system is continually refined and the process by which a democratic government operates is still unfamiliar. To some extent, the “winner take all” mentality still prevails in Ukraine.<sup>22</sup> Ukraine’s foreign policy decisions with Russia and the West are not fully developed. The divergent political parties have very different views

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<sup>22</sup>Woehrel, *Ukraine: Current Issues and U.S. Policy*.

on policy direction. As a young democracy, only twenty years independent, Ukraine's economy is still evolving away from the Communist model.<sup>23</sup> It is fragile and necessarily infused with economic aid from the West, which in turn affects its stability. For example, the western economic crisis of 2008 deeply affected the Ukrainian economy and influenced Ukrainian politics.

In 2005, the Ukrainian parliament overwhelmingly approved reforms to reduce the power of the President. The cabinet became the supreme executive body and the President nominates, with approval of parliament, the Prime Minister, Foreign Minister, and the Defense Minister. The Prime Minister nominates the remaining government posts, with Parliament's approval. The President however, retains the power to appoint the regional governors. Vladimir Putin, then President of Russia, denounced these changes and openly supported Yanukovich.<sup>24</sup>

In 2006, Yushchenko reluctantly appointed Yanukovich as Prime Minister. Subsequent conflict between the President and Prime Minister led Yushchenko to dissolve the Parliament; while, at the same time, Yanukovich ordered the Parliament to stay in place.<sup>25</sup> Several weeks of turmoil ensued as political tensions mounted. New elections took place in September 2007; however, this period of instability emphasized the inability of Ukraine to function as a true democracy. Poorly defined separation of power, unscrupulous tactics, and a lack of respect for the rule of law are persistent

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<sup>23</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

<sup>24</sup>Woehrel, *Ukraine: Current Issues and U.S. Policy*.

<sup>25</sup>Ibid.

problems in the Ukrainian political system. Since inception, support for Ukraine's political parties has been regionalized, particularly based on ethnic and economic issues. Again, in 2007, Tymoshenko was appointed and approved Prime Minister.<sup>26</sup>

Ukrainian pursuit of NATO membership was one of Yushenko's primary objectives during his term in office.<sup>27</sup> Previous Ukrainian leaders had done little to achieve the standards needed for NATO or WTO membership. Internal debate around this issue ensued within Ukraine, but support from the population was low. The U.S. supported Yushchenko's bid for NATO membership, while Russia remained adamantly against it.

Ukraine faced internal pressures to develop closer ties to the West, but also met pressure to establish closer ties to Russia. The political parties in Ukraine generally align to favor one of the two sides. The current party of Yanukovich, Party of Regions (PR), in Ukraine takes on Russian tendencies; however, since the election they have not been as cooperative with Russia as had been predicted by some.<sup>28</sup> The Ukrainian government is demonstrating more independence than some predicted would result from the political change after the 2010 election.

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<sup>26</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

<sup>27</sup>Steven Pifer, *Ukraine-Russia Tensions, Critical Questions*, Center for Strategic and International Studies (4 March 2008).

<sup>28</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

## CHAPTER 2

### LITERATURE REVIEW

The purpose of this research is to determine the effect of Russian actions on the strategic security policy of Ukraine in order to determine how these policies may affect NATO/US strategic planning. This chapter has five sections. The first three sections will discuss the national interests of Ukraine and Russia, and then address how Russia uses its economic power to affect Ukrainian policy. The fourth section chronicles the current state of relations between Russia and Ukraine. The final section addresses how Ukrainian strategic policy affects NATO and United States strategic planning.

#### National Interests of Ukraine

For the purpose of this paper, the national interests of Ukraine are expressed in relation to economic interests and energy issues. Managing the difficulties of stabilizing a new nation, the Ukraine will refine its national interests and goals. As Ukraine develops its system of democratic governance, it will solidify the balance of power between the different branches of the government and address critical domestic economic issues. Further complicating this dynamic, Ukraine must clearly articulate its national interests. Economic stability will facilitate an environment of growth in Ukraine. Ukraine's energy issues are a key component of achieving economic stability. In 2005, Yushchenko stated that "Ukraine will be reforming its energy sector because we want to integrate into Europe."<sup>29</sup>

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<sup>29</sup>Editorial, "Ukraine to get EU market-economy status," *The New York Times*, 29 November 2005.

## Current Ukraine Economic Interests

Of all the former Soviet republics, Ukraine suffered the longest and one of the deepest declines in economic activity. Its transition recession lasted from 1989 until 2000, a total of eleven years.<sup>30</sup> During Yushchenko's time in office, Ukraine adhered to a pro-western policy. This was because Ukraine's economy was short of capital and economic aid from the West was the best solution. Yushchenko anchored his foreign policy on integration into the EU and other European structures. One of his main goals was Ukraine's membership in the WTO, which was achieved in 2008.<sup>31</sup> All WTO members must unanimously approve any new membership requests, which gave Ukraine the power to block Russian entry. Membership in the WTO facilitated Ukrainian exports, while also allowing Ukraine political advantage over Russia potentially blocking Russian accession.

The point of conflict with these economic arrangements was the preservation of Ukrainian sovereignty while maintaining control of its energy infrastructure. Previous Ukrainian leaders had been concerned with balancing the ties with Russia against those of the United States and Europe. Yushchenko broke with this practice and made it clear that he would foster a pro-western approach to foreign relations.<sup>32</sup> Meanwhile, maintaining ties with Russia was contingent upon energy issues. An area of potential tension for Ukraine rested in balancing subsidized energy prices with closer cooperation

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<sup>30</sup>Keith Crane and Stephen Larrabee, "Encouraging Trade and Direct Foreign Direct Investment in Ukraine," RAND National Security Research Division (2007), 9.

<sup>31</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

<sup>32</sup>Ibid.

with Russia. These efforts have been a success—the 2010 election of Yanukovich brought about a less contentious state of affairs with Russia and preserved relationships with the west.

Ukraine’s membership into the EU has been a debated subject among current EU members. Most EU members have not been supportive of Ukraine’s possible membership in the EU,<sup>33</sup> which may be largely due to the economic burden another large poor country would place on already constrained resources. In contrast, Poland and the Baltic states advocate that a stable, secure Ukraine is a deterrent against Russian aggression.

Currently, Ukraine has a Partnership and Cooperation Agreement with the EU and a Ukraine-EU Action Plan is active as part of the EU’s European Neighborhood policy. These EU agreements give Ukraine market economy status, and make it easier for Ukrainian companies to export to the EU. Market economy status is a move that will ease integration into the West and make it easier for Ukraine to trade with the EU countries. Obtaining market-economy status is part of Ukrainian policy goals that also include starting talks on a free-trade zone with the Union.<sup>34</sup>

The global economic crisis, internal political crisis, and a lack of consensus on Ukrainian priorities each place constraints on Ukraine’s foreign policy. President Yanukovich has shifted Ukraine’s foreign policy to a more balanced orientation between the West and Russia. His policy maintains a pro-western economic approach, but exhibits greater support for Russian security objectives. Ukraine also initiated talks with the EU

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<sup>33</sup>Ibid., 20.

<sup>34</sup>Editorial, “Ukraine to Get EU Market-Economy Status,” *The New York Times*, 29 November 2005.

about developing a free trade zone, becoming a visa free regime, and establishing an association agreement to replace the Partnership and Co-operation Agreement. Ukraine's WTO membership presents a problem for Yanukovych. He made an election promise to join the Commonwealth of Independent States (CIS) Customs Union with Russia, Belarus and Kazakhstan. A problem with this promise is that none of these countries are members of the WTO.

Yanukovych has adopted a more pro-Russian position with the Commonwealth of Independent States (CIS) and supported Russian President Medvedev's proposal for a European security treaty as an alternative to NATO. Despite these public actions, Yanukovych is not as pro-Russian as Russia had hoped for. However, his actions have shifted Ukraine more into the Russian sphere of influence. As the Ukrainian strategy to strengthen economic ties with the EU develops, the Yanukovych administration will be required to implement EU reforms and increase economic transparency. On Transparency International's 2009 Corruption Perceptions Index, Ukraine ranked 146 out of 163 countries, putting it firmly in the bottom half of the group. Algeria, Burkina Faso, Serbia, and Romania, none of which practices clean government, all scored better. Russia scored 146 as well.<sup>35</sup>

### Current Ukraine Energy Issues

Energy issues have been one of the most Contentious elements of Ukraine/Russia relations and one of the most important for Ukraine to establish a stable economic

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<sup>35</sup>Transparency International, *Corruptions Perception Index 2006* (Berlin, Germany, 2009), [http://www.transparency.org/policy\\_research/surveys\\_indices/global/cpi](http://www.transparency.org/policy_research/surveys_indices/global/cpi) (accessed 6 June 2011).

environment. The January 2009 natural gas crisis, in which Russia cut off natural gas supplies to Ukraine and the entire EU for two weeks, angered many EU nations.

Although Russia, through diplomatic and public relations actions, tried to fix blame on Ukraine, the EU did not assign sole blame to either nation.<sup>36</sup> In 2009, the EU agreed to provide monetary assistance to modernize Ukraine's pipeline system in exchange for greater transparency into how the system works. Energy is an area in which Ukraine could greatly benefit from Foreign Direct Investment. All of its energy imports come through one country – Russia. Its state owned mines and oil and gas producers are inefficient and lack modern technologies. Energy issues were one of the first topics addressed by Yanukovich after his election.

Yanukovich had stated his willingness to return to the idea of a gas consortium for Ukraine's pipelines. However, parliamentary opposition could block his ability to lease or transfer ownership of any portion of Ukraine's pipelines. The parliament has declared pipeline control as one of its four priorities in preserving Ukraine's energy independence. Current Ukrainian law forbids any form of lease, rent, or privatization of the pipelines. Moscow is also unlikely to agree to Yanukovich's request for the resumption of gas subsidies to Ukraine that Yanukovich wants.

The primary source of energy sector conflict in the past has centered on the annual negotiation of the natural gas agreement between Russia and Ukraine. Gazprom hailed the January 2009 agreement with Ukraine as a "major achievement," stating that it will improve transit stability. This was the first long term agreement between the two

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<sup>36</sup>Jane's Sentinel Country Risk Assessments, "Ukraine Complete Country Report."

countries, which will span 2009 to 2019. The new agreement sets Ukraine's purchase price at the European standard minus 20 percent. European gas prices generally lag behind oil prices six to nine months; and, the prices will change quarterly. RosUkrEnerg (RUE) bought the gas from Gazprom and then sold it to Ukraine in a non-transparent arrangement. Gazprom owned 50 percent of RUE while the other 50 percent was owned by two Ukrainian businessmen. As the intermediary, RUE was perceived as corrupt, and the 2009 agreement eliminated RUE from the process. Although EU officials are skeptical, the new agreement lessens the likelihood of gas cutoffs.

The 2009 gas crisis was one more incentive for the Russian construction of the Nord Stream pipeline started in April 2010, passing through the Baltic. This pipeline would strengthen Russia's ability to supply gas to Europe. The South Stream pipeline was planned to move south of Ukraine. While not completely removing Ukraine as an important gas transit route, these alternate pipelines would weaken one of the key Ukrainian bargaining points with Russia. The Nord Stream and South Stream pipelines would circumvent Ukraine and diminish its energy security.<sup>37</sup>

#### National Interests of Russia

To cover the entire spectrum of Russia's national interests would encompass more information than is feasible or necessary for this research objective. The national interests applicable to Russia's interaction with Ukraine will be the primary focus here. The dissolution of the Soviet Union has had profound effects on all of the former Soviet Republics. Many Russian leaders held government positions in the former Soviet Union

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<sup>37</sup>Crabe, "Encouraging Trade and Direct Foreign Direct Investment in Ukraine," 42.

so the influence of these leaders should be easier to ascertain. Russian use of transimperial policy, by which they extend their influence using trade and investment rather than military means, is key to understanding Russian foreign policy course.<sup>38</sup> The Russian government is based on centralization, control, and rule by the elite. Celeste Wallander describes this system as “Patrimonial.” The Russian system, focused on political control of economic resources to benefit those in the patron-client group, starts with the head of the government. The Russian system is inconsistent with transparency, rule of law, and political competition. All three of these elements are part of the reforms underway in the Ukraine.

Several factors explain why Russia focuses on maintaining her influence in the post Soviet Union region, including Russia’s attempt to maintain prestige, history in the region, economics, and security concerns.<sup>39</sup> Ukraine was part of the Russia Empire before the Soviet Union was established and many Russians consider Ukraine a natural ally with shared historical and ethnic ties.<sup>40</sup> Russia considers Ukraine a vital element to their security, particularly when Ukraine acts as a buffer between what they see as an encroaching NATO bloc. Dmitri Trenin’s assessment that it is not currently realistic to expect Russia to join the present U.S. led NATO alliance; it is even less realistic to

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<sup>38</sup>Wallander, “Russian Transimperialism and its Implications,” 117-119.

<sup>39</sup>Jim Nichol, *Russian Political, Economic, and Security Issues and U.S. Interests* (Washington, DC: Congressional Research Service, January 2010).

<sup>40</sup>Jane's Sentinel Country Risk Assessments Russia, 16 July 2010, Complete Country Report Russia, [http://sentinel.janes.com/subscribe/sentinel/country\\_report\\_doc.jsp?Prod\\_Name=CISS&Sent\\_Country=Russian+Federation](http://sentinel.janes.com/subscribe/sentinel/country_report_doc.jsp?Prod_Name=CISS&Sent_Country=Russian+Federation) (accessed 6 June 2011).

expect a NATO co-leadership to develop between the two powers.<sup>41</sup> While most of NATO does not see Russia as an impending military threat, the former Eastern bloc countries do see NATO as “being about Russia.”<sup>42</sup> Russia shares this view, fostering a distrustful sentiment towards NATO. Russia perceives a reduction in influence over their neighbors as a challenge to their sense of their regional prowess. Russia’s neighbors, those particularly to the west, have not aligned themselves as closely as Russia had expected.<sup>43</sup> From Russia’s perspective, closer ties with the western nations, such as entrance into the EU or NATO, equates as a net loss to Russian prestige and power. Along with the collapse of the Soviet Union, Russia’s global prestige also collapsed. Putin’s popularity with the people stemmed from economic improvements and the perception that he had returned Russian prestige in the global system. Anything that threatens Russia’s status as a great power reflects on the Russian President domestically.<sup>44</sup>

President Putin still viewed NATO as an antagonist, but not an enemy. In a November 2007 address to senior military leaders, Putin described Russia’s armed forces as a guarantor of the country’s security. He also painted the United States and the West less as threats and more as problems, expressing concern about NATO members who

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<sup>41</sup>Dmitri Trenin, “NATO and Russia: Partnership or Peril?” *Current History* (2009).

<sup>42</sup>Ibid.

<sup>43</sup>Jane's Sentinel Country Risk Assessments, “Russia Complete Country Report.”

<sup>44</sup>Ibid.

abrogate the ABM treaty and ignore Russia's offer to create a mutually accessible early warning system.<sup>45</sup>

The Russian relationship with Ukraine is important in shaping relations with the United States and most of Europe. Ukraine saw Russia's actions during the Ukrainian elections as an attempt to reassert Russian dominance over Ukrainian politics. The attendance of Moscow's Mayor Luzhkov at a November 2004 meeting of Ukrainian leaders from southern and eastern regions, calling for autonomy in response to Yushchenko's victory, did little to alleviate these fears.

During Vladimir Putin's second term as president, he laid out a broad outline of Russian foreign policy goals. To achieve status as a "modern great power" or a "normal great power," Russia set its goals to solidify its increasing economic success. Russia should be strong politically and militarily, but should also prosper economically, advance technologically, influence culturally, and be capable of asserting moral authority.<sup>46</sup> A key focus of Russian policy is recognition as a global actor. The Russian government has increasingly turned to the use of soft power by exploiting its common cultural heritage with surrounding nations to pursue Russian interests. For Ukraine, cultural ties with Russia will remain important factors in bilateral relations because of the close personal

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<sup>45</sup> "Vooruzhyonniye Sili, "Glavnaya Garantiya Bezopasnosti Rossii [Armed Forces, Main Guarantee of Russian Security]," *Rossiiskoye Voyennoye Obozreniye*, no. 12 (December 2007).

<sup>46</sup> Bobo Lo, "Evolution or Regression? Russian Foreign Policy in Putin's Second Term," in *Towards a Post-Putin Russia*, edited by Helge Blakkisrud (Oslo: Norwegian Institute of International Affairs, 2006).

and familial ties that remain.<sup>47</sup> Russia has moved in the direction of utilizing cultural, economic, and public relations as tools of foreign policy. Russia also felt the impact of the global recession, which influenced President Medvedev's return to cooperation with the West.<sup>48</sup>

In May 2009, Russia's National Security Strategy hailed cooperation within CIS as ~~a~~ "priority foreign policy direction," and proclaimed that the Collective Security Treaty Organization (CSTO), founded in 2002, as ~~the~~ "main interstate instrument" to combat regional military threats.<sup>49</sup> The intent of the CSTO is to be a Russian controlled military security alliance similar to NATO. In 2009, President Medvedev created the quick reaction force as part of the CTSO with the intent of repulsing military aggression, anti-terrorism, transnational crime and drug trafficking. Because it has the lead role, Russia works diligently to elevate the prestige of the organization. The Russian military system serves as the foundation for the CSTO, providing Russian weapons and conducting joint exercises. The Russian Ministry of Foreign Affairs would like to develop the CSTO into a political-military alliance and develop its peacekeeping capacity, military-technical cooperation, and international ~~authority~~, partly through increased ties with NATO and coordination with the Eurasian Economic Community

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<sup>47</sup>Sergei Lavrov, "What Guides Russia in World Affairs" (Speech at Moscow State Institute, 10 September 2007), 88-89.

<sup>48</sup>Jeffrey Mankoff, "Changing Course in Moscow - Is Medvedev Serious About a New Vision for Russian Foreign Policy?" *Foreign Affairs*, Council of Foreign Relations (7 September 2010).

<sup>49</sup>Russian Federation Security Council, Russian Federation National Security Strategy Until 2020, May 12, 2009. Members of the CSTO include Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

(EurAsEC). Medvedev has used the CTSO to increase physical security and to maintain relationships with states that it has had long traditional or cultural ties with.

Reestablishing Russia's sphere of influence through the CTSO has been one of Medvedev's successes.<sup>50</sup> Ukrainian membership into the CTSO becomes more feasible with a pro-Russian Ukrainian president. This action would bring Ukraine closer into the Russian sphere of influence.

The EurAsEC formed in the CIS framework in order to foster economic integration and to establish a customs and trade union. Its Purpose is to foster the creation of a single economic space and to coordinate their trade while integrating into the world economy. Members include Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. Observer nations include Armenia, Moldova, and Ukraine. Progress with this organization has not proven robust. Yanukovich stated that Ukraine would not join the customs union due to their membership in the WTO.

In 2003, Anatoliy Chubais, the former Chief Executive Officer of United Energy System (UES), Russia's electric power company, espoused the opinion that Russia should lead the CIS through an "economic occupation" of its neighbors.<sup>51</sup> He proposed the idea of CIS investors purchasing debt and strategic economic assets in neighboring countries. As the CEO of UES, Chubais purchased power companies in Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, and Ukraine.

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<sup>50</sup>Gary Cartwright, "More Russian Troops To Be Stationed in Kyrgyzstan: CTSO Deepens its Operational Field," 2 August 2009, cartwright.eu.com. (accessed 6 June 2011).

<sup>51</sup>Anatoliy Chubais, "Russia's Mission in the 21st Century," *Nezavisimaya Gazeta* (1 October 2003); "UES Chief Sees Russia as Liberal Empire," *The Russian Journal* (26 September 2003).

Another example of Russia's attempts to maintain its sphere of influence in the former Soviet Republics has been its membership in the Organization for Security and Cooperation in Europe (OSCE). Russia is actively involved in several OSCE initiatives but consistently criticizes the organization. Withdrawal from the OSCE would eliminate Russia's ability to leverage OSCE policy decisions in the region. With a reduction in funding, the OSCE activities east of Vienna have been reduced. The OSCE closed its Assistance Group to Chechnya and gave up election observation in Russia in 2007. This alleviated some of Russia's complaints about OSCE activities. Without the OSCE, Russia would have to worry about direct U.S. /EU organizations reacting to any humanitarian crisis occurring east of Vienna. Dmitry Medvedev, at the OSCE summit in Astana in December 2010 said that the organization is capable of becoming a driving force in developing cooperation between NATO, EU Council of Europe, CIS and the CSTO.<sup>52</sup> The importance of the OSCE is that it serves as a forum for U.S., EU, and Russia to coordinate pertinent issues. Russia's ability to influence OSCE activities can support their strategic goals without direct involvement. The OSCE played a significant part in identifying voting irregularities in Ukraine during the 2004 elections.<sup>53</sup> The reduction of OSCE activity east of Vienna has served to strengthen Russia's influence in the region while leaving Ukraine more isolated. OSCE activity during the next Ukrainian election may not be as robust as in the past.

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<sup>52</sup>Russian Opinion, "The OSCE Is the Best Platform For a Dialogue of the Russian Federation to NATO," EU and U.S. (21 April 2011).

<sup>53</sup>Woehrel, *Political Crisis and U.S. Policy Issues*.

Russia considers the political instability of its neighbors as a danger to Russian security. Of particular concern are the color revolutions that took place in Ukraine, Georgia, and Kyrgyzstan. Russia considers these events as threatening because they present domestic challenges.<sup>54</sup> Aside from the issue of hostile states aligning themselves with Western powers, instability or regime change could bring Islamic radicals to power in the Central Asian States.<sup>55</sup> Russia already has domestic conflicts with Islamic nationalists and does not want to see more Islamic nationalists coming to power in Central Asia. Predominantly, the Islamic threat is to the south rather than the west of Russia. These color revolutions seem to receive support from the western powers and are perceived by Russia as threats. President Saakashvili of Georgia stated that President Bush had infuriated Moscow by supporting the color revolutions and building close ties with the governments they brought into power.<sup>56</sup> If neighboring states become hostile toward Russia and align themselves with western powers, Russia's security situation is perceived as being threatened. According to Sergei Markov, a parliamentary deputy for the United Russia party –It's been very encouraging that the U.S. has refused to interfere

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<sup>54</sup>Olga Oliker, "Two Years After Andijan: Assessing the Past and Thinking Towards the Future," testimony presented before the Commission on Security and Cooperation in Europe (18 May 2007).

<sup>55</sup>Olga Oliker, Keith Crane, Lowell Schwartz, and Catherine Yusupov, *Russian Foreign Policy: Sources and Information*, (Santa Monica, CA: RAND, Project Air Force, 2009).

<sup>56</sup>Simon Shuster, "Russia Reclaims Influence, U.S. Doesn't Object," *Time*, 23 April 2010.

in Ukraine's domestic policy in the way it was doing during the Orange Revolution in 2004.”<sup>57</sup>

### Effects of Russian Economic Power on Ukrainian Policy

Energy resources are the most effective economic tools that Russia uses to influence former Soviet Republics and the EU. It is not surprising that pipeline politics and energy resources are at the forefront of Russia’s foreign policy agenda. Due to the non-transparency of Russian and Ukrainian business practices, it may be difficult to determine the links between Russia’s use of this instrument and changes in Ukrainian policy. Russia’s development of the Nord Stream and South Stream pipeline projects may either enhance Russian influence over Ukraine or push Ukraine towards closer EU cooperation. Gazprom’s creation of a subsidiary company, chaired by former German Chancellor Gerhard Schroder facilitated the approval for the Nord Stream project. Once these alternate pipelines are operational, Russia can bypass the Ukrainian pipeline system. Pipeline fees bring considerable capital into Ukraine. Greater transparency and the adoption of western business practices would reduce Russia’s economic influence on Ukrainian policy by reducing corruption. However, these types of reforms may also influence Russia’s decision to use the alternate pipelines to restrict transit fees to Ukraine.

Transparent business practices will continue to be an issue for Ukraine in relation to Russia and the West. Considering Ukraine’s need for energy resources and Russia’s need for agricultural products, it would be natural for the two neighbors to have close economic ties. However, improved business transparency would also strengthen

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<sup>57</sup>Shuster, “Russia Reclaims Influence, U.S. Doesn't Object.”

Ukraine's ability to achieve greater political freedom from Russian economic pressure. Russia's recent patterns suggest that they will take increasingly strong actions to prevent transparency and international oversight of its neighbors.<sup>58</sup> Foreign investment and loans are vital to strengthen Ukraine's economic outlook, but due to the global crisis, this aid has diminished considerably. Transparent business practices will necessary to realize the Foreign Direct Investment needed. The source of that aid, whether it comes from the west or from Russia, may be the determining factor for future Ukrainian foreign policy. The state control of Russia's natural resources through economic means began with the fall of the Soviet Union. The Ministry of Petroleum Industry privatized the control of the oil fields, refiners, and pipelines as separate elements after the collapse of the Soviet Union. Due to politics, greed, a flawed design, and corrupt implementation, a small number of investors ended up in control of most of the previously state-owned enterprise.<sup>59</sup> Many of these "oligarchs" were former government officials who knew nothing of the oil industry. They mismanaged the oil business and exploited it, resulting in tax evasion and a loss of revenue for the government.

Putin was aware of the mishandling of the oil industry and was determined not to make the same mistake with the natural gas industry. While Putin was Prime Minister, it was reported that, "The Prime Minister makes no secret of his determination to use the state gas monopoly as a weapon."<sup>60</sup> In 1989, the Ministry of the Gas Industry formed a

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<sup>58</sup>Wallander, "Russian Transimperialism and its Implications."

<sup>59</sup>Marshall Goldman, *Petrostate - Putin, Power and the New Russia* (Oxford University Press, 2008), 58.

<sup>60</sup>Bronwen Maddox, "Vladimir Putin's Weapon Could Easily Backfire Into a Very Cold War," *Times Online* (8 January 2009).

company, Gazprom, comprised of all its assets. The state later privatized Gazprom but remained the primary shareholder in order to maintain control. The senior officials in the industry also retained operational control of the company. The state remained in control of the company and consolidated its control over the natural gas industries in Russia.

Putin and Medvedev have close ties and considerable experience with Gazprom and the natural resource industry in Russia. Putin's interest in the raw materials economy traces back at least to his doctoral thesis, entitled "Refinement of Tax Mechanisms in the Mineral and Natural Resource Complex." Putin advocated, "for greater state control of the raw materials economy and outlined a plan for restructuring the Russian economy."<sup>61</sup> During Putin's term as President, Dmitri Medvedev was elected as the Chairman of Gazprom. He was the deputy Chairman from 2001-2002 and then reassumed the Chairmanship. In 2001, Alexei Miller, the Deputy Minister of Energy, was the CEO of Gazprom. Putin, Medvedev, and Miller tied Gazprom to the Russian government, and in 2003, while Putin was president, the government stake in Gazprom rose to 51 percent. In a series of heavy-handed actions, the government seized control of the energy industry. Yukos, a major natural gas company, was completely dismantled, Shell lost its controlling stake of the Sakhalin 2 project, and British Petroleum lost much of their control in Russian resources. After serving his maximum two terms as president, Putin endorsed Medvedev for the presidency. Gazprom is the largest natural gas monopoly in the world, with the largest reserves in the world in its possession. In 2006, it had over 300,000 employees and accounted for 25 percent of Russia's budget. As was the case

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<sup>61</sup>Uwe Klussman, "The Russian Parliament's Intellectual Giants," *Spiegel* (21 November 2007).

with the UES purchase of power companies, Gazprom purchased gas companies in Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, and Ukraine.

Russia's use of transnational companies as a way of influencing its neighbors was strengthened by the creation of private security armies controlled by the state owned companies. In July 2007, a bill passed by the Russia parliament allowed Gazprom the right to create and maintain private internal armies and to utilize unmanned aircraft to improve security on the pipelines. The creation of these security forces eliminated the need for external security forces that were provided by the Russian oligarchs. This action was seen as Putin's method of weakening the oligarch's power. A February 2009 article in the RBK Daily, a Russian daily internet paper devoted to business and investing in Russia, stated the number of security forces, excluding Russia's armed forces, exceeds 2.5 million men.<sup>62</sup> There are more security forces than there are soldiers in Russia's regular army. Recently, the head of Ukraine's state-owned gas company, Naftogaz, has been charged with abuse of office over the 2009 contract with Russian energy giant Gazprom. Former Prime Minister Tymoshenko has said that President Yanukovich is seeking to pursue ties with the Customs Union of Russia, Belarus and Kazakhstan.<sup>63</sup> Increased ties with the customs union and Gazprom could open the door for Gazprom security forces to work in Ukraine.

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<sup>62</sup>Ivan Petrov, "Security Structures Intended to Deal with Domestic Challenges Outnumber the Regular Army," *RBK Daily* (20 February 2009).

<sup>63</sup>Grigori Vasilenko, "Ukraine State Gas Company Head Charged over Gazprom Deal," *RIA Novosti* (15 April 2011).

Speculation persisted that Gazprom could expand its power base beyond that of a gas utility into other business enterprises. With Gazprom's pipelines extending into other countries, the movement of security forces across national borders into Ukraine, Poland, and Belarus with a mission to protect infrastructure, becomes a possibility.<sup>64</sup> The national laws of many countries prevent foreign military forces from being stationed in their country; they do not generally apply to private security firms. Gazprom's security forces do not come under the authority of the Ministry of the Interior or the Ministry of Defense.

The most severe crises in Russian-Ukrainian relations have occurred over energy issues. Russia's main oil and gas pipelines transit Ukraine to reach Central and Western Europe. Over two thirds of Russia's gas export passes through Ukrainian pipelines. About 80 percent of Ukraine's oil and natural gas comes from Russia. While Ukraine is dependent on Russian oil and gas, Russia is conversely dependent on the pipelines to Europe transiting Ukraine. The lack of transparency in the energy sector has been very profitable to the oligarchs of both countries.

#### Current State of Russian/ Ukrainian Relations

There is a relatively large amount of current literature about Russian/Ukrainian relations in the form of research papers, monographs, issue papers, and congressional reports. The majority of these documents are less than five years old and provides the most current information available. Foreign relations have the potential to change very rapidly due to a diverse array of economic, political, and social influences.

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<sup>64</sup>Carl Mortished, "Gazprom to Raise its Own Private Army to Protect Oil Installation."

The ethnic makeup of Ukraine has considerable influence in the Ukrainian political process. According to the Ukrainian census, ethnic Russians make up 17.3 percent of the population of Ukraine. They are primarily concentrated in the southern and eastern part of the country. Further complicating loyalties, Russians make up over 50 percent of the Crimea, which is important because the city of Sevastopol is home to the Russian Black Sea Fleet. The Ukrainians in the south and east generally speak Russian, support closer ties with Russia, and are suspicious of Ukrainian nationalism. A large portion of Yanukovich's support came from these regions. During the January 2010 elections, politicians tried to gain favor with Russia to improve their votes in the populous southern and eastern regions. Russia generally refrains from publically criticizing the Ukrainian leadership. When Russia *has* interjected opinion into the Ukrainian political process, particularly during elections, the outcome has not been the result desired. Russia's criticism of Ukrainian policy and its attempts to influence Ukrainian politics through coercive energy decisions created an anti-Russian sentiment in many parts of Ukraine during Yushchenko's presidency. Russia has used the ethnic Russian population in Ukraine as a tool to influence Ukrainian policy decisions such as the status of the Black Sea Fleet in Sevastopol.

The high number of ethnic Russians living in the Crimea has made it a significant point of conflict in Ukraine's relationship with Russia. The conflict between Russia and Georgia has increased the uneasiness in Ukraine over Russian influence in the Crimea. During the 1990s, the separatist movement in the Crimea did not gain traction due to the

lack of outside support.<sup>65</sup> The Russia-Georgian conflict highlighted a potential issue of control the Ukraine could face in the Crimea. The rise of nationalist youth groups in Russia such as Nashi and the Eurasian Youth Movement has led to the spread of their activities into the Crimea. Personnel from the Black Sea Fleet have also taken part in anti-NATO protests.

The Security Service of Ukraine (Sluzhba Bezpeky Ukrayiny) (SBU) petitioned the Ministry of Justice to ban three organizations –“controlled from abroad,” which threatened Ukraine’s territorial integrity.<sup>66</sup> The three organizations under scrutiny were the Donetsk Republic, Peoples Front –Sevastopol-Crimea-Russia,” and pro-Russian Rusyn organizations in Trans-Carpathia. The prosecutor’s office conjectured that Russian intelligence activities were actively engaged with these organizations. Under Yanukovich’s leadership, this has not been a mitigating situation with the resolution of the Black Sea basing issue. If however, relations with Russia declined, then Crimean separatist activities could increase. Russia could resume fomenting support to separatist organizations in the Crimea.

While President Yushchenko was in power, Ukraine maintained close ties with Georgia, and the 2008 Russia-Georgia conflict strained Russian-Ukrainian relations. President Yushchenko strongly condemned Russia’s actions in Georgia.<sup>67</sup> Charges were exchanged that the Russian Black Sea Fleet based in Sevastopol was used to attack Georgia without informing Ukraine, and that Ukraine had the right to prevent these

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<sup>65</sup>Jane's Sentinel Country Risk Assessments Ukraine.

<sup>66</sup>Ibid.

<sup>67</sup> Ibid.

vessels from returning to port. In 2008 Yushchenko issued a decree requiring Russia to obtain permission in advance to move Russian ships, planes, and personnel on Ukrainian territory. The Russian Black Sea Fleet ignored the decree, stating that it was in contradiction to the 1997 treaty giving Russia the right to use the base. Criticizing the Yushchenko decree, Prime Minister Tymoshenko said she would not permit a conflict to occur between Russia and Ukraine over the Fleet. The ships that participated in the Georgia conflict returned to the base after the operation without further tension. This event highlighted one more point of Ukraine/Russian conflict in the Crimean region.

The Black Sea Fleets' use of the naval base in Sevastopol has been a flash point in Ukrainian-Russian relations. In the past Ukraine has rejected Russian proposals to extend the Russian Black Sea Fleet's contract in Crimea past 2017. In fact, Yushchenko wanted to start talks on the planned withdrawal of the fleet to facilitate the 2017 transition. There were charges by the Ukrainian foreign minister in September 2008 that Russia was providing large-scale Russia citizenship documents to Crimean inhabitants. Fears in Ukraine were that the Russians would use the same tactics they had in Georgia to justify military intervention.

The Black Sea Fleet basing issue was a continual point of conflict between the Yushchenko administration and Russia. Ukraine expelled a Russian diplomat in Kiev who was responsible for the Black Sea Fleet as well as a diplomat in Odessa. These actions were in response to the charges that Russia was violating the Black Sea Fleet basing agreement and interfering with Ukrainian internal affairs. Russia responded with expulsions from Moscow. During the 2009 Ukrainian presidential race, Russian President Medvedev, released a public letter condemning President Yushchenko for an ~~anti-~~

Russian course.” President Medvedev stated that until there was a change in leadership, Russia would not send a new ambassador to Ukraine.

The Black Sea Fleet issue was resolved with the election of President Yanukovich in February 2010. Relations between Ukraine and Russia improved, which quickly led to Ukraine's approval of an extension to Russia's controversial lease of the Sevastopol naval base. This decision will see Russia maintain a naval presence in Ukraine until at least 2042,<sup>68</sup> and essentially places the port under Ukrainian sovereignty while actually controlled by Russia.

The election of Viktor Yanukovich represents a significant change from the ~~anti-Russian~~” Yushchenko. Yanukovich was the favorite candidate of the United Russia party, the Russian parliament, media, and Russian public. The status of the Black Sea Fleet and Yanukovich’s anti-NATO stance are much more in line with Russian policies. Due to the necessity of forming a coalition government, there are still pro-western members of parliament – and Yanukovich is the first president to be elected with less than 50 percent of the vote. He also did not win a majority of the regions. Of significant importance is that a number of Yanukovich backers support closer economic ties with the west, especially the EU. The influence of his financial backers should have a moderating effect on Yanukovich’s policies. Because Ukraine’s investment climate has been perceived as hostile, the country has failed to enjoy the benefits from large inflows of Foreign Direct Investment. Further, the low levels of Foreign Direct Investment, output from subsidiaries of multinational firms, has contributed little to Ukraine’s recovery, which stands in contrast to the positive impact that Foreign Direct Investment

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<sup>68</sup>Ibid.

has had on economic growth in Central Europe.<sup>69</sup> Although relations with Russia have improved since Yanukovich's election, this should not result in a shift to a radical pro-Russian agenda. Balancing foreign policy issues between Russia and the EU should reduce points of conflict while still pursuing an integrative economic approach to the EU. Even with the new 2009 gas agreement, natural gas prices and transit fees will still be a source of tension. Russia will remain continue to apply pressure on the Ukrainian government.

Similar to the ethnic relationship Ukraine has with Russia, the defense industry is also closely tied to the Russian defense industry. Particularly for the near future, Ukraine's armed forces will upgrade existing Soviet manufactured armaments. This is best done in partnership with Russia in order to develop defense industries and defense related research and development with similar production lines. Defense industry co-operation remains secondary to wider political issues. However, from an economic point of view it is not feasible for Ukraine to develop an independent defense industry at this time. With Yanukovich's election, cooperation on this issue should continue as it has previously.

### Energy Issues

Corruption in the Ukrainian energy sector centered on the oil and gas intermediary RUE. Gazprom is the Russian government controlled natural gas monopoly; another non-transparent oligarch controlled company was RUE. This company was the nominal supplier of Russian natural gas to Western Europe through Ukraine. RUE was a

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<sup>69</sup>Crane, "Encouraging Trade and Direct Foreign Direct Investment in Ukraine."

Swiss registered company that was 50 percent owned by Gazprom and 50 percent owned by two Ukrainian businessmen. It was alleged that RUE had ties with corrupt politicians in Russia as well as Ukraine. Prime Minister Tymoshenko worked to eliminate the company as an intermediary between Europe, Russia, and Ukrainian domestic users. However, President Yushchenko defended the company, which brought about corruption accusations that his supporters benefited from the company.

Ukraine, as well as several other former Soviet bloc countries, received energy at prices markedly below market rates. In 2005, Gazprom raised gas prices to Ukraine by 400 percent. When Ukraine refused, Russia cutoff the gas supply, which also curtailed the supply to Europe. The cutoff only lasted two days once the new agreement was signed. When Russia increased prices in 2006 and 2009, conflict arose again, and led to the cutoff of Russian gas traveling to Western Europe. The 2009 gas cutoff occurred in January when no agreement was signed, and it lasted fourteen days. The situation was resolved after pressure from the EU to reevaluate its relationship with both countries. The conflict and cutoffs have historically occurred in the fall, when demand is high, and when the annual contract is renewed between Russia and Ukraine. The 2009 gas cutoff was the result of several unresolved issues. First, there was no agreement on the price of gas to Ukraine, and Gazprom alleged that Ukraine had an unpaid debt to Gazprom. Second, the supply to Europe was curtailed when Gazprom alleged that Ukraine was diverting the supply to Europe for its own use.

The 2009 agreement stipulated that RosUkrEnergo be eliminated as the gas intermediary and Ukraine's price hiked to double the 2008 rate. This was the first time since independence that there was no gas intermediary between Russia and Ukraine.

Ukraine utilized its gas reserves to avoid the higher price until prices went down later in the year while Russia was still paying the higher transit fees to send gas to Europe. Gazprom threatened to cutoff gas again if Ukraine does not pay in advance for each month's supply. Many in Ukraine and the West view these price increases as retribution for the westward leanings of Ukraine's recent governments.<sup>70</sup>

In March 2009, Ukraine and the EU signed an agreement to upgrade Ukraine's pipeline system and storage facilities in exchange for greater transparency in how the system operates. Russia was hostile to this arrangement and Prime Minister Putin stated it was "ill-considered and unprofessional." Russia's hostility to this situation may be because the arrangement interferes with Russia's chances of gaining control of the Ukrainian gas pipelines. However, Gazprom has been actively engaged in other projects to supply natural gas to Europe and bypass Ukraine. The Nord Stream pipeline lying under the Baltic Sea could be operational in 2012. The South Stream pipeline runs through the Balkans and is scheduled to be operational as early as 2015. If these pipelines become operational, Russia will no longer be dependent on the Ukrainian pipeline infrastructure for natural gas transportation. Ukraine could feel several effects from this situation. Key western European countries could see a smaller stake in Ukraine's future, and Ukraine would see a smaller income from gas transit fees. These new pipelines, once functional, would greatly reduce Ukraine's advantage over Russia and its energy supplies, and give Russia more freedom to pressure Ukraine on other issues in addition to energy.

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<sup>70</sup> "Imperialist Gas," editorial, *The Washington Post*, 23 April 2006.

Russia has utilized more “soft power” approaches, such as economic and cultural tools, to achieve their goals. Energy resources, attempts to expand the use of Russian culture and language, sales of consumer goods, and investments abroad have been used to influence former Soviet republics.<sup>71</sup>

### Ukrainian Strategic Policy vis-à-vis NATO and US Strategic Planning

Previous Ukrainian presidents have alluded to NATO membership but had done little to meet the requirements of membership. July 2002 was when Ukraine first outlined its goal of seeking NATO membership. President Kuchma sought a Membership Action Plan (MAP) twice. At NATO summits in Prague 2002 and again at Istanbul 2004, the MAP was declined both times. Yanukovich was prime minister on both of these occasions. While President Yushchenko was able to integrate Ukraine into the WTO in 2008, his longer-term goals were for Ukraine to join the EU and NATO. Led by Germany and French objections, NATO declined to offer Ukraine a MAP once again.<sup>72</sup> Germany and France were concerned that issuing a MAP to Ukraine would hurt their relations with Russia. Mr. Yanukovich was elected in 2009 and has stated that he is not pursuing NATO membership. A key U.S. planning issue for any Ukrainian NATO membership application in the future will be addressing the objections made by Germany and France.

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<sup>71</sup>Fiona Hill, “Moscow Discovers Soft Power,” *Current History* 30, no. 2 (October 2006): 341–347.

<sup>72</sup>Jane's Sentinel Country Risk Assessments Ukraine.

## NATO policy

President Yushchenko favored Ukrainian membership in NATO and the United States was supportive of Ukraine's interests in joining NATO. In 2008 President Yushchenko, Prime Minister Tymoshenko, and the parliament speaker sent a letter to NATO secretary, General Jaap de Hoop Scheffer, requesting a Membership Action Plan for the April NATO summit in Bucharest, Romania, which went unanswered. Yushchenko and Tymoshenko sent subsequent letters to De Hoop Scheffer, German Chancellor Angela Merkel, and French President Nicolas Sarkozy repeating their Membership Action Plan request. The Party of Regions, the Communists, and according to public opinion polls two thirds of the population, opposed NATO membership. While in office, President Yushchenko stated that Ukraine would not allow the establishment of NATO bases on Ukrainian soil. The Ukrainian constitution does not permit the establishment of foreign military bases in Ukraine with the exception of the Russian Black Sea Fleet stationed at Sevastopol, whose lease was set to expire in 2017. During the Bucharest summit, President Bush offered "strong support" for Ukraine's request for a MAP from NATO; but, despite strong US support and the point that Ukraine was the only non-NATO country contributing support to all NATO missions, Ukraine's MAP request was declined.

France and Germany were leading the effort to block Ukrainian membership in NATO. They raised questions about Ukraine's qualifications for the Membership Action Plan, but the key concerns were the effects Ukraine membership would have on relations with Russia. The communiqué from the Bucharest summit did contain an unqualified statement that Ukraine "will become members of NATO" without specifying when that

might happen. The outcomes of the Bucharest summit produced disparate reactions in Ukraine. The Yushchenko government saw it as the first stepping-stone to NATO membership while the Yanukovich faction saw the denial as a defeat to Yushchenko's pro-NATO policy.

The Russia-Georgia conflict had a negative effect on the chances for Ukraine to obtain MAP within NATO. Existing NATO countries feared further deterioration of relations with Russia and were reluctant to become embroiled in a possible military confrontation. In December 2008, NATO foreign ministers agreed to work with Ukraine on "annual national programs" within the NATO-Ukraine framework in order to facilitate Ukraine's defense reform efforts. The majority of western states, who supported the de facto annexation of the separatist regions of Abkhazia and South Ossetia condemned Russia; however, the EU and NATO re-established relations with Moscow after only a short moratorium on dialogue. Ukraine fears that it cannot rely on the west to react strongly should Russia carry out similar actions in Crimea.<sup>73</sup>

Ukraine's NATO aspirations put considerable strain on Ukraine-Russia relations. The April 2008 Bucharest summit drew an angered response from Russia. According to Russia press accounts at the time, President Putin reportedly told President Bush and NATO leaders that Ukraine was not a real state and it would cease to exist if it joined NATO. Statements such as this added fuel to the objections of France and Germany to Ukrainian NATO membership. In April 2008, Russian Foreign Minister Lavrov openly stated that Russia would oppose Ukrainian membership in NATO. The Chief of the

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<sup>73</sup>Ibid.

Russian General Staff, General Baluyevsky, issued a warning that Russia would use military and “other measures” if Ukraine joined NATO.

The non-military efforts alluded to economic sanctions and efforts to support secessionist movements in southern and eastern Ukraine.<sup>74</sup> Russia could make territorial claims to Sevastopol and the naval base, or the Crimea as a whole. Other Russian actions used to influence Ukrainian policy included the Russian Duma (lower house of parliament) passing a resolution in June 2008, which asked the government to consider suspending the 1997 friendship treaty between Russia and Ukraine should Ukraine receive the Membership Action Plan.<sup>75</sup> The perception was that this might withdraw the Russian recognition of Ukraine’s borders. The Deputy Russian Minister Ivanov visited Sevastopol in June 2008 to warn that membership in NATO would sever military ties, reduce trade, and lead to the introduction of visas for Ukrainians traveling to Russia.

The Obama administration has worked to “reset” its relations with Russia. However, it has warned that it will not accept any country’s assertion of a sphere of influence. The administration also reaffirmed its support for NATO’s “open door” policy to aspiring nations such as Ukraine. At a March 2009 meeting of NATO foreign ministers, Secretary of State Hillary Clinton said, “We should continue to open NATO’s door to European countries such as Georgia and Ukraine and help them meet NATO standards.” In 2010 Sergei Markov said “It’s been very encouraging that the U.S. has refused to interfere in Ukraine’s domestic policy in the way it was doing during the Orange Revolution in 2004. Americans have also sharply cut their support to Georgia. At

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<sup>74</sup>Woehrel, *Ukraine: Current Issues and U.S. Policy*.

<sup>75</sup>Ibid.

least they are not giving one dollar of military assistance, as far as I know, to Saakashvili,”<sup>76</sup> The Russian view of improved relations with the U.S. has been evident with the expansion of transit supply routes through Russian territory in support of Afghanistan operations. On 14 April 2010 NATO secretary-general Anders Fogh Rasmussen urged NATO countries to integrate Russia into their security strategy instead of seeing Russia as a potential threat. “The United States and Russia now clearly see eye to eye on a range of security issues.”<sup>77</sup>

#### US Policy towards Ukraine

US officials supported the “Orange Revolution” in Ukraine in late 2004 through early 2005, and warned the former government not to impose fraudulent election results; the U.S. government forecasted a victory for President Yushchenko.<sup>78</sup> The U.S. also provided assistance to Ukrainian Non-Governmental organizations that monitored the elections. Once duly elected, President Yushchenko came to the United States in April 2005 to meet with President Bush and Secretary of State Rice. He also addressed a joint session of Congress and received a warm welcome. Points addressed during the meetings were the US support for Ukrainian membership in the WTO, improvements in the Ukrainian election process, and media reform. Persisting problems such as corruption, constitutional reform, and improvements in the rule of law proposed during these meetings need reform.

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<sup>76</sup>Shuster, *Russia Reclaims Influence, U.S. Doesn't Object*.

<sup>77</sup>Ibid.

<sup>78</sup>Woehrel, *Ukraine's Orange Revolution and U.S. Policy*.

President Yushchenko withdrew Ukrainian forces from Iraq in December 2009 as part of a campaign pledge; however, he said he would continue to support the Iraqi troop training efforts. In Afghanistan, Ukraine has supported a provincial reconstruction team but has not committed forces, which is primarily due to public sentiment reflecting on the Soviet occupation of Afghanistan in the 1980s.<sup>79</sup>

During President Yushchenko's tenure as president, the US worked to improve economic relations with Ukraine. In January of 2006, tariff preferences revoked in 2001 due to failure to protect U.S. intellectual property were reinstated under the Generalized System of Preferences (GSP). Also in 2006, the U.S. and Ukraine signed a bilateral agreement on market access to help facilitate Ukraine's entry into the WTO. Trade duties were reduced and greater access to US companies was granted. A wide range of economic issues was addressed, particularly in 2006; for example, increased U.S. access to Ukrainian energy services, banking, insurance, and telecommunication were approved, as were agreements on access to pharmaceuticals, chemicals, and technology.

U.S. policy engagement with Ukraine has been primarily economic. A Trade and Investment Cooperation Agreement was signed as a precursor to a free trade agreement. Improvements in transparency, the reduction of business regulations, and commercial laws in Ukraine were key points of policy discussion during President Yushchenko's term in office. In November 2008, a memorandum was signed, outlining the steps Ukraine would need to take in order to restore the Overseas Private Investment

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<sup>79</sup>Woehrel, *Ukraine: Current Issues and U.S. Policy*, 12.

Corporation to Ukraine. This agreement would increase US private investment in Ukraine.<sup>80</sup>

The U.S. administration was critical of Russia's actions during the 2006 natural gas crisis between Russia and Ukraine. A dramatic increase in the price of natural gas to Ukraine and the ensuing disagreement led Russia to shut off the gas supply that had a secondary effect of closing off the supply to Europe. Secretary of State Rice stated that Russia had made "politically motivated efforts to constrain energy supply to Ukraine."<sup>81</sup> Vice President Cheney referred to Russia's energy policy as "blackmail and intimidation."<sup>82</sup> Since Ukraine established its independence and began the process of developing a market driven economy, the need for more transparency in the economy has been a main topic. After the second major Russia-Ukraine gas crisis occurred, a U.S. State Department spokesperson said the situation "underscores the need for transparent, market-oriented arrangements for the sale and shipment of natural gas and the importance of diversifying energy supplies."<sup>83</sup>

Following the Russian invasion of Georgia, Vice President Cheney visited Ukraine to discuss the situation. Following the meeting with President Yushchenko, Vice

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<sup>80</sup>Transcript of Bush-Yushchenko press conference, 1 April 2008.

<sup>81</sup>Department of State, Daily Press Briefing by Secretary of State Condoleezza Rice, 3 January 2006, and Statement by Secretary of State Condoleezza Rice, 1 January 2006.

<sup>82</sup>"Vice President's Remarks at the Vilnius Conference," 4 May 2006, <http://www.whitehouse.gov>. (accessed 6 June 2011).

<sup>83</sup>"Statement on Agreement to Restore Gas Flows to Europe," 22 January 2009, <http://useu.usmission.gov> (accessed 6 June 2011).

President Cheney stressed that Ukraine should be free from the ~~th~~reat of tyranny, economic blackmail, or military invasion or intimidation.”

Once he was in office, one of President Obama’s primary objectives was to ~~re~~set” relations with Russia. Some Ukrainian analysts asserted that improvements in U.S.-Russian relations might occur at the expense of U.S.-Ukrainian relations there was fear that some concessions to Russia could come at Ukraine’s expense. At a February 2009 Security Policy Conference in Munich, Vice President Biden warned that the United States would not accept any countries asserting a ~~s~~phere of influence” and that states have the right to make their own alliances. In July of 2009, Vice President Biden visited Ukraine while President Obama was meeting in Russia. He reiterated the U.S. support for Ukraine’s entrance into NATO if they so choose. He also said that the U.S. does not believe in a zero-sum gain and improved U.S./Russian relations does not represent a threat to Ukraine. Biden stated that the U.S. supports the 16 billion dollar IMF loan to Ukraine but that the IMF requires reforms in banking and the energy sector.

## CHAPTER 3

### RESEARCH METHODOLOGY

The purpose of this research was to determine the effect of Russian actions on Ukrainian strategic security policy in order to determine how these policies may affect NATO/U.S. strategic planning in the region. In order to frame the situational environment and provide insight into the planning factors for US policy development in the region, the research was organized into five sub questions to support the original thesis question.

The initial research was done to determine the national interests of the Ukraine. Historical information was used to build a picture of where Ukraine had been and likely to be moving. This was of primary importance to set the initial working environment that Ukraine is operating in. The research focused on both diplomatic objectives and economic issues that formed the most important inputs to Ukraine's strategic policy development. As this question was addressed, it became apparent that economic issues had the primary influence on the planning process. Diplomatic objectives were used to support economic goals while safeguarding the sovereignty of Ukraine. Foreign Direct Investment, World Bank interaction, IMF support, EU support, WTO, U.S. relations, and Russian relations, all directly affect Ukraine's economic future. Ukraine's NATO aspirations were addressed since this was a key topic driving Ukraine/Russian relations. The use of diplomatic power to maintain and improve these relationships was their most effective tool available to support Ukraine's economic goals.

The next step in the research was to determine the national interests of Russia that affect Russia's relationship with Ukraine. Once again, the focus was on diplomatic

objectives and economic issues that have relevance to Russia's relationship with Ukraine. Many of Russia's national interests have been announced by its leadership and were used in this research. Russia's global stature, security fears, energy dominance, and regional influence were analyzed for their relevance to Russian interaction with Ukraine. While many of Russia's national interests are not directed solely at Ukraine, Ukraine's policy decisions directly affect the success of Russian objectives. Russia's use of state owned Gazprom to influence Ukraine was addressed together with how the lack of transparency in both Russian and Ukrainian energy sectors has been used by Russia to gain influence in the Ukrainian political process. Russia's involvement with several global and regional organizations was studied for their impact on Russia's national interests and their relationship to Ukraine.

After gaining insight into both states national interests, it was important to determine the current state of relations between the two. The economic relationship, primarily in the energy sector was addressed. Energy issues have been at the heart of Ukrainian/Russian tension for several years and understanding this issue was vital. Problems with corruption, non-transparency, financial issues and Ukraine's political turmoil all have their roots in the energy sector. Ukraine's closer ties with the West and the push for greater business transparency were another topic that influenced this relationship. Ukraine's NATO aspirations have been a continuous source of conflict with Russia and was important in addressing the thesis statement as well as the political dynamics of the region. Knowledge of the Russian Black Sea Fleet basing issue in Sevastopol together with the separatist issues in the Crimea was needed to understand the level of distrust and tension in the region.

Once the situational environment between Ukraine and Russia was framed, Russia's use of its economic power to influence Ukrainian policy decisions was addressed. The use of transnational companies as a tool of foreign influence and the relationship of the Kremlin to state owned Gazprom was defined. While the interaction between non-energy sector industries was studied to identify its possible importance as a tool of Russian influence, no major influence on Ukrainian policy was identified. The last supporting question addressed was how Ukraine's strategic policies effected NATO/U.S. planning. This topic was addressed from different angles. Ukrainian aspirations, NATO member's responses to Ukraine's requests, and the U.S. support for Ukraine were studied. Ukraine's past relationship with NATO was annotated together with the changes in Ukrainian policy changes stemming from the 2010 election of President Yanukovich. Ukraine's policy decision to forgo its NATO MAP request was analyzed for its effect on NATO/U.S. regional planning.

## CHAPTER 4

### ANALYSIS

The purpose of this research is to determine the effect of Russian actions on the strategic security policy of Ukraine as a means to determine how these policies may affect NATO/US strategic planning. The focus of this analysis is to address the secondary questions. These questions create the framework needed to answer the primary question. Of the diplomatic and economic tools Russia uses to influence Ukraine, the economic aspect is the most powerful. In the absence of an impending security threat, economics are the base from which Ukrainian strategic policy decisions are made.

Russian attempts to influence Ukrainian strategic policy have not realized the success that the Russian government had desired. Internal political and economic conditions in Ukraine have exercised a tremendous degree of influence on Ukrainian strategic policy decisions beyond Russian influence. Andrew Moravcsik, a Professor of Politics and International Affairs at the Woodrow Wilson School Princeton University, said that the relationship between states and the surrounding domestic and transnational society in which they are embedded critically shapes state behavior by influencing the social purposes underlying state preferences.<sup>84</sup> Russia used nationalist groups to gain support in the southern and eastern portions of Ukraine where large Russian ethnic groups exist. In addition, Russia attempted to capitalize on this ethnic division in Ukraine to garner support for political candidates that they believe would be supportive of

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<sup>84</sup>Andrew Moravcsik, "Faking Preferences Seriously: A Liberal Theory of International Politics," *International Organization 51 Foundation* (Autumn 1997): 513-53.

Russian interests. The Ukrainian populace perceived open Russian support of Yanukovich by Putin in the 2006 election as Russian attempts to gain influence over Ukrainian politics. This open support of a Ukrainian candidate produced a backlash that aided the supporters of the Orange Revolution rather than advancing Russian influence. The threat of Russian backed ethnic unrest in the Crimea was a tool used by Russia to influence the extension of the Black Sea Fleet lease in Sevastopol during Yushchenko's tenure as president.

The primary national interests of Russia focus on gaining greater political standing in the international community while increasing their economic influence primarily through their energy assets. The economic ties between the Russian and Ukrainian public sectors, agriculture, and the defense industries have not been adversely affected largely due to Ukrainian policy decisions in the past. President Yanukovich's pro-Russian stance with the Commonwealth of Independent States (CIS), the long term energy contract and decision to continue the cooperation between the Russian and Ukrainian defense industries have reduced the economic threats to Russian national interests.

Yanukovich's extension of the Black Sea Fleet lease has been a victory for Russian interests and weakened this potential flash point. The actions that could be perceived by Russia as threats to their national interests involve the energy sector and Ukraine's military cooperation with NATO. EU involvement in updating Ukraine's pipeline infrastructure and promoting a western transparent business model has weakened Russia's ability to influence Ukrainian politics the way that they had been doing. Corruption and non-transparency facilitate Russian influence in Ukraine's political

process. Russian transnational companies, many of which are either state owned or state influenced have the ability to exert influence in Ukraine due to the current environment. Russia and Ukraine operated under the same political and economic system for decades. Altering these relationships to gain greater independence and freedom of action will be important to strengthen Ukrainian sovereignty. As Ukraine grows more interdependent with the West and their political process matures Russia will have to redefine their relationship with Ukraine to maintain influence.

Russia's primary interest is to regain its prestige and standing in the global community. To do this Russia is placing focus on maintaining its regional dominance, using economics as a tool of influence, and addressing its security concerns. Russian actions have done little to achieve its goals. The war with Georgia highlighted Russia as an aggressor in the international community. Ukraine and Georgia are closely aligned and this action did nothing to improve the relationship with Russia. It also increased tensions with Ukraine over the status of the Black Sea Fleet and contractual violation of the lease. The Georgian invasion reduced trust and undermined Russian influence in Ukraine. The 2004 meeting between leaders from Ukraine's eastern and southern regions with Moscow's Mayor Luzhkov where he called for autonomy in the region demonstrated Russia's attempt to reassert itself in Ukrainian politics. Together with Putin's open support of Yanukovich in the 2004 election made Russian desire to influence Ukraine's political process clear. These actions accomplished nothing but to increase the already adversarial relationship with Ukraine. As long as Russia considers Ukraine in its sphere of influence and crucial to its national defense there will be attempts to influence Ukrainian policy particularly in relation to the West.

From an economic perspective, Russia's attempts to use energy as an instrument of power to gain influence over its neighbors has not brought the predicted results. Zero sum thinking, by which Russia views negotiations with a winner and a loser, have led to secondary effects that are not in Russia's national interests. Russia's energy policies with Ukraine demonstrated to the Central Asian States that reliance on Russian pipelines might not be in their best interest. Russia has not actually targeted the Central Asian States as it has Ukraine and Belarus but Ukraine's situation highlighted the potentially weak position that the Central Asian States are in. It also increased doubt in Europe in regards to Russia's position as a reliable energy supplier. While the election of Yanukovich in 2010 reduced tensions with Ukraine the root causes of the conflicts still exist. The Russian/Ukrainian tension over energy prices has produced greater interest in the Central Asian States in Nabucco and other non-Russian pipeline routes. Russia's softening position with Ukraine is due in part from the election of Yanukovich. Russia may have also recognized that its aggressive actions against its neighbors such as Ukraine can damage its relationship with its other neighbors.

Russia's development of the Nord Stream and South stream pipelines has significant ramifications to Ukrainian policy decisions. Oil and gas transfer fees are a major source of revenue for the Ukrainian government and a source of influence from Russia. Former German Chancellor Schroder's involvement with the Nord Stream line demonstrates that this is not a unilateral Russian action against Ukraine but also a European concern over reliable energy supplies. A positive effect of this developing situation may be to add a greater sense of urgency to market reforms necessary to improve Ukraine's domestic economy. Reduced corruption and market reforms will

attract more Foreign Direct Investment and economic growth. A growing economy will increase revenue and decrease reliance on energy transfer revenue. A successful non-energy economy with less reliance on the energy sector would strengthen Ukraine's sovereignty and reduce Russian influence as it is exercised presently. Ukrainian economic interdependence with the EU could mitigate the effect of the alternate pipelines on the Ukrainian economy and promote a greater degree of autonomy.

Russia leads several organizations that serve to counter Western power. They are made of former Soviet Republics with the exception of Ukraine. Russia plays the dominate role in these organizations and exerts influence through them. The regional organizations through which Russian policy is implemented include the CIS, CTSO, and EurAsEC. The CIS is composed of a number of former Soviet Republics, for whom maintaining growth and normal trading relationships is a priority. Ukraine helped frame the CIS charter but chose not to join, they also have observer status with the EurAsEC. Efforts by Russia to draw Ukraine into closer alliance with these organizations have met with little success. Ukraine is the largest and by its geographic location arguably the most important former Soviet Republic that is not a member. Yushchenko's adversarial relationship with Russia and focus on the West prevented any serious discussion of greater Ukrainian cooperation. During the election, Yanukovich spoke about possible membership with the CIS but as a member of the WTO, Ukraine is restricted from joining the CIS due to the restrictions of the WTO charter. The WTO rules aid Ukraine by taking CIS membership off the table for organizational reasons rather than by the choice of the Ukrainian leadership. Since Ukrainian membership in the CIS would violate WTO rules, Russian pressure to draw Ukraine into this organization is eliminated.

Russia has moved in the direction of utilizing ethnic, economic, and public relations as tools of foreign policy. Along with most of the global community, Russia was also impacted by the global recession, which has influenced President Medvedev's return to cooperation with the West. Cooperation being a relative term, the drop in commodity prices in the energy sector reduced Russia's economic power and refocused their efforts on the domestic economy. It is too early to see how effective Russia's use of ethnic persuasion and a more conciliatory approach to the Yanukovich administration will be. Suggestions of ethnic Russian parallels, the importance of the Russian language and the shared historical relationship between Russia and Ukraine may not produce the result Russia would like. Yanukovich's political strength lies primarily in the Eastern portion of Ukraine with a significant ethnic Russian population. During his failed 2004 campaign, he supported Russian as a second language; however, in 9 March 2010 he said that Ukraine would continue to promote the Ukrainian language as its only state language. It appears that he may be moving towards the middle of the Ukrainian political spectrum either to strengthen his political position in Ukraine or to shield him from the perception of Russian influence.

The primary national interests of Ukraine are to resolve severe economic issues in the country while maintaining their sovereignty. Ukrainian strategic policy focuses on supporting the political and economic interests of Ukraine. Even with Ukraine's membership in the WTO, their Partnership and Cooperation Agreement with the EU and a Ukraine-EU Action Plan as part of the EU's European Neighborhood policy, Ukraine's economic future has the greatest influence on their strategic policy. The value of WTO membership assists in reducing import/export barriers to Ukraine. This will enhance

access to products and improving the competitive environment internally as it reduces barriers to Ukrainian exports in foreign markets.<sup>85</sup> Ukraine's membership in the WTO was also a significant achievement because it gave Ukraine an advantage over Russian attempts to gain WTO membership. WTO membership requires all parties to approve new members. Currently, Russia is no longer seeking WTO membership but this issue is likely to rise again. As Russia seeks to enhance its standing and influence in the global economic community it will need to readdress WTO membership. An adversarial relationship with Ukraine will not support future Russian attempts to join the organization. The EU market economy status makes it easier for Ukrainian companies to export to the EU but Ukraine is still reliant on IMF and Western financial assistance to improve and grow their economy. Ethnic, political and economic forces influence Ukraine's strategic planning to support their national interests.

Ethnic divisions in Ukraine are a source of political instability and a potential flash point in its relations with Russia. A substantial ethnic Russian population in eastern Ukraine has at times presented a divisive element in Ukraine's stability and security. The eastern region is vital to Ukraine's economic future due to the heavy industry, particularly steel and the major coal producing regions. Ethnic Russian groups such as the Nashi and the Eurasian Youth Movement have previously fomented separatist political aims in the region. They did not gain traction in the 1990s due to a lack of outside support from Russia. Many of these groups supported anti-NATO protests and were joined by Russian sailors from the Black Sea Fleet on several occasions. The SBU has

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<sup>85</sup>Crane, "Encouraging Trade and Direct Foreign Direct Investment in Ukraine," 37.

reported to the Ministry of Justice that three other groups, the Donetsk Republic, Peoples Front, and the Pro-Russian Rusyn are controlled from abroad, alluding to Russia. With the election of Yanukovych, these ethnic tensions have been reduced due to Ukrainian concessions. He has dropped Ukraine's NATO MAP request, extended the Black Sea Fleet, and made conciliatory gestures to reestablish a less combative relationship with Russia. If Ukraine's policies diverge significantly with Russian interests, resurgence in separatist activities could reemerge. The ability of Russia to exercise a more aggressive approach to Ukraine through support to separatist organizations is a realistic possibility. The Ukrainian Foreign Ministers charges in 2008 that Russia was providing large-scale Russian citizenship documents to Crimean inhabitants demonstrate this possibility. With the population of the Crimea being 50 percent ethnic Russian and the presence of the Black Sea Fleet in Sevastopol this issue remains as a point of disunity in the Ukrainian government. Currently Russia's ability to maintain its basing position in Sevastopol outweighs Ukraine's capability to close it down.

Political instability, while destabilizing to the Ukrainian political process, would be expected from a newly formed democracy with little to no experience in representative government. The actual governmental procedures and the distribution of powers are still evolving. The primary shifts are between the powers of the president and the prime minister as laid out by parliament. The political system does however seem to be on a path to stability. To follow Kuchma, the oligarchs chose Yanukovych. During the 2004 election, through the peaceful Orange Revolution Yushchenko won the race after a reelection. Then in the 2010 election, there was a relatively smooth transition of power back to Yanukovych. The problem of corruption has been a persistent and continuing

problem in Ukrainian politics. Western efforts have somewhat improved transparency in the Ukrainian energy sector and the removal of RosUkrEnergo as the oil and gas intermediary has weakened the influence of some of the oligarchs. The lack of any visible reduction in corruption was a major element in the disillusionment of the Orange Revolution. Attempts by the government to reduce corruption have either failed to gain support or resulted in charges that the party in power is using this as a method of strengthening their position by attacking its opponents. Yanukovich has made concerted efforts to reduce corruption but those charged so far have been primarily from the opposing political spectrum. A solidifying of the Ukrainian political process and a substantial reduction in governmental corruption are paramount to political stability in Ukraine.

Economics have been the key element driving domestic instability in Ukraine. The primary demands of the people are changes to improve the economic conditions in Ukraine. The economic situation and political corruption was the ideological impetus for the Orange Revolution protests as legitimacy of the government came under question. The protesters took to the streets against governmental corruption to facilitate a change and improve economic conditions while reducing corruption. The people were soon disillusioned when corruption was not addressed and economic conditions remained the same. Attempts by Yushchenko to address the corruption issue proved to be politically unattainable. The ability of the parliament to undermine his powers due to fear of corruption charges stopped the process.

Yushchenko's efforts to strengthen ties to the West for greater economic support did produce some positive results such as the WTO membership. These efforts however,

were significantly hampered by the 2008 global economic crisis, which resulted in little visible economic improvement. Due to a lack of trust in the government, the population is focused on tangible short-term gain rather than long-term progress. Under Yushchenko's tenure, the primary U.S. engagement with Ukraine was through economic support. While the financial aid portion of this support was needed to provide tangible economic progress, the most valuable factor for the long term success of the Ukrainian economy were through other economic tools. Greater access to Ukrainian banking, insurance and energy sectors while at the same time addressing transparency, business regulations and laws provided the impetus for a more open market economy. As in the political environment, corruption remains a major problem in the Ukrainian economic system. The governments focus is on the domestic economy to reduce the threat of civil unrest. However, before corruption in the domestic economy can be meaningfully addressed, the corruption at the governmental level needs to be improved. Improving the business environment and reducing corruption will be key to attracting investment and business prospects from the West.

Ukraine's Partnership and Cooperation Agreement with the EU and their Ukraine-EU Action Plan should provide the impetus for greater transition to an open market economy. Continued progress in transparency issues and reform of the Ukrainian bureaucratic process will be needed in order to fully integrate Ukraine into the European community. Ukraine's position with Russia on Transparency International's Corruption Perception index below Serbia and Romania demonstrates the considerable level of reform that needs to take place. Ukraine has the potential of becoming a valuable member of the EU community but the reforms necessary must be a priority of the Ukrainian

government. Yushchenko was successful in improving trade relations with the EU and achieving WTO membership. It will be up to Yanukovich to capitalize on these successes and reform the Ukrainian domestic system. The reduction in tensions with Russia will permit the Ukrainian leadership to focus on domestic reform and economic development. Improving Ukraine's perception to the world as a viable trading partner that is making progress in market reforms can achieve these goals.

Foreign Direct Investment is key element in Ukraine's ability to stabilize and grow its economy. In 2007, the United States was the sixth largest investor in Ukraine, down from its position as the largest source of Foreign Direct Investment in the late 1990s.<sup>86</sup> Table 1 provides a breakdown of Direct Foreign Investment in Ukraine by EU countries as of 01 January 2011. From a Western perspective, Ukraine's energy sector has drawn the most attention because it directly affects energy supplies to Europe. While Ukraine is only a transfer point between the Russian suppliers and European consumers, the energy sector is important to Ukraine because it brings in needed tax revenue. Improving the non-energy economy and reducing corruption would reduce Ukraine's reliance on energy sector revenue. With alternate pipelines under construction, Western reliance on the Ukrainian system may be reduced also affecting revenue. A sustained non-energy sector growth plan is vital to Ukraine's economic success and serves Ukraine in several ways. It reduces state reliance on transfer fees as a prime source of revenue thus reducing Russia's ability to use this as a tool against Ukraine. Non-sector growth would do more to expand Ukraine's domestic economy creating more jobs, attracting foreign Direct Investment, and reducing the relative importance of Russian trade. Greater

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<sup>86</sup>Ibid., 19.

job creation would reduce the possibility of civil unrest and possibly soften tensions between the political parties.

Table 1. Direct Foreign Investment in Ukraine (as of 1 January 2011)

	Volume of direct investment as of 01.01.2011 (mln.USD) <sup>2)</sup>	In % to the total
<b>Total</b>	<b>44708,0</b>	<b>100,0</b>
of which		
Cyprus	9914,6	22,2
Germany	7076,9	15,8
The Netherlands	4707,8	10,5
Russian Federation	3402,8	7,6
Austria	2658,2	5,9
France	2298,8	5,1
United Kingdom	2367,1	5,3
Sweden	1729,9	3,9
Virgin Islands, British	1460,8	3,3
United States of America	1192,4	2,7
Italy	982,4	2,2
Poland	935,8	2,1
Switzerland	859,4	1,9
Other countries	5121,1	11,5

<sup>1)</sup> Data are calculated on an accrual basis since the beginning of investment. A list of countries is defined on the basis of the largest investment made into the Ukraine's economy.

<sup>2)</sup> Direct investment to Ukraine and by selected investor-countries include data from National Bank of Ukraine and State Property Fund of Ukraine

*Source:* Ministry of Economy of Ukraine, <http://www.ukrexport.gov.ua/eng/economy/indicators/ukr/5058.htm> (accessed 6 June 2011).

Ukraine's choices are either greater economic cooperation with Russia or closer economic ties with the West. Greater reliance on Russia would bring increased Russian influence into the Ukrainian political system much like the energy sector. Increasing economic ties to Europe provide a larger market for Ukrainian products and greater

access to Western financial assets. Ukraine's sovereignty would also be better protected by aligning with the Western economies rather than increasing reliance on Russia. To realize these changes Ukraine will have to develop policies that attract Foreign Direct Investment and transition to a more open market system. Corruption and bureaucratic roadblocks hamper efforts to expand the economy. Maintaining economic progress and improving business environment conditions in order to increase Foreign Direct Investment will be a primary element of Yanukovich's political agenda.

Currently Russian/Ukrainian political and economic relations have improved with the election of President Yanukovich. The level of cooperation that Russia expected with his victory has not been fully realized. President Yanukovich seems to be developing a strategic policy that maintains economic support from the West while at the same time does not alienate Russian interests. In 2008, the Russian Foreign Minister stated that Russia would oppose Ukrainian membership in NATO and the Chief of the Russian General Staff warned that Russia would use military measures if they gained membership. Nothing in this research led to the conclusion that any actual military threat to Ukraine has been seriously considered over NATO or any other issue in Ukrainian/Russian relations. Russia's military threats concerning Ukraine's attempts at NATO membership had little effect on the previous administration. However, Russian objections were a key factor in France and Germany's opposition to Ukraine's Membership Action Plan and may have been a factor in the low public support for the NATO request. Shelving Ukraine's NATO membership efforts aided Yanukovich by placating Russia, while not damaging his economic dependency on western aid and support. Ukraine has not met the requirements for NATO membership nor does a

majority of the population support NATO membership.<sup>87</sup> The U.S. provided outspoken support for Ukraine's MAP but several NATO members have not been supportive of their membership due to fears of damaging their own relations with Russia. By removing NATO membership as a priority, Yanukovich reduces tension with Russia while surrendering a course of action that is not achievable under current conditions domestically, or within NATO itself. During NATO discussions, Ukraine stated that NATO forces could not operate in Ukraine because the Ukrainian constitution bans foreign military forces from operating in Ukraine. When the CIS Anti-Terrorist Center wanted to conduct exercises in 2009, Ukraine used the same argument to prevent this exercise. Yanukovich has made good use of the constitution and WTO rules to deflect Russian pressure for greater cooperation. The settlement of the Black Sea Fleet lease and signing of a long-term gas agreement has alleviated most major Ukrainian points of conflict with Russia. Yanukovich can now concentrate efforts on the most pressing needs in Ukraine, those of economic development. In 2007, over four-fifths of Ukraine's imports came from other countries in the Commonwealth of Independent States (CIS) or from Europe, primarily the EU.<sup>88</sup>

Russia's hardline attempts to influence Ukraine economically using Russia's energy resources have done more to alienate them to the Ukrainian public, rather than produce a cooperative atmosphere. As major points of conflict have been reduced, Russia

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<sup>87</sup>John Kriendler, "Ukrainian Membership in NATO: Benefits, Costs, Misconceptions, and Urban Legends," Defence Academy of the United Kingdom, July 2007.

<sup>88</sup>Crane, "Encouraging Trade and Direct Foreign Direct Investment in Ukraine," 14.

has turned to “soft power” to influence Ukrainian policy. Some of the ways Russia has implemented its soft power to influence neighboring states is by absorbing their surplus labor, providing markets for their goods, and transferring funds in the form of remittances (rather than foreign aid). The March 2009 agreement between Ukraine and the EU to improve Ukraine’s pipeline system and the elimination of RUE has reduced Russian influence on the internal energy sector in Ukraine by increasing business transparency. Russia had been able to influence Ukrainian politics using state owned Gazprom, which was a 50 percent owner of RUE. The progression towards more transparent business practices in Ukraine greatly reduces Russia’s ability to affect Ukrainian policy decisions. An approaching issue may be the development of the Russian Nord Stream and South Stream pipelines. This is an attempt to regain some influence over Ukraine’s energy sector by removing Russian dependency on Ukraine’s pipeline system to Europe. Once Russia’s reliance on Ukraine’s pipeline system as an oil and gas transfer point to Europe is reduced, they will have increased leverage over Ukraine. Oil transfer fees are an important source of revenue for Ukraine.

The topic of this research is broad despite addressing only the diplomatic and economic elements of power in the DIME model. The diplomatic and economic elements of power used by Russia are inherently connected to one another by Russia’s state control over their energy sector businesses. The economic conditions in Ukraine are the key element in the development of their strategic policy, so the economic tools used by Russia have the most powerful effect when trying to influence Ukraine. Yanukovich must react to the Russian attempts at influence while maintaining Ukraine’s progress towards western economic standards.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

The purpose of this research is to determine the effect of Russian actions on the strategic security policy of Ukraine in order to determine how these policies may affect NATO/US strategic planning. The relationships between the republics of the former Soviet Union, NATO, the U.S., and the EU are vital to maintaining stability in the region. In this final chapter, I explain what these findings mean, but more importantly, what implications they have for strategic engagement in the region. The findings were highlighted in order to focus the reader on the underlying causes of strategic planning change, rather than on highly visible actions that can be misleading.

The economic conditions in Ukraine have had the highest degree of influence on Ukrainian strategic policy. While the energy sector has been a tool of Russian influence resulting in considerable tension, the agricultural and defense industries have been relatively stable. Russia's attempts to influence Ukraine through coercive measures have not produced the results they desired. Fomenting ethnic/nationalistic tensions and open involvement in the Ukrainian election process has created a backlash in both Ukrainian politics and the populace. Creating an adversarial relationship with Ukraine has not been the most effective policy to gain Ukrainian cooperation with Russia. Russia's aggressive policies directed at Ukraine have led to secondary effects that are not in Russia's national interests. The energy sector actions with Ukraine demonstrated to the Central Asian States that reliance on Russian pipelines might not be in their best interest. This should lead to a more conciliatory Russian stance with Ukraine in order to improve Russia's standing in other areas.

The primary focus of Ukraine's national interest objectives is their economy. Ukraine has directed their strategic policies at enhancing economic cooperation with the West. Their membership in the WTO, the Partnership and Cooperation Agreement with the EU and the Ukraine-EU Action Plan are aimed at garnering financial and economic support from the West. These actions support Ukrainian economic development while also maintaining Ukrainian sovereignty. A stable diplomatic and economic environment with Russia is also in Ukraine's national interest.

Increasing Foreign Direct Investment levels and maintaining IMF support, while reducing diplomatic and energy sector tension with Russia is the correct path for Ukraine to follow. Corruption remains a major problem in the Ukrainian economic system and the political system. The government is interested in reducing the threat of civil unrest in the domestic population. To draw increased Foreign Direct Investment into Ukraine, they will need to reduce corruption. Increased investment in an open market system will produce tangible economic development that will reduce the threat of civil unrest. The first stage of reducing corruption in the domestic economy needs to be reforms addressing corruption at the governmental level. Improving the business environment and reducing corruption will be key to attracting foreign investment and business prospects from the West.

To accomplish Ukraine's goals, President Yanukovich has to balance his relationships between Russia and the West. The long term energy agreement, the extension of the Black Sea Fleet Basing lease and his decision to stop seeking NATO membership have resolved the main points of contention with Russia. Ukraine's efforts to continue its market economy transition by the March 2009 agreement with the EU to

improve Ukraine's pipeline system, and the elimination of RosUkrEnergo (the former energy intermediary in Ukraine), have improved business transparency. Considerably more progress in business transparency is needed to westernize the Ukrainian system. Reducing corruption and implementing greater business transparency will continue to be one of the toughest challenges for Ukraine. Addressing these challenges is fundamental to improving the international perception of corruption in Ukraine. To date Yanukovich has been successful in facing these challenges by reducing tensions with Russia while not alienating the West. Improved relations with Russia have put him in a better position to focus on Ukraine's economic problems and corruption issues.

Foreign Direct Investment has to be one of Yanukovich's priorities. Increasing the level of investment in Ukraine will provide the capital necessary to drive economic growth. A secondary effect of increased investment from the West will be to strengthen Ukraine's sovereignty by reducing Russia's economic influence in Ukraine relative to the West. Foreign investment can also promote Ukraine's EU membership outlook by improving their agricultural and mineral production levels.

Ukraine's relationship with Russia will be redefined as they become more active in Western organizations. Ukraine will continue to participate in NATO exercises and operations while not formally advocating a MAP, thus placating Russian concerns. Ukraine's optimal course of action is to grow their economy and pursue EU membership. This move would be less threatening to Russia and would enhance their ability to gain a Membership Action Plan in the future. They will continue their involvement with the WTO and other EU agreements to enhance their economic objectives and improve the levels of Foreign Direct Investment. The West's requirements for transparency and a

reduction in corruption will be opposed by Russia, as transparency is a direct threat to Russia's patrimonial system of political control. As corruption is reduced and business reforms are implemented, Russia's present method of garnering influence will be reduced. The most effective way for Russia to counter these Western trends are to substantially increase investment in Ukraine through state owned or state influenced transnational companies. Russia's relative economic importance to Ukraine would increase and financially advantageous corrupt business practices would continue. This strategy would be predicated on Russia's economic capacity to substantially increase investment in Ukraine. As Ukraine's interdependence with the West increases, including reforms to reduce corruption and improve the political process, Russia's influence in Ukraine will be redefined. Turning to soft power in the form of economic aid to draw Ukraine away from Western reforms could prove to be effective. Given the improved relationship with the current Ukrainian administration and that corruption is still pervasive, efforts to increase influence in the domestic economy could be successful. Improving the domestic economy is the primary objective for Ukraine to stabilize the domestic political environment and for Yanukovich to strengthen his position. Strategic policy will be focused on domestic economic development as a way of reducing the threat of civil unrest. Recognizing increased Russian investment as a potential threat to sovereignty may be overlooked as it also strengthens Ukraine's domestic economy and in turn Yanukovich's position.

Ukraine will guardedly protect their sovereignty while increasing diplomatic and economic cooperation with Russia. Yanukovich's use of the Ukrainian constitution and WTO rules to prevent closer involvement with Russia protects Ukrainian sovereignty

while not presenting an intransigent attitude to Russia. Greater cooperation with Russia on specific issues will ease but not dissipate separatist threats in the Crimea. The Crimea will remain a potential point of tension in Ukraine. Ukraine's progress towards EU membership will not be rapid. Considerable improvements in the level of corruption and the implementation of more transparent business practices need to be accomplished first. The slow process of EU membership will aid in socializing Russia to the changing situation. How Russia perceives EU membership in relation to progress towards potential NATO membership will define their position. If Russia links these to actions together, one of the tools they could use to influence Ukraine is by fomenting separatist activity. Ukraine could offset this threat with an inclusive, thriving economy and a political process that is perceived to be free of corruption.

There were two items that I found surprising as I conducted this research-- Yanukovych's success and a limited military threat. From an American perspective, it is rather unexpected that president Yanukovych has been able to balance Russian and Western interests while maintaining Ukrainian sovereignty. He did not become a "yes man" to Moscow as many in the West, and probably Russia, had predicted. Yanukovych's election signified a relatively smooth transition of power, and may imply a maturing of the Ukrainian political process. Yanukovych has made visible signs of reducing corruption, however it has primarily been focused on the other political parties. Whether this is a coincidence or a concerted effort to strengthen his political position remains to be seen. Prior to conducting the research, I had expected a greater degree of military posturing by Russia. I did not find an impending feeling of military conflict to be prevalent in Ukrainian dialogue however. Russia's incursion into Georgia was seen as an

aggressive military action but it may have also highlighted the limitations of military action in the present geopolitical environment.

My recommendations for further research would be a study of Ukraine's domestic economy. The condition of the domestic economy will drive strategic policy. The domestic economic condition of Ukraine will have ramifications to its neighbors and the region by creating a stable regional economic environment. An economically successful Ukraine would create a more robust regional trading partner, reduce the level of IMF funding, and create a more secure environment for Foreign Direct Investment. EU qualms about another weak economic state seeking EU membership could be reduced, setting the conditions for a potential Ukrainian membership application. An economically successful Ukraine would have greater autonomy in its geopolitical decisions and could assist in the potential integration of Russia into the greater European community if desired.

In my opinion, one of the most important unanswered questions concerns the north and south pipelines that Russia is developing. Once these are in operation, Russia's ability to bypass the Ukrainian pipeline system will reduce transfer fees and could have considerable political and economic implications for Ukraine. This could have a positive effect by highlighting the urgency to grow the Ukrainian economy and become less reliant on energy transfer revenue. Reduced reliance on energy revenue would strengthen Ukrainian sovereignty by reducing Russia's ability to effectively employ this against them.

My recommendations for U.S. planners would be to develop a long-term economic plan to assist Ukraine's economic reform process while stressing the need for a reduction in corruption. Continued support for U.S./Ukrainian mil-to-mil exchanges and

exercises could enhance Ukrainian military reforms and cooperation. Support of the Ukrainian political process while not engaging in the process should produce the best results. The challenge is to support the political process while not challenging Russia and to empower Ukraine to reform and mature its system. The best way to accomplish this is through increased Western investment to reduce the relative level of Russia investment.

Ukraine has the potential to be a stabilizing element in an important region of the world. Currently, Ukraine is a key transit point for energy and political stability is key to ensuring uninterrupted energy supplies to Europe. An economically successful Ukraine with a market driven economy could be an effective way to draw Russia closer into the European community. It could also serve as an example for Russia to emulate in reforming their economic model when or if that process occurs. Ukraine has the potential to become an important member of the EU once key reforms to reduce corruption and eliminate bureaucratic obstacles to economic development are implemented. Ukrainian policy cannot be developed without considering Russian reactions. Russia will act negatively to any apparent security threats such as NATO membership or the Black Sea Fleet basing issue. Ukraine is fully aware of Russia's stance on these issues and they are not key to Ukraine's strategic objectives. Russia's primary concern will be with actions they perceive to reduce their regional influence. How Russia perceives transparency reform, reductions in corruption, and attempts at a possible EU membership will need to be addressed by Ukraine. Balancing the rapid reform advocated by the West with a slower reform to socialize Russia to the process will be the difficult part for Ukrainian planners. Assisting Ukraine in transitioning to a successful market economy supports

U.S. and Western interests by stabilizing the region and serving as a potential bridge to Russian relations.

Ukraine is primarily important to the U.S. as a tool through which to influence Russia. Russian relationships and influence in the Central Asian States can either support or undermine U.S. objectives in the region. For instance, the ability to influence Russia can indirectly affect the logistical support of the Afghan operation that transits several Central Asian States. During the Bush administration, the U.S. had a tenuous relationship with Russia. This coincided with the U.S. actively pressing for Ukraine's MAP request although several major NATO members and the Ukrainian people were against it. The adamant support of Ukraine's MAP request in light of these conditions can only be seen as a challenge to Russian authority. The Obama administration has ushered in a much more conciliatory relationship with Russia. President Obama's trip to Moscow coinciding with Vice President Biden's trip to Kiev demonstrated to many Ukrainians their secondary importance in U.S. policy. Many Ukrainians perceive that any U.S. concessions to Russia will come at Ukraine's expense; to a degree, this may be true. However, much needed economic and political support is provided to Ukraine in order to maintain U.S. influence and through this relationship, with Russia. The level of U.S. involvement in Ukraine could fluctuate as U.S. / Russian relations change. Russian demands for greater authority in the region may in fact directly affect Ukraine by reducing U.S. support in order to obtain Russian concessions elsewhere.

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