

UKRAINE



Ukraine U.S. assistance is intended to foster a democratic, prosperous, and secure Ukraine fully integrated into the Euro-Atlantic community. The United States will continue to promote a legacy of sustainable institutions that advance democratic reform, rule of law, energy security, human rights, and economic growth. Ukraine faces additional, serious economic problems as a result of the global financial crisis. Endemic corruption remains a serious obstacle to progress, and a factionalized political environment has also slowed the legislative, judicial, and market reforms necessary for closer integration with the European Union, and greater integration into the world economy. Increased political will from the Government of Ukraine will also be required to ensure transparency, security, and diversification of the energy sector and to curb one of Europe's fastest growing HIV/AIDS and tuberculosis epidemics.

FOREIGN RELATIONS: The government has declared Euro-Atlantic integration to be its primary foreign policy objective and has sought to maintain good relations with Russia. Ukraine's relations with the EU have been guided by the Partnership and Cooperation Agreement (PCA) since 1998. In September 2008, the EU-Ukraine Summit decided to upgrade the framework of EU-Ukraine relations to an association agreement, negotiations on which are envisaged to be concluded by the end of 2009. In March 2009, the European Council endorsed the Eastern Partnership (EaP) initiative to help the EU's Eastern neighbors (Ukraine, Belarus, Moldova, Georgia, Azerbaijan, and Armenia) undertake political and economic reforms and to bring them closer to the EU. The EaP was launched in May 2009.

On January 31, 1992, Ukraine joined the then-Conference on Security and Cooperation in Europe (now the Organization for Security and Cooperation in Europe--OSCE), and on March 10, 1992, it became a member of the North Atlantic Cooperation Council. Ukraine signed a Charter Agreement with NATO in 1997, sent troops to Kosovo in close cooperation with NATO countries, signed an agreement for NATO use of Ukrainian strategic airlift assets, and has declared interest in eventual membership. It is the most active member of the Partnership for Peace (PfP). In April 2005, NATO offered an "Intensified Dialogue on Membership Issues" to Ukraine, and in January 2008 Ukraine requested a NATO Membership Action Plan. At the April 2008 summit in Bucharest, NATO allies decided to review Ukraine's MAP request at a future date and affirmed that it would eventually become a member of the alliance. Russia continues to oppose Ukraine's request to join NATO.

Ukraine's relations with Russia have recently focused on several bilateral issues stemming from differing foreign policy priorities in the region, including energy dependence, natural gas payment arrears, disagreement over compliance with the 1997 agreement on the stationing of the Russian Black Sea Fleet in Sevastopol, and a dispute over bilateral boundaries in the Sea of Azov and the Kerch Strait. In January 2009 Gazprom, the Russian natural gas distributor, cut supplies to Ukraine. The cutoff developed into a crisis as both the gas supplies intended for consumption in Ukraine and those in transit to the rest of Europe were cut off for nearly a month. Ukraine was able to meet most of its domestic demand with reserves, but consumers in other European countries were left without gas for nearly three weeks. An agreement was signed with Russia on January 19, 2009, which called for market pricing for gas and transit and the elimination of intermediaries.

Ukraine maintains peaceful and constructive relations with all its neighbors, though there are some unresolved maritime issues along the Danube and in the Black Sea with Romania; it has especially close ties with Poland and Russia. Ukraine co-founded the Commonwealth of Independent States (CIS) on December 8, 1991, but in January 1993 it refused to endorse a draft charter strengthening political, economic, and defense ties among CIS members. Ukraine was a founding member of GUAM (Georgia-Ukraine-Azerbaijan-Moldova) and has taken the lead with Georgia to promote cooperation among emerging democracies in the Community for Democratic Choice, which held its first summit meeting December 1-2, 2005 in Kyiv. In February 2009, the office of the Organization for Democracy and Economic Development GUAM was opened in Kyiv. In 1999-2001, Ukraine served as a non-permanent member of the UN Security Council. Soviet Ukraine joined the United Nations in 1945 as one of the original members following a Western compromise with the Soviet Union, which had asked for seats for all 15 of its union republics. Ukraine has consistently supported peaceful, negotiated settlements to disputes. It has participated in the five-sided (now "5+2") talks on the conflict in Moldova, and under President Yushchenko it has actively boosted efforts to seek a resolution. Ukraine has also promoted a peaceful resolution to conflict in Georgia, with President Yushchenko vocally supporting Georgian territorial integrity during Georgia's conflict with Russia in August 2008. Ukraine has also advocated a return to democracy in neighboring Belarus. Ukraine has made a substantial contribution to UN peacekeeping operations since 1992.

U.S.-UKRAINIAN RELATIONS: The dissolution of the Soviet Union in December 1991 brought an end to the Cold War and created an opportunity to build bilateral relations with the New Independent States (NIS) as they began a political and economic transformation. On December 25, 1991, the United States officially recognized the independence of Ukraine. It upgraded its consulate in the capital, Kyiv, to embassy status on January 21, 1992. The U.S. ambassador to Ukraine is William B. Taylor, the sixth U.S. ambassador since Ukrainian independence.

The United States attaches great importance to the success of Ukraine's transition to a democratic state with a flourishing market economy. Following a period of economic decline characterized by high inflation and a continued reliance on state controls, the Ukrainian Government began taking steps in the fall of 1999 to reinvigorate economic reform. Ukraine's democratic "Orange Revolution" has led to closer cooperation and more open dialogue between Ukraine and the United States. The United States granted Ukraine market economy status in February 2006. In March 2006, the United States terminated the application of the Jackson-Vanik amendment to the Trade Act of 1974 to Ukraine, providing Ukraine permanent normal trade relations status. The United States and Ukraine signed a new Trade and Investment Cooperation Agreement (TICA) on April 1, 2008. The TICA establishes a forum for discussion of bilateral trade and investment relations and will help deepen those relations. U.S. policy remains centered on realizing and strengthening a democratic, prosperous, and secure Ukraine more closely integrated into Europe and Euro-Atlantic structures. In December 2008, The United States signed the U.S.-Ukraine Charter on Strategic Partnership. The Charter highlights the importance of the bilateral relationship and outlines enhanced cooperation in the areas of defense, security, economics and trade, energy security, democracy, and cultural exchanges. The Charter also emphasizes the continued commitment of the United States to support enhanced engagement between NATO and Ukraine.

Peace and Security: A key priority of U.S. assistance under this objective will be to support the necessary restructuring, modernization, and reform of the Ukrainian armed forces to further interoperability with, and possible accession, to NATO. U.S. assistance will also support the development of Ukrainian forces deployable for international missions. In addition, the reorganization of Ukraine's law enforcement bodies to comport with European norms is essential to the country's Euro-Atlantic

integration. Assistance will also focus on promoting law enforcement reform; countering weapons of mass destruction and conventional weapons proliferation; nuclear safety; reintegration of weapons scientists in civilian pursuits; strengthening export control and border security; and combating transnational crime, particularly trafficking in persons. Ukraine has been a strong participant in peacekeeping and other international missions in Afghanistan, Iraq, the Balkans, the Middle East, and Africa and has been a key partner in tackling the challenge of weapons proliferation. By far the largest funding requirement under this objective is for nuclear safety as it includes funding for the Chernobyl Shelter Implementation Project and Nuclear Safety Fund. This reflects, in part, the international commitment to contribute to the construction of a shelter over the sarcophagus of the destroyed Chernobyl nuclear reactor. Programs under this objective will be implemented through a number of U.S. agencies, including the U.S. Agency for International Development (USAID), the Department of State, and the Department of Defense.

Governing Justly and Democratically: The political environment in Ukraine remains factionalized. U.S. assistance programs administered by USAID and the Department of State will work to consolidate and build upon the democratic progress made since the Orange Revolution, strengthen the rule of law, and promote justice system reform. These programs will improve governance by building parliamentary capacity and cohesiveness, promoting decentralization, and strengthening the capacity and strategic planning of local entities. In order to increase access to objective information, assistance programs will promote an environment in which independent media can flourish, build the capacity of media outlets, and improve the professionalism and quality of journalism. U.S. programs will work to improve the operating environment for civil society, bolster the management and financial sustainability of non-governmental organizations, and strengthen the capacity of civil society groups to advocate on behalf of citizen interests, increase civic activism, and perform a watchdog role on government behavior. U.S. assistance will bolster political competition and strengthen democratic processes by building the capacity of political parties in areas such as constituency development, effective campaigning, and building governing coalitions. A special focus will be placed on strengthening democratic actors and institutions in Eastern and Southern Ukraine. Democratization assistance will build on Ukraine's Millennium Challenge Corporation (MCC) Threshold Program and fund activities complementary to and supportive of its anti-corruption focus.

Investing in People: U.S. assistance implemented by USAID will combat HIV/AIDS and tuberculosis (TB) as well as support programs in family planning and reproductive health. Ukraine has one of the world's fastest rates of increase in pre-epidemic HIV and TB infection. Assistance programs to arrest the spread of HIV/AIDS will also help prevent mother-to-child HIV/AIDS transmission, address the spread of multi-drug resistant TB strains, and stem the potential long-term disruption HIV/AIDS poses to Ukraine's economic growth.

Focus on Performance: Successful certification of designated Ukrainian units through the NATO Operational Capabilities Concept (OCC) is at the centerpiece of U.S. multilateral efforts to assist Ukraine in developing NATO-standard military capabilities - a key factor in fostering Ukraine's continued integration into NATO and a key contributor to Ukraine being the only NATO-PfP state to participate in every NATO-flagged operation. Ukraine continued to expand its participation in NATO OCC, leveraging its bilateral exercises with the U.S. and its pre-deployment training for OPERATION ACTIVE ENDEAVOR, to provide venues for internal and external evaluations for high priority Naval, Air, and Land Forces Units. Increasing available funds in FY2010 will be critical in sustaining support for these units as they move from the "Interoperability" assessment phase of the OCC process into the much more onerous and costly "Capability" phase. Additional funds will allow for the acceleration in the fielding of: additional interoperable communications equipment for Land and Naval Forces (efforts that have lagged due to large shortfalls in the FY2008 and 2009 budgets); key navigation and damage control equipment for the Navy; enhanced training programs and training aids for the Land Forces; and funding of Mobile

Training Teams to train these select units in mission-critical tasks. Although the FY 2010 target for the number of units that complete scheduled NATO OCC Evaluations remains at 10, reaching this target will require significantly more resources than provided in FY2009, as the standards and requirements for each successive evaluation become higher. The global economic recession has exacerbated the need for local governments to attract domestic and foreign investment to increase the level of discretionary revenues and to learn to manage budgets effectively with transparency and accountability to their citizenry. USAID will have three activities that will work with sub-national government entities, increasing their ability to provide citizens, businesses and other organizations with basic services through 2010. Two of the three programs began over the last 12 months, and the next related activity is scheduled to begin in late FY 2009. In FY 2009, work will begin with 80 sub-national entities. USAID will increase the number of sub-national government entities receiving assistance from 80 in 2009 to 140 in 2010. With the proposed levels of funding the U.S. anticipates significantly exceeding the 2010 level in 2011. In addition to increased investment and discretionary revenue for local governments, activities under this indicator will lead to local governments that are better prepared for greater fiscal autonomy. U.S. efforts in Tuberculosis (TB) control support National TB Program efforts to rapidly expand World Health Organization-endorsed Directly Observed Treatment Short Course (DOTS) services nationwide. DOTS coverage is currently estimated at 35 percent of the population. With continued rapid increases in TB cases and growing incidence of multi-drug resistant TB and TB-HIV co-infection, there is urgent need to increase the quality and availability of DOTS services. It is particularly essential to intensify efforts to contain multi-drug resistant TB (MDR-TB) and prevent extensively drug-resistant TB (XDR-TB). In assisting Ukraine to expand high quality DOTS to 50 percent of the population by 2011, U.S. programs are also introducing DOTS-based programs to control drug resistant TB and increase access to TB-HIV co-infection services, and building a regulatory environment that supports TB care in line with international standards. Additional funds in 2010 will accelerate DOTS rollout to additional regions to reach 60 percent of the population. In addition, 2010 resources will support improvements in laboratory systems and diagnostics which lead to improved quality of both TB and MDR-TB diagnosis and treatment in USG supported regions. With increased FY 2009 funds, U.S. assistance efforts will build on Ukraine's accession to the World Trade Organization (WTO), and move toward a new, landmark Free Trade Agreement (FTA) with the European Union. The U.S. will help Ukraine fulfill WTO commitments by advancing effective implementation and enforcement with new regulations Ukraine must continue to improve its trade regime in areas such as government procurement systems sanitary and phytosanitary measures, technical barriers to trade, intellectual property rights protection, and WTO notifications. Progress in these areas, and others, will similarly advance Ukraine's meeting requirements for the EU FTA. USAID's flagship trade program ended in April 2008, and consequently there is a lower target in 2009, as the new trade activity is underway. However, increasing funds will enable the mission to double the legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements from 2009 to 2010. These increased funds, in combination with stronger political will as Ukraine moves closer toward the EU FTA accession date of 2012, could also dramatically increase the number of legal, regulatory and institutional actions further in 2011. In addition, the Department of Commerce's Commercial Law Development Program will continue its trade-related technical assistance and, with increased funding, intends to launch a new project to promote economic growth in Crimea through increased trade and investment. The Special American Business Internship Training (SABIT) program will also continue its efforts to expand trade and investment by exposing Ukrainian entrepreneurs to business practices in the United States, although SABIT's work will not contribute to this particular indicator. With the deepening recession, hundreds of thousands of jobs are already being shed in steelmaking and related industries. Yet, the regulatory environment is a central barrier to increasing productivity and investment. With increased FY 2010 funding, USAID will work with more institutions and organizations undertaking capacity and competency strengthening as a result of USAID assistance. USAID will assist municipalities to alleviate administrative and regulatory barriers with particular emphasis on property and land markets. USAID will provide support to the development of local One-Stop-Shops to streamline permitting and reduce business transaction costs in partner

municipalities/localities. USAID will also work with industry organizations and businesses to increase the competitiveness of targeted economic sectors. With increased funding, and as projects mature, the number of institutions and organizations undertaking capacity and competency strengthening as a result of USAID assistance is expected to rise over three-fold from 2009 to 2010.

Economic Growth: U.S. economic growth assistance focuses on the energy sector, developing financial services, and building enabling environments (trade and investment, financial, business, and agricultural) to promote growth, facilitate European integration, fortify Ukraine against external economic and energy pressure, and implement World Trade Organization (WTO) accession. Activities will also focus on improving policies, laws, regulations, and administrative practices affecting the private sector's ability to compete nationally and internationally. Ukraine's long-term political stability is closely linked to its economic prosperity, security, and transparency and to the rise of a broad entrepreneurial middle class. Assistance in the energy sector will focus on promoting energy efficiency, transparency, security, and diversification and encouraging energy policy reform. Assistance under this objective will include legislative reform and anti-corruption components. Funding will also support business internships and exchanges to build human capital. Programs under the economic growth objective will be administered by a number of U.S. agencies, including USAID, and the Departments of Commerce, Agriculture, and the Treasury.

Humanitarian Assistance: U.S. assistance provided by the Department of State will support humanitarian projects that are designed to alleviate the suffering of the most needy population groups in Crimea and the depressed areas of Eastern Ukraine, focusing on the elderly, disabled, orphans, children, the extreme poor, and the institutionalized. Through these projects, the United States will provide medical supplies and equipment, food, clothing, and health and emergency shelter items; respond to disasters; and execute small reconstruction projects.

Linkages with the Millennium Challenge Corporation

Ukraine's Millennium Challenge Corporation (MCC) Threshold Program, approved in 2006, will dedicate approximately \$45 million over a two-year period to anti-corruption activities in judicial reform; the Government of Ukraine's ethical and administrative standards; higher education; streamlining and enforcement of government regulations; and monitoring and advocacy by civil society and the media. Assistance will address the Governing Justly and Democratically objective by funding activities, such as strengthening Ukraine's ability to investigate and prosecute corruption, that underpin the Threshold Country Program and maximize its impact. Ukraine's MCC Threshold Program is due to be completed at the end of 2009.