

THE ECONOMIC AND POLITICAL FUTURE OF UKRAINE

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

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THE ECONOMIC AND POLITICAL FUTURE OF UKRAINE

THURSDAY, OCTOBER 8, 2015

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:39 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Bob Corker (chairman of the committee) presiding.

Present: Senators Corker, Gardner, Cardin, Menendez, Shaheen, and Kaine.

OPENING STATEMENT OF HON. BOB CORKER, U.S. SENATOR FROM TENNESSEE

The CHAIRMAN. Our hearing will come to order, and we want to thank you for being here today, and thank you for your service to our country. We look forward to your testimony. We thank our witness from the State Department and our panel of private witnesses for being here today.

We believe and our European allies agree that Ukraine should be free to choose its future. Ukraine can, over time, be like its neighbor, Poland. Ukraine has a number of resources and educated and determined people. Most Ukrainians, as the Secretary knows well, want to be a part of a united, free, and prosperous Europe.

If Ukraine wants to go in the right direction, if Ukraine wants the rule of law, it has to keep making real changes, and, again, I know our Secretary is working hard toward that end. This cannot be done without political will on their part. The United States for our part needs a sustained bipartisan commitment to Ukraine for as long as necessary. Today we will examine where the Minsk process and the Normandy Group stand. Any progress on that front will only be worth something if it creates space for Ukraine to become a part of Europe.

Ukrainians are wondering if the West will walk away. Candidly, I have concerns about our real commitments to Ukraine and the length of that time that a real commitment will be sustained. And so, we need to make sure that that is not the case. Ukraine's leaders are enacting key reforms, but they will also be judged on how they address corruption. We and our allies will be judged on what we do now and over the next decade to support Ukraine.

Here in Congress we are working to authorize a long-term framework for Ukraine, but given all that has happening, our executive branch also needs to act to set the right course and not posture. Obviously, we can never accept Russia's land grabs through frozen

conflicts and outright annexation. We need to be prepared to invest resources and put significant effort behind that.

A reformed Ukrainian economy needs to be fully engaged with the West so that it can grow and withstand Russian pressure. We obviously need to be firm and reinforce Ukraine's economic and political reforms, including decentralization and punishing corruption. And we need to ensure that all Ukrainians, including Russian speakers, benefit from Ukraine's democratic future.

We need to make sure that we are assisting and training and supporting Ukraine's military and security forces, and we need to do whatever is necessary to ensure NATO readiness in the Baltics and Europe east of Germany. We need our NATO allies, including Germany, Poland, United Kingdom, France, Canada, and others to also make a real long-term commitment to work with us to see that Ukraine has a future tomorrow, and that it is as secure as Poland's is today.

And I just want to say one more time, our friends in Europe, so few of them—I am sorry—so few of them are honoring their basic NATO commitments. Basic NATO commitments. I know the Secretary has pushed hard to change that. I know that our NATO Secretary General is pushing hard to change that. We continue to be, our Nation, the provider of security services. Europe continues to be the consumer of security services, and that dynamic has got to change.

I would like to recognize our distinguished ranking member for any opening comments that he would like to offer, and thank him for his service.

**OPENING STATEMENT OF HON. BENJAMIN L. CARDIN,
U.S. SENATOR FROM MARYLAND**

Senator CARDIN. Well, thank you, Mr. Chairman, and thank you for convening this hearing. Secretary Nuland, it is always a pleasure to have you here and our distinguished guests on the second panel. It is nice to have both of you here also.

Let me first make an observation as it relates to Ukraine. Ukraine has a dual challenge. It has the external interference by Russia, which has affected not only its territorial integrity, but also its ability to advance a strong, independent state. And then it has its internal challenges, a country that has been plagued for many, many years with weakness in democratic institutions and its susceptibility to the plague of corruption. Both need to be dealt with for Ukraine to be successful.

Many of us have visited Ukraine on many occasions. I have, and I have seen the people. I have been there during the different revolutions and seen the will of the people. I have been to the Maidan and could sense the frustration. And what I got from my visits is that the people of Ukraine want a government that is honest, that gives them a fair shake, and that represents all the people. It is not so much whether it is affiliated with Europe or Russia. It is more of whether you have an independent country that can make independent judgments and can represent all of its people.

So our Ukraine strategy has been to try to make sure that we accomplish both objectives, and, quite frankly, I have supported a more aggressive approach than the administration on the defensive

side. I thought we should have been providing more military equipment so that Ukraine could defend its borders more successfully than it has been able to defend its borders. And I understand the administration has been slow on that mainly because of our coalition, but I do think we have paid the price because of the porous borders between Ukraine and Russia, particularly on the eastern part and what has happened.

Secondly, we need to aggressively work to establish strong democratic institutions in Ukraine, and we have worked with the international community, and I am interested in seeing where we are on that and what more can be done. Part of that is fighting corruption. I am going to say this over and over. Fighting corruption. And I know the commitment of the President to fight corruption, but it is still a huge problem, and how much have we done in order to make that possible.

We have seen progress, as the chairman has pointed out. The Association Agreement with the EU is certainly a positive step forward. We have seen anticorruption laws passed by their legislature, which is certainly a positive step. The question is how they are being implemented. And we have seen energy reform, which is a critical issue for Ukraine's future.

But much work remains. The interaction of the oligarchs with the government and its impact on democratic reforms is a matter that we can get into some discussion about. The inability to remove corrupt officials still remains in Ukraine, and what efforts are being made in order to remove corrupt, particularly in the judicial branch of government. Humanitarian assistance is problematic in the territories that are not controlled by the government. Can we be more effective in providing humanitarian need?

And one last point I added as a result of this morning's business discussion, and that is, Madam Secretary, I think if you had your full complement, including the assistant administrator for Europe, it would be helpful. That is not the fault of this committee. Tom Little has been lingering on the floor of the United States Senate for 71 days, and I think we could help if we confirmed that position for you to give you the full complement at the State Department.

So, Mr. Chairman, I look forward to our witnesses, and I look forward to how we can work together to strengthen Ukraine's ability to become a strong, independent state.

The CHAIRMAN. Thank you. Our witness for the first panel is the Honorable Victoria Nuland, Assistant Secretary for the Bureau of European and Eurasian Affairs at the State Department. We thank you for being here. You have been here many times. I know that a summary of 5 minutes is probably what you want to do. Any written materials will be made part of the record, without objection.

With that, we would like to recognize you and thank you for waiting to testify as you have. Thank you.

STATEMENT OF HON. VICTORIA NULAND, ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Ms. NULAND. Thank you very much, Chairman Corker, Ranking Member Cardin, members of this committee, for the opportunity to

join you today and for the bipartisan spirit in which you have supported Ukraine in its difficult times, and for the personal investment that so many of you have made in Ukraine's democratic European future.

I have submitted a longer statement with more detail, particularly on the reform side, but I will summarize here.

As you noted during the business meeting, this week we celebrate 25 years since Germany's reunification, the first major step on our collective bipartisan journey toward a Europe whole, free, and at peace, a goal of administrations of both parties, and today that journey goes through Ukraine.

In the 6 months since I last appeared before this committee, Ukraine can be proud of the progress that it has made. Last spring, the IMF approved a 4-year \$17.5 billion economic support program for Ukraine, and disbursements have begun. The Rada has passed legislation to reform the energy and agriculture sectors, to devolve authority to the regions, and to create oversight structures to clean up corruption. Last month, Ukraine reached a landmark debt relief deal with its creditors, and the September 1 cease-fire in Eastern Ukraine is largely holding. Heavy weapons are starting to be pulled back.

While we welcome this progress, as you both mentioned, Ukraine still has a long, hard road to travel. Today I want to talk about the status of the Minsk agreements, Ukraine's reform agenda, and the tough work ahead to cement Ukraine into a European future.

We continue to believe that the Minsk package provides the best hope for the return of Ukraine state sovereignty in its east. Yet in the 8 months since the February signing of the implementing agreement, Eastern Ukraine has seen almost constant violence, continued weapons shipments from Russia, separatist filibustering at the negotiating table, and repeated Russian efforts to relitigate basic elements of Minsk.

Yet on September 1, the guns largely fell silent, and on October 2, President Putin agreed to put a stop to the separatists to hold another round of fake elections. Instead he committed to Presidents Poroshenko and Hollande and to Chancellor Merkel to withdraw heavy weapons, to allow full OSCE access all the way to Ukraine's border, and to negotiate modalities for real elections in the Donbass under Ukrainian law and monitored by ODIHR.

If these commitments are kept, Ukraine will once again have access to its own people and its territory in the East. And as President Obama did with President Putin in New York last week, we will also keep pushing for the return of all hostages, including Nadiya Savchenko and Oleg Sentsov, who are being held in Russia, for full humanitarian access to Donbass for relief agencies, Ukrainian and Russian international, U.N. as well, and the removal of all foreign forces, weapons, and landmines as Minsk dictates.

We understand why after almost 2 years of violence, war, and lies, many Ukraine patriots and some in the West doubt that Russia and its proxies will ever allow full implementation of Minsk. But Minsk remains a goal worth fighting for because the alternatives for Ukraine are bleak. At best, we will have a frozen conflict in the Donbass; at worst, a return to the war that has already claimed too many lives.

So we will keep supporting Ukraine as it does its part to implement Minsk, and we will keep pushing Russia and its proxies to demonstrate good faith. But we will judge Russia and the separatists not by their words, but by their actions, and we will work with the EU to keep sanctions in place until the Minsk agreements are fully implemented. And, of course, Crimea sanctions must stay in place so long as the Kremlin imposes its will on that piece of Ukrainian land.

While 7 percent of Ukraine territory remains under threat, the other 93 percent is fighting a different battle. To build a democracy that is closer to its people and a colony where what you know matters more than whom you know, and a society where law rules rather than corruption and greed.

The reforms Ukraine have already enacted are impressive in their scope. Just a few examples. With U.S. help, newly vetted and trained police officers are now patrolling the street of Kiev, Odessa, Lviv, and Kharkiv. A new national anticorruption bureau has been approved, and with the help of the IMF, the government is rebuilding its financial sector, closing insolvent banks, and strengthening protection of depositors' rights.

These efforts are beginning to bear some fruit. The latest IMF forecast released this week predicted Ukraine's economy could grow by 2 percent in 2016. And Ukraine's foreign reserves have already increased to \$12.8 billion, up from a low of only \$5.6 billion in February.

With Congress' support, the United States has committed to provide over \$548 million in assistance to Ukraine since the start of this crisis, plus the two \$1 billion loan guarantees. With continued progress on economic reform and as conditions warrant, we will come back to work with you on a third loan guarantee later this winter.

Because there can be no reform in Ukraine without security, \$266 million of our United States support has been in the security sector. This includes sending 130 Humvees, 150 thermal and night vision devices, over 300 secure radios, five explosive ordnance disposal robots, and 20 counter mortar radars. Just last week we notified Ukraine that two defensive longer range counter artillery radars are on the way, and in November we will successfully complete our train and equip program for Ukraine's national guard, and begin training six battalions of Ukraine's army and special forces.

Ukraine has already put this training and equipment to good use. When combined Russian and separatist forces tried all summer to break Ukraine lines, particularly at Marinka and at Starohnativka, they were pushed back by Ukraine's increasingly capable military.

As I said, though, much difficult work remains to reform the economy and the justice sector and to clean up endemic corruption. Next steps for the reform agenda should include the following kinds of things: a cleanup of the prosecutor general's office so that it begins to serve the Ukrainian people rather than ripping them off; procurement and revenue management reform, particularly in the gas sector, and the unbundling of services making way for the restructuring of Naftogaz by June 2016; transparent privatization

of the many state-owned companies and cutting of ???red tap??? for investors; constitutional amendments to reform the judicial sector, limit immunity, and improve judicial ethics and standards; and continued recapitalization of the banking system; and, of course, on October 25 when local elections are held across Ukraine, good, free, fair elections.

While Ukraine works through these tough challenges, the United States, Europe, and the international community must continue to keep faith with Ukraine, and we thank this committee for continuing to highlight Ukraine, making clear we stand with them. America's investment in Ukraine is about far more than protecting the free choice of a single European country. It is about protecting the rules-based system across Europe and around the world. It is about saying no to borders changed by force, to big countries intimidating their neighbors or demanding a sphere of influence.

I thank this committee again for its bipartisan support and its commitment to the sovereignty and territorial integrity of Ukraine and to a Europe whole, free, and at peace. I am delighted to take your questions.

[The prepared statement of Ms. Nuland follows:]

PREPARED STATEMENT OF ASSISTANT SECRETARY VICTORIA NULAND

Thank you Chairman Corker, Ranking Member Cardin, members of this committee for the opportunity to join you today and for the personal investment so many of you have made in Ukraine's democratic, European future. Your bipartisan support, your visits to Ukraine, the assistance you and your fellow members have provided are truly making a difference.

This week we celebrate 25 years since Germany's reunification—the first major step on our journey toward a Europe whole, free, and at peace. Today that journey goes through Ukraine. Across Ukraine, citizens are standing up and sacrificing for the universal values that bind us as a transatlantic community: for sovereignty, territorial integrity, human rights, dignity, clean and accountable government, and justice for all. America helps Ukraine because that country's success is central to our own profound national interest in an ever more democratic, prosperous, stable Europe. Ukraine's aspirations are ours.

In the 6 months since I last appeared before this committee, Ukraine can be proud of the progress it has made:

- Last spring, the IMF approved an augmented 4-year, \$17.5 billion economic support program for Ukraine, \$6.7 billion of which has already been disbursed;
- The government has proposed and the Rada has passed legislation to reform the energy and agriculture sectors, strengthen the banks, shrink and modernize government bureaucracy, devolve more authority to the regions, and create oversight structures to clean up corruption;
- Last month, Ukraine reached a land-mark debt-relief deal with its creditors, opening the door for more intensive support;
- The September 1 cease-fire in Eastern Ukraine is largely holding, the Minsk parties have signed and begun to implement agreements to pull back their heavy weapons, and some IDPs are returning home.

While we welcome this progress, Ukraine still has a long, hard road to travel.

In my remarks today, I will first discuss implementation of the Minsk package of agreements; I will also give an update on the work that Ukraine is doing, with U.S. and international support to reform the country, tackle corruption, and to strengthen democratic institutions; and, finally, I will focus on the tough work ahead to cement Ukraine into Europe and the community of successful democracies.

THE MINSK AGREEMENTS

The September 2014 and February 2015 package of Minsk agreements remains the best hope for peace, weapons withdrawal, political normalization, decentralization in Eastern Ukraine, and the return of Ukrainian state sovereignty over that part of its border. Yet in the 8 months since the February signing of the implementing agreement, Eastern Ukraine has seen almost constant violence all along

the contact line, continued weapons shipments from Russia masquerading as humanitarian aid, separatist filibustering and threats at the political negotiating table, and repeated Russian efforts to relitigate basic elements of Minsk.

On September 1, however, the guns largely fell silent. And on October 2, in Paris, President Putin agreed to put a stop to the separatists' threat to hold another round of fake elections. Instead, he committed to Presidents Poroshenko and Hollande and Chancellor Merkel to withdraw heavy weapons, allow full access to the OSCE all the way to the border, and to negotiate modalities for real elections in Donbas under Ukrainian law, safe conditions, and observation by OSCE's ODIHR.

If these commitments are kept—if weapons are pulled back and stored, if the OSCE gets in, and legal, monitored elections are negotiated and held—Ukraine will once again have unfettered access to its own people and its territory in the East. That is what Minsk promises: peace, weapons withdrawal, political normalization, then a return of the border.

As President Obama did with President Putin in New York, we will also keep pushing to complete other unfinished aspects of Minsk—the return of all hostages, including Nadia Savchenko, Oleg Sentsov, and those held in Russia; full humanitarian access for U.N. agencies, Ukrainian NGOs, and government relief agencies; and the removal of all foreign forces, weapons, and landmines.

We understand why—after almost 2 years of violence, war and lies—many Ukrainian patriots and some in the West doubt Russia and its proxies will ever allow full implementation of Minsk. But Minsk implementation remains a goal worth fighting for because the alternatives are bleak: at best, a frozen conflict in which Donbas becomes an unrecognized gray zone for the foreseeable future; at worst, a return to the war that has already claimed too many Ukrainian lives—and Russian lives, as well.

So we will keep supporting Ukraine as it does its part to implement Minsk. Along with the Normandy powers, France and Germany, we will keep pushing Russia and its proxies to demonstrate equal good faith. As the President and Secretary Kerry have repeatedly said, we will judge Russia and the separatists by their actions, not their words. We will work with the EU to keep sanctions in place until the Minsk agreements are fully implemented. And of course, Crimea sanctions remain in place so long as the Kremlin imposes its will on that piece of Ukrainian land.

REFORMS UPDATE

While 7 percent of Ukrainian territory remains under threat, the other 93 percent is fighting a different battle: to build a democracy that is closer to its people; an economy where what you know matters more than whom you know; and a society where law rules rather than corruption and greed.

The electoral, judicial, financial, and anticorruption reforms already put forward by the government and enacted by the Rada are impressive in their scope and political courage.

Here are just a few examples:

- With generous U.S. support, newly vetted and trained police forces are now patrolling the streets of Kiev, Odesa, Lviv, and Kharkiv, with another three provinces to be covered by year's end. By the end of 2016, every Ukrainian oblast will have them;
- A new National Anti-Corruption Bureau is being stood up and will work with a new special anticorruption prosecutor once the latter is appointed;
- With U.S., EU, and U.K. help, new local prosecutors are being hired, old ones are tested and retrained, and all will now submit to periodic performance evaluations to root out corruption and malfeasance;
- Ukraine is closing loopholes in its pension system to help reduce the system's \$3.7 billion annual deficit;
- It is working hard to increase energy efficiency, cut subsidies for state-owned gas producers, and establish a market-oriented model;
- And, with the help of the IMF, the government is rebuilding its financial sector, closing insolvent banks and strengthening protection of depositors' rights.

These efforts and more are beginning to bear fruit:

- The latest IMF forecasts released this week predict Ukraine's economy will grow by 2 percent in 2016.
- Ukraine exported a record-breaking 33.5 million tons of grain in 2014, and in 2015 will increase agricultural exports by 6 percent;
- And, Ukraine's foreign reserves have increased to \$12.8 billion, up from a low of \$5.6 billion in February.

WHAT THE U.S. IS DOING

With Congress' unwavering support, the United States has committed to provide over \$548 million in assistance to Ukraine since the start of this crisis, in addition to two \$1 billion loan guarantees. With continued progress on economic reforms and as conditions warrant, we will ask you to work with us on a third loan guarantee of up to \$1 billion. U.S. economic and technical advisors advise almost a dozen Ukrainian ministries and localities. Our \$69 million in humanitarian support helps 2.4 million displaced Ukrainians through international relief organizations and local NGOs.

Because there can be no reform in Ukraine without security, \$266 million of our support has been in the security sector. This includes sending: 130 HMMWVs, 150 thermal and night vision devices, over 300 secure radios, 5 Explosive Ordnance Disposal robots, and 20 counter mortar radars.

Just last week, we notified Ukraine that two more life-saving long-range counter fire radar batteries are on the way. And, in November, we will complete a \$19 million train and equip program for Ukraine's National Guard and begin training Ukrainian Ministry of Defense forces using \$45 million in European Reassurance Initiative funding.

Ukraine has already put this equipment and training to good use. When combined Russian-separatist forces tried all summer to break Ukrainian lines at Maryinka and Starohnativka, they were pushed back again and again by Ukraine's increasingly professional military, and Ukrainian lives were saved.

WHAT UKRAINE STILL MUST DO

Because the best antidote to Russian aggression and malign influence is for Ukraine to succeed as a democratic, prosperous, European state, the Ukrainian Government must continue to live up to its promises to its own people and maintain the trust of the international community.

As I said, much difficult work remains to clean up endemic corruption throughout government and society, at every level; to stabilize the economy; break the hold of corrupt state enterprises and oligarchs; and reform the justice system.

Key steps toward these reforms include:

- Procurement and revenue management reform in the gas sector, and unbundling of services along with the restructuring of Naftogaz by Ukraine's deadline of June 2016;
- Like Ukraine's police force, the Prosecutor General's Office has to be reinvented as an institution that serves the citizens of Ukraine, rather than ripping them off. That means it must investigate and successfully prosecute corruption and asset recovery cases—including locking up dirty personnel in the PGO itself;
- The newly created Inspector General's Office within Ukraine's prosecution service must be able to work independently and effectively, without political or judicial interference;
- And, the government must appoint the NABU Anti-Corruption Prosecutor ASAP in order to start investigating these crimes.

Ukraine is well situated to provide products and services to Europe and Eurasia, but must improve the business climate by dismantling thousands of duplicative functions and transparently privatizing approximately 1,800 state-owned enterprises, and do more to recapitalize and repair its banking system. Clean governance and business practices that root out corruption are essential to attracting more foreign investment and development opportunities.

Ukrainians also need a justice system that cannot be bought, one that will deliver verdicts, uphold the rule of law, and stop injustice, which was a key demand of the Maidan protests. Currently, only 5 percent of the Ukrainian population completely trust the judiciary. Inspiring confidence will require passing the constitutional amendments to limit judges' immunity, improve judicial ethics and standards, and rigorously investigate judicial misconduct and enforce disciplinary rules and dismissals.

WHAT THE INTERNATIONAL COMMUNITY MUST DO

While Ukraine works through these tough challenges, the United States, Europe, and the international community must keep faith with Ukraine and help ensure that Russia's aggression and meddling cannot crush Ukraine's spirit, its will, or its economy before reforms take hold.

We must challenge the false narrative that nothing can or will change in Ukraine. To fight disinformation not only in Ukraine and Russia, but across Russian-speaking communities in Europe, we are joining forces with our partners in the EU to

support alternatives to state-sponsored, Russian programming. We are also training foreign journalists and civil society actors in the art of fighting lies with the truth.

Mr. Chairman, Mr. Ranking Member, members of this committee, America's investment in Ukraine is about far more than protecting the choice of a single European country.

It is about protecting the rules-based system across Europe and around the world. It is about saying no to borders changed by force, to big countries intimidating their neighbors or demanding a sphere of influence.

I thank this committee for its bipartisan support and commitment to the sovereignty and territorial integrity of Ukraine and to a Europe whole, free and at peace.

The CHAIRMAN. Well, we thank you very much for your testimony and your continued efforts sometimes swimming upstream to make things happen in an appropriate way in Ukraine. And I had a lot to say over the last hour. I am going to defer our ranking member.

Senator CARDIN. Well, thank you, Mr. Chairman, and, Secretary Nuland, again, thank you for your leadership on this area. I want to talk about one area. I want to talk about corruption. To me, if they cannot deal with this issue, their future is not going to be very bright.

Prior to the current revolution, the government was very corrupt at all levels. It is my understanding that very few people have been sent to jail for corruption in Ukraine. It is my understanding that there are still corrupt officials in the judicial branch of government that have not been rooted out. And I heard what you said about moving forward in dealing this issue. If the impunity rate cannot be reduced, it is not going to make much difference these reforms.

So how do we anticipate leveraging our involvement so that there is real progress made on dealing with the problems of corruption in Ukraine?

Ms. NULAND. Well, thank you, Ranking Member Cardin. We could not agree more. As I said in my opening, this is a central tenet of the work that we are doing with your support with the Ukraine Government. We have U.S. and European advisors in the prosecutor general office's helping with the reforms, to stress test all of the individuals there, to insist that those who are found to be corrupt are dismissed, and the hiring and retraining of new personnel. And that has to happen not just at the federal level, but at every level in the districts.

As I said in my testimony, there need to be constitutional amendments and then new legislation to eliminate impunity in the judicial sector to ensure that the highest standards of ethics apply. That has not been the case in Ukraine. The Ukrainian people, when you look at public opinion polls, fighting corruption is their number one demand. And as you have said, there are too many instances, even in the last months, of cases not being made of folks being put back on the street who should not be.

So this is a major, major focus of our effort. It is a major focus of international attention on Ukraine. A lot of the support that you are giving us we are applying to this question. Every time we meet with senior Ukrainian leadership we push on this, including when the Vice President saw President Poroshenko in New York last week.

Senator CARDIN. So let me make a suggestion, and it deals with transparency and metrics.

Ms. NULAND. Yes.

Senator CARDIN. Where you can show progress being made or not made, that there is expectations. The United Nations is developing metrics right now for anticorruption measures with the implementation of Sustainable Development Goal Number 16. I think Ukraine could be a case in point of how the international community, working with the Government of Ukraine, which I think is sincere in trying to root out corruption, can address this issue. Whether Ukraine is capable of doing so, or not, is another story.

But developing achievable goals on reducing the impunity rates on the expectations of an independent judiciary, of independent prosecutors, of funding these offices, of implementing the anticorruption laws, transparency, those types of issues, is important so that the public can gauge how well the government is meeting the goals, which then gives the government more power to make—to implement that because they know the public is looking. It helps the government achieve these goals and fight some of the corruptive influences of the powerful who do not want this to change.

Ms. NULAND. We agree completely. The IMF agrees. In fact, some of the benchmarks that you are looking for are part and parcel of the IMF's program. And some of the things that the Ukrainians have already done are because the international community is demanding it, the standing up of the anticorruption bureau, et cetera. The things that I mentioned in my testimony, which are outlined in more detail, are not only requirements of the IMF and the EU, they are also requirements that we put forward with regard to the loan guarantees that you have been so generous in helping us to attack. So we will continue to be on this. We are also working on things like e-governance, customs reform, things that can squeeze out the ability for graft.

But I would say that given how endemic this has been in Ukraine, this is going to be a relatively long journey because you can change the tops of ministries. You have to change the entire culture and not just at the federal level, but all through the localities. So this is a major challenge for Ukraine and something that we agree we must stay on.

Senator CARDIN. I agree it is long term. I just urge you to set it up in a way that we can evaluate if we are making progress.

Ms. NULAND. Right.

Senator CARDIN. Not only that we can evaluate, not only IMF can evaluate, not only the international investors can determine, but also the people of Ukraine need to know that there is progress being made. Without that, I am afraid the stability in the country will not be there.

Ms. NULAND. Absolutely. And, you know, they are going to measure it by when cops stop taking bribes, when you do not have to bribe your way into a hospital or into a school, and when cases are actually made such that they have the courage to come forward with cases because they know that folks will be convicted.

Senator CARDIN. I agree. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Shaheen.

Senator SHAHEEN. Thank you. Just to follow up on that line of questioning, and thank you for being here. To what extent do you think the leadership in the Rada, the elected officials, understand the importance of addressing corruption?

Ms. NULAND. I would say that particularly in the broad reform coalition, many of those Rada deputies, particularly those serving for the first time, got elected on a promise of trying to clean up the system. I think some of them are concerned about how difficult it is, and that they need support, particularly on the justice and prosecutorial side, and that this is a long-term project.

One of the most popular programs we have, as you know, and I think you have seen some of them when you have traveled, is this investment that we have made in clean police. And as I mentioned in my testimony, they are now present in five cities in Ukraine, and every city in Ukraine is now asking for them because they are setting a new standard for serving the people rather than shaking down the people, so that is a small first step. Now we have to see that in the justice system. We have to see that in every ministry. We have to see that in daily life for Ukrainians.

Senator SHAHEEN. And in terms of the measures that Senator Cardin was talking about, is this something that the commission on corruption is actually looking at implementing as they are thinking about the challenge that they have?

Ms. NULAND. Again, the anticorruption bureau is responsible for oversight of the various ministries and trying to root out the corrupt deep state in all of these ministries. That is only one piece of the puzzle. So this is part of the challenge that almost every sector of the Ukraine Government has to be working on anticorruption, so the judicial reforms, the prosecutorial reforms, e-governance, what it feels like in the regions as well.

So the anticorruption bureau will be one of the monitors, one of the stress testers, but every ministry is going to have to be involved, and is going to have to prove that it is making progress.

Senator SHAHEEN. You talked about Putin's commitments on the 2nd to hold elections not with the separatists, but with the rest of the country, and to remove heavy weapons. Have we seen any evidence yet? I mean, it has only been a week, but have we seen any evidence that they are actually going to move in that direction?

Ms. NULAND. The agreement that was finally achieved on the second phase, the tanks and weapons under 100 millimeters, allows for the withdrawal in two phases, a northern phase and a southern phase. Ukraine wanted to do it that way to ensure that the most sensitive areas come second, and that the OSCE can truly get in and monitor.

My understanding, and I checked this morning with our folks who work with the OSCE, is that we are starting to see on both sides, on the Ukrainian side and on the separatist Russian side, some pullback of heavy weapons, some increased access in that northern first segment. The question will be whether that remains the case, whether access is allowed for the OSCE because we have seen occasions where this has been incomplete, and we did have one violent incident overnight, so the sort of first break in the cease-fire in a little bit. So we are watching very, very carefully.

Senator SHAHEEN. Okay. One of the things that I think we would probably all agree that has helped with progress in Ukraine has not just been the will of the people of the country, which is obviously the most important, but it has been support from the international community to try and help them as they are making these changes. And I wonder to what extent we feel like we are continuing to be in sync with President Hollande and Chancellor Merkel with respect to the progress on the Minsk II agreements, and how willing do we think they are to continue with a sanctions regime if Russia does not respond as they have committed to.

Ms. NULAND. We have very good—we have had very good coordination at every level going forward. We had superb coordination at the leader level, I would say, in New York when everybody was in the same place in advance of the October 2 Normandy meeting. And as you know, President Obama met with President Putin early in that New York week.

And I think, you know, one of the reasons why the Normandy meeting went better on October 2 was because what President Putin heard from President Obama, from Chancellor Merkel, and from President Hollande, particularly on canceling fake elections, on pulling back heavy weapons, and on having real elections in Ukraine and on hostages, was identical. So that is extremely important that we continue to work moving forward.

The EU continues to join us in saying that there will not be sanctions relief until Minsk is fully implemented. That means until Ukraine has sovereignty again over its eastern border. Given the shifting timelines of Minsk, that is likely going to take more time than we originally anticipated, so that is probably going to mean we will have to have some rollover next year.

Senator SHAHEEN. Some of us just met with some Ukrainian parliamentarians who were here, and they were quite—seemed very anxious about what is going to happen with Minsk II, not just with the elections, but also with withdrawal of weapons, and talked about how important it was for us to support and to push for the other provisions. Are there other provisions that we think Ukraine is particularly concerned about other than those two that we should be aware of and be pushing for here?

Ms. NULAND. As I mentioned in my opening, the return of hostages, including those held by Russia, like Nadiya Savchenko, that is an extremely important humanitarian issue for Ukraine. The issue of the OSCE having access not just where weapons are being pulled back, but all the way to the border is an essential prerequisite to Ukraine itself having access, which you have to have before you can have an election. I think the concern also is that heavy weapons need not just to be pulled back, but Minsk ultimately calls for the full withdrawal of all foreign weapons and troops, so that needs to happen.

You know, it is not surprising that there is skepticism, as I said in my opening, among many Ukrainian patriots given the 7 months of nonimplementation that we have had. With the cease-fire now, with the beginning of the pullback, we need to use this time now to push for continued demilitarization so that a real election can happen because that is the only way for Ukraine to get its territory back.

Senator SHAHEEN. All right. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.
Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman, and thank you, Madam Secretary. Look, I want to focus on the reality. We had the IMF managing director here in a private session with the members of the committee, and there is one statement, I think, that is pretty open and public that is pretty universal, which is that when you take 20 percent of a country's GDP, which is the eastern part of Ukraine, and when you are ultimately and still are in war, for all intents and purposes, as is evidenced by your own statement, that in the eight months since the February signing of the implementing agreement Eastern Ukraine has seen almost constant violence all along the contact line, continued weapon shipments from Russia masquerading as humanitarian aid. Then it is very difficult to be able to steady yourself and advance economically in a way that we want Ukraine to advance.

So notwithstanding all the other elements of your testimony and questions that have been raised about focusing on corruption, which I am all for, and other elements of economic reforms that they have been, I think, pretty aggressive on and need to continue to move forward. It seems to me the central question as the administration comes up a new ask of assistance to Ukraine, as we look at the future of Ukraine, as someone who has been very supportive on the committee.

The question is, Where are we headed with Russia, because at the end of the day you cannot continue to have 20 percent of GDP under assault. You cannot continue to have new armaments being shipped into Ukraine by Russia and simply think that this is not the ultimate plan of President Putin is either to have, by de facto or default, a quasi-annexation of the eastern part of the country, or at least a leash that you can pull at any given time when President Poroshenko and the Ukraine people want to move westward.

So what are we going to do with Russia because they have shown themselves, so they now think that military intervention, not only here, but in Syria, serves their aims. So what are we ready to do?

Ms. NULAND. Well, thank you, Senator Menendez. You know, this is one of the reasons why we focus so much on the Minsk agreements because if these weapons can be pulled back from the line, if the cease-fire can hold as it has now for a month, you can start to have economic activity from the Donbass benefit all of Ukraine. So just in the last couple of weeks, coal is beginning to flow out of the Donbass back into the rest of Ukraine so that they will not have to import as much coal as they did last year. If we can get the OSCE in in a real election, you can reintegrate the population, all those kinds of things.

Senator MENENDEZ. I do not want to interrupt you—

Ms. NULAND. Yes.

Senator MENENDEZ [continuing]. Because I did read your testimony. I know some people do not read testimonies before. I read your testimony. It is why I stepped outside and did something else knowing that I had read your testimony. I have the whole section.

If the commitments are kept, my concern is what if they are not kept? What are we ready to do? What do we think we should do in anticipation or in trying to ensure that the commitments are kept, because for me, if there are no consequences for Russia not to keep their commitments other than that which exists, there is not necessarily a reason for them to pursue their commitments, at least in the way that we would like to see. You know, we have this one step forward, two steps back situation going on.

So I am trying to get a sense of what we are willing to do. For example, the Russians went ahead and at the height of the Maidan protests extended a \$3 billion bond to then President Yanukovich in power to try to help him stay in power. Yanukovich fled the country with unknown millions, but as far as I understand, the Ukrainian citizen still ends up with the debt. The terms of the bond are pretty exorbitant, and Russia could demand an immediate payment, which they have not done. I acknowledge they have not done so, but they could, so it is an economic weapon at the end of the day potentially.

So should they pay a price with that issue? Should the international community suggest to them if you do not go ahead and pursue the elements of Minsk fully, that there is going to be a consequence as it relates to your bond, because we are not necessarily going to, in essence, help the Ukrainians pay the Russian bond, right?

Ms. NULAND. Well, first, Senator, as I said and as you have helped us to implement throughout this, the first line with regard to pressure on Russia from Minsk is the sanctions that the United States and the EU have in place, and which will have to be rolled over if Minsk is not implemented by January 1. Those sanctions, we believe, are biting the Russian economy deeply. I can go through the figures if you would like.

We have also said that if there is a return to violence, if there is a new land grab, and we have worked with our European partners on this, there will be an increase in sanctions. I think that the message that we sent is that if another round of fake elections were held, that would also draw a conversation about more sanctions, had an impact on the decision to prevail and the separatists to cancel what would have been a bad scene.

You are right that there is a \$3 billion note coming due for Ukraine because Yanukovich took this \$3 billion loan as he was in his final months. My understanding is that the Ukrainian Government is now approaching the Russian Government, and that conversation may begin in coming days at the Lima Bank Fund meeting to say we have now made a debt relief deal with our private creditors. If you, Russia, are prepared to accept the same terms, then that would be acceptable to Ukraine. We will see what Russia does in that circumstance.

Senator MENENDEZ. Was that not offered and rejected already once?

Ms. NULAND. There has not been a formal conversation about it because the deal with the private creditors was only completed a couple of weeks ago, so we will see how Russia deals there. Russia has said it wants to help Ukraine with its recovery. This would be

one way that it could do so. If it does not accept those terms, then we will have to work with Ukraine on other options.

Senator MENENDEZ. Mr. Chairman, if I may, one final comment, and that is that, look, I hope that this all works out. But from my perspective, hope is not a national security strategy.

Ms. NULAND. Absolutely.

Senator MENENDEZ. So the question then becomes, what are we ready to do. And I will say that if we wait for Minsk and it does not get fulfilled by Russia, and then start thinking about what we are going to do, other than keep what we have, and obviously keeping what we have, if they violate or do not fulfill the Minsk agreement, then there will be no reason for them to change course.

So I hope that we are ready to go with a series of other actions to ratchet up the consequence, even putting Syria aside for the moment. But just on this because one of my concerns is that what is happening in Syria, for which I think Putin has a series of reasons, but not the primary, but a collateral reason is I have got you all paying attention over here, and when the time comes, we will do what we want to do in Ukraine. So I just hope that we are being proactive at the end of the day.

Ms. NULAND. If I may just say that we did over the summer do considerable work with the European Union on what an increase in sanctions would look like if that were necessary.

The CHAIRMAN. Thank you. If you would, share with us the sanctions relief that Russia will receive in the event they satisfactorily implement Minsk II.

Ms. NULAND. Senator, we have—Mr. Chairman, we have talked about a rollback of sanctions if Minsk is fully implemented. As I said in my testimony, there are certain sanctions that were applied for Crimea, about Crimea. Those stay in place. There were other sanctions that were applied in direct response to the violence in Eastern Ukraine, primarily the sectoral sanctions, the banking sanctions. It would be those that we would look at rolling back should Minsk be fully implemented, meaning all weapons and foreign forces withdraw and a real election and return of sovereignty at the border and hostages.

The CHAIRMAN. So I know there have been some discussions with others about the \$3 billion bond payment. And I think what Senator Menendez may have been referring to is maybe those negotiations were not between two real parties, and the former President left the country, and was \$3 billion the right number, if you will. Now, the country certainly is bound by that.

So I guess there has been some discussion about Russia would have huge amounts of war reparations, would they not, that Russia would owe Ukraine for what they did. And I am just curious as to how people are thinking about ensuring that Ukraine, with their economy tanked, with the illegal actions that Russia has taken, is there not going to be some type of compensation, if you will, to offset some of the issues that Ukraine has gone through, or is that just going to be washed over?

Ms. NULAND. Well, I do not want to speak for the Ukraine Government and how it would pursue those reparations. But our understanding from our conversations with them is that they are working on International Court of Justice cases. They are working

on ICC cases, which could apply in some of those cases. But I think we can prepare a separate briefing for you on what they are thinking if you are interested in that.

With regard to, as I said, the debt, our understanding is that Ukraine will offer Russia the same proposal that it had with its private creditors. We will see if Russia accepts that, and if it does not, we will have to see where Ukraine wants to go thereafter.

The CHAIRMAN. The recent discussions regarding the moving back of the elections until February and some of the demands that have been placed on Ukraine have read as if the United States and Europe have placed additional demands on Ukraine that were very much in Russia's favor. And could you talk just a little bit about what those additional demands on Ukraine have been relative to moving things back so that Minsk possibly could be successful?

Ms. NULAND. I would actually argue the opposite, that what we have been doing with Ukraine is working with that country to ensure that it can make the case that it has met every single one of its Minsk obligations, and thereby shining the spotlight on the non-implementation by Russia and the separatists. And it is because Russia and the separatists have not pulled back weapons, it is because they have not been serious at the political negotiating table that the timelines of Minsk are probably going to have to be moved out.

But as I said, that also means that sanctions will stay in place longer. So it is Russia that has, by not meeting the original Minsk timelines, ensured that it stays under sanctions longer than was originally intended.

Now, in working with the Ukrainians to ensure that their record was completely unimpeachable on Minsk implementation, we did, along with our European partners, support early work on the constitutional amendments on decentralization, which are good for the country nationally, but which include this very difficult concession that Ukraine made at the Minsk table to codify in the constitution special status for these territories in Donetsk and Luhansk Oblast.

This caused a huge reaction in the Parliament when it was originally reviewed in August and again in September because a number of Ukraine legislators—probably you met some of them—felt that they should not be forced to make those moves in advance of a real cease-fire in advance of a real weapons pullback. They did, though. They did the statesman-like thing, and now it will be on Russia and the separatists to implement their portions.

The CHAIRMAN. On the corruption front, you know, we have heard good reports about the police that you referred to, and certainly they are making significant efforts within the country, a country that, let us face it, is at least 20 years behind the rest of Europe because of its inheritance from the Soviet Union, but also all the corruption that takes place within the country.

We understand the, you know, big power center, if you will, in Ukraine is the oligarchs, and it would seem to me that that would be—those would be a group of people that can help determine success and certainly help make it not happen. Can you talk to us a little bit about that evolution?

Ms. NULAND. Well, you are absolutely right, Chairman, that there is a 20-, maybe longer, year tradition in Ukraine of the big-

gest business folk, the oligarchs having sweetheart deals with corrupt politicians. In the context of the IMF reform process, the Ukrainian Government, both the Prime Minister and President sat down individually with each of the major power brokers, and renegotiated some of the deals that they had had with Yanukovych so that they would be more transparent, so that these guys would be paying their taxes, so that the royalties owed to the state for resources of the state were appropriate and at world market prices.

And most of the major oligarchs were willing to sit down and cut those deals. A number of them are now paying their taxes, as I mentioned. The coal is now being delivered to Ukraine, et cetera. But there are a few that have either broken deals, or are not paying their taxes, or are using ill-gotten gains to throw money around in the political system. And the Ukrainian Government is now considering what kind of legal action it can take against those people.

And we are making clear as the Vice President has, as the President has in all of his statements, the Secretary has, and as I did at a conference in Ukraine, that there should be zero tolerance for anybody who does not pay their taxes, for anybody who continues in this environment to rip off the people of Ukraine.

The CHAIRMAN. Thank you. I do not—if there are additional questions, I am glad for those to be asked. I would just ask in closing, I know we have another panel, and thank you for being here. Are there additional things that you plan to be asking Congress to pursue relative to Ukraine? Are there things that we might do to provide even more assistance to the administration and others as we deal with Ukraine?

Ms. NULAND. Mr. Chairman, the Congress has been extremely generous in fulfilling and sometimes over fulfilling our requests, so we are very grateful for that. As I said in my testimony, if Ukraine stays on track, we do anticipate coming and asking you some time this winter to support a third loan guarantee for Ukraine. The conditions that we will put on it in our negotiations with Ukraine will cover many of the issues we discussed here today, primarily implementation of anticorruption measures.

The CHAIRMAN. I do think it would be helpful, maybe not in a hearing, but for there to be a small briefing of some kind for us to fully understand the sanctions relief that is going to be taking place relative to Russia. And I hope that we are not sending signals to Russia that they come into countries like this, destabilize countries like this, in many ways get their wishes relative to how Eastern Ukraine is going to be governed, and leave, and have all sanctions released. So I do hope we can, and we will be following up to make sure we fully understand what is happening there.

We thank you for your testimony and your service to our country. Thank you.

Ms. NULAND. Thank you, Chairman. Delighted to come brief.

The CHAIRMAN. So we will bring the next panel up. We thank you for your patience.

This panel consists of two witnesses. The first witness is Ambassador Paula J. Dobriansky, the former Under Secretary of State for Democracy and Global Affairs., senior fellow for the Future of Diplomacy Project at Harvard University, JFK Belfer Center for Science and International Affairs. Thank you so much for being

here and for listening to us. Our second witness will be Hon. Clifford G. Bond, the former Ambassador to Bosnia, and former United States assistance coordinator in Ukraine.

We thank you both for being here. I know you all have been before us before and certainly participated. If you could keep your comments to around 5 minutes, and your written testimony, without objection, will be entered into the record. And with that, in whichever order you feel like is best, begin.

Ambassador BOND. Ladies first.

The CHAIRMAN. Ladies first apparently. Thank you so much.

STATEMENT OF HON. PAULA J. DOBRIANSKY, FORMER UNDER SECRETARY OF STATE FOR DEMOCRACY AND GLOBAL AFFAIRS, SENIOR FELLOW FOR THE FUTURE OF DIPLOMACY PROJECT, HARVARD UNIVERSITY JFK BELFER CENTER FOR SCIENCE AND INTERNATIONAL AFFAIRS, CAMBRIDGE, MA

Ambassador DOBRIANSKY. Thank you, Chairman Corker and members of the Senate Foreign Relations Committee. I appreciate the opportunity to testify before you today concerning why Ukraine's economic and political future matters and what should be done to secure it.

This hearing is both timely and essential. While Russian airstrikes in Syria have properly caused the global community to focus on events playing out in the Middle East, attention unfortunately has been diverted from the grave situation in Ukraine. Russia continues its illegal occupation of Crimea and has embarked on a variety of measures designed to finalize its unlawful annexation of that portion of Ukraine's territory.

Meanwhile Russian-led aggression continues unabated in Eastern Ukraine in violation of the Minsk cease-fire agreement. More than 6,400 Ukrainians have lost their lives, and more than 1.5 million have been displaced because of Russia's invasion. At the same time Ukraine is fighting a war on its eastern front, the Kiev government seeks to revitalize its economy and secure needed Western aid. Their circumstances are extremely difficult as Moscow continues to destabilize Ukraine by adding to its war costs, keeping energy prices artificially high, resisting efforts at debt rescheduling or reduction, blocking Ukraine's trade, and inhibiting foreign investment there.

Despite these major challenges, the Ukrainian Government has achieved some notable progress: partial debt rescheduling, improved tax collection, reduced government procurement, passage of anticorruption laws, disclosure of assets of members of Parliament, and curbed energy subsidies. Change and substantial reform in Ukraine will take time—but it is an effort which is both in Ukraine's interest and in our national security interest. Accordingly, it deserves our steadfast, long-term support.

Moscow's aggression against Ukraine is a component of Putin's strategic vision, which he has laid out openly in a series of speeches, not isolated misbehavior. Clearly understanding his desire to reverse the consequences of the Soviet Union's collapse and a rejection of the existing international system's legitimacy is central to understanding why long-term support for Ukraine is so crucial.

The Atlantic Council has outlined the task at hand—“Secure Europe’s East—Support Ukraine.” Their experts call for three basic steps: stop Putin through enhanced economic sanctions, support Ukraine through increased U.S. economic assistance and military and humanitarian aid, and strengthen NATO. What happens in Ukraine is not just Europe’s concern. Both the United States and Europe have a stake in seeing a democratic, economically strong Ukraine.

Russia’s invasion of Ukraine starting in February 2014 in Crimea marks the first annexation of one European country’s territory by another since World War II, and threatens the normative order and geostrategic stability in Europe. Our values, institutions, and alliances have been directly challenged. Putin abrogated the 1994 Budapest Memorandum and other agreements which have kept the peace in Europe for decades and buttress nuclear nonproliferation. To not act and leave Putin’s aggression unchallenged sends a signal to other authoritarian regimes that they, too, can commit acts of aggression without consequences.

The crisis in Ukraine has created a highly dangerous situation in Europe fraught with risks of further Russian aggression. There are several important implications to consider. First, this crisis underscores that the end of the cold war, which saw the collapse of the Soviet Union and the creation of many European economic and security institutions, has not rendered Europe immune to new security and political challenges.

Second, as the developments in Ukraine since it became independent demonstrate, the path to democracy in post-Communist countries is a difficult one filled with dangers, especially if domestic problems are exacerbated by other countries. To survive Ukraine needs long-term economic assistance and targeted military aid that can augment the fighting capabilities of the Ukrainian military.

Third, the Ukraine crisis highlights the precarious security of the Baltic States and their extreme vulnerability to Russian pressure and potential military action. The failure of the West to confront Russia more directly in Ukraine has emboldened Moscow to take provocative actions along other parts of its periphery.

Fourth, new thinking is needed on sanctions. Fifth, the assumption that post-Communist Russia has become a responsible member of the international community, seeking to work within the framework of existing international institutions and the rule of law, has proven to be unfounded. Last, there is no substitute for an engaged American policy to exercise robust leadership.

Let me close by briefly elaborating on economic sanctions and military assistance to Ukraine. Ukraine’s President, Poroshenko, has requested military aid and training from the West. Specifically he has requested antitank weaponry, antibattery radar systems, and other types of defensive military equipment. We must act upon this request. We must also extend and expand economic sanctions which will impose a heightened cost for Russia’s aggressive actions.

Despite Moscow’s far-reaching strategic aspirations, Russia is operating from a weak posture. The Russian economy continues to shrink. Russia’s greatest vulnerability may be its refineries. While Russia is one of the world’s top energy producers, its refining facili-

ties are antiquated, have no spare capacity, and must be refurbished with Western spare parts on a continuous basis.

Much of this equipment is of U.S. origin. If Congress were to enact statutory sanctions placing an embargo on exports to Russia of refinery pumps, compressors, control equipment, and catalytic agents, it would cause widespread shortages of refined products, putting tremendous pressure on Russia's civilian economy and Moscow's ability to carry out military operations.

In sum, the most effective strategy is to provide military, economic, and humanitarian assistance to Ukraine in the long term. I look forward to your questions. Thank you.

[The prepared statement of Ambassador Dobriansky follows:]

PREPARED STATEMENT OF AMBASSADOR PANLA J. DOBRIANSKY

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This hearing is both timely and essential. While Russian airstrikes in Syria have properly caused the global community to focus on events playing out in the Middle East, attention has unfortunately been diverted from the grave situation in Ukraine. Russia continued its illegal occupation of Crimea and has embarked on a variety of measures, designed to finalize its unlawful annexation of that portion of Ukraine's territory. Meanwhile, Moscow-led aggression continues unabated in Eastern Ukraine, in violation of the Minsk cease-fire agreement. More than 6,400 Ukrainians have lost their lives and more than 1.5 million have been displaced because of Russia's invasion.

At the same time Ukraine is fighting a war on its eastern front, the Kiev government seeks to revitalize its economy and secure needed Western aid. Their circumstances are extremely difficult, as Moscow continued to destabilize Ukraine by adding to its war costs, keeping energy prices artificially high, resisting efforts at debt rescheduling or reduction, blocking Ukraine's trade and inhibiting foreign investment there. Despite these major challenges, the Ukrainian Government has achieved some notable progress: partial debt rescheduling, improved tax collection, reduced government procurement, passage of anticorruption laws, disclosure of assets of members of Parliament, and curbed energy subsidies. Change and substantial reform in Ukraine will take time—but it is an effort which is both in Ukraine's interest and in our national security interest. Accordingly, it deserves our steadfast, long-term support.

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The Atlantic Council has outlined the task at hand—"Secure Europe's east—support Ukraine." Their experts call for three basic steps: (1) stop Putin through enhanced economic sanctions, (2) support Ukraine through increased U.S. economic assistance and military and humanitarian aid, and (3) strengthen NATO.

What happens in Ukraine is not just Europe's concerns. Both the United States and Europe have a stake in seeing a democratic, economically strong Ukraine.

Russia's invasion of Ukraine, starting in February 2014 in Crimea, marks the first annexation of one European country's territory by another since World War II and threatens the normative order and geostrategic stability in Europe. Our values, institutions and alliances have been directly challenged. Putin abrogated the 1994 Budapest Memorandum and other agreements which have kept the peace in Europe for decades and buttress nuclear nonproliferation. To not act and leave Putin's aggression unchallenged sends a signal to other authoritarian regimes that they too can commit acts of aggression without consequences.

The crisis in Ukraine has created a highly dangerous situation in Europe fraught with risks of further Russian aggression. There are several important implications to consider:

- First, this crisis underscores that the end of the cold war, which saw the collapse of the Soviet Union and the creation of many European economic and

security institutions, has not rendered Europe immune to new security and political challenges.

- Second, as the developments in Ukraine since it became independent demonstrate, the path to democracy in post-Communist countries is a difficult one filled with dangers, especially if domestic problems are exacerbated by other countries. To survive, Ukraine needs long-term economic assistance and targeted military aid that can augment the fighting capabilities of the Ukrainian military.
- Third, the Ukrainian crisis highlights the precarious security of the Baltic States and their extreme vulnerability to Russian pressure and potential military action. The failure of the West to confront Russia more directly in Ukraine has emboldened Moscow to take provocative actions along other parts of its periphery.
- Fourth, new thinking is needed on sanctions.
- Fifth, the assumption that post-Communist Russia has become a responsible member of the international community seeking to work within the framework of existing international institutions and the rule of law has proven to be unfounded.
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Despite Moscow's far-reaching strategic aspirations, Russia is operating from a weak posture. The Russian economy continues to shrink. Russia's greatest vulnerability may be its refineries. While Russia is one of the world's top energy producers, its refining facilities are antiquated, have no spare capacity and must be refurbished with Western spare parts on a continuous basis. Much of this equipment is of U.S. origin. If Congress were to enact statutory sanctions, placing an embargo on exports to Russia of refinery pumps, compressors, control equipment and catalytic agents, it would cause widespread shortages of refined products, putting tremendous pressure on Russia's civilian economy and Moscow's ability to carry out military operations.

In sum, the most effective strategy is to provide military, economic, and humanitarian assistance to Ukraine in the long term.

I look forward to your questions.

The CHAIRMAN. Thank you very much. Thanks for being here.
Mr. Bond, sir. Ambassador.

STATEMENT OF HON. CLIFFORD G. BOND, FORMER AMBASSADOR TO BOSNIA AND HERZEGOVINA AND U.S. ASSISTANCE COORDINATOR IN UKRAINE, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Ambassador BOND. Thank you very much. It is a pleasure being here. I met several of you gentlemen and lady in Kiev over the past 17 months when I was working on coordinating and expanding our assistance program in Kiev. My work focused on the technical and humanitarian aspects of the assistance program, though an important security component was built up over those months as well.

I am going to make a few comments about the economic transition in Ukraine. Those comments are informed by my experience in Eastern Europe and Prague for the Velvet Revolution, and then working in Washington on the support for East European Democracy Act and implementing it, and then later, my experience in Moscow where we saw a failed economic transition. And what I have to say now, I want to be clear is not criticism and should not be viewed as criticism, but is a hard-headed approach to what

needs to be done if we want to see Ukraine develop a functioning market economy.

First off, the current Kiev government is the most reformed-minded and technically the most competent team Ukraine has had since post-Communist times. But I am afraid its goals are not ambitious enough and they are not radical enough, and the process of reform, as others have said, is only just beginning in Ukraine. There have been important successes. Raising energy tariffs and meeting other IMF conditions. The patrol police reform in Kiev, which was already discussed, is a big success, and is now being repeated in many cities, and we have had agreement on debt restructuring.

But the reformers are facing serious resistance in a number of key areas, including the fight against corruption. The prosecutor general's office should be ground zero for that fight. Unfortunately, the prosecutor general's office has not completed a single criminal investigation or criminal prosecution of any senior-level figure from the Yanukovych era. We have Department of Justice and FBI advisors working with reformers inside the prosecutor general's office. They are being resisted and fought by old thinkers and old timers in that bureau, and they need the support of senior members of the government if they are to succeed.

A new anticorruption bureau, which was discussed and which is being formed, will rely on the PGO's office for any corruption prosecutions. And the PGO's office is, frankly, just not doing its job right now. In the health ministry, there are efforts to reform the procurement system. That is essential because the procurement system was deeply corrupt and resulted in a catastrophically low level of vaccinations of Ukraine youth, and we have just seen the first signs of polio outbreaks in Western Ukraine. In some areas, in fact, privatization and deregulation, for example, reforms are only just beginning.

My bottom line is what the Ukrainian economy basically needs is a fundamental liberalization and deregulation to include broad privatization of more than 2,200 state-owned enterprises. What economists sometimes refer to as the factor markets of production for land, labor, and capital just are not functioning in Ukraine. If you are an SME owner or an entrepreneur, you find it very difficult to buy real estate, you cannot get capital or a loan from a bank. There are hiring practices and restriction that make it very difficult for you to set up your business. This is a key problem.

Again from my experience in Eastern Europe it is important for macroeconomic policies to be coordinated and focused. Some ministries are doing outstanding work, but there is no central figure in the government who is pulling all of those pieces together for a comprehensive macroeconomic strategy.

In Eastern Europe countries where transitions were successful, they were led by a Deputy Prime Minister, who usually was double-hated as the Finance Minister. I am thinking of Leszek Balcerowicz in Poland and Vaclav Klaus in Prague. There is no figure like that in Ukraine, and I think the Prime Minister and the President need to agree and empower such an individual to lead the whole process of market reforms.

A big part of the problem is a lack of understanding on the part of the general public, a lack of communication by political leaders on what a market economy is and how it works. Significantly, there is a recent poll conducted by the International Republican Institute that shows two-thirds of the citizens of the country believe that government should be supplying jobs and investment. Less than 10 percent understand that it should be the private sector. This is part of the Soviet legacy that needs to change.

In Eastern Europe, focusing on developing the private sector was key to the success of the transitions. Poland, for example, focused on SME creation, and that resulted in investment, growth, and jobs. The GOU seems to be—the Government of Ukraine seems to be focused on meeting the conditions required by the IMF, and that is important, it is essential it is how you are going to get the money to pay the bills. But it is not a substitute for a growth strategy that gets out in front of that IMF demanded reform curve to get things moving in the broader economy.

Energy is a perfect example of this. They have raised the tariffs as required by the IMF, but have not done anything to fundamentally reform the Ministry of Energy or the energy sector itself, which is not really a market, but a battleground of competing oligarchic interests. This point was made at a recent Ukraine Foundation Conference which discussed the energy situation.

I have more to say on the question of assistance, but we do need assistance so that we can work with reformers to build institutions, fight corruption, and create conditions for growth. And that that is going to require a long-term assistance strategy with our partners, other donors, and a commitment from Congress to multiyear funding and additional resources.

Visiting congressional delegations, including your members of your committee, have repeatedly told us that they are ready to consider substantial expansion of assistance to Ukraine, and that they understand its importance. Ukraine's success is essential for the wider security of Europe and fulfilling the vision of a continent whole, free, and at peace.

Now, if we were able to get substantial new resources, I have some ideas about how they could be used. We have been trying to direct the resources we do have to make more of an impact on reforms in Ukraine already. One thing I think we need to do is consider new forms of macroeconomic support. The loan guarantees that we are providing are very costly in terms of our assistance dollars. They also place a very heavy sovereign debt burden on Ukraine itself.

We can look to the Support for East European Democracy (SEED) Program of the early 1990s for successful ideas of how we support successful reforms then. With more macroeconomic support, in particular, we would create a financial cushion that would allow Ukraine reformers to be more radical.

Thank you very much, and I welcome your questions.

[The prepared statement of Ambassador Bond follows:]

PREPARED STATEMENT OF CLIFFORD G. BOND

It is a pleasure to appear before the committee today and join my fellow panelist. I returned only a few weeks ago from Kiev where I worked for 17 months on expanding and coordinating our assistance program to Ukraine. Over those months

our assistance grew by more than four times and included a significant security component. I arrived as the aggression was beginning in Eastern Ukraine and as a humanitarian crisis developed. My work was focused on technical and humanitarian assistance, not the security aspects of the program.

I will make some comments on the state of economic reforms and transition in Ukraine that our program is meant to support.

I have past experience in economic transitions. I witnessed a successful transition in Eastern Europe in the early 1990s when I served in Prague during the Velvet Revolution and later worked in Washington implementing our Support for East European Democracy or SEED assistance program. Later in the 1990s I saw a failed transition when I worked at our Embassy in Moscow.

What I have to say now is informed by this experience. It should not be viewed as criticism, but as a hardheaded approach to what needs to be done if Ukraine is to succeed in an economic transition to a well-functioning market economy.

First off, the current Kiev government is the most reform-minded and technically most competent team in post-Soviet times, but its goals are not ambitious or radical enough, and the process of reform has only begun. There have been important successes: energy tariff rate increases and meeting other IMF conditions, the recent rollout of a new patrol police in Kiev, a reform now being repeated in other cities, and agreement on debt restructuring.

But reformers face increasing resistance to change in key areas such as anticorruption. The Prosecutor General's Office (or PGO) should be ground zero for the fight against corruption, but the PGO has yet to carry out a corruption prosecution against a senior Yanukovich-era figure. The PGO is divided between reformers who want to work with our FBI and DOJ advisors (and need full political support from the top), and an old guard that is frustrating and seeking to intimidate them.

A new Anti-Corruption Bureau is being formed, which will rely on the PGO to prosecute any criminal investigations it concludes. But, as I said, the PGO is not doing its job. In the Health Ministry efforts to change corrupt procurement practices are being resisted by domestic pharmaceutical interests —even in the face of low levels of vaccination and immunization among Ukrainian children (a direct result of past corrupt practices) and the first outbreak of polio cases in western Ukraine.

In some areas, such as privatization and de-regulation, reforms are only getting started. What the Ukrainian economy needs is fundamental liberalization and de-regulation to include broad privatization of its approximately 2,200 State-owned Enterprises (SOEs).

What economists call the factor markets of production in the economy for land, labor, and capital are simply not functioning because of structural impediments and rigidities built into the system or because of corruption, past and on going. This means an entrepreneur or SME finds it extremely difficult to buy the real estate (there is no market in farm land), raise capital (the banks are not lending) or hire the people he/she needs to start up or expand a business.

LACK OF MACROECONOMIC COORDINATION

Importantly from a macroeconomic perspective, there is no overall coordinator of market reforms. Some ministers are out there doing important work, but there is no central figure overseeing and coordinating the process with a strategic vision in mind to pull the pieces together.

In east European transition economies the senior Deputy Prime Minister who was usually double hatted as Finance Minister played this role. Poland's Leszek Balcerowicz and the Czech Republic's Vaclav Klaus were key to the success of economic reform in their countries. The Prime Minister and President need to empower an individual with real reform credentials to fill this function and step out of the way to let him or her get the job done.

NEED FOR STRATEGIC COMMUNICATION

Part of the problem is also lack of understanding on the level of the general public and a lack of communication by political leaders of what a market economy is and how it should operate. Public surveys, such as a recent IRI poll, show that two-thirds of citizens believe investment and job creation are the responsibility of the government. Less than 10 percent understand this should be the role of the private sector.

FOCUS

Early cleanup of the business and investment climate was central to the success of the transitions in Eastern Europe. Poland focused on SME growth. This produced

new businesses, jobs and investment, and gave government the political capital to move on to other reforms.

The GoU is focused on meeting the conditions required by the IMF and other donors. These are hard conditions and meeting them is essential to get the money to pay the bills. It is not a substitute, however, for a growth strategy that gets out ahead of the IMF-demanded reform curve. Energy is an example of the problem. The GoU has done difficult things, like raising energy tariffs as the IMF required, but it has not fundamentally reformed the corrupt Ministry of Energy nor changed the sector, which is not a market, but a battleground of struggling interest groups. (This point was made at a recent Ukraine Foundation conference discussion of reforms.)

MORE INTERNATIONAL ASSISTANCE

We need to work with reformers to build institutions, fight corruption and create conditions for growth. This will require a long-term assistance strategy coordinated with our partners and a commitment from Congress to multiyear funding and additional resources.

Visiting congressional delegations repeatedly told us in Kiev that they are ready to consider a substantial expansion in assistance to Ukraine. They understand that our support to Ukraine is important, but is currently insufficient, particularly in comparison to our response to the Georgia crisis of 2008.

Ukraine's success is essential for the wider security of Europe and fulfilling the vision of a continent "whole, free, and at peace."

HOW WOULD WE USE ADDITIONAL MONEY?

We should consider new forms of macroeconomic support and link this to tougher, more market-oriented reforms. Our current use of loan guarantees is costly in terms of assistance dollars and is placing a heavy sovereign debt burden on Ukraine.

We should look to the sorts of things done under the SEED Act in the early 1990s. It will be easier for Ukraine's reformers to be more radical when they have a macroeconomic cushion for the economy.

The government badly needs public sector and civil service reform. The current bloated and poorly paid bureaucracy is a brake on reform implementation, and a source of corruption. But this is an enormous and expensive task.

It is not a task a single donor or the Ukrainian Government can assume alone. But with additional funding we could work with the EU and other donors to undertake widespread public sector reform.

We also need to support a massive privatization effort with the advisors and technical assistance to do the due diligence to prepare hundreds of state-owned enterprises for transparent privatization process that will attract strategic investors.

In addition to the conflict in the East and fighting for reform in Kiev, Ukraine faces a humanitarian crisis, largely overlooked in the West. This involves more than 1.5 million displaced persons inside the country, more than a million refugees outside it and millions more trapped and vulnerable in the area of conflict.

Neither we, nor our European allies are stepping up with an adequate response to the needs of these people, particularly as they face the onset of a second winter.

In conclusion, Ukraine needs to redouble efforts at reform and adopt deeper, more radical market-oriented measures, particularly by cleaning up the business and investment environment. The U.S. and international community need to explain the stakes to their publics and think bigger and more strategically in terms of the level and types of assistance that can be made available.

The CHAIRMAN. Thank you very much.

Senator Menendez.

Senator MENENDEZ. Well, thank you both for your testimony. Ambassador Dobriansky, your testimony is more forward leaning in terms of—and by that I mean Ambassador Bond is focused on the economics, so you had a whole different set of agendas, different than what we heard from Secretary Nuland, from my perspective, and you mentioned the Atlantic Council.

So let me ask you about a couple of those things. Number one is as it relates to sanctions, is there a set of ideas that you all have? Is it about being prepared? If Minsk does not move forward

fully enforced, is it before that? Is it proactive? What are you thinking about in that regard?

Ambassador DOBRIANSKY. Earlier when you posed the question to the Assistant Secretary, it certainly caught my attention because the sanctions that had been imposed on Russia by the administration, although they have had an impact, the costs have not been that great to deter Russia from what it is doing, and not just in Europe, but also in Syria. And I think there is a concern in Europe about Russia's next move.

So to answer your question, it is now and later. It is looking at strengthened sanctions now. We need to focus on what we should be doing further because we are not operating and having discussions from a position of strength. In the discussions that we are having with Russia, we are not having the kind of influence and impact that we should. We have not deterred Russia, at least as I can see, in terms of their actions. So our focus is on now and beyond.

Senator MENENDEZ. Let me ask you, I personally have been an advocate, as I think the majority of this committee has, of providing lethal weapons to the Ukrainians—lethal defensive weapons to the Ukrainians. It is great to provide night vision goggles so that you can see your enemy coming, but if you cannot stop it, it does not do you very good to see them coming.

So the response to that is, well, that would only potentially create a greater provocation by Russia. It does not seem that Russia has needed much provocation to use its military might so far—Crimea, Eastern Ukraine, and now Syria. So I doubt provocation is really an answer. But it seems to me that the existence of Ukraine's ability to defend itself and up the cost to Putin is part of an equation to try to both deter him from doing anything more, and maybe to get the implementation of Minsk as we would like to see. Do you support that view?

Ambassador DOBRIANSKY. First, if I may—

Senator MENENDEZ. Sure.

Ambassador DOBRIANSKY [continuing]. I was here in Congress when Ukraine's President Poroshenko delivered his remarks before the joint session and said to the United States, thank you for the blankets, but blankets will not win wars. Ukraine needs serious military aid and assistance to be able to defend its territory and to push back against these Russia-backed separatists or terrorists, as the Ukrainians call them, and also to push back against Moscow.

Our support militarily, not only would be in response to the request from Ukraine, but, significantly, I think it sends a very important and clear signal in terms of our concern about what is happening on the ground there. We were one of the signatories of the 1994 Budapest Accords. We do have an obligation to fulfill it, and in that context, Ukrainians are saying, please help us, let us defend ourselves. It is not only a military issue for Ukraine's self-defense, but a political one as well. I do not support the argument and concern about escalation.

Putin is very concerned about Russian soldiers, dying. You know that former Russian Deputy Prime Minister Boris Nemtsov was murdered near the Kremlin. He was going to release a documen-

tary on Russia's military in Ukraine. The Atlantic Council also has a report called "Hiding in Plain Sight," which documents in detail the scale and scope of Russian involvement in Ukraine. And then third, there is just the political dimension here of what we are about and what we stand for. Not moving on providing military aid sends a very bad signal indeed.

Senator MENENDEZ. The Budapest Agreement where we gave Ukraine security assurances if they gave up their nuclear weapons that we would protect their territorial integrity, that has not worked out too well for them.

Ambassador DOBRIANSKY. That is correct. In fact, interestingly enough, when Russia illegally annexed Crimea, and then invaded Ukraine's eastern territory, I remember reading in Japanese press about their concern about the credibility of U.S. extended deterrence in Asia. This also has ramifications for global nuclear proliferation given Moscow's abrogation of those accords. It is not just about Ukraine.

Senator MENENDEZ. Ambassador Bond, let me ask you a question. Your testimony has a lot of golden nuggets in there about things we can be doing and should be considering as we help Ukraine achieve an economy that can grow. But as a prerequisite to that or as a condition of success, how can they ultimately—if they did every reform that we could envision, can they really ultimately succeed when a part of the most robust economic part of the country, which is the eastern part, which the head of the IMF said was about 20 percent of their GDP. If that ends up being gone, just for argument sake, how successful can they be?

Ambassador BOND. I think there is no question—

Senator MENENDEZ. If you can put your microphone—

Ambassador BOND. I think there is no question that they can be very successful. That eastern part is the old industrial base of the economy, so if—

Senator MENENDEZ. So if it is—

Ambassador BOND. It is a rust belt.

Senator MENENDEZ. Okay.

Ambassador BOND. Some have—some investors there, domestic investors, have upgraded those industries, but their future is in the knowledge economy. It is in agriculture. It is in energy efficiency, information technology. They have the base in the rest of Ukraine to succeed.

Senator MENENDEZ. For all intents and purposes, not that they want to, but you are suggesting they could lose that 20 percent and still be successful.

Ambassador BOND. Yes, I think the country could be economically successful. Of course, no one wants to see them lose the Donbass and the eastern parts of the country that are now occupied. It creates—being occupied, not being under the control of Ukraine means less tax revenue, less of a base to support the conflict that they need to support, less money to finance some reforms.

But an argument I tried to make was that deregulation and liberalization may not actually be very costly. It is removing regulation, it is removing sources of corruption. And you hear it again and again from Ukraine business people when you talk to them.

Senator MENENDEZ. If I may, one very final question, Mr. Chairman. So investment, investors.

Ambassador BOND. Right.

Senator MENENDEZ. External investors. So they see what is happening in Eastern Ukraine, and they say to themselves, I do not know how far this is going to go. I do not know what it is going to create as a ripple effect across the country. Does it undermine the opportunity to bring investment, or is your view that the reforms is what undermines investment?

Ambassador BOND. Reforms, systemic reforms are undermining investment, particularly substantial strategic investors who might be interested in some of those state-owned enterprises that need to be privatized. There is a plant, the Odessa Portside Plant, which is the largest fertilizer factory in Europe. That is a state-owned enterprise which could be privatized if it was done correctly, transparently. With due diligence and the proper paperwork, it would attract strategic European and American investors. And there are other examples of that throughout the economy.

Senator MENENDEZ. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Ambassador Bond, I happen to agree with the comments of the other Ambassador relative to our support of them defensively and in other ways, intelligence which we have been just incredibly remiss in not sharing. Do you share those thoughts relative to, again, defensive lethal weaponry? I know we are a little different stage of the evolution right now.

Ambassador BOND. Right. As I said, that was not my lane in the Embassy, but I personally believed that lethal defensive weapons should be considered for Ukraine. We have seen the Minsk agreement signed when the body counts of fallen Russian soldiers has gone sharply up. I think it will create a deterrent. It will create a cost, but Putin does not see it right now.

The CHAIRMAN. As far as the details of the Minsk II agreement relative to our sanctions relief for Russia, we put sanctions in place because of what they had done in Eastern Ukraine, and we also had sanctions relative to Crimea. Have you gone through those and looked at those and feel there is a balance, an appropriate balance there regarding the relief that is being given to them by simply agreeing to an accord after they have come in and destabilized the country the way they have?

Ambassador BOND. Senator, I have not. That, again, was not part of my brief when I was working at the Embassy. My small part of following Minsk were the humanitarian aspects where there is a working group that is supposed to be finding ways to get humanitarian assistance into the conflict area for civilians. It has not been very successful.

But, you know, we talk about the fight in the East and we talk about the reform fight in Kiev against corruption and everything else. There is a third struggle going on on the humanitarian front where, as Ambassador Dobriansky said, they have got \$1.5 million displaced persons in the country, another million fled outside as refugees, and millions of other people who are trapped in this area of conflict and that we cannot get humanitarian supplies in to support them, particularly with the onset of a second winter for these people.

The CHAIRMAN. Ambassador Dobriansky, have you seen those—have you examined the relief that is going to be given to Russia for somewhat fully implementing Minsk?

Ambassador DOBRIANSKY. No, I cannot say that I have studied that in detail, but I will make two comments relative to the Minsk accords. I would have liked to have seen the United States at that table, quite frankly, as part of the discussions taking place. I think our European allies, Germany and France, are working very hard, but I think that the United States should be engaged there as well. We have a stake in the future of Europe. We are part of the transatlantic community.

Secondly, I would just say that hearing Ukrainian officials speak about what is contained in the Minsk Accords, I think there is significant concern about certain interpretations of the text. Russian President Putin has stated very clearly his aspiration to see federalism established in Ukraine whereas the Ukrainians emphasize “decentralization.”

So my concern is politically what will unfold, and Russia’s actual influence already on the ground in Eastern Ukraine. And as Ambassador Bond pointed out, even just from the humanitarian side, OSCE is not able to bring in assistance, no less to be able to evaluate the political situation on the ground there.

The CHAIRMAN. What is your sense, and I know there is no way for you to fully know, but what is your sense of the role that Syria is playing relative to Russia’s recent behavior in Ukraine?

Ambassador DOBRIANSKY. Well, I will start with this, and if I may go back to the statement or question posed by Senator Menendez about our different testimonies. Actually I think our testimonies were very complementary in a way because Ambassador Bond got into a lot of detail, which I agree with. I wanted to explain to you why Ukraine matters, and why we must give different kinds of aid to Ukraine.

With respect to Syria, Putin’s vision and his long-term goals and intentions, I think, have been very clearly stated and had not changed. At the Munich Security Conference in 2007 he stated very clearly that he rejected the international legal order, and would take steps to bring about a change.

In the case of Syria, I see what is happening as threefold: first, to bolster Assad or a successor to Assad because they have a stake in Syria’s territory; secondly, to marginalize the United States and our role in the region; and thirdly, to divert attention from their aggression in Ukraine and to undertake action which would force other countries, in particular, Europe, to have to engage with them. And it puts the negotiations and the discussions about in Ukraine in a very different context as a result of Syria.

I see all of these issues as interrelated. And what really does matter here and what has not changed, despite in these last weeks a slow down in fighting or cessation of fighting in Eastern Ukraine, is the fact that Putin’s goals and objectives have not changed.

The CHAIRMAN. What, from your standpoint, of the NATO alliance—I know we had some—we had a leader of one of the Baltic countries in here recently, and the over flies and things that are taking place obviously are disconcerting. I know that, you know, article 5 is being looked at because of hybrid warfare, what does it

mean for another country to be attacked, what is the definition of that. How do we come to their aid if it is over cyber, if it is something else?

I have been increasingly concerned about our friends in Europe and their lack of commitment. I mean, let us face it, again Germany—we have numbers of NATO bases and others in Germany, and yet they do not come close to meeting their NATO commitments financially. And, by the way, why should they? I mean, they are so reinforced. How are the Eastern European countries feeling about Western Europeans' commitment towards that region and towards real pushback relative to Russia?

Ambassador DOBRIANSKY. I think that there are several factors that are on the table relative to NATO. The first is that NATO is being challenged by Putin both in terms of in area and also out of area. Secondly, I think you asked the question how does the East feel about the West. President Duda, the new President of Poland, made it very clear in his inaugural speech, that one of the steps that he would when the NATO summit will be held in Warsaw in 2016 is to advance the forward permanent deployment of NATO troops. It will be part of the Warsaw NATO summit agenda.

I am a proponent of that. I think that we have demonstrated previously, to the Russians and to Gorbachev when Gorbachev himself talked about Europe whole and free, that the nonforward deployment was part of that overall arrangement. But at this time, we are witnessing an aggression, and terms and circumstances have changed. So, the East European countries are acting on their stated goals. They want to see permanent, forward deployment of NATO troops on Polish territory and in the Baltic States.

Thirdly, with regard to NATO's budget, you raised a fair point. It is something that has concerned the United States. We would like to see greater burden-sharing. A number of the countries, since the aggression in Ukraine, have enhanced their budgets, but not all. And toward that end, it has to be a shared responsibility. There cannot be complacency. There has to be a transatlantic strategy as well here, which is lacking.

The CHAIRMAN. Well, listen, thank you both. Do you have any further questions? I know we started late and you witnessed something that is rare in this committee. But one of the reasons we do not give some of the Deputy Secretaries and Under Secretaries a difficult time, candidly, you know, many of us are disappointed about what has, and has not, happened in Ukraine. We feel like it has been half-hearted support.

It is difficult to give an Under Secretary a hard time when you are not even sure—you know, the policies are emanating from someone else, and I think in some cases it is somewhat difficult for them to really testify in a strong manner about what is happening. So that is what you may have witnessed with the last witness.

We thank you for being here today and sharing your insights. I know we will be following up. There will be questions. Without objection, the record will remain open until the close of business tomorrow, and if you would answer expeditiously those questions, we would appreciate it.

Thank you both for your service to our country, for being here today. And with that, the meeting is adjourned.
[Whereupon, at 12:04 p.m., the hearing was adjourned.]

