



**Atlantic Council**

DINU PATRICIU EURASIA CENTER

# **A Roadmap for Ukraine**

Delivering on the Promise of the Maidan

# A Roadmap for Ukraine

## Delivering on the Promise of the Maidan

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Atlantic Council  
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Washington, DC 20005

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# FOREWORD

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Last fall, as Ukrainians massed on the Maidan to demand a better government and closer ties to Europe, the Atlantic Council began to mobilize on Ukraine. An Atlantic Council delegation visited Warsaw and Kyiv in March to map out our strategy, and during the visit of Ukrainian Prime Minister Arseniy Yatsenyuk to the Council that same month, we launched a one hundred-day campaign to galvanize the transatlantic community behind Ukraine's democratic future in Europe.

As the crisis worsened, we convened at the highest levels, making vital connections between Ukrainian, American, and European policymakers and thought leaders. We deployed our substantial expertise to launch "red team" exercises that anticipated Russia's actions and outlined strategies to respond to likely scenarios. Our rapid response working groups ("tiger teams") made recommendations on issues fundamental to Ukraine's success. An Atlantic Council delegation delivered this report, which brings all of these findings together, to Prime Minister Yatsenyuk and other leaders in Kyiv the first week of July. The findings are also being shared with American and European policymakers.

The Council's enduring commitment to Europe and the transatlantic relationship has been the focal point of our work this year. In June, we launched the Ukraine in Europe Initiative to harness the opportunities Ukraine now has to become a sovereign, prosperous, and united nation. Vice President Joe Biden, Secretary of State John Kerry, and many Congressional and European leaders have selected the Atlantic Council as a platform to reach Americans and Europeans concerned about the setbacks in the region. At our fifth annual Wrocław Global Forum in Poland, we honored the people of the Maidan with a Freedom Award, which was accepted by democracy activists Ruslana Lyzhychko and Kateryna Kruk. To keep Ukraine on the agenda in Western capitals, we launched a high-impact biweekly newsletter, UkraineAlert, which has become a must-read for its thoughtful, in-depth analysis of developments on the ground.

To accomplish all of this, we turned to a committed and talented team. Executive Vice President Damon Wilson and Senior Fellow Adrian Karatnycky, who both have long experience dealing with Ukraine, joined forces to launch the Council's new initiative, connecting our knowledge of the situation on the ground with our ability to navigate policy circles in Washington and Europe. Building on the Ukraine work initiated by Vice President Fran Burwell in previous years, we set out to

build a "Team Ukraine." We quickly buttressed our effort by bringing on board former US Ambassador to Ukraine John Herbst as the director of the Dinu Patriciu Eurasia Center and the leader of our Ukraine in Europe Initiative.

Deputy Director David Koranyi played an instrumental role serving both as acting director of our Dinu Patriciu Eurasia Center while also leading our energy tiger team on Ukraine. Brent Scowcroft Center on International Security Senior Fellow Ian Brzezinski, who once worked in Ukraine's parliament as well as the US Congress, led our security-focused policy team. Board Director and former Undersecretary of Defense Walt Slocombe led our red team exercises with the support of US Navy Senior Fellow Chris Musselman. Irena Chalupa, the former head of the Ukrainian service at Radio Free Europe/Radio Liberty, joined as an editor of the UkraineAlert and coordinator of our public diplomacy tiger team. Our online editor Jim Rupert, who once reported on and from Ukraine for the *Washington Post*, wrote and edited a tremendous number of insightful articles and blogs for the UkraineAlert. And throughout, Senior Adviser Diane Zeleny has provided strategic guidance to help magnify the impact of our work.

None of this would have been possible without the generous support of the Atlantic Council Board of Directors, especially George Lund, who issued an appeal to his fellow board members to support the Council's response to historic developments in Europe's East. We offer a special thanks to George and his colleagues Adrienne Arsht, Robert Gelbard, Paula Dobriansky, Julie Finley, Bahaa Hariri, Ian Hague, Stephen Hadley, Brian Henderson, Martin van Heuven, Alexander Mirtchev, Andrew Prozes, and W. DeVier Pierson for their support.

Our Ukraine work will be sustained beyond this report by the generous support of many others including the Smith Richardson Foundation, the George Chopivsky Foundation, James C. Temerty, and Chevron. Furthermore, the Council is working to expand the impact and reach of our Ukraine in Europe Initiative by working more closely with the Ukrainian World Congress.

With the support of these friends, the Atlantic Council is doing its part to help Ukraine succeed and to ensure North American and European policy plays an effective supporting role. Through this work, the Council continues to mark our commitment to a vibrant, effective transatlantic community and a Europe whole, free, and at peace.



Frederick Kempe  
President & CEO  
Atlantic Council

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## INTRODUCTION

Ukraine is once again at a potential turning point in its young history. It missed the opportunity at independence and during the Orange Revolution to make a decisive break with an authoritarian past and move decisively toward an open, market-oriented society. Yet Ukrainian civil society remained vibrant and late last year once again spoke out against the country's authoritarian and corrupt leaders. As a result of the protests from an enraged citizenry, then-President Viktor Yanukovich fled the country for Russia.

At that point, a severe domestic crisis in Ukraine became an international one. Angry that its preferred Ukrainian politician was no longer in power, the Kremlin took steps to seize Crimea, first clandestinely and then openly. Once that was done, Moscow began an insurgency in Ukraine's east. Having trouble finding a sufficient number of Ukrainian volunteers to take up the struggle against their own government, the Kremlin sent in special forces and intelligence operatives to run an insurgency and to hire any locals willing to join. When those numbers did not prove adequate, Moscow sent in its own mercenaries.

The Russian aggression against Ukraine was a major violation of the post-Cold War order in Europe. It explicitly violated Russia's obligation in the 1994 Budapest Memorandum—under which Ukraine gave up its nuclear weapons—to respect Ukraine's territorial integrity. This prompted the United States and the European Union (EU) to level limited sanctions on Russia and to threaten major sanctions against whole sectors of the Russian economy if the Kremlin's aggression continued.

The Atlantic Council was drawn to this issue not just by the inspiring story of a still young nation trying to throw off the shackles of its past and face down a much larger and more powerful neighbor, but also by the geopolitical implications of Russian President Vladimir Putin's dangerous game. Putin justified his intervention in Ukraine by asserting his right to protect ethnic Russians and Russian speakers outside of Russia. As applied in Ukraine, this principle threatens nations across Eurasia, including our NATO allies in Estonia, Latvia, and Lithuania. What that means is that Ukraine is currently the front line in a potentially broader challenge by a revanchist Russia.

Early in 2014, the Council launched its Ukraine in Europe Initiative. The purpose was to draw attention to the crisis in Ukraine, its global ramifications, and to help Ukraine choose its own political destiny. As an organization committed to strong transatlantic

relationships and a Europe whole, free, and at peace, the Council is uniquely positioned to address this critical issue and provide the necessary guidance and expertise for these ends.

**UKRAINE IS  
ONCE AGAIN AT  
A POTENTIAL  
TURNING POINT IN  
ITS YOUNG HISTORY.**

Broadly speaking, the new Ukrainian government of President Petro Poroshenko must do two things to create a secure, democratic, and market-based society. First, the new government must stave off the Russian aggression and take back full control of eastern Ukraine, while continuing to call the world's attention to Russia's "annexation" of Crimea. Second, it must undertake the major reforms needed to end corruption and remove the oppressive hand of government on the economy, and to ensure the rule of law and the unobstructed activities of a wide spectrum of political parties and civil society.

To help Ukraine in this effort, the Council assembled an eminent group of experts to look at key problems facing Poroshenko. The papers on the economy, energy sector, the security sector, public diplomacy, and various scenarios for Russian activities in Ukraine presented in this report are the result of their work. These papers serve as an invitation to a dialogue with the governments of Ukraine, Germany, the EU, and the United States with the intention of promoting Ukraine's freedom and protecting the post-Cold War order. For Ukraine to succeed in transforming itself, Kyiv must undertake difficult reform, and the West must provide assistance for that reform and to help Kyiv resist Kremlin aggression. This report will be followed by future Council publications and ongoing dialogue on the status of Poroshenko's efforts to defend Ukraine's territorial integrity and to institute the necessary reforms and how the West might help.

John Herbst,  
*Director, Dinu Patriciu Eurasia Center*  
Atlantic Council

## ENSURING UKRAINE'S PROSPEROUS FUTURE

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The crisis with Russia hit Ukraine's economy at a vulnerable time in late 2013. The country's growth was flat in 2012 and 2013. (The economy sustained a 15 percent drop in 2009 because of the global recession, but gross domestic product (GDP) grew at 5 and then 4 percent in the following two years.) Public sector debt (internal and external) rose to 40 percent of GDP in 2013. This made the government of former President Viktor Yanukovich vulnerable to the Kremlin offer to drop the trade association agreement with the European Union (EU) in exchange for \$15 billion in loans and lower gas prices. The current account deficit also reached \$16 billion in 2013, or 9 percent of GDP.

The internal turmoil and the crisis with Russia was a body blow to the economy. The disruption of industrial production, especially in eastern Ukraine, and Russian trade restrictions led to a slump in production. Most economists are predicting a 4 percent decline in Ukraine's GDP this year. Russia's seizure of Crimea, which accounted for 3 percent of Ukraine's GDP, will also lower Ukraine's output in 2014. Twenty-five percent of Ukraine's \$83.5 billion exports in 2013 were sent to Russia. Estimates that Russia will cut its imports from Ukraine by 50 percent lead to projections that exports will slump to \$77 billion this year.

### The Good Work of the Interim Government

If the economy seemed in a parlous state when then-President Yanukovich fled for Russia in the second half of February, the overall picture has improved since despite the fighting in eastern Ukraine. Competent technocrat Arseniy Yatsenyuk became the acting prime minister at that time, and working with then-Acting President Oleksandr Turchynov and the International Monetary Fund (IMF), instituted a number of macroeconomic reforms designed to cut government expenditures, raise government revenues, cut the deficit, reduce the country's current account imbalance, and meet short-term fiscal obligations. The result was a standby agreement with the IMF that brought the country as much as \$17 billion in emergency funding.

The measures taken by the interim government have already produced a good result. Thanks to higher taxes, an increase in the price the government charges for gas, and reductions in government employment, expenditures will drop. As a result, the fiscal budget deficit that looked to skyrocket to 10 percent of GDP will instead fall from 7 percent last year to 4.5 percent in 2014. If the new government does not lapse back to

a loose fiscal policy, this fiscal deficit should drop to 3 percent in 2016.

Letting the hryvna float freely, after years of being tied to the US dollar, has led to a 50 percent depreciation, which will help exports and reduce imports, addressing the current account deficit. That deficit is now projected at 5.5 percent for 2014, despite the increase in the price of gas from Russia, which is jumping from the \$268 per 1,000 cubic meters under the deal Russian President Vladimir Putin offered Yanukovich in December to approximately \$485. The signing of the free trade agreement with the EU this June should contribute to this by stimulating exports.

### The Task for President Poroshenko and His Team: Security First

Thanks to the good work of the interim government, the macroeconomic situation in the country has started to stabilize. But this stability is still at risk due to the ongoing turmoil in the east of Ukraine. Ukrainian President Petro Poroshenko has been quick to announce that his first priority is to restore order in Donetsk and Luhansk. This is the pre-condition not just for protecting the country's territorial integrity but for establishing an environment in which the economy can prosper. The Donetsk and Luhansk oblasts were responsible for nearly a quarter of Ukraine's exports in 2013.

The Ukrainian security forces' successful retaking of the Donetsk airport from the separatists days after the election was a good sign that this mission can be accomplished. But much more will be necessary in the weeks ahead.

### Build on the Macroeconomic Policies of the Interim Government and the IMF

The interim government has already done the hard part, cutting government expenditures and raising revenues in order to alleviate Ukraine's massive public sector deficits and trade deficits. It is essential that Poroshenko follow and even enhance these measures. For example, while raising tariffs on natural gas, the Ukrainian government still provides gas at a subsidy rate for heavy industry. Reducing this subsidy will not only help maintain fiscal discipline but force heavy industry to make energy-efficient changes that will enhance their competitiveness.

Perhaps the single most effective step taken by the interim government to fix its current account deficit was to float the hryvna.

## Transforming the Economy

Poroshenko's decisive victory in the presidential elections gives him the political capital to take on the arduous task of introducing the structural reforms necessary to transform the economy. The intention is to get the parasitic and cumbersome Ukrainian state apparatus off the back of business. The lack of political changes in the early years of independence meant that the proper economic institutions never developed in Ukraine. It has taken too long to get to the point that Ukraine is at now, and it's a fleeting opportunity to put in place these reforms.

This starts with the new president and his government team announcing a clean break with the statist system of the past. The new personnel appointments by the president need to make this clear. The good news is that Poroshenko has asked Yatsenyuk, an experienced reformer, to stay on as prime minister.

The government now needs to make clear the inevitability of reform by placing reformers as new cabinet ministers and subministers. These appointees need to have the authority to make lower-level personnel changes and to ensure that the reform policies are implemented. Hotbeds of corruption—especially in the Tax Administration, Customs, and the police—need to be cleaned out. Former Georgian President Mikheil Saakashvili's wholesale changes in the police drastically reduced corruption throughout the country and set the stage for the structural reforms that followed. Indeed, Saakashvili fired the whole police force and used the military police tax substitutes while he hired new policemen.

Administrative changes are the fastest way to effect reform, but this can be followed by new regulations. It is very important that the thrust of the regulations should reduce the intrusiveness of the government in the economy. At the end of the day, the number of regulations in force should decrease dramatically.

Proper legislation is perhaps the best guarantee for establishing a stable market economy. Right to own private property, including in agriculture, must be enshrined in the constitution and law. This right must be protected against the possible abuse of government and police and tax powers.

## Attacking Corruption

Corruption is arguably the greatest obstacle to the economic transformation of Ukraine, and it needs to be attacked in several directions. As mentioned above, a wholesale cleaning of corrupt personnel is a priority. This is particularly true in the courts. Establishing a legal culture of transparency will also help greatly. A start can be made here by passing a law requiring transparent and competitive bids in the sale of government assets. And

Ukrainian firms should not be privileged in this process. Such privileging has been the source of much corruption in the past, for instance in the sale of Kryvorizhstal in 2004.

Corruption in the Tax Administration should be addressed not just by changing personnel but by reducing substantially the number of items to be taxed. Taxes should be transparent and all tax bills itemized.

## The Energy Sector

Getting the energy sector right—reducing subsidies, ensuring that public revenues are not diverted to private pockets, reducing energy inefficiency—is essential to transforming the Ukrainian economy.

**POROSHENKO AND YATSENYUK WILL HAVE THEIR HANDS FULL MANAGING THE RUSSIAN-LED INSURGENCY AS THEY PUSH FOR MAJOR ECONOMIC REFORM.**

## Encouraging Government Reform

Ukraine's relationship with the IMF will help keep Poroshenko and his team on the right path. But it will also be important for other credible outsiders to provide advice and feedback on the progress of structural reform. Such an effort would give Poroshenko an additional set of eyes and possibly help explain the need for reform in Ukrainian elite circles, for instance to businessmen no longer receiving government subsidies.

Poroshenko and Yatsenyuk will have their hands full managing the Russian-led insurgency in eastern Ukraine as they push for major economic reform. The oligarchs are not likely to simply accept an end to the gravy train that made them rich. So the new president is likely to face constant push back to real reform.

This means that international friends of Ukraine will need to stay closely engaged in the process, both to keep Poroshenko and Yatsenyuk on track, and to help them with the well-heeled opponents of reform. Oligarchs like Rinat Akhmetov and Victor Pinchuk understand that their future lies in Europe and this choice entails changes in the way business is conducted in Ukraine. Close attention from outside experts may prove useful in limiting the opposition of the country's big business interests.

***Acknowledgements:** John Herbst thanks Anders Aslund, Edilberto Segura, Christopher A. Hartwell, Oksana Nesterenko, and Nazar Kholod for their insights and contributions to this paper.*

## STRENGTHENING UKRAINE'S NATIONAL DEFENSE

Secure borders and internal peace are important foundation blocks upon which to drive economic and political reform in Ukraine. Russia has invaded Ukraine and occupies Crimea, supports an internal insurgency, and has massed military forces on Ukraine's eastern and northern frontiers. This undercuts, if not precludes, Kyiv's ability to drive forward the challenging reforms necessary to enhance the freedom and prosperity of its citizens and to effectuate their desire to integrate into the community of European democracies.

Russia's aggression has highlighted the failure of Kyiv's previous governments to build requisite security and defense institutions and capabilities. The new government inherits a security establishment that is in a state of disrepair. The Ukrainian defense establishment is hampered by obsolete weapons and equipment, inadequate training, corruption, and strategic guidance that lacks clarity of mission and objectives tailored to contemporary and foreseeable realities.

Nevertheless, Ukraine's military and security establishment offers the potential necessary to confront the country's pressing challenges. Over two decades of independence have instilled a stronger sense of national identity. Ukraine's cooperation with NATO and NATO allies dates back to 1991, and in 1994, it became one of the first countries to join the Alliance's Partnership for Peace program. Collaboration has included allied exercises in Ukraine and Ukrainian contributions to transatlantic military operations around the globe, all of which have helped the Ukrainian security establishment shed some of its Soviet-era legacies and attain useful operational experience.

Russia's aggression provides an opportunity of strategic clarity and urgency that should be used to expedite building a robust, modern, and capable Ukrainian defense and security establishment.

### National Security Strategy

On May 13, the government in Kyiv initiated a strategic review of the security sector, in essence an update of the 2012 National Security Strategy, the obsolescence of which is underscored by Russia's invasion.

- **Challenges.** The new strategy should clearly identify the principal challenges confronting the security of Ukraine to include:
  - ◊ the threat of Russian military intervention not only by conventional combined arms attack but also through unconventional operations

leveraging special operations forces, paramilitary units, and intelligence operatives; and

- ◊ the threat of a Russian-generated, -sustained and -directed insurgency with the aim to foment separatism.
- **Interagency coordination.** Russia's aggression highlights the power that can be leveraged through the integration of political, military, civil, economic, intelligence, information, and other elements of national power. The new national security strategy must provide the conceptual and organizational foundation for Ukraine's National Security and Defense Council (NSDC) to effectively coordinate the Ukrainian government's civil and military assets and oversee comprehensive programs for governmental modernization and reform.
- **Geopolitical vision.** The new national security strategy should clearly reassert Ukraine's determination to deepen and institutionalize its relationship with the democracies of Europe and the transatlantic community, Ukraine's readiness to develop cooperative relations with a Russia that respects its territorial and political sovereignty, and its recognition that these are not inherently mutually exclusive goals.

### National Defense Strategy and Structure

The Ministry of Defense should initiate a Strategic Defense Review (SDR) to be the first in a quadrennial series. In the interim, the Defense Ministry should issue a defense and military guidance document bridging the existing SDR and a future one that takes into consideration current circumstances, including Russia's invasion, the Ukrainian government's fiscal capacities, the pending constitutional reforms in Ukraine, and Ukraine's aspirations for European integration.

Core components of this interim strategic guidance document should include:

- **Territorial defense.** Ukraine should revise its pre-crisis territorial defense strategy. This strategy should focus on the following strategic objectives: to deter aggression; to defend Ukraine from conventional attack when deterrence fails; and to isolate and defeat insurgency. Territorial defense strategies can maximize the potential of inexpensive weapons. Successfully executed, a territorial defense strategy will impose disproportionately



Pro-Russian separatists march in Donetsk. Photo credit: Andrew Butko.

high costs on an opponent despite the aggressor's substantial numerical and material advantages. Capabilities generated through such a strategy, when complemented by rapid maneuver capacity, increased intelligence, surveillance and reconnaissance assets, and special forces, can support other national and local security forces acting to neutralize illegal armed formations.

- **Revitalized defense reform measures.** Leveraging the progress made in past defense reform efforts in Ukraine and central Europe, efforts should be made to reenergize reform in the following priority areas: defense planning review, defense budget and resource management and accountability; training and education; and personnel management. Improving the professional ethos and loyalty of the Ukrainian military is a must in the current security environment. This will require providing its officers and enlisted personnel desirable career paths with competitive compensation and benefits, merit-based advancement, and the training and resources necessary for operational success.
- **NATO standards.** Ukraine's defense establishment should implement previous pledges to adopt NATO operational standards and to adopt NATO equipment standards across the Ukrainian military, as financially feasible. Doing so will help facilitate interaction with European and North American military establishments. Interoperability can be an important driver of constructive institutional change. And, adopting NATO standards could

contribute to the shift of Ukraine's defense industry away from Russian buyers and toward new opportunities in the international defense market.

- **National Guard.** The emerging National Guard should be placed under the Ministry of Interior and trained as a national military police force akin to the France's Gendarmerie and Italy's Carabinieri (rather than as a traditional military reserve). It should be developed as an active voluntary reserve, capable of reinforcing the strategy of territorial defense against both external aggression and internal illegal elements.
- **International collaboration.** Recognizing current fiscal restraints and the demands of the current crisis, Ukraine's defense establishment should seek opportunities to expand its engagement with those of the Euro-Atlantic community. Joint education, training, and exercises both abroad and at home and contributions to Euro-Atlantic military operations will reinforce Ukraine's position as a de facto member of that community. They will provide useful operational experience and expertise, and foster the development and sustainment of valuable institutional and personal relationships.
- **Foreign military and defense advisers.** Ukraine should leverage Western experience by integrating Western advisers into its ministry of defense, general staff, and key training and operational units to help facilitate the process of defense and military reform and modernization.

## Defense Industry

Ukraine's defense industry represents a strategic asset, yet its mismanagement has created opportunity cost for the country's economy and contributed to the nation's continued dependence upon the Russian market. To reform and integrate Ukraine's defense industry into the global market, the new government should articulate a comprehensive defense industrial strategy the key principles and objectives of which include:

- maximizing the lessons learned and experience of European and North American efforts to rationalize national defense industries;
- promoting foreign investment on a case-by-case basis in Ukraine's defense industry;
- fostering cooperation in research and development initiatives and joint production;
- strengthening external oversight and transparency, including transforming state-owned enterprises into publically traded companies; and
- aligning Ukraine's export control policies with those in Europe and North America.

## Recommendations for the West

The West should provide Kyiv with military and security assistance and engagement that will increase Ukraine's confidence and capability to provide for its self-defense. The assistance program should, given the current crisis, focus on what can be achieved in the near term rather than on efforts with long time lines.

- **Military equipment.** The West should expedite and expand the provision to Ukraine of equipment that will increase its armed forces: mobility; intelligence, surveillance, and reconnaissance capacities; logistical structures; and command, control, and communication capacities. Weapons to assist Ukraine's territorial defense should also be provided including anti-tank and tactical air-defense weapons. Such assistance is needed to rapidly reinforce Ukraine's ability to deter and defend against a foreign invasion and to contain and defeat violent separatists.
- **Military trainers/defense advisers.** The West should offer Kyiv military and civilian trainers and advisers who can be embedded in Ukrainian defense and security institutions to facilitate the assimilation of new equipment and methods, improve their operational capacities, and further develop the processes of modernization and reform. Special effort should be directed to assisting Ukraine modernize and reform the human capital management and the financial management

and accountability of its defense and security establishments.

- **Intelligence.** The West should increase its intelligence cooperation with Ukraine. The objectives should be to enhance Kyiv's situational awareness of internal and external threats through, for example, sharing of intelligence and provision of training in intelligence collection, analysis and dissemination. The West can also help reinforce the operational and personnel integrity and capability of the Ukrainian intelligence community.
- **NATO cooperation.** NATO should offer Ukraine the opportunity to joint review and update the panoply of agreements and institutions created to manage their relationship, including the NATO-Ukraine Charter, the NATO-Ukraine Commission, the Joint Working Group on Defense Reform, the Joint Working Group on Armaments, and the Defense Education Enhancement Program. NATO should be prepared to provide assistance to Ukraine's Strategic Defense Review.
- **Military exercises.** NATO and NATO member states should offer to expand and expedite a program of exercises with the Ukrainian military both in and outside of Ukraine. Exercises are a means to enhance the capabilities and readiness of the Ukrainian armed forces and to demonstrate Western interest in Ukraine's security and sovereignty.
- **Regional cooperation.** Regional security cooperation with Ukraine should be encouraged, activated, supported, and strengthened. North American and Western European NATO allies should reinforce bilateral and multilateral collaboration between, for example, Ukraine, Poland, Lithuania, and Romania.
- **Defense industrial collaboration/major non-NATO ally status.** European and North American states should grant Ukraine the necessary legal status that will enable their deeper engagement with Ukraine's defense industry. For example, the United States should offer Ukraine Major Non-NATO Ally status. This would open opportunities for cooperative defense research and development projects, allow Ukrainian enterprises to bid on certain US defense contracts, and make Ukraine eligible for expedited processing of export licenses of military and dual equipment and services.

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# SECURING UKRAINE'S ENERGY SECTOR

Energy represents one of Ukraine's greatest vulnerabilities and sources of potential strength, and must be central to a broader effective and comprehensive economic reform plan.

Energy is the linchpin of Ukraine's dependence on Russia. The Kremlin has used energy as a weapon not only to exert leverage over Ukraine, but to control its leaders and key power players who are personally enriched via opaque energy deals with Russia.

As such, the energy sector is a critical pillar to building an effective, stable national security and economic strategy for Ukraine.

This strategy must be long-term in scope yet also one that will have an immediate positive impact. The Atlantic Council has developed this roadmap for the new administration in Kyiv to clean up, reform, and liberalize Ukraine's energy sector and integrate it with European Union's energy market.

## The Challenges

Despite its energy resources, the country's economy itself is far from optimal. Successive rounds of systemic theft and mismanagement left Ukraine's government coffers chronically cash-strapped. Furthermore, external political pressure and inertia of previous governments left Ukraine with a ruinous gas contract with Russia. The country is not only in an asymmetric war, but also in an economic war with Russia, resulting in negative growth, especially in its eastern regions.

Lack of transparency and the misuse of energy rents have paralyzed the political system and bolstered the country's oligarchy. It has also weakened legitimacy of the state and people's trust in the government, and its ability to stand up to Russian pressure and aggression, especially in eastern Ukraine.

In sum, Ukraine's energy situation is unsustainable, as currently 7 percent of gross domestic product (GDP) is spent on natural gas subsidies. This will only be slightly helped by the current increase of gas and utility prices, as close to half of the increase has already been consumed by the 25 percent depreciation of the hryvna against the US dollar.

The European Union (EU) has tried to foster reforms in Ukraine through different instruments and with limited success. Central to the efforts was the Energy Community Treaty, which requires member states to

adopt the EU's energy *acquis*. The Treaty stipulates energy sector reforms and regulates third-party access to the energy grids as well as the unbundling of transmission and generation assets. Even though the EU has tried to give concrete assistance, such as the 2009 agreement on renovating Ukraine's gas pipelines, progress on these reforms has been very slow. The International Monetary Fund (IMF) has also tried to push reform on the domestic gas market in order to eliminate the gas subsidies tanking the national budget.

Furthermore, Russia is fundamentally opposed to reform efforts establishing greater transparency. As Moscow wants to formalize its control of the gas transit system, it prefers its murky deals with Ukraine. By putting in place a new and transparent regime for the transit arrangements with Russia, the Ukrainian government can help ensure that these funds are not misused for personal gains. Going forward, Ukraine should recalibrate the balance between the maintenance of its transit status, on the one hand, and developing its own domestic resources and diversifying its outside supplies, on the other.

The new presidential administration must seize the opportunity to implement new measures to build a more independent, secure, and sustainable energy system for Ukraine.

## Recommendations for the Ukrainian Government

Steps taken to reform the country's energy sector in the next one hundred days will be crucial, first and foremost to lessen Ukraine's dependence on Russia and clean up a corrupt and inefficient energy system. As a matter of urgency, the new Ukrainian leadership should undertake the following steps:

**Priority 1: Transparency.** Injecting transparency and eliminating rents is the sine qua non of energy sector reform in Ukraine. Furthermore, such transparency will serve to bolster the population's confidence in the government's legitimacy.

**Hold an independent technical and financial audit of the energy sector.** Ukraine needs to conduct an independent audit of the hydrocarbon extraction and distribution sectors. This should include a transparent public inventory of all extraction wells with disclosure of their owners and distribution networks of the resources, as well as of the ownership of distribution networks.

**Conduct a governance and regulatory reform to increase transparency and efficiency.** Legislation must be put in place to increase transparency, streamline regulations and the tax code, and ensure that all regulatory bodies have power and credibility. The energy regulator (NKRE) and the antitrust agencies in particular need to be fully independent and empowered in accordance with the law and international best practices with special regard to the Extractive Industry Transparency Initiative (EITI). A streamlined and simplified licensing and taxation system, and a transparent mechanism of public procurements are also a must. Equal treatment of domestic and foreign investors should be ensured by the state, enshrined in law and observed in practice.

**Improve information about gas flows.** There is a need for improved information about gas flows, especially through the installment of gas metering stations at the Russian border. Ukrtransgaz needs to establish a real dispatching center, by which gas flows and information over the main lines should be controlled. This will require negotiations with Moscow that the European Union should to assist with. There is a need to introduce total accounting and control of movement and usage of gas by the principle “from wellhead to burner tip.”

THE NEW  
PRESIDENTIAL  
ADMINISTRATION  
MUST SEIZE THE  
OPPORTUNITY  
TO IMPLEMENT  
NEW MEASURES  
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ENERGY SYSTEM FOR  
UKRAINE.

**Priority 2: Liberalization of the energy sector.**

Ukraine’s new leadership must set in motion legislation that will help create a competitive energy sector. A liberalized energy sector will attract investments, increase competition and efficiency, and reduce dependency on Russia as a natural gas supplier through diversification efforts. It is imperative that fair prices are ensured at market entry to encourage and facilitate supply diversification.

**Enact pricing reform, finding the balance between social costs and economic costs.** The new presidential administration must maintain political legitimacy and ensure that the roadmap is followed through. The social costs of end-consumer energy prices must be dealt with proactively, otherwise this could lead to even greater social discontent and political instability. That said, Ukraine should formulate a non-gradualist approach to gas market reform. The gas price should reflect the market reality at every level. A step-by-step approach is more likely to be derailed in its implementation. Market prices will drive efficiency of an extraordinarily wasteful system.<sup>1</sup>

**Introduce a targeted subsidy system.** Ukraine should set up a system in which gas subsidies are tied to lower consumption. For example, consumers should pay lower prices on the first 250 cm/month. The leadership should also fully compensate the price increase to market levels (about 5.5 times for gas and three times for heating) for low-income households by handing out “energy vouchers” worth the value of the average price differential for gas and heating per person. Even if half of the population would receive such a subsidy, the current cost of subsidies would be cut in half, amounting to about \$6 billion. A pricing reform along these lines would preserve social peace and put the bulk of the burden on the more affluent and the current system’s arbitrageurs. It also should allow the government to phase out all the other energy subsidies. The goal is not to eliminate “fossil fuel subsidies” for the population at once but to detach them from consumption, thereby enhancing energy efficiency. The advantage of paying out the subsidy in cash is that this is a considerable stimulus for energy efficiency. It would dramatically increase popular demand for changes to the heating and gas delivery system. The cost of the subsidy would be reduced year by year, in line with energy efficiency improvements.

**Initiate an energy savings program.** Ukraine has huge potential for energy savings through the realization of energy efficiency programs. Together with increasing domestic gas production and unconventional gas extraction, this will ideally allow the country to

<sup>1</sup> An average Ukrainian household consumes 800 cma of gas directly plus almost 1,000 cma via district heating and warm water.

dramatically lessen its energy import dependence in the medium term. Ukraine should aim to further reduce gas consumption to 40 bcm from the current 50-52 bcm per year already by 2017-2018. Corresponding energy efficiency programs should be introduced on the regional level, including utilization of local fuel and energy sources for heat generation. The state should introduce a set of financial incentives instead of subsidies to enhance households' energy efficiency (replacement of roofs, doors, windows, and boilers). Setting up a microcredit system with the help of international financial institutions (IFIs) to facilitate the investment into efficiency transition will help to reduce consumption and enhancing efficiency in Ukraine's domestic energy market. Billing has to be changed on basis of the energy delivered and not on the basis of the energy produced in the heating central. This will encourage heating companies to invest in efficiency.

**Increase domestic conventional gas production.**

Liberalizing wellhead prices, providing fair access to market, simplifying licensing procedures, and removing other barriers to investment could substantially increase domestic gas production, further reducing the need for Russian gas supplies.

**Complete the restructuring of Naftogaz.**

Restructuring and reforming Naftogaz by breaking it up into independent subsidiaries and privatizing its nonessential functions should be a top priority for the new presidential administration. A reform plan should be adopted by the cabinet of ministers as a matter of urgency.

**Priority 3: Diversify energy supplies and integrate into the European energy market.** Ukraine should integrate its energy infrastructure into the European energy market as a matter of urgency through interconnections with the regional energy platform of the Visegrad Group (V4). Diversification projects, including reverse flow on the Brotherhood/Bratstvo Pipeline, must be prioritized and facilitated through both European funding and bold steps by Ukraine toward the adoption of a more transparent and stable Ukrainian gas sector. Expanding the Polish-Ukrainian interconnector and building up the necessary pipeline infrastructure to access the Swinoujcie LNG terminal in Poland and enlarging the northern interconnector with Romania should be carefully considered, with the use of EU funding (Projects of Common Interest).

In addition to natural gas supply diversification, Ukraine shall also consider diversification of the nuclear fuel supplies and expanding cooperation in the nuclear sector with non-Russian companies.

**Priority 4: Stabilize the gas relationship with Russia.** Even as diversification efforts must be pursued

vigorously, Russia will remain an important supplier and transit partner for the foreseeable future. Thus, Russia and Ukraine need to stabilize their relationship and agree on a transparent, credible gas purchase contract and transit regime. A prudent and well-prepared negotiation strategy that focuses on the long-term sustainability instead of short-term political gains is a must. Involvement of the European Union and outside industry expertise in the negotiations would facilitate outcomes that conform to modern international business practices. Given the strategic importance of this renegotiation, responsibility should be placed directly in the hands of the prime minister or president. It should be recognized that the technical competency of incumbents in the Ukrainian energy sector is needed for the negotiations, but some of these individuals have also been barriers to reform and benefited from corrupt business practices in the past. The continual gas debt to Russia must be resolved once and for all with the help of the international community.

**Recommendations for the Transatlantic Community**

**Close scrutiny of Gazprom's monopolistic contractual practices.**

The European Union and the Energy Community should redouble and speed up efforts to crack down on Gazprom's monopolistic practices and create a more competitive and liquid European energy market. These are also crucial for Ukraine in its negotiations with Russia and to better access reverse flows through Slovakia, Hungary, and Poland.

**Support Ukraine's team in negotiations with Gazprom.**

Although the primary responsibility to stabilize its energy relationship with Russia lies with Ukraine, the EU shall pro-actively participate in the negotiations to ensure coherence and compliance with European rules and regulations. The EU can help Ukraine boost its leverage by providing a team of experts—including economists, financial experts, lawyers, and energy market professionals—to be in the "back room" with Ukrainian decision-makers during talks with Russian leaders and Gazprom.

**Fully utilize international governance institutions.**

To build momentum and a better negotiating position vis-à-vis Russia, Ukraine needs to vigorously pursue its use of international governance instruments, especially in light of Gazprom's inflated demands. This offensive should include the Stockholm Arbitrage Court, mediation offered by the Energy Charter, and the World Trade Organization (WTO). Swift action is also needed to demand compensation for energy assets confiscated by Russia in Crimea at all available international courts.

To meet the demand for energy efficiency improvements, active international involvement is required through

specialized programs and expertise. The focus of the European Bank for Reconstruction and Development (EBRD) on concrete energy efficiency projects is laudable and should be stepped up. Yet the EBRD still lends too much to Russia, and the bulk of that funding could be redirected to Ukraine. The European Investment Bank should also step up funding for Ukraine and redirect more toward energy efficiency and less toward handing out credit lines to other banks. One central improvement is to install heating and electricity meters on a house or entrance (*pod'ezd*) basis, as well as on each heating element in the flats (calorific meters). Donating these meters and overseeing their implementation should be a priority.

RUSSIA AND UKRAINE NEED TO STABILIZE THEIR RELATIONSHIP AND AGREE ON A TRANSPARENT, CREDIBLE GAS PURCHASE CONTRACT AND TRANSIT REGIME.

**Set up a “twinning” program.** A twinning program between the public administrations of EU member states and Ukraine’s new administration could be a vital instrument for cooperation. A twinning program will allow European counterparts to provide support for the transposition, implementation, and enforcement of EU legislation to bring Ukraine closer to the European community. Counterparts will share good practices developed within the EU and foster long-term relationships. European experts with special regard to the Visegrad Four need to be included as advisers in the management of Ukrainian public energy companies.

**Strengthen the European Energy Community.** The European Energy Community Treaty should be further strengthened by forming a court and upgrading the secretariat with executive functions that would be able to enforce antitrust law, state aid, and merger rules. The Community Secretariat should also assist Ukraine in preparing documents for arbitration in Stockholm.

### Medium- and Long-term Tasks for Ukraine and the Transatlantic Community

Medium- and long-term priorities for Ukraine’s energy programs should include:

- developing natural gas production from unconventional sources and on the Black Sea waters by involving leading American and European energy companies;
- balanced expansion of the renewable energies (biomass, wind, and solar energy) on a transparent basis;
- enhancing security of the critical infrastructure according to best EU and NATO practices;
- creating strategic fuel reserves in cooperation with neighboring EU member states;
- completing implementation of the EU energy packages in the context of the obligations under the Energy Community Treaty;
- modernizing the Ukrainian gas transit system in close cooperation with the EU;
- transitioning to the European system of natural gas accounting by its quality indicators (calorific value);
- modernizing the national electric power engineering system with its parallel synchronization to the EU; and
- establishing strategic stocks of oil and petroleum products in accordance with the requirements of the EU and the International Energy Agency (IEA).

**Acknowledgements:** *The roadmap has been developed by a group of Ukrainian and international experts, coordinated by Atlantic Council Dinu Patriciu Eurasia Center Deputy Director David Koranyi in the framework of the Council’s Ukraine in Europe Initiative. Koranyi thanks Margarita Balcameda, Konstantin Borodin, Edward Chow, Michael Gonchar, Anita Orbán, and John Roberts for their insights and contributions to this paper.*

## TELLING UKRAINE'S STORY AT HOME AND ABROAD

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Since the Orange Revolution, Russian anti-Ukrainian propaganda has helped to lay the groundwork for the Kremlin's annexation of Crimea and intervention in eastern Ukraine. This campaign has been ubiquitous, effective, and largely unchallenged, and it continues to present a distorted and untrue picture of Ukraine to Russian and Western publics as well as Ukraine's own people.

In the battle for global public opinion, the Kremlin spends millions on Internet, newspapers, television, and an army of pundits and journalists around the world. Russian President Vladimir Putin described the Kremlin's purpose perfectly: "to break the monopoly of the Anglo-Saxon mass media."<sup>1</sup> To this end, Moscow invests some \$136 million annually just in Russian- and English-language media abroad.

Since the Maidan protests began last autumn, Russia's focused information campaign has intensified, attempting to discredit the demonstrators as rabid nationalists and fascists who are being cynically manipulated by the West, the United States in particular. Russian state television endlessly asserts that Kyiv's government is a junta made up of "fascists" who oppress Russian-speaking Ukrainians. Kyiv's military operation against pro-Russian militants who have seized cities in eastern Ukraine is portrayed as an illegitimate and punitive war against its own people.

Recent polling shows that the majority of people in eastern Ukraine do not want to join Russia. However, the conversation in the east is currently hijacked by a vocal, pro-Russia minority. Domestically, Kyiv must find a way to get support to the silent majority so they have their voice heard too. These efforts need to be local and genuine to be credible. Following the peaceful and successful election that brought Petro Poroshenko to power, the Ukrainian government has a compelling story to tell about democracy under pressure. No opportunity should be lost to tell this story.

The following recommendations represent the views of a group of experts who came together as part of the Atlantic Council's Ukraine in Europe Initiative to propose concrete measures that the Ukrainian government, civil society, and media can take in order to better serve Ukrainian citizens and safeguard truthful, objective information.

### Reinforce Independent Media and Remove Political Controls

One of the most effective ways to counter Russian disinformation and propaganda inside Ukraine is with good journalism, which means delivering high-quality, fact-based content and analysis. At this turbulent time in its history, Ukraine's media has been an integral part of the story. As tensions mounted and protests grew, new media covered almost every moment, Internet television came into its own. Social networks became critical to the effort to communicate internally and with the world beyond.

- The current situation provides a unique opportunity to create a real independent public broadcaster combining existing state infrastructure and the Hromadske concept and initiative. Hromadske is strong on ideas and attitude, weak on storytelling and original content. Ukrainian state television is strong in infrastructure and technical support, weak on original programming. Leadership and a clear program plan could combine the strengths of the two and finally launch a viable and lasting media product.
- Legislation should be crafted outlining the relationship between financing, production, and editorial independence following other successful public models such as the BBC and PBS. As the most widely viewed channel in the country, the state-run Channel One is poised to be the platform for the delivery of a new public television product.

### Break the Monopoly of the Oligarch-controlled Media

Ukraine's media, particularly television, is controlled by opaque media holdings owned by business magnates. These oligarchs often use their television stations, websites, and newspapers for their own interests—whether to obtain a business or political advantage, curry favor from the government, or simply malign a political adversary.

- Ukraine urgently needs to begin a tradition of distancing the media from politics and corruption. Legislation must be enacted guaranteeing transparency of ownership, clearly identifying conflicts of interest and defining the ownership relationship in such a way that editorial integrity and independence are guaranteed. Elected officials must divest from their media holdings.

<sup>1</sup> Paul Sonne, "Putin Moves to Break into Western News 'Monopoly,'" *Wall Street Journal*, December 9, 2013.

### Safeguard Independence, Objectivity and Professionalism in the Media

Although Ukraine has a dedicated core of independent journalists, too often there is a symbiotic relationship between politics and media, whereby journalists become players in the political process. Professionalism, specifically in regard to journalistic ethics, must be strengthened to improve public trust in the media.

- Raise the level of journalistic professionalism through exchanges and cooperation with Western media, expanded media internships in the United States and Europe, journalism school partnerships, and Ukrainian-Western media collaboration.
- Invite Western media specialists to deliver lectures/master classes in Ukraine on ethics in journalism and use existing platforms such as TED talks to establish and solidify journalistic best practices.

### Dispel Russian Myths and Propaganda

Russian disinformation too often remains unchallenged in Ukraine. A dedicated program that tracks distortions and lies and works to dispel them is needed. The Kyiv Mohyla StopFake initiative does this in a limited capacity on the web. The media watchdog Telekritika Mythbusters also monitors Russian media myths.

The power of humor should become an instrument in the battle against Russian propaganda. Satirical news programs such as the *Daily Show with Jon Stewart* and the *Colbert Report* address current events with an irreverent, skeptical approach, pushing boundaries and encouraging critical consideration.

- Use the StopFake and Telekritika initiatives to launch a regular television program on national TV to report and dispel the most egregious Russian propaganda claims.
- Ukraine's Ministry of Foreign Affairs (MFA) should sponsor a well-produced, solidly presented, accurate, and compelling documentary film on Russian propaganda. Air the film on Ukrainian national television, present it at documentary film festivals, and disseminate it to Western television networks.
- The most egregious Russian media should be held accountable for hate speech and incitement to violence. Media nongovernmental organizations (NGOs) should collect required data, and Ukraine should pursue a case in Strasbourg or the Hague.
- Ukrainian popular culture has a great tradition of satire and irony. The comedy program *95th Quarter* regularly attracts huge crowds to its tapings, the puppet program *Skazochynaya Rus* satirizes both Ukrainian and Russian politicians. "Michael Shchur,"

the "émigré journalist" who spoofs Ukrainian political realities in his *Nice News* satire program, is frequently aired on Hromadske TV. A weekly/daily satire program of Russian news broadcasts on national Ukrainian television would be a powerful instrument in countering and disarming Russian falsehoods and instilling a healthy skepticism in the minds of the viewing public.

ALTHOUGH UKRAINE HAS A DEDICATED CORE OF INDEPENDENT JOURNALISTS, TOO OFTEN THERE IS A SYMBIOTIC RELATIONSHIP BETWEEN POLITICS AND MEDIA, WHEREBY JOURNALISTS BECOME PLAYERS IN THE POLITICAL PROCESS.

### Kyiv's Inclusive National Message to Its People: One Ukraine, Diverse and Unique

The Maidan was an inspiration to millions, creating a wave of sympathy and support for Ukraine's people and their cause across the world. Ukraine's new government is taking the helm at a time of extreme crisis, and the Russian-driven separatist dirty war must not become an excuse for business as usual. It is imperative that President Petro Poroshenko and his team channel that positive global sentiment into a clear, positive message to their own people, particularly in the eastern regions of the country, and to the world.

Ukraine's government must show its people that it represents the interests of all regions—north and south, east and west. The leadership must engage in a direct dialogue with the people of the east and compel Ukrainians to begin talking and listening to one another. The inclusive national conversation should underscore commonalities over differences, underscore shared values and histories, and look to a common future where every citizen has a stake.

- Poroshenko should embark on a listening tour of the country, conducting a series of televised town hall meetings in all regional centers, starting with eastern Ukraine. These should be frank conversations, spontaneous and authentic, and not orchestrated Soviet-style shows.
  - The government should make itself accessible to the media and the public through regular briefings and press conferences, conducted in an open and frank manner. Issuing statements and posting them on government websites is not enough. An articulate, multilingual spokesperson who understands media should be identified and tasked with implementing this mission.
  - Enlist people who are respected in Ukraine to be ambassadors for the country. This can include football players, musicians, writers, and actors. Enlist Russian celebrities who speak out against the Kremlin's propaganda to take part in this effort.
  - Launch a series of collaborative programs between the east and west of the country. Look for opportunities to build bridges between Kyiv and the regions by focusing on common problems that can be discussed calmly, such as health care, energy and food prices, inflation, pensions, education, and local empowerment.
  - Partner Ukrainian independent media with Russian counterparts such as TV Rain and Echo Moskvy radio to produce selected programming aimed at improving mutual understanding and information exchange. Find common themes such as building an open society, battling brain drain, education, job creation, community activism, mixed marriage, and cultural identification that will advance tolerance and mutual understanding.
  - Find ways to support grassroots activism in the east through communities, churches, and libraries. Look at local, low tech, and trusted sources of information, use online conduits to generate and share this information offline.
  - Through the Ministry of Education launch a series of exchange programs between schools and universities in the country. These intra-Ukrainian exchanges will provide students with an opportunity to get to know and understand their country in a thoughtful and encouraging manner.
- speakers inhumanely. Western media report on these statements. Ukraine's government stays largely silent, thus delivering a tacit victory to Russia's disinformation campaign. Ukraine must wrest its narrative from Russia and craft a comprehensive strategy to get its message to the world. But first, it must develop that message.
  - Ukraine needs a short history of the country that would become required reading for every foreign visitor, correspondent, and politician. Solicit a respected, popular historian to write this one hundred-page volume that debunks Russian myths about ancient and contemporary Ukrainian history.
  - More direct support for the Maidan Media Crisis Center is needed. The center must get out of crisis mode and start talking about the future, including nation-building. The Center should be a must-do first stop for all incoming foreign media.
  - The government's message machine, once in place, should regularly promote the reforms of the new government, its plans to root out corruption, and improve the investment climate. Successes, no matter how small, should be highlighted.
  - Ukraine should promote its greatest talent abroad. Writers such as Yuriy Andrukhovych, Oksana Zabuzhko, and Serhiy Zhadan, who know English, German, and other languages, should be featured in a roster of cultural events at key Ukrainian embassies in the West.
  - Although financial resources are scarce, the Ukrainian government should tap the business community to launch a series of Ukrainian cultural centers, based on Germany's Goethe Haus or France's Alliance Francaise in major Western capitals to promote Ukraine's unique culture and language.
  - Friends of Ukraine should host a global counter-propaganda conference in London and Berlin to rally an international lobby against the tsunami of propaganda deployed by the Kremlin.

### A Public Diplomacy Strategy for Ukraine

Public diplomacy is a means by which a country communicates its values, culture, and policies to the people of other countries. Governments use public diplomacy to help shape the image and understanding of their country abroad. The crisis in Ukraine, however, requires that the new government consider a "concentric public diplomacy plan" that targets not just regional and international audiences but a domestic audience as well.

To start, the new government will need assistance in setting up a public diplomacy structure. There are two sides to public diplomacy: the 24/7 media and communications side and the long-term relationship-

### Ukraine's Message to the World

In recent months, Russian Foreign Minister Sergey Lavrov and Putin have made many pronouncements accusing Ukraine of waging a war against its citizens, creating a humanitarian crisis, and treating Russian

building side. Each is important, and each is more successful if both are well developed. Currently, much of Ukraine’s public diplomacy is based on cultural outreach and tourism, and there is no central entity planning the furtherance of foreign policy goals through public diplomacy.

Suggestions include:

- A high-level public diplomacy position that works with or within the Ministry of Foreign Affairs and the President’s Office.
- The MFA needs to adopt a content management system (CMS) so that key information can be put up in Kyiv that is automatically on all embassy websites.
- Embassies need assistance in strategic use of their websites. For example, many embassies have images or maps of the host country but not of Ukraine. CMS would help improve many websites.
- Diplomats should be given courses on communications, media and public diplomacy as part of their training at Ukraine’s Diplomatic Academy. Training at embassies is also needed. To the extent that allies can reach out to assist in training and teaching in the immediate future this would be helpful. So, for example, the public diplomacy desk officer for Ukraine at the US State Department in Washington, DC, could set up a session for key personnel from the Ukrainian Embassy in Washington to learn about the US structure, training, and methods. The German Embassy in Washington and other embassies that have strong public diplomacy and communications structures could offer a similar session. This could be replicated in key European capitals.

UKRAINE MUST WREST ITS NARRATIVE FROM RUSSIA AND CRAFT A STRATEGY TO GET ITS MESSAGE TO THE WORLD. BUT FIRST, IT MUST DEVELOP THAT MESSAGE.

### Concentric Public Diplomacy

The current crisis requires that the new government in Kyiv consider a public diplomacy plan based on three concentric circles: domestic, regional, and international.

#### Domestic Ring

The first circle, the “domestic ring,” needs to view the country as if it were an international landscape. Different

areas need to be identified for specific communications and outreach programs through “outposts” along the concept line of embassies or consulates. Normally, this would be the natural role of regional governments, but in some Ukrainian regions it might be better to start by creating outposts based on networks of trusted individuals.

Suggestions include:

- Identify “outposts” in each area as if they were embassies or consulates. In some areas, this might need to be virtual due to the dangers that visibility would entail.
- Networks would be created of trusted individuals, with a solid public diplomacy record and international experience, who would play leadership roles.
- The purpose of the outposts would be to assist with both the 24/7 media and communications as well as the long-term relationship building.
- Just as foreign diplomats need to be trusted to know what messaging is most effective locally, so too locals should be empowered by Kyiv to develop messages and means—within guidance structures—that they believe will be most effective in their area.

#### Regional Ring

Targeting key regional countries on a priority basis needs to be considered. For example, German media currently has Russia and the United States equally at fault over Ukraine. The German population, therefore, does not support sanctions or further sanctions on Russia, and this affects Chancellor Angela Merkel’s ability to impose them. Germany would be a priority country in the regional and international rings.

#### International Ring

Outreach, communications, and focus in the international ring needs to be prioritized based on strategic aims as well. With limited funds and personnel, thought needs to be given as to which countries to target—NATO allies? Security Council countries? Trading partners that could be potential substitutes for Russia (currently Ukraine’s largest trading partner)? Building a strong public diplomacy center within the MFA in Kyiv will greatly assist with capacity issues by pushing out the messaging, content, and programs.

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# UKRAINE CRISIS RED TEAM OVERVIEW

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## The Atlantic Council Red Team

The Atlantic Council, as part of its Ukraine in Europe Initiative to galvanize the transatlantic community, convened a group of experts, former senior officials, and thought leaders to conduct a series of exercises that seek to identify Russia's possible next steps in Ukraine over the next year. Chaired by the Council board member Walter B. Slocombe, this Red Team exercise developed four broadly defined scenarios in which Russia could prevent Ukraine from becoming an independent nation with the ability to determine its own future, become a more democratic and less corrupt state, and integrate into Europe. The Red Team's goal was to develop the most effective strategies and policies to either deter or counter possible Russian actions.

Russia annexed Crimea as a means to an end, not an end in itself. For Russian President Vladimir Putin, the annexation of Crimea was an opportunity to maintain his power base, signal Russia as a global power, prevent further Ukrainian integration into Western institutions, assist in securing Russia's interests in Ukraine, and extend his own nationalist agenda. Given Russia's failure to develop an alternative European security architecture over the past decade, Putin remains an opportunist and will seize upon the present conditions. He will not stop at Crimea. Instead, he will continue to seek ostensibly legitimate actions, undoubtedly complemented by overt and deniable actions, in the military, political, and economic spheres to avoid being pushed out of Ukraine by the West, maintain a buffer with NATO, and secure a degree of control over Ukrainian industry and politics.

## The Scenarios

The Red Team examined four plausible scenarios through the lens of Russia's ability to influence military, political, and economic outcomes with the goal of identifying both Western and Ukrainian options to defeat, deter, mitigate, or respond. The Red Team assumed Russia's goal for Ukraine is, at best, a weak central government, an autonomous eastern region under heavy Russian influence, and prevention of Ukraine's integration with Western institutions. The Team's scenarios did not consider possible Russian objectives adjacent to Ukraine or attempts to pursue other regional or global aspirations.

The four scenarios—which are best thought of as points on a continuum, not wholly distinct compartments—that were developed by the Team are:

- **Overt.** Seek to produce a clear, quick success. Defined broadly by evident Russian use of force, or explicit threat of the use of overt force.
- **Covert/deniable.** Achieve relatively speedy success without openly showing Russia's hand through the use of militias, pro-Russian activists, intelligence operatives, special forces, provocateurs, and propaganda.
- **Ostensibly legitimate.** Attempt to build a more or less genuine pro-Russian constituency inside Ukraine through the use of seemingly legitimate political, economic, legal, and information actions.
- **Delay and de-escalate.** Count on Ukraine's inherent problems to be so substantial that, with a little patience, the country will fragment in ways that achieve Russia's goals.

The Red Team's products include a detailed description of the Russian approach and methods to achieve the objective. Each scenario provides specific actions and policies Russia may evoke along with responses that either the West or the new Ukrainian government might take in response.

Ukraine faces an inflection point as it teeters between a revanchist Russia and an uncertain Europe. Decisions taken in the coming weeks, months, and years by Ukraine's new leaders, civil society, media, and youth—along with the transatlantic community—will determine whether Ukraine survives and the conditions under which it emerges. The Council's Red Team exercise seeks to provide actionable recommendations and advice to policymakers and senior leaders in Washington, Brussels, national capitals, and beyond at this crucial moment for the transatlantic community.

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## OVERT SCENARIO

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### Russian Interests

Emboldened by his success in using covert Russian military forces and local militants to first seize control of Crimea and then destabilize much of eastern Ukraine and Odessa, Putin decides to launch an overt military invasion of Ukraine. This overt option differs from the others in that it seeks to establish direct Russian control of all or part of Ukraine. However, it shares the following objectives with the other three scenarios: strengthening Putin's support and control within Russia, preventing Ukraine from deepening relationship with NATO and the European Union (EU), protecting Russian control of energy pipelines to Europe and Russia's access to strategic Ukrainian resources, returning Russian expatriates to *Rodina*, and promoting division within the West. Its principal advantage, from Moscow's point of view, is that it offers a prospect of a quick, clear, and decisive victory. All of the other scenarios require more time than an overt invasion, but the after effect (open military occupation of all or a substantial part of Ukraine) will require a long-term investment of troops and resources. The possibility exists that, instead of full-scale invasion of Ukraine, Putin opts for a "creeping invasion" of incrementally "liberating" separatist strongholds. If Putin can achieve Russian control of areas east of the Dnieper River and the southern land corridor from Russia to Transnistria, he may consider his immediate objectives achieved, and avoid attacking Kyiv and western Ukraine, defying Kyiv and the West to act.

### Political Actions

An overt Russian invasion will be the most direct threat to the survival of an independent Ukraine. A military victory over Ukraine would also significantly strengthen Putin's political power in Russia, just as his seizure of Crimea brought him considerable popular support. Furthermore, military success in creating a *fait accompli* on the ground, combined with intense information warfare aimed at Western audiences, would incite a fierce debate within the West over how best to respond. This debate over the Russian threat would expose existing divisions within the Alliance, both over how to respond to Russia's actions and over the future role of the Alliance. It may also seriously poison relationships between members.

Kyiv's response to the overt scenario will be limited by the significant advantages Russia would have in a direct and open military confrontation and will be further undermined by the extent to which Ukraine has been penetrated by Russia. Numerous political and military

leaders will provide Moscow with intelligence and disrupt Ukraine's defense and intelligence forces. It will burden even loyal members of the Ukrainian government and military to have to work in an environment of suspicion and uncertainty. According to Supreme Allied Commander Europe Gen. Philip Breedlove, the Russian military could launch an invasion just twelve hours after the order is given and "could accomplish its objectives in between three and five days."<sup>1</sup>

Besides the probability of overwhelming defeat of the Ukrainian military in battle, Ukraine's political leaders should expect catastrophic loss of command, control, and communications with their military forces. In the words of Breedlove, Russia will "decapitate" Ukrainian forces (as it did in Crimea) by blocking all communications with senior leadership through combination of kinetic, cyber, and electronic warfare.<sup>2</sup>

### Western Actions

Although this scenario provides Putin with the quickest option to achieve his objectives, it will also provoke the strongest Western response. It is certain that Western sanctions on Russia will be increased, though the severity of new sanctions is uncertain. The United States and Europe should reach agreement before this scenario occurs on the specific measures to be implemented against Russia. This would allow the West to act in unity as soon as possible to a Russian invasion of Ukraine.

### Military Actions

Measured by both quantity and quality (at least in the sense of equipment), Russia has a considerable advantage. The effectiveness of some Russian units has increased significantly since the conflict in Chechnya and the Russian military has become much more skilled at combined operations. They are not yet at the level of NATO forces, but Russian forces have demonstrated through their ZAPAD exercises and their performance in Georgia and Crimea that they are much better than they were ten years ago. According to Aleksandr Golts, an independent military analyst in Moscow, "Russia now has absolute superiority over any country in the post-Soviet space."<sup>3</sup>

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1 Adrian Croft, "Russia Could Achieve Ukraine Incursion in 3-5 Days," Reuters, April 2, 2014, <http://www.reuters.com/article/2014/04/02/us-ukraine-crisis-breedlove-idUSBREA310PP20140402>.

2 Ibid.

3 C.J. Chivers and David M. Herszenhorn, "In Crimea, Russia Showcases a Rebooted Army," *New York Times*, April 2, 2014, <http://www.nytimes.com/2014/04/03/world/europe/crimea-offers-showcase-for-russias-rebooted-military.html>.

To be sure, while there is ample data on the quantity of forces Russia and Ukraine can use in the overt scenario, there is always uncertainty over how a direct military engagement would develop. Russia's main advantages will be in its elite units and in achieving air superiority.

Russia has only a limited number of experienced, professional units. Putin would probably choose to concentrate these forces for an overt invasion, at some risk to reduced capabilities on other fronts. Russia relies on conscripts who lack training, equipment, and combat experience. Their performance in an invasion of a territory as large as Ukraine is unknown, particularly if Ukraine managed to mount a serious resistance.

## OVERT INVASION WILL PROVOKE THE STRONGEST WESTERN RESPONSE.

However, Ukraine also relies on conscripts. In fact, 60 percent of the Ukrainian military are conscripts. Furthermore, the Ukrainian military is worse equipped and has far fewer elite units than Russia. The Ukrainian army has proven mostly ineffectual in fighting the irregular separatists in eastern Ukraine. Thus, it would be very difficult for the Ukrainian military, the majority of which is less experienced and poorly trained and equipped (and in any case heavily outnumbered), to defeat the conventional forces of Russia.

Another important consideration is time. It is likely that the Ukrainian defenders will have little warning of a Russian invasion and may be overwhelmed quickly. If the conflict is not over quickly, however, time may be an ally for Kyiv. Russia has improved its military to do well in short-term conflicts such as the war with Georgia and the seizure of Crimea, but has been less successful with protracted conflicts such as Chechnya.

In this overt scenario, Ukraine should respond to an invasion by targeting two key Russian weaknesses. One weakness will be the logistical vulnerability of Russian forces. The greatest danger to the Russian military may be how expensive and difficult it is to supply large-scale forces in semi- and nonpermissive environments. Even minimal interruption of Russian supplies by Ukrainian security forces or partisan resistance, which is likely to increase as Russian force advance westward, would decrease the effectiveness of Russian units and increase the drain on Moscow's limited resources.

Another major weakness is the vulnerability of Russia's critical nonmilitary infrastructure in Ukraine. The Russian economy is dependent on profits from its energy sector. Any damage to the pipelines transporting Russian energy through Ukraine will hurt Moscow more than the destruction of tanks or aircraft. Russia also relies on

several factories in Ukraine to supply its military with key parts and equipment. While the Russian military will not be impacted by this soon, the leadership is certainly aware of the need to get the production lines back under Russian control. These factors are, however, more likely to be significant in determining whether Putin elects an overt invasion than on the outcome if he does.

Bleak as Ukrainian prospects are today, there long-term actions available to make this option less attractive to Moscow. Georgia was the victim of a Russian invasion and its Defense Minister Irakli Alasania has offered specific steps based on his country's experience with Russia's offensive capabilities. These recommendations will be valuable to defend Ukraine, unless the Russians dominate Ukrainian resistance and capture urban centers. The first recommendation is for Ukraine to make counterintelligence a priority. As soon as possible, Kyiv needs to develop and implement a counterintelligence campaign against Russian influence. The second recommendation is to focus on removing moles within the military and security services. Alasania recommends placing young, pro-Western officers in key jobs, while phasing out officers trained in Russia. Finally, Ukraine should greatly expand its use of alternative communication assets, such as unencrypted cellphones, to minimize Russian disruption of command, control, and communications. Ukraine's security forces would benefit from western equipment—lethal and nonlethal—and training assistance through both exercises and advisers.

### Western Actions

NATO allies are unlikely to agree on a military response to a Russian invasion of Ukraine. Nevertheless, Ukraine would probably receive bilateral military support from individual NATO members. Whether such assistance proved effective would depend largely on how long Ukrainian forces could sustain a defense. Military supplies may be provided overtly or covertly, but covert intelligence assets are also likely to be deployed in Ukraine. Nearby NATO members may also host key elements of Ukraine's resistance leadership and forces.

### Conclusion

There are at least three potential outcomes to this scenario. One, Russian military dominance overcomes most Ukrainian resistance. Russia's quick and effective use of overwhelming force to capture urban centers limits organized resistance and results in lower occupation costs. Two, Russian military defeats Ukrainian military but faces increased partisan resistance with westward advancement. Russia wins conventional victory but is challenged by brutal and protracted guerilla warfare with high occupation costs. Three, Ukrainian resistance and strategic depth of terrain incrementally slow Russian advance and prevent quick conventional victory for Moscow.

## COVERT/DENIABLE SCENARIO

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### Russian Interests

Russia would choose this course as a means to destabilize eastern and southern Ukraine by sustained and highly active covert or otherwise deniable efforts. Even if Putin nominally decreases the most recognizable methods currently in use, such as highly active and visible Russian intelligence operatives and special forces, he could continue to exert pressure through more subtle but still direct means to support pro-Russian elements, including the dispatch of thinly veiled special forces and security elements, use of agents of influence, financial and material support to separatists, and substantial incentives both positive and negative to the local population to side with the separatists. In this scenario, Moscow would continue to maintain that it is not giving active and direct support to the separatists, but would enlist its information operations instruments to sustain the narrative that the separatists are a legitimate force, fighting extreme nationalist forces in Kyiv, and only defending the rights of a linguistic minority.

### Political Actions

In the event Russia opts for this course of robust but nominally deniable support to pro-Russian separatists, the Ukrainian government should continue efforts by its security forces to confront and defeat the separatists where there is a reasonable prospect of success. They should also enact a political strategy to exploit Russia's greatest problem in its effort—the fact that while the Russian-speaking population has real grievances and distrusts the Ukrainian government, support for Russian occupation or even domination is limited. To meet this scenario, the Ukrainian government should prepare for and execute a national strategy of reconciliation with the legitimate concerns of the people in the east and south with promotion of civil resistance to Moscow's agents. The Ukrainian security services need to continue to push back where they have the means to do so, but they need not attack the adversary where it is strongest or where Russia can counter by increasing the scale of its intervention. Where there is mobilizable popular support, Kyiv should encourage mass civil disobedience and noncooperation that targets Moscow's and the separatists' political, economic, social, and military resources. The successful nonviolent takeover of Mariupol and parts of eastern Ukraine by steelworkers and miners is an example of this approach. Resistance should be combined with a civic mobilization strategy and with genuine engagement of civic society in the east that advances national unity and counters Russian propaganda. For this approach to work, the government

in Kyiv has to follow through on constitutional reform, genuine decentralization, and economic progress. Even if it does, success is not assured: creating an effective guerrilla or civil resistance is a challenging task.

A combined use of limited security pushback, genuine reconciliation, and building local popular resistance could be used to keep separatist militia and its Russian supporters off-balance and mobilize the local population though unarmed opposition. This strategy holds greater promise than a military strategy for saving civilian lives and preserving the country's infrastructure while at the same time imposing considerable costs on Russia. This strategy is also more apt to awaken and mobilize those in eastern and southern Ukraine who are now apathetic, fearful, and disengaged.

### Military Actions

Russia would continue to introduce and support special forces and intelligence operatives, organizing the pro-Russian movement while acknowledging but not publically encouraging Chechen fighters in eastern Ukraine. In addition, Russia would likely:

- supply advanced weaponry to defend pro-Russian activities and territorial gains, and expand areas under separatist control;
- train pro-Russian elements in small-unit offensive and defensive maneuvers and provide secure communications equipment and leadership;
- recruit Ukrainians with access to local and national government leaders and institute a program of mental and physical intimidation, blackmail, and coercion to exert a degree of influence over Ukrainian government officials;
- deploy peaceful pro-Russian protesters to population centers in western Ukraine, including Kyiv, to instill a degree of uncertainty of western Ukraine's support for the Ukrainian government; and
- establish shadow pro-Russian governments in areas under separatist control and provide basic services to the population and co-opt the local security forces to remain neutral and unresponsive to separatist actions and violence.

Russia will likely maintain a credible conventional ground-based military force within quick striking distance of Ukraine to intimidate local populations loyal

to Ukraine, the government in Kyiv, and Western publics. It will also increase numbers, proximity, and activity if pro-Russian elements lose territory or influence, or are limited in their effectiveness by Ukrainian military actions.

### *Western Actions*

These responses are consistent with the premise that direct Western military intervention is not a realistic option, and are designed with three objectives in mind: improve Ukraine's general military readiness, improve the Ukrainian military's ability to wrest terrain away from separatists with limited casualties, and demonstrate Ukrainian and Western resolve and support for shared values. Recommended actions include:

- increase the number and complexity of regional military exercises involving Ukrainian military forces while providing lethal and nonlethal equipment;
- utilize NATO/US special forces to train Ukrainian special units in neighboring countries focusing on point raids and tactics to reduce the likeliness of civilian casualties and create a train-the-trainer program;
- establish an intelligence fusion center in Ukraine that serves as the central point for intelligence dissemination and coordination of collection efforts and military operations, with the ability to both receive from and disseminate to nongovernment entities working on behalf of the Ukrainian government;
- authorize a covert action to train Ukrainian intelligence operatives and provide new and advanced like-type weapons and ammunition to Ukrainian forces; and
- send NATO/US military advisers to integrate at the division and brigade level, but who do not forward deploy with maneuver forces, and establish communications with forward elements to permit the advisers the ability to advise during military operations.

Sending military personnel into Ukraine, even in a training and advisory capacity or to conduct exercises inside Ukraine away from the conflict areas, would be a hotly debated issue despite being consistent with a basic policy of no direct military intervention. One approach that would strengthen Ukrainian capabilities while limiting entanglement would be to continue those exercises scheduled prior to the crisis, Rapid Trident, for example, and planning future exercises to take place outside Ukraine. At some point, there would likely be pressures, both from Ukraine and outside, for the West to reexamine the policy of very limited military support

for Ukraine and embark on a much more active training, supply, and advisory campaign.

### *Economic Actions*

Because the response to Russian action under this scenario is essentially to mobilize popular support, one of the most difficult tasks of the new Ukrainian government would be to reduce corruption and improve economic performance in an effort to increase legitimacy. Putin would likely make efforts to maintain a level of corruption within the Ukrainian parliament and security establishment, sowing distrust in the Ukrainian people's view of the new government.

Unless the Ukrainian military unexpectedly were to succeed in actions to wrest back separatist-held buildings and facilities in the east, Russia would continue to seek opportunities to legitimize the separatist forces by providing local services and economic benefits through separatist leaders and to alienate the population from the government in Kyiv. To make Kyiv's economic task more difficult, Russia may evoke a trade war of sorts by increasing tariffs, limiting or terminating imports that have no other short-term market, and blocking or restricting trade with other countries, all while leveraging energy supplies and prices as strategic levers.

THE WEST CAN CONTINUE TO INJECT UNCERTAINTY INTO AN ALREADY VOLATILE INVESTMENT CLIMATE IN RUSSIA THROUGH THREATS OF ADDITIONAL SANCTIONS.

### *Western Actions*

The West's economic strategy would combine economic support for Ukraine with imposing economic costs on Russia. The West, and the United States in particular, could continue to inject uncertainty into an already volatile investment climate in Russia through threats of additional sanctions. Additionally, in coordination with Europe, the United States could agree to periodically assess the need for additional sanctions should Russia not uphold international agreements made to discontinue active (though nominally denied) intervention inside Ukraine. Subsequent measures may include broader financial sanctions that prohibit significant Russian companies from US financial markets or an embargo on select Russian exports.

## OSTENSIBLY LEGITIMATE SCENARIO

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### Russian Interests

The ostensibly legitimate scenario would see Russia reduce direct intervention and military intimidation in the belief a more subtle approach would win support in eastern and southern Ukraine. Assessed to have achieved a suitable level of destabilization in Ukraine, Russia's actions would include military redeployments, a significant reduction in detectable support to the rebels, publicly supporting Ukrainian elections, and voicing a willingness to negotiate an end to the crisis. These actions, combined with Ukrainian and Western governments' overtures for Russian participation in the roundtable talks, may have convinced Russia that it has reached the desired level of influence in Ukraine and can afford to forego more forceful instruments. Russia's actions would also seek to avoid further sanctions and encourage Western governments, companies, and investors to return to business as usual.

Pursuing this scenario would, in a way, be Putin attempting to win by applying "soft power" (of which Russia already has a great deal to exercise in Ukraine given its economic importance); genuine links to a significant part of the population; and heavy penetration of political, security, and economic elites. Moscow would continue to claim that it supports no more than "federalization" and a role for all groups in constitutional reform, has no annexationist ambitions, and does not interfere in Ukraine.

### Political Actions

The Kremlin would, even in this scenario, exert all possible influence at the roundtable and in other negotiation, political, and diplomatic forums to achieve federalization of Ukraine's eastern oblasts as defined by Moscow, including de facto separation from control by Kyiv and extensive links to Russia. Putin may conclude, based on the existing level of disruption and lack of security in eastern Ukraine, that an ostensible willingness to work with the new Ukrainian president may provide an opening to achieve his aims at less cost and risk. This is particularly the case if Putin becomes convinced that despite some success by Ukrainian military campaigns to defeat the rebels, Kyiv is unable to put Ukraine as a whole on course, much less reliably secure or govern the east. Expect Russia to insist upon a new federal constitutional order for Ukraine based on neutrality (to be approved by popular referendum); elections of regional governments with a wide range of powers currently held in Kyiv, including conducting their own foreign affairs with their immediate neighbors;

Russian as an official state language in Ukraine; and respect of the right to self-determination for the people of Crimea. Russia might well offer acceptance of the new Ukraine government and a halt in separatist efforts in return for a de facto pledge of no NATO membership—potentially through a referendum in which eastern oblasts possess an effective veto.

### Western Actions

In the short term, the West should continue to publicly expose Russian political maneuvering and support for separatists while assisting Kyiv in exploiting the fact that the majority of Ukrainians, including in southern and eastern parts of the country, are not enthusiastic about being controlled by Russia. Instead, they want security and economic growth, and they believe that the new Ukrainian government can achieve this by fostering relationships with both Russia and Europe. Appropriate regional representation of southern and eastern oblasts in the future government, along with protection of minority language rights and genuine decentralization, should be parts of a reconciliation effort. While the main action is political, Ukrainian security forces would need to continue to make efforts to confront the separatists, project confidence by attacking their weak points, and increase capability through Western equipment and training.

### Military Actions

In this scenario, Russia would make substantial genuine reductions in the buildup of military forces near the Ukrainian border and limit the more visible and objectionable aspects of its support for separatist forces while excusing their actions and disclaiming all responsibility for them. Russia would likely continue military exercises to demonstrate resolve and its option to increase pressure on Kyiv if and when it chooses to. Expect Russia to use the deployment of these forces and continued, if covert, support for separatist militias to extract additional concessions from Kyiv and the West during the roundtable talks and other political efforts.

Special forces and intelligence operatives would continue to operate under direction from the Kremlin. Inconsistencies between Russia's conciliatory rhetoric and assertive actions, as well as between elements of the Russian strategy, would remain part and parcel of Putin's approach as he moves to begin negotiations.

### Western Actions

The transatlantic alliance is likely to regard the crisis as essentially over and to forego any military action beyond



Russian Foreign Minister Sergei Lavrov (left) and US Secretary of State John Kerry (right) address reporters after a meeting in March 2014. Photo credit: US Department of State.

reassurance, token NATO deployments to neighboring NATO nations, and routine exercises with the Ukrainian military. Unilaterally, Alliance members could assist the Ukrainian military by supporting, in a limited way, aspects of equipping, planning, training, and logistics.

### Economic Actions

One of Putin's key advantages in this scenario is that Ukraine's economy is highly dependent on Russia in a variety of ways that the West cannot negate, circumvent, or substitute for in the short-to-medium term. Besides energy, Russia is one of Ukraine's primary trading partners. Through economic means, Russia would use all its levers and likely seek a deal with the new Ukrainian government, regional elites in the east, and the international community. The ultimate price of gas would depend on the deal struck, but for now prepayment on the basis of the 2009 contract applies. It is doubtful that the West has the will to sustain Ukraine's economy without Russia, especially given the price of gas, and even if the West has a solid economic plan, Russia can still undermine its implementation.

Additionally, Russia may, in light of Ukraine's inability to govern or secure the eastern regions, establish the ability to provide local services and economic support that would make the local population look to Russian-influenced authorities in the east rather than the government in Kyiv. The Kremlin could also instigate a trade war by increasing tariffs, limiting or terminating imports from ports Ukraine does not control, and blocking or restricting trade with other countries.

### Western Actions

Financially, Ukraine needs rapid cash, but International Monetary Fund (IMF) austerity strings—whatever their long-term potential virtues—are likely in the short term to make the economic conditions worse for the majority of the population and undermine the legitimacy of the Kyiv government. To some degree, swift constitutional and security reforms might ease public acceptance of IMF-imposed austerity measures to meet loan requirements. Russia, however, would have many opportunities to underline the negative impact of the IMF/EU austerity package on Ukraine's economy. The West should prepare for Russia to increase gas prices or even suspend delivery to Ukraine if either the roundtable talks or elections hint at outcomes unfavorable to Russia, while using its ability to subsidize Ukraine's energy needs as a source of positive leverage.

### Conclusion

This scenario is particularly challenging to the West considering the legitimate, or at least justifiable, Russian actions which tend to limit more aggressive responses. This tendency must not result in lack of action, but rather in efforts at creating uncertainty in Russian economic investment, maintaining a coalition of nations supporting standards for global order and conflict resolution, and demonstrating military and political resolve. It would present the special challenge that the main steps the West would need to take are affirmative—i.e., helping Ukraine make a success of itself—rather than punishing or directly resisting Russia. These efforts are imperative not only to resolve the current crisis but to guard against similar actions by Russia in the future.

## DELAY/DE-ESCALATE SCENARIO

### Russian Interests

Having already achieved its main objectives in Crimea, in this scenario Russia is confident it can now also achieve its broader objectives in Ukraine without escalating the situation there any further. As such, Russia would cease all overt, covert, and quasi-legitimate activities to intervene in Ukraine. Moscow knows that it can utilize the fact that it would remain in a position to influence the Ukraine's future trajectory even after the May 25 elections. Furthermore, the Kremlin believes that it can get most of the Western sanctions lifted and likely prevent NATO deployments to eastern allies by de-escalating the situation. Russia also calculates that it can have the potentially greatest political leverage if it is seen as de-escalating the situation on the ground and engaging in a process of political dialogue with the new government in Kyiv. Finally, by de-escalating, Russia is also limiting Ukrainian authorities' willingness to take decisive action.

### Political Actions

The Kremlin would take decisive steps to de-escalate the situation on the ground in Ukraine. Notable steps include recognizing the results of the May 25 election and entering into a process of political dialogue with the new government in Kyiv. Russia is confident that the internal situation in Ukraine is inherently weak. Moscow's objective is to maintain status quo in Ukraine—e.g., deep internal divisions, Western frustration with the problem, and no strong Ukrainian links to NATO or the EU—while negotiating a potential long-term political solution consistent with its interests.

Confident that the new Ukrainian government would not attempt any immediate military or political efforts to regain Crimea, Moscow would accept the newly elected government as legitimate and initiate political dialogue. Though it would refrain from seeking to integrate eastern provinces into Russia, Moscow would still continue to insist on a federalization of Ukraine's eastern parts on terms that would undermine Ukrainian unity and give Russia considerable influence. However, it would opt to do so within the context of a legitimate political process with the aim of achieving de facto domination of the east and neutralization of Ukraine as a whole through constitutional reform rather than through armed separatism. That said, it is still likely that Russia would continue to play a "dirty" role in Ukrainian politics, using money as political leverage. Russia would also make efforts to reduce its direct support to separatism in the eastern regions by sending home some

of the "green men" and toning down official rhetoric and propaganda efforts. Even so, uncertainty regarding Ukrainian pro-Russia separatists' willingness to keep fighting would remain. In the event of further clashes between separatists and Ukrainian forces, Russia would continue to put the blame on the Ukrainian authorities while disclaiming all capacity to influence the actions of the separatists.

MOSCOW'S  
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CONSISTENT WITH ITS  
INTERESTS.

### Western Actions

Certain European allies are likely to view Russia's de-escalation actions as a sign of goodwill and as proof of the wisdom of a restrained Western response to Russian provocations. They would push for a rapid return to business as usual, including the removal of economic sanctions against Russia and a "normalization" of political relationships. Others, particularly Poland and the Baltic states, would remain more skeptical and, at a very minimum, insist on keeping existing sanctions and avoid softening the approach vis-à-vis Russia for the time being. These differences would encourage Russia to stick to an ostensibly cooperative approach.

The West should provide substantial support to the new Ukrainian authorities to promote better governance and rule of law in an attempt to stabilize the country, but there would be little willingness to provide military aid to the country for fear of provoking Moscow.

## Military Actions

Moscow would seek to maintain the upper hand militarily and look for forcible opportunities even while it is awaiting a satisfactory political solution. However, it would want Kyiv and the West to accept that it had genuinely reduced the military threat. To that end, Russia would significantly roll back its recent deployments on the border with Ukraine, with the exception of the now-annexed Crimea. Doing so would not only re-enforce the message that Russia is being restrained, but that any crisis is over. It would also reduce the costs and complications of sustaining forward deployments and avoid prolonging diversion of top quality units that Moscow normally allocates to other borders.

Russia would likely propose various confidence-building measures to limit the scale and effectiveness of Ukrainian security forces, bar outside assistance to them, and secure a *de facto* (if not *de jure*) guarantee that Ukraine would never join NATO.

## Western Actions

Allies are likely to judge Russia by its willingness to cease military activities inside Ukraine. If Russia withdraws all covert deployments inside Ukraine (e.g., “green men”) as well as all the troops near the Eastern border, Western allies would be more likely to remove sanctions and move toward a partial normalization in relations with Russia, and forgo any significant change in NATO deployments or policies.

## Economic Actions

Ukraine would remain dependent on Russia economically, especially in trade and energy areas. By choosing not to use military force, Russia calculates it would avoid the direct and indirect costs associated with annexing parts of eastern Ukraine. Though it is uncertain whether the West would be able to provide sufficient assistance for Ukraine to get back on its feet, Russia would not seek to explicitly undermine the international community’s efforts to support Ukraine. Moscow would also provide assistance on its own, aimed at giving it political leverage and preventing the country from spiraling back into chaos, while encouraging Ukrainian elites to become (or remain) dependent on Moscow’s favor. Russia may conclude that maintaining at least a minimum functional Ukrainian political and economic order is in its interest and may even facilitate its objectives.

As such, Russia would abstain from attempting to explicitly use economics as a geopolitical tool to impact Ukraine. This means the Kremlin will not threaten to shut off gas supplies or instigate a trade war. Still, Russia will still continue to utilize its strong leverage vis-à-vis the Ukrainian economy to influence the country’s future development. Russia is confident that it can guarantee

sufficient political influence in the country without the threat of economic punishment. Moscow further believes it can have political influence by buying individual politicians and providing targeted economic assistance to Ukraine.

WITH STRONG  
LEADERSHIP AND  
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UKRAINE HAS THE  
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THAN MOST THINK.

## Western Actions

In what would amount to a contest over who can most influence the future of Ukraine in a context where military force is not an issue, at least for the moment, the West should move smartly and generously to support Ukrainian economic recovery. Although economic reforms are needed, too much IMF-style austerity too soon risks discrediting both the West and the new Ukrainian government among large sections of the Ukrainian population. As a test of Russia’s *bona fides*, the West should encourage Russia to contribute financially through either international or bilateral stimulus packages to support Ukraine and publicly highlight the contradictions in any Russia threats to shut off gas supplies or otherwise damage Ukraine economically.

## Conclusion

Putin believes that the internal instability of Ukraine would allow Russia to achieve its main strategic objectives without taking any further overt, covert, or quasi-legitimate activities to shape internal developments. Instead, Russia would seek to de-escalate the situation in Ukraine and with the West. This would allow it to avoid further sanctions from the West as well as a major pushback by the new Ukrainian government. It is important to be clear that under this scenario as much as the others, Putin is planning for the long term and will not give up on Russia’s influence in Ukraine. Ukraine needs to undertake difficult political, economic, and social reforms. With strong political leadership and substantial Western support, however, Ukraine has the potential to stabilize sooner than most people think.

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