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CONTINGENCY PLANNING MEMORANDUM NO. 3

Crisis Between Ukraine and Russia

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INTRODUCTION

Continuing political turmoil in Ukraine and tense relations between Kiev and Moscow have increased the potential for Ukraine to tumble into crisis with Russia. The crisis scenarios of greatest concern over the next six to twelve months are a major confrontation between Ukraine and Russia in Crimea and, more likely, a new dispute over the supply of Russian natural gas to Ukraine. This contingency planning memorandum does not predict such crises occurring. Rather, it examines how they might plausibly be triggered, the implications for the United States should they occur, and the steps the U.S. government might take to reduce the prospects of a crisis and, should it occur, to manage it.

POSSIBLE CRISIS SCENARIOS

The dominant factor in Ukrainian political life during the past four years has been the inability of President Victor Yushchenko and his prime ministers—with the exception of Yuriy Yekhanurov's brief term—to work together to promote coherent executive branch policy. Clashes with Yulia Tymoshenko and Victor Yanukovich during their tenures as prime minister are a major reason why Ukraine has moved so slowly and haltingly to fulfill its potential in the aftermath of the 2004 Orange Revolution. Following the collapse of efforts between current Prime Minister Tymoshenko and opposition leader Yanukovich to produce a new *rada* (parliament) coalition and implement constitutional amendments, Ukraine will increasingly become absorbed with a presidential election campaign this autumn.

Ukraine's relations with Russia remain troubled by disputes over the supply of natural gas, Yushchenko's desire to integrate Ukraine into NATO, arguments over the Russian Black Sea Fleet (BSF), and other difficulties. The Russian leadership has kept up a steady barrage of criticism directed at Kiev. At the same time, important European countries have become hesitant in their engagement of Ukraine. While the European Union has included Ukraine in its Eastern Partnership policy, Kiev remains frustrated with the EU's continued reluctance to offer Ukraine the prospect of future membership. As for the United States, Ukrainians worry that the effort to "reset" relations with Russia will come at their expense.

Against this difficult backdrop, several scenarios could generate crises in Ukraine. This paper looks at those scenarios that are most plausible and that would be of consequence to U.S. interests.

Major Ukrainian-Russian Confrontation over Crimea

Several scenarios could generate a crisis between Kiev and Moscow in Crimea, which would have significant consequences for U.S. interests. Were conflict to break out again between Russia and Georgia, and Sevastopol-based BSF warships were to sortie and operate off the Georgian coast, Yushchenko might decree that those ships would not be allowed to return, as he did in August 2008. He could take the further step of ordering the Ukrainian navy to close Sevastopol harbor, setting a possible confrontation between Russian and Ukrainian warships.

Other scenarios that might generate a crisis in Crimea include an escalating dispute regarding the terms and duration of the BSF presence in Crimea and Russian unhappiness with a late Yushchenko

effort to push relations with NATO. Also, any demonstration (pro-BSF or anti-NATO) could trigger a crisis with Russia if demonstrators were to be injured in a clash with Ukrainian security forces and the Russians decided to use that as a pretext for intervention. Moscow might choose to deploy BSF naval infantry to “protect” its Russian “compatriots.” As a result of inattention to Crimean Tatar issues by the Ukrainian government and a change of approach from Russia, which now appears to be courting Crimean Tatar support, a Crimean crisis could play out among three ethnic groups.

These scenarios could lead to a situation in which Ukrainian and Russian warships, or Ukrainian internal security forces and BSF naval infantry, faced off. Although neither government might want it, shots could be exchanged and trigger a full-scale crisis.

New Ukraine-Russia Dispute over Natural Gas Supply

This is the most likely crisis scenario. Although the January multi-year gas contract puts the Ukrainian-Russian gas relationship on a more solid foundation than in the past (when one-year contracts expired on December 31), the contract still has vulnerabilities. Ukraine has been in technical default since February, when it failed to purchase the minimum quantity of gas it had contracted to buy. (The contract requires Ukraine to pay for the minimum amount of gas contracted for, whether it takes it or not; although Prime Minister Vladimir Putin has said that Russia will not seek to collect the debt for gas that was not bought, Gazprom has not agreed to modify the contract.)

Putin and other Russians regularly question Ukraine’s ability to pay and to maintain the reliability of the gas pipelines through which 80 percent of Russian gas bound for Europe is transported. Moscow also charges that Ukraine is not buying gas to fill the reservoirs in western Ukraine; these are typically filled in summer months so that gas may be drawn from them in the winter to send to Europe.

Either side could trigger a new gas war. Given the impact of the economic crisis, the loss of gas sales and the associated revenues would concern Moscow. Whether they would deter Moscow from provoking a gas crisis is unclear. They would presumably affect Russian desires to end the crisis—on Moscow’s terms—before too much revenue was lost. This could mean that Russia would escalate the crisis to press Kiev to back down.

Continued Political Infighting Leads to Continued Political Stalemate

The June 7 collapse of the effort between Tymoshenko and Yanukovich and their parties, the Bloc of Yulia Tymoshenko and the Party of Regions, to form a broad coalition and amend the constitution has refocused the country on the upcoming presidential election. The election does not guarantee a more effective or coherent government. Ukraine’s complicated political relations could remain stalemated.

The significance of such a situation, however, should not be exaggerated. Ukrainians have learned to live with “political crisis” over the past four years. It is by no means good for the country; Ukraine forgoes policies that would help it develop into a modern European democracy and draw closer to Europe. But Ukrainians have become used to this and, when the situation threatens to boil over—as it did in summer 2006 and spring 2007—the important players draw back and find a compromise that at least lowers the temperature.

Economic Downturn Leads to Political and Social Unrest

The Ukrainian economy has contracted significantly since last fall. Yushchenko in May said that the gross domestic product (GDP) had fallen by 20 percent in 2009, on top of a major contraction during the last three months of 2008. Some analysts expressed concern at the beginning of 2009 that this downturn, with particularly severe effects on heavy industries in eastern Ukraine, might cause political or social unrest.

Nine months into the economic crash, however, there have been small protests but no wide-scale unrest, and some economists assert that the Ukrainian economy may soon bottom out. Ukrainians appear ready to tolerate depressed economic circumstances; there is little reason at present to expect major political or social unrest.

The remainder of this paper will focus on the first two crisis scenarios: major Ukrainian-Russian confrontation in Crimea and a new Ukraine-Russia gas war.

MAJOR UKRAINIAN-RUSSIAN CONFRONTATION IN CRIMEA

Likelihood over Next Six to Twelve Months

The likelihood of a major crisis in Crimea is small but still plausible. There would have been one in August 2008 had the Ukrainian navy deployed to enforce Yushchenko's decree that BSF warships which had participated in operations off Georgia not be allowed to return to Sevastopol. The likelihood of the crisis probably diminishes as the end of Yushchenko's term approaches. Polls indicate that Yushchenko has virtually no chance of winning reelection. Regardless of whether the next president is Tymoshenko, Yanukovich, or former *rada* speaker Arseniy Yatseniuk, Ukraine is likely to pursue a more modest pace in developing its relations with NATO, a more measured tone on support for Georgia, and more moderate relations with Russia. That presumably would lower Moscow's interest in any crisis regarding Crimea.

Warning Indicators

Several actions could signal increased prospects for a major confrontation in Crimea. These include renewed Russian-Georgian conflict with the participation of Sevastopol-based BSF warships, a big push by the outgoing president to launch negotiations on the BSF's ultimate withdrawal, an upsurge in issuance of Russian passports in Crimea, and a general escalation in Ukrainian-Russian tensions. Demonstrations in Sevastopol or elsewhere in Crimea also would raise the prospects, given the possibility of a clash (even if unintended) with Ukrainian internal security forces.

The Russian government presumably would not want to be seen as being responsible for generating a crisis in Crimea. Should a crisis develop, U.S. policymakers should closely consider the circumstances, including whether Moscow provoked it using surrogates, such as pro-Russian civil society groups or local media on the peninsula.

Possible Consequences

A major confrontation in Crimea, if badly mishandled, could lead to an exchange of fire between Ukrainian and Russian warships or land forces in or near Sevastopol. At that point, the crisis would likely escalate, though Kiev and Moscow presumably would work to prevent major hostilities. The Kremlin, however, could begin a focused effort to destabilize the Ukrainian government and/or undermine Ukrainian sovereignty over Crimea. In the worst—and most unlikely—case, it might even instigate or support an effort by Crimea to break away from Ukraine.

Specific consequences of such a crisis for the United States would include:

- Kiev would appeal to Washington under the 1994 Budapest memorandum on security assurances, citing Russia’s threat to Ukrainian sovereignty and territorial integrity.
- Some NATO allies would demand that the Alliance take actions to support Ukraine.
- Washington would be pressed to reassure certain NATO allies. In particular, those on or near Russia’s borders would cite the Russian threat and push for more tangible signs of U.S. commitment to defend them from Russia, such as deployment of U.S. Patriot anti-aircraft batteries or other units on their territories.
- Ukraine and NATO/EU states would follow the U.S. reaction to gauge the strength of Washington’s commitment to Ukraine (and to European security). A weak reaction could undermine U.S. credibility.
- Other NATO allies would question the wisdom of close alliance relations with a Ukraine in crisis with Russia, likely dividing NATO and the West in their response.
- Pursuit of a “reset” in U.S.-Russian relations would become politically untenable in Washington if Russia were seen as provoking the crisis and/or unwilling to resolve it.

U.S. Policy Options to Prevent the Crisis

U.S. officials should caution Kiev on choosing its disputes carefully with Moscow. For example, confronting Moscow with a demand to open negotiations on BSF withdrawal should await a more stable political situation in the Ukrainian government. Washington must also ensure that Kiev has a clear understanding of how much support it can expect from the United States should it end up in a major confrontation with Russia. While Yushchenko is a more cautious leader than Georgian president Mikheil Saakashvili, he needs to understand the limits of American support so that there is no miscalculation.

Russian misbehavior in Ukraine, particularly Moscow-inspired efforts to weaken Kiev’s sovereignty over Crimea, would undoubtedly set back, if not end, efforts to “reset” U.S.-Russian relations. U.S. officials may want to look for opportunities to quietly make this point to their Russian counterparts. The more successful the administration is at broadening the U.S.-Russian relationship—such as if there is progress toward a post-Strategic Arms Reduction Treaty (START) agreement or indications of greater flexibility on U.S. plans for missile defense in Central Europe—the more that relationship may serve to discourage Russia from negative actions in Ukraine. The impact of this should not be overestimated, but Washington should seek to shape a relationship in which Kremlin interest

in the gains from better relations with Washington can create a restraining factor on Russian policies regarding Ukraine.

Washington should consult closely with its European allies to encourage them to send similar messages to Kiev and Moscow. It would reinforce the message if the West could articulate credible costs that Russian action to undermine Ukrainian sovereignty over Crimea would entail. Defining such costs with the European Union will not be easy.

The U.S. government and its European partners should establish a greater presence in Crimea, including the U.S. plan to open an American presence post in Simferopol, expanded people-to-people exchanges, and support for Western nongovernmental organization projects on the peninsula.

U.S. Policy Options to Manage the Crisis

Should a major confrontation between Kiev and Moscow erupt in Crimea, with Russia the instigator, the fundamental U.S. goals would be to prevent further escalation and bring the crisis to a swift conclusion without compromising Ukraine's sovereignty and territorial integrity. Washington would also want to manage the crisis in a manner that maintained solidarity with Europe and did not undermine the confidence of NATO allies in U.S. security commitments.

The Ukrainian government can be expected to invoke the Budapest memorandum, seeking at minimum consultations with and political support from Washington. The administration would doubtless come under tremendous pressure from some quarters—in Congress and the media—to show solidarity with Ukraine and “get tough on Russia.” A coercive strategy designed to accomplish these goals could conceivably draw upon the following range of options:

- Immediate public and private remonstrations by senior U.S. officials to signal U.S. displeasure as well as the suspension of some specific U.S.-Russian bilateral activities.
- A concerted diplomatic offensive at the UN Security Council, European Union, NATO, and OSCE to support Ukrainian territorial integrity and sovereignty over Crimea and condemn any Russian action to undermine it. Washington might urge EU members to freeze relations with Russia until the crisis is resolved and NATO to suspend all ongoing or planned military-to-military activities. China and various post-Soviet states, which would be nervous about another Russian challenge to post-Soviet borders following the 2008 conflict between Russia and Georgia, should also be engaged diplomatically to pressure Russia.
- Economic and financial-related penalties, including withholding support for Russian accession to the World Trade Organization (WTO) and Organization for Economic Cooperation and Development, working with the European Union to limit U.S. and EU commercial dealings with Russia, particularly by its banks and large business enterprises, and more generally seeking to undermine private investor confidence by declaring Russia to be an unstable and risky marketplace.
- Military/security-related actions, including deploying U.S. naval ships to the Black Sea to signal support for Ukraine and high-profile visits by U.S. defense officials to the capitals of NATO countries. Washington might also consider military sales to NATO allies in the area. The deployment of Patriot anti-aircraft batteries or other U.S. units to those countries to reassure allies and demonstrate resolve are also options.

It is not certain, however, whether employment of all of these options would achieve the desired effect. It may even prove counterproductive. Certain diplomatic restrictions could harden the Russian position and reduce avenues for negotiation. Economic sanctions by the United States alone are unlikely to have much impact. U.S. trade with Russia is relatively small. Putin also recently indicated that Russian accession to the WTO is not a priority but that Russia will seek to join in a customs union with Kazakhstan and Belarus. And military deployments close to Ukraine and Russia are likely to be matched and raised by Russia. Besides the latent risk of dangerous interactions with Russian military forces, starting up the ladder of further military deployments makes little sense for the United States if in the end it will back down.

All this suggests that a more calibrated and graduated policy response would be preferable. This would include many of the same options but not necessarily as an immediate response to Russian behavior. Much would depend of course on the nature of Russia's transgressions. A diplomatic strategy to isolate Russia and pressure it to reverse course would still be pursued. This would include diplomatic protests and multilateral condemnation. At the United Nations, Russia would undoubtedly veto any UN Security Council resolution, but striving to put it in a position where it stands alone would still be worthwhile. China would not be comfortable supporting a Russian veto or with any implication that Beijing supported the unilateral re-drawing of national borders.* Similarly, NATO should be used as a venue to condemn Russia's actions, but the NATO-Russia Council should not be suspended; it instead should be used as a mechanism to condemn Russian actions. While working with the European Union to pressure Russia, Washington should encourage EU officials to offer to mediate the crisis (some mediator will be necessary, and Moscow is unlikely to accept the United States in that role). Initial preparations to impose a variety of U.S. and EU economic and financial sanctions could nevertheless be set in motion, with their probable trajectory made abundantly clear to Moscow.

NEW UKRAINE-RUSSIA GAS WAR

Likelihood Over Next Six to Twelve Months

Although the Ukrainian-Russian contract ending the January gas war puts energy relations between those two countries on a stronger basis than in the past, the contract still contains vulnerabilities that could lead to a breakdown. Ukraine already is in technical default as it has failed to buy the minimum amounts of gas that it had contracted to buy.

Russian rhetoric about Ukraine's inability to pay and Ukraine's general reliability as a gas transit state has been loud, with a growing stridency after the March 23, 2009, EU-Ukraine declaration on gas transit, which infuriated senior Russian officials. Some analysts project that a new gas spat could break out this summer; others think it might be timed to influence the Ukrainian presidential election or occur in the winter, when Moscow may assume that cold weather gives it greater leverage.

* China has resisted Russia's efforts to get their recognition of Abkhazia and South Ossetia.

Warning Indicators

Several developments could indicate an impending gas crisis. Rising Russian rhetoric and Ukrainian failure to pay for gas could signal greater likelihood of a coming spat. Western observers might watch for Gazprom actions similar to those last December when it tried to preposition itself to win the public relations battle over the cut-off, as well as monitoring the flow of gas to Ukraine's reservoirs and Kiev's ability to pay its gas bills. Growing disputes between Kiev and Moscow over other issues might spill over into the gas relationship.

Potential Consequences

The direct potential consequences on the United States of another gas war would be relatively modest. The economic and other pain inflicted on Ukraine and NATO/EU states such as Bulgaria, Romania, and Slovakia would depend on the timing of the crisis. A gas cut-off in summer or early autumn would be far easier to weather than in January.

Another gas war would test EU solidarity to the extent that EU states were prepared (or not prepared) to work together. Differing dependencies on Russian gas within the European Union mean that the impact would fall unevenly: last January, while apartments in Bulgaria and Romania froze, the gas cut-off had little discernible impact in Germany, France, or most other EU states in Western Europe. Another gas war would highlight the lack of a common EU energy policy and common EU energy market.

To the extent that Ukraine was seen as responsible for the gas cut-off, EU unhappiness with Kiev would grow, as would support for pipelines—Nord Stream, South Stream, and Blue Stream II—circumventing Ukraine. Empathy for Kiev in European capitals would decline, and its road to draw closer to the European Union would become more difficult.

U.S. Policy Options to Prevent the Crisis

Washington should urge Kiev to get its energy house in order. This means taking the tough decisions to raise domestic prices for energy to at least cost-recovery levels so that Naftohaz can become an economically viable entity. That said, successive Ukrainian governments have paid little attention to U.S. and European entreaties along this line for the past ten years; there is little reason to expect action in the run-up to Ukraine's presidential election. The United States and Europe should consult on ways to press Ukraine to address energy reform in a serious manner, perhaps by making such reform a condition for Western support for new international financial institution lending to Ukraine.

Washington should also consult with the European Union on how it plans to cope with a new gas cut-off, such as transconnector pipelines that would allow western EU members to send gas to countries such as Romania and Bulgaria that are at greater risk in the event of a cut-off. The U.S. government might also consider a stronger push in support of the Nabucco gas pipeline. While not a short-term solution, it would in the longer term provide a hedge against a new Russian gas cut-off.

Finally, Washington should consider the merits of joining with EU countries and international financial institutions to provide additional financing that might help Ukraine meet its budget deficit and perhaps cover some gas expenditures. But the U.S. government should insist—and condition financing—on real steps by the Ukrainian government to reform its energy sector.

U.S. Policy Options to Manage the Crisis

In the event of another gas crisis, U.S. policy options will be primarily diplomatic. How actively the United States should apply that leverage would depend in large part on the particular circumstances of the crisis. The major impact of the problem would fall on Europe, and Washington probably should again let the European Union take the lead in managing it.

PREVENTION OVER CRISIS AND THE IMPORTANCE OF CONSULTATION

U.S. tools to deal with either a crisis in Crimea or a new gas war are limited. The U.S. and Western interest is thus in preventing a crisis from breaking out. Washington should make this issue a central topic for U.S.-EU and NATO consultations. Steps to strengthen links between the West and Ukraine will be easier prior to a crisis than in its aftermath, and might help discourage Russia from launching a crisis or overplaying its hand. The Swedes will hold the EU presidency the second half of 2009 and are supportive of Ukraine; Washington should engage the Swedish presidency early in the summer.

Consultation with Europe will be essential should a crisis erupt. The more unified the Western response, the more likely it would be to have an impact, particularly with Russia, in ending the crisis. It would also be important to consult immediately on the causes of the outbreak: differing understandings in Washington and EU capitals of what triggered the 2008 Russia-Georgia conflict contributed significantly to different policy responses.

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