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Written Testimony

Chairman Corker, Ranking Member Menendez and members of this committee—thank you for the opportunity to speak to you today on the situation in Ukraine and for your personal investment in that country’s future. As many of you know from your travels, your meetings and the establishment of the bipartisan Senate Ukraine Caucus last month, Ukrainians deeply appreciate this committee’s support for their country’s security, democracy, sovereignty and future prosperity.

Today Ukraine is central to our 25 year Transatlantic quest for a “Europe whole, free and at peace.” My interagency colleagues and I are pleased to update you today on US efforts to support Ukraine as it works to liberate the country from its corrupt, oligarchic past, chart a more democratic, European future, and bring an end to Russian-fueled violence. In my remarks, I’ll focus on two areas: first, the work Ukraine is doing—with U.S. and international support—to reform the country, tackle corruption and strengthen democratic institutions; second, I will give an update on our efforts to support implementation of the February and September Minsk Agreements, including our readiness to impose further costs on Russia if the commitments Moscow made are further violated. My colleagues from DoD – Principal Deputy Under Secretary McKeon and Vice Admiral Pandolfe – will address our security relationship in greater detail. A/S Toloui will speak more to our macroeconomic assistance in coordination with our international partners.

First – a quick reminder of why we’re here. Sixteen months ago, the Kyiv Maidan and towns across Ukraine erupted in peaceful protest by ordinary Ukrainians fed up with a sleazy, corrupt regime bent on cheating the people of their sovereign choice to associate with Europe. They braved frigid temperatures, brutal beatings and sniper bullets. The leader of that rotten regime fled the country, and he was voted out by the parliament—including most members of his own party. Then, Ukraine began to forge a new nation on its own terms –signing an Association Agreement with the European Union; holding free and fair elections—twice—even as fighting raged in the east; and undertaking deep and comprehensive economic and political reforms.

Against the backdrop of Russia’s aggression, the situation in the country remains precarious. Ukraine’s leaders, in the executive branch and the parliament, know they are in a race against time to clean up the country and enact the difficult and socially painful reforms required to kick start the economy, and meet their commitments to their people, the IMF and the international community. The package of reforms already put forward by the government, and enacted by the Rada, is impressive in its scope and political courage.

Just last week:

- They passed budget reform expected to slash the deficit this year, and strengthen decentralization by giving more fiscal control to local communities;
- They made tough choices to reduce and cap pension benefits, increase work requirements and phase in a higher retirement age;
- They created a new banking provision to stiffen penalties for financiers for stripping assets from banks at the public's expense, a common practice among oligarchs;
- And, they passed laws cutting wasteful gas subsidies and closing the space for corrupt middlemen that buy low, sell high and rip off the Ukrainian people. These laws will also enhance corporate efficiency, incentivize domestic production, and use \$400 million in increased revenue from state-owned gas companies to help care for the poor including some of the 1.7 million people driven from their homes by the conflict;

With U.S. support – including a \$1 billion loan guarantee last year and \$355 million in foreign assistance and technical advisors – the Ukrainian government is:

- helping insulate vulnerable Ukrainians from the impact of necessary economic reforms;
- improving energy efficiency in homes and factories with metering, consumer incentives and infrastructure improvement;
- building e-governance platforms to make procurement transparent and basic government services cleaner and publicly accessible;
- putting a newly trained force of beat cops on the streets of Kyiv who will protect, not shake down, the citizens;
- reforming the Prosecutor General's Office (PGO) – supported by U.S. law enforcement and criminal justice advisors—and helping energize law enforcement and just prosecutions;
- moving to bring economic activity out of the shadows;
- supporting new agriculture laws—with the help of USAID experts—to deregulate the sector and allow family farms to sell their produce in local, regional and wholesale markets, and;
- helping those forced to flee Donetsk and Luhansk with USAID jobs and skills training programs in places like Kharkiv.

And there's more support on the way. The President's budget includes an FY16 request of \$513.5 million – almost six times more than our FY14 request – to build on these efforts.

To turn the page, Ukraine's hard work must continue. Between now and the summer, we must see budget discipline maintained and tax collection enforced across the country – notably including on some of Ukraine's richest citizens who have enjoyed impunity for too long. We need to see continued reforms at Naftogaz and across the energy sector; final passage of agriculture legislation; full and impartial implementation of anti-corruption measures, including a commitment to break the oligarchic, kleptocratic culture that has decimated the country.

As I said in my last appearance before this committee, the most lasting antidote to Russian aggression and malign influence in the medium term is for Ukraine to succeed as a democratic, free market state and to beat back the corruption, dependence and external pressure that have thwarted Ukrainians' aspirations for decades. For this to happen, we must ensure that the government lives up to its promises to the Ukrainian people, and keeps the trust of the international financial community. And, at the same time, the United States, Europe and the international community must keep faith with Ukraine, and help insure that Russia's aggression and meddling can't crash Ukraine's spirit, its will or its economy before reforms take hold.

Which brings me to my **second** point –even as Ukraine is building a peaceful, democratic, independent nation across 93% of its territory, Crimea and parts of eastern Ukraine are suffering a reign of terror. Today Crimea remains under illegal occupation and human rights abuses are the norm, not the exception, for many at-risk groups there – Crimean Tatars, Ukrainians who won't surrender their passports, journalists, LGBT citizens and others.

In eastern Ukraine, Russia and its separatist puppets unleashed unspeakable violence and pillage. This manufactured conflict – controlled by the Kremlin; fueled by Russian tanks and heavy weapons; financed at Russian taxpayers' expense—has cost the lives of more than 6000 Ukrainians, but also of hundreds of young Russians sent to fight and die there by the Kremlin, in a war their government denies. When they come home in zinc coffins -- “Cargo 200,” the Russian euphemism for war dead -- their mothers, wives and children are told not to ask too many questions or raise a fuss if they want to see any death benefits.

Throughout this conflict, the United States and the EU have worked in lock-step to impose successive rounds of tough sanctions—including sectoral sanctions—on Russia and its separatist cronies as the costs for their actions. In Crimea, we have shown through our investment sanctions that if you bite off a piece of another country, it will dry up in your mouth. Our unity with Europe remains the cornerstone of our policy toward this crisis.

And it is in that spirit that we salute the efforts of German Chancellor Merkel and French President Hollande in Minsk on February 12th to try again to end the fighting in Ukraine's East. The Minsk Package of Agreements—September 5th, September 19th and the February 12th implementing agreement—offer a real opportunity for peace, disarmament, political normalization and decentralization in eastern Ukraine, and the return of Ukrainian state sovereignty and control of its territory and borders. Russia agreed to it; Ukraine agreed to it; the separatists agreed to it. And the international community stands behind it.

For some eastern Ukrainians, conditions have begun to improve. Along long areas of the line of contact, particularly in Luhansk Oblast, the ceasefire has taken hold; the guns have quieted in some towns and villages; some weapons have been withdrawn; some hostages have been released.

But the picture is very mixed. Since the February 15th ceasefire, the OSCE Special Monitoring Mission has recorded hundreds of violations. Debaltseve, a key rail hub beyond the ceasefire lines, fell to the separatists and Russian forces six days **after** Minsk was signed and three days **after** the ceasefire was to come into effect. In Shchastya, in villages near the Donetsk Airport, in Shyrokyne and other towns around Mariupol the shelling continues, as verified by OSCE Special Monitor Authority.

In the coming days, not weeks or months – here is what we need to see:

- A complete ceasefire in all parts of eastern Ukraine.
- Full, unfettered access to the whole conflict zone including all separatist-held territory, for OSCE monitors, and;
- A full pull-back of all heavy weapons—Ukrainian, Russian and separatist—as stipulated in the agreements, under OSCE monitoring and verification;

If fully implemented, this will bring greater peace and security in eastern Ukraine for the first time in almost a year. And with it, Ukraine will once again have unfettered access to its own people in the East, and the opportunity for dialogue and political normalization with them. That's what Minsk promises. Peace, then political normalization, then a return of the border. But first, there must be peace.

Russia's commitments under the Minsk agreements are crystal clear and again the choice is Russia's. As the President has said, we'll judge Russia by its actions, not its words. The United States will start rolling back sanctions on Russia only when the Minsk agreements are fully implemented.

But the reverse is also true. We have already begun consultations with our European partners on further sanctions pressure should Russia continue fueling the fire in the east or other parts of Ukraine, fail to implement Minsk or grab more land as we saw in Debaltseve.

Mr. Chairman, members of this committee, America's investment in Ukraine is about far more than protecting the choice of a single European country. It's about protecting the rules-based system across Europe and globally. It's about saying "no" to borders changed by force, and to big countries intimidating their neighbors or demanding spheres of influence. It's about protecting our 25 year American investment in the prospect of a Europe whole, free and at peace and the example that sets for nations and people around the world who want more democratic, prosperous futures.

I thank this committee for its bipartisan support and commitment.