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## Chatham House Expert Group Summary

# Western Responses to the Ukraine Crisis: Policy Options

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## INTRODUCTION

On 5 March 2014 Chatham House convened a special roundtable with a group of leading experts on Russia and Ukraine, and on the West's relations with those countries, in order to consider options that are now available to the West in response to Russia's actions in Crimea and other parts of Ukraine.

The meeting included former ambassadors, business leaders and experts on various aspects of Russia, such as its economy, military and foreign policy. There was a wide range of views and opinions on the best way of handling the situation.

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### The Chatham House Rule

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## SHORT-TERM RESPONSES

- EU members and the United States need to communicate a unified, tough and explicit commitment to Ukraine's sovereignty, independence and self-determination.
- It is vital for them to emphasize that Ukraine's future must be decided by Ukrainians, not by the West and not by Russia. Ukraine's territorial integrity is non-negotiable and any change to it cannot be discussed while parts of it are under threat and occupation. Given the potential referendum on its future later this month, the status of Crimea will be the next critical test of the credibility of the EU and US commitment to these principles.
- The West's demand must be a return of Russian forces to their bases in Crimea and withdrawal of the massive influx of other Russian forces. It is essential, however, that the West formulates these demands very carefully:
  - (a) in order to avoid the mistakes of 2008 when Russia's literal interpretation of the Georgia ceasefire agreement negated its aims; and
  - (b) in order to prevent Russian exploitation of any vaguely formulated limitations on the future freedom of movement of its forces.
- Should the Russian government not de-escalate its military presence in Crimea, cancelling participation in the G8 summit, halting Russia's OECD membership application, and suspending trade negotiations, as the United States has done, are all appropriate near-term steps. However, they are measures that will have a limited impact on Russia's calculus.
- The most effective near-term pressure that can be exerted on Russia will be financial and economic. Much of President Vladimir Putin's power is predicated upon Russia's financial stability. Russia is also far more integrated into the world economy now than it was in 2008. Its growth had already faltered prior to this crisis, and the markets immediately exerted their pressure on Russia as a result of its actions.
- Market reactions also are and will be a reflection of investors' belief in the West's willingness to act decisively. There will be costs for Western countries invoking any form of sanctions but, should Russia continue to use its military muscle and its own

threat of economic sanctions against the new government of Ukraine, these costs would be an investment in the future security of Europe.

- Freezing the assets of and denying visas to elite Russians suspected of money laundering or involved in the actions against Ukraine are likely to be measures that will influence Russian thinking and, possibly, the government's behaviour. While retaliatory Russian measures are possible, senior Russians need to travel to the West more than those in the West need to travel to Russia.
- Should the situation deteriorate in the near term, Western action will be more important than Western unity. On each of these economic steps, the United States and United Kingdom can and should take the lead – even if others do not immediately follow.
- It is also important that the West ramp up immediately its counter-narrative to the Russian propaganda operation. Statements by President Putin and other Russian leaders, and reporting by much of the Russian media, about Ukrainian refugees fleeing to Russia, violence in eastern Ukraine and there being no Russian troops in Crimea can easily be exposed as lies. This should be done publicly, forcefully and immediately. Whereas the UN Security Council offers Russia scope to put forward its messages, the UN as a whole offers numerous other avenues to reinforce the message of the importance of Ukrainian self-determination.
- Senior political figures from the EU, including from its most powerful members which have traditionally been close to Russia, such as Germany, Italy and France, should travel to Moscow as well as to Kyiv, preferably together, to deliver these messages.
- The EU needs to lay out a clear timetable and set of milestones for the release of its €11 billion financial assistance package, linked to the IMF package that was already being negotiated. In the short term, however, some funds are critically needed for budgetary and political stabilization, and conditionality will be less important for these funds than their impact on Ukraine's immediate budgetary and political stabilization.
- It is important to consider President Putin himself when deciding next steps. The projection and protection of Russian interests in Ukraine are personal to him. Challenging Putin personally is not advisable, nor is action that will confirm the Russian narrative that the West is an enemy.
- In this context, keeping forceful NATO responses in reserve in the near term makes most sense.
- By contrast, it is important to elevate the role of the OSCE in Ukraine, in particular in its eastern regions, to document and publicize any reports of human rights violations, and in advance of any possible referenda or elections.

## MEDIUM-TERM RESPONSES

- The crucial financial underpinning of Ukraine's economy with fresh credit, loans and grants will only be effective over the medium term with the sort of tough economic and political conditionality that EU governments and the IMF have demanded in the past. This includes respect for minority rights as much as free elections and structural economic reform.
- The EU must not go back on its commitment to the Association Agreement with Ukraine. Conclusion of the agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) with a newly elected government is essential for Ukraine's future political as well as economic health.
- The DCFTA is incompatible with Russia's Eurasian Customs Union. But it must be emphasized, including to Russia, that the DCFTA will not cut Ukraine off from Russia economically. It is not an either-or decision for Ukraine and this must be said openly.

- The bigger prize of an offer of EU membership for Ukraine needs to be held in reserve – and will require even deeper conditionality.
- Just as the threat or reality of economic and financial sanctions on Russia is likely to have the most impact in the near term, so this applies to the medium term if Russian pressure on the government in Ukraine is sustained beyond this moment of crisis. For example, Russian first- and second-tier banks, corporations and individuals contemplating the takeover of Ukrainian assets in Crimea or elsewhere should be publicly and specifically warned of possible EU and US sanctions such as visa bans and restricted access to stock exchanges and Western financial institutions.
- Similar steps, including the risk of legal investigations and possible sequester, could be taken towards the estimated \$9bn that Ukrainian tycoons and corporations now owe to Kremlin-related banks.
- Russia's energy interests constitute a major source of medium-term leverage for the EU and the West:
  - (a) The EU should convey the message to Russian energy companies that 'business as usual' is not an option while intervention in Ukraine continues.
  - (b) The EU must recognize that in the context of a serious medium-term breakdown in Russian relations with Ukraine, the South Stream pipeline has the potential to undermine seriously Ukraine's national security by giving Russia the ability to strangle its gas supplies to the country. The EU should consider alternatives and, if the situation worsens, development of this project on European territory should be halted.
  - (c) The EU should consult actively with the Norwegian government, Western energy companies, liquefied natural gas (LNG) suppliers and governments in the region on how to move forward with creating strategic gas reserves for Ukraine and East and Central European countries that would be affected by any possible halt on flows through Ukraine. Preparations for increased reverse flows from the EU to Ukraine should also be made in order to reduce the latter's susceptibility to pressure during the next winter.
  - (d) But these steps will only be effective if Ukraine undertakes the sort of structural internal energy sector and policy reforms that the West has long insisted upon.
  - (e) The West should focus its initial assistance on clearing Ukraine's gas debt with Gazprom in order to reduce the latter's (and hence Russia's) leverage over Ukraine.
  - (f) The European Commission's competition case against Gazprom could be accelerated.
  - (g) Overall, the West is more energy-resilient today than in the last decade. Its process of diversifying its energy imports away from an over-reliance on Russia continues, leading to a more interdependent than dependent relationship.
- NATO has a limited role in the immediate crisis. However, there can be no question of taking the prospect of eventual NATO membership for Ukraine off the table. Although not feasible in the short term, the question of membership is always one to be resolved between NATO and the applicant country. Increased dialogue through the NATO–Ukraine Council should be an important objective.
- It is essential that the West should also leave the door open for deeper engagement with Russia, especially looking to its next generation of political leaders, and not play into the Putin administration's zero-sum approach to international security. Representatives of the EU and the United States need to make clear to Russia *privately* what is unacceptable to the West, while at the same time signalling willingness to engage more deeply, economically and in terms of security cooperation,

if Russia's approach changes. Russia has the potential to play a constructive role in regional and international security, and the foundations of this role should be outlined for Russia to build on if it so chooses. Re-convening the NATO-Russia Council around this broader long-term objective could offer one such avenue.

- On the other hand, NATO members should also not only develop contingency plans but also ensure capabilities are available, lest the relationship with Russia deteriorate further in the future.
- In this context, more attention needs to be devoted not only to Russian military capability, which has developed considerably since the armed conflict in Georgia in 2008, but also to Russian military intent. The Russian armed forces are not instructed when and where to act on the basis of Western concepts of sovereignty or law. The neglected subject of European hard security must be put back on the agenda.
- Given the steps taken by Russia towards Ukraine, the United States and EU members should deepen their cooperation and diplomacy with other countries of the former Soviet Union and NATO should enhance its Partnership for Peace activities with them.

## **RUSSIA AND EURASIA PROGRAMME**

For over two decades, the Russia and Eurasia Programme has been conducting independent research, organizing expert-level seminars, and producing policy-oriented and scholarly publications on Russia and the independent states of Central Asia, the South Caucasus and the other westerly post-Soviet states.

The programme's project on Ukraine is ongoing and includes publications, expert comment and media interviews. Research analyses the turmoil around Ukraine's ties with the West and the significant ramifications for the future shape, size, economy and direction of the whole European continent – and for the Eurasian one to the east.

For more on the Ukraine project, including publications, expert comments and media interviews, please visit 'Ukraine: East or West' at <http://www.chathamhouse.org/research/russia-eurasia/current-projects/ukraine-east-or-west>

More information about Russia and Eurasia Programme research can be found at <http://www.chathamhouse.org/research/russia-eurasia>.