

BACKGROUND

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Beyond the Crimea Crisis: Comprehensive Next Steps in U.S.–Russian Relations

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Abstract

On February 28, Russian troops, aided by pro-Russian local militia, occupied important sites across the Crimean Peninsula under the pretext of “protecting Russian people.” Now Crimea is under Moscow’s de facto control and the Russian parliament has voted to annex the region into the Russian Federation. The failure of the Obama Administration’s Russian “reset,” the unilateral disarming of Europe, and the U.S. reduction of forces and disengagement from Europe have led Russia to calculate that the West will not respond in any significant way. The Administration can demonstrate America’s commitment to its NATO allies and support for the Ukrainian people by bolstering the defenses of NATO countries in the region, lifting restrictions on energy exports to reduce Europe’s dependence on Russian natural gas, and enacting meaningful sanctions.

After three months of mass street demonstrations, the Ukrainian people succeeded in ousting their corrupt and incompetent president, the Kremlin-backed Viktor Yanukovich. On February 22, the Ukrainian parliament acted in favor of the people it represents by granting amnesty to all political prisoners, bringing back the constitution of 2004 (which reduces the powers of the president), and announcing an early presidential election in May.¹

This was more than Russian President Vladimir Putin was willing to tolerate. On February 28, Russian troops, aided by pro-Russian local militia, violated Ukraine’s territorial integrity by occupying important sites across the Crimean Peninsula under the pretext

KEY POINTS

- Recent events have confirmed that the so-called Russian reset is dead. Crimea is under the control of Moscow, it does not appear that Russian troops will leave anytime soon, and Russia has used an illegal referendum to justify its imperial annexation of part of a neighboring country.
- The difference between Russia and the West right now is that Russia has a strategy that it is willing to follow and the West is hoping the problem disappears.
- There are many tools at America’s disposal when dealing with Russia and its invasion of Ukraine, but one should not discount the potential impact of free markets and free trade. Diminishing Russia’s economic leverage in the region should be a key component of America’s response.
- With strength and consistency, Russia’s recent actions could have been prevented or at least mitigated. It might be too late for Crimea, but the U.S. cannot allow the contagion to spread.

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of “protecting Russian people.” Soon after Russia’s invasion, an illegitimate referendum took place on March 16 to allow the people of Crimea a vote to determine whether they wanted to join the Russian Federation. This illegal referendum was denounced by the countries of the G-7 as well as the member states of NATO and the European Union (EU). Furthermore, it took place without international monitors and under armed occupation.

The outcome of this dubious referendum was obvious from the start. Over 96 percent of voters backed Crimea’s leaving Ukraine and joining Russia. Keeping in mind that this referendum took place under the watchful eye of thousands of Russian troops in Crimea, the outcome was not a surprise to many.²

On March 17, Putin signed a decree recognizing Crimea as a “sovereign and independent state...taking into account the will expressed by the people of Crimea.”³ Two days later, Russian troops took control of Ukraine’s naval headquarters at a base in Sevastopol, raising the Russian flag. On March 20, the Russian Duma (lower house) voted 455 to 1 to approve a treaty incorporating Crimea into the Russian Federation. On March 21, the Russian Federation Council (upper house) approved the treaty by a vote of 155 to 0.⁴ Later that day, Putin signed the treaty into law, formally making Crimea part of Russia as far as Russia is concerned.

Pro-Russian protests continue in Ukraine’s eastern Oblasts. The Russian media are starting to refer to a broad belt of land in southern Ukraine as Novorossiia, or New Russia, the Tsarist-era name for the region.⁵ It appears that Russia may well have further designs on Ukraine.

Failure of the Russian Reset and Collapse of the Obama Doctrine

Regrettably, the Obama Administration has attached little importance to transatlantic relations, and Europe has barely figured in the Administration’s foreign policy. Europeans are left questioning America’s commitment to transatlantic relations.

Almost from the beginning, President Barack Obama’s foreign policy has been an empty shell masking a spectacular lack of American leadership on the world stage. This flawed approach, with a fundamental rejection of the notion of American exceptionalism, is amply on display in the Ukrainian crisis, where America’s voice has barely been heard. As the latest developments over Crimea have shown, the Russian reset has backfired spectacularly, resulting in staggering complacency in Washington over Moscow’s ambitions.

The Obama Doctrine has been a monumental failure because it fails to protect and advance U.S. interests. It is the antithesis of Ronald Reagan’s bold approach, which was based on powerful American leadership on the world stage, including a willingness to stand up firmly to America’s adversaries. Perhaps even worse, many of America’s traditional allies are questioning America’s resolve with respect to transatlantic relations and NATO’s security guarantee.

It is becoming clearer that the West in general and the Obama Administration in particular face the current situation with Russia in part thanks to several false assumptions about 21st century geopolitics. Specifically, it is erroneously assumed that:

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1. For more information on the political events between the EU and the Ukraine, see Ariel Cohen, “Why the U.S. Should Support Ukraine’s Association and Free Trade Agreements with Europe,” Heritage Foundation *Backgrounder* No. 2849, October 21, 2013, <http://www.heritage.org/research/reports/2013/10/why-the-us-should-support-ukraines-association-and-free-trade-agreements-with-europe>.
 2. It is worth pointing out that Ukrainians, including those living in the Crimea, have already voted on this matter. In 1991, soon after the fall of the Soviet Union, Ukraine’s Supreme Council voted to declare Ukraine’s independence. A referendum was held later that year to affirm public support for independence from Moscow. Over 84 percent of eligible voters in Ukraine (32 million people) voted, and 90.32 percent endorsed independence. All 24 Oblasts, the one Autonomous Republic (Crimea), and the two Special Cities (Kyiv and Sevastopol) voted for independence. See Chrystyna Lalpychak, “INDEPENDENCE: Over 90% Vote Yes in Referendum; Kravchuk Elected President of Ukraine,” *The Ukrainian Weekly*, December 8, 1991, <http://www.ukrweekly.com/old/archive/1991/499101.shtml> (accessed March 21, 2014).
 3. “Putin Recognizes Crimea as a ‘Sovereign and Independent’ State,” *The Moscow Times*, March 19, 2014, <http://www.themoscowtimes.com/news/article/putin-recognizes-crimea-as-a-sovereign-and-independent-state/496383.html> (accessed March 21, 2014).
 4. Marie-Louise Gumuchian, Victoria Butenko, and Laura Smith-Spark, “Russia Lawmakers Vote to Annex Crimea; U.S. Steps up Sanctions,” CNN, March 21, 2014, <http://www.cnn.com/2014/03/20/world/europe/ukraine-crisis/> (accessed March 21, 2014).
 5. Reuters, “After Crimea, East and South Ukraine Ask If They Are Next for Russia,” March 17, 2014, <http://uk.reuters.com/article/2014/03/17/ukraine-crisis-east-putin-idUKL6NOME1WK20140317> (accessed March 21, 2014).
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- Europe is now a stable and secure area that requires less attention from the United States.
- Russia is willing to be a credible and responsible partner for the West and that Putin can be trusted.
- The world is sufficiently safe that real military capability is no longer a requirement for global influence.

As recent events have demonstrated all too clearly, these false assumptions have translated into policy choices on both sides of the Atlantic that have encouraged Russia's current behavior. These choices and their consequences include:

- The U.S. disengagement from Europe in almost every policy area.
- The removal of more than 10,000 U.S. troops from Europe in just two years. For the first time in 70 years, there is not a single American tank available for combat operations in Europe. The few that are currently in Germany are there only for training.⁶
- A U.S. Navy that will soon be the smallest since World War One, an Army that will be the smallest since before World War Two, and an Air Force that will be America's smallest ever—at a time when Russian defense spending has increased 31 percent since 2008 and European defense spending has decreased by 15 percent.
- A unilateral self-disarmament of Europe that has left many European countries incapable of defending themselves. Only four out of 28 NATO members (the U.S., the United Kingdom, Estonia, and Greece) spend the required 2 percent of GDP on defense.
- A so-called Russian reset that has yielded no benefits at all either for America or for the Administra-

6. For a more detailed analysis of the reductions in the U.S. force posture in Europe, see Luke Coffey, "The Future of U.S. Bases in Europe: A View from America," Heritage Foundation Lecture No. 1233, July 15, 2013, <http://www.heritage.org/research/reports/2013/07/the-future-of-us-bases-in-europe-a-view-from-america> and Luke Coffey, "Keeping America Safe: Why U.S. Bases in Europe Remain Vital," Heritage Foundation Special Report No. 111, July 11, 2012, <http://www.heritage.org/research/reports/2012/07/keeping-america-safe-why-us-bases-in-europe-remain-vital>.

tion. On issues where Russia has shown a degree of cooperation, as with Afghanistan, it has done so only because it has a national interest at stake.

Nothing indicates that Russia is on a path to reform. Democratic freedoms are in retreat, corruption is endemic, and the future is bleak. The same failings of the Soviet Union a quarter of a century ago are starting to reappear in Putin's Russia today.

While the Russian economy is still growing, it continues to rely on the export of hydrocarbons, other raw materials, and weapons. Russia's population is declining due to aging, rampant alcoholism and drug addiction, widespread disease, and low fertility rates. Expressions of ultranationalism are on the rise, fortifying the government's quest for a new sphere of influence. The collapse of the Soviet Union and the fall of the Berlin Wall caught many by surprise. Western leaders should not allow a resurgent Russia or the instability deriving from a degenerate Russia to catch them by surprise as well.

What the West is witnessing today is not a resurgent Cold War Russia, as commentators frequently claim, but an Imperial Russia. Putin's behavior is like that of the Russian Tsars who built the Imperial Russian Empire nation by nation, khanate by khanate, and kingdom by kingdom.

In the eyes of Russians at the time, the 17th and 18th century territorial gains that in part defined Imperial Russia were regarded not as "annexations" but as taking what was already theirs. At the time, Russia's imperial conquests were popularly characterized as acts of liberation of fellow Orthodox Christians from Polish Catholic rule.⁷ Take out the religious dimension and replace it with the need to protect—to paraphrase Vladimir Putin—Moscow's fraternal ties with ethnic Russians and we have a similar situation.

Today, just as in the 19th century, Russia's leaders see themselves as taking what is already theirs. Whether it is Transnistria, South Ossetia, Abkhazia, Crimea, the creation of the proposed Eurasian Union, the Customs Union with Belarus and Kazakhstan, or what amounts to the suzerainty of Armenia in all but name, the empire is being rebuilt.

U.S. Needs to Show Commitment to Central and Eastern Europe

Russia's anachronistic irredentist behavior is unacceptable. Understandably, Moscow's behavior has made many NATO partners nervous. Ukraine does not enjoy the security guarantees afforded to America's NATO allies, nor should the U.S. give any impression that it does. However, there are steps that can be taken to keep America's NATO allies safe while demonstrating to Russia that its behavior is unacceptable.

While U.S. relations with the countries of Central and Eastern Europe may seem healthy to some, many NATO allies in the region have concerns about the future of the transatlantic relationship. There is a general view among officials in the region that the U.S. is relegating its relations with Europe to a lower priority. That this concern is not unfounded is demonstrated by:

- **A lack of European focus in the U.S. Department of Defense guidance document.** Issued in January 2012 and titled "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense," the guidance document contains barely a mention of Europe. In the whole 16-page document—one designed to give the U.S. armed forces and the civilians supporting them the Defense Secretary's broad vision and policy priorities—Europe and NATO receive one short paragraph, and neither Europe nor NATO is mentioned in President Obama's foreword to the document.⁸
- **A lack of U.S. enthusiasm for NATO enlargement.** This is a particularly important issue to the Baltic states, which have experienced the benefits of NATO enlargement firsthand and see NATO's open-door policy as critical to mobilizing Europe and its allies around a collective transatlantic defense. President Obama is on track to be the first U.S. President since the end of the Cold War not to oversee NATO enlargement on his watch.
- **The so-called pivot to Asia.** The way this policy announcement was handled has left many gov-

7. Dmitri Trenin, *The End of Eurasia: Russia and the Border Between Geopolitics and Globalization* (Washington: Carnegie Endowment for International Peace, 2002), p. 37.

8. U.S. Department of Defense, "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense," January 2012, http://www.defense.gov/news/defense_strategic_guidance.pdf (accessed March 21, 2014).

ernment officials and commentators in Europe, especially Central and Eastern Europe, wondering what the policy means in practice for America's commitment to transatlantic security. Although there has been little if any net increase in U.S. military capability in Asia, there is a perception that any such increase will come at the expense of NATO and Europe.

- **The cancellation of key missile defense components.** When the Obama Administration abruptly cancelled the emplacement of missile defense components in the Czech Republic and Poland (commonly referred to as the Third Site) in 2009, those two countries felt as if the rug had been pulled out from underneath them. This was especially the case after both had offered unwavering support for missile defense in spite of staunch Russian opposition.⁹ In 2013, the Administration announced that it was cancelling the fourth phase of the European Phased Adaptive Approach (EPAA) planned for Eastern Europe. Neither decision was received well in the region.
- **The reduction of U.S. forces in Europe.** In April 2011, the White House announced that it was cancelling a George W. Bush Administration-era decision to bring two Brigade Combat Teams (BCTs) back from Europe and would remove only one BCT—in part to ensure that the U.S. could meet its commitments to NATO. Only nine months later, the Obama Administration did an about-face and announced the removal of two BCTs. The NATO allies in the region view the presence of U.S. troops in Europe as a deterrent to any potential adversary in the region.
- **Lack of U.S. participation in NATO's Steadfast Jazz exercise.** NATO's Steadfast Jazz exercise is considered to be one of the most important Article 5 training exercises since the end of the

Cold War. There is a concern by many in Poland and the Baltics that the U.S. did not take NATO's Steadfast Jazz exercise seriously. Part of the White House's justification for removing so many troops from Europe is that they will be replaced with rotational forces from the United States. Of the 6,000 NATO troops participating in the exercise, only approximately 200 are U.S. soldiers. Of these, about 40 are part of the rotational brigade based in the U.S. The remainder come from U.S. forces already in Europe.¹⁰

A Divided Europe

It is also time for Europe to get united on how best to deal with Russia. President Obama should use his current trip to Europe to get the West on the same sheet of music when dealing with Russia.

On March 17, the European Union sanctioned 21 Russian and Crimean officials linked to the Russian invasion of Ukraine. The EU's initial sanctions targeted members of the Russian parliament and military members, imposing travel bans and asset freezes on their accounts. The initial EU sanctions targeted lower-level officials than U.S. sanctions did and were a fairly weak response to Russia's armed invasion of Ukraine. On March 21, the EU imposed a new second round of sanctions that targeted more senior Russian officials. A total of 12 additional individuals were sanctioned, but there is still a gap between the U.S. and EU sanctions.

It was a challenge for the EU to reach an agreement on how strong the sanctions should be. This is a result of the EU's lowest-common-denominator approach to foreign policy making, which required all 28 member states to find a consensus. This presented obvious problems when dealing with Russia. For example, it has been reported that Germany, Italy, the United Kingdom, and Cyprus are too concerned about their close economic or energy ties to Russia to back any really effective sanctions.¹¹ Since the EU receives 30 percent of its natural gas

9. To make matters worse, it was reported that the Administration announcement cancelling the Third Site was done without first informing the leaders of the Czech Republic and Poland in a timely manner. Then, as if to add insult to injury, in the case of Poland, this announcement was made on September 17, 2009, the 70th anniversary of the 1939 Soviet invasion of Poland.

10. For a more detailed analysis of Steadfast Jazz 2013, see Luke Coffey, "Steadfast Jazz 2013 and America's Commitment to NATO," Heritage Foundation *Issue Brief* No. 3921, April 24, 2013, <http://www.heritage.org/research/reports/2013/04/steadfast-jazz-2013-and-america-s-commitment-to-nato>.

11. Judy Dempsey, "A Who's Who Guide to EU Sanctions on Russia," Carnegie Endowment for International Peace, March 20, 2014, <http://carnegieeurope.eu/strategieurope/?fa=55036> (accessed March 21, 2014).

from Russia, any sanctions that hurt the Russian state-owned Gazprom's bottom line would result in adverse economic effects in the EU.

Looking at it from a NATO point of view, Moscow can also see fractured Europe sending inconsistent messages. On one hand, the NATO Secretary General says that the situation in Crimea is "the greatest threat to European security since the end of the Cold War."¹² On the other, France is committed to selling the two amphibious assault ships for use by the Russian navy.¹³ (In a twist of geopolitical irony, one of the two ships has already been named the Sevastopol.) Furthermore, Spain allows the Russian navy to use its bases in North Africa.¹⁴ On a positive note, the U.K. announced that it was suspending its military cooperation with Russia.¹⁵

Loosening Russia's Energy Grip Is Vital

While there are many tools at America's disposal when dealing with Russia and its invasion of Ukraine, one must not discount the impact that free markets and free trade can ultimately have on the situation. Much of Russia's power in the region is the result of its control of energy supplies and distribution systems. Diminishing Russia's economic leverage in the region should be a key component of America's response. This could be accomplished to a large extent simply by liberalizing global energy markets. The U.S. has antiquated and unnecessary restrictions on exporting liquefied natural gas (LNG) and crude oil, and Congress should make lifting these restrictions a priority.

Ukraine understands that energy diversification is a key to its own future. In 2013, the Ukrainian government reached agreements with Royal Dutch Shell and Chevron to explore and develop

the country's two large shale gas fields in Yuzivska and Olesska. Chevron's 50-year contract consists of a \$350 million exploratory phase that could result in \$10 billion in investment. Shell's investment is of similar size, and both would yield significant natural gas supplies in a few years' time.¹⁶ Abundant shale reserves also exist in Estonia, the United Kingdom, Poland, and other parts of Europe. As the private sector explores ways to develop these resources,¹⁷ the increased production could fundamentally alter the energy landscape in Russia.

To truly diminish the power that a nation garners from its control of energy markets and supplies, however, the U.S. needs to lead broad liberalization of global energy markets. This means not only encouraging private-sector development around the world, but also allowing for market-driven increases in production in the U.S.

The U.S. could maximize its influence by increasing opportunities for exports. To some extent, this is already occurring as the U.S. is now a net exporter of refined petroleum products, doubling its exports to Europe from 2007 to 2012.¹⁸

Given the five to seven years that approving, engineering, permitting, and constructing a new LNG terminal takes, lifting gas export restrictions might not have a direct impact on the Ukraine crisis in the near term,¹⁹ but it would send an important signal to Russia and the rest of the world. It would show any leader from any country that derives power from controlling energy interests that such strategies will no longer be effective.

Despite the lengthy time needed to permit and build an export facility, an import terminal in the United States is being retrofitted to serve as a bi-directional export terminal and will likely be online

12. "Ukraine Crisis: Nato Chief Calls Tensions in Crimea Greatest Threat to European Security Since the Cold War," *The Telegraph*, March 19, 2014, <http://www.telegraph.co.uk/news/worldnews/europe/ukraine/10710044/Ukraine-crisis-Nato-chief-calls-tensions-in-Crimea-greatest-threat-to-European-security-since-the-Cold-War.html> (accessed March 21, 2014).
13. Pierre Tran, "Amid Ukraine Crisis, EU Plays It Safe," *Defense News*, March 8, 2014, <http://www.defensenews.com/article/20140308/DEFREG01/303080018/Amid-Ukraine-Crisis-EU-Plays-Safe> (accessed March 21, 2014).
14. "Russian Navy at Ceuta," *Gibraltar Chronicle*, January 8, 2013, http://www.chronicle.gi/headlines_details.php?id=27428 (accessed March 21, 2014).
15. Associated Press, "UK Suspends Military Cooperation With Russia," March 18, 2014.
16. Pavel Polityuk and Richard Balmforth, "Ukraine Signs \$10 Billion Shale Gas Deal with Chevron," Reuters, November 5, 2013, <http://www.reuters.com/article/2013/11/05/us-ukraine-chevron-idUSBRE9A40ML20131105> (accessed March 21, 2014).
17. Several countries have moratoriums on hydraulic fracturing that would prohibit development.
18. Ben Lefebvre, "U.S. Refiners Export More Fuel Than Ever," *The Wall Street Journal*, October 8, 2013, <http://online.wsj.com/news/articles/SB10001424052702304441404579123604287854862> (accessed March 21, 2014).
19. Freeport LNG, "Liquefaction FAQs," 2013, http://www.freeportlng.com/Liquefaction_FAQs.asp#regulatory (accessed March 21, 2014).

by the end of 2015. The exporting company, Cheniere, has already entered into long-term contracts with Spain and the United Kingdom. Along with exports from countries like Qatar, Australia, Indonesia, and others, international markets will put pressure on Russia and reduce its ability to use energy as a political bargaining chip.

Opening markets would provide a diversity of suppliers and greater energy supplies for the global market. This would likely result in lower prices and would certainly mean more choice for countries like Ukraine in the not so distant future. Ultimately, providing that choice would be what diminishes Russian power. Establishing free-market reforms now and increasing energy supplies would help to prevent future incidents and price shocks not just in Ukraine, but across the globe.

A critical component of opening markets is keeping domestic production in America open. The Obama Administration has failed to open up federal lands and waters to exploration and development of natural gas, is implementing federal regulations on hydraulic fracturing when the states have already regulated it effectively, and is significantly limiting the ability to mine and use the abundance of coal under America's soil under the premise of fighting climate change.

Secretary of State John Kerry called climate change "another weapon of mass destruction" and one of the world's biggest security threats in a recent speech in Indonesia. Evidence shows, however, that the Earth is not heading toward catastrophic climate change, and we have not seen more frequent and intense extreme weather events. Further, any changes in the climate will occur gradually over decades, and there will be ample time to adjust national security and humanitarian assistance instruments to accommodate future demands. The reality is that poverty is a much greater threat to security than is climate change, and the Administration's climate policies will drive up energy prices and do more to worsen poverty than they will to mitigate global temperatures.

Increasing domestic energy production and lifting bans on energy exports would help both the U.S.

economy and Ukraine. By increasing energy supplies to the global market and diversifying global supplies, these reforms also would diminish the ability of any nation, including Russia, to use energy as a weapon to impose its will in the future. For these reasons, Congress should open access to America's energy resources and allow for the free trade of energy resources.

Aid to Ukraine Should Not Be Held Hostage to IMF Politics

The Obama Administration is insisting that before Congress can support the Ukrainians, it must first reduce the power of the United States at the International Monetary Fund (IMF).²⁰ The White House wants Congress to attach its approval of an IMF governance "reform package," which has been pending for three years, to any legislation providing urgently needed U.S. financial assistance to Ukraine. That certainly gives a new and strange meaning to the concept of "IMF conditionality."

As Heritage reported in January,²¹ there are significant "moral hazard" issues in the 2010 IMF reform package that must be considered on their own merits. Decisions about the reform package should not be taken in the crisis atmosphere surrounding the situation in Ukraine. Congress should insist that the Obama Administration remove the unnecessary linkage between adoption of urgently needed IMF assistance to Ukraine and the larger questions raised by the IMF reform package.

At the root of the problems in Ukraine are the lingering effects of the corrupt and inefficient post-Soviet economic systems in the heavily industrialized eastern, Russian-speaking areas and throughout the country. Despite repeated urgings, many of these problems in Ukraine have never been seriously addressed, nor have enough necessary reforms been adopted in the 20-plus years since the fall of the Soviet Union.

These failures can be seen in Ukraine's score in The Heritage Foundation/*Wall Street Journal* 2014 *Index of Economic Freedom*: 49.3.²² That means its

20. Press release, "Fact Sheet: International Support for Ukraine," The White House, March 4, 2014, <http://www.whitehouse.gov/the-press-office/2014/03/04/fact-sheet-international-support-ukraine> (accessed March 21, 2014).

21. See James M. Roberts, "Congress Should Block the Morally Hazardous IMF 'Reform' Package," Heritage Foundation *Issue Brief* No. 4124, January 14, 2014, <http://www.heritage.org/research/reports/2014/01/us-congress-should-block-the-hazardous-imf-reform-package>.

22. Terry Miller, Anthony B. Kim, and Kim R. Holmes, 2014 *Index of Economic Freedom* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2014), pp. 439-440.

economy remains in the bottom *Index* category (“repressed”)—even lower than Russia. Ukraine is the 155th freest out of 178 countries ranked in 2014 worldwide; it is last among the 43 countries measured in the European region. After former Ukrainian President Viktor Yanukovich took office in 2010, the country registered steadily deteriorating scores on property rights, corruption, financial freedom, and investment freedom.

An IMF program for Ukraine could use these *Index of Economic Freedom* categories as a guide to shape the many reforms and conditions that will be needed to help put the Ukrainian economy on a sustainable path to recovery. For example, the Ukrainian currency (the hryvnia) should be permitted to float to avoid further depletion of the nation’s foreign currency reserves. Another huge drain on resources can be plugged by phasing out the unsustainable and wasteful system of state energy subsidies, which amount to more than 7 percent of Ukraine’s gross domestic product.

In 2010, the IMF board, with support from the Obama Administration, proposed a series of reforms that would increase the voting power of certain emerging-market nations and double the amount of member countries’ national “quota” contributions, which are the primary source of funding for IMF loans.²³ The U.S. has the largest quota of any country in the world and also the largest single-nation voting share (16.75 percent). It has been the only country with veto power at the IMF. Due to the constitutional role of Congress and U.S. veto power, this IMF reform package must therefore be approved by Congress before it can go into effect.²⁴

The reform package would change the rules for election of the IMF executive board, and the U.S. would lose the right it has heretofore enjoyed to appoint its own representative to the executive board—and that is where all the power is at the IMF.²⁵ The reform package would also reduce U.S.

control of certain “supplementary” IMF funds that can be tapped when demand for IMF resources is particularly strong, such as during major financial crises. There are two supplementary funds: the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow. The U.S. currently funds the largest portion of the NAB—about \$103 billion, or about 18 percent.²⁶

It is clear that the U.S. has benefitted—and will continue to benefit—from the existence of the IMF. In fact, Ukraine is almost a textbook example of a nation that needs a lender of last resort, the sort of situation for which the IMF was created more than 70 years ago.

On the other hand, many conservatives have rightly pointed to the IMF as an enabler of moral hazard. They are concerned that American tax dollars are being used for IMF programs that bail out other governments that follow reckless fiscal and monetary policies (e.g., the flawed policies that Ukraine pursued under Yanukovich until 2011 when the IMF ended its previous program for the country).

The IMF has been functioning effectively for the three years since the IMF governance reforms were proposed in late 2010. There is no reason why the U.S. government cannot immediately put together an emergency aid program of loans, grants, and technical assistance for Ukraine using existing congressional development assistance appropriations without Congress first having to adopt the IMF reform package.

U.S. Missile Defense Policy After Russia’s Actions in Ukraine

Currently, the Administration’s policy is not to affect the “strategic balance” with Russia in terms of ballistic missiles.²⁷ In reality, there is no strategic balance between the two countries. Given Russia’s demonstrated willingness to use force to alter nations’ boundaries and act against U.S. interests, it

23. Rebecca M. Nelson and Martin A. Weiss, “IMF Reforms: Issues for Congress,” Congressional Research Service *Report for Congress*, February 1, 2014, <http://www.fas.org/sgp/crs/misc/R42844.pdf> (accessed January 9, 2014).

24. International Monetary Fund, “IMF Quotas,” October 1, 2013, <http://www.imf.org/external/np/exr/facts/quotas.htm> (accessed March 21, 2014).

25. International Monetary Fund, “IMF Executive Directors and Voting Power,” updated March 6, 2014, <http://www.imf.org/external/np/sec/memdir/eds.aspx> (accessed March 21, 2014).

26. International Monetary Fund, “IMF Standing Borrowing Arrangements,” October 1, 2013, <http://www.imf.org/external/np/exr/facts/gabnab.htm> (accessed March 21, 2014).

27. U.S. Department of Defense, *Ballistic Missile Defense Review Report*, February 2010, http://www.defense.gov/bmdr/docs/BMDR%20as%20of%202026JAN10%200630_for%20web.pdf (accessed March 21, 2014).

is clear that the U.S. should expand its ballistic missile defense to protect itself and its allies from Russia's ballistic missiles.

Russia is currently engaged in the largest nuclear weapons buildup since the end of the Cold War. It is planning to spend over \$55 billion on its missile and air defense systems in the next six years, compared to about \$8 billion a year that the U.S. spends on its missile defense programs.²⁸

Russia has over 1,400 nuclear warheads deployed on long-range ballistic missiles. These missiles can reach the U.S. within 33 minutes. It is also engaged in ballistic missile modernization and is reportedly developing intermediate-range ballistic missiles that are prohibited under the Intermediate-Range Nuclear Forces Treaty with the U.S.²⁹ These missiles are most threatening to allies in the European theater.

In 2009, the Obama Administration canceled President George W. Bush's plan to deploy two-stage ground-based midcourse defense (GMD) interceptors to Poland and highly capable X-band radar to the Czech Republic while also launching a "reset" policy in an effort to placate Moscow. To replace Bush's missile defense plan for Europe, the Obama Administration proposed a four-phased missile defense plan, the European Phased Adaptive Approach (EPAA), consisting of two missile defense sites in Poland and Romania and forward-deployed radars. Phase Four—deployment of SM-3 Block IIB interceptors capable of shooting down medium-, intermediate-, and intercontinental-range ballistic missiles—would likely provide the U.S. and allies with better capability than the 10 GMD interceptors that were supposed to be deployed to Poland under the Bush Administration's missile defense plan, but the Administration unwisely canceled Phase Four of the EPAA last year.

At this time, it would be unwise to cancel the EPAA. U.S. allies in Poland and Romania are already politically invested in missile defense sites on their territories, and Poland has already been snubbed by the Obama Administration's surprising change in

U.S. missile defense policy. It is also likely that costs and timelines involved in returning to the original plan would be high.

Rather, the geopolitical realities of the Russian aggression in Ukraine present an opportunity to assess how the current missile defense plan can be improved and where it would be suitable to add capabilities to it. An X-band radar in Europe would massively improve U.S. tracking capability, which would benefit both European allies and the U.S. homeland.

Russia's actions also underscore the importance of maintaining U.S. missile defense resources. Currently, the budget of the Missile Defense Agency (MDA), which is responsible for developing and acquiring U.S. missile defense architecture, is less than 1.5 percent of the Pentagon's overall budget. These investments are highly cost-efficient, especially considering that a successful ballistic missile attack would cost the U.S. significantly more in lives and treasure. The value of what is being defended matters, as do the costs of escalation after the attacked nation is compelled to defend itself by other means.

U.S. Nuclear Weapons Policy After Ukraine

Russia's willingness to challenge the status quo and its disregard for its arms control obligations have important implications for U.S. nuclear weapons policy. There are many steps that the U.S. can take to improve and strengthen its overall nuclear posture, regardless of Russian actions in Ukraine.

The Administration has made many concessions to improve relations with Russia.³⁰ Some of the most significant of these concessions are in the New Strategic Arms Reductions Treaty (New START). Among them are the absence of a strong verification regime, limits on U.S. missile defense options, and mandates that require the U.S. to shoulder a majority of the nuclear weapons reductions. These conditions have resulted in a treaty that is grossly lopsided in Russia's favor.

28. Ria Novosti, "Russia Plans \$55.3Bln Expenditure on Aerospace Defense by 2020," February 28, 2014, <http://en.ria.ru/news/20140228/187971313/Russia-Plans-553Bln-Expenditure-On-Aerospace-Defense-by-2020.html> (accessed March 21, 2014).

29. Michaela Dodge and Ariel Cohen, "Russia's Arms Control Violations: What the U.S. Should Do," Heritage Foundation *Issue Brief* No. 4105, December 11, 2013, <http://www.heritage.org/research/reports/2013/12/russia-s-arms-control-violations-what-the-us-should-do> (accessed March 21, 2014).

30. The Heritage Foundation, "Reset Regret: Heritage Foundation Recommendations," Heritage Foundation *WebMemo* No. 3334, August 5, 2011, <http://www.heritage.org/research/reports/2011/08/reset-regret-heritage-foundation-recommendations> (accessed March 20, 2014).

In addition, Russian violations of the Intermediate-Range Nuclear Forces (INF) Treaty have been widely reported.³¹ Russian violations and circumventions of the INF Treaty pose a threat to U.S. allies in Europe due to the undeniable fact that they fall within the range of these systems. It would be unwise to ignore the danger these missiles pose to the North Atlantic Treaty Organization.

Current U.S. nuclear weapons policy is based on the notion that Russia is no longer an adversary. Russia has invaded two countries in the past six years and just this month has illegitimately changed Ukraine's borders. It is violating its arms control obligations, increasing the role of nuclear weapons in its national security, and extensively modernizing its nuclear forces, including building new nuclear weapons.

The U.S. remains the only nuclear weapons state that is not modernizing its nuclear forces. The U.S. should reassess its nuclear weapons posture to deal more effectively with the realities of the 21st century.

U.S. Needs a Strategy, Not a Reaction

The difference between Russia and the West right now is that Russia has a strategy that it is willing to follow and the West is hoping the problem disappears.

Recent events have confirmed what many already knew: The so-called Russian reset is dead. Crimea is under the control of Moscow, and it does not appear that Russian troops will be leaving anytime soon. Russia has used the illegal referendum as a way to justify its imperial annexation of part of a neighboring country. Russia's behavior is a direct violation of Ukraine's sovereignty and territorial integrity.

However, a number of steps can be taken to keep America's NATO allies safe while demonstrating to Russia that its behavior is unacceptable. The United States should:

- **Show solidarity with the Ukrainian people.** President Obama should offer his and America's public support to the people of Ukraine during this difficult period. It should be made crystal clear that Russia's irredentist behavior cannot go unchecked.
- **Stop holding aid to Ukraine hostage to IMF politics.** The White House wants Congress to attach its approval of an International Monetary

Fund governance "reform package" that has been pending for three years to any legislation providing urgently needed U.S. financial assistance to Ukraine. Congress should refuse the Obama Administration's attempt to link urgent assistance to Ukraine to approval of this package. Furthermore, Congress should insist that the 2010 reform package be revised so that the U.S. retains the unilateral right to appoint its own representative to the executive board and so that the NAB supplemental facility cannot be used as an additional source of potentially morally hazardous lending during future "crises."

- **Commit to a speedy and robust ballistic missile defense in Europe.** Central and Eastern European countries view NATO's ballistic missile defense system as a fundamental part of the alliance's defense. It is essential that the Administration uphold missile defense commitment to America's allies in Europe, especially after its loss of credibility following the abrupt cancellation of the third site in 2009.
- **Establish a permanent military presence in the Baltic region.** There are strong indications that the Baltic states desire a permanent U.S. military presence in the region. This would offer more opportunities for joint military training and demonstrate U.S. commitment to transatlantic security.
- **Consider establishing a Baltic Sea Rotation Force.** The U.S. Marine Corps currently operates a Black Sea Rotational Force that consists of a special-purpose Marine air-ground task force (SPMAGTF). Although the Black Sea SPMAGTF carried out a training exercise in Lithuania in 2012, the main focus of the task force is the Black Sea and Caucasus regions. The U.S. should consider the value of establishing a similar task force for the Baltic Sea region. Such a task force would offer more opportunities for joint military training for the Baltic states as well as for Poland, Finland, and Sweden. Such a task force would also demonstrate U.S. commitment to transatlantic security.

31. Dodge and Cohen, "Russia's Arms Control Violations: What the U.S. Should Do."

- **Show U.S. commitment to NATO.** The U.S. should be reassuring NATO members in Central and Eastern Europe that their defense is guaranteed and that spillover from any possible conflict will be contained. This could mean temporarily deploying assets to the region that are required to defend the territorial integrity of NATO countries near Russia.
- **Reiterate America's commitment to NATO's Article 5.** There is a perception in parts of Europe that transatlantic security is a lower priority for the Obama Administration than it was for previous Administrations. It should be made clear to Russia that any armed aggression toward a NATO member will immediately cause the U.S. to call for NATO to invoke Article 5 of the Washington Treaty. The Obama Administration could demonstrate America's commitment to NATO's Article 5.
- **Ensure that security cooperation will continue with NATO allies after withdrawal from Afghanistan.** One of the biggest concerns of NATO partners is that transatlantic military cooperation will be reduced when the mission in Afghanistan winds down. The U.S. must work with its European partners to find new areas of military cooperation.
- **Continue joint training exercises.** There is an old military adage that you should train like you fight. General Philip Breedlove told *The Army Times* in a recent interview that the U.S. has canceled 45 percent of military-to-military training events with European partners.³² In light of recent Russian aggression, the Department of Defense should prioritize U.S. training missions in Central and Eastern Europe over others in Europe.
- **Ensure that NATO remains a nuclear security alliance.** NATO's 2012 Deterrence and Defense Posture Review stated that the strategic nuclear forces of the alliance provide the supreme guarantee of the allies' security. The U.S. should not underestimate how important this issue is to its allies in Central and Eastern Europe. As long as the West could face a nuclear threat from any part of the world, NATO needs to remain a nuclear alliance.
- **Lift natural gas export barriers.** As a result of Ukraine's reliance on Russian energy, policymakers have called for lifting restrictions on natural gas exports. Companies must obtain approval from both the Federal Energy Regulatory Commission (FERC) and the Department of Energy (DOE) before exporting natural gas. A facility is automatically authorized if the recipient country has a free trade agreement (FTA) with the U.S. In the absence of such an agreement, the DOE can arbitrarily deny a permit if it believes the total volume of natural gas exported is not in the public's interest. The decision to export natural gas should be a business decision, not a political one. There are numerous non-FTA nations with which the U.S. trades regularly. Natural gas should be no different and should be treated as any other good traded around the world is treated.³³
- **Lift the ban on crude oil exports.** In 1975, the U.S. government banned crude oil exports (with limited exceptions). Allowing crude exports to flow to their most valued use would increase economic efficiency, grow the economy, and demonstrate America's commitment to free trade. Concerns over resource scarcity and gas price increases in the U.S. are unsubstantiated. Further, whether the U.S. is a net importer or net exporter has no bearing on price volatility: Petroleum is a fungible commodity traded on a world market. Crude oil exports could drive down prices as more supplies reach the world market and more efficient refiners.
- **Open domestic production and reduce onerous regulations on energy in America.** The government should open up leasing, exploration, and production in more areas in the Gulf of Mexico, the Atlantic and Pacific coasts, and the Alaskan Coastal Plain, which includes the Arctic National Wildlife Refuge. It should also reduce

32. Andrew Tilghman, "NATO Bases Critical for U.S., Leader Says," *Army Times*, August 19, 2013, <http://www.armytimes.com/article/20130819/NEWS/308190010/NATO-bases-critical-for-U-S-leader-says> (accessed March 21, 2014).

33. See Nicolas D. Loris, "U.S. Natural Gas Exports: Lift Restrictions and Empower the States," Heritage Foundation *Backgrounder* No. 2767, February 11, 2013, <http://www.heritage.org/research/reports/2013/02/us-natural-gas-exports-lift-restrictions-and-empower-the-states>.

onerous regulations that drive up the cost of energy for little environmental impact.

The Environmental Protection Agency has proposed regulations for carbon dioxide and other greenhouse gas emissions for future power plants and plans to finalize standards for existing plants by the summer of 2015. These regulations would significantly reduce the use of coal as a power-generating source in America. As more coal generation is taken offline, the marketplace must find a way to make up for that lost supply, which would largely be done through a combination of decreasing energy use as an adjustment to higher prices and increased power generation from other sources, most notably natural gas.³⁴ As the U.S. experiences a renaissance in energy-intensive industries and builds export capacity as a result of the shale revolution, the Administration's war on coal could adversely affect America's competitive advantage.

- **Enact meaningful sanctions on Russia.** Currently, only 20 people linked to Putin and former Ukrainian President Yanukovich have been sanctioned. The Obama Administration needs to go further. Washington should implement more targeted sanctions aimed directly at Russian officials responsible for violating Ukrainian sovereignty, including freezing financial assets and imposing visa bans.
- **Enforce the Magnitsky Act.** The Sergei Magnitsky Rule of Law Accountability Act denies U.S. visas to and places financial sanctions on Russian officials and individuals guilty of human rights violations. It should be swiftly enforced against any Russian officials involved in the incursions into Crimea and any human rights violations in Ukraine. In addition, the U.S. should consider long-term and comprehensive economic sanctions aimed at ending Russian aggression.
- **Work with European partners.** The President himself should take the lead in urging European allies to adopt a robust stance against Russian expansionism and join the U.S. in a tough sanc-

tions regime that will directly affect those in Russia's government who are involved in any aggression in Ukraine. For example, it is unacceptable that France will continue to sell two amphibious assault ships to Moscow or that Spain continues to allow the Russian navy access to its territories in North Africa.

- **Withdraw immediately from New START.** New START is a fundamentally flawed treaty that dramatically undercuts the security of the U.S. and its allies. It is an extraordinarily good deal for the Russians, as it significantly limits Washington's ability to deploy an effective global missile defense system. It does nothing at all to advance U.S. security while handing Moscow a significant strategic edge.
- **Withdraw from the INF Treaty.** As a result of Russian violations, the INF Treaty has lost its relevance and has created a false sense of security in the U.S. Washington should not implement any arms control agreements that Russia has repeatedly violated.
- **Stop unilateral nuclear weapons reductions.** The U.S. is projecting weakness by reducing its own arsenal as Russia builds up its forces. There is a fundamental disparity between U.S. and Russian obligations to international security. The U.S. provides nuclear security guarantees to over 30 countries around the world, while Russia, rather than safeguarding other nations, threatens them. It is imperative that the Administration recommit to the North Atlantic Treaty Organization's function as a nuclear alliance and sustain and modernize U.S. and NATO forward-deployed systems, including dual-capable aircraft, B-61 tactical nuclear weapons, and the dual-capable long-range stand-off missile.

Conclusion

Recent events have confirmed what many already knew: The so-called Russian reset is dead. Furthermore, it is looking increasingly likely that part of Ukraine is now under de facto Russian control.

34. See Nicolas D. Loris and Filip Jolevski, "EPA's Climate Regulations Will Harm American Manufacturing," Heritage Foundation *Issue Brief* No. 4158, March 4, 2014, <http://www.heritage.org/research/reports/2014/03/epas-climate-regulations-will-harm-american-manufacturing>.

Russia's behavior in Crimea was made possible by the failure of the Russian "reset," the disarming of Europe by European politicians, and the reduction and disengagement of U.S. military forces in Europe. Russians respect strength and consistency, neither of which has been displayed by President Obama or his European counterparts.

For many, the annexation of Crimea will be seen as a game changer in international norms. The annexation of a neighboring country by force is unprecedented in the 21st century. The last time it happened was when Saddam Hussein annexed Kuwait in 1990 to make it Iraq's 19th province.

With strength and consistency, Russia's recent actions could have been prevented or at least mitigated. It might be too late for Crimea, but the U.S. cannot allow the contagion to spread.