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## **Standing Committee on National Defence**

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**EVIDENCE**

**Tuesday, November 6, 2018**

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**Chair**

**Mr. Stephen Fuhr**



## Standing Committee on National Defence

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• (1215)

[English]

**The Chair (Mr. Stephen Fuhr (Kelowna—Lake Country, Lib.)):** I would like to welcome our guests from the Atlantic Council who are here to talk to us about the continuing situation in Ukraine. Obviously, a successful Ukraine is important to this country, and it's important to this committee. I want to thank all of you for coming today.

For the record, we have Mr. Anders Aslund, Ambassador Daniel Fried, Ambassador John Herbst and Mr. Adrian Karatnycky.

I believe Mr. Herbst is going to lead off with opening remarks.

**Mr. John Herbst (Director, Eurasia Center, Atlantic Council):** Thank you. It's an honour to appear today before this Canadian parliamentary committee and be part of a group that includes Anders, Dan and Adrian, all world-renowned experts in their own right.

We are part of a greater Atlantic Council team devoted to supporting Ukraine as it fights Russian aggression and moves forward on reform, and more broadly, encouraging the west to push back against Kremlin revisionism designed to upend the security system that emerged in Europe and Eurasia at the end of the Cold War. That's what we've come to discuss with you today.

General Joseph Dunford, the chairman of the U.S. joint chiefs of staff, was right when he said during a congressional testimony in the summer of 2015 that the greatest short-term security danger to the United States was coming from the Kremlin. This danger is not limited to the United States. It's a danger to NATO, the EU and, most immediately, Russia's neighbours that do not wish to be dominated by Moscow.

The west has been slow to understand this. Gradually, over the past several years, the U.S., NATO and even the EU have come to a more realistic understanding of the dangers posed by Kremlin policies, and have taken steps to mitigate those dangers. Despite President Trump's peculiar insistence on the need to improve relations with Mr. Putin, American policy in the past year and a half has actually and properly toughened against Kremlin aggression. This is likely to continue until the Kremlin backs off its provocative policies.

What some call the crisis of Ukraine is actually a crisis caused by Kremlin aggression. Moscow's war on Ukraine is not simply a

matter of vital concern to Kiev; it is critical to the west, because Ukraine is the front line of our defence against Kremlin aggression.

Moscow has not hidden its destabilizing objectives. President Putin has said on multiple occasions that there must be new rules for the international order or there will be no rules. The old rules that Mr. Putin wants to get rid of were established by the Helsinki Final Act and the Charter of Paris, both signed by Moscow. The core principles he wants to get rid of are: the sovereignty and territorial integrity of nations; the right of nations to choose their own internal, political and economic systems and their external alliances; and the commitment to resolve disputes by negotiations and international law rather than by military means.

As part of the demand for new rules, Mr. Putin insists on a sphere of influence in areas that once constituted part of the Soviet Union, if not the Warsaw Pact. He claims the right to intervene to protect ethnic Russians, and even Russian speakers when they are threatened. He burnished this bogeyman to justify his aggression on Ukraine. He can use the same pretext to intervene in Latvia and Estonia, NATO allies that have substantial Russian communities.

Moscow's objectives include weakening NATO in the EU. General Gerasimov, Russia's top soldier, laid out a doctrine of hybrid war in his famous article in 2013 that provides insights into Moscow's tactics. It stresses subterfuge, the use of disinformation, hard to trace cyber-operations, subversion, covert military operations, and when advantageous, conventional military strikes.

We have witnessed all of this in the past dozen years: the cyber-attack on Estonia in 2007; the war on Georgia in 2008; the ongoing war in Ukraine which uses all of these methods; interference in American, French, German and other elections, and in the British vote on Brexit; and provocations against the Baltic States, such as kidnapping an intelligence official from Estonia the day the 2014 NATO summit ended.

Kremlin misbehaviour is not limited to hybrid war tactics. For four years Moscow has been violating the intermediate range nuclear forces treaty. It has attacked Sergei Skripal in the United Kingdom in violation of the chemical weapons convention. It has flown Russian military planes dangerously close to NATO ships and planes, including yesterday in the Black Sea. Russian mercenaries in Syria attacked U.S. troops and their local allies last February.

The point of this is simple. The greatest immediate danger to the west comes now from a revisionist Kremlin. We need to take the necessary measures to defend ourselves and protect our interests. Over the past two years, NATO has taken important steps. At the Warsaw summit in 2016, the alliance took the decision to bolster its military capacity in the Baltic States, Poland and Romania.

This brings us back to Ukraine. If Moscow loses in Donbass, its appetite for adventurism in the Baltics and elsewhere will disappear. Increasing our support for Ukraine, therefore, is a smart way to protect NATO allies and the post-Cold War security structure, which has provided security and prosperity over the past 25 years.

Ukraine surprised the Russian general staff by fighting Russia to a standstill in Donbass. Of course, Moscow chose a war of limited means, a covert, hybrid war, to fight against its own government. This effort and the broader plan to carve out a large Novorossiia simply failed. There was not nearly enough local support in Ukraine to sustain this project, so Russian officers, and at times regular Russian forces, had to take over the war.

Even with this advanced Russian position, they still fought within limits. They have not used air power. They have not used naval power. Doing that would rip off the mask that this is a covert war as opposed to a conventional Russian war. Moscow's growing inability, however, to hide its war in Ukraine is tied to two vulnerabilities that we must exploit. One, the Russian people do not want their soldiers fighting in Ukraine. Two, Russia has a weak economy. Regular polls by Moscow's Levada Centre demonstrate that over the last three years, the Russian people have consistently said no to regular Russian soldiers fighting in Ukraine. Therefore, Mr. Putin hides his casualties from his own people.

The west needs to help Ukraine take advantage of this by providing weapons that will raise the cost to Moscow of its ongoing aggressions. Last December, President Trump finally decided to send Javelin anti-tank missiles to Ukraine. This was critical because the gains Moscow made in Donbass came by massing tanks. With Javelins, those tanks become targets. The Russian soldiers operating those tanks become sitting ducks, and this is a vulnerability to the Kremlin.

Ukraine needs help beyond Javelins. We have seen, since April, a major Russian escalation in the Sea of Azov. They have been stopping Ukrainian shipping. This has been choking the Ukrainian economy in Donbass. Shipping from Mariupol and Berdyansk has been under threat. Equally important, they've been running operations near Ukraine's Azov shore, suggesting they might launch amphibious operations. It would be very much in Ukraine's interest and in the west's interest to give Ukraine weapons such as surface-to-ship missiles that would make Russian amphibious operations vulnerable.

Ukraine's best strategic thinker, Volodymyr Horbulin, always says how vulnerable Ukraine would be to the use of Russian air power. The transfer of surface-to-air missiles would also be very much in the interest of Ukraine and NATO.

The west also needs to take stronger economic measures against Russia. Aside from hiding their casualties, there is one explanation for Russia's covert war in Ukraine. They've wanted to avoid or

minimize sanctions. It took the west several months after the Russians seized Crimea. It took the shoot-down of the Malaysian aircraft with a Russian Buk missile to persuade the EU to launch serious sanctions against Russia.

We need more sanctions. The sanctions to date have been reactive. They have punished Russia for the bad things they have done. We should have proactive sanctions, which let Moscow know in advance that if they continue to do bad things, sanctions are going to get worse. For example, Ukraine takes regular casualties. There have been scores of shooting incidents over the ceasefire line, ever since Minsk I. Ukraine lost another soldier over the last couple of days; four were injured.

We need sanctions that say something like, the next 10 fatalities in Ukraine will lead to additional sanctions. The Kremlin has seized about 1,000 square kilometres of additional Ukrainian territory since the Minsk I ceasefire was implemented. A new sanction might say that the next 25 square kilometres of Ukrainian territory taken will lead to additional sanctions, so Moscow knows in advance that its current misbehaviour leads to a tightening of sanctions.

My last point is for something that would make a great deal of sense. I've already referred to what the Kremlin's been doing in the Sea of Azov. Over 150 Ukrainian ships have been stopped, and other ships, too, calling on the ports of Berdyansk and Mariupol. We should look at legislation—the United States, Canada and the EU—that would forbid any Russian ship sailing from Rostov-on-Don, the main Russian port in the Sea of Azov, from stopping in our ports while harassment of Ukrainian shipping continues.

● (1220)

All these measures would increase the cost in the Kremlin of its aggression in Ukraine.

It's important to note that opponents of sanctions say sanctions don't work because they make the simplistic argument that we've had sanctions for over four years and the Russian intervention in Ukraine continues. This does not understand how sanctions work. Sanctions were never meant to lead to an immediate Russian withdrawal. It would be wonderful if they could, but that was never in the cards.

What sanctions have done is impose a cost on the Russian economy for their ongoing misbehaviour in Ukraine. Both the IMF and senior Russian economic officials said in 2016 that the sanctions cost Russia 1% to 1.25% of their GNP in that year. That cost continues to this day, which is why the Kremlin has sought to get sanctions lifted.

Financial elites in Russia understand the cost to their economy of Moscow's ongoing aggression. They represent an interest group in Moscow pushing against the war in Ukraine.

Over time, this will help lead to the right decision, for Russia to get out. But even before that, weakening the economy of a country with nuclear weapons, and the second-largest and most powerful military in the world, weakens its ability over the long term to wage war, and that is very much in our interests. People should not forget that.

I'll go to my last point. I wanted to focus on the national security dimensions at play, because they go beyond Ukraine's existential problems with Kremlin aggression, but reform in Ukraine is also a critical issue. I just want to make a few brief points on this.

Despite the headlines in the west and even in Ukrainian media, which tend to focus on the negative, the question of reform in Ukraine over the past four and a half years is by and large a positive one. Adrian and I have regular contacts—and Anders even more—with the international financial institutions that work on Ukraine's reform system progress. One of them said to Adrian and me 18 months ago that if he could have predicted in 2014 all the things that happened in the ensuing two and a half or three years, he would have been delighted.

As for those things that have happened, there are the changes in the gas sector which removed \$7 billion of deficit from the Ukrainian budget and Ukraine's dependence on Russian natural gas, as well as the largest honey pot for corruption in Ukraine. It's gone as a result of this reform. There's the ProZorro government procurement system, which removed major corruption in the granting of government contracts. There's the cleanup of the banks in Ukraine, which were also piggy banks for rich and privileged people.

This is quite major progress. There are different steps but time prevents me from going into them.

There remain problems with corruption, especially in the courts and in the prosecuting authorities. These are being addressed, albeit too slowly for the taste of most of us, but we should not let our desire for perfection get in the way of a sound assessment that the record here is a pretty good one.

This comes back to national security, because Ukraine's success will ultimately be guaranteed by what it does in reforms. The west—the United States, Canada, the EU—and the international financial institutions have done a very good job of tough love, promoting reform with assistance and advice and an occasional whack when things have gone too slowly. This remains an important part of our policy and it should continue.

Ukraine will succeed with its reform, perhaps a little bit too slow for the taste of most of us, and when it does, it guarantees—and I use that word “guarantees” not loosely—that things will move in the right direction domestically in its neighbour to the north. The Putin style of governance, based upon corruption, authoritarianism and external aggression, will not be able to stand if Ukraine succeeds and develops a market economy with a democracy and a country that prospers. That example will blow away the ramparts of the Putin system.

Thank you.

• (1225)

**The Chair:** Thank you very much for those important words, Ambassador.

We are really tight on time, so if you me do see this, it means I'd like you to wind down your answer or question within 30 seconds so I can respect everyone's time here and make sure everyone gets an opportunity.

The first seven minutes go to MP Dzerowicz.

**Ms. Julie Dzerowicz (Davenport, Lib.):** Thank you so much. I'm sorry I missed the first three presentations, but I'm sure they were as excellent as the last one.

Was there just one presentation? Well, it was excellent.

I'm actually of Ukrainian heritage. My father's family came from Ukraine. They're from Lviv. The topic of Ukraine is a very emotional one for me and my family. They would have never left Ukraine if World War II hadn't happened. They were only reluctant Canadians, although they're now very proud today.

I want to start from that. I have visited Ukraine. I know it's a country that very much wants to move towards a market economy, towards democracy, and is working very hard on that. As well, it really wants peace. They really want peace as well.

First of all, I know there has been a request around Canada supporting Ukraine, around defensive weapons. I want to know what your thoughts are on that, whether you think that is a positive move in terms of what we're trying to do in the area in terms of peace and stability.

• (1230)

**Mr. John Herbst:** This is absolutely essential to end the war in Donbass more quickly. The folks at this table were among the leaders, going back to late 2014, arguing for the United States and others to provide weapons, especially the Javelin anti-tank missiles.

Finally, President Trump made that decision in December of last year. Those who argued against us said Russia would escalate. They were wrong. Russia did not escalate.

What Ukraine needs now are weapons that would help, again, deal with possible amphibious and air attacks. It could also use support in the areas of intelligence sharing, communications equipment and training. Canada has been a leader in training, and it should continue the training program, which I believe is coming up for renewal in March, but if you could provide additional weapons, in consultations with Ukrainians, and maybe the United States, that would be wonderful.

**Ms. Julie Dzerowicz:** Okay, thank you.

The other thing we have done in the area which you haven't touched on is that Canada has a presence in Latvia right now to try to also provide a stop to Russian aggression into that area. I would love your thoughts on our effectiveness in that.

Canada has also spent quite a bit of time and resources in building and strengthening democracy within Ukraine as well, their institutions and gender equity. How are we doing, and is there anything more we can do in that area?

**Mr. Daniel Fried (Distinguished Fellow, Atlantic Council):** Canada's leadership of the multinational NATO forward-based battalion in Latvia is laudable. It's a good initiative, a good idea. The fact that NATO has now put forces into NATO's eastern tier is a big deal. That basically reverses 30 years of post-Cold War drawdown of American, North American and west European forces in NATO, reversed because of Russia's aggression in Ukraine. This is a strong signal and it has increased stability.

First, I applaud Canada's initiative and leadership in this area. Second, I underscore the importance of Canada's military-to-military relationship with Ukraine. Putin calculates resistance to his aggression. It's pretty simple: If he sees no resistance, he will "drive the bayonet further"—to steal a quote from Lenin—but if he meets resistance, he will tend to hold himself back. Therefore, I think this is good.

There are other areas in which Canada can work with the west to resist Russia's aggression. My last job in government was sanctions coordinator at the state department, and I had the pleasure of working with the Canadian government during the Obama administration, after the Russian attack on Ukraine. I have to say that Canada's work on sanctions was exemplary. It was a wonderful partner.

**Ms. Julie Dzerowicz:** Thank you.

Could I get a response on the democracy question?

I have one last question as well.

**Mr. Adrian Karatnycky (Senior Fellow, Atlantic Council):** As a transition, I want to say the forthright stance that NATO has taken by more forwardly deploying its troop presence has also raised the confidence among Ukrainians that NATO is an important ally.

For decades, the public was suspicious of NATO because of old Soviet-era hangovers of propaganda. Today, if a referendum were held in Ukraine on NATO membership, 62% of the public would support it and only 26% would be opposed, so there is a forthright support for it.

I think that working with civil society and democratic institutions is extremely important because we are in a period where, if you look at the polling data from Ukraine, we do not know who will be the next president or what will be the configuration of the next parliament. It's very important to help structure civil society to give voice to continuing to advance a reform agenda, no matter who is in power.

The good news is that, no matter who is likely to be elected, a fifth column of Russia will operate but will have nothing near the ability to access power or to take over power. Ukraine's public is western-oriented, so working with that public... If there is a populist president to keep them on the reform agenda, if there is a reluctant reformer president to keep them on the agenda, or if there is a reformer president, there is an opportunity for continued aid to civic society.

There is one caveat: that is to say, naming and shaming is extremely important. There are very many good civil society groups that are fighting corruption and so on, but they focus exclusively on exposing the failures. It's extremely important that aid packages also highlight successes so that the public has confidence that the reformers are actually succeeding, maybe not at the pace we would like, but they actually are.

• (1235)

**Ms. Julie Dzerowicz:** Thank you.

Do I have 30 seconds?

**The Chair:** You have 20 seconds for a question and a response.

**Ms. Julie Dzerowicz:** Okay.

What's the impact of the cancellation by the U.S. of the defence treaty—the intermediate-range nuclear forces treaty—on the stabilization of Russia and Ukraine, and the crisis?

**Mr. John Herbst:** I think that while we've disturbed some of our allies by doing this unilaterally, and perhaps without the consultation that would make sense, I would say it can be justified by the fact that Moscow has been violating this treaty for four years, and this demonstrates to the Kremlin that there's a price for not behaving properly.

There is also a fact that is very important in the calculations of the administration, which is that the INF treaty was only between the Soviet Union—now Russia—and the United States. It never included China. We've all watched a substantial Chinese military buildup in the western Pacific, and this will put the Chinese on notice.

**The Chair:** Thank you.

Next is MP Martel.

[*Translation*]

**Mr. Richard Martel (Chicoutimi—Le Fjord, CPC):** Thank you for being here today.

[*English*]

My question will be in French.

**The Chair:** There's still a bit of time while we get people hooked up, so I'll move to MP Garrison, and then I'll come back.

MP Garrison.

**Mr. Randall Garrison (Esquimalt—Saanich—Sooke, NDP):** Thanks very much, Mr. Chair.

I'm pleased to see discussion of the necessity of supporting reforms in Ukraine. I think all of us were very disappointed to see the death of anti-corruption activist Kateryna Handziuk yesterday as the result of an acid attack, and we welcome President Poroshenko's call for punishment of the attackers. However, it's incidents like this, I think, that make the point that was just made: there's a focus on the negativity and not on the positivity.

Is there anything you can say about the anti-corruption activities in terms of successes that have taken place in Ukraine?

**Dr. Anders Aslund (Senior Fellow, Eurasia Center, Atlantic Council):** I would say that what has really been successful has been transparency. Ukraine has introduced e-declarations of all assets of more than \$100,000. Officials—so all parliamentarians, all ministers, all ministerial staff—have to declare what they have. They have declared an amazing amount. The average holding in cash of parliamentarians in Ukraine at home turned out to be \$700,000—note that's dollars, not Ukrainian currency.

This has put a basis, and this has named and shamed the parliamentarians publicly over what they had, and it was the same with a lot of other officials. Also, ownership of most enterprises, for example, of all banks, has been redeemed.

Transparency works, and Ukraine is adamant on continuing that.

When it comes to law enforcement, it has not been so successful. Here it's particularly the security service and the prosecutor general's office that are in trouble.

You might have heard today that the Ukraine Parliament pushed for the sacking of the prosecutor general, who tendered his resignation today, but the majority refuted it. Also, the minister of the interior who has been exposed in this specific case. The media are very good, but all these cases do come out. The board does not function its prosecution and judgments, so this is what really needs to be improved.

• (1240)

**Mr. Randall Garrison:** Thank you.

My party has been skeptical of the call for additional weapons to be sent to Ukraine, and instead it has been looking for ways to strengthen Ukrainian democracy and reform as a higher priority. Of course, we were disappointed that the government response to our committee's report on visa-free travel for Ukrainians to Canada was rejected.

I guess I'm looking for ways in which strengthening civil society could be made more effective by the allies of Ukraine. Certainly, we saw visa-free access as a way of simply strengthening those contacts, but are there other ways that other countries could help strengthen the civil society organizations?

**Dr. Anders Aslund:** Something that is very effective and where Canada has played a big role is education. Ukraine today has tens of thousands of young Ukrainians with western education, mainly from Poland and followed probably by Germany, but also from Canada and the United States.

I think this is a very important contribution. When conditions are right, people come home. Probably six million Ukrainians are now working abroad. This is something similar to what happened in Poland. When conditions are right, people return home.

**The Chair:** Mr. Martel.

[Translation]

**Mr. Richard Martel:** Mr. Herbst, in two months, there were 6,500 cyber-attacks on 36 Ukrainian targets. The Russian cyber-attacks targeted all aspects of Ukrainian life, from the destruction of

its electrical grid to an infiltration of the media, and included attempted cyber-attacks of a plaster distribution plant.

How can we reduce Russian interference during elections?

[English]

**Mr. John Herbst:** I'm glad you asked. This is a major danger, and in fact we expect the Kremlin to intervene massively in the run-up to the Ukrainian presidential election.

We have established a project with the Transatlantic Commission on Election Integrity and the Victor Pinchuk Foundation to monitor this interference. We'll be looking at disinformation, cyber-operations, and military operations of various kinds, from the war in Donbass, to activities on the Sea of Azov, to assassinations. We'll be reporting on this.

We will have a website that will put up the latest news every day. We will send out a newsletter twice a week. We will be offering suggestions to the Ukrainian government on how to combat this. We have agreement with the Ukrainian government to work with us.

We will be in touch with governments in western Europe and the United States, and hopefully here in Ottawa, to talk about our findings so that Ukraine will be able to withstand an attack. This will be important in maintaining the integrity of Ukraine's election. It will also teach our countries about what the Kremlin may do with our own elections. It will be a learning experience for us.

Cyber is going to be an important part of this. Laura Galante, who is a former defence department official in the United States and a noted cyber-expert, will be leading our cyber team. As well, David Kramer, our former assistant secretary of state, will be leading our overall effort to monitor and fight back against Kremlin interference in Ukraine's election, including in the cyber field.

**Mr. Daniel Fried:** I want to add a point. The cyber-aggression that Russia uses in Ukraine, they will perfect and use against us. They already have.

If I can make a provocative historical analogy, the Spanish Civil War was the testing ground for new methods of aggressions to be used first in Spain and then elsewhere by aggressive powers.

Many people in the west, including in the United States, believe that Russian aggression against Ukraine had nothing to do with them. They have now discovered their error.

We have all seen Russian cyber-attacks against the United States, against west Europeans, as well as against the Baltics, the Estonians, the Ukrainians and the Poles. We need to study what the Russians are doing and prepare both defensive measures and potential sanctions steps, acting as a community of the western democracies, and explore other steps to prevent the Russians from operating with impunity.

• (1245)

[Translation]

**Mr. Richard Martel:** The committee learned that Ukraine was facing significant threats posed by the presence of tanks and artillery. In a precarious economic situation, Ukraine asked the West for help in the form of more robust equipment. In your opinion, how long do you think Ukraine can keep up its attempts to reconquer its territory without the necessary means to effectively counter the Russian offensive?

[English]

**Mr. John Herbst:** Within the limits of Moscow's current military operations, Ukraine is fighting the Kremlin to a tie, to a standstill.

It's true if Moscow unleashed all its conventional forces it could beat Ukraine in a war. More precisely, the Kremlin could seize any territory in Ukraine it wants, but even if it did that, it would be hard for the Kremlin to occupy and hold it because it would face a guerrilla war.

I don't think the Kremlin is going to escalate to that extent. If they do, there will be much larger sanctions and this will be an earthquake, geopolitically. Not only will there be much higher sanctions, but there will be much greater NATO deployments to the east, and Kremlin security will be diminished.

My sense is Moscow is waiting to see the results of Ukraine's presidential and Rada elections. Putin is hoping there will be a more flexible leadership as a result of those elections, and that the new Ukrainian government will make concessions that Mr. Poroshenko and the current Rada would not.

Putin will be disappointed in this. No matter who wins the elections, Ukraine as a political entity has consolidated around the position of moving to the west. Once this becomes clear, the Kremlin is going to have to make peace on terms that are consistent with Ukraine gaining back all of Donbass.

When this happens, I am not sure. It could be three years from now, it could be 10 years from now, but we can expedite this process. We can make it come sooner by one, strengthening sanctions on the Kremlin, and two, giving Ukraine the military weapons that ensure that even an escalation by the Kremlin will be bloody for the Kremlin.

**Dr. Anders Aslund:** Let me add on the economic side, Russia does not have the economic might to do everything it does now. Its military expenditures have increased in real terms from 3.3% of GDP in 2008 to 5.3% of GDP in 2016, according to the Stockholm International Peace Research Institute, which offers the best statistics on military expenditures. That's an extra 2% of GDP each year devoted to his wars.

On top of that, as Ambassador Herbst mentioned in his initial statement, the cost of the financial sanctions according to the IMF is 1% to 1.5% of GDP each year. This is 3.5% of GDP; add a bit for the administration of Crimea and Donbass, and you're at 3.5% to 4% of GDP extra because of war and sanctions on Russia.

This means that Russia is doomed to stagnation as long as it performs this way. This is also the reason we are seeing Russia now doing, as Ambassador Herbst said, so much Gerasimov doctrine,

hybrid warfare, because it's cheap. It's cheap to assassinate people, for example, and hybrid cyber is the cheapest way.

Therefore, we are seeing a different kind of warfare, but it also means that Russia does not have the economic strength to let the tanks roll into Ukraine.

• (1250)

**The Chair:** Just as a reminder to members, when you see this paper, I need you to wind down your comments in 30 seconds so I can make sure that everyone has enough time.

The floor goes to MP Spengemann.

**Mr. Sven Spengemann (Mississauga—Lakeshore, Lib.):** Mr. Chair, thank you very much.

Thank you, all, for being here.

You're talking to politicians. Politicians love the short game, love tactics and strategies that are focused on a two- to four-year horizon. You spoke of the three- to 10-year horizon.

Dr. Aslund, on the Russian economy, what are the prospects of a prosperous, peaceful, stable Russia without a rapprochement either to Europe and/or to the other entity we haven't discussed this afternoon, which is China?

I'm wondering if you could paint your vision of the long game for the committee. Where is this going to go, assuming that we are with you on what you've said on a short-term time horizon and tactics to make this more expensive to the Russians?

**Dr. Anders Aslund:** I think the economy is going nowhere. It will be stagnant as long as this situation continues. I don't think Putin will choose anything else. Russia has not had real economic growth since 2009. There has been an average growth rate of about a half of a per cent per year. This is a miserable situation. You can see all forecasts now suggest 1.5% per year, going forward. I suspect that they are even too high. There are absolutely no reforms even being discussed in Moscow today. They think they can devote a bit of extra money to investment. They don't have this money. Western sanctions have tied up money.

During the last four years, the real disposable income of the population has fallen by a total of 17%. Investment has fallen. You can't develop an economy like that. The question is: How long can the Russian people take it?

I lived in Moscow as a Swedish diplomat from 1984 to 1987, and the atmosphere in Moscow now is very much the same. People do nice things, like culture. They don't think about discussing the economy, because they see there is nothing they can accomplish.

**Mr. Sven Spengemann:** Dr. Aslund, do you have a comment on China, Russian-Chinese relations? Is it a factor in this equation at all?



**Dr. Anders Aslund:** An old friend of mine, who was the deputy minister for foreign affairs in Russia, has said that Russia has refused to become a junior partner of the United States; therefore, it has become a junior partner of China. Russia is very junior in all regards in relation to China. Think of it. The Russian economy today is \$1.5 trillion. It's rather less than the Canadian economy. It's the 12th biggest economy in the world. The Russian leadership doesn't understand that's where they are.

**Mr. Sven Spengemann:** Thank you very much.

Mr. Chair, I'm going to delegate the rest of my time to my colleague Mr. Wrzesnewskij.

**The Chair:** How much time is there?

**A voice:** There will be four minutes, or a little less.

**Mr. Borys Wrzesnewskij (Etobicoke Centre, Lib.):** I have three topics I'd like to touch on. I will go through those three, and perhaps you can decide how to address them.

On the first topic, you talked about Russia grabbing territory through a "creep", and you briefly discussed the Sea of Azov. In fact, Russia is attempting a territorial grab of sea as opposed to land in the Sea of Azov. You talked about ships originating out of Rostov-on-Don as potential sanctions. Could you expand on what other types of sanctions you would suggest if Russia continues to act the way it is currently acting in the Sea of Azov, or at the entry into the Sea of Azov? That's number one.

Number two, as we come up to the elections, Kharkiv, Odessa, Mariupol and Zaporizhia are all places where that particular interest is being paid. Would any of you like to comment on Zakarpattya, and what appears to be a Kremlin-Orbán tandem at play?

Finally, I travelled through Georgia during their first civil war, and I saw how, behind the scenes, Russia created the circumstances of civil war. You don't necessarily need to send armies to occupy. You can create destabilization and then feed that destabilization to the point of a failed state. Could you talk to that potential scenario, and what we can do to help Ukraine in preventing that scenario from potentially playing out?

Thank you.

• (1255)

**Mr. Daniel Fried:** On sanctions, the west in general needs to go through its sanctions escalatory options for either new Russian aggression in the Sea of Asov or in other places. We don't know where that aggression is going to be.

We do have escalatory headroom. It is possible to find escalatory steps that are tough enough to hurt the Russians and restrained enough that you can actually use them. There's a bracket here, and it is possible to fill that bracket.

One of the complexities of the sanctions tool against Russia is that in 2014, 2015 and 2016 there was one major area of Russian aggression, and that was against Ukraine. Now there are additional areas of Russian aggression, for instance, in the cyber area and against our elections.

It is complicated keeping the lines of sanctions straight; nevertheless, we shouldn't shrink from searching for escalatory options. I

see two ways, two basic models. One is to escalate our sanctions against selected sectors of the Russian economy—finance and cyber, and to a lesser degree, energy. The second is to go after Putin's leadership structure, his cronies, and in any event—and this is in Anders Aslund's area—to go after and dry up the channels of corrupt Russian money flowing into our countries.

**The Chair:** Thank you.

The last couple of minutes go to MP Robillard, if he wants to continue. There were some more questions that were asked, but I'll leave the floor to you, MP Robillard.

[*Translation*]

**Mr. Yves Robillard (Marc-Aurèle-Fortin, Lib.):** Thank you, Mr. Chair.

I thank the witnesses for their excellent presentations. I am going to ask my questions in French.

Could you give us an update on the current situation in the Donbass region, which has been in conflict since 2014? Are there relevant aspects of this conflict you have not had the opportunity to share with us during your testimony?

[*English*]

**Mr. John Herbst:** The basics are that there has been a standstill now for well over a year. Ukraine has set up strong defensive lines. In fact, there are several strong defensive lines, so if the Russians were to break through one, they'd face another.

While there's been a standstill, literally every day there are scores of fire incidents. The OSCE monitors suggest that about two-thirds of these originate on the Russian side of the line, and Ukraine has deaths every month, as well as many injuries. We know that the Kremlin does too, although we don't have access to that information the way we do to the Ukrainian information.

I think that means we should be looking at ways to impose additional penalties, additional sanctions, on the Kremlin for these ongoing ceasefire violations, but this is, frankly, a hard sell in Europe. They like to think there's nothing really going on there, when in fact there are firings every day.

**Mr. Adrian Karatnycky:** Can I say something more broadly on the issue of the peripheries? The question of Transcarpathia was raised. In my view, Mr. Orbán, for all of his difficult behaviour, is not coordinating with Russia; he's playing his own internal nationalist game. Only 10% of the population of Transcarpathia is Hungarian. There are small Hungarian enclaves where there might be an optical problem, but there is no problem in terms of stability.

There is clearly effort by Russians to maintain agents and agency in areas like Odessa and in the areas of Ukrainian-controlled Donbass. Nevertheless, the security services are quite effective on that dimension. They are, as Anders has mentioned, a problem on the economic side, but those people who are dealing with counter-intelligence are meeting the challenges. Also, the local elites are not interested in playing the Russia card because they saw what happened in the Donbass. The local elites who played with Russia initially when Russia was fomenting unrest in the Donbass before the Russian aggression were pushed out of power and Kremlin puppets and outsiders came in. There is absolutely no incentive, even for people who may have treason in their hearts, to collaborate with Russia, because it has ended badly. It has ended with the destruction of wealth, etc.

So I don't think the Russian capacity to create massive, violent instability is on the agenda. Ukraine has a lot of resilience.

• (1300)

**The Chair:** I'm sorry, we have to—

Mr. Bezan.

**Mr. James Bezan (Selkirk—Interlake—Eastman, CPC):** Chair, our witnesses have travelled a distance to be here with us. Originally when we planned this meeting, it was to be until two o'clock. We were doing a different number of witnesses beforehand, and then a second panel with our friends from the Atlantic Council.

I would ask that we extend the sitting of this committee so we can continue asking questions of the witnesses.

**The Chair:** Fair enough. That's a good question. I will need unanimous consent for that. How long?

**Mr. James Bezan:** Even half an hour.

**The Chair:** Do I have unanimous consent?

**Mr. Sven Spengemann:** Subject to [*Inaudible—Editor*] being able to stay in my place. I have to chair a caucus meeting, so if he's able to get that permission....

**The Chair:** Let me suspend for a minute.

• (1300)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (1300)

**The Chair:** Can I get everyone to take their seats, please.

When we were in suspension, we agreed to continue. I'm sensitive to the fact that you have another meeting at 1:30 p.m., and you probably have to move to get to that meeting. We will go for another 15 minutes or so. I want to thank you for your patience.

I'm going to yield the floor to Mr. Bezan, for five minutes.

**Mr. James Bezan:** Thank you, Mr. Chair. I thank the witnesses for staying around and my colleagues for agreeing to extend the meeting.

Ambassador Herbst, you were listing off a number of things we need to do to strengthen the Ukrainian military. I agree with you 100% that Putin is provoked by weakness.

You mentioned a number of things on anti-tank, anti-missile, anti-air and anti-ship missile systems that are required. I noticed earlier this week that the Ukraine military did the first test in 19 years of

their S-300, which is a predecessor of the S-400 anti-missile system. It was conducted successfully.

What other weapons do we need to provide to Ukraine? I know Canada is now selling them sniper rifles. You mentioned the Javelin anti-tank missiles that the Americans have been giving them.

Ukraine has a lot of tanks. I know they would like to have more technology on those tanks, and modernize them so they can do proper targeting.

What else would you suggest is required? I invite the opinions of other panellists on this as well, in terms of the weapons systems required for the Ukraine armed forces.

• (1305)

**Mr. John Herbst:** I've mentioned most of what I have to suggest.

One thing I did not mention that we should continue to give was counter-battery radar for missiles. As I said, the Obama administration made that wise decision three years ago, and that's an important article because most Ukrainian casualties have come from Russian missile fire. This system targets those missiles, which makes the firing and targeting of the Russian missiles much less accurate. This is something else I think the United States has to supply.

A serious effort by your military authorities and American military authorities to meet with Ukrainian counterparts and agree on a package would make a great deal of sense. It would send a clear message to the Kremlin that aggression is going to come at a higher cost, and it would buck up the Ukrainians, although their morale is still pretty good.

**Mr. James Bezan:** Mr. Fried, you mentioned the proactive and escalatory sanctions. Of course, here in Canada we have a number of sanctions in place. Now we've added Magnitsky-style sanctions to the list, as well as tools to actually target those who are directly linked to the war in Donbass and the illegal occupation and invasion of Crimea.

Should we be looking at sectoral sanctions against Russia? We have done some, but we haven't gone far enough, whether we're going after energy products, or whether we're going after financial institutions and financial products they offer. I know we've already put sanctions in place on defensive weapons that they build, but should we even expand that to things like wheat, other agricultural commodities and other things they produce?

**Mr. Daniel Fried:** In general it's a good idea for Canada to work in parallel with the United States and the European Union. The financial and energy sector sanctions that the U.S. and the EU imposed on Russia are worth following up on.

The Trump administration in my country poses special challenges of coordination. I get that, but the Trump administration also has solid people in it who are working on these issues, and I'm confident Canada could work with them.

**Mr. James Bezan:** Mr. Aslund.

**Dr. Anders Aslund:** If I may continue there, private Russians have about \$800 billion hidden abroad. Let's say that one-third of this wealth belongs to Putin and his cronies. It could be more. This money is their soft point.

If you take this total amount, it's more than half of Russia's GDP. Today we don't know where it is. We can say with great probability that the vast majority is in two countries, the United States and the United Kingdom. Some of it is also probably here in Canada, but it's in anonymous companies, and these are typically 20 to 30 shell companies on top of each other. This is what we should go after.

**Mr. James Bezan:** How do we go after it? If already we know how much it is, and we know that it's sitting in these shell companies, then what's preventing us from actually sanctioning those organizations and hitting back directly at the pocketbooks of Putin and his oligarchs?

**Dr. Anders Aslund:** The European Union has in its fifth anti-money laundering directive now from this summer decided that all anonymous companies need to be revealed to law enforcement until the end of 2020. The U.K. Parliament has made such a decision also for the U.K. overseas territories. It's the United States and Canada that have not done anything about it as of yet. I think this is something that you could really do something about.

• (1310)

**Mr. James Bezan:** Thank you.

**The Chair:** Thank you.

Thank you for your intervention earlier, Mr. Fisher.

Mr. Robillard, I'd like to give you the floor for the remaining two minutes of your questioning.

[Translation]

**Mr. Yves Robillard:** Thank you, Mr. Chair.

What do you think of the joint border control agreement signed last year by Ukraine and Moldova, and how did this affect domestic security in both countries, in your opinion?

[English]

**Mr. John Herbst:** This was an important step to help Moldova secure its border with Ukraine. Up until the Kremlin launched its war on Ukraine, Ukraine was reluctant to annoy Moscow by working with the government in Chisinau on the border. Obviously, once Russia launched the war on Ukraine, that concern fell apart. This has enabled Chisinau to have some control over the border between Transnistria, which is not controlled by Chisinau, and Ukraine. This in turn has made it easier for Chisinau and authorities in Tiraspol, the chief city of the separatist area of Transnistria, to make a deal with Chisinau. They have made some progress on resolving their differences. More progress is needed, but this has been a positive step.

**Dr. Anders Aslund:** Let me respond to your previous question about Donbass.

Occupied Donbass today is a real hellhole. Half the population, which was almost five million, has fled, two-thirds to Ukraine and one-third probably to Russia. Essentially all industry is standing still. Donetsk has an elementary food industry and shops, hardly anything more. All the banks were robbed and there are now a few Russian state banks that are operating.

This is a massive cost. I did a report for the Atlantic Council earlier this year and assessed that the total asset cost of Crimea and the Donbass is \$100 billion. Ukrainian private companies are now

claiming in arbitrage \$10 billion from Russia, essentially in the private arbitrage in The Hague. The first case of \$189 million has been won and more are coming. The biggest is Naftogaz, with \$7 billion. The Russians are very bad at international arbitrage. They always lose. So this will be a big thing. They also need some help from Canada in these matters.

Thank you.

**The Chair:** Thank you.

It looks like the last question will go to Mr. Fisher.

**Mr. Darren Fisher (Dartmouth—Cole Harbour, Lib.):** Thank you, Mr. Chair.

I have a few somewhat short questions, but I guess that really depends on the answers.

I'll try to remember which gentleman said it, but you were talking about the difference between covert and conventional warfare, and then someone said that Russia could easily defeat Ukraine in a war. Could Russia still defeat Ukraine in a war while pretending they are not actually the troops? Do they have the ability to fight a covert war against Ukraine and still win?

Any one of you can take that.

**Mr. John Herbst:** The short answer is no. They tried to do that in the first half of 2014 and they lost. The Ukrainian forces were on the verge of taking back all of Donbass in August when the regular Russian Red Army went in and defeated Ukraine at Ilovaik in early September. So the mask came off at Ilovaik. But they do not have the ability to do that, and that surprised them.

**Mr. Darren Fisher:** Okay.

You've all mentioned the weak economy that Russia has. Is that a resource issue, a sanctions issue or is it a combination of both?

**Mr. Daniel Fried:** It's a combination. Russia is a value-extracted, not a value-added, economy. The lack of reform, lack of property rights and lack of rule of law is keeping Russia a kleptocracy with rent-seeking behaviour right now. Those are not the conditions under which there will be a generalized prosperity. The sanctions add to that and put pressure on the system.

Anders was spot-on recalling the 1980s. It reminds me of the early 1980s, the late Brezhnev era, when Russians were quietly whispering that they couldn't go on like this and they didn't know what to do. They have reached a developmental dead end as long as Putinism is in effect.

• (1315)

**Dr. Anders Aslund:** Putin and his friends probably take out \$15 billion to \$25 billion a year from the state companies. This is probably the biggest theft ongoing by a very small group we have seen. This means that they're completely focused on their own money.

**Mr. Darren Fisher:** That's interesting, thank you.

**Mr. Adrian Karatnycky:** There's one demographic issue that is important to note. Russia has the wrong demography. Only 20% of the Russian population is between the ages of 21 and 40, and that is, typically, the most value-added dynamic part of any economy; the most hard-working, motivated people who are trying to accumulate wealth. The U.S., by contrast, has about 30%.

Russia has corruption, has over-extended itself in its warfare and subsidies of the territories it occupies and it also is not coping with the demographic problem.

**Mr. Darren Fisher:** Again, you've all chipped in that the reforms are occurring in Ukraine, but they're taking longer than you would like, and longer than most would like. Are they moving backwards? When we were in Ukraine, we met with a young police officer who said that they're working on clearing out the corruption in Ukraine.

It looks like Anders wants to take this. Tell me a little bit about what's happening on the ground with the reforms.

**Dr. Anders Aslund:** Lots of things have been done. Ambassador Herbst said it in the beginning. We have had a cut in public expenditures of about one-tenth of GDP. We have seen a cut in payroll taxes by half to now 22%, which means that people are showing their incomes to a much greater extent. We have a big cleanout of energy subsidies, also of public procurement. Big reforms that are going on right now are decentralization—

**Mr. Darren Fisher:** What about the police?

**Dr. Anders Aslund:** The police, I don't think, is a very successful reform, unfortunately. The problem here is that the patrol police, which Canada also supported, was run by the first deputy interior minister. It has to be the minister who does it and who's fully vested in it. It has to come from the top of the organization.

**Mr. Darren Fisher:** Have the police reforms failed?

**Dr. Anders Aslund:** Not quite, but they have been whittled down, and are not where they—

**Mr. Darren Fisher:** Reversion to the mean....

**Dr. Anders Aslund:** Yes, this is not one of the successes. What we are seeing now is....

I sit on the board of Ukrainian Railways, a company of 260,000. We are five foreigners out of seven people on the supervisory board. There are, so far, five of the big state companies that have these and three more are on the way. This brings about transparency in the new system. There are wonderful reforms going on in the health care system right now. You can say that it's second-level reforms that are happening. It's the law enforcement and the judicial system that are the weak spots. That's why we're emphasizing it so much.

**Mr. Darren Fisher:** Thank you, gentlemen.

Thank you, Mr. Chair.

**The Chair:** Gentlemen, thank you very much for coming.

Thank you, committee, for the flexibility.

As you know, this committee tabled a report in December 2017 called "Canada's Support to Ukraine in Crisis in Armed Conflict". We subsequently met on June 12 to talk about this issue. A government response was recently posted, on October 16, 2018. We met today and we have carved out some time to meet with the ambassadors of Ukraine, Moldova and Georgia to talk about this from a more broad, regional perspective. Then we have an undertaking to wrap all that up and present, at some point in the near future, a report back to the House on an update.

We understand that's very important to you and it's important to us.

Thank you very much for coming.

The meeting is adjourned.

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