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UKRAINE: WHERE IS IT GOING AND HOW SHOULD THE WEST RESPOND?

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PANEL 1: WHERE IS UKRAINE GOING?

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PANEL 2: HOW SHOULD THE WEST RESPOND?

Introduction and Moderator:

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P R O C E E D I N G S

MS. HILL: I'm Fiona Hill, the director of the Center for the U.S. and Europe, and I want to welcome all of you here today on this very steamy July afternoon. I'm very impressed by how many people have turned out. I suspect that you're here because Ukraine is very much in the news.

And we're really privileged and honored today to proceed with this workshop on where Ukraine is going and how the West should respond. We have an excellent group of participants, not just some familiar faces from here in Washington, D.C., for those of you who are regulars on the think tank conference circuit, but also some special guests from Ukraine itself.

So, for this first panel in our workshop we're going to focus on the domestic situation within Ukraine. We're going to begin with some short comments from our assembled panelists. You have all of the information and the biographies of our participants. And we're especially delighted that we've got from the Presidential Administration of Ukraine Yevgen Burkat, who's here on my right-hand side. Many of you actually might recognize Yevgen because he's not a stranger to Washington, D.C., and has been here in the past in other capacities. So, he has the unique advantage of the inside-outside perspective on both Ukraine and on Washington.

We're going to follow Yevgen with, on my left, Nadia Diuk, who I know many people in the audience know very well. Nadia also has strong roots in Ukraine.. Nadia is one of those people who has lived in many places simultaneously and has all kinds of different perspectives, but obviously has a deep affiliation with Ukraine, as well as working here for the National Endowment for Democracy.

On Nadia's left we have Adrian Karatnycky, who many of you may

remember from his work many years ago with Freedom House, but he is now a nonresident fellow at the Atlantic Council and doing a lot of other interesting things, and also has a long deep interest in Ukraine and firsthand experience.

And we have Sam Charap from the Center for American Progress, who we're going to ask to give more of a Western/D.C. prospective on where the debate is about Ukraine's development.

We'll break at 3:00 and then move seamlessly, after a 15-minute break, into the second panel, which will look at the Western perspective. And my colleague Steve Pifer, former ambassador to Ukraine, will be joined by other colleagues who will talk about that as well as Andriy Fialko, who is one of the senior advisors to President Yanukovych.

So, without any further ado, I will turn to Yevgen to ask him to give the perspective from Kiev, and then we'll just move along to rest of the panel, and then we'll open it up to the floor for questions and discussion. Thank you again, Yevgen, for joining us.

MR. BURKAT: Thank you, Fiona. Do you hear me all right? Better?

SPEAKER: No.

MS. HILL: Let's try to move this up a little bit.

MR. BURKAT: Now it's better. All right. I will try to outline shortly the political station and difference in Ukraine as it's seen in the presidential administration.

So, this year the presidential election in Ukraine has augmented the end of permanent political crisis and constant in-fighting between different branches of power. At last the Ukraine government has become a team of professionals united by one goal. The president, the parliamentary coalition, and the cabinet of ministers can finally focus on critically needed comprehensive reforms that can change life of Ukrainians for the

better.

Constitutional, judicial, and election system reforms are long past due, and only a professional team of experts (inaudible) with the political will of the president has the capacity to build them.

Ukrainian – Ukraine's -- democratic development, strengthening of civil society and rule of law are among the top priorities for the president. Support and promotion of freedom of speech and human rights protection is an integral part of and a key element of his political agenda. The president's recent statements that freedom of speech is guaranteed by the Ukrainian constitution adds that interference in the work of journalists is not acceptable and reconfirms the importance of this issue for the president and the society.

On a recent meeting of the president's Public Humanitarian Council, the president presented the concept on National Public Television and Radio, which is called to promote freedom of speech. The president initiated judicial reform to bring Ukraine's judicial system in line with European standards. Recently, the draft law on judicial reform and judges' status was approved by the parliament of Ukraine in the first reading.

On July 1st, the Verkhovna Rada adopted the law on fundamentals of internal and foreign policy that was introduced by the president. This law identifies the key priorities of Ukraine's internal policies, trade-building, development of local self-governance and regions, development of civil society, national security and defense, as well as economic and social development.

Key elements of these reforms include changes in the security sphere. This law established Ukraine's non-alliance status, which means nonparticipation of Ukraine in military-political alliances; a priority status of engagement in improvement and development of the European collective security system; continuation of constructive

partnership with NATO and other military-political blocs; and Ukraine's integration in the European political, economic, and legal framework with the end goal of EU membership.

Now I'll turn to key elements of economic reform as it's seen by the president. The global financial crisis had a considerable negative impact on Ukraine's economy. (inaudible) dire consequences is a serious challenge that we face. The president has initiated systemic reform so that we'll turn around the situation, will make Ukraine again an economic growth leader, and bring prosperity to the people.

To help this process, the president has established a committee on economic reforms that serves as an advisory body on reform strategy and specific tactics. On June 2nd, the economic reform program named "Prosperous Society, Competitive Economy, and Effective State," was presented. Improvement of the business climate, modernization of infrastructure, development of human and social capital, and increasing government efficiency are among the key elements of our economic growth. The reforms will strengthen the civil society, the rule of law, and responsibility of the government at all levels, and will increase the well-being of the people.

The president pursues a policy of comprehensive reforms and aesthetic modernization of the country, which covers a wide range of spheres and issues. Some outlines of the results of the reform: It will result in microeconomic stability; rapid economic growth at 7-6 annual GDP growth; agricultural sector overhaul; energy sector development, including exploration of new mineral deposits in Ukraine; raise living standards and substantial improvement of health care.

President Yanukovych defines the following vectors of economic policy as the most crucial ones. The first element is sustainable economic growth, which requires comprehensive measures and stabilization of the state budget, tax reform,

accelerated development of the financial sector, reform of interbudgetary relations. The purpose of public finance reform is strengthening the relationship between the fiscal and social and economic policy of the state.

Second is social services upgrade, which includes pension system reform, strengthening social safety net framework, and overcoming (inaudible).

Third is improvement of the business climate and investment policy. It is planned to reform the regulatory system, to complete the licensing system reform, to decrease the number of permits to streamline the system of state supervision and control, in particular cut the number of supervisory bodies. The purpose of the reforms in this sphere to establish clear and transparent rules of the game to be observed by everyone, regardless of political affiliation and other affiliation.

Modernization of infrastructure and reforming of core sectors of the economy is the last key element of this package. It means housing and municipal sectors, fuel and energy sectors, transport infrastructure, agriculture.

I would like to tell you some key indicators which characterize our economic situation. Due to the immediate crisis management measures, the Ukrainian economy is showing the first signs of recovery. In April this year, for the first time since 2006, deflation accounted 0.3 percent. The GDP in the first 5 months of the year increased by 6.1 percent compared with the same period of last year. During January, the industrial output went up by 12.6 percent, export of oil increased by almost 30 percent.

The president and the government of Ukraine are further cooperating with International Monetary Fund and other international financial institutions. This is critically important for the success of reforms in Ukraine's advancement.

On July 3rd, the IMF mission finished its visit to Kyiv, and a staff-level

agreement on economic policy programs that can be supported with a 2-1/2 year, $14.9 billion stand-by arrangement was reached. We expect on July 28th the meeting of the (inaudible) IMF reach finally -- will finally approve -- this agreement.

I will briefly outline the foreign policy priorities of President Yanukovych's policy. His perspective of Ukraine's national interest in the foreign policy dimension is based on a pragmatic understanding of existing realities. Among Ukraine's key foreign policy priorities is (inaudible) of our course towards European integration, development of strategic partnership with the United States and Russia. We are interested in the success of the reset of Russian economic relations as well, and are confident that Ukraine and the region will benefit from it.

The development of good neighbor and mutually beneficial relations with the Russian Federation in all spheres, including the energy sector, is a priority. Ukraine considers Russia as a strategic partner. Improved Ukrainian-Russian relations will result in increased stability in the region and the world.

Probably on this I will finish my remarks. My colleague, Andriy Fialko, will elaborate more on foreign policy priorities. And on this I would like to thank you, and I'll be happy to hear your questions. Thank you.

MS. HILL: Thank you very much, Yevgen.

Nadia, obviously the Ukrainian government has set up quite an ambitious agenda for reforms, and we had a long list there of various domestic priorities. You've just quite recently been in Ukraine. How do things look from your vantage point?

MS. DIUK: Yes, I agree that that sounds -- some of what Yevgen told us sounds -- very rosy, and I'm glad that the president is making statements about freedom of speech and so on, but that seems to be the view from the top. Maybe I can present a little bit of the view from the grassroots, because I did spend a couple of weeks in

Ukraine just very recently. I was there, I was talking to a lot of people, I was talking to a lot of civil society activists, talking to some politicians, more opposition politicians than people in government who didn't seem to always be available when I wanted to speak with them, so my presentation will have a slightly different tone and flavor, I think. But there is this sort of general sense -- that also has pervaded our space here across the ocean -- that Ukraine somehow is going backwards.

So, I'd just like to start this presentation with a very dramatic declaration from Andriy Shevchenko, a member of parliament from the BYuT faction that any of you who watch Channel 5 probably will have seen, where he's standing at the podium in the parliament saying: One incident -- he calls it a misunderstanding. Two incidents is an unfortunate set of coincidences. Three incidents, that is a tendency. Four, this is beginning to look like a system.

I can't deliver it as dramatically as he does. But I think this sort of sums up the way people are thinking -- that there are a lot of things going on that seem to indicate that Ukraine is rolling back, but no one is quite ready to say that this is systemic. So, I believe Ukraine is somewhere in between "three incidents, that's a tendency," and "four, it's beginning to look like a system." So, between third and fourth base, that's not yet a homerun as far as I can -- if I can use some terminology I'm not very familiar with. (Laughter)

MS. HILL: You should stick to soccer. (Laughter)

MS. DIUK: Yeah, I know. Well, you've got to kind of take after the, follow the motherland.

But let's take a look at the record so far. On governance, the government -- oh, by the way, I think in terms of elections there's no one who is disputing that President Yanukovych won the elections. Only by 3.something points, but that it was

a free and fair election, and I think that not even the most radical opposition people are disputing that. But let's take a look at the record so far.

On governance, the government is mainly appointments from the Kuchma times with just a couple of exceptions, notably Serhiy Tyhypkp. It's 29 people -- or actually 27 people at last count since 2 have resigned or been pushed out. And it's hard to see how they could be effective as a team. And at least two of them -- Tsushko on economics, and Yaroshenko on finance -- are not noted particularly for their expertise, so we must assume that the economic policy's being made elsewhere and not in the government. And then there was Prime Minister Azarov's sort of slightly chilling assertion a few weeks ago about the rapid anticipated success in constructing a "vertical of power," which is a phrase that we haven't heard in Ukraine for a long time.

Then the Verkhovna Rada, the parliament, where according to everyone that I spoke to there's a process of trying to buy off opposition deputies with -- if this is to believed -- a million dollars each for starters and then $25,000 per month. The aim here is to gain the 300 votes that would be controllable votes that would then change the constitution. But I think this looks unlikely in the short term and possibly in the long term as well. Although the Rada has already pushed through numerous pieces of legislation without sufficient discussion, like the Black Sea Fleet Accords and most recently the new legislation on local elections which will be held at the end of October.

On the judicial branch, I was hearing about attempts to bring the Constitutional Court under control. And there's been a new appointment. The head of the Constitutional Court is now a person from Donbass, so that's being interpreted as, again, another attempt to exert control over the Constitutional Court and to continue the isolation and downgrading of the Supreme Court, which if you remember the Supreme Court was the court in 2004 which gave the decision that made the Yushchenko victory

possible. And so people are saying, oh, this is just revenge for 2004, but it's also a troubling sign that the judicial branch is not as independent as we would like it to be.

On democracy, which is on the minds of many people that I spoke to, a number of incidents suggest that the SBU, the Security Services of Ukraine, are once more being used to harass and conduct surveillance on potential sources of opposition, not to mention the very controversial role of the head of the SBU, who is at the same time an owner of one of the largest TV channels in Ukraine. That's the channel Inter.

On freedom of speech, I think the fact that Andriy Shevchenko, with the phrase, the quote that I gave at the beginning, that clip is run on Channel 5 over and over again. So, it shows that speech is still free in Ukraine. However, it's quite clear from the protests and the publicity that journalists and editors have come under pressure. A Stop Censorship protest group has been formed, and it's documenting many of these instances. It shows that there is pressure. However, I think that the pressure has been intermittent. It's not as if opposition people can't appear on TV, it's not as if experts can't appear on TV. I was watching TV myself and I can say that speech is about as free as it has been in the past. But that doesn't mean to say that the whole structure of the media industry shouldn't be looked at, precisely to try and bring about an independent public television capacity, which I think at the moment is very lacking because the ownership of all of the TV stations is still the same as it was five years ago, and indeed seven or eight years ago. So, the owners generally tend to try and keep on good terms with whoever's in power.

On freedom of assembly, there was an attempt to pass Law 2450 restricting the right to hold meetings, but I'm not sure whether that was actually passed yet or not. They have to go through several hearings, but there were several attempts.

On freedom of religion, the fact that Yanukovych invited only Patriarch

Kirill to his inauguration sent a strong signal. This is Patriarch Kirill of the Orthodox Church -- Ukrainian Orthodox Church of the Moscow Patriarchate.

SPEAKER: The Moscow Patriarch.

MS. DIUK: The Moscow Patriarch, sorry. Yes, yes you're right. That -- well, even more so that Yanukovych invited only one denomination to his inauguration, in distinction to President Kuchma, who had many of the -- there are about 55 different denominations of religion in Ukraine. President Kuchma invited many of them; President Kravchuk did, too. But this sends a strong signal about which way things might go in terms of religion. And I have been hearing some information that the Ukrainian Orthodox Church is now trying to take over buildings of the Ukrainian Autocephalous Church. The street next to the Lavra was renamed last week, I believe, from Ivan Mazepa Street to just simply Lavrska Street, because the Moscow Patriarch folks didn't like to be next to Ivan Mazepa for some strange reason. I don't really know the real reasons behind that, but it was passed by --

SPEAKER: It's an anathema (inaudible).

MS. DIUK: -- by the -- well, you can explain that then. (Laughter) But it was done; I watched it on TV the other day.

In education there's been a reversal -- an attempt to reverse the previous administration's introduction of testing, which is actually part of the Bologna Process, which is this sort of European set of standards, which Ukraine signed onto in 2005. And there are many people who are concerned that this is a step back -- it will mean that Ukrainian students will no longer be able to be accredited in West European universities -- and that the rollback in education -- interpreted rollback in education -- also includes the reduction of education from 12 to 11 years. There are some attempts to justify that 11 years will be just as good as 12 years, but, again, that's creating a debate, which the

people who are seeing rollbacks are pointing to as a problem.

There have been suggestions that textbooks should be rewritten together with Russian pedagogical specialists. And then there's the Minister of Education himself who is all for reducing the use of Ukrainian language in schools, is openly anti-Ukrainian, and so on, which is kind of odd for someone who doesn't have any children.

The Father Gudziak scandal also suggests that visits of the SBU to rectors of the university are routine. And moreover there are messages being sent out now that the local elections should be a topic for discussion by the rectors. This is something that Father Gudziak actually showed me in a communication he received.

Other troubling items that civil society groups were bringing up: the Hermansky Rada -- that is the citizens' councils that were advising the ministries -- apparently are either not being convened or are being closed or, in some cases, just reconstituted to be something different. There's concern that the new tax code will be particularly difficult for small and medium business as -- well, the author of the tax code, Mr. Azarov, was not known for his support of small or medium business the last time he was in charge of all of this. And the tax police are being beefed up despite requests from government -- former government officials, like Anatoliy Hrytsenko -- to simply disband them. They could take a leap out of the Georgian book where the road police were just simply dissolved.

So, all of this, however, doesn't amount to a system, but that's where I actually see there is a danger, because it looks as if the first 100 days or so of Yanukovych have been guided more by being not Yushchenko than by some well-thought out and solid vision of where Ukraine is going. Hence the numerous meetings with Russian officials, the sudden flurry of opposition people being -- arrests of people connected to the gas issues, and the customs officials. And it seems as if decisions and

important issues in Ukraine's domestic policy are being decided almost on a whim, without discussion, certainly without any attempt to gain public support, and without any thought or consideration of national interest or vision for Ukraine; for example, the Black Sea Fleet Accords, also the decision to hand over enriched uranium, which is very good for this country. But I got a very ambivalent response from Ukrainians when I asked them about this just recently.

So, just to sum up, politics in Ukraine at the moment seems to be reflecting the values, mentality, and attitude of a Donbass tendency, which is a very different culture from the Western-oriented, steeped-in-history outlook of Victor Yushchenko. It is a little bit of a clash of cultures. And there is a danger that, without policies that have some public input, laws will be passed that will make some things irreversible, particularly if they involve the sale of Ukrainian assets in the area of energy or agriculture, for example, to Russian businesses, which I don't believe would be a good sign for future democratization of Ukraine.

I'll just leave it at that.

MS. HILL: Thank you Nadia. Adrian, how does this look from your perspective?

MR. KARATNYCKY: It looks a little bit different and I'll try to explain why. I might title my talk, "Through a Glass Half Full With Some Visibility," rather than "Through a Glass Darkly."

During her visit, Secretary Clinton gave out two what might seem on the surface contradictory signals. In her meeting with President Yanukovych she praised him fulsomely for his defense of human rights and commitment to press freedom. Then in a speech before Kyiv students she stated, "Rhetoric alone does not change behavior. Statements need to be followed up with concrete actions," suggesting the U.S.

Administration has some concerns and issues of human rights. And I think that she took the right tack. There is good reason the Secretary was inconsistent; so, too, are the signals coming out of Kyiv. I think what we're seeing is a new elite coming into place -- some people have come with baggage. That is the baggage of being in opposition for a number of years. Some people are out for revenge; other people are out to push the country forward. The government is a broad coalition of people who had supported and bonded around the Party of Regions and around Victor Yanukovych. But it's a very mixed bag, both good and bad. And I think what we're seeing is this sort of working out of these issues as directions are being shaped.

And, therefore, it is quite surprising to hear very categorical statements about where Ukraine is and where Ukraine is headed. I think it is absolutely -- we have heard that Ukraine is moving towards the consolidation of dictatorship, that it is moving on a tack that will be a vassal state of Russia. We have heard that this is a group of troglodytic, backward anti-reformers, et cetera, et cetera. But the messages are kind of contradictory.

Yes, there are plenty of individual acts, maybe even things that could be called "tendencies," as Nadia correctly pointed out. But they do not, in my view, constitute a rollback on human rights. They do not constitute backward economic policies, at least to judge by the decision or at least the tentative agreement of the IMF that Ukraine has made enough steps in fixing its budgetary and fiscal processes to countenance the reopening of assistance.

So, let me take -- and then, of course, I'll add these issues of censorship, political persecution that is alleged in the cases of two former members of Yulia Tymoshenko's government, Ihor Didenko and the former head of the Customs Service. But as I say, the case is a little bit less clear cut.

One thing that we do have to keep in mind is that there is some degree of policy cohesion. That has been substantially welcomed. Now, policy cohesion is not an endpoint in and of itself, but it is a mechanism towards achieving certain vectors and certain directions. And I think that the Ukrainian government is responding, after five years of constant political infighting, is responding quite positively as trust ratings of President Yanukovych are well above 60 percent -- trust ratings, not favorability ratings.

Now, Mr. Yanukovych has responded to press critics, he has not ignored them. This is not "Putinism" where there was a constant assault on media. There have been no legal procedures to strip owners of their holdings; there have been no attacks by the tax police to kind of defund opposition TV stations. People who are alleging that this is a repetition of the Putin pattern of consolidation of authoritarian power should take a look at how it was occurring in Russia and compare all these kinds of steps. Putin didn't go around apologizing and criticizing some steps that had been taken at lower levels by representatives of his government. That sends at least -- if you don't agree that it sends a positive signal, at least it sends a more mixed signal that the country is not categorically headed in the wrong direction.

The security services did send some low-level person who had a conversation with the rector of the Ukrainian Catholic University. And then the head of the security service came to clear the air and visited Lviv for the purpose of somehow backtracking on this step. That suggests to me a very different picture than what was occurring during the Putin times, when civil society got no explanations, no contact whatever.

Television journalists are right to say that there's a lot of happy talk on Ukrainian television, primarily on the news. News programs have been cut back. There's less of a focus on the negative, and the news segments have been substantially

reduced in many of the stations that are not news-focused. But you have on balance also these very popular primetime multi-hour talk shows; it's three hours which continue to attract reasonably high ratings on all the major channels. They're there on Friday nights -- that's what Friday night entertainment is in Ukraine -- and where the opposition is highly prominent, where the issues are hard-hitting, and where there is I would say a broad diversity of views.

Now, the main complaints that have been leveled in terms of media freedoms are the same kinds of complaints that could have been leveled a year ago or two years ago. That is to say that there are owners -- that the owners who run these television enterprises recognize them not necessarily to be profit-making entities. They recognize them to be political capital. And very often in their efforts to extract concessions or build relationships with the government, or whatever government or whatever center of power, they play certain kinds of political games. That was the case with Channel 1 + 1 under Mr. Kolomyyskyy, the oligarch who had about three different positions when there were three different centers of power. And now it's a little more -- you know, there's one center of power, so the media, through their owners, often do have this kind of a slant. But to say that it is a system, to say that it is coming from the presidential administration, rather than to say it is a set of problems that need monitoring, addressing, and intercession, are two very different things.

Now, there are a lot of inexplicable things, like the detention of Nico Lange, which to my mind was a destructive act and was resolved very quickly, as I understand it, through the very rapid efforts of the presidential administration to change whatever had happened at the border to this representative of the Frederick -- of the Konrad Adenauer Foundation. It was completely counterproductive because he was held at the Ukrainian border for 10 hours upon return from a trip overseas. He is one of the

five key people shaping German policy towards Ukraine. And this was a month and a half or two months before the likely visit of President Yanukovych to meet Angela Merkel, who gets her opinions about Ukraine from one Nico Lange. So, whoever was doing this, was doing this in a very destructive way, and it certainly -- given the fact that it was resolved very quickly I would not constitute -- it doesn't, to my mind, constitute itself as some kind of a crackdown on foreign NGOs and the like.

Now, there are the questions of two acts -- two arrests of members of the previous administration, Ihor Didenko and the former head of the Customs Service, by the security forces under charges of illegal activities related to the famous 11 billion cubic meters of gas that was held by RosUkrEnergo and was transferred to the Ukrainian state upon the payment by the state to Russia of $1.7 billion.

But one thing that also should be kept in mind is that there is an equally vigorous anti-corruption campaign going on against people that hit closer to home. That is to say a member of the presidential administration, admittedly a low- to mid-level functionary, was just nabbed in a ring to try and collect money for gaining favors. The Minister of the Interior of (inaudible), just appointed by the Yanukovych regime, was also caught in an anti-corruption scheme as was the -- as are allegations against the deputy minister of the interior who was part of the governing coalition.

Similarly, if any of you have been following Ukrainian news, you'll see that in the last three weeks a series of raids, investigations, attachments of information regarding land and property issues in the Kyiv City Administration, which has been notoriously known to have been among the most corrupt municipalities or alleged to be among the most corrupt municipalities in the world. Mr. Chernovetzky, the mayor, has been removed from any control over the fiscal authority of the city. A first deputy mayor has been put in charge of the flows of capital, and serious investigations against a

political movement that backed Mr. Yanukovych in the election. It seems to me that those kinds of things also have to be factored into our views about what is occurring.

Nor does the warming of relations with Russia, in my view, signal -- although one may disagree how the vote -- and I do disagree how rapidly the vote was taken on the ratification of the agreement on the Black Sea Fleet, which would have presumably passed anyway, but it should have been done within the mechanisms prescribed by the law. Nevertheless -- and there have been a lot of economic discussions between Ukraine and Russia. On balance, I think it's also clear that this new government is looking to balance, to defend sovereignty. They've turned down some suggestions and some agreements that have struck them as being inimical to national interest. They've interceded in the case recently of a corporate raid by Russian economic interests that were also viewed as inimical to the Ukrainian state and that steel mill raid was reversed. There is a very aggressive plan of travel to Europe and to East Asia by the president, also in search of new markets and new capital.

So, what does this mean for Western policy? For Western policy, it means that we've got things to be worried about in Ukraine, but there are things to work with in Ukraine, people we can work with in Ukraine inside the administration, inside the presidential administration, inside the government, and people that kind of, you know, bear watching. But it just seems to me that a nuanced policy, one that reaches out, one that tries to constructively promote a deeper U.S. and European engagement once the IMF funding is back on track, that tries to deepen the level of economic investment in the country, those kinds of things are good for diversification, and also to lay out a track for Ukraine, and also not to shy away from criticism. Because, as I say, I do think there are serious issues. There are serious problems with, you know, with how the Ministry of the Interior treats protesters and demonstrators that need correction.

There are serious problems. There is a potential danger that an anti-corruption campaign may turn into a politically -- a politicized anti-corruption campaign. All those kinds of things should be kept in mind. At the same time, we should, on balance, understand that the people who are claiming that Ukraine is somehow moving irrevocably in the direction of Russia and dictatorship are going to be proven just as wrong as those of us, myself included, who believed that Ukraine was irrevocably on the path of a reformist liberal economy with a perfectly functioning democracy and deeply integrated into Western institutions after the Orange Revolution. We have to watch out that our caricatures and our -- here I would say I put myself in this -- our superficial understandings of some of the deeper forces that are active in Ukraine. The role of civil society, the role of political parties, the substantial pluralism that exists in that system. Therefore, I would say that Ukraine will remain murky. It will move -- I would say, more generally the tendency will be to move in a democratic direction and in turn pursue a balanced foreign policy and a -- but with the aim of deeper integration into Europe.

MS. HILL: Thank you, Adrian. And you provided a perfect segue into what we were going to ask Sam to focus on, which is how the things look, from the vantage point of Washington DC, on Ukraine's foreign policy. Do you think things seem as balanced as Adrian is suggesting? How do you see Ukrainian foreign policy, based on the domestic underpinnings we've just heard about?

MR. CHARAP: Well, first of all, thank you, Fiona and Steve, for having me here. I have been asked to speak about Ukraine's foreign policy and, specifically, where I think it's going under the new Yanukovych administration. I'll divide my talk into three parts:

First, I'll engage in what is one of Washington's favorite pastimes and make a couple of predictions.

And second, I'll discuss what I think are our four key pathologies of Ukrainian foreign policy, which are often overlooked here or even ignored, because they represent continuities between the Yushchenko and Yanukovych presidencies, and they don't fit into our narrative of Ukraine as being either pro-Western or pro-Russian.

And, finally, I'm going to briefly tell you why I don't think what I'm about to say is particularly important, although perhaps I shouldn't have admitted that up front. But I think it's important to set the stage.

There is a reason why we are asking this question, and it's not just because of Secretary Clinton's recent visit. It is, to be frank, the breathtaking speed with which Yanukovych has -- President Yanukovych has -- improved relations with Russia since his inauguration. We have the Kharkiv Accords, which, of course, lowered the price Ukraine pays for natural gas imports in return for an at least 25-year extension of the Russian Black Sea fleet's presence on Ukrainian soil. But these are just the beginning.

To give a few more examples, during President Medvedev's visit to Kyiv in May, he signed nine agreements with President Yanukovych, including everything from on the one hand a joint statement giving Ukraine's endorsement of Medvedev's proposal for a European security treaty, which had long ago been declared dead on arrival by the United States and most NATO member states, to an accord on bilateral development of Russia's GLONASS navigation system, the Russian alternative to GPS.

Russian intelligence, although in this case the FSB and not our good friends in the SVR, who we have to thank for Anna Chapman, has returned to Crimea following a bilateral agreement, and some reports indicate that intel cooperation between NATO and the SBU, Ukraine's intelligence agency, has been diminished.

Russian firms have made some quite impressive joint ventures with their Ukrainian counterparts, and the frequency of meetings between the two country's

leaderships sometimes leaves you with the impression that Russian officials travel to Kyiv as if they're coming to work.

On top of all this came the law on the basic parameters of foreign and domestic policy which was passed on July 1st. This, of course, eliminates the clause on NATO membership being a strategic goal from the law on national security, and states that a main principle of Ukraine's foreign policy is, and I quote: "Abiding by the policy of non-blocness," or at least that's sort of what my unofficial translation of the Ukrainian "poza blocavist", which --

SPEAKER: Non-alignment.

MR. CHARAP: And the -- well, that's a different word, actually -- did the lack of an English equivalent, though, I think it is telling because even the word "bloc" sounds silly to the Western ear in the post-post-Cold War era. But the message is clear that the leadership in Kyiv is no longer interested in seeing Ukraine become a member of the Alliance.

Well, all of this does represent a change. I am not one of those who ascribe to the narrative that Ukraine is about to be annexed and Yanukovych made governor general of the newly named Malarussia. That's just not in the cards, and the Ukrainian leadership's clear desire to maintain the strategic partnership with the United States, as demonstrated by how it handled Secretary Clinton's visit and pursues an association agreement with the European Union -- and we just had the EU president in Kyiv -- are just two of the many reasons why I think that that's just not going to happen.

In theory, Yanukovych's goal of simultaneously restoring a functioning relationship with Moscow with an economic emphasis while maintaining strategic partnerships with the West is the right course for this country, it seems to me. In reality, however -- and here's my first prediction -- this is likely to prove impossible. And the

reason is not Ukraine fatigue in the West, as some might say, but rather the very different notions of what a functioning Ukraine-Russia relationship means in Moscow and Kyiv.

For Moscow, this means that Kyiv -- this implies that Kyiv attenuates its ties with the West as part of that process and particularly with NATO. And just in one example as the famously soft-spoken Dmitry Rogozin, Russia's Ambassador to NATO, put it in an interview just yesterday, very serious, "An analysis of Ukraine's annual program for cooperation with NATO shows that there has been no change. In other words," the ambassador continued, "the level of cooperation that existed under Yushchenko has been maintained by Yanukovych. I have informed Russia's political leadership about this." One can imagine that he did not do so in an approving tone.

Also problematic is Moscow's insatiable appetite for economic cooperation, to use an inappropriate term. Already last month, as Adrian mentioned, this episode where Prime Minister Azarov, who's not known for being tough on Moscow, announced that his government, quote, "will not allow a raider takeover of Ilyich Iron and Steel Works," which is a top conglomerate that a mysterious investor, rumored to be Russian state-owned VneshEkonomBank, had sought to take over.

In other words, all this is to say that the honeymoon between Russia and Ukraine that followed Yanukovych's election is doomed, in my humble opinion.

And my second prediction is that managing the Russian letdown is going to be the central foreign policy challenge for the Ukrainian government, and it will be a difficult feat to pull off given how emotionally invested the current Russian leadership is in righting what they see as the wrong of the last five years.

And this is also to say that we should hold off on the hyperventilation about Ukraine's so-called eastern -- eastward turn. My bet is that the turn, as I said, has real limitations, and we should also realize that there are other problems in Ukraine's

foreign policy that we should be equally if not more concerned about. And here are the four pathologies that I'd like to talk about. Again, I think these are continuities as opposed to changes:

The first is what I would call the "Potemkinizatsiya" of Ukrainian foreign policy -- or "Potemkinization," I guess, in English -- which is to say that policy often devolves into grandiose but ultimately meaningless declarations with little substance to back it up. This began in the Yushchenko era, who was famous for his "pro-Western policy." In reality, very little of the hard work of integrating Ukraine into Euro-Atlantic structures took place under Yushchenko. "Pro-Western" declarations never translated into -- well, often didn't, I should say -- translate into pro-Western policy, which is another way of saying substantive reform.

At the end of Yushchenko's presidency, Ukraine featured feeble political institutions, a barely touched reform laundry list, and crippling political in-fighting. And to a certain extent the Potemkinization of Ukrainian foreign policy continues today with, for example, the law on basic principles declaring the priority of Ukraine's foreign policy to be, "Participation in the refinement and development of the European collective security system," a system which, as we know, does not exist and is nowhere near to coming into being.

We also see this in the uncontrolled metaphor proliferation coming out of Kyiv these days. We have the strategic triangle of the U.S., EU, and Russia, also referred to as the three-legged stool. But, most prominently, is, of course, the notion of Ukraine being a bridge between East and West, all of these striking as convenient excuses to avoid the hard work of determining where Ukraine's national interests are in acting on that.

A second pathology is what I would call "the courtship syndrome." In

other words, there's a habit, as often exhibited, of Ukrainians speaking of their country as a bride to be courted and the West and Russia as competing suitors. As the codification of Ukraine's non-bloc status indicates, many in Kyiv genuinely believe that their country's future will inevitably be decided in that context. This mode of thinking deprives Ukraine of agency as an international actor, and can partially explain the passivity with which the relationship with Moscow has been conducted over the past few months.

All of the initiatives come from Moscow; Ukraine just reacts. In turn, the question is often asked as to what the West can offer as an alternative, as if we were in some kind of geopolitical bidding war.

A third pathology I would identify is the narrow conception of security that has emerged in Ukraine. The majority of the foreign policy establishment seems convinced that the singular key to its survival as a sovereign state is another multilateral security guarantee along the lines of the Budapest Declaration, which was made in the mid-'90s when Ukraine gave up its nuclear arsenal. Yet a communiqué, no matter how elaborate or how often it is repeated, will not address the main threats to Ukraine security because those threats, such as corruption, weak institutions, and, most importantly a contested national identity, are of an internal nature. Addressing those problems should be far higher on the priority list that obtaining another piece of paper signed by other countries.

The final pathology I wanted to identify is directly related. The competing factions within Ukraine's political elite often pursue their agendas domestically by conflating Ukraine's foreign policy "orientation" with both cultural divides on the one hand, and the character of the domestic political system.

So, for example, on these talk shows that were referenced, often you hear Yanukovych's opponents portray him as Moscow's puppet, an anti-Ukrainian bigot,

and an autocrat in the same breath. And so their supporters come to see -- the supporters of the opposition politicians who make these kind of statements come to see -- these things as organically related, which, of course, they're not. It may be a good wedge strategy for consolidating a segment of the electorate and winning elections, but this tactic only exacerbates internal divisions which are, in my opinion, Ukraine's gravest security threat, and make nearly impossible maintaining functioning relationships with Russia and the West at the same time.

So why all of that is not very important, despite all the time I've put into writing it. It's not important in the sense of the basis on which we should be making policy in the West. In short, the answer to the question I was asked to address is simple: As far as the West should be concerned and no matter who is president, Ukraine isn't going anywhere. There are a wide-ranging number of U.S. interests at stake in Ukraine, and these did not change with Yanukovych's election.

And not to steal the next panel's thunder, but we should not formulate our policy based on the whims of the leadership in Kyiv. This fact certainly explains that we did do that, to a certain extent explains the policy paralysis that set in following the January 2010 elections. Yanukovych has pushed improved relations with Moscow and rendered our previous approach, which essentially rested on the Euro-Atlantic aspirations of the previous leadership, irrelevant overnight. And we need an approach that need not be rethought with each new presidential election because -- and I'm happy to say this -- Ukraine isn't going anywhere.

MS. HILL: Well, I thought that was a very interesting allusion you made there to Potemkin, because for those of you sitting in the audience who, like me, are Russian history buffs, you may recall that very location of the infamous Potemkin villages was in new Russian territories in the approaches to what is today Ukraine—when

General and Prince Potemkin was trying to show Catherine the Great on a Grand Tour of the new lands of the rapidly extending empire that Russia's writ was extending a lot further than it actually was.

So this may, in fact, be the segue into the next panel. Is everything really as it appears? Has Ukraine really gone anywhere since the time of General Potemkin, who was building false villages all over the place to, basically, baffle and dazzle visitors passing by very quickly in carriages? Is Ukraine still doing the same to those of us sitting here on this panel who make our quick visits to Ukraine?.

I wanted to ask Andriy Fialko, who is going to be speaking on the next panel, if you have any comments, because clearly you have a vested interest in a number of these domestic issues about foreign policy, and I was also going to ask our colleague from across the street at the Peterson Institute, Anders Aslund, who's been looking for a very long time at the Ukrainian economy, whether he might like to share a few perspectives with us as well. As many of you know, Anders has been actively engaged in looking at the issues of Ukrainian reform and, in fact, has a book out with a rather wonderful and provocative title on this very issue.

And then I'll open it up to the rest of you for comments and questions. But Andriy Fialko, please, some perspectives.

MR. FIALKO: Thank you so much. I'd like to apologize, I'm severely jetlagged now, and it might impair my questions and comments.

First, to Nadia, a short comment. You said that basically the new government is a collection of Kuchma's has-beens, but to give as the bride's new star -- Tyhypko was picked up by President Kuchma as well, and I think that President Kuchma made a lot of good decisions. I mean he was known for picking up bright people, the first thing.

The second thing I would like to ask you is that I was intrigued when you were saying that there was little debate on the U.S. proposal to give up highly-enriched uranium. Do you mean to say that meant an indecent proposal to Ukraine? Or this is something to be revisited? Or it's kind of -- was pressing Ukraine to -- however, incidentally, there was quite a lot of debate on that -- and I'd like to ask Sam as well. I just remembered Mark Twain's famous quip: "Predictions are difficult, particularly about the future." But diagnosing may not be very easy as well.

I do not understand why everyone takes President Yanukovych to task for declaring that Ukraine would like to be a bridge between the West and the East. Margaret Thatcher, who was known -- who wasn't known for speaking softly and who was very firm, and who was never soft on Mr. Putin or the Russian leadership -- she said that she wants Ukraine, ideally, to act as a buffer between East and the West.

And President Obama's advisors, I think, were advising the president more or less within the same lines. So could you please comment? I mean that he renounces -- that he sets aside the basis of -- Ukraine's membership in NATO to facilitate, reset relations with Russia. Do you criticize very strongly Mrs. Thatcher and President Obama's advisors as well?

Thank you.

MS. HILL: Well, let's ask Anders if he would come in on this, and then we'll go back to the problem of costs, a buffer and a bridge --

MR. FIALKO: No, I like bridge more.

MS. HILL: Bridge does sound better from the Ukrainian perspective than a buffer, particularly when you think of what might lie behind Margaret Thatcher's idea. Anyway Anders is --

MR. ASLUND: Yeah, thank you very much, Fiona, and with regard to

what Yevgen said here, I don't have any quarrel with anything but rather reinforcement on two points. There are two big things that have happened with the Yanukovych government.

The first is the presentation of the reform program on the 3rd of June, which is a big reform program of about 85 pages, and, by and large, it contains the right things. Of course, some things could always be more detailed, but it is very difficult to quarrel with anything that is there.

The question is rather, how much of this will be implemented? And the first sign of this we got was indeed the IMF stand-by program for 2-1/2 years, now with $14.9 billion of financing behind it, that came on the 3rd of July.

There are two substantial prior actions that are required by that program. The first is a new supplementary budget target essentially cutting public expenses by 1.5 percent, mainly state enterprises, subsidies that were introduced during the crisis as anti-crisis measures. And that has been done by the Parliament.

And the second measure that is more interesting is increasing gas prices by 50 percent not later than the 15th of July. That's the day after tomorrow. This the government can do without legislation. This is gas prices for consumers and for utilities. I trust it will be done, but, of course, this is a very good prior action where you can see if it's actually done.

And very critically serious, Ukraine spends massive gas subsidies, last year 2-1/2 percent of GDP. This year it's supposed to go down to one percent of GDP; the next year there should be no subsidies. And this is not a good way of spending public money because this is essentially to subsidize the importation of gas from Russia, which is about the most meaningless way you can spend money.

And for the rest, I do think that we'll see some reform, so, as Yevgen

emphasized, that big deregulation, but the American businessman complained most about the VAT refunds for exporters that are not being paid out properly. This is promised in the IMF agreement, but I'm afraid that I have to add once again: this is another test if this will actually happen.

So something has come about here. It remains to be seen how much it will really be. There are some substantial good steps that Yevgen mentioned, but, of course, it could be more.

Thank you.

MS. HILL: Thank you, Anders. Yevgen, -- you might like to start with some comments and reactions..

MR. BURKAT: Oh, probably some words on economic policy, I mean in the context of President Yanukovych foreign policy. Probably somebody mentioned earlier, probably now, but Ukraine continues to pursues an early European vector. I mean on (inaudible) Ukraine has signed the Free Trade Agreement with half the countries. That is Switzerland, Lichtenstein. Norway and Iceland. And it's really a good Free Trade Agreement with all of them, with some minor exceptions, and this is I believe is a big step in our European integration.

The talk, negotiations on FTA continues with the European Union, and behind all these processes stands our hopes for improvement in the Ukrainian economy and Ukrainian program of reforms and Ukrainian investment plans. So that's basically all.

MS. HILL: Thank you. Nadia?

MS. DIUK: Well, I think the question that was addressed to me was about the government. I'm not saying that everyone --

MR. FIALKO: It was a comment.

MS. DIUK: It was a comment.

MR. FIALKO: Actually, it was about highly-enriched uranium. There was no debate. I said --

MS. HILL:

MR. KARATNYCKY: There was a debate.

MS. DIUK: That the --

MR. FIALKO: -- whether the U.S. made an indecent proposal, should we advise it?

MS. DIUK: Did the U.S. make an indecent proposal? I --

MS. HILL: An indecent proposal to Ukraine?

MS. DIUK: I can just say that I heard from actually an advisor to Yanukovych that the idea actually came up. How much was debated I'm not sure, because no one else I spoke to knew of any debate that went on about it, but that the idea actually was proposed by an American advisor to President Yanukovych as a good way to distinguish him from all of the other presidents who were in Washington at the time. Take that for what it's worth.

MR. FIALKO: There were two meetings of the National Security Council.

MS. HILL: Okay, perhaps we can get the microphone because I don't know whether we're picking this up on the -- oh, here we are just, just behind you here.

MR. FIALKO: My point is, and I spoke about it when we had lunch, that Mr. Yanukovych is no pushover, and he's not going to agree or to play to somebody's likings or dislikings. He will act proceeding from Ukrainian national interests as he perceives it.

There were two debates regarding this issue of the National Security Council, and the decision was taken only when the United States has agreed, not that there will be a meeting between the two presidents, but that it will actually compensate

Ukraine for this highly-enriched uranium being transferred, and give some new technologies to work on the lower-enriched uranium.

So my question is, whether the U.S. was really -- you said it in a kind of a flavor of the obvious negative enumeration of what was happening, whether --

MS. DIUK: But the thing (inaudible).

MR. FIALKO: -- Black Sea Fleet, not enough debate.

MS. DIUK: But thank you so --

MR. FIALKO: Yes, proposal, not enough debate. They would have to revisit it, or -- recently with it there.

MS. DIUK: Thank you for clarifying that, but my point was that this was not something that was debated broadly by the public, which if it was debated in the National Security Council, thank you for clarifying that.

MR. FIALKO: Twice. Twice. I'm sorry Mr. Charap didn't know that.

MS. DIUK: It wasn't --

MS. HILL: The issue of the high-enriched uranium, I don't know whether Steve Pifer will touch upon this on the other panel, but I think it gets to the point that many of these issues can be looked at from a very different perspective.

The point Nadia was making was about the speed with which, from the Ukrainian grass-roots perspective, this decision seemed to be made. This is clearly a very highly technical issue, and I think that the point that you're making, as well is, that the Ukrainian offer was made against the backdrop of the Nuclear Security Conference that took place recently here in Washington, D.C.. This is something that Steve and Bill Taylor, another former US ambassador to the Ukraine, will remember was a big issue on the Ukrainian-U.S. agenda for a long time and that the U.S. was very keen on reaching this kind of agreement, so this is not necessarily something that is linked directly to the

other issues that may favor Russia or other relationships.

Some of the issues we've referenced on the panel seem more clearly to be steps in one direction, and then others appear to be quite murky.

So let's just say that the uranium enrichment issue is murky from the perspective of sending a signal about where Ukraine is heading, and it has a different flavor from the United States' point of view than it might have from the grassroots level of Ukraine, mainly among the opposition, where it looked like this happened extraordinarily quickly without a great deal of deliberation. In fact, really there were a lot of deliberations happening, on this issue, but not perhaps where people could actually see it taking place in Kyiv.

Adrian, you also had a little aside at one point that I don't think the rest of the audience heard, with Nadia about the Lavra issue and Mazepa.

MR. KARATNYCKY: Oh, I don't want to be pedantic.

MS. HILL: Based on what you said to Nadia, I think you have to explain it more.

MR. KARATNYCKY: I don't want to be pedantic. If there is this -- this is a --

MS. HILL: This is another of those technical issues that has different perspectives.

MR. KARATNYCKY: This is a technical religious issue that --

The Moscow patriarch, to the head of which part of the Ukrainian orthodox community adheres, has an anathema against Mazepa. So it, if -- which is still standing and has not been revoked by Synodive bishops, and therefore it is of some constant dismay to them that the street that crosses past the Lavra is named after him. However, as I understand it, part of Mazepa Street remains, but it is now not the area that

abuts directly by the Lavra, which is now renamed.

MS. HILL: Well, this is why I wanted you to bring it up, because it's, again, the an example of the difficulty in reading every issue as a signal of Ukraine's direction.

MR. KARATNYCKY: So these are very important details--

MS. HILL: That's right, the street's half named so perhaps a mixed signal.

MR. KARATNYCKY: And this is less a dispute with Kirill; it's more a dispute with Peter the Great, I think. So we should relegate it to that.

But what I wanted to talk about was not so much that, I wanted to talk about not uranium enrichment but Ukrainian enrichment.

MS. HILL: Very good.

MR. KARATNYCKY: Which is to say that one of the things I didn't talk about, and it is a fact that Ukraine will have closer, more intimate business and economic and strategic cooperation with Russia. Russia will use these as a beachhead to create greater cultural influence within Ukraine with the name of greater political influence, both through the economy and through the culture.

And I think the weakest link, so to speak, in the current presidential team is a lack of an answer to what is it that is -- what is it about Ukraine that should sustain it as an independent state rather than to be part of this common community? There has to be a national identity, a cultural identity, a narrative that is developed by this government, hopefully, in cooperation with the opposition so that there is a consistent national narrative that is a source of stability to Ukraine. Ukraine has had a rich history of resistance, and it's not just the Cossacks of the right bank, or Mr. Mazepa that were resisting, but you had, (inaudible) Cossacks and Eastern Cossacks also were resistant to

the centralization of Peter the Great.

There are all sorts of historical traditions; there are all sorts of ways of describing history and culture. And I think that, unfortunately, Mr. Tabachnyk, who has polarized rather than tried to find consensus on national identity, is hurting, is hurting the overall cause.

Fair enough, you want to have a closer working relationship with Russia, but you should also understand that there are some risks involved, and one of those risks is sort of cultural, sort of the soft power side of Russian influence. And Ukraine has to have a more vigorous development of that question.

MS. HILL: (inaudible). Sam?

MR. CHARAP: Thanks. One quick word on the HEU issue before I address the questions that are put to me. I think we're losing the forest for the trees a little bit here. From humanity's perspective there is no murkiness. How many bombs, thousands of bombs could be made from the material that's going to be given up? Ten thousand? Twenty something? So it's a big deal, right, from the nonproliferation point of view. U.S. interests, Ukrainian interests are all impugned by that perspective, I think.

In regard to your questions, and not to channel Tom Friedman, but the fact is that there -- in the sense that we used to think of it -- there is no East and there is no West anymore when we're talking about Russia. Not to say that Russia is part of the West, but that there are no blocs. NATO has an open-door policy, period, and I just wanted to say that.

And also, even if East-West is just a convenient term for Russia and the West --

SPEAKER: And Brookings as well.

MR. CHARAP: Okay.

SPEAKER: And Mr. (inaudible).

MR. CHARAP: Yes. No, I mean, I agree that there is a West. I'm just not sure there's an East in this case. (Laughter)

We can handle it just fine, thank you. The president's -- President Obama has spoken to President Medvedev so many times that it's sort of an embarrassment to the Administration and they even talk about having -- communicating over Twitter. So that we don't -- the bridge isn't really -- it doesn't really present much appeal for either side of the potential construction.

And third, the question about supportiveness for Ukraine's NATO membership. I might be incorrect, but as far as -- I have no evidence to suggest that there was any active diminution of that policy with the change in the administrations here. Bill would be in a much better position to comment on that, having been the ambassador through the transition. But I just emphasize that the membership process has always been a demand and capacity-driven one and not one that is decided inside the Beltway.

MS. HILL: Let me take a cluster of questions from the floor. Here. There's two gentlemen here. Please identify yourself and your --

MR. DeSANTOS: My name is Dennis DeSantos from the QED Group. We're international development consultants. Thank you for a very lively and informative discussion.

I wanted to ask a particular question of Mr. Burkin -- Burkat, and also the other panel members. I wonder if you could comment on the administration's position on the moratorium of agricultural land sales and the prospects for either lifting or keeping that in place for the next six months to a year.

MS. HILL: Thank you. And then there was a gentleman next to you.

MR. KRAUSE: Robert Krause with Quadrex Energy International and for

Mr. Burkat.

What can be expected in terms of specific steps over the next year or two with respect to reducing energy dependence?

MS. HILL: Does anybody else have another question that we could bring here? If we don't, we'll deal with our -- sir, please? Sir?

MR. TASHDINIAN: I'm Norman Tashdinian, amateur observer of Ukraine. No putting -- it seems to me it really touched much upon the tensions between Western Ukraine and Eastern Ukraine, the extent to which these differences affect the foreign policy or any of these developments.

MS. HILL: Good. So is West and East still relevant for Ukraine, even if it's not for the rest of us?

Mr. Burkat, again two of those questions were very specific to you.

MR. BURKAT: First of all, this moratorium on land sales, actually, one of the first key elements of this economic program is the new tax code. It's a very controversial topic for Ukrainians, especially expanding the Ukrainian economy right now. There was a draft that's called -- it went to a presidential administration, and it is now on discussion between cabinet ministers, presidential administration, and civil society on the basic future of this.

It will be a systemic law which, to the disdain of the presidential team, they will allow to raise this moratorium on land sales. I will not go into the technicalities here.

Second question about specific steps on reducing energy dependency, so we discussed that earlier this week in Washington, first is we have to impose investment climates so that domestic and foreign investors will come to our energy sector very effectively. And we can actually raise our domestic gas, conventional gas

production, by 50 percent in the following year or two.

This will be one feature. We also are examining our possibilities in extraction of shale gas and other sources of energy.

What was the third question? I --

MS. HILL: The other question was about any persistence of East-West tensions.

MR. BURKAT: Oh.

MS. HILL: I don't know whether you might go on to address this one with an economic perspective. This isn't just a cultural issue.

MR. BURKAT: Well, on an economic perspective, the question which many raise is whether Ukraine will join or somehow can relate its economy with the Customs Union of Russia, Belarussia, and Kyrgyzstan. Our position is that we, we will cooperate with the Customs Union based on the norms and principles of the World Trade Organization, which is our very controversial answer, but that is our political position in this debate from the economic perspective.

MS. HILL: Nadia?

MS. DIUK: Maybe I'll just make a comment about the East-West question. The idea that there are these huge tensions between East and West I think are very much overplayed, actually, because if you look at a grassroots civil society level, people from the East are constantly now traveling in the West, and people from Lviv are constantly now traveling in the West, and people from Lviv so often go to places like Donbass and Luhansk. But the general level of tolerance is something that should be admired in Ukraine.

I think what we should be looking at, though, is the way the particular types of political culture manifested from the Donbass group and the group that just left

power, which is often labeled as to Western-oriented, although how authentic that label is should be a question.

But some of -- this is the challenge for Ukraine for the coming period. What the political elites really need to work out is a more democratic political culture that somehow downplays some of these rough edges that the Donbass group is bringing into Kyiv right now. And the people from the former administration need to somehow feed in what their ideas were about -- traditional Ukrainian historical culture to come up with this futuristic identity of Ukraine which might be different from what we had in the last five years and, hopefully, will be a little different from what we have now, but would benefit whoever was going to be in power for in the next period.

MS. HILL: Adrian?

MR. KARATNYCKY: Again, on the East-West question, on the issue of Ukraine's statehood, I don't think there is a terrible difference or a crisis of identity or confidence. Everybody who is within the territorial configuration of Ukraine pretty much understands that there is a state. It's Ukraine, it's their state. They adhere to it and to a greater or lesser degree they have some sense of identity with the state.

But I do think that there is a very sharp polarization on the issues of education, on issues of the past of historical identity, of linguistic, ethno-linguistic politics, and the path that was not taken in the rush to constitute quickly a working government and to get the agenda of the country moving after virtually 18 months or more than that of political deadlock, resulted in one of the options which was a broader coalition not, not being taken.

It would have been far preferable if there had been some effort to create a legitimate majority, and an even more legitimate majority, that the constitutional court ruled, a majority that would have potentially included Our Ukraine and may have had a

number of representatives from the alternative leap. Because I think that was exactly what happened after the Orange Revolution in the sort of atmospherics of the victory. It was the other side and the voices of the East were also cast aside.

And today we have sort of the reverse happening where many of the West Ukrainians are not in the political process, they're not in government, they don't see their representatives in many of the key positions. And so it creates a certain sense of alienation, and the failure of the political elite to kind of figure out how to deal with the losers in a civil way is a constant problem of Ukrainian politics.

MS. HILL: Thanks. Sam, final perspective?

MR. CHARAP: I agree with that.

MS. HILL: You agree with that?

MR. CHARAP: Yes. I was impressed.

MS. HILL: So East and West are still there in Ukraine, but shall the twain meet? Prediction?

MR. CHARAP: Only if it's an effective buffer, I guess.

MS. HILL: Well, I think that we've reached 3 o'clock. We promised everyone a break. I would encourage everyone to take a quick break and reconvene here at exactly 3:15. So, please, all come back again.

(Recess)

MR. PIFER: About three weeks ago, after I visited Ukraine in mid-June, I wrote a piece that went on the Brookings' website called "Two Narratives on Ukraine." And after having listened to the first panel, I think I came up about two narratives short. What we saw was a very diverse presentation about what's going on in Ukraine, and different interpretations about what it means, both for Ukraine's domestic policy and also its foreign policy.

What we didn't get was a consensus viewpoint, but what we'll try to do in this second panel is talk about how the West should respond. And we've seen where Ukraine has gone in the first three or four months under President Yanukovych. What sorts of things should the United States and Europe do in reaction to that policy? How do we best engage with Ukraine in a way that moves Ukraine in a direction that the West would like to see?

And on our panel today we have very good panelists to address this topic. I won't give detailed biographies because you have them all in the program. But our first speaker is going to be Andriy Fialko, a career diplomat, advisor to the president of Ukraine. We actually dealt with each other quite a bit 10 years ago, and although we've sometimes disagreed, we've always -- it was a very good conversation, it was a very candid conversation.

Second, I'm going to ask Bill Taylor, who is currently the vice president for Peace and Stability Operations at the U.S. Institute of Peace, to speak. More relevant than his current position, he was, from 2006 to 2009, the American ambassador in Ukraine. Prior to that, in the 1990s, he was the coordinator for assistance operations and spent a lot of time in Ukraine. I've asked him to talk about how he thinks the United States and Europe should engage with Ukraine.

Our third panelist is David Kramer. He's a senior transatlantic fellow at the German Marshall Fund. But prior to that, was deputy assistant secretary of state in the Bureau of European and Eurasian Affairs, where he oversaw issues regarding Ukraine. I've also asked him to talk about how an American looks at the ways in which the United States and Europe should engage Ukraine, and my hope here is that they will bring slightly different perspectives as opposed to repeating the same viewpoint. It will make for a more interesting panel.

So, David, since you go second, bear that in mind.

And then our last speaker is Adam Eberhardt, who is a researcher from Poland. He's currently the deputy director at the Warsaw Center for Eastern Studies. And he'll close by giving us a European perspective on how the West should react to Ukraine.

So with that very quick introduction, let me turn the floor over to Andriy.

MR. FIALKO: Thank you very much. I hope the back-benchers can hear me.

So, thank you, Steve for having me here. Thank you, Brookings, for having this. For now, I'd like to say that relations with the United States and with the West -- whether a right or wrong term -- are very important for the new Yanukovych administration. And, therefore, I think the challenges for the two sides have to -- the best of intentions can become the best practice.

Moreover, I would like to speak a little bit in more detail about Yanukovych as the leader and the president. Since there's a surprising lot of misinterpretation and I would even say underestimation of his foreign policies. So, I understand that foreign policy advisor is not supposed to rubbish the president, and he's not supposed to be (inaudible) obsessively. What he's supposed to do is say the things he believe in and he wouldn't be ashamed of in five or so years.

Now having this in mind, I'd like to ask questions and give answers to them. So, is Yanukovych a strong leader? Is he interested in foreign policy and in relations with the West in particular? Can he deliver? Is he a leader with a very hands-on approach who wants me to give bad news first? Or he lives in a delusionary world of his own?

Now, my answers will be that Yanukovych, obviously, is a strong leader.

He has his agenda and he's able to carry it out. He's very interested in foreign policy. He's very much result-oriented. He's very much interested in good relations with the U.S. and with Europe, and, frankly, I don't understand why people tend to question this.

Now let's go to more specific issues. The problem -- and obviously, Yanukovych is a very good president who would defend Ukrainian national interests. The key question is how he defines them. I think among the definitions is good relations with Russia -- a very important element of his understanding of Ukraine's national interest and foreign policy.

Having said that, I should like to say that, taking on Russia's legitimate interest, probably this approach had been that of most Ukrainian politicians. The little detail, though, is how you understand the word "legitimate." And here, of course, there may be problems of misinterpretation in Kiev and in Moscow. But Mr. Yanukovych will be happy, obviously, to pursue a policy which will be Ukrainian-based, Ukrainian-centered, result-oriented. And our national interest will determine obligations now, not like before. Our international obligations determined our national interest.

Also I would like to say that in foreign policy there should be a realistic avenue for proceeding. I mean, if the other side is not ready or is not willing -- so there's not much you can really do. In that respect a lot of attention was being focused on Yanukovych meetings with Russian officials. And their number was indeed impressive. But again, I would like to ask -- and he said in his interview to the BBC that he would like to meet as often, for example, President Barroso or President Obama.. The question I would like to ask the audience and the distinguished panelists: How many meetings can President Yanukovych have with Obama or with Barroso? And because of the obvious answer, does he have to hamper his number of meetings with Russian officials where he can really proceed to business?

I think Ukraine has been wandering in three trees, like three strategic partnerships: U.S., EU, and Russia. The world is a far bigger picture and I think you would see a lot of new openings and a lot of results.

For example, China is one obvious example. China is very interested in having a strategic partnership with the Ukraine. And they are ready to go reasonably far, we are ready to go reasonably far, so I hope this will be very productive relationship. There will be a reinforced emphasis on Latin America and the Middle East, Persian Gulf, and probably a number of other emerging markets. Ukraine will reinterpret its place in the former Soviet area, and a lot of Soviet -- ex-Soviet -- republics are actually eagerly awaiting this.

Let me now go one, again, level down and say what can be realistically expected in our relations. First, our relations with the EU defined by President Yanukovych's key priority. The very sad truth is that it is an issue where Ukrainian political forces and public opinion would be happy to proceed and would be happy to actually resolve the membership issue. But, unfortunately, the EU is not ready and willing -- neither ready nor willing to contemplate this.

As you may know, Ukraine is actively engaged in negotiations with the European Union and EU agreement, and the stumbling blocks there in the political area are exactly the three things the EU is not willing to address. The first is the issue of prospective membership of Ukraine. if there is a question where Ukraine is going, give it European perspective. And if it accepts, it's sincere. If it's rejected, then it's hypocritical. But unfortunately, our colleagues in Brussels do not want to have such an experiment. So, we are insisting so far that on keeping the option open for a European perspective in this agreement -- in this association agreement.

The second thing is the duration of the agreement. It may seem a

technical issue, but, in fact, it's a political issue. Because after the expiration of the agreement, Ukraine is eligible to raise the membership issue, which is the next step. And the European Union is willing to deprive us of any pretext for doing this.

The third thing is liberalizing the visa regime. As you may know, EU citizens as well as U.S. citizens travel to Ukraine without any restrictions. They just buy a ticket plane and go there. Well, Ukrainians, unfortunately, have to go through a very long, humiliating procedure. And I would strongly recommend and those who care about the image of the United States or EU go and attend the long session in the embassies, the long queues. People have to stand there, the inhuman conditions they have to suffer waiting long hours in the embassies. Rooms are very often without air-conditioning, and then having their visa applications rejected, having spent so much time and energy. So it's a really very important issue, and, unfortunately, it's not been addressed adequately.

So, when some of colleagues here in the United States allege that Ukraine is not interested in European integration, that is simply not true and does not correspond to reality. Because it's Ukraine who pushes the EU to be more open and to be more active with the EU-Ukraine relationship.

Now, as far as relations with NATO are concerned. It is true and there's no secret, Yanukovych made a pledge that Ukraine will not be pursuing a course to enter into NATO. I don't know why it has been described with such apocalyptical implications, which are no longer there. Some people want to join NATO, other people do not want to join NATO. It's the decision supported by the people. I agree that non-bloc status is very, I would say -- it's very weird at best. But it's the shortest possible term. I didn't invent it, so -- but, again, what is the other way to describe the policy? It's not that Ukraine is not joining only NATO, it's not joining any other organizations, so.

But at the same time, it will pursue a course of cooperation and very

constructive relations with NATO. And Mr. Rogozin, who was quoted here today, did say -- I would say, disapprovingly -- that the present level of cooperation between Ukraine and NATO is basically alarming.

Why does NATO have a problem in the Ukraine? People tend to think only that there's a -- this is a kind of a concession to Russia, which is an oversimplification. Obviously you cannot have good relations with Russia -- this is a sad truth -- if you pursue -- if you are a post-Soviet country, pursue a pro-NATO course. You may accept it, you may not accept it, but this is a truth.

The second thing is that this is only part of the truth, because part of the population of Ukraine is still under the old Soviet stereotypes. Reinforced, it is true -- watch Russian television, and they have a kind of perception about NATO which does not correspond to the truth. But most importantly, a lot of the population does not want Ukraine to be involved in any out of area operations like Afghanistan, and the operation in Serbia was very detrimental, particularly to the perception of NATO in Ukraine. So there's a real problem in pubic perception. And Ukraine is not the only one who has to address it. NATO countries have to address it as well.

Besides -- and it is very important as well that there's no political party -- strong political party -- which can advance NATO integration in Ukraine. Yanukovych neither can paint in this. And the ratings of NATO -- of the Ukrainian public which support NATO membership are five to six times higher than the ratings of the political parties that tend to support NATO membership. So, it's not NATO membership -- it's not the political parties that support NATO membership, it's NATO membership that supports these political parties.

As far as relations with Russia are concerned, as I said Yanukovych believes that good relations with Russia are very central. Relations with Russia are seen

as having importance, per se. And he's quite sincere in pursuing them. But again, he will be very -- in a very tough way defend Ukrainian interests. And one of the key tests will be South Stream. As you may know, Russia has a number of ambitious plans to transport energy from Russia and from the Caspian region to Europe and they all bypass Ukrainian territory. So, the question President Yanukovych asked is that, if we have new relationships, why all these bypasses?

We have to state it into very specific things, and they -- the essence of the relations with Russia in the economic area is to try to find a balance of interests, which would allow Ukrainian industry to pick up momentum and to jointly (inaudible) instead of peacefully dying, can have a second birth.

Relations with the United States are obviously very important. But again, Ukraine is not the size of Japan in terms of its economy and one cannot realistically aspire for serious U.S. attention. So, that leaves us a question: What will a constructive U.S. relationship with Ukraine look like? I think that the key is the word "partnership." Partnership is a two-way street. With all respect to David, it's not handing out the critical lists of things, you have to do this. Sack this official, do this, and do this. It's far more sophisticated and complicated. And the real important partnership is to open the markets, to have some important economic projects, joint ventures, and something when the other side has also a say.

I can remember a lot of things when Ukraine sacrificed its real economic interests because the United States -- mostly, but sometimes in European countries are asking us to do so. But I do not remember a single case when a Western country – the United States or European Union -- would take into account Ukrainian sensitivities. And throughout -- here to the former American ambassadors on the panel, and one very important former State Department official, if you remember the case, please correct me.

President Yanukovych wrote a letter to President Obama, which we are carrying and hopefully we'll be delivering tomorrow, in which he said a very important thing: I set myself an ambitious task that Ukrainian-American strategic partnership becomes a kind of a national consensus in both countries. That irrespective of who is in power, irrespective of what is the geopolitical situation or internal situation, this is a priority to be pursued in both countries by all political parties. And I think that's a non-negligible thing.

How much time do I have?

MR. PIFER: That's about time. You've covered, I think, the big issues.

MR. FIALKO: Okay. All right. Soviet -- but I have --

MR. PIFER: That's a polite way of saying your time is up.

MR. FIALKO: I have a good quotation.

MR. PIFER: Oh, okay.

MR. FIALKO: I'm not sure I can find it.

SPEAKER: Depends on who it's from.

MR. FIALKO: Pardon?

SPEAKER: It depends on who it's from (inaudible).

MR. FIALKO: I think the -- it just -- no, no, no. I think the new personal -- to sum up, that personal relations must never become a substitute for hardheaded pursuit of national interests and that that's what will happen under Yanukovych. We should adopt a right attitude, neither defiant nor submissive, but calm and friendly. And I hope that's what about to happen.

Okay?

MR. PIFER: Thank you. Bill?

MR. TAYLOR: Andriy, the presence of all these people in the room

today on the summer afternoon, I think is testimony to the importance of Ukraine. And in answer to one of your challenges, I can think of a couple of instances -- very important instances -- where the U.S. administration took the advice of and, indeed, pushed hard on behalf of Ukraine. And one of them you won't like too much, but the whole discussion in Bucharest where the president and the prime minister and the speaker and the foreign minister went to great lengths to get the United States to push very hard for a membership action plan -- was one that we thought we were doing exactly what you were asking us to do. We pushed very hard for what you thought -- or at least the Ukrainian leadership thought -- and what we thought was in the Ukrainian interest. It was clearly in the U.S. interest as well. We wouldn't have been doing all that without that.

But the main message, my message is that Ukraine does matter to us. It may not matter in the same way that Iraq or North Korea or Pakistan or Iran matters, but you don't want to be in that category. (Laughter) You don't want to be in that category. You want to be in the category, it seems to me, of where several -- indeed, all -- recent administrations have had Ukraine. And that is, as a leader, as a model, as a guide for other countries in the region, around the world as well, but in particular in the region.

In the post-Soviet space, in the East European space, where Ukraine has been -- and I hope will continue to be -- a leader in democratic practices, in democratic principles, in societies that are open and able to speak their minds. That is why Ukraine is important. And Ukraine's success is important to people here and around the world not just because there are 46 million people there. Ukraine's success matters to a greater number than 46 million. Ukraine's success matters to others in the region. I would include, of course, the Moldovans and the Georgians and even the Russians. I would think that the Russians have a great stake -- maybe not this government, but the Russian people have a great stake in the success of Ukraine. So you should be pleased

that we put such a high value on your success.

We have -- and by the way, there's no room, I think, for fatigue. We're not talking about fatigue here. We're talking about encouraging Ukraine, being interested in Ukraine's success and continued. And, therefore, I disagree, actually, with Sam. Sam thought that that point was not important. I think it is important. That is, Ukraine does matter in the overall sense. This is something that brings us all here today.

A couple of questions for Ukraine. And that -- and Sam, I agree with this part. See, you have to keep listening. The self conception, the image of Ukraine by Ukrainians, is important. We've said there's no -- there's a West, but no East. I'm not sure that's true, I think there's still decisions to be made. I mean, there are European values and there are Eurasian values, and there are decisions to be made institutionally, politically, culturally. There are competing customs unions -- you've made a decision on that. That's important. There are competing visions of government and governance in Eurasian societies, countries. There's a very strong president without much opposition and without much check and balance in that structure. There's a European version of that, which has checks and balances; it's more parliamentary. There's even an American version with a strong president, but with strong checks and balances as well. Those are decisions, and Ukraine has had a direction -- has expressed values that go more in the European direction rather than Eurasian.

The business of a bridge, I'm not sure that's the right metaphor.

SPEAKER: Margaret Thatcher.

MR. TAYLOR: Margaret Thatcher may have been wrong on this thing. People walk on bridges. This is not the metaphor that you want. Again -- and Europeans can -- we will hear from Adam. Europeans can have relations with Russians. This is not the issue. The question is whether Ukraine is independent, is sovereign, and that is so

valuable that should not be lost.

Energy. We've talked a lot about energy and we should talk more about it. But the degree to which Ukraine maintains its independence such that it can, for example, in nuclear energy. There is the opportunity to buy nuclear fuel from people other than (inaudible), other than the Russian supplier. And indeed, Ukraine has signed an agreement, a contract, with another supplier -- Western supplier -- that would give some competition, some opportunity to keep the prices down, put downward pressure on prices, as well as to give an option if the conditions get bad. So, I think there are -- gas and oil, you've already talked about the kind of dependence of that.

The direction -- the European direction in democratic principles and practices -- is important for what you say is the strategic direction, and that is toward European institutions and European values. But the democratic character and commitment of Ukraine, I think, will be a strong plus in European's evaluation of Ukraine's place in Europe.

What should the Western response be? In a sentence, in a phrase, it ought to be the door stays open. The European door should stay open. And I take your point that the Europeans don't give you that sense that there's a European prospect at this point. Others will describe European attitudes, but European attitudes change. This is not the last statement, the last answer to Ukraine. There's going to be plenty of time for Ukraine to do things that need to be done in order to qualify, in order to be ready for, in order to be ready to integrate with European institutions on customs and regulations and the whole range of the (inaudible).

There are years to take this. And things change, attitudes change. European attitudes will change. So that open door is important for them. And we can say that -- Americans can say that the Europeans are going to have to -- but Europeans'

attitudes will change.

NATO. The Secretary of State has already made the point that the door is open. It's up to Ukrainians. That was the position when I was there. Sam asked whether the position changed when the new administration came in. I stayed there for a couple of months after that, and it didn't change. That's the position then, it's the position now. And I look forward to further conversations about this.

Thank you, Steve.

MR. PIFER: David?

MR. KRAMER: Thanks very much, Steve, to you, to Fiona at Brookings for organizing this session. I, too, am incredibly impressed by the turnout here. A hot summer day in July, there's so many people showing strong interest in Ukraine and it suggests that we actually need to do a few more meetings like this here at Brookings. (Laughter)

MR. PIFER: You like our cookies, huh?

MR. KRAMER: I do like your cookies. They are the best cookies in town.

But let me pick up on Andriy's challenge. And I agree with Bill citing the membership action plan as one to which we responded to Ukraine's request and interest. The time granted, interests are different from the current government in Ukraine. But there are a couple of others. Jackson-Vanik was certainly one -- graduating Ukraine from Jackson-Vanik.

WTO membership, U.S. support for that, market economy status -- all of these things were very important. They were in U.S. interest, no question. But they were obviously in Ukraine's interest as well. And that was a time when the United States and Ukraine's interest matched up very nicely and we were able to be responsive and also

even proactive on certain issues to try to help Ukraine through its ongoing transition.

Coming back to the question that Steve asked me to address about Western policy and hoping that Bill and I would disagree, actually I don't think that we do. But let me try to be a little provocative, in any event. For the West, we have to decide whether Ukraine matters. I agree with Bill, the way you described it. I don't think a lot of people in Europe agree with what you said or, frankly, even in the United States. There is an unfortunate tendency in Europe, and even in certain circles here in the U.S., saying, well, Yanukovych has made his decision, he's decided to go to Russia. Therefore, we can wash our hands and not be bothered with Ukraine anymore. That contentious issue is off the plate. We don't have to deal with that. It won't upset relations with Russia, given how sensitive Ukraine is vis-à-vis Russia. That, to me, is the exact wrong response to what happened in January/February of 2010; an election, by the way, which Nadia and I were there to observe and I stick by the IRI assessment, which was it was a free and fair election, and Yanukovych won by a little over 3 percent.

We didn't have a great government to deal with in the previous five years. In fact, I would argue the previous government was a real failure and a real disappointment, and we may never have an ideal government to work with in Ukraine. But the West needs to decide whether Ukraine matters regardless of which government is in power. Regardless of the preferences that the president shows, the prime minister shows the foreign minister shows -- Ukraine matters for a whole host of reasons, not least for the model it can become in the region and in Russia. I agree completely, Bill, with what you said. But obviously, most importantly, Ukraine matters for the 46 million people who live inside its borders.

We need to show that the West does want to complete the vision of a Europe whole, free, and at peace. I know it's become a cliché. It is still the West's

objective, or at least it should be. And Ukraine is a critical piece to that puzzle. And Ukraine, I would argue very strongly, does have a rightful place in the West in the Euro-Atlantic community, and the West needs to help Ukraine move in that direction.

We can't pull it in that direction. We have to help it, and Ukraine -- with President Yanukovych's visit to Brussels, his speech in Strasbourg -- has said the right things. As you know, I have some concerns about some of the actions not matching up with the rhetoric. But he said the right things, let's remind him of the things he said. And Secretary Clinton did a good job of that in Ukraine, although I think her trip was also a missed opportunity in certain respects. And I'll come back to that in a second.

The most important policy for the United States it seems to me with Ukraine is to push the EU closer to Ukraine. The EU is what matters to Ukraine. The EU has a lot more things to offer Ukraine than the United States does. But the United States needs to push the Europeans to make sure that they realize the importance of Ukraine and that they stay engaged in Ukraine on a free trade agreement, on a association agreement, on visa liberalization -- agree with all those things. Ukraine, obviously, has responsibilities to meet the EU halfway or part of the way on that. But the EU has to be serious about that.

I agree completely on the importance of maintaining a European perspective for Ukraine. But the door has to stay open, and it is just too easy for the Europeans to say, Ukraine's not interested. We can't take that attitude, and it seems to me the best thing the United States can do is to press the Europeans to stay engaged.

I would focus on the EU. I would put NATO aside. Bill's right, it's important to remind everyone that the door stays open. There's no interest at the popular level or at the leadership level in pursuing a membership action plan, not to say anything of membership. Though the legislation was passed earlier about military exercises with

NATO, that's important. It's important to stay engaged. I know some NATO officials are visiting Ukraine this week, in fact, talking about further cooperation with Ukraine in this area. That's important. But let's just not go too far down this NATO road, because it's an issue that isn't going to lend greater cooperation and greater cohesion between Ukraine and the West.

On the Secretary's visit, overall it was extremely important for her to go. I think it's unfortunate that it was a year since the last cabinet-level official visited Ukraine. Vice President Biden was there exactly a year ago, though I also recognize Ukraine was going through an election campaign and an election, and it made it a little more difficult for senior U.S. officials to visit.

The key is to follow up on her visit. And that's where I think we need to test how U.S. policy is unfolding, to make sure there is continued engagement, that this was not a check-the-box exercise, that this was not simply a reassurance visit, that this was a sign of deepening U.S. engagement with Ukraine as well. And I'm heartened that the Secretary pushed the Foreign Minister on having the next meeting of the bilateral group here in Washington this year, which I think also sends a very important message.

HEU, I know, was a major issue on the U.S. agenda; very important. I won't go into that any more. The previous panel covered that in plenty of detail. We have to make sure that doesn't become the driving force in the U.S.-Ukrainian agenda, as important as that is.

Where I did have some concern about the Secretary's visit is, publicly, including in the meeting with civil society, she took the President -- President Yanukovych's comments for granted. When, again, if you look at the rhetoric versus what's been happening on a whole range of issues -- not least the formation of the coalition, which even though the Constitutional Court blessed it, still is rather

controversial. The passage of the Kharkiv Deal, the budget in one reading, the postponement of local elections, pressure on journalists – a whole range of things. It does seem to me, picking up on what Nadia was saying earlier, that the trends aren't moving in the right direction. It's not irreversible, but these trends, to me, are the most important thing that is happening right now in Ukraine.

The Kharkiv Deal, when a new government comes in, can be annulled. And frankly, I think the Russians know that and are planning for that possibility. What is more difficult to reverse are these changes in the democratic development of Ukraine, and I think that should be at the top of the U.S. agenda, and it should be at the top of the agenda of Europeans as well because this, to me, poses the greatest threat to Ukraine's sovereignty, independence, and democratic development. These shortcomings, to put it generously -- if not rollbacks, to put it, I think, a little more bluntly -- that we've been seeing on democratic development.

There is, of course, the Russia factor. And as I said, I'm more concerned about the democratic -- the domestic developments in Ukraine -- than I am about the heavy tilting -- it's not a balancing act -- heavy tilting toward Russia. But let -- one can't separate these two, because the Russians clearly are not pressuring Ukraine or pushing Ukraine or cajoling Ukraine to be more democratic, with respect to human rights. The Russians, in fact, I would argue -- you can tell me if I'm wrong -- are saying this is how to do it. Follow our -- you want to stay in power? You want to stay in control? You got to control the media, you have to make sure elections are going to be predictable, not unpredictable -- a whole host of things. Ukraine isn't necessarily going to follow a Russian model, it's going to follow its own model. But there are some bad lessons that the current government in Ukraine might be tempted to learn and follow based on the Russian model. And that's where the relationship with Russia matters more than

anything.

Kharkiv Deal, as I said, can be undone. But Russian urging that Yanukovych take these steps to make sure he stays in power, that to me is more disturbing. I think we have to challenge that.

Lastly, the talk about bridges and Sam's point about Ukraine's not going anywhere. Bridges -- Bill's right. People walk over them. Bridges also fall apart over time. And so, we do need to come up with a better metaphor, better characterization of this.

Just to pick up on Sam's point because it had me thinking a lot. Ukraine's not going anywhere. That actually can be going somewhere. Because as the rest of the world is moving in a direction and Ukraine's not going anywhere, that means Ukraine is either stuck or is going in a certain direction, and I think that that would be a cause of concern.

Thanks.

MR. PIFER: Adam, the European perspective.

MR. EBERHARDT: Thank you. Yeah, Europeans' perspective.

Thank you very much for the invitation. Let me begin with -- by stressing the most important factor, which, in my opinion, has been deeply influencing the relations between the European Union and Ukraine recently.

It is a mutual fatigue, I'm afraid. And it has nothing to do with our discussion whether Ukraine matters or not because most policymakers in Europe would admit that Ukraine really matters. But nevertheless, they are quite tired of Ukraine and I don't see any prospects for change in the feasible future.

I do share most of the critical comments expressed in the first session of this conference concerning the policy of President -- policy pursued by President

Yanukovych and his circle. But let me stress there is a very critical perception of Ukraine. In the European Union it's not only -- or even not mainly -- the reactions, the response to the government of the Party of Region. The real source of the crisis of confidence in the relations with Ukraine is related to the previous Orange government, I'm afraid, whether we like it or not.

It is quite easy to explain. The higher the expectations and hopes, the deeper the disappointment. There is certainly no time and no need to elaborate, deeper are the outcomes of the policy adopted and not adopted by the recent governments. But let's face the results. The worrying signals coming from Ukraine today seem not to be so worrying because European policymakers and European public opinion got used to upsetting news arriving from Kiev. Many of my colleagues from European think tanks, from European institutions expressed their relief that a certain degree of stabilization has been reached under President Yanukovych. It is a very common trend in Europe today, and it is a very worrying trend, also. Because the more stable country in Eastern Europe is an authoritarian Belarus of President Lukashenko. We should not seek stabilization and we should not perceive stabilization as a most important value in the region.

Everything I said shows how passive and how reactive the European Union strategy towards Ukraine is doomed to be. But as I said at the beginning of my presentation, the fatigue between Ukraine and European Union is mutual. That's true that the European Union, which has been focused on its ongoing internal crisis was not able to provide Ukrainians with (inaudible) that would offer -- that would encourage them to go forward with the European and modernization agenda.

As a result, the European aspiration of the Ukrainian political class has waned, burned out -- gradually burned out. And one may have the impression that for President Yanukovych and his circle the European Union is needed just for two tactical

reasons: to get loans from IMF and to balance the influence of Russia.

A similar process appeared, to some extent, in Ukrainian society, I'm afraid. Recent polls suggest and show that over 60 percent of Ukrainians perceive Russia as the closest and most reliable ally of Ukraine.

So, the closer cooperation and closer integration with Russia becomes more popular. Even -- if not more popular among Ukrainians, at least it gets less controversial. And pro-Russian groups within Ukraine -- Ukrainian political allies definitely try to make use of that.

Okay, so what can be done in the given circumstances? Where the soft power, the magnetism of the European Union has diminished and both in -- among Ukrainian political class and Ukrainian society. And what is equally worrying where that change is welcomed by European political class.

What is a window of opportunity? I think we should not be naïve and think that the European Union is able to work out a new strategy and be disciplined to go forward with Ukraine to enhance dialogue and cooperation. It is completely out of the question. We should acknowledge that Ukraine will not be granted a European perspective. Whether we like it or not, it is a reality.

The European Union policy towards Ukraine will be pursued in the framework of the Eastern Partnership Program launched by the European Union one year ago. I'm certainly aware of Ukrainian politicians, Ukrainian members of the international community who are quite skeptical about Eastern Partnership. They describe it as quite modest with not much added value. Well, maybe. But in my opinion it is high time to take reality into consideration. It is to adjust our expectation to our reality and to make maximum use of the instruments that are available. In my opinion, the added value of Eastern Partnership consists in the additional impulse. But it has led to

cooperation between the European Union and eastern neighbors.

It was mentioned by David that we should push the European Union in the direction of Ukraine. I do agree, and it is Eastern Partnership. Because it is addressed not only to Eastern European countries, it is addressed mainly to the countries of Eastern Europe to enhance interest in Ukraine and to overcome, to limit the fatigue I was talking about.

It already gave some fruits. The Eastern Partnership prevented an imbalanced development of European neighborhood policy in favor of Mediterranean cooperation, which was strongly supported by President Sarkozy of France. There are new challenges to come. The European Union is just starting discussion about new financial perspectives for the next seven years, starting from 2013. And Eastern Partnership may serve as a tool to increase the funding.

In this perspective, the most important thing is that the European Union focus and pay special attention on the projects which are bottom up, which are driven not from the top down but which include civil society. It is a civil society forum, it is supporting small and medium enterprises.

The second thing I would like to say is that we not only should make use of the instruments that are available today, but we should also try to shape them in a well-thought manner. In fact, there are two cornerstones that should be somehow shaped: One of them is establishment of a deep and comprehensive free trade area between European Union and Ukraine, and the second one is further visa facilitation.

When it comes to the free trade area, we should do our best to convince the decision-makers in the European Union that it should be deep and comprehensive not in name only, but it should include unification of all standards and procedures. But in the very fact, it should be beneficial for Ukraine in the sectors which are the most

important. I would urge the European Union to be as flexible as possible because this kind of agreement, it is a potential tool of modernization. But it also costs a lot because Ukraine, whose is less competitive, needs additional support, additional funding to go through with this program.

The second thing which is extremely important is visa facilitation with a prospect of visa-free regime. The European Union should give Ukraine a clear perspective of visa-free movement, because it would be a very important signal for both the Ukrainian political class and for Ukrainian society. We don't have much carrot for Ukraine, so this is the only one or one of the only one.

A visa-free regime is one of very few tools to reinforce the European Union's soft power among Ukrainians. But the very first step should be to offer Ukrainians a roadmap at least of very clear requirements, with the European Union commitment that we will lift the travel barriers -- just the day Ukrainians meet the criteria.

Certainly we should be aware about very deep divisions among European Union states. There are also very deep divisions among the political class in the states. There are also divisions among the governments of the states with the foreign ministers being usually good guys, much more eager and willing to go forward with a visa-free regime while interior ministers are usually much more reluctant. But we should do our best to attract Ukrainian society in this way.

Okay, let me conclude. First of all, there is a mutual fatigue between the European Union and Ukraine, with the European Union's soft power diminishing. The second point I wanted to stress is that European Union policy vis-à-vis Ukraine is doomed to be passive and reactive. Whether we like it or not. So, what we should do is to adjust expectations and make use of instruments which are available. Focus on a step-by-step approach, support civil society, grant visa-free regime perspectives, and be

very flexible and supportive in economic approximation between European Union and Ukraine, including establishment of a free trade area.

All other aspects -- political dialogue, security, energy, NATO -- should be strict -- we should stick to conditionality because it is up to President Yanukovych and to the people of Ukraine to decide which model of development they choose, whether they prefer a post-Soviet model of development or a European Union one.

Thanks.

MR. PIFER: Thanks. Let me toss out the first question, because I heard both Bill and David saying that it will be important that one thing the United States should be doing is pushing the European Union to pick up some of the slack, because if NATO membership is off the table, which I think it clearly is, during this -- the Yanukovych administration. If you're going to have European engagement, the burden now is with the European Union. But if you do have, in Europe, Ukraine fatigue, if you do have a reluctance to go very far -- and there's a second question, which is how much will the European Union listen to in the United States on this issue? In the past, we had suggested that EU press relations with Turkey, with not particularly beneficial effect, so, where does that leave Western policy? And then, Andriy, what does it mean for Ukraine? Because to the extent that Ukraine wants to have balance in its relationship between Russia and the West, if the Western institutions are, for whatever reasons, not engaging, how much of a concern is that in Kyiv?

MR. FIALKO: Oh, that was a question I explored with all four of you. Okay, I'll be happy to start, because I've marked more or less the same points. I just want to emphasize that I want to be friendly, constructive, and positive. Having said this, when people say in the West that we are very tired of Ukraine and there's a fatigue -- I mean, tired is when someone has been working very hard or has been doing something.

My question is what exactly have you been doing to be so tired?

And the other unfortunate thing is that there's a fatigue in Ukraine because the expectations were so high with the previous governments that, unfortunately, people were not able to deliver, and obviously the raised expectations and then disillusionment; and when there was no chance, in fact, to achieve something, the public was told that it's a matter of days, weeks, maybe a month, maybe by the end of the year, and, unfortunately, this was not happening. But, again, my point is – the basic message is the United States and European Union should match their rhetoric with their resources and their deeds.

Now, again, as an example, I'd like to use some of David's strong language, which is a very good language I liked immensely. All of the stops on the Secretary of State Hillary Clinton's upcoming visit -- trip to Europe, none is more important than Ukraine. Ukraine is critical to advancing a vision of Europe whole, free, and at peace, and -- but Ukraine -- and it's serious about the prospect. I mean, after having made such an important statement, what's the answer? If the problem is really so important, what's the answer?

Based in partnership and I think the privilege of these conferences, you can speak off the record, but at least you can speak part of the things that you think are completely important. And I don't want to be just friendly and positive, I remind you again. The number of resources it offers to Ukraine approximately is the same -- I mean financial -- that Ukraine would have gotten if it kept the visa regime of the U.S. So, more or less, the money we collected for visas is what the EU has given us within this five-year period. But we were polite enough in our own little speeches in praise of it. But, frankly, that's not an answer to our problems. So, matching rhetoric with deeds means not inventing another strategy, another useless piece of paper. I'm not signing to a ringing

declaration. But coming out with something that would match the level of problems that we have.

For example, the EU cannot offer prospective membership to Ukraine, but what it can and I think should offer, something between what it is offering now and what it has offered to the (inaudible) countries in terms of help of approximatization of legislation. Far more concerted effort, far more resources, and resultitory introduction, not just set some rules -- we support this, we support that, and we strongly (inaudible) after all these declarations.

So, as far as Mrs. Thatcher is concerned and the bridge, I hate the concept of the bridge. I should say that.

The reason I was quoting Mrs. Thatcher, and I like her very much indeed, is that when Mr. Yanukovych says something, it's been taken as something -- either he's been weak and soft because of the Russia concerns or something or it's detrimental to the Western interests. But Mrs. Thatcher is someone who defended Western interests very rigorously, and she believed in that. Mr. Obama advisors were making more or less the same advice, and as far as NATO membership is concerned. So, I don't take -- I wouldn't like to accept this point of view that Yanukovych said this, he's taking the country in the wrong direction or something. And I personally believe that NATO membership is a cause to be pressed by Ukraine, but it has to be the Ukrainian people who decide and political parties who defend it.

You mentioned the letter, that we were asking -- you remember the embarrassment when -- actually, I could hardly think of something more terrible to Ukraine-NATO relations than this happening when the Ukrainian public knows about the intention to submit an application for MAP from a U.S. senator who was giving press conference.

MR. TAYLOR: What better source?

MR. FIALKO: Yes, what better source?

MR. TAYLOR: Right.

MR. FIALKO: And it also re-intensified -- intensified -- reconfirmed this psychophrenic fears that the U.S. is plotting to drag us, something, or whatever. And the worst thing was that the Secretary General of NATO knew about this from the Internet before the letter reached him, and he was very angry with this. But, unfortunately, he was very polite in not making his anger public, because otherwise it would have proved that there's no kind of design to drag you somewhere.

And the Jackson-Vanik and WTO -- frankly, Jackson-Vanik is a shame with all respect. Ukraine should have been granted this status long before. There was no -- the whole thing dragged on so much it's not a good example. My question was, I don't doubt that we have a very serious, productive, and substantive relationship, and the point of my question is when the U.S. or EU have sacrificed their economic interests or political interests when they were of one opinion and because Ukraine needed something desperately they changed it. Indeed, the U.S. was very supportive and we are very cognizant of their support when it broadly, as you yourself said, corresponded to the U.S. interests. And as you yourself directly said, if it didn't correspond to the U.S. interests, it wouldn't have done it. Now, I want Ukrainian policy, politics, as pragmatic as that.

MR. KRAMER: Can I jump in? We're not looking to join Ukraine. Ukraine, as far as I can tell, is looking to join parts of the European system, which suggests to me that the onus is on Ukraine to meet the requirements necessary for membership, whether they're in the EU, whether it may be in NATO, which is not going to happen for quite a while. I agree with you on Jackson-Vanik. I support graduation for

Russia from Jackson-Vanik. But given the option that either you have Jackson-Vanik stay in place or graduate, it was a good thing we graduated. I wish we'd do the thing on Moldova, which seems to have fallen through the cracks.

The point, it seems to me, coming to what Adam was saying -- and you did describe the reality -- we need to change the reality. That's the point. And you mentioned -- you used the word "doom." We shouldn't be doomed to anything. We either have to decide Ukraine matters and we have to step up to the plate, whatever that means -- the rhetorical support, all of that, but get serious about completing visa liberalization, free-trade association. Once you get those things done, I don't see how the EU cannot talk about the prospect of membership one day. That certainly moves Ukraine closer to the goal line, and so it does seem to me that the United States does need to keep pushing. And so -- but it also means that there is a burden on Ukraine to continue to move in the right direction. But the best thing the EU has going for it is that countries on the outside want to join it.

I know the EU has lots of problems with current members, but the EU's big attraction is that other countries want to be part of it, and once the EU stops to appreciate that, then I think the EU is stuck. I say that coming from an organization that promotes transatlantic relations.

MR. PIFER: But I think at this point, the thing that -- for Ukraine's foreign policy, it turns so heavily on decisions about what happens internally, on the democratic side, market change. To the extent that Ukraine moves and becomes more compatible to the European standards that moves Ukraine towards that.

And to get to your point about U.S.-Ukraine relations, the biggest disappointment I found when I was there -- and Bill and David can talk about their views -- was that the economics of the relationship between the United States and Ukraine

never really jelled. I always used to talk to my counterpart in Warsaw. He was going out to open up billion-dollar investment deals and I would have a $50 million American investment deal, and that was a big thing. But that's something where I think the U.S. Government can do things to encourage investment. But ultimately that will depend upon the situation within Ukraine. The U.S. really can't put investors in. But that would begin to really be a breakthrough in terms of creating a relationship that could be markedly different if you begin to have trade and investment flows between the two countries reflecting the actual size of the economies.

MR. KRAMER: But just -- I mean, thank God we don't have a gas problem here to be able to cut off gas or any of those kinds of things. Your point is absolutely right, Steve. The U.S. Government can't tell the private sector to go invest in Ukraine. Russia can. "Private sector" is a loose term. But the American companies go where they feel they can make a profit and that governments and their counterparts in the private sector play by the rules, and that's up to Ukraine to create those conditions.

MR. PIFER: One final comment and we'll open up to questions. The cohesiveness of the policy, one thing that the Yanukovych administration has which its predecessors did not have is its cohesive policy. The question is if you take that cohesiveness now, what do you turn it to? If you turn it to the right direction, I think you can achieve some very important things.

MR. FIALKO: There is very strong consensus on this one.

MR. PIFER: Okay.

MR. EBERHARDT: I'd like to answer the question of Andriy, although it was already, to some extent, answered by David. You asked me what is the European Union tired of? I would say the European Union is tired of enlargement with nine Central European countries being able to meet the criteria and get to the European Union, and

right now the European Union has to digest a new situation. But the European Union is also, when it comes to Ukraine, quite tired of excessive expectations created by different Ukrainian governments, which have been deeply unrealistic and which did not correspond to the condition of the Ukrainian state, and it is a problem.

I do acknowledge the power of a membership perspective. I do come from Poland where the political class is much less tired of Ukraine than anywhere in Europe. But it is quite difficult for me to discuss with my colleagues and friends in the European Union who say that if we grant Ukraine a membership perspective, it would be perceived as a price for not completing the reforms. And it is one problem.

And the second problem which some European Union experts and policymakers say is that European integration has been used in Ukraine to serve as a useful slogan in domestic politics. We could not exclude, after granting a membership perspective, the Ukrainian government will say okay, that's all. We can -- we succeeded, we may sell it to the public as a success.

I think that the most important decision Ukraine has make is whether to decide to go in the direction of the European Union, the rest of modern development, or to stay at the post-Soviet modern development. If the decision of Ukraine would be made according to the decision of the European Union whether to provide Ukrainians with one declaration, it would be worrying.

MR. PIFER: Okay, let's open up the floor. Let me take three questions here -- right here with Nadia. If you could please wait for the microphone, identify yourself, and keep the questions short.

MS. McCONNELL: I'll try. Nadia McConnell, U.S.-Ukraine Foundation.

Last fall, actually right on that stage, Foreign Minister Radic Sikorski was discussing the Eastern Partnership, and I was really somewhat dismayed, though. He

didn't specify Ukraine. But one of his comments, the way I interpreted, that there were some countries that had a sort of sense of entitlement that they should be members of the EU without being willing to pass the 1,600 pieces of legislation that need to be passed. I was a little discouraged, because that was the first time I heard something -- maybe it's called Ukraine fatigue. And while I am part of the bloc that is concerned about the lack of deep U.S. and EU involvement in Ukraine, but also is there this issue of what is Ukraine doing to become a member of the EU?

And also on the investment. We've been hearing for the last 50 years Ukraine wants investment. But Ukraine's ranking is 142 out of 183 on the ease of doing business. And President Yanukovych has stated that he wants Ukraine's ratings to be 40 countries higher. Can we expect maybe some concrete steps to match the rhetoric on everybody's side: Ukraine, U.S., and EU?

MR. PIFER: Two more questions here. Sam?

SPEAKER: Thanks. It's a question for David. Recognizing the situation as it is with the EU and its feelings vis-à-vis Ukraine, I guess the real question -- sort of to repeat what Steve has -- is should the U.S. pick up the slack at this point, recognizing the situation to be what it is, and how can we?

And just to clarify on my line about Ukraine isn't going anywhere, I meant to say Ukraine's not going away in the sense that the U.S. has interests there that are constant regardless of what the leadership says. And I'm just, like, this -- I agree with you, Bill, that the Ukraine fatigue metaphor is a bad one. You get fatigued to people and you stop talking to them. Countries, you know, are there whether you like it or not, so -- and that doesn't change based on your mood.

MS. IVERSON: Megan Iverson. I'm a naval researcher, and this question's for the panel.

In the panel's view, does Ukraine's developing relations with Asia, particularly the sale of military technology and hardware to China, have implications for its relations with both Russia and the U.S.?

MR. PIFER: Okay. Andriy, do you want to start?

MR. FIALKO: Oh, indeed. Thank you very much for your question, and it is, I think, taken for granted that the success of Ukraine is the main responsibility of the Ukrainian government and the Ukrainian authorities. And to behave in a civilized way, you don't need any incentives, you know, so it should go very naturally. Unfortunately, there are certain problems, avoidable problems, but I think that -- I hope very much that the direction will be -- there will be a right direction and the new administration prides itself in what it declares and delivers. So, it set very specific tasks in terms of attracting foreign investment, that is, deregulation, substantial deregulation, liquidation of debts on the VAT to foreign companies, and to attain a company, in fact, and a lot of other things: easing of tax burden, tax vacations for those who would like to invest in certain areas, which is already happening. And Ukraine obviously has to do its part of the work.

Now, David, I hate to disagree with you one more time, but this a thing that actually keeps on repeating from now and then that if you want -- who's going where? Okay, Ukraine goes -- wants to go to the European Union. Does it mean that it's only Ukraine's responsibility and partnership is mutual responsibility, that there are steps forward, and it's not just sitting on the fence and evaluating, okay? If Ukraine is a success story, we would write it to our account. If it's a failure, we're very tired. I don't think it's a very innovative policy.

I would like also to say -- to react to what our Polish colleague was saying, that Ukraine -- I know there are two jokes actually I would like to tell, if possible. The first is when I was in Brussels. The joke was like the mid-'90s, that Ukraine pretends

it wants to join the European Union and we pretend that we believe them. Now, the situation -- I think the situation has changed, because every time I try to understand whether European partners are ready for Ukrainian application, I think they take the threat very seriously.

The second joke is about the famous Henry Kissinger and whom do I call for -- what's the number to call and who's the person to call when you want to know the European attitude on something. Now we have, obviously, Catherine Ashton. So, when an American secretary or whoever calls, he hears Mrs. Ashton's voice saying, "Please press 1 for German position, press 2 for U.K. position, and press 3 for French position." But I think on Ukraine they can still speak with one voice. So, you could call Ms. Ashton in this particular case. And it is really very unfortunate.

MR. PIFER: David, Bill, do you want to take up Sam's question?

MR. KRAMER: Should the U.S. pick up the slack. We can't, I don't think. We can't offer the same things that the EU can on association agreement, on free trade. We need to be sure we have the kind of relationships with the Europeans where we can weigh -- and Steve's point about Turkey is absolutely right. I remember in a conference a little over a year ago, a former senior French official said after President Obama had been to Turkey, would you please tell your president to shut up. The EU doesn't like it when the U.S. pushes on membership issues or telling them what to do. But this gets at the point of making sure we have a good, coherent policy with Europe that isn't just about Afghanistan or Iraq, but it's also about completing the vision we have for Europe as a whole. So, it seems to me we can do it in different ways. It doesn't have to be public preaching, but certainly having meetings devoted to this issue is what we need and haven't yet had.

MR. EBERHARDT: Yes, I would like to answer Andriy, because he

would like to disagree with me. The problem is I agree with you on the reading of the situation in the European Union. There are a lot of throwbacks, and the European Union is not able, willing to have a long-term vision of how to deal with Ukraine. But we have to face the reality. And I'm not a spokesman of Mr. Sikorski, but most probably he wanted to say okay, we are not able to win a battle about the membership perspective for Ukraine, so let's do the job. Let's do a job step by step. Let's influence (inaudible) that are possible. It was Mr. Sikorski who was very much engaged in the working of the Eastern Partnership Project. Okay, we may be critical about some elements that are not included into the project, but it gives us a possibility to complete, conclude talks on an association agreement, to have a visa-free regime, to have a deep and comprehensive free trade area, to have some addition of cooperation between European Union and the Ukraine.

Okay, maybe it is a problem of a glass of water, whether it is half full or half empty. I may agree with you that it is half empty, if you like.

MR. FIALKO: Nah, it's just -- let's, in the most dramatic hypothesis, imagine that European Partnership never existed. What would have changed?

MR. TAYLOR: There was also the question about Asia.

MR. PIFER: Yeah, who'd like to answer the question on Ukrainian arms sales to China, the impact on relations with both Russia and the United States?

MR. KRAMER: I mean, from my perspective, the Ukraine-China relationship is up to Ukraine, and there are other countries that sell arms to China, including Russia. Where I do have concerns are with a different country Ukraine has been dealing with, and that's Burma, and that's an issue that we have discussed with the previous government, and I certainly hope we're discussing that currently, too.

MR. PIFER: Okay, let's take three more questions.

MR. GRINDSTAFF: My name Hugh Grindstaff.

The Ukraine and overseas population, does it have any effect on policy in Ukraine, and is there a tug sometimes between those who have been overseas and studied and gone back and the people who really believe in unity with Russia?

MR. WHITMAN: Thank you. My name is Zak Whitman.

I'm going to be studying on a Fulbright fellowship in Ukraine in two months. I'm very curious about how the prospects for energy security stability in Ukraine could affect relationships with the EU or their interests in Ukraine.

MR. PIFER: One more?

MR. BIHUN: Andy Bihun from the Washington Group.

I'd like to ask two questions, actually, one specifically about (inaudible) you mentioned earlier, on the expanding and certainly the prospective relationship, particularly economic trade and investment I hope with China. Has there been progress in some underpinnings already and some expansion of institutional expertise, so to speak, both in China and in Ukraine to proceed in that direction of expanding the trade and investment area? Something concrete that we can point to?

Secondly, others have mentioned earlier and a lot of us have heard it before, that the plan for reform, and particularly in the economic sphere that would include energy reform hopefully as a starter has been well laid out. I would like to know what your opinions would be, let's say from those of the United States currently or even in the past based on the thoughts there, as well as the European Union and Ukraine itself. What are the real prospects of getting some of those finally started and completed, hopefully starting with energy reform, which I think is going to be critical as a starter from this point?

MR. PIFER: Andriy, do you want to take a crack at the first question?

MR. FIALKO: What was the question again?

MR. PIFER: The first question was the impact of the Ukrainian Diaspora overseas including Ukrainians who go overseas, study, then come back to Ukraine. What impact will they have on Ukraine today? What influence?

MR. FIALKO: I'll be more than happy to answer to your question if I knew the response, I mean hypothetically, of course. Ukrainians going overseas benefiting from different cultures, different experiences, different know-how, will only improve Ukraine's international -- let's put it in this list -- standing and competitiveness. So, the more Ukrainians go overseas and hopefully come back, then the more competitive Ukraine becomes, because they bring with them new experiences. They break away with their Soviet past and they bring in new mentality, which is very welcome. Because a lot of things that go wrong in Ukraine go wrong not because there's some evil intention, but because people were not living under different conditions, and this (inaudible) fresh air's very welcome indeed.

MR. PIFER: Next question on energy security.

MR. FIALKO: And just -- and the European Union. Could you be more specific?

MR. WHITMAN: How would prospects of Ukraine's future energy security affect the European Union's interest or feeling toward possible membership of Ukraine?

MR. FIALKO: Well, the truth is that there's no talk of Ukraine's membership in the EU, so they don't think how this or that thing will affect it. But the EU is interested in the stability of supplies from Russia to the EU. That's its main concern. And it is obviously interested in having transparent and understandable system of energy supply in Ukraine itself. So -- but I would like to say that the last crisis demonstrated that

our European friends for good reasons were mostly interested in having Russian gas delivered to them. That's the most important thing they cared about.

MR. TAYLOR: Something I would add to that is the EU has been active in the energy field with regard to Ukraine and, what, 18 months ago or so there was a conference where the EU promised to do some things if Ukraine took some energy reform steps and these -- the things that were on offer included financing for upgrading of the transport system, the gas transport system, which would be a benefit for Ukraine; it would be a clear benefit for the EU as well. So, there the EU has shown interest and indeed has offered to put up real resources in that regard.

MR. FIALKO: I know, but, Bill, if I may, it exactly confirms that the EU is interested in pursuing its interests, that is, having a secure supply of Russian gas to the EU. The problem with this is, among other things, that we are expected to upgrade our capacity of the gas transportation system without commitments from the EU side, that they will be buying this amount of gas and the commitment from Russia, that they will be pumping this amount of gas, that we may end up investing $2 or $3 billion and face a situation where Russia will construct two bypasses and our gas transportation system will transport not 50 percent more gas, but 50 percent less, and this is a real question which is not yet addressed.

MR. PIFER: If I could, isn't it (inaudible) even before that an initial issue, which is that, I don't see how the European Union makes any investment in the Ukrainian gas sector until there's some disentanglement of the transit pipelines from the domestic gas distribution net. Because if I was to be in Europe and saying, yes, I would like to make an investment in Ukraine and upgrade those pipelines, bring in gas to Europe, I would not want to be in a position where I am subsidizing Naftogaz, which has been on the verge on bankruptcy for the last five for six years.

MR. FIALKO: No. Absolutely, yeah. But, no, there's a whole side of things which will happen, and I think that the ideal plan is not to invest in a new capacity that would go through Ukrainian territory, Russia, Ukraine, EU for a new transportation route. But obviously this question needs to be addressed, and I think that -- I haven't tried it here -- the new law on deregulation of gas, something was adopted in (inaudible) Rada which, yes, which the EU wanted us to adopt and I think if it's adopted without any minor amendments, that's a step in the very right direction.

MR. PIFER: Okay, Adam?

MR. EBERHARDT: Well, the European Union has offered Ukraine to improve the efficiency of the gas transit system and put some billions of euros on the table, and there is no offer from Ukraine on this particular problem. And when it comes to the transit across Ukraine, it was an agreement between gas problems, -- it was an agreement about deliverance of gas for 10 years in -- by Prime Minister Yanukovych, and it was also an agreement about the volume of transit of natural gas in the territory of Ukraine that we've said that it will be 120 billion cubic meters a year. So, it is to say that as long as Ukraine doesn't change --

MR. FIALKO: (inaudible) decided, unfortunately, because there are no penalties if our Russian friends decide not to transport it.

MR. EBERHARDT: Okay, so this is --

MR. FIALKO: And this is what happened.

MR. EBERHARDT: Okay, yeah, so it is a problem of Prime Minister Tymoshenko who accepted the deal without any penalties in case Russia does not go along with the decision.

MR. FIALKO: And I could have agreed with you here.

MR. EBERHARDT: Again. But again, she has -- she was -- this was

one of the most disastrous deals in Ukrainian history. But again, she was sandwiched between Russia and the European Union, because the European Union, I think for the right reason, partly wasn't interested in the details of Ukraine-Russia negotiations. They said we need gas and we need it now.

MR. PIFER: Okay. Does somebody want to take a crack at the question on Ukraine and China trade in investment?

MR. FIALKO: Well, I'm not an expert how U.S. may react or Russia may react. Russia doesn't like competition obviously, but I think that with China -- I mean, this is a safe bet that, if you agree on something that you can fully follow it up.

MR. TAYLOR: Steve, on the other of Andy's questions about reforms, in particular energy reforms, the prospects of getting started, Andriy has already spoken to the commitment on the part of the new government for these things, but I think Anders -- he made the point earlier that IMF conditions are very strong in the area of economic reform, in particular on energy reform, in particular on gas pricing. So, those one would think would be great incentives to take some of these steps.

MR. PIFER: And it would be a very near indicator because, as I understand it, the prior condition, one of the two prior conditions is that Ukraine by Thursday raise its gas prices by 50 percent to domestic consumers.

Okay, next set of questions?

Back there?

SPEAKER: Will the European Cup offer some anecdote to the fatigue on sides?

MR. PULLMAN: Mitchell Pullman. In your initial presentation, you mentioned that average Ukrainians are very frustrated with the conditions for obtaining visas at U.S. consulates and embassies. I just hope you recognize that that's not a

Ukraine-specific problem, nor is it a new problem. This has been a problem that U.S. embassies and consulates have been wrestling with for decades worldwide. It's a question of resources. I can understand why an average citizen may not understand that but I just want to be sure that I understand correctly that you were just characterizing the public viewpoint.

MR. PIFER: Okay, one more question?

SPEAKER: Thank you. (inaudible) from Woodrow Wilson Center. Does Ukraine still see any value in its spatial and regional schemes, like GUAM, the Community for Democratic States or Black Sea Economic Operation and initiatives like connecting the Baltics with the Black Sea in its plans for integrating further in the European (inaudible) or as tools in its relations with the U.S., Russia, EU?

Thank you.

MR. PIFER: Okay, shall we start with the question on the European cup?

MR. FIALKO: The European cup is a great thing, but I think one has to thank the European Football Association for their patience. But Ukraine will deliver in the end and it will be a spectacular event. And Ukraine has a new coach football team, and part of its construct is that Ukraine has to win the championship. So, another realistic goal.

MR. EBERHARDT: Well, there is no fatigue when we are talking about the Euro Cup. It is a common disappointment that neither Poland nor Ukraine qualified for the last World Cup in South Africa. But we have also played good plans for 2012, so I don't know who will be better as far as the Ukrainian-Polish battle in the final in Kyiv National Stadium.

MR. PIFER: Andriy? Visas.

MR. FIALKO: And visas -- I take this issue very close to my heart, and I don't remember whether I bombarded the ambassador -- one of the ambassadors with requests, but certainly their consul generals.

Now, first, we know that the problem exists. But we know that the international obligations exist as well. So, I think again here the things that don't match. Remember the Soviet times where citizens were deprived of the freedom of travel to the West by the Soviet authorities. I don't think it's much relief to Ukrainian citizens now to be deprived of the right to travel because of a decision of the Western embassies.

It is true that a lot of improvement had been made. You have to -- I worked in the embassy in Brussels and people were calling now and then and saying can you -- can I have the documents sent by post, I have to travel an hour and a half to your embassy. Now, people have to travel one day to the embassy of a Western country. I don't know what the situation is in the U.S. embassies, but I know in European countries people spend 3 or 4 days in the queues, come out there at about 6 o'clock in the morning for a checkup, and then in the heat or in the Russian winter, whatever, and then 10 percent is the official figure of rejections.

And I can tell you one story. I have many stories, but I can tell you one story. A German gentleman wanted to date and possibly marry a Ukrainian and they were in their 50s. Obviously, she was deprived a visa. I lobbied for her many times, and once she was stamped that she was -- she can't go. I asked the German ambassador, said she's in tears, said no more tears in Ukrainian-German relations, they gave her visa. In a year he went to Paris and he wasn't as sensitive so she has her entry rejected in Germany. Now, their relationship reached a critical point. He had to divorce -- they wanted to have more time to explore their relationship, and they were in their 50s. But they couldn't meet each other. So, he had to divorce his wife, go all through the legal

process, have a quarrel with his children over this. She went there, she was for two months, and now she's crying.

Now -- I mean, this is a very small example, but it shows to what sufferings and strains it subjects citizens. Well, basically, the problem is not there. She was traveling there for quite a time when she was refused a visa in the first place. He had made a decision that affected his life. It's a question which, unfortunately, has very high social and emotional costs and needs to be addressed in the proper way.

MR. PIFER: Let me add, because when I was in Ukraine, I spent more time on visa and consular questions than I would have liked to. First of all, the situation that he described characterized, including the American Embassy, when I got there -- , we used to have you come, your stand in line, and up to 200 people. It would take a day and if you didn't get in that queue, then you came back the next day. Actually our consular section proposed instituting an appointment system, which I'll tell you candidly -- I said I don't think it's going to work, but let's try it, and to my great surprise it actually did work, and I think it continues to this day where at least --

MR. TAYLOR: It's even online now. Now it's online.

MR. PIFER: It's online now, so you need to apply on line three weeks in advance, but you're given -- you're told this day, you're given a half-hour period. So, you come -- you have to come to Kyiv, but you know you're at the embassy at 2:30 and that you'll be seen by a consul officer in about 30 minutes. So, at least we've improved the process there.

SPEAKER: And that's very important.

MR. PIFER: Yeah. Now, the other part of the problem, though, is one that's just not in Ukraine; it's, of course, the refusal rate, which tends to be, higher than we'd like to see, higher than Ukraine would like to see, but it gets tied to questions like

the number of overstays, and such, which still continue to be a problem. And a basic fact is that American visa law -- and it's not just in Ukraine; it's worldwide -- it's what I would call un-American.

And I would I say in defense of consul officers, what they are told is that they have to assume that an applicant is either an intending immigrant or coming for illegal purposes or to overstay. That's the assumption. And then the applicant has to prove he or she will not do all of that. So, it's kind of that flip, and it puts a different burden on the consular officer, which most consular officers -- and I did my time as a consular officer 30 years ago in Poland -- it's a burden most consular officers would like to be relieved of, but there's the law.

Question on regional cooperation.

MR. FIALKO: Well, I think the new administration is reassessing old projects from the pragmatic point of view. President Yanukovych was asked a question on GUAM in Strasburg at the end of late April, and he said I don't know yet the answer, let's see, I'm open to suggestions if it's -- the emphasis on economic issues there, then I think we'll go forward. To the credit of the U.S. officials, they have been warning against, shall we say, over-ambitious plans for GUAM, so that first the institution -- the countries should think what is the real project there, and then the U.S. will support it, but they shouldn't try to have very ambitious plans when they don't have the capacities to fulfill them.

I very vividly remember Madeleine Albright was actually basically saying this to the foreign ministers. Unfortunately, people were not having the same possibilities I had to listen to it, so there was a kind of perception that GUAM was a very matrix-driven plan, and even some of our, frankly, European friends said that why (inaudible) pushing this? Well, it's American plan. Well, what's in it for you?

But the problem there is that if there is serious substance, obviously it will negotiate. I don't see, frankly, any prospect in the Baltic and Black Sea -- I mean, again, it's a ringing declaration. But when all countries to -- is it north of Ukraine? -- north of Ukraine are already in the EU, I don't think they're much interested in having something separate. So, I don't see a raison d'etre for any scheme like this.

Was the other one -- ah, Black Sea, yes, Black Sea, economic operation is interesting, and it's regional, and it will be I think better projects. Not so ambitious, but there are projects which are there. Turkey is very ambitious about its leadership. Russia is taking active positions, and it has a future, although not as ambitious as some would have liked.

MR. PIFER: I think we have time for one last question.

Right here.

SPEAKER: Thank you. I'm a student from (inaudible). My name is (inaudible).

You have mentioned Catherine Ashton, and so my question is would the administration in Kyiv salute, let's say, initiative to go back there an EU special invoice to Moldova and Caucuses?

MR. FIALKO: Absolutely. Ukraine is supporting, and Ukraine's support is critical. Without it, the mission would have been impossible. And as you know -- as you may know, we include --

MR. KRAMER: She suggested to call back the envoys, the EU envoys to Moldova and Georgia.

MR. FIALKO: I didn't know that, no.

MR. KRAMER: Common --

MR. FIALKO: I would --

MR. KRAMER: To basically end his mandate and not renew it, put somebody else there.

MR. FIALKO: I'm sorry, I'm not aware of this, so I wouldn't like to comment. Basically, it's a question to the EU, what it believes is most expedient. You believe that it was very expedient to have a mission there, and we agreed. If you believe that it's not expedient --

SPEAKER: (inaudible)

MR. KRAMER: The solution of the (inaudible) conflict is with Russia.

MR. FIALKO: We don't know in the first place what is going on between the EU and Russia on Transnistria. Now, you may have known this Merkel-Medveyev joint initiative for whatever, the EU-Russia council. It took everyone by surprise, to say the least. And the European Union -- because five days before they had the European Council and nobody mentioned it. And then in five days there was this initiative. But everyone I spoke to in Brussels said that it's kind of a test. If Russia will be willing to cooperate with the EU, the it would be given something in return, and that's a litmus test (inaudible) Transnistria. The EU believes that this is basic that can be sold with the good will of Russia. So, maybe something is going on there. I don't know.

MR. KRAMER: Can I just -- as the former U.S. representative for the 5+2 process, paying for my sins, I think it's important for the EU to keep an envoy in both the South Caucuses and Moldova. I think it doesn't send a signal to terminate their mandates, but, as I mentioned, the solution of this problem is that Russia -- if the Russians decide to pull out their forces and decide it's time to resolve what is the easiest frozen conflicts to solve, then it can get solved. But so far, to this date, they haven't done so.

MR. FIALKO: And, again, a very important thing is that when there was

a lot of talk about a possible declaration of Medveyev and Yanukovych on Transnistria, and a year ago there, and if it were excluded from the process. So they insist they're only being included in the process, and I do hope that being involved in the process means doing something.

MR. PIFER: Final comments? Open.

MR. TAYLOR: Strategic patience, that's what we need. We need strategic patience both with Ukraine and with the EU. If the EU will change, Ukraine will still be there as (inaudible).

MR. PIFER: All right.

Okay, on those wise words, let me ask you all please to join me in thanking our panel. (Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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