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Deputy Prime Minister of Ukraine

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PROCEEDINGS

MR. PIFER: Good afternoon. My name is Steven Pifer. I am a Visiting Fellow here at the Center on the United States and Europe at Brookings. And it's my pleasure today to introduce the Deputy Prime Minister of Ukraine, Dr. Hryhoriy Nemyria.

For those of us who have watched Ukraine over the past several years, it's been a mixture of both optimism and some frustration. The Orange Revolution generated a lot of optimism, including in people who saw the opportunity that Ukraine might realize its potential and become a modern European democracy, fully integrated into Europe and Euro-Atlantic institutions.

There also, though, has been some frustration, as we've seen that Ukraine all too often seems to pass up opportunities to make good on its promise.

Now, 2009 poses a number of challenges for Ukraine. First and foremost, as with many countries, Ukraine has to deal with the economic and financial crisis that it faces.

A second challenge, in that Ukraine has a difficult political situation in that there are division between the president and the prime

minister that sometimes hinder the ability of the executive branch of Ukraine to work as effectively as it might.

And Ukraine also faces a complex international situation. Its large neighbor on the right, Russia -- it has a difficult relationship with Ukraine, as we saw last January with the gas war. And there's probably some uncertainty now, in terms of relations with Europe, where Europe is thinking through how far to go with Ukraine, particularly on the issues of institutional engagement.

So to help us understand these challenges and the tasks before Ukraine, I can't think of anybody better than Dr. Hryhoriy Nemyria to help us figure this out.

He has a long history as one of the best strategic thinkers in Ukraine, as a civil activist building civil society, and as a politician. Among his many position, he's served as Vice Rector of the Kyiv Mohyla Academy. He was the chairman of the board for the International Renaissance Foundation. He's been a member of the Rada. And, since December 2007, he has served as Deputy Prime Minister.

If you look over the last year, which I think has been a difficult year for Ukraine, but you look at some of the key successes -- Ukraine's passage of legislation that enabled it to enter into the World Trade organization, steps that were taken to draw Ukraine closer to the

European Union -- all very often you see the Deputy Prime Minister's fingerprints on those arrangements.

So it's my pleasure to welcome him here today. We will have an address by the Deputy Prime Minister, and then we'll have a question and answer session.

Hryhoriy?

DR. NEMYRIA: Thank you, Steve. And thank you, everybody who made this event possible. And I would like to specially mention our appreciation in Ukraine of the contribution of the Brookings Institute to inform public debate on Ukraine and its place globally and regionally. And I have in mind the policy paper released last month, authored by Steven Pifer under Anders Aslund and Jonathan Elkind. It was very timely and, again, thank you, Steven and your colleagues.

It is easy and difficult to talk today about Ukraine. For me, it's always easy, because I was born in Ukraine and I made -- educated in Ukraine, made my career in Ukraine. And what is important, not just in the capital city, but in a very important region of Ukraine.

Ambassador, Miller, there is a place reserved for you here. Why don't you go -- in the first row, this is the place for you.

And, you know, there are many possibilities to talk about Ukraine of today. And I would like to start with the most recent years,

which gives some indications where Ukraine is going, what to expect, what the problems ahead of us, and what the policy framework which exists in Ukraine to address these problems which, as always, part of these problems are opportunities to use, not to waste, this time.

And I will try to also try to structure my presentation along the lines of the analysis that could make my job easier because it would allow me not to mention some personalities by names, because I think sometimes there are too many names that are mentioned, and less attention to a very important institutional dimension of the change which is taking place in Ukraine. So I would divide these personalities versus the institutions, and would try to talk more about the institutions -- like parliament, like parties -- and the direction they're evolving.

Very important second dimension is societal dimension, quality of the social fabric in Ukraine. Because this is part of the democratic sustainability, to what extent public at large and changes on the societal level are healthy enough and dynamic enough to contribute to a very important task of modernization of Ukraine.

Of course, I would touch upon a very important political, economic and security dynamic in the immediate region that Ukraine belongs to, but also wider region, which is unavoidable part of an analysis we have to make.

And the point to start is an obvious one. Even at the time of financial and economic crisis which hit Ukraine very, very seriously, my country showed resilience and ability not just to survive, but to make steps forward. And in this way, making steps forward to invest in its own future and stability and prosperity of its citizens.

I would mention three points at the beginning to show how these points affected the actions of the Ukrainian government at the time of the crisis.

First point, Ukraine has been hit by extraordinary external shock. If you take into account -- and those who know better than I -- the structure of the Ukraine economy, you would immediately come to the conclusion that Ukraine was extremely vulnerable to a specific kind of the external shock, namely drop in the demand on steel in the world markets. Only in the first half of the 2008, the steel industry contributed 42 percent of the Ukrainian export. And then when world markets in steel collapsed, you could imagine how severely that's affected Ukraine.

Second point -- and Anders Aslund collaborated this in his most recent articles -- that the Ukrainian currency, hryvnia, was pegged for quite a long time, to the U.S. dollar. And that's produced, in effect, that was not timely recognized by the authorities, those who dealt with this, namely the banking community. And, for example, in 2008, at the

beginning, the first half, it produced a very unhealthy phenomenon of importing inflation. So up to 15 percent of Ukrainian inflation in 2008 was basically imported, due to the inadequate and outdated policy of pegging national currency to the U.S. dollar.

Then there is something that Steve Pifer already mentioned, a vibrant and open Ukrainian democracy which, if described in this way, sounds positive. But the by-product of this open democracy and young democratic culture has to do with the debate without the rules, and political competition without limits.

What aggravated this generally positive achievement of Ukraine as independent country was far from being perfect Constitution, the major drawback of which, in its current form, a phenomenon of overlapping competencies. Instead of clear division of powers and labor between the key institutions in the country, it basically stimulates a rivalry through the lack of clarity, encouraging political rivalry rather than encouraging a search for political compromise and consensus.

This is an observation which is a very important one, because those with a memory would remember the year 2007, when Ukraine found itself in a very similar situation, when the fragmented decision-making, dysfunctional government prompted a very severe

political crisis, and the way out of this political crisis in 2007 was early parliamentary elections.

And back in April 2007, the Parliamentary Assembly of the Council of Europe, while discussed the situation in Ukraine, made two important conclusions. One, new elections is the way out from the political crisis. And, second, it's not enough. To prevent the same situation to reappear later, amendments to the Constitution are very important.

It didn't happen. And that's why it's coincided, unfortunately coincided, with the time when Ukraine was hit hard by the external shocks, global and financial crisis, and the problems of decision-making that was hampered by this in-built problems in the Constitution.

But Ukrainian government has provided a very strong crisis response. It is evident, due to the fact that Ukraine was not the first country who applied for the IMF to support, but was the first who, basically, got the support. And we got this program of IMF back in November 2008, and moved decisively to implement it.

What is important was that from the very beginning, the leading IMF role was complemented by very visible and constructive efforts by other international financial institutions that are visibly present in Ukraine, and play a very constructive role -- namely the World Bank, the

European Bank of Reconstruction and Development, and the European Investment Bank.

That's telling you I would like also to remind that despite -- and these stories are heavily underreported, I think -- despite the very strong perception that Ukrainian politicians are a quarrelsome, irresponsible and incompetent bunch who cannot make decisions, actually there are a number of the achievements in 2008 that are real, not the virtual one. And I would name some of them.

If you take the area where -- an area of Ukraine's problems and opportunities and its potential energy security to start with, that's the governmental effort of last year resulted in a very positive attempt to establish a policy framework to deal with the Russian Federation and the gas problem on these issues, and also with the European Union. We started last year our negotiations with the European Union to become a member of the Energy Community Treaty which, as you know, as of today, only countries of Western Balkans are part of. And it's about harmonization of the energy are key, making Ukraine compatible with Europe, European Union, and countries who have perspective of the EU membership in the very important area of energy.

In October 2008, Prime Minister Tymoshenko signed with Prime Minister Putin a Memorandum of Understanding on the cooperation

in the energy sector. Due to various reasons -- and those who follow Ukraine closely know those reasons -- it didn't result in a timely finalization of our negotiations with Gazprom on a long-term contract on the gas supply and the transit of Russian gas to the European Union, but it's provided an example of when government, even at the time of the crisis, are able to make these decisions and achievements that are contribution, not just to the energy security of Ukraine or the Russian Federation, but a contribution to the energy situation of the whole continent.

And despite some problems -- and we witnessed, unfortunately, several weeks, January 2009, of the gas conflict when the Gazprom stopped, totally stopped, the gas supply to Ukraine, and through Ukraine to the European Union -- it resulted in a compromise in January 19, 2009, when a very important long-term agreement has been signed. Far from being ideal, but the optimal one if you think of the conditions under which it has been discussed and finalized. And, again, it was evidence that even in the most difficult time, the decision-making could be organized in a manner that brings positive results.

March 23 of 2009, the Brussels Declaration on the modernization of the gas transit system of Ukraine, which is an important investment -- again, not just in the energy security of Ukraine and, I think, the Russian Federation, but also the energy security of the whole Europe.

Because that creates a policy framework, policy incentives, and includes -- because it has been signed by the three IFIs -- the World Bank, the EBRD and the European Investment Bank, not just the European Commission and Ukraine -- it includes a very important financial component to this, which is an open invitation to other participants of the process, from Japan to the Russian Federation, to contribution and to participate in a competitive manner in this process.

Last, but not least, there is something that's happened most recently. Just this Tuesday, I launched officially, with the leadership of the EFTA -- European Free Trade Association -- the four countries that are combined, Norway, Switzerland, Iceland and Lichtenstein -- negotiations between Ukraine and EFTA about the creation of the comprehensive free trade area. It's in parallel or, I think, as a part of the major strategic process we started last year in February, our negotiations between Ukraine and European Union about establishment of a comprehensive free trade area between Ukraine and the European Union. And this negotiation is proceeding very well.

Three weeks ago I visited the headquarters of the OECD, and on behalf of the Ukrainian requested for the OECD to do an investment review, which is a very important effort that provides additional policy framework for a consistent and orderly reform in this important area

of creating a better investment climate and business climate in Ukraine. And Ukraine would upgrade its participation in a number of the key committees of the OECD, like the Competition Committee, Trade Committee, Anti-bribery Committee, Industrial Committee and a number of others.

Ukraine understands that it's not yet time for raising the issue of the membership of the OECD. But we do consider the OECD framework as a complementary framework to our strategic orientation towards the European Union.

There are three pillars that, I think, Ukrainian government is considering as a strategic pillar in modernizing our country in the economic areas.

The first pillar is the same as it was at the very beginning: building market institutions. Without mature market institutions, any country, in spite of whatever gifted leadership it could get, is doomed to failure. And we learned a very hard lesson -- now a very hard lesson in the time of the crisis, that the depths of the crisis has to do also with an unfortunate phenomenon of the lack of the systemic, deep systemic reform that Ukraine was expected to take in the course of the last 17 years, since the time it obtained its independence. Failure to conduct

these systemic reforms in the course of the last 17 years resulted in unpreparedness of Ukraine to face this crisis in the most efficient manner.

The second pillar is macroeconomic stabilization. And there is no America that should be discovered or reinvented here. The steps are obvious. But that requires also two factors. One, corps of professions, of high level, being placed high enough in the government to execute this task of achieving macroeconomic stabilization. And, second, it requires a very important condition of cooperative efforts of the major actors on that, which includes also the Ukrainian parliament.

And the third pillar is development of international economic integration and trade -- which, as I mentioned already as a part of what is doable now between Ukraine and the European Union, and what is doable now is primarily Ukraine's economic integration. Because, as you know, EU is not yet ready to give Ukraine a prospect of membership in the future.

Most recently -- and this is the factual base you could check yourself -- UNDP published a new blue-ribbon commission report. Anders Aslund was one of the godfathers of the first report, published in 2004. Now this is the third report published, and 165 policy recommendations that the government received in early 2008.

If you compare the implementation results of this, almost 60 percent of those recommendations were either implemented so there is deliverables, tangible results, or they're already in the forum of the legislation, tabled to the RADA. Forty percent of this 165 yet to be implemented. Not a bad result as you could expect from the country facing political crisis and economic crisis.

More and more -- and that's my point to make today also -- a maturity of the institution would be a factor to count on. Parliament is one of those key institutions.

You know, the choice in which direction to amend the Constitution was obvious from the very beginning. Currently, Ukraine's political system is a hybrid political system, and the hybrids sometimes are really bad things to live with. And I mentioned the peculiarities of these hybrid political systems -- overlapping competencies, lack of clear system of checks and balances.

One choice is to move decisively along the presidential system, strengthening the powers of the president, which basically the option that many other countries, or former countries, of the Soviet Union took as an option, strategic option, to follow. And the alternative option, to move decisively towards a more parliamentary system, which is more

what most of the countries in modern Europe have, and also some neighbors of Ukraine

I think we could expect in the very near future, a decisive choice to be made. And my personal expectation on that, that there is a growing consensus that Ukraine will move decisively towards a more parliamentary system, which would give a greater role to the parliament as an institution within the political system of Ukraine. And within the parliament -- and this is important -- the parliament, which is not fragmented and atomized, that represents groups of the population that are not linked to each other and do not have any intermediary institutions, within the parliament the greater role will belong to the parties.

Party development, sometimes were heavily neglected, if not underestimated in Ukraine. And this is the point to make: now it's crystal clear that part of the Ukraine's integration with Europe is a maturity of Ukraine political system. Therefore, for example, such political families like the European People's Party, the party where the prime minister belongs to, it's not about just contacts between the leaders, on the level of the leaders, it's more and more so, and it's my role, also, as a member of that party, also to make sure that on the level of the youth organizations, the organizations that are dealing with, for example, small and medium enterprises, those contacts are intensified, they are

geographically diverse. And that provides a new impetus for the modernization of the whole party system.

A key catalyst along these lines would be reform of the Ukrainian electoral all, in line with the recommendations of the Viennese Commission of the Council of Europe, which would make a more modern law which provides a greater accountability for those who are elected to their constituencies.

If you take a societal level, the great achievement of the Orange Revolution is a mature civil society, conscious of itself, that could play a role and could correct measures of the authorities when these measures are either violating the existing laws, or playing with the rules, not by the rules. So this is a great achievement, and I think this is achievement to stay.

I would not be frank with you if I would not mentioned that at the time of the crisis -- and Ukraine is not the exclusion here -- that we could see examples of a growing demand of looking for the scapegoats, trying to find somebody or something that could help to explain the economic hardships that currently many Ukrainian citizens experience. And while it is important -- which as prime minister and the government I belong to, always we communicate to the people the rationale of the actions we are taking, it is important also to warn and to be frank that the

search for the scapegoats, a search and demand for the extremist decisions -- and the most recent in Ternopil Oblast -- identified some of the risks of this search for the scapegoats and demand for the extremist decision should be avoided by all costs.

And this is the new test to be faced by the organizations of the civil society, to prevent this negative scenario to emerge. Because if this is to happen, a demand which comes from below and from the top, because of the political calendar, could corrupt those civil society organizations with established reputation, reputation of integrity that played their role in the course of the last four to five years, and it should be avoided. It should be avoided.

Media is very important achievement to state. Lively debate. Part of my job description -- I'm talking of course, going every Friday to the political talk shows and to participate live, in an open debate, with the representatives of the opposition, with the representatives of the local authorities, local government, sometimes with foreign colleagues, on the satellite link. So this is an important achievement.

Therefore, we should be frank again and to recognize some trends that could undermine, if not checked timely, could undermine this achievement of the Orange Revolution. And when I'm talking about the achievement of the Orange Revolution, it's not to separate country.

Because now most of the voters who voted for the Party of Regions, and others, recognize how important the Orange Revolution was in terms of the changing country from inside, creating a self-sustainable momentum for change. It was not about the names, it was not about the particular leaders, it was about fairness, justice, and the ability to defend the results of the elections -- not to allow those who wanted to falsify the elections. Therefore, media played a crucial role at that time.

And now we see some unfortunate results -- and this is byproduct of the crisis we are experiencing -- an attempt to us the situation of the upcoming elections to try to restore some old habits when particular media outlets becoming obviously biased, lacking proper balance, providing an access to only an exclusive group of the politicians. And sometimes we see a clear web of connections of interest between the corruption in the energy sector and these developments which I am mentioning now in the media sector.

Patterns of behavior and political culture are important as a part of the quality of the social fabric. You know, if you look at the last five to four months, and have in your memory a visualized events in a number of European -- and not just European capitals -- ranging from Paris to Riga to Athens or Budapest, where people went to the streets en masse, protesting and sometimes using violence -- Kishinev, most recently -- it

didn't happen in Ukraine. Despite all the ratings that show that the hardships of the Ukrainian people more difficult at the moment than in those countries which I mentioned some of them, people didn't protest in this way.

It doesn't mean that the reservoir of their patience is endless. Not at all. But it shows also a very important part of the political culture and the patterns of behavior that people seem to be more willing to use other ways and means to achieve the results, including the political process, including their associations, including calling to the media, rather than walking en masse to the streets. It's an important sign of the quality of the social fabric, which I think should be taken into account.

The question to ask: to what extent the upcoming political calendar may disrupt a positive dynamic which we're observing now. And, you see, I'm consciously -- I didn't start with the news to report, the major news to report that the IMF being back on track. I want to make it now.

After some pause -- the language we use with the IMF -- when the second tranche agreed to be released initially on the 15th of February has been delayed, it took very important efforts -- and I underline this -- on both sides, on the IMF side and the Ukrainian side, Ukrainian authorities side, to achieve an agreement and to -- this agreement is very

important to make a decision to provide a second tranche, increase the size of this tranche, and to channel half of it for budgeting support.

This achievement was again a result of the political leadership, and political leadership more even at the time of the economic crisis is about the ability to make difficult decisions, unpopular decisions. That has been demonstrated fully by the prime minister and by the cabinet of ministers that acted promptly. And when the parliament, while being constructive along the road but failed at the final phase to adopt, to approve, three crucial laws, two of them very painful laws on the reform of the pension system and increasing the health of the pension fund, the government the same day, made the decisions, necessary decisions, with the same effect.

And that effort shows that within the limits, the obvious limits, that crisis provides, there is a strong political will that exists to take these tough decisions.

And I would like also to quote the piece that was written for the foreign policy by the Italian journalist. He said, "Tymoshenko isn't complaining. You're never popular when you ask a sick person to undergo surgery. But what has to be done, has to be done. Cooperating with the IMF requires a serious budget policy for any country. It's never easy. But it's a guarantee of stability."

For someone who was labeled and blamed as a “populist,” acting like that is a clear indication that this is a quality of political leadership that my country needs at the time of a very severe economic and financial crisis, aggravated by the inadequacies in the way how our political system is functioning.

The very final point on the regional dynamics that’s very important. There are two mental maps that almost every Ukrainian’s living with. One mental map is a mental map of the post-Soviet mental map -- which means a number of things. It means not just nostalgia for the older people, the older generation. It means also a consideration and approach in the government in a very paternalistic way. “It’s not me who has to make decisions; it’s the government who will make these decisions instead of me. And I have no choice.” So this is the way to consider the governmental machinery, as a substitution for the individual choices. It’s part of this post-Soviet mental map.

Plus, of course, aggravated by a number of the stereotypes: West versus East, religious cleavages, regional tensions, the myth -- a number of myths, the host of the myths of the Cold War. So this is the description of the post-Soviet mental map.

And it is within this post-Soviet map -- and here, the irony, a really appetite for rather strengthening presidential systems and powers, and centralization, instead of decentralization and devolution.

And the other mental map is Central Eastern European mental map. It's about consider Ukraine as part of the larger Europe -- if not exactly on the same terms, while in some strata of the Ukrainian population it exists almost in the same forms as it existed for the Czechs, the Hungarians -- the Poles returned to Europe -- it's still a part of the adjoined journey of creating Europe that never existed before as the results of the conscious efforts applied in a consistent manner.

This Central Eastern European mental map is a very important part -- and my argument that sometime the same person, and the persons of different age, could have in their heads two mental maps simultaneously. But the younger people, the more the Central Eastern European map dominates and plays a role.

It doesn't mean that Ukraine leadership, as well as the majority of the Ukrainian who supports, strategically supports, by their deeds, not by their words, Ukraine's integration into the European Union, consider this as an anti-Russian effort. Not at all. That was a great mistake, done in the past. And sometimes we see -- even currently, by some politicians -- to consider Ukraine European vocation, only possible if

it's undertaken on an anti-Russian platform, prescribing it as a bulwark of the West -- whatever "West" means -- against the resurgent, new imperialist Russia.

And that's the message, which is, I think, very topical here in Washington, D.C. When the new administration is deciding to hit the reset button -- and we understand, and we have a clear message here that it is not going to happen at the expense of the strategic partnership between Ukraine and the United States, the same is true for Ukraine. When the Ukrainian pushed a reset button back in 2008, trying to establish the rules and then to follow them in an energy sector, it has been done not at the expense of Ukraine's strategic orientation towards Europe, towards Euro-Atlantic structures. And this is the message we also deliver into our Russian partners.

On the 29th of May, Prime Minister will go to Moscow to talk with Prime Minister Putin about the projects in the economic area, within the scope of the Economic Cooperation Committee. It is a very important part of the normalcy in the relationships between neighboring countries, between Ukraine and the Russian Federation, we strongly support.

The same is true with our partners to the west, like Poland. And we understand that a number of countries, including Poland, also have their political calendars, their elections, in the future. But it's very

important not to lose the strategic focus for being the partners in a difficult time of the crisis. And I hope that addition to the success stories which I reported to you on our cooperation with IMF, the World Bank and other international financial organizations, we could be able to share a joint success on solidarity and the support provided by both bilateral and regional level. And by "regional level," I mean a more responsive European Union to the needs of the countries like Ukraine, who are a pivotal country, a key country, in the immediate EU neighborhood and, I'm sure, a future member of the European Union.

I thank you for your attention. I will be pleased to answer your questions.

(Applause.)

MR. PIFER: Hryhoriy, first of all, thank you very much for over-fulfilling the plan, in terms of your coverage of both the domestic and the foreign policy challenges that are before Ukraine today.

What I'd like to do now is we have about 25 minutes for questions. Please keep your questions short. It would be best if there was a question mark at the end of your point. And if you could introduce yourself by name and affiliation.

Please.

MR. SMITH: Keith Smith, from CSIS.

The March 23rd agreement with the EU on energy transit, how firm is that? How -- is that moving ahead? Is that really a firm agreement between the EU and Ukraine? And do you think it's going to be implemented soon?

A lot of people asking here whether it's just a lot of -- that it's more intention than anything else.

DR. NEMYRIA: Thank you, Keith, for this question. It's an important one.

And I would like to place my answer in a wider context, not just exclusively on March 23rd and the value of the Declaration. What is important, that this declaration came out as a result of the lessons learned on the time of the previous and the most recent gas crisis, or gas wars, as they've been called -- the gas war of January 2006, and the gas conflict of January 2009.

So the appeal to consider, jointly, establishing a policy framework that would facilitate a modernization on the policy level and on the technical level to increase the energy security of all countries is a very important aim in itself.

Our goal, as the Ukrainian government, was not to allow to lose the momentum that has been established as a result of the solving the gas crisis in January 2009. Painful process. We reaped the result,

showed the determination to move along these lines, and it was very important not to lose this momentum. That's the first strategic importance of this declaration.

Second, I mentioned already it's not just purely political declaration on the level of the EU leadership and Ukraine, it has been signed and heavily supported -- and they were all along the process -- the international financial institutions. And that's where primarily the international financial institutions that put some conditionality in the language of the declaration to be followed through the mechanisms of the implementation.

That brings me to the third point, the implementation mechanisms, whether they exist or not.

We were witnesses, many times in the past, where very pompous declarations on the rhetorical level have been made, but then nothing to implement because of the lack of these mechanisms. Now, it's in the declaration, and now we finalize, with the European Commission, technical terms of the coordination unit to be established at the Naftogaz of Ukraine to be, de facto, a clearinghouse for all those initiatives who already available now -- and I mentioned some of them as a result of our re-engagement, I would say, or engagement -- I think "engagement" is the correct form -- with Japan. It was first, for the last 17 years, visit of the

Ukrainian Prime Minister to Japan. So how could Ukraine neglect a country like Japan for 17 years?

So, and it's resulted, in terms of the preparation and the immediate results, in a very important achievement that includes not just the firms that are willing to invest and to participate, but also the use of instruments and mechanisms that were available in the past but were not utilized. I have in mind the Kyoto Protocol mechanisms, which Ukraine used for the first time, most recently.

Lastly, it's an open process. So there was no intention whatsoever to discriminate any party along these lines, including, of course, the Russian Federation. So that's required some explanation, some communication, which we did. And the Minister of Fuel and Energy of Ukraine and Russia met several times. The leadership of Naftogaz and Gazprom. And I think we are coming to a realistic understanding of the significance of this process to be launched because basically it is in the interest of the Russian Federation and Ukraine and Europe.

Gazprom, I think, understood how counterproductive to kill, or to try to kill, a goose laying golden eggs in the time of the crisis. Because Europe, or Western Europe, to be more precise, in the observable future, is the only strategic consumer of the Russian gas. Of course there is talk about China, of course there is talk about some other

options. But it takes time. What I am saying is in the observable future, this is -- and that's fully in line with the strategic course of Ukraine coming close, as much as possible, to the European Union. And therefore, a process of Ukraine becoming a member of the European Energy Community Treaty is a major confirmation of the existence of the political will to move decisively along this line.

MR. JENKINS: I'm Kempton Jenkins, former president of the Ukraine-U.S. Business Council.

Steve has recently written, and Anders has talked about the possibility of a Gore-Kuchma, Biden-Tymoshenko-type commission as a new structure which would provide a useful framework for dealing with our bilateral issues.

Do you have a view on that? I must admit I personally favor it. I think the Gore-Kuchma Commission was very productive for both countries.

But I'd be very interested in whether you have a view on it, or whether the Prime Minister is thinking of anything along those lines.

DR. NEMYRIA: I strongly support this policy recommendation. As you may know, Prime Minister Tymoshenko met Vice President Biden in Munich in early March, and it was very constructive meeting for both leaders.

But if I'm correct, what Steve recommended in his recommendations, it's a committee that, for obvious reasons, includes, or may include, both President and the Prime Minister to make sure that would not fuel, provide additional fuel for this relationships that we all know about.

I think this is a wise move, but the essence of the policy recommendation is an obvious one. There is a requirement for the channels of the communication, channels of the decision-making -- shortcut options which are very important, especially in the time of the crisis, in a strategic sense, which through the usual channels of the bureaucracy sometimes when decision is made it's too late, and usually too little -- to use the language.

MR. NOWIC: My name (inaudible) Nowak.

I'd like to ask you the question about -- it's no secret that big tension is among Russian-speaking population in Ukraine and Ukrainian language-speaking population.

What Ukraine government for all trying to power, trying to prevent Balkanization of Ukraine (inaudible). Because it seems to me that it's the main problem, not the problem what will be president republic or parliamentary republic.

The basic problem is it will be united Ukraine, or it will be divided forever.

DR. NEMYRIA: Mr. Novik, thank you for your question.

I do not agree with the first point of departure. You said that it's not a big secret that there are tensions between the Russian-speaking populations and the Ukrainians. There are no tensions.

And I give you my personal example, which it's better always to give something personal than speaking about general.

I'm from eastern Ukraine. I was born in Burniesk, the capital city of the Donbas area -- old industrial area, steelworks, coal mines, neighboring with Russian Federation.

My wife is from the small of Yinachiwa, which is the home town of Mr. Yanukovych, the leader of the Party of Regions.

We got -- our education was in Russian, but I studied Ukrainian in the school, and I was first in the university who started to teach history in Ukrainian.

My son, when we moved to Kiev, and I was invited to become a Vice Rector of Kyiv Mohyla Academy, one of the symbols of Ukraine's independence -- newly obtained independence -- one of the oldest universities in Europe. My son was born in Kiev in 1997. Now he goes -- he's going to be 12 in May. So he goes, attends, a lyceum, a

regular one, just across the street from my apartment. The language of instruction is Ukrainian. He takes language lessons also in Russian language, foreign literature, French and English.

I speak -- and we speak in our family -- still Russian, in the family. The language of instruction in the universities where I taught, at the national Mohyla Academy or Institute of International Relations of Kiev National University is Ukrainian.

My wife does documentaries and a weekly program on TV in Ukrainian.

Not in any single moment I experienced any problem in my career with the -- because I am a native Russian speaker. You take example of the leading members of the government, the current government and the previous government -- take an example of Mr. Azarov, the first Deputy Prime Minister and former Minister of Finance with Mr. Yanukovich government. He speaks language which is a cocktail -- in a positive sense, a cocktail -- of Byelorussian, Ukrainian, Russian and something else. But he was -- and he is a high-ranking member of the opposition. He was the first Deputy Prime Minister and the Minister of Finance.

The same could be with Mr. Kuchma, the President of Ukraine, a former President of Ukraine, and a number of others.

So I do not see, frankly, this is a problem.

Where the problem lies? The problem lies of the ability of the government on various levels -- and it's not just the central government that takes this -- it also requires an effort on the local government level and the regional government level to provide opportunities for those who speak Russian languages, or other languages -- take Crimean Tatar language in the Crimea. Almost 300,000 Crimean Tatars. There is an obligation of the government to provide and include in the Crimean government, because this is a Crimean autonomous republic, it was in the unitary state of Ukraine, to provide opportunities for the textbooks to be available and funded for the schools in the Crimean Tatars media.

If the take the situation with media in the Crimea, you could find it's difficult to buy a Ukrainian paper. Most of the papers in the Crimea are in Russian, the sources of information coming through the Russian TV.

And I'll give you one more example which shows that this is a false argument. It doesn't mean that where there's a problem we should not address it. But why it is a false argument, especially in the way, how you frame it -- there were various attempts in the last, now it's almost 18 years, to try to build political movement or party to succeed in the

elections on the national level, based on language, then religious controversies, and sometimes what can be used as a regional identity that combines religious and ethnicity -- "Slavic solidarity" movements.

All failed. No more than 2 percent.

So it's also a very important indication, the way how the national identity of Ukrainians is developing. It's a very significant component of the civic identity, and not very much of ethnic identity. Ethnicity is important. Language is important. Religions are important. And Ukraine is an amalgam of the regions, a former periphery of the Russian empire, of the Ottoman empire and Austro-Hungarian empire. So what would you expect from such historical legacy?

But it doesn't mean that -- if government is wise it would use it as a strength of the country, its diversity, rather than the source of the problem.

MR. BIHUN: Thank you for noticing the back row over here.

My name is Andrew Bihun from the Washington Group, and also in the U.S.-Ukraine Business Council.

I would like to, frankly, point to the two, I think, big moments, bold moments, and one certainly was the one that European and Ukrainian gas transit agreement that was signed. The other one was, frankly, meeting with the cabinet of ministers --

DR. NEMYRIA: Would you speak a little louder?

MR. BIHUN: Oh, the other one was meeting through the cabinet of minister the requirement for the second tranche, which occurred by the Prime Minister a couple days ago.

You mentioned also that the Japanese ventures that were made very recently by the Prime Minister uncovered -- not uncovered, but kind of exposed the need to go into new areas that have not been used in the past, such as the Kyoto Protocol.

Now from the U.S. side, not the Japanese side -- and, hopefully, prior to the presidential elections, whether it be October or later -- can we expect somehow that same kind of tone to be taken to some of the U.S. issues, or those things that should be used and lately have not been used, such as the resolution of the OPIC issue, which can open up, certainly, quite a few windows for Ukrainian benefit in the future. And, frankly, the Millennium Challenge Corporation -- some greater activity in those. There are others, like the XLM Bank, et cetera.

Is this something that can be expected, in view of, let's say, the reset button type of actions that have been taken recently by the Prime Minister?

DR. NEMYRIA: Thank you, Andrew. There are two concrete questions, and there are two concrete answers I would like to provide you.

The OPIC thing -- the Overseas Private Investment Corporation -- Morgan Williams, the leader of the U.S.-Ukraine Business Council is sitting here, and he knows the process. We, the government of Ukraine, finalized the process which requires two major steps to make. In the end of the last year memorandum between the Ukraine government and the U.S. government has been signed on the process to solve the issue. And just last week -- and that coincided with the IMF mission, which didn't prevent Ukraine government also to look into the opportunities that are available -- the government made the resolution on the OPIC, and it's resulted in a joint decision by two key ministers involved in this issue, the Minister of Defense and the Minister of Economy. And there is a protocol that confirms that the solution has been found.

The next step would be for one of the Ukrainian banks to provide the credit line for the company to be an executing agency. And I will be pleased to give the copy of this to the U.S. authorities while I'm here in Washington.

So this is a very concrete answer to your question. So the crisis is -- what's the present chief of staff Obama said on this, "The crisis is a terrible time to allow to waste" -- something like that.

So, with your permission, I would not quote -- and there are many quotes that I could make the President Yushchenko chief of staff, but I just limit myself to the quote of President Obama's chief of staff.

And the second question -- what was the second question?

MR. BIHUN: The Millennium Challenge.

DR. NEMYRIA: The Millennium Challenge -- right.

You know, I am a co-chairperson on the Ukrainian side with Mr. Gudcheruk of the Millennium Challenge process. And I would like to report to you to one of the very clear deliverables that we managed to achieve that has to do with the creation within the ministries of Ukraine, the line ministries, an internal investigation unit.

What we found that's the initial response that we received from the Ukraine's line ministries, either out of 24 basically pioneered and suggested their ministries to be a pilot site for such projects, which is a very important part of our anti-corruption efforts. What we found then, also, that it's not necessarily corresponds with the best European practices, in terms of the way how these internal investigative units are established and operating within -- on the executive level.

But there is a concrete deliverable I would like to report. The second part which is yet to be delivered, because the decisive role then still to be played by the parliament, it's the law that specifies the situation

of the conflict of interest with the civil servants, and oblige them, and provides a template for the proper declaration of their expenses and the members of their family, and also the code of the civil service. So this is the item that we walked through the governmental agency, and it's now up to the Rada to make a decision.

So what we want to expect -- and, unfortunately, as we know because of the process -- the threshold program, Ukraine is not available, or not -- available now, eligible, for this program. But this is something that is still yet to be completed, because there is a number of the opportunities that we considered within this program, including a program that would be specially designed on the regional development basis, for the regions like Crimea, or the old industrial region I'm from like Donbas.

So this is something to credibly think of. And especially if it's linked to the issue of the modernization of the energy sector and the energy efficiency, because the whole system of the communal heating -- this 29, more than 29,000 boilers in the districts in Ukraine -- needs to be modernized. And this is the way to link a program when and if it will be available.

So, Andrew, I hope I answered your questions in a very concrete sense, both on the OPIC and Millennium Challenge.

MR. PIFER: We have about two minutes more, so one last, very short, question, please.

DR. NEMYRIA: I'm surprised nobody's asking about the candidates for the presidential elections. That means that Ukraine is back to the normalcy.

MR. PIFER: Maybe that's a hint.

MR. DEBIAN: Alexander Debian, at SAIS.

Where do you see the relationship between Ukraine and NATO going? Either under Prime Minister Tymoshenko or, potentially, President Tymoshenko?

DR. NEMYRIA: Ukraine and NATO.

MR. DEBIAN: Yes.

DR. NEMYRIA: Right.

It has its own history, and it has its future. That's my short answer.

(Laughter.)

There is a future for the NATO-Ukraine relationship. If you want -- because Steven limited me for two minutes. If you want a longer answer —

MR. PIFER: I'm going to blame it on Ambassador (inaudible)

—

DR. NEMYRIA: If you want a longer answer, I will be pleased to give you this answer, because I am someone on the level of a Deputy Prime Minister who's responsible for the coordination, of domestic coordination of Ukraine's Euro-Atlantic integration policies.

Back in April of last year we developed -- and the team, our team, developed a draft presidential decree which responded to the criticism we received many times on the weaknesses of the system of the coordination of Ukraine's Euro-Atlantic integration policy.

We sent this to the Presidential Administration, to the National Security and Defense Council. And since that time, we have a very productive dialogue with those two institutions to finalize the process.

Last week I convened a meeting where the acting Minister of Foreign Affairs, Mr. Khandogiy attended, as well, where we discussed our progress in designing the annual national program, which is the new instrument that would substitute the annual target plans -- basically, a deeper instrument and more concrete instrument as far as Ukraine's NATO relationships are concerned.

And with all chapters, we discussed what needs to be done. And what we discovered, the most developed and sophisticated, and the high-quality chapter, is on the reform of the defense and military sector. Which is not a big surprise. Because if you took a scoreboard of the

particular ministries, the Ministry of Defense was always the leader on that.

But, as we all know, the Euro-Atlantic integration is not must about Ministry of Defense. It goes beyond the Ministry of Defense. It includes the Ministry of Defense, but it also has to do with all other areas of Ukraine domestic transformation.

So that's proved to be a major stumbling block, first in terms of understanding from inside that this is the core. And, secondly, to communicate it properly and to design the system which is working.

Therefore, the lessons we learned from the last year, and the years before, that it's not just important to communicate and do it professionally. It is important to create a system that delivers in a very technical, concrete -- sometimes boring -- way, but it is working.

And we recognize clearly that there are two limitations now. One, there is a lack of consensus within the NATO as far as Ukraine's speed of the integration into the NATO is concerned. And, secondly, by different public opinion polls -- but they could give you figures from the 18 to 25, 27 percent maximum, those who currently support Ukraine's membership into the NATO.

We know that this is the situation. We do consider it as a process, a process that takes time. And this is the direction we are taking.

And as you rightfully pointed out, it should not be so much important who is going to be next president. It is important that, on the level of the political leadership at large, society, there is a consensus that is built, that is firm, that allows to make choices, and then to clearly talk to the allies and the partners on the modalities, the ways and means, the forms, how this integration will proceed.

So the lessons we learned, in a nutshell: the best should not be made an enemy of the good. We are trying to make good of all those possibilities that exist now, as far as the NATO-Ukraine relationships are concerned.

MR. PIFER: Okay. Well, we need now to get the Deputy Prime Minister up to his meeting on Capitol Hill.

But first, please join me in thanking him for his appearance here today.

(Applause)

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