THE BROOKINGS INSTITUTION

UKRAINE'S DRIFT AWAY FROM EUROPE AND THE WESTERN RESPONSE

Washington, D.C.
Tuesday, March 27, 2012

PARTICIPANTS:

PANEL 1: UKRAINIAN DOMESTIC AND FOREIGN POLICY UNDER PRESIDENT YANUKOVYCH

Moderator:

Fiona Hill
Director, Center on the United States and Europe
The Brookings Institute

Panelists:

Edward Chow
Senior Fellow
Center for Strategic & International Studies

Nadia Diuk
Vice President, Programs—Africa, Central Europe and Eurasia, Latin America and the Caribbean
National Endowment for Democracy

Steven Pifer
Senior Fellow, Foreign Policy, Center on the United States and Europe
The Brookings Institute

PANEL 2: U.S. AND EU POLICY TOWARD UKRAINE

Moderator:

Steven Pifer
Senior Fellow, Foreign Policy, Center on the United States and Europe
The Brookings Institute

Panelists:

Daniel Russell
Deputy Assistant Secretary, Bureau of European and Eurasian Affairs
U.S. Department of State

Pirkka Tapiola
Strategic Planning Division
European External Action Service

* * * * *

P R O C E E D I N G S

MS. HILL: I wanted to welcome you here today to our session -- two sessions, in fact, on Ukraine. I'm Fiona Hill, the director of the Center for the United States and Europe. This is the first of two panels that we're going to be having today. We're going to end promptly at 3:00 because one of our panelists has to rush off to the airport to go to Ankara, which is rather exciting, maybe we should all go with him. But I would actually advise most of you to stay for the second session, which will begin after the coffee break. We'll have a short coffee break from 3:00 to 3:15 and then start on the second panel.

We have with us today, in order in which they will offer a few comments, Nadia Diuk from the National Endowment for Democracy, who many of you know is a long-term commentator on Ukraine, among many other things. At NED, Nadia has a vast empire, however, that she has to preside over and Ukraine is only one of many issues from Africa through Central Europe, Eurasia, Latin America and the Caribbean.

So, I'm sure you're going to have all kinds of comparisons with interesting places for Ukraine here and it will interesting to find out how Ukraine fits in because Nadia is going to talk about the domestic political developments in Ukraine over the last couple of years.

Then we'll have Edward Chow, who many of you know is one of our colleagues from CSIS, a senior fellow there, and Ed is an expert on energy issues, also writ large, underscored by the fact that he's off to Ankara, and last time I tried to find Ed for a panel, he was in Turkmenistan. So, Ed also gets about.

As he just said on the way in, if anybody's chasing him they'll get very tired because he's always off somewhere. But we're delighted to have him here today to be able to give us his perspective on how the economy of Ukraine is developing and also,

obviously, on the vital energy issues which Ukraine is always at the center of.

And then we have my colleague from Brookings, Steven Pifer, senior fellow here, also a former ambassador to Ukraine and the head of our Arms Control Initiative here at Brookings and Steve is going to talk about the foreign policy perspective, some of the implications of recent developments.

So, we'll start right away with Nadia. Each of our panelists will give a few points for overview for the next 5 minutes, 10 minutes or so, and then we'll open up to the floor to you for questions and also any comments that anybody may have from the floor. Nadia.

MS. DIUK: Thank you. Since I know that Brookings Institution just actually had several events on Ukraine in the past few years, even though Fiona introduced me by saying that I would review what's happened in the last two years, if anyone's been reading the newspapers they generally know what's been happening the last two years. And I won't focus so much on domestic politics because there's a lot of it, but maybe I can kind of go back to my own sort of grassroots and that is the issue of democracy since democracy really is the main issue for Ukraine right now, and particularly in relation to any discussions with Europe, any discussions with the West, and I kind of see interestingly in our title, the West has been revived for the purposes of talking about Ukraine.

So, it is important for Ukraine to demonstrate that improvements are taking place, but ironically, it's the principles, values, and practice of democracy that the Ukrainian government leaders often seem to find the most difficult to understand.

And I have heard it said by people who work with Ukrainian government leaders that the predominant view in their relationship with them is that everything is a deal, there are really no principles, which is kind of a disappointing thing to hear.

But the Europeans are demanding it, the U.S. assumes that its strategic partners will share its values, so really this is -- this really is the question of the day.

All of the indexes show that Ukraine is sliding back in terms of democracy, media freedom, corruption, and so on, selective prosecutions show the continuing breakdown of any rule of law, and so on. I won't enumerate these because I'm trying to keep away from that sort of standard laundry list of everything that's wrong in Ukraine, which a lot of us know, but what I thought -- well, Ukraine citizens also believe that Ukraine is not going in the right direction.

Some recent polling that was conducted as recently as March 7th shows that 71 percent of Ukrainians believe that Ukraine is going in the wrong direction as opposed to 13 percent who believe it's going in the right direction. These figures are part of a tracking poll funded by NED. The first set of figures were -- the first round was conducted in November 2011, when the figures were actually not substantially different, people are not any better off financially, and also another important point on this poll was that most people do not expect that the economic situation will get any better in the next 12 months.

So, this all has to be sort of put into the context of the two big events coming up this year, both of which are very important for the relationship with Europe and the first, of course, is the October 2012 parliamentary elections when Ukraine must show that it has conducted a free and fair election, or at least one that is acceptable to Europe and the West. And the second event is, of course, the 2012 European soccer championships, which were awarded on a joint docket of Poland and Ukraine when Ukraine's progress toward Europe looked a little more promising.

And I mention that second event not out of any sort of casual, flippant reference, but, in fact, one does affect the other. In speaking with civic activists in the

regions of Ukraine, there is a sense that they feel that the government is trying to wrap up everything for the elections before the so-called "*Evro"* starts, and that's at the beginning of June. That is, they believe that the authorities are pushing to have all of the mechanisms that are going to be used in the elections in place by this time. And, of course, after the *Evro* it's July, August when nobody does anything, then the political seasons starts in September and then really things must be in place by the time of the election in October.

But actually I do have some good news, which falls into the category of maybe I can tell you something you don't know. While all of the indexes have been backsliding and on the surface things look not so good, civil society activists in Ukraine have been very active and actually have some successes to report. And the first is the new law on NGOs, which was passed by 334 votes in the parliament on March 22nd. This has to be signed into law still but the outlook is fairly promising that the president will sign it.

The key points in this law are a better definition of the work that civic groups can conduct, that is, it will be particularly effective in the area of advocacy and also some profit making activities. Prior to this, under the legislations, Ukrainian NGOs were not allowed to actually make money on any of the products that they produced. And also some slightly more logical registration procedures.

The second piece of good news is the -- well, it could be good news -- the second piece of news is that the president's new strategy on the state policy to support the development of civil society in Ukraine, which was signed as an Ukaz of the president on March 24th. Now, I know this sort of style sounds a little strange to Western ears that there should be president's policy to develop civil society, but, well, that's the way it is in that part of the world.

And this effort was actually launched originally by the government under pressure from the EU as part of the membership commitments to enter into an association agreement and also as part of the Eastern Partnership Agreements. The main provisions -- the main point here is that after the government accepted that they would produce this strategy, some of the main independent think tanks actually did start taking part in this process and so the final result actually has been based on cooperation between the government and some of the major sort of independent civic players in Ukraine.

There is a coordination council of civil society folks and there is an assumption that there will be some funding from the public budget available for civil society groups.

Now, of course, this legislation and this strategy could cut both ways. In Russia, for example, when there has been an attempt to fund civil society on the part of the government, you know, through the public chamber, it's often been used as a way for the resulting commissions and councils to actually substitute for and push out political parties and as a way of controlling civil society, which is always a possibility in Ukraine as well. But on balance, and given Ukraine's unique and positive experience with civic activism, I think that seems a little less likely to happen to me, although I'll welcome anyone else's comments on that, too.

And also the strategy actually introduces a sort of new lexicon for the government using sort of terms of democracy, which I think the government is not used to using, but they all appear there in that *stratehia*. I urge everyone to read it. It's an interesting document.

Just a couple more points, because I think I'm probably running out of time. What's going on with the media, also another very important part of how we view

democracy in Ukraine?

There have been many reviews of the backsliding and the pressures against freedom of the press in Ukraine, and although the situation is still that direct censorship is rare, there have been instances, like very recently for example, where the State Committee for TV and Radio has issued instructions to the directors of Oblast and regional TV companies to showcase Yanukovych's social policies in a positive light. That probably means the fact that he recently increased pensions for the old folks to make them -- well, that's the sort of standard pre-election procedure now that was used not only by Yanukovych but by other of his predecessors too.

But in general, the media is suffering because of the editorial pressures generally exercised by owners. Most independent journalists have been pushed out of TV and into the Internet and while the Internet remains very free, it really is still the case that most Ukrainian citizens get their news about politics, about government still from the TV. Recent polls show about 95 percent.

Maybe I'll just say a word about the elections, too. The election process is in full swing. The majority districts are now currently being worked out and the Central Election Commission has to confirm these, I believe, by April 10th. Of course this is now in line with the -- once more putting into place the 50-50 system in Ukraine, which, if anyone remembers, and I'm sure many people in this audience do, in 2002, that was the system that was used, 50 percent on a proportional system, 50 percent according to majoritarian districts, and even though Our Ukraine, in those 2002 elections, won 25 percent of the vote, anyone who followed the way that the parliament evolved after that can be sure that there are very many ways of manipulating the parliamentarians once they get to the Verkhovna Rada, so this is something we all have to be aware of.

The mayoral elections in Obukhiv, a place just outside of Kyiv, where an

interesting test run for elections in October. The Party of Regions candidate won, but with a very low turn out. The two opposition candidates actually got more of the votes but since they split the opposition vote, the Party of Regions candidate won, and perhaps the most important thing was the now very famous and viral video clip of poor old Iryna Hirashenko being picked up by the Party of Regions person, Petromel'nick who tried to physically pick her up and carry her out of the polling station because he decided that she didn't need to be there, which was actually a kind of shocking lack of respect, I thought, for sort of women in general and actually very symbolic of the attitude that many of the Ukrainian leadership have towards women in general.

So, is it -- the election law actually was passed by a majority 330-something, but are the elections likely to be free and fair? Well, if you take a look at what's going on in the top echelons of power, I think you get the sense that maybe everyone needs to be alert. The only item I have on this, which I've left sort of unfinished, is a title called the emergence of the family, the family being, of course, the Yanukovych family, these are references that you find now increasingly in descriptions of what's going on in Ukraine.

I believe our friend Anders Aslund has written a very good piece for Russian *Forbes* magazine where he sort of itemizes who's doing what to whom in the oligarchic groups, I won't go through all of that now, but according to Anders, the number of oligarchic groups in the government has been reduced from nine at the beginning of the Yanukovych administration to now three main groups. So, this centralization of power and the cabinet reshuffles in favor of individuals who are loyal to Yanukovych does not bode well for the prospect of free and fair elections.

I'd just like to finish off; I'd like to highlight a couple of trends which I see as interesting. And one of them is that I keep on hearing reports on increased activism of

ordinary citizens, not everywhere, only in some places, but that ordinary people are now getting interested in what is happening on -- in the sort of political area and as well since politics now is sort of devolving very much down to the local level, this also sort of opens up all sorts of possibilities for people on a local level to express their views more, which they appear to be doing in some places.

And the second trend is increasingly becoming evident, a sort of increased disgust with the leadership on the part of many people, a sort of feeling of complacency that you really can't change much. Maybe these are two countervailing factors, but I think there is a danger, looking to the long-term, that the institutions of power and the institutions of government are in place in Ukraine. And if the current Ukrainian government continues abusing them in the way that it does, that those institutions themselves may, at some point, start to lose legitimacy and then, I think, they will be -- then we're into a whole sort of category of problems that we don't have so far.

Anyway, I think that's probably more than 10 minutes.

MS. HILL: Well, thank you very much, Nadia. You've really set the scene for us here. And I wonder, Ed, as we look to some of those latter comments about the emergence of the family and, obviously, this concentration of wealth that Nadia was talking about as well as of central power, about how much this feeds into or is fed by some of the issues in the energy sector.

There's also, of course, the big question about whether Ukraine's Russian neighbors will move forward with the infamous South Stream Pipeline by 2015, which is still very in play, at least in terms of being discussed very actively and what impact this might have.

So, I'd actually ask you to look forward, as well as looking at how things are right now.

MR. CHOW: I'm shocked, Fiona, that you would suggest that there's a possibility of non-transparency in the Ukrainian energy sector.

I've been up here thinking what I can say that's both short and not repeating myself to many of the people in this room about the Ukrainian energy sector.

I think it was Marx who said that history repeats itself, first as tragedy, then as farce. I wonder what Karl would say when the same gas crisis happens six, seven times in a period of ten years or so, how you would characterize that.

Here we have a country with the best endowment in the world in terms of natural resources, a country that used to export gas to the Russian republic during Soviet times, up through the early 1970s, that has plenty of conventional gas opportunities to exploit, and yet is dependent on importing high price gas to feed its, so far, un-modernized industrial infrastructure.

Why is it that Ukraine keeps being put in the position of an incomplete transition 20 years after the collapse of the Soviet Union or, as one of my Ukrainian colleagues said recently, remain unreformed in terms of its energy economy? And certainly, transparency and corruption is part of the equation there.

And the solution is obvious, the solution has been described by the Ukrainians as well as international experts for many, many years, it has to do with cleaning up the non-transparent business practice of the energy sector and most of all, pricing reform.

People often think about pricing reform particularly if it comes with an IMF prescription as focusing only on retail gas prices or what the industry would call burner tip prices, and this goes far beyond that. I understand why the Fund emphasizes it, because of the fiscal impact of subsidized energy on the Ukrainian budget, but it's not only burner tip prices, but what the industry would call well head prices.

Why is Ukraine paying its own producers 40, $50, I don't know what the current right number is, but in that neighborhood per 1,000 cubic meters and importing Russian gas more than $400 per 1,000 cubic meters, which provides a disincentive to invest for domestic production? Also, how do you plan a modernization of equipment, of housing stock, and so on, when you don't have market-related prices to plan on so these long term investments can pay out?

There is a tremendous opportunity, I think, that was missed in 2005, I'm not particularly focused on this administration, although I don't allow this particular presidential administration to escape on criticism, but I'm not directing this particularly on them. This has been through many different presidents of Ukraine, through many different prime ministers, cabinet ministers, the entire energy sector remains unreformed.

And if the opportunity had been taken up in 2005, we could have seen a three to five-year transition period to market related prices, and where would Ukraine be today in 2012 if it had embarked on a path towards reform? This is not news to the ambassador, who was among the first delegation, if not the first delegation, to arrive in Washington at the beginning of 2005, as I recall. So, I said the same -- gave the same messages then as I give to the Ukrainian authorities now.

And this is well known, as I said. Ukrainian experts know about this. This is a country that knows how to do things, that's very knowledgeable, capable; it doesn't need advice from the outside. The question is what is missing.

And what is missing is the political will to proceed with reform, which is, of course, always difficult. There's always an election around the corner. You can use that excuse. I heard recently, maybe this morning, that some American politicians also use elections as an excuse.

But now there's always another election around the corner. The

politicians, if they are sincere about reform, needs to invest political capital to persuade the public why this is sound policy and proceed with it and do it through a transition period.

It also raises the question, it seems to me, given the reluctance of various Ukrainian administrations to proceed on doing what they know must be done, what they say during campaigns or when they are putting together plans written by nice consultants from McKinsey or elsewhere, that this is what they need to do and then once they're in power they proceed to ignore it.

What is the role of the outside world if it seeks to assist Ukraine and display true friendship towards the future of Ukraine? Just in the past month or so we've had Secretary Clinton visit with the Ukrainian president at Munich. We've had an assistant secretary for Europe visit Kiev. We've had Ambassador Morningstar meet with the foreign minister at the Brussels Forum yesterday, I believe.

We had, today, in Seoul, a meeting between our two presidents. What are the messages that are being delivered? Are those messages required only to be delivered in private or do we need to start speaking more publically and more directly to the Ukrainian public who, after all, is most affected by the state of affairs? Because otherwise, if we continue to pretend with the Ukrainians that the situation is sustainable, then I start to think about Ukrainians treating us according to another Marx, in this case Groucho, who said,who are you going to believe, me or your own two eyes?

Thank you.

MS. HILL: That's good. Nice to have from Marx to Marx. Interesting. Very good. Steve, can you match that?

MR. PIFER: Afraid not. But let me talk a little bit about what this means for foreign policy. And I'll go back first and start in 1991, when Ukraine regained its

independence, and say that one of the primary, if not the primary challenge, in foreign policy for Ukraine's leadership has been to get the right -- to get the appropriate balance between its large Russian neighbor on one hand, and the West on the other. And getting that right, really, has been key to whether or not Ukraine's foreign policy has been successful or not.

And I'll just take one example. I think Leonid Kuchma actually did a fairly good job of getting the balance. If you go back to 1996, 1997, in '96, here in Washington, he reached an agreement on a U.S.-Ukraine strategic partnership, established the Gore-Kuchma Binational Commission. A few months later in Brussels, Ukraine began negotiations on what was ultimately a NATO-Ukraine Distinctive Partnership.

And at the same time, that had an impact on Ukraine's relationship with Russia. Boris Yeltsin, in May of 1997, for the first time in several years, came to Ukraine, signed a treaty of friendship and cooperation that had the unambiguous Russian recognition of Ukraine's sovereignty and territorial integrity that Ukraine had been seeking for five years, and also reached a settlement on the Black Sea fleet issues on terms acceptable to Ukraine.

In 2010, President Yanukovych took office. And I think it was pretty clear from what you heard from the people around him that his first priority in his UN foreign policy had to be repairing what he saw to be a badly damaged relationship with Russia. And within weeks, really, you saw movement on this. Ukrainian officials saying Ukraine was not interested in joining NATO, did not want a membership action plan. Ukraine stopped the campaign to have Holodomor recognized as genocide. Ukraine stopped pushing so hard Ukrainian language within Ukraine, all issues which had been irritants on the relationship between Kyiv and Moscow.

And then in April of 2010 you had the Kharkov meeting where the

Ukrainians agreed to extend for 25 years beyond 2017 the presence of the Black Sea Fleet in Crimea in return for the Russians agreeing for a 10-year period of the contract to a lower price of gas that the Russians charged to Ukraine.

I'll leave it to people like Ed to decide whether or not Ukraine actually had to do that, but it is what it is.

However, at the same time, when you talk to people in Ukraine, what they were saying is, look, you're going to see this effort to fix the relationship with Russia. But ultimately you will see that it will be in the context of a policy that pursues balance between Russia, on the one hand, Europe and the United States, on the other. And very early on you saw, for example, President Yanukovych and other Ukrainian officials saying they would not bring Ukraine into the customs union with Russia, Kazakhstan, and Belarus because that would preclude Ukraine from joining a free trade agreement with the European Union, which is the higher priority.

What you also heard from Western diplomats in Kyiv in 2010 was that Ukraine was taking a much more serious approach. It was doing its homework to get ready for an association agreement and a free trade arrangement. And also, on the other side of the coin, by the summer of 2010, what one could hear from administration officials was this growing sense of frustration about Ukraine's relationship with Russia, a view in Kyiv that Ukraine had done what it could to move irritants in the relationship with Moscow, but was not getting a reciprocal approach, instead just getting the Russians pushing for more.

So, by the end of the summer of 2010, by the fall of 2010, what you could see was, in fact, this balanced approach emerging. And then I think domestic issues got in the way. I think Ed's talked a lot about some of the problems in terms of lack of reform, corruption in the energy sector. What that means in terms of Ukraine's

foreign policy is it's getting a lot less interest from Western energy companies in Ukraine because it's just a very hard place in which to do business.

And Nadia's talked about some of the problems on democratic backsliding. Certainly, by the first part of 2011, democratic backsliding in Ukraine was beginning to affect how the West looked at Ukraine, and the arrest, the trial of Yulia Tymoshenko came to epitomize that.

Now, there were, I think, some very clear messages sent, including sent to President Yanukovych directly. In September, you had the message from Hillary Clinton and Catherine Ashton, Swedish Foreign Minister Carl Bildt, and the EU Commissioner Stefan Fule met with Mr. Yanukovych in September, had what I understand was a very candid conversation about the damage that democratic backsliding, and specifically the Tymoshenko case were doing to Ukraine's relationships with the European Union. This was also followed up in meetings that took place in November with the Lithuanian President and the Polish President, but we haven't seen much of a change in course, and I think the results become apparent.

At the end of this week the association agreement will be initialed unless there's been some change, but I think it's also very clear that from what members of the European Union have said is that there will be no move to sign or ratify in the near term until Ukraine does something about the democratic backsliding.

When the EU president, President Van Rompuy was in Kyiv in December, he was very clear about that in his press conference, said, we can't sign, we can't ratify, it depends on political circumstances here, and he specifically linked it to Tymoshenko. And I would think also that -- in fact, it was probably due to the fact that Poland had the EU presidency that there was even any Ukraine summit in December.

Here in Washington, I think Ukraine has fallen off the radar. And it's

fallen off the radar in relative terms in that Ukraine, probably between 2005 and 2009, received more attention than Ukraine might have because it was a good story on the democracy side. And that democracy story fit in very well with what the Bush Administration was making one of the defining themes of its foreign policy, but today you don't have that. And the democracy story in Ukraine, unfortunately, is a negative one.

Now, looking at this, it seems to me that Mr. Yanukovych is making a couple of major miscalculations both with regards to Russia and with regards to the West.

On the Russian hand, there seems to be this sense in Kyiv that because the way Ukraine solved problems in 2010, that should, you know, fix the relationship and there should be a reciprocal approach for Moscow. But I think it's pretty clear, even going back to last week when Mr. Yanukovych met with President-Elect Putin in Moscow that the Russians are going to be pretty hard-nosed negotiators on this. They're not showing much flexibility, for example, on the issue of gas prices, and I don't think that that's going to change in May when Mr. Putin returns to the presidency.

Also, I think Mr. Yanukovych has made a major miscalculation with regards to the West. He seems to believe that the West will somehow overlook the democratic issues that we'll put aside these value questions, and my sense is he's just plainly wrong on that. That seems to be also shaped by what I would call on Kiev's part, a tendency to overestimate the value that the European Union attaches to Ukraine. You almost get the sense sometimes that there's a feeling in Kyiv that Ukraine should matter more to Europe than Europe should matter to Ukraine.

And this is playing out at a bad time when, if you look at the European Union, there's a big focus now on internal questions, the euro zone crisis and such. And as this democratic backslide goes forward, what it's doing is it's giving some EU members, who I don't think are particularly enthusiastic about engagement with Ukraine.

It's giving them basically the reason to say, look, we ought not to pursue this, that when they point at this they can say, Ukraine does not share European values, they're not ready to become part of Europe. And so it's making it harder for Ukraine to argue its case.

So, the result, I think, here is actually going to be a very negative one for Mr. Yanukovych because he's going to have a deteriorating relationship with the European Union and the United States, which is bad in and of itself, but also that weakening of the relationship with the West is going to put him in a more difficult position when he has to deal with Russia.

So, I guess the question is does Mr. Yanukovych get it? Does he understand this?

Last fall I thought he did and I had understood that -- and people who had been discussing with him said that, yeah, he understands that there's a problem that he has to fix. But I'm less sure now because you haven't seen a change in the kind of policies that would be necessary to change that Ukrainian relationship with Europe.

I guess the next question would be does he care? Is he so preoccupied with pulling together political and, particularly, economic power domestically that he's not thinking about foreign policy? And that could be. I don't know, but I would say he probably is not going to have the luxury of not caring. At some point it's going to be a very difficult situation for him.

So, the question is, you know, before the need to change course and Kyiv is recognized, how much damage is going to be done to Ukraine's own interests?

MS. HILL: That's not the most uplifting ending point, Steve, the damage being done, but I guess one of the questions may well be, then, what will it take to actually understand that damage has been done? What might be one of the tipping

points or turning points or points of realization? I wonder if Ed or Nadia might have any thoughts on this. I mean, when does foreign policy become somehow important or the foreign policy manifestations of the domestic policy?

MR. CHOW: I forgot to answer your question on South Stream, so --

MS. HILL: Is that one of them?

MR. CHOW: Yes.

MS. HILL: It's 2015. Yeah.

MR. CHOW: Yeah. I'm increasingly of the view that South Stream is the best thing that could happen to Ukrainian energy policy, not necessarily the best thing to happen to European gas consumers who will eventually have to pay for a very, very expensive project, not necessarily the best thing to happen to the Russian gas sector, individuals aside, given that money that needs to be invested upstream will be diverted, instead, to a very expensive transportation project.

But you remove the temptation of the corruption that existed in the gas transit business since the collapse of the Soviet Union. That game actually ended in 2008. The Ukrainians pretend that it hadn't.

It ended in 2008 because the fundamental building blocks of that trade were removed when Russia started paying market-related prices to Turkmenistan for gas. And you no longer had the opportunity to resell that "cheap" Central Asian gas into the far broad market at a large premium with the resulting money going into the right pockets.

So, that game ended in 2008 and the 2009 gas deal was a recognition of that. The problem is that having -- no longer having the possibility of receiving cheap gas in Russia, Ukraine then proceeded to sign technically flawed gas agreements in 2009 and repeated itself in spite of what Mr. Yanukovych said during the political campaign,

repeated the same mistake in the Kharkov Agreement in April of 2010, which is to agree to a very high base price for gas with a "discount."

I have a 20-year-old car that I would like to sell. I don't know how much it's worth, but, Steve, just for you I'll give you a 30 percent discount.

So, if you start out with the wrong base price and give yourself a 30, 20 percent -- which was what Tymoshenko claimed in January 2009, it really doesn't matter, it still adds up to $400 per 1,000 cubic meters, which is no discount at all. I don't really understand why everyone, including the press, continues to repeat the lie, which, analytically, I pointed this out in April 2010 as well as in January 2009.

So, the building of South Stream, the removal of the transit trade, would force Ukraine authorities to look at what they have to work with, which is the possibility of producing more conventional gas in Ukraine, not the far away stuff of shale gas, LNG, and Odessa, importing gas from Slovakia, which is the latest bright idea, which I find slightly amusing, and focus on what could be done in terms of energy efficiency and producing more domestic resources, and stabilizing its gas relationship with Russia that is not tied to politics.

As someone from the energy industry, I fundamentally distrust agreements made by prime ministers or presidents because if there are political grounds under which grievances are made, there may be political grounds to one party or another to want to change it later. It does not lead to stable, transparent business relationships, which Russia and Ukraine should have in energy without all the other baggage that's been around.

So, watch out for South Stream.

MR. PIFER: Let me add, if I could, two comments on that. One is, the Russians have been talking about South Stream for a long time and I guess I was of the

view, up until a while ago, that this was all part of a bargaining game with Kyiv by saying, look, if you don't agree to terms that we like in terms of use of the gas transroute network through Ukraine, we're going to build this pipeline. And I've actually now come to believe in the last few months, I think the Russians are going to go ahead and build it anyway, that they decided that there are geopolitical reasons, and that way they can move large amounts of energy to Europe with -- totally bypassing Ukraine.

And I agree with Ed, I think that that's probably going to, in the end, be a good thing for Ukraine, although it's going to be painful.

The second point is to build off Ed's comment that, you know, while Ukraine may have possibilities for unconventional gas, shale gas, things like that, Ukraine actually does have a significant potential to develop its conventional gas. And I go back to 1998, when a large Western energy company left Ukraine and said, we're leaving not because we don't want to do business here, it's just we're looking for mega fields and there's not a mega gas field in Ukraine. But they said, but we have a ton of geological data, which we have turned over to the Ukrainian government that shows how they could develop the existing fields in Poltava and increase production of conventional gas from 50 to 100 percent.

And here we are 14 years later and the gas production of Ukraine's gone up, I think, about 3 percent since what it was in 1998. And that reflects the sorts of problems that Ed was alluding to in terms of the gas sector. Until Ukraine really reforms that sector and makes it possible to function in a normal way, whether you're talking about conventional gas, shale gas, offshore gas in the Black Sea, it's going to be a very problematic situation in Ukraine.

MS. HILL: Well, an interesting historical analogy with Poltava. Lots of things get decided on the Poltava fields, in this case the gas fields.

Nadia, how will this resonate on the domestic front as far as you can see? And then I'm going to actually ask the ambassador if he'd like to come in on this as well.

MS. DIUK: Well, actually, I mean, you were asking about tipping points, what is the tipping point -- when does the Ukrainian leadership realize that some of the things it's doing are really against its own best interests?

Well, and I've puzzled over the Tymoshenko case now over and over and still really don't quite understand why this case continues in the way that it's continuing when it's obviously damaging Ukraine's interests on all fronts, and particularly with the relationship to the EU. I mean, it's been expressed many times from the Europeans.

So, you have to come to the conclusion that there are so many more issues here at stake, and also at the very heart of it, some sort of very opaque, possibly personalized vendetta that the leadership of Ukraine is waging against Tymoshenko, possibly personally, although I don't want to detract from her case, but that there are actually a few hundred sort of smaller business men from opposition ranks who have been arrested, harassed, and imprisoned as well, so Tymoshenko is not the only one.

I haven't really come up with a solution as to why does the Ukrainian government not at least make -- at least give some sort of semblance that what they're doing is in line with some kind of rule of law with some kind of rules and constitutional regulations that it has itself. But that really is a puzzle.

So, the conclusion of that is, well, the Ukrainian government is sort of infinitely capable of doing many things to damage its own interests, and is there an end point in sight? Well, so far I'm not aware that the Ukrainian government has actually complied with the European Court of Human Rights' ruling that Tymoshenko should be

moved to a medical facility. Has that happened? This is just recently -- no, so not even any sort of small step in the right direction.

So, yes, infinitely capable of doing damage to their own interests. No tipping point.

MS. HILL: I'm going to open it up to the audience and first I'd like to give the microphone to Ambassador Motsyk.

MR. MOTSYK: Thank you very much. Thank you much, first of all, for organizing this event, for giving me an opportunity to share with you some thoughts and I also would like to express my deep gratitude to the panelists for their very open and candid exchange of views on Ukraine.

First, because we are talking about Ukraine and European Union and the United States, Ukraine needs the European Union and the United States, and I am certain that both the European Union and the United States need Ukraine as well, and they need a democratic and prosperous Ukraine. That's why we really appreciate this and other events on my country.

Ukraine is committed to European values. We strive to become a full-fledged member of the European Union. EU integration is the main priority for our foreign and domestic policy. Last year, Ukraine successfully completed negotiations with the EU on the association and deep and comprehensive free trade area agreement.

This agreement, to our mind, serves best interest of both parties, Ukraine and the EU. The current government embarked on the ambitious program of reforms. The implementation is underway now. These reforms were long overdue. Unfortunately, previous governments did not dare to attempt addressing the painful issues of development.

The current government has achieved 5.2 percent GDP growth in 2011

and beats global financial crisis. This came even as we paid last year a draconian price for Russian national gas, the price that we are obliged to pay as a result of 2009 gas deals with Russia. It is ridiculous, but today this deal makes it cheaper to import Russian gas from Germany than from Russian Federation, and really, it's a very big burden for economy of Ukraine and the effect is really quite destructive.

The ultimate goal of our reforms is to transform Ukraine into a prosperous and democratic European country. After all, Ukraine does not choose between market reforms and democracy, because these two components combined will guaranty us the way of European development, improvement of living standards in Ukraine, and our rapprochement and accession to European Union.

Realizing that the forthcoming elections will be a litmus test of our continued advance towards democracy and the rule of law, the current Verkhovna Rada of Ukraine passed by a constitutional majority, the election law that was supported by all parliamentary parties, both ruling and oppositional.

The election vote was praised by the Venice Commission and the Parliamentary Assembly of the Council of Europe. President Yanukovych declared his commitment to hold the elections freely and fairly in accordance with the letter and speed of election law, and with adherence to the principles of democracy and equal participation in the election process.

Meanwhile, Ukraine has sent early invitation to international observers to monitor the election process.

Finally, those of you who read Ukrainian newspapers may see that almost everyday corrupt officials are taken into custody because of bribes, and the government is not going to lose this fight against corruption.

And maybe a couple words about Ukrainian-Russian relations. We

stand for a friendly, good neighborly relations with our neighbor on the basis of sovereign equality, mutual interests, and transparency. And, yes, we are interested in further development of relationships with Russian Federation on the understanding that Ukraine proclaimed as its main purpose, integration into European Union.

In conclusion, I'd like once more to assure you that Ukraine stands firmly for its European future as a prosperous market economy, democratic state that respects rule of law and human rights. Thank you.

MS. HILL: Thank you very much, Ambassador, and our next panel, beginning at 3:15, will focus on more detail on the U.S. and EU relationships and will have representatives from the EU. We have Mr. Pirkka Tapiola already here in the front row and then Dan Russell from the State Department who will pick up on some of these themes.

Opening up now to the floor, focusing, if we can, somewhat on the domestic side of things, and take the first question here -- I'll take three questions together and then come back to the panel and obviously give the opportunities here.

MR. SMITH: Keith Smith from CSIS. I don't know Ukraine as well as the panelists, but I spent a long time as a diplomat and I made a lot of mistakes in judgment. I estimated governments wrong in, I can think of many, many cases, but after being -- I was in Ukraine, Kyiv three months after the Yanukovych government, this one, took over and somebody in the U.S. Government asked me to give them a summary of what I thought, and I said two things. One, I thought the level of corruption would increase, and two, that the main thing would be to make sure they never lose another election.

And I think that when we talk about actions by the government that are against their own interest, we have to put ourselves in their place, which is something I failed to do many times over my career, and I think that they see this as, no matter what,

the most important thing is to make sure they never lose another election, no matter what, no matter what it takes.

And it think that that's what their pattern has been from the very beginning, and paying off some debts, the debts to Dmytro Firtash, for instance, for his election support. The first thing they did was put in jail Igor Didenko, which was a payoff for, you know, carrying out Tymoshenko's order on gas -- moving the gas from his control to Naftagas' control. And you can see this in a whole pattern of things. It's paying off a certain campaign debt and ensuring that there not be a loss in the next election, and I think that's how they see this as even more important than a balance between East and West or getting into the EU or anything else, quite frankly. Thanks.

MS. HILL: Thanks for that observation, Keith. There was another question. Yes, over here, this gentleman. The microphone is just behind you, sir, and if you could introduce yourself, please.

MR. GAWDIAK: Yes, my name is Ihor Gawdiak. I'm from the Ukrainian-American Coordinating Council.

My question is to all three panelists, but particularly to Nadia Diuk. Do you believe that the recent joining by Petro Poroshenko of the Yanukovych government will have any significant impact on both the economic and other domestic policies?

MS. HILL: Thank you. And I saw another question over here. No? Somebody put their hand up earlier. Yes, this gentleman at the back.

MR. KARMAZYN: I'm Adrian Karmazyn with Voice of America, and I'm wondering if anybody on the panel has heard of any interesting propositions, any face-saving measures in which the authorities could find a way to release Tymoshenko and Lutsenko . Is there really any way out?

MS. HILL: Okay. Nadia, we'll start with you. You don't have to start with

that one right away, but --

MS. DIUK: Actually, just to support Keith's comment there about most important thing to never lose an election, I mean, that seems to be -- if there are any principles here, then maybe that really is the main one. I think you've really hit on something there.

Poroshenko, yeah, I mean, it does seem strange in a situation where there seems to be a sort of coalescing, where oligarchical groups are coalescing into those three groups that actually our friend Anders described as taking over the cabinet. Poroshenko does not belong to any of them, so it seems a little odd that he, at this point, would join the government as a minister.

You know, it's hard to know, but sometimes there's -- Mr. Poroshenko likes to kind of keep up with politics in Ukraine. He actually had a very interesting presentation here just across the road at SAIS a couple of months ago, three or four or five months ago now, which was actually quite critical of the government, in many ways, so now he's joining it. I mean, maybe there is something to it where if you can't beat them, join them. Or maybe, as many businessmen in Ukraine, he doesn't want to destroy all of his businesses by making a point of principle.

We shall see. He's still a relatively young man and maybe he wants to make sure that he has a career in Ukraine. I don't know.

Face-saving measures on Tymoshenko. I think, you know, every time that something is proposed that, oh, maybe the charges can be decriminalized or maybe there can be a rerun of the trial. I mean, there have been many things that have been thrown out as face saving measures, none of which have been taken up in any way by the president's -- by the people around the president or the president himself.

So, I tend to think that the time for face-saving measures has actually

passed and we're into much sort of deeper, darker psychological territory here.

MS. HILL: Ed?

MR. CHOW: Well, it's a bit beyond my competence. I think Mr. Poroshenko, over the years, has proven himself to be a rather flexible gentleman. And this is not the first time he's allied himself with regions by the folks who -- my Ukrainian friends continue to try to educate me on Ukraine tends to point this out to me.

I don't think it's going to make any difference at all. I mean, I think we've looked for people like that before, Tyhipko was the one that was supposed to civilize this government in some ways, makes it more able to deal with international institutions, he's now merged his party into the Region's Party.

I'm not sure we've seen any positive impact in the last year and a half on the part of what was, you know, used to be seen as traditional politicians in Ukraine joining the fold.

I love this term "party of power," which I learned by visiting the former Soviet space, that, you know, if you are a large businessman, and if Keith is right, there are some parties who choose never to allow themselves the possibility of ever losing power, now it may be nice to ally yourself with the party of power, whoever those folks are.

But in terms of impact, I don't really -- I'm certainly not forecasting it.

MR. PIFER: I'd say, I mean, I think the face-saving solution was out there last September and October, and certainly after the meeting between Foreign Minister Bildt and EU Commissioner Fule with President Yanukovych. I think they came away from that meeting with a sense that, you know, there is an answer. It was an answer, quite frankly, that Mr. Yanukovych himself, in a public conference, alluded to, which was the idea of looking at the criminal code and perhaps revising it including

removal of the article which was the basis for the trial against Tymoshenko, and that seemed like a very elegant way out in the sense that nobody had to lose. The Rada simply modernized the law and now the law with this trial goes away and it would have been a perfect way out.

But as we saw in October, the Ukrainian government, and I think under the influence of the president and the Party of Regions, chose not to take that route.

So, I think other face-saving routes, you could put it together, but, again, I guess I'm a little bit more pessimistic, certainly more pessimistic than I was in October.

Also, on Keith's point, I mean, I think one of the real disappointing things here is, I think I am being -- you do get the impression that this government plans never to lose an election and you would have thought that after the experience that Victor Yanukovych had after the Orange Revolution in 2004, when he lost not only the election, he lost a revolution that, you know, you can come back. The Party of Regions was the biggest party after the election than the Rada in 2006, and Mr. Yanukovych himself won the presidency in a free and fair election in 2010. That should have -- hopefully, it convinced him that elections can be lost, it's not the end of the world, you can come back.

But I guess I'm going more pessimistic in this regard as well. And the particular concern I hear about this is, again, what was done with Tymoshenko with the trial last summer is, in my reading, what they did is they took a political act, which was Tymoshenko's decision to conclude an agreement on gas, which may have been ill-advised, and make that a criminal act.

Well, I think that now creates a certain concern for the current leadership, you know, if they go out of power and there's somebody else in power, could that subsequent president and administration look and say, well, wait a minute, you did

the same kind of bad deal in Kharkov in April of 2010 and try to criminalize that in the same way?

So, I think that they've embarked on some unfortunate courses that are going to make it harder for them to move in a way that ultimately they need to move if they really want to see Ukraine embrace European values and draw closer to the European Union.

MS. HILL: Could I actually pick up on this last point that you just made on European values, because it also picks up on something that the ambassador said about the U.S. and Europe, you know, should also need Ukraine. And if we look at what's been happening in Russia over the last several months, I mean, obviously we've seen a really interesting dynamic in Moscow among a new urban elite, maybe not so new, but certainly one that is now newly assertive and really making a push for civil rights, and not that dissimilar from really what happened on the streets in the Orange Revolution where there was a citizen's response to being taken for granted and being pushed around. I mean, that was very much home grown in Ukraine, but one could make an argument, in the case of Moscow, that this is very much the product of a lot more interaction between people in Moscow and people on the outside, either through the Internet or through travel.

Is Ukraine running the risk, or are we running the risk, of having Ukraine and Ukrainians kind of cut off from those same sort of influences? I mean, a lot of Ukrainians obviously seek work in Russia. As Ed was saying, there's now this party of power idea across the whole of the former Soviet space. It's not the case, however, in Europe.

Ukraine was forging very close links with Poland, you know, there was the allusion to Slovakia, I mean, with the immediate neighborhood of Ukraine to the west

of Ukraine rather than to the East. I mean, what has really happened to that openness that we saw in Ukraine in that influx of other ideas and of influences that we were really thinking would happen? Because the Poles also seem to have thrown up their arms somewhat in spite of pushing for the association agreement and for the summit, there does seem to be a lot of disillusionment in Warsaw with Ukraine. And, again, a lot less Ukrainian presence in Europe that might push things forward. Is this a factor that we should be thinking about, Nadia or Steve?

MS. DIUK: I'm not sure that this is an indication that Ukrainian citizens themselves are being cut off, because if you go to Ukraine, you meet with Ukrainians here, everyone is very well aware of what is going on and increasingly the part of Ukrainian society that is becoming cut off, unfortunately, is the leadership. It's the political leaders, particularly the government leaders, the party in power. They are the ones who seem to somehow have created a kind of information bubble for themselves and we all know where, you know, if a government goes down the path of dictatorship and starts suppressing free media, then it ends up often believing its own propaganda, and that can have difficult consequences.

I think that there was some sort of a demonstration effect in Russia. I think that the Russians, however, are taking a different line in that they don't want revolution, they are really pressing for reform, but it can't be so much of a coincidence that in Ukraine the color was orange when it was autumn, the leaves in Kyiv are very bright orange in the fall as anyone who's been in Kyiv in October and November knows, the color was orange. The color in Moscow was white. In December, what is the predominant color? So, someone must have thought that through.

But it still remains to be seen, you know, how far the Russians can press forward with their attempts for reform, and I'm sure that the Ukrainians are also watching

the Russians. And I'm sure, also, that Yanukovych must be looking out of his window and looking over the fence to see what's going on in Putin's backyard because I think Mr. Putin was kind of severely shaken up towards the end of last year and really had to scramble to provide justifications and actually carry through the process of his own reelection in a way that maybe he hadn't anticipated last year.

So, that still remains to be seen what will happen. But I think, you know, again, if there were a free and fair election, actually there are some fairly reliable polling information that actually the opposition might win.

But I think that's the big question right now.

MS. HILL: Steve?

MR. PIFER: I think that's actually one of the ironies of what's happened with the prosecution of Yulia Tymoshenko, is if you go back about two years ago to the summer of 2010 and look at the polling then, I mean, she was in single digits. Her party was sort of discombobulated and what's happened as a result of all this, in fact, you know, BYuT has risen in the polls and challenges and actually sometimes actually beats Regions in terms of polls and Tymoshenko's now back up to number two. So, they have sort of rejuvenated, you know, what was their main opposition force, which I'm not sure was the intention.

I guess the other fact out there that I think has to bear on the mind of the Ukrainian leadership is, you know, in 2004, you had hundreds of thousands of Ukrainians come out into the streets to protest an attempt to steal an election. And I think that has to be something of a check in terms of, you know, if they reach for too much, if they overreach, do they trigger that again.

MS. HILL: Ed, do you have anything on this? No? Okay, I'll go back to the audience again. This gentleman here, please, and then at the back.

MR. BIHUN: Thank you very much. Andy Bihun from The Washington Group. What Steve has raised now, and let me focus towards October of this coming year, we have heard, at least from the very beginning, the ray of hope on one side when Nadia mentioned activities and the possible growth or at least fire or some sort of a flame within the NGO groups and civil society. Nadia opened up with earlier today.

And we're looking towards October. We also heard Mr. Tyhipko's name mentioned, as Ed had mentioned, and of course, Mr. Poroshenko, on the -- now supposedly on the other side, on the side of the *Vladad* at this particular time.

We have approximately six months to go in this process up to that. How would you view one side, hopefully buttressed by the growth of civil society, and obviously the possibility of a greater fusion and rise in the polls, of the opposition, so to speak, united or maybe not so united, on the one side, and on the other side, kind of a rebuilt? Because I think I'm witnessing or we're all witnessing an attempt, at least, to rebuild the strength of the regionals with the Tyhipko movement and obviously right now with Poroshenko, and perhaps there will be other steps that will be taken to buttress that particular side, not only for the functioning of the government that's coming up that's still in power, but also for the October period for the election. I think with the growth of those two forces, in two separate different ways, there will be competition. Not only that, but there will probably be a screen that a lot of people will be watching throughout the world for it.

I just want to know what your views might be on the two competing forces, how they will play it out, and frankly, who can be, at that particular time, in the forefront of reaching their objectives?

MS. HILL: Thanks. There was a gentleman at the back and then the front here.

MR. MATSIYEVSKYY: Yuriy Matsiyevskiyy, Kennan Institute. We were talking about the miscalculations of Ukrainian politics toward internal dimensions and I would like to get back to European dimensions. There is an opinion that Europe has made some mistakes towards Ukraine, in not showing their direct perspective of possibilities to access to Europe.

So, don't you think that Europeans also have some miscalculations toward Europe? Specifically, I would like to address this question to Mr. Pifer because this statement that Ukraine is barely registered on U.S. radars, it is true, but on the other hand, U.S. always was more consistent in relationship with Ukraine.

But Europeans, from my perspective, were more concerned not on the values but on their interest, and they are having cheap rationed gas, sometimes at cost of Ukraine. So, if they would continue this policy, Europe would also have some detrimental implications in relationship with Ukraine. What is your opinion on that issue? Thank you.

MS. HILL: Thank you. And then Toby Gati here at the front. Toby, if you'd just wait for the mics coming down, you're actually getting two.

MS. GATI: Thank you, Toby Gati, Akin Gump. My question is about Russian policy. Several of you have spoken about this but seem to be treating Russian aims as a kind of given or as things that haven't changed. And my question is what kind of relationship do you think Russia really wants with Ukraine? Is it mainly to forge economic contacts and get control over sectors of the Ukrainian economy? Or do you think -- which is what they're trying to do throughout the former Soviet area -- or are there political aims as well where the issue is the kind of society, the kind of political structures there or in Ukraine?

The reason I ask is there are instances where Russian businesses are being kept out of Ukraine. It's not just a question of U.S. or European companies, but

there are Russian-based companies that are having anti-dumping actions, other issues where property has been expropriated. So, it's really not -- you know, Russia isn't being given preferential treatment in any way.

And of course, especially in light of the changes we're thinking may -- may -- happen in Russia when Putin comes back, different people, oligarch groups aren't constant in Russia either. Will this matter for Ukraine?

MS. HILL: Steve, I was going to start with you this time.

MR. PIFER: Okay, let me start, first on the question on the European Union approach to Ukraine. And with all due respect to my friend Pirkka, I have, going back to 1998, said that I think the European Union has made a mistake in its relationship with Ukraine in that the European Union never articulated for Ukraine a clear prospect, a clear perspective on membership in the Union.

I think on the part of the European Union, it then gave up a certain amount of leverage it could have had with Ukraine, and you know, it would have been something that might have been an additional impetus towards reform.

So, I think that was a mistake in policy, but as the EU now looks at Ukraine, I mean, there's a mixture of motives in terms of what it wants from Ukraine. You know, my worry is that the further Ukraine seems to be moving away from European values, the more Ukraine is going to just sort of tend to forget about it -- I'm sorry, that the European Union will just sort of forget about Ukraine, let it go its own way. You know, it will be a neighbor, we'll deal with it, but the sorts of aspirations for bringing it closer, that whether despite the lack of a perspective of membership, are going to disappear.

Toby, on your question, I think, Russian aims, if I had to guess what Russian aims were with regards to Ukraine, first of all, I don't think they want to rebuild the Soviet Union, but I think certainly the Russians want deference from Kyiv on issues

that Moscow has decided are of key interest to Moscow. So, it means no membership in NATO; that was very clear back in 2008, although I think there was ambiguity in the Russian position, certainly the public Russian position about the European Union. I think they've also become clear on that, is that it's a redline for the Russians, Ukraine going to the European Union, which is quite understandable from Moscow's point of view, because a Ukraine that's part of the European Union is just as much out of Moscow's geopolitical orbit as Ukraine and NATO.

So, that's -- in terms of foreign policy, if it's a big question for Moscow, what the Russians want is you check with Moscow before you make a decision.

I think they do want to have Ukraine open for Russian business, so a lot of the pressure that they've been applying the last couple years has been to, I think, gain entry for Russian companies where they are competing, in some cases, with the Ukrainian oligarchs. So there is that back and forth, but they would like to open up that field for business, and part of that is to secure more business opportunities for Russian business, but part of that is, I think, a calculation that to the extent that the Ukrainian economy is penetrated by Russian companies, that gives the Russians a certain amount of political leverage.

MS. HILL: Ed?

MR. CHOW: I think on the Europe question, I think it's fair to say that there is more than one Europe. I think there are European countries that have been very active on Ukraine, such as Sweden and Poland, and it requires a response on the part of the Ukrainian authorities to initiatives like the Eastern Partnership, which -- for a shored up membership, of course, but make it as robust as possible from a Ukrainian point of view.

Let's face it, in 2005 Europe was suffering indigestion at that point,

having the accession of the 10 countries plus, later, Romania, Bulgaria. It wasn't really in a position of taking on a large responsibility such as integrating Ukraine into the EU.

But the Ukrainian authorities responded in a different way. Now, maybe that would have been on the table at least closer today than it would have been.

Toby, on Russia, at lease on the energy sector, I think Russia's stated objectives are you can get gas at the same cost as Russian gas consumers minus a transportation differential if you either join the customs union or cede control over the transit pipelines, or both. And I think that that's pretty clear, that for the foreseeable, let's say, next five-plus years, Ukraine will continue to be very important to Russia as the major transit point for Russian gas to Europe, regardless of North Stream, regardless of how fast you might be able to build South Stream, you can't do without Ukraine for the time being.

But, at the same time, Russia is hedging its bets. I told representatives of this government, when they visited last year, that if I were Russia, I would never give up on South Stream. South Stream is working as a tactic, so why would you give it up? It isn't costing you very much yet.

So, have it at your disposal. Lots of Russian oligarchs with Ukrainian roots who know where the juicy assets are available for debt to equity swaps down the road, whatever. The only way Ukraine can afford to pay Russian gas at $400 plus per 1,000 cubic meters right now is loans from Russian banks, and that's a well-known fact. So you can see a calling in of the debt at a time of someone's choosing at some point down the road, it seems to me.

Andy, I don't have a good response to your issues, but if I were you I would be watching three different things this year. I think Euro 2012 is a wild card. When you have hundreds of thousands of passionate folks aided with alcohol running around

your country, who knows what's going to happen? Certainly the October elections, as you pointed out, then I think the external payment situation is unsustainable. And after Euro 2012 the thing to be looking out for is the value of the hryvnya.

MS. HILL: Nadia?

MS. DIUK: I'm still puzzling, Euro 2012? Well, I'm not a soccer fan myself, but actually --

MR. CHOW: Watch out for the London Olympics as well.

MS. DIUK: Yeah, of course, Ukrainians own the most expensive real estate in London, you know, of course, so maybe they might open it up to some of their fellow countrymen for that time, maybe not.

Euro 2012, I did read somewhere that Putin is going to be giving away or allocating free tickets for Russians to go down to Euro 2012. I'm not really quite sure what that's about, but --

MS. HILL: That was a campaign promise. That's correct.

MS. DIUK: Campaign promise.

MS. HILL: And to Poland as well, but they have to get the visas for that, so it might be more tricky.

MS. DIUK: Which actually leads me to the Russia question first. And, you know, in addition to all of the sort of economic issues, the businesses, and also on the political side, I think Russia was stung very severely in 2004 when there was a lot of Russian money sloshing around in Ukraine supporting Yanukovych, and of course he let them down terribly.

Since then, I believe, Yanukovych and Putin have not had such a great personal relationship. But there is also the cultural side to this, which is that -- what was that famous comment that Putin made? I think it was to President Bush, that Ukraine

wasn't really a country. And if that's what the next president of Russia really believes, then that really can't be good for their neighbors.

There are all sorts of, sort of, the aspects to this relationship, you know, cultural, in that there is funding available from Russia to sort of promote Russian initiatives -- the Russian Orthodox Church, which there are people who know more about this than I do, but it has sort of tacit Ukrainian government support to sort of take over buildings and generally sort of harass Ukrainian Orthodox believers and Catholics and so on. So, there are many dimensions to that relationship.

Going back to Andy's question on the two groups, well, it's all very fluid, actually, who belongs to which group, because we've seen that there's nothing quite succeeds a success in Ukraine. And you see many of the smaller business -- the smaller businessmen who were left, who were not wiped out after the last tax codes, by the way. Businessmen will jump ship, politicians will jump ship.

You see in Western Ukraine people who consider themselves Party of Regions because it's actually good to be in with the party of power.

What all of this means leading up to the election is that there is a very uneven playing field, there is the party of power that has access to administrative resources, to media, to all sorts of instruments on the local level, and then you have the other side that basically has the good will and voting power of the citizens who would like to see better for their country.

But, again, it comes down to, is it possible to have a free and fair election in Ukraine? And I think the indications at the moment are, hearing reports that I hear, coming from the regions where, you know, SBU is already visiting NGOs saying that they have to not take part in politics that -- giving instructions in universities that students have to vote a certain way. The prospects don't look good for there to be a free and fair

election.

So, again, not a very even playing field as we go up to that October election.

MS. HILL: We've actually hit the witching hour of 3:00, because Ed really does have to go and catch a plane. So, I will just ask, does anybody else want to make a point from the panel, if you feel that there was anything that you didn't cover? And if not, then perhaps we could also pick up your question again in the next session about whether Europe -- we have Mr. Tapiola, who hopefully will address that question from his perspective on how Ukraine looks.

I hope you'll stay around for the next session -- you have to leave? Well, you can catch him at coffee.

So, if everybody would like to grab coffee and then come back here. We're going to start promptly at 3:15. I'd like to ask a round of applause for all our panelists, thank the ambassador for joining us, and, Ed, bon voyage. (Applause)

BEGIN 2ND PANEL

-

MR. PIFER: Okay. Let's go ahead and proceed with our second panel. The first panel described three American analysts' views of what's going on both within the Ukraine and also with regards to Ukrainian foreign policy and that was designed to sort of set the background. But now we have the main panel where we want to talk about what is U.S. policy and EU policy towards Ukraine, but also not just about the policies towards Ukraine, but also how the United States and the European Union coordinate and interact on this.

And we're very pleased to have first of all Dan Russell, Deputy Assistant Secretary of State with responsibilities for Russia, Ukraine, and other parts of the world in that area. I won't go to the long bio because you have that in the program. And then our second speaker from the European Union is Pirkka Tapiola who has done Ukraine and other things at the European Union now for eight years?

MR. TAPIOLA: Too long.

MR. PIFER: Too long, but prior to that was the Deputy Chief of Mission at the Finnish Embassy in Kiev for three years. So we have a lot of knowledge here on the governmental side with regard to Ukraine, and Dan, why don't you go ahead and start us off.

MR. RUSSELL: Okay. Well, I know that you've talked a lot about events inside Ukraine, so I thought I would confine my comments to mostly talking about the frame of U.S. policy. And I want to thank Steve and Brookings for not only the invitation, but making the effort to keep a focus on Eastern Europe at a time when certainly other regions demand a lot of policy attention.

And like I said, I think I would start off by talking about U.S. policy, Ukraine, and a little bit about Europe. And I think just first to start off, Ukraine obviously matters to the United States and it matters to Europe. It's one of Europe's largest countries with 45 million people, and it boasts a highly educated workforce. I think we all know that Ukraine is the transit route through which nearly one-quarter of Europe's gas imports flow, and it certainly could become self-sufficient in energy were its resources fully developed.

Ukraine likewise could become a net contributor to global food security, something we care a lot about. It produced over one-quarter of the Soviet Union's agricultural output. I think Ukraine can serve as an example in what is obviously a very crucial region, and I would just mention a couple of examples that have shown leadership on the world stage by making the decision to give up its nuclear weapons to become a nonnuclear state, and it has contributed in peacekeeping operations from the Balkans to Iraq. And also we shouldn't forget that Ukraine has shown leadership in democracy in the region, most recently with the 2010 presidential elections.

Now I think secondly I'd talk a little bit about U.S. policy towards Ukraine, and I think it's important to remember that unlike many things in Washington, I think we've had a pretty clear and consistent policy that's enjoyed bipartisan support. And probably the best summary for our aspirations for Ukraine are contained in the U.S.-Ukraine Strategic Partnership Charter that was signed at the end of the Bush Administration and reaffirmed by the Obama Administration. Briefly, the Charter says we want to broaden and deepen cooperation. The Charter talks about a strong, independent, and democratic Ukraine that contributes to the security and prosperity not only of the people of Ukraine, but of a Europe whole, free, and at peace, which obviously has been a headline U.S. goal for the last two decades. The Charter lays out priority

areas for enhanced cooperation across a broad spectrum of mutual priorities, including economics, trade and energy, defense and security, and strengthening democracy. And it makes clear that cooperation is not only based on shared interests, but on shared values.

So I think it's fair to say that the Charter represents a vision statement -- if we were in business -- that continues to guide the specifics of our engagement and cooperation with Ukraine. We used that Charter during the Obama Administration to launch a Strategic Partnership Commission and to bring some structure to engagement. And that Commission has grown to six self-sufficient working groups, and it's also encouraged public-private partnerships. And I think the parallel civil society dialogue in which some of you have participated is probably the best known example.

And I think U.S. commitment is not only shown by the policies we have, but also by our bilateral assistance program, which still remains pretty high. We're around $114-$115 million in fiscal year 2011. And our assistance supports all those priority areas I talked about, as well as some key public health issues like securing Chernobyl, fighting HIV and AIDS, and improving child health.

If I had the Strategic Partnership Charter draft today, I think the one thing I would change to make it more accurately reflect our priorities is to have more of an emphasis on integration with Europe. The United States has been very supportive of Ukraine's European aspirations, particularly conclusion of an Association Agreement and a deep and comprehensive free trade agreement, about which I'm sure Pirkka will have more to say. But I think as Americans we want to see Ukraine succeed. Our vision for Ukraine is the one that Ukrainians have for themselves, and that is as a democratic and prosperous European nation with an effective and accountable government.

The third point I would make is obviously the U.S.-Ukraine relationship has not reached its potential. And while charting the course for Ukraine is, of course, a decision for Ukrainians and their leaders to make, the United States has joined the chorus of countries which are concerned about where Ukraine is headed. And looking back at the same priority areas of cooperation that I outlined, I think our biggest concern is about democracy, particularly about the selective prosecutions of former Prime Minister Tymoshenko and about twenty other senior officials. I think it's pretty clear that the United States has joined Europe in calling for Ms. Tymoshenko's release. The President, in fact, raised Ms. Tymoshenko's case with President Yanukovych earlier today in Seoul.

And, of course, we're watching preparations for the parliamentary elections this autumn, and we hope they will meet the standard that the 2010 presidential elections set. And the United States is prepared to offer technical assistance to help with implementation of the new electoral law that Ukraine has. I know it was passed not only with the support of the governing party, but with the opposition, one of the rare occurrences of that kind of cooperation.

On the economy and energy, Ukraine has made some tough decisions on cutting budget deficit and on pension reform, but we're still concerned that Ukraine has not been able to make the admittedly tough decision to phase out energy subsidies. And this is a critical reform to obtain lending from the International Monetary Fund and other international financial institutions. We're working closely actually with the EU on energy sector reform, and one example I would flag is we have a three-year pilot program designed to increase energy conservation and efficiency at the municipal level.

While we're on the economic and commercial side, clearly the business part of the relationship is going to be key if we're going to broaden cooperation and, I think, if Ukraine is going to get the investment it needs to develop. And that's another

area which is certainly weaker than we'd like it to be. U.S. investment in Ukraine remains pretty low. We're, I think, the eighth or ninth largest investor, depending on how you count, and again, we've seen some positive steps -- certainly a new tax code. There have been efforts to reduce bureaucratic red tape. Some of the VAT refunds to some major U.S. and European companies have come through, but clearly there's a lot more that needs to be done. Serious efforts to fight corruption is a clear part of that if we're going to have an investment climate that's going to attract the kind of U.S. investment that I think we'd all like to see in Ukraine.

On other areas of cooperation, particularly on defense and security, I think in some ways that's probably the brightest part of what is otherwise a difficult picture at this point. And we were very pleased at the Nuclear Security Summit to be able to announce two years after President Yanukovych and President Obama first met that we were successful in eliminating all of the highly enriched uranium in Ukraine's stockpile, making Ukraine free of highly enriched uranium for the first time in its history. I mean, this really completes a lot of the work we started with Ukraine at the beginning of the '90s in moving towards a non-nuclear state. That's an area we're going to clearly try to do more in because this is not the end of a process, it's the start of more cooperation, particularly on the civil nuclear and on the scientific side.

On defense cooperation, over the past three years we've been able to restart military exercises -- as we call it "in the spirit of partnership for peace" -- again, a pretty successful area. We can do a lot more in there, but we've got a good start.

So all in all, I think we're at a very challenging point in U.S.-Ukrainian relations and at, frankly, a difficult moment. But at the same time, I don't think any of us have any real choice. Ukraine is too important not to continue to command the attention of Europe and the United States. And frankly, it's a country with so much potential -- and

I know we've all been saying that for twenty years, but it's still true. And I think we need to try to work together and work with Ukrainians to try to move ahead on a lot of these fronts. And I want to reemphasize that the strengthening democracy part is still the key part because that's the basis for the rest of the relationship and, I think, the area where we need the most work.

I think I'll stop there and turn to Pirkka.

MR. PIFER: Dan, thanks. Let's get the view from the European Union side.

MR. TAPIOLA: Thanks, Dan. Thanks, Steve. And thank you for the initiative of getting the sort of transatlantic players together to talk about Ukraine. And Ukraine is indeed important both for the U.S., but, of course, especially for Europe; Ukraine is in Europe. And as we said at the 2008 EU-Ukraine Summit, we're reminded also in the conclusions that Ukraine is a European country.

As a European country, we, of course, hold Ukraine to European standards as well, and I will talk not so much on specific projects or specific approaches, but rather on the overall approach we have and also touching upon the offers we have now on the table. And those are very important big offers, and we hope to go forward.

Now, Ukraine is incredibly important. She is a partner of strategic importance. A lot of the region, a lot which is happening in the region, will depend on which way Ukraine develops. And we have been engaged as the EU already from the '90s, but very much through the European Neighborhood Policy, or now we talk about the Eastern Partnership, both the bilateral and multilateral track. We stepped up since 2004 -- since 2005 we really stepped up -- our engagement. And Ukraine, which was also a leader in democratic development in the region, became sort of the frontrunner, and it is no surprise that we started negotiations in 2007 for an Association Agreement. And

when Ukraine joined the WTO for a deep and comprehensive free trade area, which will be part of the Association Agreement. And we've concluded now last December these negotiations or the negotiations have been finalized. And yes, we will initial the Association Agreement this Friday, on the 30th. And this will be an important step because once initialed, our offer will be there on the table for everybody to see, for civil society and for other observers to look at and discuss. And you will see a very broad offer of political association and economic integration between the European Union and Ukraine.

But then there is a "but." As was said at the EU-Ukraine Summit, we will not be in a position to sign nor ratify this agreement unless there is significant improvement in Ukraine's democratic development. And here, unfortunately, we really see a dramatic drop, perhaps the most dramatic drop I've seen in the region from where Ukraine was, holding good parliamentary elections year after another, to where Ukraine is now. And I think that's a reality we need to face.

Now this prompts me to say a few words on the underlying logic of the EU's relationship with its neighbor. Many have been asking where Ukraine's going -- east, west, or nowhere. Well, I think that that's in a way the wrong question to ask because what we're interested in is to see whether Ukraine's going forward, forward in her reforms, forward in building a democracy, a functioning market economy, governed by the rule of law. The EU is -- and I wish to underline this -- a community of values, and this is not window dressing. We cannot compromise on these values because these values have also been defined very strongly as our interests. And if you look at the European security strategy from 2003, our fundamental interest vis-à-vis our neighborhood has been to see a ring of well-governed countries at our borders. Now, some of these countries may one day become members, but at this moment we're talking

about a ring of well-governed countries. And we've seen already with the developments in our southern neighborhood and the Arab Spring how important really to work on the conditionality -- or mutual accountability as we talk now -- on our Neighborhood Policy, how important it is. And what we have seen last year was a review of our European Neighborhood Policy introducing also what we call the more-for-more principle where we will be able to support more actively those countries which don't just talk the talk on going forward, but also walk the walk and undertake those practical reforms.

So here it's important to remember that we are really not playing zero-sum games, and our Neighborhood Policy has never been a geopolitical or geostrategic process, but really a process of helping reforms. And I think it's very important to remember that when assessing where the EU would be flexible and where it would not be flexible.

Now, we do hope that the problems which we are now seeing will be addressed. The ball is now, as one would say, after the initialing which will take place on Friday, the ball will be very strongly in Ukraine's court. And the situation as was spoken about in the earlier panel today is, indeed, worrying, and we have said that clearly. And I mentioned the decline, and if you look at the elections which brought the current Ukrainian president to power, they were perhaps the best elections organized by Ukraine. They got a very high grade from the OSCE, and one would have expected that they would have been built on.

I will not, as Nadia was talking in the first session, I will try to avoid a laundry list. But I will, I'm afraid, have to mention certain parts of it. So if we look at the concerns of the freedom of media, an association which started already to emerge slowly in the summer of 2010, we look at the fact that the constitutional court overturned the constitution. While correct according to a legalistic principle, you could wonder about its

compatibility with the spirit of constitutional law. And I remember having been there, when in the context of the Orange Revolution, the constitution was adopted as a way out of a political deadlock, the constitution which was overturned. We saw concerns over the local elections. We saw concerns over judicial reform and the role of the High Council of Justice. And we have also seen the issue already mentioned by Dan of selective prosecution.

Now, another thing which I would like to underline is that this is not about personalities. Had another election result taken place and a similar sort of wave of prosecutions would have followed, we would have been as principled on this. And I think this is something which I want to underline, and this is not just about Yulia Tymoshenko. There are others, there are 19 others, and there are also other cases where certain questions could be asked. Due process is needed and in all cases we had -- and I will not take sort of any comment on whether the political decision on the gas agreement was a correct one or not. I will mention that we did probably welcome that gas agreement in 2009 due to the context of it being reached after two or three weeks of supply cuts to the European Union and the complete political deadlock. So I think that context needs to be remembered as well.

Now, on the way forward: We have said very clearly we want to see that those who have been imprisoned under selective prosecution or what we see as selective prosecution that solutions are found so that opposition leaders and all political forces can participate in electoral processes and that their electoral rights are not violated. We will pay considerable attention to the parliamentary elections, and we very warmly welcome the fact that Ukraine has invited OSCE observers to this autumn's election. And I think it's very important also because Ukraine will be chairing the OSCE

next year, and I will have a very positive comment on the OSCE and Ukraine in a few moments. And we have underlined the need to address constitutions.

Now, in terms of constitutional reform, this is unfortunately a little bit of a malaise in transition societies that constitutions tend to get used for political tactics. So when the constitution is addressed and together with the Venice Commission which will be important, it should be addressed in a very inclusive manner to agree to sustainable ground rules for political life. And this is something which the European Union has been underlining and will continue to underline.

In the gas field, we are also -- our offer on the modernization of Ukraine's gas transit system from the 23rd of March 2009 is still there. We will be willing, together with the IFI, to support it, but it is important that more transparency is brought into the gas field. And we are giving other kinds of support as well, but due to very more technical reforms and lags in those reforms, we have been unable to disburse some of the budget support we've been giving to the Ukrainian government.

Now, on the positive side, we look forward very much to a foreign policy partnership. We look very much forward to working with Ukraine during her OSC chairmanship of next year. And Dan certainly knows this very well, we are partners in the 5+2 process on Transnistria. And here, of course, with Ukraine's expertise of the region, next year will be a very important plan.

Now, let me conclude. So there is a very deep commitment from the EU to Ukraine, and this commitment is to help Ukraine in precisely what was mentioned, her declared development path. But this is a very practical path. The tools are there. The assistance is there. And the offers are there. But it will be based on values, not looking at sort of whether there's a third country involved or not. It's based on values. It's based on having a country which serves her own citizens because that is fundamentally what

the European Union is built on. And we very much appreciate the cooperation we're having with the United States. Our people are in constant contact both between Brussels and Washington, but also Ambassador Tefft, the U.S. Ambassador, and our head of the EU Delegation, Jose Manuel Pinto Teixeira, work very closely hand in hand on the ground, and I think this is very important cooperation. We have had joint approaches also at the highest, highest level between Secretary Clinton and our representative, Cathy Ashton, in terms of a letter to Yanukovych and so on. So we are very much hand in hand on this policy. So thank you.

MR. PIFER: Thank you for the opening comments. Let me ask two questions. First one, Pirkka, to you, a question that we got at the end of the last panel which was the European Union's unreadiness to extend to Ukraine the perspective of membership. And then let me give a question to both of you, which is I think -- in both of your opening comments, you talked about the importance for the United States and for the European Union of engaging Ukraine. And in my comments to the first panel, one of the concerns I have is there is this miscalculation, I think, in Ukraine that somehow an overestimation of the value of Ukraine to Europe, that somehow Ukraine matters more to Europe than Europe matters to Ukraine. So my question is how do you in the approaches to Ukraine want to communicate on the one hand that importance that the United States and European Union attach, but also make sure that you avoid a situation in Kiev where they come to believe that because of that importance, these democracy values they really don't have to pay much attention, that you'll continue with the relationship regardless. So how do you get that balance right?

MR. TAPIOLA: Okay. I'll perhaps start with the membership perspective. Now, let's go back. Let's take the time machine and go back to the 1990s and to the capitals of the countries which joined the EU in 2004. And I think that here

we've maybe forgotten certain little historical details. And the first thing we've forgotten maybe is that we did not rush with a membership perspective to Poland, to Hungary, to the Czech Republic, to the Baltic States. But we got to a situation where we saw so much local ownership, a national narrative of undertaking reforms, of wanting to transform societies, that in the end we saw that these countries really wanted this. So yes, the membership perspective helped after a certain point, but the dynamic was there beforehand.

Now let's go back to 2005, and I think the indigestion question was already mentioned. And I won't comment on that. But I think the feeling very much in 2005, just after the Orange Revolution was, that if Ukraine really walked the walk and if the then administration would've pulled together and worked together -- and I think we all saw that they unfortunately didn't -- and the country would have really moved forward in sort of more structural reforms, who knows where we would be today. But the key there needed to be a clear signal of willingness to really roll up your sleeves, do the reforms, and move forward. And that's how consensus is built in Brussels. There is no consensus on this question now. And we've said very clearly that while the European Neighborhood Policy and the Eastern Partnership are distinct from membership, they don't exclude anything. But we've seen, I think -- and I work on democratic transitions in general -- we've seen that for a democratic transition really to work, there has to be broad-based local ownership going into society, local accountability, and a move forward. And I'm not going to pass judgment here on whether we see that in Ukraine or not, but I can say that when we see it and when that positive agenda of going forward is there, yes, we will reply to it. And I think the more-for-more principle is already one step in that direction.

On the miscalculation, as I said very clearly, we do not play geopolitical games or look for zero-sum solutions, and our values are our interests. So I think that that pretty much sums up your second question. Thank you.

MR. PIFER: Dan?

MR. RUSSELL: Well, I don't want to turn back the time machine to the '90s because I remember how much fun that was. But I think you raise a good question, Steve, which is the trick is to get the balance right. And the two questions, I think, that perennially have haunted relations with Ukraine -- and they've been brought up by successive Ukrainian administrations -- are, to frame it another way, that Ukraine is too big to fail is usually one piece of it. And the other is that the idea that somehow Ukraine will put it well, we have a choice between going with the West or going with Russia and it's up to you to help us make that decision, which I think both of those are actually wrong. And I think the way we usually frame it is that in the modern world, democracy, prosperity, and security are all linked together. You kind of can't have one of those without the other two, and I think that applies in the neighborhood as well. And so I think it's really incumbent upon Ukraine to be a smart consumer of what different people who are offering assistance on where they want to go are able to provide.

And I was struck by at the beginning when Pirkka talked about European standards. They are European standards, but they're also our standards, and they're international standards. There's no real difference here. And we have made that clear as well, that we are all speaking with one voice on these issues.

MR. PIFER: Great. Well, why don't we go ahead and open up the floor to questions. We have the microphone. Right back here. And if you can just briefly identify yourself and your affiliation please.

MR. BEARY: Yes, Brian Beary, Washington correspondent for *Europolitics*. Just on the Ukraine Association Agreement, I'm wondering if you could explain the rationale behind initialing an agreement when as you say you're very unhappy with the current course of democracy in Ukraine.

MR. TAPIOLA: Okay, I was wondering if you would take a few others, but okay. The rationale behind initialing an agreement: As I said, we are very, very serious about Ukraine and our offer and engagement to Ukraine. And we have wanted these negotiations to be concluded so that we have an agreement, an offer, a clear sort of perspective for the foreseeable future of our relationship; and so that the substance of that agreement can be made public for the Ukrainian population to see and for others to see. And this can only happen through initialing. We're not going to be in a situation where there should be any question, any question, about our commitment to come with this agreement to Ukraine with this agreement which has a very strong political part. And in addition to that -- and perhaps most importantly for the Ukrainians -- a very strong, deep, and comprehensive free trade component, which also will include the transfer or the adoption of the EU trade by Ukraine and support from our side to doing so. So initialing will put us one step forward in making it clear that this is really a serious thing which is on the table and which we want to move forward.

Then comes the political situation, which we've talked about and which President Van Rompuy has clearly addressed at the EU-Ukraine Summit, which Commissioner Füle has addressed in a number of public speeches, where it's very clear that if the values, if the problems which we see in the implementation of what we've thought are our shared values, on which this agreement is also founded. If work does not take place there, well, we cannot go forward signing and ratifying.

MR. PIFER: Okay, this one here.

MR. CAMANKO: Anatoly Camanko, recent graduate of Washington and Lee University. One of the concerns raised by the previous panel -- I think, Steve, you raised that -- is that Ukraine as a topic of discussion has not been very popular here in D.C. as of late. And Ukraine and domestic dynamics notwithstanding, I think part of the reason for that is the Obama Administration's serious focus on the Russian reset, sometimes at the cost of the discussion of Ukraine as a separate entity in Eastern Europe. But now that the reset has proven to be a political miscalculation and a diplomatic failure, how do you think that will affect the discussion of Ukraine here in D.C. from here on?

And as a related issue, how do you predict the upcoming elections here in the states will affect the U.S-Ukraine relations? Thank you.

MR. PIFER: Dan, the microphone's on, too, so --

MR. RUSSELL: Well, frankly, I don't agree with much of what you said. And I don't think there has been any failure of focus here on Ukraine. And I think you need to remember back at the beginning when Vice President Biden coined the term "reset" at the Munich Security Conference in 2009 that he made clear that partnership with one country would not come at the expense of others. And to see Ukraine and Russia as kind of an either-or choice I think is a wrongheaded way of looking at this. It's a zero-sum thinking approach. And I don't think we've had any shortage of focus on Ukraine actually. And part of this is going to be driven by Ukraine, as Pirkka's subtle point about the Association Agreement, and that's certainly true with a strategic partnership with the United States as well.

I wouldn't worry too much about U.S. elections. I think policy towards Ukraine over the last four U.S. presidents -- two Democrats and two Republicans -- has been pretty consistent in terms of its vision.

MR. PIFER: Okay, back in the back.

MS. ROBERT: Natalia Robert, Voice of America. I would like to touch upon the nuclear cooperation between the United States and Ukraine. And, Dan, you mentioned that Ukraine now is free from the enriched uranium, and you mentioned that this is just the beginning of cooperation between the United States and Ukraine. Could you elaborate on that, which projects we're talking about?

MR. RUSSELL: Sure, well, part of it -- in terms of nuclear security, Ukraine has been one of the most important partners in this global initiative against nuclear terrorism from the beginning. It was one of the founding members. So we have quite a history of working together in multilateral fora on this issue. Part of the elimination of highly enriched uranium in Ukraine -- part of the package of financial and technical assistance that the United States provided was a commitment to build a new state-of-the-art so-called Neutron Source Facility at the Kharkiv Institute. And this should be fully operational in 2014, and it will allow Ukraine to increase its basic research capabilities, allowing it to work more closely with the United States and other countries, and also will allow Ukraine for the first time to produce its own medical isotopes for treatment of cancer and other things which now has to be imported. That's the first step.

MR. PIFER: Let me ask, drill down a little bit more, in terms of the modalities of cooperation between the United States and the European Union because you both described, I think, a vision for Ukraine that's pretty similar. But can you talk about -- I mean, how do you interact because it does seem to be that diplomatically if the United States and the European Union are speaking with a single voice or saying the same things and doing things like the Clinton-Ashton letter, you may have more value. How does that work on a day-to-day basis?

MR. RUSSELL: Do you want to know how much time we used to spend on the phone? I think from the U.S. perspective, it's -- and I've been working on these issues almost as long as the two of you -- I would say over the last four or five years things have certainly changed in terms of our interaction. I can tell you as somebody who has no formal responsibilities for relations with Brussels; I seem to be spending a lot of my time in Brussels. And I will spend part of today and tomorrow meeting with senior officials from the European Union. And I think that's a pretty typical week for us now. If you look at assistance programs, something Pirkka and I don't work on, between USAID and the State Department, it's a very different relationship where we're trying to do donor programs almost more than in parallel. And if you look at the cooperation between USTR and the Department of Commerce and DG Trade, again, something that's not directly in our responsibilities -- again it's very different than what it was three or four years ago. And I think just the level, the tempo of interaction and the willingness to when we start thinking about policies, well, what do they think in Brussels and get on the phone in the morning here and see what you guys have done over the past eight hours.

MR. TAPIOLA: I think you -- well, this maybe shows the extent of how well we work together because I don't think I have anything really to add. But I'll also answer slightly the sort of question, which was -- in fact, I'll comment on the question which was addressed to you, Dan, on continuity. First of all, I have to say that this is a partnership which gets intensified. And I think that the birth of the European External Action Service, which sort of brings the different Brussels actors now together and the different EU competencies on external affairs under one roof, of course leads to intensification. But also before the current administration, we did have very close interaction on the region. It has gotten more and more intensive, and I imagine that whatever happens, it will continue to be very intensive.

I was even thinking, Steve, when you asked about the modalities that it sounds like such a lofty word when what one thinks of is sort of picking up the phone or shooting a short email off and rather cryptic precisely asking okay, what do you guys think about this.

MS. MCCONNELL: Nadia McConnell, U.S.-Ukraine Foundation. It's too bad you can't form a strategic partnership with Ukraine civil society. But this brings me to a point when you talk about you're looking for Ukraine to exhibit internally the European values. And from my perspective, I think Ukraine civil society has been demonstrating that that's where they are at. And I think often they're ahead of their own political leadership. What more can you do perhaps to make that point? I know you were charged working directly with the government, and certainly Secretary Clinton has made it one of her trademarks to talk about civil society and its importance, but I really think that this distinction is important to raise not only outside, but I think it'd be helpful for people within Ukraine to hear that, that you know that they value European values or international values.

MR. RUSSELL: Nadia, I'd say that even in Washington you could get pretty depressed dealing with the political class here, but you could go out to a university and feel like it was a breath of fresh air. So I wouldn't limit that only to Ukraine. But I think you're right. I mean, the biggest -- and this is true almost -- when we get any visitors that go to Ukraine and they will go out and speak at various universities or whatever, and everybody who comes back is impressed with the quality of people that the universities are churning out, and the next generation, the future generation, is really pretty impressive. And I think they're modern people. I mean, I don't know what the stats are now -- roughly what, a quarter of Ukraine are frequent Internet users. You can see the social networking and just the generational change, which is taking place not only in

Ukraine, but in other places as well. But I think that's truly the most encouraging part and one of, I think, the challenges is to try to make those connections between young Ukrainians and Europeans and Americans who, through modern technology, can have a chance to exchange views in a way they never have before. And I think it's challenging for us as public policy practitioners to deal with that, but a lot of it, frankly, is being done just between younger people. But I take your point.

MR. TAPIOLA: If I can add on to that because when we did the review of the European Neighborhood Policy, one of the fundamental questions there was that we wanted to build a partnership between societies. And while, of course, as officials we're used to working with the political and administrative classes in countries, the role of civil society in the work we do at least in the neighborhood is, in fact, quite important. The Eastern Partnership has a civil society platform which meets in the context of all Eastern Partnership meetings or civil society forums. There are national civil society platforms. And since I've looked a bit into social networking sites, I'm really quite impressed how they sort of manage to build networks which include both them and officials, both in the Ukrainian government and within the European Union.

In addition, with the review of the Neighborhood Policy, we have two new instruments which are coming out from our side -- and I don't want to give bureaucratic answers, but I suppose that comes with the job a little bit -- so one of them is that we have a new Neighborhood Civil Society Facility in addition to the earlier civil society funding, which is precisely there to sort of help a vibrant civil society. And then we're working -- and I'm looking at Nadia to whom I'm indebted for her support earlier on in the process. You will see the launch this year of a European Endowment for Democracy which is there to support civil society. And I'm not talking Ukraine-specific, first in the neighborhood, but globally, in order to build real political pluralism -- also grassroots-level

ownership of reforms when I talked about the importance of local ownership for democratic transition. So this is going to be extremely important.

These are not top-down processes, and I think all of us understand that if there is not a civil society demanding accountability, you can have the best blueprints for a functioning democracy in the world and you won't have that functioning democracy. So for us, civil society is a very important part, also with the Association Agreement with our action plans. There is civil society-monitoring built in into these structures. Thank you.

SPEAKER: (inaudible), Ukraine-American Coordinating Council. My question, I think, is a little bit outside of what has been discussed strictly speaking so far, and probably should be addressed to the Ukrainian government, and I'm not going to bother Ambassador Motsyk, but I would like to ask the question to you anyhow. The two-pronged foreign policy of Ukraine has been with us since independence. Yet at the same time under the presidencies of President Kuchma and Mr. Yushchenko, it seems to me Ukraine made great efforts to be a player on the world stage in terms of foreign policy, not only in supporting NATO in some critical areas, but making great efforts to establish close relationship with a number of states outside of North America -- Eurasia, Western and Eastern Europe.

Now under President Yanukovych, my view is that there has been an abandonment of a kind of broad policy that all efforts are to pursue a policy of closer or better relations with the West or with Russia. The question is why? Is it because they do not want to offend one or the other, or is Ukraine simply exhausted because of this two-pronged policy so they don't really care anymore what happens in the Arab states or in Syria or Iran? I don't see any strong statements on any of the issues or an attempt to somehow participate in solving them.

MR. PIFER: I'm not sure we can fairly ask you two to be spokesmen for Ukrainian policy, but maybe you can -- what is the perception? I mean, do you share that assessment?

MR. RUSSELL: I guess since we work with Ukraine at the United Nations -- I mean, the two examples that would come to me are that the United Nations are on a lot of these issues, and I haven't really seen any change in Ukraine's activism there. And I haven't been thrilled with all their votes, but frankly they've been quite supportive on a lot of the Middle East issues. I'll use the Syria Resolution was one of the areas where Ukraine was a key supporter. Ukraine has been a key supporter in the UN Human Rights Commission. So we haven't really seen that much of a change there.

I will say since I have the dubious honor of being the U.S. representative at the 5+2 talks on trying to solve the Transnistria question that has certainly been an area where the Yanukovych Administration has been more active. And I think that thanks to really the governing coalition in Moldova and the Ukrainian government, relations with Moldova have increased significantly over the past two years. And Ukraine is playing a much more active role in the Transnistria talks, and I will tell you that it hasn't always pleased us and it hasn't always pleased my Russian colleague. So they've had quite an independent voice. But it's their neighborhood. It matters more to than, frankly, than to the EU or the United States or even Russia.

SPEAKER: I just would like to agree with them. I agree totally 100 percent and maybe if you give examples. Ukraine is trying to develop good relations, political and economical, with other important players in the world. During the recent time, very good development of relations with China, with Brazil. Ukraine is going to be very active in peacekeeping operations. And you might know that Ukraine, on the request of the Secretary General of NATO, Mr. Rasmussen, and Secretary-General of

the United Nations, Mr. Ban Ki-moon, sent a helicopter team to Côte d'Ivoire. Well, we participated more actively in peacekeeping operations under the umbrella of United Nations, European Union, and NATO, not being a member of NATO. Well, our position on the world arena is really quite active, and we try as a member of United Nations and a member of other international organizations to make our own contribution in certain international peace security and making this world more secure and better. Thank you.

MR. TAPIOLA: If I can add on just because this sort of two-pronged foreign policy or what President Kuchma called multilateral foreign policy, it's one thing which sort of comes out or comes up every now and then and sometimes it comes in a little bit of majority of terms. But on first globally, for instance, Ukraine's participation in our EU NAVFOR ATALANTA operation off the Somali coast countering piracy, which is also one where we're working closely with the Chinese and the Indians, shows a very big global commitment to sort of act against a shared global challenge. And I wouldn't say that Ukraine -- I mean, when I follow Ukrainian news and where Ukrainian leadership is traveling and which contacts are being built, I think that Ukraine is acting very much on the global -- as a country of her size -- globally at this kind of a juncture of history.

Now on this two-pronged policy, I'll just make a small little comment, and that's that this is something, of course, which we all very much encourage because Ukraine's geographical situation is such that you need to have good relations in all directions and hopefully built on positive agendas where you see how those relations can be beneficial. Where the problems come if they become relationships, and I'm not saying this is the case, but if they would become relationships, are playing one part against the other in order to get more from two different directions. That's where -- and a policy of cherry picking through that -- then that policy becomes counterproductive. But otherwise, having a good, positive agenda and good relations with the Russian Federation, having a

good relationship with the European Union based on our offers, this is fundamentally in Ukraine's national interest and it's very important that Ukraine works on it.

MR. RUSSELL: From a bureaucratic point of view, one of the biggest issues we had over the last year was the Yanukovych team spending so much time in Brussels that it's hard to get time in negotiating the Association Agreement frankly, which was one of their big policy initiatives that we supported. But it did take a lot of time and a lot of effort, and in fact, we had to work around a lot of your dates.

MR. PIFER: I've got two questions here, one over here. Let's take all of these last three questions and you can answer them in a batch.

MR. PULLMAN: Mitchell Pullman. I just wanted to go back to what Mr. Russell was saying about the many impressive young people in Ukraine. I agree. I've met quite a few impressive young Ukrainians, but my own completely unscientific observation is far too many of them are leaving Ukraine. And I was wondering if you -- well, perhaps both of you -- can address brain drain and exactly how significant is it and what can be done to reverse it.

MR. ROWSON: Dick Rowson with the Council for a Community of Democracies. I'd like to return for a moment to this question about cooperation between civil society and governments and ask a question related to a recent decision on the part of this community of some 120 democracies to pick out those nations which ask for help and apply government funds to civil society groups which would help them with the practicalities of democratization -- everything from setting up a judiciary of free elections to civilian control of the military and so forth. Two of these countries that have been selected so far are Tunisia and Moldova. And the question is whether the application of what is being done in Moldova to help build a democratic process and to strengthen it in that country would be applicable in the Ukraine with the help of this kind of designated

hitters, if you will, from governments working with civil society, using government money, to finance the democratization process and strengthen it?

MR. PIFER: And the last questioner here.

MR. KUDELIA: (Serhiy Kudelia, George Washington University. Let me go back to the more difficult question on Tymoshenko and other political prisoners in Ukraine. So if you look at the experience with EU enlargement in the 1990s, you see that in those cases when a political leadership put their own personnel power interests above the interests of the country like in the cases of Slovakia with Mečiar, Serbia with Milošević, the mere attractiveness of the EU membership did not work. It did not change the behavior of these political leaders. And we are seeing actually in the case of Tymoshenko more charges are being piled up against her. We're probably going to see another trial on the charges of tax evasion against Tymoshenko this summer or in the fall right after the election. So my question to you is if you see this continue, this sort of policy, this strategy of sort of eliminating political rivals by Yanukovych, the options that the West seems to have are either you accept the fact that Yulia Tymoshenko and Lusenko will be locked up behind bars as long as Yanukovych is president and maybe reverse your position on the Association Agreement and go ahead with signing it, or you impose tougher sanctions either against specific political leaders or in terms of refusing some financially that you may be giving. What is more likely to happen, the reversal of the position on the Association Agreement or your position of additional sanctions? Thank you.

MR. TAPIOLA: Okay, I'll start by quoting an EU foreign minister at a recent event in Brussels who was asked the question that okay, what's the Plan B on the Association Agreement? And the answer was, "If not, then not." So there is no Plan B, and we believe that Plan A is worth fighting for because the offer is robust and it is there.

I will not prejudge any further steps over and above that. You know that we are -- our foreign policy process is based on consensus among 27 member states. Ukraine's a very important country. But let me just say that there is an incredibly important offer on the table, and I would very much, of course, welcome that Ukraine would find the political will to solve problems, which would enable us to move forward in sort of reaching them.

Now on brain drain, this is indeed an issue which sometimes worries me. Now, I work a lot with the Ukrainian civil society and think tankers and others, and I can sort of corroborate that point, that there is an incredibly good body of well educated, smart, committed people. But at the same time, yes, I do see that there are well educated, good people who are getting job offers outside Ukraine and are not coming back. And I think that this is something which fundamentally first and foremost needs to be addressed by the government of Ukraine in how to build a circumstance which makes it attractive for people to come back, work for the administration, build their own country, and build their society. On a very personal note, I sometimes think that maybe it would be good to have scholarships which would have a certain requirement at least to work for a certain time back with your own government or in your own country. I know that some scholarship funds have done that, so maybe that would be a way forward. But fundamentally people need to be -- when people go and invest in their own skills, they, of course, need to be able to use those skills in an environment where they think that they can get results and then the attractiveness of coming back becomes important. Thank you.

MR. RUSSELL: Going back to the gentleman in the back's question about democracy programs in Moldova. I think democracy has to be demand driven ultimately, and each country is very specific. I know the Moldova case pretty well. I mean, what they've done over the past two-and-a-half years is pretty impressive. But it's

a small, largely agrarian country that has serious poverty issues. So the range of issues they face is quite different, I think, than the ones faced by Ukraine. But in fact Moldova, coming back to U.S. and the EU working together, is a good example where we've divvied up sectors we're working on. For instance, the United States is leading efforts at judicial reform in Moldova, and it's an area where we're working together on these issues.

MR. PIFER: Okay. Well, we've now reached 4:30. I'm not sure that we've solved the issues with Ukraine, but I think we've had a very good discussion here about how the United States and the European Union approach that. Please join me in thanking our panelists for the discussion.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

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.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012