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UKRAINE'S DRIFT AWAY FROM EUROPE AND THE WESTERN RESPONSE

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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

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ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

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)

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