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UKRAINE: FACING CRITICAL CHALLENGES

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P R O C E E D I N G S

MS. STENT: Good morning, ladies and gentlemen. I think we'll get started. Welcome to what I'm sure will be a very interesting and informative discussion about what's happening in Ukraine and about U.S.-Ukrainian and European-Ukrainian relations. I'm Angela Stent. I'm Director of the Center for Eurasia, Russian and East European Studies at Georgetown University, and I am also a Senior Nonresident Fellow at the Brookings Institution.

Over the past 2 years Ukraine has made some progress in its integration with Europe. It completed of course its association agreement with the European Union. But concerns about democratic backsliding and the selective use of justice in Ukraine have put Kiev's relations to quote one of our top officials, "on hold" certainly with the United States. We have with us the leaders of the Four Task Forces from the Ukraine 2020 Policy Dialogue. This was organized by the U.S.-Ukraine Foundation and supported by the U.S. Embassy in Kiev. Its goal was to bring together four task forces composed of American and Ukrainian experts to address issues important to Ukraine's stability and its integration into Europe. The task forces addressed foreign policy, national security and defense, energy security and culture and education. It met a number of times since its formation, the Four Task Forces, in the spring, including a larger meeting in June in Kiev with our Ukrainian colleagues. Today marks the release of this report consisting of the Four Task Force reports and you can find them outside, I know they're on the table outside, with recommendations for both the Ukrainian and U.S. governments. These reports have now been submitted both to the U.S. government and to the Ukrainian government.

Our panel today consists of four of the U.S. co-chairs, and besides Ed Chow, Bill Miller, Bob Nurick and Steve Pifer, Marta Farayong co-chaired the Education

and Culture Task Force, Keith Smith co-chaired the Energy Security Task Force, James Green co-directed the project, along with Ola Samshore the former Ukrainian Ambassador to the United States whom I'm sure all of you know and who was very a participant in this process.

I will introduce to you the panelists very briefly; they are all very distinguished, in the order in which they will speak. They will give short presentations and then I hope we have a lively question and answer. Our first speaker will be Ambassador William Miller. He of course was former U.S. Ambassador to Ukraine and he is now a Senior Public Policy Fellow at the Woodrow Wilson International Center for Scholars. Our second panelist will be Edward Chow who is a Senior Fellow at the Center for Strategic and International Studies and of course has worked many years in the energy sector. Our third speaker will be Steven Pifer, a Senior Fellow at the Brookings Institution and also former United States Ambassador to Ukraine. And our fourth speaker will be Robert Nurick who is a Senior Fellow at the Atlantic Council.

MR. MILLER: I've been asked to speak first to talk about the state of culture and education and the characteristics that we find today of national identity. Without question, there is a cleavage in political culture between the people and the government. This is creating profound difficulties throughout Ukraine, particularly those who had aspirations for a democratic Ukraine. Three generations are primarily affected. First is the Soviet generation, those who were brought up in the Soviet time, served in the Soviet government, in many respects in the military in the great patriotic war, and their attitudes and cultural values were in part shaped by the Soviet experience. The second generation is the transition, those who were born in the Soviet period but grew up in the present Ukraine post-1991, and they are the people who are involved in governance now. They are the mainsprings of business and enterprise, and they are the ones who are

performing on the stages of the opera houses, they are the ones who are writing novels and poetry and painting. Then there is the younger generation some of whom are here today with us as interns and beginning their professional lives. They are post-Soviet and they were born after independence, and they are the hope of the future.

In 1996 the cultural values of Ukraine were defined legally in the form of the Constitution. This is a remarkable document, I recommend reading and rereading it, because it does express in very clear terms what the values Ukrainians believe in. And if you measure that expression of value against the performance of government, you find a great disconnect and this is the crisis that is taking place in Ukraine. The rule of law which is laid out very carefully in the Constitution is now abused, the electoral system is bent out of shape and the economy by any definition, but I'll take the Aristotelian definition, is an oligarchy. That is, government of the few for the few for the benefit of the few and not government of the people by the people for the people. That's the problem.

That's a description of political culture, but what is distinctive about Ukrainian identity is that it is not Russian, it is something else, self-defined expressed in music, in poetry, in painting, even on the stages of the opera houses of Ukraine, and it's magnificent. It's in great vitality and it's in the greatest of health. The universities and schools are in great trouble. No school teacher, no professor in a university can live on the salaries that he receives, so this is a failure of government to provide for the education of their children and laying the groundwork for the future. At the universities there have been attempts to control the intellectual freedom of universities as there has been an attempt to control the freedom of the press, and certainly there is control of TV, the main source of information for most people. However, Ukrainians as you all know are a tough, independent, fiercely objective people about their own possibilities, about their own rights and they are expressing themselves.

We have a test coming up in the elections, and of course as we all know, the leading opposition candidates will not be present because they're in jail. They're in jail because of their political opposition. Despite this, despite the pressures, I would say that the health of Ukrainian intellectual ability, the integrity of Ukraineness, has been maintained and even strengthened by the test, and this is a test. We are at a crisis point in Ukraine and the future really will only be decided by to what degree the younger generation will take charge and throw out the scoundrels. Thank you.

MS. STENT: Thank you very much for a very clear statement. Ed?

MR. CHOW: Thank you, Angela. First of all, I wanted to apologize to the audience that I've had a lingering cold so I'm not in as good voice as usual. I also wanted to thank the U.S.-Ukraine Foundation for doing this project, for Nadir McConnell and her staff, Jim, Yulia, Makien (phonetic spellings) for helping the task force from Ukraine and the U.S. as well as Europe engage in this very fruitful dialogue.

One of the things I noticed in reading the introduction because I was just sick, I just read it this morning, is that I thought was very insightful was the remarkable consensus among the expert community on Ukraine's problems as well as Ukraine's solutions to their problems, and that was certainly true in the case of the Energy Task Force. I won't go into the entire paper. I've talked about Ukraine and Ukraine's energy problems so often in this town that I must be really tiresome by now including this room as I recall. But I will just highlight a few points which is not only are Ukraine's energy problems well know, the solutions are also well known and have been around for a long, long time with numerous studies including studies commissioned by the government itself on what it should do on energy policy. The fact that it hasn't changed is really due to the absence of political will than anything else. In some ways, this government, the current government which I don't want to pick on because they inherited these problems, they

were not the only ones who didn't address Ukraine's energy challenges. In some ways when they came in they were the best equipped people to actually make the change if they wanted to. These were experienced people who served during Kuchma's time in very responsible positions. They had control of Darada. So unlike the previous crowd which was too busy perhaps fighting among themselves including over the energy franchise to do very much if they wanted to, they could. But they haven't and things are only getting worse instead of getting better. If you think about it, it's been a 20-year economic transition. That's an awful long time not to do something about a problem when your country has so much room for energy efficiency improvements. Ukraine has an energy intensity that is higher than Russia's. It has so much potential for domestic production increases.

One of the themes that I think is weaved throughout these papers is the need to engage civil society in an informed conversation about various issues, and that's certainly true in the case of energy. It concerns me when energy issues are politicized. Particularly as a former commercial negotiator, if you can now go to jail for making a bad agreement, that's really scary. What does that mean for the current government when they have also entered into bad agreements that could be overturned by future governments?

A different point is that one of the things that this government has done is that it seemed to be opening itself up for foreign direct investment in the energy sector and that can be a very good thing. We have had both Chevron and Shell awarded, they haven't signed anything yet as far as I know, having won tenders on conventional gas, ExxonMobil and Shell in the offshore. These are wonderful opportunities for a country, for an economy that doesn't have a lot of success stories to talk about in energy. But they can only be productive as well as attract future investment if they're handled

properly, if they're handled professionally, that the contracts are negotiated in the proper way, not because of some short-term political expediency, and that not too many things get in the way of world-class companies wanting to operate in Ukraine whether that selected local partners with dubious ability to contribute to the investment or a minister already guessing at what the price of gas ought to be that will be produced which just happened a couple of days ago. And access to infrastructure, access to markets, there are lots of issues that can be resolved, should be resolved, in a proper way if foreign direct investment is to contribute in a meaningful way.

Among the reforms that is probably critical for the Ukrainian gas and electricity sector is pricing reform which is long delayed. Pricing reform is a tough thing to do. We know that from our own experience in the U.S. But if there is never an action plan, if there is never a program that says over a course of 2, 3 or 4 years we're going to take the following steps in order to gradually liberalize prices, then long-term investments cannot take place either on the production side or on the energy efficiency improvement side of things. So an action plan is necessary, not just a set of aspirations without precise target dates. Here too civil society needs to be engaged in the conversation. In a democracy you cannot sustain economic reform without the support of the people.

Privatization can be both a blessing and a curse. If it's done properly, formerly inefficient and ineffective state enterprises can be freed up to do a proper economic function. If it's done on the insider dealing basis where favored bidders, politically connected bidders, are able to get assets without contributing to increased competition which is what you want from privatization, then there can be a problem and can further discredit in the public's eye the steps that the government is trying to do on energy generally.

There is a huge need to stabilize the energy relationship with Russia.

Russia is a natural partner of Ukraine by geography if something else on energy, but this can be done, should be done, but needs to be properly prepared. I am afraid that I've seen too many times where Ukrainian governments, not just this one, enter into negotiations with Russia without being properly prepared and taking short-term steps they will live to regret later, and I'm not sure that we aren't setting ourselves up for a similar situation this winter. Russians seem quite determined -- as a bypass gas pipeline bypassing Ukraine. I guess I said it in this room first that that may be the best thing to happen to Ukrainian energy reform because finally Ukraine will have to not just try to leverage its transit to gain certain privileges from Russian gas, but to take the fundamental reforms necessary to take advantage of the potential that they have domestically.

As you can see, most of these problems and their solutions are domestic. They're internal. There are limits to how much external influence or assistance can be provided to help it along, so one of the things that we recommend to the West and to the American government in particular to do is also to engage more directly with the Ukrainian public, to say the same things to the Ukrainian public that which they say to Ukrainian officialdom privately and to be prepared if and when political will finally appears in Kiev to do serious energy reform, to be prepared at that moment to engage vigorously. Otherwise, we are all just pretending to do something rather than addressing the serious fundamental problems.

MS. STENT: Thank you very much for another very clear statement. Steve?

MR. PIFER: Thanks, Angela. Let me also thank the U.S.-Ukrainian Foundation for organizing this and the American Embassy in Kiev for supporting it.

I co-chaired the Task Force on Foreign Policy with -- of the Rosenkoph

Center and the task paper there on foreign policy reflects a consensus among American and Ukrainian participants both as to the situation that Ukrainian foreign policy faces when it looks at Europe, the United States and Russia, but also on the recommendations that were transmitted to the American and Ukrainian governments. The task force agreed early on that Ukraine faces a challenge. On the one hand, it has to find the right balance between its relationship with the West and its relationship with Russia while at the same time pursuing integration into political and economic institutions in Europe, particularly the European Union, and over the past 2 years for Ukraine it appears that Ukraine's freedom for maneuver in this space has become progressively narrowed. That results primarily from the democratic problems that have already been mentioned, the democratic regression within Ukraine, the selective application of justice against people like Yulia Tymoshenko and Uri Lutsenko, and the result has been that Ukraine's relations with Europe and the United States are on hold. They've become frozen at a time when you see Russia pursuing a more active policy toward Ukraine that seemed with two goals, one increasing Russian influence within Ukraine, but also drawing Ukraine into the integration projects that Russia is trying to promote on the pro-Soviet space such as the Eurasian Union, such as the Collective Security Treaty Organization.

It seemed to us that Ukraine has a choice to make, but we saw this less as a geopolitical choice and more as a choice by Ukrainians about values, about the nature of the Ukrainian economy and about the relationship between the state and the citizen. So we came out with three broad recommendations. First of all, it seemed to us both on the American and Ukrainian side that the best course of Ukraine is to adhere to the path it's defined for integration into the European Union. Second, Ukraine needs to take part in the association agreement, a key element of which is the deep and compressive free trade arrangement and make that the precondition for how Ukraine

decides to pursue arrangements with economic and trade unions to its East because if Ukraine doesn't get that right, it could preclude the free trade agreement with the European Union from coming into effect and it could isolate itself from the richest trading bloc in the world. Then third, it's important that Ukraine come up with clear expectations with regard to how it plans to interact with institutions such as the Customs Union, such as the Collective Security Treaty Organization.

We then took the three directions, Europe, the United States and Russia, and we broke our Europe recommendations down into three areas. The first was the Ukrainian relationship with the European Union, and the challenge here for the government of Ukraine is to unfreeze that relationship which has been on hold for the past year due to the demographic issues. And it's going to turn first and foremost on Kiev's recognition of these problems and its ability to begin to address internal problems that demonstrates in a convincing way that Ukraine is moving back toward E.U. democratic values. Part of this is Ukraine moving forward in bringing the association agreement into force, but that's not going to happen and I think European governments have been very clear that that will not happen unless Ukraine first moves on democracy internally. Then the third recommendation was that Ukraine ought to move to reinvigorate those institutions within Kiev that are responsible for coordinating an active Ukrainian policy is integration into the European Union.

In terms of what the United States government can do, and I think the U.S. government has been clear that it seems integration into the European Union as the right course for Ukraine, and the U.S. government ought to be thinking about ways it can use American technical assistance to facilitate that integration path to facilitate Ukraine's move to adoption of both E.U. democratic and market values. In terms of Ukraine's relationship with NATO, it's fairly clear that Ukraine doesn't want membership but that

should not preclude Ukraine from building on its annual programs of cooperation to deepen partnership relations with NATO and here the United States can provide advice in terms of how you build that practical cooperation and also serve as a friend -- in Brussels.

There is a third element of I think Ukraine's Europe policy which is in 2013 Ukraine will hold the chair for the Organization for Security and Cooperation in Europe and that's an opportunity for Ukraine. I think the view within the task force was it will be important that Ukraine not overreach and not try to do too many things. If you try to do too many things with your chairmanship, you will do nothing well. So as it looks toward 2013, the Ukrainian government should be thinking what would be the priorities and to our group a large -- was Transnistia and to see if promotion of that dispute, there could be progress on that score. Of course OSC is deeply involved and that's an issue that borders on Ukraine. A secondary might be the arms control area. Can Ukraine which has made some contributions both on the arms control and the nonproliferation areas in the last 20 years, can it do some things to facilitate the frozen situation around conventional arms control in Europe?

Turning to Ukraine's relationship with the United States, there is a very broad agenda between Washington and Kiev, but as with Europe, the pace of that engagement particularly at the high level is lagging. And I would just say that a photo opportunity with the president in a receiving line at the U.N. General Assembly is not a meeting so that there is no confusion on that point. And I don't think that's going to change at the high level unless Ukraine addresses the democratic issues that are also problematic in Kiev's relationship with Europe. Beyond that, I think Ukraine can work to do some things to facilitate relations with the West and the United States. It can improve the business climate, it could try to broaden trade relations, and the United States

government has an interest in helping out in those areas. But at the high level, I don't think there's going to be a lot of progress in terms of the sorts of high-level engagement that Bill and I saw during the 1990s. You're not going to get back to that unless Kiev comes to I think a different course on its democratic issues.

Finally, Ukraine's relationship with Russia. In 2010 Ukraine made a number of significant concessions to Moscow, but it doesn't seem that those yielded much. They yielded a discount on gas price and the value that has been eroded by the fact that the price of gas has increased significantly in the past 2 years. You see in Russia I think a fairly active effort to try to engage Ukraine in the sorts of integration projects that Russia is leading, the Customs Union, the Eurasian Union, the Collective Security Treaty Organization and it would be prudent for the leadership in Ukraine to expect those efforts to continue and intensify. For Ukraine to protect its position I think it has to do a couple of things. One is fix its relationship with the West, but also as it engages with its neighbors to the East, engage on a bilateral basis as opposed to engaging with those institutions which could have the result of intertwining Ukraine into regional organizations that hinder its effort to draw closer to the European Union. Then a second point that Ed has addressed, the normalization of the gas relationship with Russia is really fundamental to Ukraine's ability to manage its relationship with that country. In terms of the U.S. government, I think the sense was that the U.S. government needs to tread lightly on this issue. It should be transparent with both Moscow and Kiev about how it is engaging the other, but this is an issue primarily between those two capitals.

I would close with the sense of the group was that because of the domestic issues in Ukraine, Ukraine is now in a difficult position in its relationships with both Europe and the United States and if that cannot be fixed, I think Ukraine increasingly is going to find that it has a difficult relationship and a more challenging relationship with

Russia, and to the resolution of this, the democratic issues within Ukraine are going to be central.

MS. STENT: Thank you very much, Steve.

MR. NURICK: Thank you very much. I would also like to add my vote of thanks to the foundation and to our embassy but also to my colleagues on the task force both American and Ukrainian for the time and efforts that they've put into this.

Let me begin by saying though a few words about why we thought it was important to look at this question of Ukrainian security policy and in particular the prospects for and challenges to U.S. and European engagement with Ukraine in this area. Essentially there are three basic reasons I think. The first is some shared interests, some common interests. There are some shared concerns about security issues that we and they face both regional and global, and in light of the potential impact of Ukraine's security situation, arms stability in Europe in general, there is I think it's fair to say a strong interest here in supporting a more coherent and constructive Ukrainian security policy. A second reason is that cooperation has now been going on for some 20 years and in some areas it's been quite useful. In some areas it has produced some results and engagement by Ukraine that have been appreciated in the West, and I'll say a few more words about this later. This is backed up by the fact that there is a very capable security policy community in Ukraine which remains committed to these activities and to engagement in general. That's the second reason. The third reason though is that this engagement is under pressure. It's under pressure in part for reasons that have nothing in particular to do with Ukraine as such especially the problem with declining defense budgets and the implications that will have for funding for programs of cooperation. But also importantly for reasons that do have to do with Ukraine both some aspects of its defense policy and engagements that are troublesome to the West, and in

particular as we've heard in other areas, concerns about domestic trends, concerns which inevitably have begun to and I think will continue to reduce political support in a congress and elsewhere for funding for these activities.

Let me elaborate a little bit on these points as I go through some of the main items that I think emerged from the deliberations on our task force. One of the main themes that you'll see that emerges and is discussed in the paper is similar to what we've heard from some of the others about concerns about the extent of commitment at the highest levels of the Ukrainian government to these activities. The broad policy context for Ukraine has been set out in the national security strategy which was just released in June along with an accompanying document on military strategy and these documents describe a very difficult security environment for Ukraine and led to lament the extent to which Ukraine lacks reliable security guarantees, it's feeling more and more isolated from broader European processes, security policy processes and talks about the danger of being relegated to what is called the gray zone of security. All this makes a great deal of sense. One would think that there would be a particular emphasis there for it given this view of its security situation, a particular emphasis in reenergizing these security relationships abroad with Europe and the United States, and, indeed, on paper at least there is a commitment to do so. As I'm sure you all know, Ukraine under the Yunukovych administration has explicitly dropped its desire to join NATO and has adopted a so-called non-drop status, but also says in its policy papers that it is committed to continuing and indeed deepening engagement with the U.S. and NATO in areas of mutual interest. The problem is it's very hard to see not only in the document but in the daily interactions of governments where its real priorities lie, how committed it really is to these kinds of engagements, where it thinks that engagement could help and therefore where it's willing to commit real political capital and economic resources to sustaining these arrangements.

I'll elaborate on these points in a couple of areas if I could. One has to do again with Ukraine's international engagements. As I mentioned before, there are areas in which this has been very productive and they continue. Ukraine has been engaged in Kosovo. It has assigned medical personnel and transport aircraft to support ISAF in Afghanistan. It's been involved in Operation Active Endeavor in the Mediterranean, and it's very much increasingly involved in multilateral anti-piracy activities and is continuing to be involved in some space launch activities, so there is a body of work there. But it's not so clear what it envisions in the future, what kinds of operations it thinks are important and with whom, and this matters because the absence of clarity on this makes it hard both for officials inside Ukraine and inside the defense ministries to know where their attention and priorities should lie, and hard for its international partners, the U.S. and NATO, to know where at a time of declining budgets and other concerns it's most important to engage. So it's quite easy. If you talk to governments or government officials or to nongovernment analysis like us up here, it's not at all hard to get people to articulate why these engagements, why cooperation is important.

What's harder and becoming more difficult is to articulate why given the pressures on the defense budget, given all the other priorities, given the uncertainties about what the results of some of the cooperation have been in the past, why it's important to continue to commit real capital and resources to these activities. I think there is a case as I say for doing it, but the politics of this are not propitious at the moment.

What does this mean? It means among other things that it would be very helpful if the Ukrainian administration would start to articulate not just on paper but in terms of real policy interactions with its own officials where its priorities lie, why it cares about this and what it wants to achieve. It's also going to need to make clear how these

relationships will proceed in light of the other aspects of Ukraine's dealings with the West particularly on some of these domestic policy issues.

In terms of U.S. engagement in particular, again this is an area where there has been quite a lot of work over the years and some of it has been quite useful, but in some cases again U.S. officials I think are simply uncertain about how much the current administration in Kiev is really committed to these activities. It talks the talk, it's not clear that it's walking the walk as yet. And again I think my own sense is that the government here and governments in Europe want to continue and will, but there is going to be much greater premium when they look at the activities that they're undertaken in the past and are considering in the future, a much greater premium on making sure that they show real results, demonstrable results. Cooperation and engagement for its own sake is going to be harder to sustain.

The final area that I'll mention and you'll see discussed in the paper has to do with cooperation in the defense industry. Our Ukrainian colleagues made it very clear that this is a very high priority for Ukraine in general both for the policy community and certainly for the administration there and there is some hope there that there would be interest in the West. They argue that they have some capabilities which ought to be of interest to Western companies, that manufacturing costs are low, that in some cases they have access to markets which we don't and so on. The fact of the matter is is there is not must interest unfortunately among Western companies and the moment and it's in part because again at a time when they see their own budgets declining, they're going to be focusing primarily on areas where the prospects are established and budgets are high and those are not primarily in Ukraine but in other parts of the world. But also for political reasons. Given the lack of economic incentives, what they will look for is support from governments, and in this case it's not clear that this is going to be as high a priority for

the U.S. as well. We've been looking here at what might be done in light of these challenges. Essentially the real question is whether there are additional niche capabilities in Ukraine that can be exploited. I mentioned before that there are areas already where cooperation takes place. The question is is there more. What we've recommended is essentially a further, much closer and systematic look at what the possibilities might be both at the policy level and at the industry level. At the policy level it's going to need to clarify what the real political support will be among governments for sustaining cooperation in this area. Where it's useful. Where there are uncertainties or challenges. How to deal with objections from third countries, a euphemism meaning Russia in particular. How to address problems of corruption in this sector in Ukraine. How to deal with the fact that some of Ukraine's arms sales are to customers that are widely viewed as unsavory in the U.S. and capitals and the like. These are all things that need to be talked about clearly and systematically to see where the political support will lie and in what areas.

Secondly, at the industrial level there are a number of things that can be done, and in particular the idea should be to try to specify more concretely what areas of technology in particular would be of interest for both sides. Again as I say, it's a question of identifying niche capabilities and a number of areas have already been suggested for further examination including space lunch, cyber, border security technologies and so on. There may be also utility in looking for ways to transfer lessons learned from U.S. industry to deal with two new problems for Ukraine in this area, namely, how to privatize and how to outsource some of these activities to make the industrial complex in Ukraine leaner without sacrificing the capabilities it needs.

Where does this lead us? Just a couple of observations at the very end, some common themes which are very similar to ones that you've heard from the others.

One is that there is very little dispute among Ukrainian colleagues about what the problems are and what needs to be done. Another is that at the end of the day, the key problems are primarily internal, questions about will direction in some cases, capacities at the highest levels of the government. It's not a problem at the level of ministries and offices, but above that. And for those reasons therefore the need to engage not only governments but also the broader policy community and the public in part to try to sustain the things that are useful and that are political supportable, but also to preserve a level of engagement which will set the stage which can sustain cooperation sufficiently to allow for a more robust engagement when political circumstances get better. Thank you.

MS. STENT: Thank you very much. As you can see, this report makes rather sobering reading. Each of the four task forces I think has diagnosed very well the problem and they've also made suggestions about how to tackle it. Let me just ask all of you a brief question and then we'll throw it over to the audience. You all talked about a number of different solutions. Where would you start? What would be your first policy focus if you were trying to remedy some of the problems that you have all identified and of which your Ukrainian colleagues are very aware? Let's start with you, Bill?

MR. MILLER: I think all of the polling and interviews that have been undertaken in the last several years among different levels and groups in Ukrainian society all have as number one getting rid of corruption and corrupt officials. I would start there.

MS. STENT: Thank you. Ed? Anything to add to that?

MR. CHOW: What made you think of energy and corruption? I'm not sure that the two things I'm going to mention are the most important thing to do, but the most urgent items to be attended to. One I've already alluded to which is stabilizing the gas relationship with Russia. I think we're setting ourselves up. We have the potential of

a gas crisis this winter. Ukraine has failed to commit to buy the gas that it's contractually committed to buying. This is a looming liability of billions of dollars. They can say that Russia can take them to arbitration in Stockholm if they like, but nevertheless, these are real contracts that this government signed that they are failing to meet their obligation on and this is a card that Russia can play whenever it suits it and it usually finds it more suitable in the wintertime than summertime for some reason. Or we're almost overdue. Right? The 2006 gas crisis, the 2009 gas crisis. The problem hasn't gone away, so the potential for crises still remains. Ukraine is injecting less into gas storage this summer than is normally the case to prepare for winter. This may be okay because the gas flows are also lower because Russia has been diverting volumes to Yamal and to -- but it is something that's worrisome in my mind, the preparation for the winter. The other urgent issue is perennial pricing reform. We had one price increase. Every time you need an agreement with the IMF. You agree on a program and then you renege on it. This really needs to be well thought out, planned, designed and communicated to the public as to why it's necessary, why is this for the long-term good of the Ukrainian economy which is why the absence of energy policy debate or discussion during the -- election is so dismaying to me. How do you address tough issues if you never talk about it during the election campaign? So those would be the two items that I would address.

MS. STENT: Thank you. Steven?

MR. PIFER: I would emphasize the importance of doing something to reverse the current reversal of democracy progress within Ukraine because that is I think the single biggest problem that Ukraine has in both its relationships with the European Union and with the United States. It has really frozen high-level engagement over the last year. For those members of the European Union who are not enthusiastic about a more expanding European Union, Ukraine's regression on democratic values is the

perfect excuse for them to argue that the E.U. should turn down its relationship with Ukraine. And it goes back to about 2 weeks ago I was at a conference, the Yalta European Strategy Conference in Yalta, and I think it was Bob Zoellick who was the speaker there. He posed the question. He said Ukraine needs to make a decision is it going to be the next Poland or the next Belarus? And unfortunately for Ukraine, I think the course it's on now is to lead many to conclude it's headed toward becoming Belarus and that's not a good image for Ukraine and that's not a good image that's going to help promote stronger Western engagement with Ukraine.

MS. STENT: Thank you.

SPEAKER: I would stress at the outset the same point that Steve made because given the pressures on these relationships, the concerns about domestic trends in Ukraine as I mentioned before is the problem that surrounds all the debates about what makes sense to do in these areas and not in the abstract, not what makes sense in the abstract, but where it's worth Western governments committing resources and time and attention, so I think that as a contextual factor it's critical. But in this area in particular I think I would focus on two areas, again not because they're necessarily the most important over the long run, but they're I think most important in the near term to sustain cooperation for the foreseeable future. The first of those is a combination of work on clarifying where and how Ukraine can continue usefully to engage in Western security operations because this is with the end of Ukraine's drive toward NATO membership, this and security sector reform are the two basic rationales in the West for sustaining cooperation. They were also the rationales through the 1990s, so we've returned to that situation. And it's important therefore to develop those, in part to remind ourselves that we still have an interest in this. This is an enduring interest that transcends political vicissitudes at least to some degree. And the second area is despite all the difficulties

with it is to start looking hard at possibilities -- at defense industrial cooperation. For the opposite reason, namely, that it's going to important really to try to engage Ukrainian administration interest, and we've been persuaded I think by our Ukrainian colleagues that serious attention to this however difficult it may be is probably the first area that can really get the attention of higher-level authorities in Kiev.

MS. STENT: Thank you. The floor is now open for questions. Please identify yourself and say to whom your question is directed.

MR. MASUK: Andre Masuk. I still teach at -- Academy. This is primarily to Ambassador Miller, but to all panelists. Ambassador Miller, you painted a picture of Ukraine as an oligarchy. How would you engage an oligarchy? How would you engage a society that's built on political and economic patronage? How do you engage a society that the most frequent question when I work in Ukraine is -- how do you really build those engagements? Thank you.

MR. MILLER: You go right to the heart of the difficulty. Ukraine I need not remind you and others here emerged from a communist Soviet socialist system in which all property belonged to the state and there was no significant individual wealth. And now you have wealth accumulation as a major phenomenon in the country. Where does the wealth come from? Some of it of course comes from new initiatives certainly in the IT area; Ukraine's brilliance in the world has been demonstrated. But where did the wealth come from that the oligarchs possess? They came from the assets of the state. So wealth distribution, the distribution of wealth to the people, has been skewed. Your students know this and I'm sure you teach them this phenomena. What to do about it? It's the question that I found when I first came to Ukraine in 1993, the great argument was what kind of state shall we have? Shall it be like the United States with a free market economy or shall it be like the Nordics with a proportional mix of state and private

sectors? To what degree do we take care of the aged, the less fortunate? What is the state of our health system? What is the state of our education system? And you know directly as a professor what the state of education is. You're under great pressure economically and politically to do your work -- is an exception that it has had great leadership and emerged as a premiere academic institution. And I know from visits to village schools that the teachers who earn $800 a month or the equivalent need at least twice that to live. What do they do? They paint the school. They sell their vegetables which they grow in the gardens and still teach because they believe in what they're doing and the necessity to train the youth of the future.

The big issue before Ukraine political as well as economic is land distribution. The Minister of Agriculture has said that government land as though the government was the owner of the land and not the people will be leased for 50 years to China, Saudi Arabia, perhaps Americans. This is a profound question of ownership, of property, of the rule of law, of national values. The pressures on education are symptomatic and if education is not given a priority, then the future is dismal. The future is with our children, your children.

MS. STENT: Thank you.

SPEAKER: -- first of all, my one comment to the distinguished panel, I could not imagine that in 15 to 20 minutes you could cover and give comprehensive analysis to so important for Ukraine issues and situations and even give some solutions. My question is to the whole panel. In each of your topics, fields, how can you evaluate? What grade could you give Ukraine talking about possibilities and their realization at this moment?

MS. STENT: Report cards. We'll start with you, Bob.

MR. NURICK: That's a good question given the grade inflation I see in

universities these days. No, I think I'd want to give two different grades. One grade to the people in the ministries who are doing this day to day, and I've give then quite a high grade because they're very capable people, they're committed to this. Things get done. I would give a much lower grade to levels above them. As I mentioned, that's where a lot of the problem is. Part of it is simply lack of political will. Part of it is the lack of political direction. Part of it is the lack of a coherent internal decision-making process in Ukraine which can establish priorities and provide guidance. So I don't know what letters, but I've given a pretty high grade to a lot of the day-to-day interactions and people who are responsible at that level, and a lower grade to the part of the system that's above them.

MS. STENT: Steve? Do you have anything to add?

MR. PIFER: I'll grade the leadership. I think Bob's point is well taken, that there are good, smart professional people, but it's very hard for them to pursue a policy when that policy is set at the top. And I think if you look at the foreign policy that's been pursued by the Yunukovych government over the last 2 years, and this is a policy that's set by the president in Bankava, it merits a very low grade. I would give it a low grade because I go back to a conversation that started back in 1994 I think when -- and a deputy foreign minister met with Deputy Secretary Talbott and said as the United States envisaged NATO enlargement and the Russians were unhappy, what's your vision for Ukraine, we don't want to be in a gray zone. Deputy Secretary Talbott, also the president of this institution, made the observation saying we don't have an answer now. We need to have an answer to that question. And I think over the next couple of years we developed an answer and it was the answer of a strategic partnership with the United States, it was an answer developing a distinctive partnership between NATO and Ukraine, to make Ukraine feel connected in ways that would not lead to that gray zone of insecurity. What I think has happened over the last 2 years is with the freezing of the

relationship with the West is the Yunukovych foreign policy has put Ukraine precisely in the gray zone that the previous 18 years of Ukrainian foreign policy were designed to avoid and it's very hard to give that kind of outcome a passing grade even with grade inflation.

MS. STENT: Ed?

MR. CHOW: You put me in a difficult position as a sometime teacher. I would say that if I had Ukrainian energy policymakers as students I would right now give them a C- or D+ and I assume the student would be asking for an incomplete at this point.

MS. STENT: Thanks. Anything to add?

MR. MILLER: I think you know what grade I would give to governance. However, I would give very high marks to the younger generation and the emergence of civil society and here's where the hope of the future lies to pull Ukraine out of the depths that it has fallen into.

MS. STENT: Thank you. Questions or comments?

MS. BISHIKOVA: My name is Katarina Bishikova. I'm a Transatlantic Fellow at the Transatlantic Academy which is a research institution based at the German Marshall Fund just a few blocks away from here. I'm originally Ukrainian so let me start by expressing my deep-felt thanks to the work you've done in your respective task forces. And I think the amazing added value of your report is -- cross-cutting nature of your recommendations, the fact that you look -- sort of have this cross-sectoral view and link specific challenges with what could be done on a more strategic level. Having said that, let's hope the respective governments will listen of course. Having said that, I have two specific questions, one to Mr. Chow about the possible energy policy solutions. I'm thinking about the recent open letter that Prime Minister Azarov has written to a German

newspaper urging -- or let's say reminding -- the European Union that there was this idea of having a trilateral solution to running a gas consortium in Ukraine, and I wonder what is your comment on that. Do you think that's one of the solutions that are still to be pursued? Then I have another question to Ambassador Williams. Miller, sorry -- what you've identified as a transition generation of Ukrainians and I think what was amazing in the 1990s was the kind of effort that many different American organizations have taken in promoting civic education, working in very broad terms on educating young citizens on what it means to be a citizen in a democratic society. And I'm just curious how you think this plays out now with a new what you define as a post-Soviet generation. Thank you.

MS. STENT: Thank you. Ed?

MR. CHOW: I'm not aware of Mr. Azarov's open letter so I can't address the specifics of what's in the letter, but this is an old idea. It's an idea that was around during Kuchma's time.

SPEAKER: The U.S. government advanced it in 2000.

MR. CHOW: Steve has the scars to show for it. At that time, Western companies took it quite seriously. I remember Rorgas and now Ion did a lot of work on this. Shell also proposed themselves as a party to a three-way agreement. So it's been around for a long time. I went to Essen a few years ago to ask the Rohr Gas people whether they would still consider it or not and their response to me at that time a few years ago was, no, we would not because the Ukrainian side is not serious about doing this. We wasted a lot of time and we won't consider it again. The problem is that the time may have passed for this kind of a solution because other people work around Ukraine if Ukraine doesn't put its own house in order. Russia has built North Stream. It is diverting gas flows through the Yamal pipeline. Western Europe has liquefied natural gas available in the global market because of changes in the international market. Other

people have moved on, and so this is like going back to a solution that may have applied in the 1990s but is not as palatable to Europeans today. And if it were to happen, I would imagine that this would be a European partner that Russia selects.

MS. STENT: Bill?

MR. MILLER: In answer to your question, I turn back to you. You're an example of the success of such programs. You've come here because you see in the United States values that you think are worthwhile. Our intent in programs like Fulbright, Muskie, assistance to libraries, the kind of work that the U.S.-Ukraine does as a daily fare, the interchange between intellectuals and ordinary people of our country and the West and Ukraine will make all of the difference and we have to continue that effort of interchange. The Library of Congress for example has magnificent programs and they should be increased. The numbers should be tens of thousands who go back and forth. The diaspora should be going to Ukraine in greater numbers just as Ukrainians should be enabled to come here to work and benefit from the exchange of ideas. I have great optimism about your generation. You will make the difference. I'm afraid many of your parents and grandparents are in the past.

MS. STENT: Keith Smith who was also a member of the Energy Task Force?

MR. SMITH: Thanks. Keith Smith. But I'm not going to say anything about energy. My question has to do with kind of thinking the unthinkable in a way that here the E.U. and Ukraine have reached a kind of preliminary agreement on trade, an open trading system, also one which would open for visas for Ukrainians to travel to Europe. In light of the fact that things are moving in the wrong direction in spite of the E.U.'s position of we're not going to do anything until Tymoshenko and Ushenko and all of these people are released, what if they just said we're going to go ahead after the

election and open up on the economic side and let things happen and open on the economic side and encourage an awful lot of educational and personal exchange? Would that be better than the present situation and the way things are going? A month ago I would have said no, but I wonder now.

MS. STENT: Would you like to answer this anyone?

SPEAKER: I guess Steve is in the best position and Bill. Steve?

MR. PIFER: First of all, based on what I've seen from both E.U. official commentary and also what individual European officials have said, I don't think that's going to happen, because of course the association agreement has to be in the end ratified by all members of the European Union and there are a number of senior parliamentary leaders in those countries who are on record saying that until the democratic situation in Ukraine is improved that they're not going to go down that path. So I think this a course not likely to happen. I guess I think that would be a mistake. I think at some point the line has to be drawn. If the European Union is looking toward Ukraine, there has to be a certain basic acceptance by the government of Ukraine of the values that are fundamental to democracy within the European Union and if the E.U. compromises on that point I think the government gets the advantages with the economic interaction without doing the parallel commitment in terms of moving toward E.U. democratic values, I think the European Union would yield a great deal of its leverage.

Part of this gets back to I think at some point the worry here is that if the West, if Europe does not engage Ukraine, does Ukraine drift back toward Russia? And I think there is a perception, I think it's a misperception but it's a perception held I believe by a certain portion of the elites in Ukraine which goes something like Ukraine is so geopolitically and geostrategically important to the West that at the end of the day the West will compromise its democratic values and accept Ukraine to keep it from going

back into the orbit of Russia. I think that's wrong and I think we ought not to let Ukraine or the Ukrainian government, because I don't attach that to the Ukrainian population, bluff us in the way because for the Ukrainian government, for Mr. Yunukovych and the people around him, to draft back toward Russia would be a whole lot worse for them in terms of the economics, in terms of their personal business interests, in terms of compromising of Ukrainian sovereignty than it would for the West. So there's a bluff there going on and if the West is smart, the West will call that bluff and so what I think the policy is now trying to do, but crystalize in the minds of Bankava that there's a choice to be made and that if they want to have that relationship with the West which I think they end are going to see will be important because I don't think Mr. Yunukovych wants to deal with Mr. Putin one on one, that they've got to do some repairs and I think again the aim of Western policy should be to crystalize that choice in the minds of those in Bankava.

SPEAKER: If I can just add one of two points. One is I agree with Steve that I think it's unlikely that the E.U. will take this course in the short term, but I do think it's going to be a debate in the E.U. both in the short term and perhaps probably in the longer term. In the short term because on the other hand there are some countries starting with Lithuania that are pushing very hard and making the arguments internally for doing precisely what you indicated. I don't think they're going to convince the E.U. in general, but it's going to be an issue. And if things go on the way they are a year from now, I think once again people will be asking themselves what should we be doing?

Two other points very quickly. One just to underline the point that Steve made. One of my concerns has to do with the effectiveness of the steps that the E.U. takes on the internal politics in Ukraine. I agree it's been remarkable the extent to which despite all the warnings and complaints from individual Western governments from the E.U., from NATO officials, it's quite remarkable the extent to which people at high levels

of the administration in Ukraine either don't believe it or don't care or some combination of both. And there's a great temptation when they see arguments from the West about relaxing these to say internally, you see, it's okay and this is all a bluff and that's quite demoralizing among other things to other people there. The only last thing I'd say is that I personally would make a distinction between an economic relationship -- I would like to see a liberalization of the visa arrangements especially with the younger generation in mind. I think the easier we can make it for these kinds of exchanges and for people there, the younger generation, students and the like, to go back and forth to Europe the better.

MS. STENT: In the back there?

MR. MILLER: I subscribe to your unthinkable thought. Ukraine isn't simply its government. Most of Ukraine's identity is its people and we should do everything possible to encourage the interchange of business, of the intellectual life, of normal involvement with other cultures and other societies, and we can do that. The E.U. nexus is more than economic as you know. They have a parliament and their values are of great concern and there are many common values between Europe and Ukraine and they should be encouraged. So I subscribe to your idea and I think our policies can be more creative in making a distinction between the heinous actions of government and the noble aspirations of the people and we should encourage those aspirations.

MS. STENT: Thank you.

MR. ROSEN: My name is Dick Rosen. I'm with the Council for Community of Democracies. A lot has been said by the group from the audience and from you about democracy education and I'd like to ask a question about that. The Community of Democracies has gained the support of the United Nations in an international effort on democracy education, and Ban Ki-moon met just last week with the

group and announced this was a priority. The idea is to get a resolution through the General Assembly stating that all members of the United Nations who believe in democracy should undertake a program in their schools and in their higher institutions and otherwise to gain an understanding among the students, among the younger people and the elders, that democracy has a particularly important role for the citizen. My question is: if this resolution succeeds in the General Assembly, how might it be exploited to exert some pressure upon the situation in Ukraine?

MS. STENT: Thank you. Bill?

MR. MILLER: Certainly not by sanctions. I think it's by direct involvement of organizations within the United Nations, health, education, the labor groups, agriculture, food, dealing with the refugee problem which is a serious one for Ukraine. There's a lot the U.N. can do as an active world organization with shared values and it's those values applied that would help in Ukraine. So anything you can do I'm sure would be welcomed by most of the societies.

MS. STENT: That reminds me. I worked in the Office of Policy Planning at the State Department at the end of the 1990s and when the Community of Democracies was first formed, Ukraine was one of the four critical democracies, and I guess if one goes back and looks at what we've been talking about then, it's again very sobering to think where we have and haven't come.

SPEAKER: Katarina -- Woodrow Wilson International Center for Scholars. Thank you very much for giving a very straightforward evaluation of Ukraine's authorities, but how would you evaluate Ukraine's opposition these days? Do you think they truly connect with the Ukrainian society? Are they very different only in their rhetoric or in essence they're the same group of individuals? And how would you relate the opposition's connection with civil society? Thank you.

MS. STENT: Thank you. Who would like to take that on?

SPEAKER: I think your question has an answer built in which is that a plague on all your houses. Your generation is building a new house, but the values of your country, the churches are filled, there are very good teachers teaching and there are very good students and there are great enterprises that have been created, and there are great singers and great dancers and great painters, lovely men and women. So it's in your hands.

MS. STENT: I think it was about the opposition.

SPEAKER: My reaction to the question is based not so much on this effort, but on the fact that I the last couple of years have been involved in Freedom House trips there and reports on the state of democracy and I have to say that one of the things that was striking at least to me when we started making these trips was the extent to which the political leadership that is associated with the Orange Revolution was discredited in Ukraine particularly among the younger people. I think some years from now we'll look back on that period as one of the great lost opportunities in Ukrainian history. What it told me is two things. One, I do think there is a difference between the opposition and the government. But two, I think new leadership is going to have to emerge over time. I have no doubt where in general it's going to come from. Who they are I don't know. Again there are some interesting signs in some areas. How long they'll last -- some new people, whether they'll endure and build sustainable and coherent political -- become coherent political forces I can't predict, but that's what I'm looking for.

SPEAKER: I think there's a chance. We'll see. October 20 is the election. And then we see what the opposition leaders then do with that. They will have an opportunity then to define themselves as political leaders who are pushing for a more democratic Ukraine, a Ukraine that's more compatible with European values or they

won't. So there's a test.

MS. STENT: We time for one more question.

MR. SCANLON: Mike Scanlon with the House Foreign Affairs Committee. My question goes to the issue of governance. This is something that I think you all rated was a failing grade, and usually governance in judged in elections. My question is: will the elections matter? The reason I ask this is because of the comparison to Belarus. Belarus elections don't matter. In Ukraine they did. The question is: will they? Because that ultimately -- you've all dismissed the leadership, so the question is will the people play a role in defining what good governance is which then addresses all the questions that you've been talking about.

MS. STENT: That's a great last question. Why don't we start with Bob?

MR. NURICK: In one way I think the answer is pretty clear. The answer is, yes, they will matter, how they're conducted and what will happen. This will be actually a complicated question because there have been some good things that have been done at least on the surface to address some of the concerns and criticisms of the electoral procedures, but there is no question that, number one, the opportunities for manipulation are still very much there and there are some disquieting signs at what we've seen. This is a much more complicated subject, but there will be two issues. One will be an assessment by all concerned of how these elections were conducted and to what extent the procedures were fair and reflected the real results. But the other will be the structural questions, whether the changes in the electoral law bias too much the -- and in particular whether the exclusion of opposition figures, particularly Yulia Tymoshenko and her colleague Mr. -- by themselves will cast a serious shadow over the proceedings. And all of governments' concern, the E.U. and the United States are going to have to make an assessment after that and I think though that this is really seen as a serious test case for

where this government is going to go and I think it's going to have a major impact on in fact what happens on the ground and what's politically sustainable in the areas we've discussed in Western capitals.

MS. STENT: Steve?

MR. PIFER: I would just add a little bit to that. Ukraine has over the last 20 years developed a reputation as a country in which elections matter. One of the reasons why I believe Viktor Yunukovych was accepted very quickly in the West in 2010, and there was an effort to reach out and engage him, was he was seen as coming to the presidency as the result of a free and fair election process. One of the things that is damaging to this government's reputation is the one national election that was conducted since then, the local elections in the fall of 2010, were not seen to be on the same level as the elections conducted in the previous 4 or 5 years. So I think Ukrainian elections do matter. This will be a test. I think some things that we're hearing now about access to the media and the makeup of electoral commissions, are disquieting. And if this test goes badly, I think it's going to in fact deepen the hole in which Ukraine now finds itself in terms of that gray zone between the West and Russia.

MS. STENT: Ed?

MR. CHOW: This is beyond my depth, but elections matter if they lead to competitive politics in which the opposition holds the government to account for its policy outcomes. But that hasn't been the experience of Ukraine in the last several years now. Politics, political parties seem to be more a personal vehicle often to advance economic interests. You can have an election and then people switch sides after the election. Once again I'm not an expert, but it seems to me the system under which the election is going to be held or the elections are going to be held this time will lead to more opportunities of switching sides after you're elected. So I would guess that it would

matter if it leads to true competitive politics which would be a very good thing, but it goes back to the old ways then I won't see much reason for optimism just because you've had an -- election.

MS. STENT: You have the last word.

MR. MILLER: I think it's a mistake to think that if all the votes are counted fairly that you have a fair election. I've been a witness to quite a few elections in Ukraine not to mention here. I've been an observer. My government helped fund the Central Election Commission and supplied computers in order to count the votes and so on. But any student of Ukrainian politics will know that the first set of elections for the first 10 or 15 years, the part of power reelected itself. It constructed the election rules to assure that it would reelect itself. The growth of opposition parties was stunted. Until 2002 and 2004, the Orange Revolution where you had people demanding a change and the party of power was defeated, a party of power has come back. The election rules have been set. If we look at this as a step in the electoral process of party development, of political maturity, yes, this coming election will have significance because even though the outcome is certain, how the opposition expresses itself will matter and the reaction to the election in civil society will matter. Down the road the change will come.

MS. STENT: Please join me in thanking our panel for an excellent discussion.

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