

Ambassador Bill Taylor
Ukraine and the West at the Start of 2008
CSIS, January 8, 2007

Ambassador Taylor's Opening Remarks

Ambassador Taylor stated that now is an especially important time for Ukraine, a time of both opportunity and strategic decisions. The Europeans are focused primarily on themselves, but they are also contemplating the question of where Europe ends. Russia is also at an interesting time politically, with an election of its own in the near future. Forming the new government in Kyiv took a while, but it still happened within the time frame mandated by the Ukrainian constitution.

Ambassador Taylor continued that the recent article in *Time* suggested that Russia now has a national idea: everything is coming back. Ukraine also has a national idea, that of Europe. In all regions, Ukrainians have decided that their destiny is a European one; the four parties that received 80% of the votes in the September parliamentary election all have Europe as a common goal. Ukrainians consider themselves European, with European values and wanting access to European markets. WTO accession appears to be close, with the next step being negotiation with the European Union over a free trade agreement. EU membership is a long-term goal; both the president and prime minister have asked the U.S. government to support this goal (though the U.S. is not an EU member). A great deal of time and work are still needed before Ukraine would be ready for EU membership, but this goal is accepted by most Ukrainians. NATO membership, on the other hand, is much more controversial, though many in the current Ukrainian government openly support starting the membership action plan process.

Ambassador Taylor noted that there have been some important breaks with the Soviet past over the past several years. In spite of the political drama, there has been a good democratic transition, real political competition, and real compromise, none of which are typical Soviet characteristics. In addition, because of disappointments with the government since 2004, local initiative, including local government, NGOs, and the media have grown stronger, and the next generation is hopeful for the future.

Ambassador Taylor cautioned that this is still Ukraine, and President Yushchenko and Prime Minister Tymoshenko are in the same roles as in 2005. This time around, there seems to be a better chance that their partnership will last longer, since they have more incentive to work together. The president thinks he still has a chance at reelection, while the prime minister is ambitious. Tymoshenko faces many problems right now, and she will need to work with the president if she wants to be successful. Currently there seems to be better communication between Yushchenko and Tymoshenko than in the past, and they have promised to meet and speak on the phone regularly. Though keeping these promises may be difficult, it does suggest that both might have learned from the mistakes of last time. In addition, the president no longer has the power to fire the prime minister, and he has also made an effort to reach out to the opposition, by appointing Regions

Party member Raisa Bogatyrova to head the National Security and Defense Council. Politically, this was probably a good move, since it could help build support for Yushchenko across party lines.

Ambassador Taylor closed by noting that Zbigniew Brzezinski has done a lot to focus attention on Ukraine's importance for the U.S., and Washington has a better appreciation of Ukraine's strategic importance than do many European capitals.

Q&A Session

Q: What is the current forecast for constitutional development, particularly regarding the distribution of powers between the president and prime minister? How effective is Ukrainian civil society?

Ambassador Taylor: The constitution is definitely a priority for 2008, however the changes are likely to be minor adjustments in the division of labor. There are those who support major changes to the constitution, but that is probably not going to happen in the near term. Regarding civil society, it has been a success. The U.S. Congress was very generous to Ukraine, and much of the funds went toward civil society. One can see a real distribution of power in the government and even competition among the oligarchs.

Q: How tenacious will the new government be in carrying out current plans such as price regulation, anti-corruption measures, value-added tax reform, and gas deals?

Ambassador Taylor: The last time Tymoshenko was in power, she did not have a cabinet that she trusted; this time she has her people to support her. In spite of earlier discussion on re-privatization, she is not pursuing it very aggressively at the moment and is just letting it take its course. The current government's economic policy includes the issue of price regulation, with particular concern about inflation, which is now at 15%. Anti-corruption legislation is something that can unfortunately be manipulated for personal vendettas, so we will have to see whether any serious efforts result. Judicial reform is one part of an anti-corruption effort that would be particularly significant. On the value-added tax, Tymoshenko has agreed that the government needs to pay the refunds, but major changes in the current tax structure are unlikely. Tymoshenko is serious about getting rid of the middlemen in gas deals and has decided not to renegotiate with the Russians in January. But when the price of gas from Russia reaches European prices, there is no room for middlemen, and it could lead Ukraine to look for gas elsewhere.

Q: Corruption in the Ukrainian parliament is still a real problem and has serious implications; what is being done to combat it?

Ambassador Taylor: Part of the new deal with the government concerned 12 laws that President Yushchenko wanted to pass, one of which concerns immunities for Rada deputies. This became a big campaign issue for the political parties, and they have committed to removing immunities. It is a controversial move, but the parties seem to be

serious about it. There was even some cleaning of the party lists, since some members on previous lists had become an embarrassment.

Q: Is the notion of a great divide in Ukrainian society an overstated political issue, or are there real divisive elements?

Ambassador Taylor: There are still divisive elements, such as the language issue, NATO, differences in implementation of policies, and voting patterns. However, the political parties made a slight move toward becoming national rather than only regional parties in the most recent election.

Q: What is the current climate for FDI?

Ambassador Taylor: The climate is not great, especially because of concerns about the court system since investors need to know they will be able to have their disputes resolved fairly. The Tymoshenko platform includes a good investment program, and the European Cup in 2012 offers a huge incentive, since the level of investment needed for the event is very high. That said, even today there are investors in Ukraine making money.

Q: Russia has so far been reticent, but is there a sense of how Russia will deal with the new government?

Ambassador Taylor: There is not a good sense of Russia's reaction, other than a general lack of enthusiasm, especially over Ukraine's choice of a foreign minister. However, the foreign minister and prime minister will do their best to have decent relations with Russia, since Ukraine cannot afford to have a bad relationship with Moscow. There are many issues they will need to work through.

Q: Is it important that one vote made the difference in the selection of Tymoshenko as prime minister?

Ambassador Taylor: It could be important. Lytvyn is waiting to see if the coalition works and may join if he feels that it will. During the vote, Yekhanurov and Tymoshenko spoke privately and seemed to have some kind of agreement; he could bring a useful set of skills to the Ministry of Defense.

Q: Can a foreign energy investor go to Ukraine without having ties to one of the oligarchs?

Ambassador Taylor: I will have a better sense of this after I speak to the energy minister. Right now, there is a lot of attention being focused on energy security. President Yushchenko is pushing for the Odessa-Brody pipeline, but this will depend on the volume of oil and the economics of refining.

Q: Given European hesitations about Ukraine as a strategically important country, what are the prospects for a membership action plan?

Ambassador Taylor: The president and prime minister must speak with one voice on this issue. The U.S. government will not take an active role in supporting a membership action plan unless they do. Problems with Georgia have made things more difficult, and it will take a major effort on the part of the Ukrainians to talk to their European friends.

Q: How optimistic are you about cooperation between the president and prime minister – will the alignment of interests remain stable?

Ambassador Taylor: There is certainly potential for conflict between the two, and the coalition could potentially fall apart. Things will get more difficult as 2009 approaches. Tymoshenko may decide to wait before running for president, but that is not clear.

Q: What are Tymoshenko's priorities for her first 100 days in office likely to be?

Ambassador Taylor: The WTO is certainly one possibility. Another smaller issue is an ongoing dispute with OPIC that could be resolved.

Q: What are the respective roles of the foreign minister and Deputy Prime Minister Nemyria? How much does Europe really want Ukraine to be a part of it? The Ukrainian company Naftogaz is near bankruptcy, is there a potential role for Gazprom? One of Tymoshenko's first priorities is reviewing the gas accord with Russia – is this likely to become a contentious issue?

Ambassador Taylor: Nemyria described his responsibility as a coordinating role vs. being in the chain of command. The foreign minister will have primary responsibility for working with foreigners. The division of labor has been explicitly discussed. Some Europeans want Ukraine in; some do not. Several big European countries remain skeptical about Ukraine; convincing them may be difficult. Naftogaz is in bad financial shape, and the team of investors from London that visited recently was not happy. However, Tymoshenko will not want Gazprom to be involved with the company. Tymoshenko has not jumped on renegotiating the gas agreement with Russia, so it may not happen soon. She does want to be seen as addressing some of her other election promises.

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