

**THE CARNEGIE ENDOWMENT FOR
INTERNATIONAL PEACE**

**UNDP BLUE RIBBON COMMISSION MEMBERS
TO DISCUSS NEW UKRAINIAN REPORT
RECOMMENDING SWEEPING REFORMS**

SPEAKERS:

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ANDERS ÅSLUND: (In progress.) To discuss this today we have Dr. Kalman Mizsei, who is assistant secretary general of the United Nations and the systems administrator of the UNDP, who is responsible for 31 essentially post-communist countries at UNDP. And Steven Pifer, who is former U.S. ambassador to Ukraine and has worked in senior positions in the National Security Council, and at the State Department, and now has retired from the State Department. And I will also participate here.

Issue one, which we are centering our discussion, that Kalman Mizsei and I will discuss about, is this report. It proposes to the president a new wave of reform, which is something that DR. Mizsei and I and others have been working on during the fall.

And without further ado, I ask Kalman Mizsei to start.

KALMAN MIZSEI: Ladies and gentlemen, I'd like to start by saying that I'm really very, very pleased that Anders has organized this breakfast meeting with us here in Carnegie. It's always a great privilege to come to Carnegie. And I'm also very, very pleased to see such a great interest in Ukraine, and if you read our op-ed piece in the Financial Times a week ago we emphasized at the outset how important Ukraine is. There is very little in the world that is as much underestimated as the importance of this, as we pointed out, largest country of Europe or the largest solely European country, bigger than Germany and Great Britain together – almost 50 million people – and a freshly independent country, in historical terms, and a very fresh democracy also in historical terms. I would like to say a few words about this publication and what we would like to do afterwards and really ask Anders to elaborate on the content.

Last June I was in Kiev for a month and I initiated this Blue Ribbon Commission, and it was a sheer pleasure of what we had done in Hungary in 1989, 1990. At that time it was the idea of Professor Paul Marer, who was of Hungarian descent, to create a Blue Ribbon Commission for the Hungarian reforms, and I thought in June, looking at the way things were – legal opinion in Ukraine, that the new president, whoever he is going to be – I can say “he” because there was no woman candidate there, not in June even – so we thought that whoever the president is going to be, a blueprint for second wave of reforms, or a second generation of reforms, will be very opportune for him.

As you know, Ukraine's transition to market economy and democracy, measured by the standards of the most successful neighbors west of Ukraine and northwest of Ukraine, has been highly unfinished, both market institutions privatization, as well as the democratic institutions. So it seemed that there is great room for really reinforcing the positive trends. And positive trends were there.

Last year, Ukraine was the fastest-growing economy of any large country. The economic growth rate was about 12 percent and without the slowdown at the end of the

year it would have been 13.5, 14 percent. With a huge, huge trade and current account surplus, Ukraine was booming, but at the same time it was very clear that this extraordinary economic growth, didn't translate into happiness of the population. And the reason for that was indeed the sense of the population about the very narrow, small circle of privileged getting wealthy, state administration being rampantly corrupt, and the social sectors in various states.

So we thought that we would create this expert group with Ukrainians and internationals, and it was very clear whom to choose as the international co-chair of this group because everybody in Ukraine whom you ask, who is the most reputed international policy person there, it was very clear that Anders was the only obvious choice, and happily he agreed to work with us. And also we needed to choose somebody from among the Ukrainian policy people who would be reputed on both sides of the political spectrum, and we were very lucky to get it right too -- Oleksandr Paskhaver, who is just an extraordinary, wise and experienced economist, having done a lot for Ukraine, including in the privatization area. And we did this report under their leadership and with also very significant input from our colleagues. Ben Slay and myself also served on the panel of 19 people, and Louisa Vinton, who is sitting here, was very, very helpful with editorial work in the process.

And we came up with what we believe is a very, very good document, and I would leave that entirely to Anders to describe. I would like to not only tell you what we would like to do with it now, but also to tell you that the reason I think it's an exemplary work and in fact it's almost like training material for my country offices in Eastern Europe is because I think it combines the three essential things that certainly in any CIS country are the main challenges, and that is state reform to turn around the relationship between state and citizen – and as you all know that's easier said than done because there are extraordinary historical cultural inertia looking into an attitude of state of the chinovniki that is characterized by a belief that the citizens are really the subordinates, but also, due to the legacy of the last period of the Soviet Union, that a state power post is as good as it allows us to extract revenues out from it. So this really extremely deeply corrupt attitude of the state employees towards the citizens.

So that's one. The other thing is really to accomplish the economic reforms, and that is the most straightforward thing because the people who have served on this board have an extraordinary experience with East European economic reforms, and it was for us really to choose which areas are the most important, and again, with Anders's intellectual leadership it was really pretty straightforward.

The third area, however, where we actually I think also have been able to do something remarkable for Ukraine, but also with a wider significance, is to define the feasible approach to social solidarity and social sector reform in a country where per capita GDP is somewhere in the neighborhood of probably \$1,500, and really – I mean, clearly the social service has to be defined in a way that it doesn't jeopardize public finances. And again, Anders is going to talk in more detail about the way we have

weaved together these three areas, which we strongly believe are very vital for government.

Last week we had a whole series of discussions with the key leading figures of the expected Yushchenko government, presidency, which culminated on Saturday with a very detailed discussion with the president-elect. And there is a great need for transferring the work done until now into a sort of day-to-day, very hands-on advisory work for the presidency as well as for government, and I assume also for the parliament, so that reforms can happen quickly.

And I think it's very important, we advocate in the report that it is also common sense of political economy and political science, that you can do so much more reforms at the beginning of the tenure of any president or government, particularly one with such a legitimacy as the incoming one, that it's very vital to really concentrate things in the first few months. And my conversations with Mr. Yushchenko have reinforced what I knew by knowing him that he is extremely determined to introduce a very significant – a critical mass of reforms in the first few months of his presidency. And as many people said, this is going to be a Yushchenko government, so it's not going to be the government of the prime minister; it's going to be the government of the president, at least in the first few months until after the agreed-upon constitutional changes will kick in.

And my last thought on this is that it is going to be very vital for the friends of Ukraine, for the supporters, donors, to work in unison in helping the government. I hope we will not overburden them with a zillion different assistance schemes but we will work in a coordinated fashion together – major donors, the NGO community, who no doubt is going to rush to help.

In the center of the Yushchenko government is going to be European integration. That's what he told me on Saturday. Mr. Oleg Rybachuk is expected to be deputy prime minister for European Integration, and he will have a very strong oversight over the reform measures because they want to do reforms that comply with the need of European integration. Of course, in different areas it means different things but definitely Europe is the leitmotif of the upcoming period.

So without any further ado I would like to pass it over to Anders.

DR. ÅSLUND: Thank you. Yeah, we'll do like this: I compliment Kalman on the presentation of the report and then Steve Pifer will take the U.S. position and see what the U.S. could and should do about it at the end.

Further on this Blue Ribbon Commission Report, we started out with three premises. The first premise was that the Ukrainian elections last year would be the most important event in Europe, and so of course was the case. Secondly, we saw that this would be an extraordinary opportunity to really pursue substantial reforms: on the one hand, macroeconomic stability and huge growth. Remember that Ukraine last year had a growth of 12 percent, and for the last five years 9 percent growth. This is not a crisis

situation; this is an opportunity. And added to that was, at least I expected, a huge democratic breakthrough, which meant that the priorities would change.

And then the third premise: when a new government comes in after a long political fight, people are exhausted. They don't have the program that they need. And our aim with this program is multifold. One is to provide a new government with a readable program that the interested intellectuals can read, not only for the civil servants. A program should be readable. You need to have the backbone of a government that is put on paper.

And another aim was then to clarify which are really the priorities. We put the question like this: which are the hardest questions for the next year? It's not a long-term program; it's an action program for one year, not only what could be done but what really must be done to change the situation. Our aim here is not to be controversial. We sat down and discussed substantially in our group of 19 people, and we tried to get people who were independent, who were the most qualified people with primarily the Ukrainian economy but also some political scientists and lawyers to get the sense what should really be done; what is possible to do given the political opinions? And of course we're also thinking of the West. It's good for the West to see which are the priorities and what can and should be done.

So, as Kalman said, the problem here is of course the state. The main institute to discuss is state failure; in other words, corruption. And this reflects in four major ways. One is that the state itself functions very badly and needs to be reformed. Another part of it is that it doesn't deliver the social services it should deliver efficiently or effectively. A third is that it doesn't regulate the economy as should be the case but rather it just impedes the private sector. And the fourth aspect is that it fails to provide the private sector with the appropriate support to reach out into the international community.

And, as you have on your chairs here, we sort of tried to get a list of which are the 12 most important recommendations to get a clear focus of it, and I won't elaborate upon them directly but rather discuss certain issues. In the report altogether were more than 100 concrete recommendations. So the main problem is the state, and here we need the political reform, administrative reform, a substantial decentralization of the functions, financing, to lower levels in the state, and judicial reform. No great revelations in that, but the fundamental issue is that the state should serve its citizens rather than the citizens serving the state. That's a fundamental concept that has to change.

And on the social side, the problem is not really the amount of public expenditure on social issues. If anything, the social expenditures in Ukraine are very large in relation to GDP and should be reduced. The problem is rather that they are going to the wrong purposes. Social support, so called, rather goes to the rich and not to the poor, and the two big social service systems, the public service systems – education and healthcare – are very inefficient. Rather than going to services they go to buildings and salaries for far too large a staff.

So what should happen here is that there should be a different financing system, particularly in the healthcare system, which I think that virtually everybody points to as the big sore point in the Ukrainian state that needs to be improved. Our recommendation is simply an elementary public insurance system, not too complicated; go back to the base marker, make sure that financing is connected with demand rather than supply. It's not the buildings you want; it's the medical services that are the essence of the medical sector.

With regard to enterprise regulation, there are many things that need to be done. The most obvious one: finally adopt a tax code. Ukraine has done substantial tax reforms gradually and piecemeal since '98. For example, Ukraine already has a flat personal income tax of 13 percent, an excellent simplified taxation of small entrepreneurs, but the tax system doesn't hang together. Some taxes are still quite high, in particular the payroll taxes that are up to 38 percent to compare with 15 percent in the U.S. So this needs to be changed. And this is very much an opportunity. So much has already been done in the tax system; this is just to follow it up. So lower taxes, fewer taxes, and do away with a lot of loopholes. We have seen very many the tax reforms in Russia, so it should be quite doable, and indeed much has been done in Ukraine already.

In the financial sphere, the big problem in Ukraine is that there is an enormous lacuna of legislation. Ukraine, for example, doesn't have a law on joint stock companies, on limited companies, et cetera. So there are dozens of elementary financial legal acts that have long been drafted, much of it with the support of USAID, and many of them have been adopted into readings in parliament, but they are just lying there. So therefore this is a huge opportunity to adopt them.

The Ukrainian stock market doesn't function. Admittedly it increased by 200 percent last year and more than 20 percent already this year, but it's totally rudimentary because minority shareholders in Ukraine have no legal rights whatsoever. Instead we are seeing that enterprises that are doing very well are privately held by a few people. And there's a lot of vertical integration because you don't want too many contracts in an economy with so little financial legislation. It works surprisingly well but it could work much better.

On the foreign side there's one overwhelming issue: Ukraine needs to join the WTO this year. It's perfectly possible. Ukraine has about a handful of bilateral protocols outstanding. Most of them are small issues connected with agriculture but can certainly be solved. And the biggest problem is, surprise, surprise, with the U.S., and there are essentially two big points in the WTO accession negotiations with the U.S.

The first is the standard one: intellectual property rights. Ukraine has not adopted sufficient legislation on intellectual property rights. That can be done in no time now with the new president. So that's not a problem. And I think that this is something that President Yushchenko is likely to push through very much as a goodwill gesture towards the U.S. The other issue is, as always, agriculture. And no surprise either – primarily a matter of chicken. I'm not going into the technicalities, but of course that can be solved.

There are a few agricultural issues that are always the last ones to be solved. Resolve this and Ukraine is pretty ready to join the WTO.

So there are a few actions that are required on the Ukrainian side and then it's important that the West supports Ukraine, as the EU Commissioner Peter Mandelson came out the other day with very strong support for Ukraine on various trade issues. I think that this is the big thing that is important to get done fast.

The other issue that is more complicated is Ukraine's European choice. What does it really amount to and how can it be given more substance? I think that it's important to get more access in terms of these educational exchanges and of course trade. But these are the issues that should be put first on the agenda. And I think that the European Union has a lot to issue there, and I also think that it's very difficult for the European Union to say no to Ukraine, which – (unintelligible) – with the so-called Copenhagen criteria of being a democracy, a market economy, and being a country with a rule of law, although not fully accomplished today, it's very likely that these will be accomplished now with the new government, which is very much the aim of this report.

And of course Ukraine is a country in Europe, which makes it very difficult for the European Union to ignore Ukraine in the long run if Ukraine does all these improvements themselves.

So with that I'll leave the floor to Steven Pifer, who will take the U.S. perspective.

STEVEN PIFER: Well, thank you. I'm happy to be here today.

The victory of the "Orange Revolution" and Viktor Yushchenko's victory in the presidential election in December is a huge win for the Ukrainian people. It really opens up the prospect now for Ukraine to follow the path of Holland and other Central European countries to consolidate democratic institutions, strengthen the institutions of a market economy, and join Europe. And a democratic Ukraine with a strong market economy that's fully integrated into Europe, that's in the interest of the United States, it's in the interest of Europe, and therefore it's in the interest of the West to help Yushchenko succeed in pushing Ukraine down this path of transformation.

I think the Blue Ribbon Commission report that Kalman and Anders have just described is a very impressive work. It has a very sensible list of things that Ukraine needs to do. The caution I would put down – and I mentioned it privately earlier – is the need for the Ukrainian government to set some priorities, particularly at the outset. It will be very useful, I think, to the West for the Ukrainian government to articulate its immediate reform priorities because that would allow the United States, the European Union and others to recalibrate assistance programs to most effectively support those priorities.

I also think that the Yushchenko government should be considering where it wants to be perhaps in September after the Rada comes back from its summer break. I think it would be very useful politically for Yushchenko to be able to give a speech either to the Rada or to the public, where he can say, “In January, I set down these priorities, and here, let me show you some concrete and visible results that have an impact on the average Ukrainian,” so that he can point to success. That will be important, I think, in securing political support among the broad public for the reform course that he’s embarking on.

Now, what can the United States and the West do? And I’ll focus my comments on what the United States might do, but almost in every case there’s a parallel European or EU action. First, I think it’s important to show political support for Yushchenko. This means first and foremost an early meeting between President Bush and President Yushchenko. If one sets aside things like handshakes on the margins of multilateral meetings, it’s been almost five years since there’s been a meeting between the American and the Ukrainian president. That was due to some concerns about actions by President Kuchma, but I think with President Yushchenko it’s appropriate to send a signal of political support either by an early invitation to visit Washington, or perhaps consideration could be given to President Bush stopping in Kiev during his February trip to Europe.

A second thing that could be done that would be, I think, very important politically in the U.S.-Ukraine relationship, and this is dependent on congressional action, would be for Congress to enact legislation that would graduate Ukraine from the provisions of the Jackson-Vanik amendment. Ukraine has met the requirements of the amendment in terms of creating conditions for Jewish emigration and in terms of creating conditions for the Jewish community to thrive within Ukraine and it merits graduation on the basis of the requirements, but that would also be a powerful political signal for Ukraine.

And certainly the European Union could also look to the possibility of an early EU-Ukraine summit. An early summit with President Bush, an early summit with the EU would give Ukraine the opportunity to articulate a vision for American-Ukrainian and EU-Ukrainian relations over the next year.

A second step would be to calibrate assistance programs to support the reform priorities of the Yushchenko government, and here it’s very important that the Yushchenko government first articulate those priorities. Once we understand where the Ukrainian government is going, we want to make sure that our resources – our assistance resources are supporting those reforms so we don’t have a situation where they’re going in this direction and support is going in a slightly different one.

There is a certain amount of flexibility within the U.S. Freedom Support Act program to with congressional notification recalibrate and adjust assistance programs. The current level for this year is \$80 million. I would hope that the administration and Congress could come to terms on an increase – at least a doubling of that assistance,

which would give us more tools to support reform when we have a reform-minded government and also send a powerful signal of political support.

Certainly the European Union also should be taking a look at things that make sense in terms of possible adjustments to its assistance programs. And there are mechanisms on the ground in Kiev for coordination between the United States, the European Union, and other international donors and it's very important that we use those mechanisms so that assistance is coordinated in a way that avoids a situation where we're duplicating reform efforts or support for reforms in one area and leaving other vital priorities uncovered.

More important than assistance, however, in the West is going to be greater opportunities for trade and also greater investment in Ukraine, and I think there are four areas to look at in this group. First of all, there should be an early bilateral dialogue with Ukraine on steps that Ukraine can do to change the business climate to create an investment climate that is more attractive to foreign business. This can involve the European Union, and more importantly it ought to involve the private sector because it's private business, private investors, who can explain that these are the sorts of problems, be they complicated taxes, confusing regulatory schemes, a multitude of licensing requirements, that are preventing business from coming into Ukraine. And I think there's an opportunity now – a lot of positive attention to Ukraine in the wake of the “Orange Revolution” and Ukraine can move with that and we ought to help work with Ukraine to define steps that it can take immediately between Ukraine, United States, and Western Europe.

The fourth area I think would be a natural subject for the United States to work with Ukraine, and also very much involves the European Union, is to work with the Yushchenko government on defining its path to joining Europe. Now, the first comment I would make here is to my mind the most important thing that Ukraine can do to draw closer to Europe is to pursue the sort of political and economic reforms that are contained in this report and that I think we all expect the Yushchenko government is going to implement, because those sorts of reforms result in a political-economic system in Ukraine that is compatible with and looks like the market economy – (unintelligible) – that are now the norm in the European Union. So that's the most important thing I think Ukraine can do.

Talking about a couple of the institutions, let me start with NATO-Ukraine relations. There will be a meeting in Brussels of NATO leaders in February. It would be appropriate at that meeting for the United States and for the allies to express their support for a deepening of relations between NATO and the Ukraine on the basis of the action plan that was agreed in Prague in 2002. Should Ukraine express a desire to ultimately join the alliance, I would hope that the U.S. government would take a position it has in the past, which is that we will be prepared to support Ukraine in that desire provided that Ukraine does what is necessary in terms of political reform, economic reform, and transforming its military to meet the requirements of the alliance.

And over the last 10 years as countries have looked to join NATO, there really have been two sets of questions the alliance have asked: does that country have a political and economic system and a military that are compatible with the values and the norms of the alliance? And the second is, is that country in a position to make a contribution to transatlantic security?

I think by virtue of Ukraine's historic contributions to peacekeeping operations, in terms of its contribution to the coalition operation in Iraq, Ukraine has demonstrated it has both the capability and the will to make a serious contribution to transatlantic security, so the question in terms of its aspiration for NATO really turns on does it develop a political and economic system that's compatible with the values of the alliance and is its military transformed so that it's compatible with those of the alliance?

I would note that, again, the sorts of political and economic changes that we expect the Yushchenko government to pursue are going to be steps that will naturally increase Ukraine's eligibility for NATO. Now, there's a question – and I think this is really, I think, a call for the Yushchenko government – is how much fanfare it wishes to give to that objective, and that's something they'll have to consider in the political context. In some parts of Ukraine, NATO membership is probably not seen as the most urgent priority goal, but it's a political call that the Yushchenko government can make while doing things that will move it invariably closer to alliance membership.

On the question of the relationship with the European Union, this is going to be much more attractive to Ukrainians in the near term than membership in NATO and it's also going to be less controversial, particularly in the eastern parts of the country. I note the vote that was taken last week in the European Parliament calling on the EU to give Ukraine the prospect of EU membership, and I can only endorse that. I mean, I don't think it's appropriate for the European Union now to tell Ukraine you will be a member, but coming up with rhetorical language that says to Ukraine that if you do the right things – if you build a political system that reflects the values of Europe, if you build a market economy, you too can aspire to follow the path of Poland and other Central European countries and ultimately join the European Union. That would be a very positive signal and could make the EU more of a magnet for the sorts of reforms that the Yushchenko government is going to have to pursue.

I've already mentioned the possibility of an early EU-Ukraine summit. I think in the near term one goal that would be appropriate for consideration on the EU-Ukraine agenda would be working out some kind of free trade arrangement.

Let me close with a couple of comments on Ukraine and Russia, and I note that Yushchenko has said that one of the first foreign leaders that he will meet will be Russian President Putin, and I think that's a smart decision given the historical, the cultural, the family, the linguistic, and the economic ties between Ukraine and Russia. I think it's important for the West – for the United States and Europe – to be very supportive of good relations between Kiev and Moscow. There is no advantage for us to trouble that

relationship, and there's also no reason why Ukraine cannot draw closer to Europe while at the same time having a very productive and positive relationship with Russia.

I expect that Russia is going to be nervous about the prospect of Ukraine drawing closer to Europe because Russia will see a consequence of that, a greater sense of isolation for Russia, and that's a real concern and we in the West need to understand that. But the answer to that concern is not going to be found in placing obstacles in the path of Ukraine's way towards Europe, and I think it's important that the United States and Europe be very candid in conversations with the Russians about that – that we will support Ukraine drawing closer to Europe, but the point we should also make to Russia is that Russia can avoid the sense of greater isolation if Russia is also deepening and thickening its relations with Europe. And the United States and Europe should work to promote that in parallel with supporting Ukraine's effort to draw to the West.

I'll just close by saying that the United States and Europe have a very broad, positive agenda with Ukraine. In order to realize the bright promise that I think we've all seen in the last six weeks, it's important to understand that there's going to be real work and hard work necessary by the Americans, by Europeans, and most of all by the Ukrainians if we want to make the vision that we now see a reality. But it's important we move quickly. We have a window of opportunity and we ought to take advantage of it.

DR. ÅSLUND: Thank you, very much, Steve. Can I get a mike to the front here? I should say that we have the honor of having the chairman of one of the biggest Ukrainian banks here today, Alexandr Dubilet, who is Chairman of PrivatBank, and I would appreciate if you would like to tell us in a few words what you as a representative of one of the biggest companies in the Ukraine today thinks are the most important considerations for the business community. Pozhalujsta. Vy perevodite togda.

MR. DUBILET: (Speaking in Russian.)

TRANSLATOR: Ladies and gentlemen, I thank you for the opportunity to say a few words about the possibilities of business in the Ukraine and about the current events.

It is true that very interesting events have happened recently and the whole world is looking at Ukraine. These are very broad opportunities, but also very serious risks, because we have very little time to begin the reforms. If the reforms do not begin, we will see very deep disappointment both inside the country and outside the country. I would like to use one example to illustrate what may happen and how fast we can move and how fast we should move.

Currently, small and medium-sized businesses have to pay a very high bureaucracy tax. Today, small and medium-sized businesses only have a 13 percent share in the GDP of Ukraine, whereas in developed countries this share is close to 50 percent. Today, small and medium-sized business cannot develop. Why? Because many

bureaucrats will come to these businesses and tax them heavily, but these taxes do not come back to the budget, but they rather go to the pockets of the bureaucrats.

And we have questions. What should we do? Should we hire honest bureaucrats, or should we make our laws stricter, as our Chinese comrades do, or do we have to write letters? I have noticed that these ways are not productive. We have seen that before and we have seen that they demonstrated inefficiency. The solution could be only one: to reduce the number of bureaucrat on the middle and low level of the bureaucratic ladder. And I am confident that if we have less policemen on Ukrainian roads, we will not have less order. Not policemen but a special Russian word for...

MR. DUBILET: Traffic police.

MR. : Traffic police. (Audio break.)

MR. DUBILET: (Speaking in Russian.)

TRANSLATOR: And I am sure that fire safety will not be hurt if we reduce the number of fire safety bureaucrats by two or three times, or four times. A bureaucrat has a principle: if you want to kill a certain business, you have to become a leader of this business. Unfortunately, I did not read the report and I have not yet heard about the reforms which are proposed, but I am afraid that if these reforms are going to be given to bureaucrats to implement, we can already forget about them. And I very much hope that with your assistance, these reforms will not be led by bureaucrats.

And as far as the response of the business community to what is happening, we can see that many very interesting, very important agreements are being signed and therefore we see the willingness of various structures to help Ukraine and we are very thankful for that.

DR. ÅSLUND: Yes, I just add the comment “Yes, indeed.” And these are the reasons why we urge very strongly for radical and comprehensive reforms. It’s not possible to do – there’s no silver bullet here. There must be a lot of hard-hitting bullets to change the system.

Please, the floor is open and – (unintelligible) – international private enterprise.

Q: Yes, I want to congratulate Dr. –

DR. ÅSLUND: Mike.

Q: Oh, sorry. I want to congratulate you on an excellent paper and very well thought out program of reforms. And heartened personally to see number seven on your priority list of recommendations the joint-stock company law, which I think will be a true bellwether of the political ability of the government to take on a very entrenched group of powerful people and pass a much-needed reform.

My question is for you, DR. Åslund. You're also a noted expert on Russia. We heard a few comments on the important role that Russia has to play. I'd be interested to hear your comments on what you believe the role of Russia as potential spoiler of this reform process may be. Perhaps they've already spent their political energies on trying to defeat Yushchenko, but what role will Russia play in either promoting these reforms as an interest group of investors, or blocking them. I'd be interested to hear.

DR. ÅSLUND: Thank you. Well, I'll respond – (unintelligible) – to this. I don't think that Russia has much to do in the first half year or so. I think that there are more problems later on because really President Putin has lost out so badly in his Ukraine policy that I think Russia has lost a lot of the authority that it did have in many Ukrainian circles before.

The most sensitive issues is the gas consortium, which, let's see, was it three or four years ago when it was concluded between Russia and Ukraine? This is a secret agreement between two states, which basically should not exist on a commercial issue. And usually an international agreement of this kind should be subject to ratification and it has not been because then it would have been publicized. There must be massive corruption in this.

The Yushchenko campaign says that \$200 million was skimmed off from Gazprom and put into the Yanukovich campaign. I can't verify that, but it's a credible proposition. And obviously this will be a very sensitive issue and now when Kalman and I were in Kiev last week, virtually everybody among the Yushchenko leaders say that gas consortium must be renegotiated and that is one of the top issues.

Ambassador Jim Collins – (unintelligible).

Mike there.

Q: A list of 12 huge areas for activity I think does require a response or at least I'd like to hear the response about priorities. You can't possibly do all this at once and I think Steve's point is a good one: that somebody has to set out what's going to be first priority, what's second. And I'm just curious whether the Blue Ribbon panel addressed this or has thoughts about this.

DR. ÅSLUND: Kalman, for you.

MR. MIZSEI: Before, let me just react on what you said about the joint stock company – the lack of the joint stock company law. It's such a burning issue that we were asked repeatedly during our meetings to lobby for a fast implementation. The fact is that an acceptable draft has been in the parliament for seven years and there are clear commercial interests that prevented it from being implemented. And that is also a little bit of a start of my answer to you.

We may have been perhaps a bit too ambitious by setting out 100 recommendations, although the 12 areas are broader areas. The 100 recommendations are pretty specific, but quite many of them are such where there is already a draft law or – and in fact, Mr. – (unintelligible) – asked us to create a list of legislative acts on which Ukraine international experts one can work immediately with and gear up the legislative machinery.

So I don't think that out of the 12 broad areas there is any where I would be able to say let them wait, and probably – you know, if healthcare for instance – if you only start the healthcare reform now, it's a very complex system. You don't expect it to be finalized within one year. In fact, none of the Central European new EU member states have done anything really serious about healthcare reform and the healthcare system in many older European Union countries is also in tatters, so there we don't expect an extraordinary quick resolution.

Probably some areas of the state reform can really go fast – economic reforms fast, and first of all, indeed as Anders mentioned, there's no reason and there is a very broad agreement in the incoming leadership that WTO membership negotiations have to accelerate, and that can be an extraordinary service by the international community to anchor Ukraine firmly to the international trading system through a very, very productive and fast negotiation.

DR. ÅSLUND: If I just may add, our idea is very much that the reforms now have to be more comprehensive than before. We are not at the early post-communist stage where you have to focus on three to five things. This is a time when there is administrative capacity to do much more, and particularly because we have all these drafted laws lined up, so I think that one should emphasize that it should be a comprehensive reform effort for the reasons that Mr. Dubilet emphasized.

Mr. Mickhachevsky (ph) – (unintelligible) – foundation.

Q: Thank you. I've heard a lot and as you started out saying the state is the problem and that you're trying to get a system for the state to serve the citizens rather than vice versa.

I understand in laying out very quick priorities you're focusing on the state; however, we have seen such a powerful example that the best agent for changing the state have been citizens, unless of course you believe some of the theories that this was all a plot by the West or it was all a game between Russia and the West, which I personally reject.

So is there a recognition by the esteemed colleagues working on the report that assistance to support civil society development really needs to continue – that probably one of the best ways for the – (foreign phrase) – not to give bribes is if enough citizens refuse to pay them or put pressure to run people out of – the bribe-takers out of office. So is there something that deals with that?

And then I have a more specific question on economics. You presented the need to join the WTO this year as kind of a slam-dunk and I'm wondering are there things being addressed of what might mitigate the negative effects of joining the WTO that there may be in certain sectors of the Ukrainian economy as a result of that. Is that being addressed in the recommendations?

MR. : Yeah, last week we were answering questions which were very similar to yours. The other co-chair – (audio break, tape change) –

DR. ÅSLUND: – one or two more years and then Ukraine will have to reorient, as we are seeing now, several of the big Ukrainian steel producers are trying to enter the European market by various means – by buying enterprises in New Europe in particular. WTO accession will be a huge help to the steel exporters in the future and they will need it very soon.

So I think that Ukraine is a case where WTO accession is much more an asset than a cost on the whole.

Jonathan Elkin (ph).

Q: Thank you. My question concerns Ukraine's possible joining of various international institutions, and in particular the EU. Anders, I was, I have to say, somewhat surprised at your optimism about the EU's readiness to put Ukraine onto a path of early accession to the EU and I'd like to ask you to elaborate a little bit on that if you wouldn't mind because it seems to me that there are lots of questions as to whether the EU is actually on that kind of a trajectory or not.

DR. ÅSLUND: Sorry, Jonathan, I didn't say that. I didn't say early accession. I said that the EU can't say no to Ukraine categorically as, indeed – (unintelligible) – the former EU president – sorry, president of the European Commission did, and also a few other of the former commissioners.

What we have seen now is the European parliament taking a strong, positive vote on the – on Ukraine. The EU is a process, so if you stay optimistic about Ukraine's relationship with the European Union, primarily you mean that EU membership is a possibility. And the other form of optimism would be that EU accession would be possible in 15, 20 years.

But on top of that I would argue that this would be good for Ukraine. The European Union today has common agricultural policy, common fishery policy, strict labor market policy, it has some elements of a common tax policy – fortunately very little – and it has 320 environmental directives. As Ukraine, you don't want to adopt this within the next decade at least and you hope that some of these elements will be reformed within the European Union before, so access is the important part for Ukraine now and certain elements of the EU legislation; for example, company legislation, which is

basically the same as in the EU and the U.S. So you don't want the process to be too fast. After all, new Europe has had last year 4.8 percent growth, while Ukraine had 12 percent growth. Part of it is catch-up, part of it is that the Ukrainian system is in spite of corruption a freer market than new Europe. Kalman and I have a difference here on – (laughs). He's much more pro-EU than I am.

MR. MIZSEI: But only a small bit. (Laughter.)

DR. ÅSLUND: Senator Davis.

Q: My name is Joe Tidings (sp). I was the chairman of 31 monitoring commissions of former U.S. senators and congressmen and European parliamentarians. I was at two of the last two elections. I'm really a neophyte on Ukraine except I have a couple of comments.

Number one, Yushchenko's government is very fortunate indeed to have a document like this in their hands prepared as this has been, so I congratulate the Carnegie Institute and all of you involved. Perhaps my comment is elementary, but I don't see how any government changes from the type of system that Ukraine has been under for centuries primarily, to a democratic system regardless of how many people want it without a restructure of the media and freedom of press. I just think that that's got to come right off the top.

I'll give you an example. I was in Donetsk. That was the area where I worked for about five days and I spent some time in the university because I'm a regent in the university system of Maryland and we're trying to set up relations. But I was amazed at responsible citizens in the Donetsk community who sincerely believe that there has been a deal made between Yushchenko and U.S. and European leaders to shut down the coal mines in Donetsk and bring in U.S. nuclear waste and European nuclear waste and put them in. I mean, responsible people sincerely believe this because they've never heard anything else. And everyone here knows the history of independent journalists assassinated over there, and just in the last four or five years.

So I think that it seems to me and perhaps what I'm saying is implicit in number one, and number two – and we're really getting to emphasizing reforms. You say reform the judicial system and make judges independent and impartial. Well, it seems to me that all of your economic reforms and almost all of the rest of this, and I particularly appreciated hearing about the – from the chairman of the bank about the bureaucrats, and that rings a bell, but I think that the reforming the judicial system – and I would particularly like to ask the question, did the Blue Ribbon Commission consider the steps which Georgia took to reform the judiciary at all in your work?

DR. ÅSLUND: Steve, if you start on the – (unintelligible) – judiciary, and if you want to add something, Kalman.

MR. PIFER: Well, on the question, I think it is very important that there's an opportunity now, and I think the Yushchenko government I think has said the right things about creating conditions for a real press to begin to function in Ukraine. And it will still be important that there be Western support for the development of an independent media, and we ought to look at it. We now have an opportunity because you have a government in place that says we welcome this. Much easier to build and support a Western media in those conditions than when you have a government that's ambivalent or opposed to an independent media.

I'd add that I'm actually optimistic about the prospects for an independent media in Ukraine and what I found really striking was the reaction of a number of journalists both at the UT1 state-controlled channel and a number of the other national television networks that were controlled by people who were close to Yanukovich, where in November they basically went out at the risk of their careers and said, we're not going to do this.

So I think – there seems to me that there is a desire on the part of the journalists that are now in Ukraine to act in a way as we would expect: to report the news freely and fairly, whether or not it's positive or negative towards the government. And I think if the Yushchenko government holds to what it's said, there is every condition now for the emergence of a vibrant media within Ukraine, but it will be, I think, still important that the West look to support that in the sense that we can lock this in and make that a key institution of civil society within the country.

DR. ÅSLUND: Kalman, would you like to answer?

MR. MIZSEI: Yeah, just a couple of things. One of the issues about the media in Ukraine is that actually it is a very privatized marketplace, but it's a somewhat oligopolistic marketplace where a couple of oligarchs own a very large chunk of the media market, and I know that many people, including the Open Society Institute, are already in communication with the government to try to give technical assistance how to regulate the media market in a way that it becomes more pluralistic.

But just like Ambassador Pifer, I very, very strongly believe that we are actually on the way towards a very good media and anybody who reads things like Zerkalo Nedeli (Mirror of the Week) can say that it is actually in terms of quality a very well improving market and when we met the media with Anders and Aleksander – (unintelligible) – on Thursday, I was very impressed by the sophistication of the questions. Somebody like us, who deals with journalists in CIS countries and the Balkans can appreciate the differences, and it is a rapidly improving journalist profession there.

On your question about the East, indeed it is going to be extraordinarily important for the government to have a very, very constructive policy towards Eastern Ukraine and indeed one of the major issues there is information. To break the information monopoly there, which is – the rules there are very different from the rest of the country.

And thirdly, just a little correction. This has been the work of the United Nations Development Program, where Professor Åslund played a leading role as the co-chair. I like to remind our American colleagues we sometimes have a – (laughter) – that the United Nations doesn't do anything useful. (Laughter.)

DR. ÅSLUND: Two last questions. There, yes.

Q: Just a follow-up on the question about the impact of opening the economy, joining WTO. One of the things that USAID has done just about the same time that the commission started was to commission a study on the competitiveness of the Ukrainian economy, and that report is going to be released this coming Friday the 21st and it's a similar assessment of exactly the kinds of things that need to be done both in terms of policy environment as well as assistance to the individual sectors to overcome a dependence on one particular segment of the economy.

DR. ÅSLUND: Thank you. Well, perhaps we can take three. There was somebody behind there also.

Q: Martin Horowitz, American Jewish World Service. It just struck me there might be a couple of pink elephants sitting in the room that no one has mentioned. The report deals with recommendations and reference to we in the West. I just wondered, given the expectation that there'll be a reconsideration of Ukraine's participation in the Coalition of the Willing, what is your estimation of the fact that the United States government has any real interest in Ukraine in comparison with the relationship that the president has with the man into whose soul he has looked? It seemed to me that that's a fair – you must have discussed this. (Laughter.)

DR. ÅSLUND: And McConnell (ph).

Q: Yes, U.S.-Ukraine Foundation. Just – I don't know whether it's in your report or implicit about looking at the March, 2006, elections for parliament and local government as an opportunity to, I think, one, address the issue of relations between citizens and its leaders, but also things like corruption and other issues.

DR. ÅSLUND: You start.

MR. PIFER: Well, on the question of Iraq and Russia and Ukraine, I guess the main point I would make is that going back to 1994, the view articulated both by this administration and the previous administration for Ukraine was, we want to see a stable, independent, democratic state, strong market economy, increasingly close ties to Europe.

And I think now like never before since Ukraine became independent, there really is an opportunity – I mean, there is a – after the inauguration hopefully on Saturday there will be a president who is committed to that vision, and we endorse that vision not because it's good for Ukraine, but because it's good from the point of view of American interests. That kind of Ukraine makes for a more stable and secure Europe. It's going to

be a more – a better partner for commercial and investment purposes. It's going to be a partner in tackling problems like terrorism and proliferation, so we have this opportunity: we ought to seize it.

With regards to Iraq, I think the Ukrainian government is still sorting out internally, and it has said – and the Yushchenko government has said that there would be consultations with the U.S. with regards to what happens to its coalition there. And we'll see how that comes out, but I would hope that whatever decision takes place with regards to Iraq will not obscure the fact that we have a huge opportunity to promote the kind of Ukraine that we've wanted to see for the last 10 years.

How this relates to Russia to my mind is going to depend a lot on the Kremlin. You know, whether there's going to be a dilemma in the American-Russian relationship over Ukraine really depends on what sort of goal the Russians set for themselves with regards to Ukraine. I think the way – as I said in my comments, I think there is an understandable concern on the part of the Russians that if Ukraine is moving rapidly towards the West there is the potential for greater isolation of Moscow. To my way, there's two ways to prevent that. One is you stop Ukraine. The second way is you push Russia.

I don't think we should be putting obstacles in the path of Ukraine's effort to join Europe, so we ought to work with the Russians and say we're prepared to work with you to deepen the ties so that you avoid any sense of isolation as Ukraine moves towards the West. At that point I think we've laid out our readiness and it's an appropriate readiness. The question then really depends on will the Russians be prepared to engage on that basis, and I'm not sure we know the answer yet to that.

DR. ÅSLUND: Kalman.

MR. MIZSEI: Yeah. Just one sentence on this one. The Ukrainian reforms may be an extraordinary good facilitator of Russian reforms as well.

On the question of the March, 2006, election, the – this document has concentrated on the next year, meaning 2005 more or less, so it is not going into the issues of the 2006 elections. UNDP this last year supported 50-plus election processes, so we are extremely involved in democratization in the less developed countries of this world, and obviously if we are asked by the Ukrainian government to assist in any way, we would be delighted to do that. We also have OSCE that is working a lot with the same countries that I deal with and support democratic elections, so we want to be helpful the way the Ukrainian government and parliament wants us to be helpful.

DR. ÅSLUND: Thank you. I should just add here with regard to USAID report, there are quite a few international organizations that have various reports out and we have been looking at what was available at the time. The most striking thing is that there is a huge consensus now about what should be done in Ukraine, and this is also true of the parliament and of the Yushchenko aids that we saw. And there's also a huge sense of

urgency that this has to be done. Ukraine is today a pervasively corrupt country. According to the assessments made by the World Bank, the IBRD, Transparency International, Ukraine is about twice as corrupt as Russia, and Russia's not quite the cleanest country. (Laughter.)

And that means that people are very concerned that this is the big opportunity in a lifetime to do something about the degree and – in corruption, so that is really the key. I should say that we have a number of reports lying outside here on the table outside of the room and they're also available both on the UNDP and the Carnegie websites, but I know that many of you have received the report already by various means.

Thank you very much indeed.

(Applause.)

(END)