



*Celebrating over 20 Years of Commitment to  
Ukraine's Democracy and U.S.-Ukraine Relations  
♦ 1991-2012 ♦*

## **UKRAINE 2020 – POLICY DIALOGUE**

**Supporting Ukraine's European Integration**

- FOREIGN POLICY
- NATIONAL SECURITY AND DEFENSE
- ENERGY
- CULTURE AND EDUCATION

## **УКРАЇНА 2020 – ПОЛІТИЧНИЙ ДІАЛОГ**

**На підтримку європейської інтеграції України**

- ЗОВНІШНЯ ПОЛІТИКА
- НАЦІОНАЛЬНА БЕЗПЕКА Й ОБОРОНА
- ЕНЕРГЕТИКА
- КУЛЬТУРА ТА ОСВІТА

**Policy Review and Recommendations**

**Kyiv – Washington, DC**

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This project is supported by the Democracy Grants Program of the U.S. Embassy in Ukraine.  
The views of the participants do not necessarily reflect the official position of the U.S. Government.

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**UKRAINE 2020 POLICY DIALOGUE**  
**Supporting Ukraine’s European Integration**  
**POLICY REVIEW AND RECOMMENDATIONS**

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## INTRODUCTION

This past April marked a notable anniversary in Ukraine-U.S. relations – an anniversary that passed virtually without notice. Twenty years ago, on April 13<sup>th</sup>, 1992, when Defense Minister Konstantyn Morozov arrived at the Pentagon for a ceremonial welcome, he became the first government minister of newly-independent Ukraine to make an official visit to the United States. Ukraine's yellow-blue flag was raised for the first time on a U.S. Government staff during an impressive welcoming ceremony that included the national anthem of both countries and a review of troops. For two decades after, the United States has been one of Ukraine's strongest international partners – a staunch supporter of Ukraine's independence and its chosen direction of European integration. Ukraine, in turn, has been a strong partner of the United States internationally.

Yet in 2012, the mood in Ukraine-U.S. relations is anxious rather than celebratory, first of all due to accusations from both sides of the Atlantic of democratic backsliding in Ukraine and selective use of that country's criminal justice system. This somber backdrop is not – and must not be – the whole story. The relationship between Ukraine and the United States has roots that go deeper than governments, roots that draw their strength from the relationship between our peoples and their shared human values.

Over the past seven months, the U.S.-Ukraine Foundation has been working to nurture those roots through its Ukraine 2020 Policy Dialogue program. This initiative has given experts and officials in Ukraine, the United States, and Europe a valuable platform to exchange ideas and build common vision in support of Ukraine's development as a modern, prosperous, and secure European democracy. The program's four separate task forces – Foreign Policy, Culture & Education, National Security & Defense, and Energy – brought together nearly fifty prominent Ukrainian and international experts to identify important issues related to Ukraine's European integration and develop recommendations to address existing challenges and opportunities. This compilation of the task force issue papers presents their work in a form that can interest a wide audience of policymakers, subject-matter specialists, journalists, and the broader public.

Each issue paper is designed to stand on its own as a substantial contribution to policy discussions in Ukraine, about Ukraine, and in the context of the official Ukraine-U.S. strategic partnership. Taken together, however, these papers are more than the sum of their parts, highlighting a number of cross-cutting themes that are worth noting.

In the first place, work in the task forces showed that expert views on current Ukrainian realities are remarkably consistent. That Ukrainian and international experts share common views underlines how integrated Ukraine's expert community has become with their international counterparts – and how accessible accurate information on events in Ukraine has become internationally. Equally noteworthy is how generally cohesive the views of Ukrainian experts were, despite their personal political affiliations. This speaks to a commonality of understanding and approaches within the expert community – a commonality that could contribute to forging consensus on a number of strategic issues within Ukrainian elites and society at large.

The second noteworthy theme that runs through the issue papers is the sense that the key to Ukraine's national development is energizing the country's internal resources. Whether increasing energy efficiency, fostering innovation through higher education, or unlocking the potential of free trade with European markets, the path to unleashing Ukraine's internal potential is linked to liberty, free markets, and accountable governance. To energize Ukraine's greatest resource – its people – the key to success is a political and economic system in which citizens are genuine stakeholders. The greatest value of Ukraine's international relationships, be they with the EU, the U.S., or the WTO, may be as much in their positive influence on Ukraine's internal arrangements as the direct benefits that they provide.



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Conversely, the greatest risk of Russia's approach to Ukraine may be its determination to maintain Ukraine within a culture of business and power that is opaque, monopolistic, and familiar for Russia.

The third cross-cutting point is the danger for Ukraine of remaining in a 'gray zone,' caught between increasingly divergent Russian and Western economic, business culture, and security zones. Yet despite the danger, there is every indication that the 'gray zone' is precisely where a sizeable part of Ukraine's political and economic elites feel most comfortable today. The needs of national development, however, mean that this gray zone is not only an uneasy buffer between two cultures of business and power; it has also become a gray zone between Ukraine's post-Soviet past and its future as a prosperous, secure, European democracy. The longer Ukraine stays in that zone, the longer its true potential will remain blocked. At best, the hopes and dreams of its people will remain blocked; at worst, Ukraine's sovereignty will be at risk.

What then can the expert community do in such a situation? First, it is important to remain active and engaged, inside the country and out, to ensure that there is clarity on Ukraine's interests. Secondly, in a situation where many of the problems and solutions are already well known, there is a need to move beyond analysis to leveraging knowledge in ways that can achieve real change. For that, experts need to extend their dialogue more widely, to political and business elites, civic groups, media, and the broader public. Making knowledge more accessible must be an important element of each civic-minded expert's work.

Ukraine's expert community also has an important role to play internationally. In addition to exchanging useful views with international colleagues, the excellent reputation of Ukraine's non-governmental experts can be a potent tool to counter the effects of 'Ukraine fatigue,' to show international partners a model of cooperation that is satisfying and inspires confidence. The U.S. and Europe can support this approach by moving the center of gravity of our engagement with Ukraine toward broader engagement of our societies. The substantial dialogue between our countries' communities of experts and intellectuals already act as a powerful expression of that society-to-society relationship – and of hope for its future. The participants in Ukraine 2020 have made a substantial contribution to building that dialogue, and are committed to continuing to play our part in moving that discussion ahead. An early opportunity to do so will come later this year, when we consider the implications – and we hope opportunities – for the Ukraine-U.S. strategic partnership following both our countries' elections.

We hope that you, our civic-minded reader, find these issue papers interesting and thought provoking. And we look forward to your active participation in an open and ongoing discussion that joins Ukraine's citizens and friends abroad in discussing the country's future at home and in the world.

For more information on the Ukraine 2020 Policy Dialogue, visit the U.S.-Ukraine Foundation's web site at <http://usukraine.org/ukraine-2020/>

Ambassador Oleh Shamshur & James Greene  
Co-Directors, Ukraine 2020 Policy Dialogue  
25 September 2012



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#### Key Directions of Ukrainian Foreign Policy: Challenges and Prospects

This paper examines key directions for Ukraine's foreign policy and offers recommendations for the Ukrainian government on steps it should take and recommendations for the U.S. government as to how it should support Ukraine.

#### 1. Foreign Policy Choices for a Medium-Sized Country Located between Europe and Russia

Ukraine's geostrategic position and its historical development have necessitated a foreign policy model which (1) balances Ukraine's relations with the West and Russia, and (2) works towards integration with European economic and political structures and seeks cooperative relations with NATO. Until recently, Ukraine had moderate success in realizing this approach, which has been supported by a majority of the Ukrainian population and elites.

Ukraine's field for maneuver in pursuing this approach has been steadily narrowing. Ukraine currently finds itself in a grey zone between two integrative unions—the European Union and the Customs Union/Eurasian Economic Community/Eurasian Union—and two systems of collective security—NATO and the Collective Security Treaty Organization (CSTO).



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The Ukraine-EU relationship has been frozen by a crisis of confidence, which results largely from growing Western concerns about democratic regression, weak rule of law and selective prosecution of opposition members in Ukraine. This has encouraged a more active Russian campaign to increase its influence over Ukraine in hopes of attracting the latter into Russian-led collective bodies, as part of Moscow's broader effort to shape a sphere of "privileged interests" in the post-Soviet space.

It is entirely legitimate for Ukraine to seek integration with Europe while maintaining constructive and stable relations with Russia, but Moscow's de facto sphere of influence policy makes this goal problematic. Membership in the Customs Union and CSTO could significantly constrain Ukraine's relationship with the EU and NATO in practice. Signing the Association Agreement, including the Deep and Comprehensive Free Trade Agreement (DCFTA), with the European Union or joining the Russian-led Customs Union presents a harsh but basic choice for Ukraine. For Ukraine, this is not fundamentally a geopolitical choice but a choice about values, the nature of the economy and the relationship between citizen and state. Yet, while Ukraine has no interest in seeing or creating a new geopolitical division of Europe, it needs to be aware of and assess the geopolitical ambitions of those who lobby various integration projects.

In order to find an optimal scenario for integration with Europe while pursuing mutually-beneficial relations with Russia and its Eurasian integration structures, Ukraine should:

1. Adhere to the course of EU integration and membership, and deepen partnership relations with NATO. These priorities should be reflected in the new "National Security Strategy," "Foreign Policy Strategy" and "European Integration Strategy" documents. Consider dropping the term "non-bloc status" which implies that Ukraine faces a choice of either a Russian-dominated or Western-dominated bloc.
2. Make Ukraine's participation in the DCFTA (as well as observation of WTO requirements) a precondition for Ukraine's participation in any other trade or economic unions.
3. Define more clearly what Ukraine expects from its relations with the regional structures in which Russia, Belarus and Kazakhstan participate, which is now based on the "3+1" formula.

Achieving these goals will require that the Ukrainian government respond adequately to European and U.S. concerns regarding the status of democracy in Ukraine.

## **2. Ukraine and Europe: Ukraine-EU, Ukraine-NATO and Ukraine in the OSCE**

### **Ukraine-EU Relations**

During the last two years, the Yanukovich administration received high marks for the serious work that it did to conclude the Association Agreement and DCFTA, but Ukraine's relations with the European Union and its major member states are in the most difficult period in their history. Several long-awaited milestones have been delayed, including signing of the Association Agreement and DCFTA and introduction of a visa-free regime for short-term visits by Ukrainian citizens to the Schengen area. This is due to the collapse of confidence between Ukraine and the European Union, primarily due to EU concerns about democratic standards in Ukraine.

As a result, Ukraine's European integration course is frozen. Only a few EU member states try to preserve regular official contacts with the highest Ukrainian authorities. Meanwhile, most demonstrate rather tough attitudes towards official Kyiv. In this context, most of the programs which operate in the Ukraine-EU relationship are under threat, including the Eastern Partnership. The European Commission may well limit Ukraine's participation in official events within this policy. In these circumstances, Ukraine should:

1. Take all necessary measures to fulfill the priority items formulated by the European Union, including judicial reform; other reforms related to the rule of law; preparation and conduct of democratic elections according to OSCE standards; and implementation of Constitutional reforms that take into account the Venice Commission's conclusions.



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2. Ensure as soon as possible the fulfillment of the prerequisites necessary for signature and ratification of the EU-Ukraine Association Agreement.
3. Improve management of state finances and bring the law of Ukraine on state services into compliance with EU norms and standards as a prerequisite for renewal of EU financial aid; strengthen property rights and the security of contracts; transition to market prices for natural gas; implement the commitments Ukraine undertook by joining the European Energy Community; and create conditions for more transparent and predictable gas supplies to and gas transit across Ukraine.
4. Reinvigorate the Ukrainian institutions responsible for advancing Ukraine's European integration and enhance intra-governmental coordination through formation of a National Council on European Integration Issues, to be chaired by the President, and creation of an appropriate executive body.

If the Ukrainian government works toward these goals and ends the selective prosecution of opposition leaders, the U.S. government should use its relations with the European Union and key EU member states to encourage a more robust EU engagement with Ukraine, and should also target U.S. technical assistance programs to promote progress on points #1 and #3 above.

In light of current difficulties at the political level between Ukraine and the European Union, society-to-society and institutional relationships take on greater importance. The expert community, in and out of government, has an important role to play in fostering these relationships, as do the educational, business, cultural and national security communities.

#### **Ukraine-NATO Relations**

No Ukraine-NATO summit meetings have been held in conjunction with the last three NATO summits. This reflects both the lack of an agenda and an absence of political will for a more active dialogue in the current political atmosphere. In such conditions, the realistic goal is preservation of the current level of Ukraine-NATO cooperation, including the inclusion of Ukraine in the Alliance's missions and activities.

Ukraine's declaration of non-bloc status does not in itself hinder the content of Ukraine-NATO relations. This status allows in principle for the development of cooperation in any sphere of mutual interest. At the same time, Ukraine's low international standing leaves little space for new initiatives or for developing its relationship with the Alliance. In the current circumstances, the Ukrainian government should:

1. Fulfill existing bilateral obligations/commitments, in particular those required by existing Ukraine-NATO annual national programs of cooperation.
2. Continue active participation in NATO operations, as well as regular discussions about consolidated activities of the Alliance and its partners in regions of the world where NATO operations are underway, including Afghanistan.
3. Become more actively engaged in regional security discussions and formulate clear Ukrainian positions on issues, in particular, conventional arms control, European missile defense and cyber security.
4. Continue reform of the security and defense sector consistent with NATO standards, including addressing corruption in the security sector.

The U.S. government should advise the Ukrainian government and the Ukrainian mission to NATO on how best Ukraine could strengthen its practical cooperation with the Alliance, drawing on NATO's strong capacity to work with Ukrainian institutions, and should extend technical assistance to promote the reforms noted in point #4 above.

#### **Ukraine and the OSCE**

Ukraine will chair the OSCE for the first time in 2013. This creates a possibility to strengthen Ukraine's international standing. The main risk for Ukraine's OSCE chairmanship, however, is the increasing concern on the part of many OSCE members over the erosion of Ukrainian democracy, given that democracy and rule of law are integral parts of the OSCE agenda. This affects the issues that Ukraine can most realistically take up. A free and fair Rada election and resolution of politically-motivated



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prosecutions would empower Ukraine's chairmanship; an absence of these would hamper Ukraine's effectiveness. As OSCE chair, the Ukrainian government should consider initiatives on:

1. Transnistria. New leadership on both sides of the Dniester and resumption of official 5+2 talks offers a window of opportunity for progress. Ukraine can strengthen efforts to resolve this conflict by pressing for deep and substantive talks, including an effort to find agreement on shared strategic goals, such as prevention of violence and enhanced prosperity, and to agree on confidence-building measures that could register progress in the near term.
2. Arms Control and Non-Proliferation. Ukraine can use its reputation as a country that gave up nuclear weapons and highly-enriched uranium to advance conventional arms control and confidence-building and security-building measures in the European region.
3. Support the Office of Democratic Institutions and Human Rights in Warsaw as the primary monitor of democratic development and human rights throughout the OSCE region.

The United States, as an observer in the 5+2 process on the Transnistrian dispute, should consult closely with Ukraine on steps that might be taken to make progress toward a resolution of the dispute and support workable Ukrainian proposals as well as regarding arms control issues. The United States should ensure a strong contingent in the OSCE-ODIHR mission to the October 2012 Ukrainian Rada elections.

### **3. Ukraine-U.S. Relations**

The Ukraine-U.S. strategic partnership should be based on common values and interests, which include the strengthening of democracy and the rule of law; market economy development; support for the security, sovereignty and territorial integrity of Ukraine; strengthening non-proliferation regimes; and common action against international terrorism, among many others.

Since the Yanukovich administration took office in 2010, several meetings of the Ukraine-U.S. Strategic Partnership Commission have been held, and three new groups were formed to focus on peaceful nuclear energy, political dialogue and rule of law, and science and technology. Several high-level meetings have taken place, though this pattern might not continue.

At the same time, Ukraine's decision not to pursue closer integration with NATO means that the United States, which is not an EU member state, is less well-placed to offer political support for Ukraine's integration into the European/Euro-Atlantic community. Internal Ukrainian political realities also unfavorably impact partnership development. The United States, like the European Union, has been critical in its assessment of democracy development in Ukraine. The Ukraine-U.S. dialogue is affected by a decline in U.S. interest towards Ukraine compared to past years, resulting from democracy concerns and a larger shift in American geopolitical priorities from Europe toward the Asia-Pacific region.

The strengthening of confidence and trust in the Ukraine-U.S. dialogue is essential to improve bilateral relations. Addressing the internal political problems in Ukraine will be key in this regard and for the broader development of the Ukraine-U.S. relationship. In its bilateral relations with Washington, the Ukrainian government should:

1. Create conditions to make the best use of U.S. technical assistance in implementing defense, socio-economic and judicial reforms in Ukraine.
2. Improve the business climate so as to attract U.S. investment, including in key economic sectors such as high-tech industries, aircraft construction, hydrocarbon and nuclear energy, energy efficiency, alternative sources of energy and agriculture.
3. Broaden the assortment of Ukrainian export products in the U.S. market; minimize trade barriers for their export; and further liberalize the bilateral trade regime through conclusion of a Ukraine-U.S. free trade agreement.

The U.S. government should target technical assistance to promote reforms in point #1 above and to help the Ukrainian government create conditions in which it can maximize foreign investment to develop its natural gas sources, as a means to reduce its dependence on imported energy. The U.S. government should work to promote a better Ukraine-NATO dialogue and, should Ukraine address its current democracy problems, urge the European Union to proceed with early signature and ratification of the Association Agreement and DCFTA.



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#### **4. Ukraine-Russia Relations**

At the beginning of the Yanukovich presidency, Ukrainian-Russian relations experienced a dramatic improvement, largely as the result of concessions by the Ukrainian side, including renunciation of Kyiv's NATO membership perspective; extension of the Black Sea Fleet's lease in Crimea; disavowal of its own reading of historical events such as the Holodomor; and support for several Kremlin foreign policy initiatives. Although Russia agreed to a nominal "discount" in the price of gas, which still leaves Ukraine paying some of the highest import price for gas in Europe, Kyiv's concessions have not led to a change in the Russian political elite's attitude towards Ukraine: they see Ukraine as an important part of Russia's integration construct.

The Ukrainian-Russian agenda reflects major differences: Moscow strives to engage Ukraine in its "integration triad"—the Customs Union/Common Economic Space/Eurasian Union—which would end Ukraine's decade-long efforts along the road to European integration. The signing of a series of asymmetric agreements in energy, aircraft-building, shipbuilding and other areas creates the threat of Russian assertion of control of key sectors of the Ukrainian economy. The sides have yet to agree on delimitation of the Azov-Kerch Strait.

Russia carries out coordinated policies towards Ukraine in order to strengthen the "pro-Russian component" of Ukraine's internal processes and affect Kyiv's foreign policy. It would be prudent to prepare for the probability that, given President Putin's stated commitment to integration, the rhythm of Russian policy towards Ukraine will become more intense, especially if Moscow concludes that Ukraine's path to the West is blocked. In order to ensure mutually beneficial relations with Russia, Ukraine should:

1. Shift cooperation from discussion of Eurasian integration projects to the bilateral relations format, first of all in the economic and energy spheres.
2. Normalize its gas transit relationship with Russia with the help of the European Union and stabilize the supply and pricing of energy imports from Russia.
3. Finalize the Ukrainian-Russian border on the Azov Sea through demarcation of the terrestrial part of it and delimitation of the sea part.
4. Build up mutual trade through elimination of barriers and through the effective functioning of the free trade zone without exclusions and restrictions.

The U.S. government must tread lightly on Ukrainian-Russian issues so long as Moscow respects Ukraine's sovereignty and conforms to international law. It should be transparent with both countries on its interactions with the other and look for opportunities where it might support mutually beneficial cooperation between Kyiv and Moscow.



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#### Ukraine's Security and Defense Policy: Challenges and Prospects

This year Ukraine and the United States marked twenty years of defense cooperation. The importance of Ukraine to security in Europe has motivated Ukraine's international partners to make substantial efforts to help Ukraine develop the kinds of security institutions that can address modern threats effectively and in a way that is appropriate for a young European democracy. In the face of today's deteriorating political relationship, it is important that both parties remain cognizant of their strong mutual interest in defense and security cooperation and remain committed to this relationship.

This paper examines key issues in Ukraine's security and defense policy, identifies prospects for and challenges to constructive Western engagement in these areas, and offers recommendations as to how such engagement might be supported.

#### 1. Ukraine's Strategic Choices in an Evolving Security Environment

In June 2012—after considerable delay and some controversy—President Yanukovich approved a new version of Ukraine's National Security Strategy (NSS). The document describes a very difficult security situation, one marked by increased competition



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between “global centers of influence,” the use or threat of force to resolve inter-state conflicts, the spread of terrorism and other serious global dangers, and a deteriorating security environment for Ukraine itself. It also laments Ukraine’s lack of reliable security guarantees, its declining influence in the international arena, its economic dependencies, and the extent to which domestic political weaknesses—including “the distortion of democratic procedures”—have hampered the development and implementation of effective policy. Taken together, it says, Ukraine has been pushed into a “gray zone of security.”

The National Security Strategy is, overall, an accurate and open representation of the realities that the country faces. This is a testament to the good work of Ukraine’s security policy community. Underlying its assessment is a clear understanding that the country faces challenges to its independence, sovereignty and to its path toward full membership in the European community. Those challenges are in the first place internal: creating a political and economic system in which the broad public feels itself to have stake, and in which its voice is heard.

Under such circumstances, one would expect the Ukrainian government to work energetically to foster cooperative and constructive engagement with Western security institutions. Indeed, the intention to do so is affirmed: while seeking to establish a “new model of strategic partnership” with Russia, Ukraine will also increase its participation in European security institutions and continue its active partnership with NATO “on all matters of mutual interest.” What is lacking, however, is a sense of how the Yanukovich administration views its own role in international and regional security affairs, where its policy priorities lie, and how international engagement can help address them.

This is unfortunate, because the potential for mutually beneficial cooperation and more robust engagement does exist. Many of the security threats and challenges described in the new National Security Strategy are congruent with Western concerns, and should provide the basis for constructive cooperation. In some areas they have already done so—reflecting an appreciation on both sides of the need to act jointly to protect our citizens and our common interests from new threats in a globalizing world. Moreover, Ukraine has a strong, professional community of security experts that can marshal expertise in and out of government and has demonstrated its ability to work closely and constructively with international counterparts. Moreover, after several years of stalled reforms, there now appears to be renewed momentum for moving toward a more professional armed forces, relying less on conscripts and with substantially increased budgets for acquisition and modernization. The advice of the professional military leadership—many of whom now have substantial international experience—is being heeded by the political leadership in shaping this process.

But for many Western governments, it is hard to discern the extent of the Yanukovich administration’s real interest in or commitment to such cooperation, or to know what it might wish to achieve by new initiatives in this area. The administration’s embrace of “non-bloc status” has not provided the answers that security institutions—and the system overall—require if they are to continue their transformation and function effectively in the future. Indeed, there is a widespread impression in Western capitals that security and defense issues in general are not high priority issues for Kyiv today. Meanwhile, increasing unhappiness with the status of democracy and human rights in Ukraine has diminished Western political and intellectual support for engagement as well. American and European officials can readily articulate the security interests that they and Ukraine share, and agree in principle that enhanced cooperation might well be useful for all concerned. What has become more difficult, however, is to explain why the commitment of political and economic capital to such endeavors would produce significant results in practice. “Ukraine fatigue” is real.

It is therefore critical to continue to identify and assess clearly the ways in which sustained security and defense engagement with Ukraine can support our shared interests in that country’s independence, sovereignty, and development as a prosperous, secure European democracy.

## **2. Ukraine’s Requirements in Security and Defense**

What kinds of forces and capabilities does Ukraine in fact now need, and why? As with any modern state, the fundamental rationale for spending on security and defense must be to preserve the country’s independence and sovereignty. The new National Security Strategy suggests that this in turn entails two basic requirements: forces capable of addressing the country’s main security challenges and threats, and forces capable of sustaining effective engagement in operations abroad.



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These are perfectly sensible objectives, reflective of important national interests and broadly supported by Ukraine's security policy community. In the former case, there is little dispute that Ukraine must deal with possible tensions in its own neighborhood (in Transnistria, Nagorno-Karabakh, and the Caspian region), with unresolved border issues (in the Azov Sea and Kerch Straits), with what the Strategy calls an inadequate "legal framework" governing the status of the Russian Black Sea Fleet, and a variety of possible cross-border threats, including illicit trade in arms and nuclear materials, drug trafficking, and organized crime. In the latter, Ukraine already has a number of international engagements to its credit: the Polish-Ukrainian Battalion in Kosovo, medical personnel and transport aircraft in support of ISAF in Afghanistan, Operation Active Endeavor in the Mediterranean, and involvement in multinational anti-piracy activities. Such commitments have been appreciated abroad.

The policy objectives articulated in the NSS have potentially important implications for Ukraine's interactions with external partners. For example, dealing with cross-border threats ought to entail special attention to border management and control, and thus to the competence of and resources available to Ukraine's border services. This is an area where the sharing of "best practices" would be both manifestly helpful to Ukraine and responsive to Western policy concerns. Some useful cooperation already exists here, but not enough. More fundamentally, while the Strategy document highlights the need to improve the competence of Ukraine's military, it is quite silent on where the critical deficiencies lie, and where foreign assistance would be most welcome.

Another large and unanswered question is, what kinds of operations does Ukraine envision in the future? With what organizations, and for what purposes? Effective collaboration with NATO—as well as participation in UN initiatives or EU security operations (where NATO standards prevail)—would likely call for quite different capabilities, with quite different training and planning requirements, than would engagement with Russian forces through the Cooperative Security Treaty Organization (CSTO). Ukraine can seek to do a bit of each, but consequential engagement over time is likely to require greater clarity as to where Ukraine's policy priorities—and thus its principal commitments of political and economic resources—will lie. Setting and implementing security and defense priorities, in turn, will require more detailed planning guidance and interagency coordination. It will also need to address a persistent gap (lasting across administrations) between the perspective of security professionals and the interests and understanding of the political leadership.

Finally, implementation of the NSS will require a serious commitment to addressing the problem of corruption, a systemic problem that, combined with political patronage, undermines the integrity and capability of Ukraine's national security institutions.

#### **Recommendations**

- Ukraine's political leadership needs to supplement broad statements of purpose with the articulation of clear and implementable priorities, so as to impart greater discipline to defense budgeting and planning, to train its forces, to provide politically-sustainable rationales for its engagement with external actors, not least NATO and the United States, and to give focus to external assistance and capacity-building efforts.
- Strengthening the competencies of the National Security and Defense Council (NSDC) in coordinating security policy could help address these issues. Bilateral or multilateral cooperation could provide important support for this effort.
- A number of Central European countries have successfully addressed the corruption issues. The United States could work with Ukraine and these countries to help identify opportunities and means to apply their experience. This could build on current NATO-sponsored work, and include expertise inside and outside government.

### **3. Ukraine's International Relationships: the United States and NATO**

Like any state in the contemporary security environment, Ukraine needs strong, established relationships with international organizations and other national actors. Such relationships can extend Ukraine's strategic reach, generate financial efficiencies through cooperation, and bring concrete expertise and sometimes financial assistance to support Ukraine's security objectives. These relationships can be critical to Ukraine's ability to counter global threats—terrorism, piracy, international crime, and trafficking—that it cannot hope to handle alone.

As noted above, there are several major international security relationships that are pertinent to the future development of Ukrainian security and defense establishments, including the CSTO, the United Nations, and the European Union. Another



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potentially important relationship is with the OSCE, where Ukraine's chairmanship offers an opportunity to shape Europe's conventional arms control agenda.

Arguably the most critical relationships, however—and certainly the most controversial ones—remain those with the United States and NATO. In the past, the framework for both U.S. Defense Department and NATO engagement with Ukraine has focused on the process and requirements of NATO accession—a goal which the Yanukovich administration has explicitly abandoned. But it has also stressed that it wants to sustain engagement. With NATO membership no longer the driving factor, what should the new framework—the new rationale—for US-Ukrainian and NATO-Ukrainian defense cooperation now be?

Current Defense Department (DoD) and NATO engagement with Ukraine focuses on two inter-related core objectives: promoting security sector reform, and enhancing Ukraine's ability to participate in and contribute to Western security operations. Both have seen some positive results, but both have become sources of frustration for Western officials.

US initiatives on security sector reform have been carried out primarily with Warsaw Initiative, IMET, and FMF funding. Of these, only IMET programs are now viewed as successful; the others are seen as temporarily useful but without lasting impact, and progress on defense reform in general has been disappointingly slow. Moreover, EUCOM budgets are under pressure and will be scaled back for financial reasons alone. While defense cooperation with Ukraine will remain a priority, individual projects will have to show results to be sustained.

Efforts to enhance Ukraine's interoperability with US and other NATO forces through military-to-military cooperation show a similar pattern: cooperation at the DoD/MoD level is often good, but the programs risk losing momentum because of unclear commitment from Ukraine's political authorities and the lack of demonstrable results. For example, considerable effort (and funding) has been directed at institution-building: human resources management, NCO development, military education, and the like. But US officials wonder what happens to NCOs after they receive their training, or to officers who attend US or British military educational institutions, or to those receiving specialized English-language training. It is not at all clear that they are well used or respected upon their return; many end up leaving the service.

To address these concerns and to put US-Ukrainian and US-NATO defense cooperation on firmer footing, several underlying problems will need to be addressed. As noted above, one is unclear leadership and commitment in Kyiv, and the resulting uncertainty in the West as to what Ukrainian authorities really want from this relationship, and why. Strengthening the competencies and oversight functions of the National Security and Defense Council could help improve national-level decision-making and ministry-level implementation. But it is also important for Western officials to have a better sense of Ukrainian perspectives on these cooperative activities: what, from Kyiv's point of view, has been working, and what has not? How would Ukrainian officials assess their experience in KFOR? Where do they feel better prepared to operate effectively with US and other NATO forces, and what problem areas remains? The utility of sustained and systematic US-Ukrainian and NATO-Ukrainian dialogue on these matters seems clear.

For all these reasons, it is vitally important that the US and Ukraine maintain effective engagement during these difficult times, in order to sustain the real progress that has been made in building capacity. The underlying goal of this cooperation should be to support the development of institutional capabilities needed to provide for security in a modern European democracy-- the original rationale for defense cooperation in the 1990s.

#### **Recommendations**

- Cooperation should be steady, with work split in a triad of professional communities: the uniformed military (and other operational institutions), the civil service, and the non-governmental expert community.
- In order not be held hostage by ineffective planning culture or lack of senior-level support. DoD should conduct a review, including outside experts, to ensure that the criteria it uses to assess cooperative activities adequately reflect the new approach.
- US cooperation efforts with Ukraine are often most effective when brought into a multilateral framework that has relevance for Ukraine. It would therefore be useful for the United States and Ukraine to consider how US cooperation



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efforts might support Ukraine's recent closer working relationships with other Central European countries in the Visegrad group.

#### 4. Defense Industrial Cooperation

Ukrainian officials and non-government analysts alike have stressed that enhanced cooperation in the defense sector between American firms and Ukrainian industry is very a high priority for the Yanukovich administration. Several note that Ukraine has some very attractive technologies to offer, that its manufacturing costs are low, and that it has a presence in some foreign markets where the U.S. is largely absent. Indeed, they note, cooperation in such areas as space exploration, space launch, remote sensing, and missile technology have sparked the interest of Western firms, and other niche capabilities are worth exploring.

But major American defense industrial companies do not currently appear to be showing great interest in Ukraine, for two reasons. First, given the dramatic reductions in US and European defense budgets, the international focus of the American enterprises is primarily on sales to countries where defense spending remains robust. These markets are primarily in Asia and the Middle East. Second, the political climate between the two countries discourages American defense companies from doing business in Ukraine, not only because of the requirement for export licenses but also because they do not want to antagonize their primary customer (the U.S. government) in pursuit of tertiary business. Here, Ukraine's arms sales relationships with countries the U.S. and European governments consider unsavory are particularly damaging. Where U.S. companies have made investments or engaged in industrial cooperation in eastern and central Europe, it has been in the context of countries integrating into the European Union and NATO. Those considerations do not presently apply to Ukraine.

Finally, there are two areas where Ukraine is facing new defense industrial issues, with substantial potential risks and opportunities that it needs to understand. The first is privatization of defense enterprises, which was supposed to begin this year but has been delayed due to a concern that a rushed process could have troublesome economic effects. The second is outsourcing—something that Ukraine may need to do, and do well, if its defense sector is to get leaner yet maintain sufficient operational capability.

#### Recommendations

Under these circumstances, what might usefully be done? Engaging experts in systematic dialogue, at both the policy and industry levels, seems the most useful place to begin.

- At the policy level, dialogue could aim to clarify understanding of what kinds of initiatives could receive political support, and how cooperative efforts might be shaped to serve broader policy objectives. The dialogue could thus address the impact of defense industrial cooperation on security sector reform, defense industrial restructuring, and conditions for cooperation elsewhere. But it would also have to address possible third country objections to, and constraints upon, Ukrainian defense industrial cooperation with the West. It would also need to account for the state of the bilateral relationship, since strengthening cooperation between US and Ukrainian defense industries requires commitment from political authorities.
- At the industry level, dialogue would need to focus more precisely on specifying those areas of technology and industry where cooperation would be attractive to both sides. Initial discussion should focus on identifying niche capabilities of potential interest; technologies relevant to cyber security, space policy, and border security have been suggested as areas to examine. The US could also help facilitate the sharing of lessons – directly to industry – from the transformation of Central Europeans' defense industries. This might logically build on the "Visegrád plus Ukraine" efforts of recent months, while also bringing in US experts and industry. Another area of possible practical work is to help build awareness of potential subcontracting possibilities for US firms, particularly regarding sales to third countries.
- Focused studies should engage relevant Western expertise to bear on the questions of privatization and outsourcing, aiming to develop recommendations for government, parliament, and defense industry. Here as elsewhere, this will require commitment by governments.



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#### ENERGY TASK FORCE



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#### Key Issues in Ukraine's Energy Sector: Challenges and Prospects

Ukraine has always possessed the means to reduce its own energy supply vulnerability and contribute to European energy security. The fact that it has failed miserably to do so is the fault of successive governments since independence. The root cause is non-transparent business practices leading to pervasive and massive corruption in the energy sector. Lack of fundamental energy reform has also been a major blockage to Ukraine's integration into Europe and transition to a market economy.

#### Worsening Conditions

In spite of pledges it made during the presidential election campaign in 2009 and continues to espouse today, the current Ukrainian administration has failed to remedy the structural failings of the Ukrainian energy system. In fact, conditions have become worse since it came into office two and half years ago.

The gas agreement it reached with Russia in April 2010 in Kharkiv bound Ukraine to import gas at some of the highest prices in Europe. Its failure to meet contractual commitments for the volume of gas off-take without a legal resolution represents a looming

liability of billions of dollars owed to Gazprom. In spite of high imported gas prices, domestic gas production continues to stagnate due to the absence of oft-promised gas pricing reform and the presence of other inhospitable investment conditions.

Recent openings to foreign investment in unconventional gas development and offshore exploration are encouraging, but it will take a number of years before geologic potential can be fulfilled in higher production, *assuming the government maintains favorable and stable investment conditions long-term*. In this regard, continued politicization of energy policy in partisan terms does not inspire investor confidence that future governments will not overturn decisions made by this current government, as have happened in the past.

Modernization of the oil industry has also been lacking. Domestic refining capacity is underutilized even where refinery owners made investments to upgrade their capabilities. These refineries are in danger of being shut down permanently. Ukraine is reliant on imported petroleum products even though it has surplus refining capacity. Oil production falls short of geological potential for reasons that handicap investment in the energy sector overall, including ineffective parastatal companies operated for the benefit of rent seekers. This fatal defect similarly impacts nuclear power, electricity generation and distribution, and the coal sector.

Transit of natural gas and crude oil through Ukraine to Western Europe has declined primarily because Russia, in partnership with European customers, has built and continues to build export pipelines that bypass Ukraine. Ukraine has squandered its geologic and location advantages and is at risk of being increasingly irrelevant in European energy. The latest evidence comes from efforts made by the European Union on its Southern Corridor gas strategy and by Russia on the South Stream pipeline, in large part to protect themselves from Ukrainian transit risks. Ukraine's position as the largest energy transit country in the world is becoming a historical footnote.

Government actions continue to concentrate on creating special rules that favor politically well-connected businesses, whether it is in the privatization of under-valued state assets or tariff setting for alternative energies. Consequently, the energy sector enjoys neither efficiency gains from robust competition nor a transparent regulatory environment that allows long-term investments in energy use and production.

In the face of this reality, it is particularly dismaying that an informed energy policy debate is not part of the ongoing Rada election campaign, portending political uncertainty in the future for energy policymaking. Energy policy paralysis has reached a critical stage. Postponing fundamental energy reform is no longer an acceptable policy option. The energy taskforce is hopeful that Ukraine will finally unlock its vast energy potential by addressing the structural weaknesses of this important sector.

#### **What should Ukraine do?**

1. Engage civil society in a broad dialogue on reform of energy sector.

From discussions with Ukrainian energy experts, their European and American colleagues on the energy taskforce were impressed by the level of sophisticated understanding they have of the energy challenges faced by their country. Unfortunately, this expertise is seldom used by the government. In fact, the general approach is to obscure information to the Ukraine expert community rather than to utilize this resource to help enact and implement urgent and painful energy reforms, which are difficult to sustain in a democracy without informed public support.

2. Introduce action plan for energy reform, starting with pricing for production and consumption.

Numerous studies have been commissioned and reports issued on energy reform in Ukraine in the past twenty years. Two examples are the 2006 energy policy review conducted by the International Energy Agency at the request of Ukraine and the 2012 IHS-CERA report on natural gas and Ukraine's energy future for the Ministry of Energy and Coal Industry. Generally such reports provide sound policy recommendations based on a thorough understanding of Ukrainian conditions and lessons learned from international experience in energy reform. Unfortunately, policy recommendations have not been implemented in a systematic way with an action plan that includes a schedule of concrete reform steps and target dates.

Ukrainian governments simulate energy reforms instead of executing them. The effects are particularly pernicious in the case of price controls for gas and electricity, which discourage investment in efficiency improvements and domestic production in spite of Ukrainian economy's high energy intensity and dependence on imported gas. As a result, corrupt schemes dominate

Ukraine's gas and electricity markets, while consumers and serious investors are left unprotected. Sustaining a well-designed program of energy reform with informed public support is more important than episodic actions motivated by political expediency.

3. Stabilize its energy relationship with Russia and Russian companies.

Russia is a natural partner for Ukraine in energy. Since 1991, this relationship has been distorted by non-economic considerations that make it inherently unstable and volatile even. Long term agreements between the two governments and their state-owned companies are regularly concluded and violated by either side, and renegotiated a year or two later only to repeat the cycle again. Middlemen schemes and other non-transparent practices continue to infect the relationship.

Both sides stand to gain from placing energy trade on a sound commercial footing. The professional capacity for implementing a shift to international business standards – commercial, legal, financial, technical – exists in Russia, but not in Ukraine, at least not in an organized way. Ukrainian governments continually enter into expected energy negotiations with Russia ill prepared, but ready to object to the unfairness of agreements it signed only a few months earlier. The Kharkiv gas agreement is only the latest example. This debilitating pattern must stop and Ukraine must begin to take its international obligations seriously on energy.

4. Breakup of energy monopolies in an orderly and transparent manner.

Ukraine's energy sector is dominated by highly inefficient and ineffective state companies that are often hijacked to serve private interests. This is particularly true of Naftogaz. Although it is tempting to consider speedy privatization of state energy assets, undue haste will lead to fire sales and asset stripping by politically connected interests – an all too familiar pattern for privatization of state assets in Ukraine – to the detriment of citizens, taxpayers and consumers, and without introducing increased competition into energy markets. Public oversight by the Rada and civil society is crucial if a program of privatization is to regain public trust, obtain maximum economic value for the state, and build an internationally competitive energy industry. If the privatization process is murky, then it will not be credible and will fail to achieve stated policy objectives.

5. Learn from energy reform in Central and Eastern Europe.

Ukraine's energy challenges are not unique and were shared by Central and Eastern European countries emerging from command economies in the 1990s. These countries had the added incentive of accession to the European Union to push economic reform. There are many lessons learned from this experience – good and bad – that can inform energy reform in Ukraine. Ukraine's accession to the European Energy Community in 2011 provides one mechanism for doing so. However, the Ukrainian government must take its commitments under the energy community seriously and fulfill its pledges if it is to restore confidence in Central and Eastern Europe, shaken by Ukraine's capricious performance during the 2006 and 2009 gas disputes with Russia which affected this region severely, and for these countries to provide meaningful technical assistance to Ukraine on energy reform.

6. Create energy success story.

Ukraine's energy sector is desperately in need of a success story to attract capital from serious domestic and international investors. Ukraine has a well-deserved reputation as a difficult place to invest and operate. The energy sector is replete with stories of bad experiences suffered by investors, large and small. Favorable and stable conditions help attract long-term energy investments. Serious work has to be done to repair the business reputation of Ukraine's energy sector.

Signing professionally-negotiated contracts on the recent shale gas and offshore exploration awards offers the opportunity to fill the gap of missing success stories in energy investing. Unfortunately some of the officials responsible for previously flawed tenders are also involved in the current process. Insertion of selected local partners with dubious capability to contribute real value to the investment unnecessarily complicates matters and may be difficult, if not impossible, for world-class companies to accept. Adding a political dimension to influence the foreign policy of these companies' home countries toward Ukraine is counter-productive.



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7. Build capacity to modernize energy sector.

Ukraine has an educated and talented workforce, including in the energy sector. It does not, however, have the capacity to enact modern laws and implement transparent regulations in energy without some external assistance. Technical assistance from friendly governments can help to achieve desired results only if the Ukrainian government is sincere in reforming the energy sector and sustains serious effort over a number of years, instead of using this as a tool to placate international institutions and governments for the purpose of postponing real reforms.

#### What can the West do to help?

1. Stop helping successive Ukrainian government pretend to reform energy.

U.S. has had an energy policy dialogue with Ukraine for many years, so does the European Union. U.S. and E.U. even have an energy dialogue with each other in which Ukraine comes up regularly as a supply vulnerability. None of these processes have achieved significant results in recent years. It is time to take any Ukrainian government to task for not meeting commitments on energy reform made in these fora and before international institutions, such as the International Monetary Fund and World Bank, in which the West has influence. Failure to do so forthrightly enables continued bad behavior by Ukraine in ways that affect negatively the economic and strategic interests of the West.

2. Broaden its energy dialogue to Ukrainian civil society.

Clearly engaging the Ukrainian government on energy reform is a necessary, but not sufficient condition to effect change. The West should directly and vigorously engage Ukrainian civil society in a dialogue on energy sector reform, including its advantages and pitfalls. Without public understanding and support, reform cannot succeed in the long run. Ultimately only the Ukraine public can hold their political leaders to account, not foreign governments or institutions.

3. Hold Ukraine to its international obligations and monitor progress on a regular basis.

The West should monitor progress on Ukrainian government's energy reform program as stated publicly and internationally and issue expert reports on a regular basis. The purpose is to improve public understanding and government accountability, not for informing the Ukrainian government, which presumably already knows what it has or has not accomplished.

4. Provide capacity building assistance on policy, not just projects.

The recent focus on energy projects, such as investments in modernizing Ukraine's pipeline system, distracts from discussion of needed policy reform, without which such investments cannot succeed. This caters to Ukrainian government's natural inclination to pursue fanciful projects, such as a liquefied natural gas receiving terminal in Odesa or partial reverse flow of the gas pipeline connection with Slovakia as ways to bring diversification of supply. Such efforts are misdirected and allow governments to claim to address energy problems without tackling difficult but more effective reforms. In market economies, governments are most effective in providing and promoting conditions that facilitate good investments, not in directing investments. European and U.S. policy toward Ukraine on energy should be well aligned and coordinated; otherwise the impact of either will be minimal.

5. Encourage foreign direct investment in Ukraine's energy sector while demanding fair and equal treatment for foreign investors.

Given the widely-perceived risks of investing in Ukraine's energy sector, Western governments can help its industry to better understand the local environment, take educated risks, and redress grievances when they occur.

**Most energy industry participants and experts, Ukrainian and foreign, agree that significant progress can be made in Ukraine's energy efficiency and supply security in a few short years, if a sustained and credible reform process is put in place. The fact that this has not taken place in twenty years of economic transition is primarily due to politically powerful, vested interest groups that have a strong stake in maintaining the current non-transparent system. Today the energy sector of Ukraine is in the hands of veteran government officials with the knowledge and skill to enact long-delayed energy reform if the political will exists to do so.**



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#### CULTURE AND EDUCATION TASK FORCE



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Rector, National Technical University of Ukraine, Kyiv Polytechnic Institute

#### **The Role of Culture and Education in Ukraine's Nation-Building Transition** **Issues, Challenges and Recommendations**

This paper describes the aspects of culture and education relevant to Ukraine's development of social and political structures, their pertinence to nation-building and security, and offers recommendations for the government of Ukraine and for the U.S. government for improving relations between the two countries and for bringing stability and safety to the region.

Ukraine's history of continuous foreign dominations, territorial shifts, and displacements left significant cultural divisions, which dislocated society as a whole and thwarted the development of a commonly shared national identity.

The general understanding of this complex cross-cultural position and history by its leaders has enabled Ukraine to maintain a balanced and constructive policy between East and West since independence in 1991, maintaining equilibrium at least until recently. However, the country was polarized during the 2004 presidential elections. This polarization has not been overcome neither under the Orange government, nor under President Viktor Yanukovich. It has caused stumbling blocks in geopolitical relations; it has destabilized Ukrainian society, weakened national security, and brought about strong national and international protests.

#### **Cultural Identity - The Necessary Element for Nation Building**

Culture, as the expression of a nation's values, struggles, customs, and knowledge expressed in society through social interaction, governance, language, religion, education, communication, and creativity, has been at the center of dispute in shaping Ukraine's national identity and in current socio-political confrontations.



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Ukraine can support its own culture and national identity and continue to maintain mutually beneficial relations with Russia, while it pursues its previous balanced economic relations and political and security policy with both Russia and Europe.

Ukraine's culture serves as a unifying element of the social structure, but the current socio-political unrest provides an opportunity to manipulate society for ideological and political purposes. There are indications of grave concern that the social contract between society and government has been broken. Ukraine's state institutions have been undermined.

Even though opinion polls in Ukraine show considerable evidence of apathy and distrust in social institutions, there are also indications that civil society organizations have taken root and are growing. There are encouraging signs that the role of citizenship and civil society as a key element of a nation's political process is expanding. There are groups springing up throughout Ukraine to support and monitor transparency and corruption, to monitor violations of human rights, to protect the rights of small and medium business-owners, to protect historical sites and museums. There is increased awareness that an involved civil society is not only a force in opposition, but it is a force to express the voice and the goals of the people that need to be taken into consideration by the government.

The steady development of a civil society, and the growth of information technology and its role in preventing complete control of information are positive signs for the rights of citizens. Technology's role has changed the relationship between government and society. It has broken down monopolies of information and control over ideologies and censorship, and it has brought people together to share ideas and organize groups. This is an encouraging indication of the more active role society and engaged citizenship can play in the future. Surveys by Internet World Statistics indicate that in the year 2000, there were 200,000 internet users or .04% of the population, but in the year 2010, there were 15,300,000 internet users or 33.7% of the population. The numbers keep growing exponentially. Such numbers bode well for the growth of a civil society.

#### **The Creative Arts, Museums, National Heritage**

It is through culture, the arts, and public discourse that people understand their identity and shape their future. But after twenty years of independence, Ukraine clings to its Soviet-era bureaucracy in administration and financial control of cultural institutions. As a result, the fusion of poorly paid employees and valuable cultural treasures, combined with favoritism and political cronyism, presents an opportunity for corrupt practices, stagnation, and a cultural community without widespread popular support.

Historical artifacts and archives have disappeared, archeological sites continue to be looted, public buildings are often sold to well-connected individuals without an open bidding policy or due consideration of cultural values. The professional community has not often been included in the decision-making process, and no coherent national policy has yet emerged about enhancing museums and protecting monuments and places of national heritage.

However, there are encouraging signs in the engagement of the private community and philanthropy. Some wealthy individuals and corporations funded private museums, others have become sponsors at opera or symphony centers, or financial supporters of various artists, musical ensembles, or publications.

A similar situation applies to the film-making industry, which is finally adapting to the realities of free commerce and international competitiveness. Publishers of books find themselves much in the same position, along with pressure to publish in the Russian language, the need to adapt to digital publications, and develop private-public investment partnerships. Legislation that will provide autonomy and protect intellectual rights and enforcement of those rights is urgently needed.

Taking into account historical and geopolitical factors, there is an attraction to Russian culture in Ukraine, but there is also fear and vigilance by Ukraine's population of Russia's way of life, with its serious inequalities, repressions and social problems, which underline the cultural and political rift between the two countries.



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#### Recommendation and Opportunities

##### For Ukraine

1. Encourage the Ministry of Culture to pursue policies based on professionalism, transparency; adopt legislation to permit private and corporate support for cultural activities and non-profit organizations, and provide incentives through the tax code for such support.
2. Establish systems to fight corruption, and bring qualified expert professionals into the Presidential Administration, the Parliament, and the Cabinet of Ministers; include public and professional engagement in political dialogue on rule of law and transparency; eliminate ethnic and gender discrimination, and support non-governmental groups to monitor these activities.
3. Create conditions and legislation for private-public partnerships to finance film, book publications, exhibits and other creative artistic activities.
4. Support expansion of digital activities in government that will promote transparency of information, procedures, and decisions.

##### For the United States

1. Support more U.S. engagement in Ukraine's democracy-building institutions, and cultural and educational programs involved in rule of law, building civil society and EU integration; support and foster people to people and institutional democracy-building cultural and educational programs and relationships, through programs such as Muskie, Fulbright, Open World and USAID broad-based efforts.
2. When requested by Ukraine, create conditions to use U.S. technical assistance and consultants to help establish changes in culture and education; support exchanges and training programs for museum professionals and other cultural institutions.
3. Support programs that encourage corporate and private support of cultural and civil society programs; send professionals to train, and to help find a path for support of the arts, including music, literature, dance, and other creative artistic activities through a combination of public and private funding.

#### Education

There is considerable evidence that Ukraine's educational institutions have become politicized, and have become political targets. The antiquated post-Soviet structure of education is still in place. Current policies based on central control, political influence, cronyism, and lack of transparency are a threat to the country's development, competitiveness, and stability.

The international community criticized and condemned a recent policy of the Ministry of Education, Youth and Sports, which focused on intensified control and isolation, and it appealed to President Yanukovich to demonstrate implementation of the modernization and enhanced freedom in the Ukrainian system of education, and fulfill the obligations of the Bologna Agreement signed by Ukraine in 2005, which sets educational standards in European universities and recognizes diplomas of member countries.

Students and the country's leading educational institutions, such as National University Kyiv-Mohyla Academy, National University Kyiv Polytechnic Institute, and Ukrainian Catholic University contested the Ministry's intensified controls, which they viewed as damaging to the quality of teaching and research, and a violation of the basic rights of autonomy and freedom in education.

The Ministry's steps to rewrite history text books arbitrarily, to promote Russian language and culture, to impede the increased learning of the English language, and to isolate Ukrainian educational institutions from European standards are signs of a political effort to reshape the future culture of the nation.

But Ukraine's integration does not require a choice between East and West or a rejection of collaboration with Russian educational institutions. Russia's best universities have already made a choice to raise standards and compete at an international level. Russia's Ministry of Education recently published its proposed "Program for Development of Education for 2013-2020", where it announced a program to raise the quality of education to international competitive standards, with an emphasis on innovation, and on academic and research programs.



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Ukraine's academic community supports reforms, integration, and international standards as well, but most are perhaps reluctant to express their views because of political and economic concern. In early 2011, the regressive draft law proposed by the Ministry of Education, Youth and Sports was blocked by two alternative proposals – one sponsored by Member of Parliament Yuri Miroshnichenko, and another co-sponsored by Members of Parliament Arseniy Yatseniuk and Lesya Orobets.

In a positive effort to bring education in line with Ukraine's economic needs and institute reforms, in 2011 the Ukrainian government established a working group to develop and propose a draft law on higher education, chaired by Mykhailo Zgurovskyi, Rector of the National University of Kyiv Polytechnic Institute. A draft law has been presented which provides transparency, inclusiveness, and innovation without the bondage of political ideologies. Ukraine can play a role as a leader in providing innovation and intellectual growth in the entire Post-Soviet region, but it will require a change in the current policy. The opportunity for reform is within reach.

#### **Building Ukraine's Capability in Education, Science, Research and Innovation Management**

One of the most alarming trends in Ukraine has been the steady "brain drain" of many of the most talented university graduates, scientists and engineers who continue to leave the country. As we consider the cultural and educational changes that are necessary, we must consider creating an environment that is conducive to scientific research and innovation which will then lead to high-technology job creation in Ukraine itself and encourage young Ukrainian talent to pursue their careers and remain in the country.

Even though the world of commerce and the market are still relatively new in Ukraine and the world of product commercialization still holds many mysteries for them, scientists are eager to see their developments and inventions put into use. Ukrainian scientists are seeking collaborative opportunities with investors and want to form joint ventures. The more training, experience, and exposure to the West that scientists can get, the more the country will be able to provide a stable and valuable economic environment for its people.

In order to compete globally, Ukrainian scientists need to learn how to manage scientific research and innovation in order to provide the country with economic benefits. One of the necessary features of market economies is the existence and utilization of trained business and commercialization experts ranging from MBAs to patent and corporate lawyers, from innovation managers to business development experts. Such experts are a rarity in Ukraine. Formerly there had been no perceived need for them and no recognition of the valuable, practical services that they can provide.

Since gaining independence in 1991 Ukraine's strengths in education and science have mostly been preserved, but they have not yet been utilized in a manner that will enhance the economic well-being of its people. The potential remains but it needs to be actualized in economically meaningful innovative activity. Today in Ukraine there are more than 100 thousand industrial enterprises, about 300 scientific institutes under the auspices of the National Academy of Sciences of Ukraine, hundreds of universities under the Ukrainian Ministry of Education and Science, as well as an active community of approximately 100,000 scientists and an output of 100,000 university students, young scientists and business professionals that Ukraine's schools and universities are educating each year. The enormous potential has yet to be realized in the new market economy, and it is critical to the nation's future to provide scientific, technological and business opportunities at home in order to develop economic well-being.

Collaborative efforts are needed to train future Ukrainian experts in research and innovation management in order to develop a critical mass that is necessary for these activities to get off the ground and surge forward. Over the next several years, the development of the above-mentioned critical mass should be Ukraine's major business goal. As such, it should be defined and promoted throughout the nation's social fabric and media. It is necessary that all of Ukraine's citizens become aware of this important goal and its national economic significance in order to elicit their general support for its implementation.

In recent years the government has made some progress in its policies for dealing with small businesses in the field of high technologies and innovative activity. In 2007, the Ukrainian Parliament passed a progressive law for creating a scientific park at Kyiv Polytechnic Institute. In 2009 this law has been extended to include all universities. This has opened up opportunities for faster development in areas of innovative activity. It remains for these opportunities to be maximally developed.



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## UKRAINE 2020 POLICY DIALOGUE

### Supporting Ukraine's European Integration

#### POLICY REVIEW AND RECOMMENDATIONS

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#### Recommendations and Opportunities

##### For Ukraine:

1. Establish an effective Ministry of Education based on professionalism and transparency; define and publish the government's goals and identify its policy on education and research; establish and maintain an objective group of experts on education to advise the government and the education community;
2. Fulfill the obligations under the Bologna Agreement which Ukraine signed in 2005, designed to ensure standards and quality of higher education and the recognition of diplomas among participating European countries;
3. Pass legislation that will support and encourage the best possible education and research in Ukraine through academic freedom, innovation, and integration into the world's educational standards; monitor its implementation, and provide for appropriate financing for its implementation;
4. Conduct a public campaign in support of higher standards; encourage constructive public debate on education in society, consolidate such groups, define and publicize their message, and insist on a dialogue between civil society and government;
5. Implement a policy to eliminate corruption in education; establish transparent requirements and standards for admission and the award of diplomas based on the highest values of criteria and evaluation; establish an independent group of distinguished respected experts to monitor implementation of such requirements.
6. Establish, support and finance programs of electronic libraries, digital education, and technological development, including equipment and academic data bases in schools and universities; support and finance existing electronic library programs; establish an independent group of experts to monitor progress.
7. Encourage and support the study of the English language because of its international use, and also the study of other languages as tools for international integration in education, research, governance, business, and trade.
8. Approve legislation for tax reform to provide for private support of education; liberalize laws governing university finances; provide incentives for collaborative business-academic support and programs to prepare a skilled and professional labor force, and promote innovations to lead the nation to a more competitive economic position.
9. Encourage and implement collaboration to train future experts in research and innovation management and identify it as a major economic goal that will be promoted throughout the nation's social fabric and media.

##### For the United States

1. Simplify requirements for and increase support for academic exchanges; simplify visas for study, research and training projects;
2. Support academic programs for independent research, open dialogue and analysis to improve government policy and decision making, and to promote civil society engagement; support programs in digitization and access to global academic information to educational institutions and libraries; and create conditions for U.S. and European technical assistance to implement changes in education;
3. Sponsor programs to develop corporate and individual support of universities and of the humanities, and the scientific and technological sectors of Ukraine.



# UKRAINE 2020 POLICY DIALOGUE

## Supporting Ukraine's European Integration

### POLICY REVIEW AND RECOMMENDATIONS



Official Welcome from Kyiv City State Administration, Ukraine



Civic Forum at National Institute for Strategic Studies, Kyiv, Ukraine



Expert Forum in Washington, DC with Ambassador Shamshur at the Atlantic Council



Ukraine 2020 Foreign Policy Task Force Working Session



Expert Meeting with Ambassador Richard Morningstar

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