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THE EUROPEAN UNION'S EASTERN PARTNERSHIP:
WHAT TO EXPECT AT VILNIUS

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PROCEEDINGS

MR. PIFER: Okay, why don't we go ahead and get started.

Good afternoon, my name is Steven Pifer. I am a Senior Fellow here at the Center on the United States and Europe and it's going to be my pleasure to introduce and moderate today's panel which is going to look at the European Union's Eastern partnership and specifically what might happen next week at the Vilnius summit.

Now, the European Union launched the Eastern partnership several years ago as the primary vehicle for its engagement with countries on its eastern frontier, specifically Ukraine, Moldova, Belarus, Armenia, Azerbaijan and Georgia. And a primary part of it has been association agreements which do a couple of things. One, they provide a roadmap to bring a partner closer to the European Union and they also contain a deep and free comprehensive trade arrangement. And although they don't contain membership perspectives per se, they still bring partners along or they would bring partners a long way towards the European Union.

The expectation next week is that for Moldova and Georgia the European Union will initial association agreements. And the expectation had been that there would be a signature of an association agreement with the Ukraine. But there have been certain developments in

Kiev that may affect that.

In order to discuss what's going to happen next week and EU relations with its eastern partners but also questions like how the Russians relate to this project, how the Russians relate both to the partners and the European Union, we have a very distinguished panel here. Now, you have their bios so I'm not going to do long introductions but our first speaker is going to be Carl Bildt the Swedish Foreign Minister who is one of the co-authors of the eastern partnership concept.

Next we'll have Ambassador Ryszard Schnepf who's the Polish Ambassador to the United States, his boss Foreign Minister Radek Sikorski is the other co-author of the eastern partnership. Our third speaker is Thomas Bagger who heads Policy Planning at the German Foreign Office. And then Charles Grant who directs the Center for European Reform in London.

And what we hope to do is sort of bring a spectrum of European views on Vilnius about what it means in terms of the relationships that the European Union will have with those countries to the EU's east. Before proceeding, I would just like to express our gratitude to the Victor Pinchuk Foundation whose funding for our frontiers in the Europe program provides these sorts of programs. And so, Carl, let me

turn to you for the first comments.

MR. BILDT: Thanks and it is indeed fairly interesting times. It was bound to be very interesting times in the run-up to the Vilnius summit. That is not a surprise. But of course, it has turned out to be even more interesting than I think most people anyhow had anticipated. But let's just go back in time very briefly.

As said, the Eastern partnership was an initiative taken by Poland and Sweden in the spring of 2008. At that time, we were starting to look more seriously at the neighborhood policies of the European Union. We have a longstanding, rather intense engagement with Russia on all sorts of levels but there wasn't really very much else that took care of the wishes and the needs, indeed, of the other countries in the east. Those you could say in between the European Union and Russia to answer their wishes for closer cooperation and indeed even into the integration with the European Union.

So the eastern partnership was set up. I think the formal decisions were taken in the decision of 2008 and the first summit meeting was in Prague, late spring 2009. And then, a summit two years later in Warsaw and then the upcoming one now in Vilnius at the end of next week.

I think it's fair to say that in the beginning there weren't too many people that took the eastern partnership that seriously. I think that probably applies to Washington as well and I do think it applies to Moscow as well. But over time they have seen or everyone has seen the eastern partnership developing into something that is very real indeed.

There are quite a number of different instruments to it. The civil society forum has turned out to be sort of a very vital body of dialogue between the civil societies in the different countries. And of course, conditions are notably different. Take Belarus as a concrete example, based these dialogues, dialogues on harmonization of legislation, regional cooperation and integration in different parts.

But the by far most potent of the parts of the eastern partnership have been the offers of an association agreement and what they call a DCFTA. DCFTA is Brussels speak. Perhaps you learned that particular language at some point in time. It means deep and comprehensive free trade agreement. It's far more than US free trade, important as that is but it also an element of regular convergence and harmonization which really is meant to drive the modernization of these economies.

We negotiated such an agreement fairly early on with

Ukraine that has been on hold because of other political developments that I think you are aware of and because of demands on our side that they should really sort of get their act together. On some of the legal side, the rule of the law and we've also now finished negotiations with Moldova and Georgia.

These agreements are important. There are the political parts of it but primarily the economic parts of it; to drive the modernization of these economies, to open up for their trading possibilities with what is the world's largest integrated economy and then to stimulate the inflow of FDI into these economies. And if you take in particular the case of Ukraine, I think Ukraine has or would have, however I would phrase it today, excellent possibility long-term to attract FDI as a production location. I have sometimes said the Ukraine has a potential to be the nearby China from the European point of view. But it can become that if it has the rule of law, if it has reasonable business conditions, if it has the free access to the European markets and the DCFTA is supposed to facilitate that.

I said that in the beginning perhaps not too many people took the eastern partnership seriously but I think what we have seen during the last few weeks and months is that it has been taken

exceedingly seriously primarily in Moscow. Because we've seen an avalanche of, I mean, overtly threatening statements against different countries indicating what could be done or what would be done if they went ahead in the European direction. And some of this has been on a sad, a fairly brutal nature when it comes to the language that has been used.

We saw them calling the President of Armenia to Moscow on short notice and subject to intense arguments that I am quite convinced were of a purely intellectual nature. He decided to abandon the European path and instead ask for inclusion into the Customs Union that Russia is setting up with Belarus and Kazakhstan and so forth. And what has happened since then is that all of the pressure has been on Ukraine. This morning the Council of Ministers in Kiev announced of a meeting that they will suspend cooperation -- preparation for cooperation with the European Union.

It's an interesting statement that they put up. They say national security and they say explicitly it's a question about Russia and Russian pressure. Well, as explicitly as you can be in a diplomat text coming out of the Council of Ministers in Kiev. What they've said to us is that Russians have cut trade by roughly 25 percent in the last few weeks

and months. That's quite substantial. Ukraine trade is roughly 50/50 if I remember the figures between Russia and EU. So that is what I call substantial measure and I saw that Prime Minister Azarov said this morning that the Russian measures that had been announced, were underway, was going to drive Ukraine into immediate bankruptcy and that sort of forced them to ask for the suspension.

So it is overall a fairly brutal game that is being played. Perhaps not entirely surprising but still it's worth taking notice. It has to be said that Ukraine has an economy that is in less than perfect conditions. It is probably and if you look there was a transition report coming out of the EBRD yesterday, they do this annual survey of all of the transition economies and if you look at that I think Ukraine is probably the most underperforming of all of the transition economies.

Can't blame all of that on President Yanukovich because it's been going on for quite some time but of course it's been pronounced during the last few years and what they, EBRD, says is that sort of the convergence has stalled. The reform process has stalled according to the convergence with the rest of Europe that has been there with, I mean, notably sort of Poland is -- I mean the countries are joined obviously but even the countries of the Western Balkans which I would not say are in

particular stellar shape.

EBRD say that even they, because they are in an EU process, are still part of the convergence machinery that is there but for Ukraine and others it has stalled. They've had substantial difficulties in their negotiation with IMF because they are not willing to do the things that are needed to be done in order to get access to IMF funding. They can effectively not access the internationally capital markets because they cost too high and they are now, I would hope, I was going to say that they have been promised some money from Russia because otherwise things will go very, very, very, really go downhill very fast.

Now, we know from experience that money from Russia doesn't come -- they are not in the welfare business normally. We've seen that in the case of Belarus that money comes with conditions. So what we expect to happen is that the Russians will buy up some of the Ukrainian strategic industries that will give a short-term cash injection to Ukrainian state coffers and that's obviously what they are playing on. Might be something with gas prices as well. They have been extremely high for Ukraine, it's unsustainable high with Ukraine so they were bound to come down anyhow.

I think we need to look at this long-term. I think it's a victory

because it sort of stops modernization for Ukraine, for Russia as well, needless to say so it has sort of a short-term effects but the long-term effects are going to be negative for them. And that is, of course, not very good.

I think we need to focus on what's going to happen with Moldova and Georgia who are going to initiate these agreements on Friday next week. Expect the pressure now to be applied on Moldova. What has been happening to Armenia and what has been happening to Ukraine in terms of strong arguments, not always of a purely intellectual kind, are likely to be deployed against Moldova in the next few days and I think it's important that we are very strong in reaffirming our support to their rights to take their own independent decisions on the future they want to take. The same applies to Georgia.

Long-term, there is no question that these are economies and these are nations that need still reforms, that need the modernization, that need the rule of law. And that that can be provided and eventually, I think, will be provided by closer cooperation with the European Union. But I think it has been made clear the last few days that that is not necessarily in the interest of everyone.

MR. PIFER: Great, thank you for that introduction. Ryszard,

a Polish perspective?

AMBASSADOR SCHNEPF: Yes, thank you very much.

And thank you for inviting me and to be here is a real privilege also because Carl Bildt is one of the co-authors, as Steve said, of the Eastern Partnership and I regret mostly that Radek Sikorski is not here. There's no doubt that he's a much more attractive partner for this discussion than his Ambassador.

But I must say that we are living the very special moments probably not on the -- from the European perspective of the word (inaudible) future. If I may compare the situation that I met in the past, I think that the tension before the soccer game between Barcelona and Real Madrid, it's a little bit lower, much lower than the tension that is coming to us here a few days before the summit in Vilnius.

Practically, you know the history of the eastern partnership and the great success that it became during few years. I still remember the very beginning that we had to explain what was exactly the eastern partnership and it was not an easy task to give the -- what is our aim, what really we want to do, why we chose this country and not the others and we were presented in the European Union always with the experience of Barcelona process with the Mediterranean countries and today we can

say that eastern partnership project made a great progress which was not noted in case of the Mediterranean forming.

Now, having said that I would like to say a couple of words about the Polish perspective and why Poland, first of all, got engaged in this venture. This is not only because we are neighbors although it's only two hours' drive from Krakow to Kiev, but also because of a long historical experience that Poland had being together with Ukraine as part of Ukraine. And also, because we have something that was born during the solidarity years and later when we were helped to get out of this -- that fate and join the Western European countries in the European Union that this is a kind of a duty that we have to pay back to other countries in the region.

So we consider the perspective of Ukraine as the key factor for the future of the whole region but also Europe and perhaps the world. Why is that? That's simply because the change in the Ukrainian position, signing the association agreement with the European Union at Vilnius would probably force other countries in the neighborhood to take another path and to modernize in country according to the world standards.

It may put into jeopardy the ruling class, the lobbying groups and change the whole political and economic future of one of the most

important partners of the United States in the world's politics. So, what is the situation today?

Probably this is one of the less predictable moments in our days. I would say that I'm naturally optimistic and I've been telling several times to my friends and to Minister Sikorski as well that finally we will have an agreement because it's good for Ukraine, it's good for Ukrainian people and the President Yanukovich probably he understands that.

Today, I must say, my optimism is dropping considerably. And for this makes us think or put the question why. If the perspective created by the European Union is so attractive may change the future of one of the biggest countries in the European space, why this path is so difficult and even if there are brutal pressures put on the Ukrainian authorities, why they are not opposing them strongly enough to get something that a couple of years ago looked impossible. We all know that the European history is full of such situation that at the very beginning, we think this cannot be changed. Like the whole central European political, economic and social situation.

And eventually we did get this change and we changed the history of Europe. Why Ukraine cannot join us in this European modernization process and change the people's future? This is the

question I should -- you expect me probably to answer the question but this is the question that probably in the second turn we will try to answer.

But what is the key problem is that our important neighbor which is the Russian Federation did not take from the very beginning this purely non-aggressive project which is the eastern partnership as a positive one. It was from the very beginning seen as an obstacle and a dangerous project for the plans and ideas that were born in this country.

Were we not convincing enough? Didn't we use the good arguments to explain that at the end this is also a great possibility for the Russian Federation? And offering the partnership and the membership in this project to Russia, we were very hopeful it would be taken that way, understood as a friendly European project to modernize the country, to get rid of corruption, to modernize the (inaudible) system and to embark on the path of real democratic change.

We probably failed. We were not right thinking that this would be that easy. Thank you very much.

MR. PIFER: Thank you, Ryszard. Thomas, what's the view from Berlin?

MR. BAGGER: Well, I don't want to repeat too much of what's already been set out. Just two points maybe. I think the first is that

as technical as those two agreements may sound, association agreement and the DCFTA, sort of deep and comprehensive free trade agreement; they really do represent the potential to transform those countries. To give a sense of orientation not only to their economies but really to the societies and I think that is sort of, that's the big pull factor of Europe. That is what makes it attractive.

It's the integration into the large, integrated economic sphere and that sense of modernization of a more broader modernization not only for the economic sector for business that comes with it. But of course, there's not only a pull factor. There's also costs involved.

And I think it's useful to look at the cost side as well when you think about those countries. And I think there's a short-term cost and that's adapting the way you do business to with a much more competitive environment in the European Union. So and there have been discussions how you can offset that, how you can help companies in these eastern partnership countries to actually get over that hurdle quickly, to limit the disruption to the overall economy. That's the short-term cost.

Then there's a political cost that both of the previous speakers have alluded to. And that is the way the Russian Federation looks at the whole project and that they clearly look at it as something of a

competitive integration when they say it's either or. And if they go that path of the association agreements with the European Union that means they don't go with us into the Customs Union, Eurasian Union and that's why it's bad. And that's why we need to oppose that. And we do that by those instruments and methods that we're used to and that Carl Bildt described as not intellectual only.

And then there's a third cost that I think we should not underestimate. What these agreements would do, is that they would bring a degree of transparency and accountability with all the rules that go with it that would indeed transform the way a country like Ukraine is being run. And that is not necessarily in everybody's interest in the Ukrainian elite today; both political and economic elite, although those two are very often closely linked and intertwined.

So when we look at, you know, what could inhibit a successful outcome in Vilnius next week, what might drive Ukrainian leadership calculations, there is certainly an element of all those three of the immediate competitiveness cost of signing the agreement, the political cost of burdening if not ruining relations with Russia and facing heavy pressure, economic retaliation and otherwise. But also the cost of signing on to an agreement that is meant to transform the country and the way it is

run and that of course would cost a lot of the rent-seeking class a lot of the rent that they have been reaping in the past.

And I think that is an important element that we should keep in mind. With the way I look at these agreements also, I've had one of these parallels that, you know, sometimes you're smarter in hindsight than you were when you signed something like that. Think of the OSC CSC Helsinki agreement in the 1970s. You know, what that became was sort of a -- it was a benchmark, a reference point for those who wanted reform and who wanted change.

The elites in those countries looked at the CSC basically as cementing the status quo and it took a long time to get over the status quo. But in the end, that reference point of Helsinki really helped as a beacon and as a benchmark, helped activists and reformers to transform their own countries. And that's partly the way I look at these AA and DCFTAs. Once signed they would become a reference point for those in the eastern partnership countries who want modernization. That's not everyone but there is a group that wants it.

And so, I think the bottom line for us in that that we should, you know, we should make it very clear from here to Vilnius and beyond Vilnius that it's the free and responsible choice of those countries whether

they want to become -- whether they want to sign those agreements with the European Union. We'll keep that door open even if Ukraine decides not to sign next week. I think that offer is on the table, will remain on the table.

And I think at the same time there is -- we should keep that - - not open door as one part but tough love as the other part. We've made it very clear for a long time now what the conditions are to sign and I don't that we should take those conditions off the table easily now. And we should also be very clear about the responsibility about what happens next week. That is, the sovereign decision of the Ukrainian leadership.

There are things we have been discussing with them about pressure from Russia. We've made it very clear that we consider that unacceptable also with OSC principles. But on that other question of what they need to do to actually be able to sign it and to have the Europeans on the other side sign the agreement, we should be very clear about where that responsibility within Ukraine rests. Thank you.

MR. PIFER: Thank you. Charles.

MR. GRANT: Well, I agree with what Thomas said just now. I mean I think what we've learned about -- what we've learned today is that the Ukrainian political and business elite is not yet ready for European

integration for the reasons Thomas explained. They've calculated their cost/benefit equations, at least in the short-term they're probably right. I mean if the short-term if they had signed, Russia would have wreaked havoc on the Ukrainian economy. A lot of people would have lost a lot of money and output would have fallen.

So in a sense the Russians made the stick so big that if I was a Ukrainian oligarch I would probably would have told Yanukovich not to sign because I think that's what the Russians managed to do by producing these threats and which were seen to be credible. So I think they're pursuing their own short-term self-interest and there's a difference isn't there with Georgia and Moldova.

In those countries, the elites or at least enough of them, are more or less ready for European integration with the costs that it will bring and the difficulties it'll bring. And Ukraine hasn't got that way. And in the long run it's really got to be the Ukrainians themselves who produce elites who want to integrate. You can't be blamed I think for what's happened.

I mean, just a word on the Russian position. Of course, the Russians claim that they were not really consulted about the DCFTAs, weren't briefed on them in advance. And if you talk to EU officials they say that the EU did put the DCFTAs and the associate agreements on the

table at the many EU/Russia summits. But the Russians didn't really kind of pick up and read them and notice them and weren't very interested. Then suddenly they read them quite recently and got rather agitated about it.

And I do think the Russians have half a point or a quarter of a point in that the EU has kind of proceeded in the kind of process driven way it works and just assumed that the Russians would have to lump it. And the Russians do have concerns about the impact the DCFTAs on their own trade patterns.

Now, I think those concerns are greatly exaggerated. Putin told the Valdai Club which is a group of think tankers who meet him once a year in September, you know, that if Ukraine signs the DCFTA, EU goods will flood into Ukraine's markets, wipe out Ukrainian industry and so, the Ukrainians will dump all their own goods on Russia's markets at great cost to Russia. And he also said that Spain and Italy would send their cheap, bad wine into Moldova. It would be relabeled as Moldovan wine and then dumped in Russia.

Now, I'm sure those fears are greatly, greatly exaggerated but the point is the EU, probably with hindsight, should have done a bit more to say to the Russians, let's have a joint impact assessment. What

will be the impact of the DCFTAs on the Russian trade flows?

The answer, my guess is would have been not very negative at all or perhaps not very negative. So I think, you know, that perhaps should come in the future. We could go back to the Russians and say look, you're greatly exaggerating the downside. Let's be rational and see what the evidence is and try and work out what the impact would be.

Of course, the DCFTAs arose at a time when Putin himself is trying to develop the Customs Union into something serious, the Eurasian Economic Union and I think people in America and Europe have been too dismissive of the Customs Union. It's a real organization that does stuff. It affects investment patterns in say Kazakhstan. The Kazakhs take it very seriously. I've talked to them about it.

And the EU tends to say, well, we're not going to talk to it because we'll talk to Russia and we'll talk to Belarus or Ukraine. They won't talk to the Customs Union. I'm not sure being so snooty towards it was really a particularly good idea. Maybe we should offer to talk to it.

So there is the sort of geopolitical side to the Customs Union. Putin actually said at Valdai, if we can get Ukraine into the Customs Union then we're in a stronger position to negotiate and FTA with the EU between the Customs Union and the EU.

There's also an emotional side to what Russians think about Ukraine, of course, and at Valdai I tried to ask Putin what I thought was kind of a trick question. I said to him, Mr. Putin, what kind of country is Ukraine? And I ask this because at the Bucharest summit some time ago, the NATO enlargement summit, I believe he said in private, the Ukraine isn't a real country. It could break into several bits or something like that.

So I hoped I might get him to repeat that. He didn't cause this was on the record but he did give quite a revealing answer. He said Ukraine has a sovereign to choose between the Customs Union and the EU. Sovereign and independent state, we respect this of course but, but we should remember that Kiev is the cradle of our common history, our traditions, our language, our culture, our mentality. So we are one narod, one nation, he said.

So I think, you know, this isn't just Putin. Most of my liberal Russian friends would say the same. We should remember that Russians don't accept Ukraine as really a proper independent country. They really, many of them don't which means that Putin can adopt these bully boy tactics which he has done without being particularly unpopular.

Just, finally, on the EU itself. I think the EU deserves half a pat on the really. I don't think we can blame the EU for what's gone wrong

today. The important thing for the EU is to stay united and again, Carl just tell us, but I think the EU has been just about united on this. There have been some wobbles. Last week I heard that the Spanish are being nobbled by the Russians. I heard that the French didn't want to go ahead with the deal because it could lead on to a membership application from Ukraine. But actually, when the Foreign Ministers met two or three days ago, I believe they were more or less united behind the tactic, is that right, Carl? Yeah? Okay, good, glad to hear it. And they have pursued the --

MR. BILD: I won't say anything else.

MR. GRANT: They have pursued the Kwasniewski-Cox initiative, you know the Pat Cox, the former European Parliament President Kwasniewski, the former Polish President together been doing this sort of informal diplomacy between the EU and Ukraine. And I gather it's -- I mean it hasn't produced the result we wanted. It's been an effective channel that's been worked well and everybody on all sides has had confidence in this.

So I think the fact that the EU has stuck to its conditions it's not abandoned conditionality, at least not all of it, is good. And even the Cypriots apparently went along with this policy with vis-à-vis Ukraine. They're often people who don't like to take a common position vis-à-vis

Russia that the others do. But the Cypriots went along with it so I think that's to everybody's credit.

And perhaps later in the discussion we can come on to what this means for the future of the neighborhood policy should the EU adapt or change its neighborhood policy. But let's come back to that later.

MR. PIFER: Great. Well, thank you. Thank you all for opening comments. Let me -- Carl, did you want to?

MR. BILDT: Just one thing. I think I'm in slight disagreement in the sense that if you look at the Ukrainian business interest that we have had a rather extensive dialogue with over the years, I would say the overwhelming majority of them are very supportive of this but not everyone. And there are some who are very close to the now ruling elites and are more or less, if I might use that phrase in bed with them. And those are the ones that primarily the energy sector but if you take the entire manufacturing sector, they've been pushing for this particular deal.

If it takes an argument which is pursued by the Russians at the moment that they were not ready for the competitive pressures, go back to immediately Yanukovich was elected; he was not very keen on this European integration stuff. And I remember a long conversation

where he said, well, it could be a very big problem for core industry because it's not competitive and things like that.

Then they looked into details of it and came to the conclusion, yes, we can do it and it's going to be positive for us. There's going to be a short-term adjustment cost but they looked into what happened. Take Poland for example. Bloody uncompetitive economy when they started to enter the European Union. Was that much of a worry? Look at the other example, look at Turkey. When we took them into the Customs Union in 1995, '96 completely uncompetitive, lousy economy they had. They did have some -- but they had a financial crisis also in 1999, 2000 for the other reasons. But the competitive pressures made them into one of the more competitive economies of Europe.

They've been sort of the -- Poland and Turkey has really been the star performers, apart from someone else, star performers of the European economy during the past 10 years and that is because of these particular things. That's an argument that I think Ukrainian, most of the manufacturing and economic elites in Ukraine profoundly believe.

But what's noting what they are saying now also in their official statements. It wasn't that. It was the fact that the Russians were brutally cutting links, brutally cutting links that drove the economy down.

And since they have a weak economy anyhow, so it's a way of behaving that we haven't seen on the European scene for a very long time indeed.

AMBASSADOR SCHNEPF: I know that everybody is wishing to go to questions but I would like to add that this example that Minister Carl Bildt just presented, I would like to add the agriculture. That we are all very scared at the very beginning and the Polish agriculture today is the strongest part of the Polish economy. It's pro-export; the most modernized part of the economy is agriculture surprisingly.

MR. PIFER: And I think you actually pointed out a really important distinction which is the short-term economic cost adjustment versus those long-term gains as an economy becomes more competitive. And I think one of the problems that the European Union has in its partner in Kiev, is the Ukrainians I think tend to think much more short-term than long-term.

MR. BILDT: But there was also short-term gain and market access.

MR. PIFER: Yes. Okay, why don't we go ahead and open up to questions? If I could ask, identify yourself and affiliation, keep questions short and please have a question mark at the end. Right over here and the microphone should be coming, yes.

MS. GILL: Thank you. Irina Gill, Macedonian TV. Mr. Bildt, welcome to Washington again. I asked you the last time, I'm going to ask the same question. What about the Balkans, the Western Balkans countries? There is some unfinished business over there. Will you grant Macedonia a date of open negotiations with the European Union after fifth recognition from the European Commission and grant candidates that is to Serbia?

MR. BILDt: No, yes. Unfinished business in the Balkans, yes. That's the case. So today is the 13th year anniversary of the Dayton Agreement. Sorry? 18? Well, anyhow, a lot of years. A lot of years, but I mean you can also focus on the fact that the Balkans in moving forward. Nearly all of the countries are now in accession process.

I mean, Bosnia is the exception. Macedonia is also an exception for other reasons. So I wouldn't be unduly pessimistic on the Balkans. It might be moving somewhat slower than we would wish. Certainly slower than I would have wished. But it's moving. And I was taking some encouragement from the transition report provided by the EBRD yesterday that said that, I mean their basic message was transition is now lagging behind in the transition -- convergence is stalling. But they said, whereas the Balkans is after all moving forward. And I'm keen that

we get steps for all of these. That we begin accession conversations with Serbia, move Kosovo candidate status, Albania and then find some way of getting the Bosnians to be constructive as well.

MR. PIFER: Okay. Up here in the front.

MR. KOLOSKI: Meto Koloski, UMD. Sort of similar on this Western Balkans but for Dr. Bagger here, for Germany, Angela Merkel recently met with the UN named negotiator on the Macedonia-Greece dispute Matthew Nimetz a couple of weeks ago which adds an impetus to these negotiations. Do you see any movement and can we see Macedonia get into the EU during the Greek presence, I mean, launch date for accession talks from the German perspective?

MS. TURNER: Thank you. Inga Turner from Polish Press Agency. Actually I have a question on Ukraine. As it's obvious now that there is no point to negotiate with President Yanukovich the question is what is the next step? And how European Union now should proceed to freeze the talks or wait until the next year elections? Thank you.

MR. PIFER: Okay. Thomas, do you want to take that first question and then --

MR. BAGGER: Well, on Macedonia I really don't have much to add. You know, we would like things to move forward and that was the

reason for her to hold that meeting actually. But there's no specific progress on the ground that has been made that would put me in a position to say, you know, that's a realistic perspective what you set out during the Greek presidency. It's just not, I don't see it.

MR. PIFER: Okay. And on Ukraine, do we give up on Mr. Yanukovich?

MR. BILDT: Well, we don't give up on Ukraine. I mean, our policy remains the same. Our door is open but it's up to them to go through it. We're not going to close the door. The door remains as open as it's been all the time. But it's up to them, the politics of Ukraine to make up their mind. And I think the politics of Ukraine has got to be a fairly interesting place.

I mean I saw briefly as sort of the headlines in the Ukraine press this morning as Black Thursday, in sort of big, big letters. And that sort of shows the feelings that are there.

The big thing is, of course, the presidential election in 2015. But 2015 is 2015. So I think there will be a lot of waters flying through Dnieper in the meantime. And might not only be water by the way.

AMBASSADOR SCHNEPF: Just to add I agree of course that the door should be open, kept opened for Ukraine. Now, the

difference is that if they sign the agreement, imagine this situation still it is possible. We might expect the immediate result and reaction from other countries next day practically. So Ukraine probably would feel immediate response to its bravery and courage to signing the agreement with the European Union.

In case of not signing, this is the bad factor. Is that the European Union, of course, is not acting that way. They would feel the results probably in the long perspective, in the long-term results. So the next day there could be a disillusionment but not the economic breakdown or other crisis situation that signing might provoke within a business with Russian Federation.

MR. PIFER: Okay, Anders Aslund?

MR. ASLUND: Thank you very much. Anders Aslund, Peterson Institute. I have a question for Carl Bildt. You mentioned that you suspected that Russia would not use only intellectual pressure towards Moldova. What do you think realistically the European Union can do then in order to support Moldova? And I would also like to draw out our Chairman, Steven Pifer, with the same question. What can the United States realistically do if Moldova comes under heavy Russian pressure? Thank you.

MR. BILDT: Well, on Moldova what they had already done is that they had declared Moldovan wines to be dangerous suddenly. And what we have done is to dramatically increase the quota for Moldovan wines to be imported to EU. So been trying to give them sort of the possibility to access the EU market with wines. There was already wine quota but we have increased that particular one.

Now, we can't really sort of order our consumers to suddenly buy Moldovan wines. It doesn't really work like that. But anyhow, that's something. And we would certainly be prepared to look at other instruments as well.

What the Russians have been threatening and I am not disclosing any secrets because they've been pretty sort of straightforward with it, they've said that it's going to be a cold winter which is a threat to cut gas supplies. Not quite certain they will do it but I mean they've been threatening to it. They've been also talking explicitly about sort of expelling Moldovans from Russia. There is a lot of Moldovans working in Russia in the Russian construction sector and otherwise and that's important for the Moldovan economy.

But first thing said, (inaudible) as a whole. So by expelling them it would have the double effect. No money going home but them

coming home and adding to a rather difficult situation. What we can do in that respect, I don't know. But clearly this is something that we will think very carefully about what we can do because what we've now seen in Armenia and Ukraine makes what I'm saying here, that pressure will increase in Moldova, one of the least controversial predictions we can make. I mean, it's going to happen.

MR. PIFER: Okay, Anders, I can't speak for the US government. But I'd make a couple of comments. One is, I think that there will be in Washington support for the view that countries such as Ukraine, Moldova, they have a right as a sovereign state to choose their foreign policy course. So I think there would be a push back to the extent that there is really brutal Russian pressure.

I guess I think two other things. One is, I would expect that there would be a lot of close coordination between Washington and Brussels because of the extent that there is a common US/EU line, in particular, I think in these cases where the European Union probably has more tools. But having that common line, I think, would be very useful.

And then finally, I would hope that if there was economic pressure on Moldova that there might be ways that the United States with the European Union, that they could look at how to relieve some of that

economic pressure. Are there ways, for example, being more helpful with the IMF to get a bit more sympathetic treatment and there are maybe some tools in that regard.

AMBASSADOR SCHNEPF: I may say something. Some years ago we were helping our Georgians friends drinking Georgian wine. Now we are drinking Moldovan wine.

MR. PIFER: Okay.

AMBASSADOR SCHNEPF: So keep it that way.

MR. PIFER: Very good. And we have the Georgian Ambassador here in the front.

AMBASSADOR GEGESHIDZE: Thank you gentlemen excellent observation of the developments around eastern partnership summit in Vilnius. I have very short comment and then I believe a question.

In these days Georgia is seen as a kind of lesser victim of Russian pressure than Ukraine and Moldova. And in fact, in the short-term it is so because trade restrictions, embargoes, they really will and can hurt the economies of these two countries. But what is Russia applying to Georgia? Which is what we call borderization. This is something which in the long-term will have even more heavier implications

for Georgia as physical separation of the people along the conflict divide will kill the very prospect of reunification of Georgia. So this is something very important, too. That's why we always urge our friends here in Washington and in Europe to underline this very important thing that always support Georgia in this regard.

And now, my question is about how whether or not this momentum with which is created on the part of the European Union and here in Washington to push for making this to happen, this Vilnius summit successful in terms of also Ukraine and first and foremost Ukraine signs this agreement. Whether or not this momentum will sustain in the future if the signing of the agreement on the part of Ukraine will be delayed indefinite bit of time and what implications this may have on support for Moldova and Georgia in this regard. To what extent the European Union and the western community as a whole will remain this resolute and this supportive and this strongly motivated to help this country's moving towards Europe. Thank you.

MR. BILDT: I think at least immediately it's got to increase support for Moldova and Georgia. Then part of the question why isn't the same pressure applied on Georgia so far? I think the answer to that question is that it's already been done. During the last few years, they've

been doing everything they could in terms of economic pressure on Georgia with very limited effect, by the way.

So the instruments are no longer there to the same extent in the (inaudible). Borderization I agree we've been very explicit on our views on that. I think that's related other, the long-term policies that Russia has versus Georgia.

MR. YAKOBASHVILI: Thank you. Temuri Yakobashvili for the German Marshall Fund. My question is about the European foreign policy and American foreign policy. We have a kind of déjà vu like Georgia. I'm a Georgian of course and we've heard and seen everything that you just listed. You know, frozen winters because of suddenly blown up gas and supplies, deportation of Georgians from Russian federation and ethnic ground, economic embargo, talks about open door that we still cannot find the NATO open door that's supposed to be either in Brussels, in the US or in France and it's a fastly moving target and finally war with Georgia, between Russia and Georgia.

So you knew of it. You knew how Russians may react. So I am surprised that you are surprised. And of course it's very comfortable to blame Ukrainian government and probably that's -- it has a good reason for that. But my question is about foreign policy of European Union and

the United States. When you know how Russia may behave what will be your lessons learned for after Vilnius summit? How to treat this Russia's neighborhood knowing that Russians when they say they will react, they will react. Putin can be kind of praised for that is whatever he says it, he means it unlike some other leaders.

MR. BAGGER: Can I half answer that question? I do think the EU does need to rethink its eastern partnership and its eastern neighborhood policy. As I said already I don't think the EU can be blamed for what's going wrong but with hindsight there's probably some things to learn.

The eastern partnership is largely seen to be about regulations and some people say that the DCFTA would actually mean that Ukraine adopts 90 percent of the acute (inaudible). I don't know if that's really true. I don't quite believe that but that's what I was told today. Certainly a lot of regulations that aren't necessarily hugely important.

And so, it's seen a regulatory system rather than a political system and I think the eastern partnership needs to be more political, more focused on governance and the quality of politics in the country's concern. And the conditionality shouldn't just be have you implemented this widget regulation in the way that we say you should implement. It

should be, you know, how free is your press?

Now, I just note that my colleague Ian Bond pointed out to me that if you look at some of the key indexes which measure progress in the neighboring countries like Ukraine, the transparency international corruption perceptions index, the human development index, the freedom house index and so on, the ease of doing business index, the eastern partnership has been going for five years. And Ukraine has not progressed in these indexes. So something hasn't been going right in the eastern partnership which should have been going right.

So I would say we need more emphasis on political results and a bit less emphasis on compliance with not terribly important regulations. I also think maybe we should have done more on the public outreach. I don't actually know but I suspect that we could have done a better job in explaining to the Ukrainian people how good the eastern partnership would be for them. I may be being unfair but I'm not aware of massive efforts to go around on a kind of road show explaining all that.

MR. YAKOBASHVILI: I'm sure they had one. (inaudible) government was doing, it's very strange but its partner was doing it.

MR. GRANT: Okay, well, I'm glad to hear that and I do think also we need to think more about civil society. Most of the money in the

eastern partnership goes to governments and government organizations. And they've -- it's changing a bit and recently there's been more money going to civil society but I'd say much, much more to civil society and a big, big element of the eastern partnership should be exchange programs.

I know there are some but the numbers are limited. If you had tens and tens of thousands of students coming to Western Europe or Eastern Europe, indeed, from these countries that'll be more effective. So I think there are lessons to be learned about how to improve the eastern partnership. But on the basic question how do you stand up to Russian bullying, well, be united. If the Europeans are united and they work with the Americans and they are as tough and realist as the Russians are, that's all one can say.

MR. PIFER: Let me take the moderator's prerogative and impose a question because we're now an hour into this discussion which has focused a lot on Ukraine and the one name that hasn't come up is Yulia Tymoshenko. Now, President Yanukovich has said several times over the last few months that if a law comes to him from the Ukrainian Rada that would allow her to go abroad for medical treatment, he would be happy to sign it.

Well, today, the Rada voted six times on laws and each time

it failed. And each time it failed because Mr. Yanukovich's party withheld its votes. So maybe Thomas I could ask you, because I know your government has been outspoken regarding this case, how big of a factor is that still in terms of EU engagement with Ukraine?

MR. BAGGER: Well, I think, I mean as I tried to say earlier, the Foreign Ministers met about a year ago, I think, last December and set out the benchmarks for actually signing these agreements with Ukraine and they were pretty explicit. And this was not one benchmark and it was not about Yulia Tymoshenko as a case. But it was a whole range of benchmarks, electoral law, you know, political justice and Ukraine actually did quite a bit on a few of them over the course of that past year.

But as Chancellor Merkel said in her, sort of, to the Bundestag, to German Parliament on Monday in a declaration of German government policy, she said a political justice is one of these areas and Yulia Tymo -- the case of Yulia Tymoshenko is a symbol of that. So I think it would be, you know, it would be wrong to say that it doesn't play a role but it's quite clear that this was not this -- you know, it's the most publicized of all of these benchmarks, if you will. But it's not the single one case.

But it's also true that we have made it very clear to the

Ukrainians that they have to move on that issue as well. And there's been a lot of back and forth in Kiev over the past month and weeks and Charles alluded to the Cox-Kwasniewski mission and I think it speaks for itself when you say that they've been there 26 times and I think are now on their 27th visit to Kiev. Sort of trying to find an acceptable solution, the German government has declared its readiness to help with the appropriate medical care for Yulia Tymoshenko if such a -- if that is being -- if that is a proper exit strategy for the Ukrainian government also for that problem.

In that end, that rests with the political decision makers in Ukraine and as you've said they have not been able to resolve that. Not in the way of a partial pardon, not in the way of passing a law in the Rada and that is to, you know, to a remarkable degree the result of the behavior of the Ukrainian President and his party, Party of the Regions in the Ukrainian Rada.

MR. PIFER: Carl, did you want to add something to that?

MR. BILDT: No that speaks to Charles' point. Charles says we should be devoting more attention to the political issues. A lot of people would say we've been doing too much of that because in Ukraine, that's exactly what we've been doing. We've been pressuring them on election law because it was not an acceptable one according to

reasonable European standards. We've been pressuring them on the legal system, notably the prosecution system which had a distinct barrier quality to it which was incompatible with reasonable standards of any sort. And we've been saying selective justice is simply not acceptable.

So we've been very explicit on the political criteria. And by the way, the same with the Georgia. We've said selected justice is not accepted. Forget about it because you're going to end up in the Ukrainian situation if you pursue that political path. So I would argue the political elements have been more in the forefront of our dialogue with these countries during these years than all of the key stuff. That would have come later.

MR. PIFER: Ryszard?

AMBASSADOR SCHNEPF: Yulia Tymoshenko herself said that she wouldn't like to -- she would like Ukraine to sign the agreement without taking her case as a key factor. But of course, it's a very novel position of a person that is involved. At the same time Alexander Vishnevsky who happened to visit Washington several times during (inaudible) I could see him getting frustrated month by month. And believe he's a politician probably with the best contacts in Ukraine from many years on.

And it looked like what I've heard that personally, Yanukovych would agree with some changes but the pressure on some other -- not that politicians but business people that had a kind of a personal war with Tymoshenko, the pressure from their part is not allowing him to go farther and to fulfill some of the promises he gave.

MR. BEARY: Brian Beary, Washington correspondent for Europolitics. I'm just wondering, don't you think the panel is being a bit too easy on the EU here? I mean, you know, they started off with an eastern partnership of six countries now there's four and counting. You know, Moldova is the next target. It's getting less and less and this is happened very, very quickly and this sort of EU attitude that, well, it's their choice and we just have to sort of step aside and let them take the decision, the consequence of that is that the eastern partnership is rapidly dissolving.

MR. BILDT: No, I of course fundamentally disagree with that. Because I mean go back when the eastern partnership started we had virtually no relationship whatsoever with these countries. They were nowhere in terms of our relationship with EU. Then we've gone, I would argue, go back to the spring of 2008. Had I envisioned at that time that we would be ready to offer DCFTA agreements with these countries in view of some of the reluctance obviously inside the EU, no, I think we've

gone much faster than I anticipated.

And I think we have made progress with all of these particular countries with one exception perhaps, with one exception to be precise, where we have done virtually nothing. But all of them have made progress. I mean if you take these particular criteria with Ukraine, they have made progress. Election law, prosecution system, quite a number of the economic things, certainly not as much as we wished but they are certainly have made significant progress if I compare with the situation in the spring of 2008.

AMBASSADOR SCHNEPF: And we have to take into consideration the fact that these last years were not the best years for the European Union for many reasons; particularly from the economic point of view. To develop the policies at the same time having the -- the Arab Spring on the other border to where the eastern neighbors was not an easy one, having those countries in the European Union who naturally are engaged on the other front.

From that point of view, the results of the eastern partnership are remarkable. And even if the one country signs an agreement and the European Union will be able to show that it's working, that it's getting a farther progress would be a great one, great achievement.

MS. HILL: Thanks. Fiona Hill from Brookings. I think in many respects the progress is, in what we're talking about now the fact that the Russians clearly see this as showdown at the Vilnius corral, I mean basically this wouldn't be happening if there hadn't been this kind of progress.

And I'd like to bring in one of the aspects that we've been skirting around here which is the issue of trade. Because I mean what we've been talking about I think is what Anders was trying to perhaps in his question is most of the instruments that the Russians have been using have been trade instruments. And this is what they, obviously beyond the war with Georgia it was really what the Georgians first experienced. And one element of that is obviously people and migrations of people. So it's visa, it's trade, it's writtences, it's all of the things that come with access to markets.

We've got a whole host of other big discussions going on right now about trade. TTIP with the United States and Europe, there's the TPP that the United States is working on in terms of the Pacific. Europe has a whole host of trade negotiations but Europe also has a big economic dialogue with Russia. So is there not some kinds of questions here about how we proceed with the Russians on some of the similar

issues.

The Russians always use trade instruments against countries mostly bilaterally. It's been American chicken wings. It's been bulbs from the Netherlands. It's -- every country here has at some point had something imposed against it. Isn't it time, perhaps, to have a discussion with the Russians about the dangers of using these instruments at a time when the Russians are trying to build up a Customs union where presumably they're trying to get over these kinds of obstacles?

MR. GRANT: I think that's right, Fiona. I mean the EU for a long time has been in theory negotiating a new partnership and cooperation agreement with Russia. It kind of got stuck years ago. It isn't going anywhere now because the EU wants to attach human rights clauses because Russia didn't want to open its markets more. Now, Russia's in the WTO. That does change things a bit because the EU always used to say to Russia when you're in the WTO we can then negotiate a free trade, a full free trade agreement with you.

The EU's current line is we don't want to do that anymore because Russia isn't following WTO rules. It signed the WTO stuff but isn't actually implementing the rules which puts the -- that puts the EU off.

And Putin got asked a question about this at Valdai this year and he said well, the EU stays an FTA means even more liberalization than the WTO but that was enough for us. We won't accept WTO plus said Putin.

So I think Putin doesn't want to open up anymore. But let me just finish with some more optimist -- possibly an optimistic note. There are many people in the room know much more about the Russian economy than I do but it seems to me the outlook is pretty awful for the Russian economy. Growth instead of being sort of four, five, six percent like a few years ago is down below two percent. It's not going to go up as far as I can see because there's a massive diminution of investment both foreign investment and domestic investment.

This means that Russia's not going to grow. It means problems for their budget deficit and so on. And I just wonder if this really gloomy economic outlook for the next years in Russia, how will that impact on Russia's relations with America, Europe, Ukraine and so on. They could go two ways. They might think we need help. We need some foreign investments. So we actually -- the faction inside Russia that is a bit more kind of for rule of law a bit more for economic openers might win some of the argument to say we need foreign investment, we need to have a better relationship, we need more trade with the West and so on.

Or it could go the other way and they could just become more and more autarkic and more insecure and more introverted.

I don't know but possibly if it goes the right way the economic slowdown could make Russia more open to working with the West and therefore more easy to deal with when it comes to Ukraine.

MR. PIFER: Thomas?

MR. BAGGER: I have one reaction to Fiona and also to the colleague who said, you know, isn't the EU failing if it loses a country like Belarus and now Ukraine. Although, I would not subscribe to the notion that we lose Ukraine simply because there's no signature next week. I think that's far too early to tell. I'm also not sure that they will actually, sort of that this is an either/or from the Ukrainian side and they would choose Russia instead.

But one argument I would like to make is on a, of course, there is a lot of frustration with the Russian pressure also on the European side. But I think on a more general point, the way the European Union works here in these kinds of relationship is by incentive and not by coercion. And that's a fundamental difference.

The European Union can also be coercive when it agrees on sanctions as it has in the case of Belarus, Belorussia, Belarus. But in this

respect I don't think that threatening future trade relations with Russia in order to prevent them from threatening trade retaliation against Ukraine is the way the European Union would work and should work actually.

I would rather say, this is frustrating at the moment and for the time being. But I would also consider the Russian perspective and the Russian actions to be, in many ways, very shortsighted. It's a very short-term interest calculus. You know, it might prevent something from happening in Vilnius but that does not necessarily mean that, sort of, the Ukrainians would subscribe to Vladimir Putin's that they are one nation and somehow are inseparable. Rather to the contrary.

And I think as Europeans we should not underestimate the rather long-term attractiveness of what we have to offer. And that is in the end rules and regulations and as a rules based order, a rules based society. That is the most attractive thing we have to offer. We're not in the escalation business and getting into a fight with Russia here.

MR. PIFER: Okay.

QUESTIONER: I have a question about Moldova again. The word Transnistria was not pronounced here. So I wonder there is this knife in the body of Moldova that Russia holds and can turn any moment. So is there anything can be done about it to prevent because if that is

enacted then I don't know how agreement can be accomplished.

MR. BAGGER: The word "mezaback" has not been pronounced yet so.

MR. BILDT: No because Germany has been very, sort of reactive on the Moldovans (inaudible) and trying to get movement on that.

MR. BAGGER: And we got less than we had hoped for.

MR. BILDT: That's, you are a diplomat I can hear. No, but we have to be alert to it because things might happen and that's another card that could be played. And they have the whatever is it, First Deputy Prime Minister Rogozin nowadays. Deputy anyhow and he's also the special representative for Transnistria and he's been spreading word on different things that we should listen attentively and be prepared to react to as well, I agree.

MR. GRANT: On that, I mean, I read a very good paper by Anders Aslund on this recently and he says only 17 percent of Moldova's exports go to Russia. And 65 percent go to the EU which limits the damage they can do to some extent on Moldova's exporting but of course 100 percent of Moldova's gas comes from Russia unfortunately.

There is next year a pipeline due to be open between Romania and Moldova which will reduce the Moldovan dependency on

Russia. And I met yesterday somebody who just met Mr. Shevchuk the Prime Minister of Transnistria and apparently he's of Ukrainian ethnic origin. He's not a Russian stooge. He doesn't want Russia to recognize the independence of Transnistria.

So and the person who met him who was a US diplomat seemed to be quite encouraged by the Shevchuk regime in Transnistria. So hopefully that'll reduce the ability of Russia to squeeze that particular thing.

MR. PIFER: Back in the back.

MR. WEINTRAUB: Hello, I'm Leon Weintraub, University of Wisconsin. I'd like to follow up what Mr. Grant said before about civil society. And in the face of all these brutal or repressive measures we've heard about coming out of Russia, would there be much value in ramping up exchanges in the whole range of civil society fields such as academics, business, journalists, rule of law specialist or other people of this nature?

MR. BILDY: No, we do a lot of that but that is not saying that we could do more. I think Vilnius end of next week, the most interesting part of Vilnius might as a matter of fact be the civil society forum which is on the Wednesday or Thursday, I forgot. Wednesday, I think. The day before. And that's going to be a slightly more dynamic place I would

guess after what has happened today.

And there was some reluctance has to be said by some of the eastern partnership countries as you would guess to have (inaudible) civil society forum. But it's been growing in importance and it does have traction in the internal debate of the respective countries.

MR. CHAKUSHIN: Dmitry Chakushin with the Russian Embassy. Gentlemen, I hear some frustration in your voices, well, you know, usually when things are kind of not the way you expect you try to accentuate the positive, eliminate the negative or shove it off on somebody else. In this case, we kind of feel, you know, lots of things about Russia and Russian pressure on its neighborhood and other parts of the world, things like that. Again, I was invited to the event which was called what to expect from the Vilnius not the pressure of Russia which is every sentence.

As a representative of the Russian government I can just assure that Russia does not exert any pressure on its neighbors and definitely we're not the Soviet Union anymore. So they'll decide themselves what better to do. And in terms of containment and blackmailing, twisting arms and you know, we feel even in trade lots of containment in some parts of the world where we cannot truly for trade.

Just a comment, thank you.

MR. BILDT: So you are saying that when the Ukrainians say that you've cut trade and when the Ukrainians saying that you are forcing them to near bankruptcy Ukrainians are lying?

MR. CHAKUSHIN: Once again please.

MR. BILDT: All right. Because you are saying there has been no pressure when the Ukrainians are saying there has been pressure. You say the Ukrainians are lying?

MR. CHAKUSHIN: Well, what kind of pressure you mean? Again, like for there is some free market and if there's better opportunities so why don't you go there?

MR. BILDT: But the Ukrainians are saying that you cut trade and the Ukrainians are saying that you were threatening measures that would take them close to bankruptcy.

MR. CHAKUSHIN: Mr. Minister, let the Ukrainians speak for themselves.

MR. BILDT: Yes, that's what I'm saying but you are saying they are lying. I believe what they say.

MR. CHAKUSHIN: I didn't say they are lying but again, that's what they say not us.

MR. BILDT: Yes, that's what they say.

MR. PIFER: Nadia McConnell?

MS. MCCONNELL: Nadia McConnell US Ukraine

Foundation. Since Steve you raised the T word, Mrs. Tymoshenko and it already was stated that she made an appeal last week about not letting her case stand in the way and yet that was the talk last week that that was the one single impediment to the signing of the association agreement. And last week, we also had the Patriarch Filaret here in Washington, the head of the Ukraine Orthodox Church and he made an appeal for the EU to embrace Ukraine warts and all so as to actually help consolidate Ukraine's democracy.

We know that the opposition leaders are also all in favor of Ukraine signing the association agreement. Civil society is in favor and even some civil society groups in Russia itself see their future benefitting from Ukraine joining the EU. So on what basis or what are the considerations for those EU countries who were prepared not to sign on the basis of Yulia Tymoshenko? As the Patriarch said not to sacrifice 46 million people for the sake of one case?

So who benefits from not signing the association agreement?

MR. BILDT: Well, we, as a matter of fact, we didn't take a position. I mean we haven't said that because what we said, the Foreign Ministers, that we were going to await the final report from Cox-Kwasniewski. In the absence of that, we haven't said either the one or the other. So exactly where we would have been in that position, that's as by now a fairly academic issue since due to this pressure and I happen to believe what the Ukrainians say, the Ukrainians are now said that it's on hold.

MR. PIFER: Okay, other questions?

MS. CONSKY: Hi, Lauren Consky, DCI Group. Really quick question. Is energy going to be on the agenda and if so, what will be discussed?

MR. BAGGER: Well, I'd say something less about Vilnius next week but if you, you know, as part of the Russian behavior and that is why I was trying to say I look at it as very short-term motivated, but as part of the Russian behavior, there have been quite a number of efforts to make Ukraine less dependent on Russian supply of gas including with Slovakia recently including with sort of German energy trading companies reverse flows, interconnectors that we've been building or are building.

So that is part of, you know, sort of the German experience

with Russian gas is that they've never used it as a political weapon in the 30 years that we've -- or more than 30 years that Germany has bought gas first from the Soviet Union then from Russia. But other countries have experienced that and I think every time they do they're looking for ways to reduce that danger moving forward. That takes a long time because it's a complicated infrastructure, it's a costly infrastructure. It's not easy to diversify supply but everybody does it.

And I think Europe is, maybe too slowly, but we are getting better at that. We are getting more interconnected in our energy markets including with those countries to the east. And that actually reduces energy dependency and it reduces Russia's leverage as it reduces trust in Russia as a reliable partner. That is what I would say to that.

But about whether it is on the agenda next week, I actually can't say much to that.

MR. PIFER: Last question back here.

MR. KRAVCHUK: Thank you. Elias Kravchuk student at Johns Hopkins SAIS. If this agreement is not signed how quickly do you believe you might return to it? Do you think it'll come up next year or do you need to have some time to let it -- let the solve -- problems be solved? And if it is revisited next year or after that what tools would you use to

bring Ukraine closer to the EU? Thank you.

MR. PIFER: And let me add a second piece to that question where what I've heard from Kiev today is that they are not prepared to go forward with signing the association agreement but they haven't said where they are prepared to go. I mean no one's talking -- there was the brief reference in the Cabinet Minister's statements about accessing the economic relationship with Russia. But I haven't seen anybody say now we're making the veer back to Russia.

So where do you think Ukraine does go after Vilnius? Does it stay -- does it try to get back on a European course? Is there a radical turn towards Russia or does it as I think probably just kind of muddle around in the middle which is where they seem to be unfortunately most comfortable?

MR. BILDT: I said it might be too simplistic to say that I don't think they're not going West. I don't think they're going East. I fear they're going down. That's roughly where we are because of the economic problems.

In terms of more agreements and things like that, I mean, the DCFTA, don't underestimate it. This has been a long negotiation stretching over several years. And I'm not a trade negotiator but I've met

several of those in my life. These are very complex deals and they are related to market access and market rules.

They need very much flexibility to sort of change it but it's there. The offer is there and I say it's the most generous offer in terms of market access and in terms of support that EU has done to any country. I mean it's substantially more generous than to Turkey in these particular respects. So that offer will remain on the table. Then it's, at the end of the day, it's up to Ukraine if they want to accept the offer and all of the possibility for modernization and market access and economic incentives to FDI. I think Ukraine needs FDI desperately. FDI both because it's money and because FDI is modernization.

I mean look at this history of the Central European countries. The enormous modernization that's happened to their economies during the last 20 years has been (inaudible) by market and FDI and Ukraine desperately need both, Russia as well, by the way. Because Russia is becoming too much dependent upon US gas and oil while the West is deteriorating and that will be facilitated by the agreement.

We will certainly keep it on the table. We will never close the door to Ukraine. We will keep it open but it's up to Ukraine to decide which way it goes.

MR. PIFER: Ryszard?

AMBASSADOR SCHNEPF: Well, Yanukovich and Ukraine to some extent behaves like a good looking lady and two pretenders trying to attract her attention. But it can go some time with that but not too far. The marriage must be done someday and in my opinion the European offer is much more attractive long-term offer. So we can see sometimes Ukraine playing between those two offers for some month but finally we'll have the agreements done.

MR. PIFER: Charles, did you want to offer closing comment?

MR. GRANT: Yes, a couple of final points. I think, yes, I think we wait. We just wait. Ukraine won't join the Customs Union. Nobody thinks Ukraine wants to do that. So that'll continue to annoy Russia a bit. We wait -- can we increase our offer to Ukraine? Well, the whole new philosophy of the neighborhood policy when it was revamped two and a half years ago was the three M's; money, markets, mobility. More money, more market access and more visas.

Now, the EU's moved in all those things to its credit. Maybe it can move a little bit more. Maybe we can offer a little bit more of all those things but I don't think our offer is inconsiderable. As Carl said the

DCFTA is a very big and complicated document.

As for Carl's point that when I said it should be all -- the neighborhood policy should be more political, he's right, of course, on Ukraine it has been political. But I'd say still a criticism of the neighborhood policy overall as it applies to North Africa, the Levant and the East has been it hasn't until recently been political and maybe Ukraine is an example of how it should become more political.

Let me just finish for our friend in the Russian Embassy with a quote from his boss, Mr. Lavrov, because at Valdai I asked Mr. Lavrov if the bullying by Russia was not counterproductive because it was turning civil society in Ukraine and Moldova more hostile to Russia. Now, interestingly Lavrov did not deny the bullying. He said, "People say that Russia is supposed to be a bear and bears are not known for their delicacy."

MR. PIFER: Thomas, final comment?

MR. BAGGER: Oh, I'd just say, you know, one of the very positive experiences of the past weeks and month is actually the very, very close US-EU cooperation on that whole question and the run-up to Vilnius and also of the messaging to each and every one of those countries, Ukraine included.

And I think that is also a testament to the fact that Washington recognizes that what the EU is offering to that region in terms of long-term ties, long-term integration into an integrated economy is actually far more than the US could offer from a distance in making quick fixes to very complicated societal and economic transformation problems and processes. And so, that's been a really encouraging development and I'm pretty confident that that will hold all the way up to Vilnius.

MR. PIFER: And hopefully after Vilnius as well. Let me thank you all for great questions and let me ask you to join me in thanking the panelists for a great discussion.

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