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Second EWI Policy Forum on Ukraine UKRAINE'S NEW REFORM MOMENTUM: ACHIEVEMENTS AND CHALLENGES

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SUMMARY

The second EWI Policy Forum on Ukraine was organized to present to the European audience the latest political and economic developments in Ukraine since the presidential elections of 1999. The Forum also aimed for an informal discussion of the current stage of EU-Ukraine relations.

The event gathered a high-level audience both from Ukraine and the European Institutions, as well as EU Member States. President Martti Ahtisaari chaired the meeting and the Prime Minister of Ukraine, Viktor Yushchenko, delivered the keynote speech.

NEW POLITICAL SETTING

Ukrainian participants presented their views on the latest political and economic developments in Ukraine and stressed their importance. However, it was admitted that, notwithstanding the progress made, democracy in Ukraine is still far from being a fixture for the future and a lot remains to be done to secure even the bare rudiments of a socially-oriented free market system in the country.

With President Kuchma being reelected, he received an undeniable mandate to pursue his reform program more forcefully. The political situation in Ukraine has changed quickly and in principle after the overwhelming support that Viktor Yushchenko, the President's candidate for the Prime-Minister's position, received during his confirmation by the Rada.

A more or less permanent, organized non-leftist majority has finally been formed in the Parliament. For the first time the Parliament and the Cabinet began working in harmony. Moreover, the Parliament itself has become by far more productive. The majority--comprised of 13 separate political factions/groups--was able to develop and agree upon an informal set of rules and procedures that secured inner cohesion, and the mechanism according to which decisions are reached, based on common agreement and mutual compromise. The magnitude and significance of the changes could be assessed by looking at figures: in the last four months since the majority was formed, the Rada has passed more laws than in its previous 18 months. More importantly, the legislation adopted is more systemic and programmatic in nature.

Ukraine's foreign policy has also acquired a more pronounced and clearly-defined character. As opposed to the "multi-vectorred" policy of the last few years, Ukraine now clearly pursues a policy that is geared towards European and Trans-Atlantic integration.

Ukrainian participants underlined that the development of a democratic society is impossible without an effective management machinery. Nevertheless, Ukrainian state power cannot be deemed as fully democratic and efficient yet. In this context Ukrainian participants noted that the country has successfully completed the first stage of the Administrative Reform, which was triggered in 1998. As a result, the role of the major ministries was more clearly

defined and functional responsibilities between executive structures were redistributed. European participants were showing interest in the future of institutional reform in Ukraine. It was stated that the government itself should be willing to increase public confidence in its institutions. Ukrainian participants understood that successful economic and administrative reforms predetermine the level of public trust in the government.

European representatives complimented Ukraine for its high level of internal stability and its ability to reach consensus and avoid conflict. Nevertheless, even with the existing new democratic balance between the executive and legislative powers Ukraine's policy still lacks transparency and the necessary consolidation for development.

In response to the interest displayed by foreign participants, Ukrainian representatives explained their views on the current relations with Russia in the context of Ukraine's European choice. It was emphasized that these two countries have set different objectives for themselves—while Russia does not aim to join the EU, Ukraine has clearly defined this goal as a priority. Bilateral relations with the Russian Federation remain crucial for Ukraine. Ukraine's commitment to European integration does not contradict the development of constructive relations with Russia. Unstable relations between Ukraine and Russia will not be of assistance to either of these two states, nor to Europe as a whole.

ECONOMIC REFORM

The new Ukrainian Government is perceived as seriously committed to reform. Members of the Cabinet have an internal well-grounded belief in the necessity of reforms. Simultaneously, current parliamentary support for the governmental policies is deemed to provide an unique opportunity for constructive work and reforms to be carried out by the government.

Macroeconomic indicators are very positive. For the first time Ukraine is experiencing positive GDP growth of 5,5 % over the first 4 months of this year. Industrial production is also on the rise in 8 out of 10 of the major sectors of the economy. Revenues have increased by over 14% and the real incomes of the population have grown over 11.5%. Government arrears in wage and pension payments have been considerably reduced.

Ukrainian officials presented new measures that were introduced by the new government: approval of the Government's Action Plan; adoption for the first time of a zero-deficit budget; successful restructurization of the nation's foreign commercial debt; and adoption of the National Privatization Program, the latter to be conducted in a transparent way and for real money, with the involvement of national and foreign advisors.

The Government has also succeeded in consolidating all off-budget funds in the budget, reducing the share of financial resources distributed through the national budget, as well as in reducing the number of fund-managing bodies; it also broadened the taxation base by reducing ungrounded exemptions. In the agricultural sector the status of private entities formed on the basis of former "collective agricultural enterprises" was legalized; the property and land share lease agreements were concluded between newly-formed private enterprises and the actual shareholders.

Both governmental and non-governmental representatives from Ukraine were pointing out that stability in the field of taxation should be ensured by the new, more transparent Tax Code, which was to be approved by the Parliament before the end of June. Work is also continuing on the introduction of international accounting and audit standards at enterprises of all forms of ownership.

Independent studies show that the regulatory policies of the Ukrainian state still lack proficiency, and major obstacles for business development still include tax policies, license and allowance policies, as well as overwhelming requirements with regard to reporting documents. Nevertheless, independent observers also point out the positive changes: the number of check-ups and revisions is slowly decreasing; the amount of time spent by each entrepreneur while dealing

with different control agencies is also diminishing. The number of licenses to be obtained by each enterprise decreased twice since 1997, the license cost also dropped substantially.

Since one of the major concerns for the European participants turned out to be the situation in Ukraine's energy sector, Ukrainian representatives assured their colleagues that new governmental decisions in the energy sector are being introduced, one of them being the decision to outlaw mutual set-offs in this sector.

EU-UKRAINE RELATIONS

According to various opinion polls, public opinion in Ukraine displays a growing consensus on the country's European choice. In order to sustain and further increase this support within the Ukrainian society, Ukrainian participants underlined the importance of the availability of more information on the European Union. It was mentioned also that Ukraine's neighbors either are invited to join the EU or have applied for EU membership (Moldova). Therefore, Ukraine's geopolitical surroundings are also mobilizing the country to deepen its relations with the EU.

Ukraine aims at de-facto reaching the necessary preconditions for its integration in the EU, therefore particular steps are undertaken to measure internal developments in the context of Ukraine's European integration. For example, on the basis of Ukraine's Strategy of integration in the EU, another draft document - "National Program of Ukraine's Integration in the EU" - was recently developed. The document, which takes into account the experience and analogous documents adopted by the candidate-states, is to be considered by the government in June 2000. It was also noted that work is being conducted on the next Common Program on PCA implementation for the years 2000-2002. Ukrainian officials emphasized the importance of Work Plans to be produced by each country holding the EU Presidency in the framework of the EU Common Strategy on Ukraine. While working on these documents, it is essential to consider the expectations on both sides, which would contribute to the most productive outcome of the efforts undertaken.

Ukrainian participants expressed the desire to deepen cooperation with the EU in the political sphere. New developments within the EU, like the new impetus to the CFSP, are of principal and practical importance and interest for Ukraine. In Ukraine's view it is crucial to reflect these developments in the new documents to be produced between the two entities.

Representatives of the EC were interested to learn what exactly the EU could do to support the new reformist government in Ukraine. Some of the possibilities were outlined directly at the Forum: active and continuous exchange of information and experiences between different actors of the two entities; introduction of the twinning elements in the context of the technical assistance program, which would give additional impulse for raising the effectiveness in the reform process in Ukraine. It was also stressed that it is essential for the European organizations (like the Council of Europe) not to imply double standards in their policies towards Ukraine.

Ukraine's most urgent priorities include speeding up the process of accession to the WTO, and the creation of a free trade zone between Ukraine and the EU. In this respect, seeing Ukraine's WTO membership and PCA implementation as complementary processes, the government officials reported that 14 out of 21 trade and economic issues in question between the EU and Ukraine have recently been solved, which contributes to the progress on PCA implementation. Ukrainian participants expressed the need for EU assistance in complying with WTO norms and standards in Ukraine.

Besides, the country requires EU support in its aspiration to join the Union. It was stressed that Ukraine de facto and de jure has a functioning market economy and is seeking acknowledgement of its market economy status. Ukraine's compliance with requirements for market economy status is supported by the following achievements: major business decisions are now taken without state interference; the state monopoly on foreign trade activities has been

abolished; a market exchange-rate mechanism is put in place; and most of the processes are free from state control and are determined by market factors.

Even though Ukrainian participants were pressing for their country's readiness to be admitted into the WTO, European representatives expressed concerns over bribery and corruption in Ukraine. They also raised the issue of the ability of companies to pay their energy debts. It was clearly stated by the Westerners that, irrespective of all positive economic tendencies, Ukraine should not expect to get too much. Domestic reform should come first.

Ukraine also sees as a priority the adaptation of the Ukrainian legislation to the norms and standards of the EU (more than 50 Ukrainian laws and governmental decrees, which are considered basic provisions of the EU legislation, should be adopted in the year 2000).

As the Ukrainian Prime Minister put it, one of the most important things for the new government is to be trusted by foreign partners. Euro-integration is a matter of timing and the road to achieve this goal is not seen by Ukrainians as an easy one. With this in mind, all Ukrainian officials participating in the meeting clearly expressed their willingness to address the most difficult issues in Ukraine-EU relations in a sincere and fair manner.

Representatives of the EU structures stressed that the EU Common Strategy on Ukraine that was adopted last year underlines the strategic importance that the EU attaches to Ukraine. From the EU perspective, the purpose of the PCA between the EU and Ukraine is not to provide information, but to work in a common direction. Europeans firmly believe that this mechanism should provide the basis for dialogue, which should envisage information exchange, continuous assessment, target setting and provision of advice in respective areas.

Until today Ukraine has displayed less than 100% determination to reform: continuous lack of the PCA observance and trade problems were often reported. Even though refreshed determination to tackle real reform became visible in Ukraine, the real machinery to deliver this determination is still needed. European observers highlighted the importance of credible institutions, which are going to deliver reforms, as well as the necessity of developing the professional capabilities of civil servants.

The EU officials stressed that the Union wants to be engaged in the Ukrainian reform process and is willing to be an active partner. As the government and parliament of Ukraine are tackling real reform, it is in the EU's capacity to deliver technical and financial assistance and advice to Ukraine. In this respect, the financial assistance delivered should be used to take forward the strategic objectives, help to create the right environment for reform and encourage the investment climate, which are seen as key objectives for the EU.

Ukrainian officials in turn displayed their understanding that the business environment in Ukraine needs upgrading. It is the government's priority – otherwise mutual trade relations cannot be improved. However, it is essential that European side also responds to the needs and concerns of Ukrainian businessmen.

European participants were encouraging Ukraine to look at the Copenhagen criteria and the **Aquis Communautaire** as a reference point for the country's reform process. Such approach should be very positive for future cooperation between the EU and Ukraine. Nevertheless, it was also stated that Ukraine deserves more attention from the European Union, and that the EU can be helpful in the process of Ukrainian domestic reform. European parliamentarians even deem it indispensable to have a similar approach to Ukraine as to other states – with a clear vision and understanding of what are the issues to be faced. There is no doubt about European aspirations for Ukraine. Nevertheless the EU in this context does not have a clear foresight towards Ukraine and does not offer anything to this state.

It was noted that the EU itself experiences the need for strategic direction, which might be found through the CFSP. It was stressed that the EU should be more concrete in its Common Strategy. The participants were underlying that the EU is not a fixed system, it is changing over time and has the capacity to do so; therefore, it is important to strengthen the EU's capacity to take the lead in order to go further.

GENERAL COMMENTS

Representatives from both the EU and Ukraine have expressed the need for finding different instruments for mutual rapprochement, and the EWI Forum is viewed as one of the informal mechanisms to that end. It was underlined that both sides have to determine their priorities, and the combination of practical and political approaches should be used in future cooperation.

The value of mutual interest gained a special focus at the meeting. While Ukrainian reforms should come from within the country, not by pure motivation from the EU, the external support for Ukrainian reform remains equally important as well. Ukrainian participants have expressed their hope that results of such informal meetings as the EWI Policy Forum on Ukraine will encourage Europeans to view Ukraine not only from the perspective of the Soviet past, but also in the future context – as a possible full member of the European Community. It was emphasized that Ukraine's well-being is in the interest of Europe as a whole; therefore, the European Community should take into account the strategic interests of Ukraine.

The Forum clearly showed that Ukraine has made serious progress in terms of domestic change during the latest period of time; there is no doubt about the determination and commitment of the new government to reform – this path does not have any alternatives. Nevertheless, the time for real steps and achievements has come for Ukraine. In this context, it is indispensable for the EU to support the above-mentioned achievements and guarantee the impossibility of replacing the former borders in Europe with new ones. The EU still has to clarify its approach to the country and apprehend its own policies, which would help the EU to fulfill its responsibilities. It is important that the EU emphasizes its desire and willingness to develop relations with Ukraine. Nevertheless, the question—what can we do for Ukraine?—should be asked not only during informal meetings, but also at the official level. In this way Ukraine would be determined to specify exactly where EU assistance would be most appreciated and needed.

Overall, the Forum produced the impression that a new window of opportunity has again opened in Ukraine.