



**EASTWEST INSTITUTE**

*Bridging Divides*

# **EWI Conference Report**

## **EU and Ukraine: Looking for a New Partnership and Cooperation in Europe's Neighbourhood**

EWI Guest Conference  
at Ditchley Park, United Kingdom  
15–16 July 2005

organised in cooperation with



**Foreign &  
Commonwealth  
Office**

## The European Neighbourhood Initiative Eastern Dimension

The EastWest Institute's EUROPEAN NEIGHBOURHOOD INITIATIVE - EASTERN DIMENSION draws on a range of EWI's programmatic competencies and experiences to fully utilize the opportunities created by the EU enlargement to support the EU integration process. Our effort focuses on helping the countries of the European Union's new Eastern neighbourhood to take advantage of their EU proximity and to work towards creating a Pan-European Space of Security and Prosperity that includes the European Union and the Russian Federation. The "Eastern" dimension of EWI's European Neighbourhoods Initiative (ENI) covers Belarus, Ukraine, Moldova and the Southern Caucasus (Armenia, Azerbaijan and Georgia); and also addresses issues related to the Russian Federation, given its importance in the region. This initiative, launched in October 2004, focuses on tackling specific problems and divides that will become increasingly visible in the coming years, and which may pose a serious challenge to peace and stability on the European continent. EWI's European Neighbourhood Initiative draws upon expertise and networks of EWI's programs and partner organisations, so as to address some of the key challenges posed by European Union's enlargement:

- Dealing with the danger of a new dividing line between the European Union's "ins" and "outs", in particular the widening socio-economic gap and challenges to free movement of people and goods on the European Union's outer borders.
- Creating a new quality of cooperation and partnership between the countries in the Eastern neighbourhood, European Union and the Russian Federation leading towards creating a Pan-European Space of Security and Prosperity.
- Utilising opportunities provided by EU's European Neighbourhood Policy for accelerating domestic reforms in the countries of the Eastern neighbourhood, as well as for their strengthened sub-regional cooperation.

We are addressing these challenges through a set of projects that draw on EWI's programmatic expertise in the areas of international security, economic development, regional and cross border cooperation and leadership training, providing both a policy-level and operational response. For more information on ENI Eastern Dimension, contact Lejla Haveric at the EWI Brussels Centre, [lhaveric@ewi.info](mailto:lhaveric@ewi.info).



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## EU and Ukraine: Looking for a New Partnership and Cooperation In Europe's Neighbourhood

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### Executive Summary

This Ditchley Park Guest Conference was organized by the EastWest Institute in cooperation with the UK Foreign and Commonwealth Office. It brought together over forty government officials, business leaders and independent experts from Ukraine, the European Union, the Russian Federation and other Central and Eastern European countries.

The main purpose of the conference was to provide a frank assessment of the relations between Ukraine and the European Union, as well as between Ukraine and its neighbors, in particular the Russian Federation, and to assess key challenges facing this complex set of relations.



Upcoming parliamentary elections in Ukraine in March 2006 will have a strong impact on politics in Ukraine, hampering its ability to move fast on all aspects of reforms, including those required by the EU-Ukraine Action Plan. Until these elections take place, the EU and Ukrainian decision makers should set realistic and achievable goals. These include granting Ukraine market economy status, moving towards WTO membership, making visible progress in fighting corruption, and preparing for transparent and democratic elections in March 2006. Ukrainian lead-

ers should refrain from populist declarations about Ukraine's integration into the EU (including not submitting a formal declaration to join the EU), while EU officials should be quick and flexible in sending positive signals when progress is made.

Ukraine's relations with Russia need re-thinking. Old labels should not prevent new, innovative approaches. This should include an independent analysis of the economic consequences of Ukraine's integration with the West combined with an open political dialogue between Russian and Ukrainian political elites about the future relations between the two neighbours.

## I. Current Situation In Ukraine & Its Progress Towards EU Integration



Francis Finlay, Chairman and CEO, Clay Finlay Inc., EWI Board Director, and a Governor of the Ditchley Foundation helped make the EWI Guest Conference at Ditchley Park possible

Conference participants expressed concern that the forthcoming parliamentary elections in March 2006 will lead to an increasing array of actions that are politically destabilizing and populist in nature while delaying needed economic reforms. Ukraine's stability and economic development are pivotal for all of its neighbors. Many participants expressed concern about the degree of political infighting and the lack of clarity on key economic and social issues. More clarity and transparency into the government's intentions regarding its economic policies are needed, in particular with respect to re-privatization, transparency, and fighting corruption, as well as strengthening administrative capacity and internal coordination in support of the implementation of the EU-Ukraine Action Plan and PCA (Partnership and Cooperation Agreement). Participants from neighboring countries with longer experience in transition emphasized that consistency and transparency in their governments' policies were critical for encouraging a major inflow for foreign businesses and direct investment – essential tools for encouraging economic growth and fighting corruption. Many participants expressed their appreciation for positive steps taken by the Ukrainian leadership after the Orange Revolution, including improving

taxation legislation and bringing more transparency into the collection of customs duties; taking important legislative steps necessary for joining the World Trade Organization; and encouraging media freedom. Participants were worried about the effectiveness of the announced anti-corruption campaign.

The current political and economic situation in Ukraine is significantly influenced by the upcoming parliamentary elections in March 2006. The results of these elections are expected to influence the direction of Ukraine's evolution for many years ahead. The international community should be realistic in its expectations for deliverables by the Ukrainian government before the March 2006 elections. Realistic deliverables should include: ensuring free and fair parliamentary elections on March 6, 2006, and extending media freedom; taking further steps needed to achieve market economy status and WTO membership; and making progress in the implementation of Ukrainian actions set forth in the EU-Ukraine Action Plan. The government needs to remove the inconsistencies in Ukraine's economic policies, including the process of re-privatization; take visible steps in fighting corruption; and where possible make progress in helping the international community help resolve the conflict in Transdnestria. The performance of the Ukrainian government before the March elections should be measured against such realistic goals. Calls for more widespread reforms and change are not realistic.

During this period leading up to the elections, the Ukrainian leadership must be ready to give more than it can expect to receive (e.g., in the area of visa facilitation). A clear line of decision-making is key, and it is important that Ukraine's leadership avoid sending confusing signals to the public. The flow of conflicting statements by leading political personalities is having a negative effect within the country as well as on external communities such as investors. Strong messages and big demands should be avoided, while the main focus and energy should go to accelerating basic domestic reforms as noted above. At the same time, technical experts in the government should continue intensive work on defining the priorities and concrete actions of the Ukrainian government after the March 2006 elections, including preparations for signing an enhanced (association) agreement with the European Union.

## II. Challenges of Ukraine's Integration with the EU and NATO



Ana Palacio, Co-Chairman of the Joint Parliamentary Committee for EU affairs of the Spanish Parliament and Co-Chairman-elect of the EWI Board of Directors makes a point during the roundtable discussion

Ukrainian participants at the conference stressed the fact that joining the European Union is the Ukrainian government's key national priority. The EU's European Neighbourhood Policy and Action Plan are viewed as temporary frameworks for EU-Ukraine relations and as a preparatory phase for Ukraine's accession to the EU. The Ukrainian leadership has set up an ambitious agenda for bringing Ukraine closer to the European Union. This includes such steps as granting Ukraine market economy status; establishing a EU-Ukraine free trade area; joining the WTO; introducing a visa-free regime; establishing a common readmission space between EU and Ukraine; legalizing Ukraine's emigrant workers in the EU member countries; and participating actively in the EU's European Security and Defence Policy.

These ambitious goals must be viewed within the prism of European Union realities. The current crisis within the EU, resulting from the French and Dutch referenda and the impasse over the future EU budget, combined with "enlargement fatigue", complicate Ukraine's quest for EU membership. Conference participants from EU countries and its institutions strongly recommended that Ukraine's leadership focus on

delivering specific and measurable progress in the implementation of the Action Plan and PCA, rather than on formal declarations, including officially applying for EU membership. The response to such a formal application is very unclear at best. It was widely felt that such a step would not be in Ukraine's interest in today's environment. Some participants expressed worries that the EU's "time for reflection" and the resulting political vacuum might be filled in ways that are negative to Ukraine's interests. There was widespread agreement that the focus of EU-Ukraine relations for the next six months should be on practical steps towards closer association. After March 2006, with a new Ukraine parliament and government and a clearer situation within the EU, both sides could consider a more ambitious agenda.

While Ukraine's leadership needs to set clear targets before March/April 2006 and deliver on them, the EU must be quicker and more flexible in its response when there is progress. In addition, the EU needs to elaborate its overall Eastern policy. In this process of mutual dialogue and interaction, EU officials should accept the fact that Ukraine's leadership will not be able to agree to everything requested from Brussels, as it will have to attend to its own, national priorities. This is partly due to the situation where Ukrainian leaders are not able to use EU membership as a "selling point" for reforms when dealing with its public – something widely implied during the Orange Revolution. Ukraine's policies should be on ensuring economic growth and strengthening economic welfare in Ukraine – a crucial factor in bringing Ukraine closer to the EU. While being flexible in decision-making, it is important to avoid taking short-term measures that might contradict long-term priorities. The pre-accession experience of the new EU members from Central Europe could prove very useful in this process.

Ukraine's integration into NATO is expected to be considerably easier than joining the EU, although public support for such a measure remains very low among the Ukrainian population. There are no insurmountable obstacles that hinder Ukraine's joining NATO; and it is likely that NATO membership could occur well before possible EU membership. Participants familiar with the subject warned that NATO would expect to see a consistent reform effort on the Ukrainian side in such areas as enhancing democratic and civilian control over the military, reducing conscription, safeguarding confidential information, developing a defense planning process and additional participating in



Participants discuss the future of EU-Ukraine relations

NATO missions. Some participants urged that as part of this process, the NATO-Ukrainian Council (NUC) be upgraded and given greater stature and importance. Most participants agreed that it was important to be open and transparent in this process with Russian officials. Ukrainian officials repeatedly stressed that NATO membership should not serve as a substitute for EU membership. Many participants argued that while working towards its gradual integration into the EU and possibly NATO, Ukraine should play a more active role in diverse sub-regional cooperation arrangements, for example in the Black Sea region.

### III. Ukraine's Relations with Russia and Its Other Neighbors

Russia is and will remain a strategic partner for Ukraine. The "Orange Revolution" in Ukraine revolutionized the thinking of many in the Russian establishment about its neighborhood. Much more attention is now paid to democracy and its implementation in different parts of the post-Soviet space. Russian participants stressed that a truly democratic Ukraine would have a positive impact on Russia. At the same time, they raised serious concerns about such aspects of nascent democracy in Ukraine today, especially with respect to protection of human and property rights, the role for the political opposition and involvement of the judiciary in politics.

The Ukrainian governments heavy orientation towards the West will have considerable political and economic consequences. Russian leaders have already indicated significant increases in the prices of oil and gas supplied to Ukraine. This will increase the costs of production in such sectors as metallurgy, which are critical for Ukraine's economy. In addition, Russia is actively looking for alternative transit routes for its oil and gas supplied to Europe, as well as for replacing military supplies from Ukraine to the Russian army. According to some calculations, such a combined impact will cost Ukraine more than \$2.5 billion of lost revenue annually. Participants stressed the need for an independent evaluation of the economic impact of Ukraine's accelerated integration towards the West.

As for Ukraine's participation in Russia-led integration organizations, such as the Single Economic Zone, participants stressed that old labels should not prevent new, innovative approaches. This will require an open dialogue between Russian and Ukrainian leaders reflecting the new realities after the changes in Ukraine. The same is true for Ukraine's more active regional involvement in such areas as Transdnestria where Russia has strong interests.



Emil Hubinak, Chairman and CEO, Logomotion; and Vasil Hudak, EWI Vice President listen intently to participants' recommendations at the EWI Guest Conference at Ditchley Park



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**Mr Francis Finlay**

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## The EastWest Institute

### WHO WE ARE

EWI is an independent, not-for-profit, European-American institution working to address the most dangerous fault lines of the 21<sup>st</sup> Century and to help build fair, prosperous and peaceful civil societies in those areas. Since 1981, we operate long-term projects that create trust and understanding and seek to reduce tensions from Eurasia to the trans-Atlantic region using our unique network of private and public sector leaders in more than 40 nations. Our initial mission was devoted to reducing the hostilities of the Cold War.

### OUR VISION IN ACTION

- We bring together leaders of different nations, cultures, and communities who do not normally work together to solve problems, often-times in *non-meetings*;
- We provide fresh thinking, objective information and unbiased policy advice from an international perspective on economic, security and political issues – focusing on horizon issues as well as current problems;
- We develop and support future leaders who will make a difference from Eurasia to the Middle East.

Our Board represents the diversity of the regions in which we work. Our mission is supported by funding from private and public sources worldwide. We encourage you to visit our website: [www.ewi.info](http://www.ewi.info).



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