

UKRAINE'S FUTURE AND U.S. INTERESTS

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BEFORE THE
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WEDNESDAY, MAY 12, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EUROPE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 1:50 p.m. in Room 2172, Rayburn House Office Building, Hon. Doug Bereuter presiding.

Mr. BEREUTER. The Subcommittee will come to order. This Subcommittee hearing has been delayed, and so I would ask the cooperation of the people in attendance at the last Full Committee hearing to give us a chance to get our witnesses at the table.

And I am going to proceed with my opening statement to expedite the matter. May I have the cooperation of the people in attendance, please. I understand that the last hearing was an important subject, and I know that the Committee wanted to have your testimony, but we do have other business, and I would like to get on with it before we run into another problem at the end of the day.

Because the Full Committee would like to have the hearing room at 3:15 p.m., which we will give them at 3:30 p.m., and we have three witnesses in two panels today. Today, the Europe Subcommittee will receive an assessment of the current political and economic environment in Ukraine and why Ukraine's future should be of interest to the United States.

There are three areas we should explore when thinking of Ukraine today at least. Geostrategically, Ukraine's position in Europe places it in a unique and yet, challenging, neighborhood which has become a source of competition between Russia and the West.

The Ukraine now shares borders with the European Union and NATO as a result of the recent enlargements of both organizations, to include Poland, Hungary, Slovakia, and Romania.

With its resources and economic potential, a strong, stable, independent, and democratic Ukraine can be seen by many as an important element in the stability of Europe and a natural future candidate for the European Union eventually.

Similarly, many feel Ukraine could play a positive role as a neighbor to, and perhaps eventually a member of, NATO. We have, of course, the NATO-Ukraine Council and there is a NATO Parliamentary Assembly and Ukraine Council as well. So there is an outreach effort in that respect.

Ukraine shares a border with Russia, which is currently in an unusual transition. Ukraine's location, along with Belarus, is seen

by Russia as a natural barrier perhaps to an expanded EU and NATO, and an important element in Russia's Black Sea interests.

A weak or unstable Ukraine, or one which is shunned by the West, could again result in a Ukraine falling under the domination of Russia.

Finally, Ukraine does border Moldova and Belarus, which by many standards represent the unstable pieces of the neighborhood. It would be far better to have a stable Ukraine in that context which might play a useful role in shaping the future of these two nations.

Domestically, the country seems to be split over its aspirations for western democracy and a free-market economy, and its long linguistic, cultural, religious, and historic ties to Russia.

At the same time, President Kuchma has expressed his desire to bring Ukraine closer to the western community of democracies and perhaps one day into the EU itself. The Ukraine Rada, the Parliament, ratified an accord creating a single economic zone establishing a free trade area and customs union with Belarus, Kazakhstan, and Russia which seems to present a contradictory economic orientation.

Similarly, while Ukraine's government leaders are trying to mend fences perhaps with the United States and Europe, a recent survey conducted by a center for economic and political research suggests that up to 40 percent of Ukrainians believe that relations with Russia should be a priority. And 28 percent gave preference to the EU, and although the U.S. appeared to be well liked, a mere 2 percent said that relations with the U.S. should be a foreign policy priority. Another survey suggested that almost two-thirds of the population would consider supporting a political union with Russia. If these surveys are even remotely accurate, they paint a picture that suggests the West has a lot of work to do in improving relations with Ukraine.

Finally, the political environment in Ukraine has been the source of constant irritations in Ukraine's relations with the United States. Some suggest that Ukraine's political system should be described as a mix of democracy, authoritarianism, and oligarchy.

However one wishes to describe it, the transition to democracy in Ukraine over the past 13 years seems to have been a slow, difficult, and in many cases, a flawed arrangement.

By any measure, however, no issue will be more important to Ukraine's future standing with the West than the strength of its democracy. The Congress attaches great importance to the success of Ukraine's transition to a democratic state, with strong institutions, and with a flourishing market economy.

Bilateral relations with the Kuchma government over the past 10 years has vacillated between rocky and cooperative. Bilateral economic and security relations, such as in the case of Ukraine's commitment to send more than 1,500 troops to Iraq, seem to work well.

Political relations, however, have been difficult, such as with the Kolchuga radar issue and examples of Kuchma's abuse of authority.

So I think that United States policy must remain focused on promoting and strengthening a stable, democratic, and prosperous

Ukraine, more closely integrated into European and Euro-Atlantic structures.

The next major political event in Ukraine, of course, involves the upcoming Presidential elections in October. Based on the numerous problems of past elections in Ukraine, concerns have already been raised about the openness and fairness of the election.

The Congress, like the Bush Administration, has made the Presidential election a litmus test of Ukraine's commitment to democracy. Several high level officials of the Administration, such as Assistant Secretary Armitage, have recently visited Kiev, and have tried to stress the importance of free and fair elections.

And in 2 weeks, this Member will lead the NATO Parliamentary Assembly to Ukraine on our way to our spring meeting in Bratislava.

While discussions will focus on the overall United States and Ukrainian relationships, the importance of fair and transparent elections in the fall will be one of our strongest messages.

We have a distinguished group of witnesses here today on two panels, and I look forward to hearing their views and their testimony. But now I would like to turn to the distinguished Ranking Member of the Subcommittee, the gentleman from Florida, Mr. Wexler, for such comments as he may have.

Mr. WEXLER. Thank you very much, Mr. Chairman. I want to first thank you for holding today's hearing on Ukraine's future and American policy objectives in this emerging Eastern European Nation. I want to thank the witnesses for joining with us.

As I understand the witnesses will attest—and you, Mr. Chairman, spoke to the fact—that the election to succeed President Kuchma this October, represents an historic opportunity for 50 million Ukrainians to exercise control over their future, and set the course for generations to come.

The next several months are critical for the Ukrainian people, many of whom desire real democratic change, greater political and economic freedom, and closer integration with the transatlantic community and our institutions.

To achieve this goal, it is increasingly important that the United States and the EU remain resolute, and work in coordination, to ensure that fair and open democratic elections take place in Ukraine.

I remain deeply concerned about the lack of freedom of the press, as well as electoral fraud in Ukraine which is detailed in the 2003 State Department report on human rights, which today threatens the upcoming election.

To this end, I strongly support a more intensive effort in Washington and Brussels, in conjunction with the OSCE, to monitor pre-electoral events on the ground in Ukraine, and urge the Bush Administration to push for a team of American observers at the elections on October 31st.

As today's hearing examines the totality of United States-Ukrainian relations, we would be remiss if we only highlighted the negative and not the significant accomplishments of the majority of Ukrainians who support further Euro-Atlantic integration including membership in NATO and the European Union.

I am particularly impressed by the rapid economic growth in Ukraine over the past 4 years. Economic liberalization policies first set in motion by former Prime Minister Yushchenko, and carried out by the current government, coupled with a strengthening trade relationship with Russia, has made Ukraine one of the world's fastest growing economies.

To maintain this critical economic growth and to further Ukraine's integration in Euro-Atlantic institutions, it makes perfect sense that the United States should continue to support and readily assist Ukraine in her effort to join the WTO, as well as address several domestic problems, including a significant failure by Kiev, to provide intellectual property protection.

I also want to express my gratitude to the Ukrainian government and people for their decision to support American efforts to rebuild Iraq, and bring greater security to that region.

Ukraine's bold decision to send over 1,600 soldiers is a clear signal to the United States that Ukraine stands with the American people during these difficult times, and is committed to a future of peace and stability in the Middle East.

All Members of Congress, whether they support the President's policy in Iraq or not, whether they be a Democrat or a Republican, recognize and honor the ultimate sacrifice of these soldiers, including several who have been killed in the line of duty, and we are extremely grateful.

As for America's Ukraine policy over the next year, it is important that the Bush Administration continue to support democratic reform leading up to the Presidential elections in 2004.

We should also seek ways to assist Kiev as it pursues NATO membership. However, this can only be done if Ukraine addresses its continuing problems of human rights violations and political repression.

In this vein, I fully support Deputy Secretary of State Armitage and his statement in Kiev in March, which reinforced that American policy toward Ukraine essentially would always move forward, would move forward toward the October elections so long as those elections were done in a free, open, and democratic way, and without intimidation of the media, and without political intimidation.

Mr. Chairman, all of us in this room today support Ukraine's future integration in the Euro-Atlantic community. However, it is the Ukrainian people alone who hold the key to their future and to their growth as a democratic nation.

The United States and European Union must make clear to President Kuchma that political repression and threats will in the long run be counter-productive to Kiev's goal of joining Euro-Atlantic institutions. Thank you, Mr. Chairman, for conducting this hearing.

Mr. BEREUTER. Thank you very much, Mr. Wexler, for your excellent statement. Our first witness is Steven Pifer. He is a career Senior Foreign Service Officer, Deputy Assistant Secretary of State in the Bureau of European and Eurasian Affairs for this hearing.

He served as U.S. Ambassador to Ukraine from January 1998 to October 2002. In addition to his assignments in Ukraine, Ambassador Pifer has served at the American Embassies in Warsaw, Moscow, and London.

His Washington assignments have included the Office of European Political and Security Affairs, the Arms Control and Disarmament Agency, and the Office of the Coordinator for the New Independent States.

He has also spent time in the National Security Council as special assistant to the President and Senior Director for Russia, Ukraine, and Eurasia. And from October 2000 to June 2001, he was a visiting scholar at the Institute for International Studies at Stanford University.

Secretary Pifer, we are looking forward to your testimony. Your entire written statement will be made a part of the record, and you may proceed as you wish.

STATEMENT OF STEVEN PIFER, DEPUTY ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. PIFER. Mr. Chairman, Congressman Wexler, thank you very much for the opportunity to be here today to talk about Ukraine's future and United States interests, and with your permission, I will submit a written statement, and just open with some brief oral remarks.

I would like to begin by describing the U.S. vision, the United States Government's vision for Ukraine, and that is that we wish to see Ukraine develop as a stable, independent, democratic State, with a strong market economy, and with increasingly close ties to Europe and Euro-Atlantic institutions.

We support this vision because we think that kind of Ukraine will be in America's interests. Such a Ukraine will contribute to a more stable and secure Europe. It will be a partner with us in meeting new challenges, such as the war on terrorism, and countering proliferation, and it has great potential for mutually beneficial economic, trade, and investment relations.

This vision of Ukraine has guided an informed United States policy toward Ukraine since the early 1990s. And as we look back over this period, Ukraine has achieved a number of important accomplishments.

Since gaining independence in the aftermath of the collapse of the Soviet Union, Ukraine has strengthened its statehood. It has denuclearized. In 1992, Ukraine had nuclear forces on its territory that would have made it the third largest nuclear power in the world. Ukraine chose to give that up.

Ukraine has also over the last 10 years strengthened its links to Europe, and in the last 4 years, we have seen impressive economic growth. And over the 1990s, we developed a very strong, robust, and broad relationship on a bilateral basis.

Unfortunately, there have been a number of problems over the last several years that have greatly complicated our relationship with Ukraine, and to some extent eroded it.

These include the unresolved murder of the independent journalist, Gongadze, the flawed 2002 Parliamentary election, and questions about arms transfers to questions such as Macedonia and Iraq.

I would say that many observers would say that the fall of 2002 probably was the low point in United States-Ukraine relations over

the last 13 years. Since early 2003, both countries have tried to find ways to improve the relationship, and resolve particular problems.

And indeed, we have made some progress. We worked very closely with the Ukrainians last year to help them put in place laws and practices to counter the problem of money laundering.

We have also had a very constructive and cooperative dialogue to look at ways to improve the export control system in Ukraine, and as has been noted, we very much appreciate the decision by Ukraine to contribute military forces to the stabilization effort in Iraq.

Ukraine now provides one of the largest contingents on the ground in Iraq. We very much appreciate it and are grateful for the help. They are doing serious work and in the last several months, they have suffered three soldiers killed in action.

But with the development and more positive motion in the United States-Ukraine relationship, we did restore a measure of the high level dialogue, which included a visit by the Prime Minister to Washington last October.

Today, our focus is on looking at ways to continue to improve the relationship, and I would say that the biggest issue on the bilateral agenda is the question of democracy, and the question of whether there will be a free and fair process leading up to the October 31 Presidential election in Ukraine.

We believe that is important for the Ukrainian people, for United States-Ukraine relations, and for Ukraine's aspirations to draw closer to Europe. Unfortunately, in the last several months the signs have been discouraging.

We have seen official harassment of opposition politicians and those who support them. In this regard, the State Tax Administration has been particularly involved in inappropriate ways in the political process.

Over the last 2 months, we have seen regional and local elections that have been marred by severe problems. The most recent and disturbing example is the mayoral election on April 18th in Mukacheve.

We have seen harassment of the press, and Radio Liberty has been shut down in Ukraine. The U.S. Government is pressing home hard on the democracy message. Ambassador Herbst has been very active on this question in Kiev.

Secretary Powell has made this a regular feature of his discussions and interactions with Ukrainians. As was mentioned, Deputy Secretary Armitage went to Kiev 2 months ago specifically to stress the importance of democracy to United States-Ukraine relations, and when he was there, he delivered a message from President Bush to President Kuchma that also stressed the importance we attach to a free and fair election process.

We also closely coordinate this message with our European partners. They are sending parallel messages regarding the importance of a free and fair election process, and we have in Kiev had a number of messages jointly by our Embassies to stress this issue.

We offer to devote a significant portion of our assistance program for Ukraine to democracy programs. While the overall Freedom Support Act budget for Ukraine has been declining, the proportion

that goes to the democracy part has grown from one-fifth 2 years ago, to about one-third today.

And \$10 million of this is going specifically to programs connected with this year's election to support monitoring efforts to support get out the vote drives, to support legal aid, and to support training for independent journalists in how to deal with election questions.

On economics, we see great potential, but it is largely unrealized with the very difficult business and investment climate in Ukraine. We want to broaden economic links. We want to support Ukraine's accession to the World Trade Organization.

But real problems remain. These include the lack of protections for intellectual property rights and individual business disputes. Such problems contribute to a negative investment climate image for Ukraine, and they deny Ukraine the investment that it needs.

Looking on foreign policy terms, we would like to see Ukraine draw closer to Europe. We fully support Ukraine's Euro-Atlantic aspirations, and its desire to draw closer to both NATO and the European Union.

But we have been candid and clear with the Ukrainians that in order to achieve that aspiration, they must take steps in terms of political reform and economic reform that transform the Ukrainian political and economic systems into systems that are compatible with those of Europe.

To the east the Ukrainian-Russian relationship has been historically complex. But the United States Government supports positive and strong relations between Kiev and Moscow. We see absolutely no contradiction between Ukraine developing stronger relations with Europe, and having a stable, positive relation with Russia.

The Ukrainians themselves are going to have to make the decisions to transform, but the United States Government can help, and our assistance programs over the last 12 years have contributed importantly to denuclearization, consolidation of democratic institutions, economic change, health programs, and exchange programs which have brought some 20,000 Ukrainians over the last decade to the United States.

We pursue these programs because they advance United States interests by advancing our vision for a future Ukraine. Mr. Chairman, it is hard to do justice to a very broad and complex relationship in a short opening remarks.

I would just close by saying that we see much potential, and we do wish to move forward with Ukraine. We want to advance individual bilateral issues, expand cooperation on global challenges, and promote Ukraine's integration into Euro-Atlantic and global institutions.

Our ability to move forward on this agenda, however, and Ukraine's ability to develop in the future are going to turn very importantly on the election process that plays out in Ukraine over the next 5½ months

If that process is a free and a fair one, if it meets international standards, that will be an enormous boost for United States-Ukraine relations, and also for Ukraine's effort to draw closer to Europe.

But most importantly, it will be a tremendous victory for the people of Ukraine. Finally, Mr. Chairman, I note your own upcoming visit to Kiev, and we are delighted that you are going.

The State Department and Embassy in Kiev look forward to supporting you in every way. Thank you for your attention, and I would be happy to address your questions.

[The prepared statement of Mr. Pifer follows:]

PREPARED STATEMENT OF STEVEN PIFER, DEPUTY ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman, Members of the Committee, I am pleased to be here today to discuss with you U.S. policy towards Ukraine.

As requested, I shall provide an assessment of the current state of U.S.-Ukrainian relations; the U.S. view of current political and economic developments in Ukraine, including the critical presidential campaign and October election; U.S. assistance to Ukraine; and the status of Ukraine's relationship with NATO and the European Union. I shall also update you on recent interactions we have had with senior Ukrainian officials, including the visit to Kiev by Deputy Secretary Armitage at the end of March. I had the opportunity myself to spend three days in Kiev at the end of April to assess Ukraine's progress on democracy and the presidential election. I hope this information will provide useful background for your upcoming visit to Ukraine, which the State Department very much welcomes.

U.S. VISION FOR UKRAINE

The U.S. vision for Ukraine has remained constant for more than ten years. The U.S. Government wants to see Ukraine develop as a stable, independent, democratic, economically prosperous country, a country that increasingly draws closer to Europe and to European and Euro-Atlantic institutions, that promotes human rights and abides by the rule of law, that maintains positive, mutually-beneficial relations with its neighbors, and that actively contributes to strengthening peace and security in the international community.

We believe that the majority of the Ukrainian people shares this vision. We support this vision because we believe such a Ukraine will be good for its people, will contribute to a more stable and secure Europe, will be a partner with the United States in meeting today's new challenges, such as countering proliferation and defeating terrorism, and will be a country with which we can have robust and mutually beneficial economic and trade relations. Many Americans understand that helping Ukraine to realize this vision is in our own national interest.

It is important to recall that the road to Ukrainian independence during the past century has not been an easy one. In 1917, the Central Rada proclaimed Ukrainian autonomy and in 1918, following the Bolshevik seizure of power in St. Petersburg, the Ukrainian National Republic declared independence. After three years of conflict and civil war, however, the western part of Ukraine was incorporated into Poland, and the central and eastern regions were incorporated into the Soviet Union in 1922.

The Ukrainian national idea persevered throughout the Soviet period, but Ukraine suffered immeasurably. In 1932-33, the Soviet authorities waged a campaign of terror that ravaged the Ukrainian elites and created an artificial famine (called the Holodomor in Ukrainian) that took the lives of many millions of innocent Ukrainians. The Second World War was another heavy blow; estimates are that some 10 million Ukrainians lost their lives. In 1986, Ukrainians again suffered a tragedy of historic proportions with the explosion of Reactor Number Four at the Chernobyl nuclear power station. Ukraine and its neighbors recently marked the 18th anniversary of the Chernobyl explosion, and the country continues to feel the effects of that disaster.

POST-COMMUNIST ACHIEVEMENTS AND PROBLEMS

Ukraine began a new chapter in its history in 1991, when it regained independence with the collapse of the Soviet Union. Ukraine has changed dramatically since independence—as you will see when you visit later this month. Long gone are the breadlines and dour expressions that characterized the Soviet period. Ukraine now is a vibrant, dynamic country that is carving out an important place in Europe.

Ukraine has not made as much progress as we had hoped it would in the early 1990s. In part, this reflects choices that the Ukrainian leadership made, or did not make. But in retrospect, it is also fair to say that our expectations for rapid progress

were somewhat unrealistic. Ukraine has had to undergo three transformations: from a Communist political system to democratic structures; from a command economy to the market; and from a part of the Soviet Union to an independent state with its own foreign relations. Ukraine has had to manage these transformations simultaneously.

I want to highlight in particular several important Ukrainian achievements in the post-Soviet era. The first is strengthened statehood. There were some—including in Ukraine itself—who doubted that the country, after so many years of imperial Russian, then Soviet domination, could stand on its own. But now, more than a dozen years since the fall of the USSR, Ukrainian statehood is stronger than ever. Whereas a National Intelligence Estimate in 1994 entitled “Ukraine: A Nation at Risk” postulated that there might be no Ukraine in five-ten years, few serious analysts would pose that question today.

A second major achievement was Ukraine’s de-nuclearization. When the Soviet Union broke up, Ukraine had on its territory the third largest strategic nuclear arsenal in the world—greater than those of the United Kingdom, France and China combined. Ukraine agreed in January 1994 to return the strategic nuclear warheads located on its territory to Russia for dismantlement in exchange for security assurances, compensation for the nuclear material in the warheads, and expanded Western assistance. Ukraine acted on its commitment by returning strategic nuclear weapons to Russia, completing the transfer in the middle of 1996. In addition, Ukraine acceded to the Non-Proliferation Treaty as a non-nuclear weapons state on December 5, 1994.

Since 1993, Ukraine has been a recipient of U.S. assistance in dismantling its nuclear arsenal, including delivery systems and the infrastructure associated with strategic nuclear systems under the Cooperative Threat Reduction (CTR) (Nunn-Lugar) Program. This assistance included missile, silo and bomber elimination. Building upon this success, the CTR Umbrella Agreement also allows for activities such as upgrading an automated export control system in order to prevent weapons of mass destruction proliferation, and a Proliferation Prevention Initiative designed to offer assistance with border security, again to thwart proliferation.

A third achievement is that Ukraine has built increasingly stronger relations with Europe and Euro-Atlantic institutions. At the NATO summit in 1997, NATO and Ukraine launched the Distinctive Partnership, defining a special relationship between the Alliance and Ukraine. Conclusion of a NATO-Ukraine Action Plan in 2002 charted the way forward for Ukraine to strengthen further its relations with NATO. Ukraine has a Partnership and Cooperation Agreement with the European Union and a regular dialogue on issues of mutual interest.

Ukraine’s recent strong economic performance represents a fourth important achievement. After a decade of decline, Ukraine’s economy began to expand in 2000, spurred in part by reform of the energy and agricultural sectors, and has continued at a strong pace since then. Last year, Gross Domestic Product grew by a remarkable 9.4 percent. Exports of manufactured goods drove the growth, and construction is booming. The government met its budgetary targets, kept inflation under control, and accumulated substantial foreign exchange reserves. Ordinary Ukrainians are beginning to feel the benefits: household income and consumption have risen dramatically. This impressive performance continued in the first quarter of 2004. Ukraine has even managed to repair its sometimes-troubled relations with the IMF and World Bank.

However, while Ukraine has made progress on economic reform, much remains to be done. Tax reform is incomplete, and the problem of arrears in refunds of the Value Added Tax persists. Energy sector reform is stalled. Many in the government appear not to trust market mechanisms, as was evident during last year’s grain shortages when the government implemented informal price controls. The investment climate remains hampered by a cumbersome and opaque regulatory framework, corrupt and illicit business practices, and an arbitrary judicial system. Intellectual property protection is weak, with piracy and counterfeiting of U.S. products at unacceptably high levels. Protection of private property is still inadequate, and privatizations are executed with little transparency for investors. As a result, foreign investment remains low compared with other countries in the region (a cumulative \$6.7 billion at the end of 2003, compared to about \$70 billion in neighboring Poland). Ukraine needs to correct fundamental legal and business infrastructure problems in order to stimulate the investment needed to sustain economic growth over the long term.

Ukraine has had other problems, and these have complicated U.S.-Ukrainian relations. Ukraine’s democracy and human rights record reflects significant problems, and the country lags in this area behind its Central European neighbors. Application of the rule of law can be arbitrary. Government authorities interfere with the

press by harassing, intimidating, and, in some cases, violently attacking journalists, censoring material, and creating a climate of self-censorship. The murder of the journalist Heorhiy Gongadze in 2000 was one of the most notorious cases.

The lack of a credible and transparent investigation into the Gongadze murder, particularly in light of indications of involvement by Ukrainian government officials, is troubling and has had a detrimental impact on U.S.-Ukraine relations. We likewise have been concerned about other deaths of journalists, including the July 2001 beating and subsequent death of Donetsk regional television director Ihor Aleksandrov and the incredible “suicide” hanging of journalist Volodymyr Karachevtsev on his refrigerator door last December. We have continued to press for a full and transparent investigation of the Gongadze case and other cases of violence against journalists, but Ukrainian authorities have been largely unresponsive.

Although Ukraine made a historic decision to support nuclear non-proliferation in 1994, the proliferation of other dangerous weapons systems has been another factor complicating U.S.-Ukrainian relations. In the summer of 2001, the Ukrainians gave assurances to the United States and NATO that Ukraine would not transfer heavy arms to Macedonia. But no more than a month after these assurances, Ukraine supplied such weapons to the Macedonians, complicating the search for peace and stability in the Balkans. Ukraine eventually terminated such transfers, but the slow implementation of that decision created a problem for Ukrainian relations with the United States and NATO.

Bilateral relations suffered a further setback in September 2002 when a recording of President Kuchma’s July 2000 approval to transfer a Kolchuga early warning system to Iraq was authenticated as genuine. We have not located Kolchuga systems in Iraq, and the transfer might not have taken place. But we could not understand why such a transfer was approved.

The fall of 2002 could be said to represent the nadir in U.S.-Ukraine relations. During the past 16 months, however, both sides have tried to find ways to improve the relationship, and we have resolved some problems. The high-level dialogue resumed last fall, especially during a visit by Prime Minister Yanukovych to Washington.

As the war on terrorism has intensified, the United States and Ukraine have found new avenues for cooperation. Ukraine has contributed one of the largest contingents of troops to the stabilization effort in Iraq. We very much value the important contribution that Ukraine is making to the stabilization effort in Iraq. Their brigade operates in the region of Al Kut as part of the Polish-led division and recently suffered three combat fatalities. There have been calls in Ukraine for the withdrawal of the troops, but President Kuchma has stood firm in his commitment, and we are very grateful for Ukraine’s efforts and sacrifices. The Ukrainians have also rendered valuable assistance in Afghanistan, providing thousands of overflight clearances for American aircraft and donating weapons and equipment to the Afghan National Army. And Ukrainian troops have performed admirably in peace-keeping operations in Kosovo and in Africa under the auspices of the United Nations.

DEMOCRACY AND THE 2004 PRESIDENTIAL ELECTION

Looking forward, the single most important issue now on our bilateral agenda is the conduct of the Ukrainian presidential campaign and election. We believe that the upcoming presidential election—scheduled for October 31 this year—will affect Ukraine’s strategic course for the next decade. Ukraine has set itself the goal of integration into European and Euro-Atlantic institutions, including NATO. These institutions are, above all, communities of shared democratic values. The presidential campaign and election provide Ukraine an opportunity to demonstrate that it, too, shares Western democratic values and a respect for human rights. How well Ukraine does in holding a free and fair election will have a major impact on how quickly it can become integrated into European and Euro-Atlantic institutions and will also affect the direction and pace of U.S.-Ukrainian relations.

The Ukrainian president serves a five-year term. President Kuchma was first elected in 1994—in an election that was widely applauded as generally free and fair, and which represented the first time in a former Soviet state when a leader yielded power to another as the result of a free election. President Kuchma was re-elected in 1999, in an election where the balloting process itself went generally well but in which there were concerns about the campaign, including pressure on the media and abuses of “administrative resources.”

President Kuchma has not officially endorsed a successor. He has, however, repeatedly said, privately to U.S. officials and publicly, that he will not run for a third term, which a December 2003 ruling of the Constitutional Court of Ukraine claimed

would be constitutional despite the past and current constitutions' two-term limit. On April 14, pro-presidential forces in the Rada (parliament) chose the current Prime Minister, Viktor Yanukovich, as their candidate, but it is unclear whether he will enjoy the support of all of the various pro-presidential factions throughout the campaign. Former Prime Minister Viktor Yushchenko is the leading opposition candidate and still the most popular politician in Ukraine. Ukrainian political observers anticipate a number of other candidates will enter the campaign, which officially begins in July.

The U.S. Government does not back any particular candidate in the election; our interest is in a free and fair electoral process that lets the Ukrainian people democratically choose their next president. We would be prepared to work closely and eagerly with whomever emerges as president as the result of such a process.

Unfortunately, there have been discouraging signs in recent months. First, Ukrainian authorities continue to harass opposition politicians and those that support them. Starting with the disruption of an opposition rally in the eastern city of Donetsk last October, Ukrainian authorities have put various obstacles in front of members of the opposition—who have a right to be able to compete on a level electoral playing field. More than 100 businesses have reportedly been subject to harassment by the tax police with the goal of putting the firms out of business or getting them to sever their ties with the opposition. One recent—and particularly brutal—example of the harassment was the March 7 beating of an independent trade-union leader and oppositionist's son, who suffered a severe concussion and head wounds.

Recent local and regional elections have been marred by severe problems. For example, in a March 7 Donetsk by-election for a seat in the Rada, regional tax administration head Vasyliev was elected in a supposed landslide following a campaign characterized by extensive abuse of “administrative resources” to his advantage. In the March 28 mayoral election in Romny (Sumy Oblast), pro-government candidate Kalyshnyk won following a campaign of administrative abuses and disqualification of the opposition front-runner. And in the most blatant example of manipulation, in the April 18 mayoral election in Mukacheve, the territorial election commission disqualified 6,000 of 19,000 votes for opposition candidate Baloha and declared the pro-presidential candidate Eduard Nuser the victor. The U.S. Government does not believe that the result announced by the Mukacheve territorial electoral commission reflects the will of the voters of Mukacheve; we have welcomed President Kuchma's call for an investigation and hope for a rapid, transparent review that will lead to rectification of the fraudulent result.

Harassment of the press has included closures of critical media outlets for alleged tax violations or for licensing problems. Most recently, the authorities took steps to end Radio Liberty broadcasting in Ukraine. Radio Dovira, which had broadcast Radio Liberty for the previous five years, ended its contract February 17 after a new pro-presidential director assumed control; the grounds for ending the contract seemed spurious. Radio Kontyent, which offered to begin broadcasting Radio Liberty, had its transmitter confiscated March 13 because of alleged license problems. In mid-March, President Kuchma ordered a moratorium on tax inspections of media outlets, but Embassy reports indicate the authorities have not fully implemented the order.

Pro-presidential forces have attempted to change Ukraine's constitution to protect and extend their power and positions. The constitutional changes proposed last year were originally two-fold in nature: 1) popular election of the president would be replaced by election of the president by the Rada (which is controlled by pro-presidential forces); and 2) the presidency would cede many powers (particularly those having to do with appointments) to the prime minister chosen by the Rada.

In February, the constitutional provisions dealing with election of the president were dropped following polls showing that 80–90 percent of Ukrainians favored direct presidential election and strong critical messages by the United States, European Union and others. On April 8, the provisions dealing with strengthening the powers of the prime minister narrowly failed to obtain the two-thirds Rada majority required by the Ukrainian constitution. While Rada Speaker Lytvyn stated on April 14 that the constitutional change issue was dead until at least 2005, there are indications that forces close to President Kuchma may continue to push for a new vote on what they label “constitutional reform” before the October election. The U.S. Government believes that such changes are best left until after the election.

The U.S. Government is committed to supporting a free and fair election process in Ukraine. We have worked very hard in bilateral and multi-lateral fora, press statements and speeches, and in diplomatic exchanges—indeed, in all possible contexts—to press home the message that a free and fair election is key to Ukraine's integration with the West. In late March, Deputy Secretary Armitage carried a let-

ter from President Bush to President Kuchma on the importance of a free and fair election for U.S.-Ukraine relations, Kuchma's political legacy, and the future of Ukraine. Secretary Powell has strongly conveyed the same point to senior Ukrainian officials. I double-tracked the democracy message in meetings with senior Ukrainian officials April 26–27. Ambassador Herbst meets with Ukrainian officials, legislators, and others on a daily basis to discuss the issue. He also works very closely with other members of the Kiev diplomatic corps to coordinate our message. We have cooperated with the Europeans and other allies on the issue. The European Union, the Parliamentary Assembly of the Council of Europe, the European Parliament, and the OSCE have all taken strong stands on democracy and election issues in Ukraine, and we expect to work closely with them through election day and beyond.

We have kept our investment in promoting democracy and civil society a strong one. For example, the proportion of democracy programs within the FREEDOM Support Act (FSA) budget for Ukraine has been increasing (even though the overall FSA budget for Ukraine has dropped), reflecting the priority we place on these goals. Over the past two years, democracy assistance has gone from one-fifth of the FSA budget for Ukraine to nearly one-third. We are making \$10 million available in direct support for a free and fair presidential election process through support for election administration, independent media and voter education, election monitoring and training, and opinion and exit polling. We believe that this type of support reinforces what is already a very encouraging trend in post-independence Ukraine: namely, the growth of civil society. Civic groups are playing more and more of a role in Ukraine's political and economic life, extending their reach to every sector: business, environment, human rights, media and health care. Everything that we do to strengthen this bottom-up, positive force for change reinforces the ability of Ukrainians to take control of their own lives and make the right choices for their country and their leadership.

NATO-UKRAINE RELATIONS

Our message to Ukraine on democracy and the election stresses the importance of a free and fair process for Ukraine's integration into Euro-Atlantic structures, including NATO. President Kuchma and other members of the Ukrainian leadership have set NATO membership as a goal for Ukraine. The United States is prepared to support Ukraine drawing closer to, and ultimately entering, the Alliance, provided that Ukraine takes and implements the decisions needed—for defense, economic and political reform—to meet the standards of NATO. By virtue of its deployment to Iraq, Ukraine has already demonstrated that it has the political will and the capability to make a serious contribution to meeting global security needs.

NATO has conducted a dialogue with Ukraine about the requirements for membership within the framework of the Charter on a Distinctive Partnership between NATO and Ukraine (signed July 9, 1997) and has advised Ukraine on the content of its 2002 Action Plan goals on defense, economic, and political reform. It is important to note that the Action Plan is a Ukrainian-generated document, which is reviewed by NATO member countries, though the Ukrainians are not obliged to accept suggestions.

In terms of defense reform, Ukraine has been receptive to our suggestions and has done well in beginning the process of reforming its military to make it interoperable with NATO forces. Ukraine has developed new national security objectives and outlined its goals for military reform through 2015, which were recently published in a Strategic Defense Bulletin which Defense Minister Marchuk briefed to NATO representatives in mid-April. The Bulletin is a serious and realistic document. Reform of Ukraine's military will be a difficult process, requiring a massive and costly reduction, retraining and re-equipping of Ukraine's forces. Despite the obstacles that lie ahead, we believe Ukraine is committed to seeing the military reform process through to completion, and we look forward to assisting Ukraine's military meet its goals for interoperability with NATO.

Another critical aspect of Ukraine's NATO membership requirements is political reform. We have stressed to Ukrainian officials repeatedly that Ukraine's NATO aspirations can only be realized by Ukraine demonstrating that it shares the community's core democratic values. The United States and our European allies advised the Ukrainians that the latest draft of the Action Plan lacked goals on democratic reform and ensuring a free and presidential election, and that the Ukrainians had to go beyond the Plan—especially on elections—to advance their NATO aspirations.

UKRAINE-EU RELATIONS

As part of its "European Choice" policy, Ukraine has expressed its ambition to join the European Union. This ambition has recently intensified as Ukraine saw three

of its neighbors—Poland, Hungary, and Slovakia—become part of the European Union on May 1. On several occasions, the Ukrainian government has spoken of seeking compensation for the losses its economy will suffer as a result of EU expansion. The fact that the new members will now require Ukrainians to obtain visas has also generated concern of a new divide being built along Ukraine's western border.

President Kuchma has acknowledged that Ukraine is not ready at this time for EU membership, but he has argued fervently for an association agreement. Such an agreement suggests the issue of ultimate EU membership is a question of when, not if, and the European Union has not been ready to take that step. The European Union, however, is in the process of developing a European Neighborhood Policy, which will address relations with Ukraine. The Ukrainian government had hoped to be granted market economy status by the European Union prior to expansion, but the European Union, while not yet issuing a formal decision, has expressed concern about several aspects of Ukraine's economy, especially with respect to the government's regulation of prices.

UKRAINIAN-RUSSIAN RELATIONS

Ukraine has an important and complex relationship with Russia. On the one hand, the two countries are drawn together by overlapping histories and cultural identities, and a significant proportion of Ukraine's citizens—particularly in the east and in Crimea—are ethnic Russians. Most Ukrainians realistically understand the importance of maintaining good relations with Russia. On the other hand, many are wary of domination by Moscow and increasingly look Westward. They want good relations with Moscow, but also want to maximize their options with the West. We support this; we see no contradiction between Ukraine strengthening its relations with the West and having stable and positive relations with Russia.

Ukraine's balancing act between the West and Russia is evident in a number of policy decisions by the Ukrainian leadership. For example, last month Ukraine ratified the Framework Agreement for the creation of Single Economic Space (SES). This is a framework agreement, signed at Yalta last September, between Russia, Ukraine, Belarus and Kazakhstan, intended to promote economic integration. Many Ukrainian officials insist that Ukraine's only interest in the SES is in obtaining a free trade agreement with Russia, whereas Russia and the other SES signatories speak more ambitiously of customs, tax and monetary union. In ratifying the SES framework agreement, the Rada attached a reservation saying that Ukraine would not participate in any parts of the SES that are inconsistent with the Ukrainian constitution. Our view is that Ukraine needs to be careful that, as SES mechanisms are developed, Ukraine does not compromise its goal of entry into the World Trade Organization.

The controversy over Tuzla Island and the Kerch Strait is another topical issue in Ukraine-Russia relations. Last September, Russian engineers unexpectedly began construction of a causeway between the Taman Peninsula of the Russian Krasnodar territory and the Ukrainian island of Tuzla in the Kerch Strait. The Russians eventually halted construction just short of the island. Then Kiev and Moscow began negotiations on delimiting a maritime border in the Kerch Strait, as well as establishing the status of the Sea of Azov. Last December, Presidents Kuchma and Putin announced that they had signed an agreement, which was recently ratified by both the Rada and the Russian Duma, though the precise location of the border has yet to be worked out by experts.

The interplay of U.S., Russian and Ukrainian interests has been one of our most complicated and delicate policy concerns for the region in the post-Soviet era. On the one hand, we have stressed to Russia that our aim is to cooperate, not to compete, with Russia in the former Soviet space. At the same time, we have emphasized that Russia must respect the sovereignty and independence of its neighbors, and that we intend to have normal relations with those countries. We do not view our relationships in the region in zero-sum terms, and our hope is that our interlocutors in Moscow and Kiev will share a similar view. We believe Ukraine's good relations with Russia and Euro-Atlantic integration can be complementary, rather than competing, goals.

NON-PROLIFERATION

Historically, Ukraine's record on non-proliferation has been strong, albeit with some serious lapses. Ukraine's decision in 1994 to transfer nuclear weapons to Russia was a very positive step in the nuclear non-proliferation effort. Ukraine has cooperated with efforts to limit proliferation of weapons and technologies of mass destruction (WMD) and participates actively in numerous international non-prolifera-

tion regimes. For instance, Ukraine supported the Wassenaar Arrangement's successful efforts to establish more stringent standards for the export of Man-Portable Air Defense Systems. In 1998, Ukraine agreed to end its participation in the construction of a nuclear power plant at Bushehr, Iran.

At the same time, there remain some serious questions on arms export controls and containing illicit arms sales. We have noted improvement over the past year, as Ukraine has made some significant efforts to strengthen its export control system. Ukraine passed a new export control law in March 2003. The law codified and clarified a body of decrees and regulations that had served as Ukraine's basis for export controls. Through our Export Control and Border Security program, we are supporting Ukraine's efforts to identify additional legislation that may be necessary for effective enforcement of this law.

The Ukrainian government has reinforced the role of the Committee for Military Technical Cooperation and Export Control (CMTCEC), a licensing review body that considers sensitive export cases. In early 2004, the Ukrainian government improved the CMTCEC's oversight of the transport of military and dual-use goods by air transportation companies. These changes support parallel efforts to bolster the effectiveness of Ukraine's State Service for Export Control, the chief export licensing body. The Ukrainian government has also welcomed visits by foreign (including U.S.) experts to discuss export control issues, and later this month Ukraine will hold its first non-proliferation discussions with NATO.

Continued efforts are necessary if Ukraine is to establish fully effective export controls. Ukraine needs to encourage greater transparency about its arms exports, broader information-sharing among the agencies involved, and thorough oversight of the activities of arms exporters. Stricter enforcement and vigorous punishment of violators would also send a clear message of Ukrainian seriousness in implementing its export control laws. We continue to monitor arms transfers and military cooperation between Ukrainian entities and countries of proliferation concern. We seek more cooperation from the Ukrainian government to prevent such transactions, and continue to work with Ukraine to improve Ukrainian enforcement and enactment of structural reforms.

ECONOMIC ISSUES

We remain strongly engaged with the Ukrainian government on economic issues. We strongly support Ukraine's efforts to accede to the World Trade Organization (WTO). WTO membership would help boost Ukraine's economic growth, diversify trading partners, and strengthen its ties to Europe. The U.S. funds assistance programs to help Ukraine develop legislation to bring its trade regime into conformity with WTO requirements. We are working closely with the Ministry of Economy and European Integration and other agencies, but we have stressed that Ukraine's progress towards accession will depend on its commitment to effect needed changes in its trade rules and practices.

We have also advised the Ukrainians that a particular prerequisite to our concluding a bilateral market access agreement is improved protection of intellectual property. Ukraine is designated under Special 301 as a Priority Foreign Country, is subject to U.S. trade sanctions, and has lost its GSP benefits due to deficiencies in intellectual property rights protections. Ukraine has improved its performance on curtailing optical media piracy, but it has yet to fulfill its commitment made in the 2000 Joint Action Plan to enact legislation to protect optical media. The government has several times proposed amendments to the Optical Disc Licensing Law, but the Rada has so far failed to pass it. We hope they will be successful. Although the government has improved its enforcement of IPR and reduced production of pirated optical media, it needs to do more to combat distribution of pirated products.

In the course of our bilateral dialogue, our Ukrainian interlocutors often raise the question of Ukraine's status as a non-market economy (NME) country under the U.S. antidumping law. There are six statutory factors that guide the Department of Commerce in determining a country's status. These are: the extent of currency convertibility; wage determination; openness to joint ventures and foreign investment; government ownership of and/or control over means of production; government control over prices and the allocation of resources; and other factors deemed appropriate.

When the Commerce Department last conducted a formal review into Ukraine's NME status, it decided in August 2002, in consultation with the Ukrainian government, to defer indefinitely its final decision. As Commerce explained to Ukrainian government officials at the time, in order for Commerce to resume its inquiry, the Ukrainian government must submit a new formal request on the basis of changed circumstances. In so doing, it should consider its progress in the statutory areas.

We have provided information to the government on the process it needs to follow and have advised that no further action on NME can occur until it submits its request.

We are continuing our efforts to resolve a number of long-standing disputes involving U.S. investors. These cases are symptomatic of problems with Ukraine's investment climate. On several occasions, the Ukrainian government has failed to enforce arbitral awards, contracts, and court decisions involving U.S. companies, including three business initiatives involving FREEDOM Support Act funds. These cases form part of the agenda of the biannual U.S.-Ukraine Committee on Economic Cooperation. We have made progress on several of the cases, but we will need to continue to press the Ukrainian government to keep its commitments and obligations until all the cases have been resolved.

Ukraine has complied with the provisions of the Jackson-Vanik Amendment to the Trade Act of 1974. In principle, we support Congressional action to "graduate" Ukraine from Jackson-Vanik and to grant normal trade relations with Ukraine.

Another key issue on the economic agenda is the Odesa-Brody pipeline. Late in 2001, construction was completed on the Odesa-Brody oil pipeline linking the Black Sea to the southern Druzhba pipeline system in western Ukraine. The Ukrainian government asked for our help in marketing the pipeline as a Eurasian Oil Transportation Corridor. We remain convinced that the best use of the pipeline is to transport Caspian crude to refineries in central Europe, enabling the oil to bypass the increasingly crowded and environmentally sensitive Bosphorus Straits. This option would help Ukraine integrate into European energy structures and to diversify its own supply of oil.

As we have told the Ukrainian government, reversing the flow of the pipeline to facilitate export of Urals crude through the Black Sea, as some have proposed, could undercut Ukraine's interests. Even a "temporary" reversal would lead shippers to develop other land-based routes from the Caspian to Europe, essentially shutting Ukraine out of this potentially profitable transport business. It is our understanding that U.S. oil companies are interested in using Odesa-Brody, and we have urged the Ukrainians to try to negotiate a transparent commercial agreement with potential suppliers, customers, and transit countries.

I am pleased to report significant success in working with Ukraine in the fight against money-laundering. The international Financial Action Task Force (FATF) placed Ukraine on its list of Non-Cooperating Countries and Territories (NCCT) in September 2001 due to inadequacies in its anti-money-laundering regime. The U.S. Government worked closely with the Ukrainian government to help develop a comprehensive anti-money-laundering law consistent with international standards. The new law entered into force in June 2003, and the Ukrainian government has made a serious investment in its implementation. As a result, FATF was able this past February to remove Ukraine from the NCCT list. We continue to work with the Ukrainian government to address remaining deficiencies, such as lack of progress on criminal prosecution for money-laundering.

U.S. ASSISTANCE

Transforming Ukraine—building a modern market economy, consolidating democratic structures, and building other institutions of a 21st century European state—is a task first and foremost for the Ukrainians themselves. The United States, however, can help, and it is in our interest to do so. Therefore, during the years since Ukraine achieved independence, we have provided \$3.328 billion in assistance through the Cooperative Threat Reduction Program, the FREEDOM Support Act and other assistance programs. These transfers have contributed significantly to achieving important U.S. foreign policy goals with respect to Ukraine, and there are numerous examples.

- Nuclear Threat Elimination—U.S. CTR assistance has eliminated the missiles, missile silos and bombers that once targeted some 2000 nuclear warheads against the United States.
- Nuclear Safety—Much progress in the area of nuclear safety already has been achieved, including the installation of and training of specialists in operating full-scope simulators. For example, vital upgrades for sabotage protection were completed at the Khmelnytsky nuclear power plant and are being implemented at the Zaporizhzhya nuclear power plant, thus improving nuclear reactor security.
- Military Restructuring—U.S. Government assistance has contributed to Ukraine's increasing capacity to promote regional stability through its growing involvement in peacekeeping activities. For example, in FY-03, \$1 million

in Enhanced International Peacekeeping Capability funding helped Ukraine establish its own multinational-staff course to enhance the interoperability of Ukrainian peacekeepers with U.S. and NATO forces. These types of programs have helped prepare Ukraine for deployments such as Iraq.

- Exchanges—In FY-03, some 1,480 Ukrainian citizens traveled to the United States on USG-funded training and exchange programs implemented by USAID and the U.S. Departments of Agriculture, Commerce and State, bringing the cumulative number of Ukrainian participants to over 19,570.
- Democracy Achievements—U.S. Government-supported legal programs have provided media professionals with training in media law and legal defense, helping to achieve a 63% success rate in media-related legal cases. As another example, USG assistance helped to develop election-related amendments which in 2003 were added to the Criminal Code to deal with so-called “dirty election technologies.”
- Election Assistance—The U.S. Government is funding over \$10 million in assistance for the election and coordinating with other bilateral and multilateral donors on assistance programs.
- Economic Achievements—In 2003, a successful U.S. Government-funded deregulation program facilitated the streamlining of 210 regulatory procedures by regional authorities and city councils: a total of 20 “one-stop-shops for business registration reduced registration time from 30 to 14 days, and additional one-stop shops are being established nationwide in FY-04. Under a U.S. Government-funded agriculture reform program, by the end of 2004 more than one million individuals will have received land titles, providing the recipients with twice the rental income as those without land titles, plus solid proof of private ownership.
- Health—U.S. Government health-care reform programs continued to support a shift in health-care services from costly tertiary care to community-based primary health care and family-medicine clinics. A total of 18 demonstration centers in six regions were established under a U.S.-Ukraine partnership.
- Law Enforcement—U.S. law enforcement agencies worked closely with senior Ukrainian officials to help them develop an anti-money laundering law and related regulatory framework that met international standards.
- Anti-Trafficking—To fight trafficking in persons, the U.S. Government improved the Ukrainian government’s ability to combat trafficking by helping to beef up investigations, prosecutions and regional cooperation with law enforcement agencies in destination countries. Prosecution numbers have steadily increased. We also supported a crisis center that provides training and counseling to victims.

LOOKING TO THE FUTURE

It is clear that there is significant potential for further development of U.S.-Ukraine relations, to the advantage of both countries. We have a broad and robust agenda, and hope to work to advance individual bilateral issues, expand cooperation on global challenges, and increasingly integrate Ukraine into Euro-Atlantic and global institutions.

As I have noted, the most important issue now on the agenda is the conduct of Ukraine’s presidential election. During his March visit, Deputy Secretary Armitage delivered an unambiguous message to President Kuchma and others about the importance of a free and fair election. We have tried to make as clear as possible what we see at stake in the conduct of the presidential campaign and election, and we now wait to see if the Ukrainian leadership will create the conditions for a good election. If that election process is free and fair, it will provide an important boost to U.S.-Ukraine relations and to Ukraine’s effort to draw closer to Europe. It will also, most importantly, be a true victory for the Ukrainian people.

Thank you very much for this opportunity today to discuss our Ukraine policy. I would be happy to address your questions.

Mr. BEREUTER. Thank you very much, Secretary Pifer. I think you have done an excellent job of summarizing a very diverse and important set of subjects. I would like to ask you if you can, or if this forum allows it, on three subjects, and then I will turn to Mr. Wexler for his questions or comments.

First, a rather simple and straightforward question; is Radio Free Europe back on broadcast now in Ukraine? I know that they have had difficulties with various stations that were carrying it in Ukraine.

Secondly, your comments about the state of press freedom in Ukraine, and how the United States Government can discourage governmental intimidation, or attempts to intimidate independent media during the election campaign.

And finally I was going to ask you a question about the Administration's assessment of Ukraine's current record on the proliferation of weapons of mass destruction and components, and arms sales to rogue regimes, or to any other actors.

And then it seems even more urgent because on the 6th of May, I understand that Ukrainian security forces seized 370 pounds, or 375 pounds, of radioactive material seen as and speculated as a likely ingredient for a dirty bomb. And this was brought apparently, Cesium 137, from the southern part of the country by purchasers in Kiev.

And say as much as you can about this, and whether or not the stepped-up efforts we are providing, and we intend to provide assistance to them, for border control and for detecting and seizing smuggling of WMD or components, is already happening, or is that prospective?

Mr. PIFER. Sure.

Mr. BEREUTER. And if there are things that you would rather not answer here, just briefly mention that and we will try to do this in another setting.

Mr. PIFER. Very good. Okay. Let me begin on the question of Radio Liberty. In January, Radio Liberty was—yes, it is actually Radio Liberty that broadcasts in Ukraine.

Mr. BEREUTER. Thank you.

Mr. PIFER. Radio Liberty in January was primarily broadcasting through a contract with the Dovira system of FM stations, which gave it coverage pretty much across the entire country.

In the middle of February, Radio Dovira informed Radio Liberty that they were terminating the contract. They said that the Radio Liberty broadcasts were not popular. This went completely against polling information on Radio Liberty that we had seen.

And there are some suspicions that this was due to a new manager who may have had political ties to certain forces in Ukraine. That took Radio Liberty off of Radio Dovira.

They then reached out to Radio Kontynent, which offered to pick up and broadcast, again on the FM band, their transmissions. Radio Kontynent unfortunately about 4 days after they began broadcasting Radio Liberty had its transmitter shut down.

So the current status is that I believe that Radio Liberty is broadcasting somewhat on shortwave, and they have some smaller transmissions, but they have nothing like the nationwide coverage that they had back in January.

So we have pressed the Ukrainian government on this. Ambassador Herbst has raised it several times. I raised it when I was there 3 weeks ago. Deputy Secretary Armitage has written Ukrainian officials about this to try to get Radio Liberty back on the air with the sort of coverage that it had 4 months ago, which really

covered most of the country, because Radio Liberty was really seen as an independent news source, and I think having this kind of source is important for Ukrainians, particularly in the run up to an election.

So we can't report a lot of progress there. We continue to work on it, and we will do our best. On the question of media freedom in Ukraine, we have made this an issue for a number of years in telling the Ukraine government that if they wish to be seen as a normal European state, if they wish to fully integrate into Europe, a free, vigorous, and unchecked press is an important part of a modern democracy.

We continue to raise this, and we push this, and we also have assistance programs that are geared to helping journalists learn modern journalistic techniques. But ultimately these are decisions that the Ukrainians are going to have to make.

And the message that we continually impress on them is that if you really want to be in Europe, and if you want to follow the successful path of countries such as Poland and the Czech Republic, you need to put in place a modern democratic system, and that means a free and independent media.

And unfortunately as we have seen, they fall short in significant regards in this area. I would comment that there is I think a distinction perhaps between the print media in Ukraine and the broadcast media.

What we have seen—the print media in fact are a range of newspapers which really do reflect the full spectrum of political opinion. The situation is much more troubling with regards to Radio Liberty on the broadcast side, but also with regards to television broadcasting, where the major national broadcast networks are in the hands of a relatively small group.

And there are concerns that when the election campaign formally begins in July, will all of the opposition candidates have equal access to the national broadcast networks, which are where most Ukrainians get their information today.

On the question of Ukraine's record on proliferation, there have been some very good successes. There have also been some areas of concern. In some instances over the last 5 or 6 years, where we have raised specific issues, and it would be better if I not go into detail on those questions.

But if we raised specific issues, we have in fact got or received some very responsive reactions by the Ukrainians. In other cases their response has been less satisfying. The Gongadze case was mentioned.

This was one where we believe that the transfer of Kolohuga passive detection system had been authorized to Iraq. We were not sure whether the transfer had actually taken place or not.

The Ukrainians invited us to have some discussions to get to the bottom of this, and when we had discussions, we had extremely good cooperation from the Foreign Ministry and the Ministry of Defense.

But unfortunately when we talked to the security services there were significant gaps that raised significant questions. So the record does have some blemishes on it. Over the last year, we have tried to work in a cooperative way with the Ukrainians, focused on

looking at their export control system, and looking at ways that they can improve it.

So that the system in fact gives them a set of checks and balances that allows them to stop the proliferation of either technologies related to weapons of mass destruction, or other military useful items at an early point, so that they have confidence that they can have full control on that.

And there has been a fairly good dialogue. We work on it, and the British and the Polish governments also participate, and we work together in that format with the Ukrainians.

We have also provided significant equipment to them to help increase their ability to detect materials, including radioactive materials on their borders. So we are providing technical assistance, both in terms of how they restructure their system, but also in terms of providing some of the mechanical equipment.

In terms of the report from May 6th, we have not yet seen a formal report from our Embassy from their discussions with the Ukrainians. It is one of those things that we follow very closely. The Embassy, when they see a report like this, quickly goes to the Ukrainian government to say, "What is going on here."

As I said, we don't yet have confirmation on the specifics here. I will say that in some cases in the past that we have heard alarming press reports, and when we actually have the conversation with the Ukrainian experts, it turns out to be something very different, and in many cases less alarming than the original press reports suggested. Thank you.

Mr. BEREUTER. Thank you. It will be interesting to know if this is transitioning Ukraine, or if it started in Ukraine. But I will turn to the gentleman from Florida for comments and questions that he may have.

Mr. WEXLER. Thank you. I would be curious if you could share with us based on your experience your advice and counsel as to how in a place such as Ukraine, and it is not unique to Ukraine, but in a place such as Ukraine, how does the United States maximize our ability to affect change in Ukraine?

The example, and I offer it not as a criticism, but the example of Radio Liberty, Radio Free Europe, what is the—what is it actually?

Mr. PIFER. Radio Liberty is what broadcasts in Ukraine.

Mr. WEXLER. Okay.

Mr. PIFER. But it is partners with Radio Free Europe.

Mr. WEXLER. Okay. The example of the radio station suggests as well intentioned as our policy is, and our goals are, that our ability to effectuate them is fairly minimal. As I understand it the amount of foreign investment from the United States in Ukraine is fairly minimal.

The economic ability to affect change in a positive way is somewhat marginalized. They have more than 1,600 troops in Iraq doing us a big favor. Where and how do we exercise any persuasive authority at all?

And if I could ask just an unrelated issue. My understanding when you were Ambassador, you worked very hard in terms of the issue of restitution of religious communal property, and I thank

you for that. I stand in great admiration of your dedication and your efforts in that regard.

As I understand it, despite yours and some other people's, the current Ambassador's efforts, the pressure on the Ukrainian government to adopt a more transparent process of returning some of the communal properties has not yet been implemented in a way that we had hoped.

And I was hoping that you could give us an assessment of the status of the restitution of the communal and religious properties of the Jewish community, and if you could do that, I would greatly appreciate it.

Mr. PIFER. Thank you very much. In terms of the question on leverage, we try to maximize the tools that we have, while recognizing that on a lot of these questions our influence is going to be on the margin.

Again, in terms of deciding what kind of political system they are going to have, in terms of deciding some of the questions, such as does Radio Liberty operate, and will there be constitutional changes, these are decisions that the Ukrainians are going to make themselves.

But we do make this a regular feature of our diplomatic engagement at all levels, and I can tell you over the last 6 months the issue of democracy and looking toward those directions, has been the number one issue in terms of how we talk to the Ukrainians.

And in terms of our communicating our concern that it is very important that they get this election process right if they want to see United States and Ukraine relations achieve greater momentum, and if they want to move closer to Europe.

We also use assistance programs to try to maximize our leverage by targeting ways that we can help plant the seeds for internal change, for bottom-up change. And I think in some areas here we are now beginning to see some success on the civil society side.

For example, when I was in Ukraine 3 weeks ago, I had the opportunity to meet with a roundtable of Ukrainian non-governmental organizations, and it was really quite encouraging to hear them talk about how they were going to monitor the election process, and how they were going to ensure that apart from the fact that there could be monitors from every candidate at each polling station, that the Committee of Ukrainian Voters, which we provided significant resources to, are going to have an independent, non-partisan observer, at every polling site.

So we are being able to generate some pressure from the bottom up, and we have I think had some successes. If you go back to last December, there were constitutional amendments passed that in one provision would have taken the right to elect the Ukrainian President away from the people, and given it to the Parliament.

I think there was a lot of resistance to that domestically, but the U.S. Government was fairly critical of that, and I believe that we had some impact in the February decision to drop that provision from the Constitutional changes.

So I do believe that we have influence. I think the influence also stems from the fact that the Ukrainian leadership wants to have a good relationship with the West. They are more comfortable

when their relations between the West and Russia have a degree of balance.

And this gives us some leverage basically to press home the message that if you really want to have a stronger relationship with the West, and move toward the West, you need to have a stronger record on the democracy side.

On the question of restitution of property, I don't at this point have the exact figures, but when I was there in my last year in 2000, we had been talking to the Jewish community in Ukraine about trying to set some priorities.

And I believe at that point that they had a list of about 35 to 50 properties out of a total that I think was somewhat over 2,000. And that was a combination of communal properties, but also private properties.

Our suggestion at the time was to define the priority properties for restitution, and also that we thought that it was probably easier for the Ukrainian government to focus on communal properties, as opposed to private property.

And my understanding, and unfortunately I can't give you direct numbers, but we can check and get back to you on this, is that in fact in terms of most of the synagogues, those have now been returned. So there has been good progress on that, although not as fast as we would have liked to see.

But I would be happy to go ahead and check with our Embassy, and I can get back to you with some specific numbers, because I think this is a case where the Ukrainians are making progress.

[The information referred to follows:]

LETTER RECEIVED IN RESPONSE TO QUESTION ASKED BY THE HONORABLE ROBERT WEXLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

UNITED STATES DEPARTMENT OF STATE,
WASHINGTON, DC, JUNE 25, 2004.

Hon. ROBERT WEXLER,
Committee on International Relations,
House of Representatives, Washington, DC.

DEAR REPRESENTATIVE WEXLER: During the hearing on U.S.-Ukrainian relations held by the Europe Subcommittee of the Committee on International Relations on May 12, 2004, you asked Deputy Assistant Secretary Steven Pifer about the status of religious groups' communal and private property restitution in Ukraine. The issue has been reviewed in order to provide you with the most up to date information we have.

With regard to communal property, in September 2002 the Cabinet approved an action plan designed to return religious buildings to the religious organizations that formerly owned them. An Interagency Commission has responsibility for settling issues pertaining to the use of religious properties. The process of restitution in Ukraine continues, albeit slowly.

According to the State Committee for Religious Affairs (SCRA), as of January 1, 2004, religious organizations in Ukraine were using 19,975 religious buildings. In 2003, 863 buildings, including 53 architectural heritage sites, were transferred for ownership and use by religious organizations. Since independence in 1991 a total of 8,776 properties have been returned to religious organizations.

On May 11, 2004 President Kuchma signed into law a bill on Approving the State Program of Preservation and Use of Cultural Heritage Sites for 2004-2010. The program envisages an inventory of cultural heritage sites, historical cemeteries and memorial sites and enhanced measures to preserve them.

Intra-communal competition for particular properties complicates the restitution issue for both Christian and Jewish communities. The slow pace of restitution is also a reflection of the country's difficult economic situation, which severely limits funds available for the relocation of the occupants of seized religious property. Al-

though the program has made some progress, all of the major religions have outstanding claims.

Various religious groups throughout the country have cited discrimination and deliberate delays in the restitution process at the local level. There are complaints from the Kiev Patriarchate of the Orthodox Church, the Greek Orthodox Church and the Moscow Patriarchate of the Orthodox Church. Jewish community representatives report that some progress has been made, although restitution is proceeding slowly. Additionally, different Jewish groups have laid competing claims to the same property.

On April 29 the Interagency Commission recommended to Kharkiv Oblast Governor Yevhen Kushnarev that the former Feinberg Synagogue be returned to the Progressive Jewish Congregation headed by Rabbi Alexander Dukhovny. The synagogue is currently being used as a hotel, with half the rooms for guests and half rented to businesses. The governor is expected to sign the recommendation this month. However, a heretofore unheard of educational-cultural Jewish organization in Kharkiv has filed an appeal and competing claim to the former synagogue. Together with necessary building renovations, this claim will undoubtedly delay the restitution.

With regard to private property, Ukraine has no laws or decrees governing the restitution of private property, nor has the Government made any proposals in this regard. The most difficult aspect in the eventual restitution of private property would be relocation of current inhabitants.

The U.S. Embassy in Kiev actively monitors restitution of religious property and regularly meets with representatives of Ukraine's religious communities in Kiev.

Sincerely,

PAUL V. KELLY, *Assistant Secretary,
Bureau of Legislative Affairs.*

Mr. PIFER. It is probably not as quickly, or is not being made as quickly as the Jewish community in Ukraine would like to see. But there is a degree of forward movement, although that tends to be focused more on the communal property issue, as opposed to private properties, where I think the Ukrainians feel that private property restitution raises a big issue, because it is not of course just a question of the Jewish community.

But it is also a question of many others who lost properties to the communists over the last 80 years, and they really have not figured out a good way to come to terms with that.

Mr. BEREUTER. Secretary Pifer, thank you very much for your testimony, and for I think very complete, and very helpful answers to the questions that we presented to you. I am sorry that I did not get a chance to meet you ahead of time and to have a brief conversation, and I hope perhaps that it might be convenient for both of us if we had a discussion before we leave for Kiev.

Mr. PIFER. I would be happy to do it at your convenience.

Mr. BEREUTER. Thank you very much.

Mr. PIFER. Thank you.

Mr. BEREUTER. I would like now to call the second panel. We may have votes soon and I would like to get underway, and we will complete as much as we can before that happens.

Two distinguished persons. Dr. Anders Aslund, a former Swedish Diplomat, has served in Kuwait, Poland, Geneva, and Moscow, and now directs the Russian and Eurasian Program at the Carnegie Endowment.

And also co-Directs Carnegie's Moscow Centers, Project on Economics of the Former Soviet States. He is the Chairman of the Economics, Education, and Research Consortium, and Chairman of the Advisory Council in the Center for Social and Economic Research in Warsaw; and has served as Economic Advisor to the governments of Russia and Ukraine; an Adjunct Professor at Georgetown

University, and been a Professor at the Stockholm School of Economics.

I recall having you as one of the stimulating speakers at a couple of Aspen Institute sessions quite some time ago. It is nice to see you again.

Mr. ASLUND. Thank you.

Mr. BEREUTER. And Dr. Nadia Diuk, who serves as Director for Central Europe and Eurasia at the National Endowment for Democracy, a private, non-profit organization funded by the U.S. Congress. We are well aware of its activities.

And its objective is to strengthen the democratic institutions around the world. She has supervised and led projects throughout Eastern Europe in the early 1990s, the Balkans and Belarus in the mid-1990s, and is now working, as I understand it, toward the consolidation of democratic efforts in Russia, Ukraine, and the three states of the Southern Caucasus region and the countries of Central Asia.

Prior to her appointment at NED, she taught soviet politics and Russian history, and research associate to the Society for Central Asian Studies in England, and Editor-in-Chief of the London-based publication, *Soviet Nationality Survey*.

Both are authors, having authored important works. We appreciate both of you taking time to testify today. Your entire statements will be made a part of the record. Thank you for providing them to us. You may summarize.

I would appreciate it if you could do it just to be sure that we have enough time for questions, in maybe 7 or 8 minutes each. And we will call on you in the order that I have introduced you according to the schedule here. Dr. Aslund, you may proceed.

STATEMENT OF ANDERS ASLUND, PH.D., DIRECTOR, RUSSIAN AND EURASIAN PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Mr. ASLUND. Thank you, Mr. Chairman. I would like to thank you very much for this opportunity to speak on a very important topic. In my view, there is no more important political event in Europe this year than the Ukrainian elections next October.

They amount to a clear-cut choice between democracy and dictatorship, as well as between a western and eastern geopolitical orientation. The United States is well liked and highly influential in Ukraine, and can do a great deal to influence that country's choice.

I therefore very much welcome your forthcoming trip to Ukraine. The main objective for United States policy on Ukraine should be to support democracy. If only democracy is secured, Ukraine is most likely to choose a Western geopolitical orientation.

I should mention that I first visited Ukraine in 1985 and I have kept in close touch with the country ever since, and I worked as an economic advisor to the Ukrainian government from 1994 to 1997.

And I think Ukraine's economic development is really a key development that we have seen in recent years. It is a profound economic metamorphosis that occurred with the market reforms in 2000, that have really transformed the country from a stagnant economy to a highly dynamic economy. For the last year Ukraine

has enjoyed more than a 7 percent growth a year, and the growth seems rather to be accelerating. This economy is rapidly becoming more sophisticated and integrating into the world economy.

My contention is that with such a strong competitive market economy, Ukraine needs to make very serious mistakes to fail. Unfortunately, that cannot be excluded, because its political system is pretty retrograde. A few big businessmen or oligarchs control the government, and the main media are in collusion with President Kuchma.

But still that is much better than if you have a centralized secret police that control the country. There is no comparison between those two.

A few words about the Ukraine-Russia economic relationship since you asked about it. In the 1990s, a vast economic relationship was essentially about gas trade. Each year a few oligarchs shared a few billion dollars at the expense of the governments and populations of those two countries.

Essentially this has ceased today. It was cleaned up by the energy reforms in Ukraine in 2000, and the change of Gazprom management in Russia in 2001. I don't think it is a big issue, although the gas trade remains nontransparent.

Instead, the main features of Ukrainian-Russian economic relations have been trade and investment. With the big liberalization of the Ukrainian economy, substantial Russian direct investment occurred in Ukraine, largely big Russian private groups.

Because of earlier market reforms in Russia and then in Ukraine, the Russian companies have tended to be more commercially and legally advanced than the Ukrainian competitors.

But by and large, I would argue that Russian investment in Ukraine has been economically sound and socially beneficial. Trade between Russia and Ukraine is another matter.

It has been troubled by freewheeling protectionism on both sides. Formerly, Russia and Ukraine have a free trade agreement from 1993, but it has never worked. Whenever one company is successful in exporting to the other country, the other country imposes arbitrary protectionist actions without being restrained by anything.

Russia, rather than trying to solve this problem, has proposed one new trade arrangement after the other, but the problems have remained. Last year, Russia came up with a nebulous new initiative called Common Economic Space, and as you mentioned, designed for Russia, Ukraine, Kazakhstan, and Belarus.

Controversially, the Ukrainian government signed this agreement, and it was recently ratified by the Ukrainian parliament, but it is not likely to mean very much, either positively or negatively.

The real problem is that there is no arbitration mechanism and there is no penalty mechanism if somebody violates the free-trade. In order to establish that mechanism, both Russia and Ukraine need to join the WTO. That should be the focus.

And this other illusory trade agreement, I think that one can pretty much ignore. Mr. Chairman, looking forward now to the Presidential elections on October 31, I think that everybody thinks that they will take place, and that they will be a watershed in modern Ukrainian history, almost comparable with national independence of December 1991.

And the stakes are high. The two dominant candidates are now apparent. The democratic center-right candidate will be former Prime Minister Viktor Yushchenko, while current Prime Minister Viktor Yanukovich represents the oligarchs.

In a free and fair election, Yushchenko is likely to win, but the government is using all means to skew the election to the advantage of its candidate. The resources that are being mobilized for this presidential election are truly enormous.

The common assumption is that the total election funds will amount to \$200 to \$300 million, and that is about as much as President George Bush's campaign fund, and this is being put up by a limited number of big businessmen.

What we have seen this year, and which has already been discussed, is that the media have been subject to control, or more control. Ukraine has a large number of regional and local elections, and each election seems to become more fraudulent than the last.

We are also seeing several special police forces that are being used for repressive action. A few journalists and politicians die under mysterious circumstances each year, mostly in traffic accidents; alternatively, in purported suicides.

One of the most important players in the Ukrainian presidential elections will be Russia. I think that we should see it as two parts. One is the Russian government that will fully support the oligarchs and Yanukovich, and vote against democracy.

On the other hand, we will have a Russian oligarchs, who have rather too much trouble with President Putin at home, and are not likely to support Mr. Putin's candidate in Ukraine entirely, but rather split their financial sources on a different side.

Turning to the U.S. role. Besides Russia, the United States has persistently been the country that has devoted the greatest attention to Ukraine. The United States is well liked in Ukraine, and every statement in Washington about Ukraine, such as this hearing, is very carefully scrutinized in Kiev.

Ukraine has committed itself to democracy in a large number of international agreements, notably to the OSC and the Council of Europe, or some bilateral agreements with the U.N. The United States can hold Ukraine to these agreements.

Sometimes, U.S. authorities protest when independent media are being closed down, as the Deputy Assistant Secretary, Steven Pifer, here discussed, but much more could be done at a higher level.

The Ukrainian government uses the State Tax Inspection as its main agency of repression against businessmen who support the opposition, and against media outlets. The U.S. frequently protests, but more loudly it could be done.

Both the U.S. and EU have protested sharply against the aggravated malpractices in regional and local elections, and the Ukrainian government does respond, but not fully to such protests.

In the presidential elections in October, the international election observers are accepted, and this is not one of the main demands of the opposition, but as many international observers possible can take place.

The second aim of United States policy on Ukraine is in its integration into the West. Ukraine is already a member of most inter-

national organizations. The three remaining ones are WTO, NATO, and the European Union.

For the United States, the first interest should be to have Ukraine accede to the WTO as soon as possible. The main outstanding issue in general is the U.S. demand for stringent law on intellectual property rights.

With little doubt, Ukraine will adopt this soon after the presidential elections, regardless of who wins the election. Second—

Mr. BEREUTER. Dr. Aslund, I am sorry, but could you just give us the last recommendations, please, as quickly as you could.

Mr. ASLUND. Yes. So let me just come to the bottom line that the United States essentially has one dilemma in its policy to Ukraine, and that is the choice between the relative importance of Ukrainian troops in Iraq, and democracy.

Within the Ukrainian elite now there is a strong sense that it is more important for the United States leadership that Ukraine has sent troops to Iraq than what really happens in democracy.

And I think that answers your question about why isn't the United States more effective, because it is perceived that the Ukrainian administration has provided what the United States Administration wants most of all.

I think that is the essence here, the bottom line. This is the balance that needs to be addressed, and I think that is something that you could do very well when you go to Kiev later. Thank you.

[The prepared statement of Mr. Aslund follows:]

PREPARED STATEMENT OF ANDERS ÅSLUND, PH.D., DIRECTOR, RUSSIAN AND EURASIAN PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Mr. Chairman, I would like to thank you for this opportunity to speak on an important topic. In my view, no political event in Europe this year is more important than Ukraine's presidential elections next October. They amount to two clear-cut choices between democracy and dictatorship as well as between a Western and Eastern geopolitical orientation.

The United States is well liked and highly influential in Ukraine. The U.S. can do a great deal to influence that country's choice. The main objectives for U.S. policy on Ukraine should be to support democracy. If only democracy is secured, Ukraine is most likely to choose a Western geopolitical orientation.

As a matter of disclosure, I first visited Ukraine in 1985 and have kept in close touch with the country ever since. I worked as an economic advisor to the Ukrainian government from 1994 to 1997, and I have continued to follow its economic and political development.

RECENT ECONOMIC AND POLITICAL DEVELOPMENTS

To make sense of recent developments in Ukraine, it is probably most illuminating to start with its economic metamorphosis. It is been transformed from moribund to a highly dynamic economy which has undergone swift structural developments since 2000. For the last four years, Ukraine has enjoyed an average growth rate of 7.3 percent a year, and growth seems to be accelerating. For the last year, three other economic indicators are also telling. Industrial output surged by 16 percent, machinebuilding output by as much as 36 percent and exports by a whopping 28 percent. The Ukrainian economy is not only dynamic, but it is also rapidly becoming more sophisticated and integrating into the world economy.

These recent economic developments stand in sharp contrast to the 1990s. Until 1999, Ukraine underperformed even other post-Soviet economies, while a handful of tycoons or oligarchs made fortunes on government subsidies and regulations. In Soviet times, Ukraine's GDP per capita was slightly higher than Russia's, but it has slipped to less than half of Russia's. Yet, eventually, macroeconomic stabilization, liberalization and privatization took hold, and a market economy was formed. The real breakthrough occurred in 2000, when a new government under Prime Minister Viktor Yushchenko carried out momentous market reforms, slashing subsidies to

oligarchs and leveling the playing field. Since then, Ukraine's state budget has been close to balance and inflation under control. About two-thirds of national income is produced by private enterprises. Yushchenko's deputy Yuliya Tymoshenko minimized subsidies in energy. In revenge, the oligarchs ousted both of them after slightly over a year. Even so, sound market economic reforms have continued. From this year, a flat personal income tax of 13 percent has been introduced.

The whole nature of Ukraine's business changed. Until 1999, Ukraine's dominant businessmen were shady commodity traders, who made more money on the government than on the market. Today, these traders have been replaced by real companies. Ukraine's four largest enterprises are healthy metallurgical corporations, namely System Capital Management and the Industrial Union of Donbass in Donetsk, as well as Interpipe and Privat in Dnepropetrovsk. Ukraine has comparative advantages in steel production, and steel accounts for nearly 40 percent of Ukraine's exports. Light industry and food processing have developed well for years, and trade has come of age. Recently, machinebuilding has taken off. Ukraine also has an impressive computer programming sector. Many sound corporations of all sizes are also flourishing on a competitive market, although the bureaucracy is deeply corrupt and the rule of law not very stringent.

My contention is that, with such a strong competitive market economy, Ukraine needs to make very serious political mistakes to fail. Unfortunately, that cannot be excluded. Whereas the economy is modernizing at great speed, the political system is pretty retrograde.

To understand Ukraine's economy and politics, one must comprehend its oligarchic groups, which remain the political and economic base of the country. The three most important oligarchic groups are regional: the Donetsk group, the Dnepropetrovsk group and the Surkis-Medvedchuk group in Kiev. These groups are both economic and political. At present, the strongest group by far is the Donetsk group. Its leader is Rinat Akhmetov, a businessman who owns System Capital Management, Ukraine's biggest corporation, focusing on metallurgy. Prime Minister Viktor Yanukovich and the Deputy Prime Ministers for energy and finance also hail from the Donetsk group. Its parliamentary faction, the Regions, has some 65 members out of a total of 450. The second most important group is the Dnepropetrovsk group, whose business leader is Viktor Pinchuk, who owns the metallurgical company Interpipe. Its party, Labor Ukraine, has about 40 parliamentarians and is led by the Chairman of the National Bank, Serhiy Tyhytko. Pinchuk owns three TV channels. The Kiev businessman Hryhoriy Surkis and President Kuchma's chief of staff Viktor Medvedchuk form the third group, which is much more state-oriented. Unlike the other groups, it has not developed normal private enterprises as yet. Medvedchuk controls the three biggest TV channels, and he plays a great role in law enforcement. Their United Social Democratic Party comprises some 40 parliamentarians. President Leonid Kuchma rules by playing off these and other less important oligarchic groups against one another.

Ukraine is a country in swift development, and the transformation of the oligarchic groups might be seen as one of the keys to development. Privatization and the leveling of the playing field means that in both Donetsk and Dnepropetrovsk enterprises have become more independent from one another, and they have become competitors. They are also facing competition from other groups, which are independent or support opposition parties. Therefore, their status as oligarchic groups is becoming tenuous, but they still have their political parties, which hold about half the seats in parliament and the government, and they control media, too. Although they are rivals, they still gang up against the democratic opposition. Moreover, the Surkis-Medvedchuk group is hardly modernizing, but rather digging into the state administration, notably law enforcement.

The Ukrainian parliament is a rather curious creation. Virtually all of Ukraine's businessmen are members of the parliament, which serves as their meeting place. It is frequently stated that about two-thirds of the Ukrainian parliamentarians are dollar millionaires, and the Ukrainian parliament might actually appear more reminiscent of the New York Stock Exchange than the U.S. Congress. One reason for all these businessmen sitting in parliament is that parliamentarians enjoy legal immunity, but their often large corporate interests mean that they are easily subject to repression from various state inspections of their enterprises. Another reason for their presence in parliament is that government interference in business remains excessive.

Ukraine possesses a strong and reasonably well-organized political opposition. The democratic opposition is mobilized around West-oriented former Prime Minister Viktor Yushchenko, who leads the center-right bloc Our Ukraine, which holds just over 100 out of the 450 seats in the parliament. In addition, the like-minded block of Yuliya Tymoshenko and the Socialist Party of Olexander Moroz have about 40

more seats. The eight oligarchic party factions supporting President Leonid Kuchma can barely mobilize a majority. The communists hold 65 seats, and independents hold the balance.

In the latest parliamentary elections in March 2002, no less than 70 percent of the votes went to the opposition to Kuchma in the proportional part of the elections. The oligarchs succeeded in getting almost half the seats through elections in one-man constituencies, where money plays a greater role. Surprisingly, the oligarchic parties have legislated a political reform this year. They have adopted a new electoral law, which makes the next parliamentary elections in 2006 entirely proportional, which will presumably undermine the oligarchic representation, while reinforcing the center-right and communist parties.

Another intended part of the political reform proposed by the oligarchs was to reduce the power of the President, while enhancing the power of the Prime Minister and the Parliament. The obvious purpose was to reduce the power of the President, in case the next president would not be the oligarchs' man. Their apparent assumption that they might lose the presidential elections underscores that these elections are a real opportunity for the opposition. In spite of an alliance with the socialists and the communists, who favor a parliamentary system out of principle, the oligarchs failed to mobilize the required two-thirds majority, as Our Ukraine and the Bloc of Yuliya Tymoshenko opposed the amendment to the Constitution.

President Kuchma persuaded the Constitutional Court to give him the right to run as a presidential candidate for a third time although the Constitution allows for only two five-year terms. The excuse was that the Constitution was adopted in 1996, two years after Mr. Kuchma's first election. Even so, it appears unlikely that Mr. Kuchma will try to run again, because a solid majority opposes him. His opinion poll rating does not reach higher than 7 percent.

THE SIGNIFICANCE OF THE UKRAINE-RUSSIA ECONOMIC RELATIONSHIP

Russia is a natural benchmark for all discussions about Ukraine. The countries are similar in many ways, both in their history and in their current development. After communism, both have undergone an oligarchic phase. In Ukraine it still lasts, while it has ended with the reinforcement of the state in Russia. Because of earlier reforms, Russia has a stronger economy.

In the 1990s, the relationship between Russia and Ukraine was dominated by the gas trade, which consists of Ukraine's importation of natural gas from Russia and the large Russian transit of natural gas through Ukraine's pipelines to Europe. Each year, a small number of Russian and Ukrainian gas traders made a few billion dollars on this trade at the expense of their governments and populations. After the Ukrainian energy reforms in 2000 and the change of management of Russia's gas monopoly company Gazprom in 2001, these malpractices have been brought under control. While the trading arrangements are still nontransparent, their implications are much less damaging.

The main features of Ukrainian-Russian economic relations have instead become trade and investment, while pipelines remain important. With the big liberalization of the Ukrainian economy, large foreign investment occurred in Ukraine, primarily from big private Russian business groups. In particular, four different Russian oil corporations bought four large Ukrainian oil refineries, and two large aluminum companies were also purchased. More recently, Russia's two largest mobile phone companies have bought the two leading mobile phone companies in Ukraine, and two different Russian groups have been buying up Ukrainian public utilities. By and large, Russian investment in Ukraine has been economically and socially beneficial. Because of earlier market reforms in Russia than in Ukraine, the Russian companies have tended to be more commercially and legally advanced than their Ukrainian competitors, and they have greatly helped the revival of the Ukrainian economy. The oil companies are a case in point. They have sharply raised production at the Ukrainian refineries, developed a network of modern gas station, and they have driven down gas prices through competition.

The trade relationship between Russia and Ukraine has been troubled. Ukraine's share of trade with Russia has persistently fallen and has now reached one quarter of Ukraine's foreign trade. Part of this decline has been an economically justified adjustment, but part of it has been caused by mutual protectionism. Formally, Ukraine and Russia are supposed to have free trade with one another according to an agreement between all twelve members of the Commonwealth of Independent States from 1993. In reality, free trade has frequently been violated. Whenever Ukrainian enterprises were particularly successful in their sales to Russia of, for instance, steel pipes, vodka or chocolate, Russia raised severe trade barriers. Ukraine did the same to successful Russian exporters to Ukraine. The problem with the CIS

trade arrangement is that it contains no arbitration or penalty mechanism, so the agreements are not really implemented. Rather than trying to solve this problem, Russia has proposed one new trade arrangement after the other, which have remained little but formalities. Ukraine has regularly turned these initiatives down.

Last year, however, Russia came up with a new nebulous initiative called a Common Economic Space, designed for Russia, Ukraine, Kazakhstan and Belarus. Initially, it is supposed to be a free trade area, and then to become a customs union, and ultimately even a currency union. The Ukrainian public and government were divided over this new agreement. The dominant faction in the government decided to adopt it, and it was recently ratified by the Ukrainian parliament. The government argued that it was important for political relations with Moscow, that it would facilitate trade with Russia, and that it would not harm Ukraine's Western integration. The opposition and a minority within the government opposed the agreement's far-reaching plans and feared that it would block Ukraine's integration with Europe, the WTO and NATO. The immediate effect has been a substantial increase in Ukrainian exports to Russia by 30 percent last year, as the Russian and Ukrainian economies are being reintegrated. This is especially true of the swiftly expanding machinebuilding industry.

To solve their problems with mutual trade, however, both Russia and Ukraine need to join the World Trade Organization (WTO). The WTO possesses the necessary trade agreements and an arbitration mechanism, and it can pass deterring penalties. Both applied for membership in the WTO in 1993, but for many years neither country pursued WTO membership seriously. Now, both countries are close to joining. The Common Economic Space idea has been a serious distraction, but since it does not solve any problems in principle, both countries have as great a need for WTO membership. If Ukraine would join the WTO before Russia, it would be able to resolve all its trade problems with Russia, because Russia would then have to negotiate with Ukraine to gain WTO membership.

THE OUTLOOK FOR UKRAINE AFTER THE PRESIDENTIAL ELECTIONS

Hardly anybody doubts that the presidential elections on October 31 will take place and be a watershed in modern Ukrainian history. It is commonly recognized as the most important political event since Ukraine's national independence in December 1991. The stakes are high:

- Democracy or authoritarian rule;
- Russian or Western geopolitical orientation;
- Cleaning up of Ukraine's pervasive corruption;

At present, the two dominant candidates are likely. The democratic center-right candidate will be former Prime Minister Viktor Yushchenko, who is the Chairman of the Center-right bloc Our Ukraine. He will most likely be supported by the Bloc of Yuliya Tymoshenko as well. Together these two political forces represent about one-third of the popular vote. Yushchenko's main opponent will be Prime Minister Viktor Yanukovich, who is the leading politician from Donetsk. Yanukovich was recently nominated as the candidate of all the oligarchic factions, which gathered the support of one-quarter of the electorate in the last parliamentary elections. In addition, the communist leader Petro Symonenko is likely to run as always, with a steady electorate of barely twenty percent. Other candidates will be minor. The real drama will presumably be a duel between Yushchenko and Yanukovich. So far, Yushchenko is far ahead in all opinion polls, but Yanukovich is gradually catching up. In a free and fair election, Yushchenko is likely to win, but the government is using all means to skew the election to the advantage of its candidate. The only way in which Yanukovich can win is by credibly depicting Yushchenko as an extreme Ukrainian nationalist.

In their political activities, the regime-friendly oligarchs are driven by several concerns. Partly, they are defensive. They are all worried about losing their booty if a new government comes in, and they fear retribution. They suspect that they would lose out to big businessmen who are supporting the opposition, being well aware of how much hardship they have caused their enemies. Yushchenko has tried to console them with public statements that no revenge will be taken and that no redistribution of property will ensue. Partly, they are offensive. Some oligarchs hope to continue benefiting from state largesse and property, but that does appear less important. In short, the oligarchs prefer to have a state that serves as their client, and they have little interest in democracy.

The resources that are being mobilized for the presidential elections are truly enormous. A common assumption is that the total election funds will amount to \$200–300 million, that is, more than President Bush's current election campaign, al-

though Ukraine's GDP in current dollar comprises merely half a percent of the U.S. GDP. This money will largely be put up by big businessmen in Donetsk and Dnepropetrovsk. In order to deter businessmen from providing financing to the opposition, the State Tax Inspection and the state prosecutors often undertake selective actions against such businessmen.

Two oligarchs control Ukraine's six main television channels, leaving little media for the opposition or independents. Foreign radio stations—the BBC World Service, Radio Free Europe/Radio Liberty and Voice of America—still play a vital role in Ukraine. The best current information is provided by internet sites, often supported by Western financing. One independent media outlet after the other has been closed down. Various excuses have been used, such as licenses, tax violations and excessive libel penalties. The government's domination over media is tempered by a solid popular distrust of, and disinterest in, official media. Ukrainians are well aware of their government trying to manipulate them.

In the parliamentary elections in March 2002, there were many irregularities, but the ultimate results appear to have been reasonably representative in most of the country. The big exception was the Donetsk region, where vote rigging was blatant. The fear is that the "Donetsk model" will be applied in the whole country this time around. Ukraine has a large number of regional and local elections, which are spread out over time. The authorities appear to try to manipulate them ever more, by disqualifying opposition candidates, prohibiting the public appearance of opposition candidates, or through fraudulent vote counts. It appears as if they are intent on systematically denigrating elections so that fraud becomes the standard by the time of the presidential elections.

The regime is by all kinds of innovative means trying to stop the opposition from holding meetings. The utilization of public premises is widely blocked, and even electricity is being turned off. A number of special police forces are being used for a variety of repressive actions. A few journalists and politicians die under mysterious circumstances, mostly in traffic accidents or purported suicides, each year. Although the methods are crude, the repression is comparatively mild, and it does not deter the opposition or the population much.

One of the most important factors in the Ukrainian presidential elections is Russia. In the parliamentary elections in March 2002, President Putin and his chief of staff engaged personally in publicized meetings with the leading oligarchic representatives and the communist leader. At present, official Russian media are overwhelmingly positive on Prime Minister Yanukovich, the leading oligarchic candidate, and highly critical of Yushchenko and Our Ukraine. The official Russian position will have significant influence in Russophile eastern Ukraine. In the last elections, Russian political advisors played a major role, but to judge from the election results their utility appears to have been muted. Russia can use all kinds of means to influence the outcome of the presidential elections. Given the regression of democracy in Russia, Russia is unfortunately likely to oppose democracy in Ukraine. Russian businessmen active in Ukraine will also play a major role in the elections, but their role is not obvious. In the last elections, they tended to support individual candidates belonging to different parties, making sure that they had reliable lobbyists in different factions. This time around, they are likely to be pressured by the Russian government to support the oligarchic candidate, but, given the current Russian government campaign against big businessmen in Russia, their real interest might be to limit the influence of the Russian state in Ukraine. Therefore, the Russian businessmen might be the wild card in the forthcoming Ukrainian elections.

Until recently, Russia appeared more democratic than Ukraine, but today democracy appears to have much better odds in Ukraine than in Russia. Ukrainian media are far worse than Russian media, and the methods of repression in Ukraine are somewhat cruder than in Russia. Even so, Ukrainian society appears more open than Russian society. The fundamental reason is that Russian power has been consolidated in the centralized law enforcement apparatus. That is not true of Ukraine. Ukrainian state power is not yet consolidated in the security police, because President Kuchma has skillfully played off various groups against one another. The oligarchic groups remain politically much stronger in Ukraine, and their system is quite competitive. Another contrast to Russia is that the Ukrainian opposition is strong and structured. Nor are Ukrainians taken in by government-controlled media. Furthermore, Ukraine does not suffer from any imperial hangover, and it is much closer and largely sympathetic to the West. At present, Ukraine may be described as semi-democratic in the sense that the opposition has a real chance of winning the presidential elections, but we can harbor no illusion that the elections will be free and fair. There is a substantial chance that these elections will mark Ukraine's definite democratic breakthrough. That is what the U.S. should work for.

Economically, the outlook appears much more obvious. Ukraine is on a great growth trajectory of about 8 percent a year. Its growth is based on private ownership, macroeconomic stability, competitive domestic markets and an open economy. Ukraine is swiftly being integrated into the world economy. Very serious mistakes have to be made to stop this economic growth, which is characteristic of the post-Soviet region.

Usually, corruption falls with economic growth, more open government, increasing foreign trade and democracy. If Ukraine becomes a full-fledged democracy, corruption is likely to decline faster than if it becomes more authoritarian, but because of the strong economic growth corruption is likely to dwindle in any case.

THE CURRENT STATE OF U.S.-UKRAINE RELATIONS

Beside Russia, the U.S. has persistently been the country that has devoted the greatest interest to Ukraine. The United States is well liked in Ukraine, and every statement in Washington about Ukraine, such as this hearing, is carefully scrutinized in Kyiv. For the U.S., a great deal is at stake. Two aspects of Ukraine's current developments are of fundamental importance to the United States.

1. Will Ukraine become a democracy or an authoritarian state?
2. Will Ukraine integrate with the West or not?

The U.S. can do a great deal in both regards. Ukraine is tied to democracy through a large number of international agreements, notably to the United Nations, the Organization of Security and Cooperation in Europe (OSCE) and the Council of Europe. Publicly, the Ukrainian government strongly professes the values of democracy, and it has repeatedly committed itself to such values in agreements with the U.S. The U.S. can and should insist on the Ukrainian government honoring all its international commitments with regard to democracy.

a. Sometimes, U.S. authorities protest when independent media are being closed down, but it could be done more firmly and at a higher official level.

b. The Ukrainian government uses the State Tax Inspection as its main agency of repression. Businessmen who support the opposition have been extensively investigated and harassed. The U.S. Ambassador to Kyiv, John Herbst, has rightly protested, but again these abuses should be given more high-level attention.

c. Both the U.S. and the EU have protested sharply against the aggravated malpractices in regional and local elections, but again more high-level attention would be useful.

d. The big test will be the presidential elections on October 31. International election observers are accepted. The U.S. can do a great deal to make sure that the actual elections are free and fair.

In the course of this year, little is as important in U.S. policy on Europe as democracy in Ukraine.

The second aim for U.S. policy on Ukraine is its integration into the West. Ukraine is already a member of most international organizations, including the IMF, the World Bank, the OSCE and the Council of Europe. The three remaining organizations of relevance are the WTO, NATO and the European Union.

a. For the U.S., the first interest is to have Ukraine accede to the WTO as soon as possible. Few obstacles remain. The main outstanding U.S. demand is that Ukraine adopt a new and more stringent law on intellectual property rights. With little doubt, Ukraine will adopt such a law after the presidential elections regardless of their outcome. Second, the U.S. should recognize Ukraine as the market economy it is, which is of importance for how the U.S. treats Ukraine in anti-dumping disputes. Third, strangely, the Jackson-Vanik Amendment to the U.S. Trade Law of 1974 about the freedom of Jews to emigrate from the Soviet Union still applies to Ukraine, although it is not the Soviet Union and Jews have no complaints about any problems emigrating from Ukraine. This anachronism should just be abolished.

b. Ukraine has a close cooperation with NATO, which is likely to proceed further. In March 2003, the oligarchic majority in the Ukrainian parliament, with partial support from Our Ukraine, voted for sending some 1,600 Ukrainian troops to support the U.S. in Iraq. President Kuchma's obvious purpose was to improve Ukraine's poor relations with the U.S. The troop presence in Iraq is very unpopular in Ukraine, and several Ukrainian soldiers have died. Ukrainian troops participate in various peacekeeping efforts in former Yugoslavia, as well.

c. Since 1996, Ukraine has officially asked for membership in the European Union, but it has been cold-shouldered by the EU. Yet, the democratic opposition is much more committed to its "European Choice" than the government is. Recently, the President of the European Commission, Romano Prodi, repeated his statement that the EU has no plans for letting Ukraine become a member of the EU. Although Ukraine is now the neighbor of three EU countries (Poland, Slovakia and Hungary),

it has a minimum of agreements with the EU. In particular, its trade access to the EU is very limited, as Ukraine primarily exports such sensitive goods as steel, foods, chemicals and textiles. Moreover, the possibilities for Ukrainian citizens to travel west have been sharply reduced with the enlargement of the EU to countries that previously did not require visas for Ukrainian citizens. It would be desirable that the EU open its markets to Ukraine through a free trade agreement, but a natural EU demand is that Ukraine first become a member of the WTO.

Regardless of other policies, the U.S. needs to help build up a cadre of well-educated Ukrainians who understand Western economies and politics. For this purpose, a larger number of scholarships need to be given for doctoral degrees at U.S. universities.

Oddly, the U.S. administration has devoted great attention to whether an unused small pipeline from Odesa in southern Ukraine to Brody in western Ukraine will be utilized in that direction, or whether it will be turned around, taking Russian oil from the north to the south instead. Given that Ukraine has a sound competitive oil market, this does not appear to be a question of major U.S. interest.

The current dilemma in U.S. policy toward Ukraine may be sharpened as a choice, on the one hand, between the relative importance of Ukrainian troops in Iraq, and democracy in Ukraine, on the other. Recently, President George W. Bush wrote a letter to President Leonid D. Kuchma, thanking him profusely for sending Ukrainian troops to Iraq. Meanwhile, mid-level State Department officials are complaining about a variety of abuses of democracy in Ukraine. No observer can draw any other conclusion than that troops in Iraq supersedes everything else. This balance in U.S. policy toward Ukraine needs to be redressed.

Mr. BEREUTER. Thank you, Dr. Aslund. You have given me part of my responsibilities, I think. Dr. Diuk, please proceed. Your entire statement will be made a part of the record.

STATEMENT OF NADIA DIUK, PH.D., DIRECTOR, EUROPE AND EURASIA PROGRAM, NATIONAL ENDOWMENT FOR DEMOCRACY

Ms. DIUK. Thank you. Mr. Chairman, and Members of the Committee, Subcommittee. I welcome the opportunity to be here today to comment on the topic of the hearing, and I would also like to thank you, Mr. Chairman, and all of the Members of the Committee for your continuing support of the National Endowment for Democracy over the years.

I have submitted my extended remarks for the record, and so I will try to keep within the time limit. I will focus on the main event in Ukraine's immediate future, and which the entire international community will be watching, the election for the post of President of Ukraine.

Concerns about the conduct of these elections are very well expressed in the concurrent resolutions recently introduced in the House and Senate, for which we thank you very much, and this is recommended reading for anyone who is interested in Ukraine.

The upcoming elections have already determined much of what has happened in Ukraine over the past year. The elections are just the tip of an iceberg, which represents a huge systemic problem.

Ukraine's ruling elite is still largely made up of the same people who ran the country under the communist system, and who were able to transform themselves into the leading politicians of the newly independent State, and have managed to hang on to that power until now.

Access to the instruments of power have made many of these people very rich, and in some cases crimes, both large and small, that would be investigated and prosecuted if rule of law existed, have been covered up.

But the major problem today is that the ruling elite does not want to give up its control over government and Ukraine's resources. I would like to just highlight four points since much of this has already been discussed here on the current political developments in Ukraine.

First is the issue of political reform, or the so-called *politreforma* as it is called in Ukrainian, which began in earnest at the time of the March 2002 parliamentary elections, when some 75 percent or so of Ukraine's electorate voted against the parties allied with the President.

And it became clear to the political elite that manipulating future elections was not going to be easy. Many of the political developments that have ensued since then come from that understanding.

The essence of this reform was—if they couldn't win the elections—to redistribute executive power, to shift power, particularly authority over the power ministries, away from the presidency to the prime minister; and then to do away with the direct election of the President, and to change the election of members of parliament to a completely proportional partyless system.

And with all of these elements together, particularly in the hands of the ruling elite, you can see that there would be a fundamental change in the power distribution within the State.

A bill that would have eliminated the direct vote for the President was narrowly defeated on April 8th. In amongst all of the turmoil of the political reform, President Kuchma also managed to get the constitutional court to approve his own candidacy for a third term, thus adding another unpredictable element into the presidential election mix.

Second, the media in Ukraine continues to come under pressure. I think Ambassador Pifer outlined very well the situation and the differences between the electronic media and the press media.

I would just like to highlight that it was very interesting when the Ukrainian service of Radio Liberty was taken off the air both on AM and FM, that it not only deprived people of objective political coverage in a run up to the elections, but it also coincided with the beginning of the trial of former Ukrainian Prime Minister Pavlo Lazarenko for laundering millions of dollars of stolen money through United States bank accounts, which began around about that time in San Francisco. Just a coincidence obviously.

Another major independent broadcaster mentioned here before, which actually rebroadcasts Voice of America, Radio Kontyent, was closed, its assets seized, with the owner fleeing Ukraine in fear of his life.

I would just like to mention a couple of more points on that issue. The flagship of independent Internet publishers, *Ukrains'ka Pravda*, whose founder and Editor-in-Chief, Heorhiy Gongadze, was found decapitated in November 2000, is once again under pressure from a court case emanating from the President's administration, something that I hope that you will take into account when you make your visit to Ukraine, to inquire about that.

The system of controlling the media through *temnyky*, or theme directives issued from the President's administration, continues.

They are issued daily and explain to the press how they are to report and spin the news.

Intimidation of the opposition continues. I would just like to highlight the incident where the son of one of Ukraine's foremost independent trade unionists, Mykhailo Volynets, was very severely beaten.

This was a new tactic, threatening the families with physical violence, of members of the opposition in an attempt to unnerve and intimidate.

The fourth point, about which much has been said. The bizarre and troubling events around the election at Mukachevo. The violations there were very outlandish, and included skinhead thugs beating up members of parliament.

They smashed up some of the polling stations, and in the end the ballot papers were actually stolen after the close of voting, which is not something that one would expect from a country expecting to enter European Union membership sometime soon.

But why should we worry about Ukraine when there are other countries in the post-Soviet region where the situation is far worse? Well, it is precisely because Ukraine is a country where there are real prospects for the development of democracy.

The Ukrainian parliament, the Verkhovna Rada, of all of the parliaments in the region, is a unique forum, where different positions and points of view are discussed and political struggles are fought out.

Ukraine has real political parties, and it has thousands of non-governmental organizations which work on a whole variety of social, humanitarian, and also political issues, and these are the backbone of Ukraine's emerging civil society.

In my extended remarks, I have a little more about that. Significance of the upcoming presidential elections. Well, a lot has been said about this already, but it has not only domestic significance, but also an impact on Ukraine's international relationships.

For example, as has been pointed out, Ukraine is in the middle of a foreign policy flip-flop as I would call them, which are characteristic of the Kuchma presidency. This one concerns the signing of the Single Economic Space agreements.

Some members of the opposition have condemned this as an attempt to recreate Russian control over Ukraine. Others have just stated the obvious, that this set of alliances is contradictory and incompatible with Ukraine's declared intention to comply with the requirements to bring it in line with EU membership.

But then again, President Kuchma has just recently said there is no need for Ukraine to hurry toward Europe, and he constantly makes these contradictory statements. And it is true that Ukraine's troops are the fourth largest contingent in the coalition of forces in Iraq at the moment, this decision was also the result of factions fighting at the top, and was never open to public debate.

It is true that Ukraine's leadership has benefited from the prestige value of participating in the coalition, because it is helping to erase the memory of all of the unresolved issues that were laid out here today.

Ukraine's population, however, is in the dark about why Ukrainian troops are in Iraq. A glimpse of what might lie in the future:

Prime Minister Yanukovich, one of the candidates for the election, recently said that if Ukraine is not allowed to participate in the reconstruction of Iraq, then maybe consideration should be made or given to withdrawing the troops.

I have some recommendations which have been repeated many times before by various other international bodies, but just a couple of final thoughts.

There has been a lot of discussion and soul-searching in Washington, and throughout this country, over the past few months about values; the values of democracy, American values, and the values of simple human decency.

And my hope is that while continuing to stress that the process is important, which is always the official United States message at the time of an election, that we also expend more effort on all levels with the Ukrainians to emphasize the importance of values and to evaluate the main players ourselves accordingly.

And those of us who watch Ukraine closely are often told that there are good forces and bad forces around President Kuchma, and that he is not always free to act the way that he would like to.

Well, these protestations are all very well and good, but it is time for all right-thinking citizens of Ukraine to realize the tremendous responsibility that each has for the future of their country in the next few months. And we all wish them well, and wish for the best. Thank you very much.

[The prepared statement of Ms. Diuk follows:]

PREPARED STATEMENT OF NADIA DIUK, PH.D., DIRECTOR, EUROPE AND EURASIA PROGRAM, NATIONAL ENDOWMENT FOR DEMOCRACY

Mr. Chairman and Members of the Sub-Committee:

I welcome the opportunity to be here today to comment on the topic of the hearing "Ukraine's Future and United States Interests." And I would also like to thank you Mr. Chairman and all of the members of the Committee for your continuing support for the National Endowment for Democracy over the years.

I would like to focus on the main event that looms in Ukraine's immediate future, and which the entire international community will be watching—the election for the post of President of Ukraine scheduled for October 2004. Concerns about the conduct of these elections are very well expressed in the concurrent resolutions recently introduced in the House and Senate under the title "Urging the Government of Ukraine to Ensure a Democratic, Transparent, and Fair Election Process for the Presidential Election on October 31, 2004."

The upcoming elections have already determined much of what has happened in Ukraine over the past year, as the state authorities and the opposition and pro-democratic forces engage in an ongoing struggle in the political sphere, media, business and civil society as a whole. The elections are the tip of an iceberg, which represents a huge systemic problem: Ukraine's ruling elite is still largely made up of the same people who ran Ukraine under the Communist system. They were able to transform themselves into the leading politicians of the newly independent state, and have managed to hang onto that power until now. Access to the instruments of power has made many of these people very rich and in some cases crimes both large and small that would be investigated and prosecuted if rule of law existed, have been covered up. Ukraine's record has not been all bad, particularly in the pro-western foreign policy orientation pursued in the 1990s; in the mid-1990s Ukraine's media was relatively free if somewhat unsophisticated, and it should be remembered that Ukraine was the first post-Soviet state where there was a peaceful transfer of power from one president to another in 1994. But the major problem today is that this group does not want to give up its control over government and Ukraine's resources. It does not want to submit to an open and fair process that would allow the citizens of Ukraine to express their will as to who should represent them in government.

Distilled down to the basics, the struggle between the ruling elite and its supporters and those who seek to challenge the old order with a new vision for Ukraine will be played out in the candidacies of the current Prime Minister, Viktor Yanukovich, who has been nominated as presidential candidate by the pro-presidential side and the acclaimed leader of the opposition, Viktor Yushchenko, leader of a coalition of democratic political parties "Our Ukraine." There are of course many shades of grey in between these two positions and there will be other candidates, but according to the last independent opinion polls, if the presidential election were to have taken place one month ago, the result in the second round runoff would have been a Yushchenko victory with 36.4 percent with Yanukovich at 32.8 percent.

CURRENT POLITICAL DEVELOPMENTS IN UKRAINE

Ukraine today is a country whose future is hanging in the balance between east and west, between democracy and authoritarianism, and where the country is deeply divided between a political culture which is increasingly polarized and a civil society that is moving forward and has made significant advances in the past few years in its level of sophistication and readiness to act as a counterweight and check on the exercise of executive power. It is a society hovering on the edge of a deep crisis, where the next few months promise to show us a pitched battle between the authorities who are determined to crush all efforts to have free and fair elections and those within civil society who share the profound aspiration that Ukraine should finally join the democratic community of nations, but who are at a huge disadvantage in terms of resources and support.

This struggle began in earnest at the time of the March 2002 parliamentary elections, when some 75 percent of Ukraine's electorate voted against the parties allied with the president. Although, the opposition was outmaneuvered when it came to the distribution of functions within the parliament, it was clear that manipulating future elections was not going to be easy. In the wake of this revelation several initiatives were launched, emanating mainly from the president's allies in parliament, to explore the redistribution of executive power. The main elements of the proposed political reform—or so-called *politreform*—were 1) to shift power, particularly authority over the power-ministries, that is the Ministries of Defense, Interior, Finance and Industry from the presidency to the Prime Minister and his cabinet, 2) to do away with direct election of the president and go to a parliamentary-presidential system where the parliament elects the head of state, and 3) to change the election of members of parliament to a completely proportional, party-list system, from the current mixed system.

Such fundamental changes to the distribution of power in Ukraine can be accomplished only through a change in the constitution, which requires the agreement of the Constitutional Court, passage through parliament and a two-thirds majority vote. Several politicians have introduced a number of different bills over the past six months, which include these and other changes. Some of these bills have contradicted the Ukrainian Constitution according to Western experts who have examined them, but the main effect on the population of Ukraine has been to create a great deal of confusion as to who supports which bill and why, and what the ultimate result of the reform might be. The entire debate on changing the constitution and system of government has been conducted in the absence of objective reporting in much of the media, which has represented mainly the one-sided arguments of the government authorities. In fact, public opinion polls show that 18.3 percent of Ukraine's adult population believes that "the topic of reforms was constantly in the news, but there was absolutely no discussion with concrete arguments for and against."

A bill that would have eliminated the direct vote for the president met with a turbulent passage through the parliament, which included tragi-comic scenes played out in the parliament in December 2003 such as the sabotage of the automated voting system and many extra-procedural moves by the parliament's leadership. It was finally defeated on April 8, 2004 by six votes, when some key pro-presidential supporters failed to show up to support the bill. In amongst all of the turmoil of the political reform, President Kuchma has also managed to get the Constitutional Court to approve his own candidacy for a third term, thus adding another unpredictable element into the presidential election mix.

A number of other issues should be highlighted as important in the current political situation.

The media in Ukraine continues to come under pressure to conform to the message coming from the President's Administration. All three of the national TV channels—UT-1, Channel One Plus One, and Inter, reflect only the political line of the President's Administration. Some of the other smaller stations ICTV, STB, and

Novyi Kanal, because they are owned by a more broadminded segment of the political elite have recently started to broadcast a somewhat wider range of opinions and political views, while Channel 5, owned by a supporter of Viktor Yushchenko continues a valiant struggle to remain on the air even though its broadcasts are not particularly in support of the opposition but offer an objective perspective from many points of view.

The truly independent broadcast voices, which provided Ukrainian citizens with unbiased reporting and balanced debate, have now been silenced: the Ukrainian service of Radio Liberty, which has for the past decade been broadcast over AM radio to a growing Ukrainian audience, was taken off the air, so that the political debates on issues in the run up to the presidential election will no longer be heard, nor, for that matter, the excellent Radio Liberty reports on the trial of former Ukrainian Prime Minister Pavlo Lazarenko for laundering millions of dollars of stolen money through US bank accounts, which began its deliberations in San Francisco just at the time when Radio Liberty was pulled off the air. When Tom Dine, the Director of Radio Liberty came to Kyiv last month, President Kuchma declined to meet with him. Another major independent broadcaster, who has suffered much harassment in the past few years, Radio Kontynent, was closed and its assets seized, with its owner fleeing Ukraine in fear of his life.

There have been attempts to close *Sil's'ki visti*, the newspaper of the Socialist Party, which has generally been in opposition to the president. And now the flagship of independent Internet publishers, *Ukrains'ka Pravda*, whose founder and editor-in-chief Heorhiy Gongadze, was found decapitated in November 2001, is once again under pressure from a court case emanating from the President's Administration. The system of controlling the media through *temnyky* or theme directives issued from the President's Administration continues. They are issued daily and explain to the press how they are to report and spin the news. For the most part, lately they have instructed that any critical statements coming from the US State Department, from the EU, or Council of Europe are to be simply ignored.

Another incident that exemplifies the weird world that Ukraine is becoming, was the visit of George Soros at the end of March. In addition to having a major conference derailed by local officials in Crimea and then given permission from Kyiv to go ahead, he was also pelted in a most undignified manner, with mayonnaise, flour and glue at a meeting in Kyiv, by thugs considered by most observers to be in the pay of the authorities.

Intimidation of the opposition continues: One notable incident was the severe beating of the son of one of Ukraine's foremost independent trade unionists, Mykhailo Volynets, who is the President of the 124,000-strong Confederation of Independent Trade Unions of Ukraine, which includes miners, steelworkers, railroad engineers, metro workers, dock workers and others. Mr Volynets is also a supporter of Yulia Tymoshenko. This was a change of tactic, since Volynets himself, a former coalminer, has undergone many repressions, but an attack against a member of his family was designed purposely to unnerve and intimidate him.

The most bizarre and troubling events in the current political situation have occurred around the elections for the mayor of the Western Ukrainian city of Mukachevo, which took place on April 18, 2004. Independent exit polling and also according to copies of the protocols which were secured by observers from the opposition "Our Ukraine" group indicated that the Our Ukraine candidate Viktor Baloha had won with 57 percent over the candidate of the presidentially allied SDPUo candidate Ernest Nusser, who received 40 percent. The election commission announced Nusser the official winner. Even though around fifty parliamentary deputies from the Our Ukraine faction traveled to Mukachevo to monitor these elections the violations were outlandish in the extreme: skin-head thugs roughed up a number of the deputies and smashed up some of the polling stations, legitimate domestic observers were thrown out of polling stations, individuals working the exit poll were threatened and harassed, and in the end, the ballot papers were stolen after the close of voting. These incidents took place in full view of the international observers present. This was all in addition to the usual violations which have now become standard in Ukraine, where the opposition candidate is not allowed air time or coverage in the press, where his representatives are prevented from participating in the election commissions even though this is mandated by law, and where the head of the electoral commission often tries to keep both the list of voters and the final protocol away from the scrutiny of independent observers.

The reason for going into all of this detail, and there is much more, is to demonstrate that the political environment in the run up to the presidential elections is already prejudicing the vote from being free and fair, and to show the circumstances in which the election campaign will be conducted.

ASSESSMENT OF UKRAINE'S DEMOCRATIC CREDENTIALS

Despite the actions of the government authorities, of all of the post-Soviet states, (with the exception of the Baltic states and now Georgia) Ukraine is a country where there are realistic prospects for the development of democracy: there is a real political struggle, the fledgling institutions of civil society are evolving and the population constantly expresses its discontent with the current situation and desire for better and more open governance. There are numerous institutions of civil society that continue to operate independently in support of a more open and accountable system and to promote participation of the citizenry in Ukraine's political and social life. The U.S. policy expressed toward Ukraine last year, specifying that Ukraine's leadership should be regarded separately from the nation as a whole, was a good and sound approach that is well-justified by the situation on the ground.

The Ukrainian parliament, the *Verkhovna Rada*, of all of the parliaments in the region, is unique in being a forum where different points of view are discussed and real political struggles are fought out. Ukraine's political parties, while still a long way from being of the Western-type that represent a particular constituency and set of policies, are distinct and independent, and some enjoy considerable support among the population. There are thousands of non-governmental organizations in Ukraine, which work on a whole variety of social, humanitarian and also political issues. Ukraine's think tanks and analytical centers are among the most advanced in the region and have helped to create the backbone of the emerging civil society. Many of these NGOs worked with great effect during the March 2002 parliamentary elections in getting out the vote, monitoring and observing, conducting opinion polling and providing voter education and information where the government controlled media failed.

Ukraine's third sector is largely independent and beyond the control of the government and its allies. This contrasts positively with Russia, where the government has exerted great pressure to bring Russia's independent NGOs under the control of the Kremlin especially through events like the Civic Forum convened in the fall of 2001.

Ukraine's fledgling civil society and particularly the NGO sector are rising to the challenge of preparing for the October elections. For example, a broad group of over 100 non-governmental organizations has come together under the umbrella of the Civic Coalition "New Choice 2004" with the purpose of working for free and fair elections, with new member organizations joining every week. Its members have analyzed the methods used to manipulate previous elections and for the upcoming elections they will be working for equal opportunities for all candidates and to ensure that voters have adequate information to cast an informed vote. They will monitor the mass media; watch the legislative framework; advise voters on their rights; provide polling information; publicize the abuse of administrative resources and campaign finances; and investigate many other instances where electoral fraud might take place. This is a nation-wide effort with member organizations operating in over 150 different locations to date.

THE NATIONAL ENDOWMENT FOR DEMOCRACY IN UKRAINE

The National Endowment for Democracy and its institutes are fully engaged in working with the pro-democratic forces in Ukraine to strengthen the institutions that support democracy. In fact, NED support has been going to Ukraine since 1988, when the community of dissidents and former political prisoners were preparing the ground work for launching a mass movement for democracy and independence within what was then the Soviet Union. The Endowment continues to support a broad range of democracy programs including youth initiatives, think tanks and programs in support of the free media. Over the past ten years, the National Democratic Institute and the International Republican Institute have worked with all of the major pro-democratic political parties to help them become more professional, responsive to their constituents and to enable them to consolidate their political skills. The Center for International Private Enterprise has worked closely for many years with a community of think tanks and associations of small and medium entrepreneurs to improve the conditions for developing a free market economy. The American Center for International Labor Solidarity, formerly known as the Free Trade Union Institute, has worked with Ukraine's independent trade unions since the early 1990s.

In its annual review of priorities, the NED and its institutes came to the conclusion last August, that Ukraine should be a priority for our work this year, as the place where our concerted efforts could have the greatest effect in terms of promoting democracy, and where the political situation is most conducive to our assistance. The presidential elections in Ukraine were also the subject of a meeting of donors and implementers convened by the NED in January this year, when we pro-

vided a forum for both private and USG funded organizations to share information, coordinate activities and determine priorities.

SIGNIFICANCE OF THE UPCOMING PRESIDENTIAL ELECTIONS

The stakes are high for the upcoming Presidential elections: the outcome could determine Ukraine's future for many years to come. As well as significance for the internal developments in the country, one area where the election will have a great impact will be in Ukraine's international relationships, in determining whether Ukraine faces east or west. Unable to respond to or to accommodate the requirements of the European Union, we see that President Kuchma has recently been backtracking on the commitment to pursue European Union membership. On April 20, 2004, the pro-presidential majority in the Ukrainian parliament ratified agreements on the Single Economic Space signed by President Kuchma earlier in the year. This set of agreements initiates the creation of a common tax code and a customs union ending trade tariffs among the four signatories—Ukraine, Russia, Belarus and Kazakhstan. Some members of the opposition have gone as far as condemning this as the attempt to recreate Russian control over Ukraine. Others have just stated the obvious; this set of alliances is contradictory and incompatible with Ukraine's declared intention to comply with requirements to bring it in line with EU membership. President Kuchma has just recently gone on the record as saying that Ukraine doesn't need to hurry towards Europe.

This is the just the latest in a series of flip-flops of orientation from west to east that are characteristic of the Kuchma presidency. Not only do they sew confusion among Ukraine's Western neighbors and allies, but they also confirm the impression that Ukraine's foreign policy is not based on a well thought out and systematic strategy that takes Ukraine's best interests into account or on the consensus of views of the citizenry, but rather are the outcome of infighting within a narrow circle of insiders around the President.

What about accession to NATO? Major public pronouncements on this issue ceased after the President was snubbed by western leaders at the Prague summit in November 2002. Despite the existence of a detailed Action Plan for Ukraine, which clearly outlines steps Ukraine needs to undertake in terms of strengthening democracy in as far as NATO is a community of nations based on shared democratic values, the Ukrainian leadership has not done much to put this plan into action.

While it is true that Ukraine's troops are the fourth largest contingent in the coalition forces in Iraq at the moment, this decision was also the result of faction fighting at the top and was never open to public debate. Ukraine's leadership has benefited from the prestige value of participating in the coalition because it is helping to erase the memory of all the unresolved issues that created impediments to smooth US-Ukraine relations such as the approval to sell Kolchugas, the still unsolved Gongadze murder and the broken promise not to sell arms to Macedonia during a civil war. Ukraine's population, however, is in the dark about why Ukrainian troops are in Iraq. There have been no major speeches from the leadership outlining Ukraine's purpose or its solidarity with a community of values in support of the toppling of a dictator and liberating an enslaved Arab nation. A glimpse of what might lie in the future was revealed in a statement by Prime Minister Yanukovich, however, when he indicated a few days ago that if Ukraine is not allowed to participate in the reconstruction of Iraq, consideration should be given to withdrawing its troops.

CONCLUSIONS AND RECOMMENDATIONS

Ukraine's leaders need to regain the confidence not only of the international community but most importantly the confidence of their own people. In public opinion polls conducted in April 2004, 60.4 percent stated that they believe Ukraine is moving in the wrong direction, and 70.4 percent believe that there will not be equal opportunities for candidates campaigning in the election. Only 25.5 percent believe that there is a truly secret ballot.

Ukraine's elections have become the focus of attention for the United States, the European Union, Council of Europe as well as international bodies such as the OSCE—all of which have put forward sound recommendations that will keep up the pressure on the Ukrainian authorities to ensure that the upcoming elections are free and fair. These are recommendations that have appeared elsewhere, but they are worth repeating:

- With regard to the media: all candidates should be given access to the national TV channels and debates should be encouraged and fully covered. Radio Liberty should be allowed to negotiate contracts for rebroadcast without its Ukrainian partners suffering intimidation;

- With regard to the electoral law: all violations should be swiftly adjudicated in a fair manner and where guilt is determined, prosecutions should be seen to ensue. Ukraine has effective legal procedures on paper, but few are ever carried through to create a better electoral environment.
- With regard to the electoral commissions: all efforts should be made to make sure that the candidates' representatives are able to participate in the commission, with an equitable distribution of the heads of commissions according to party affiliation.
- With regard to observers and monitors: the work of the OSCE and international observers should be welcomed and provision made for the participation of domestic observers. Unfortunately, during the week that Deputy Secretary Armitage was visiting Ukraine and engaging in discussions on the importance of the elections, a provision to guarantee the participation of domestic NGOs as official observers was left out of the legislation.
- The government of Ukraine should pledge to guarantee the physical safety of observers, poll watchers and officials engaged in ensuring a free and fair election.
- Serious thought should be given to exploring Madelaine Albright's recommendation in a recent op-ed piece in the New York Times suggesting to Ukraine's leaders that their entry into Western institutions will slow and that their own bank accounts and visa privileges will be jeopardized if the elections are fraudulent.

Just a couple of final thoughts:

There has been a lot of discussion and soul searching in Washington and throughout this country over the past few months about "values," "the values of democracy" "American values" and the values of simple human decency. My hope is that while continuing to stress that "the process is important," which is always the official US message at the time of an election, we also expend more effort on all levels with the Ukrainians to emphasize the importance of values, and to evaluate the main players accordingly.

Those of us who watch Ukraine closely are often told that there are "good" forces and "bad" forces around President Kuchma and that he is not always free to act the way he would like to. These protestations are all very well and good, but it is time for all right thinking citizens of Ukraine to realize the tremendous responsibility each has for the future of their country in the next few months. We all wish for the best.

Mr. BEREUTER. Thank you very much to both of you for your excellent testimony. We have three, maybe four votes coming up, and so we are going to try to ask a couple of key questions to you, and get your best response in a total of 5 minutes.

And I will just ask you, Dr. Diuk, in particular, since you work for NED, and have had a lot of experience there, what are we doing, or what could we do better with respect to assistance to the opposition parties; and to what extent are these parties strong parties, or are they more of a reflection of personalities?

And then to Dr. Aslund, I wanted to ask how much of a sense is there in Ukraine about the importance of rule of law, if in fact they are going to have direct foreign investment, and if they are going to have more opportunities to grow and flourish, and to deal with the intellectual property issues that are so apparent to everybody?

Mr. Wexler, would you like to add one or two here, and please do if you would like. All right. I would appreciate it if you would try to respond to those, gentleman and lady.

Ms. DIUK. Well, as you probably know, two of our affiliated institutes, National Democratic Institute and International Republican Institute, have both been working very diligently in Ukraine, I would say, for like the past 10 years.

And their work meets with—is fairly effective most of the time, as long as the Ukrainian authorities are willing to allow them to conduct non-partisan, multi-partisan training and so on.

We can't as you know help the political parties individually and directly. It is done on sort of a multi-partisan basis. But what I would say is that these parties and the candidates that they eventually put forward would be able to be a lot more effective if the non-governmental community around them, the groups that especially provide domestic observers—and this is one point as well that I actually failed to mention in my comments.

But there is an issue at the moment as to whether domestic observers will be allowed from non-governmental organizations into the polling stations in the election. If the non-governmental domestic observers are allowed to function properly, and if there is free access of candidates, political parties, to the media, if there is an ability to conduct voter education, then the parties can be much more effective than they are right now.

I think we are doing all that we can through our two party institutes to assist in this process, but I would say that it depends a lot on the overall environment. But I would say that we do need to continue assistance and helping NED and IRI in their efforts for the parties.

Mr. BEREUTER. Thank you. Thank you for what all of you are doing in that respect. Dr. Aslund, would you like to tackle the recognition of the importance of intellectual property and the commercial rule of law.

Mr. ASLUND. Yes, thank you, Mr. Chairman. I would put it like this. That what big Ukrainian businessmen are most sensitive to is whether they themselves are allowed to travel.

A few years ago the United States prohibited two of the top Ukrainian oligarchs from entering this country, and soon after that they were no longer oligarchs. They lost out domestically, and Kuchma let them down.

So visas come first, and for the U.S. to ease the sanction. Secondly, trade access. The WTO is essential and that Ukraine gets a market economic status, and that is important, and that Ukraine gets more market access to the West, because then the Ukrainian businessmen have to behave, for investment is not that important.

The big Ukrainian businessmen are floating cash. Exports, for example, increased 28 percent last year, and the process is far more. But the stock market doesn't really work. It is up 89 percent this year, but it doesn't matter. It is timing. So they don't care much about foreign investment.

And the rule of law within Ukraine remains weak, and I think it will take for it really to function, but after all you have courts, and people are taking each other to court ever more. And even if it is weak, it does exist. Thank you.

Mr. BEREUTER. Thank you, Dr. Aslund. And thank you, Dr. Diuk, for your excellent testimony and the written statements. We very much appreciate your contribution today.

Mr. Wexler and I have to go run and vote, and before I go, I would like to ask unanimous consent to insert two statements in the record from Mr. Ihoir Gawdiak, President of the Ukrainian American Coordinating Council, and also Mr. Michael Sawkiw,

President of the Ukrainian Congressional Committee of America. If the gentleman has no objections, so then that will be the order.

[The prepared statements of Mr. Gawdiak and Mr. Sawkiw follow:]

PREPARED STATEMENT OF IHOR GAWDIAK, PRESIDENT, UKRAINIAN AMERICAN COORDINATING COUNCIL

Mr. Chairman, distinguished members of the committee, I am Ihor Gawdiak, President of the Ukrainian American Coordinating Council. The Council began as an umbrella organization made up of numerous organizations within the Ukrainian American community focused on cultural and social issues of interest to the entire community. Since Ukraine's independence the Council's focus has turned primarily toward fostering democracy, the rule of law and economic prosperity in Ukraine and facilitating closer ties between the United States and Ukraine.

Mr. Chairman, I appreciate the opportunity to submit this statement and thank you sincerely for holding this hearing on the situation in Ukraine. I will be clear; we believe the United States' national interests require immediate focused attention to events in Ukraine and a major change in American policy. If our policies and approach to Ukraine do not change and those changes are not implemented now, our interests in Eastern Europe most likely will be damaged for years to come. It would not be alarmist to say that if Ukraine's election can be manipulated a reconstituted "union" will not be far off with all of its complications and challenges to peace and harmony in Europe and beyond. Action is needed now! And there are actions that can be taken.

As this committee knows, this is a year of consequence in Ukraine. Ukraine's presidential election campaign ends with balloting on October 31 and the outcome could set the course for Ukraine and for U.S. interests in the region for generations to come. At this critical stage in the election campaign we are alarmed by our country's approach to this election. What is our cause for alarm?

The President of Ukraine, his administration, his assorted colleagues and the interests vested in Ukraine's current stagnant and corrupt government apparatus, are rigging the entire election process and they are deaf to the cautious, diplomatic eloquence of American statements of concern. Essentially these people are immune to Foreign Service niceties.

Why are the vested interests so afraid of openness and fairness, so antagonistic to free elections? They cringe at the reality of public opinion. In the last parliamentary election, despite the manipulations of official Ukraine, opposition reformers won the largest contingent in the Ukrainian parliament. This was not expected or hoped for. The reality set in that the citizens of Ukraine want what we Americans know all people want—freedom and opportunities—opportunities the vested interests currently in control of Ukraine are determined not to provide.

The results of the parliamentary election and the overwhelming evidence that the most popular politician in Ukraine is the reformer Viktor Yuschenko frighten Ukraine's entrenched powers. Now that Yuschenko is running for the Presidency, the authorities have become paranoid and aggressive to the point of clumsy outrages in their efforts to rig the election. But, no matter how obvious, blatant and clumsy they are, they will succeed in denying the people of Ukraine their honest election unless it is made crystal clear that those in power will suffer unequivocal and adverse consequences if the election campaign is not immediately made fair and transparent.

Fair elections are critical to Ukraine and to American interests in the region. Fairness will only come when the United States recognizes the nature of the people with whom it is dealing and takes aggressive action to assert its stated policy of wanting the election to be open and free. Ukrainian authorities will only modify their despicable behavior when they know the United States is serious and feel the reality that their corruption will have serious adverse consequences on their government's and their personal interests with the West.

Mr. Chairman, we do share the Administration's view that the United States should not have a "favorite" candidate in Ukraine's presidential election, that our national interest is in a free, fair and transparent election. Whoever is to be elected *should be* the choice for the people of Ukraine. However, we do believe the United States must take the lead in pressing for a fair election process through an American policy that makes this year's crucial election the top priority in U.S.-Ukrainian relations.

Elections, as we all know, are more than just the day on which ballots are cast. While the beginning of the presidential campaign in Ukraine has not officially start-

ed, it has in fact already begun, and I want to underscore the fact that the election campaign so far *has been anything but free, fair and open.*

I present here but a few items attesting to the campaign realities in Ukraine.

According to the Country Report on Human Rights Practices released by the Department of State on February 25, 2004, the human rights situation in Ukraine remains "poor." The report particularly notes "*authorities interfere with the news media by harassing and intimidating journalists, censoring material, and pressuring them into applying self-censorship . . . Arbitrary arrest and detention from what appeared to be political motivation, were problems at times, as was lengthy pretrial detention in very poor conditions.*" In light of the presidential campaign, the government of Ukraine continues to use its administrative resources selectively to target individuals, media outlets, labor and trade unions and other entities associated with the opposition. It continues to abridge its citizens' basic freedoms of speech, press, and assembly.

On March 3, 2004, Ukrainian affiliates of U.S.-funded Radio Free Europe and Radio Liberty in Kyiv were taken off the air, arrested and had their stations raided by the police. Fearing for his life, the former owner of the station fled to Poland and is awaiting political asylum. Further attempts made by the U.S. side to discuss this issue were turned down by Ukrainian government officials. The same day that the RFE/RL was shut down, Yuriy Chechnyk, a former director of Radio Yuta in the city of Poltava, was killed in a highly suspicious car accident after he announced his decision to rebroadcast RL short-wave programs on his radio station. Unfortunately, these are not simply isolated events. They illustrate only one facet of an increasingly authoritarian tendency of repression against individuals and media in Ukraine. Numerous reports indicate that Ukrainian authorities are using their tax and other powers to harass journalists, suppress fact-based news, and even physically eliminate their opponents. These facts must not go unnoticed by the Members of this Committee, this Congress or the Administration.

On April 18, 2004, we witnessed the so-called practice of "democracy in a social-democratic way" in a town of Mukacheve in southwest Ukraine. Overwhelming evidence has demonstrated that the local mayoral election there was the dirtiest election campaign in the history of independent Ukraine. Orchestrated by Ukrainian President Kuchma's Chief of Staff, Viktor Medvedchuk, who heads the Social-Democratic Party United (SDPU), authorities employed what appears to be unprecedented techniques of physical violence, intimidation, harassment, manipulation and forgery. Four deputies of the Ukrainian parliament were severely beaten by the police in attempt to obtain the final vote recount. Several election observers were hospitalized after being assaulted. In addition to this, on May 5, a local court refused even to accept documents for an appeal in the case of Viktor Baloha (the winner) vs. the Territorial election commission. This election in Mukacheve has sparked sharp criticism in the international community. According to Ambassador Steven Pifer, "*It is more than doubtful that the results that were announced matched the way people voted.*" Moreover, I wish to suggest to the Members of this Committee that these events are more than likely merely a rehearsal before the upcoming presidential election. Let us be real—the U.S. Government's hopes for "free, fair, and transparent pre-election process in Ukraine" were ruthlessly destroyed along with the choice of Mukacheve's voters.

Time is running out; it is late in the season but it is not too late.

So far, the Administration has expressed concerns about the election irregularities. It reports having had tough and direct private conversations with President Kuchma and other Ukrainian officials. The Administration has a tag-team of officials traveling to Kyiv to raise concerns and all of this will surely be covered in Ambassador Pifer's testimony today.

However, Ukrainian reality is not changing. Nothing is changing for a number of reasons. These include the Ukrainian Administration's belief that President Kuchma's having sent 1,650 troops to Iraq allows them to continue to carry out the outrages of blatant election manipulation and to safely ignore any negative American reaction. For instance, many of the power brokers in Ukraine are not particularly concerned about American or Western reaction, their interests lie in mutually beneficial financial relationships within the old Soviet Bloc. There are those in Ukraine who feel they can have it both ways—good relationships with the repressive elements of the Old Soviet bloc and with the West.

So far, the calculations of these thugs has proved to be accurate. Private admonishments and erudite press releases mean nothing to them. So far, they see our policy regarding the election as a joke—maybe something said to placate the Diaspora but nothing that directly has a negative impact on them.

The Diaspora is not satisfied so easily. All Americans, in fact, should also realize that the United States national interests lie in having a free, strong, independent,

and democratic Ukraine, with a mutually beneficial relationship with the U.S. Such a Ukraine could be a critical, strategic linchpin for peace and cultural understandings in Eastern Europe.

We—the United States—have too much at stake to tolerate the current marginalized policies toward Ukraine.

As Jackson Diehl wrote in his op-ed piece, “Ukraine’s Tipping Point” in *The Washington Post* on March 1, 2004, “The regime is afraid of one thing: the reaction of the West to what is happening in Ukraine. If they hear more of it in the coming months, democracy might still be saved.” That statement was made over two months ago and the fear Diehl refers to is the fear that the United States will be serious about pressuring the regime unilaterally and through all of its available bilateral avenues, none of which has happened to date. 72 days have passed. The polling day is now 172 days away. Time is running out.

I have attached a copy of Mr. Diehl’s piece and ask that it be included in the record.

But the question is, what types of things can the United States do to expose the thieves who would steal the election, sanitize the process by shining the klieg lights of international attention on those who are now acting with impunity? What can be done to drive the corrupt elements back into their shadows and allow the people of Ukraine to vote freely?

Among other things—and we emphasize that there have been a number of very thoughtful proposals submitted to U.S.A.I.D. for funding that, if funded, would have created a very different atmosphere in Ukraine—I outline a few possible action items:

- The Administration—through the White House and Department of State—and the Congress—should increase the volume of public statements denouncing the election law and civil rights violations.
- The Administration should abandon the practice of saving its harshest criticisms for closed door sessions. The Administration should make its criticisms clear to the people of Ukraine. Currently, well-worded statements have been issued but are never carried in the controlled Ukrainian media. As far as the citizens are concerned, nothing of consequence has ever been said and that must mean everything is OK with the United States.
- The Administration criticisms must make it clear that the United States wants free and fair elections, and the criticism must *include the entire campaign season and that at this point the campaign/election process is corrupt and must be fixed immediately.*
- High level and continuing delegations should be sent to Ukraine by the Administration and Congress—and maybe others like the Association of Former Members—to deliver clear and unequivocal messages about the election and that the way this current election is run will determine the course of U.S.-Ukrainian relations and relations with international organizations in which the United States participates. These delegations should, upon their return, publicly brief this Committee and maybe other committees so that the American public record is clear and current about the election situation in Ukraine.
- Oligarchs and other manipulators of the election should be identified and be made to understand that their actions will have personal consequences. People who see to it that candidates and political parties are denied access to the media, for example, will be on the visa blacklist. It is critical that these malfeasants understand the U.S. reaction will be personal.
- Everything possible should be done to discourage prominent Americans, certainly public officials, from accepting invitations from Ukrainian sources prior to election day. It has been the practice of people in power to seek legitimacy by association with prominent Americans. This “use” of well intentioned people is, among other things, terribly disheartening to the true Ukrainian democrats who have their message undercut by manipulation. In this regard the Committee might offer at least a word of caution to former President George H.W. Bush who apparently has accepted an invitation later this month to visit Ukraine as a guest of Viktor Pinchuk, President Kuchma’s son-in-law. We do not necessarily here question Mr. Pinchuk’s motives. We do however, believe that our President’s father being hosted in Ukraine by a prominent member of President Kuchma’s family could be a symbolic disaster and certainly undercut the democratic opposition’s message to the people of Ukraine.
- Although Ukraine is qualified for the lifting of the Jackson-Vanik restrictions, this Committee and the Congress might indicate that such restrictions and other standards of an improved bilateral relationship will only be available

to Ukraine if the current, on-going election campaign and the conduct of election day are deemed to be free, open and fair.

Mr. Chairman, I conclude noting that Ukraine's future as a democratic nation hangs in the balance. We know the choice on October 31 belongs to the people of Ukraine, their right to vote freely after a fair campaign is the entire issue. For their interests and for our own national interests we must do everything we can to ensure that the people of Ukraine receive full and fair coverage of the candidates and the national political parties, and that they have the opportunity to cast their votes free of oppression, intimidation and interference. The Iron Curtain fell. It is time the people of Ukraine have a fair opportunity to vote on the direction they want their country to take. This will not happen if current U.S. policies and practice toward Ukraine continue.

PREPARED STATEMENT OF MICHAEL SAWKIW, JR., PRESIDENT, UKRAINIAN CONGRESS COMMITTEE OF AMERICA

Mr. Chairman and members of the House of Representatives Committee on International Relations, thank you for the opportunity to comment on issues regarding U.S. policy toward Ukraine.

The Ukrainian Congress Committee of America (UCCA), as a representative organization of Americans of Ukrainian descent, would like to address our community's concerns on issues regarding U.S. foreign policy towards Ukraine, in particular during this highly visible period prior to Ukraine's presidential elections on October 31, 2004. The Ukrainian community in the United States expresses its gratitude to the House International Relations Committee for your continuous leadership and support of democratic and economic reforms in Ukraine. Since 1996, the United States and Ukraine have formed a unique relationship defined as a strategic partnership between two countries.

U.S. GLOBAL LEADERSHIP

The United States of America, as the leader of the democratic world, plays a prominent role in promoting democracy around the globe. Such an important role requires even greater emphasis following the tragic events of September 11, 2001, as our ultimate goal in the war against international terrorism is the establishment of free and open societies, which guarantee human and civic rights to all citizens. Prior to the United States' current focus on the Middle East and Central Asia, we were actively involved in the democratization process in Central and East Europe.

Due to such activity and U.S. assistance and leadership, many of the Central and East European nations have achieved great success in establishing strong democratic governments that rely on market economies. The recent European Union (EU) and NATO enlargement, which admitted several new states from the former Communist bloc, serves as a positive example of the successes achieved in that area. Unfortunately, not all of the Central and East European countries have managed to progress so quickly.

The objectives of peace, stability, and democracy in Central and East Europe are enhanced only because the United States remains committed and engaged in a strategic partnership with Ukraine. Should Congress stay the course, investing in a strong and democratic Ukraine, the goal of stability in a turbulent region will be within reach. In the 21st century, the United States will have no better ally in Central Europe than Ukraine, and our engagement invested in Ukraine shall achieve historic gains. In the words of *The Wall Street Journal*: "The U.S. and its allies have much to gain by nudging Ukraine, one of Europe's largest countries, toward economic viability. For one thing, it could resist revanchist tendencies among those Russians who would like to restore the Russian empire."

POLITICAL SITUATION IN UKRAINE

Ukraine, as one of the largest and most populous European countries that emerged as an independent state following the fall of the Soviet Union in 1991, has been marred by many problems, including an economic crisis and high-level corruption. Nevertheless, substantial progress was achieved in many areas including the closure of the Chernobyl nuclear power facility; voluntarily dismantling the world's third largest nuclear arsenal; the emergence of an active civil society; freedom of religion; support for national minorities; freedom of movement; and, freedom of expression.

In the subsequent decade of its renewed independence, Ukraine faced many challenges including an economic crisis and corruption. Nevertheless, it has been able

to recover from the initial depression and currently advances rather steadily in its goal of European and Euro-Atlantic integration. The Ukrainian economy continues to grow, the government has implemented significant changes in legislation to improve cooperation with the West, while the investment climate continues to improve and other changes are being made to transform Ukraine into a Western-like democracy. Increased economic stability in Ukraine serves as a basis for the improvement of its democratic governance system. However, there remain issues that Ukraine continues to combat.

With the advent of a new generation of leaders, issue in the aforementioned will continue to alleviate itself. If recent events in Ukraine are indicative of what lays ahead, the October 31, 2004 elections for president may determine whether Ukraine becomes a Western-style democracy respectful of its citizens' rights and allied with the West, or a former Soviet republic re-absorbed into an authoritarian 'sphere of influence' by Ukraine's neighbor Russia. Thus, the strategic and economic dividends from continued U.S. engagement with Ukraine can be virtually limitless. In fact, Ukraine's strategic partnership with the United States represents the key to Ukraine's continued economic and political reform.

It is impossible to assert that problems do not exist in Ukraine. Yet, the former Warsaw Pact country of Poland and newly independent state of Georgia view Western engagement with Ukraine, in particular engagement from the United States, as essential to the goal of stability within the region. As one of Europe's largest countries, continued support from the United States would instill sustained political and economic viability in Ukraine, thus eliminating revanchist tendencies in neighboring Russia to restore its lost empire. As recently as several weeks ago, Jackson Diehl from *The Washington Post* wrote: "As giant Ukraine goes, so, likely will slip most of the other former Soviet states that now live uneasily between the expanding European Union and Russia . . . Putin and the former-KGB circle around him would like to fold them all into a new bloc dominated by Moscow and able to bargain as a quasi-equal with the EU and NATO. That's why it's not surprising that Putin's allies in Ukraine are on the offensive, employing the same tactics here [in Ukraine] . . . that succeeded in eliminating the democratic opposition in Moscow—like the shutdown of independent media and prosecution of businessmen who finance non-government parties."

CIVIL SOCIETY IN UKRAINE

With engagement from the United States and other Western countries, Ukraine has been very successful in developing a civil society, which as a result has become increasingly vocal, active and influential in the development of democratic institutions and behavior. Having been involved in Ukraine's political life as a civic educator since the early days of independence, the Ukrainian Congress Committee of America (UCCA) has established close contacts with a wide network of non-governmental organizations (NGO's) throughout Ukraine. Our organization has successfully implemented multiple comprehensive civic education programs geared toward voter education and awareness that emphasize citizen's rights and responsibilities. Throughout the years of our involvement, the UCCA ensured that every project implemented transfers Western experience and skills to Ukrainian NGO's. We develop our programs to assist in the building of civic organizations that are self-sufficient, active, and as a result become an integral sector of the developing political process. Similar approaches have been implemented by various organizations that are involved in the democracy building process in Ukraine. It has proven to be a great success and as a result Ukrainian NGO's continue to improve the quality of their work and advocacy.

Nevertheless, Ukrainian NGO's are faced with an insurmountable problem of establishing a network through which to receive financial support from various groups whose interests they represent. Although small- and medium-sized business is developing, Ukraine's economic arena is still dominated by big business oligarchs. At this critical juncture in the history of Ukraine's new democracy, a failure to support the rights of the Ukrainian electorate to an informed choice in the upcoming presidential election will have profound repercussions not only in Ukraine, but also in the currently transforming face of Europe. The success of Ukraine as a dependable partner for the United States will largely depend on the election of a new president, freely chosen by its 50 million citizens, and not by the dictates of a few. The United States and other members of the international democratic community need to remain involved in pre-election programs and provide the Ukrainian NGO community with effective financial assistance that will allow them to become self-sufficient.

Presidential Elections in Ukraine

Presently, Ukraine is at a crossroads. The results of the October presidential elections will decide whether it will irreversibly commit itself to democratic reforms and European integration, or become an authoritarian state, in which the rule of law is compromised to the advantage of those in power. A free, fair and transparent election this year is the only guarantee to further democratic development.

Recently, the government of Ukraine proposed changes to the constitution that would establish a parliamentary republic rather than the current presidential-parliamentary republic. Moreover, the Supreme Court of Ukraine declared that President Kuchma was eligible to run for a third term despite the Constitution's two-term limit, citing that he was elected prior to the adoption of the Constitution in 1996. Such attempts at Constitutional reform have caused a strong reaction from the international community, not to mention from the democratic/opposition forces within Ukraine.

On April 19, 2004, the mayoral election in Mukachevo, Transcarpathian region of Ukraine, was marred by bold and open violations of election laws in Ukraine. Open interference with the voting process, voter intimidation, threats and physical violence against observers, attacks on Members of Ukrainian Parliament, and inaction by Ukraine's law enforcement structures indicate the necessity for increased monitoring of electoral procedures during the campaign process. Many political analysts regard this mayoral election as a strategic move to sway the Ukrainian electorate who otherwise may be ambivalent toward the election process and stem their belief in the importance of their individual role in the political process developing in their state. Therefore, international demands for an investigation of the violations and punishment of its perpetrators is an extremely important example of demonstrating that the citizens of Ukraine and the international community will not allow such violations during the presidential elections in October. Bowing to the domestic and international outcry, President Kuchma ordered an investigation of the events in Mukachevo, but it remains to be seen what results it will bring. The commission's findings are to be completed by May 13, 2004.

The Ukrainian American community praises the past efforts and commitment of the United States Congress to ensure that Ukraine develops into a truly democratic state with a free-market economy. H.Con.Res.415 expresses a sense of Congress regarding the upcoming presidential elections in Ukraine, yet limits its strategic focus towards Ukraine. In the last thirteen years of Ukraine's regained independence, with the help of the United States Congress, the nation of Ukraine has successfully avoided inter-ethnic conflicts, overcome a massive economic crisis, and most importantly has begun to regain confidence in themselves as an essential element of their state's political process. Following her trip to Ukraine in February 2004, former Secretary of State Madeleine Albright penned a *New York Times* op-ed article clearly articulating the role of the United States towards Ukraine. She writes: "So what should the United States do to encourage democracy in Ukraine? First speak out . . . President Bush and cabinet officials need to insist on free and fair elections and they need to do it soon . . . Senior officials should visit Ukraine, and other opportunities will come this June when leaders of the Group of 8 industrialized nations, the European Union, and NATO meet . . . Saving democracy in Ukraine belongs on that agenda." It is the consensus of the Ukrainian American community that the United States not suspend its assistance at this most critical juncture for Ukraine, but rather continue its engagement and support until Ukraine secures its ever-growing democracy.

FREEDOM OF SPEECH

Recently, the media in Ukraine has criticized the government's infringement on the freedom of speech, as witnessed by the closure of two radio stations that retransmitted foreign programming of such internationally recognized independent newscasters as *Radio Free Europe/Radio Liberty (RFE/RL)*, *Deutsche Welle*, *BBC*, *the Voice of America (VOA)*, *Polish Radio*, etc. The U.S. Department of State's Country Report on Human Rights Practices for Ukraine in 2003 sites issues whereby "authorities interfered with the news media by harassing and intimidating journalists, censoring material, and pressuring them into applying self-censorship." Likewise, many journalists have voiced their concern of the so-called "temnyky," a list of instructions distributed to media outlets recommending them on how to cover certain sensitive issues and what to include and not include in their news coverage.

Many of the independent media outlets that reported on corruption and abuses of power by government officials or oligarchs have been intimidated by the State Tax administration or other government agencies resulting in endless audits, seizing equipment, imposing fines, and the like. It is necessary to say, however, that

after a boisterous outcry by independent journalists in Ukraine and the subsequent reprimand of the Ukrainian government's actions by the international community, President Kuchma ordered all investigations and audits against the media cease.

Although such procedures disrupted news coverage, the president's decision provides a legal basis for maintaining the freedom of speech—a fundamental right upheld by the Constitution of Ukraine. Access to free and independent media channels by the presidential candidates in Ukraine is essential for a transparent electoral process. As noted by various think-tank organizations in the United States and worldwide, the need for increased support for the news media in Ukraine remains paramount to attain equal access for all candidates, as well as to institute confidence in the electorate's decision. "I think that the overwhelming concern of the international community and certainly of the United States," stated Deputy Secretary of State Armitage at a press conference in Kyiv, Ukraine in March 2004, "at this stage in Ukraine's development, that Ukraine is seen as a country mature enough to go forward and hold free, fair, and democratic elections."

Ukraine is an important strategic partner of the United States. An ally in the war against international terrorism, it was one of the first states to open its airspace to U.S. air forces during the war against al Qaeda in Afghanistan. Ukraine also joined the coalition of democratic forces to re-establish peace and security in Iraq by providing the forth-largest peacekeeping contingent as well as a nuclear, biological, and chemical (NBC) battalion during the war in Iraq. A stable and democratic Ukraine is essential for the development of Central and East Europe, especially in the context of the current European Union and NATO expansion. Thus, as the world leader and champion of democracy, it is critical that the United States remains involved in the democratic development in Ukraine and helps ensure that the pre-election period is not marred with violations and that the elections in Ukraine are conducted in a free, fair, and transparent manner.

RECOMMENDATIONS:

Members of the Subcommittee, Ukraine is at a crossroads. Ensuring free and fair presidential elections in Ukraine is paramount to further democratic development, as the October 31, 2004 race will determine Ukraine future course. The Ukrainian Congress Committee of America humbly suggests the following priorities for U.S. foreign policy toward Ukraine:

Continued support for the development of democracy, in particular, non-governmental organizations (NGO's)

The NGO community is becoming an increasingly important sector in Ukraine's political/democratic development. NGO's are becoming more vocal in expressing the opinion of the electorate, more effective in disseminating non-partisan information among the citizens, and more successful in educating the public to not only cast their ballot, but also to understand their inalienable rights as citizens of a democratic country.

The Ukrainian Congress Committee of America has been involved in every election campaign in Ukraine since 1994, and as a result, has developed extensive contacts throughout the NGO community in Ukraine. The UCCA's projects have always been based on the belief that democracy embraces the right of the people to freely determine their destiny and must be supported by the notion of civic education. By transferring western principles deemed critical to democratic development, the UCCA programs are developed to ensure sustainability and cooperation among Ukrainian NGO's even in the inter-election periods—an integral part democratic development.

Therefore, U.S. assistance must be extended to the NGO community prior to and following the presidential elections to ensure that the civic community in strengthened and the democratic process continues. Such assistance should also be extended to the independent news media outlets in Ukraine in an effort to allow for an equal playing field for all presidential candidates.

An official delegation of election observers

Providing assistance to ensure free and fair election on the day of the vote is also essential. It is important for the Ukrainian people to see that foreign governments, in particular the United States, not only provide declaratory statements encouraging free and fair elections, but actively participate in the elections as observers. An official U.S. delegation of International Election Observers will serve that purpose and facilitate a better relationship between the United States and Ukraine. We respectfully urge you to recommend such action to your colleagues and organize an official delegation of International Election Observers for October 31, 2004, as well as during the campaign period itself.

CONCLUSION

Ukraine has reached a decisive stage in its transitional development. The international community, interested in ensuring peace and furthering the tenets of democracy in the region, has provided significant assistance in helping Ukraine overcome its Soviet legacy and integrate into European and Euro-Atlantic structures; however, we urge the members of the House International Relations Committee to continue their involvement in Ukraine prior to and following the October 31, 2004 elections. United Press International (UPI) correspondent Robin Shepherd eloquently suggested in an analysis of Ukraine on May 11, 2004: "What Ukraine needs from the wider world is a healthy dose of the carrot and stick formula which worked so well for the eight former communist countries which joined the European Union on May 1. A clear signal from Brussels [*one may also add here Washington, op. cit.*] that Ukraine would be welcomed in as soon as it meets the standards expected of a member of the European Union could work wonders in mobilizing and enthusing the democratic opposition." Indeed, issues currently discussed within U.S. government circles such as Permanent Normal Trade Relations (PNTR); non-market economy (NME) status; Ukraine's accession to the World Trade Organization (WTO), as well as a myriad of other concerns could be catalysts for true democratic reform in Ukraine.

On behalf of the Ukrainian Congress Committee of America, representing the concerns of the Ukrainian American community, we seek your guidance and thank you for your continuous support of democratic reforms in Ukraine. We express our sincerest hope that the United States remains a strategic partner of a democratic Ukraine, as an equal among its European neighbors.

Mr. BEREUTER. The Subcommittee stands adjourned.

[Whereupon, at 2:58 p.m., the Subcommittee meeting was adjourned.]

