

Transforming Ukraine: Successes and Obstacles on the Way to Reform

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Robert Brinkley

Good afternoon, ladies and gentlemen. Welcome to Chatham House. A very warm welcome to Arseniy Yatsenyuk, prime minister of Ukraine, who is going to be speaking to us today about 'Transforming Ukraine: Successes and Obstacles on the Way to Reform'.

I should say to you that this meeting is on the record. It's also being live-streamed and people can comment through Twitter using #CHEvents and #UkraineForum.

This event is taking place as part of the new Ukraine Forum at Chatham House, which was launched just last week. In effect, this is an even bigger and better launch. We're delighted that the prime minister can be here with us.

Chatham House decided that it would be a good idea to have a Ukraine Forum because although it has really to a large extent dropped out of the international media, the crisis is still very far from over. There is a great deal going on in Ukraine, which we're going to hear about from the prime minister today. We thought it was important for Chatham House and the people involved with it to be able to look at Ukraine on its own merits, not look at it through the prism of somebody else's views or through somebody else's eyes. The focus of the forum is particularly on what's happening inside Ukraine, the process of reform – that very difficult, very complicated process – where we need to understand better what is happening and how we in this country and elsewhere can help in that process.

This session is going to last for one hour, until seven o'clock. The prime minister is going to start off in conversation with me and then he's agreed to take questions from the floor. I should start by introducing him. He has worked throughout his professional career as a lawyer, an economist, a banker. He's held a number of high-profile positions, including as head of the National Bank of Ukraine and parliamentary speaker. I think when we met, Prime Minister, you were minister of economy and I was ambassador in Ukraine. I remember you telling me about economic pressures from Russia on Ukraine.

Arseniy Yatsenyuk

That was ten years ago.

Robert Brinkley

Some things don't change. Since then, Mr Yatsenyuk has been foreign minister, speaker of the parliament, and then last year he launched a new People's Front party. Since February last year, he has been prime minister. Delighted to have you here, Mr Yatsenyuk, we look forward to hearing from you.

Arseniy Yatsenyuk

My pleasure. Distinguished ambassador, distinguished audience, it is a pleasure to address you. There is an old joke: 'I am from the Ukrainian government here to help you'; this time, I am from the Ukrainian government to answer any question you have. It's so important for me to deliver you the real information, what's on the ground, because my country is facing tremendous challenges. Sometimes one can say that these challenges are insurmountable, but we succeeded, we survived and we are moving and making reforms – painful, tough. We need your support and we need your take on the situation in Ukraine, your advice. I will appreciate any questions you have. So let's go down to business.

Robert Brinkley

Let me just kick it off. It seems to me that one of the major problems that's faced Ukraine ever since independence in 1991 has been corruption in the country. This has been holding back Ukraine and it's been a very common complaint, that there's been mismanagement. That under a series of different governments, money has been diverted, so Ukraine has not been able to prosper as it should have done. Since the revolution last year, you've got a new opportunity. What is your government doing really seriously to tackle corruption? Not just talk about it, but actually do something about it.

Arseniy Yatsenyuk

I want to have a very open discussion. If I say to you that we have already eradicated and tackled corruption in Ukraine, this is not true. The same goes not only in Ukraine. Similar cases we have even in the European Union. So this is a very bumpy and long road.

But let me talk only about facts. First of all, the most rampant corruption existed in the energy sector of Ukraine. Mainly it was so-called 'gas corruption'. We succeeded in eliminating gas corruption and eliminating middlemen in the Ukrainian energy sector. There is one of the biggest state-owned enterprises, which is Ukrainian Naftogaz, a gas company, that had very shadowy and non-transparent deals with middlemen and with the Russian Federation. So last year we eliminated this middleman. His name is Mr Firtash. He is under FBI investigation and expected to be extradited to the United States. For today, we have just direct deals with the European companies. No kicks off, kicks in, kicks out, just very clear pricing on the market-based level. So we hammered out the deal with Russians last year, it was a trilateral deal (Ukraine, EU and Russian Federation). So I want to indicate that the real success that Ukraine achieved is to make the gas sector really transparent.

The next step is that the Ukrainian government took over the control of another huge oil company, which is Ukrnafta. We expect to mitigate the roles of Ukrainian tycoons in this company and we expect to have a new, transparently elected CEO on the 22 of July this year.

The third issue is we do have high-profile and petty corruption. For the first time in Ukrainian history, the ministry for emergency services and his first deputy were arrested, during a meeting of the cabinet. But the problem is that we arrested – the homeland security department arrested them but in two days they were released on bail by absolutely, entirely independent Ukrainian judges, uncorrupted Ukrainian judges.

The government established an anti-corruption bureau. The chair or director of anti-corruption, the role was elected by a special selection commission, absolutely independent. The president signed an executive order to appoint a new director of this independent agency. So we expect to have up to 250 detectives that will launch large-scale investigations against high-profile Ukrainian officials.

The parliament passed a number of bills. For example, as for today, all public servants (mainly ministers, members of the cabinet, prosecutors, judges) are obliged to disclose all assets, all sources of their expenditures and revenues. So for the first time it happened when all the Ukrainian public servants are to disclose their tax and revenue information.

The parliament a few days ago lifted an immunity over a number of judges. These judges were arrested but once again, another judge released them on bail.

So we are doing. The process is very complicated. So let me focus on the few issues that need to be done. The first one is a comprehensive judicial reform. There is a problem. The idea I have personally is to introduce a sweeping reform in the entire Ukrainian judiciary. We cannot cope with these kinds of judges. We have just to change the entire court system. But we have our European friends and the Venice Commission and they say, look, this is unconstitutional. You have to stick to the rule of law. You have to change judges in the appropriate manner. This won't work. My idea is just to hire new judges.

The second issue is to deregulate the Ukrainian economy. A lot has been done. If you have a big government, you have big corruption. The smaller government, smaller corruption. So we overhauled the tax system. We lifted a number of Soviet-style regulations. We are doing everything to create level playing fields for the Ukrainian and international investors and to make the business environment as friendly as possible.

Another problem which needs to be addressed is extremely low wages and salaries. You can't tackle corruption having, for example, an average salary in the public sector of \$100. This won't work. Too much depends on the way the Ukrainian economy is to develop. As today, we are on a huge slide: we lost about 20 per cent of the Ukrainian economy due to illegal annexation of Crimea and Russian invasion.

So corruption is a key issue. When we were in DC, US Vice President Joe Biden and President Obama and all our international friends and partners, they were very clear: corruption is the key priority. I asked the Americans, David Cameron and Prime Minister Harper to send his folks to train Ukrainian homeland security department, to train Ukrainian detectives, to make them vibrant, to make them strong enough to investigate all these anti-corruption cases.

Last but not least, I just mentioned about the minister of emergency services and his first deputy. When they were arrested, during the search, homeland security department investigators found credit cards, bank accounts and the rest of the stuff. We asked one European country to give us additional proof and evidence, whether these bank accounts are true or not true, just to provide us with the information. I've been waiting for three months and we didn't get any response from one EU member state. So my message to our European friends: help us. Help us in eradicating and tackling corruption. Let's track down and recover all assets of the former regime and even this government.

Robert Brinkley

Prime Minister, one of the unusual approaches of your government is to bring in people from other countries to be members of your government and to help you. Indeed, recently Mikheil Saakashvili, who was head of government in Georgia, has been appointed governor of Odessa region. Do you think so far this is proving a successful approach? How is that perceived in Ukraine, among Ukrainians, that you're bringing in these foreigners to help run the country?

Arseniy Yatsenyuk

Ambassador, I would be happy if you consider this idea too.

Robert Brinkley

Thank you, I'll keep that under consideration.

Arseniy Yatsenyuk

I am really satisfied with the Ukrainian team of very pro-reformist folks in the government. We have very brilliant ministers. They are young. This is another type of people. Natalia Jaresko, who is the secretary of treasury, she is just amazing. She is doing her job and this country never had a minister like Natalia. Minister for economy, he's great. He started this deregulation, he called it 'deregulation guillotine'. His aim is to kill all this Soviet-style red tape and Ukrainian bureaucracy. So I am really delighted with the new government and with the new cabinet.

But we have perfect Ukrainians, great ones. For example, the Ukrainian trade representative. It was she who hammered out the FTA deal with Canada. Yesterday we signed with Prime Minister Harper this deal. She is so professional, she is so bright, she is so decisive. She committed to deliver changes. The idea we have in the government is to comprise both foreigners and Ukrainians and to make a dream team, a dream team for real reforms.

Robert Brinkley

I'll ask you one more question, then I'll let our audience ask their questions. You referred earlier to the gas industry, which had been ripe for corruption. That has been a problem but Ukraine has been quite successful in the last two years or so at reducing its consumption of gas, at having a much more varied group of suppliers. Yet at the same time, you imposed much higher taxes on companies within Ukraine which were producing gas. So was that not a bit of an own goal, that you were making it more difficult to produce gas in Ukraine?

Arseniy Yatsenyuk

The bad news is that we increased royalties and taxes in the energy sector six months ago. The good news is that yesterday we decided to slash royalties and taxes in the energy sector. I will have a huge debate in the parliament because they will definitely politicize this issue, saying that the government decided to slash the royalties, this will severely impact the revenues, you support energy tycoons – that's not true. The idea we have is simple. We want to have Ukraine entirely energy independent. The way to increase the output capacity of the Ukrainian energy sector is to provide incentives. I do understand that for the government in the short-term perspective, it's better to get more revenues. But this is the short-term perspective. As I see it, the decline in the output is due to high royalties.

So we decided to slash by two times all royalties and taxes. I expect that in ten years, Ukraine will be entirely energy independent due to two reasons. The first one is more extraction and the second one is energy-efficiency programmes. I will tell you, for example, the data. Ukraine consumes on average about 50 billion BCM of natural gas. Polish consumption is 13 billion BCM. But GDP of Poland is just four times bigger than Ukraine. It's just unacceptable to hit the atmosphere. That's what's going in our country. We need an investment boost in drilling, in new wells and in energy-efficiency programmes. This is a matter of our discussion with our European and American friends.

Going back to the issue you said on the energy, last year we did a lot in order to launch the reverse flow. We were entirely and heavily dependent on Russia. In 2013, the volume of gas that was purchased from the Russian Federation was about 90 or 95 per cent. This year, we shifted from the Russian market to the EU market, and we buy from the EU more than 70 per cent of natural gas. So we launched a reverse flow. We diversified the routes. We brought Russia to an international commercial tribunal on the gas deal, with a lawsuit of \$16 billion. We have very high chances to win this case.

Robert Brinkley

Great. Let's take some questions from the audience.