

High Crimes and Pipelines: Curbing Corruption in Ukraine's Energy Sector



JUNE 18, 2018

**Briefing of the
Commission on Security and Cooperation in Europe**

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The OSCE Secretariat is in Vienna, Austria, where weekly meetings of the participating States' permanent representatives are held. In addition, specialized seminars and meetings are convened in various locations. Periodic consultations are held among Senior Officials, Ministers and Heads of State or Government.

Although the OSCE continues to engage in standard setting in the fields of military security, economic and environmental cooperation, and human rights and humanitarian concerns, the Organization is primarily focused on initiatives designed to prevent, manage and resolve conflict within and among the participating States. The Organization deploys numerous missions and field activities located in Southeastern and Eastern Europe, the Caucasus, and Central Asia. The website of the OSCE is: <www.osce.org>.

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The Commission consists of nine members from the United States Senate, nine members from the House of Representatives, and one member each from the Departments of State, Defense and Commerce. The positions of Chair and Co-Chair rotate between the Senate and House every two years, when a new Congress convenes. A professional staff assists the Commissioners in their work.

In fulfilling its mandate, the Commission gathers and disseminates relevant information to the U.S. Congress and the public by convening hearings, issuing reports that reflect the views of Members of the Commission and/or its staff, and providing details about the activities of the Helsinki process and developments in OSCE participating States.

The Commission also contributes to the formulation and execution of U.S. policy regarding the OSCE, including through Member and staff participation on U.S. Delegations to OSCE meetings. Members of the Commission have regular contact with parliamentarians, government officials, representatives of non-governmental organizations, and private individuals from participating States. The website of the Commission is: <www.csce.gov>.

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High Crimes and Pipelines: Curbing Corruption in Ukraine's Energy Sector

June 18, 2018

**Commission on Security and Cooperation in Europe
Washington, DC**

The briefing was held at 3:30 p.m. in Room G11, Dirksen Senate Office Building, Washington, DC, Paul Massaro, Policy Advisor, Commission on Security and Cooperation in Europe, presiding.

Panelists present: Paul Massaro, Policy Advisor, Commission on Security and Cooperation in Europe; Ambassador William Courtney, Adjunct Senior Fellow, RAND; Nataliya Katser-Buchkovska, Member of the Ukrainian Verkhovna Rada; and Ed Chow, Senior Fellow, Center for Strategic and International Studies.

Mr. MASSARO. All right. It's 3:30 sharp so we're going to get started. Thanks, everybody, for coming today. Hello and welcome to this briefing of the U.S. Helsinki Commission. The commission is mandated to monitor compliance with international rules and standards across Europe, which include military affairs, economic and environmental issues, and human rights and democracy. My name is Paul Massaro, and I am responsible for economic and environmental issues, including anticorruption and energy security. This briefing will encompass both of these topics as we discuss Ukraine's energy sector reforms today—what has been accomplished, what has yet to be accomplished, and what it means for the future of Ukraine.

Ukraine currently finds itself at a pivotal moment in its history. Since the Euromaidan revolution in 2014, the country has embarked upon an ambitious reform program, meant to remedy decades of mismanagement and corruption that have plagued the country and prevented it from realizing its potential as a prosperous and democratic state. While some of these reforms have been implemented, others have stalled or failed to get off the ground. Notable successes include the establishment of a robust anticorruption architecture and reform of the energy sector, the focus of our discussion today.

Ukraine's energy sector has historically been a focal point of corruption in the country. The practice of gas arbitrage—that is, the purchase of subsidized gas followed by the sale of that gas at market rates—was one of the most notorious schemes to make

cash at the expense of the Ukrainian people. It was also a way for Russia to exert malign influence on the country through its gas leverage. This practice has since ceased thanks to the end of hidden energy subsidies. Moreover, Ukraine no longer purchases gas from Russia, putting a stop to that avenue of Russia's weaponization of corruption. Finally, Ukraine's state-owned gas company, Naftogaz, has gone through significant reform, transforming itself from a net burden on the state budget to a net contributor.

However, much remains to be done. Corruption remains an everyday reality in Ukraine's energy sector, most notably in regional distribution companies, which Naftogaz must sell to under Ukrainian law. In addition, deregulation and privatization efforts have not been completed. Soviet-style bureaucracy remains a defining feature of Ukraine's energy sector. Russian interference complicates these reforms. Russian-led forces in Ukraine's east, and the immediate threat they pose to Ukrainian sovereignty, tends to draw attention away from necessary reforms that would fortify Ukraine against Russian aggression.

Moreover, the development of Nord Stream 2, the expansion of the Baltic Sea Pipelines running from Russia to Germany, would deny Ukraine valuable transit revenues on gas exports to Europe. Still, we must acknowledge that Ukraine's greatest adversary is corruption. Energy sector reform is critical to combating corruption as a whole, and I look forward to examining it in-depth with our panelists today.

So let me introduce those panelists. Ambassador Bill Courtney will be our first speaker. He is a career foreign service officer and has held a wide variety of posts, including serving as the U.S. Ambassador to Georgia and Kazakhstan. He has also served as a senior advisor to the U.S. Helsinki Commission, and we are glad to welcome him back.

Ms. Nataliya Katser-Buchkovska will follow Ambassador Bill Courtney. She is a member of the Ukrainian Rada, where she serves as head of the Subcommittee on Sustainable Development, Strategy and Investments of the Committee on Energy, Nuclear Policy, and Security. We are extremely lucky to have her here with us today and look forward to gaining her insights.

Finally, we will hear from Ed Chow, who just returned from a trip to Kyiv. Ed is a senior fellow in the energy and national security program at CSIS, and one of the foremost experts on energy sector reform. Thanks so much for joining us, Ed.

Ambassador Courtney, the floor is yours.

Amb. COURTNEY. Paul, thank you very much. I am honored to be with you today for this important Helsinki Commission briefing. To assist in setting the stage for speakers on Ukraine's energy security, I will briefly discuss the country's overall political and economic performance, and I will comment on Ukraine's security and Western support for it.

In assessing Ukraine's performance, let's compare it with that of Ukraine's four most populous neighbors—Poland, Romania, Russia, and Turkey—according to three global indices that are proxies for political performance, and three global indices that are proxies for economic performance. They are, for political performance, the World Justice Project Rule of Law Index, the Freedom House Freedom in the World publication, and the Transparency International Corruption Perceptions Index. For economic performance, the three indices are the World Economic Forum Global Competitiveness Index, the World Bank's Ease of Doing Business Index, and the United Nations Development Program's Human

Development Index. These are proxies for democratic performance, in the first instance, and economic performance in the second.

To allow comparisons, rankings are normalized in percentiles and then averaged. A low percentile equates to better performance. And the results are: For political performance, Poland, 25th percentile. That's quite good. That's the best. Romania, 27th percentile; Ukraine, 61st percentile; Turkey, 63d percentile; and Russia, 82d percentile. For economic performance, again, Poland is the best, 20th percentile, followed by Russia at 24th percentile, Romania at 34th percentile, Turkey at 36th percentile, and Ukraine at 48th percentile.

These comparisons allow several observations. First, Ukraine is mid-ranked in political performance, better than Turkey and Russia and worse than Poland and Romania. Ukraine's 21-point lead over Russia reflects, in part, Ukraine's experience of having held multiple national elections in which the opposition won and assumed power peacefully. The 30-plus point lead of Poland and Romania over Ukraine suggests that Ukraine has a long way to go to meet the democratic standards of European Union members. The second observation: Ukraine is the bottom economic performer. The next-worst, Turkey, has much higher productivity. Per capita income in Turkey, measured by the World Bank's purchasing power parity method, is just over three times higher than Ukraine's per capita income, which is \$8,270. Russia's per capita income is also three times higher than Ukraine's.

Third observation: Corruption, competitiveness, and the rule of law—dimensions of importance to investors—may be getting worse for Ukraine, at least in relative terms. In the Corruption Perceptions Index, Ukraine ranks 130th. But a decade earlier, it was 118th. In the Competitiveness Index, Ukraine ranks 80th, but a decade earlier was 73d. In the Rule of Law Index, Ukraine ranks 77th, but in 2014 it was 68th. This deterioration owes, in part, to poor governance associated with the rule of former President Viktor Yanukovich. But systemic factors also appear to be important. And the Poroshenko government has a mixed record on reform.

At times, Ukraine seems to make reforms only at the urging of the IMF and Western donors. An example is the delayed establishment last week of the anticorruption court. At the same time, Ukraine deserves praise for progress on reform—perhaps more in the last 4 years than in the preceding 23 years. Ukraine's vibrant civil society is a driver of reform. According to the World Bank, reforms since 2014 include reducing large public spending, moving to a flexible exchange rate, reforming energy tariffs and social assistance, making public procurement more transparent, simplifying business regulation, restructuring banking, reforming health care, and establishing anticorruption agencies and asset disclosures for public officials.

Ukraine's security plummeted in early 2014, when Russia seized and annexed Crimea, and launched a war in eastern Ukraine. Ukrainians quickly learned how to fight and began pushing back Russia's mercenaries. To stave off their defeat, the Kremlin in August 2014 intervened with regular ground forces. They have remained in Donbas, and Russia continues to fund and control mercenaries and armed separatists. At a Helsinki Commission briefing on May the 5th, U.S. Special Representative for Ukraine negotiations, Ambassador Kurt Volker, rightly pointed out that the Donbas conflict will be resolved only if Russia decides to remove its forces.

As it did with the Baltics in the cold war, the West is unlikely to recognize the forcible incorporation of Crimea into Russia. As it did with the Soviet military occupation of

Afghanistan for a decade, the West is likely to continue opposing aggression in Ukraine. The West is largely unified in using sanctions to raise the cost to Russia of its actions. The West also provides military aid to Ukraine. Some observers urge that the West accept Russian control over Crimea, or that the West consign Ukraine and other in-between states in the post-Soviet space to permanent limbo, outside the European Union and NATO. This would unwisely tempt Russia and render its neighbors permanently vulnerable.

The West has an interest in the sovereignty, independence, and territorial integrity of all countries in the post-Soviet space. The West also has an interest in a Russia that is at peace with its neighbors. In pursuit of these goals, the current direction of Western policy is sensible.

Thank you.

Mr. MASSARO. Thank you very much, Ambassador Courtney, for that broad overview and setting the stage for our deep dive into Ukraine's energy sector.

And we'll start that right now with Ms. Katser-Buchkovska.

Thank you.

Ms. KATSER-BUCHKOVSKA. Thank you so much. Good afternoon to everyone, honorable guests. I'm very delighted and honored to be here and to discuss our energy reform, as well as our success and some impediments, why we are in this process and why we are not finished with some kind of reforms.

First of all, I would like to start with the name of this hearing, "High Crimes and Pipelines: Combating Corruption in Ukrainian Energy Sector." To start with good news, that a few weeks ago our parliament enacted law on high anticorruption court, which means the end of anticorruption reform, which is actually a critical and very historical decision for our parliament. Last 4 years, we were full of different reforms, such as educational, medical reform. We cleaned our banking system, as well as rebuilt army, grounded previous regime with EU, as well as signed a few agreements—free trade agreements with EU and Canada, and other states.

So we went through different reforms, but one of the most important reform is energy reform, of course. Why so? Because, first of all, since our independence—since last 25 years of our independence, we actually inherited post-Soviet Union energy system. And it hasn't been reformed. So we were dependent 100 percent on Russian gas supply. We were dependent on nuclear fuel supply. And actually, it means full political and economic dependence from one state. And the last 4 years, we are working on energy reform. And we actually set a lot of good frames to energy market development.

First of all, I work in the energy committee and I'm responsible for sustainable development and energy security. And over the last 4 years, we enacted gas market law which is systematic law. We enacted electricity market law, a law in independent energy regulator. We also enacted a law to support renewables—joint Paris climate agreement, and simplified rules for gas extraction, decreased royalties, I will be talking about a little bit later. So we set a very good frame for market transformation. But I couldn't say that the reform of energy market has been completed yet.

First of all, I would start with gas market reform. So we introduced by this law—by energy—by gas market law we introduced competition on the industrial level. So now we have market price on industrial level, and Ukraine doesn't buy any cubic meter of gas from Gazprom. We are buying on market price—market price gas from different gas sup-

pliers in Europe. But we are still missing competition on the consumer level. And this is a big problem because, first of all, we have a different price for—a fixed price for consumers, for a household, and we have a market price for the industry.

I suppose it's a big impediment and which creates market inefficiency for consumerist-level market. And it should be fixed. First of all, we supported IMF. And it is a big environment of IMF to introduce one market price for consumers and for industry. And it would eliminate a very big and lucrative corruption field because this difference in price creates somehow inefficiency on this market. Second, we should eliminate from supply chain different intermediaries between suppliers and consumers. So I suppose this as well one of the critical point which should be fixed in nearest future to establish a real, competitive market.

The third thing on the consumer level, as I mentioned, that a lot of our people are subsidized. More than 50 percent of our population are subsidized. It is very important to monetize subsidy. Monetization of subsidy will support consumers. They will receive money to introduce energy efficiency measures, as well as it also will show how many people consume gas on subsidized price. This is also a very important measure which should be implemented to create a competitive market on the consumer level.

So this measure, to sum up, as far as bloc about markets—it's these three measures which allow us to finish gas market reform on the consumer and on the industry level, and eliminate some fields for potential corruption in this field.

The second thing that I would like to tell you is the gas production. We also made reform in gas production sector. We made a very significant step toward energy independence by introducing competitive royalties for gas producers. First of all, we have very high royalties—29 and 12 percent depending on the well depth. And this year and last year we enacted a law to lower this rent up to 14 and 6 percent, which makes our market very attractive for different investors.

We are happy to invite investors around the world, and at the moment, few of American companies are interested in our market. But what is still missing is a transparent and competitive procedure of standards for license. And this is actually also the point when we should fix it in nearest future to increase gas production. It's likely increased now, but I suppose Ukraine has a very big potential and big gas fields. And we can actually be a net exporter of gas if the policy will be fixed.

The third very important topic is gas transportation system. We have one of the biggest gas transportation system in the world, and the biggest one in Europe. It's vitally important for energy security in Europe, as 15 countries importing gas—transporting gas through Ukraine from Russian Gazprom. And security of supply is vitally important for our region. The second thing, Ukraine also owned 12 gas storages. And together with gas transportation system, we can be an Eastern European hub if this would be very well developed.

But here we can, as Russian Federation design Nord Stream 2, a very topical issue, to bypass Ukrainian gas transportation system, which we actually accept as absolutely politically motivated project to make our economy weaker. And we also consider this project as a physical security threat for our region. Therefore, we are trying to invite European or even U.S. investor who can be our management partner in gas transportation system. And at this point, this partnership could create a very good result. And Ukraine could be an Eastern European hub, as I said. With the gas storages, with the biggest pipe,

with access to Swinoujście, and Klaipėda, which is the liquefied natural gas [LNG] terminal in Lithuania, and Poland—we can also develop LNG market on our territory.

If the Nord Stream 2 will be realized, this will be absolutely impossible because of 100 percent dominance of Gazprom over this region. So these three very important spheres for us are vitally important for our economy, for our physical security. And I hope all these positions will be fixed and developed in the near future.

So, at this point I'll end and will be happy to answer your questions if you have any on these topics.

Mr. MASSARO. Well, thank you so much for that extremely in-depth and detailed dive into Ukraine's energy sector reforms. I'm sure there will be lots of good questions, including from myself, on all that's going on there.

So we'll now turn to Ed. Ed, please.

Mr. CHOW. Thank you very much, Paul. I think it's really important to have this ongoing policy dialog between U.S. Congress and the Ukrainian Rada and parliament. And I feel privileged to be a part of this. And I would explain why the Rada is so important in the course of my short talk. I also come to this set of issues as an international oil and gas expert. So I tend to look at Ukraine from a comparative point of view on what the potential is and why it hasn't been realized up until now.

And as Paul mentioned, I was in Ukraine for the better part of a week at the end of May, and I'll give you some of my takeaways from that trip. I think it's really important to emphasize how central energy plays in the Ukrainian economy and Ukrainian politics, and the great potential that Ukraine holds as to contribute as an asset to European energy security, as opposed to what has so far been seen as a liability to European energy security.

First of all, for those of you who don't have the background, Ukraine was the birthplace of the Soviet gas industry. Up until the 1970s, Ukraine exported gas to other republics of the Soviet Union. In talking to geologists the past 15, 16 years, including during this last trip, that potential is still there. I'm an economist by training, so I tend to discount geologists' estimations by about half. [Laughter.] So if they say Ukraine can produce 70 billion cubic meters a year, then I say, well, Ukraine probably could produce 35 billion cubic meters per year.

But if it were to realize their potential, Ukraine becomes a gas exporter rather than a net gas importer at that point. And Ukrainian gas prices become European hub prices, minus transportation, as opposed to European hub price plus transportation. So that makes a huge difference. As Nataliya's already said, also a major transit corridor for both oil and gas, when independence came in the early 1990s. Ukraine has other energy assets—coal, nuclear, underutilized hydro, renewable potential. There are just considerable resources that are there, and the human capital to realize the energy projects for the Ukrainian economy.

But corruption was what got in the way in the 1990s. It's without much exaggeration to say that every fortune made in the Ukrainian economy during the dirty privatization days of the 1990s were either directly or indirectly related to energy corruption. Either directly, though rent extraction of the assets that were put under private control, or indirectly with gas subsidies through the energy intensive industries, such as in the metals industry. Without energy corruption, a lot of the fortunes would not have been made.

This is a well-known fact in Ukraine, among Ukrainian politicians. So eliminating energy corruption is not just substantively important, in terms of removing a liability, a penalty on the Ukrainian economy, it's politically symbolically very important because the Ukrainian population understands that energy corruption has been pervasive for the last 25 years, and that needs to be corrected in a very fundamental way.

And what has changed since first the Orange Revolution and Euromaidan, the Revolution of Dignity, is that the expectations of the Ukrainian population have fundamentally changed, even if the political leadership has lagged somewhat to the need for reform. So I really see civil society and the Rada, the reformers in the Rada, as partners in making sure that the reform takes place, so we really would have a new Ukraine, rather than the old Ukraine that we're all frustrated by for the last 20-some years.

I was in Ukraine for 6 days, talked to more than 50 people probably—individually or in small groups. Ukrainians in government, Ukrainians outside of government, many of the international agencies—including our embassy of course, but also the European Bank for Reconstruction and Development [EBRD], EU officials, and so on—who are working on energy reform. So one of the takeaways is that there's still no unity of purpose inside the government on reform. And that is very troubling to me, that there still seem to be divisions over the direction, the pace, of reform. And we still have politicians commenting directly on what the gas price ought to be.

In the 1970s American presidents decided that it was not a good idea to be responsible for gasoline prices. It's much better to complain about them and say it's someone else's fault than to actually take responsibility over what the gas price ought to be. And if you're trying to build a market economy, the last thing you want to do is to allow politicians to set what the gas price ought to be. It is the government's policy—it is the Rada's prerogative, first of all, to pass laws and make sure the regulations conformed to the laws, and for the Cabinet to execute policy, but not to decide whether the price of gas should be X or Y.

And it seems like the Ukrainian politicians really haven't learned that lesson yet. As Bill mentioned, sometimes one gets the feeling that reforms only take place as a result of tough IMF or other international financial institution conditionality. So there's still a sense—and I'm just reporting here—that there is not the political will yet to proceed. The other point, and I think Bill also mentioned this in some of the rankings, is that reform is a process. I think in this room, or at least in this forum, I once compared it to rowing a boat upstream, that standing still is not an option. You either go forward or you're going to go backward.

And so there is still the sense that politicians can leave—that, well, there's an election around a corner, we may need to slow things down a little bit, and that the need for a steady pace—not necessarily fast, but a steady, constant direction is really quite important, in my mind. But when you have disagreements over either policy or the pace of change in a political culture like Ukraine, the almost automatic natural question to ask is: Is this a difference over policy, or is it really a difference over control of assets? So has the business model actually changed, or are we just talking about shifting franchises from one to the other?

Some of the franchises are still old. Nataliya mentioned intermediaries in gas distribution. Well, no, the person or the person who controls the company that controls most of the gas distributors to the population is a gentleman by the name of Firtash, who is under extradition request by the U.S. Justice Department to Austrian authorities because

of accusations of corruption. And these are the signs that people look at—is change really happening as fast as they could be?

And I think—since we are on the Hill—another question is to what extent the American assistance programs on energy has helped push things the right direction, whether we are working together at the Department of Energy, State Department, the Agency for International Development, in the direction that is necessary. Are we working closely with Ukrainian civil society, with the Ukrainian Rada, and not just talking to the executive branch? Are we working closely with EU and EBRD and World Bank and other partners in this or not? Because execution is everything. If there were political will, then Ukraine needs the capacity-building assistance that we can provide. But without the political will, adding capacity just to check a box may not do the good that is meant.

On something like unbundling, for example, of the gas transmission system from Naftogaz—we don't want to get into the weeds too much—but, this is 4 years after Euromaidan. The government should know what the program is for unbundling. There needs to be unity of purpose. There needs to be agreement on what the process is on inviting international companies to participate in the management of the transit system.

These things need to be executed or coordinated well, otherwise Ukraine's admittedly most reliable, most flexible, the most economic transit route for Russian gas to Europe would go by the wayside one way or the other. If reforms don't take place, the unbundling process and inviting international companies to jointly operate the gas pipeline in order for European gas buyers to have the confidence to want to prefer the Ukrainian route, rather than Turkish Stream or Nord Stream 2, that would be missing.

The last thing I want to say is that Ukraine really needs a big success story on energy reform. And the low-hanging fruit in having a success story on energy reform is gas production, which Nataliya has already mentioned. But as she also said, there needs to be fundamental reform of the licensing process by the ministry of ecology and natural resources, international standard bidding process that makes data available to everyone rather than you have to go talk to my cousin if you want the data, and doing a professional job in advertising the availability of acreage for exploration and production, including that those companies that are currently holding on to licenses but not working them very hard have to relinquish those blocs.

I mean, this is international standard practice in the United States and elsewhere. There are lots of people sitting on licenses without working them. The conventional wisdom here is that you need to have connections in Ukraine to get the best blocs. And that's a reversal that needs to take place. But for that, you need a fundamental reform of that process. I have to tell you that I was sent by the American government to advise the post-Orange Revolution Ukrainian Government. And I had the same message. That was more than 10 years ago. So it's long overdue.

At the same time, in order to have a competitive market with transparent regulation, we need to figure out what the transition period is and what to do with the incumbent companies that have taken advantage of monopoly market power. They're still providing services to the Ukrainian population. We need to figure out how to transition from a previously closed monopolized energy market to a competitive market with many market players and transparent regulation. And that's going to be the process that needs to take place over time as well. But you have to start the process. And then you have to hold a steady pace of change.

Otherwise, the difficulty is that you go backward. And with an election coming up in the spring for president and in the autumn for parliament, there is no time to be wasted. Otherwise, we're going to have to wait another year and a half. And nothing good comes from waiting, particularly with an aggressor next door, it seems to me.

Thank you.

Mr. MASSARO. Well, thanks so much, Ed, for those very, very interesting insights.

We're also joined today by Vitalii Tarasiuk from the Ukrainian embassy, who is their key person on economics and energy. Could we get a microphone for him over here? He'd like to make a few comments before we go to the question and answer session.

[Off-side conversation.]

Mr. TARASIUK. Well, thank you so much for this opportunity. I think this has been an excellent panel to discuss things in energy and Ukraine—this is a very important time to do that. The only thing is I think that even the answers of all of the speakers for the question about what the situation in energy about, more of things that are happening in Ukraine, about the things that are around you in the last 4 years. And I just wanted to make a few comments to Ambassador Courtney.

I mean, there are different ratings about what Ukraine has achieved for the last 4 years. Not only though—that you mentioned, that also are credible, like the Ease of Doing Business by the World Bank, where Ukraine actually has risen six to three positions for the last 4 years, but also it is true that things are changing, and the government is committed to free conditions for doing business in Ukraine.

And since we are discussing the energy sector, the success of the new form of the Naftogaz, you mentioned—we have people from Naftogaz here in this room today—it clearly shows that—I mean, that was the company that consumed 3 percent of our state GDP, but actually now is the biggest taxpayer to the budget. So clearly demonstrating that there are changes in that sector.

And the other thing I wanted to mention is that a lot of the problems in the energy sector, are still kind of—like we're still fighting the vicious circle of Russia's influence in the energy sector that, as Edward Chow said, in the 1990s was eliminated in all of the sectors, in oil and gas and then nuclear energy as well. And what Ukraine is doing is actually importing zero gas from Russia, so decreasing the influence or intermediaries, and also in nuclear sphere as well. We're working together with U.S. companies—Westinghouse for purchasing fuel and with Holtec for creating the storage facilities and building some new modern reactors of the future.

So we are kind of going away from that and, like, fast. And the things that remain mostly show that there are some things that still remain, but the government is fighting them. And on the reform in general, I wanted to mention, Ukraine of course—I mean, we all would like to be moving faster with reforms. That's for sure. But as Edward Chow said, reform is a process. Maybe it's not that fast, as everybody wants it, but there are certain restrictions. And Ukraine is moving. And as Nataliya mentioned, the president signed the high anti-corruption board, that now kind of finalizes the anti-corruption system in Ukraine, and hopefully when the board becomes operational it will help to eliminate those issues in the energy sector as well.

On maybe just stronger market—I mean, also some laws have been passed for simplifying the energy sector in Ukraine. Actually on the 1st of March, signed by the president,

that makes the process of obtaining licenses much quicker—18 months quicker than it used to be.

And since the beginning of the new royalties—and that’s important, of course, for the companies to come to the country—and they’re quite competitive. They can be almost halved what they used to be. And as experts in the energy sector say, this is quite a compatible royalties rate right now.

So saying all that, and we here in the embassy are working very closely with U.S. companies in attracting them to the U.S. market. And I will not be going into specifics, but there are a lot of companies that are interested to go upstream and on shore, off shore. So a lot of interest right now to do more business in Ukraine in that sector.

Thank you so much.

Mr. MASSARO. Thank you, Vitalii.

Would any of our panelists like to make any comments? Please, Ambassador.

Amb. COURTNEY. Just one correction. I did, in fact, include the World Bank Ease of Doing Business Index as one of the three measures of economic performance, along with the World Economic Forum’s Competitiveness Index and the United Nations Development Programme’s Human Performance Index. But even with that marked improvement—and you’re quite correct about the improvement in Ease of Doing Business—even with that included, the average for Ukraine is still at the bottom of the four other countries.

Mr. MASSARO. Any others? Okay. Fantastic.

Well, thank you all so very much for your opening remarks. We’re going to move on to the question and answer phase now, so please start thinking of your questions. I will go ahead and begin with a first question, and that’s something that’s often talked about in the United States, at least in the U.S. Congress, is U.S. LNG exports and the potential role for the United States to step in and assist with Ukraine’s energy needs. It’d be very interesting to hear first Ms. Katser-Buchkovska’s thoughts on that and then potentially Ed’s. And, Ambassador, if you have anything to say on that please let me know.

Ms. KATSER-BUCHKOVSKA. As I said, we actually do have potential to create the Eastern European hub because, first of all, Ukraine has very big infrastructure, gas storages. And now we have a very high demand on gas. So we import gas from different European countries. So there is a place for additional volumes. And we actually consider LNG as one of the potential sources of diversification of gas flows. So for us, it’s a very interesting question.

What do we really need to create hub and to import LNG? First of all, I would say that we had the first attempt—successful attempt to import LNG through Poland, Swinoujscie, one of independent Ukrainian trade area. It’s a very good example that market is working on industrial level. They already made a deal, and export LNG through Swinoujscie and made some swaps through Poland. So this was an example and it shows that it’s possible, because a few years ago it looked impossible. So now we can actually import LNG from Poland and from Lithuania. What do we really need? We need more interconnectors and to make this market more liquid.

So, first of all, we are very interested. And I suppose it’s possible. We have a first good example. But what is the threat? I consider Nord Stream 2 a threat to the LNG market at home, because first of all Nord Stream 2 will eliminate any opportunities to other markets, like LNG, because of price and because of extra liquidity from the Russian side. So they will have monopoly, they will control the market, and there will be no place

for any LNG from around the world. So it's possible, but we should develop this market, and there's actually opportunities and conditions for that.

Mr. MASSARO. Thank you.

Ed, do you have anything to say on that?

Mr. CHOW. Well, first of all, on the whole question of U.S. LNG exports and European energy, of gas supply security, I think there's a lot of misunderstanding on the Hill on this subject. Yes, U.S. LNG exports—which has just started 2 years ago and will continue to increase—will have a positive impact on European gas supply. It adds volume and liquidity, as Nataliya mentioned, to the gas supplies for Europe. So you will lead to more spot trading in Europe than long-term contracts that are tied to oil prices, which is the traditional model of gas contracts in Europe, which is eroding already. But the addition of U.S. LNG will speed up that process.

Now, of course, our gas—U.S.-sourced gas—is not linked to oil prices at all. So that's a positive. So in the case of U.S. gas, oil prices can go up and gas prices can come down, because we have gas and gas competition in North America. Well, they don't have that in Europe. They don't have that in East Asia, for that matter. So this would be a positive contribution to any part of the world that imports a lot of gas, including Europe. Saying that—

Mr. MASSARO. I'm sorry, specifically because it would bring in market forces? Like, it would—

Mr. CHOW. Right.

Mr. MASSARO. Okay.

Mr. CHOW. Right. Bringing competition—additional competition. Saying that is different than saying that U.S. gas can substitute for Russian gas imports into Europe. It would limit the market power of Russian gas, but the Russians have an option. They have low cost gas supply with pipeline exports. So if they want to protect market share, they can always cut their price. But if they cut their price, that's good for Europe, right? So whether U.S. gas molecule for molecule substitute for Russian gas or not, that's not the main issue, from at least an industry analysis point of view.

The more LNG terminals—the utilization rate of European LNG terminals today are very low, by the way. Their utilization rate is about 25, 30 percent. So there's a lot of stranded investments. More LNG terminals from a U.S. point of view, that would be a good thing because we have more markets that we can sell into then. But are those projects bankable? So if you're talking about a new terminal in Croatia or elsewhere, Lithuania and Poland had decided for energy security reasons—which is perfectly legitimate—with the help of the EU to subsidize the building of LNG import terminals.

Is Ukraine in the position of doing that? Does it need to do that? Or can it play with better interconnectors and utilizing gas storage—which is very strategically located in the case of Ukraine and western Ukraine primarily—can serve the role of the gas market hub that Nataliya mentioned, then whether the LNG terminals is actually in Odessa or not—which requires a billion in investment, it's not the most critical question. Is Ukraine better linked to European gas markets in general? And for that, you need more reform.

Mr. MASSARO. Got it. Thanks.

So I'm going to ask one more question here. And I'm going to start that out with a comment, and that is the CAATSA legislation, the Countering America's Adversaries Through Sanctions Act, includes a provision that says it's America's policy to support

Ukrainian energy security and to oppose Nord Stream 2. And I'd be interested to hear from all of you, how the U.S. Congress can be a part of that, what the U.S. can do in this particular situation to achieve both of those goals. And maybe we can start with Ambassador Courtney, if you have anything to say on that.

Amb. COURTNEY. Thank you, Paul. In the early 1980s, when I was a diplomat in the American embassy in Moscow, the United States—this is the early Reagan administration—decided that it had views about how much dependence Western Europe should have on Soviet gas. And the issue then was constructing pipelines for western Siberian gas to be sent to Western Europe. The United States imposed secondary sanctions, sanctions that would apply to some even European companies that would be involved in that activity. The Europeans had a very strong, very negative reaction. The Reagan administration had to backtrack and lift those secondary sanctions. It was not one of America's best, most successful policies in Europe at the time.

And this is at a time when in the United States, the high priority was trying to maintain consensus in Western Europe for deployment of intermediate-range nuclear missiles to counter Soviet SS-20 missiles. So there were other issues at stake. And the United States had to balance its strategic interests and in the end decided not to apply secondary sanctions to our European allies. That was a long time ago. This is the first time now with the CAATSA legislation that this issue has come back. And the legislation authorizes, but not requires, imposition of secondary sanctions. So this is an issue that the United States had to think carefully about, because the United States has other interests with Europe.

And those interests are economic interests in many respects. For example, trade issues are prominent right now. There are concerns in Europe about the political developments in certain countries, particularly most recently the turn in Italy. There is concern that Europeans are not spending enough on defense. This administration is trying to encourage them to spend more. So the United States will have to balance competing priorities. And applying secondary sanctions on the Europeans, at a time when in contrast to the early 1980s the Europeans have more options for energy, including especially LNG, and therefore the risk for excess dependence, if you will, or greater dependence on Russia is, at the margin, less, because of the other options.

So the United States is going to have to balance all of these interests. Former Secretary of State Tillerson expressed opposition to Nord Stream 2, and certain other officials have done that. But at the same time, one does not see the United States making this the most important issue in its relations with Europe.

Mr. MASSARO. Ms. Katser-Buchkovska?

Ms. KATSER-BUCHKOVSKA. Yes. First of all, I will say that a lot of European countries, maybe most of European countries, are against Nord Stream 2. This is the first, because only a few countries express parliament made appeals against Nord Stream 2. And now this project is not only dangerous for Ukraine, as I said, because, yes, we lose 2 billion [dollars] profit, we lose negotiation too with Gazprom. It's also a physical security threat for us, for our territories, as Russia can invade more territories, as we already experienced this invasion and annexation of our Crimea. But this project is divisive in Europe. So this project divides Europe toward countries who benefit from Nord Stream 2, and countries who are absolutely against this project. And most of Europe are against, first of all.

Second, answering your question about what can be done, I suppose there is a lot of interest and a lot of opportunities in Ukraine. First of all is gas production. Second, Ukraine can be this European hub and there would be more opportunities for LNG. The third issue, we can also be a transit partner with the European companies, with the U.S. companies, who will express an interest to be a part of management system. So this market could be developed. And, first of all, I consider Ukrainian market as very good additional liquidity to European markets, as a base of European energy stability and security.

Mr. MASSARO. Ms. Katser-Buchkovska, I'm actually very interested in your view on this, specifically U.S. policy. From the Rada's perspective, what would you hope to see the U.S. Congress, or the United States do, rather than Ukraine?

Ms. KATSER-BUCHKOVSKA. Well, of course we call for additional sanctions not for European countries. I would say Europe has few companies which are in the Nord Stream 2 project. It's absolutely a project of one—belongs to Gazprom. So it's not against Europe. It's against companies who are in one politically motivated project, which is a hybrid war tool against independent states, like Ukraine and other states, who also suffer from these aggressors.

Second, now we are really very central for those—for support you already provided for political guarantees—for political guarantees for independent investor. And we will welcome more investment in our energy sphere, in production, in transportation, to develop LNG. And I suppose this mutual beneficial corporations should be developed. And it would be a very good base to keep security in this region.

Mr. MASSARO. Thank you.

Ed, do you have anything to say to that?

Mr. CHOW. I've got too much to say—[laughter]—than can be packed into a soundbite, I'm afraid. I would just say that, no, it's a complicated issue. You do have to weigh where it ranks among the priorities, including on our policy on Ukraine. As an energy person, I have to say that I don't see it as a life or death issue for Ukraine. Honestly, Russia has been trying to bypass Ukraine for the last 25 years. I mean, the Soviet gas pipeline system was designed for, I don't know, some incredible amount—200 billion cubic meters, or something like that. And that volume has steadily eroded. The best defense against bypass pipelines of Ukraine is to demonstrate that you have the most reliable, cheapest way to transport gas to market. Unfortunately, Ukraine has not done that in the last 20-some years, and partly because corruption was—and I'm not talking today—but it used to be until 2014 corruption was so inherent in the transit system. So Ukraine has hurt itself.

But, it's now 4 years later. There needs to be, as I said earlier, a uniform strategy on how to do unbundling, how to invite European companies to cooperate in operating the transit system, and then you have to ask the European gas buyer, why do you want to use a more expensive transportation route?

But those conditions don't yet exist. And as long as they don't, it helps justify Nord Stream 2, and also Turkish Stream, by the way.

People hardly in this town mention Turkish Stream. And honestly, I don't really understand. From an energy security point of view, Turkish Stream is a lot more important than Nord Stream 2. Why? Because Southeastern Europe is almost 100 percent dependent on Russian gas as imports, whereas Northwestern Europe is more diversified

than Southeastern Europe. So in terms of Gazprom's monopoly power, Turkish Stream is more important, in my mind, but yet this—we hardly talk about Turkish Stream. Mr. Putin just gave President Erdoğan a \$1 billion gift before the elections on gas price—lowering the gas price in order to—the second line of Turkish Stream to go forward.

There's so much talk in this town about Nord Stream 2, I think it can become a distraction rather than to see it as the be-all for energy security for Europe, or for Ukraine for that matter. It's just, to me, not as important as all of that.

And what happens if we apply secondary sanctions and the Russians, along with the Germans, allow the pipe to enter, and still build it? What happens then to our policy? And then U.S. policy will be seen as feckless, it seems to me. The problem with the Russian pipeline strategy right now is at \$70 oil they can afford to do a lot of economically suboptimal projects. At \$30 oil, not so much. [Laughter.] And so we should be thinking about those things.

Mr. MASSARO. Vitalii, you mentioned you wanted to say something. Could we get a microphone up here? And then we'll open the floor to questions.

Mr. TARASIUK. Thank you. I wanted just to say a few words about the CAATSA legislation, because what, Paul, you asked is what is the role for Congress in implementing the CAATSA provisions. And before anybody mentioned, I just wanted to mention that of course there is a provision that envisages imposing sanctions on Russia's energy export pipelines. And it's kind of discretionary, because it has to be together with the European partners in design. But still, it's an important tool because it basically can really influence and change Russia's decisions, because what was the main point of CAATSA legislation? To change Russia's aggressive behavior toward its neighbors, toward Ukraine. So that's the most important, I think, provision of that legislation.

So it's important that there is such a provision there for imposing possibly sanctions on Russia's export pipelines. But what you've asked about the role for Congress, is there is Article 257 that actually authorizes the Department of State, together with Department of Energy, and United States—USAID, to work together with the Ukraine on drafting a plan for enhancing Ukraine's energy security in different aspects of its existence. And so the first plan was submitted to the congressional committees in January. The next one should be in July. And I think there is of course the role for Congress to play because they submit it to Congress. And then Congress can, of course, examine those reports and make certain proposals to—[inaudible].

Thank you.

Mr. MASSARO. Thank you very much.

Okay, we'll take questions, please, from the audience. Anybody got a question? Right there, please.

QUESTIONER. Oleksandr Kharchenko, Ukraine think tank in the energy industry.

And my question is to you. I just want to ask you, within the last 5 years, could you give us any examples when Ukraine was an unreliable partner in gas transportation?

Mr. CHOW. Well, I think the cases are quite well known. I mean, look at the way Mr. Firtash monopolized the gas—

QUESTIONER. Gas transportation?

Mr. CHOW. Well, the gas transportation. Here's the problem, from a Ukrainian—I take your point. What you're saying is it was never Ukraine's fault that gas was interrupted. But if you're a European gas buyer, you don't care whose fault it is. You don't

care whether it's Russia's fault or Ukraine's fault. All you care is whether the gas arrives on your border or not, because you don't pay for it until it arrives on your border, right? So as long as there's transit risk, and there's perceived transit risk—maybe you and I can agree on that—there's presumption of transit risk, whether real transit risk exists or not—and someone gives you an alternative that avoids transit risk, there will be gas buyers who welcome that. That's the problem.

So in order to avoid that, you have to demonstrate—and I went to Ukrtransgaz, you'll recall, and I have seen very good demonstrations of why the most reliable, flexible way of receiving gas for Europe, from the Russian direction, is through Ukraine. That case needs to be made and needs to be made in a positive way—not just stop Nord Stream 2, because it needs to be both, if you will, on the Ukrainian side.

Mr. MASSARO. Thank you very much. That's actually a really good point about the optimistic message of Ukraine.

All the way in the back, please.

QUESTIONER. Hi there. So just along the lines of Firtash, I'm interested in the negative impact of oligarchs in general on Ukraine's progress toward regulatory reform. And I was aware of the fact that Ihor Kolomoyskyi is another one. I was wondering what the panel thinks the United States could do on the government side to assist the Ukrainian Government with combating this problem.

Mr. MASSARO. Anybody in particular?

QUESTIONER. The entire panel.

Mr. MASSARO. The whole panel. Ambassador Courtney, please begin, if you don't mind. [Laughs.] That's a big question to take on.

Amb. COURTNEY. So the phrase “tough love” has an origin—a root in U.S. relations with Ukraine. The United States, IMF, World Bank, European countries all together, for years, have been applying tough love, if you will, or conditionality to encourage reforms in Ukraine that would weaken the power of the rentiers, those who earn profits in excess of what competitive markets would provide. And the oligarchs are clearly there. So, it's a full-court press from favoring anti-corruption and privatization. We are now 4 years after the Maidan, and virtually nothing has been privatized in the state-owned or state-controlled enterprises in Ukraine. That's really shocking, because corruption is highly correlated with the state's role in the economy. But the state's role in the economy has not diminished in Ukraine anywhere in the direction of what it needs to do if Ukraine wants to realize its European ambitions.

Mr. MASSARO. Please.

Ms. KATSER-BUCHKOVSKA. Well, to answer your question, I will show you one example. So it's not easy market and it's not easy to transform. It's from monopoly to competitive market or very well-regulated market. But in some cases, we succeed. In some cases, we still have such an inefficiency, like for instance the biggest—you mentioned privatization—one of the biggest assets, gas distribution networks, which supply gas for final consumers, for households, is privatizing 2012. Before the reforms start it's privatized and owned by companies which operates, owned by—you mentioned Firtash. And this big state-owned asset, used free of charge, because—historically, he takes this asset and didn't pay for them.

We enacted law—gas market law in 2015 to stop this scheme. And there is a clear provision that his state-owned asset wouldn't be used free of charge. Since 2015 we can

change this because there is no execution. And there was a lot of discussion, roundtables, but still this—the biggest assets and state lost lot of money. So, we have this problem in our market. And it's very, very difficult. To answer your question, how you could help—somehow it is impossible to change from inside, because we file a lot of laws. We conducted a roundtable. We asked Q&A during Cabinet meetings, during Cabinet speak in parliament. But it doesn't work. At the moment, certainly I should say, that this is in our markets, this inefficiency.

From the one side, I truly believe in markets. And if you are talking about positive sides, such as gas production, I believe that it will have a lot of investments, competition will cure this market inefficiency. And investors, independent companies, independent traders, will cure some inefficiency, and will make this market more transparent, more competitive. In such a way, we highly welcome investors. We create good frame for investments. We created good taxation system. And in this segment, I feel that we change a lot and we can make a difference and establish good competition.

Mr. CHOW. I think your question presupposes the Ukrainian authorities all want to remove corruption from the energy sector. And I would say the record is spotty there. The fact that the rent seekers have taken control, either because of a monopoly position or because of control over state assets—those are very well-known, well-documented cases in Ukraine. And the problem is not with the Rada, that has problems passing law but eventually does pass the laws. It's in the execution of the policy, and I think Bill's tough love needs to be delivered to the right parties.

Ukraine totally is in the saturation—but it's very dependent on import of Russian petroleum products today, for example. And that's because there's certain special interests that are involved in that trade. It has practically destroyed its domestic refining industry. And there are other areas like that. Who controls Ukrnafta—Kolomoyskyi, the gentleman that you mentioned there. There are other cases in electricity and other areas. Even in renewables. I learned a new term when I was in Kyiv in May, the Kluryiev [ph] tariffs, I was told. They are feed-in tariffs that have been designed to be in the advantage of certain oligarchic interests.

So, there needs to be an overhaul in the system. And I take Nataliya's point, that you cannot do this overnight. But it's important to have a transition. It's important to have an action plan that says over a course of 5 years, or whatever the right period of time is, these are the steps we're going to take. And Ukraine needs to be measured by the international financial institutions, as well as the EU or the U.S. Government, to the extent that we provide any assistance for these things, that those milestones are met.

Mr. MASSARO. Thanks so much. I know you wanted to make a comment on this point, so if we could give him the mic. And if everyone could please say their name and affiliation. Sorry, I'd forgotten to bring that up.

QUESTIONER. Vadym Glamazdin, Naftogaz of Ukraine.

I really want to add a little bit of comment on this particular question, and probably to add a little bit of optimism. Of course, Ukrainian energy sector is pretty known for its corruption issues, and all parts of it. Literally, as Ed mentioned, even including the renewables. So considering we are speaking today about mostly the gas, a little bit oil, part of the business, I would say that those issues have very few, very particular names. One is Mr. Firtash. Another one is Mr. Kolomoyskyi, that you mentioned. And I have to say that while previously, for example, Naftogaz itself and everything that Naftogaz did

was deeply controlled by Firtash himself, nowadays Naftogaz management, together with the government, kind of managed to get rid of Firtash from everything inside Naftogaz. And everything inside Naftogaz is doing it, including the transmission business, including the production business, and the rest.

Unfortunately, we still have the case with intermediaries, which is definitely beyond the control of Naftogaz, because those private companies were 75 percent owned by Firtash himself. And this is the case where we very much welcomed some recent initiatives we've seen lately by Senator Wicker to the DOJ in order to find out what is going on with the extradition case, because—internally we did what we could do on that, even though well known for their not very big activity, although authorities like general prosecutor's office and NABU are currently having several investigations that include also [Vikor's?] company. So, we are doing what we can internally, but some things we cannot do inside Ukraine. And we would very much look for the finalization of the process of extradition of Firtash here, because that definitely will help us to defy this issue.

Speaking of Kolomoyskyi, this is a slow approach. And though it's also ongoing, Naftogaz is managing to overtake back the control over Ukrnafta, the one that Ed mentioned. And I believe that if everything goes at least with the pace it goes now, already within this year we will restore this control, which will mean that at least from that part of the business once again we will get rid of that name as well. I am not commending this on the petroleum part of the business, which is absolutely different and that's nothing we can deal with. So that's why it's beyond my knowledge.

Thank you.

Amb. COURTNEY. It's really kind of ironic, given how pervasive energy corruption has been in Ukraine in the past—we're talking about—that the only active prosecutions we're conducting in the United States, first after Prime Minister Lazarenko and then Firtash, and not in Europe, where a lot of the money is or a lot of the beneficial interests have assets there, as well as in Ukraine itself.

Mr. MASSARO. Thank you. We have another question up here. Waited very patiently for the microphone. I appreciate that.

QUESTIONER. Hi. My name is Morgan. I'm from Congressman Kind's office.

I just had a question related to general issues that have been presented by the breakup of the Soviet Union, dating back to the 1990s and the independence gained by Soviet countries. Is there any interdependence, and how does this interdependence play with the energy crisis that is faced by some of the Central Asian countries, particularly pertaining to their use of hydroelectric power? Because I was wondering if there's any interdependence between the issues and how greater energy independence from Ukraine could help solve some of those problems.

Mr. MASSARO. I think we have the perfect guy on this panel to answer this question. [Laughs.]

Amb. COURTNEY. There is no close interdependence. And in fact, the largest oil venture—the largest energy venture in the Central Asian region is the Caspian energy in the western part of Kazakhstan primarily. But that also is pretty much unrelated to the Rogun Dam and the other hydroelectric. And we have seen most recently now, with the passing of Islam Karimov, this has brought into sharper relief that it was Karimov's strong opposition to exploitation of hydroelectric energy for fear of the downstream Amu Darya and Syr Darya impacts on Uzbekistan's cotton crop. That the emphasis on cotton

in Central Asia has been a very costly subsidy, if you will. And it has been inefficient to a great extreme to hold back hydroelectric projects in order to benefit subsidized cotton growing in Uzbekistan.

So hopefully now, with Mirziyoyev as the leader of Uzbekistan, he has reached out—or has a much more cooperative relationship, it appears now, with Tajikistan and Kyrgyzstan. So hopefully some of the hydroelectric projects will go ahead, and hopefully the Central Asian countries will work together to mitigate some of the impacts on downstream agricultural and other activities.

Mr. CHOW. Bill, if you don't mind my adding, putting my old professor's hat on, I think the linkage is that the Soviet system was a command and control system, where market signals were not allowed to play to allocate resources, including the allocation of capital or supply. And when the Soviet Union collapsed, that kind of a system was particularly susceptible to corruption because if you have command and control over certain assets, then you can convert that into real money in a nontransparent way. So, pricing of electricity, pricing of water and other resources, and not using market signals and, as I said, market-related pricing. Ukraine also suffered under that, but there is very little relationship between the situation in Central Asia and in Ukraine.

Mr. MASSARO. So we have time for one more question, if anyone else in the audience has a burning question. Right here, please.

QUESTIONER. Thank you. Hi. My name is Calli Crowder, and I'm a press intern with Senator Grassley.

I have a question regarding U.S. sanctions and if it's benefited at all Ukraine—just from the energy standpoint, whether or not those sanctions that have been placed on Russia have made an impact either positively, negatively, or indifferently.

Mr. MASSARO. Let's start from the far left on that one.

Amb. COURTNEY. The sanctions have had an impact on the Russian economy; I believe the IMF has estimated perhaps 1 percent of GDP per year or less. The sanctions have had a special impact on finance, on access to international finance, and on investment. Russia has low investment rates now as a fraction of GDP, and that is important for future economic growth. The financial sanctions have had a special impact on that. The sanctions on Arctic energy development, ironically, have been less important than otherwise expected because shale has become such a profitable and attractive alternative to Arctic activity.

Have the sanctions been influential enough to cause Russia to pull out of eastern Ukraine? The economic sanctions were imposed because of the aggression in Donbas. It seems apparent that there's not a lot of popular support in Russia for the war in Ukraine as compared to the seizure and annexation of Crimea—people on the street, so to speak. There seems to be increasing sentiment in Russia that resources in Syria or eastern Ukraine, those military conflicts, ought to be spent at home improving people's lives, because after Russia went into Ukraine and also with the oil price drop, real disposable household incomes in Russia may have gone down 15, 16, 17 percent. So ordinary Russians are feeling the impact of that.

There seems to be increased sentiment in Russia that economic priorities—in terms of popular opinion—economic priorities ought to be higher. So, the Western sanctions have contributed to that in the sense of raising the cost to the Kremlin of continuing its aggression in eastern Ukraine.

Ms. KATSER-BUCHKOVSKA. Yes, you're absolutely right. First of all, sanction was designed as a response of invasion of eastern Ukraine, as well as annexation of Crimea. And to your knowledge is that war is still going on. It's not freezing conflict. Every week we lost up to five soldiers, and they lost 10,000 soldiers, 25,000 are injured. First of all, sanction makes a cost for this invasion and this war on our sovereign territory is very high. Of course, it makes this cost very high, and honestly it protects us from further invasion because they spent a lot of money on these projects like Nord Stream, which is hybrid war tool against Ukraine on physical invasion to keep this war going on. And this is vitally important for our country, for our region to keep these sanctions, even to make them tougher, to stop this war and to back our territories and to settle peace on our territories.

Moreover, we are asking for more sanctions, especially for energy, because it's not the simple war. It's not the war as it was before. This country uses energy as a weapon. So they have blackmail. They used to blackmail Ukraine because of energy prices. So there was one fixed price, very high, and Ukraine should—was on the political influence because of price of gas. So they use informational campaign known as propaganda against Ukraine, and not only in Europe. They interfere in free elections, in such a way impede democracy process in different countries. So there are a lot of things we can actually show as an example.

And I like to say that war should make Ukraine indigestible because we protected the western border of Europe. So now we built our army to defend our eastern border. It's very, very important to make this price very high, up to the levels they will not have enough capacity to proceed.

Mr. CHOW. In strictly oil and gas or energy terms, the 2014 sanctions were never designed to stop Russian exports of oil and gas in the short to medium term. That was a deliberate calculation at the time, partly because I think the Obama administration's calculation was that our European allies would never have gone along with that. So it was perceived, rightly or wrongly, at the time that Western unity was important in the 2014 sanctions.

The financial sanctions, as well as sanctions on technology, were designed to affect investment and future supply of Russian oil and gas, not in the short to medium term. And I would say that the CAATSA sanctions are in part a reaction that hasn't sufficiently corrected Russian behavior, but there were other reasons—Syria and election meddling and other reasons—to sanction Russia.

So the question is, to the extent that the political objective of getting Russia to negotiate properly for a peaceful settlement on its war against Ukraine in the east, if that hasn't happened as a result of the 2014 sanctions, what should we be doing now in terms of additional steps?

Mr. MASSARO. All right. Well, thank you all very much for coming. Fantastic briefing. Thank you so very much to our panelists. [Applause.]

And we'll see you all next time.

[Whereupon, at 4:57 p.m., the briefing ended.]

APPENDIX

Ukraine's Performance

William Courtney

Former U.S. Ambassador to Kazakhstan and Georgia

Helsinki Commission Briefing

Curbing Corruption in Ukraine's Energy Sector

June 18, 2018

I am honored to be with you for this important [Helsinki Commission Briefing](#). In 1999 I served as the U.S. Department of State Adviser at the Commission, and so it is a special pleasure again to assist in its vital work.

To help set the stage for speakers on Ukraine's energy security, I will briefly discuss the country's political and economic performance. I will also comment on Ukraine's security and Western support for it.

In assessing Ukraine's performance let's compare it with that of Ukraine's four most [populous](#) neighbors — Poland, Romania, Russia, and Turkey — according to three global indices that are proxies for political performance, and three for economic performance. They are:

Political Performance

1. The World Justice Project, [Rule of Law Index](#)¹
2. Freedom House, [Freedom in the World](#)²
3. Transparency International, [Corruption Perceptions Index](#)³

Economic Performance

1. The World Economic Forum, [Global Competitiveness Index](#)⁴
2. The World Bank, [Ease of Doing Business](#)⁵
3. UNDP, [Human Development Index](#)⁶

¹ Rule of Law (113 countries globally): Poland (25), Romania (29), Russia (89), Turkey (101), Ukraine (87).

² Freedom (0 – best, 7.0 – worst): Poland (1.5), Romania (2.0), Russia (6.5), Turkey (5.5), Ukraine (3.0).

³ Corruption Perceptions (180 countries): Poland (60), Romania (48), Russia (135), Turkey (40), Ukraine (130).

⁴ Competitiveness (137 countries): Poland (39), Romania (68), Russia (38), Turkey (53), Ukraine (81).

⁵ Ease of Doing Business (190 countries): Poland (27), Romania (45), Russia (35), Turkey (60), Ukraine (76).

⁶ Human Development (188 countries): Poland (36), Romania (50), Russia (48), Turkey (71), Ukraine (84).

To allow comparisons, rankings are normalized in percentiles, and then averaged. A low percentile equates to better performance. The results are:

	Political Performance	Economic Performance
Poland	25	20 (best overall performer)
Romania	27	34
Russia	82	24
Turkey	63	36
Ukraine	61	48

These comparisons allow several observations.

First, Ukraine is mid-ranked in political performance — better than Turkey and Russia, and worse than Poland and Romania. Ukraine’s 21-point lead over Russia reflects, in part, Ukraine’s experience of having held multiple national elections in which the opposition won and assumed power peacefully. The 30-plus-point lead of Poland and Romania over Ukraine suggests that it has a long way to go to meet the democratic standards of European Union members.

Second, Ukraine is the bottom economic performer. The next worst, Turkey, has much higher productivity. [Per capita income](#) in Turkey, measured by purchasing power parity, is just over three times higher than Ukraine’s, which is \$8,270. Russia’s per capita income is also three times higher than Ukraine’s..

Third, corruption, competitiveness, and the rule of law — dimensions of importance to investors — may be getting worse in Ukraine, at least relatively. In the Corruption Perceptions Index, Ukraine ranks 130th, but a decade earlier was 118th. In the Competitiveness Index, Ukraine ranks 80th, but a decade earlier was 73rd. In the Rule of Law Index, Ukraine ranks 77th, but in 2014 was 68th.

This deterioration owes in part to poor governance associated with the rule of former President Viktor Yanukovych. But systemic factors are also important, and the Poroshenko government has a mixed record on reform. At times Ukraine seems to make reforms only at the urging of the IMF and Western donors. An example is the delayed establishment last week of the [anti-corruption court](#).

At the same time, Ukraine deserves praise for [progress on reform](#), perhaps more in the last 4 years than in the preceding 23. Ukraine's vibrant civil society is a key driver of reform. According to the World Bank, [reforms since 2014](#) include: reducing large public spending, moving to a flexible exchange rate, reforming energy tariffs and social assistance, making public procurement more transparent, simplifying business regulation, restructuring banking, reforming healthcare, and establishing anti-corruption agencies and asset disclosures for public officials. Ukraine has climbed up sharply in the Ease of Doing Business index; in the latest rating Ukraine ranked 76th, versus 128th a decade earlier.

Ukraine's security plummeted in early 2014 when Russia seized and annexed Crimea, and launched a war in eastern Ukraine. Ukrainians quickly learned how to fight and began pushing back Russia's mercenaries. To stave off defeat, the Kremlin in August 2014 intervened with regular ground forces. They remain in Donbas, and Russia continues to fund and control mercenaries and armed separatists there. At a Helsinki Commission Briefing on May 5, U.S. Special Representative for Ukraine Negotiations Ambassador Kurt Volker rightly pointed out that the Donbas conflict will be resolved only if Russia decides to [remove its forces](#).

As it did with the Baltics in the Cold War, the West is unlikely to recognize the forcible incorporation of Crimea into Russia. As it did with the Soviet military occupation of Afghanistan from 1979 to 1989, the West is likely to continue opposing aggression in Ukraine. The West is largely unified in using sanctions to raise the cost to Russia of its actions. The West also provides military aid to Ukraine.

Some observers urge that the West accept Russian control over Crimea, or that the West consign Ukraine and other "in-between" post-Soviet states to permanent limbo outside the European Union and NATO. This would unwisely tempt Russia, and render its neighbors permanently vulnerable.

The West has an interest in the sovereignty, independence, and territorial integrity of all countries in the post-Soviet space. The West also has an interest in Russia's being at peace with its neighbors. In pursuit of these goals, the current direction of Western policy is sensible.

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