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MEMORANDUM OF CONVERSATION

SUBJECT: Restricted Meeting with President Leonid Kuchma of Ukraine (U)

PARTICIPANTS: The President
Ambassador Stephen Pifer
Samuel Berger, Assistant to the President
for National Security Affairs
Gene Sperling, Assistant to the President
for Economic Policy and Director of the
National Economic Council
Stephen Ricchetti, Assistant to the
President and Deputy Chief of Staff
Stephen Sestanovich, Ambassador-at-Large for
the New Independent States
John Tedstrom, Director for Russian,
Ukrainian, and Eurasian Affairs (notetaker)
Marta Zielyk, State Department interpreter

President Leonid Kuchma
Prime Minister Viktor Yushchenko
Vlodomir Lytvyn, Head of Administration
Boris Tarasyuk, Minister of Foreign Affairs
Yevhen Marchuck, Secretary of the Council of
National Security and Defense
Anatoliy Orel, Chief of Main Department on
Foreign Policy Issues
Konstantin Hryshchenko, Ukrainian Ambassador
to the United States
T.V. Yanchera, Ukrainian Interpreter

DATE, TIME June 5, 2000, 3:15 - 3:45 p.m. (local time)
AND PLACE: Maryinsky Palace, Kiev, Ukraine

President Kuchma. I am grateful that you found time during a complicated period in the United States to come to Ukraine. I know it's complicated in the United States, and we are glad to have you here in Kiev. Your visit proves that there is a high

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level of cooperation on the transition in Ukraine, and it emphasizes the strategic partnership between our two countries.

(S)

Since our meeting last December in Washington, we have seen important change in Ukraine. We have done a lot. There was a newly elected President at that time. I told you things I was going to do, and I have implemented a lot. I probably won't recall everything we've done. I know you had a good chat with Viktor in Washington. It is important to have a new government for radical reform, and they're actually doing it. (S)

The creation of a parliamentary majority allows us to solve problems together with the Government of Ukraine. There aren't successes everywhere, but even a conservative evaluation of the work of Parliament indicates that it has improved. Even minor decisions are important. The abolition of the October holiday and changing the old Soviet emblems on the Rada building are examples of these small but important changes. (S)

We are working to build up a European state with European institutions. The majority in the Rada didn't form on its own. It was the result of the referendum announced by the President. My opinion, which coincides with the public opinion, is that we are making steps toward strong government bodies. But without the political support of the Duma, we can't achieve success. We can only have success if there is cooperation with the Parliament. (S)

In the beginning, my strategy was misunderstood. But now, there is an understanding that without the referendum, we couldn't advance on reforms. European parliaments work together on the basis of coalition. So, if there is a change in coalitions within Parliament, you have to do something. You have to have support. They supported Viktor. They took responsibility for change. Now, we have the important task of implementing the amendments to the Constitution required by the referendum. We must implement these amendments to the Constitution. If we don't, then they could be changed at a later date. (S)

Land reform is another example. For the first time in history, Ukraine lives by new agricultural laws. We did this despite severe criticism from opponents who said we couldn't do it. We completed all sowing this year, but at a lower expense than before. The referendum received most active support in rural areas, in contrast to the Presidential elections. This explains why agricultural reform has the support it does. The current

situation hearkens to the early 1930s. It was difficult for one or two years. Now we're in the fourth year, and God was not with us on weather. Late frost meant lost crops, and drought continues to plague much of Ukraine. (S)

On administrative reform, we've taken first steps, but there is a lot to do yet. Reform is supported by a majority of political forces. We are eliminating internal structures that were roadblocks to reform. We decreased the size of our ministries and agencies by one-half. We reduced administrative employment by 17,000 employees. This speaks for itself. (S)

We have started a big privatization program. For the first time, Parliament adopted a privatization program. This was a big victory for everyone. There is a legislative basis for implementing privatization. We're going to start with the energy sector. I need to ask a favor of you. I hope more U.S. companies participate in every sector of privatization. We're ready to sell fully 65-70 percent of the shares. Right now, only one U.S. company is involved. (S)

Ukraine needs strategic investment. Regional energy companies were privatized and got into the hands of Ukrainians who are not interested in reinvesting and developing the sector. We also see a lot of interest in foreign direct investment. We've received over \$190 million in direct investment. (S)

The President: That's good! (U)

President Kuchma: Yes, indeed, especially against the background of our history. We seek more changes in economic and social arenas. As a result, we are seeing changes in mood and public opinion has improved. (S)

There is a strong trend toward increased productivity. For the first time in ten years, production has increased, leading to more budget revenues and the real possibility of solving social problems that have accelerated. We have started paying wages and pensions on time. That's a good sign. These processes need support. (Looks at Prime Minister Yushchenko.) I don't know if the Government of Ukraine agrees with me, but we can't do it on our own. (Laughter.) (S)

There is also the IMF-EFF program. The credits are not as important as the political decisions. Frankly, your interest is important for all of Ukraine. You selected Ukraine out of all the European countries to visit during this trip. The EFF would

be another good sign. Without EFF, no investors or banks will come to Ukraine. (S)

The National Bank of Ukraine scandal is a political scandal. I cannot exclude the possibility that the negative press has come from Ukrainians who don't want to open up the economy. I cannot rule out that Viktor might be asked to step down, but I can't let him resign. Please, Mr. President, don't leave the Government of Ukraine without the support of the United States. (S)

The President: You can't let him resign. He just got started. (S)

President Kuchma: But we need money. We need the EFF. (S)

Prime Minister Yushchenko: A few days ago, John Olding-Smee visited Ukraine and looked at five key issues. I just received a letter announcing an IMF mission in a few days time, and it will write a recommendation for the IMF Board on our EFF program. So, it seems like things are moving in the right direction. But there may be some factors or problems that come up. There will be problems at the final stage, but perhaps a detail could spoil our program. (S)

The President: What kind of detail? (U)

Prime Minister Yushchenko: There is nothing now, but something could arise at any time. (S)

President Kuchma: The Prime Minister has to say that. We don't get money, but we service our debt on time at the expense of funding for much needed science investments, social programs, and education. These problems stockpile. We can endure it for awhile, but then a critical mass forms. (S)

The President: I am impressed by the reforms you've already taken, and by the quality of government you've appointed. I had a good meeting with your Prime Minister and Mr. Berger in Washington. I think it's obvious that I want to help. The announcements we're making today will help. Chornobyl is big news. Lifting of the launch quotas should bring a lot of money to Ukraine. Obviously, I will be supportive on the IMF issue. I always try to be helpful. I need to know more about the facts. (S)

Frankly, you've already done a lot. For such a long time now, foreign investment has not come into Ukraine. That's a problem. I am glad you got almost \$190 million, but given Ukraine's size, wealth, and strategic location, you should be able to get more. I want to be helpful. After all the years of stagnation, you need to have larger growth rates. (S)

It's important for the people to believe your strong commitment to finish the reforms you've started. I come here now as a way of saying that the United States stands by Ukraine. Chornobyl shows that Ukraine can finish what it starts. Space launch shows that we trust you implicitly on proliferation. Especially in light of the problems of proliferation in neighboring areas, this should help. And I'll personally help with the IMF. (S)

The next step is to get dramatic increases in foreign direct investment. You are doing well, but you can do better. I will do everything I can to help. It shouldn't be a problem. We'll do whatever we can to show you're sending powerful signals of real change. I'll do whatever I can to help. (S)

President Kuchma: On Russia, President Putin came to Kiev before his inauguration. This sent a big signal. There are some problems, but the main thing we agreed to conduct our dialogue as equals. I wish I didn't have to say this, but the Russian Federation doesn't act within the law. It says it aspires to WTO membership, but then doesn't comply with actions toward Ukraine. Russia tries to pressure us into a free trade zone with the CIS, but doesn't treat us fairly. (S)

Prime Minister Yushchenko: Russia is pursuing two incompatible trading policies with different overtones and different taxes and tariffs. It tried to create free trade zones. In 1995, it signed a parliamentary bilateral agreement with Ukraine. However, the Russian Federation has consistently been toughest on Ukraine. Russia continued to charge value added tax on all Ukrainian products. Ukraine is the only CIS country that gets charged VAT on its production. This makes it hard to talk about competitive trade with Ukrainian commodities. (S)

On June 21, the free trade zone will be raised at the CIS Summit. Therefore, we must stress that by the end of the year, the Russian Federation must send signals to the Duma to ratify the agreement. The Vice Premier of the Russian Federation told us that bilateral negotiations will occur by the end of the year and will be sent to the Duma, but it's a complex process. (S)

Today, we're facing discrimination. Last year, 70 goods were excluded from the free trade agreement. Now, 300 Ukrainian goods are excluded. We hope for a commonsense solution to this problem. But we lost a lot last year -- maybe 30 percent in commodity trade turnover. (S)

President Kuchma: Ukraine also wants to maintain a positive trend with U.S. trade. We saw a big decrease in trade turnover. Our governments have noticed it, so this must be significant. There are two aspects of this issue. First, let me address Jackson-Vanik. There is no substantive reason for Jackson-Vanik. No one has doubts about Ukraine's fulfillment of commitments to the Jewish community here, and even the Jewish World Congress supports lifting Jackson-Vanik. (S)

The second issue to address is Ukraine's market economy status. We don't have direct bureaucratic interference today like we've had for 70 years. Administrative reform has included steps to close down ministries such that we only have functional ministries now. This step was made by Congress; we know you know how to work with Congress. (Laughter.) If the United States grants market economy status to Albania, then why not to Ukraine? Now, I met with a group of U.S. Senators who support lifting Jackson-Vanik. (S)

Ambassador Pifer: I already spoke with Ambassador Hryshchenko. Senators Hollings, Shelby, and Bryant were here. They talked about attaching a rider to the State Department appropriations bill that would require graduating Ukraine. (S)

President Kuchma: Please make sure they do. (S)

The President: I will follow up. If Hollings does it, it would be good. This would really help. It would be an historic development. You may have to make Senator Hollings an honorary citizen. He's a good man. I'll go home and work with people on the Hill. I think they'll do it. They're all friends. They will all say we're for it. (S)

President Kuchma: There is also an issue with Russia and the European Union. It is important for Ukraine to integrate into European structures. With Poland and Hungary, the borders of the EU have drawn closer to Ukraine. It is important to deepen integration so that free trade zones can lead to the beginning of negotiations with the European Union. (S)

There's also the issue of associate member status. All Central European countries have been extended this title, except for Ukraine. It would help Ukraine if you would support this important status change. Also, Mr. President, we want to complete WTO accession by the end of the year. I hope I can count on your support. (S)

Now, on to the last issue. It happens that you're here on World Environment Day. I think it's only appropriate that we now discuss Chornobyl. (S)

The President: Yes. (U)

President Kuchma: We have made a decision with regard to Chornobyl. I know Viktor told you about our decision while he was in Washington. Mr. President, let me review our position on issues that are closely related to Chornobyl. When we talk about Chornobyl, we also need to talk about changing the infrastructure of the energy sector. This reform effort will ensure Ukraine's safe existence after Chornobyl's closure. (S)

We need \$500 million. This project finances completion of three nuclear waste storage facilities. Storage facilities for liquid waste project needs practical support, especially grants from the European Union. Today, the most difficult part of the issue is what to do after we lose Chornobyl's generating capacity. Chornobyl produces one billion megawatts of electricity. This alone is Kiev's energy demand for the year. (S)

On June 1, the Russians introduced a 30 percent excise tax on gas, which will make this problem even more difficult. The important issue now is to return to the idea of completing the K2/R4 reactors. In our view, this would be a nice way to compensate for Chornobyl's closure. I ask you to help convince the Europeans to make a decision on this issue soon. (S)

The President: As you know, I just came from Lisbon. I didn't tell the Europeans for sure about Chornobyl, but I did tell them that we're close on a closure date. I told them that once a closure date is announced, we'll need to replace fuel. I got a very positive response. I will continue to work on this issue. (S)

President Kuchma: I spoke with President Chirac this morning. He is very concerned about Chornobyl. He told me to take advantage of your visit. He said that the Germans will never agree to our plan, but he proposed we start financing without

Germany's consent. The European Bank for Reconstruction and Development has some funds for this. (S)

Prime Minister Yushchenko: So, if Euratom gives us \$500 million; the European Union gives us \$200 million; the Russians give us \$200 million. That leaves us with \$300 million that we still need from other sources. (S)

Also, I want to inform you that the state budget is covering our part of Chornobyl. We're doing what we are supposed to do. Compensating fuel is absolutely necessary. (S)

The President: I understand. (U)

President Kuchma: Also, Mr. President, journalists are going to ask whether the President of the United States raised corruption. Because it's in the Joint Statement, I think it would be a good sign if we addressed corruption. (S)

We are very grateful that the Ukrainian parliament ratified the Criminal Cases Treaty. But Congress should ratify it as well. We need your support. There are loopholes in our legislation. There is no law on the judiciary. There is no criminal code. We are still using the old Soviet code. Life is different now. We have new issues. (S)

The President: I think this gets lots of attention in the press, but any action you take in this regard is more likely to have an impact on foreign direct investment than anything else. If you make progress, they'll think the only reason they lose money in Ukraine is like in America -- as a result of bad investments, not because of corruption. I have been disappointed with the hardship your country has faced. Now, I see a real chance to turn Ukraine around in a hurry and in a big way. (S)

Anything on corruption will go up in bright lights. There's been so many problems in the past. People are looking to what you are doing now to resolve the corruption issue. The Prime Minister is a case in point. All this is converging. Now, you have to take advantage of the benefits of people taking a new look at Ukraine. Chornobyl will help because the public relations value of the closure is important. Space launch also helps. It shows that Ukraine can be counted on to play by the rules. We want to echo these kinds of messages around the world. (S)

Prime Minister Yushchenko: There are two issues concerning corporate and private business. (Comment: Apparent reference to Land of Lakes and Pioneer business disputes. End Comment.) The Ministry of Finance confirms it has allocated the necessary funds. They have the demonstrated political will. We've had technical difficulties with this issue, but that doesn't change our desire to get it done. (S)

President Kuchma: The Kharkiv Initiative is another issue. The Bushehr project in Iran was a mutual decision. For Ukraine, it was an issue of nuclear security. We also have Secretary Richardson's support on Odessa Brody to Western Europe. This doesn't settle the main problem, but it does allow Ukraine and Poland to resolve energy problems. (S)

The day before yesterday, I met with Nazarbayev. He said that he would provide information on Kazhegeldin. We are thankful for the feasibility study which confirmed the viability of the project. (S)

Finally, Mr. President, Ukraine is a non-permanent member of the Security Council. We're having a Millennium Summit. We want a summit of the heads of state of the Security Council. (S)

The President: Let me say again how much I appreciate the reforms you have implemented thus far. I want to help make the Chornobyl announcement and the commercial space launch agreement helpful. What we're hearing from the IMF is that you need to make quick progress on energy reform, including strategic privatization, privatization in other areas that meets international standards, and progress on the budget. With these changes, Ukraine should get much more foreign direct investment. (S)

Mr. President, I think this has been a very productive discussion. Shall we move to the expanded meeting? (U)

President Kuchma: Certainly. (U)

-- End of Conversation --