



CHAIRMAN'S MESSAGE

A letter from James Temerty, Orange Circle Chairman

Nothing in Ukraine's short years of independence was more inspiring than the Orange Revolution of November–December 2004. Ordinary Ukrainian citizens' exemplary display of peaceful struggle was an inspiration for all who value freedom and believe in the strength and tenacity of the human spirit.

For the friends of the Orange Revolution nothing, therefore, was more disheartening than to see the Orange coalition collapse due to political ambitions and personal rivalries.

In some sense, the spirit of the *maidan* could not be expected to persist once the immediate aims of free media and honest elections were attained. There were far too many philosophical differences that divided the Orange camp, with some leaders tilting leftward and some to the right.

For the Orange Circle — an organization that came into being in September 2005 amid the optimism engendered by the spirit of the *maidan* — and for all friends of democracy in Ukraine, the collapse of the Orange coalition should not be reason to lose faith.

While politicians may have failed to preserve unity, the Orange Revolution was an event of fundamental importance. It changed Ukraine by creating the preconditions for a stable democracy, a transparent society, and a market economy. Most important, it gave Ukraine's citizens an understanding of their own ability and obligation to participate in the political process.

Our aims, therefore, remain the same as at the time of our founding: to build on the momentum and opportunities created by the Orange Revolution by supporting Ukraine's democratic transition and market reform; to press for Ukraine's entry into Europe and the Euro–Atlantic community; and to link the friends of Ukraine around the world in that purpose.

Indeed, it can be said that our aims have acquired greater importance, as Ukraine's newborn democracy now faces complex challenges, a profound divide over national purpose and national interests, and new political configurations few would have predicted a short year ago.

At the same time, Ukraine's media are robust and free, its citizens are well informed, its state institutions are full of important checks and balances, its opposition is vigorous and strong, and its economy is booming. All this means that most Ukrainian leaders, no matter where they stood in November–December 2004, now acknowledge the positive impact of the Orange Revolution.

Ukraine is facing major challenges and needs the active engagement of its influential friends around the world. Ukraine's emerging democracy needs the Orange Circle, your involvement, and your continued support.

James Temerty is the Chairman of the Board of the Orange Circle.

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Ukraine: Analysis of Political Trends

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CHECKS AND BALANCES

by Adrian Karatnycky

Ukraine's politics continue to surprise and confound. The collapse of a short-lived orange coalition in June 2006 and the emergence of a coalition government headed by the anti-Orange Party of Regions have led many to conclude Ukraine's path toward reform is in danger of reversal.

But on the evidence of how politics is playing out in Kyiv these days, the impact of the Orange Revolution has proved more durable than the ability of the revolution's leaders to work together and to stay in power.

At the same time, it is clear that since the Socialist Party's defection from a coalition with the "Orange" Our Ukraine and Yulia Tymoshenko political blocs, the country's politics are far from settled.

The only obvious facts are that Ukraine's economy continues to grow smartly (at over 6 percent this year with 7 percent growth projected in 2007) and that political power is broadly dispersed between Government, President, Parliament and the Courts.

While many analysts suggest the "ruling" Party of Regions is in the driver's seat, the actual state of affairs is certainly far more complex. First, the pro-business Party of Regions is a minority party that must make concessions to two small leftist parties — the Socialists and Communists — to remain in power. Moreover, the Socialist Party's Oleksandr Moroz is playing an independent role as parliamentary speaker in a bid to preserve his personal influence and to maintain political balance.

The Party of Regions, itself, is no monolith. It contains a radical, pro-Russian wing; hardliners who seek to exact revenge on President Viktor Yushchenko and others who launched the Orange Revolution; and pragmatists linked to the party's powerful business wing who appear to want stability through accommodation with the President and cooperation with the business-friendly Our Ukraine bloc. The array of influential figures in the Party of Regions includes politicians tainted by their role in falsifying the 2004 presidential elections that sparked the Orange Revolution, as well as business leaders and pragmatic technocrats who want to create a modern and prosperous Ukraine integrated with the West. But where Prime Minister Yanukovich stands is yet to be determined. Clearly, he is interested in expanding his

powers, but just how far and at what cost in terms of cooperation with the President is yet to be determined.

In addition, Prime Minister Yanukovich and other Regions' party leaders must take into account the views of Ukraine's highest courts, which are yet to parse out the full meaning of the constitutional reforms that came into effect in 2006.

In the early history of the U.S., *Marbury v Madison* and other early Supreme Court decisions appeared to be modest, technical decisions; yet they ultimately defined powers that determine how the U.S. is governed today. Ukraine's highest courts similarly will soon be called upon to define in specific terms the powers that belong to the president and those that reside with the government, prime minister, and parliament. Some of these decisions may turn out to be technical, but their long-term implications for the balance and clear separation of powers are likely to be longstanding.

Under Ukraine's amended Constitution, President Yushchenko's powers have been pared down, but remain considerable: he is the most powerful head of state among Europe's democracies. His powers include the ability to appoint local and regional government executives and authority over Ukraine's foreign and security policy, including the nomination of Foreign Affairs and Defense ministers and the head of State Security. The president also has veto power over all legislation and the ability to block decisions by the Cabinet of Ministers, subject to review by the Constitutional Court.

Moreover, the National Security and Defense Council, whose composition is largely determined by the President, has the constitutional right to issue binding decrees in the areas of its responsibility. Whether national security includes such matters as the diversification of energy supplies and therefore energy investment policy, limitations on the privatization of strategically significant sectors of the economy, and other economic issues, will, of course, be a matter of future discussion and disputation in the courts. If the courts so find, the President will have another instrument through which to influence various aspects of economic policy.

It is unlikely that Ukraine's high courts will annul Ukraine's recent constitutional amendments (which in fact could be reversed as they were not adopted

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according to the legislated procedures for amending the country's basic law). However, most court watchers (a new profession which serves as a positive indicator of Ukraine's emergence as a real democracy) agree that the courts are not likely to reduce President Yushchenko's considerable powers.

By all indications, President Yushchenko has little to fear in terms of adverse court decisions. At the same time, recent high court elections were hardly reassuring to allies of Prime Minister Yanukovich. The Region's Party's two preferred candidates for chief justice of the Constitutional Court were defeated, losing to a candidate strongly backed by President's Yushchenko Secretariat.

Another high court that will play a key role in setting key precedents and dividing powers is the Supreme Court. In September its justices voted 55 out of 82 to support Vasyl Onopenko, a strong voice for the independence of the judiciary and a close political ally of opposition leader Yulia Tymoshenko.

One Western lawyer from a major Kyiv firm told me that on the day of Chief Justice Onopenko's victory, lawyers throughout the capital celebrated. They saw the election as no less than a declaration of independence by the judiciary. As one attorney observed recently: "The judges will not return to the time when they would get a phone call from the executive branch telling them how to resolve a key decision, nor will they countenance threats to their families" — a common practice during the authoritarian rule of former President Leonid Kuchma.

There is more good news for those who worry about Ukraine's democratic future. President Yushchenko has reinvigorated his staff, which now includes a broad spectrum of seasoned political infighters, pragmatic former government officials, and expert lawyers well equipped to protect his prerogatives. Indeed, recent weeks have seen the restoration of an *entente cordiale* between the President and an array of powerful oligarchs, who see in the presidency an important counterweight to the power of the Donetsk business elite that dominates the government of Prime Minister Yanukovich.

For the moment, Prime Minister Yanukovich is testing the new scope and limits of his power. During visits to Brussels, he challenged the President's prerogatives for implementing foreign policy, and his staff in the Cabinet of Ministers is challenging some of

the president's constitutional prerogatives, including the right to issue decrees.

But the reality is that the current law of the land, as adopted by the previous parliament, sets Ukraine's foreign and security policy aims as integration into NATO and the EU. And the new parliament does not have sufficient support to pass a new law that revokes these principles.

All this institutional contestation is not a sign of looming instability. Rather it is a sign that real institutions are delineating their legitimate and democratically-derived powers.

At the same time, given the influential presence of hardliners within the Regions' party, a danger remains that the government may seek to move in more authoritarian directions if given a chance. But the presence of pragmatic forces within the Regions and Our Ukraine, as well as the checks and balances that limit the powers of the Prime Minister and government, are more likely to lead the President and Prime Minister to work out the complex phenomenon of political "cohabitation."

There is not yet a clear answer as to what will be the end point of Ukraine's experiment of divided government and power-sharing between an Orange President and Prime Minister from the Regions' Party. What is clear is that there is sufficient power and influence in the office of the Presidency and a sufficiently powerful political opposition to prevent a dismantling of the democratic gains that came with the Orange Revolution of November–December 2004.

Adrian Karatnycky is President and Founder of the Orange Circle.

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UKRAINE AND RUSSIA: DIVERGENT POLITICAL PATHS

by Alexander Motyl

Here's a puzzle. Throughout the 1990s, Ukraine and Russia were quasi-democracies with authoritarian features. By 2001, they began moving in the direction of greater despotism. But then their paths diverged. Ukraine's trajectory shifted toward democracy during and after the "orange revolution" of late 2004. In contrast, President Vladimir Putin's Russia has become a full-fledged authoritarian state.

Why was Putin able to succeed in establishing a dictatorship while Ukraine's president Leonid Kuchma failed? Although differences in personality and leadership style matter, the answer lies in both countries' institutional legacies and the difference in their approaches to change.

The Soviet Union was an empire, but Ukraine and Russia occupied different places in the imperial structure. Ukraine was the object of imperial rule – a periphery – and emerged from the Soviet empire without a functioning state apparatus and skilled elite. Russia was the subject of that empire – the metropole – and inherited an imperial state apparatus and highly skilled elite. Ukraine lacked state institutions and was hard-pressed to pursue reform in their absence.

Russia possessed state institutions, but of a bloated and reactionary kind that served as an obstacle to democracy, the rule of law, and the market. Ukraine's first two presidents, Leonid Kravchuk (December 1991–July 1994) and Leonid Kuchma (July 1994 to January 2005), avoided radical change, thereby enabling political institutions and a strong democratic opposition to emerge. Russia's President Boris Yeltsin (December 1991–December 1999) pursued radical change and, tragically, thereby polarised Russia's political parties, weakened the state, and created an under-institutionalized political environment that facilitated the emergence of a strong anti-democratic ruler.

Neighbours apart

Although the prevailing mood in Ukraine almost two years after the orange revolution is one of profound disappointment, Ukraine is a far different, and better, country today. It has opened itself to the world. It is democratic and free, even if chaotically so. Civil society and the media are robust, open debate is the norm, foreign direct investment has boomed, and the rule of law has improved. Ukraine remains poor and corrupt, but, unlike Belarus and Russia, it is anything

but an authoritarian state with a dictatorial leader and a passive population.

How could a democratic breakthrough take place in a country known for systemic stasis and government deadlock? Paradoxically, the "stagnation" of the 1990s made the orange revolution possible. It takes time for institutions – or valued rules of the game – to take hold. They "stick" only after people use them repeatedly and come to view them as effective, valuable, and "natural". Since such rule-based behaviour evolves slowly, almost invisibly, many observers failed to see that Ukraine had become transformed since independence in 1991, when it was a post-totalitarian and post-imperial "space" without the institutions of a state, the rule of law, democracy, a market, and civil society.

That changed in the last fifteen years. A state apparatus and skilled administrative elites emerged, parties were established, regular elections were held, popular activism grew, and market relations took hold (today two-thirds of GDP is produced privately). Because all political players practiced "formal democracy", Ukraine's fractious parliament never submitted to the increasingly authoritarian president, Leonid Kuchma. That made him vulnerable to pressure from civil society and encouraged him to forge alliances with economic clans that benefited from crooked privatisation schemes. The result was a rough balance of power between parliament, president, civil society, and business.

Kuchma's illegitimate regime crumbled during the orange revolution, when civil society rose in protest, and parliament and the oligarchs stood on the sidelines. Constrained by a constitution invoked by everyone, the revolution's protagonists and antagonists resolved the crisis by negotiating (not by shooting, as in Russia in 1993), thereby enabling the people to elect Viktor Yushchenko president.

In stark contrast to his Ukrainian counterparts, Russia's Boris Yeltsin attempted to introduce radical change by means of "shock therapy" in the early 1990s. Although supported by many in the west, the policy was doomed to failure. A strategy of "revolution from above" could not work without the active intervention of the state, but the post-imperial Russian state bureaucracy was anything but revolutionary or even reformist. The inevitable failure

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of Yeltsin's attempted revolution fatally weakened the radical reformers as a political force. His policies also polarised the political spectrum, thereby leading to the consolidation of both the extreme left and the extreme right, undermining Russia's nascent democratic institutions, and enabling the president to emerge as Russia's supreme political figure.

Faced with chaotic economic change, polarised politics, and increasingly uncertain rules of the game, state ministries and provinces tried to grab as much authority as possible, both because it was there to be grabbed and because grabbing it protected them from the assaults of an imperious central government. The resulting fragmentation of the state enabled forces associated with one of the Soviet and Russian state's most efficient agencies – the secret police – to emerge in the late-Yeltsin era and take control of the government and, increasingly, the state. Small wonder that a former KGB officer – Putin – succeeded Yeltsin as president and that state consolidation became his overriding programmatic goal.

Since the revolutionary democrats appeared to have been responsible for the state's fragmentation, state consolidation assumed anti-democratic and anti-reformist dimensions. Under conditions such as these, the free press and civil society could easily be viewed as obstacles to state consolidation, especially when pursued under the auspices of the siloviki from the security services.

Since coming to power, Putin has methodically dismantled Yeltsin's quasi-democracy and replaced it with authoritarianism. He has muzzled the press, emasculated the parties and parliament, staffed the government with his cronies from the security services, co-opted the oligarchs, extended state control over the economy, and terrified civil society.

Hoping to appeal to Russians angry at the loss of empire and superpower status, Putin has also played on great-power and imperial nostalgia, nationalism, and patriotism, vowing to crush all of Russia's enemies, the Chechens in particular. In 2005, Putin even declared the collapse of the Soviet Union the "greatest tragedy of the 20th century." Were such changes taking place in the 1930s, they would be called fascist.

The lasting orange legacy

The rough power balance between parliament, president, civil society, and business in Ukraine

ensures its continued democratic development. It also means that systemic change will remain incremental and frustrating. Unconsolidated democracies move slowly, Ukraine's constitution is a recipe for government volatility, and its corrupt political and business clans will resist reforms that undercut their interests.

The March 2006 parliamentary elections and their aftermath are a case in point. Ukrainians expected the elections to be fair and free, as indeed they were. The results – with 32% of the vote going to the Party of Regions (PR), 22% to the Yulia Tymoshenko Bloc, 14% to the pro-presidential Our Ukraine bloc, 6% to the socialists, and 4% to the communists – were also accepted as legitimate.

The "blue" PR, which represents the oligarchic interests of Ukraine's Russian-speaking and anti-orange eastern rust belt, behaved democratically before, during, and after the ballot. Its leaders are demagogues and oligarchs, but they appear to know that the constitution is the only game in town. With the communists, whose candidate for president won 38% of the vote in 1999, having been demolished, the PR could now become Ukraine's equivalent of "post-communists".

Attempts by the orange forces – the Tymoshenko Bloc, Our Ukraine, and the socialists – to form a governing coalition produced months of horse-trading and paralysed government. After they finally signed a coalition agreement in late June, some socialists bolted and joined the PR and communists, provoking further rounds of mud-slinging before the decision of Viktor Yushchenko to nominate Viktor Yanukovich as prime minister on 3 August brought the messy standoff to an end and inaugurated a new political phase.

Ukrainians were disgusted by their leaders' infantile shenanigans, but the seemingly endless post-electoral negotiations did show that Ukraine's politicians, like their counterparts in other democratic countries, were, despite deep personal animosities, resolving their differences according to the rules of the game.

Our Ukraine's parallel negotiations with the PR about a blue-orange coalition, like the socialists' decision to back the blue forces, also testified to an emerging consensus on centrist principles. Blue and orange agree that Ukraine should be an independent, democratic, multinational, and law-governed state with a market economy. They insist on the inviolability of the constitution; want a vibrant parliament; support a free press, a market economy, and cultural tolerance; and oppose Ukraine's fragmentation.

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They believe further that Ukraine should enter the European Union and the World Trade Organisation and maintain good relations with Russia and the United States. Unsurprisingly, they also disagree violently on many policies, such as Ukraine's joining Nato, relations between Kyiv (Kiev) and the provinces, the pace of privatisation, and the status of the Russian language.

Notwithstanding the fireworks, Ukraine's squabbling elites are searching for, and finding, a *modus vivendi* in an institutionally democratic country that is as suited today as Poland, Hungary, and Czechoslovakia were in 1989 to consolidate democracy and the market. Moreover, in contrast to the Kuchma years, Ukraine's politicians must also answer to an empowered population.

Some five million, primarily young, people took part in the orange revolution. For Ukrainians in general – and especially for those in the formerly quiescent blue eastern provinces – the revolution was a defining moment that forced them to abandon their apathy, take a stand, and become citizens. The PR faces an especially difficult task. It must adapt to democratic rules and answer to a mobilised populace that detests corrupt – even if Russian-speaking – oligarchs.

The Russian problem

Thanks to its enormous geographic, military, demographic, and economic size, Russia will always be a challenge for its non-Russian neighbours, Ukraine included. Sadly, Russia currently is, and is all too easily perceived as, also a threat to them because it has become – thanks in large part to Vladimir Putin's predilection for strong states, grandiose mythmaking, and zero-sum thinking – neo-imperial, xenophobic, authoritarian, and unstable.

The Kremlin hopes to resurrect a sphere of influence in the "near abroad". Too many Russians openly dislike non-Russians. Putin has constructed an unapologetically authoritarian state whose elites view democracy as a threat. And Russia is a "petro-state" beset with weak political institutions, inefficient government control of a resource-based economy, pervasive corruption, and high instability. Whatever such a post-Weimar Russia does – from waging a "gas war" against Ukraine to banning Georgian wine to promoting its legitimate economic and security interests – it evokes deep suspicion among non-Russians. That most Russians support Putin is even more cause for alarm.

Ukrainians have ambivalent feelings about Russia in general and Putin's Russia in particular. All speak Russian and know Russian culture intimately, and most have close ties with family and friends in Russia. But many also resent the general Russian disdain for Ukrainian language and culture and the widespread Russian view of Ukraine as a wayward province that will, in time, come to its senses and return to Mother Russia's fold. Over half of Ukrainians prefer the west to Russia, about one-fifth are unconditionally pro-Russian, and about one-third want to find a balance between Russia and the west. Thanks to Putin's neo-imperialism and authoritarianism, that third group has been placed into an untenable position and is tilting increasingly toward the west.

Kyiv's response to geopolitical reality and divided domestic loyalties has been, is, and will remain to try to maintain good relations with Europe, the United States, and Russia. The brute fact of an enormous Russia right next door means that Ukraine can never be too close to or too distant from it. No Ukrainian elite with even a minimal commitment to the independence of their own state can wilfully pursue the loss of sovereignty that an unconditionally pro-Russian policy would imply. Even the bombastically pro-Russian foreign policy of Alexander Lukashenko is premised on Belarus's continued existence. By the same token, neither can Ukraine's elites just snub their noses at Russia.

As a result, Ukraine has little choice but to pursue a foreign policy that is neither pro-Russian nor anti-Russian, but anti-anti-Russian. In turn, anti-anti-Russianness constrains the degree to which Ukrainian foreign policy can be pro-western. The foreign-policy behaviour of Ukraine's three presidents – Kravchuk, Kuchma, and Yushchenko – reinforces this point. Once elected, and regardless of whether their campaign slogans were more or less anti-Russian or more or less pro-western, all settled into the geopolitically determined space defined by the two poles of anti-anti-Russianism and moderate pro-westernism.

However hard it may be to satisfy the competing interests of all three, Kyiv has no alternative to a reactive "multi-vector" policy – unless Russia forces its hand. The more neo-imperial, xenophobic, authoritarian, and unstable Russia becomes, the more will Kyiv have to move toward the west, regardless of whether Ukraine has an orange, blue, or orange-blue government.

Russia's weakness

Although Ukraine looks weak, its political institutions are actually in pretty good shape. Russia looks strong,

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but its political institutions are weak and unstable. Just as revolution from above was not a viable option for Yeltsin, so authoritarianism is not a viable option for Putin. Although Putin may be in control of the Russian state, the state itself is brittle. Elites are at loggerheads, ministries promote their own interests and fight over budgetary outlays, and coordination and cooperation in the pursuit of policy ends is minimal.

The formal subordination of the regions and governors to the "super-governors" and the centre, for instance, by no means signifies that they really are beholden to Moscow's wishes. Quite the contrary, the regions are as avidly pursuing their interests today as they did in the past, but they are doing so less visibly and less vocally.

Because the state remains weak and the rule of law has not been consolidated, economic growth will continue to benefit at most a small segment of the population. The example of third-world states shows that authoritarian state-building can all too easily acquire pathological characteristics, especially when institutions are non-existent or weak. State building then becomes a source of patronage, and the state apparatus becomes an obstacle to modernisation.

Russia's ongoing transformation into a petro-state will only make things worse. Energy-based states with weak political institutions are always deeply corrupt states. They accumulate vast and easy wealth, which corrupt elites invariably misappropriate. And oil states are rarely stable.

Russia's turn toward neo-imperialism may be Putin's biggest mistake. Many Russians are angry at the loss

of empire and feel humiliated by their demotion to the status of a "third-world country with the bomb." Putin has purposefully and effectively played the nationalist card and revived a variety of symbols associated with Russia's or the Soviet Union's glorious past. He has also appropriated a "tough guy" rhetoric, both at home and abroad, that bespeaks self-confidence and promises greatness. And he has acted vigorously in defence of the nation and the state, especially in Chechnya, where the war has become an uncompromising fight to the finish. It is not surprising that his popularity ratings remain extremely high.

Unfortunately, the combination of continuing state weakness and growing foreign-policy boldness is a recipe for "imperial overreach" and disaster. The tougher Russia gets, the tougher it sounds, the more it gets involved in playing the great power that it cannot be, the greater the gap between its aspirations and capabilities and the greater the likelihood of a systemic breakdown.

There is little reason to expect Putin to change course any time soon. The Russian people support him, and the Russian democrats are too weak to challenge him. The European Union has been quiet. And the United States has, thanks to the Bush administration's moral bankruptcy, lost the right to lecture the Russians. Russia's rush toward systemic breakdown is thus likely to continue. The crash will be messy, but when it comes, Russia will finally have no choice but to be a democratic state that pursues amicable relations with its neighbours.

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OPPOSITION TO NATO IS LEGACY OF THE PAST: OC INTERVIEW WITH VICTOR YUSHCHENKO

interviewed by Adrian Karatnycky

In Jan. 2005, Viktor Yushchenko was sworn into office as president of Ukraine. He assumed power after winning a free and fair election that was held as a result of the Orange Revolution, a mass nonviolent civic protest that engaged millions of Ukraine's citizens. This summer, after free and competitive elections for parliament, Ukraine saw the establishment of a coalition government headed by President

Yushchenko's political rival, Viktor Yanukovych, raising new international concerns about the direction of Ukraine's political and economic evolution. In recent weeks, Ukraine's experiment in "cohabitation" among former political opponents has seen the emergence of important policy differences and political jockeying. With Ukraine's still-powerful presidency led by a representative of the reformist

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values of the Orange Revolution and the government and parliament led by non-Orange forces, there are uncertainties about the directions Ukraine will take on such issues as integration into Europe, cooperation with NATO, and internal democratic and economic reforms. This interview was conducted for *Global Viewpoint* in Kyiv on Sept. 20, 2006, by Adrian Karatnycky, president of the Orange Circle, an international nongovernmental organization that works to promote the values that were at the core of Ukraine's Orange Revolution.

Question: Around the world, friends of democratic reforms are alarmed that Ukraine's new governing coalition, led by the Party of Regions, may retreat from the democratic values of the Orange Revolution. How do you answer those who have such concerns and worries?

Yushchenko: The forces that made the Orange Revolution didn't lose electoral support between late 2004 and the parliamentary elections in March 2006. The replacement of an Orange coalition by another coalition did not reflect a change in people's political sympathies, but was based on political events — the Socialist's departure from the Orange bloc, in part over differences on NATO, integration into the European Union, land privatization, the Common Economic Space (with Russia), and so on.

The new coalition, headed by the Party of Regions, was created on the basis of positions shaped in the last presidential and parliamentary elections. In my view, these positions were rather dangerous for the aims of national unity, national security and a competitive market society. These positions were most likely shaped during the ebb and flow of an election campaign and cannot be the basis of national policy. Still, the coalition that formed naturally represented positions that worry democratic circles.

And this is why after the new (non-Orange) coalition was formed, there was a need for a determined effort at consultations among major political forces to unite around national values. This was the genesis of the Universal Declaration (of National Unity, a political pact signed this summer) whose aim was to ensure that whether in power or in opposition, a political force should be unified around common national interests... that reflect national priorities... The forces that signed this document declared their responsibility and

adherence to key national policy priorities: the unity and territorial integrity of Ukraine; they affirmed the aims of integrating into European and Euro-Atlantic structures; pledged themselves to shape an effective national security policy; and to resolve differences concerning the status of Ukrainian as the sole state language in the country.

Time will tell (if this mechanism has worked). Still, I am convinced that if the parties adhere to the norms in the pact, we will have stability — for the pact represents the proper national course, irrespective of whether one is in power or in opposition.

Question: Prime Minister Viktor Yanukovich's recent statements in Brussels about the need to freeze progress toward NATO integration suggests a certain distancing from the basic direction of Ukraine's political pact. Is it your view that this is the beginning of a sharpening of differences in your relations with the prime minister and his political allies?

Yushchenko: I think the (prime minister's) position may reflect a certain political fear to take a decisive position on a question that is a foundation of our national security. There have been certain traditions until now, relics of the Soviet era, promoted by the mass media for decades in terms of a (suspicious) attitude to Europe and to Euro-Atlantic integration. So this attitude represents a legacy of the past. But while it is important we acknowledge the influence of the past, we also need to choose the future — one that reflects the real interests of national security. So this may be an answer why the (prime minister) and government have taken such an indecisive position with regard to relations with the North Atlantic Treaty Organization.

I also think that this has to do more with the last elections than with their real position. The prime minister has more than once confirmed his belief in the fundamentals of our choice, and so I don't see the abandonment of this belief. However, today there is a debate in political circles and within society that is occurring because we are now at a fundamental point in our efforts at integration. Still, today, Ukraine's Law on the Fundamentals of National Security clearly attests to the aim of full integration into European and Euro-Atlantic security structures. And the reason politicians are taking positions on the question of the timing of this integration is called forth by the fact that Ukraine is nearing that time of decision on whether to join NATO or not.

Question: Do you believe the prime minister and his circle will carry on a political campaign aimed at building public opposition to NATO integration, or

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will they support an effort to shift public opinion on behalf of NATO integration through better education on the Atlantic alliance. In other words, is this a make-or-break moment?

Yushchenko: You know, I will be frank, there are no serious arguments for changing our foreign policy course, particularly in regard to NATO. If you analyze the interests of the nation, of how to leave the country in an auspicious state for the next generation, then there can only be one answer: This is in the context of a European project, by forming a common security, economic and humanitarian space... All other options are a part of history, and, at that, an unhappy history for Ukraine and Ukraine's interests... This is why I am convinced that the executive and legislative branches in Ukraine will with every passing day express themselves more clearly on this principled question.

Question: The tempos of economic growth in the last year significantly improved, and this reflected policy changes you introduced last year. Some people say that the Party of Regions has a relatively progressive position on economic policy. Others are of the view that it is an unreconstructed party that reflects pre-Orange authoritarian and statist values. Where is the truth?

Yushchenko: Two processes are at work. Firstly, Ukraine's authorities and their methods of work cannot be the same as they were two, three or four years ago. Today, you can't run the country by shadowy means, not only because it is difficult but because it is now impossible. This doesn't remove the need for a war on corruption, or the struggle against graft, or that this struggle has been won. Obviously not. But it does mean that the authorities and their use of power have become more public over the last 15 years, and government actions have become more transparent. And this leaves an impression on the activity of every political force, including the Party of Regions.

I believe the Party of Regions understands very well that the methods that were in place under the rule of (former President Leonid) Kuchma cannot be used in 2006, whether in economic or in financial policy. I'll give you a small example. In August, in my view the new tax authorities implemented a policy of compensating value-added taxes in the manner it was done during the worst period of Kuchma's rule. Look at the reaction of the public, of business circles, and look at how this action was assessed by the policy commu-

nity. Five years ago, we all knew about such policies, but everyone remained silent and nothing changed.

Today, (the state) examines these actions to ensure that everything is done within the letter of the law. And businessmen, entrepreneurs and political forces have declared their open disapproval. This is a sign that even if one wanted to use the old methods, it is simply impossible in the new context. And so it seems to me these factors are well understood in the Party of Regions. They realize it is impossible to work according to the same values and methods that were popular just a few years ago. Civil society, political forces, and the presidency itself will not allow a return to such disreputable means.

Question: Let's talk about the intersection of foreign policy, national security and the economy: the question of energy and energy resources, including your efforts to promote energy diversification. I know that you've taken up a number of initiatives in recent months, have traveled to meet with leaders in the energy-rich Caspian countries, conducted talks with a number of counties that provide energy, and have given new impetus to projects like the Odessa-Brody-Gdansk oil pipeline. Will you be able to synchronize this policy with the new government?

Yushchenko: I think the time has come in Ukraine for a series of legends to die, including one that posits adequate energy supplies and energy security can be ensured through duplicitous policies. This issue is becoming much more acute with every passing day.

We are witnessing the transformation of our traditional patterns and sources of energy supplies and are resolving problems in protecting the transiting of energy. At the same time, there's more and more talk about new configurations emerging in regional and continental energy markets that are fundamentally or partly changing the nature of this market.

It's time for Ukraine's authorities to take clear positions that recognize we hold a number of aces in our hands... We need to carry out an active policy based on national interest. We must make clear that our energy policy is not directed at someone or some country. We have enough of our own problems. We need to take care of our own national interests. And therefore our national policy should begin from how best to ensure the realization of our national interests in energy supplies, while at the same time safeguarding our national security. And here, accepted international principles begin to operate: How are we to diversify the market? Not to reject or oppose anyone, but how to diversify the energy market in a

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OC INTERVIEW: PRESIDENT YUSHCHENKO, contd.

way that enhances stability, supplies and security.

Here we need to focus on the basic organization of our domestic energy market, including our domestic extraction of gas, petroleum and coal; a new energy consumption policy in which real prices and open competition would be at work.

Another consideration is our work with the key energy companies. This means cooperation in extraction as well as the practice I have introduced of public tenders for the exploration and extraction of oil and gas on the Black Sea shelf. We have the example of Shell, where we are implementing the introduction of what for our market are new and experimental forms of cooperation.

A further set of issues is the need for us to remain an active energy-transiting territory. And so we advocate a Eurasian oil transport corridor, which can traverse Ukrainian soil traveling from Odessa to Brody and from there to the European Union. It is essential that the project be completed all the way to the Polish port of Gdansk and function fully as planned. Such an energy transport route would assist Ukraine in meeting its crude oil needs and would fill Ukraine's refineries, but it would also be linked to Europe's energy market through existing or new pipelines.

This is the most concrete project, one that can be accomplished in a few years. This is why we are conducting diplomatic negotiations, and negotiations at the level of energy ministers that are concentrating on achieving a five-year supply of oil (from the Caspian and Central Asian region) along this route with the integration of Ukraine's refineries and those beyond Ukraine's borders.

In other words, this concept has already taken on a practical scope. A working group consisting of the European Union, Poland and Ukraine already is focused on this project. We have created a consortium and proposed that the governments of Azerbaijan and Kazakhstan join it as partners. A council of the presidents of Ukraine and Azerbaijan has been created, in part to realize this project.

We are interested in a broad effort to ensure energy security by linking the Caspian Sea region through the Caucasus and then underneath the Black Sea through Ukraine into the European Union. Such a major project must first begin from the policy and diplomatic side. And this is where the discussion today is focused,

on bilateral and multilateral discussions. I am convinced that this project will take shape, and this is why Ukraine is giving it so much attention.

Question: What are the views of the Party of Regions on the topic of energy diversification?

Yushchenko: I think an absolute majority among Ukraine's political forces supports these (energy) projects and approaches. Moreover, there is a specific plan of action with regard to the development of our relations with Russia in terms of gas and oil transport, and the realization of entirely new projects. Our approach is the following: We are ready to support a program of development that reflects our common interests in relations with energy suppliers, and to offer unique opportunities that the Ukrainian side possesses, including the largest network of gas and oil pipelines that exist in Europe, as well as Europe's largest gas storage facilities. There are new potential projects as well that could create a new means of ensuring gas and energy security for a certain part of Europe. And here I would say that if one carries out a transparent and open policy, one can find a wide array of partners.

Question: A question about an energy matter that troubles the U.S. and Europe. It is related to the role in energy supplies played by intermediary companies that are not fully transparent, particularly RosUkrEnergo (RUE). Is this intermediary essential to the future supplies of energy from Russia and Central Asia?

Yushchenko: Let me explain a series of nuances in this regard. I remember the end of December 2005, when there were sharp and turbulent discussions with Russia about supplying Ukraine with adequate gas supplies. At that time, a whole series of myths was spread both about the unreliability of Ukraine in ensuring the transiting of energy to Europe. Other myths and rumors also circulated around the RUE company.

At home, we were blamed for not achieving a good price for natural gas, that \$95 per 1,000 cubic meters was too high. Let's see if the passage of time has brought clarity to the situation.

Let's return to the question of RosUkrEnergo. Yet again, I assert that Ukraine has no relationship whatever to this structure. To this date we have no source of credible information that would point to the fact that some state structure or private structure in Ukraine is a founder of this company. This contrasts with Russia. And yet despite this fact we are fending off an endless stream of complaints concerning the intermediary role of RosUkrEnergo in the transiting of natural gas across Russian territory.

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OC INTERVIEW: PRESIDENT YUSHCHENKO, contd.

I want to make it clear: I believe it is the sovereign right of Russia to determine who is the licensed transporter of energy over its territory. So whoever it may be, whether RosUkrEnerho or the Gaztransyt company or Gazprom, then I think such questions should be directed to another party, not to us. This is the sovereign right of Russia, and it sets this policy. As the same time, as we discuss this policy issue, I'd like to raise an economic question. When we discussed the agreed price of \$95 per 1,000 cubic meters, we absolutely sought to approach these questions by faithfully applying European practice.

Question: Does this set of European standards also apply to the price RosUkrEnerho charges Ukraine for its intermediary services?

Yushchenko: This same intermediary company, RosUkrEnerho, that provides services to Ukraine is, by the way, also providing its services to Germany and Austria. This company works on the Western market. Thus, we are one of a number of countries that is making use of these same resources and services,

which are offered in a similar manner. I believe this issue has been excessively politicized, first through criticism of the allegedly excessive price of \$95 price and later through criticism of the intermediary group. The main aim of this criticism was to discredit the decisions of our young administration. But the price we pay is the most optimal, the lowest among countries in our region. Simply put, no one has a better price.

At the same time, we have preserved ownership of the gas transport network, we have retained ownership of storage facilities, in other words, the entire infrastructure for energy transportation. And the agreement we have struck speaks of holding to the current prices for five years. This is why I would like all those who sharply criticized us in the past to support and come to the defense of the current agreement. This would be an immense contribution to Ukraine's cause.

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YEAR IN REVIEW: CALENDAR OF OC EVENTS

SEPTEMBER 2005

Orange Circle Founding Dinner September 15: New York City

The **Orange Circle** held its founding dinner with keynote address by **President Viktor Yushchenko** and major address by **Dr. Zbigniew Brzezinski**. Other participants included Ukraine's Foreign Minister **Borys Tarasyuk**, Ukraine's First Lady **Kateryna Yushchenko**, EU External Relations Commissioner **Bettina Ferrero-Waldner**, Assistant UN General Secretary **Kalman Mizsei**, and former US Secretary of State **Madeleine Albright**, Former US Trade Representative **Carla Hills**, heavyweight boxing champion **Vitaly Klitschko**, and other business, civic and political leaders.

NOVEMBER 2005

"How Freedom is Won: Lessons from Ukraine and Around the World" November 20: Berlin, Germany

OC President **Adrian Karatnycky** joined Freedom House Chairman **Peter Ackerman** for two lectures in Berlin

organized by the Aspen Institute. The events focused on the impact of nonviolent civic struggles on the development of democracy.

DECEMBER 2005

Lecture on Ukraine and Civic Democratic Revolutions December 1: Rome, Italy

OC President **Adrian Karatnycky** joined Freedom House Chairman **Peter Ackerman** in a Rome lecture organized by the Bruno Leoni Institute and the Aspen Institute which focused on the lessons of nonviolent civic struggles for democracy in Ukraine and around the world.

Lecture on Democratic Change, Civic Movements and the Orange Revolution December 2: Rome, Italy

OC President **Adrian Karatnycky** lectured at a meeting of Italian civic leaders, journalists, and NGO activists in Rome. Other speakers included Members of European Parliament **Marco Panella** and **Emma Bonino**, who recently was named Italy's Minister for European and International Economic Relations. The program was sponsored by the Transnational

Year in Review: Calendar of OC Events

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Radical Party, a UN accredited nongovernmental organization.

JANUARY 2006

ORANGE CIRCLE BEGINS OPERATIONS

Ukraine Pre-election Briefing

January 31: Washington, D.C.

Orange Circle President **Adrian Karatnycky** spoke at a briefing at the Woodrow Wilson Center/Kennan Institute assessing "Ukraine Before the March 2006 Parliamentary Elections." Other speakers included **Prof. Lucan Way** (Temple University), **Prof. Taras Kuzio** (George Washington University), **Mykola Ryabchuk** (Research Associate at the University of Kyiv-Mohyla Academy and a cofounder and coeditor of *Krytyka*, a leading Ukrainian journal), and **Blair Ruble**, Kennan Institute Director.

FEBRUARY 2006

Orange Circle Briefing #1*: The Russia-Ukraine Gas Crisis

February 1: New York City

The Orange Circle the first in its series of briefings for media, the business, investment, and policymaking communities, on "*The Ukraine-Russia Gas Crisis: Lessons for Business and the International Community*." The event, held at the Ukrainian Institute of America, featured speakers **Anders Åslund**, Senior Fellow at the Institute for International Economics in Washington D.C., and **Marianna Kozintseva**, Associate Director at Bear Stearns in New York and **Adrian Karatnycky**, President of The Orange Circle, and was introduced by **Adrianna Melnyk**, OC Director of Research and Outreach, and the President of the Ukrainian Institute of America, **Jaroslav Kryshtalsky**.

Russia-Ukraine Gas Crisis Conference

February 9: Washington, D.C

OC President **Adrian Karatnycky** addressed a half-day conference hosted by the **Jamestown Foundation** on the theme "The Russia-Ukraine Gas Crisis: Implications for Europe and Eurasia." Other speakers included Ukrainian Ambassador **Oleh Shamshur**, Jamestown Senior Fellow **Vladimir Socor**, and **Prof. Marshall Goldman**, Associate Director of the Davis Center at Harvard University.

MARCH 2006

ORANGE CIRCLE OFFICE OPENS AT 120 WALL STREET IN NEW YORK CITY

Lecture on the Orange Revolution and its Impact on Democracy

March 4: Toronto, Canada

OC President **Adrian Karatnycky** addressed a seminar organized by the Canadian Institute of Ukrainian Studies,

Toronto Office, and the Petro Jacyk Program for the Study of Ukraine on the theme: "Civic Virtue and Democratic Outcomes: Why the Orange Revolution Has Brought Democracy to Ukraine."

Implications of Orange Revolution and Other Civic Revolutions for Democratic Reform Strategies

March 8: New York City

OC President **Adrian Karatnycky** was a speaker at a half day conference organized by Columbia University's Saltzman Institute on War and Peace Studies. The conference focused on democratization strategies. Mr. Karatnycky's remarks focused on the lessons that can be learned from the Orange Revolution and other civic movements and their implications for effective approaches toward democratization. Other speakers included: Columbia **Professors Jack Snyder, Gary Sick, and Lincoln Mitchell**; University of Pennsylvania **Professor Edward Mansfield**; Hunter **Professor Eva Bellin**; and Robin Hood Foundation Program Director **Michael Weinstein**.

Orange Circle Briefing #2: Ukraine's 2006 Parliamentary Elections: Implications for Business and the International Community

March 29: New York City

On March 29th, the Orange Circle organized a panel discussion entitled "Ukraine's 2006 Parliamentary Elections: Implications for Business and the International Community" held at and organized in cooperation with the Ukrainian Institute of America. Presenters included **Elehie Skoczylas**, Vice President and Director of Research of QEV Analytics, in Washington DC; **Prof. Alexander Motyl** (Political Science, Rutgers University); and **Adrian Karatnycky**. The panel was introduced by **Jaroslav Kryshtalsky** of the UIA and **Adrianna Melnyk** of the OC.

APRIL 2006

"Ukraine after the March 2006 Parliamentary Elections"

April 4: U.S. Capitol Building, Washington D.C.

OC President **Adrian Karatnycky** briefed an audience of legislative staff, journalists, and the policy community on Ukraine's Parliamentary Elections. The event was organized by the American Foreign Policy Council and the Center on US-Ukraine Relations.

Orange Circle Briefing #3: Conversation on Art, Music and Politics in Ukraine

April 10: New York City

The OC and the Ukrainian Museum hosted a Conversation on Art, Music and Politics in Ukraine. Speakers included **Prof. Yuri Shevchuk** (Columbia University), **Prof. Alexander Motyl** (Rutgers University), and **Prof. Frank Sysyn** (Petro Jacyk Visiting Professor of Ukrainian Studies at Columbia University).

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“Ukraine’s Political Landscape after the March 2006 Elections”

April 11: Toronto, Canada

OC President **Adrian Karatnycky** addressed a University of Toronto Roundtable on the 2006 Parliamentary Elections in Ukraine. Other speakers included **Prof. Dominique Arel** (Chair of Ukrainian Studies, U of Ottawa), **Daniel Bilak** (United Nations Development Program Advisor to the Government of Ukraine) and **Inna Pidluska** (President, Foundation Europe XXI, Kyiv, Ukraine)

Friends of the Orange Circle in Canada

April 19: Toronto, Canada

OC President **Adrian Karatnycky** addressed a group of influential Canadian business and media leaders and current and former Canadian government and parliamentary leaders at the inaugural meeting of the Orange Circle in Canada. The event was hosted by **Jim Temerty**, OC Chairman, and included an analysis of Ukraine’s economy and the major political forces in the country on the eve of legislative election. OC Director of Research and Outreach **Adrianna Melnyk** was also present at the meeting.

MAY 2006

Ukraine International Energy Conference

May 1-4: Houston, Texas

The Orange Circle, in cooperation with the Center for US-Ukraine Relations, organized a Ukraine-International Energy Roundtable (<http://www.energyukraine.net>). The three-day conference brought together key Ukrainian government leaders including **Vasyl Rohovyj** (Deputy Secretary of the Ukrainian National Security and Defense Council), **Pavlo Kachur** (Minister of Housing of Ukraine), **Volodymyr Ihnashchenko** (Deputy Ukrainian Minister of the Economy) and **Oleksander Todiyshchuk** (President, UkraTransNafta, Ukraine’s state oil transport company). US Deputy Assistant Secretary of State **Matthew Bryza** and Assistant Secretary of the US Commerce Department **Albert Frink** were also conference speakers. Panelists and roundtable participants included a wide array of representatives of international and Ukrainian private firms, including DTEK, the State Export-Import Bank of Ukraine, Vanco Energy, Shell, Chevron, Cardinal Resources, and other major energy companies.

JUNE 2006

Lecture on Ukraine’s Post-Election Environment

June 1: Warsaw, Poland

OC President **Adrian Karatnycky** was the speaker at a dinner lecture organized and hosted by Poland’s Defense Minister **Radek Sikorski**. The lecture included heads of Poland’s defense and foreign affairs committees of the Sejm and Senate, members of the Polish General Staff, the chief editors of several of Poland’s most influential newspapers

and newsweeklies, and leaders of key Polish think tanks.

“Political Trends in Ukraine and Russia”

June 9: New York City

OC President **Adrian Karatnycky** and **Prof. Stephen A. Sestanovich**, the George F. Kennan Senior Fellow for Russian and Eurasian Studies at the Council on Foreign Relations led a discussion group on Russia, Ukraine, and Belarus at the Council’s Annual National Conference in New York City.

SEPTEMBER 2006

“Post-Orange Ukraine: The Current Political Situation”

September 13: New York City

OC President **Adrian Karatnycky** joined **Prof. Alexander Motyl** (Rutgers University) and **Prof. Tarik Amar** (Columbia University) in a discussion of Ukraine and its government after the coming to power of the Party of Regions. The panel was moderated by **Prof. Mark von Hagen**, the director of the Columbia Ukrainian Studies Program.

“Foreign Policy Priorities of Ukraine”

September 26: New York City

The Orange Circle and the Eurasia Group (<http://www.eurasiagroup.net>) hosted a meeting with Ukraine’s Foreign Minister **Borys Tarasyuk**. The lecture was held for investors, business press, and representatives of the policy community. **James Temerty**, Orange Circle Chairman, introduced the Foreign Minister. Minister Tarasyuk discussed Ukraine-Russia relations, Ukraine’s progress toward EU and NATO integration, WTO accession, and the current political situation in Ukraine. He also addressed Ukraine’s role in and the outlook for regional energy security.

OCTOBER 2006

Johns Hopkins Transatlantic Integration Conference

October 3-4: Kyiv, Ukraine

OC President **Adrian Karatnycky** took part in a roundtable conference on Ukraine’s efforts at European and Euro-Atlantic Integration organized by Johns Hopkins University. Participants in the roundtable included the political directors of the Scandinavian and Baltic Countries, Ukrainian government leaders and policy analysts, and US Deputy Assistant Secretary **David Kramer**.

The OC assisted in liaising with Ukraine participants for the dialogue and in helping to define conference themes and speakers.

Energy and Politics in Ukraine

October 12-13: Ottawa, Canada

OC President **Adrian Karatnycky** made a Special Presentation of “the Politics of Energy in Ukraine” at the

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Second Annual Danyliw Seminar organized by the Chair of Ukrainian Studies at the University of Ottawa. He also served as discussant of a paper by **Tammy Lynch** on the theme of the *Ukraine without Kuchma* movement and other precursors of the Orange Revolution.

Ukraine and NATO

October 18: Washington, D.C.

OC President **Adrian Karatnycky** participated in a panel on "Ukraine's Future Course with Regard to NATO Membership." The panel was part of a two-day conference organized by the Center on US-Ukraine Relations and the American Foreign Policy Council.

The Politics of Energy in Ukraine

October 19: Washington, D.C.

Radio Liberty regional analyst **Roman Kupchinsky** and OC President **Adrian Karatnycky** discussed the direction of Ukraine's energy policies at a Washington, D.C. briefing organized by Radio Free Europe/Radio Liberty.

NOVEMBER 2006

Orange Circle Briefing #4: Ukraine: Two Years after the Orange Revolution

An Analysis of Its Political, Cultural and Geopolitical Impacts

November 29: New York City

The Orange Circle, in partnership with the [Columbia University Ukrainian Studies Program](#) and the Ukrainian Institute of America, held a briefing which assessed Ukraine two years after the Orange Revolution. Speakers included **Prof. Mark Von Hagen** (Columbia University), **Prof. Robert Legvold** (Columbia University), and **Prof. Joshua Tucker** (New York University). The briefing was introduced

by **Adrianna Melnyk** of the Orange Circle and was moderated by OC President **Adrian Karatnycky**.

DECEMBER 2006

Ukraine Business Forum

December 6: New York City

Members of the Orange Circle served on the Steering Committee of the Ukraine Business Forum, which took place at the Waldorf-Astoria and included addresses by Ukraine's Minister of Economy **Volodymyr Makukha** and Minister of Energy **Yuri Boyko**. North American firms which took part included **JPMorgan**, **Cardinal Resources**, **Vanco Energy**, **Chevron**, **SHI Capital**, **Chadbourne and Parke**, **New Spirit Capital**, and **Port Vera Development Corporation**. Ukrainian companies taking part included the **State Export-Import Bank of Ukraine**, **Concorde Capital**, **Millenium Capital**, **System Capital Management**, **Proffitt Group**, **E-Volution**, and **Aerosvit Cargo**. Speakers included **Fred Kempe**, President of the Atlantic Council of the U.S., and **Jorge Zukoski**, President of the American Chamber of Commerce in Ukraine.

Screening of the Orange Chronicles

December 12: New York City

The Orange Circle sponsored the Anthology Film Archives screening of **Damian Kolodiy's** and **Peter Zielyk's** documentary film *The Orange Chronicles* about the 2004 Orange Revolution in Ukraine. From November 2004 to January 2005, Mr. Kolodiy spent three months in Ukraine to document the events now known as the Orange Revolution. Two years later, Zielyk and Kolodiy have completed the film and are putting efforts towards screening *The Orange Chronicles* around the world. **Adrianna Melnyk**, OC Director of Research and Outreach, moderated the discussion.

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