

# The Genesis of the European Union's Relations with Ukraine and Belarus

INTERVIEW WITH LUIS MORENO

**L**uis Moreno, a Spanish diplomat, was the first European Community/European Union ambassador to Ukraine, Belarus, and Moldova. He served in the EC/EU Delegation in Kyiv from 1993 to 1998.

*Demokratizatsiya*: There is a feeling that there was a certain confusion in the European Community/European Union toward these new countries after the breakup of the USSR. I was just at the Ekonomiczne Forum in Poland where I participated in a panel on Belarus. Another panelist, Lars Poulsen-Hansen, criticized Brussels for leading an inconsistent and confused policy toward Belarus up until the EU's eastward expansion. What is your impression of those early years as the EU's first ambassador in Belarus?

**Moreno**: For the European Commission in Brussels, it took considerable manpower and resources to focus on all the problems in Eastern Europe in general. It was not until shortly before 1990 that it was decided to open a Delegation in Moscow, whose initial focus was on providing food aid and technical assistance on economic reform and democracy-building through the TACIS program, as well as the European Council's support through multilateral agencies—namely the IMF and the World Bank—to the USSR's development. After the breakup of the USSR, the European Council requested the European Commission to draw up a new program to help these newly independent states, focusing mainly on assisting these countries in their democratic reforms and implementing structural changes in their institutions, tax systems, social services, etc. The TACIS program began to work rather quickly in 1991, but it was directed from Moscow. From 1991 to 1993, Ukraine received 120 million euros and Belarus, 32 million. We need to keep in mind that the human resources of the European Commission are quite limited. They had then approximately 12,000 staff serving a total population in the European Community of over 300 million. They had to occupy themselves with opening embassies and other tasks. The first objective was to open a

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*Demokratizatsiya* founder Fredo Arias-King conducted the interview in Palma de Mallorca, Spain, on September 20, 2005. Copyright © 2006 Heldref Publications

Delegation in Ukraine, because of its political importance, in the fall of 1992. This was after a series of negotiations with the Ukrainian government, which delayed the opening of the Delegation in Kyiv until the end of the summer of 1993. At that time an office of the Kyiv Delegation was also proposed to be opened in Minsk, but Brussels was receiving political pressure from the former Soviet Foreign Minister Eduard Shevardnadze to also open a Delegation in Tbilisi. This delayed our opening of a Delegation in Minsk, although a support office dependent on Kyiv was more expedient. It is important to underline that even though there was no physical Delegation of the EC in Minsk, there was a TACIS office, which was dependent on the Moscow office and attended to the primary needs of Belarus's economic and social transition. After 1993, when we began to become more independent from the diplomatic offices in Moscow and our relations with the NIS began to deepen, Belarus had new elections. Here, we were somewhat supportive of this opposition figure named Alyaksandr Lukashenka, who seemed like a reformer who was going to struggle against the nomenklatura, establish a more democratic society, and favor further reforms. But Lukashenka's behavior after his victory was a real shock to Brussels and the EC member-states as well. It was a shock to all the hopes we had for Belarus' development. Obviously, the European Council scaled back assistance to Minsk, as this assistance was based on two fundamental points: first, democratic development, and second, economic reforms. The European Commission was forced by the Council to reduce and reevaluate our assistance to Belarus. Another point is that our assistance to the countries of the Commonwealth of Independent States was based on a partnership, which means that our assistance programs are negotiated with the host governments. We have to know, working together with the IMF and World Bank, the economic, political, and social situation of the host country, in order to establish a biannual program and budget, which comes from the European Commission directly. If we do not have the sufficient political dialogue with a host country—in this case Belarus—to identify those programs for either institutional support, the energy sector, administrative streamlining, etc., then it is very hard to put any program to work. Evidently, since the beginning, Lukashenka had no interest in the West, and focused exclusively during his first years in establishing a dictatorial, Stalinist system, which, of course, became an unacceptable situation for both the European Community and the United States. So, relations cooled and the Commission had serious difficulties implementing these programs. More important, Lukashenka had no interest in these programs, since they were designed to help civil society, institutional change, structural reforms, and other things that he did not like. So we were in a standby situation until we managed to "fix," so to speak, this impasse. After a negotiation between the Commission, the Council, and the European Parliament, it was determined that the ambassador to Ukraine should also become the ambassador to Belarus and present his diplomatic credentials in Minsk. This was done because in 1996 we managed to get a few TACIS programs to assist civil society through NGOs. That opened the door to some hope that if we had a diplomatic presence in Minsk, as well as a Commission office, it could help implement a few policies important to

both sides. That is why, at the beginning of 1997, I presented my credentials to Lukashenka in Minsk. But one must remember that the Commission could only implement what was possible to implement, to attempt to assist civil society, political parties, and democracy building—at least to where it was until 1993.

*Demokratizatsiya*: What were the first lines of action that were followed?

**Moreno**: Besides trying to negotiate a new TACIS program with the government, which would be able to enjoy the support of both the Lukashenka government as well as the Commission in Brussels, we also were carrying out a permanent dialogue with the members of the democratic opposition in Belarus, through a monthly meeting in a hotel that we rented specifically for those meetings. I would get together with all those leaders of the democratic opposition, first and foremost to give them some encouragement, so that they would realize that the EU had not forgotten Belarus, and it saw the country as an important factor of stability in Eastern Europe. It is important to remember that at that time, we were in an unstoppable process of expanding the EU, and realized that the EU would soon be bordering Belarus. So we attempted to do everything possible to reach some basic agreements to reorient our policy toward Belarus. We enjoyed support from the state university in Minsk, and through that university we attempted to put into practice a series of programs to support the universities and education, but more than anything, implementing programs to support democracy and civil society through the support of NGOs. This was done so that it would be evident that the EU was attempting to support the Belarusian people. Obviously, I was in regular contact with the U.S. ambassador and the Russian ambassador. With the U.S. ambassador, it was in the context of the trans-Atlantic agenda. By then, we had already organized a series of meetings in Brussels with the Americans to formulate a common position toward Minsk. Those relations were not easy, not because we did not want them to improve, but because we were facing formidable obstacles. Every time we presented an assistance program—even for such things as civil society or humanitarian aid—obstacles would be placed in our way. I held numerous meetings—with the government and the prime minister—where I could have been more confrontational, but I never sugarcoated the true situation in the country in my discussions.

We have to remember that in the Soviet Union, Belarusian industry played mainly a transformational role. It would receive raw materials and machine parts, and then send out manufactured goods. But evidently after the fall of the USSR, the Russians re-created inside the Russian Federation many of the industries that were strategically critical to them, but that had ended up outside the borders in Ukraine and Belarus. The Belarusian economy severely resented this, and, when I was there, the currency would devalue by 10 or 20 percent every few months. We also knew that, then, the relations between Lukashenka and Boris Yeltsin were cool, despite the grand bluff in public. Lukashenka entertained an illusion that after some union between the two countries, he felt as the selected man to replace Yeltsin, whom he thought played a disturbing and irresponsible role in the fall of the USSR. This apparently was a utopian idea, but not for Lukashenka. So, broadly speaking,

we did not abandon Belarus, but our room to maneuver was extraordinarily small. I was also in contact with the World Bank office in Minsk, as well as the IMF representatives responsible for Belarus, and they agreed that Belarus' economic and monetary policies were surreal. I once told the prime minister that of the ten million people in Belarus, he really governed just 40 percent, as the other 60 percent were engaged in the underground economy. But it was like preaching in the desert. There was a case when the director of the central bank refused to heed some order by Lukashenka, and she was thrown in prison for a considerable amount of time. So you have this Stalinist situation where nobody in the government dares contradict this man. I can say that the only serious problem that the EU faced when implementing its assistance programs has been in Belarus—in no other newly independent state where we operate did we face the same problems. In the others we achieved some very important things, namely in Russia but also Ukraine. But when you cannot apply the main two goals of the TACIS program which are, I repeat, democracy building and economic reforms, but when you are forced to instead deal with smaller programs like NGOs and education, not much can be achieved. And to this day, Lukashenka is in power and Belarus remains an island outclassed by its neighbors. We have to make the point that Lukashenka survives because of all the assistance, at all levels, provided by Russia. Moscow cannot fathom a democratic Belarus because that would mean that Belarus, like an iceberg from Antarctica, would begin to drift toward warmer waters.

*Demokratizatsiya*: What does that mean?

**Moreno**: That all the Communist system that exists today would begin to melt away, in the one country of the former Soviet Union that remains anchored on Russia at all levels. At this time after the Orange Revolution in Ukraine—which we still have to see how it turns out—and other similar events in other countries such as Georgia, there was optimism in both the United States and EU that the same could happen in Belarus. However, it is apparent that both Lukashenka and Vladimir Putin need each other. And as long as Russia is unable to consolidate itself as a democracy with full freedoms, where the old KGB, oligarchs, and the military-industrial complex do not hold sway, and become a normal democracy, Belarus is also unlikely to change. I will give you an example. The Ukrainians have a saying which I think is true: “A democratic Russia begins with an independent Ukraine.” And I think this has become evident during the last presidential elections in Ukraine, with the significant financial assistance that Putin provided to Viktor Yanukovich. But this was also evinced during the last years of Leonid Kuchma's presidency, with the sale of entire strategic sectors of the Ukrainian economy to Russia, a phenomenon that we noticed even as early as 1997. That, together with insufficient democracy in Ukraine, put Kuchma in the hands of Moscow. That the Russian president would so openly interfere in the Ukrainian presidential elections would have been unthinkable from 1991 to 1998. When Yeltsin, in 1995 or 1996, went to Ukraine to sign the friendship treaty, it was seen in Brussels and in Washington as Russia's acceptance of Ukraine's independence. The Russian Duma, however, did not ratify that treaty and attacked

Yeltsin. It is still an unresolved issue for the Russians. If the Russians cannot come to accept Ukraine's independence, how can they "let go" of Belarus? It is very hard.

**Demokratizatsiya:** You mentioned that Ukraine was more strategic for the EC/EU than Belarus, and that is why there was more urgency—by both the EC/EU and the United States—to support an independent Ukraine. Where did this idea emerge? Did you encounter it in your meetings with the EU Council or Commission? Or was it simply that Ukraine took its independence more seriously than Belarus?

**Moreno:** We have to emphasize that neither the EU nor the United States took part in the dismemberment of the USSR. We actually feared the prospect, since it had the potential to provoke serious problems, including a civil war. But once Ukraine's independence became a fait accompli, it was the Communists in the Ukrainian Parliament—ter-

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rized by Yeltsin's ban on the Communist Party in Russia proper while in front of Gorbachev in that Russian Supreme Soviet session after the August 1991 coup—who voted for Ukrainian independence, a position which they adopted collectively only after twenty-four hours. But when Yeltsin accepted Ukraine's independence in 1991, the EC noticed that, besides Russia, Ukraine was the most European and the most important state to emerge from the former USSR. Of course, we know that Ukraine is a country divided by the Dnipro River into two zones—a western and an eastern. The western part is absolutely pro-European. Historically and culturally it was a part of the Austro-Hungarian Empire and Poland. And for them, the old aspiration of independence nurtured since the end of World War I was achieved. But for Europe, strategically, Ukraine's ability to consolidate its independence was a fundamental issue for stability because about 21 percent of the old Soviet economy was in Ukraine. The Soviet energy, aviation, and chemical industries had important components inside Ukraine as well. Everyone at the time thought that this would be very important in making Ukraine a developed and rich nation—but they were wrong. In any case, Ukraine's democratically obtained independence was completely accepted by Brussels—despite the fact that some member states may not have been too keen on it—but Brussels itself moved decisively to accept that independence and to build a strong and democratic state in Ukraine. An important factor then was that Ukraine's independence was not seen askance in Moscow. Also, at that time, the stability of Ukraine was not taken for granted, as they not only had nuclear weapons, but also an army of almost one million soldiers. Its war industry was a key component of

the Soviet Union's war machine, including the Black Sea Fleet. So the prospect of a political or economic crisis in Ukraine was unfathomable, and there was a sense of urgency. There was a collection of factors that enabled us to see Ukraine as a truly important country.

*Demokratizacija:* And those factors were not really present in Belarus?

**Moreno:** Well, let's say that the biggest difference between Ukraine and Belarus—besides their respective social, political and economic weights—is that Belarus' independence was truly a surprise. Yes, there was a part of Belarus that historically had been Polish. The German-Soviet treaty that dismembered Poland in 1939 was signed in Brest-Litovsk, which means Brest-Lithuania. A part of western Belarus is evidently pro-Western, although, basically, Belarus was a part of the Soviet Union that had never had any aspirations for independence, and even saw itself as the same human nation as the Russians. The very name, White Russia, implies that their Slaviness is close to Russia's. So for us, Belarus' needs during 1991–93 were attended from Moscow. And they were attended by a disbursement of over 30 million euros. That does not seem like a lot, but consider not only its smaller population, but the fact that inside the Soviet Union, Belarus had one of the highest standards of living. And we always knew that eventually we would establish an independent Delegation in Minsk. But the main stumbling block was that Lukashenka appeared and we returned to the dark ages in terms of our relations. So anyone that visited Belarus between 1994 and 1998, especially, would have noticed this terrible situation.

*Demokratizacija:* You mentioned those 30 million euros that were channeled to Belarus through the TACIS programs. Do you see today any effect that money may have had, any noticeable ripples?

**Moreno:** Those programs need continuity to have an effect. In the economic reform areas of those programs, the priorities were the restructuring of the state enterprises; private sector development; agriculture; and infrastructure in energy, communications, and transport. Other important programs included nuclear security, environment, reforming public administration, social services, and education. As you can see, it is those sectors necessary so that the country can develop a market economy. When you have collectivized and state-owned agriculture, it is very difficult to implement these assistance programs. But if Belarus had taken its independence seriously, we would have implemented some very important programs. If others are going to help you effectively, you have to help yourself first, TACIS operates on this principle. TACIS works with the local administration in identifying priority programs to fund. Programs have to be both doable and sustainable. It is basically through the government that we can execute these programs. Within the government we established a unit, and a minister or a director within the government becomes responsible for the TACIS program together with his counterpart at the local EU Delegation. In other words, all that we execute is with the approval and the support of both the local government and the EU Commission. But of course, for the Commission to reach that level, it has to rely on our eco-

conomic, social and political studies of the country, plus those of the World Bank and the IMF. And it relies on a permanent dialogue with the member states. They can point out what their priorities are, but so can we. We then establish for any of these projects a sort of joint venture with either of the parties—with the World Bank, IMF, the member state, and I think we even had one with the United States. TACIS has annual and biannual programs. In this sense they are line-item budgets. These are approved at one point but they can last up to two years. So those programs that we approve, they have to be used within that two-year period, otherwise the budget support is lost. One has to remember one thing about some of these countries, and I lived it in Ukraine, the government administration is extremely weak. One of the main programs we had in Ukraine was public administration reform. So identifying projects and programs becomes difficult because these are countries that have been subject to a state-run economy and that change in mentality and in the bureaucracy, and that whole general shift, makes the implementation of TACIS programs all the more difficult. But since 1996 or '97, to give you an idea, we at the EU had three main support programs for Ukraine. The first was TACIS, the second was the closure of and the building of a concrete sarcophagus at Chernobyl, and the other went to support the balance of payments. So in terms of euros per capita, I think Ukraine received more than Russia did. A country needs to display what's called "absorption" capacity. Let's say we are supporting privatization, but that privatization is not conducted properly or even goes against the interests of that country, then what? You cannot have privatization without post-privatization. That is—transparency. Who is buying it? With what? For what purposes? And privatization in itself leads nowhere, since most of the Soviet industrial base was obsolete. They were fine for that political, economic, social, and financial "bubble" that was the USSR. But the minute the door is opened to compete with the Western economies, then all these sectors—chemical, energy, industrial, steel, not to mention agricultural, which was much worse—have to be privatized not to make a few fantastically wealthy, but to spread the wealth broadly. This was done theoretically, by giving vouchers to the population and turning them into shareholders. And after that you have to accept the inputs from abroad to compensate your economy technologically and financially, so that you can become competitive. Why was this not achieved? Because in the post-privatization stage, with the arrival of technical specialists, managers, and investment funds, this meant a loss of political power to a certain degree. The main evidence that both Russia and Ukraine failed to reform properly, is that they, as of yet, have failed to enter the World Trade Organization.

**Demokratizatsiya:** You had mentioned that Kravchuk kept proposing some association agreement or action plan with the EU, but that you suggested that Ukraine first become accepted by the World Trade Organization to demonstrate its seriousness and commitment.

**Moreno:** We signed a so-called PCA, a Partnership and Cooperation Agreement. That includes all the actions needed to transform your economy and your industry in order to be eligible for the WTO. The goal of the PCA was to create a

free trade area between Ukraine and the EU, as we have with Mexico. And I told this to the government. But the EU's antidumping actions against Russia and Ukraine are very numerous. This Russian-style or Ukrainian-style privatizations have the effect that, up to 1998, a great amount of intraenterprise trade was barter. You would had the privatization of entire sectors that were natural monopolies, but were not regulated effectively, which, of course, made things worse. The moment of truth for both Russia and Ukraine will be when they enter the WTO. When the Ukrainians would tell us that they wanted to be like Poland, and move ahead, etc., we answered that we have to go step-by-step. First they have to show that they are serious, that they have a society and an economy that are ready for this. Show that the country is not governed by the managers of the agro-military-industrial complex, and that it is willing to open its doors to world trade. But they have been incapable of this. And we are not talking about some banana republics. These are countries that have technology and industry, that sent men to space. So what is incomprehensible is that in the twenty-first century, they find themselves in this situation. And when they speak of reforms, these are basic reforms that were not done by messrs. Yeltsin, Putin, Kravchuk, Kuchma, and [former Ukrainian Prime Minister Pavel] Lazarenko. But I trust they will be done by Viktor Yushchenko.

*Demokratizatsiya:* You knew Yushchenko since he was chairman of the Central Bank, and you had mentioned how he was one of the few serious people in that government. Now that he has been president several months, has he fulfilled your expectations? Where has he disappointed you?

*Moreno:* I shared the idea with my other colleagues at the Delegation and the diplomatic community, that Yushchenko was the only capable person in that whole government, which is saying a lot. In 1998, the one serious person we could see in the government, capable of changing Ukraine's course, was him. He was a serious, educated, straight arrow at the Central Bank, without a whiff of suspicion of corruption. In his meetings with the IMF, World Bank, or with us, it was evident that he was very well trained. At the time, he was Kuchma's trustworthy minister who was entrusted with implementing economic reforms, at least the successful currency reform. He convinced Kuchma that the first step to win over the international financial institutions was currency reform. That was a complete success. Yushchenko managed to impose his authority on the Central Bank, against the meddling of the nomenklatura of the Finance Ministry. He was also lucky that the finance minister, Viktor Pynzenyk, was with him and helped him, despite Prime Minister Lazarenko who, well, better not even speak about him. And in that extremely difficult situation, Yushchenko was successful. That for us was very important. We helped him in the balance of payments, as did the IMF and the United States—with conditionality of course. I had a feeling that Yushchenko was a politically timid man. But when Kuchma appointed him prime minister it gave him a lot of political strength, which he needed. And people did not forget that he, in his capacity as Central Bank governor, put the hryvna in circulation and maintained its value, without the inflation they had suffered the previous years, and that was one of the factors that helped him become president.



*Demokratizatsiya*: Has his presidency been successful?

**Moreno**: Ukraine is ready for reforms. The people have demonstrated that. However, the country faces a challenge building institutions. There is no reason for politicians to influence institutions at will. One of those key institutions is the political parties. Ukraine needs the type of parties you find in Western Europe. Unfortunately, with the exception of the Communist Party and Rukh in the western part of the country, there are no institutional parties. Ukraine has to reach that level where parties reflect the genuine social and economic interests in the country. When your stated goal is to join the EU, then you need a political class, a party system, and institutions that are similar to those of the EU member states. We can't expect Yushchenko to propagate perfect political parties. But yes that there is a clear political game, not one dominated by the oligarchs of the eastern part of the country, or by the agricultural lobby, as has happened until now. When one sees how the Ukrainian parliament is configured, more than of parties, it is based on personalities, and that does not work. Ukrainian society is ready for change, and it is willing to endure all kinds of sacrifices if it sees serious leadership. But in order to bring about those serious reforms, you need serious political parties, even if they are not exactly like those in the EU area, but that they form the basis of future serious parties that at least resemble ours—a center-right-wing party and a social-democratic one, for example.

Land reform is also a long-stalled reform. I will give you an example. In 1996, I told a group of MPs in charge of agriculture that Ukraine is sitting on a gold mine, yet is incapable of picking up a shovel to start digging. I told them that I would be willing to rent a charter flight to take them to Canada, or to the Dakotas in the United States or to Australia, so they can see what agriculture should be, instead of debating about the “angels’ gender”—it is said that when the Turks were at the gates of Constantinople, the Byzantines were debating about the angels’ gender instead of picking up arms to defend the city against Suleyman. These are extremely important reforms. I can give many more examples. One is the energy sector. In order to begin reforming the energy sector, you need the population to pay at least a base price for those services, be it electricity or gas. And even that was impossible, even if they promised the IMF and the World Bank that it would get done. We were not very optimistic about Ukraine. But the fact that this Orange Revolution happened, that has both positive and negative implications. On the one hand, society has shown that it is ready for change, and hopefully that can translate into parties that can then act to make Parliament a serious institution. So far, Parliament has been only obstructionist, and nothing else. Yushchenko has a popular mandate, what he needs to do is a radical push. And if he does not give that radical push in the first six to twelve months, then things become more difficult.

*Demokratizatsiya*: What Leszek Balcerowicz called the “window of opportunity.”

**Moreno**: Exactly. But on the other hand, if Yushchenko fails, the disillusionment will be great. The oligarchs of the east will say, “see, only we can govern

this country.” The great debate today in Ukraine is what to do with the nationalization and reprivatization issue. Apparently, Yulia Tymoshenko was dismissed because she wanted to reprivatize far more industries than others were willing to tolerate. The obvious one is of course Kryvorizhstal, which was practically given away to Kuchma’s son-in-law. I think the answer would be to neither go too far, nor to do nothing. Yushchenko has a lot of experience in the government, as to what is possible and what is not. What he cannot do is to allow the oligarchs to continue controlling the country. And if what it takes to end this oligarchy is to reprivatize, with foreign capital, then it must be done.

*Demokratizatsiya:* How many industries?

**Moreno:** That is hard to say. But the number depends on the main goal, which is to enter the WTO. What Yushchenko needs to find out is what are the basic industries that need to be reprivatized so that the economy does not stagnate. Which are those that need foreign capital, so as to modernize and reach European standards. And he also needs to recapitalize medium-sized industries, but for this you need to reform the banking sector. When I was there, foreign banks could not open branches in Ukraine. And that is the purpose of foreign banks—to finance industry and agriculture. So what needs to be done is a sort of x-ray of the basic industries of the country, by inviting Merrill Lynch or any other U.S. or European bank that already has experience in restructuring and privatization. That does not mean that Ukrainian entrepreneurs should be pushed out, but the goal should be to modernize industry, and to get rid of the oligarchs, since they are what is sinking the country. This agro-military-industrial complex that I spoke about is what Yushchenko has to break. For that you need a functioning Parliament with institutionalized parties. The time has come for Ukraine to have serious parties, a Yushchenko party that does not collapse when Yushchenko leaves.