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Implementation of the European Neighbourhood Policy in 2008

Progress Report Ukraine

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1. BACKGROUND AND OVERALL ASSESSMENT

Ukraine and the EU first established contractual relations in 1994 with the signing of the EU-Ukraine Partnership and Cooperation Agreement, which entered into force in 1998. On this basis, the EU-Ukraine Action Plan was adopted in February 2005 for a period of three years. Since then, implementation has been guided and monitored on the basis of annual implementation tools, which set out comprehensive yearly sets of priorities and timelines, based on the priorities agreed jointly by the EU and Ukraine. A first progress report was adopted in December 2006 and a second one in April 2008.

Intensive cooperation through the EU-Ukraine Summit, the EU-Ukraine Cooperation Council, the EU-Ukraine Cooperation Committee, and seven subcommittees, has enabled both sides to progress with the implementation of the Action Plan.

Negotiations on an Association Agreement which is to replace the Partnership and Cooperation Agreement started in Brussels in March 2007. In the course of 2008 four rounds of negotiations took place on the Association Agreement and three on the Free Trade Area aspects of the Agreement. In December 2008 negotiations were launched on a “New Practical Instrument” to replace the current Action Plan and prepare for and facilitate the implementation of the new EU-Ukraine Association Agreement once it enters into force.

This document reports on overall progress made on the implementation of the EU – Ukraine Action Plan between 1 January and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Ukraine.

Ukraine made progress in several areas covered by the EU-Ukraine Action Plan in the course of 2008 and continued to come closer to the EU through negotiations on an Association Agreement. Nonetheless the continuing political instability was not conducive to reform. Furthermore, there was a slowing in the pace of reform in the second part of the year, as a consequence of the deepening global financial and economic crisis. There is a continuing need to address the country’s problems with unity and leadership.

Relations in the energy field were tested just after the reporting period, in January 2009, following a conflict between the Russian Federation and Ukraine concerning gas. As a result of this dispute there was a temporary cut of Russian transit supplies to Europe via Ukraine resulting in emergency situations in several EU Member States and some neighbouring states. The European Commission facilitated the resolution of the gas crisis inter alia by the dispatch of a team to Russia and Ukraine to monitor gas transit flows.

Major achievements during the reporting period were Ukraine’s accession to the World Trade Organisation in May 2008, the good progress in negotiations on the EU-Ukraine Association Agreement including those aspects related to a deep and comprehensive Free Trade Area, the launch of a visa dialogue in October with the aim of establishing a visa free regime as a long term perspective and continuing positive cooperation with the EU Border Assistance Mission (EUBAM). Ukraine continued to contribute to the settlement of the Transnistria conflict in particular in its capacity as a member of the 5+2 settlement process. Co-operation on CFSP matters was also positive with Ukraine aligning to nearly all CFSP positions open for alignment. In December 2008 Ukraine and the European Commission services signed a new administrative arrangement on closer cooperation in the field of civil protection. In November 2008 negotiations were launched on the country’s accession to the Energy Community Treaty.

However Ukraine made no or only limited progress in the implementation of some key political reform measures including constitutional and judicial reform and efforts to combat

corruption. On the macroeconomic side, the securing of a stand-by arrangement with the IMF of USD 16.4 billion (about EUR 12.9 billion) under a comprehensive economic stabilisation programme was critical in addressing the sharply deteriorating economic and fiscal situation in the second half of 2008. These reforms are key to future political stabilisation and to progress in implementing the wider reform agenda.

2. POLITICAL DIALOGUE AND REFORM

The EU and Ukraine maintained regular political dialogue during the year, notably at the EU-Ukraine Summit, the Cooperation Committee and the Cooperation Council. In addition, consultations took place between the Ukrainian government and the EU Political and Security Committee, the Council Working Group on Eastern Europe and Central Asia and the Political Directors' Troika. The EU-Ukraine Parliamentary Cooperation Committee met in both Brussels and Kyiv.

Democracy and rule of law

Objectives in this area include: Strengthen the stability and effectiveness of institutions guaranteeing democracy, the rule of law and the fight against corruption

Ukraine has not implemented the recommendations made by the OSCE/ODIHR on the drafting of the **Election** Code. The setting up of a centralised electronic voters' register is progressing both as regards software and hardware.

Little headway was made in reform of the Ukrainian **Constitution** in the course of the year. The National Constitutional Council, established by the President in 2007, met on only one occasion. Thereafter representatives from the Party of the Regions and the Bloc of Yulia Tymoshenko withdrew from the Council and formulated each their own proposals for constitutional reform.

Draft proposals to reform the **judiciary** were not implemented. In autumn 2008, the independence of the judiciary was compromised when judges were drawn into a dispute between the President and supporters of the Prime Minister regarding the President's decision to call pre-term elections. Progress is required to ensure the fairness of legal proceedings.

In the area of **criminal justice reform**, the Cabinet of Ministers of Ukraine issued an instruction "On Approval of the Action Plan for the Implementation of the Concept of Criminal Justice Reform in Ukraine". The instruction aims to improve pre-trial investigation procedures, strengthen the protection of victims' rights, improve the conditions and procedures for punishment and address corruption in the judicial process.

In April 2008 a "Concept on the Reform of the Office of Prosecutor" was introduced, in line with the recommendations of the Council of Europe. In September 2008, the Verkhovna Rada (the Parliament) adopted a law "On Amendments to the Law of Ukraine on the Procuracy" which brought the existing law into line with the Constitution by requiring the consent of the Rada to the dismissal of the General Prosecutor.

In the course of the year measures were introduced to strengthen the **fight against corruption**, as a result of some 25 recommendations addressed by GRECO to Ukraine in 2007. The measures include, *inter alia*, the creation of an Interagency Working Group on Anti-Corruption Issues, and the decision to establish the post of Government Agent for Anti-Corruption Policy. At the same time draft legislation on the ratification of Council of Europe Criminal Law Convention on Corruption awaits a second reading in the Rada before adoption. The same applies to the United Nations Convention against Corruption, although Ukraine already participates in the Conference of State Parties. Ukraine is a member of GRECO since

2006 and will be assessed by this body in May 2009 in respect of its compliance with the above-mentioned GRECO recommendations.

Public perceptions of corruption in Ukraine deteriorated in 2008, continuing a trend from 2007. Consequently Ukraine dropped from 118 to 134th place in Transparency International's Perceptions of Corruption Index.

Human rights and fundamental freedoms

Objectives in this area include: ensuring respect of human rights and fundamental freedoms, in line with international and European standards; fostering the development of civil society; ensuring respect for the freedom of the media and expression; ensuring respect for rights of persons belonging to national minorities; prevention of ill-treatment and torture; ensuring equal treatment; ensuring respect of children's rights; ensuring respect for trade unions' rights and core labour standards; and ensuring international justice.

Ukraine complied with all its reporting obligations under the **UN human rights conventions** to which it is Party and agreed to a wide range of recommendations in the course of its screening under the Universal Periodic Review in May 2008. Ukraine signed the Convention on the Rights of Persons with Disabilities and its Optional Protocol in September 2008.

Torture and ill-treatment in police detention continued to be widely reported, albeit on a slightly lesser scale than in the past. Other concerns remain, notably poor conditions of detention, in particular for persons on remand, impunity of law enforcement officers, the ineffectiveness of legal safeguards against ill-treatment in police detention and of investigations into torture or ill-treatment. The transfer of responsibilities of prison facilities to the Ministry of Justice from the Ministry of Interior, to improve civilian control over the penitentiary system, was not completed.

Notwithstanding the fact that Ukrainian citizens generally enjoy pluralism in both electronic and print **media**, incidents of threats to journalists critical of officials, businessmen or prominent figures have occurred. The reported increase in the incidence of paid for "news" articles and reports in the press, is of concern. The issue of a lack of transparency in media ownership remains to be addressed as it can constitute a more subtle form of pressure on journalists. No progress with regard to the establishment of a public service broadcaster was made during the reporting period, but a draft law was submitted to the Rada in March 2009. Those responsible for ordering the killing of the journalist Georgiy Gongazde have yet to be brought to trial. In May 2008, the Cabinet of Ministers approved the first one year action plan for the implementation of the concept of **civil society** development in Ukraine.

Discrimination of national **minorities** is reported in a number of sectors including employment, housing, the provision of healthcare and policing (in particular for the Roma and Crimean Tartar communities). Discrimination is also reported against vulnerable groups such as people with HIV and AIDS and sexual minorities. Although the Ukrainian authorities do not keep official statistics on the number of reported racist incidents nor on convictions for racially motivated crimes, monitoring carried out by the press and international and non-governmental organisations indicate a significant rise in violent attacks on individuals from various minorities (particularly in the first quarter of 2008). An inter-ministerial commission was created in April 2008 and elaborated a two-year Action Plan to combat Xenophobia, which was adopted in August 2008.

In April 2008, the Parliament adopted amendments to several laws regarding **gender equality** which, in particular, enable the Ombudsman to oversee gender equality in Ukraine. A dedicated meeting on gender issues took place in December 2008 gathering representatives of Parliament, the Government and the UN programme in support of gender equality.

Prosecution and courts are not fully engaged in preventing and addressing domestic violence which remains widespread in Ukraine. The proportion of women in the labour force is high (49%) but they still suffer from a gender pay gap (approximately 32%).

A number of recommendations made by the UN Committee on the Rights of the **Child** in their Concluding Observations of 2002 have still not been addressed. The finalisation of a draft National Programme for the development of juvenile justice by the Ministry of Justice is a positive step. Similarly some significant changes in Ukrainian legislation regarding juveniles were made, including the reduction of the maximum sentence for juvenile offenders and the removal of the power for administrative bodies to confine children involved in minor crimes. A positive contribution has also been made by the Juvenile Consultative Council under the Parliamentary Institute of Legislation as regards advocacy and policy coordination in this sector. In May 2008 a Presidential decree was adopted with the aim of increasing the protection of orphans in the context of adoption.

As regards **trade union rights and core labour standards**, the National Tripartite Council on Social and Economic issues and the European Economic and Social Committee (EESC) agreed in February 2008 to cooperate. A tripartite agreement to strengthen social dialogue was concluded in April 2008. The Ukrainian Economic and Social Committee resumed its work in May 2008.

Regional and international issues, cooperation on foreign and security policy

Ukraine actively cooperated with the EU on regional and international issues and continued to align itself with nearly all **CFSP declarations** open for alignment. Ukraine played a positive role in the Transnistria settlement process and participated in all informal meetings in the so-called 5+2 format. In March 2008 the Verkhovna Rada ratified the EU-Ukraine Agreement establishing a framework for the participation of Ukraine in EU crisis management operations. In September 2008 the Rada approved an amendment to the Convention on Nuclear Physical Protection thereby strengthening rules on the fight against trafficking of nuclear materials.

Ukraine did not ratify the Rome Statute of the **International Criminal Court**.

EU Border Assistance Mission to Moldova and Ukraine (EUBAM)

Ukraine continues to be fully committed to, and participate constructively in, the work of the EU Border Assistance Mission to Moldova and Ukraine (EUBAM). With EUBAM support, the professional capacities of the customs and border guard services were enhanced as was inter-agency cooperation within Ukraine and between Ukraine and the Republic of Moldova, (hereafter referred to as Moldova), such as the joint operation of a new pre-arrival information exchange system. In December 2008, the 7th Trilateral Meeting on Border Issues took place in Brussels. All sides confirmed the progress made in border security at the Ukrainian-Moldovan border and emphasised that cross-border cooperation has improved significantly.

Ukraine has indicated its desire to see the mandate of the EUBAM mission extended beyond November 2009.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

Ukraine experienced a sharp economic downturn in late 2008: trade conditions with the decline in export prices of steel and the global financial crisis exposed the banking and corporate sectors' vulnerability in the face of a cut off from external financing. Real GDP decreased by 11.7% year-on-year in October-December 2008 (estimate), bringing overall

economic growth down to 2.5% for the whole year. The IMF and the Ukrainian authorities agreed rapidly on a stand-by arrangement of USD 16.4 billion under a comprehensive economic stabilisation programme. An important element of the macroeconomic adjustment is exchange rate flexibility and Ukraine relaxed the *de facto* peg of the hryvnia to the US dollar. Linked to other measures of economic governance, this should support the adjustment of domestic and external demand so as to reduce the current account deficit in 2009 from about 6.1% of GDP estimated for 2008.

Inflation averaged 25.2% in 2008 (12.8% in 2007) largely because of high global food prices. Adjustments in energy and utility prices are needed to bring tariffs to cost-recovery levels.

By the end of 2008, the fiscal balance was estimated to have run a deficit of about 1% of GDP, despite stronger-than-projected tax revenues before the onset of the economic crisis. Some underlying expenditure pressures have not been addressed, however, including rapid growth in public pensions to an estimated 16% of GDP in 2008. The opportunity for pro-growth expenditure in infrastructure was naturally constrained by such expansionary public incomes policy. In particular, a medium term fiscal framework is still missing to put tax and expenditure policies on a more sustainable and growth enhancing footing.

Ukraine's public and publicly guaranteed debt was at a sustainable level equivalent to about 11% of GDP during 2008 (public external debt about 15% of GDP). The main concern is the refinancing of banking and corporate short-term external debt although the state-owned companies' short-term external liabilities are also significant in some cases.

The legal framework to resolve the banks' difficulties was amended under the anti-crisis legislation of November 2008 and its implementation is a main priority for the authorities in 2009 so that viable banks can continue lending and thereby support the resumption of economic growth on a healthier basis.

Finally, Ukraine had agreed to strengthen the independence of the National Bank of Ukraine under the Action Plan. No measures were taken in this respect in 2008, but under the IMF-supported economic programme Ukraine has committed itself to several concrete measures by mid-2009.

Employment and social policy

As regards social development and the fight against **poverty**, according to official estimates 27.3% of the population lived below the poverty line in 2007 (latest figures available). During the reporting period, Ukraine set out plans for improving the standard of living of its citizens also by actively combating poverty and enforcing the mandatory insurance for employees. These plans have not yet been implemented and poverty remains an issue of concern. Two memoranda were signed in April 2008 with retailers and food producers in order to stabilise prices on the domestic market. They foresaw a maximum retail trade margin of 10% of the producer price for socially important goods from April 2008 until the end of the year. A similar memorandum was signed with oil traders in October 2008 and prices were reduced by December 2008. The Government committed not to raise taxes and excise duties for the domestic oil traders and to follow the schedule for VAT refunds.

The **unemployment** rate remained stable in 2008 at around 6.4% in average for the first half of the year but the labour market deteriorated in the second half of the year due to the economic crisis. The total official number of unemployed currently stands at 1.4 million whilst Ukraine is also confronted with a lack of qualified workers due to a mismatch of skills and jobs, and with a strong informal sector. The economic crisis underlined the need for modern employment policies, active labour market measures and the promotion of decent work. The Ministry of Economy and the State Statistics Committee estimated that shadow

economy represented 32% of official GDP in 2007. According to the Ministry of Labour and Social Policy, the average salary rate increased within the period January-March 2008 by 39.4% compared with the same period in 2007. Also, the Law on the State Budget 2008 introduced a gradual increase of the minimum wage level from EUR 68 in January 2008 to EUR 80 in December 2008.

However, the combination of rising consumer prices and the financial crisis is having a negative effect on the living standards of families. The fall in industrial production resulted in rising unemployment, a reduction in wages and increase in wage arrears. As of November 2008, wage arrears totalled EUR 139 million. More than 290,000 workers were not paid their wages in September 2008, up by more than 100,000 compared to August.

As regards **social dialogue**, a general tripartite agreement between the Cabinet of Ministers, the All-Ukrainian Association of Employers and trade unions was signed in April 2008. Parties agreed to concentrate efforts on human capital development, to increase the level of employment and to facilitate social dialogue. The draft labour code, prepared with the support of experts from the International Labour Organisation, was submitted to Parliament in May, and is still pending approval. In September, the Parliament passed in first reading the draft law on social dialogue. Ukraine's first national report on the implementation of the European Social Charter in Ukraine was registered with the Council of Europe just after the reporting period, in January 2009. The "decent work" country programme for the years 2008-2011 was signed in June 2008. It aims at reforming labour inspectorates and modernising the labour law. Bipartite social dialogue is weak as there are very few collective agreements at branch level.

In 2008, Ukraine introduced a set of significant changes to the parameters of the pension system. They include among others an immediate increase in the accrual rate from 1% to 1.35% in October 2008 for all current and future pensioners as well as the recalculation of current pension benefits. This policy is expected to increase the average pension level by 43% (from EUR 75 to EUR 110). With the explosion of pension expenditures, additional strong measures, such as accrual rate reduction, increase of retirement age, and reduction of privileged pension benefits may be needed to restore the sustainability of the system. Introducing clear and transparent indexation rules would preserve the purchasing power of benefits and allow for a multi-pillar system.

As regards **sustainable development**, no significant progress was achieved, as the Ministry of Environmental Protection is still preparing a National Environment Strategy (which will serve also as the Strategy for Sustainable Development). Its draft has been already proposed to the Rada, but no concrete steps have followed yet.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

EU-Ukraine **trade** has been growing at a steady two-digit rate in recent years and amounted to EUR 39.5 billion in 2008. Ukrainian exports to the EU in 2008 increased by 15.7%; while imports from the EU increased by 12.4%. The EU share in Ukraine's overall external trade in goods in 2007 was 39%, ahead of Russia. Ukrainian exports to the EU consist mainly of manufactured goods and basic commodities, such as metals, minerals, energy, agricultural products and chemicals. The most important EU exports to the Ukraine remain machinery, vehicles and transport equipment, manufactured goods and chemicals. A significant proportion of Ukrainian goods entering the EU market benefits from EU Generalised Special Preferences. There are still concerns regarding the transparency of the domestic market of grain. Since October 2006 Ukraine has been applying a regime of export quotas on grain. In May 2008 the government abolished export quotas for wheat, barley and rye and cancelled

licensing for the export of maize. Also in May, the President suspended by decree the government resolutions on the Establishment of Quotas for Sunflower Oil and Seeds Export and on the order governing licenses issuance. From the beginning of the reporting period until July 2008 those measures had allowed exports of 300,000 tonnes of sunflower oil and 1,000 tonnes of sunflower seeds which were at that time subject to licensing.

Ukraine formally became a member of the **WTO** in May 2008. Along with the Accession Protocol, Ukraine committed to pass 10 WTO-related pieces of legislation, of which only six were adopted in the reporting period.

The law setting up the necessary mechanisms for the harmonisation of import duties rates according to the “Schedule of Tariff Obligations of Ukraine to the WTO” was not adopted during the reporting period. In fact, from the legal point of view, Ukraine is yet to comply with its WTO obligations as regards import duties implementation as the only legal ground for the application of WTO-bound tariffs in Ukraine in force in 2008 was the Interim Government Instruction to the Customs Service issued in May 2008. Particular attention will have to be paid to this issue, also considering that the possibility to raise import duties for some products in order to improve the country’s worsening external trade balance in the context of the financial crisis was evoked both by the Government and Parliament Members.

Regarding the future of Ukraine’s trade relations with the EU, negotiations for a **deep and comprehensive free trade area** were officially launched in February 2008. The responsible negotiating teams were formed and three negotiations rounds were held namely in April, June and October 2008.

Limited progress was made in the implementation of the **customs** part of the Action Plan. Efforts were continued to align customs legislation with the provisions of the Revised Kyoto Convention on Simplification and Harmonisation of Customs Procedures, although the said Convention has not been ratified yet. The draft of the new customs code was presented to the Parliament but was not approved during the reporting period. Legislation introducing the Single Administrative Document (SAD) entered into force in January 2008 and Ukraine has been using the ATA carnet for temporary imports since March 2008. Work for the introduction of the 2007 version of the Harmonised System (HS) was not finalised. Concerning administrative and operational capacities, the State Customs Service continued improving its relations with economic operators, reinforced security and enforcement and improved its system of risk-based customs control. Further efforts are necessary in areas such customs valuation, integrity, IPR protection at the border, risk management, simplifications and trade facilitation.

On the **free movement of goods and technical regulations**, progress towards an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) remained very limited, even within the 3 priority sectors identified by Ukraine in 2006/2007 (machinery, electrical equipment and simple pressure vessels). There are two draft laws on market surveillance. The transposition of sectoral legislation and international/EU standards in the priority sectors progressed slowly in 2008. No significant progress was achieved in reform of the institutions responsible for the regulation of the quality of industrial products. In April 2008, Parliament adopted amendments to the law on standards, technical regulations and conformity assessment procedures”. The amended law refers to the “central executive conformity assessment authority” without specifying which organisation will take responsibility. It specifies the notification procedure in Ukraine and the procedure for recognition of conformity assessment results by foreign bodies. In June 2008, the Cabinet of Ministers approved a “Concept for the Development of the State Metrological System of Ukraine 2008 – 2015”. However the Concept does not envisage changes in the organisational

structure of the metrology system, which is highly problematic because of the unclear division of responsibilities between several institutions involved. So far, accreditation remains the only quality infrastructure function separated from DSSU, the Ukrainian standardisation body but Compulsory certification is still widespread. A technical assistance project will focus on the reform of the quality infrastructure as a priority.

Ukraine took further steps towards gradual convergence with EU **sanitary and phytosanitary** standards. In May 2008 the Parliament approved in first reading amendments to the law “On Veterinary Medicine” containing, *inter alia*, provisions on an animal identification system. The Government prepared a National Plan for monitoring residues and contaminants in live animals and animal products 2008-2013 and submitted it to the Parliament. Ukraine continued strengthening laboratories including by working towards a reference laboratory for avian influenza. Hygiene rules based on the hazard analysis critical control point system (HACCP) were further introduced in some establishments. In July 2008, the European Commission’s Food and Veterinary Office (FVO) carried out an inspection visit on dairy products and recommended that Ukraine address certain deficiencies. Following the discovery of sunflower oil contaminated with mineral oil, Ukraine implemented a new control system which allowed exports to the EU of sunflower oil to continue. In September 2008, FVO carried out a mission to assess the new control system. Ukraine should continue to investigate the source of contamination. In September 2008, the EU added Ukraine to the list of countries with approved residue monitoring plans for poultry (including geese), aquaculture finfish and equidae. Ukraine aims to further expand this list, which already includes milk, honey and eggs, to other areas. Listing is an important step towards the authorisation of exports to the EU. Currently, Ukraine is authorised to export various animal products to the EU for animal feeding and for technical purposes. In November 2008, Ukraine participated, together with Belarus and the Russian Federation, in a European Commission Task Force meeting in Riga on rabies eradication. Ukraine also participated in workshops under the European Commission’s “Better Training for Safer Food” programme.

In terms of **business climate**, the "Investors' Council" started to work in March 2008. It aims at creating favourable conditions for doing business, improving the existing legislative base and reducing corruption.

In the area of **establishment** of companies, the Government has maintained a dialogue with the European Business Association on improving the investment climate and as regards the streamlining of regulatory and administrative procedures.

In the area of **company law**, the practice of company registration is quite transparent but there are problems as regards liquidation of companies. The draft law “on joint stock companies” was adopted by Parliament in September 2008 and approved by the President in October. The Law aims at defining conditions that rule joint stock company activity as well as the legal status and the mechanisms to protect shareholders. The establishment of a modern company law framework is essential to creating a sound business and investment climate. Finally, Ukraine took initial steps in the field of accounting to impose International Financial Reporting Standards on the banking sector.

Negotiations on **services** continued in the context of the overall Free Trade Agreement negotiations.

As regards **financial services**, the Draft Law “On changes to the laws of Ukraine on banking regulation” has been before Parliament since November 2007. The draft law foresees amendments to a number of legal acts in the banking sector. Banking supervision remains a challenge due to the opaque ownership structures of some banks and related industrial establishments. A joint Working Group, composed of the National Bank of Ukraine, the State

Commission for Securities and Stock Market, and the State Commission for Regulation of the Financial Services Market has prepared draft amendments to several laws concerning the regulation of financial services markets which were submitted to the Parliament in September 2008 but have not been adopted yet. The draft amendments aim to strengthen corporate governance, disclosure of information and supervision in financial services markets. In the field of capital markets, in February 2008, the All Ukraine Securities Depository was established by private market participants and the National Bank of Ukraine. There are currently two drafts of law on insurance under consideration; one before the cabinet of ministers and one before the parliament.

A number of legislative acts were prepared during the reporting period in areas related to the **free movement of capital**. These acts aim at improving the legislation on the unified state currency policy, streamlining legislation in the sphere of foreign investment and improving the system of information exchange between public bodies that carry out controls in the area of foreign trade. Notwithstanding possible justification under the safeguard clause, measures taken by Ukraine in the context of the financial crisis may have an impact on the standstill provision concerning foreign exchange rules.

Other key areas

Reform of the **tax** system is still pending. A ‘Draft Strategy for Tax System Reform in Ukraine’ was prepared by the Ministry of Finance in August 2008 and submitted to the Cabinet of Ministers of Ukraine. Objectives include the gradual reduction of the tax burden on the economy, increased fiscal efficiency of taxes by means of a broadened tax base, improved administration system, and renewed efforts to combat corruption in the administration of VAT, and curbing tax evasion. A special tax regime for agriculture, forestry and fisheries to avoid the negative consequences of the financial crisis was approved in October 2008 and entered into force on 1 January 2009. It includes a special mechanism of VAT handling that is designed to maintain special treatment and indirect support to agricultural producers in line with WTO obligations. The VAT arrears are a problem that would require a systemic change of the VAT administration, which has so far not taken place.

Amendments to the law on the protection of economic **competition** were discussed in Parliament in December 2008. An assessment of Ukraine's competition policy was presented at the OECD Global Competition Forum in February 2008. The report concluded that “Ukraine has a comprehensive and well-designed competition law enforced by an effectively managed and well-regarded agency.” The report also notes that there are some deficiencies in the administration which result in heavy demands on the resources of the Anti-Monopoly Committee and some weaknesses in its statutory authority and independence (e.g. appointment by the government) as well as some operating policies. Improving transparency is essential. The report makes many detailed proposals for changes in Ukrainian competition legislation and practice. An Inter-Ministerial Working Group on State Aid was created in August 2008.

Ukraine continued to revise its legislative framework on **intellectual property rights** with the adoption, in April 2008, of the law “On Amendments to several Laws of Ukraine on Intellectual Property Rights” due to its accession to the WTO. It further aligns with TRIPS norms as regards geographical indications in particular. A number of key legislative acts, such as the revised Copyright law and new laws on Industrial Property Rights, are in the pipeline. The State Department for Intellectual Property took measures to strengthen IP dialogue with right-holders and the business community. In October 2008 Ukraine signed a cooperation agreement for the years 2008-2009 with the European Patent Office. The National Coordination Council in charge of enforcement activities is still not established. There is still

a high level of piracy, including internet piracy, and counterfeiting in Ukraine. Border measures remain inefficient, which makes it easy to smuggle counterfeited goods into Ukraine.

In March 2008 the Ukrainian Parliament adopted an amendment to the **public procurement** law. It abolishes the relevant parts of the legislation in force since 2006 which were not in line with EU practices and which undermined fair competition. A draft law was presented in April 2008 to simplify public tenders and abolish costs of tender and publication. The Government plans to draft a strategy and an action plan on public procurement in order to further align and review the new draft law of April 2008 before it is adopted by Parliament. Overall, very limited progress took place in reforming the public procurement system which is not yet up to international standards.

In November 2008 Ukraine approved a mid-term strategy (2009-2012) concerning the development of state **statistics**. Its general objective is to compile and disseminate qualitative statistical information harmonised with international requirements. The Ukrainian authorities are working on an action plan to tackle the high level of discrepancies in trade statistics. In May 2008 the State Statistics Committee of Ukraine organised an International Conference "Strategy to Develop the State Statistics of Ukraine for the period until 2012".

With regard to **external audit**, the Accounting Chamber developed a twinning request in November 2008 to bring its external audit processes and methodologies in line with international standards. Cooperation between ministries and state agencies to prevent fraud and other irregularities needs attention in this respect.

On **public internal financial control** (PIFC), the Cabinet of Ministers approved in October 2008 a revised version of the Concept of Development of Public Internal Financial Control for the period up to 2015 as well as an action plan for its implementation. It provides for a series of draft laws on internal audit and PIFC, as well as by-laws on internal control and internal audit standards and a draft Code of Ethics. The timing of the tabling of these draft laws is however unclear. A twinning project to develop financial management and control systems as well as internal audit functions in the Control and Audit Department (KRU) of the Ministry of Finance is in the course of being implemented.

Ukraine made some progress in **enterprise policy** dialogue through the adoption of the European Charter for Small Enterprises. In July 2008, a Presidential Decree and a Resolution of the Cabinet of Ministers "On Implementation of the European Charter for Small Enterprises Principles in Ukraine" were adopted. In September 2008, the Cabinet of Ministers adopted a decree on an action plan for the implementation of the Charter 2008-2009. There was only limited progress made on business to business dialogue during the reporting period.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In the area of **border management**, reform of the State Border Guard Service (SBGS) continued in line with the targets of the 2015 plan in the area of upgrading of legislation, infrastructure and personnel training. It is currently developing a risk analysis model based on the Common Integrated Risk Analysis Models. Practical cooperation between SBGS and FRONTEX¹ focused on joint operations covering the total length of the EU's external border with Ukraine, for instance through the 'Five Borders' joint-pilot project. No progress was

¹ the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX)

made on border demarcation with Belarus². Progress was made at the border with Moldova, except for the Transnistrian section and a few areas in the Northern and Southern border. Delimitation negotiations are on-going with the Russian Federation; however they have not been finalised due to the lack of agreement on the maritime border in the Kerch Strait. Cooperation between SBGS and the Customs service should be significantly enhanced in order to improve integrated border management and information exchange at all operational levels.

Despite multiple reforms, Ukraine still lacks a clear **migration** policy and a unified, efficient migration service. Detention conditions for migrants remain poor in many facilities and fundamental rights such as respect of non-refoulement principle, access to legal and health protection are not always respected. Conditions for the detention of irregular migrants improved in some regions in 2008 with the opening of two modern custody centres (Zhuravychi and Rozsudiriv) and the closing of a special holding centre in Pavshino. In addition the State Border Guard Service opened five modern temporary holding facilities in Shatsk, Malniv, Mostyska, Chernivtsi and Izmail. However, further improvements are required, in particular through the creation of additional modern migrant custody centres as well as recruitment of skilled personnel and enhanced training. Ukraine continues to deny asylum seekers protection and migrants face deportation back to countries where they are at risk of torture or ill-treatment. In the case of *Soldatenko v Ukraine* and *Novik v Ukraine*) the European Court of Human Rights observed that Ukrainian legislation “does not provide for a procedure that is sufficiently accessible, precise and foreseeable in its application to avoid the risk of arbitrary detention pending extradition”.

The **visa facilitation and readmission agreements** between Ukraine and the EC entered into force in January 2008. At the Paris EU-Ukraine Summit in September 2008, it was agreed to launch a visa dialogue with the long-term perspective of establishing a visa free regime between the EU and Ukraine. The visa dialogue was opened in October 2008. It focuses on four thematic blocks: document security including biometrics, illegal immigration including readmission, public order and security, and external relations. A first series of technical expert meetings was launched in December 2008 focusing on document security.

With regard to the **fight against organised crime**, Ukraine has still not signed the Third Protocol against the Illicit Manufacturing and Trafficking of Firearms of the UN Convention against Transnational Organized Crime.

As regards **trafficking in human beings**, Ukraine has bilateral cooperation agreements in this area with all EU Member States except Malta, Cyprus, Ireland and Slovenia, focusing on information, technical and personnel exchanges. The Council of Europe Convention on Action against Trafficking in Human Beings although signed, has still not been ratified. Further attention is needed to combat trafficking and to develop prevention, protection and rehabilitation measures in an integrated manner.

Responsibility for the fight against **drugs** lies with the National Security Service and the Ministry of the Interior, which registered an increase in drugs seizures. Ukraine plays a major role in combating the opium trade to the EU and actively participates in the BUMAD programme at regional level. In the area of prevention and harm reduction, methadone substitution treatment started as of May 2008. Currently treatment is provided to some 3000 patients. Reductions in demand would be assisted through structured cooperation with civil society groups in the context of an overall integrated approach. Ukraine continues to

² The Belarusian Parliament continued refusing to ratify the delimitation treaty.

implement the 1988 United Nations Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances and is a member of the United Nations Commission on Narcotic Drugs.

In September 2008, the Verkhovna Rada adopted amendments at a first reading to the current legal framework on **money laundering** and financing of terrorism. These amendments are necessary with regard to the ratification of the Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Financing of Terrorism. They also respond to the 49 Financial Action Task Force (FATF) Recommendations and the essential elements of current EC standards. Furthermore it is intended that these amendments will complete the implementation of the UN International Convention for the Suppression of the Financing of Terrorism, ratified already in 2002. Final passage of these amendments is awaited while serious inroads into the prosecution of money laundering cases have yet to be made.

In the area of **police and judicial cooperation**, draft legislation on personal data protection was presented to Parliament and the President in April 2008 to enable prompt ratification of the Council of Europe Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data. However, the President withheld his signature, which led to further postponement. In October 2008, a first meeting took place with Europol to negotiate a future Ukraine-Europol Agreement while the signature of the Cooperation Agreement between the Public Prosecutor's Office and Eurojust remains suspended due to the non-ratification of the above Convention. Failure to move to its ratification will also impede further development of cooperation with Europol and in the area of document security and border management.

6. TRANSPORT, ENERGY, THE ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

Ukraine is currently developing a comprehensive **transport** sector development strategy in order to fully implement its national sustainable transport policy for 2007-2013. Ukraine concentrated on developing those infrastructures that have been identified as needed for the 2012 European football championship. In this context a draft law on public private partnership (concessions) in the road sector is also being prepared.

As regards road transport, a law is currently being discussed in the Rada, on the regulation of driving times and rest periods which should also lead to the use of tachographs for domestic operations. Ukraine is preparing a road safety action plan (with support of the twinning project on road safety, which started in September 2008). Overall road safety in Ukraine is poor and getting worse (mortality rate is double the EU average, although traffic volumes are significantly lower). As regards passenger transport, Ukraine has still not adhered to the Interbus Agreement although it has planned to do so for several years.

Ukraine is implementing a railway reform programme that foresees a three-staged reform of the national railway company: first the separation of the regulatory from the operational functions, secondly the conversion of the railway company into a joint-stock company and finally the creation of separate entities for distinct operations (passenger, freight, infrastructure, auxiliary business).

Negotiations on a comprehensive aviation agreement between the EU and Ukraine progressed only very slowly during 2008, also reflecting the many problems Ukraine faces as regards oversight of safety and the implementation of the relevant safety standards. Ukraine should accelerate the adoption of the new framework aviation code that was finally submitted to

Parliament in June 2008. Negotiations on working arrangements with the European Aviation Safety Agency were also started at the end of 2008. There is a clear need for substantial strengthening of the overall aviation safety oversight and enforcement, including more aviation inspectors and higher fines for breaches of aviation regulations in Ukraine. The Concept on the development of Ukrainian airports by 2020, as adopted by the Government in March 2008, suggests that the Ukrainian airports will be returned to state ownership.

As regards the reform of the state-owned port sector (separating operational and commercial functions), July 2008 saw the adoption of the State Marine Doctrine "Development Strategy of Ukrainian Sea Ports for the Period up to 2015". The Strategy provides for a reform of the management system of commercial sea ports and aims to reorganize state enterprises (commercial sea ports) into state port administrations and sea port administrations. Port infrastructure will be transferred to the state port administration. New organisational forms of interaction with private capital will be allowed, which will include "management contracts, concessions, lease contracts, etc". Although Ukraine had managed in 2007 to be removed from the black list of the Paris Memorandum of Understanding on port state control, its poor performance led it to being blacklisted once more in 2008. In the area of inland waterways, Ukraine adopted a fleet renewal programme.

The EU and Ukraine - a key transit country for the European Union - further enhanced **energy** cooperation during the reporting period. In September 2008, the EU-Ukraine Summit adopted the third progress report in the context of the Memorandum of Understanding on Energy.

Ukraine started preparations for a master plan on the rehabilitation of the gas transit system, and, together with the European Commission, started work on a conference, designed to support investment in the rehabilitation of the gas transit network. A smooth reform of the gas sector, including a legal separation and corporatisation of the gas transmission operator, giving it control over the income from the gas transmission revenues, will facilitate the needed investment, estimated at EUR 2.5 billion. Ukraine prepared a draft law on the principles of the natural gas market functioning on which the European Commission provided comments. Ukraine pursued its search for enhanced domestic production and for new suppliers and supply routes including from the Caspian region and North Africa. Ukraine launched, together with companies from Azerbaijan, Georgia, Lithuania and Poland a new study on the extension of the Odessa-Brody oil pipeline to Gdansk in Poland. Ukraine contributed to the further development of the Boyarka Natural Gas Metrology Centre, established with European Commission assistance.

In November 2008, Ukraine and the European Commission opened negotiations on the country's accession to the Energy Community Treaty, which includes commitments for gradual convergence with EU internal energy market rules. It participated as observer in the work of the Energy Community. The draft law on the national electricity regulatory commission is still to be adopted. Ukraine further adapted energy prices gradually towards cost recovery levels, but more needs to be done to remove distortions.

The UCTE (Interconnected Electricity Networks of Continental Europe) took preparatory steps regarding a study on the legal, technical and practical conditions for Ukraine's and Moldova's future joint accession to the UCTE. Ukraine pursued work towards an emergency oil stocks law. In May 2008, it adopted a concept of the coal sector reform focusing on privatisation and modernisation. More is required in this sector to achieve Ukraine's goal of further improving mine safety. In March 2008, in the context of the MoU on Energy, the EU and Ukraine signed a roadmap on energy efficiency, renewable energy sources and climate change. It further prepared a draft law on energy efficiency in housing.

Ukraine benefited from a substantial allocation from the Neighbourhood Investment Facility (under the European Neighbourhood and Partnership Instrument) for efficiency improvements in the electricity infrastructure and the development of renewable energy policies.

Regarding nuclear energy, the European Commission and Ukraine further implemented a joint project, with the involvement of the International Atomic Energy Agency, on the evaluation of the safety of Ukraine's nuclear power plants. Ukraine pursued the upgrading of its nuclear power plants. In October 2008, the European Commission disbursed the second tranche of the EURATOM loan for the upgrading of the Khmelnytsky-2 Rivne-4 nuclear reactors. Ukraine continued strengthening the Nuclear Regulatory Authority, with EU support. In September 2008, the Parliament approved an amendment to the Convention on Physical Protection and the law on the management of radioactive waste treatment and the financing of decommissioning. Ukraine also adopted regulations on nuclear safety standards and on a new nuclear power plant site selection. In Chernobyl, continued progress was noted in the decommissioning work and the project on the industrial complex for solid radioactive waste management is close to completion and should be commissioned in 2009. After the signature of a contract regarding the interim spent fuel storage facility, the design phase was initiated. The project to construct a new safe confinement started, although with additional delays.

At a regional level, Ukraine continued participation in the "Baku Initiative" for EU-Black Sea/Caspian energy cooperation.

In the field of **climate change**, Ukraine published a greenhouse gas (GHG) emissions inventory for 1990 – 2006 and took preliminary steps to prepare an inventory for 2007. The establishment of a domestic emissions trading scheme, preparation of a third communication, as well as studies on vulnerability and on emissions reduction potential, and the development of mitigation and adaptation measures are now planned. Legislation was adopted on Green Investment Scheme projects, Ukraine's climate commitments, Joint Implementation (JI) procedures, register of anthropogenic emissions and absorption of GHGs. Regulations on emissions and absorption of GHGs and on accreditation of independent expert organisations are under preparation. The National Environmental Investment Agency became operational as Ukraine's designated focal point. Having met the relevant eligibility criteria, Ukraine also benefits from faster procedures for approval of JI projects. Eight of the 129 projects have been registered at the UN level. The European Commission continued to support Ukraine in implementing the Kyoto Protocol. The EU-Ukraine Working Group on Climate Change met in October 2008. Ukraine continued to support the EU initiative to reach a global and comprehensive post-2012 agreement by 2009. Ukraine is considering adopting proposals for its post-2012 reduction targets.

Ukraine prepared a draft national **environment** strategy for 2009 - 2020 and a draft national environment action plan for 2009-2012 to implement the strategy. The legislative framework continues to require further development, in particular as regards implementing legislation. Legislation was adopted on extending the areas for national parks, and on monitoring of obsolete pesticides. New legislation on modifications to land use and protection, as well as on enforcement of the use, protection and restoration of water resources, incineration of waste, packaging, bathing water and groundwater is also under preparation. Work is continuing to develop and implement existing strategies and plans, but continued attention is required. Efforts are also needed to enhance monitoring as well as enforcement. The Ministry of Environmental Protection prepared a draft concept on the reform of the environmental permitting system.

Further strengthening of administrative capacity at all levels of the country is still a major challenge. Coordination between the authorities requires particular attention. Some activities took place to integrate environment considerations into other policy sectors such as energy. Ukraine published a state-of-the environment report covering the year 2006, and also continued to consult with stakeholders on regular basis. Concerning access to information and public participation, the Aarhus Convention issued in June 2008 a conditional caution for non-compliance to Ukraine, to become applicable in May 2009. In an attempt to remedy this, Ukraine adopted an Aarhus Action Plan in December 2008. Procedures for environmental impact assessment, including consultation of the public, also continue to require attention. Some steps were undertaken to promote implementation of strategic environmental assessment. In December 2008, a Presidential Decree was issued to establish an Academy of Ecological Sciences. In 2008, discussions started between the European Commission and Ukraine on a revised Charter and Founding Agreement to re-establish the Regional Environmental Centre (REC) in Ukraine.

Ukraine did not make significant progress in the ratification of the remaining relevant UNECE protocols³. Moreover, the implementation of several already ratified agreements requires particular attention. Initial steps were taken to prepare a Danube Delta Analysis Report. Preparations for signing the Dnister (Dniester) River agreement with Moldova are still on-going. Ukraine participated in the Danube - Black Sea Task Force (DABLAS), within which a state guarantee for water supply and wastewater treatment in Mykolaev was discussed. A national policy dialogue was started under the EU Water Initiative. An implementation plan for sustainable water management, drinking water and adequate sanitation was adopted. Ukraine also participated in the International Commission for the Protection of the Danube River and in the Commission on the Protection of the Black Sea against Pollution. Ukraine continued its support to the objective of the European Community to accede to the Convention on the Protection of the Black Sea against Pollution. Cooperation and information exchange took place between the European Commission and Ukraine, including on multilateral conventions, environment strategy, water quality, integrated coastal zone management, forestry, waste management and environmental data. Other topics, such as air quality, were identified for possible closer cooperation.

As regards the Bystre Deep Water Canal, Ukraine received a conditional caution for non-compliance in May 2008. It consequently repealed its final decision on Phase II of the project and suspended works until it fully complies with the Espoo Convention on Environmental Impact Assessment in a Transboundary Context. Ukraine also took steps to promote better compliance with the relevant Conventions, including a meeting with the affected Party, as well as the establishment of an inter-ministerial council on the implementation of the project. Ukraine will need to continue on this path towards compliance with all the relevant conventions, including on an environmental impact assessment on both phases of the project, and reporting on steps taken to comply with any further works related to Phase I. An independent review of the legal and administrative situation is envisaged.

Ukraine and the European Commission services signed a new administrative arrangement on closer co-operation in the field of **civil protection**. The Community Civil Protection Mechanism was mobilised in August 2008 to help Ukraine to assess six regions in Western Ukraine affected as a result of the flooding of the Dnister (Dniester) and Prut Rivers. The

³ [the Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Transboundary Context and the following protocols of the UNECE Convention on Long-Range Transboundary Air Pollution: Protocol on Persistent Organic Pollutants; Protocol on Heavy Metals; Protocol on Further Reduction of Sulphur Emissions; Protocol concerning the Control of Emissions of Volatile Organic Compounds or their Trans-boundary Fluxes](#)

Post-disaster Damage Needs Assessment on the accident in the Kerch Strait was completed in November 2008 on the basis of good co-operation with the Ukrainian authorities.

As regards the **information society**, the National Commission for Communications Regulation (NCCR) was appointed by decision of the Constitutional Court, which restored the responsibility of the Cabinet of Ministers for this appointment. During 2008 the NCCR approved price caps, interconnection regulations and licensing conditions for public electronic communications services and adopted rules on frequency management. The NCCR also issued a new numbering plan for public electronic communications networks, including the introduction of the emergency call number “112”. Other regulatory instruments are under preparation, such as the identification of operators with significant market power, based on an analysis of 17 communications markets, as are regulations on Universal Service Obligations, network access conditions and the reinforcement of consumer protection. The Ministry of Transport and Communications prepared a new radio spectrum plan including the conversion of spectrum from military to civilian use and a frequency plan for digital TV.

Regarding **audiovisual** policy, the Ukrainian Parliament ratified the European Convention on Transfrontier Television in December 2008. The OSCE helped to align Ukrainian media legislation with European standards through a project that ended in the spring of 2008. Since autumn 2008 efforts to align have continued through an EC project implemented by the Council of Europe.

Ukraine continues to update its **research and innovation** policy with more direct sustainable economic development objectives. The first results of Ukraine’s participation in the 7th Research Framework Programme (FP7) are encouraging with a marked increase in both the quantity and the quality of proposals compared to the FP6. There are plans to renew the existing S&T cooperation agreement and to explore further steps for a possible association of Ukraine to the Framework Programme. As a result of the first BILAT⁴ call, a BILAT-Ukr project was one of 13 projects selected for funding, and it has been launched in September 2008. As a result of the first INCO-NET call, IncoNet EECA (The S&T International Cooperation Network for Eastern European and Central Asian countries) was launched in January 2008 for four years. The total budget is approximately EUR 3.5 million. To ensure the international character of this project, a large consortium of 23 institutes from 21 EU and EECA countries, including Ukraine, was formed.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

Adherence to the principles of the Bologna process and convergence with EU standards are the main vectors for **higher education** reform in Ukraine. In this regard, reform of the regulatory framework and a national university rating system are proposed alongside rationalisation of state and private universities to encourage integration of services and educational and research provision. In the context of on-going discussions on sector reform in September 2008, Ukraine along with Moldova participated in a conference on higher education qualifications frameworks, hosted by Armenia in cooperation with the Council of Europe. It also participated in a Council of Europe Bologna regional conference on self certification of national qualification frameworks in Georgia in November 2008.

⁴ Under the FP7 Specific Programme 'Capacities' - Horizontal actions and measures in support of international cooperation - the Commission has launched a number of so-called “BILAT” calls supporting the development of S&T Partnerships based on bilateral dialogues and coordination of policy initiatives in jointly defined priority areas.

Ukraine continued to substantially benefit from its active participation in Tempus, with a total of 12 projects selected under the first call for proposals for Tempus IV in the areas of curricula development, governance and e-learning. Greater efforts would need to be made in ensuring dissemination of good practice gained from current and earlier Tempus projects as well as encouraging balanced participation across all regions beyond major urban centres. Ukraine did not establish an independent National Tempus Office (NTO) as planned, but after an open call for applications late in 2008, a newly appointed NTO became operational in Ukraine in March 2009.

A total of 33 Ukrainian students and nine scholars benefited from scholarships under Erasmus Mundus during the academic year 2008-2009. Student and academic mobility to the EU continued to develop through the participation in Erasmus Mundus External Cooperation Window. Ukrainian universities participated in the Jean Monnet Programme. In addition, 18 Ukrainian students received scholarships in European integration studies at masters level for students from the ENPI region under a special pilot project for the academic year 2008-2009.

Greater student involvement in higher education governance is being facilitated in the context of quality enhancement and the democratisation of universities. However, more transparent mechanisms for university entry are required to limit and curb corruption. Ukraine is not a member a governmental member of the European Quality Assurance Register (EQAR). Improving the quality of general education is also a priority. Ukraine seeks to improve standards in line with international comparative indicators while advancing the decentralisation of secondary education provision including curricula modernisation and introducing competition in the development of school textbooks. In September 2008, the Ministry of Education and Science launched a national external assessment of secondary school graduates. In November 2008, the Confederation of Employers presented a draft law on a national qualifications framework for public discussion, prepared in consultation with government agencies, social partners and education and training stakeholders. Work continued on the development of labour-market relevant **vocational training** in line with EU best practice approaches including the participation of enterprises in the definition of training content in order to maximize the employment prospects of trainees.

Ukrainian young people, **youth** workers and youth organisations continued benefiting from the opportunities offered by the Youth in Action programme with participation rates on the rise. The Ministry for Family, Youth and Sport translated programme information into Ukrainian on its website to encourage greater interest and participation. Further efforts aimed at promoting intercultural dialogue as well as drug prevention activities through youth exchanges and informal education would be welcome.

In the area of **culture**, an inter-ministerial committee was established to develop a cross-sector approach to the management of cultural and natural heritage with a particular interest in cultural policy, cultural tourism and film production. Measures to address the legal environment as well as fiscal incentives to support cultural development would also need to be considered in this respect. Ukraine did not proceed to ratification of the 2005 UNESCO on the Protection and Promotion of the Diversity of Cultural Expressions. However, the necessary provisions to cover the Ukrainian future contribution to the Convention's Trust Fund were included in the draft 2009 State budget.

Opportunities to promote **civil society** cooperation at local and regional levels are facilitated through existing Cross Border Cooperation (CBC) programmes and other external cooperation programmes. Ukraine participates in three CBC programmes as well the Black Sea Basin programme. Specific national legislation to promote cross-border and regional cooperation has yet to be developed. Furthermore, in August 2008 the Civil Expert Council of

the Ukrainian side of the EU-Ukraine Cooperation Committee was officially formed with a membership of approximately 30 civil society organisations. The Council subsequently developed principles concerning its role and cooperation with the executive branch of government and the joint bodies established in the process of European integration.

Ukraine continued to reform the **health** sector with a view to improving quality, financial sustainability and access to health services including in rural areas. Ukraine started to develop a basic health law. Ukraine continued to fight against communicable diseases such as HIV/AIDS and tuberculosis. It drafted the National HIV/AIDS prevention and treatment plan for people with HIV/AIDS 2009–2013, which is under Parliament scrutiny. It expressed interest in cooperating with the European Centre for Disease Prevention and Control. Ukraine continued to participate in the European Commission's HIV/AIDS Think Tank.

8. FINANCIAL COOPERATION – 2008 KEY FACTS AND FIGURES

The ENPI financial envelope for Ukraine under the National Indicative Programme 2007-2010 is EUR 494 million. The programme is geared towards supporting the achievement of key policy objectives as outlined in the ENP Action Plan and pursues three priorities: support for democratic development and good governance (public administration reform, public finance management, rule of law and judicial reform, human rights, civil society development and local government, education, science and people-to-people contacts); regulatory reform and administrative capacity building (trade, improving the investment climate, social reform, regulatory aspects); infrastructure development (energy, transport, environment, border management).

The implementation of the measures covered by the 2007 Annual Action Programme is underway. The implementation of the sector budget support programme supporting the Ukraine's Energy Strategy is on track and the first EUR 23 million tranche was disbursed on time. However the framework for budget support operations needs to be reinforced in view of future such operations. A SIGMA programme aimed at further strengthening the Public Finance Management System has started. Efforts are needed to establish a medium term budget forecast system, a proper monitoring structure and mechanisms to oversee and guide its implementation. Effective inter-ministerial co-ordination needs to be established.

In 2008, the Commission continued to support the national reform efforts and committed assistance for a total amount of EUR 138.6 million under the ENPI, which included additional funds through the Governance Facility (EUR 16.6 million) in recognition of Ukraine's good performance in Governance in 2008. The 2008 Annual Action programme focussed on energy efficiency, technical barrier and continued technical assistance and twinning support.

Ten twinning operations are on-going (and several others under preparation) in Ukraine in sectors such as Civil Aviation, Space Cooperation, Public Financial Control and Electricity Regulation. While ownership has generally improved more commitment from the beneficiaries and additional resources are needed to enhance effectiveness. The role of the coordinating agency should be strengthened in terms of ensuring smooth implementation of commitments and activities.

Ukraine also benefits from cooperation activities financed under the ENPI multi-country (including the Neighbourhood Investment Facility) and regional programmes and is eligible under the ENPI Cross Border Cooperation component. Under the Neighbourhood Investment

Facility (NIF) contributions for three projects in Ukraine were approved in 2008⁵, committing EUR 6.6 million in technical assistance, expected to leverage EUR 608 million in loans of European Finance Institutions in the transport energy and social sector. Three cross-border co-operation programmes to which Ukraine's participate were adopted in 2008, notably the Romania-Moldavia-Ukraine EUR 126.718 million for the period 2007-13), Poland -Belarus-Ukraine (EUR 186,201 million for the period 2007-13) and the Black Sea CBC Sea basin programme (EUR 17.306 million for the period 2007-13). Through these programmes the populations of the border regions of the country concerned will receive funding for joint co-operation projects aimed at fostering sustainable development and enhancing human contacts.

Support in the area of nuclear safety continued amounting to EUR 48.255 million within the framework of the Action Plan 2008 under the Instrument for Nuclear Safety Cooperation.

Concerning aid coordination, it is important to better calibrate the donor-government co-ordination system under the Ministry of Economy, so as to fully integrate donor assistance into Ukrainian policy planning and budgeting strategies so as to support more effectively the policy priorities agreed in the Action Plan.

⁵ 'Technical Assistance for the Ukrenergo High Voltage Transmission networks', 'Technical Assistance Support for Ukrainian Municipalities' and 'Technical Assistance for Burshtyn TPP Rehabilitation and Efficiency Improvement', for more information see: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm