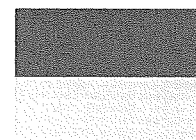




**European
Commission**



**Government
of Ukraine**

Joint Déclaration

Joint EU-Ukraine International Investment Conference on the Modernisation of Ukraine's Gas Transit System

Considering the Memorandum of Understanding of 1 December 2005 on co-operation in the field of energy between the European Union and Ukraine as well as the joint declaration of the EU-Ukraine Summit of 9th September 2008, the Parties welcome the Joint EU-Ukraine International Investment Conference on the Modernisation of Ukraine's Gas Transit System that took place today, 23rd March 2009, in Brussels.

Considering Ukraine's intention to gradually integrate into the single energy market of the European Union, in particular via membership of the Energy Community, and the EU's readiness to support this.

Recognising that the institutional and legislative adaptation of Ukraine to the EU's energy market acquis will require political, financial and technical support.

Taking into account the strong partnership relations between Ukraine and the EU on the issues of gas transit through Ukraine to the EU.

Conscious that adequate volumes of gas transit through the territory of Ukraine in the long term perspective are a key prerequisite for the viability of investments into the Ukrainian Gas Transit System.

Welcoming the readiness of Ukraine to prioritise investments into the Gas Transit System of Ukraine to ensure the safe, transparent and predictable transit of natural gas to EU Member States as well as to meet the growing EU demand for gas in the future.

Recognising the importance of the further expansion and modernisation of Ukraine's Gas Transit System as an indispensable pillar of the common European energy infrastructure, and the fact that Ukraine is a strategic partner for the EU gas sector.

Taking note of Ukraine's suggestion to expand further the Ukrainian Gas Transit System capacity up to 60 billion cubic metres annually which can be ensured provided that additional investments shall be allocated.

Conscious of the readiness of the Parties to strive to ensure the optimal use of the Gas Transit System of Ukraine in the medium and long run, taking into consideration commercial practices.

Conscious of Ukraine's intention to join the Energy Community and in particular to permit gas to be purchased in Ukraine or at its Western or Eastern borders.

Recognising the importance of the implementation of EU Directive 2003/55/EC¹.

Bearing in mind and taking account of the role Ukraine's Gas Transit System can play in guaranteeing the energy, economic, and political security of both Ukraine and the EU, and respecting Ukraine's sovereign rights, including the Ukrainian legislation on the state ownership of the Gas Transit System.

The Signatories welcome:

- The interest expressed by the participants to support and assist in the modernisation and development of Ukraine's Gas Transit System in view of ensuring its sustainability, reliability, efficiency and transparency over the coming decades;
- The Master Plan on the Modernisation of Ukraine's Gas Transit System presented during the Conference, including the identification of bankable projects that are aimed at improving the technical efficiency and environmental footprint of the system, the introduction of state-of-the-art technology and, as a consequence, increasing the system's transit capacity;
- The readiness of the Government of Ukraine to co-operate with International Financial Institutions and to carry out a 2010-2011 Gas Sector Reform Programme on the basis of the EU legislation and in line with commitments that will be agreed upon in the context of the EU-Ukraine Association Agreement and Ukraine's accession to the Energy Community Treaty, as well as in accordance with the Memorandum of Understanding on co-operation in the field of energy between the EC and Ukraine of 1 December 2005.

The Government of Ukraine will:

1. ensure the independence of the Ukrainian gas transmission operator in terms of its legal form, organization, decision-making and accounts, giving this gas transmission operator the benefit from the income from high pressure transmission and storage, and the effective capability to maintain a sustainable financial position, in accordance with EU Directive 2003/55/EC, and in particular Articles 7-10 and 17 thereof;
2. ensure transparency and openness of the borrower mandated for the modernization of the gas transmission system to ensure equal and effective access to the relevant financial and technical information as well as control of the use of funds allocated for the modernization of Ukraine's Gas Transit System, in accordance with international financial standards and practices;
3. allow the gas transmission operator to operate on a commercial basis for fulfilling its business development plans over the long term (and at least as long as the modernization loans are outstanding) and for ensuring physical asset security, in accordance with Directive 2003/55/EC, and in particular Articles 8 and 9 thereof;
4. ensure that tariffs for access to networks (in particular for access to the high pressure transmission network) take into account the need for system integrity and its improvement and reflect actual costs incurred, including appropriate return on investment, and ensure that the transmission system operator publishes sufficiently detailed information on tariff calculation, methodology and structure and applies the tariffs in a transparent, objective and non-discriminatory manner in line with

¹ Directive 2003/55/EC concerning common rules for the internal market in natural gas.

Regulation No 1775/2005², and in particular Articles 3 and 6 thereof;

5. provide for third party access to storage facilities under transparent commercial conditions and under the control of the regulatory authority in line with Directive 2003/55/EC, and in particular Articles 19 and 25 thereof;
6. guarantee the respect by the borrower mandated for the modernization of the gas transmission system of best practice international procurement rules and the highest environmental, governance, health and safety and social standards, notably those contained in the EU acquis and equivalent internationally recognized standards.
7. develop a Gas Sector Reform Programme by the end of 2009 at the latest for the implementation of the gas sector reforms in 2010-2011 with deadlines that should match the commitments that will be entered into in the context of EU-Ukraine Association Agreement and Ukraine's accession to the Energy Community Treaty, and are commensurate with the shared objective of attracting investments;

Next steps

- a. The European Commission, the Government of Ukraine, and creditors will cooperate in seeking to establish a technical co-ordinating unit within Naftogaz of Ukraine which could be in charge of:
 1. the establishment of a full modernization business plan, on the basis of the Master Plan on the Modernisation of Ukraine's Gas Transit System and further technical proposals by Ukraine, that would set out the timetable and sequencing of work in view of ensuring reliability and efficiency as well as minimum possible disruption of supplies to and through Ukraine;
 2. overseeing the work on the modernisation of the Ukraine Gas Transit System;
 3. contributing to elaborating the arrangements for the funding of the modernization plan from the international and Ukrainian lenders and possible donors.
- b. The European Commission and the International Financial Institutions are ready to consider technical assistance to the technical co-ordinating unit.
- c. The European Commission will consider providing assistance to the Government of Ukraine for the practical implementation of gas sector reforms.
- d. It is noted that the International Financial Institutions and lenders will start due-diligence work on the projects identified in Ukraine's Gas Transit System Master Plan as soon as the technical co-ordinating unit is in place.
- e. Subject to the results of this due-diligence, the European Commission may provide support through the Neighbourhood Investment Facility or other appropriate funding sources if this is necessary to help leveraging loans from International Financial Institutions.
- f. Other partners that intend to provide grants and loans for the modernisation of Ukraine's Gas Transit System should be encouraged to supply detailed information to the technical co-ordinating unit on their readiness and the possible level of their financial participation.

² Regulation (EC) No 1775/2005 on conditions for access to natural gas transmission networks.

Done in Brussels on March 23, 2009, in English and Ukrainian languages, both texts being equally authentic.

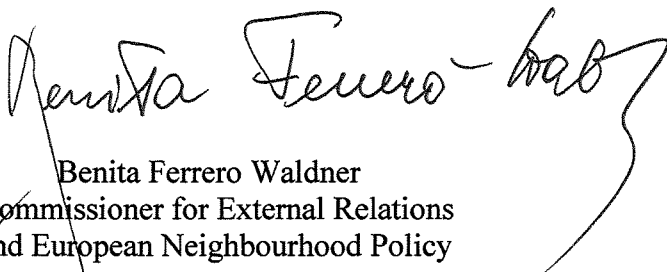
The Signatories to this declaration are:

For the Government of Ukraine

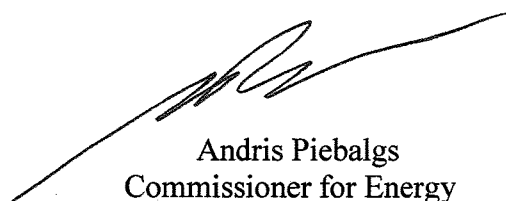


Yulia Tymoshenko
Prime Minister

For the European Commission



Benita Ferrero Waldner
Commissioner for External Relations
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Andris Piebalgs
Commissioner for Energy

For the European Investment Bank



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