



Commissioner Füle

Visit to Ukraine, 21 – 23 April, 2010

Briefing book

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on mutual interest, which draws us closer together. The idea that the relationship can be put “on hold” or, indeed, that we should go back on the commitments we have already made to one other is an illusion. To do so would be extremely damaging to our own interests and to the development of both the EU and Ukraine.

Let me just recall some raw figures. The EU brings together some 500 million citizens. Taken together the economies of the EU Member States represent the largest economy in the world providing about a 5th of gross world product. The EU has enormous economic and intellectual potential which still remains to be fully exploited. The EU is Ukraine’s largest trading partner, representing one third of Ukraine’s exports. The EU and Ukraine share four common borders.

For its part, Ukraine with a population of 46 million and the second largest land mass among European nations (after Russia), has a huge industrial, agricultural and human potential. It is also a leader in democratic development – not only because of its record of holding elections in accordance with international standards but also because of its increasingly dynamic civil society and the possibilities of open public debate on issues of key importance to the future of the country.

Relations since 1991

With this in mind, the relationship between the EU and Ukraine has developed rapidly since Ukraine’s independence in 1991. Essentially this relationship has been based upon the notions of **partnership and cooperation**, enshrined in a Partnership and Cooperation Agreement in force since 1998.

to pass the verdict on the "Orange Revolution" but without doubt this was a defining moment in Ukraine's recent history. For the EU, since 1991 we have undergone a number of enlargements including those which have resulted in common borders with Ukraine. We have adopted a single currency for many EU Member States and with the coming into force of the Lisbon Treaty we are developing more effective structures to carry out our internal business internally and are seeking to project ourselves more effectively in external relations.

This new ambition was expressed mostly clearly at the EU-Ukraine Summit in September 2008. On that occasion the leaders of the EU and of Ukraine recognised that the new agreement, the negotiations for which were already well advanced, should aim at **political association and economic integration**. I will come back to this in a moment. Consequently they named the draft Agreement an "**Association Agreement**". They also underlined the "**shared values and common history**" between the EU and Ukraine. And they announced the decision to launch a **visa dialogue aiming to establish a visa free regime** for short stays, albeit as a long-term perspective.

How does this new ambitious vision of EU-Ukraine relations translate into practice? The notion of **political association** goes beyond existing partnership and cooperation arrangements in a number of ways. Essentially it invites both sides to expand the **scope and the depth of their collaboration**. This can range from the area of Foreign and Security Policy where already we enjoy close coordination (Ukraine aligns itself with more than 90% of EU positions on external relations issues). It also covers the "common values" that we share and which the leaders pointed to in Paris.

the administrative capacity of key Ukrainian ministries, its multilateral track will facilitate exchanges of experience and expertise between EU Member States and the 6 countries of the Eastern Partnership in areas such as democratisation; economic development; environmental protection; energy and integrated border management.

Turning to the issue of **economic integration**, I believe that the new Agreement will provide the means **for a radical transformation of our relationship**. As you may be aware, the Agreement includes as an integral part a deep and comprehensive free trade area. You are certainly familiar with the classic free trade area by which countries agree to remove tariffs and grant each other preferences on goods and services traded between them.

The deep and comprehensive free trade area goes much further than this. In addition to mutual opening of markets for goods and services, the deep and comprehensive free trade area involves making Ukrainian norms and standards in certain areas compatible with those of the EU. **As such it will extend the key principles of the EU's internal market to Ukraine providing clear benefits for domestic and foreign investors and entrepreneurs; consumers; innovators such as artists and inventors and even to Ukraine's central and local government authorities.**

A further major innovation announced at the Paris Summit, was the launch of a **visa dialogue aiming at establishing a visa free regime** for Ukrainian citizens travelling to the EU for short stays. The issue of mobility is critical.

Since 2008 a **Visa Facilitation Agreement** has been in force which has had a positive effect for Ukrainian citizens wishing to travel to the EU. In

Nevertheless ultimately the issue will depend on the readiness of the authorities to move swiftly forward on reforms in this area.

Current challenges

Both the EU and Ukraine face many **challenges today**. The effects of the economic and financial crisis continue to be felt in Brussels as in Kyiv. The leaders of the EU have recognised **that recovery depends on decisive and sometime deeply painful actions on their part**.

Ukraine faces similarly critical challenges. You are certainly more familiar with these than I. On the economic front, macro-financial stability is critical. Budgetary reforms, reforms in the gas sector, efforts to combat corruption and to improve the business and investment climate cannot be put off. At the political level, there is a need both to ensure stability. At the same time Ukraine needs to continue on its path in promoting democratic reforms, respect for human rights and in particular the rule of law.

I have spoken today of **partnership, cooperation, political association and economic integration**. I have spoken of the **inevitability of a further deepening of relations between the EU and Ukraine**. This would be meaningless, if I did not also say that the EU will support Ukraine in carrying out reforms. We will underpin reform efforts through out technical and financial assistance. Where possible we will respond to reform measures by further support and by promoting Ukraine's case with international partners.

Once more we do not do so just because we consider this is right. We do so because we are convinced **that closer ties between the EU and Ukraine will be to the benefit of all**: to our citizens; to our businesses and investors to partners in civil society and above all to the future generation.

8. Ukraine at a Glance

Land area: 603,500 sq km

Population: 45,300,000

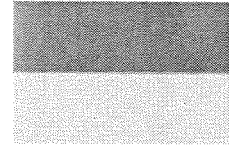
48,457,102 (2001 census)

Main towns: Population

Kyiv (capital) 2,611,000 (2001)

2,709,000 (2007
proj., Source
UNdata)

Currency: Hryvna; 1 €= 10.82 UAH (National Bank



National flag



Ukraine - Main economic indicators	2006	2007	2008
population in thousand	46.646	46.372	46.144
GDP nominal (hryvna, billion)	544	721	990
GDP nominal hr mn	544153	720731	948056
GDP in USD in bn	108,0	143,2	179,6
GDP nominal (EUR)	85,8	104,2	128,4
GDP per capita in hryvna	11630,23	15496,46	20495
GDP per capita in USD	2324,316	3099,896	3909,873
GDP per capita in PPP	6271,223	7001,692	7342,126
Inflation period average	9.057	12.843	25.206
Exch rate UAH for 100 USD	505,00	505,00	526,72
Exch rate UAH for 100 EUR	633,69	691,79	770,80
Broad money M2 (Currency, Deposits, Money market instruments) mn HUA	261063	396156	515727
Credit to economy	245973	428146	736840
Broad money M2 (Currency, Deposits, Money market instruments) mn HUA	48,0	54,9	52,1
Credit to economy	45,2	59,4	74,4
Dollarisation in bank deposits (%)	38	32	44
NBU discount rate	8,50	8,00	12,0
Real effective exchange rate (2004=100)	115,5	117,1	127,6
Reserves/M2	2,3	2,4	2,0

	on to track.	development of an operational budget for 2010 and transparent fiscal planning		aid.
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	of the Financial Action Task Force on Money Laundering			
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	Assess the modalities for the integration of the united power system of Ukraine and Moldova into the Central European Electricity network	Conclude study on legal, technical and financial implications of possible interconnection.	ST (for study launch)- MT-LT	<p>In case of eventual integration with ENTSO-E, Increased ability to sell electricity directly on the EU market.</p> <p>Increased FDI in power generation in Ukraine</p> <p>Depending on the result of the study, EU support as appropriate, notably (EIB) loans</p>
	Implement the commitments set out in the Declaration of 31 st July 2009 made by the European Commission and IFIs regarding gas sector reforms (including gas tariff increases and the re-structuring of Naftogaz).	<p>The ST and MT commitments are largely covered elsewhere in this table but include:-</p> <p>Gas tariff increases and improvement in collection rates;</p> <p>Restructuring of NAFTOGAZ;</p>	ST - MT	Revival of IFI package of support to Ukraine for the modernisation of the gas transit system and possible gas storage purchases including EU, EBRD, World Bank and EIB. For the EU, continuing ENPI budget support in the energy and energy efficiency sectors for all the priority actions above.
Environment	Adoption of a National Environment Strategy until 2020	The draft is in Parliament		ENPI Sector Budgetary Support for Ukraine is in progress. It will consist of 35 million euro of EU contribution + 10 million euro from SIDA (Sweden).
Civil Aviation	Conclusion of a Civil Aviation Agreement			The objective of the CAA Agreement would be to gradually extend the internal aviation market to Ukraine.

* ST = Short Term (within 6 months)

MT = Medium Term (within 6 – 18 months)

LT = Long Term (18 months and more)

Annex III:

Background on JLS issues

Visa dialogue

At the Paris EU-Ukraine Summit on 9 September 2008, the leaders of the EU and Ukraine decided to launch a visa dialogue, developing the relevant conditions, with the long-term perspective of establishing a visa free regime between EU and Ukraine. Ukraine already exempted all EU nationals from the visa requirement when travelling to Ukraine as from May 2005.

The visa dialogue with Ukraine focuses on four thematic 'blocks': document security including biometrics, illegal immigration including readmission, public order and security, and external relations. The aim of the first round was to present the EU acquis and practices as well as gaining an understanding of Ukraine's state of play in each of the four 'blocks'.

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The expert on-site visits on each block by Commission and Member State experts took place in October and November 2009. The Senior Officials met again on 19 November 2009 to take stock of the findings of the expert visits and make recommendations on further steps, in due time for the EU-Ukraine Summit of 4 December 2009. The main conclusion of the Senior Officials' report is that: "Work on all four Blocks of issues should now be intensified in a structured visa dialogue focused on sequenced priorities of action and recommendations to the Ukrainian authorities. These recommendations, based on relevant EU conditions, should describe specific actions and measures to be undertaken by Ukraine in order to make further progress towards the establishment of a visa-free regime between the EU and Ukraine."

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Implementation of the visa facilitation and readmission agreements

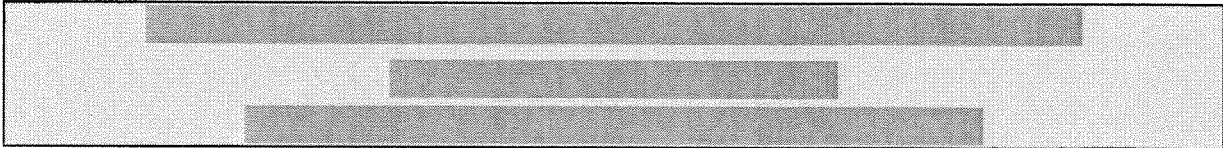
Since 1 January 2008, visa facilitation and readmission agreements are in force with Ukraine. The Commission considers the implementation of the agreements to be satisfactory overall.

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Implementation of the JLS Action Plan

Annex IV: TRADE issues

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The Association Agreement will include a free trade area between the two parties.

Traditionally, standard free trade agreements foresee mutual opening of markets for goods and services. The free trade area between the European Union and Ukraine goes much further. Ukrainian laws and standards will be made compatible with those of the European Union in trade and trade-related areas.

The European Union's (EU) Internal Market consists of 27 Member States. The removal of barriers faced by economic operators, as well as the introduction of high standards of consumer protection constitutes a solid foundation of the EU's functioning. Arguably, the economic liberalization within the Internal Market has created one of the most prosperous and stable regions in the world. The free trade area will provide for the gradual integration of Ukraine with the EU's Internal Market to the fullest possible extent.

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BACKGROUND

Key dates in EU-Ukraine trade relations

1993: The EU extends unilaterally the General System of Preferences (GSP) to Ukraine.

1998: Ukraine and the EU sign a non-preferential Partnership and Cooperation Agreement (PCA).

2007: Negotiations launched to replace the PCA by an Association Agreement.

2008: Ukraine joins the World Trade Organisation (WTO) and starts negotiations with the EU on a preferential, deep and comprehensive free trade area as an integral part of the Association Agreement.

EU-Ukraine bilateral trade

ANNEX V

Background on Energy Issues

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Rehabilitation and modernisation of Ukraine's main gas transit infrastructure: An investment conference on the modernization of the Ukrainian transmission system was held on 23 March 2009 in Brussels.

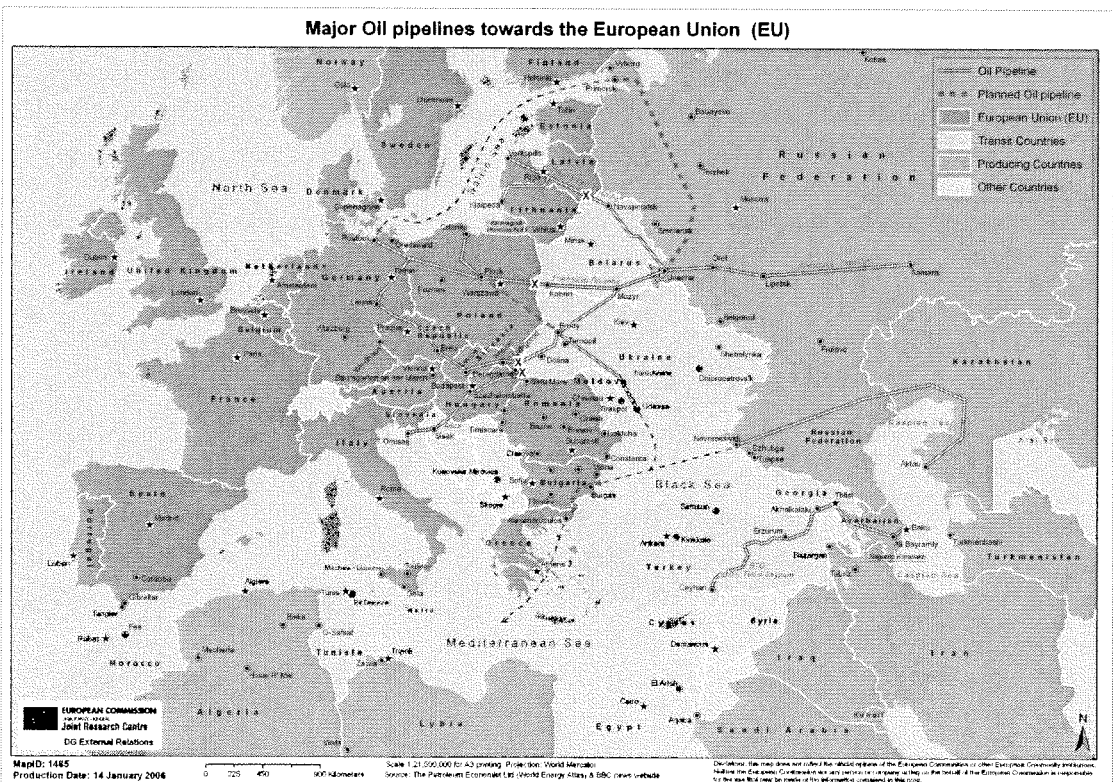
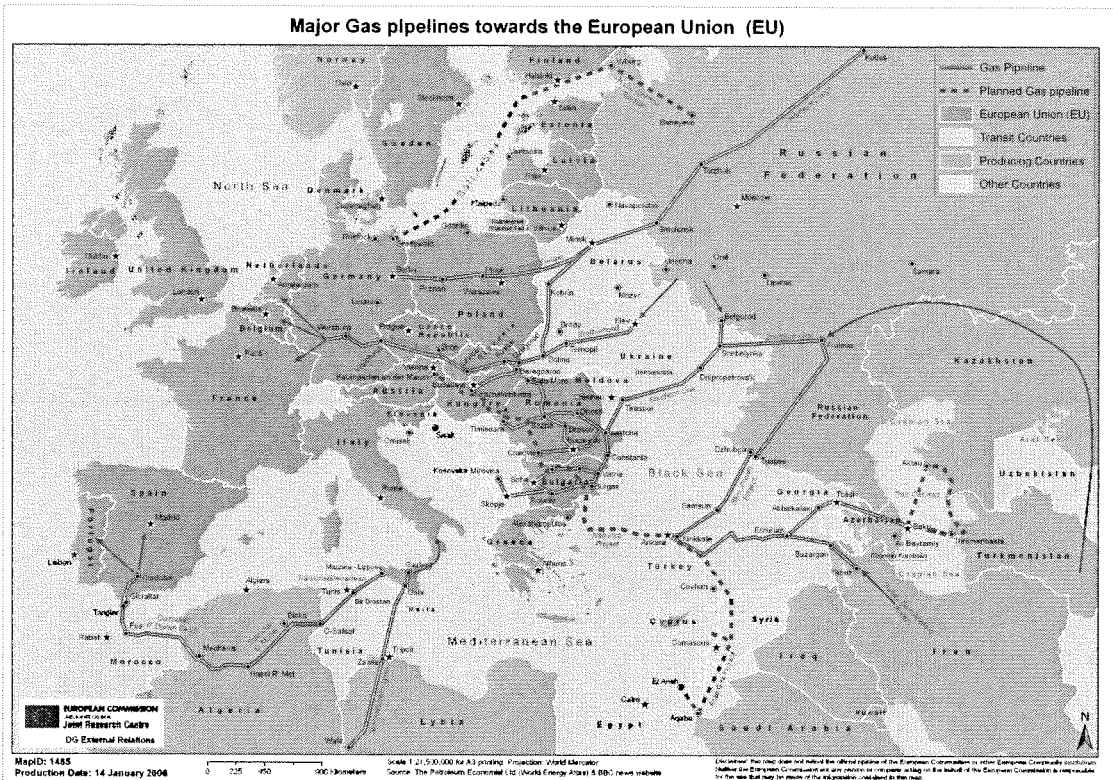
EU –Ukraine energy cooperation more widely

A Memorandum of Understanding (MoU) on energy was signed at the 2005 Summit. This document now forms the principal basis for EU-Ukraine energy cooperation. Annual progress reports are prepared. The MoU establishes a joint strategy towards the progressive integration of the Ukrainian energy market with that of the EU and consists of five working groups in the following areas:

- **Nuclear safety:** Ukraine is a net electricity exporter and nuclear energy is the largest source of electricity output. However, it is important that the Ukrainian nuclear plants meet internationally recognized nuclear safety standards. The Commission has for many years cooperated with and assisted Ukraine on the improvement of nuclear safety of the Ukrainian Nuclear Power Plants. In addition, support has been provided through the Chernobyl Shelter Fund and various upgrade programmes. The Joint Project EC-IAEA-Ukraine on the safety evaluation of Ukraine's nuclear power plants provided further guidance on the improvements that are still needed. The final report of this Project is being finalized by the IAEA and is expected by April 2010.

Currently, Euratom provides an assistance of about € 20 million annually for upgrade of nuclear safety of the operational plants. In addition some € 266 million have been paid or committed to the Chernobyl Funds (the Chernobyl Shelter Fund and Nuclear Safety Account). Further funding for the Chernobyl projects will have to be considered to address the financial gap of some €400 to 500 million to complete the Chernobyl projects.

Oil and Gas Pipelines towards the EU



institutional framework, facilitating the deepening of relations in all areas, as well as the **strengthening of political association and economic integration** involving reciprocal rights and obligations. Following agreement that Ukraine would accede to the WTO (accession took place on 16 May 2008), the EU and Ukraine also launched negotiations **on a Deep and Comprehensive Free Trade Area (DCFTA)** as a core element of the Association Agreement.

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2. The Eastern Partnership

Eastern Partnership

The Eastern Partnership (EaP) established by the Prague declaration (7 May 2009) sets out an ambitious toolbox for deeper relations with the Eastern European and South Caucasus countries, with a bilateral and a multilateral dimension.

Bilaterally, the Eastern Partnership offers partners in particular new contractual relations (i.e. Association Agreements), better economic integration with the EU and enhanced mobility of people, including a visa-free regime under specific conditions. The Comprehensive Institution-Building programmes (CIBs) aim to support this process in strategic areas.

Multilaterally, it introduces cooperation through thematic platforms (third round of meetings in April/May 2010), for the exchange of views, experiences and best practices, in a perspective of further alignment with EU policies and principles.

Platform 1: Democracy, good governance and stability

A Panel on Integrated Border Management has been established (first session in October 2009). A second Panel, on the fight against corruption, has been decided upon (first session in May 2010). The Flagship Initiative on the Prevention of, Preparedness for and Response to Natural and Man-made Disasters, was launched in Gothenburg in December 2009.

Platform 2: Economic Integration and Convergence with EU Policies

Focus will be on trade and trade-related regulatory cooperation. A trade panel addressed 29-30 March customs modernization and development. An Environment and Climate Change panel met 23 March 2010 and focused on convergence towards EU environmental legislation and action to address climate change. It launched the Environmental Governance flagship.

Platform 3: Energy Security

Partner countries agreed to produce security of supply statements (encompassing all aspects of energy security) until the end of 2010. For 22 April the Commission has invited for a workshop on energy interconnections. An energy efficiency and environmental partnership for

upgrade Ukraine's environment administration and policy, a strong signal should be sent that no further delays should occur. This is important also as an ENPI Sector Budgetary Support for Ukraine is in progress. It will consist of 35 million euro of EU contribution + 10 million euro from SIDA (Sweden). The new Strategy, Action Plan and legislation are needed to benefit from these funds, by the end of 2010.

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Climate Change

To note that Ukraine is the only major country not to have submitted pledges under UNFCCC, though they indicated they would do so soon and might increase their ambition.

4. Other Issues: Aviation

In December 2006, the Commission received a mandate to negotiate a comprehensive common aviation area (CAA) agreement with Ukraine. Following a number of preparatory meetings, the negotiations were formally opened in December 2007 in Kyiv.

The objective of the CAA Agreement would be to gradually extend the internal aviation market to Ukraine.

Overall safety oversight in Ukraine

The Commission has continued to monitor the implementation of the measures presented by Ukraine at the Air Safety Committee on 1 July 2009. To that end a visit of EC experts was carried out in Ukraine from 26 to 29 October.

project-based approach. Around 100 TACIS projects are still under implementation. The ENPI (entered into force in 2007) promotes a sector approach, in particular through budgetary support.

The main priorities of **the Country Strategy Paper 2007-2013 and the Indicative Programme 2007-2010, extended to 2013** are

- (i) Support for democratic Development and Good Governance;
- (ii) Support to the Regulatory Framework and for Administrative Capacity Building;
- (iii) Support for Infrastructure Development.

The financial envelope of the ENPI Indicative Programme 2007-2010 amounts to € 494.5 million. To top up this allocation, the Annual Action Programmes 2007 and 2008 have been increased by Governance facility allocations of €22 million and €16.6 million respectively. A total amount allocated in 2007-2010 will make up €522.6 million (€10 million reduction of the envisaged annual allocations due to budget constraints). A greater emphasis is placed on budget support operations, which make up €350 million of the allocations for 2007-2010 (nearly 70% of total funding).

Important instruments for EU integration are Twinning (10 projects under implementation and 10 under preparation, TAIEX (144 events since 2006) and Sigma. The national programme is complemented by a wide range of thematic (budget lines: EIDHR, Migration and Asylum, Investing in People, Environment, NSA/LA) and regional, cross-border and interregional instruments (e.g. Tempus, Erasmus Mundus). Under the ENPI East, there are 30 trans-national/regional programmes in the areas of transport, energy and environment, border and migration management, and the fight against trans-national organised crime and customs.

In the area of nuclear safety, the EC has provided extensive support since the early 1990s to Energoatom, the operator of nuclear power plants in Ukraine, to upgrade its plants' operation to internationally recognized safety standards. €80 million were allocated in the period 2007-2009. In addition, the EC is the largest contributor to projects to recover the Chernobyl site, either through direct funding or through funds managed by the EBRD. For full details please refer to the attached overview table.

From 2011, additional funding will be made available both to the national and regional envelopes in the framework of the Eastern Partnership (€43 million for three years for the national component Comprehensive Institution building

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