

## **SECOND JOINT EU-UKRAINE REPORT**

### **Implementation of the EU-Ukraine Memorandum of Understanding on Energy Cooperation during 2007**

#### **CONTEXT**

The Memorandum of Understanding (MoU) on co-operation in the field of energy between the EU and Ukraine was signed on 1 December 2005 within the context of implementation of the EU-Ukraine Action Plan. It sets out how the two sides plan to organise their work to bring their energy markets closer together.

The MoU establishes a joint strategy towards the progressive integration of the Ukrainian energy market with that of the EU and consists of road maps covering (1) nuclear safety; (2) the integration of electricity and gas markets; (3) security of energy supplies and the transit of hydrocarbons; (4) the coal sector. Since the MoU was signed, a fifth roadmap has been developed for increasing co-operation in energy efficiency and the promotion of renewable energies.

A first report on the progress achieved during 2006 was presented to the EU-Ukraine Summit held in Helsinki on 27 October 2006. This second report highlights the progress which has been achieved since then.

#### **KEY PROGRESS DURING 2007**

##### **1. WORKING GROUP ON NUCLEAR SAFETY**

Agreement has been reached on the Terms of Reference for the joint European Commission-International Atomic Energy Agency-Ukraine evaluation of the nuclear safety of the Ukrainian Nuclear Power Plants (NPP) with a view to supporting the implementation of the nuclear safety provisions of the Memorandum of Understanding.

The Work Programme for the project covers the four main areas relevant to nuclear safety, namely: design safety, operational safety, radioactive waste/decommissioning and regulatory issues:

- The detailed Technical Guidelines for the design safety review (task 1) have been agreed amongst the parties concerned and are annexed to the Terms of Reference of the joint project.

- The operational safety task will be performed following the format, procedures and guidelines of the IAEA OSART (International Atomic Energy Agency's Operational Safety Review Team) missions.
- For the radioactive waste/decommissioning task, the agreed Terms of Reference indicate that the specific technical guidelines, which will include the questionnaires, will be prepared by the IAEA and agreed by all parties involved in the kick-off meeting.
- For the regulatory issues task, the Terms of Reference indicate that the review will be conducted by a team of international peers (senior regulators) and that the final detailed scope of the work, including all procedural and organisational details, will be fixed and agreed in the joint project kick-off meeting.

The Joint Project will be mainly supported by the Instrument for Nuclear Safety Cooperation. The matter is currently under consideration within the Commission and the project is expected to start in the third quarter of 2007.

After the project kick-off meeting, the Ukrainian side will resume the self assessments according to the Technical Guidelines, at selected pilot Nuclear Power Plants, in order to check whether an eventual revision of the Technical Guidelines will be required prior to the evaluation of the remaining units.

## **2. WORKING GROUP ON THE INTEGRATION OF ELECTRICITY AND GAS MARKETS**

At the second meeting of the implementing group on 23 March 2007, progress on the legal approximation in the electricity and gas sectors was reviewed, along with the implementation of the UCTE project on the integration of Ukraine into the UCTE and the reform of electricity and gas tariffs.

Over the past year considerable progress has been made in Ukraine in moving consumer prices towards cost recovery levels, although further progress is required to ensure a full recovery of costs and to allow the further necessary investments, bearing in mind the social impact of these measures.

With respect to the objective of reinforcing the independence of the National Energy Regulatory Committee (NERC), the Ukrainian authorities have prepared a draft law that has the objective of completely separating the regulator from the electricity and gas industries, and ensuring that the NERC is funded through a special fund under the state budget. The law is under examination in the Parliament and, once adopted, the Ukrainian side will provide a copy to the Commission for a detailed examination of its conformity with the relevant EU acquis.

In this context, a capacity-building Twinning project is underway to assist with strengthening the regulatory and legal capacity of the NERC with respect to the electricity sector. The project will, in particular, concentrate on strengthening the NERC's capacity in policy design and implementation in incentive regulation, quality of supply standards, unbundling of distribution and supply, transmission pricing and general support to the harmonisation of energy legislation with the EU energy acquis. A similar project for NERC to cover the gas sector is under preparation and is expected to start before the end of the year.

With respect to the joint application of Ukraine and Moldova to join UCTE (Union for the Co-ordination of Transmission of Electricity), a joint working group has been established which has held regular meetings, with the last meeting on 26<sup>th</sup> June 2007 in Bucharest. On this occasion, the draft "Terms of Reference of the project for the interconnection of Ukraine and Moldova with the electrical system of the UCTE was presented and it is

intended that this will be submitted for the consideration and approval by the UCTE's Steering Committee in September 2007. It is important to ensure co-ordination between this work and the ongoing TACIS study to support the progressive participation of Ukraine in the electricity Trans-European Networks (TENs), as well as to ensure its relation with the wider study on the feasibility of a possible synchronous interconnection of the UCTE and IPS/UPS systems.

Following the application of Ukraine to join the Energy Community Treaty, the Commission presented a summary report on the status of the Ukrainian energy sector and the feasibility of extending the Energy Community to Ukraine at the Ministerial Meeting of the Energy Community on 29<sup>th</sup> June 2007. The Ministerial Council requested the Commission to continue to coordinate Ukraine's eventual accession to the Energy Community Treaty.

### **3. WORKING GROUP ON THE SECURITY OF ENERGY SUPPLIES AND THE TRANSIT OF HYDROCARBONS**

A list of priority projects in the electricity, gas and oil sectors for 2007 was prepared and agreed by the two sides during 2006. Significant funding by the International Financial Institutions has been secured to implement these projects and there is an objective to have the financing for all these projects agreed by the end of 2007. These projects include the initial batch of gas and oil metering stations on the borders of Ukraine.

A preliminary audit of the Ukrainian gas transit network has been completed in the framework of the EU's technical assistance, which has identified the need for substantial investments that have been estimated at around €2,500 million over the period 2007-2013. Work is now underway to define a list of the necessary investments to be considered for support at a pledging conference involving the International Financial Institutions such as the EIB, EBRD and the World Bank, private sector financial bodies, Ukraine and the national financial agencies of the EU Member States and non-EU countries that could take place in late 2007 or early 2008. In line with the MoU, the Parties have also agreed to organise a joint monitoring of the progress of work on the rehabilitation of the Ukrainian oil and gas transit system.

Following the technical assistance provided by the EU to analyse the various options for Ukraine's eventual compliance with the Community acquis on oil stocks, a draft law has been prepared and should be adopted by the end of 2007. Once adopted, the Ukrainian side will provide a copy to the Commission for a detailed examination of its conformity with the relevant EU acquis.

A capacity-building Twinning project is also now under preparation to assist Ukratransnafta, the body designated to be in charge of the process to develop an oil stocks mechanism. It is foreseen that Ukraine will establish an oil stock-holding agency as a second step. In addition, further to a request from Ukratransnafta, the Commission is providing technical expertise to address the managerial and financial restructuring options for the company.

Following the support from the EU-funded technical assistance project which has demonstrated the commercial viability of the extension of the Odessa-Brody pipeline to Plock in central Poland, the Parties recognise the importance of moving ahead with this important infrastructure project. A step forward was taken recently to enlarge the Ukraine-Polish joint venture to include Azerbaijan, Georgia, Kazakhstan and Lithuania.

Following the inauguration of the Boyarka Gas Metrology Centre in December 2006, the final work is underway to make the centre fully operational. Discussions are also now ongoing to give the Centre a regional dimension and further work is expected to begin before the end of

the year to extend the scope of the Centre's work to cover crude oil and oil products, as well as to offer training facilities.

Upon a request from the Ministry of Fuel and Energy of Ukraine, a team of three European experts has been recruited to provide technical assistance and advice on issues related to hydrocarbons as well as on any other energy issue as appropriate.

Further to a request from the Security Council of Ukraine, the Commission is currently developing a technical assistance project to cooperate in the area of statistical and forecasting methodologies and models for energy balances.

#### **4. WORKING GROUP ON THE COAL SECTOR**

The coal sector policy support project is being finalised following a second meeting of the implementation group on 23 March 2007 and is foreseen to start in the end of 2007. The project will have three objectives, namely:

- To further develop and maintain a programme for the coal industry for the period 2007-2016, paying due respect to the role of the coal industry in Ukraine's security of energy supply strategy, the ongoing economic reforms and the government's social obligations;
- To provide the various stakeholders with the capabilities and means to implement the coal sector reform programme;
- To improve coal mining safety.

The project has been divided into five components, namely:

- Institutional strengthening of the Ukrainian Coal Mining Industry;
- Elaboration of Master Plan for the development of the Ukrainian Coal Industry;
- Setting up a social development fund;
- Improving occupational safety;
- Development of the catalogue of contaminated Sites.

In addition, the importance of addressing the issue of the capture and use of methane from the coal mines has been recognised by both Parties as a key area of importance, both from an environmental and safety perspective. With the objective of attracting external investments to address this issue, further technical assistance is under preparation to address co-operation in this area. The possibility of cooperation in clean coal technologies should also be further examined, particularly with respect to thermal power plants.

#### **5. WORKING GROUP ON ENERGY EFFICIENCY AND RENEWABLE ENERGIES**

Upon a proposal from the European Commission in January 2007, the European Council of March 2007 adopted ambitious targets to improve energy efficiency and promote renewable energy sources. These targets included a reduction of at least 20% in greenhouse gas emissions by 2020 compared to 1990, an objective of 20% savings in energy compared to the projections for 2020 and a binding target of a 20% share of renewable energies in the overall EU energy consumption by 2020.

In this context, recognising the very significant opportunities for energy savings in Ukraine and to fulfil the objective in the Memorandum of Understanding, subsequent to a second meeting of the implementation group in February 2007, a roadmap on energy efficiency, renewable energies and measures to tackle climate change, with an initial focus on developing initiatives towards improving the energy efficiency of buildings and on ensuring a continual exchange of information on energy efficiency and renewable energy projects is under preparation.

In this context, TAIEX (Technical Assistance Information Exchange Instrument) workshops for officials from Ukraine took place on 9<sup>th</sup> July 2007 on “financing instruments available for promoting energy efficiency and renewable energy sources in Ukraine” and on 17<sup>th</sup> July 2007 on “policy issues and practical details concerning the raising of building standards for energy efficiency in Ukraine towards those in the European Union”.

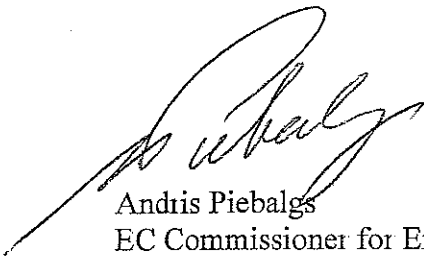
## 6. COMMISSION SUPPORT

With respect to the 2007 ENPI (European Neighbourhood and Partnership Instrument) National Action Programme for Ukraine, the energy component will be implemented in the form of a sector policy support programme (including sector budget support) as all the necessary pre-conditions are met in this sector.

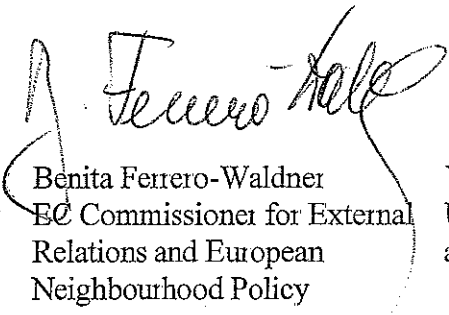
This support is linked to progress and the achievement of benchmarks in the implementation of the energy component of the EU-Ukraine Action Plan, as well as the MoU on co-operation in the field of energy. Out of a total budget of EUR 142 million for the 2007 National Action Programme for Ukraine, the assistance linked to the energy sector will amount to EUR 87 million.

In this context and in accordance with the second paragraph of the first joint EU-Ukraine report on the implementation of the MoU and the aide memoire signed on 14<sup>th</sup> September 2006, both sides recognise the importance of investments in oil and gas infrastructure, in particular the metering of oil and gas flows at Ukraine’s international borders to improve transparency and in order to upgrade the existing transit infrastructure.

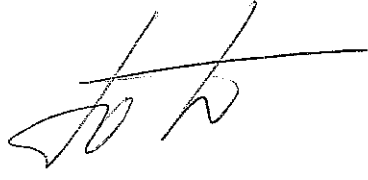
Done in Kiev on 14 September 2007:



Andris Piebalgs  
EC Commissioner for Energy



Benita Ferrero-Waldner  
EC Commissioner for External  
Relations and European  
Neighbourhood Policy



Yuri Boyko  
Ukrainian Minister of Fuel  
and Energy