



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP
INSTRUMENT**

UKRAINE

**COUNTRY STRATEGY PAPER
2007-2013**

CONTENTS:

EXECUTIVE SUMMARY	2
1. THE OBJECTIVES OF EU/EC COOPERATION WITH UKRAINE	2
1.1. OVERALL EXTERNAL POLICY GOALS OF THE EU	2
1.2. STRATEGIC OBJECTIVES OF EU/EC COOPERATION WITH UKRAINE.....	3
2.1. GENERAL ASPECTS	4
2.2. INTERNAL POLICY	4
2.3. EXTERNAL POLICY	5
3. THE POLITICAL, ECONOMIC AND SOCIAL SITUATION	6
3.1 ANALYSIS OF THE POLITICAL SITUATION	6
3.2 ANALYSIS OF THE ECONOMIC SITUATION AND TRADE STRUCTURE	7
3.3 ANALYSIS OF SOCIAL DEVELOPMENTS.....	8
4. AN OVERVIEW OF PAST AND ONGOING EC ASSISTANCE	9
4.1. EC ASSISTANCE TO UKRAINE 1991-2006.....	9
4.2. KEY LESSONS LEARNT FOR THE NEW PROGRAMMING CYCLE	11
4.3. COMPLEMENTARITY AND COORDINATION WITH OTHER DONORS	12
4.4. CONSISTENCY OF EC COOPERATION POLICY WITH OTHER CORE POLICIES OF THE EU (“POLICY MIX”)	13
5. THE EC RESPONSE STRATEGY	13
5.1. PRINCIPAL OBJECTIVE	13
5.3. INSTRUMENTS AND MEANS	16
ANNEXES:	
ANNEX 1	
LIST OF ABBREVIATIONS AND ACRONYMS	26
ANNEX 2	
UKRAINE AT A GLANCE	27
ANNEX 3	
UKRAINE COUNTRY ENVIRONMENT PROFILE	29
ANNEX 4	
PRIORITIES OF OTHER DONORS, INCLUDING MEMBER STATES	33
ANNEX 5	
“POLICY MIX” CONSIDERATIONS IN THE CONTEXT OF THE UKRAINE CSP	36
ANNEX 6	
EC ASSISTANCE TO UKRAINE 1991 - 2006.....	38

EXECUTIVE SUMMARY

This Country Strategy Paper (CSP) for Ukraine covers the period 2007-2013. Assistance to Ukraine over that period will principally be provided under the new European Neighbourhood and Partnership Instrument (ENPI) which is being established to promote the development of an area of prosperity and good neighbourliness between the European Union and the partner countries covered by the European Neighbourhood Policy (ENP).¹

Following the events which led to the “orange revolution” at the end of 2004, Ukraine has pursued an agenda of ambitious reforms to root democracy and the market economy firmly in the country and to bring Ukraine closer to the EU.

The principal objective of cooperation between the EU and Ukraine at this stage is to develop an increasingly close relationship, going beyond past levels of cooperation to gradual economic integration and deeper political cooperation, including on foreign and security policy.

EC assistance over the period covered by this strategy will therefore aim at supporting Ukraine’s ambitious reform agenda on the basis of the policy objectives defined in the Partnership and Cooperation Agreement (PCA) of April 1998 and the EU-Ukraine Action Plan of February 2005.

The National Indicative Programme (NIP) for 2007-2010 translates this into support for three priority areas:

- i) democratic development and good governance;
- ii) regulatory reform and administrative capacity building;
- iii) infrastructure development, in particular in the transport, energy and environment sectors, in close collaboration with the EIB, EBRD and other IFIs.

This new Strategy Paper for Ukraine has been developed in close consultation with the Ukrainian authorities and fully reflects national priorities. Member States, other donors and civil society organisations were consulted during the drafting process.

1. THE OBJECTIVES OF EU/EC COOPERATION WITH UKRAINE

1.1. Overall external policy goals of the EU

The EU promotes its values and interests by operating as a global economic and political player, using various instruments, ranging from the Common Foreign and Security Policy (CFSP), assistance and trade to the external dimension of the EU’s internal policies.

In particular, the EU strives to promote prosperity, solidarity, security and sustainable development worldwide.

¹ Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006.

It is of utmost importance to the EU to define the right “policy mix”. That means that, in the light of the EU’s strategic external relations objectives, policy coherence needs to be ensured between all available instruments in dealing with Ukraine.

1.2. Strategic objectives of EU/EC cooperation with Ukraine

Country-specific, regional and global strategic objectives together shape the EU/EC approach to cooperation with Ukraine:

A mutually beneficial partnership promoting Ukraine’s transition

In the Partnership and Cooperation Agreement (PCA) of 1 April 1998 the EU and Ukraine committed themselves to establishing a partnership which provides for close political and mutually beneficial trade and investment relations together with economic, social, financial, civil scientific, technological and cultural cooperation. The partnership is intended, in particular, to promote Ukraine’s transition to a fully fledged democracy and market economy.

Implementing the European Neighbourhood Policy (ENP) and the EU-Ukraine Action Plan

The objective of the ENP, launched in the context of the 2004 enlargement round, is to share the EU’s stability, security and prosperity with neighbouring countries, including Ukraine, in a way that is distinct from EU membership. The ENP is designed to prevent the emergence of new dividing lines in Europe by offering neighbouring countries closer political, security, economic and cultural cooperation. It also addresses one of the European Union’s strategic objectives set in the European Security Strategy of December 2003, namely to bolster security in the EU neighbourhood. ENP partners expect to gain closer cooperation with the EU, the chance to participate in EU programmes and a stake in the EU’s internal market, lending strong support to their own political and economic reforms. In the case of Ukraine, specific objectives have been established in the EU-Ukraine Action Plan which was jointly endorsed in February 2005. The Commission put forward a mid-term assessment of the implementation of the Action Plan in November 2006.

Security challenges

In the European Security Strategy of 12 December 2003 the EU acknowledged that, as a Union of 25 states with over 450 million people producing a quarter of the world’s gross domestic product (GDP), it is inevitably a global player.

One of the key policy implications of the European Security Strategy is the need for the EU to “promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations”. In addition to this, the Strategy clearly acknowledges the importance of promoting an international order based on effective multilateralism.

The European Union and Ukraine adopted an EU Justice and Home Affairs Action Plan (EU JHA AP) in December 2001 which addresses security challenges in a comprehensive way and has been integrated into the Action Plan.²

² The JHA Action Plan is in the process of being updated.

Development policy objectives

The EU's development policy is driven by the overriding objective of poverty reduction with the complementary aims of promoting good governance and respect for human rights.³ At the same time it emphasises the need for a differentiated approach depending on contexts and needs.

Ukraine used to be classified as a transition country in the OECD Development Assistance Committee's (DAC) list of aid recipients. With a GNI per capita of US\$ 1 260 (2004, Atlas method)⁴ and falling into the category of lower-middle income countries it has recently (December 2005) been included in the new single list of Official Development Assistance (ODA) recipients.

2. AN OUTLINE OF THE POLICY AGENDA OF UKRAINE

2.1. General aspects

Following the events which led to the "orange revolution" at the end of 2004, under President Yushchenko Ukraine has pursued an agenda of ambitious reforms in order to root democracy and the market economy firmly in the country.

The present Ukrainian leadership has clearly stated that it is firmly committed to using the EU-Ukraine Action Plan, jointly endorsed by Ukraine and the EU on 21 February 2005, as a key tool to promote its reform objectives. On this basis, the current policy objectives of Ukraine can be summarised as follows:

2.2. Internal policy

Consolidating democracy, protection of human rights and fundamental freedoms: Ukraine has committed itself to strengthening the stability and effectiveness of institutions guaranteeing democracy, protection of human rights and fundamental freedoms, as a basis for more generally consolidating the rule of law.

Consolidating the judiciary: The government has declared its intention to further judicial and legal reform in order to guarantee the independence of the judiciary, strengthen its administrative capacity and ensure the impartiality and effectiveness of prosecution.

Effective fight against crime and corruption: The government has declared the fight against corruption a priority. The programme calls for broad economic and social reforms and establishing a competitive market climate.

³ The key principles of the EU's development policy are set out in 'The European Consensus On Development' (see: http://europa.eu.int/comm/development/body/development_policy_statement/index_en.htm)

⁴ Note that PPP-adjusted GNI per capita (Atlas method) is US\$ 6 250 for 2004. Note also that these figures do not include the informal economy, which plays an important role in Ukraine.

Public sector reform: The government has declared its intention to promote comprehensive public sector reform, including both administrative reform and the regulatory reforms necessary to improve public governance.

Improving the investment climate: Actively addressing the broad range of issues affecting the investment climate with a view to strengthening investors' confidence is a key component of the government's approach to further economic growth. Objectives include improving transparency, predictability and simplification of regulation.

Provision of social services: The government has committed itself to continue implementing anti-poverty measures and to improving social services and access to health protection, with a particular focus on communicable diseases.

2.3. External policy

EU integration: This is one of the government's foreign policy priorities. The EU-Ukraine Partnership and Cooperation Agreement (PCA) reaches the end of its initial ten-year duration in 2008. Preparations are underway to start negotiations of an Enhanced Agreement, with a FTA as a core element, which will replace the PCA. In the meantime, Ukraine is making full use of the EU-Ukraine Action Plan to draw closer to the EU.

NATO accession: The leadership of Ukraine has been committed to joining NATO. The present government has linked NATO accession to the positive outcome of a referendum. Given that there is widespread resistance to NATO membership in the population, this will at least delay the process. An "intensified NATO-Ukraine dialogue" was launched in 2005.

Cooperation with Russia: Ukraine recognises that good bilateral relations with Russia are important for Ukraine, and that Russia is a key neighbour with strong political, economic and social interests in Ukraine. The developments related to the Ukraine-Russia gas agreement in late 2005-early 2006 have shown the great interdependence between the two countries, as well as the importance of their relationship for the EU.

Regional role: Ukraine is clearly committed to playing a constructive role in the wider region, including promoting settlement of the Transnistria conflict in Moldova and enhancing cooperation in the framework of GUAM.⁵

Promoting trade: Trade policy issues have been put at the heart of the government economic strategy. Swift completion of the WTO accession process is the government's top priority. Once the WTO accession process is completed, the government also envisages an early start to negotiations on a Free Trade Area (FTA) as part of an Enhanced Agreement with the EU.

⁵ GUAM is a regional organisation comprising Georgia, Ukraine, Azerbaijan and Moldova.

3. THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1 Analysis of the political situation

General aspects

Ukraine's political and security situation is influenced by its geographical location between Poland, Romania and Moldova in the west, Belarus in the north and Russia in the east. Russian political, economic and cultural influence has remained strong since the country gained independence in 1991, with the break-up of the Soviet Union. Russian influence is particularly marked in the eastern regions where most of the Russian minority which makes up about 20% of the Ukrainian population live.

The orange revolution has paved the way for significantly stronger relations between the EU and Ukraine and has put Ukrainian foreign policy on track towards "Euro-integration". The new government, under Prime Minister Yanukovich, takes a "euro-pragmatic" approach, with EU integration not as an immediate but a long-term goal.

Internal situation

Ukraine witnessed the first truly free and fair parliamentary elections in its history on 26 March 2006, a milestone in the country's democratic development. The elections were followed by a difficult period of political instability. President Yushchenko accepted the candidature of his rival in the 2004 presidential elections and former Prime Minister under President Kuchma (2002-2004), Viktor Yanukovych, who was appointed Prime Minister at the beginning of August 2006. The attempt, during summer-autumn 2006, to create a government of national unity bringing together Mr Yanukovych's Party of the Regions and President Yushchenko's "Our Ukraine" bloc did not succeed.

The challenges the new government is facing are considerable and the first months have shown that the difficult "cohabitation" between the President and the new Prime Minister has created considerable tension. In addition, the country is facing a number of short- to medium-term structural challenges, including in the areas of economic reforms, administrative reforms, separating private interests from politics and addressing migration-related problems.

External situation

Positive developments since the Orange Revolution have dramatically transformed Ukraine's international image and, in particular, has improved relations with the EU and the USA. The government is committed to promoting integration with European structures. Both President Yushchenko and Prime Minister Yanukovych have emphasised that Ukraine's European choice was irreversible, and that Ukraine's foreign policy course would continue to be focused on implementation of the EU-Ukraine Action Plan.

At the same time, the government sticks to its strategic political objective of EU accession, which enjoys broad support amongst the population. Less enthusiastically, the government continues its cooperation with NATO, but has pushed a possible NATO membership into the future, dependent on the outcome of a decision by the population in a referendum.

Relations with Russia have been difficult since the Orange Revolution and reached a head with the gas price dispute end of 2005/beginning of 2006. Prime Minister Yanukovich's first foreign visit was to Russia. During his visit, Mr Yanukovich participated in a Eurasian Economic Community (EurAsEC) informal summit. The governing coalition's agreement to put Ukraine's NATO membership to a referendum is likely to remove a source of contention with Russia for the time being. Unresolved disputes include the issues of border demarcation and the presence of the Russian Black Sea fleet in Sebastopol. On the latter, Ukraine's position is not to extend the bilateral agreement beyond its expiry date of 2017 and to request payment for the presence/rental of Ukrainian infrastructure to the Russian Black Sea Fleet at market prices.

On the Transnistria conflict, the Ukrainian government has played a key role, alongside the EU and other partners, in trying to help forward a solution to settle the Transnistria conflict. Ukraine's support for the EU Border Assistance Mission (EUBAM) which is currently deployed on Ukraine's border with Moldova, and for a new customs regime with Moldova that encourages Transnistrian companies to register in Moldova, have been key elements in these efforts. Ukraine's new government has confirmed its commitment to the EUBAM and to the customs regime.

Ukraine's external situation will remain closely related to internal developments. As Ukraine makes genuine progress on carrying out internal reforms and adopting European standards, relations between the EU and Ukraine will become deeper and stronger.

Prospects

The orange revolution has created a unique opportunity for Ukraine to realise its European aspirations and to transform itself into a modern democratic country. Free and fair parliamentary elections in March 2006 were another important step. There are high expectations on the new government, at home and abroad. Meeting these will require hard work, consensus-building and sustained implementation of reforms, with the assistance of the EU and other donors, as appropriate.

3.2 Analysis of the economic situation and trade structure

The Ukrainian economy declined dramatically after independence: by 1999 real GDP was down to around just 41% of its 1990 level. Economic output began to recover in 2000, thanks both to a favourable external environment and to some improvements in government policy. In 2004 it had reached about 61% of its 1990 level after real GDP growth rates of 9.6% in 2003 and some 13% in 2004. At the same time the ratio of public debt to GDP has been brought down, from more than 50% in 1998-99 to around 25% in 2004.

In 2005, a negative change in the terms of trade (import prices of energy increased while world market prices on Ukraine's steel exports tumbled) combined with sluggish investment in an uncertain policy environment led to a hard landing. Real GDP growth declined sharply to 2.6% against 12.1% in 2004. In 2006, however, the economic situation is improving. The drop in GDP growth experienced in 2005 has been reversed, and forecasts for 2006 growth are in the range of 5 percent.

The investment climate remains unpredictable, with often unclear laws and regulations, and uneven and arbitrary enforcement. In 2005 Ukraine could attract large foreign direct investments in the financial sector and steel industry. Due to these investment decisions, foreign direct investment (FDI) reached a record total of USD 7.3 billion in 2005. FDI in the first semester of 2006 amounted to USD 1.7 billion. In the absence of a substantial improvement in the investment climate, though, this steep increase in

FDI inflows may prove to be a one-shot phenomenon. For example, policy measures are required in areas such as the fight against corruption, a more transparent concept of further privatisation in full respect of the rule of law, the adoption of the Joint-Stock Company law, incompatibilities between civil and commercial code and court systems, the overall improvement of transparency and predictability and further reduction of the burden of licensing and inspection regimes.

While total EU trade with Ukraine has increased over the last years, growth in imports has exceeded by far growth in exports. In 2005, the merchandise trade balance turned negative (-1.1 bn USD) and the current account surplus narrowed from 10.5% in 2004 to 3% of GDP in 2005. Exports of goods increased by 5% (41% in 2004), and imports by 25% (26% in 2004). Regarding Ukraine's participation in the multilateral trade framework, in the last two years, the government of Ukraine has been committed to accelerate accession to the WTO, which should enable Ukraine to join the WTO still in 2006 or beginning of 2007.

On energy, a Memorandum of Understanding was signed at the EU-Ukraine Summit in Kyiv on 1st December 2005. It establishes a joint strategy towards the progressive integration of the Ukrainian energy market with that of the EU and consists of road maps covering four specific areas, namely:

- Nuclear safety;
- The integration of electricity and gas markets;
- Enhancing the security of energy supplies and the transit of hydrocarbons;
- Improving the effectiveness, safety and environmental standards in the coal sector.

It also foresees the development of a roadmap on energy efficiency, renewables and measures to tackle climate change. The issue of energy demand management has become a key priority for Ukraine following events earlier in 2006. Joint Implementing Groups have been established consisting of representatives of both the Commission and the Ukrainian authorities for each of the four roadmaps, as well as for developing the roadmap on energy efficiency and renewables.

3.3 Analysis of social developments

Ukraine is ranked 78th in the 2005 Human Development Report, with a Human Development Index (HDI) of 0.766. It thus outperforms all other countries benefiting from the European Neighbourhood Policy except Israel.

Extreme poverty is low but the share of the population living below a poverty line of approximately US\$ 455 per annum (2 423 Ukrainian hryvnia at the 2002 exchange rate) was 25.6% in 2002 concentrated amongst small towns, rural areas and families with young children. Thanks to strong economic growth and increased government spending on minimum wages and pensions, poverty levels have fallen over the last few years and are now estimated at about 20% of the population. However, this positive development has not been matched by a substantial increase in official employment and the informal economy continues to play a major role as a social buffer. The level of income inequality is low by international standards (Gini coefficient 0.3). Due to the difficult economic situation the incentive to seek employment abroad remains strong. Sex trafficking particular towards Western Europe continues to involve a significant number of women and children as victims.

Ukraine's population shrank from 51.6 million in 1991 to 48.0 million in 2004, reflecting a dramatic increase in mortality rates, in particular among males, a sharp decline in the birth rate and a significant net migration outflow. The increase in smoke- and alcohol-related diseases has been an important factor in the rise in male mortality, combined with the resurgence of communicable diseases such as tuberculosis, diphtheria and cholera. The levels of HIV/AIDS have soared, affecting 1% of the adult population, which is the highest rate in Europe. Other sexually transmitted diseases, such as syphilis, have also increased dramatically.

Maternal mortality, while falling since 1992, remains about five times the EU average. Ukraine is still facing the social legacy of the Chernobyl accident in 1986 with a significant number of people being permanently disabled by the accident. Access to essential health facilities, particularly for the poorest part of the population, remains a cause for concern.

While Ukraine scores well on literacy and enrolment indicators with an adult literacy rate of 99.6% (2002) and a net primary education enrolment rate of 84% (2002), the country's education system suffers from increasingly unequal access, eroding quality and low efficiency in use of resources.

3.4 Analysis of the environmental situation⁶

Ukraine faces significant challenges as regards environment protection. Air pollution is becoming a health and social problem. Water quality is affected by pollution and existing waste water collection and treatment infrastructure needs to be upgraded and new capacity constructed. Waste management is an important challenge, including prevention, collection, treatment, recovery and final disposal. As regards nature protection, deforestation and illegal logging are important issues. Ukraine is also affected by trans-boundary and global environmental issues, such as the use and protection of shared waters and climate change. The Ukraine National Strategy for the Environment covers the period 1998-2008 and has been the basis for developing sectoral programmes on a number of environment issues. Environment related framework legislation is in place in many areas but still needs further development. Implementing legislation is not yet fully developed and applied. Ukraine faces difficulties in the implementation and enforcement of environmental legislation due to lack of administrative capacity and insufficient resources, especially at regional and local levels.

4. AN OVERVIEW OF PAST AND ONGOING EC ASSISTANCE

4.1. EC assistance to Ukraine 1991-2006

The EU is the largest donor to Ukraine. The European Community alone has provided assistance totalling almost € 2.4 billion since 1991. This includes assistance under the Tacis programme (including its national, regional, cross-border and nuclear safety components) plus macro-financial assistance, support under thematic budget lines such as the European Initiative for Democracy and Human Rights (EIDHR) and humanitarian assistance provided by ECHO.⁷

⁶ A more detailed description of the environmental situation in Ukraine can be found in the Country Environment Profile (CEP) annexed to this CSP (Annex 3).

⁷ See Annex 6 for a detailed breakdown of EC assistance to Ukraine over the period 1991-2006.

Under the 2002-2006 **Country Strategy Paper** (CSP) assistance has focused on the three priority areas of: i) support for institutional, legal and administrative reform, ii) support to the private sector and assistance for economic development and iii) support in addressing the social consequences of transition. During the first four years covered by the CSP (2002-2005) 43% of available resources were allocated to the first priority, 28% to the second and 13% to the third. The remaining 16% went to “Small Project Programmes”, including civil society support (IBPP), customs, statistics and Tempus programmes.

Regional cooperation addressed, in particular, issues related to closer inter-state cooperation on transport and energy and sustainable management of natural resources focusing mainly on water. Ukraine has played an active part in the work of the High Level Group on the extension of the major trans-European transport corridors to neighbouring countries and regions and also in the EU-Black Sea-Caspian Basin Ministerial Conferences on Transport and Energy in November 2004 in Baku and in the follow-up working groups. Justice and home affairs priorities included further integrating border management, combating organised crime and international terrorism, and improving migration and asylum management.

Cross-border cooperation (CBC) focused on economic and social development of border areas, efficient border management and people-to-people contacts, which were fostered through the CBC Small Project Facility and its successor **Neighbourhood Programmes (NPs)**. Ukraine is eligible under four NPs, namely Poland-Belarus-Ukraine, Slovakia-Hungary-Ukraine, Romania-Ukraine and CADSES (Central European Adriatic Danubian South-Eastern European Space). Several Calls for Proposals have already been published, projects selected and contracted within the Slovakia-Hungary-Ukraine and Poland-Belarus-Ukraine programmes. For CADSES the first Call for Proposals was launched and project selection took place mid-2006. The bilateral programme with Romania is still at the planning stage with the first Call being expected in December 2006.

The EC is also providing support to Ukraine to fulfil its obligations under the Ottawa Treaty by a project aiming at the destruction of some 6.7 million anti-personnel landmines stockpiled in Ukraine.

In the area of **nuclear safety**, since the early nineties the EC has provided extensive support to Energoatom, the operator of the nuclear power plants in Ukraine, to upgrade/modernise its plants to internationally recognised nuclear safety standards. Euratom/EBRD loans have been granted to Ukraine for the “Modernisation Programme” for Khmelnytskyi unit 2 and Rovno unit 4 (K2R4).

The EC has also provided technical assistance to the Ukrainian State Nuclear Regulatory Committee. In addition, the EC is the largest contributor to projects to restore the Chernobyl site, either through direct funding or through funds managed by the EBRD like the Nuclear Safety Account and the Chernobyl Shelter Fund. The latter was set up in 1997 in order to implement the Shelter Implementation Plan, the main objective of which is to restore the damaged unit 4 at Chernobyl to an environmentally safe status. The total cost of the projects under this fund exceeds US\$ 1 billion. The Tacis Nuclear Safety Programme has also funded several other projects on the Chernobyl site, such as the Industrial Complex for Solid Radwaste Management (ICSRM).

Taking into account ongoing work the Memorandum of Understanding (MoU) signed at the EU-Ukraine Summit in December 2005 on cooperation in the field of energy included an agreement to conduct a safety evaluation of Ukrainian nuclear power plants by the end of 2006. This overall assessment will verify the compliance with international nuclear safety standards and requirements and identify needs for additional actions including financial aspects.

The EC also makes an annual contribution to the **Science and Technology Centre in Ukraine (STCU)** which is an intergovernmental organisation established by a number of donor countries dedicated to the non-proliferation of technologies and expertise related to weapons of mass destruction. Since 1994 the STCU has supported about 845 projects and 12 500 scientists.

4.2. Key lessons learnt for the new programming cycle

The Commission has recently completed an evaluation of the Tacis programme as a whole⁸. A Country Strategy evaluation for Ukraine was finalised in 2003. Its main recommendations were integrated into the current 2004-2006 National Indicative Programme but remain relevant to this new programming exercise as well.

The abovementioned evaluations suggest that overall the **relevance** of the Tacis assistance has been high and responding to the needs. However, in particular during the first few years, the programme was mainly governed by a “top-down” approach. This was partly a consequence of the need for institution building in the countries in transition and partly due to an insufficient sense of ownership on the part of the national authorities. In the specific case of Ukraine this problem seemed less severe than in other Tacis countries. Furthermore, National Indicative Programmes (NIPs) tended to be over-detailed which restricted adaptability at project identification level in order to respond flexibly to evolving needs.

The EC will focus in this new programming exercise on defining strategic priorities and objectives rather than specific activities or delivery mechanisms. National authorities are being involved in the process from the very beginning and have shown a greater level of commitment and ownership as a result of the clearer political framework provided by the ENP and the EU-Ukraine Action Plan.

The Tacis evaluation noted that the programme is characterised a large number of “**stand-alone**” **technical assistance projects**, in particular on institutional and administrative reform. These often achieve good results at project level⁹ but have **limited impact at sector and national policy level** due to a lack of continuity and coherent long-term sector planning. A similar conclusion had been reached in the 2003 country strategy evaluation and also emerged from the thematic evaluation on good governance where Ukraine was one of the countries being analysed in more detail.

In terms of the key priority areas covered by previous Tacis assistance to Ukraine the evaluators single out JHA-related projects as well-coordinated and monitored by the JHA scoreboard system. By contrast, problems are being observed with the impact of projects and sustainability of results in the health sector, mainly due to delays in the implementation of pilot projects and questionable political commitment in this specific area. In the case of economic development the Commission has been most successful when addressing issues related to an enabling regulatory environment for business and investment. This assessment is also confirmed by a recent (October 2005) Evaluation of EC support to Private Sector Development in Third Countries which concluded that “...the EC has a higher comparative advantage in macro- and institutional interventions and a lower one in interventions in financial markets”. The civil society and local initiatives part of the Institution Building Partnership

⁸ The full report of the Tacis evaluation is available at:

http://ec.europa.eu/comm/europeaid/evaluation/document_index/2006/728_docs.htm

⁹ This is confirmed by a detailed analysis of project monitoring reports for Ukraine over the period 2002-2005 which shows – on a scale of 1-4 - an overall rating of 2.8 which is well above the median point of 2.5.

Programme (IBPP) is described as a success, not least because it has been more flexible than larger projects.

The above sector-specific findings are being fully taken into account in defining future priority areas for EC assistance to Ukraine. Issues related to JHA and regulatory reform are at the forefront of the EU-Ukraine Action Plan and will remain key areas for EC support in the future. In the areas of good governance and legal and administrative reform future assistance will build on the substantial work carried out to date but aim at increasing impact by designing future interventions in a more integrated and coherent manner.

4.3. Complementarity and coordination with other donors

Although some donors, including EU Member States, are scaling down their activities in Ukraine, a large number of donor organisations are still active in the country.

The principal ones, in addition to the EC, are the World Bank, EBRD and UNDP, the USA and Canada, and, of the EU countries, Germany, Sweden, the United Kingdom, Denmark, Poland and the Slovak Republic. The EIB has started operations in Ukraine as well.

Donors' activities are focusing in particular on issues related to governance, economic reform and development, and social reform and protection. In particular, the World Bank and EBRD are also active in the field of infrastructure development.¹⁰

The EC is currently, to varying degrees, active in all the abovementioned areas. Under this new strategy EC assistance will continue to focus strongly on governance-related issues and the regulatory aspects of economic reform. Support for infrastructure development in close collaboration with the EIB, EBRD and other IFIs will be further strengthened. In the area of social reform the EC will focus on structural changes in social sectors and their approximation to EU standards. As a major contributor to the Global Fund to fight AIDS, Tuberculosis and Malaria the EC will continue to support the fight against HIV/AIDS in Ukraine.

Ukraine has recently stepped up its efforts to strengthen government-led donor-coordination and a set of sector-specific government-donor working groups have been established. The EC Delegation in Kyiv hosts regular coordination meetings with other donors, including on this future strategy. In addition, frequent informal contacts are maintained, mostly on sector-specific issues.

Such coordination efforts need to be further strengthened over the period covered by this strategy as the EC – *inter alia* in the context of the commitments made in Paris in March 2005 on Aid Effectiveness and Harmonisation - will increasingly aim at providing assistance on the basis of sector-wide programme support, including pool funding and budgetary support as appropriate.

¹⁰ See Annex 4 for a more detailed analysis of donors' activities.

4.4. Consistency of EC cooperation policy with other core policies of the EU (“policy mix”)

Relations with Ukraine are affected by a number of other Community policies which is why it is so important to choose the right “policy mix”. This concerns, in particular, Common Foreign and Security Policy (CFSP), border management and migration, trade, energy, transport and environment protection. Information and communication technology issues are also highly relevant. See Annex 5 for a detailed discussion of “policy mix” considerations.

5. THE EC RESPONSE STRATEGY

5.1. Principal objective

The principal objective of cooperation between the EU and Ukraine at this stage is to develop an increasingly close relationship, going beyond past levels of cooperation to gradual economic integration and deeper political cooperation, including on foreign and security policy.

EC assistance over the period covered by this strategy will therefore aim at supporting Ukraine’s ambitious reform agenda to root democracy and the market economy firmly in the country and to bring Ukraine closer to the EU. As the largest donor to Ukraine, the EU has the leverage necessary to make a major contribution to the reform process. In addition, most donors recognise the special role of the EU due to Ukraine’s European aspirations and are increasingly aligning their activities with the policy objectives set in the EU-Ukraine Action Plan.

5.2. EC assistance priorities

EC assistance priorities have been identified primarily on the basis of the policy objectives defined in the jointly agreed EU-Ukraine Action Plan and for the purposes of this Strategy Paper are presented under the six chapter headings in the Action Plan.

These assistance priorities apply to all assistance instruments and programmes which will or might be available for Ukraine.

Political dialogue and reform

EC assistance in this area will focus on strengthening democracy and good governance, the rule of law, human rights and fundamental freedoms. This also covers the fight against crime and corruption and fostering the development of civil society, including in the social and economic sphere.

In the field of enhanced cooperation on foreign and security policy, particular attention will be paid to issues related to WMD non-proliferation and disarmament, including conventional disarmament, and to conflict prevention and crisis management with a view in particular to Ukraine’s regional role in resolving the Transnistria conflict in Moldova.

Economic and social reform and development

Assistance will be offered to enable further progress on the establishment of a fully functioning market economy. This entails further advances in gradual approximation of laws and regulations to those of the EU and effective implementation thereof and also improving the investment climate by ensuring transparency, predictability and simplification of procedures. Furthermore, assistance will be provided with the aim of strengthening social reform and encouraging approximation to EU social standards, thus contributing to poverty reduction and improving the employment situation in Ukraine. Reducing regional imbalances and improving local development capacities are further important issues in this respect as is the promotion of sustainable development and mainstreaming it into all relevant sectoral policies.

Trade, market and regulatory reform

EC assistance will be offered to support the process of market and regulatory reform, at the same time bearing in mind the challenges Ukraine will face with a view to the EU-Ukraine Free Trade Area envisaged once the WTO accession process has been completed.

This will cover a broad range of areas including customs legislation and procedures, technical regulations, standards and conformity assessment, sanitary and phytosanitary issues (SPS), establishment and company law, financial services and markets, taxation, competition and consumer protection policy, development of the legislative and administrative framework for SMEs, intellectual and industrial property rights, public procurement and statistics.

Cooperation in justice, freedom and security

The EU Action Plan on Justice and Home Affairs with Ukraine of 10 December 2001 (JHA AP) defines the broad areas of cooperation with Ukraine in the field of justice, freedom and security (JFS). In this context EC assistance will focus on: i) migration and asylum, ii) border management including re-admission-related issues, iii) organised crime and terrorism and iv) the judiciary and the rule of law. EC assistance should promote institutional reform and capacity building such as support for fundamental overhaul of the judicial system, measures to bring the border guard service and the asylum system fully into line with European standards as well as strengthening the fight against money laundering.

Transport, energy, information society and environment

Strengthening administrative capacity for the formulation and implementation of sectoral strategies and policies converging towards relevant EU policies and legislation is a general priority in the transport, energy, information society and environment sectors.

In the energy sector assistance will be provided to support the implementation of the Memorandum of Understanding (MoU) on cooperation in the field of energy between Ukraine and the EU which was signed at the EU-Ukraine Summit of 1 December 2005 and defines four specific areas of action¹¹.

¹¹ The four specific areas of action defined in the MoU are as follows: i) nuclear safety of operating Ukrainian nuclear power plants, ii) the integration of electricity and gas markets, iii) enhancing the security of energy supplies and the transit of hydrocarbons and iv) enhancing the effectiveness, safety and environmental standards in the coal sector.

Support will also be given to improving energy efficiency and measures to tackle climate change and to promoting new or renewable energy sources.

In the field of transport assistance will focus on improving the efficiency, security and safety of transport operations and on developing intermodality.¹² This concerns road and aviation (where work on the creation of a common aviation area to integrate Ukraine into European aviation structures is ongoing) as well as maritime and inland navigation safety plus maritime and aviation security, where training measures should also be envisaged. Another area for assistance should be the rail sector where steps should be taken towards ensuring interoperability between the Ukrainian railway system and the EU network. Preparations for investment for selected major transnational axes and further assessment of infrastructure projects are to be supported too. Such support to infrastructure development will be subject to full compliance with the relevant requirements of the EU *acquis*. Finally, assistance including training and research-type actions should be available to help Ukraine benefiting from the GALILEO and EGNOS satellite navigation systems to facilitate internal and cross-border transport flows and tracking of shipments without costly investments in ground infrastructure.

On the environment particular attention will be paid to support for implementation of multilateral environmental agreements, in particular the UN Framework Convention on Climate Change and its Kyoto Protocol as well as UN-ECE conventions. Activities to improve water quality, such as through the relevant component of the EU Water Initiative, are also envisaged. Further priority areas are waste management, prevention of industrial risks and nature protection.

As far as the information society is concerned support will be provided not only for the abovementioned policymaking, capacity-building and regulatory aspects including for the establishment of a regulator but also to promote the use of new information society technologies and online services by businesses, the administration and citizens.

People-to-people contacts

Assistance for reforming and upgrading the education system with a view to working towards convergence with EU standards and practices will be essential to strengthen democratic development, social stability and economic competitiveness. This will include fuller participation in programmes such as Tempus and Youth in Action, greater opportunities for Ukrainian nationals to participate in exchange programmes such as Erasmus Mundus, and investigating the possibilities for cooperation in the framework of EU programmes in the field of culture. Ukraine's ratification of the UNESCO Convention on the protection and promotion of the diversity of cultural expressions, which was adopted in October 2005, will be an important element in the development of cultural cooperation with Ukraine, as this text will be the basis for such cooperation.

Support for scientific and technological cooperation will also be important with a view to contributing to sustainable and equitable economic development of Ukraine including through fuller participation in research-related activities such as the 7th Framework Programme, joint research projects, the Marie Curie international mobility scheme for scientists and practical training at the seven institutes of DG Joint Research Centre (DG JRC).

¹² This is in line with the recommendations of the High Level Group on the extension of the trans-European transport axes towards neighbouring countries and regions and in accordance with the priorities identified within the framework of the follow-up Working Groups to the Baku Ministerial Transport Conference of November 2004.

5.3. Instruments and means

From 2007 on EC assistance will be provided through a set of new instruments. While the European Neighbourhood and Partnership Instrument (ENPI), including not only its national but also its transnational/regional, cross-border and thematic components, will be the principal new tool for providing assistance to Ukraine, certain measures, in particular in the area of conflict prevention and crisis management and resolution, may also be supported under the future Stability Instrument. In addition, the nuclear safety sector will be covered by a dedicated Nuclear Safety Instrument.

The introduction of these new external assistance instruments will substantially increase flexibility. Technical assistance will no longer be the predominant channel for the Commission's external assistance programmes to Ukraine.

As indicated in the EU-Ukraine Action Plan, new cooperation tools like Twinning or TAIEX will play an essential role in achievement of the Action Plan priorities. These instruments, together with other types of assistance (infrastructure and equipment funding, pool funding and budgetary support - including in the context of sector-wide approaches (SWAPs)) will be available and used whenever appropriate.

Interest rate subsidies and other ways of blending grants and loans can leverage investments by international financing institutions in the fields of environment, energy and transport. Whenever interest rate subsidies are considered, their relevance shall be assessed on a case-by-case basis and care should be taken to avoid significant market distortion. As regards environment, relevant sectors include water management, waste management and industrial pollution. For energy, possible areas include renewable energy resources and energy efficiency. Energy infrastructure/network investments should in principle be commercial operations given their financial return. In exceptional circumstances, though, where specific EU interests are involved (notably, energy security of supply) and it appears difficult to get a project started, targeted interest rate subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest rate subsidies or other blending schemes would focus on catalysing funds for critical infrastructures of strategic importance, such as cross-border measures on the priority axes or the missing links necessary for their completion.

Twinning and TAIEX are being phased in already under the current Tacis programmes for Ukraine, in particular to support the national authorities in preparing coherent sectoral strategies. As appropriate, Ukraine will receive support for participation in Community programmes, agencies and networks, insofar as these will be open to the country. The clearer framework provided by the Action Plan will contribute to ensuring the consistency of EU assistance within specific sectors.

Cross-cutting issues such as human rights, gender and the environment will be mainstreamed into the design of all programmes and projects to the maximum extent possible. The preceding chapters of the CSP provide more detailed analytical information on these subjects.

ENPI national allocation for Ukraine

Assistance provided under the national ENPI envelope for Ukraine will focus on the following three priority areas which have been selected on the basis of joint EU-Ukraine policy objectives and the EC's

comparative advantage as a donor based on lessons learnt from previous assistance and complementarity with other donors:¹³

Priority Area 1: Support for Democratic Development and Good Governance

- Sub-priority 1: Public administration reform and public finance management
- Sub-priority 2: Rule of law and judicial reform
- Sub-priority 3: Human rights, civil society development and local government
- Sub-priority 4: Education, science and people-to-people contacts/exchanges

Priority Area 2: Support for Regulatory Reform and Administrative Capacity Building

- Sub-priority 1: Promoting mutual trade, improving the investment climate and strengthening social reform
- Sub-priority 2: Sector-specific regulatory aspects

Priority Area 3: Support for Infrastructure Development

- Sub-priority 1: (non-nuclear) Energy
- Sub-priority 2: Transport
- Sub-priority 3: Environment
- Sub-priority 4: Border management and migration including re-admission related issues

ENPI Eastern trans-national/regional programme¹⁴

The regional ENPI component will contribute to achievement of the objectives outlined in this strategy by addressing a limited number of priorities relevant to Ukraine but with a genuine regional dimension both in terms of joint implementation and impact.

At sectoral level, this relates in particular to **transport** (development of trans-national transport links in line with the recommendations of the High Level Group and of the Transport Ministerial Conference in Baku on 14 November 2004 and its follow-up working groups), **energy** (covering, in the context of the follow-up to the Energy Ministerial Conference in Baku on 13 November 2004, all regional elements in this domain, in particular in relation to harmonising energy markets, the transit of oil and gas, electricity, energy efficiency and renewables and facilitating investment in energy projects of common interest) and the **environment** (targeting *inter alia* the regional dimension of the EU Water Initiative and regional aspects of protection and sustainable management of forests, regional cooperation concerning regional seas, and compliance with multi-lateral agreements).

Beyond that, certain aspects of **border and migration management, the fight against trans-national organised crime, and customs** can also be addressed more effectively at regional level when action at regional level completes that on national level. This could include action on customs and border management, the fight against trans-national organised crime and migration and asylum management.

¹³ Assistance provided for the first two priority areas will address issues linked to all six EU-Ukraine Action Plan headings. "Infrastructure development" relates principally to chapters 4 and 5 of the Action Plan ("Justice, freedom and security" as well as "Transport, energy, information society and environment"). For the first four years covered by this strategy further details will be given in the National Indicative Programme for 2007-2010.

¹⁴ Details of the ENPI Eastern Regional Programme are covered in separate programming documents.

There will also be scope for regional activities regarding **SME cooperation** and **civil society cooperation**. Finally, assistance related to the destruction of anti-personnel landmines, explosive remnants of war and small arms and light weapons will be available.

The ENPI Eastern Regional Programme should also encourage the development of regional cooperation initiatives (such as GUAM or BSEC) by considering, wherever possible, providing financial assistance for specific projects in line with programme priorities.

ENPI-Wide Programme¹⁵

The ENPI-wide programme will include activities that for reasons of coherence, visibility and administrative efficiency are best implemented in the same way for all the neighbouring countries. Examples are TAIEX, TEMPUS and the new Scholarship Programme.

ENPI cross-border cooperation (ENPI CBC)¹⁶

As outlined in Commission Communications¹⁷ and the ENPI CBC Strategy 2007-2013, four overarching objectives will be addressed through these programmes: **i)** promoting economic and social development in the border areas, **ii)** working together to address common challenges in fields such as the environment, public health and the prevention of and fight against organised crime, **iii)** ensuring efficient and secure borders and **iv)** promoting local “people-to-people” type action.

The specific objectives and issues to be addressed in each programme will be set from a local perspective, by the ENPI CBC programme partners reflecting their local priorities. The management of the programmes will likewise be a shared responsibility of the local programme partners.

The programmes will be able to support the full range of projects, from small-scale local initiatives with local administrations and NGOs/civil society organisations to large-scale projects involving a large number of partners at regional and sub-national level. The ENPI CBC programme will also allow for investments in a cross-border context.

Ukraine will be involved in four ENPI CBC programmes: three landborder programmes (1: Poland, Ukraine, Belarus, 2: Hungary, Slovakia, Romania, Ukraine and 3: Romania, Ukraine, Moldova) and the multilateral Black Sea programme.

Instrument for the Promotion of Democracy and Human Rights (EIDHR II)

A separate instrument will continue to be available to promote democracy and human rights world-wide. As in the past, Ukraine will benefit from assistance under this instrument, mainly under broader Calls for Proposals involving several countries or regions. Details will be elaborated as part of a separate programming process. Full complementarity with the assistance provided under the national ENPI envelope will be ensured.

¹⁵ Details of the ENPI-wide Programme are covered in separate programming documents.

¹⁶ Details of the ENPI cross-border cooperation programme are covered in separate programming documents.

¹⁷ See in particular COM(2003) 393 final of 1 July 2003 (“Paving the way for a New Neighbourhood Instrument”).

Thematic programmes¹⁸

A set of five thematic programmes will be available as from 2007¹⁹. Out of these the programme on “Migration and Asylum” (ex-Aeneas) will be particularly relevant for Ukraine. Other thematic programmes of potential relevance to Ukraine are the one on “Human and Social Development – Investing in People” and on “Environment and sustainable management of natural resources including energy”. As all the above areas are however also addressed under the national, regional or CBC ENPI envelopes, additional thematic activities will be launched only if they provide clear added value.

Nuclear Safety Instrument²⁰

Beyond 2006 EC assistance in the area of nuclear safety will be provided under a new instrument. Support is expected to continue for safety improvements to nuclear plants, the Nuclear Regulator, improved management of nuclear wastes and projects to restore the Chernobyl site.

Stability Instrument

The main goal of the Stability Instrument is to provide an effective, timely, flexible and integrated response to crises, emerging crises or continued political instability.

In the case of Ukraine this is particularly relevant to the Transnistria conflict which continues to call into question Moldova’s territorial integrity and challenges Ukraine’s security. Ukraine is making fresh efforts to help Moldova settle this conflict. Future support for such efforts may be provided under the Stability Instrument.

Equally important for Ukraine may be measures to address the effects on the civilian population of anti-personnel mines, unexploded ordnance or other explosive devices. Such measures may, where appropriate, be addressed under the Stability Instrument as well as the national and regional envelopes of the ENPI.

Future EC contributions to the Science and Technology Centre in Ukraine (STCU) are also expected to be provided in the framework of the Stability Instrument.

¹⁸ Financial resources from ENPI allocated to each thematic programme will be programmed on the basis of a single programming document. Full complementarity with actions under national, regional and CBC components will be ensured..

¹⁹ These will cover: 1) Migration and Asylum, 2) Human and Social Development, 3) Non-state actors and Local Authorities in Development, 4) Environment and sustainable management of natural resources including energy and 5) Food Security.

²⁰ There will be separate programming documents for the Nuclear Safety Instrument.

List of abbreviations and acronyms

AP	Action Plan (also: EU-Ukraine Action Plan)
CADSES	Central European Adriatic Danubian South-Eastern European Space
CBC	Cross-Border Cooperation
CEP	Country Environment Profile
CFSP	Common Foreign and Security Policy
CSP	Country Strategy Paper
DAC	Development Assistance Committee
FTA	Free Trade Agreement
GUAM	Georgia, Ukraine, Azerbaijan and Moldova (regional organisation)
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
ECHO	European Commission Humanitarian Aid Office
EIDHR	European Initiative for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
IBPP	Institution Building Partnership Programme
IFIs	International Financial Institutions
JHA	Justice and Home Affairs
JFS	Justice, Freedom and Security
MoU	Memorandum of Understanding
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NPP	Neighbourhood and Partnership Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PCA	Partnership and Cooperation Agreement
RIP	Regional Indicative Programme
RSP	Regional Strategy Paper
STCU	Science and Technology Centre in Ukraine
SWAP	Sector-Wide Approach
TAIEX	Technical Assistance Information Exchange Unit
UAH	Ukrainian Hryvnia (national currency)
UNECE	United Nations Economic Commission for Europe
UNDP	United Nations Development Programme
WTO	World Trade Organisation

ANNEX 2

UKRAINE at a Glance

Land area 579,350 km ²	Population 47.1 million (2005)	Population density 83 per km ²
Population of main town Kyiv: 2,611,000 (2001) compared to 2,595,000 (1989)		
Annual population change (% per year)		
2000: -0.8	2001: -0.8	2002: -0.8
2003: -0.7	2004: -0.7	2005: -0.7

Sources:

2006 World Development Indicators, The World Bank, Washington DC, April 2006
 State Statistics Committee of Ukraine



Economic Indicators

	2000	2001	2002	2003	2004	2005
GDP per capita growth (annual %)	6	9	5	9	12	3
GDP (PPP) per capita in US \$	4076,468	4601,881	4924,931	5312,395	5663,513	6045,464
GDP per capita, current prices (US \$)	632,447	776,904	874,854	1028,286	1182,850	1291,398
GNI per capita, Atlas method (US\$)	690	720	780	970	1,260	1,520
Exports of goods and services (% of GDP)	62	55	55	58	61	54
Imports of goods and services (% of GDP)	58	54	51	55	54	53
Inflation % CPI	28	12	1	5	9	13.5
Debt service (% of exports of goods and services)	10	7	5	6	6	..
Cash surplus/deficit (% GDP)	-1	-1	0	0	-3	..

Sources: 2006 World Development Indicators, The World Bank, Washington DC, April 2006
IMF World Economic Outlook Database

International Financial Statistics service of the International Monetary Fund

Selected Social Indicators

	2000	2001	2002	2003	2004
Adult literacy rate over 15s %	99.6	99.6	99.6	..	99.4
Primary school enrolment (% net)	81	82	84
Secondary school enrolment (% net)	89	84	85
Life expectancy at birth	68	..	68	68	68.2
Underweight children <5 (%)	3	3	3	3.2	..
<5 mortality rate (per 1,000 live births)	21	20	20	20	18
Maternal mortality rate (per 100,000 live births)	35	25	18	22	13
1-year-olds fully immunized (against measles, %)	..	99	99	99	99
1-year-olds fully immunized (against tuberculosis, %)	..	99	98	98	..
Births supervised by trained personnel (%)	99	99	100	100	100
Households with access to improved water source (%)	98
Reported new cases of HIV	6,216	7,009	8,761	10,013	12,494
Unemployment rate (ILO definition)	11.7	11.1	10.1	8.7	..

Sources:
2006 World Development Indicators, The World Bank, Washington DC, April 2006
World Bank Report on socio-economic impact of HIV/AIDS in Ukraine, May 2006
UNDP Human Development Reports
UNAIDS Country Progress Report for Ukraine, 2006

Ukraine - Country Environment Profile

1) State of the environment

The key environmental issues in Ukraine relate to air quality, water quality, waste management, nature protection and radiation contamination in the north-eastern part of the country.

Air pollution is becoming a health and social problem. With regard to **water quality**, the Dniepro which supplies three quarters of Ukraine's fresh water is heavily polluted. The Crimea suffers from water supply shortages. International cooperation to address environmental concerns in the Azova Sea and the Black Sea areas needs to be enhanced. Existing waste water collection and treatment infrastructure needs to be upgraded and new capacity constructed. **Waste management** is a serious problem, including prevention, collection, treatment, recovery and final disposal. Large amounts of hazardous waste have been generated, in particular mining waste. **Industrial pollution** is a challenge, in view of the historical pollution sources and the inefficient use of resources as well as emissions into air, water and the waste generated by the industrial installations. As regards **nature protection**, deforestation and illegal logging are giving rise to economic and health costs.

Current **trans-boundary environmental issues** include the use and protection of shared waters – in particular the Danube River and the Black Sea. The Danube is a heavily utilised resource. It supports drinking water supply, irrigation, industry, fishing, tourism, power generation and navigation. It is frequently also the point of final disposal for wastewater. Severe problems with water quality and quantity have resulted, and biodiversity in the region is diminishing. The Black Sea is subject to similar problems, the most serious of which are wastewater discharges, oil pollution in coastal areas and a loss of biodiversity, including fish stocks.

As regards **global environment issues**, Ukraine has shown keen interest in climate change, in particular the possibilities to use the flexible mechanisms under the Kyoto Protocol, which Ukraine ratified in April 2004. Ukraine has entered into a binding commitment to freeze its greenhouse gas emissions at the 1990 reference level by 2008–2012, and therefore needs to implement the relevant provisions of the Protocol.

2) Environment policy

In 1998 Ukraine drafted a National Strategy for the Environment to cover the period 1998-2008. It was amended in 2003 and has been the basis for developing sectoral programmes on key environment issues such as environmental safety (including nuclear energy), drinking water and construction or rehabilitation of water facilities, prevention of deterioration of the Black Sea, sustainable management of natural resources, environment technologies and protection of biological and landscape diversity. The Strategy is currently being reviewed.

3) Environmental legislation and implementation

Ukraine adopted the Framework Law on Environment Protection in 1991. Since then it has adopted several pieces of legislation to aim at convergence with EU *acquis*.

With regard to **horizontal issues**, Ukrainian legislation contains provisions on environment impact assessment, but these are not always implemented and enforced. Concerning access to information and public participation, Ukraine has been seeking to incorporate the provisions of the Aarhus Convention into its national legislation.

In the case of **air quality**, framework legislation is in place, but monitoring procedures and equipment need to be improved. In the area of **waste management**, adoption of a new law on waste is under consideration. Mechanisms for implementation are also lacking. Further implementation mechanisms are needed to address **water quality** problems, as in some regions water quality needs considerable improvement. In the field of **nature protection**, a law on ecological networks has been adopted. Legislation on integrated industrial permits is under consideration.

A draft law aiming at integrating environmental considerations into all sectoral policies is under consideration.

Overall, environment legislation is in place in most areas but still needs further development. Implementing legislation is not yet fully developed and applied. Ukraine faces difficulties with implementation and enforcement of environment legislation due to limited administrative capacities and financial resources, especially at regional and local levels.

4) Administrative capacity

In September 2003 the Ministry of the Environment and Natural Resources was split into the Ministry of Protection of the Natural Environment of Ukraine and the State Committee for Natural Resources. The former is in charge of environment protection, the latter of rational use of natural resources. During 2005 the State Committee for Natural Resources was liquidated and its staff and functions were transferred to the Ministry of Protection of the Natural Environment. Other ministries, such as the Ministry of Health, are also responsible for environment-related matters.

The Ministry of the Environment and Natural Resources has branch offices at regional level, called State Departments for Environment Protection. The Government established an inter-departmental commission on environment monitoring in 2001.

In order to enhance strategic planning, implementation and enforcement of environment legislation, the major challenge facing Ukraine is to strengthen administrative capacity at national, regional and local levels, including coordination between the relevant authorities.

5) Participation in regional and international processes

Ukraine has ratified the relevant **international and regional conventions** (including the Espoo and Bern Conventions) to which it is signatory, with the exception of the Stockholm Convention on Persistent Organic Pollutants (POPs) and the following protocols of the UN-ECE 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 Transboundary Fluxes.

Ukraine is a member of the **Danube-Black Sea (DABLAS) Task Force**, which provides a platform for cooperation between IFIs, donors and beneficiaries on water protection and water-related issues concerning the Danube and the Black Sea. The main aim is to encourage a strategic focus to the use of

financing, and to coordinate action between all financial instruments operating in this region. Ukraine is also a member of the **International Commission for the Protection of the Danube River (ICPDR)**, which is identifying the work necessary to implement the EU Water Framework Directive – with the aim of keeping water in good ecological and chemical condition – across the whole of the basin.

Ukraine is also participating in the **“Environment for Europe” process**, which is a multilateral framework created in 1989 to steer the process of raising environmental awareness in the countries of Central and Eastern Europe, emerging from the old regimes and moving closer to the EU. The core activities of this process are undertaken by a Task Force co-chaired by the Commission and an NIS environment minister.

Ukraine is participating in the Eastern Europe, Caucasus and Central Asia regional component of the **EU Water Initiative**, a regional component of the EU Water Initiative as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders.

The **EU-Ukraine Working Group on Climate Change** met for the first time in 2002 and held its second meeting in July 2005.

Work is under way to establish a **Regional Environmental Centre (REC)** to help to address environment issues in Ukraine and neighbouring countries by promoting cooperation between various stakeholders at national and local levels, including NGOs, governmental bodies, local communities and the business sector. The REC would also aim to promote public participation in the environmental decision-making process.

6) Key areas of the environment where action is required

Ukraine faces significant challenges to promote environment protection. Key areas include air quality, water quality, waste management, nature protection and radiation contamination in the north-eastern part of the country.

As regards climate change, Ukraine needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change. Ukraine has significant possibilities to use flexible mechanisms under this Protocol.

The institutional and administrative capacity needs strengthening, in particular as regards strategic planning, implementation and enforcement. A fully operational Regional Environment Centre (REC) could help to promote environmental awareness and protection by providing a forum for cooperation between the Government, civil society/NGOs and the private sector.

The key environment areas where action is required are identified in the environment section of the EU-Ukraine Action Plan established in the framework of the European Neighbourhood Policy. It defines a set of priorities for action with regard to environmental governance, issue-specific activities as well as on international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to fulfilling the objectives of the Partnership and Cooperation Agreement.

Priorities of other donors, including Member States

Member States and the EIB

From the **EU-27** Sweden, the United Kingdom (UK), Denmark, Germany, the Netherlands, the Slovak Republic and Poland provide assistance to Ukraine.

Sweden (SIDA) has just adopted its new assistance strategy for Ukraine covering the period 2005-2008. Funding during this period is set to double from around €9 million to €13-17 million a year towards the end of the period covered by this strategy. Sweden's bilateral assistance will focus on strengthening democracy, economic and social reform and the environment. Participation in large, sector-wide, multi-donor programmes is encouraged under the new strategy.

The **UK** (DFID) is presently providing assistance (approximately £6.5 million per annum) at both regional and national levels in a range of areas: social protection, economic development and regeneration, community and civil society engagement, HIV/AIDS and public administration reform. The DFID is reviewing its development programme in Ukraine and will be revising its focus and level of engagement over the period 2006-2008.

Denmark provides bilateral assistance to Ukraine through targeted programmes. For the period 2004-2007, approximately € 5,3 million have been allocated to Ukraine covering the sectors: free and independent media, combating human trafficking and strengthening civil society. The contribution to Ukraine is expected to increase over the next couple of years to support the reform process through cooperation with both the authorities and NGOs. A project to support the reform of the public sector in Ukraine is under preparation.

Germany has developed intensive bilateral cooperation with Ukraine since the beginning of the 1990s to help strengthen democracy, the rule of law and market economy reforms. From 1993 to 2004, the Federal Government granted Ukraine support totalling approximately €15 million under its TRANSFORM programme. The budget for 2005/2006 is € 48 million. Priority fields are energy (production and transmission) as well as the development of small and medium business. Moreover, Technical Assistance is granted to support administrative reforms and prevention of HIV/AIDS.

The Netherlands provides support to Ukraine through the MATRA programme, designed to promote social transformation in Central and Eastern Europe. (MATRA is a Dutch acronym for "social transformation".) Within MATRA the most important areas in Ukraine are healthcare, the environment, human rights/minorities and the media. A total of more than €16 million has been committed to Ukraine since 1994.

Assistance of the **Slovak Republic** to Ukraine since 2004 has aimed at building the capacities of civil society and think-tanks including in the Eastern Regions of the country and promoting independent media. Support was also provided to support the transformation of structures of local self-governance and for election monitoring. Micro-grants (for a total value of SKK 1 million, with a threshold of SKK 200,000 per grant) were provided through the diplomatic mission in Kyiv. The provision of assistance to Ukraine by the Slovak Republic is determined mainly by the "Proposal for Slovakia's assistance to

Ukraine in the implementation of the objectives of the EU-Ukraine Action Plan”, approved by the Slovak government in October 2005 and based on the priorities of the EU-Ukraine Action Plan.

Poland provides assistance to Ukraine of approximately €3-4 million per annum, in particular in the following areas: public administration reform, support for local government and economic reforms.

Ukraine is also now eligible for **European Investment Bank (EIB) lending** from the EIB envelope for Russia, Ukraine, Moldova and Belarus over the period 2005/2006. Following the ratification of the EIB Framework Agreement in February 2006, work has started on establishing a viable loan portfolio. Projects will focus on public infrastructure in the areas of transport, energy, the environment and telecommunications. For the period 2007-2013 a new EIB mandate is currently being negotiated within the EU.

Other donors, including IFIs

A new **EBRD** Strategy for Ukraine was approved in June 2005. The EBRD will focus its operations on helping to improve the business climate and the competitiveness of the private sector, strengthening the capacity of the financial sector and supporting the restructuring and modernisation of Ukraine’s transport, energy and municipal and environmental infrastructure.

The **World Bank (WB)** operates on the basis of its Country Assistance Strategy (CAS) for 2004-2007 which targets seven long-term objectives, including macroeconomic and financial stability, poverty reduction, human development and environmental sustainability. A CAS Progress Report was published in May 2005.

The UNDP is currently preparing its Country Programme Action Plan for 2006-2010. Focal areas are likely to include democratic governance and access to justice, prosperity and human security and energy and environment for sustainable development. Ongoing UNDP activities are focusing on three clusters related to prosperity, governance and the environment. The UNDP is also implementing a Community Development Programme in Crimea and the Chernobyl region.

Ukraine has been a leading recipient of **US technical assistance**, which since Ukraine’s independence has totalled more than USD 3.3 billion. Total US assistance planned for 2005 is about USD 111 million, of which approximately USD 79 million will be provided through the Freedom Support Act (FSA). US assistance is focusing on support for market-based economic reforms and on strengthening democratic governance, the rule of law and civil society. Enhanced regional security and non-proliferation goals are also targeted. Ukraine is now eligible under the Threshold Programme of the Millennium Challenge Corporation (MCC) where actions will focus on anti-corruption measures. Full-fledged MCC assistance is likely to become available in 2007.

The **Global Fund to fight AIDS, Tuberculosis and Malaria** is a leading player in the fight against HIV/AIDS in Ukraine. The EC is a major contributor to the Global Fund which has released funding totalling USD 67 192 109 for phase two of its activities in Ukraine.

Ukraine is the only priority country for **Canadian assistance** in Eastern Europe. Annual funding totals approximately US\$ 15 million with a focus on good governance and civil society, civil service reform, SME development and agriculture.

The **Council of Europe, OSCE, Japan and Switzerland** also provide assistance to Ukraine.

“Policy mix” considerations in the context of the Ukraine CSP

In the context of **Common Foreign and Security Policy (CFSP)** Ukraine is becoming an increasingly important partner for the EU. This is exemplified by a significant number of cases where the Ukrainian government has aligned itself with Joint EU Declarations on foreign policy issues. The EU and Ukraine also cooperate on conflict prevention and resolution issues, as in the case of the Transnistria conflict in Moldova.

As regards **conventional disarmament**, Ukraine has inherited from the former Soviet Union an estimated stock of 6 million **anti-personnel landmines (APL)**, 7 million **small arms and light weapons (SALW)** and 2 million tonnes of **ammunition** from the Second World War. The country has asked for EU and international (Canadian, NATO and OSCE) assistance with APL, SALW and ammunition stocks. The government of Ukraine has linked its ratification of the Ottawa Convention (mine-ban treaty) to receipt of international financial assistance.

JFS cooperation with Ukraine is ever closer. A fundamental overhaul of the judiciary, stronger border management, reinforcing cooperation and capacity in the fight against organised crime and terrorism, and developing an asylum system fully in line with European standards are key issues in this sector. A visa facilitation and re-admission agreement has been initialled at the EU-Ukraine Summit in Helsinki in October 2006. . There are plans to negotiate an agreement with Eurojust.

In terms of the **migration situation**, Ukraine is both a source of and a transit country for illegal migrants to the EU. It must be noted, however, that a considerable number of migrants from the Commonwealth of Independent States (CIS) first enter the EU legally and do not become illegal until they overstay their visas. Migrants to Ukraine come not only from neighbouring countries such as Russia, Moldova and Belarus but also from Asian countries such as China, Pakistan and Vietnam. Estimates regarding the total number of illegal migrants vary widely; according to the United Nations there could be as many as 6 million. Ukraine is seeking to address the issue with EC support from the Tacis programme. Further EC assistance will be available under the new ENPI.

In the field of **development policy** Ukraine is committed to combating poverty in line with the Millennium Development Goals and is being supported in these efforts by EC assistance.

Concerning **trade policy**, the EU is a vocal supporter of Ukraine’s ambition to join the WTO as soon as possible. Bilateral WTO negotiations with the EU have already been completed. The EU also committed itself to an early start of negotiations on a Free Trade Agreement (FTA), once Ukraine has joined the WTO. Over recent years trade-related technical assistance, *inter alia* in the field of customs procedures and legislation, has been an important component of EC assistance to Ukraine and it will continue to be under this strategy.

With regard to **energy policy**, Ukraine is a key strategic partner for the EU in order to secure and diversify energy supplies. Ukraine is a key transit country for oil and gas supplies, with 40% of the EU’s natural gas imports crossing the Ukraine network. The EU and Ukraine are therefore considerably stepping up their cooperation in the field of energy, as is testified by the “Memorandum of Understanding on cooperation in the field of energy between Ukraine and the EU” that was signed at the EU-Ukraine Summit of 1 December 2005. Energy-related cooperation will be a key component of

the EC's assistance strategy to Ukraine not only under the regional but also under the national allocation for Ukraine.

In the case of **transport**, Ukraine together with other Eastern European countries has been constructively involved in the High Level Group for the extension of the TEN-T corridors. The EC has a strategic interest in supporting the eastward extension of the TEN-T corridors and will continue to provide support to this end, in close collaboration with the EIB and EBRD. Such support will be subject to full compliance with the relevant requirements of the EU *acquis*. The EC is also interested in further developing cooperation to ensure that the transport systems are efficient, interoperable, safe and secure. Closer relations in the aviation sector are of particular interest.

As regards **environment protection**, global and trans-boundary environment threats like climate change affect Ukraine as well as the EU. Both parties are committed to implementing the Kyoto Protocol and the UN Framework Convention on Climate Change. Ukraine has the potential to become an important market for emission reduction projects under the Kyoto Protocol. The EC is currently providing support in this area on a regional basis and envisages follow-up measures under future assistance programmes. Ukraine could also become a major supplier of renewable energy sources (biofuel). In addition, Ukraine is an important partner for the EU in the framework of the EU Water Initiative in order to address management and ecological protection of shared waters like the River Danube and the Black Sea. In this field too follow-up support to ongoing operations is envisaged.

The development of the Information Society is of particular significance for growth and employment of modern economies. The EU has an interest in supporting Ukraine in its efforts to capitalise on the information society via the implementation of the e-Ukraine programme. The support actions need to take into account the results of the 2003 and 2005 World Summits on the Information Society (WSIS)

EC assistance to Ukraine, 1991-2006 (in €million)*

	1991 -1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
<i>TACIS National Programme</i>	407**	38.6	48	43	47	50	70	88	100	891.6
<i>TACIS Nuclear Safety (incl. Chernobyl Shelter Fund and UKR G7 Action Plan)***</i>	304.3	50.3	3.5	69.4	44	46.6	34.3	28.4	40.3	621.1
<i>TACIS Cross-border Co-operation****</i>		5.2	1	5.5	0.5	3	3	18	4	40.2
<i>TACIS Regional Programme****</i>		3.7	6	9.1	10.5	6	6	8.7	tbc	50.0
<i>Fuel gap</i>	-	-	25	20	20	-	-	-	-	65
<i>ECHO (humanitarian assistance)</i>	12	6.3	1.3	0.9	0	-	-	-	-	20.5
<i>Macro-financial assistance (loan)</i>	565	-	-	-	110	-	-	-	-	675
<i>Human rights (EIDHR)</i>		0.2	-	1.3	0.6	0.6	0.5	1.8	0.95	5.95
<i>Migration (AENEAS)</i>	-	-	-	-	-	1.3	-	1.5	tbc	2.8
<i>Anti-landmines</i>	-	-	-	-	-	-	7.0	-	-	7.0
<i>Contribution to STCU</i>		3	4.5	4	4	4	4	5.5	5	34.0
Total	1288.3	107.3	89.3	153.2	236.6	111.5	124.8	151.9	150.3	2413.2

* 2006 figures indicative and not available for each item

** Overall figure for technical assistance in 1991-98 (mostly Tacis) Source: AIDCO A/1

*** Includes both national projects and estimated share of multi-country projects, 2005 and 2006 Chernobyl allocations still subject to possible modifications.

**** Estimated pro-rata share for Ukraine in cross-border and regional programmes.