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Implementation of the European Neighbourhood Policy in Ukraine Progress in 2013 and recommendations for action

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

Neighbourhood at the Crossroads: Implementation of the European Neighbourhood Policy in 2013

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1. OVERALL ASSESMENT AND RECOMMENDATIONS

This document reports on overall progress made on the implementation of the EU-Ukraine European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2013, although developments outside this period are also considered where relevant. It is not a general review of the political and economic situation in Ukraine. For information on regional and multilateral sector processes, readers should also refer to the Eastern Partnership (EaP) Implementation Report.

At the 16th EU-Ukraine Summit on 25 February 2013, Ukraine confirmed its determination to comply with the Council Conclusions of 10 December 2012, in which the EU reaffirmed its commitment to signing an Association Agreement including a Deep and Comprehensive Free Trade Area (AA/DCFTA) as soon as Ukraine demonstrates determined action and tangible progress in three areas: actions to remedy electoral shortcomings, progress in addressing the issue of selective justice and preventing its recurrence, and action to implement reforms set out in the Association Agenda.

Against this background, high-level political dialogue was intense during 2013: the EU-Ukraine Cooperation Council, with the participation of the Prime Minister of Ukraine, took place in June in Luxembourg, and there were frequent bilateral visits to Kyiv and Brussels by ministers and commissioners. The President of Ukraine participated in the EaP Summit in Vilnius. This summit noted that important progress had already been made on the three areas set out by the Council in December 2012.

Ukraine unexpectedly decided on 21 November to suspend preparations for signing the Association Agreement, citing national security interests and the need to restore lost trade with Russia and Commonwealth of Independent States partners. In the Joint Declaration from the EaP Summit on 28-29 November, Ukraine reiterated its commitment to signing the Association Agreement, but its intentions for the next steps remained unclear.

Ukraine's decision to suspend preparations for the signing of the AA/DCFTA sparked massive civil protests (so-called "Euromaidan") in support of political association and economic integration with the EU. The President and the opposition reached an agreement on the way out of the political crisis on 21 February which was facilitated by the EU. Subsequently, the Parliament voted the law to reinstate the constitution of 2004. Following the sudden departure of President Yanukovich from Kyiv, the Parliament dismissed with constitutional majority President Yanukovich, for failing to perform his duties, and appointed a new government headed by the Prime Minister Yatsenuk.

Ukrainian sovereignty and territorial integrity were violated clearly by acts of aggression by the Russian armed forces. The Federation Council of Russia authorized on 1 March the use of the armed forces on the territory of Ukraine. These actions are in clear breach of the UN Charter and the OSCE Helsinki Final Act, as well as of Russia's specific commitments to respect Ukraine's sovereignty and territorial integrity under the Budapest Memorandum of 1994 and the bilateral Treaty on Friendship, Cooperation and Partnership of 1997. On 16 March 2014, a "referendum" was held in Crimea on joining the Russian Federation. On 18 March 2014, the Russian Federation signed a treaty with the de facto authorities of the Republic of Crimea and of the City of Sevastopol, sealing the de facto annexation of Crimea with immediate effect. As stated by Presidents H. Van Rompuy and JM. Barroso on 18 March, the European Union does neither recognise the illegal and illegitimate

referendum in Crimea nor its outcome. The sovereignty, territorial integrity and independence of Ukraine must be respected. The European Union does not and will not recognise the annexation of Crimea and Sevastopol to the Russian Federation. The European Council shares the view on the illegality of the referendum and the ensuing steps, as expressed in its conclusions on 20 March 2014. On the next day, the EU and Ukraine signed the political provisions of the Association Agreement, and confirmed their commitment to proceed to the signature and conclusion of the remaining parts of the Agreement which together with the political provisions constitute a single instrument.

Overall, Ukraine presented in 2013 a mixed picture of developments on deep and sustainable democracy. There were positive developments in the field of legal reform, including the judiciary, where an important law was passed in the first reading, taking into account the Venice Commission's recommendations on introducing amendments on Chapter VIII of the Constitution to reform the organisation of the judiciary and its system of self-governance. Other important reforms began to be implemented, such as reforms to the Criminal Procedure Code, the new law on the Bar, a law establishing a national preventive mechanism against torture, and a law on civic organisations. Parliament passed the first reading of an ambitious law on the functioning of the Prosecutor General's Office (the Procuratura) Parliament adopted changes to the Constitution, broadening the remit of the Accounting Chamber. However, the reform process got entirely stalled following the suspension of the preparations for signing the Association Agreement.

Although civil protests remained largely peaceful, there were some radical elements on both sides. Law enforcement bodies used excessive violence. Moreover, evidence was provided that they had collaborated in some cases with non-official law enforcement forces (so-called titushkis). More than 100 people were reported to have been killed (among them also law-enforcement officers), more than 700 to have sustained grave injuries, several hundreds to have been arbitrarily detained and put in pre-trial detention, many more hundreds to have been beaten by police or titushkis.

There was progress on cases of selective use of justice: President Yanukovich pardoned former Interior Minister Yuriy Lutsenko and former Environmental Protection Minister Heorhiy Filipchuk in April 2013. Former Presidents Pat Cox and Aleksander Kwaśniewski were tasked by the European Parliament to facilitate the solution of cases of selective justice, visited Ukraine frequently and were instrumental in addressing these cases. Former Prime Minister Yulia Tymoshenko was released from detention on 25 February 2014.

Although no electoral code was drafted, amendments to the law on parliamentary elections were adopted. By-elections in five single-mandate constituencies took place on 15 December. There were reports of irregularities and of possible distortion of the results of the vote. Elections for Kyiv's Mayor and City Council were not scheduled by Parliament upon expiration of their mandate (May 2013). However, following the February 2014 events, these elections are now scheduled for 25 May 2014.

Media freedom worsened, reports of physical attacks on journalists have become more frequent. During the civil protests since November 2013, more than hundred journalists were reported to have been injured and one to have died.

Ukraine has made substantial progress in all four sectors of the Action Plan on Visa Liberalisation, particularly since the end of 2012. It speeded up implementation and

adoption of a number of substantial legislative packages in order to tackle the identified gaps. However, there are still some important first phase requirements to be met in the fields of document security, asylum, anti-corruption and anti-discrimination. The upgraded Visa Facilitation Agreement between Ukraine and the EU entered into force on 1 July 2013.

Ukraine continued to cooperate with the EU on some regional and international issues. Ukraine's alignment with common foreign and security policy (CFSP) declarations rose from 37% in 2012 to 47% in 2013. Ukrainian diplomacy was active during its 2013 Organisation for Security and Co-operation in Europe (OSCE) Chairmanship. It adopted a constructive stance in the 5+2 Transnistria settlement talks.

Economic performance was weak in 2013. The recession that started in the second half of 2012 continued throughout 2013, and annual growth was negative.

The perception of corruption remained high, and Ukraine continued to occupy a low position in international rankings. There was, however, an improvement in the field of anti-corruption legislation, through the adoption of legislation to address UN and Council of Europe (CoE) recommendations in the context of the visa liberalisation action plan. Further work is needed to strengthen the institutional framework in order to properly implement the adopted anti-corruption legislation. No progress was achieved on public procurement legislation. Although Ukraine took some steps to address the EU's concerns on public finance management (a public finance management strategy and action plan were adopted), further work needs to be done.

The business climate remained poor in 2013. Ukraine only partially addressed the EU's trade issues (car safeguards and restrictions on coke and coal imports), failing to comply fully with its World Trade Organisation (WTO) commitments.

In 2013, Ukraine made some progress on implementation of its Energy Community commitments, particularly the approval of the new electricity law, although there is still an urgent need to accelerate process on fulfilling commitments whose implementation deadlines have passed. Ukraine continued importing gas from Poland and began importing gas from Hungary, increasing Ukraine's energy security.

The Common Aviation Area Agreement was initialled in the margins of the EaP Vilnius Summit.

In 2013, Ukraine partly addressed some of the recommendations of the last progress report, in particular those relating to electoral law and practice and the judiciary. On the basis of this year's report, and with a view to the sustained implementation of the Association Agenda in 2014, Ukraine is invited to:

- investigate independently the violent acts on both sides which occurred during civil protests, preferably with the support of the International Advisory Panel proposed by the CoE;
- take early steps to establish a reliable and uniform electoral system for regional, parliamentary and presidential elections and referenda, establish clear rules for balanced media access for candidates, and ensure that elections take place for Kyiv Mayor and City Council;

- bring the law on referenda into line with international standards, in particular by removing the possibility of by-passing Parliament when adopting constitutional amendments;
- adopt the law on reform of the Prosecutor General's Office, in line with the recommendations of the Venice Commission;
- take further steps to reform the judiciary to prevent any recurrence of selective justice;
- in the framework of the implementation of the Criminal Procedure Code, adopt a law establishing a State Bureau of Investigations;
- ensure that the constitutional reform process is carried out in an inclusive and transparent way and completed by September 2014, in line with the constitutional review procedure set out in the Constitution and in close cooperation with the European Commission for Democracy through Law of the CoE (Venice Commission);
- ensure that the revised constitution strengthens the independence of judges, adopt laws setting out the role of the High Council of Justice, the judicial system, and the status of judges;
- draft a plan for police reform, to pave the way for comprehensive reform of the police, including the establishment of a police complaint mechanism for allegations of ill-treatment and torture by law enforcement officers, as well as an independent and effective investigative mechanism for such crimes;
- step up the fight against conflicts of interest, corruption and fraud, targeting all areas of public life, including in particular in the judicial system and in the business world;
- reverse the backsliding on public procurement and budget transparency and begin implementing a public finance management strategy;
- make greater efforts to meet the remaining benchmarks set out in the Action Plan on Visa Liberalisation;
- comply with its obligations under international refugee and human rights law;
- establish a macroeconomic framework conducive to the resumption of International Monetary Fund (IMF) support, addressing such issues as fiscal sustainability in the energy sector;
- take further steps to improve the business climate;
- resolve the remaining trade cases (car recycling fees, local content of renewable energy equipment) which are not in compliance with Ukraine's WTO commitments;
- comply with its obligations under the Energy Community Treaty, in particular in areas such as independence of the energy regulator, unbundling, transparency, market opening.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

Developments in the field of democracy presented a mixed picture in 2013. After a series of roundtables on **electoral** legislation, organised by the Minister of Justice (July- November), amendments to the 2011 law on parliamentary elections were adopted. These took into account most of the recommendations of the Venice Commission from October 2013, with the exception of systemic or constitutional recommendations (e.g. there was no change in the mixed majority/proportional

system, the five-year residence requirement or the ineligibility of people serving sentences). On 15 December 2013, by-elections took place in the five districts where the results of October 2012 parliamentary elections could not be established. There were reports of irregularities and possible distortion of the results of the vote.

No work was undertaken to improve other important pieces of legislation, such as laws on presidential elections, local elections, and the Central Election Commission. During the reporting period, five elected Members of Parliament were deprived of their mandates by questionable court decisions taken several months after the conduct of the elections, invalidating the election result announced by the Central Election Commission. In June, the Venice Commission assessed the law on referenda, adopted in November 2012 by the outgoing Parliament after the October 2012 elections. The Venice Commission strongly criticised the provisions that allowed draft constitutional amendments to be submitted for referendum without observing the constitutional review procedure.

Elections for the Mayor and City Council of Kyiv were not scheduled by Parliament after their mandate expired in May 2013. At the request of a number of majority-party MPs, the Constitutional Court issued an opinion stating that adjourning these elections until 2015, so as to hold all local elections at the same date, would not be in violation of the right to free, fair and periodic elections.

The new law on civic organisations came into force on 1 January 2013 and is considered by all stakeholders to be an important step forward in the area of freedom of association.

Freedom of assembly has been undermined by the lack of a specific law regulating the exercise of this right, as well as by the practice of local courts where demonstrations are banned on dubious grounds. In several instances, excessive force was used against peaceful pro-European protesters. Kyiv courts have imposed indefinite bans of public demonstrations in the vicinity of the Presidential Administration and the Prosecutor General's Office. On 11 April, the ECHR issued a ruling in the case *Verentsov vs Ukraine*, which in the opinion of the Court 'disclosed a structural problem, namely a legislative lacuna concerning freedom of assembly which has remained in Ukraine since the end of the Soviet Union'. Legislation disproportionately restricting the freedom of assembly was adopted on 16 January 2014 but revoked on 28 January 2014.

Media freedom has worsened in 2013. Reports of physical attacks on journalists have become more frequent and in particular, well-documented attacks occurred during the civil protests since November 2013. More than hundred journalists were reported to have been injured and one to have died. On 25 December, well-known investigative journalist Tatyana Chornovol was pulled out of her car and badly beaten. Although the perpetrators were arrested, it is unclear who ordered the crime. In other cases, law enforcement agencies have failed to investigate alleged cases properly. The TV-i channel, critical of the government, was the subject of a legally dubious take-over. At the end of the year, editorial policy changes at the TV channel INTER, as well as at the *Forbes* and *Korrespondent* weekly publications, led to the resignation of a large number of journalists.

A law on transparency of media ownership was signed by the President on 25 July, but has not yet brought about substantial change in the transparency of the media landscape, where most outlets are owned by obscure offshore companies. A draft law

on public broadcasting is currently being considered by Parliament, but would require substantial amendment to serve as a basis for establishing an independent public service. No formal assessment has been requested from the CoE, despite EU calls and CoE offers in this regard.

Regarding the reform of judiciary, some progress was made, including in the framework of the Informal EU-Ukraine Dialogue on the Judiciary. Two meetings were held in February and September 2013, the latter focusing on the reform of the Prosecutor's Office. A consortium of EU member states launched a project in October 2013 to support the development of a sector wide justice reform strategy. This was complemented by CoE monitoring.

There was progress on cases of selective use of justice: President Yanukovich pardoned former Interior Minister Yuriy Lutsenko and former Environmental Protection Minister Heorhiy Filipchuk in April 2013. Former Presidents Pat Cox and Aleksander Kwaśniewski were tasked by the European Parliament to facilitate the solution of cases of selective justice, visited Ukraine frequently and were instrumental in addressing these cases. Former Prime Minister Yulia Tymoshenko was released from detention on 25 February 2014. The EU took a number of steps to address the prevention of the recurrence of cases of selective justice, including the launch of the Informal EU-Ukraine Dialogue on the Judiciary.

There were some initial steps to improve the constitutional basis for the independence of the judiciary. A draft change to the Chapter VIII of the Constitution received a positive assessment by the Venice Commission. Parliament voted on the draft in October 2013 in first reading, its second reading was expected to take place in the Spring 2014 session.

The implementation of Ukraine's new Criminal Procedure Code, adopted in November 2012, has changed the application of the criminal code. It has given more powers to legal defence, brought about fewer detentions, freed people whose criminal convictions were sent for remand in appeal from detention, and brought more transparency to police operations, to name but a few changes. Proceedings during the civil protests demonstrated shortcomings in the implementation of the Criminal Procedure Code.

Reform of **law enforcement** (including the police) is long overdue. The role of law enforcement institutions, including special police forces, in forceful attempts to disperse peaceful demonstrators at the Euromaidan protests underlined the need for reform in this sector.

Parliament passed at first reading an ambitious law on the functioning of the Prosecutor General's Office (the Procuratura). The law was drafted in close cooperation with the Council of Europe and its Venice Commission which published a largely positive Joint Opinion in October 2013. The adoption of the law would represent an important step forward, substantially reducing the Prosecutor General's supervisory powers and addressing one of Ukraine's accession commitments to the CoE.

In 2013, **anti-corruption** legislation was amended. Four anti-corruption laws were adopted from April to May, and signed into law by the President of Ukraine in June 2013. The laws introduced changes to the Criminal Code and to the Criminal Procedure Code providing for exclusive criminal liability for active and passive

corruption. The registry of people charged with corruption will be made public, the threshold for public officials' income requiring declaration was halved, some provisions for whistleblower protection added, and corporate liability and criminal sanctions for corruption were introduced, although these could be more dissuasive. Further improvements are, however, needed to strengthen mechanisms for independent oversight (in the absence of a functioning National Anti-Corruption Committee), on asset disclosure, and on reforming rules on the immunity of MPs from criminal proceedings. Nonetheless, the perception of corruption remains high. Transparency International ranked Ukraine 144th out of 176 countries in the 2013 Corruption Perceptions Index.

Work on constitutional reform continued without the participation of the opposition in the Constitutional Assembly, set up as an advisory body to the President of Ukraine. Partial changes to the Constitution, broadening the remit of the Accounting Chamber, were passed at second reading in Parliament on 19 September with a substantial majority. The Parliament reinstated the 2004 Constitution on 21 February 2014. A comprehensive constitutional reform is expected to take place by September 2014.

Other human rights and fundamental freedoms

Even though the number of cases of **ill-treatment** decreased thanks to the implementation of the new Criminal Procedure Code, the lack of police accountability for recurrent cases of ill-treatment and torture remained a problem. This is due to the absence of effective and independent investigation and the lack of a police complaint mechanism. While a national preventive mechanism has been established within the Ombudsman's Office, the State Bureau of Investigation, provided for in the new Criminal Procedure Code and which could also deal with cases of ill-treatment and torture, was still to be set up.

National legislation is in general well-advanced, based on existing UN Conventions related to promotion of **gender equality** and women's empowerment. However, Ukraine is still far from meeting European standards in this area. According to the World Economic Forum's Global Gender Gap Index in 2012, Ukraine was ranked 64th out of 135 countries. Gender-based violence remains a major concern.

Regarding **children's rights**, in February 2013 Ukraine participated in and became a member of the Global Alliance against Sexual Abuse of Children Online. Ukraine has already prepared and submitted to the Alliance its first report on actions taken in this regard. The report indicated that national enforcement agencies started monitoring web sites and several criminal cases were initiated by the Prosecutor's office.

In 2013, the Ukrainian authorities initiated and adopted a number of laws and by-laws in the area of protection of children's rights. These initiatives related to children's access to education in rural areas, and improvement of the social benefits system. However, Parliament rejected the law ratifying the Hague Convention on child adoption. Despite some progress, Ukrainian children's rights law remains primarily declarative.

The country does not have enough experience and financial resources to execute full-scale reform and create efficient gate-keeping instruments to prevent excessive child placement in boarding schools. An EU-funded project implemented by UNICEF was signed at the end of 2012 and will provide support to the government in continuing reform.

People with **disabilities** represent one of the most vulnerable groups in Ukraine. Since 2006, Ukraine has committed itself to fulfilling CoE objectives regarding the implementation of the 2006-2015 CoE action plan to promote the rights and the full participation of people with disabilities in society. Ukraine also committed to tackle this issue since the ratification in 2010 of the UN Convention on Rights of Persons with Disabilities (UN CRPD) and its optional Protocol.

Ukraine has not adopted amendments to make its law on **anti-discrimination** an effective and comprehensive tool to address cases of discrimination in line with European standards, mainly because all parties in Parliament refused to include gender identity and sexual orientation in the list of grounds for prohibited discrimination. They also objected to other aspects of the law, crucial by EU and CoE standards, such as reversal of the burden of proof.

Ukraine adopted a strategy and an action plan on inclusion of the Roma minority, in April and September 2013, respectively. However, in order to pursue an effective policy in this regard, a more detailed baseline scenario is needed with a quantified definition of the problem (e.g. estimates of the number of Roma without documents and of Roma children not in education), timelines for implementation and adequate resource allocation.

As regards the **asylum** process, the law is in place, although some improvements need to be made, particularly on the deadline for appeals, country of origin information, the right to interpretation, confidentiality of interviews and the listing of grounds for rejection and inadmissibility of asylum claims, and detention rules.

Overall, the environment for **civil society** organisations in Ukraine can be characterised as favourable, with a satisfactory legal framework and vibrant and diverse civil society actors. However, civil society organisations continued to develop against a backdrop of ever increasing political and economic pressure, while their participation in policy-making and decision-making processes remained rather poor. With a few exceptions, such as the preparation of an ongoing work on legislation on civil society organisations, access to public information and freedom of peaceful assembly, the opinions of civil society organisations on key reform processes were not taken into account by the authorities. The National Platform of the EaP Civil Society Forum has been gaining influence as an exponent of Ukraine's civil society views in a number of key EU-Ukraine policy areas. The authorities increasingly tried to control international aid to civil society organisations. Legislative acts adopted by Ukrainian authorities under dubious procedural circumstances on 16 January 2014 and revoked on 28 January 2014, restricted Ukrainian citizens' fundamental rights and the activities of NGOs receiving foreign funding.

Ukraine remains one of the most centralised states in Europe, which has a negative impact on **local and regional self-government**. Efforts to develop the concept of local self-government, closely coordinated with the CoE, have not yet yielded practical results in terms of a package of draft laws. Local self-government and administrative reforms are being prepared. Discussion of the reform project was postponed in the autumn.

Regarding **public administration reform**, the entry into force of the new law on the civil service, adopted in November 2011, was initially delayed until 1 January 2014. However, because of Ukraine's current budgetary constraints, implementation of this law was further postponed until January 2015. As noted in 2011, the law does not

provide a comprehensive basis and support for building a permanent career-based civil service.

A draft law setting out amendments to the law on the civil service is currently under consideration by authorities. It raises several concerns in its current form.

A draft code of administrative procedures was being finalised, with a view to its further adoption by the government and submission to Parliament.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management

In 2013 Ukraine aligned with 15 out of the 27 (47%) EU CFSP declarations it has been invited to support (23 out of 62 (37%) in 2012). While this may suggest a positive change compared to previous years, the change in figures does not necessarily reflect a qualitative change in building more coherence in foreign policy between Ukraine and the EU. Ukrainian diplomacy has been relatively active within the framework of its OSCE Chairmanship in 2013. Ukraine adopted a constructive stance in the 5+2 Transnistria settlement talks, which was important given Ukraine's OSCE Chairmanship.

Ukraine continued to participate constructively in the work of the EU Border Assistance Mission to the Republic of Moldova and Ukraine (EUBAM). With EUBAM support, the Ukrainian customs and border guard services continued to enhance capacity and to secure inter-agency cooperation both within Ukraine and between Ukraine and Moldova. EUBAM continued to support the demarcation of the state border with Moldova, as well as the joint pilot project launched with Moldova in February 2012, establishing joint control of the 'Briceni-Rososhany' border section on Ukraine's territory. In 2013, demarcation of the Ukraine-Russia border was renewed and protocols were signed on joint patrolling with law enforcement agencies from Hungary and Slovakia.

Ukraine continued to contribute to the common security and defence policy (CSDP) operation ATALANTA, with one officer deployed to the operational headquarters and a renewed offer to deploy a more significant combat contribution. After having concluded consultations with the EU on technical arrangements, Ukraine decided to deploy a naval frigate (the 'Hetman Sagadachnyi') from January 2014, with Vessel Protection Detachment support (a helicopter and special task force unit). Discussions on the EU proposal of an administrative arrangement on strategic air transport have continued. Ukraine planned to contribute to the Greek-led HELBROC battle group in 2014 by offering strategic airlift capabilities, a marine company and ten staff officers. Discussions on a potential Ukrainian contribution to the Polish-led Visegrad battle group in 2016 have been ongoing. The Ukraine-Poland-Lithuania Brigade is currently being formed, with the intention of being available for future CSDP missions. Ukraine and the EU have also held talks on initialising a formal cooperation agreement between Ukraine and the European Defence Agency.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy¹

Real GDP growth was 0% in 2013; down slightly from 0.2% in 2012. After five quarters of consecutive decline, the economy grew by 3.7% year-on-year in the last quarter of 2013. The flat growth mainly resulted from a decline in industrial output, which suffered from weak foreign demand in the metals and machinery markets. **Inflation** slowed significantly in 2013 to 0.3% allowing the National Bank of Ukraine to cut the discount rate twice (in June and August) by a cumulative 100 bps to 6.5% in an attempt to encourage economic activity.

The **fiscal deficit**, including the operational deficit of the State-owned natural gas importer Naftogaz, reached 6.5% of GDP in 2013, a deterioration compared to 6.3% of GDP in 2012. While the overall public debt level looked manageable by international comparison (41% of GDP in 2013), Ukraine faced a spike in debt repayments in 2013, particularly to the IMF. Rolling over debt at sustainable interest rates was a major challenge in 2013 until the authorities were aided by USD 3 billion in financial support from Russia in December.

The **current account** continued to deteriorate in 2013 to a deficit of 8.9% of GDP, as a result of decreased exports. The authorities deliberately countered this trend by lowering the import volumes of mineral energy products and by introducing car import duties (in violation of WTO rules). While these measures helped the trade balance, they had additional adverse effects on domestic demand and investment. Net FDI is estimated to have dropped further from 5% of GDP in 2012 to 2.6% of GDP in 2013. Official reserves declined by 16% to EUR 15.6 billion in the course of 2013 (2.5 months of import cover), as a result of the large current account deficit, pressure on the hryvnia and significant debt repayments in the last quarter of 2013. This development reflects an increased balance-of-payments vulnerability

Structural reform progress was mixed in 2013. On the positive side, a reworked public finance management strategy and an accompanying action plan were approved in October, and a constitutional amendment expanded the remit of the Accounting Chamber of Ukraine to include auditing the revenue side of the budget. However, the authorities made no progress in the much-needed gas tariff adjustments and decided to reintroduce the use of promissory notes to make VAT refund payments. While Ukraine improved in several indicators in the World Bank's 'Doing Business 2014' report, the business climate continued to suffer from red tape, corruption and a poor legislative environment.

Social situation, employment and poverty reduction

Unemployment rate² was estimated at 8% (8.5 for men, 6.4 for women and 17.3 for young people), compared to 7.5% in 2012.

In general, the **social** situation and social policy implementation worsened, as illustrated by a constant decline in basic social indicators such as level of income, employment and financial support to social programmes. For 2013, Ukraine was ranked 78th (out of 187 countries) in the UN Human Development Index and,

¹ Figures are from the national statistical office, the central bank, the IMF or Commission estimates, as indicated in the Statistical Annex. Where other data sources are used this is indicated.

² Unemployment rates of the population aged 15-70.

according to UN research, saw its population decrease without improvements in social and health policies. Ukraine did not develop a comprehensive strategy in the social area to properly address these challenges.

Some positive steps, however, can be reported, with the introduction of increased social benefits and a new approach to social services focusing on the most vulnerable strata of the population. The average pension increased by 20% and reached UAH 1 478. These measures did not, however, lower the rate of poverty which, according to World Bank estimates, affects more than 24% of the population.

There was no progress on social dialogue.

Sustainable development

Despite the creation of a ‘green economy platform’ in mid-2012, the green economy and sustainable development are still not perceived as priority areas requiring a horizontal, proactive approach. No national green economy or sustainable development strategy exists and concrete efforts have been very limited. The launch of the regional EU-EaP Green project in May aims to raise awareness. Ukraine continued to cooperate with the EU on the transposition of the *acquis* on waste.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU was Ukraine’s largest trading partner, accounting for almost 34% of its trade volume in 2012.³ **Bilateral trade** flows increased compared to the previous year and amounted to EUR 38.4 billion. EU exports to Ukraine consisted mainly of machinery and vehicles, other manufactured goods and chemicals. EU imports from Ukraine consisted mainly of other manufactured goods, raw materials and food and drink. Ukraine only partially addressed the trade irritants with the EU (car safeguards and restrictions on coke and coal imports), failing to comply fully with its WTO commitments.

The creation of Ministry of Revenues and Duties by merging the State **Customs** Service with the Tax Administration lacked planning. The structure is still not clearly defined and operational decisions regarding customs have been made more difficult. The Ministry drafted its strategic plan for 2013-2018. Management of technical assistance projects was hampered by the shortage of staff in the International Cooperation Department. Following the adoption of the new Customs Code in 2012, there was a significant increase in the number of electronic declarations. Improvements in risk management decreased the rate of physical checks, however their number remains above the international standard. Legislation relating to the status of authorised consignee and authorised consignor was not compliant with the EU Customs Code. Simplified procedures were introduced for issuing certificates of origin. Implementing provisions on authorised economic operators were not in force. There was limited progress on the accession to the Convention on a common transit procedure. In June, the European Anti-Fraud Office and the Ministry signed an administrative cooperation arrangement with the aim of strengthening the practical framework for cooperation in fight against cigarette smuggling. For the first time, Ukrainian Customs participated in the joint customs operation "ROMOLUK" with

³ Data for 2013 was not available at the time of writing.

customs authorities of Romania and Moldova against the smuggling of cigarettes and alcohol.

Regarding the **free movement of goods** and **technical regulations**, progress remained sluggish. This is a focal area of the DCFTA and will be affected by the suspension of preparations for Ukraine's signature of the AA. The Ministry for Economic Development and Trade, with the support of an EU-funded project, developed a draft strategic plan for the development of a technical regulation system in Ukraine for 2013-2017, which, if formally adopted, would provide a long-awaited detailed plan specifying legislative and institutional actions to align the Ukrainian technical regulation system with that of the EU. New revised drafts of the laws on standardisation and metrology were submitted to Parliament, but have not yet been adopted. In November, the Ministry published a new draft law on technical regulations and compliance assessment for public consultation. In 2013, Ukraine adopted a new edition of the Technical Regulation on Machinery.

On **sanitary** and **phyto-sanitary** issues, draft amendments to food safety legislation were submitted to Parliament. Once adopted, these should contribute to the harmonisation of Ukrainian food legislation with European legislation. Ukraine adopted an action plan on gradual implementation of hazard analysis and critical control points (HACCP) system by operators. The EU included Ukraine on the list of non-EU countries from which imports into the EU of poultry, meat products, eggs and egg products are allowed. In May, the Food and Veterinary Office carried out an audit of Ukraine and concluded that additional guarantees are required concerning the non-use of antimicrobials and the reliability of laboratory tests. Ukraine was authorised to export only eggs for further processing to the EU ('class B' eggs).

There have been some developments in the area of **company law** and **establishment**. Ukraine amended the law on state registration of legal entities and private entrepreneurs, to simplify taxpayer registration procedures, and the joint stock companies law, to increase the civil liability of corporate officials.

The **business climate** remained poor in 2013. The main causes were the lack of rule of law and widespread corruption. Compared to the previous year, Ukraine advanced to 112th place (out of 189 economies) in the World Bank's 'Doing Business 2014' report's ease of doing business ranking, due to improvements in dealing with construction permits and registering property. However, paying taxes, resolving insolvency, protecting investors and trading across borders remain areas of concern. Ukraine dropped to 84th place (out of 148) in the World Economic Forum's 'Global Competitiveness Report 2013-2014'. Ukraine ranked very low in indicators such as protection of property and intellectual property rights, judicial independence, wasteful government spending, effectiveness of anti-monopoly policies and burden of customs procedures. Other major problematic factors for doing business were access to financing, corruption, inefficient bureaucracy, tax rates and regulations. The number of cases of EU businesses being put under pressure by the government authorities (particularly by tax authorities) increased considerably during 2013. Given the critical issue of raider attacks on businesses, the establishment of an anti-raider commission in July was a positive development but its work has not delivered tangible results to date. The first meeting of the bilateral EU-Ukraine business climate dialogue in July has not delivered expected results in terms of the resolution of trade irritants or progress on wider business climate issues.

Ukraine did significantly strengthen financial supervisory authorities in the area of **financial services**. Ukraine did not complete the first pillar of Basel II and its banks continued to apply the Basel I framework for addressing credit risks. In January, amendments to the instruction on regulation of activities of banks in Ukraine came into effect, setting a new capital standard — the ratio of regulatory capital to the obligations of the bank. The standard value of this ratio should be not less than 10%. From January, the National Bank of Ukraine was entrusted with new functions with regard to payment and settlement systems in Ukraine. A law on insurance is yet to be adopted.

The National Commission for Securities and Stock Markets introduced three new regulations on prudential norms for professional activities on the stock market. Ukraine was working on setting up an investor compensation scheme. However, the draft legislation had a number of shortcomings. The National Commission declared its intention to gradually tighten the requirements until conformity with the EU *acquis* is reached.

In the area of **free movement of capital**, the temporary reduction of the maximum term for the repatriation of profits from 180 to 90 days and a requirement to sell 50% of exporters' profits received in foreign currencies remained in force, and was extended in October to cover all foreign currency receipts by companies and individuals from abroad. Nevertheless, the National Bank is likely to see its reserves fall further as Ukrainian export opportunities worsen. Discussions on the re-introduction of a tax on foreign exchange transactions were ongoing. In a move to combat the withdrawal of profits to offshore zones and countries with low taxation, a new law on transfer pricing came into effect in September.

Other key areas

It remains to be seen whether consolidating the administration of **tax** and duties in one agency will simplify economic operators' contacts with the government authorities. The tax code did not provide a stable environment for business and continued to receive mixed reviews from business as regards the administrative burden and constant requests for advance tax payments. A new treaty to prevent double taxation between Ukraine and Cyprus entered into force as of 2014. It envisages a number of new, higher tax rates for certain types of income. In July, Ukraine introduced the use of financial promissory notes including for redemption of VAT refund arrears. While promissory notes are supposed to be used on a voluntary basis, VAT arrears clearance in cash is a key condition agreed by the EU and Ukraine in the memorandum of understanding that was signed at the last EU-Ukraine summit on the EU's macro-financial assistance to Ukraine. Tax administration pressure on economic operators persisted in 2013.

In April, a draft law on **state aid** was submitted to Parliament, however the law has not been adopted yet. A National **Competition** Programme for the period 2014-2024 was submitted to Parliament in October. In the first half of 2013, the Anti-Monopoly Committee of Ukraine received about 4000 complaints regarding alleged violations of the law to protect economic competition, which is 24.4% more than during the same period in 2012. The Committee volunteered to participate in a peer review of

competition law and policy organised by UNCTAD. Ukraine's competition system was assessed in July, in order to evaluate Ukraine's legal framework and enforcement experience.

Intellectual Property Rights (IPR) protection and enforcement in Ukraine deteriorated further. The situation regarding copyright protection and related rights remained particularly concerning. Piracy and counterfeiting were widespread and enforcement was hampered by the lack of coordination. The legal framework ensuring effective enforcement of IPR protection has not been yet been put in place. The institutional and administrative weakness of the State Intellectual Property Service of Ukraine has been a major concern. In October, the President transferred responsibility for the coordination of its activities from the Ministry of Education to the Ministry of Economic Development and Trade. This move is expected to improve the situation. Royalty payments to IP right-holders remain affected by the absence of an accredited organisation for collective management of such rights in the music industry.

Public procurement policy in Ukraine lacked a coherent strategic approach to bring legislative provisions into line with EU rules and standards. Public procurement remains a serious area of concern and is a significant factor in corruption and inefficient use of public finances. The situation has deteriorated with amendments to Article 16 of public procurement law that included the requirement for tenderers to own facilities and/or service centres in Ukraine. Such requirements are not in line with the WTO requirements. The number of exemptions from public procurement law has not been reduced. A 2012 law on electronic reverse auction procedures is not yet in force, because it has not yet been implemented. Ukraine has been negotiating accession to the WTO's Government Procurement Agreement.

The 2013-2017 reform programme of the State **Statistics** Service of Ukraine was being implemented in line with the results of the Adapted Global Assessment. The population and housing census initially planned for 2014 has now been postponed until 2016, as sufficient financial resources have not been provided. The agricultural census, expected to take place one year after the population and housing census, may be under threat. The professional independence of statistics was a matter of concern for the EU and other international organisations.

Following initial steps taken in 2012 to prepare a concept paper on **public finance management (PFM)**, Ukraine took another step forward with the adoption of a PFM strategy and action plan in August. The strategy took into account most of the comments made by SIGMA and the EU on the core components of the budget system: result-based budgeting, tax policy, public procurement system, public investment, quasi-fiscal activities, debt management, anti-corruption in the budget area, modern accounting system, internal and external control, and budget transparency. The new adopted strategy and action plan represent a step in the right direction but now the action plan has to be implemented with concrete measures. Progress on public finance management is a prerequisite for the disbursement and implementation of EU budget support in Ukraine.

Following the establishment of internal audit standards in central Ministries and Oblast state administrations, some tangible progress was made in the harmonisation of internal control and **internal auditing**. However, the newly established internal audit departments should be organised more effectively and the quality of audits in central executive authorities should be improved in order to meet international standards.

As regards **small and medium-sized enterprise** (SME) policies, Ukraine worked on deregulation activities, such as a reduction of the number of licences and permits necessary to do business in Ukraine. More regional ‘one-stop-shops’ were established and opportunities to reduce the state’s interference in the economic activity of SMEs were examined. However, there is still considerable room for improvement, as indicated in the recommendations made in the Small Business Act for Europe (SBA) Assessment.

In June, the Cabinet of Ministers approved a concept for state policy on **consumer protection**.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

The third Commission report on the fulfilment of the **Visa** Liberalisation Action Plan benchmarks was adopted on 15 November. The amended EU-Ukraine Visa Facilitation Agreement entered into force on 1 July. The new facilitations introduced in the upgraded Agreement broadened the scope of categories of Ukrainian visa applicants covered by the visa fee waivers, and broadened the categories that can apply for a multiple-entry visa with a long-term of validity. The upgraded Agreement also limited the discretion of Consuls in deciding on the term of validity of multiple-entry visas; these now have to be issued mandatorily if certain conditions are met by the visa applicants. Implementation of the Visa facilitation Agreement was monitored at the Joint Committee on 15 May. Negotiations with several EU Member States continued on implementation Protocols under the EU-Ukraine Readmission Agreement.

Progress continued on **border management** and the demarcation of state borders. Demarcation of the Ukraine-Belarus border began in November 2013 and demarcation of the Ukraine-Russia border, begun in November 2012, continued slowly, while demarcation of the Ukraine-Moldova border was almost complete at the end of 2013 (1209 kilometres out of a total of 1222 kilometres have been demarcated). Inter-agency information exchange still needs to be improved and data protection restrictions need to be addressed. Implementation of the integrated border management strategy and action plan progressed with EU support. Activities began under the new 2013-2015 Frontex cooperation plan, signed in December 2012. In April, the government adopted a regulation on cooperation between State border guards, the State Migration Service and other law enforcement agencies on border crossing procedures concerning people. This regulation also contributes to implementing the law on the legal status of foreigners and stateless people.

As regards document security and biometric passports, implementing measures for the existing framework law adopted in November 2012 are yet to be adopted (following the suspension in March of the first set of measures concerning the production of biometric data). The law itself still lacks certain details concerning procedures for the collection of biometric data, such as precise details on fingerprinting.

Reintegration policies focused on migrants and refugees and not on reintegrating returned Ukrainian nationals. Some problems with detention existed, as judicial review of a decision on administrative detention is only possible when coupled with an appeal on the substance of the case. With regard to institutional capacity, the State

Migration Service (SMS), as the lead agency, suffers from inefficient decision-making processes and insufficient staffing, most notably with regard to asylum. A major EU project in support of the SMS was finalised as part of a comprehensive institution-building programme.

As regards the **asylum** procedure, the law is in place, although improvements need to be made. This concerns, in particular, the deadline for appeals, which is currently set at five days (although, according to Ukrainian authorities, this deadline is not strictly applied by the courts). Country of origin information should also be specifically referred to. Issues such as the right to interpretation, confidentiality of interviews and the listing of grounds for rejection and inadmissibility of asylum claims need to be clarified. Finally, detention rules need to be further specified, with special regard to the required court authorisation and rules for its review.

Human rights and international organisations reported at least 12 cases of non-admission of asylum seekers from Syria and Palestine. Citizens of certain nationalities, notably from the Commonwealth of Independent States, were not granted protection. Corruption in the asylum system and lack of protection for unaccompanied minors remained a problem, due to lack of appropriate procedures and problems with age assessments. Amendments to the 2011 law on refugees are still required as regards extending the definitions of complementary protection and temporary protection, and necessary medical care — at least emergency medical care — to asylum seekers. Procedures (and especially deadlines) for appeals should also be improved. One positive step was Ukraine's accession to the Convention relating to the Status of Stateless Persons (in January) and to the Convention on the Reduction of Statelessness. The temporary accommodation centre for refugees in Odessa was partially renovated with EU funds.

As regards preventing and fighting **organised crime**, the framework law, revised together with a strategy and action plan from 2011, was carefully implemented, and targets and deadlines were met. Amendments to the Criminal Code and a new Criminal Procedure Code (November 2012) introduced significant new legal institutions, and included detailed rules on covert investigative measures, qualifying criteria for offences to be regarded as organised crime and more severe punishments for these, and strengthened protection for witnesses.

While Ukraine continued to be a country of origin, transit and destination, good progress was made in the **addressing trafficking in human beings**. The framework law was supplemented with various legislative instruments following EU recommendations. The National Target Social Program on Combating Human Trafficking entered into force on 1 January 2013. In institutional terms a specific department within the police to investigate this type of crimes was also created in 2013. Good progress was made in relation to cooperation with NGOs. The existing national Referral Mechanism can be more efficiently implemented in some regions. In addition, procedural rights for victims were further strengthened and foreign victims should receive residence permits.

A new **drugs** strategy until 2020 was approved in August. As regards **money laundering**, significant improvements were made, with an annual action plan and a functional institutional structure. Clarification that money laundering is a crime in its own right is still necessary.

Ukraine adopted amendments to its **data protection** law, which improve its alignment with European standards, as well as amendments to the law on Ombudsman in order to entrust it with data protection functions. Further amendments, including a draft law extending the powers of the Ombudsman in the field of data protection to the private sector, are under consideration.

Good progress was made both in relation to **judicial cooperation in criminal matters** and as regards law enforcement cooperation. The new Criminal Procedure Code introduced major changes that ensure supervision through a unified register of pre-trial investigations in the Prosecutor General's Office. A new unit was established to investigate crimes committed by officials holding a specific status and a new judicial position of 'investigating judge' was created.

Further contacts took place between **Eurojust** and the Ukrainian authorities. Next steps in the process of conclusion of the operational agreement will depend on the results of the assessment by Eurojust of the data protection legislative framework.

As regards **judicial cooperation** in civil matters, Ukraine ratified the 2007 Hague Convention on the International Recovery of Child Support and other Forms of Family Maintenance.

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

Implementation of Ukraine's 2010 national **transport** strategy progressed. However, the strategy envisaged the development of transport sub-sector programmes. By 2013, only two sub-sector programmes on roads and seaports had been approved. The approval of sub-sector programmes is a condition for paying instalments of EU transport sector budget support.

In **maritime** transport, Ukraine was moved from the Paris Memorandum of Understanding on Port State Control black list to its grey list. The Administration for Sea Ports in Ukraine was established in March. The Administration's major role is to provide equal access for various economic entities to strategic port infrastructure.

The State's target programme for improving **road** safety in Ukraine for the period to 2016 was approved by the Cabinet of Ministers in March. Negotiations on the EU-Ukraine Common **Aviation** Area Agreement were successfully concluded and the agreement was initialled in the margins of the Vilnius summit in November. Little progress was made on **rail** transport reform. The establishment of a State joint stock rail transport company is still pending, although its registration was originally intended to be completed by September 2013.

Ukraine was heavily involved in EaP transport cooperation.

A law was adopted approving a 2013-2017 national targeted scientific and engineering **space** programme. The Cooperation Agreement between the European Community and its Member States and Ukraine on a Civil Global Navigation Satellite System came into force on 1 November 2013. On 27 November, the European Commission and Ukraine signed a Joint Statement on extending the European

Geostationary Navigation Overlay Service (EGNOS) to Ukraine, to be supported with EU funds. The EU supports cooperation between Ukraine's State Space Agency and the European Space Agency.

Early 2014, Ukraine finalised the updated version of its **Energy** Strategy for the period to 2030, adoption of which (together with an action plan) is an important condition for sectoral budget support from the EU for Ukraine's energy policies. A significant law on the operating principles of Ukraine's electricity market was adopted by Parliament. However, this still left much to be done to meet Energy Community commitments, whose implementation deadlines had already passed, in particular with regard to the independence of the energy regulator, unbundling, transparency, market opening and some aspects of third party access. As a result of these delays in implementation, and following complaints by investors, the Energy Community Secretariat initiated two dispute settlement cases against Ukraine. These concerned the lack of transposition of the Directives on the sulphur content of liquid fuels and on cross-border electricity capacity allocation auction rules.

In May Commissioner Günther Oettinger and the Ukrainian Minister for Energy and Coal Industry met in Brussels to consult interested stakeholders, including the **gas** industry, EU Member States, and financial bodies, on the future development of the Ukrainian gas market. The EU and the international financial institutions remained fully engaged in plans to modernise the Ukrainian gas transit system. However, the possible conclusion of loan agreements with the international financial institutions was delayed due to lack of progress on implementing the Trust Fund study on reform of the Ukrainian gas company Naftogas. The Adamowo-Brody oil pipeline was included on the list of EU projects of common interest. The Commission has facilitated the negotiations of a Memorandum of Understanding for gas delivery to Ukraine through Slovakia. The final version of the MoU remains to be signed by the respective TSOs (transmission system operators). Further options for gas delivery to Ukraine were explored. In September, Ukrainian representatives took part in a discussion of gas market developments at the meeting of the EU's Gas Coordination Group in Brussels. Ukraine also became an observer in the European Network of Transmission System Operators for Gas, and took steps to encourage investment in new gas exploration activities (including by concluding production-sharing agreements with several international companies).

Local content requirements in **renewable** energy legislation remained a concern, as they were not amended to bring them into line with Energy Community and WTO requirements. A draft law on efficient use of fuel energy resources was submitted to Parliament in August.

A national **energy efficiency** action plan was drafted and the Energy Community Secretariat was consulted on it, but the process of approval was not completed. EU support for projects to improve energy efficiency in the heating sector continued through the E5P Fund and other grant schemes.

Implementation of the master plan for the development of the Ukrainian **coal** industry, which had been developed under an EU-funded coal support programme, was slow because of expected negative social consequences of mine closures and a lack of financial resources. In June, the Ministry of Energy and Coal Industry created an interagency working group on substituting natural gas with domestic coal, which also deals with the implementation of coal conversion technologies. In October,

Ukraine was admitted as a candidate country of the Extractive Industries Transparency Initiative.

In August, Euratom and Energoatom signed a loan agreement worth EUR 300 million. This followed a European Bank for Reconstruction and Development loan for the same amount (signed in March). These loans were part of a EUR 1.4 billion upgrade package to enhance the safety and security of **nuclear** power plants in Ukraine. In April, three projects for the victims of Chornobyl were inaugurated in Ivankiv (close to the Exclusion Zone) in the presence of two MEPs, Michèle Rivasi and Corinne Lepage. They included the provision of medical equipment, the construction of a greenhouse (to provide clean vegetables) and the installation of a wood incinerator to prevent forest fires in the Exclusion Zone.

New EU **climate change** projects to assist Ukraine were launched in 2013, including Clima East and Climate Forum East. The former will help set up a national emissions trading scheme and reverse damage to peat land in the country's Tchernigiv region. Ukraine remained committed to cutting its greenhouse gas emissions by 20% compared to 1990 levels, by 2020. It supported a new commitment period under the Kyoto Protocol on the condition that carry-over of unused credits would be permitted. A general draft legal framework on measuring, reporting and monitoring climate change mitigation projects was submitted to Parliament in the summer.

In March, the government decided to decentralise **environmental** governance by giving greater powers to regional government. The resulting administrative reorganisation took around six months, which slowed down the ongoing implementation of the national environmental strategy. Nevertheless, significant steps were taken (with financial support from the EU) towards implementing the strategy. These included identifying environmental actions under the government-approved Priority Measures for Integration of Ukraine into the EU and the approval of an action plan to improve environmental monitoring. In April, the Ministry of Ecology and Natural Resources published and presented to Parliament a report on civil society organisations' assessment of implementation of the national environment strategy.

Draft legislation concerning the implementation of the Espoo Convention (on environmental impact assessment in a trans-boundary context) passed its first reading in Parliament in September. Ukraine sent a report on its implementation of the Water and Health Protocol of the UN Economic Commission for Europe (UNECE) Convention on Protection of Transboundary Water Courses and International Lakes to the UN ECE Secretariat in May. A government working group on air quality was created in August, but the recommendations to Ukraine from a regional EU project concerning air quality were not implemented. Nor did Ukraine take any further steps towards establishing a branch of the Regional Environmental Centre for Central and Eastern Europe, the charter of which it had signed in November 2012.

In the area of **civil protection**, Ukraine was intensively involved in the regional flagship Programme for Prevention of, Preparedness for, and Response to natural and man-made disasters (PPRD East). Through the programme the country became better acquainted with the EU Civil Protection Mechanism and improved its connection with the Emergency Response Coordination Centre of the European Commission.

On **information society** Ukraine's new information society strategy was adopted in May covering issues such as access to public information, protection of intellectual

property, e-governance, open government, electronic circulation of documents and information security. The National Commission for Communications Regulation and Informatisation (NCCIR) decision defining state supervision of the telecoms market came into force in February. The NCCIR was granted additional powers to provide state market inspection, as well as to impose sanctions on market operators breaking the law on state market monitoring. In March, the first plenary meeting of the EaP Electronic Communications Regulators' Network was held in Kyiv, hosted by the NCCIR. During the second plenary meeting of this Network in September, an NCCIR member was elected Network Chair for 2014. Since March an e-government system, including electronic circulation of documents, has been used by the Parliamentary Secretariat, the Cabinet of Ministers, all ministries and other governmental agencies.

Regarding **audiovisual policy**, Ukraine is preparing a merger of its national TV and radio companies, the NTU and NRCU, with the state television and radio company Kultura to create a comprehensive national public service broadcaster.

In **research and innovation**, an ambitious action plan to implement reforms to the state policy on innovation for 2014 was adopted in April. Concrete measures were proposed to develop innovation policy at regional level, to support innovation infrastructure, and to introduce legislative improvements, public-private partnerships and state financial support. The second meeting of the EU-Ukraine Joint Science and Technology Cooperation Committee, established under the EU-Ukraine Science and Technology Agreement, took place in Kyiv in May.

Ukraine became the seventh largest international partner in the Seventh Framework Programme (FP7), participating in 270 projects with a total EU contribution of nearly EUR 27 million. Future opportunities for cooperation were identified in the context of the upcoming Horizon 2020 programme, notably in the fields of biotechnologies, new materials, information and communications technology and aeronautics. Those opportunities will be promoted through the BILAT UKRA*INA project aiming to support the implementation of conclusions from the bilateral policy dialogue established in the science and technology domain. Five new FP7 projects (R2I — Research to Innovation) involving Ukrainian stakeholders were launched with EU funding of around EUR 5 million. These aim to foster research-industry partnerships, support Ukrainian capacity in innovation and facilitate the commercial exploitation of research results. A new FP7 regional project, the INCONET EaP, involving the Centre for Scientific and Technical Information and Innovation Promotion and TBI Kharkov Technologies, was launched in September for three years to prepare for the transition to Horizon 2020 and promote the cooperation opportunities of this new programme.

A dialogue on **integrated maritime policy** and **fisheries** with Ukraine has been initiated with the nomination of national contact point in the Ministry of Foreign Affairs. Ukraine participated in the Black Sea Stakeholders conference in Bucharest on 30 January 2014.

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

Ukraine started to develop a national action plan to implement the national strategy for the development of **education** in Ukraine up to 2021. This includes the adoption of new laws on higher education and vocational education and training. Although

some progress was achieved in bringing the higher education system of Ukraine closer into line with the EU and the Bologna Process, adoption of the new draft law on higher education advanced very slowly, due to the different views of political parties and higher education advocacy groups.

Ukraine continued to participate in the **Tempus** programme, with the selection of 33 new projects. To celebrate 20 years of Ukrainian participation in this programme, an international conference ‘Tempus-Ukraine@20’ was held on 14 May in Kyiv. Students and staff from Ukraine received 296 scholarships to study at a European higher education institution under nine new Erasmus Mundus partnerships. In addition, 87 masters students and seven doctoral students were awarded scholarships / fellowships to take part in **Erasmus Mundus** joint programmes of excellence. These included 84 additional scholarships awarded under a special window for EaP countries. Moreover, since 2007, 82 institutions and 192 individual researchers benefited from **Marie Curie** actions to support researchers’ training, mobility and career development.

Ukraine continued implementing its 2011-2015 **vocational education and training (VET)** development programme. Despite government funding constraints, 46 new VET standards were developed in 2013 and sent to employers for consultation and feedback. An EU twinning project assisted the Ministry of Education and Science in developing new VET legislation, implementing the National Qualification Framework and introducing quality assurance elements to VET. Although planned for 2015, Ukraine has already drafted the law on VET and put it to the VET stakeholder community for discussion and review.

Ukraine also officially joined the ‘**eTwinning plus**’ action for schools, supporting school collaboration through the use of information and communication technologies. 85 schools and 243 teachers from Ukraine are registered and 52 schools are involved in projects so far.

Ukrainian youth and youth organisations continued to participate in the **Youth in Action** programme. In 2012-2013, additional funds were provided by the European Neighbourhood Partnership Instrument (ENPI) to boost cooperation and exchanges among youth, youth workers and youth organisations through the ‘Eastern Partnership Youth Window’. 653 projects were selected in 2013 involving 2406 young citizens of Ukraine.

In October, Ukraine hosted a regional seminar on the implementation of the 2005 UNESCO Convention on the protection and promotion of the diversity of **cultural** expressions in Lviv, under the EaP Platform 4. The event helped EaP countries develop strong cultural policies in line with the principles of the UNESCO Convention. A consultation workshop involved stakeholders from the cultural sector, as part of the consultation process for the Preparatory Action on ‘Culture in EU External Relations’.

The 2020 State Regional Development Strategy was approved by the government in November. The Strategy is an important step forward, and is compatible with EU regional policy principles. However, an action plan setting out implementation mechanisms is still missing.

Policy-makers from Ukraine participated in various EU-led international events to discuss **public health** policy issues. These included meetings of the HIV/AIDS Think Tank and HIV/AIDS Civil Society Forum, a high-level conference on HIV and human rights in the EU and its neighbouring countries, and a multi-country workshop on the *EU acquis* on prevention and control of communicable diseases.

In May, the Cabinet of Ministers approved a national programme of HIV/AIDS prevention. In July, the health ministry issued a regulatory order to organise medical care for people living with HIV, and in October the second national AIDS conference ‘For every life — together!’ was held in Kiev. The government and Parliament also approved a national programme against tuberculosis, which includes procurement of new pharmaceuticals to combat drug-resistant strains of the disease. However, Ukraine’s levels of immunisation against communicable diseases remained low, with several outbreaks of measles being reported.

Ukraine further increased the number of people being treated for opioid drug dependence through opiate substitution. However, the expansion of the programme has been slow and provision remains well below what is medically needed. In particular, opiate substitution treatment and needles and syringes remain unavailable in prisons.

Ukraine’s programme to fight HIV/AIDS faced insufficient budget resources, delays and lack of transparency in its procurement, ineffective monitoring, and instances of disruptive administrative action by government agencies. An example of the latter was the Customs, which in February 2013 ordered the Ukrainian NGO HIV/AIDS Alliance to retroactively pay EUR 397 000 as anti-dumping duties on syringes that it had distributed free-of-charge in Ukraine.

Inadequate levels of polio vaccination led to Ukraine being placed on the Red List by the WHO and European Centre for Disease Prevention and Control, due to the risk of a polio outbreak. Such action is normally taken when more than 5% of the population is not vaccinated. In Ukraine, WHO and UNICEF indicated that 40% had not been vaccinated because of inadequate vaccination campaigning over the last five years, with many families having reportedly refused to vaccinate their children because of concerns about the side effects of the vaccine. WHO and UNICEF launched a warning campaign and informed the Cabinet of Ministers and the President’s office, but no action was taken to address the problem.

The various actions which Ukraine had taken during the second half of 2012 to implement the Framework Convention on Tobacco Control seemed to be having a significant impact, with sales of cigarettes in early 2013 down by some 10% compared with the same period in the previous year.