JOINT STAFF WORKING DOCUMENT

Association Implementation Report on Ukraine

EN

EN

<u>**Association Implementation Report on Ukraine**</u>

1. **Summary**

In line with the revised European Neighbourhood Policy, this report outlines the state of play of Ukraine's implementation of its commitments under the EU-Ukraine Association Agreement (AA). It covers developments since the publication of the previous Association Implementation Report on Ukraine on 9 November 2018 and ahead of the EU-Ukraine Association Council of 28 January 2020.

2019 was an important election year for Ukraine, whose citizens elected a new President in April and a new Verkhovna Rada (the Parliament) in July 2019. A significant international election observation presence in the country assessed these elections as competitive and held with respect for fundamental freedoms.

The successful completion of this electoral cycle, while underlining Ukraine's attachment to the democratic principles and values it shares with the EU, occupied much of the time and energy of the country's political leaders and institutions, which had a certain impact on engagement in continuing reforms. The new President, Parliament and Government of Ukraine have all stated publicly their commitment to continued implementation of the AA. Since the new Government and Parliament started their work, rapid legislative activity has resumed, reflecting the high demand from the citizens of Ukraine, in particular on economic reforms and rule of law.

A further challenge to Ukraine came from new destabilising actions by Russia in the east of Ukraine, following the illegal annexation of Crimea and Sevastopol in 2014 and the onset of conflict in eastern Ukraine. These include the inspection regime imposed by Russia at the Kerch Strait for vessels going to or from Ukrainian ports in the Sea of Azov, the unacceptable use of force against Ukrainian Navy personnel and vessels on 25 November 2018, and the decree offering Russian citizenship in a simplified manner to Ukrainians residing in the non-government controlled areas of Donetsk and Luhansk. In eastern Ukraine more than 3.5 million people on both sides of the line of contact remain in need of humanitarian assistance. In the Crimean peninsula persecution of Crimean Tatars and those opposed to the illegal annexation in general continues.

The Ukrainian Government published its own annual AA implementation report in spring 2019[1] and continued to work with the Parliament on its prioritisation and implementation as outlined in the joint Government-Parliament Roadmap adopted in 2018[2]. In 2019, the Parliament adopted a number of legislative proposals set out in the Roadmap – relating to technical/market regulations, sanitary and phytosanitary measures, environment, energy and human rights – that have entered into force already. In October 2019 the new Ukrainian Government set out its programme, including a section dedicated to the implementation of the AA, which is defined as a priority. Ukrainian civil society continued to play a very active role in the promotion and oversight of reforms and, increasingly, in monitoring the implementation of the AA.[3]

---

[1] https://eu-ua.org/sites/default/files/inline/files/association-agreement-implementation-report-2018-english.pdf
[2] https://eu-ua.org/en/joint-european-integration-roadmap-parliament-and-government-ukraine
[3] See also the joint statement of the 7th EU-Ukraine Civil Society Platform:
https://www.eesc.europa.eu/en/agenda/our-events/events/7th-meeting-eu-ukraine-civil-society-platform.

In the area of justice, rule of law and the fight against corruption, Ukraine continued to build an effective institutional framework. The new High Anti-Corruption Court (HACC) began functioning on 5 September 2019. After the Constitutional Court ruled the provisions of the Criminal Code on illicit enrichment unconstitutional in February, Parliament adopted a new law on 31 October 2019 reinstating illicit enrichment as a criminal offence. The Law on reforming the Supreme Court and judicial self-governance bodies was adopted in October, despite criticism from the EU and other international partners. A series of legal cases relating to the 2016 nationalisation of PrivatBank and the possible recovery of assets allegedly lost through fraud prior to the nationalisation continues in various Ukrainian and international jurisdictions.

Progress on Public Administration Reform continued, with the new amendments on the Civil Service Law. Decentralisation continued during the reporting period. Ukraine has taken significant further reform measures in social sectors, such as education and health.

The Ukrainian economy continued to grow and its finances and banking sector have stabilised despite a challenging internal and global environment. Thanks in part to the positive effect of the Deep and Comprehensive Free Trade Area (DCFTA), which is part of the AA, trade with the EU continued to increase and the EU maintains its position as Ukraine's main trade partner. However, foreign direct investment remains low, highlighting a need to further improve the business climate and encourage investment, in particular by enforcing the rule of law and supporting the fight against corruption.

Economic and sectoral reforms have continued. There were some notable achievements in relation to budget Law, customs, market deregulation and procurement. Reforms have stalled in some areas, notably statistics and intellectual property rights. Ukraine has not yet lifted an export ban on unprocessed wood that violates provisions of the DCFTA, and the EU has requested that an arbitration panel be set up.

Ukraine ensured that gas transit to the EU continued to be reliable and smooth during the winter of 2018-19. Ukraine adopted decisions relating to the unbundling of Naftogaz in September, which should lead to the establishment of an independent transmission system operator. Ukraine and the EU adopted in July 2019 an updated Annex XXVII of the AA on energy, which includes increased monitoring provisions on further implementation. Progress is also taking place on energy efficiency also thanks to EU financial support.

Overall reform of the energy sector remains challenging. The same is true for the transport sector where key legislative proposals have yet to be adopted by the Parliament. Ukraine took some steps towards reforms in the environment field with the adoption of the National Environmental Strategy 2030 and enforcement of water quality standards.

While key legislation on digital economy remains to be adopted, significant positive steps have been taken in the area of e-governance and digital transformation in general.

Ukraine celebrated two years of visa-free travel to the EU for its citizens on 11 June 2019. During this period, Ukrainian citizens with biometric passports have visited the Schengen area without a visa almost three million times.

2. Political dialogue, good governance and strengthening institutions

2.1 Democracy, human rights and good governance

Regular presidential elections were held in Ukraine over two rounds in March and April 2019. The International Election Observation Mission of the Organisation for Security and Cooperation in Europe's Office for Democratic Institutions and Human Rights (OSCE-ODIHR) assessed the two election rounds as "competitive and held with respect for fundamental freedoms".[4] Voters had a broad choice and turned out in high numbers.

The newly elected President of Ukraine, Volodymyr Zelenskyy, called early parliamentary elections for 21 July 2019, on which the International Election Observation Mission concluded that "fundamental rights and freedoms were overall respected and the campaign was competitive, despite numerous malpractices, particularly in the majoritarian races"[5]. Nationwide local elections are due in October 2020.

The Central Election Commission (CEC) appointed in September 2018, demonstrated efficient and unbiased performance. The law enforcement agencies have met international standards in carrying out their duties and helped to ensure smooth electoral processes. In September-October 2019, upon President Zelenskyy's initiative, the Parliament dismissed the entire CEC before the end of its term and appointed a new Commission, reflecting the new majority in the Parliament. Ensuring that the work of the new Commission is professional, politically impartial and independent also remains essential.

Local self-government was further strengthened by progress in the **decentralisation reform** launched in 2015, with 968 new amalgamated *hromadas* (municipalities) being created since then, including 100 since November 2018. Constituent local elections took place in 77 amalgamated *hromadas* on 23 December 2018 and in 66 amalgamated *hromadas* on 30 June 2019. A new round of constituent elections in 86 newly amalgamated municipalities is scheduled for 22 December and six more on 29 December 2019. At the same time, the new legislation on the status of the city of Kyiv creates uncertain prospects for the future of the decentralisation reform. The authorities are planning a comprehensive reform of the territorial-administrative setup, which will require amendments to the Constitution.

Electoral legislation has not yet been harmonised and aligned with OSCE/ODIHR recommendations. In July 2019, the Parliament adopted a new Electoral Code, which would have introduced a full proportional system with open lists after December 2023. Following the new President's veto on this law in September, a working group was set up in the Parliament to elaborate changes to the text based on the President's proposals. Among other things, the changes should fully enfranchise more than 1.4 million internally displaced persons (IDPs) who remain deprived of some of their voting rights in the parliamentary elections and cannot vote in local elections.

Gradual implementation of the 2015-2020 **national strategy and action plan on human rights** is ongoing.

The **human rights situation in the illegally annexed Crimean peninsula** continued to deteriorate in 2019. As in 2018, systematic repression of individuals seen to oppose *de facto*

---

[4] https://www.osce.org/odihr/elections/ukraine/417821?download=true
[5] https://www.osce.org/odihr/elections/ukraine/426257?download=true

"authorities" continued unabated. The activities of the Crimean Tatar Mejlis remain banned since 2016 under Russian law and wide-ranging intimidation and persecution of the community have continued. Arrests of Crimean Tatars and searches of their homes have intensified. Restrictions on fundamental freedoms including education rights have been noted. The UN Office of the High Commissioner for Human Rights (OHCHR) also continued to receive credible reports of inhumane conditions in places of detention in Crimea.[6] On 8 September 2019, Russian local "elections" were organised in the illegally annexed Crimean peninsula.

Human rights and fundamental freedoms continue to be severely curtailed by armed groups in **non-government controlled areas (NGCA) of eastern Ukraine**, including through targeted killings, arbitrary and incommunicado detention, sexual and gender-based violence, torture and arbitrary violation of property rights. Freedom of media as well as freedom of religion or belief are also severely affected in these areas, while civic space is highly restricted.[7]

The **humanitarian situation** in eastern Ukraine remains of serious concern and continues to present a fundamental challenge to the country for the sixth consecutive year. More than 3, 5 million people on both sides of the line of contact remain in need of humanitarian assistance and protection. The situation is characterised by indiscriminate shelling of civilian infrastructure, water stoppages and electricity cuts, environmental damage and persisting problems concerning limited humanitarian access to the NGCA. International humanitarian assistance is constantly decreasing. At present, according to the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA), funding only covers 49% of the 2019 UN Humanitarian Response Plan.[8] The situation remains particularly grim in the sectors of health, food and livelihood, shelter, protection, and access to basic infrastructure and utilities (including water provision).

Arrangements for providing social benefits and long-term solutions for the approximately 1.4 million officially registered IDPs remain cumbersome. This is despite the Government adoption in 2018 of a strategy and action plan for IDPs, welcomed by the international community, which continue to be inadequately resourced. Pension and social benefit payments in NGCA remain officially suspended. Facilitation of access and movement of individuals, vehicles, cargo and goods to and from the NGCA needs to improve. The provision of a state policy and mechanisms on remedy and reparation for civilians injured during the hostilities, as well as compensation schemes for lost and damaged property, are yet to be set up.

According to the UN, eastern Ukraine is one of the places most severely affected by **mines and unexploded ordnance** in the world.[9] At the end of 2018 Ukraine adopted the Law on Mine Action, which defines the specificities of military, humanitarian and operational demining, and creates a number of new agencies, such as the National Mine Action Authority and the National Mine Action Centre. Implementation of the law faces delays.

---

[6] https://www.ohchr.org/Documents/Countries/UA/ReportUkraine16Feb-15May2019_EN.pdf (refer to page 24)
[7] https://www.ohchr.org/Documents/Countries/UA/ReportUkraine16Feb-15May2019_EN.pdf (see page 22), and https://www.ohchr.org/Documents/Countries/UA/ReportUkraine16Nov2018-15Feb2019.pdf (see page 18)
[8] https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/humanitarian_snapshot_20190710.pdf
[9] https://www.unhcr.org/news/stories/2019/4/5ca200c04/clearing-landmines-ukraine-careful-step-time.html

In January 2019, changes to the Criminal Code came into force, including criminalising **domestic violence**. Ukraine has yet to ratify the Istanbul Convention. According to the OSCE, physical and/or sexual violence affected around 25% of women in Ukraine over the age of 15.[10]

Ukraine has not yet ratified the Rome Statute of the International Criminal Court (ICC). The constitutional amendments adopted in 2016 allowing the ratification contained a transitional provision that ended in June 2019. Thus, finalisation of the ratification process can now proceed.

OHCHR documented violations related to discrimination, hate speech and violence targeting members of **minority groups**.[11] In June 2019, women's marches marking International Women's Day, as well as the Kyiv Equality March were held peacefully, although some attacks on lesbian, gay, bisexual, transgender, queer and intersex (LGBTQI) events were recorded around the country. The Roma minority remains a particularly vulnerable minority group due to a lack of access to identification documents, adequate education or poverty reduction actions. Ukrainian law enforcement authorities now consider hate motives when classifying attacks based on victims' identities. [12]

Freedom of the media is broadly respected in Ukraine, although physical attacks including those with fatal consequences[13] and acts of intimidation of journalists and media professionals still occur and there is a lack of accountability for these attacks.[14] Investigations into the high-profile killing of the prominent journalist Pavlo Sheremet in 2016 have not brought results. The **Public Broadcasting Service** (PBS) set up in 2017 remained underfinanced in 2019 with only 50% of the budget stipulated by Ukrainian law being allocated to it, which has hampered the functioning of the channel. Ukraine still needs to adopt the audio-visual media legislation that would align this with the EU acquis, a commitment of the AA.

The Law on **State Language** adopted in May 2019 regulates the use of the Ukrainian language as the state language in the sphere of public life. It does not cover private communication or religious rites. It also guarantees the possibility for national minorities to study, along with the state language, the language of the national minority. However, some representatives of national minorities have expressed concerns over the possible impact of this new law on the rights of persons belonging to national minorities, in the absence of a dedicated law that sets out and regulates these rights. The Venice Commission adopted an opinion on the law on 6 December. As for the Law on Education, it exempts official EU languages from a number of restrictions applied to other non-Ukrainian language. A provision in the bill also extends the transitional period of Article 7 of the Law on Education until 2023, as recommended by the Venice Commission.

Civil society continues to play a very active role in the promotion and oversight of reforms and, increasingly, in the monitoring of AA implementation. [15] Ukrainian civil society

---

[10] OSCE Survey on the Well-being and Safety of Women, 2019: https://www.osce.org/secretariat/413237
[11] https://www.ohchr.org/Documents/Countries/UA/ReportUkraine16Feb-15May2019_EN.pdf (pp. 20, 22)
[12] https://www.ohchr.org/Documents/Countries/UA/ReportUkraine16May-15Aug2019_EN.pdf (see page 21)
[13] European Federation for journalists: https://europeanjournalists.org/blog/2019/06/20/ukraine-journalist-vadym-komarov-dies-after-one-and-a-half-months-in-coma-following-assault/
[14] https://www.ohchr.org/Documents/Countries/UA/ReportUkraine16Nov2018-15Feb2019.pdf (refer to page 3)
[15] See also the joint statement of the 7th EU-Ukraine Civil Society Platform:
https://www.eesc.europa.eu/en/agenda/our-events/events/7th-meeting-eu-ukraine-civil-society-platform.

organisations continued to take active part in the EU-Ukraine Civil Society Platform provided for in the AA and the Eastern Partnership Civil Society Forum.

After a temporary slow-down around the elections and formation of the Government, **Public Administration Reform** accelerated in the 2nd quarter of 2019**.** In September 2019, amendments to the Law on Civil Service were adopted, allowing more flexibility in renewal of staff through flexibility in hiring and firing senior civil servants and introducing short-term contracts for 7% of civil servants working on Government priorities. The recruitment of new civil servants (Reform Staff Positions) has continued and had already reached close to 700 positions. Close to 30 % of the recruited people came from outside of the civil service. Work on the draft law on administrative procedures, which was submitted to the Parliament at the end 2018, but was eventually recalled, continues. It is considered as one of the priority legislation for the Government's digital agenda and it is central to the creation of a service-oriented, transparent and accountable administration. The Government started a number of initiatives related to reorganisation of ministries, optimisation of internal processes and services provided to citizens.

Notable steps have been taken in the area of e-governance and service delivery. A dedicated agency for the design and implementation of e-Governance policies has been created and a strategic framework for e-Governance has been adopted. A new interoperability framework called TREMBITA was introduced and the number of electronic services was increased to 129. Ukraine has signed an administrative arrangement with the EU (the '*ISA*^{2}'programme)[16] that further supports the development of digital solutions and enables the public administrations, businesses and individuals to benefit from interoperable cross-border and cross-sector public services.

Ukraine's Ministry of Internal Affairs and certain other agencies have approached the organisational development and building of public policy capacities outside of the general public administration reform framework in a slower process that does not allow comparative assessment of their progress.

In February 2019, Ukraine enshrined European integration as a strategic priority in its Constitution. Following this, in April 2019 the Government submitted to the Parliament a draft framework law aimed at streamlining the process of implementing the AA and facilitating alignment with EU law. The draft law was not adopted before the end of the Parliament's term but a new proposal is expected to be considered by the new Parliament.

The new Ukrainian Government that took office on 29 August 2019 includes a Deputy Prime Minister for European integration, who is expected to work closely with the Parliament Committee on EU integration. The Government programme, as set out in October 2019, includes a section dedicated to implementation of the AA, which is defined as a priority.

2.2. Foreign and security policy

According to updated UN estimates[17], approximately **13,000 people, including more than 3,300 civilians, have been killed** since the beginning of the conflict in eastern Ukraine. In 2018, the UN recorded 279 conflict-related civilian casualties in Ukraine including 55 killed and 224 injured. That was a 54% decrease compared to 2017. **Ceasefire violations** have

---

[16] https://ec.europa.eu/isa2/isa2_en

[17] https://www.ohchr.org/EN/Countries/ENACARegion/Pages/UAReports.aspx

continued to be reported on a daily basis by both the Organisation for Security and Cooperation in Europe Special Monitoring Mission (OSCE SMM) and the Ukrainian armed forces.[18]

On 11 November 2018, **Russia-backed separatists** in eastern Ukraine held so-called "elections" for "Parliament" aiming at further consolidation of these entities outside Ukrainian jurisdiction and under Russian control. In December 2018, the EU announced restrictive measures (asset freeze and entry ban) against nine individuals [19] for assisting in the organisation of these "elections". In April 2019, Russian President Putin signed a decree enabling the simplified issuing of **Russian passports** to residents of the self-proclaimed separatist entities in eastern Ukraine. This attack against Ukraine's sovereignty violates the objectives and provisions of the Minsk agreements. In May and July 2019 President Putin took further measures enabling other Ukrainian citizens to obtain Russian passports through a simplified procedure, in another attempt by Russia to destabilise Ukraine. On 1 October 2019, the EU issued guidelines[20] to its Member States on how to handle visa applications lodged by residents of the non-government controlled areas of Ukraine's Donetsk and Luhansk regions, including on the identification and non-recognition of passports issued as a consequence of the Russian presidential decree.

Russia's new maritime inspection regime, launched in June 2018, of all vessels going through the Russia-controlled Kerch Strait on their way to or from Ukrainian Sea of Azov ports has remained in place, affecting many EU-owned, EU-flagged or EU-bound vessels.[21] The accompanying Russia-imposed discriminatory delays in the strait have resulted in additional costs for ship-owners worldwide. They have also had negative consequences for the Ukrainian Sea of Azov ports and the region, which have already suffered economically since 2014 due to their vicinity to the conflict area in eastern Ukraine.

On 25 November 2018, Russian Border Guard vessels hindered the Ukrainian Navy from passing the Kerch Strait into the Sea of Azov from the south. Three Ukrainian Navy vessels and their crew of 24 sailors were returning to Odesa, when they were fired upon and seized by the Russian Border Guard and taken to Russia. On 5 March 2019, the EU issued restrictive measures against eight Russian citizens for undermining Ukraine's territorial integrity in this context[22]. The 25 November use of force by Russia prompted Ukraine to declare **martial law** in several regions for a 30-day period in December 2018. The Ukrainian Navy sailors and their vessels remained detained in Russia, despite a preliminary ruling by the International Tribunal for the Law of the Sea prescribing that Russia immediately release the 24 detained Ukrainian sailors and their three vessels and return these to Ukraine.[23] On 7 September 2019, the 24 Ukrainian sailors and 11 other illegally detained Ukrainians were finally returned by

---

[18] See e.g https://reliefweb.int/report/ukraine/press-statement-special-representative-osce-chair-ukraine-and-tcg-sajdik-after and https://www.opendemocracy.net/en/odr/eastern-ukraine-alexander-hug-on-peacebuilding

[19] https://www.consilium.europa.eu/en/press/press-releases/2018/12/10/ukraine-eu-adds-nine-persons-involved-in-elections-in-donetsk-people-s-republic-and-luhansk-people-s-republic-to-sanctions-list/

[20] https://europa.eu/rapid/press-release_IP-19-5975_en.htm

[21] https://www.blackseanews.net/read/156342

[22] https://www.consilium.europa.eu/en/press/press-releases/2019/03/15/ukraine-eu-responds-to-escalation-at-the-kerch-straits-and-the-azov-sea-and-renews-sanctions-over-actions-against-ukraine-s-territorial-integrity/

[23] https://www.itlos.org/fileadmin/itlos/documents/press_releases_english/PR_284_En.pdf

Russia to Ukraine as part of a prisoner exchange. The vessels were returned by Russia to Ukraine on 18 November 2019.

In June 2019, the Joint Investigation Team comprising investigative authorities from the Netherland, Belgium, Ukraine, Malaysia and Australia publicly presented further findings in the investigations around the 2014 shooting down of **Malaysian Airlines flight MH17** over eastern Ukraine, resulting in the death of 298 people. The team announced criminal proceedings against four individuals and confirmed direct Russian military involvement in the incident.

The process of **implementation of the Minsk agreements** seems to have gained a certain momentum with: the September 2019 prisoner exchange, the completion of de-mining and dismantling of fortifications within the Stanytsia Luhanska area where the reconstruction of the bridge allows to alleviate the humanitarian situation, the disengagement at Zolote and Petrivske areas, and the agreement on the so-called "Steinmeier formula" on 1 October, concerning the holding of local elections in the non-government controlled areas of eastern Ukraine, as part of the implementation of the Minsk agreements as well as agreeing on a date for the Normandy 4 Summit, i.e. 9 December. Russia has yet to match the constructive steps taken by Ukraine.

Meanwhile, ceasefire violations continue. The work of the OSCE Special Monitoring Mission (OSCE SMM) continues to face obstacles, mainly in NGCA, in particular those close to the Russian border. A number of OSCE SMM unmanned aerial vehicles have been brought down or destroyed, largely through signal jamming, mostly originating from NGCA.

Ukraine has substantially improved its cybersecurity, including the legislative basis underpinning this and its operational resilience, thanks to EU and international support. The key actors responsible for cybersecurity were able to detect and isolate all major cyber-attacks during presidential and parliamentary elections. Further alignment with the EU *acquis* is needed on the information systems protecting Ukraine's critical infrastructure.

During several months in 2019, both before and after the presidential election, a wave of **bomb threats**, reportedly called in from Russia and Russia-controlled areas in eastern Ukraine, led to tens of thousands of people being evacuated from department stores, railway stations, airports, hotels and residential buildings throughout Ukraine.[24]

2.3 Justice, Freedom and Security

The judges of the newly created **High Anti-Corruption Court** (HAAC) were selected in February 2019 following a transparent procedure that involved the Public Council of International Experts. In April 2019, the President appointed 38 judges who elected their chairperson in May. The Court began operating officially on 5 September. An amendment to the Law on the HACC was adopted in September, limiting its mandate to high-level corruption cases and preventing its potential overburdening by minor cases. Due to an excessive workload, the HACC selected three additional investigative judges in September.

---

[24] *Segodnya*, 13 June 2019, 'Bolshintsvo soobshchenii o minirovanie v Ukraine postupayut iz Rossii' (https://www.segodnya.ua/ukraine/bolshinstvo-soobshcheniy-o-minirovanii-v-ukraine-postupayut-iz-rossii-mvd-1284286.html)

Recruitment of non-judicial staff is continuing. The HACC received adequate temporary premises, pending the completion of work on permanent buildings.

The **National Anti-Corruption Bureau of Ukraine** (NABU), in cooperation with the Specialised Anti-Corruption Prosecutor's Office (SAPO), has launched since its establishment 752 pre-trial investigations in high-level corruption cases. NABU has submitted a total of 224 cases to the courts. The conviction rate in these cases remains very low at 31, as the vast majority of cases were blocked in Ukraine's ordinary courts. No high-level officials have yet been convicted for corruption. With the start of work of the new HACC, the situation is expected to improve. The external audit of NABU, which is supposed to be held annually, continued to be delayed. In October 2019, the President signed a law which granted NABU and the State Bureau of Investigation (SBI) autonomous wire-tapping powers. The law, requiring the National Agency for Prevention of Corruption (NAPC) to grant NABU direct automatic access to the register of electronic asset declarations was adopted and awaits implementation.

In February 2019, the Constitutional Court ruled the Criminal Code article on **illicit enrichment** unconstitutional. As a result, 65 NABU cases against high-level public officials had to be closed. In June 2019, the Constitutional Court declared NABU's right to challenge in courts corruption-related commercial agreements to be unconstitutional, noting that this right should rest with the prosecutors. These developments have weakened NABU's ability to conduct effective investigations into high-level corruption cases and have caused financial damage to the country. The decision also has an impact on the e-declaration system, forming the basis not only for deterrence but also for legal proceedings for public officials with a clear discrepancy between assets and income history. A law re-criminalising illicit enrichment was adopted on 31 October 2019. The law does not allow to prosecute cases closed after the earlier illicit enrichment provision was repealed. In October the Parliament also adopted a new Law on Protection of Whistleblowers.

A disciplinary case launched against the head of SAPO in April 2018 and his subsequent reprimand by the Qualification and Disciplinary Commission of Prosecutors caused concerns relating to the independence of the SAPO. The Chief Investigative Division of the Security Service of Ukraine (SSU) closed criminal proceedings against the head of the SAPO in January 2019. After some internal conflicts, relations between the management of NABU and SAPO improved over the summer of 2019.

Progress was made on the **verification of electronic asset declarations for public officials**. In October 2019, a Law was adopted enabling a full reboot of NAPC, in particular changing its management structure from a collegiate body to a single head and the participation of international experts in the selection of the new head. The automatic verification system for electronic asset declarations has been connected to all relevant state registers. Until November, the NAPC has approved 1006 verification decisions.

In June 2019, the Constitutional Court declared the requirement for anti-corruption activists to submit annual electronic asset declarations to be unconstitutional. Foreign members of supervisory boards of state-owned enterprises were also excluded from such an obligation in October 2019.

The Parliament amended corruption prevention legislation in October 2019 to limit **public funding for political parties**, an instrument conceived to increase their independence, to only those parties that obtained more than 5% of the vote, thus excluding parties with 2-5% support.

The renewal of the **judiciary** continued in 2019, but experienced significant delays mainly due to court decisions suspending the leadership of the High Qualification Commission of Judges (HQCJ). In August 2019, the President launched a new reform concerning the Supreme Court and judicial governance bodies and the Law on Reforming the Judicial Self-Governance Bodies was adopted in October, despite strong criticism from the EU and other international partners. The Venice Commission adopted an opinion on the amendments on 6 December.

The second recruitment competition for judges on the new Supreme Court was held and 75 judges joined the Court in May 2019, bringing the total number of judges to 193. The Public Integrity Council (PIC) raised integrity concerns against 15 out of 75 newly appointed judges. According to a law adopted in October 2019, the number of judges will be reduced to 100. The competition to the new High Intellectual Property Court is delayed. Qualification assessment of judges resumed in March 2019 following a break due to the focus of the HQCJ on the HACC and second Supreme Court competition. As of 30 October 2019, more than 3,000 judges underwent the qualification evaluation while the assessment of about 2,000 judges is still pending. Since the launch of the re-evaluation process, about 2,500 judges (about 30% of their total number) voluntarily resigned without waiting for the re-evaluation. Out of the assessed judges, about 2,500 (80.4%) were found fit for their jobs, while about 600 judges were recommended for dismissal or resigned.

The PIC resumed its participation in the process of re-evaluation of judges. However, PIC continues to complain about unrealistic timeframes set by the HQCJ and the latter disregards negative opinions from the PIC on judges being re-evaluated. The competition for 505 vacant judicial positions in local general courts was completed. In August, based on the results of the competition, the HQCJ sent recommendations on the appointment of 467 candidates as judges of 263 courts to the High Council of Justice. The HQCJ's work was hampered by administrative and criminal cases launched against its members, the resignation of its staff, and sporadic protests and calls from politicians and civil society to re-launch the HQCJ.

In May 2019, following a disciplinary procedure, the judges of the **Constitutional Court** dismissed its Chair and appointed a new chairperson. In October 2019, the Kyiv Circuit Administrative Court ruled to reinstate the ex-chairman of the Constitutional Court but the Constitutional Court has delayed execution of this decision.

Reform of the **Public Prosecutor's Office** started in 2015 but has not produced a reset of the prosecutorial service and public trust in this service remains very low.[25] In August 2019, a new Prosecutor General was appointed. A Law on Reform of the **Public Prosecutor's Office**

---

[25] According to the latest poll, 71% of the population distrusts the prosecutorial service in Ukraine. http://razumkov.org.ua/napriamky/sotsiologichni-doslidzhennia/riven-doviry-do-suspilnykh-instytutiv-ta-elektoralni-oriientatsii-gromadian-ukrainy-2

(PPO) entered into force in September. It envisages significant reform of the PPO including the vetting of all prosecutors during a two-year period.

The legislative framework on combatting **organised crime** still needs to be revised and improved. The national authority responsible for coordinating activities in this area is not yet clearly defined. Several law enforcement agencies claim it is part of their functions, though they have no legal grounds or structures for this. The level of cooperation and coordination is unsatisfactory. The recently developed Serious and Organised Crime Threat Assessment (SOCTA Ukraine) is a significant step forward in unifying information from eight law enforcement agencies. A draft strategy on combatting organised crime is awaiting approval by the Cabinet of Ministers. Further developments in clearing responsibilities depend much on the finalisation of the draft law on **the security service of Ukraine** and developments in reforming the National Police "criminal police pillar" organisation and management. There are Ukrainian registered victims of trafficking in human beings and Ukrainian suspects within the EU.

The **Asset Recovery and Management Agency (ARMA)** has been further strengthened by recruiting additional staff, by appointing the heads of its territorial branches and by improving its cooperation with the regional law enforcement teams. ARMA is also working on its connection to the Europol SIENA system and is in the process of developing a database of frozen assets, a centralised bank account registry for individual accounts and an IT laboratory.

The **State Bureau of Investigations** (SBI) has been operational since November 2018. As of 1 March 2019, the SBI was investigating 5,794 cases. While SBI has managed to appoint officers to 534 positions out of the 674 in central and territorial offices, recruitment has proven problematic. In May, a number of amendments to the law on the SBI and other legislative acts were adopted. This allowed the SBI to start recruiting its own operative employees, alleviating its reliance on other law enforcement agencies for information collection.

The EU continues to advocate for adoption of new legislation on **the Security Service of Ukraine** (SSU) and on **parliamentary oversight** over the entire security sector, to transform the SSU into a modern agency with clearly defined functions limited to counter-intelligence, counter-terrorism and protection of state secrets. On 15 October, the head of SSU submitted a revised draft law on SSU to the Office of the President for consideration. At the same time, the SSU foresees retaining some competencies to fight organised and economic crime. The creation of effective parliamentary oversight has been put on hold.

Reform of the National Police of Ukraine (NPU) continued in 2019. The EU has maintained support for rule of law reforms in Ukraine in an integrated approach through the EU Advisory Mission for Civilian Security Sector Reform (EUAM) and EU-funded support programmes

3. Economic development and market opportunities

3.1. Economic development

Ukraine's economy has maintained growth throughout all quarters since 2016. After 2.5% in 2017 and 3.3% in 2018, real Gross Domestic Product (GDP) growth reached 3.84% in the first nine months of 2019. Consumer price **inflation** slowed to 6.5% year-on-year in October. The consolidated general Government budget (which covers central and local budgets) recorded a **deficit** of 1.9% of GDP in 2018. While still in line with the deficit target of 2.5%

of GDP, as agreed with the International Monetary Fund (IMF), the 2018 budget deficit reflected weakened fiscal discipline, as large wage and pension increases took place. A strong fiscal adjustment effort and the return of economic growth helped bring down **public debt** from its peak of 81% of GDP in 2016 to 50% of GDP at the end of September 2019. However, in absolute terms, the public debt continued to increase, reaching the equivalent of USD 82.95 billion as of end of September 2019. Despite some increase in recent years, nominal wages in Ukraine remain considerably lower than in neighbouring EU countries. This has led to a significant tightening of the **labour market**.

In 2018, the **current account deficit** widened to USD 4.4 billion, or 3.4% of GDP, as goods exports grew more slowly in 2018 (at 9.2% year-on-year) than imports (14% year-on-year), the latter being spurred by strong investment and consumer demand. The widening of the trade deficit was counterbalanced by increasing remittances from Ukrainians working abroad. In 2018, foreign direct investment **inflows** were lower than in 2017 (USD 2.4 billion versus USD 2.6 billion). Ukraine's gross **foreign exchange reserves** grew substantially from USD 7.5 billion (two months of imports) in 2014 to USD 21, 4 billion at the end of October 2019 (3.4 months of imports). In 2018, Ukraine's national currency, the **hryvnia (UAH),** appreciated on a year-on-year basis for the first time since 2010, mainly due to improved confidence of foreign investors in government bonds.

Ukraine has continued to improve its **business environment.** In the World Bank's Doing Business ranking, Ukraine moved from 76th place in 2018 to 71st in 2019.[26] Nevertheless, **foreign direct investment** from the EU remains low, in sharp contrast to trade flows. One of the biggest obstacles to investment remains concern over the rule of law and levels of corruption.

A major short-term challenge to the Ukrainian economy is **repayment of their public debt**. In October 2018, Ukraine and the IMF agreed on a 14-month stand-by arrangement worth USD 3.9 billion, which replaced the IMF Extended Fund Facility. The IMF disbursed the first tranche of USD 1.4 billion at the end of 2018, unlocking other donors' financing, including a EUR 1 billion macro-financial assistance loan from the EU. On 11 December 2018, the EU disbursed the first tranche of EUR 500 million following Ukraine's fulfilment of the related policy conditions. Following the request by the Ukrainian authorities, in autumn 2019, the IMF started discussions with the Ukrainian authorities on a new three-year Extended Fund Facility programme. The discussions are still on-going.

In December 2018, the Parliament approved amendments to the **Budget Code** on introducing medium-term budget planning at the central and local levels. The new approach should help strengthening the links between strategic priorities of public policy and fiscal expenditure and improve fiscal discipline. However the Budget Declaration prepared in spring 2019 was not adopted by the Cabinet of Ministers. The Government approved a new strategy for accounting and financial reporting in the public sector[27]**,** which should help make public spending more effective. In June 2019, the **medium-term strategy for the state debt management** was approved, with a target of gradual reduction of debt-to-GDP ratio to 43% by the end of 2022. The strategy is focused on four pillars – increase the share of domestic currency-denominated

[26] http://www.doingbusiness.org/en/data/exploreeconomies/ukraine#
[27] https://www.minfin.gov.ua/en/news/view/uriad-ukhvalyv-stratehiiu-modernizatsii-systemy-bukhobliku-ta-finzvitnosti-v-derzhsektori-do--roku?category=buhgalterskij-oblik&subcategory=buhgalterskij-oblik-u-derzhavnomu-sektori

debt, lengthen the debt maturity, continue attracting concessional funding and enhance strong investor relationships.

In November 2018, the Government opened up the data on all local budgets on a national portal[28]. This allows Ukrainian citizens to monitor public spending at a local level. In summer 2019, the Accounting Chamber of Ukraine, the supreme **external audit** institution of Ukraine, adopted an ambitious institutional development strategy and a reform of the State Audit Service was launched in October 2019.

On 18 December 2018, the State Fiscal Service of Ukraine was separated into two bodies: the State **Customs** Service (SCS) and the State **Tax** Service. In March 2019, the Cabinet of ministers approved their statutes. The heads of these two services were appointed in a competitive procedure. The next steps include devising the organisational structure and staffing of both institutions that have announced ambitious reforms of more service orientation, more speedier and transparent business processes and eradication of corruption. In September 2019, the Integrated Border Management (IBM) Strategy 2020-2025 came into effect. A corresponding IBM action plan is being finalised and a High Level Interagency Working Group on the IBM was established to monitor its implementation.

There is progress regarding alignment of national legislation with EU **customs** legislation. The Convention on the Simplification of Formalities in Trade in Goods, a "Roadmap" for accession was updated and amendments on certain types of customs declarations were introduced to the Customs Code of Ukraine. A Single Window on customs has been gradually introduced. In mid-2019, 97% of customs declarations were cleared using this mechanism.

In September 2019, the Parliament adopted a Law on the Regime of Common Transit and introduction of the national electronic transit system with a new computerized transit system tool, to be able to share online customs information with 35 countries. Another milestone was the adoption of the Law on Authorised Economic Operators. In October, the Parliament adopted the Law on Protection of Intellectual Property Rights during the movement of goods across the customs border of Ukraine.

The adoption by the Parliament of the revised Law on **Statistics** focusing on the independence of the State Statistics Service of Ukraine (SSSU) is still pending. In October 2019, the State Statistics Service was moved under the Cabinet of Ministers.

As a result of **deregulation** sessions at the Cabinet of Ministers with support from the Better Regulation Delivery Office, about 1,200 obsolete regulatory acts from different central executive bodies were abolished, more than 100 were amended and 60 new acts were adopted. This has resulted in an estimated EUR 100 million in savings for business in complying with state regulations. The State Inspection and Control Bodies reform made further progress, with the creation of a portal[29] for planning and reporting of all state control measures and the development of a new risk-based methodology for inspecting business. A comprehensive new regulatory portal[30] provides clear and transparent regulatory instructions and tips on doing business for Ukrainian companies.

---

[28] https://openbudget.gov.ua
[29] Https://Inspections.gov.ua
[30] Https://regulation.gov.ua

Regarding **consumer protection,** implementation of specific measures remains slow.

The draft law on Basic Principles of **State Agrarian and Rural Development (ARD) Policy** is expected to be adopted by the Parliament in 2019, allowing for the implementation of the ARD action plan 2020-2025. The Law regulating **Organic Production** in line with AA obligations, including the circulation and labelling of organic products, came into force on 2 August 2019. Other laws regulating state controls over **genetically modified products** have been postponed by the Parliament. Furthermore, Ukraine designed a **geographic indication (GIs) system**; a framework Law on GIs was adopted in October 2019. The Parliament works on specialised draft laws to regulate GIs for spirit drinks, wines and aromatised wines, foodstuffs and agricultural products.

The Government submitted two first laws on lifting the **ban on farmland sales** and on creating a private market for farmland. The state land registry shall be updated to include data on all agricultural land plots in the country by 2021. State land will be sold through electronic auctions and land registries will be all digitalised. The ban on farmland sales in place since 2001 has been depriving private landowners of access to financing by preventing the sale or use of farmland. Lifting the moratorium and creating an open farmland market was one of the key requirements of the IMF as a measure to boost Ukraine's investment-hungry agricultural sector. The reform should enter into force on 1 October 2020.

Sustainable management of **fisheries** resources is being reviewed by the Ukrainian authorities to reduce illegal, unregulated and unreported practices, but reform of the sector remains slow. In addition, the implications of the illegal annexation of the Crimean peninsula have overshadowed technical aspects and international cooperation.

Legislative work continued on aligning the rules **in the area of company law and corporate governance, accounting and auditing,** with EU and international practices. For instance, work took place on regulatory acts following the 2017 Ukrainian legislation aligning with the EU acquis on shareholder rights and with Commission recommendations on boards of companies. The Audit Public Oversight Body of Ukraine (APOBU) is gradually starting its operations with EU support.

The **banking sector** continued to stabilise in 2018-2019, even though banks still have substantial non-performing loans (NPLs) on their balance sheets. However, NPLs slightly decreased in 2018-2019 to 52.9%, partly due to the restructuring performed by one of the State-Owned Banks, UkrExImBank.

Legal cases related to **PrivatBank**, in particular in relation to the recovery of funds allegedly embezzled from the bank prior to its nationalisation in December 2016 have continued in Ukrainian and international courts. On 15 October, the Court of Appeal of England and Wales upheld an asset freeze imposed against the previous owners of PrivatBank and allowed the bank to pursue claims against its former owners in UK courts. The former owners are meanwhile seeking to have the nationalisation overturned in the Ukrainian courts.

In April 2019, the Ministry of Finance published the first report on asset recovery in **state-owned banks**. The independent supervisory board members for Oschadbank and UkrEximbank were selected in May but some of these new members have not been confirmed by the National Bank of Ukraine (NBU); the process of selection was relaunched in autumn 2019. A Law to allow for a gradual liberalisation of currency operations and **capital flows**

entered into force in February 2019. The law is based on the freedom to conduct foreign exchange (F/X) transactions and to make payments, with some limited exceptions. In the same spirit of currency liberalisation, the NBU also lifted over 30 restrictions for currency operations in 2019, including the problematic mandatory sale of up to 50% of foreign exchange earnings by exporters.

While the overall number of **non-bank financial institutions** is decreasing, the number of "financial companies" is growing in Ukraine. These companies are considered risky in terms of money laundering activities. An important step in the direction of improving the supervision of the non-banking sector is the recently adopted Law on Amendments to Some Legislative Acts of Ukraine on Improving Functions in State Regulation of Financial Services Markets ("SPLIT" Law), which amends several laws on the distribution of functions for regulating financial service markets.

Following the **reform of State-Owned Enterprises (SOEs)**, profits of the top-100 State owned enterprises decreased by 48% in 2018 caused by a drop in profits of Naftogaz. In 2019, the Government appointed independent Supervisory Boards in a few more large SOEs. However, the Parliament has yet to pass a law that would effectively empower supervisory boards.

The implementation of the new **Privatisation Law** passed in early 2018, has resulted in the successful privatisation of hundreds of small objects since September 2018 largely thanks to the platform ProzorroSales. No progress as regards large privatisations. In October 2019, the Parliament adopted a Law abolishing the list of state-owned enterprises exempt from privatisation and will have to adopt in the coming months an updated list.

While key legislation regulating the telecommunications market remains to be adopted, significant steps have been taken in the area of e-governance and digital transformation in general. Ukraine has set up a new Ministry of Digital Transformation and a new Committee of Digital Transformation was created in the Parliament.

Progress in legal alignment to EU labour occupational safety and health legislation remained constrained by the long-standing blockade of a draft new Labour Code. Progress was made in reorganising the Ministry of Social Policy. The legal framework for the reform of the State Employment Service, including the law on employment, is yet to be adopted. Reform of the **pension** system is ongoing, but the appropriate institutional framework needs to be created before considering introducing a second pillar (supplementary pension).

Ukraine continued to reform the **health care system,** firstly through the successful roll-out of healthcare financing reform at primary care level. The system's digital modernisation ("eHealth" [31]) has also reached some significant deliverables (e.g. the introduction of electronic receipt). A national medicines procurement agency was created and has already shown itself to be effective in small-scale operations by delivering resource savings results. Reforms to the public health system have been slower than anticipated. One significant achievement in 2019 was the adoption of a national blood strategic framework for blood safety and availability, but it still needs a clear implementation plan.

---

[31] https://ehealth.gov.ua/

3.2. Trade and trade-related matters[32]

The DCFTA appears to be having **a significant positive impact on trade in goods**. In the first seven months of 2019 exports from Ukraine to the EU increased by 7.8 % year-on-year, while imports from the EU increased by 9% year-on-year. Ukrainian exports to the rest of the world also went up (+9.3% year-on-year excluding Russia, which decreased by 12% year-on-year). The EU maintains its position as Ukraine's primary export market with 42.4% of total exports in the first seven months of 2019, compared with 6.6% share for Russia and 51% for the rest of the world. Total imports increased by 8.5% (+9.0% from the EU) in the first seven months of 2019. Poland is the first individual export destination of Ukraine, while China is the first import partner. Ukraine's trade deficit reached USD 4.94 billion in the first seven months of 2019 (+18.5% year-on-year). Ukraine is the EU's 21st partner in terms of overall trade.

Ukraine has still not removed an **export ban on unprocessed wood** which runs counter to the DCFTA, despite repeated requests by the EU accompanied by specific offers as regards forest preservation and despite repeated engagements by Ukrainian authorities to resolve the issue. Therefore, in June 2019, the EU requested that an arbitration panel be set up to settle the dispute.[33] Another trade barrier, the lack of refund of the value added tax relating to the export of soybeans and rapeseed, has not been repealed either. On 30 July 2019, the EU and Ukraine signed an amendment to the provisions of the AA regarding trade preferences for **poultry meat** and its preparation, with a view to introducing more predictable terms in the bilateral trade of poultry products. Once in force, the volume of this quota will increase by 50,000 tons and the most-favoured nation (MFN) duty (€100.8/ton) will be re-instated for the two tariff lines for imports exceeding the quota. Ukraine made some progress in removing **technical barriers to trade** in 2019. Ukraine shared new draft sectoral regulations on safety of machines and electromagnetic compatibility with the European Commission. A twinning project with the National Standardisation Body has started to strengthen administrative capacity in this area. In June, the Parliament adopted a number of amendments to the Law on Technical Regulations and Conformity Assessment, including on accreditation of conformity assessment bodies and on metrology. The Parliament has registered a draft law on Market Surveillance and Consumer Protection, which is another outstanding requirement. These laws will help eliminate overlapping regulatory regimes, a necessary step for further alignment with EU legislation, in view of a possible future launch of negotiations on an Agreement on Conformity Assessment and Acceptance for industrial products (ACAA).

The State Service of Ukraine for Food Safety and Consumer Protection carried out more inspections and held trainings with EU support and based on the recently adopted multi-annual state control action plan for 2019-2021. The EU-Ukraine SPS Management Sub-committee agreed on the Sanitary and Phytosanitary (SPS) Strategy in its meeting in November 2019, which will replace Annex V to the Association Agreement. The SPS

---

[32] See also Report From the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Implementation of Free Trade Agreements - 1 January 2018 - 31 December 2018 (COM(2019)455 final

[33] See http://trade.ec.europa.eu/doclib/press/index.cfm?id=2034, as well as http://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157943.pdf

Strategy contains a list of more than 240 pieces of EU legislation on SPS and animal welfare that Ukraine commits to align with. Drafting and adoption of SPS legislation accelerated in 2018-2019, resulting in the adoption of 23 legal acts that are aligned to EU acts, and more than 150 still in the process of adoption (out of 250 legal acts in total). The Law on Information to Consumers regarding Food Products entered into force in August 2019. The veterinary certificates for casein and collagen exported from the EU into Ukraine entered into force in February 2019. Seven EU harmonised certificates for the export of poultry products into Ukraine, which will eventually replace individual bilateral Member States certificates, are being negotiated, two of which (regarding poultry meat and egg products) have already been finalised and included in the Trade Control and Expert System (TRACES) and will enter into force in the first quarter of 2020.

Regarding legislation in the field of **financial services**, Ukraine has made some progress on current payment and movement of capital, information disclosure requirements for securities issuers and capital requirements in the banking sector. Adoption of numerous draft laws relating to **postal services and electronic communications** has been delayed.

Ukraine has introduced in the public **e-procurement** system "ProZorro" new functionalities, such as framework agreements. Integration of this system with the unified state register of legal entities and individual entrepreneurs allows for an automatic verification of a tenderer's data. A professional standard for the public procurement specialists has been developed. The pilot Centralised Procurement Body at national level has been implemented.

Progress in the field of **intellectual property rights** (IPRs) is limited. While some acts have already been adopted (e.g. improving the protection of the rights to semiconductor integrated circuits layout design in September), many draft laws presented by the Government as part of an IPR reform package contain problematic provisions and the Government will need to re-examine them (e.g. draft bill on IPR border measures, still being discussed at the Parliament). In addition, the Law on Collective Management Organisation, adopted in July 2018, includes some provisions not in line with the EU Collective Rights Management (CRM) Directive. As regards institutional changes, the draft law on establishing National Intellectual Property Body was discussed in the Parliament in October 2019.

State aid control in Ukraine has entered its second year. Although the rules in place are not fully in line with EU state aid rules, the current legal framework has allowed for state aid control in the country to begin. In 2019, the Anti-Monopoly Committee of Ukraine has been adopting an average of 20 decisions per month but most cases entail small aid amounts. Large schemes continue to bypass state aid control. In 2019, EU experts have produced the first-ever comparative analysis of Ukrainian **Competition Law** with EU law, providing a sound basis for further alignment.

In the second semester of 2018, the Ukrainian civil society advisory group dealing with the implementation of **trade and sustainable development** was created, but the list of trade and sustainable development experts remains to be agreed.

4. Connectivity, Energy Efficiency, Climate Action, Environment and Civil Protection

During the winter of 2018-19, gas transit to the EU via Ukraine continued to be reliable and smooth, despite challenges in Ukraine's technical cooperation with Russia's Gazprom. Ukraine continued to cover all its gas import needs through deliveries from the EU. In trilateral gas talks between Russia, Ukraine and the EU, Ukraine have shown engagement to facilitate continuing gas transit via Ukraine after 31 December 2019. Work will continue to agree on a new contract by the end of the year.

Unbundling of Naftogaz is set for completion by the end of 2019. Based on the decision of the Council of Ministers from 18 September 2019, specifying a new model as "independent system operator – ISO", the new transmission system operator "TSO LLC" was transferred to the Ministry of Finance and applied for certification which should be effective as of 1 January 2020. Naftogaz has secured more than 21 billion cubic metres of storage (data from 22 October 2019) for the coming winter, which is considerably more than in previous years.

In spring 2019, the Council of Ministers changed the price setting formula for the regulated gas price for households, which takes into account monthly domestic and imported gas prices while keeping the price cap at the level adopted in autumn 2018. It resulted in a reduction of more than 25% of the regulated price during the non-heating season from May to August compared to the 2018-2019 heating season. In July, the Prime Minister announced that the August price level should be kept for the whole duration of the upcoming 2019-2020 heating season. Monetisation of housing subsidies for gas and heat took place in March 2019.

From 1 June 2019, the Russian Federation imposed export restrictions to Ukraine on **oil** products and coal. This measure increased the pressure to replace anthracite burning power plants and to increase transparency in the domestic oil market. The Cabinet of Ministers has not adopted a draft law on oil stocks, a requirement under the Energy Community Treaty and the AA. The coal sector remains unreformed and in breach of state aid rules. In April 2019, Ukrainian mayors participated for the first time in the EU Coal Regions in Transition Platform to share their experience with coal regions in the EU Member States.

Implementation of the **electricity sector reform** remains challenging in the current oligopolistic market structure. The aim is to move from an overly regulated single buyer model with cross-subsidies to a competitive market in line with EU legislation. On 1 January 2019, the retail market was opened to large consumers. Ahead of the opening of the wholesale market on 1 July 2019, many experts feared that the preparations had been insufficient. However, the electricity system did not crash and the system is more transparent thanks to the availability of more data. The wholesale market design, however, is overly complex as it has been divided into several market sub-segments. The results of the first weeks of operation have shown that only 15% of the wholesale market is free from administrative price regulation or price caps.

In June 2019, the Cabinet of Ministers adopted a new Public Service Obligation regulating electricity price for households, which is not in line with EU requirements. Ukrenergo and the European Network of Transmission System Operators for Electricity worked on implementing a technical agreement preparing for further integration of the Ukrainian network with the Central European network. Ukrainian restrictions on imports to the Burshtyn Island were removed as of 1 July 2019. Corporate governance reform and preparation for the

full unbundling of the transmission system operator, Ukrenergo, continued; in December 2018, the company was transferred to the Ministry of Finance.

On **renewable energy,** the Parliament adopted a new Law on Auctioning of Support for Renewables in April and it entered into force in May. Investments in the sector, including from EU and foreign companies, continue at a strong pace benefitting from high feed-in tariffs. The proportion of electricity produced from renewable sources has increased from below 2% in 2018 to 5% in mid-2019.

In June 2019, a judgement of the Constitutional Court declared several provisions of the Law on the **Energy Regulator** to be unconstitutional, relating to the institutional set up and the independence of the National Energy and Utilities Commission of Ukraine. This has potential implications for the implementation of key provisions of the AA in Ukraine.

In the field of **energy efficiency**, the implementation of the Laws on Energy Performance in buildings and on commercial heat, metering and billing continued and preparations for transposing the 2012 Energy Efficiency Directive (2012/27/EU) began. In 2017-2019, over 90 secondary acts have been adopted. The Cabinet of Ministers also adopted the first few regulations on eco-design and energy labelling. However, full implementation of these requires strengthening of the market surveillance authority and stronger links with the public procurement rules. The Energy Efficiency Fund, created with the support of the EU, started operations and the first pilot projects under the "Early Movers" programme were initiated. In the spring of 2019, Ukraine has also started working on its new national energy efficiency action plan.

In 2018-2019, Ukraine continued to diversify its fuels supplying its **nuclear** power plants. The commissioning of the New Safe Confinement over the fourth destroyed reactor in Chornobyl was finalised. A new classification of radioactive waste was adopted in October 2019. However, there has been no progress on developing a new state programme for radioactive waste and spent fuel management. Planning for a national infrastructure to support decommissioning in view of the closure of certain units from 2030 has yet to start. The State Nuclear Regulatory Inspectorate of Ukraine (SNRIU) is not fully independent as required by EU and international practice. The respective draft law has not yet been re-submitted to the new Parliament, which may affect further international assistance, including the Comprehensive Safety Upgrade programme, which is being implemented, financed by the EU (Euratom) and the European Bank for Reconstruction and Development (EBRD). Transposition of other Euratom obligations under the AA has been delayed. In September, the Parliament adopted the Law on Amendments to some laws of Ukraine in the field of Nuclear Energy Utilisation aiming at the harmonisation with Council Directive 2013/59/Euratom, establishing safety standards for protection from hazards of ionising radiation. However, the scope of amendments is rather limited and gaps in safety requirements remain.

Key draft laws on market opening, including on road, railway and inland waterways, all instrumental in harmonising Ukrainian **transport** legislation with that of the EU, remained blocked in the Parliament. A new law on railways has yet to be submitted to the Rada, following repeated failures to vote on earlier drafts. Work continued on implementing the national transport strategy adopted in May 2018. The action plan to implement the strategy is at the final stage of approval. Ukraine has drafted a complex action plan, necessary to improve and harmonise transport infrastructure planning, approval, procurement, implementation and maintenance.

In 2018, Ukraine passed an International Maritime Organisation audit and started to implement a corrective action plan. Despite this, Ukraine appears on the current black list of the Paris Memorandum of Understanding on Port State Control[34], indicating low degree of safety, security and environmental standards for Ukrainian ships.

After a significant decrease during the economic crisis in 2014 and 2015, Ukrainian passenger air traffic has been growing again since 2017. In January-September 2019, the volume of passenger transportation of Ukrainian airlines increased by 10.2% compared to the corresponding period the previous year. The volume of cargo and mail transportation by air transport has also increased and amounted to 99.1 thousand tons in 2018. Connections between Ukrainian cities and the EU increased significantly, although the Common Aviation Area Agreement between the EU and Ukraine has not yet been signed. Aviation rules for air operations based on the relevant EU legislation entered into force on 1 December 2018.

In March 2019, the national **environmental** strategy 2030 entered into force after signature by the President and following approval by the Parliament. Since January 2019, EU water monitoring standards in line with the relevant EU Water Framework Directive (2000/60/EC) are in force.

On 20 February 2019, the Cabinet of Ministers approved a national waste management plan, which outlines practical measures to properly implement a waste management policy that is more compliant with EU standards. Preparations for a draft waste law are ongoing in inter-ministerial consultation.

Work on developing **climate** policies continued, although actual implementation is at a very early stage. In July 2018, the Parliament adopted a strategy on low carbon development until 2050 and submitted it to the secretariat of the United Nations Framework Convention on Climate Change. An updated nationally determined contribution to the Paris Agreement is expected to be submitted in 2020. Draft laws on ozone depleting substances and fluorinated greenhouse gases and on monitoring, reporting and verification of greenhouse gas emissions were adopted in first reading in February 2019. In 2017, greenhouse gas emissions decreased by 3.1% year-on-year in the energy sector, 11% in industry, 2.5% in agriculture and 0.8% in waste, demonstrating initial signs of decoupling emission levels from economic development. Adaptation actions remain yet less developed than the mitigation activities.

5. Mobility and People-to-People contacts

On 11 June 2019, Ukraine celebrated two years of **visa-free travel** to the EU for its citizens. Ukrainians made more than 3 million visits to the Schengen area without a visa. Ukraine has 157 border crossing points equipped with biometric border controls and connected to Interpol databases. The number of refusals of entry of Ukrainian nationals has risen, which to a certain extent reflects the overall increase in the number of trips to the Schengen zone after the introduction of the visa-free regime. The number of Ukrainian nationals found to be illegally present has also increased. However, this is largely curbed by effective cooperation on readmission, which is expected to be further streamlined by the readmission case management system.

---

[34] https://www.parismou.org/detentions-banning/white-grey-and-black-list

Education reform remains one of the Government's priorities in 2019, comprising all levels of education: general secondary education, vocational education and training and higher education. Implementation of the competency-based 'New Ukrainian School' successfully started in September 2018 with first grade and extended to the second grade in September 2019.

Vocational education and training reform is an essential component of broader efforts to stimulate economic growth and competitiveness. The National Agency for Qualifications, set up at the end of 2018, is becoming operational with support from the EU4Skills programme. In June 2019, the Government adopted the reform concept for vocational education until 2027 in Ukraine ("Modern Vocational Education"), developed with broad stakeholder involvement. In July, the Government adopted the draft law on professional education ("Vocational Education and Training") and submitted it to the Parliament.

In 2019, Ukraine has further consolidated the reform of **higher education**, with focus on external and internal quality assurance and academic integrity. The renewed National Quality Assurance Agency in Higher Education is gradually becoming operational, with the adoption of its statute and the appointment of its chair and members in December 2018.

The Parliament adopted the Law on Professional Pre-higher Education in June and the State Standard for Secondary Education in August.

In June 2019, the Government approved the National Qualifications Framework in line with the Qualifications Framework of the European Higher Education Area 2018 and the European Qualifications Framework for Lifelong Learning 2017.

In March 2019, the Government approved the draft law on General Secondary Education, which details the modalities of using languages of instruction at school and excludes private schools from the new language requirements under the Law on Education. The draft law was adopted in the first reading in May with final reading planned by the end of 2019

Ukraine is among the most successful participants in the EU's Erasmus+ programme. In 2019, as part of making progress on reforming the Ukraine **research and innovation** system, the National Research Fund of Ukraine (created in 2018), received funding for implementing its tasks. Implementation of Ukraine's Roadmap for Integration in the European Research Area continued. Ukraine also participated in a number of **Horizon 2020** capacity building sessions under the **EU4Innovation initiative** in 2019.

The Ukrainian Cultural Fund has taken reform of the cultural sector one step further.

6. Financial Assistance

The EU continues to provide macro-financial and reform assistance to support Ukraine's stabilisation and reform process. To this end, the EU has mobilised together with financial institutions over **EUR 15 billion in grants and loans** since 2014 (exceeding its EUR 11.175 billion pledge made in 2014).

A new EUR 1 billion programme of EU Macro-Financial Assistance (MFA) was approved in June 2018 by the European Parliament and the Council of the EU, complementing the EUR

2.8 billion disbursed under previous macro-financial assistance programmes[35]. The first instalment was disbursed in December 2018. The second instalment of EUR 500 million remains available to Ukraine and can be disbursed once the agreed reform measures are implemented.

Ukraine is implementing new programmes launched in 2018 under the European Neighbourhood Instrument (ENI) on energy efficiency, reforming and modernising the vocational education and training system and infrastructure. Promoting people-to-people contacts through a special Erasmus+ window for strengthening cooperation in higher education and support to exchanges and mobility within Ukraine and with EU Member States in culture/creative industries and education is ongoing.

Through its Instrument contributing to Stability and Peace (IcSP), the EU has also supported peacebuilding, stabilisation and early recovery efforts with more than EUR 109 million. In 2019, new actions focused on supporting the OSCE Special Monitoring Mission, de-mining, countering cyber threats and strengthening community resilience.

In 2017, the EU adopted a comprehensive EUR 50 million "EU support to the east of Ukraine" programme aiming to address social and economic recovery in the east of Ukraine, which builds also on the Joint Humanitarian and Development Framework. The programme enhances EU support for local governance, social cohesion, and community security in conflict-affected areas under Government control. It also provides support for SME development, vocational and higher education, and the local healthcare system. It has been since topped-up by EUR 10 million in order to allow expansion to the Sea of Azov region

Following the developments in the Kerch Strait, the EU organised a high-level mission and identified a number of needs in the Sea of Azov region. At the EU-Ukraine Summit of 8 July 2019, the EU announced a first set of support measures addressing issues related to infrastructure disconnect and environment, socioeconomic development, resilience, governance and civilian security in the region. As part of this work, an EU project office was opened in Mariupol on 29 October 2019 in the framework of the "RE:THINK. Invest in Ukraine" conference held at the initiative of the President of Ukraine and supported by the EU.

An EU support of EUR 160 million in 2019 includes continuing or new programmes on decentralisation, anti-corruption, civil society and culture, agriculture, e-governance and digital economy. The Technical Cooperation Facility continues to support Ukraine in implementing the AA/DCFTA.

In addition, through the EU Neighbourhood Investment Platform (NIP), in 2018, the EU committed EUR 50 million for projects including in waste solid management, transport, and water management. The EU will also commit an additional EUR 25 million for projects linked to local currency lending and support to amalgamated *hromadas*.

Since the beginning of the conflict in 2014, the European Commission has continuously provided humanitarian assistance to the most affected population, including IDPs, amounting to EUR 133.8 million. Humanitarian assistance will continue to be provided to people affected by the conflict in eastern Ukraine along both sides of the line of contact.

---

[35] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/enlargement-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/ukraine_en

Ukraine continues to benefit from regional programmes and other EU support instruments.

7. Concluding remarks and future outlook

In 2019, Ukraine has undergone a democratic transition with the renewal of its key institutions and the election of new political leaders. In this context, the AA remains an important reference for the Ukrainian authorities, providing a blueprint for reforms that should bring Ukraine and the EU closer together. Moreover, the AA should also help Ukraine provide stability and prosperity to all of its citizens and strengthen its resilience. The swift advance of the reform process by the new authorities after the 2019 electoral cycle builds on the achievements reached since the 2014 Revolution of Dignity. The EU expects this to continue, including in cooperation with civil society and other stakeholders.

As Ukraine remains committed to its reform path, the EU will continue to support these reforms and the implementation of the AA with its entire political, financial and technical means, including through its Delegation to Ukraine, the EU Advisory Mission for Civilian Security Sector Reform, the European External Action Service and the European Commission's Support Group for Ukraine.