



16.5.2018

# **OPINION**

of the Committee on Foreign Affairs

for Committee on International Trade

on the proposal for a decision of the European Parliament and of the Council providing further macro-financial assistance to Ukraine (COM(2018)0127 – C8-0108/2018 – 2018/0058(COD))

Rapporteur for opinion: Michael Gahler

PA\_Legam

## SHORT JUSTIFICATION

Following a request from the Ukrainian government, the European Commission has proposed the provision of a new Macro-Financial Assistance (MFA) programme to Ukraine based on Article 212 of the TFEU, **for an amount of up to EUR 1 billion to be provided in the form of medium- to long-term loans in two tranches.**

**The proposed new MFA operation would complement the preceding three MFA operations, totaling EUR 3.4 billion,** that have been offered to Ukraine since 2014. A total of EUR 2.8 billion was disbursed under these operations, including EUR 1.6 billion in 2014-2015 (under the so-called MFA I and II) and two tranches of EUR 600 million each in July 2015 and April 2017 (under MFA III). A third and final tranche of EUR 600 million under MFA III, subject to the implementation of 21 policy measures jointly agreed with the Ukrainian authorities, was not disbursed. Although Ukraine had fulfilled a large number of policy commitments attached to this instalment, four measures, including two related to the fight against corruption, had not been implemented by the time the availability period of the assistance expired in January 2018. Under these circumstances, the Commission was not in a position to disburse the last instalment under MFA III, which was officially cancelled on 18 January 2018.

**The objective of the proposed MFA is to help Ukraine cover part of its additional external financing needs in 2018-2019,** reducing the economy's short-term balance-of-payment and fiscal vulnerabilities. In addition, the EU assistance would **provide incentives to step up Ukraine's reform efforts** by agreeing with the Ukrainian authorities a Memorandum of Understanding setting out an appropriate package of measures supporting economic adjustment and structural and anti-corruption reforms. Three other of the six Eastern Partnership countries - Armenia, Moldova and Ukraine -already benefit from MFA programmes, in addition to four other non-EaP countries.

In light of the incomplete implementation by Ukraine of the policy programme linked to MFA III it is appropriate to include specific conditions for each of the two tranches of this assistance. In particular those conditions must **also include the measures that were not implemented under the previous programme in the following way:**

- **On the verification of asset declarations** of public officials, the Commission must insist on the establishment of an effective verification system, including through automatic verification software with direct and automatic access to state databases and registers. In the Memorandum to be agreed with Ukraine under the proposed new MFA operation, the Commission should therefore require the aforementioned automated verification system to be in place and operating, with a significant number of declarations verified through the automated system, giving priority to high-level officials, at the time of disbursement of the second tranche of the MFA IV programme.
- **On the verification of data to be provided by companies on their beneficial owners and the enforcement of companies' reporting obligation,** including in the EU, expert exchanges between Ukraine and the EU should be organized with a view to establishing the necessary steps for Ukraine to implement a verification mechanism. On this basis, the Memorandum should specify tangible benchmarks for a verification mechanism as a condition under the MFA IV programme.

- The **wood export ban**, which is not compatible with refraining from trade-restricting measures, remains in place, and a law repealing it is yet to be considered by the responsible parliamentary committee in Ukraine. The Commission should engage with the Ukrainian authorities with a view to finding a solution to this irritant through the use of dedicated trade instruments, especially the bilateral dispute settlement mechanism.

Conditionality attached to the MFA provides useful leverage to stimulate reforms, notably those related to democracy and the rule of law. Amongst these reforms, the Ukrainian government is currently attempting to pass additional constitutional reforms. The government has committed to further amending the constitution in line with the Venice Commission recommendations yet Commission and EEAS monitoring, also as part of this assistance, would be appropriate.

As the effective fight against corruption is key to the reform process, the need for further efforts of Ukraine in this context must be emphasized. The EU's concerns related to the obligation for civic activists to submit e-declarations need also to be responded to, as well as judicial sector reform at all levels. It is important that conditions as specified in the previous and current MFAs are fulfilled by the Ukrainian government before further financial assistance is disbursed.

Consequently, in line with the agreement between the Foreign Affairs and International Trade committees on their close cooperation during this procedure and following the recent experience of the joint statement by the European Parliament, the Council and the Commission, annexed to the 4 July 2017 decision providing macro-financial assistance to the Republic of Moldova, the Foreign Affairs Committee proposes to:

1. Reaffirm the pre-condition for granting macro-financial assistance related to democracy, the rule of law, human rights and in particular fight against corruption as this is of major importance to the Foreign Affairs committee;
2. Ensure that the Commission and the EEAS monitor the fulfilment of this pre-condition throughout the lifecycle of the MFA, so that no disbursement is made before objectives are reached,
3. Nevertheless limit the number of amendments to two, on a recital and an article of the decision in order to ensure a rapid agreement between the European Parliament and Council.

## **AMENDMENTS**

The Committee on Foreign Affairs calls on the Committee on International Trade, as the committee responsible, to take into account the following amendments:

### **Amendment 1**

#### **Proposal for a decision**

#### **Recital 11**

*Text proposed by the Commission*

(11) Given that a residual external financing gap remains in Ukraine's balance of payments over and above the resources provided by the IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Ukraine is, under the current exceptional circumstances, considered to be an appropriate response to Ukraine's request for support to its economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and *the* structural reform agenda of Ukraine, supplementing resources made available under the IMF's financial arrangement.

*Amendment*

(11) Given that a residual external financing gap remains in Ukraine's balance of payments over and above the resources provided by the IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Ukraine is, under the current exceptional circumstances, considered to be an appropriate response to Ukraine's request for support to its economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and *a socially responsible* structural reform agenda of Ukraine, supplementing resources made available under the IMF's financial arrangement.

**Amendment 2**

**Proposal for a decision**

**Recital 17**

*Text proposed by the Commission*

(17) A pre-condition for granting the Union's macro-financial assistance should be that Ukraine respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems in Ukraine and should promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both the fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service.

*Amendment*

(17) A pre-condition for granting the Union's macro-financial assistance (*MFA*) should be that Ukraine fulfils the *conditions attached to past and forthcoming MFA programmes, notably those related to the fight against corruption, and respects* effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, which should be *supported by an independent judiciary capable of effectively fighting corruption*, and guarantees respect for human rights. *Those conditions should be agreed with Ukraine in a detailed Memorandum of Understanding.* In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems in

Ukraine, and promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both the fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service ***throughout the life-cycle of the MFA. The disbursement of the first instalment of financial support should be made available only after the outstanding policy measures which were attached to the final instalment of the previous MFA programme have been fully implemented. The Commission should provide a public assessment of the fulfilment of that precondition, including a clear indication of the benchmarks used in its assessment.***

### Amendment 3

#### Proposal for a decision

##### Recital 23

*Text proposed by the Commission*

(23) The Union's macro-financial assistance should be subject to ***economic policy conditions***, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Ukrainian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's

*Amendment*

(23) The Union's ***MFA*** should be subject to ***conditions*** to be laid down in a Memorandum of Understanding, ***which should also include appropriate measurement criteria. Those conditions should not jeopardise the country's socio-economic stability and should be linked to the fight against poverty and job creation in a measurable way.*** In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Ukrainian authorities ***after consulting with the relevant Ukrainian stakeholders and social partners and*** under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation.

macrofinancial assistance to Ukraine, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,

Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's *MFA* to Ukraine, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,

#### **Amendment 4**

##### **Proposal for a decision**

##### **Article 1 – paragraph 3 – subparagraph 1**

*Text proposed by the Commission*

The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Ukraine, and with the *key* principles and objectives of economic reforms set out in the EU-Ukraine Association Agreement, including the DCFTA, agreed under the European Neighbourhood Policy (ENP).

*Amendment*

The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Ukraine, and with the principles and objectives of *political, institutional, socio-economic and* economic reforms set out in the EU-Ukraine Association Agreement, including the DCFTA, agreed under the European Neighbourhood Policy (ENP).

#### **Amendment 5**

##### **Proposal for a decision**

##### **Article 1 – paragraph 3 – subparagraph 2**

*Text proposed by the Commission*

The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.

*Amendment*

The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, *and of the degree of implementation by Ukraine of what has been agreed by it*, and shall provide those institutions with the relevant documents in

due time.

## Amendment 6

### Proposal for a decision Article 2 – paragraph 1

*Text proposed by the Commission*

1. A pre-condition for granting the Union's *macro-financial assistance* shall be that Ukraine respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.

*Amendment*

1. A precondition for granting the Union's *MFA* shall be that Ukraine *fulfils the conditions attached to past and forthcoming MFA programmes, notably those related to the fight against corruption*, effective democratic mechanisms, including a multi-party parliamentary system and the rule of law *and guarantees respect for human rights, including respect for national minorities*.

## Amendment 7

### Proposal for a decision Article 2 – paragraph 1 – subparagraph 1 a (new)

*Text proposed by the Commission*

*Amendment*

*The Memorandum of Understanding between the European Union and Ukraine shall therefore indicate as preconditions for the disbursement of instalments under the MFA IV programme, inter alia, that:*

*(a) legislation is adopted on the establishment and functioning of the anti-corruption court, which is in line with the recommendations of the Venice Commission, most notably on the competences of the court, the eligibility and competences of candidates for the post of judge, the candidate selection process, which shall involve the participation of international experts and the status of the judges;*

*(b) a system to effectively verify the asset*



*declarations made by public officials is established;*

*(c) civil society activists working in the field of anti-corruption are exempted from e-declarations of assets;*

*(d) the composition of the Central Election Commission of Ukraine reflects a political balance representing all relevant political forces, notably those represented in the Verkhovna Rada, and is replicated in the composition of all District Election Commissions as well as in all Precinct Election Commissions;*

## Amendment 8

### Proposal for a decision Article 3 – paragraph 1

*Text proposed by the Commission*

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Ukrainian authorities on clearly defined ***economic policy*** and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a ***Memorandum of Understanding*** ("the Memorandum of Understanding") which shall include a timeframe for the fulfilment of those conditions. The ***economic policy*** and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Ukraine with the support of the IMF.

*Amendment*

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Ukrainian authorities on clearly defined ***political*** and financial conditions, focusing on ***socially responsible*** structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a ***memorandum of understanding*** (the 'Memorandum of Understanding') which shall include a ***precise*** timeframe ***and specific measurement criteria*** for the fulfilment of those conditions. The ***political*** and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Ukraine with the support of the IMF.

## PROCEDURE – COMMITTEE ASKED FOR OPINION

|   |   |
|---|---|
| <b>Title</b>  | Further macro-financial assistance to Ukraine   |
| <b>References</b>   | COM(2018)0127 – C8-0108/2018 – 2018/0058(COD)   |
| <b>Committee responsible</b><br>Date announced in plenary       | INTA<br>15.3.2018   |
| <b>Opinion by</b><br>Date announced in plenary                  | AFET<br>15.3.2018   |
| <b>Rapporteur</b><br>Date appointed                             | Michael Gahler<br>20.3.2018   |
| <b>Discussed in committee</b>                                   | 24.4.2018   |
| <b>Date adopted</b>   | 16.5.2018   |
| <b>Result of final vote</b>                                     | +: 58<br>–: 3<br>0: 0   |
| <b>Members present for the final vote</b>                       | Lars Adaktusson, Michèle Alliot-Marie, Nikos Androulakis, Francisco Assis, Petras Auštrevičius, Goffredo Maria Bettini, Mario Borghezio, Elmar Brok, Klaus Buchner, Fabio Massimo Castaldo, Lorenzo Cesa, Aymeric Chauprade, Javier Couso Permuy, Andi Cristea, Arnaud Danjean, Eugen Freund, Sandra Kalniete, Tunne Kelam, Wajid Khan, Eduard Kukan, Ilhan Kyuchyuk, Arne Lietz, Sabine Lösing, Tamás Meszerics, Francisco José Millán Mon, Clare Moody, Pier Antonio Panzeri, Demetris Papadakis, Ioan Mircea Pașcu, Alojz Peterle, Tonino Picula, Kati Piri, Julia Pitera, Cristian Dan Preda, Jozo Radoš, Michel Reimon, Sofia Sakorafa, Alyn Smith, Dobromir Sośnierz, Jaromír Štětina, Dubravka Šuica, Charles Tannock, László Tőkés, Ivo Vajgl, Geoffrey Van Orden, Boris Zala |
| <b>Substitutes present for the final vote</b>                   | Doru-Claudian Frunzuliță, Rebecca Harms, Norica Nicolai, Urmas Paet, Miroslav Poche, Soraya Post, José Ignacio Salafranca Sánchez-Neyra, Helmut Scholz, Bodil Valero, Marie-Christine Vergiat, Janusz Zemke, Željana Zovko  |
| <b>Substitutes under Rule 200(2) present for the final vote</b> | Renate Weber, Francis Zammit Dimech, Joachim Zeller   |

## FINAL VOTE BY ROLL CALL IN COMMITTEE ASKED FOR OPINION

| 58        | +   |
|-----------|---|
| ALDE      | Petras Auštrevičius, Ilhan Kyuchyuk, Norica Nicolai, Urmas Paet, Jozo Radoš, Ivo Vajgl, Renate Weber  |
| ECR       | Charles Tannock, Geoffrey Van Orden   |
| EFDD      | Aymeric Chauprade   |
| GUE/NGL   | Javier Couso Permuy, Sabine Lösing, Sofia Sakorafa, Helmut Scholz, Marie-Christine Vergiat  |
| PPE       | Lars Adaktusson, Michèle Alliot-Marie, Elmar Brok, Lorenzo Cesa, Arnaud Danjean, Sandra Kalniete, Tunne Kelam, Eduard Kukan, Francisco José Millán Mon, Alojz Peterle, Julia Pitera, Cristian Dan Preda, José Ignacio Salafranca Sánchez-Neyra, László Tőkés, Francis Zammit Dimech, Joachim Zeller, Željana Zovko, Jaromír Štětina, Dubravka Šuica |
| S&D       | Nikos Androulakis, Francisco Assis, Goffredo Maria Bettini, Andi Cristea, Eugen Freund, Doru-Claudian Frunzulică, Wajid Khan, Arne Lietz, Clare Moody, Pier Antonio Panzeri, Demetris Papadakis, Ioan Mircea Pașcu, Tonino Picula, Kati Piri, Miroslav Poche, Soraya Post, Boris Zala, Janusz Zemke   |
| Verts/ALE | Klaus Buchner, Rebecca Harms, Tamás Meszerics, Michel Reimon, Alyn Smith, Bodil Valero  |

| 3    | -                      |
|------|------------------------|
| EFDD | Fabio Massimo Castaldo |
| ENF  | Mario Borghezio        |
| NI   | Dobromir Sośnierz      |

| 0 | 0 |
|---|---|
|   |   |

Key to symbols:

+ : in favour

- : against

0 : abstention