

**Analysis of policy reforms for
attraction of investments into
development of energy efficiency and
renewable energy sources in Ukraine**

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Geneva, October 7-9, 2009

Brief description of energy sectors

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008
Coal mining, million tons	81,0	83,9	82,5	79,3	80,1	77,9	80,3	75,5	77,6
Natural gas production, billion cubic meters	17,9	18,3	18,7	19,5	20,1	20,6	20,8	20,6	19,8
Crude oil production, million tons	3,7	3,7	3,7	3,7	3,9	4,4	4,5	4,4	4, 2
Electrical energy production, billion kW per hour	171,4	173,0	173,7	179,6	181,3	185,1	192,1	195,1	191,8

Specific consumption of fuel and energy resources for production of goods and services:

- **Specific fuel consumption for power generation in Ukraine amounted to 346,1 g c. e. / kW per hour in 1990 and 375,4 g c. e. / kW per hour in 2007, against 329,8 g c. e. / kW per hour in 2000 in the countries of EU and USA**
- **Process losses in the power supply networks in Ukraine amounted to 11,2% in 2008 (8,1% in 1990), against 6% in the countries of EU, Japan, and USA**
- **Unit rate of reference fuel for the output of 1 gkal of heat energy accounts for 170-185 kg against 145-150 kg in technologically developed countries**
- **Fuel unit cost for cement production in Ukraine amounts to 170-180 kg c. e. / t against 100-115 kg c. e. / t in technologically developed countries**
- **Today, the energy supply costs for production of ferrous metals in Ukraine exceed the similar indicators in the EU countries, Japan and USA (Ukraine spends 110-130 kg c. e. / t for steel production, Russia - 95-110 kg c. e. / t, USA - 36-40 kg c. e. / t)**

Regulatory framework for energy efficiency and renewable energy sources development

- Law of Ukraine “On energy saving” of 01.07.1994 No. 74/94-BP
- Law of Ukraine “On alternative liquid and gaseous fuel” of 14.01.2000 No. 1391-XIV
- Law of Ukraine “On alternative energy sources” of 20.02.2003 No. 555-IV
- Law of Ukraine “On combined production of heat and power energy (cogeneration) and use of waste energy potential” of 05.04.2005 No. 2509
- Law of Ukraine “On heat supply” of 02.06.2005 No. 2633-IV
- Law of Ukraine “On amendments to certain legislative acts of Ukraine for stimulation of energy efficiency measures” of 16.03.2007 No.760-V

Regulatory framework for energy efficiency and renewable energy sources development (continued)

- Law of Ukraine “On amendments to certain laws of Ukraine related to introduction of the “green” tariff” of 25.09.2008 No. 601-VI
- Law of Ukraine “On amendments to the Law of Ukraine "On power industry" for stimulation of use of alternative energy sources” of April 1, 2009 No. 1220-VI
- Law of Ukraine “On amendments to certain laws of Ukraine regarding assistance to production and use of biological fuel types” of May 21, 2009 No. 1391-VI
- Law of Ukraine “On coalbed methane” of May 21, 2009 No. 1392-VI

Regulatory framework for energy efficiency and renewable energy sources development (continued)

- Regulation of the Cabinet of Ministers of Ukraine of February 4, 2009 N 102-p “On measures for use of alternative energy sources”
- Regulation of the Cabinet of Ministers of Ukraine of February 12, 2009 N 276-p “On approval of the concept of the state target scientific and technical program for development and use of biological fuel types”
- Regulation of the Cabinet of Ministers of Ukraine, over 50 orders of the State Committee for Energy Efficiency and National Agency of Ukraine for Efficient Use of Energy Sources
- More than 110 methods of calculation and standardization of unit costs of fuel and energy sources

Programs:

- Energy strategy of Ukraine for the period till 2030, Regulation of the Cabinet of Ministers of Ukraine of March 15, 2006 N 145-p
- Comprehensive state program for energy efficiency in Ukraine till 2010, Regulation of the Cabinet of Ministers of Ukraine of 05.02.97 No. 148
- State support program for development of non-traditional and renewable energy sources and small water and heat power engineering, Regulation of the Cabinet of Ministers of Ukraine No. 1505 of 31.12.1997
- Sectoral, regional and urban energy efficiency programs

Current status of policy reforms for attraction of investments into development of energy efficiency

Recently, a number of statutory acts have been adopted for implementation of energy efficiency stimulation factors.

In particular, the Law of Ukraine “On amendments to certain legislative acts of Ukraine related to stimulation of energy efficiency measures” of 16.03.2007 No. 760-V which provides as follows:

- **Creation of State Energy Efficiency Fund for financing of activities of efficient use of fuel and energy resources;**
- **Tax exemption of operations for export to Ukraine of equipment operating on non-traditional and renewable energy sources, energy-saving equipment and materials;**
- **Tax exemption of enterprises’ profits received from sales in the customs territory of Ukraine of the goods produced by enterprises and equipment operating on non-traditional and renewable energy sources; energy-saving equipment, materials and products;**
- **Reduction of income tax for enterprises listed in the State Register of Enterprises, Institutions, Organizations dealing with development, implementation and application of energy efficiency projects, with the final tax amount not exceeding 50 percent of taxable profits.**

Current status of policy reforms for attraction of investments into development of energy efficiency (continued)

- Law of Ukraine “On amendments to certain laws of Ukraine related to introduction of the “green” tariff” of 25.09.2008 No. 601-VI binding the wholesale market of power energy of Ukraine to buy the power energy produced at the power facilities applying alternative energy sources at the “green” tariff (except for blast-furnace and coke gas, but in case of the use of the water power - produced by small hydroelectric power plants only)
- Law of Ukraine “On amendments to the Law of Ukraine "On power industry" for stimulation of use of alternative energy sources” of April 1, 2009 N 1220-VI. In particular, article 17-1 of the Law defines the rate of the “green” tariff.

Short-term prospects for amendments to the legislation:

- Adoption of the fundamental Law on energy efficiency;
- Introduction of amendments to the Law on power industry with the goal to improve stimulation policy of energy production from renewable sources and introduction of “green” tariffs;
- Draft laws related to accounting of consumed energy sources;
- A draft law on energy auditing.

Obstacles on the way to projects' funding

- most of the assets of the energy sectors belong to the state;
- lack of finance, low efficiency of budget financing;
- imperfection of price setting policy for energy sources, a complicated subsidization and cross-subsidization system.

Recommendations for attraction of investments:

- Adapting Ukrainian legislation to EU legislation;
- Development of legislative acts required for economically sound conditions for attraction of local and foreign investments into the energy efficiency and energy saving sectors;
- Adoption of a regulatory framework to regulate the operating activity of energy service companies (ESC) and joint enterprises, taxation incentives, open-end credits funds, leasing;
- Inclusion of an investment component in the tariff;
- Creation of favorable conditions for the development of entrepreneurial activity, elimination of administrative and regulatory barriers on the way to development of small- and middle-sized businesses;

Recommendations for attraction of investments (continued)

- Broader use of the practice of refund of interest rates on loans granted to representatives of small and medium businesses with the goal to stimulate implementation of investment programs;
- Reduction of the income tax in the part which will be transferred for re-equipment of production capacities with the goal to increase the level of energy efficiency;
- Application of joint projects implementation within the framework of Kyoto Protocol.



Thank you for attention!

