

EaPGREEN



Partnership for Environment and Growth



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ENERGY SUBSIDIES IN UKRAINE: ESTIMATES AND TRENDS

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National Expert of the Project “Inventory of
energy subsidies in the EU’s Eastern
Partnership Countries”

Round table “Energy subsidies in Ukraine and the Progress of Reform”

25 April 2016, Verkhovna Rada of Ukraine, 5, M. Grushevskogo St.

Methodological approach



**Top-down
approach: IEA
price-gap
methodology**

IEA methodology:

- compares average end-user prices with international reference prices;
- allows to capture overall effect of all government interventions, which influence prices

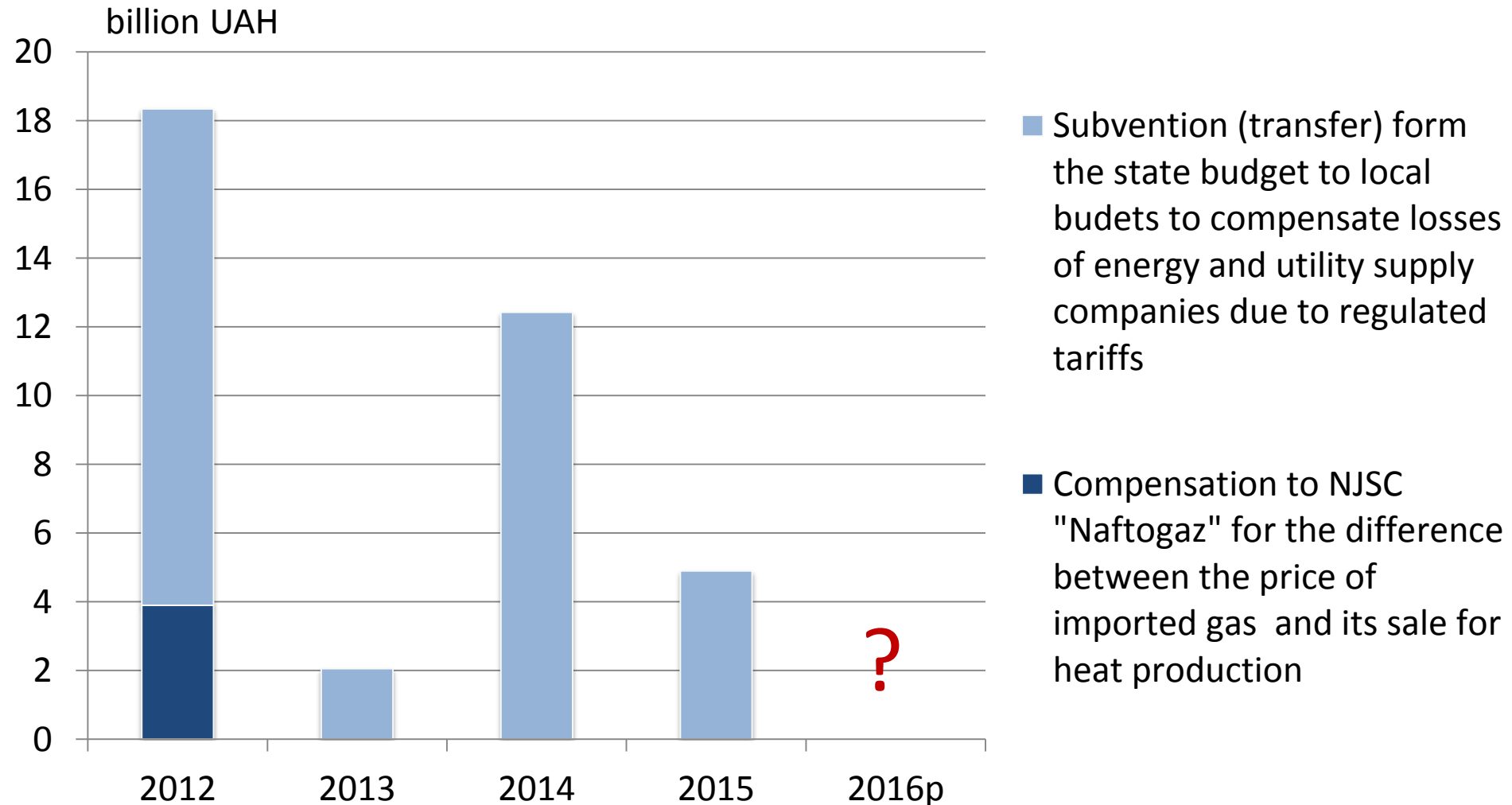


**Bottom-up
inventory:
OECD
approach**

OECD approach:

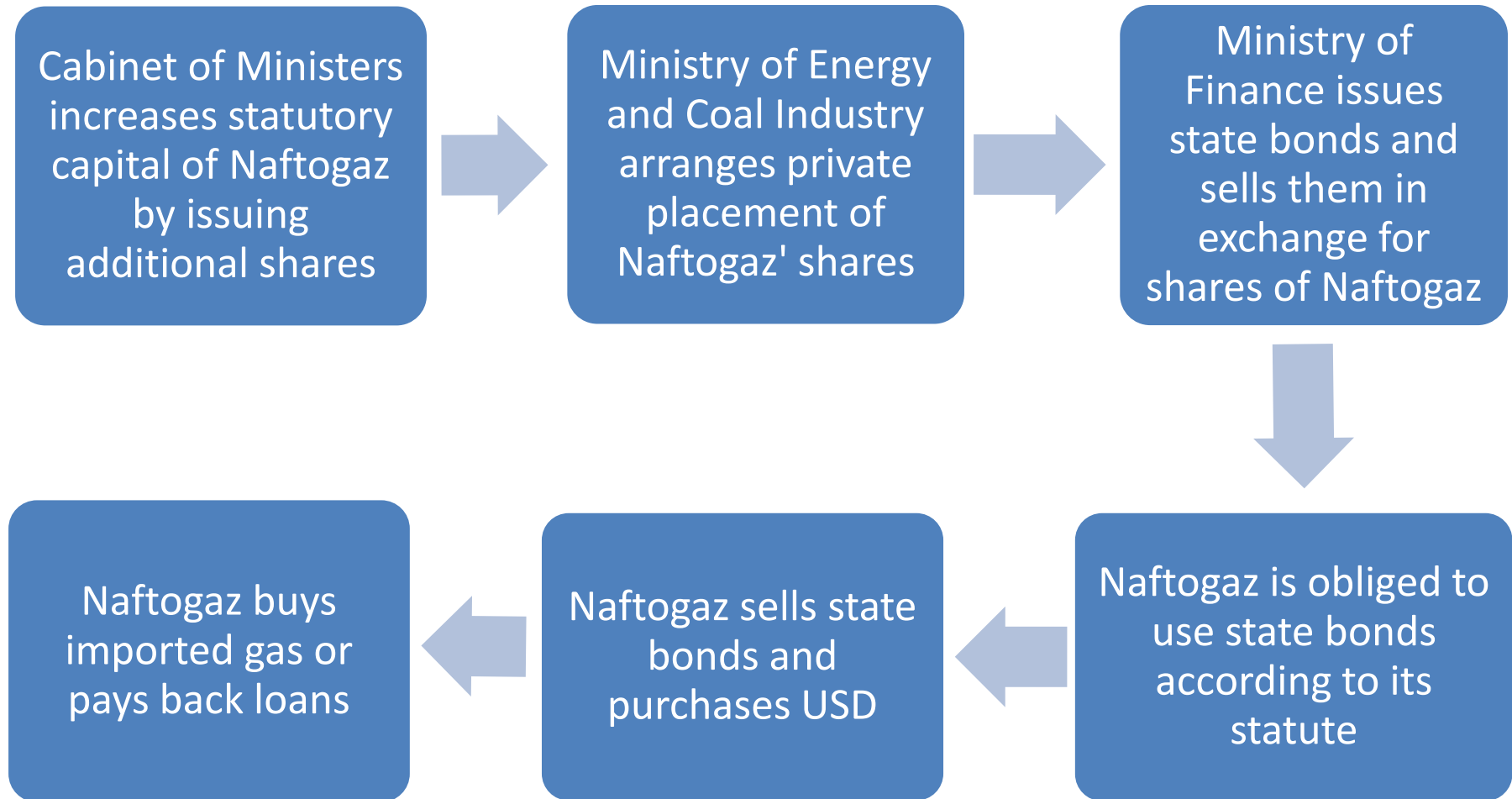
- detailed analysis of budget outlays, tax benefits, induced transfers...
- data intensive but more trustworthy

Budget transfers to compensate losses of energy and utility supply companies

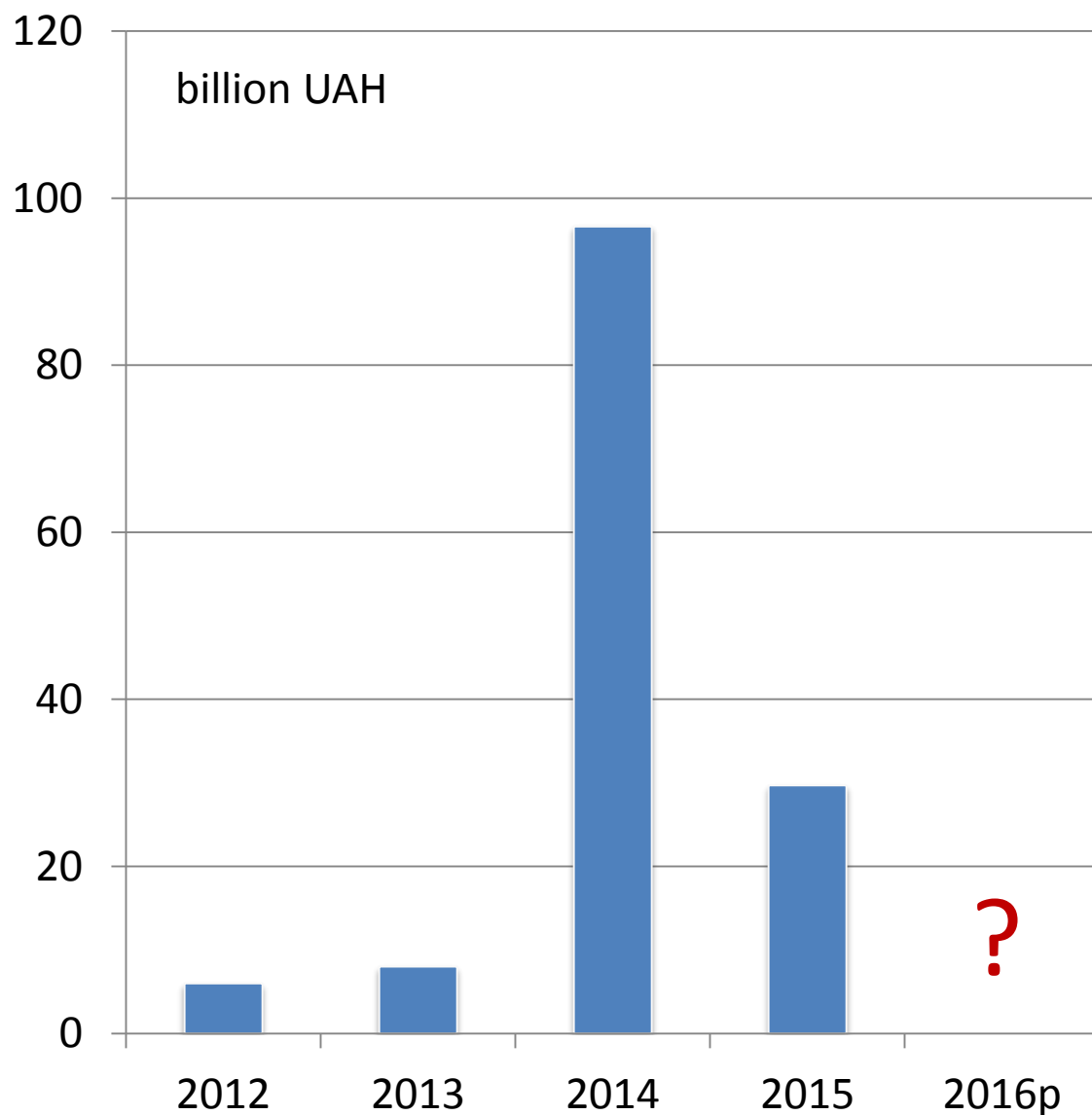


Source: prepared based on Treasury reports on budget execution (2013 -2016)

Mechanism of Naftogaz recapitalisation



Recapitalisation of Naftogaz

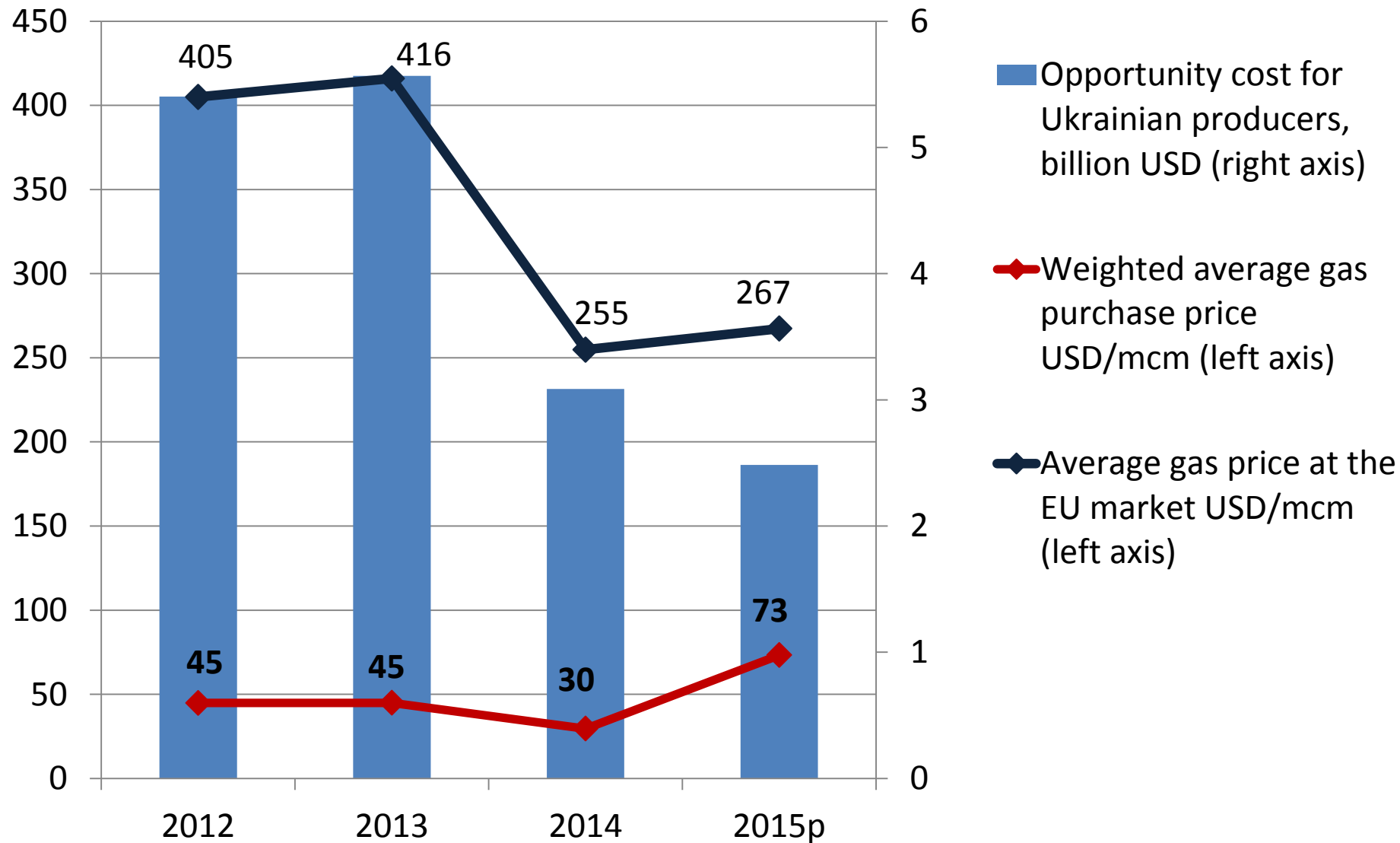


For 2012-2015 state bonds:

- worth UAH 142.1 billion;
- 3 to 10 year maturity period at 9.95% - 14.5% annual interest rate.

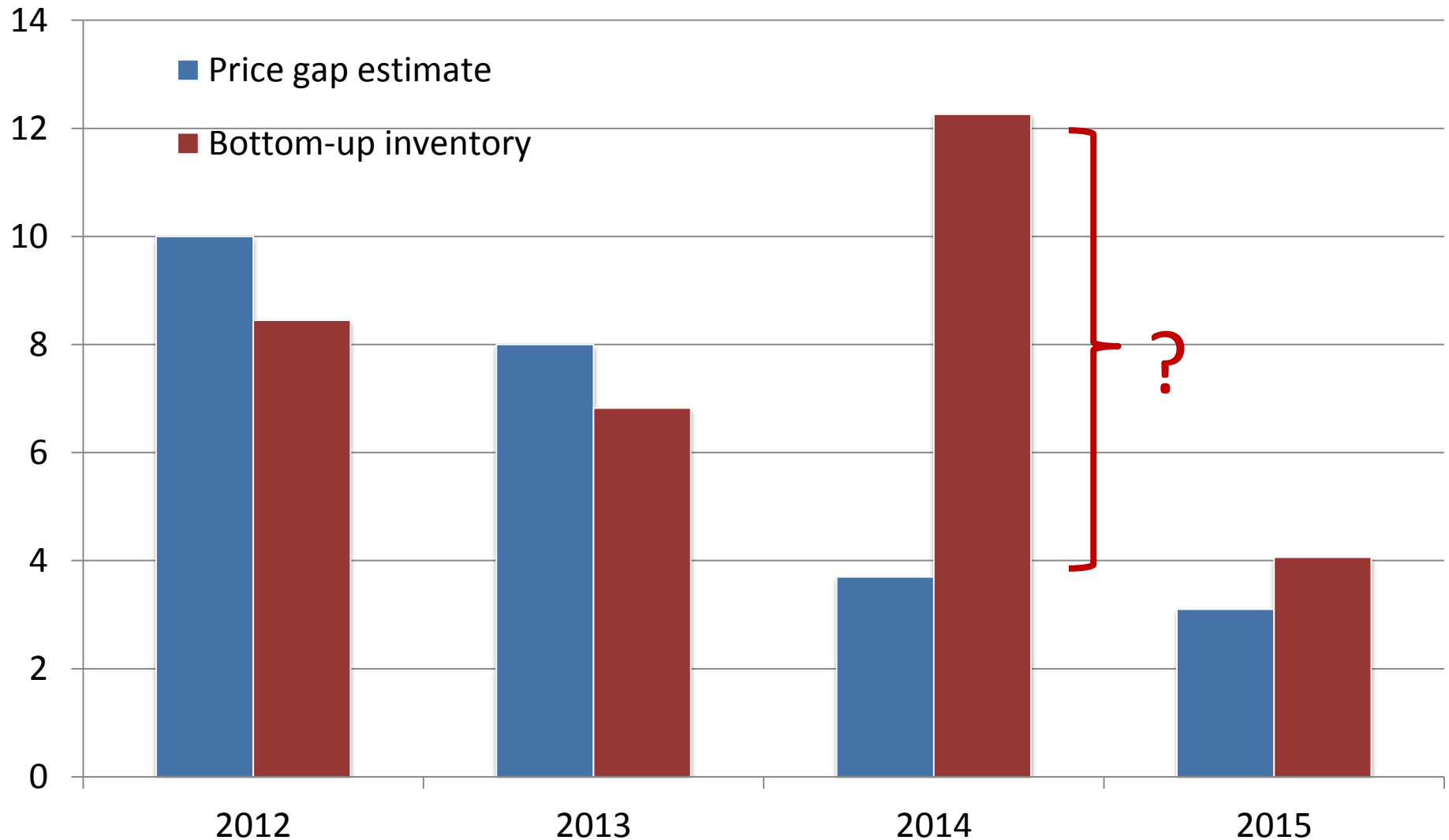
Source: resolutions of the Cabinet of Ministers

Regulated prices for state-owned gas producers



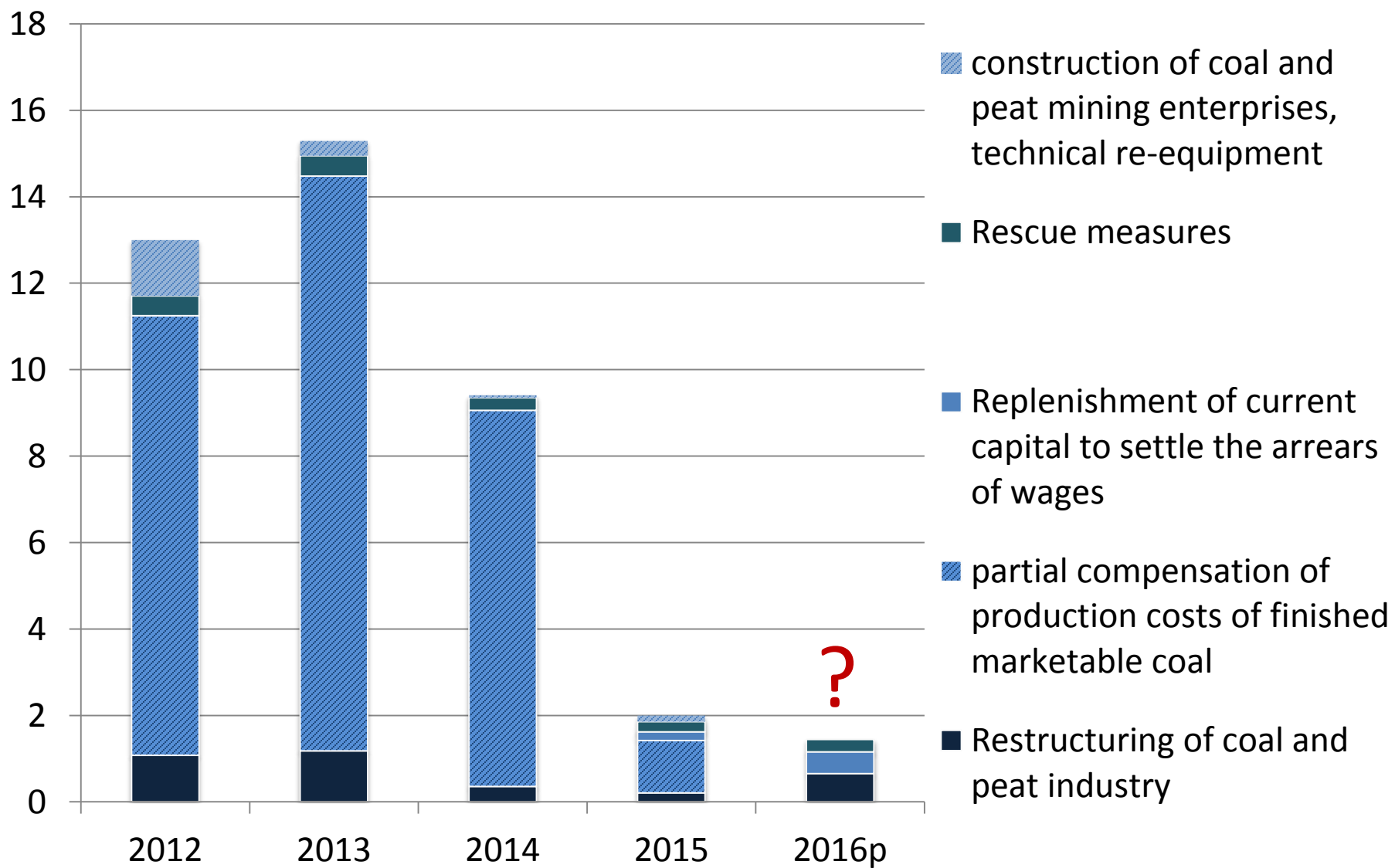
Source: NCSREPU reports (2013-2016), Naftogaz report (2015), World bank data on gas prices.

Consumer subsidies in the gas sector: comparison of price-gap method with bottom-up analysis



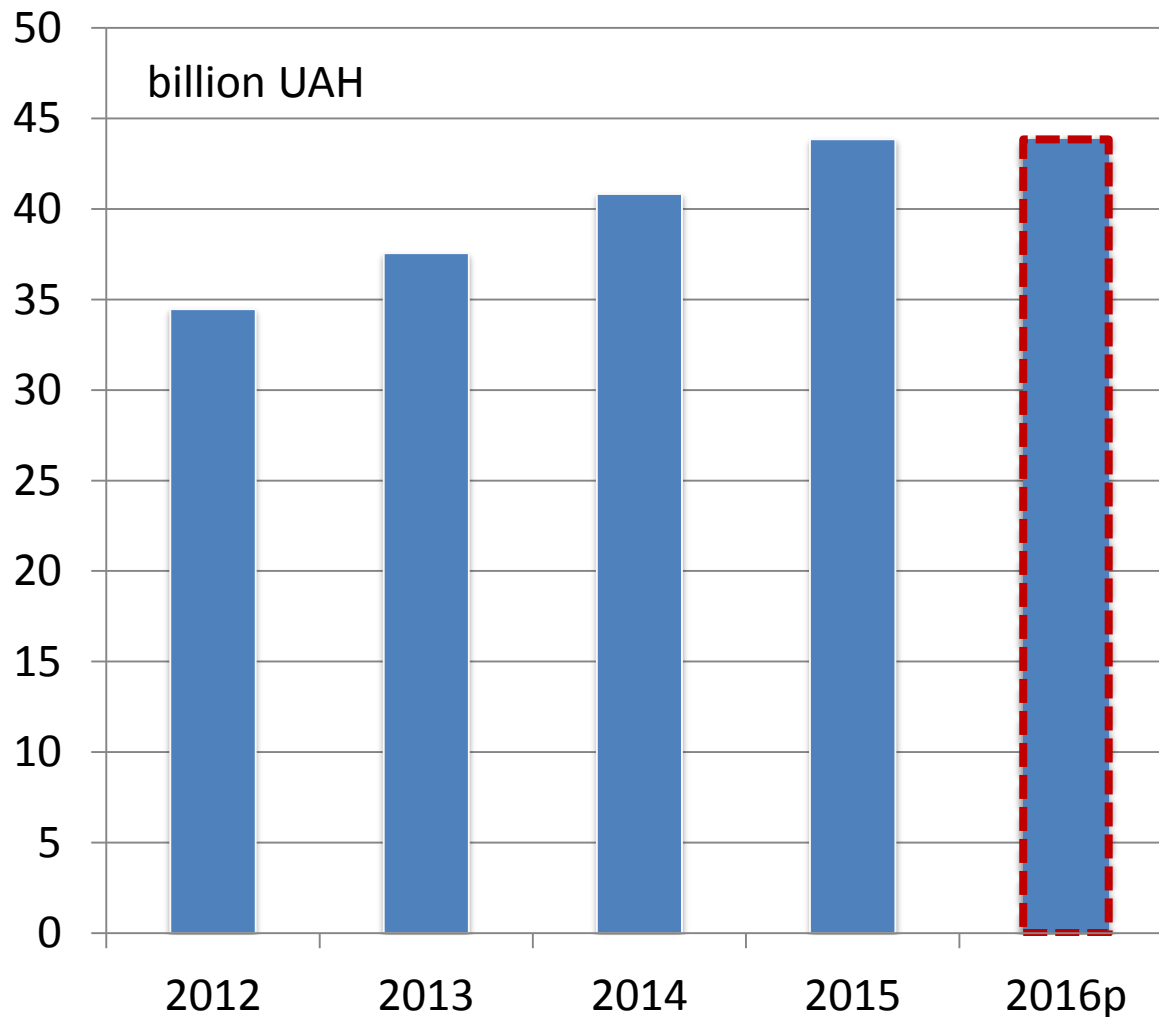
Source: own presentation based on various sources

Budget transfers to state-owned coal mines



Source: prepared based on Treasury reports on budget execution (2013 -2016)

Cross-subsidisation in the electricity sector

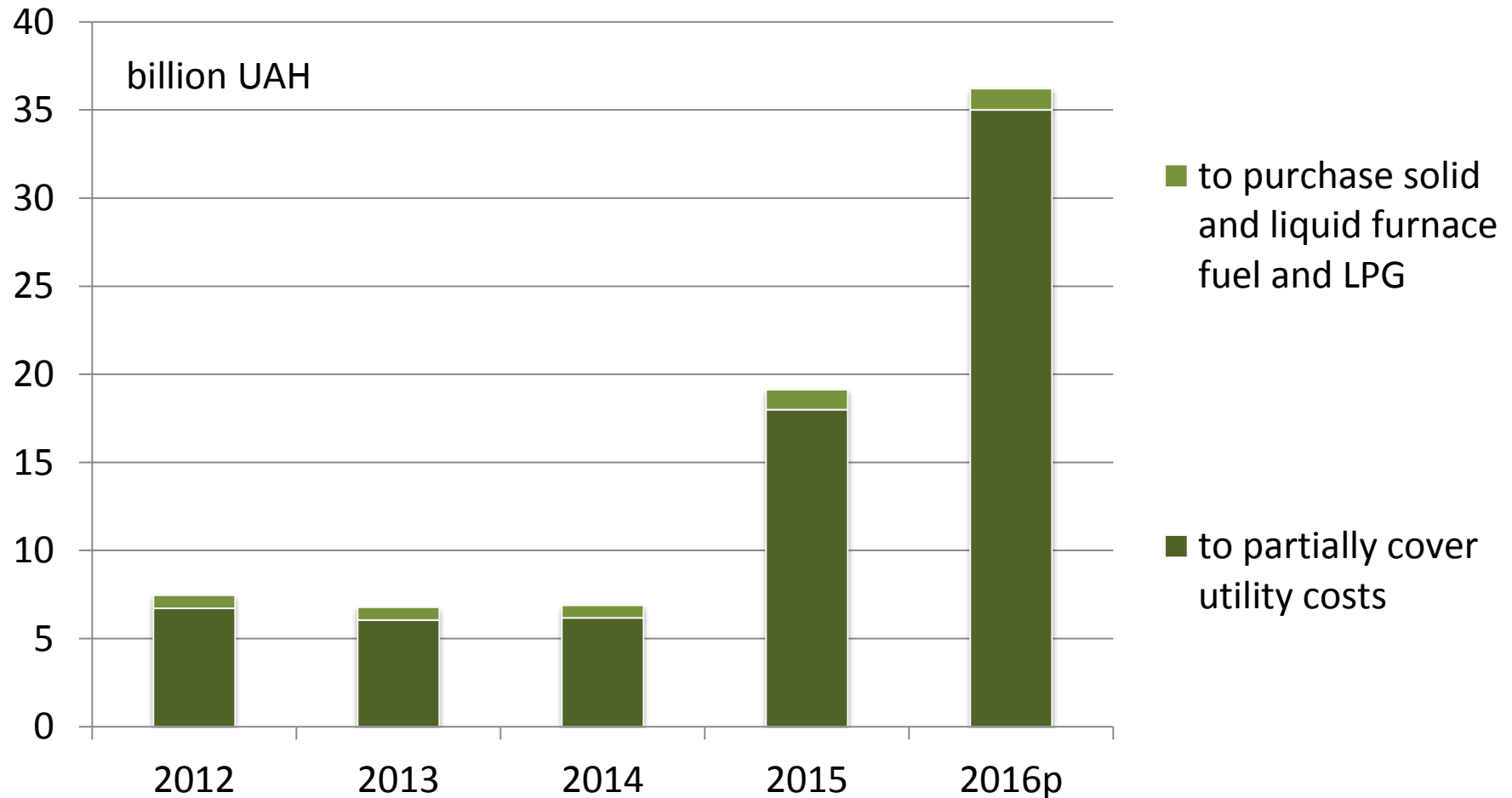


2015:
share of **cross-subsidies** in
wholesale electricity
tariff – **30.75%**,
Renewables – **4.9%**

**Assumption: subsidies in 2016 at least at the same level as in 2015.*

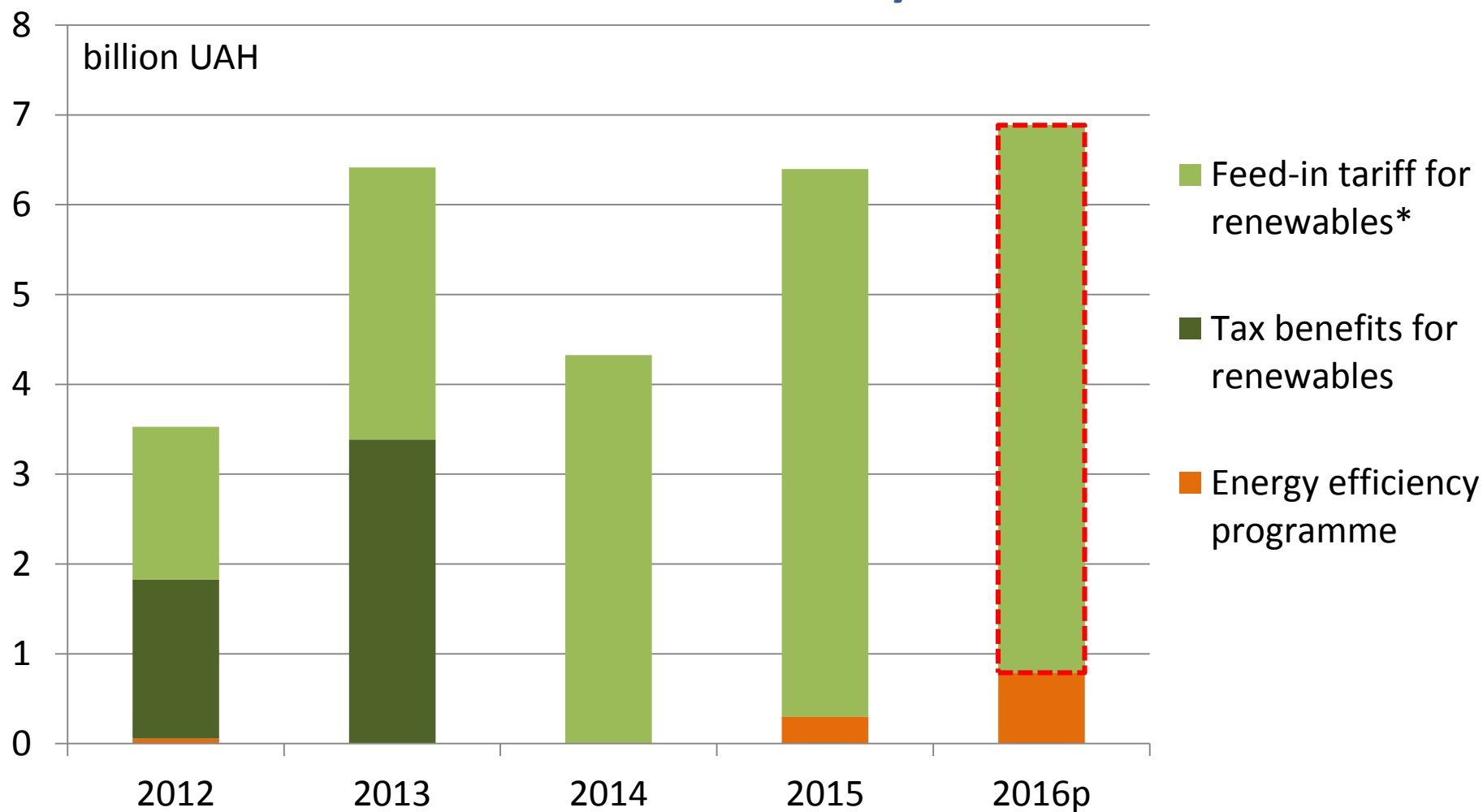
Source: prepared based on NCSREPU reports (2013-2016)

Target support programme for low-income households



Source: prepared based on Treasury reports on budget execution (2013 -2016)

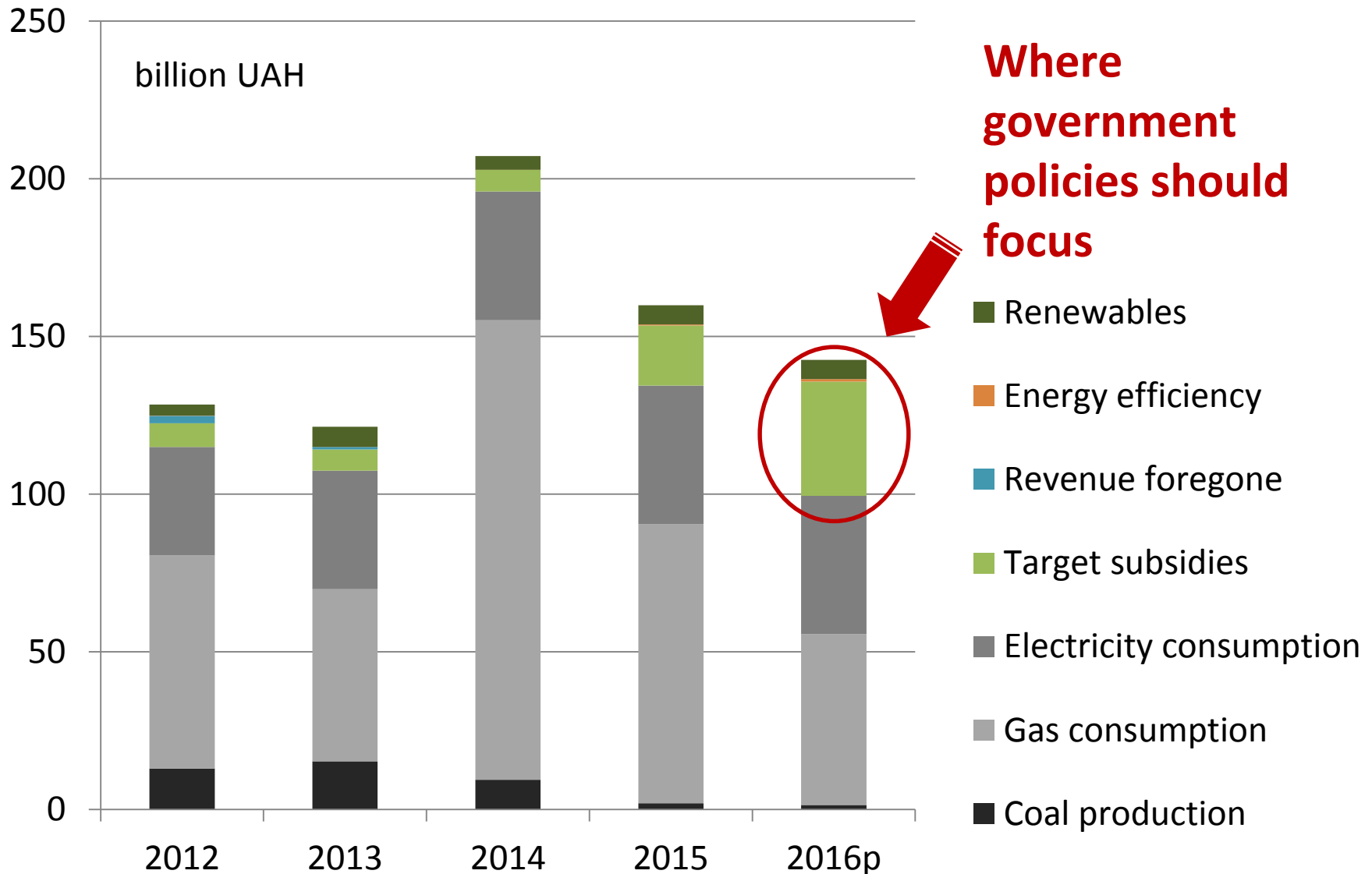
State support to renewable and energy efficiency



** Assumption: subsidies due to feed-in tariff will be at least at the same level as in 2015.*

Source: prepared based on Treasury reports on budget execution (2013 -2016), NCSREPU and Ministry of Finance data

Progress of the reform



Source: own presentation based on publicly available sources

Conclusions

- Support of vulnerable groups is a must for success of the reform;
- Targeted support should be provided in the most efficient way possible (proper means-testing and 100% metering);
- Energy saving incentives should be an essential pillar of the energy subsidy reform;
- Will the Government fulfil its commitments phase-out all subsidies by 2017-2020?
- Let's learn to count public funds as our own money!