

Germanwatch Conclusions of a 5-Day Trip to the Ukrainian Controlled Part of the Donbas Coal Basin 17–21 July 2016

Presented at a hearing in the Ukrainian Parliament and a press conference in the Ukrainian Crisis Media Centre, Kyiv, 22 July 2016

Five conclusions we take home from a 5-day trip through Donbas, visiting a coal mine, a machinery and a windmill factory and meeting business, academia, civil society, municipality representatives and ordinary citizens.

Why did we visit Donbas?

The Donbas is extremely important now and in upcoming decades for two things: securing peace in Europe and the energy transition from oil, gas and coal to energy efficiency and renewable energy. The new Paris Climate Agreement requires all countries globally to move out of oil, gas and coal by mid-century.

Conclusion 1

Three current energy developments mean a triple risk multiplier for Ukraine:

1. Energy security and import dependency, also related to coal
2. Strongly rising energy household tariffs
3. Further worsening social situation in the Donbas due to coal mine closure

Conclusion 2

There are probably only very few policy options to smooth all three problems together. But one of them is definitely energy efficiency, with a huge potential especially in buildings.

Energy efficiency...

- reduces demand for energy (gas & coal).
- reduces energy bills for households, municipalities and small and medium-sized businesses.
- creates investments in the regions and thus jobs, tax income and an increase in the value of the building stock. Last but not least it creates a higher quality of living in the houses.
- has great potential in the Donbas as very few houses that were built in Soviet times have been renovated yet.
- By reducing the energy demand it is easier for renewable energies, mainly bio mass, wind, solar to reach a high share of energy supply.

Conclusion 3

Renewables can play another major role to give an economic perspective to the energy and manufacturing region Donbas.

- By around 2027, new wind and solar capacities become cheaper without policy support than running coal, gas and nuclear power plants (see Bloomberg New Energy Finance, June 2016).
- There are already promising businesses, engaged in wind and bio gas as well as many trained engineers in the Donbas region. It would make sense to build on these strengths.
- The feed-in tariff in Ukraine creates in theory very good conditions to invest in renewable energies. But the political uncertainty as well as bureaucratic access to the grid are big investment hurdles.
- The feed-in tariff is an instrument with an inherent anti-corruption incentive. Money flows only if electricity is produced.
- An international multi-layer fund as a guarantee against political risks might be a solution which triggers quick progress for more investments in renewable energy development in Ukraine.

Conclusion 4

The Donbas is a region that represents the culmination of the triple energy crisis of energy dependence, rising tariffs and the coal mining towns' transformation. The Donbas is THE test case for finding solutions to these challenges.

- In many talks during our 5 days in the Donbas with very different stakeholders we have heard again and again the same concern: The triple energy crisis increases the likelihood of new unrest in an already explosive situation.
 - Coal miners and municipalities where mines are closing or might soon close down have very limited perspectives.
 - Many people fear that soon they will not be able to pay the energy bills, especially in winter.
 - New supply cuts may lead to additional energy price hikes

Conclusion 5

We want to congratulate Ukraine for ratifying the very important Paris Climate Change Agreement in mid-July 2016 as the 20th country out of nearly 200.

This creates new opportunities for Ukraine:

- Ukraine's current preliminary 2030 target in the Paris Agreement of 40% greenhouse gas reductions below the 1990 level is only business as usual and will extremely likely be overfulfilled.
- The existing draft Energy Strategy of Ukraine by 2035 suggests a 65% greenhouse gas reduction below 1990 if the government would follow the most cost-effective energy policy path and at the same time enhance energy independence as much as possible as well as implementing the Energy Community targets.
- The Paris Agreement (PA) gives countries that have ratified it the opportunity to take part in transformative partnerships with other member countries to the PA. That entails capacity building, technology transfer and finance (through for example easy and cheap access to loans).

- We believe it is now in Germany's and the EU's interest to heavily invest in Ukraine's future and therefore Europe's security. This relates to investing in all Ukraine but especially to investing now in the Donbas. We also understand that corruption is an unsolved issue for many cooperation partners of Ukraine and most Ukrainians.
- Germany is currently not directly engaged in the Donbas – due to security reasons. For us that is a mistake. We see it as crucial for the security situation to invest rapidly into future perspectives of the Donbas region. After this journey we will do our best to convince the German government to cooperate with the pro-active people and initiatives in the Donbas. A forward-looking ambitious energy strategy of Ukraine that puts energy efficiency and renewable energy in its centre would strongly increase the probability of such a Ukraine-German transformative partnership.
- We have met many well educated scientists and trained experts in the Donbas, people with very interesting ideas and initiatives, with projects that can be built upon. They could easily become important partners for deep cooperation between Ukraine and Germany or Ukraine and the EU on the development of an energy future for the Donbas that helps to stabilise the region and Europe.

Authors:

Christoph Bals, Policy Director, and Oldag Caspar, Team Leader German and EU Low-Carbon Policy

You can download this paper here: www.germanwatch.org/en/12677

August 2016

Germanwatch e.V.**Office Bonn**

Kaiserstr. 201
D-53113 Bonn
Phone +49 (0)228 / 60 492-0, Fax -19
Website: www.germanwatch.org

Office Berlin

Stresemannstr. 72
D-10963 Berlin
Phone +49 (0)30 / 2888 356-0, Fax -1
E-mail: info@germanwatch.org