

Recommendations for Ukrainian-German development cooperation

Stabilizing Donbas, modernizing the economy, and meeting Paris Agreement compliant decarbonization targets

The following recommendations were drafted by Germanwatch in cooperation with the Ukrainian NGOs Ecoaction and Alternativa. They derive in part from the preliminary outcomes of the ongoing project, “New energy: new development opportunities for Donbas,” which is co-funded by Germany’s Federal Ministry of Economic Cooperation and Development (BMZ) and led by the three organizations.

Oldag Caspar, team leader, caspar@germanwatch.org

Martin Schön-Chanishvili, senior advisor, schoen-chanishvili@germanwatch.org

Summary

Germany and Ukraine should add the following to their list of strategic bilateral cooperation priorities:

1) A renewable energy partnership. A considerable number of stakeholders and decision makers in Ukraine see a major role for renewable energies in the country’s energy future. In this regard, Germany is seen as a particularly valuable and competent partner. *Germany and the EU should offer Ukraine substantial, systematic, and long-term support via a renewable energy partnership that enhances the attractiveness of a clean energy transition and ensures the future competitiveness of the Ukrainian economy.*

2) The creation of new development opportunities for Donbas. The economic and social development of the Donbas region is crucial to the stability of Ukrainian statehood after Euromaidan. One potential threat to stability comes from the shift away from coal mining, which will need to be managed in a just manner in the communities most affected by it. *Germany and the EU should systematically support new development opportunities for Donbas revolving around energy efficiency, renewable energy, and industrial innovation.*

3) The alignment of Ukraine’s 2030 climate targets with the Paris Agreement. *Germany and the EU should support Ukraine in drafting a significantly more ambitious 2030 Paris Agreement emissions target (NDC) and action plans for its implementation.* It is essential to ensure that all relevant stakeholders are involved in these processes.

Rationale and recommendations in detail

1) A renewable energy partnership

- Recent studies have shown the significant potential for the development of renewables in Ukraine (see e.g. [IRENA 2017](#))
- Following Euromaidan and the intensification of the Ukrainian-Russian conflict, Ukrainian stakeholders have become more open toward energy sector reform and a clean energy transition, particularly at the local and regional level.
- Renewable generation is gaining momentum in Ukraine: large companies are shifting their investment profiles toward renewable projects (such as wind and solar – see e.g. [DTEK 2018](#)), while more and more small and medium-sized businesses and households use solar PV as a source of income and a means of ensuring security of supply. Over 3,000 households installed solar panels in 2017, for example, which amounts to an annual growth rate of 300% (State Agency 2018).
- Nevertheless, the pace of renewables growth in Ukraine remains incommensurate with the country's potential and the urgent need for a clean energy transition. Ukraine is very unlikely to reach its target of an 11% share of renewables in its gross final energy consumption by 2020. According to the State Committee for Energy Efficiency, renewables (including large hydro) accounted for only 5.8% of consumption in 2016 ([State Agency 2016](#))
- Several factors pose a challenge to Ukraine's energy transition, including:
 - Investment insecurity for small and large investors.
 - Lack of transparency and a high concentration of resources and personal business interests in the fossil power sector.
 - Lack of consistent national climate and energy policies setting out clear and ambitious targets for renewables, energy efficiency, and emissions reductions.
 - Ukraine's very unambitious 2030 climate target does not provide sufficient investment security and does not adequately incentivize renewable energy investments. In addition, influential stakeholders are pushing for further government subsidies and support for fossil and nuclear generation.
- Coal production is massively subsidized by the fragile federal state budget in order to bridge the gap between the high production costs and the market price. The government sees its own coal reserves as an important aspect of the country's energy independence ([Glavkom 2018](#)). Comprehensive state plans for coal mine closures have not yet been adopted, though a long list of unprofitable state-owned coal mines was prepared by the Ministry of Energy in 2018.

- The Ukrainian government is about to take a number of decisions on energy infrastructure development that will define the country's energy policy for decades to come. The country's fossil and nuclear energy infrastructure is largely outdated and is not compliant with EU legislation on air pollution emissions and the subsequent Association Agreement requirements. The government's current plans include the construction of two new nuclear units at the Khmelnytsky nuclear power plant.
- If Ukraine decides to make significant new investments in fossil fuel and nuclear generation, urgently required investment in renewables and grid and storage development will in all probability be hindered. Furthermore, new coal combustion plants and an updated nuclear plant industry would likely end up as stranded assets. Against the backdrop of increasingly stringent international climate policies, their investment payback period might well not be reached. Such investment would also lead to a relatively high CO₂ price in the long term, with all the attendant consequences for Ukrainian households and the economy.
- A successful energy transition in Ukraine is important for the credibility of the country's association with the EU and its cooperation within the Energy Community.
- In Ukraine, Germany is already considered a major energy transition partner. Successful cooperation between the two countries on energy efficiency has helped to bolster this view (in part via GLZ projects on energy efficiency in municipalities, consulting work on decentralization reforms, and the Energy Efficiency Fund initiated by Germany's Federal Ministry for the Environment).
- Key Ukrainian stakeholders and decision makers regard Germany as an energy transition pioneer that has implemented best practices concerning energy policies and governance, and believe that opportunities for collaboration with Germany in these areas should be further explored and evaluated.
- **Collaborating with Germany's federal government and the EU can help make Ukraine's energy transition more attractive and successful.** A strategic **renewable energy partnership** is crucial if the country is to progressively replace coal, oil and nuclear power. **Ukraine needs:**
 - De-risking (i.e. loan cost-reduction) instruments for investments in renewables, especially in small and medium-scale installations.
 - Support in developing its own RE equipment production sites that can boost job creation, value added, and innovation in the industrial and service sectors.
 - Support in developing a modern electricity grid capable of coping with high levels of RE.
 - Expertise on making the energy transition more popular among, and feasible for, broader groups of stakeholders (such as energy cooperatives and homeowner associations), particularly in the context of the shift to an auction-based system.

This would help raise the popularity of the clean energy transition, as well as democratizing and reducing the oligopolistic character of government funding.

2) Creating new development opportunities for Donbas

- Coal monotowns and cities in (Ukraine-controlled) Donbas and the old industrial centers in the region face an existential challenge that calls for a just energy transition. Local and regional stakeholders are now increasingly looking for economic and energy-related alternatives to the declining coal mining and combustion industry, and for structural and social policy measures to ease the transition. This new state of affairs has not been sufficiently addressed by donor organizations.
- If stakeholders in the Donbas region are not better enabled to deal with the socio-economic challenges of the energy transition, there is a serious risk that the region and the entire country will fall into an enduring period of instability. In the face of a lack of development prospects, the region is currently witnessing an unprecedented brain drain and labor outflow to central and western Ukraine and to other countries. At the same time, it is experiencing an inflow of internally displaced persons, businesses, and universities from territory that is not controlled by Ukraine. This adds further challenges but also opens up new development opportunities. Highlighting and raising awareness of Donbas's development prospects can help to slow emigration and make better use of the newcomers' potential.
- Ongoing bottom-up initiatives such as the New Development Opportunities for Donbas project funded by the BMZ and carried out by Germanwatch in conjunction with Ecoaction and Alternativa New Energy have shown that development plans for the region that focus on energy efficiency, renewable energy, and industrial innovation (in accordance with the Paris Agreement targets) can be successfully developed and implemented.
- Municipalities are currently being allocated additional responsibility and resources as a result of the decentralization reforms. They are now increasingly able to define their own energy supply policies.
- Civil society initiatives can play a key role in facilitating dialogue between regional stakeholders by creating collaborative networks and stimulating development proposals for Donbas and Ukraine.
- **Germany and the EU should strategically scale up their engagement in Donbas and, where possible, in the other regions most affected by the end of the fossil fuel era. Particular support should be given to bottom-up initiatives. Donbas and other Ukrainian regions in a transitional state require:**

- Expertise on energy transition solutions and lighthouse projects to showcase the feasibility and business potential of regional projects concerning energy efficiency, renewable energy, and industrial innovation.
- Development support for new industry clusters (as in Mariupol and Kramatorsk), in part via capacity development.
- Enhanced vocational and higher education facilities to provide future-proof job skills and innovation and structural change research centers.

3) Aligning Ukraine's 2030 climate target with the Paris Agreement

- Ukraine's current Paris Agreement 2030 climate target (NDC) is among the weakest of all the NDCs submitted.¹ It aims not to exceed 60% of the country's 1990 greenhouse gas emissions – a level that remains above the business as usual emissions scenario. As a result, Ukraine's current climate target would **allow its greenhouse gas emissions to increase by around 65% against current levels**, and therefore does not contribute to international efforts to keep global warming “well below 2 °C.”
- **Germany and the EU should assist Ukraine in elaborating a significantly more ambitious 2030 climate target (NDC) so that the country can communicate its updated NDC to the UNFCCC by 2020. This assistance should include:**
 - Expert support in elaborating an NDC that is consistent with the Paris Agreement goals. This support should include an analysis of accelerators and cross-cutting subjects for SDG implementation (i.e. ending poverty, promoting regional development, ensuring decent work and sustainable settlements, and so on).
 - Support for Ukraine in drafting a robust NDC implementation plan in line with the EU-Ukraine Association Agreement and the Paris Agreement, in consultation with all relevant stakeholders (including authorities, municipalities, businesses, and NGOs) and ensuring the participation of all relevant ministries.
 - Financial and technical support for the development of flagship projects that take important steps toward implementing the NDCs.
 - Technical support to incorporate a decentralized energy transition into the NDC implementation strategy.
 - Action plans that cover different sectors and regions.

Sources

| Source abbreviation and link | Full source description (<i>comments in italics</i>) |
|-----------------------------------|---|
| DTEK 2018 | DTEK (2018): DTEK Renewables: About the Company (<i>including generation information; DTEK is Ukraine's biggest coal generation company</i>) |
| Glavkom 2018 | Glavkom (2018): Groisman: We need to increase our own coal production and reduce imports (<i>Ukrainian</i>). |
| IRENA 2017 | IRENA, Joanneum Research and University of Ljubljana (2017), <i>Cost-Competitive Renewable Power Generation: Potential across South East Europe</i> , International Renewable Energy Agency (IRENA), Abu Dhabi. |
| State Agency 2016 | Ecobusiness (2016): Official information from Ukraine's State Agency for Energy Efficiency and Energy Saving (<i>Ukrainian</i>) |
| State Agency 2018 | Presentation by the Director of the RES Department of Ukraine's State Agency on Energy Efficiency and Energy Saving, Kiev, March 5, 2018. |

¹ <https://climateactiontracker.org/countries/ukraine/>