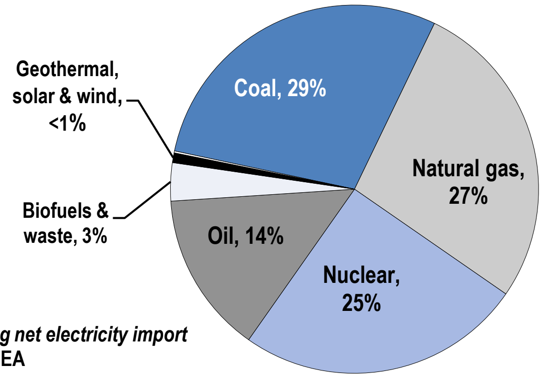
# Ukraine

*The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in epy OECD countries, eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and the EU's Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).*

## Energy resources and market structure

In 2017, 66% of total primary energy supply (TPES) in Ukraine was covered by the domestic production, with the largest shares accounted for by nuclear (22.4 mtoe), natural gas (15.5 mtoe) and coal (13.7 mtoe). While making gains over the past few years, the share of renewable energy in TPES, mainly biofuels and wastes, still remains marginal at a mere 4.4%.

Total Primary Energy Supply* in 2017




*excluding net electricity import
*Source*: IEA

In the same year, roughly a third of energy supply was used by public-private partnerships (PPPs) and combined heat and power (CHPs) plants to generate 156 TWh of electricity with nuclear and coal-fired power plants contributing 54% and 32% to the Ukraine's electricity generation mix, respectively.

Ukraine is a net energy importer seeing the share of imports in its TPES growing, from 27% in 2013 to 37% in 2017. This increased dependence on imports is largely explained by coal supply disruptions due to military operations in the Donbass region. The introduction of the reverse flow gas imports back in 2014 helped diversify suppliers with a view of strengthening the country's energy security.

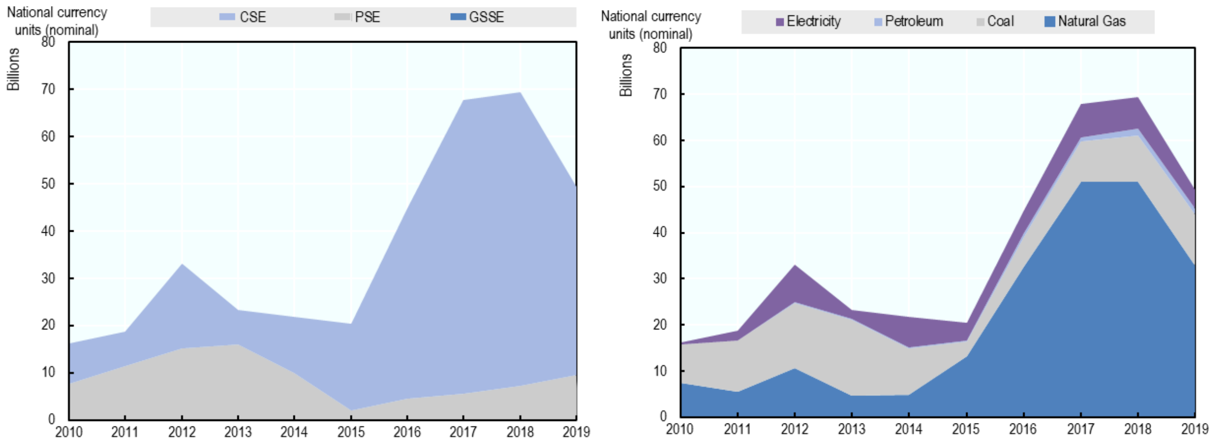
The Ministry of Environmental Protection and Natural Resources and the Ministry of Energy are responsible for setting the country's policy in the environmental and energy domains, respectively. On the other hand, the National Energy and Utilities Regulatory Commission (NEURC) is responsible for energy and utilities price setting, licensing and executing state control functions. In Ukraine, state-owned energy enterprises still dominate the market while the role of private players is increasing. In recent years, the government has undertaken corporate governance reforms and unbundling of key state entities in the energy sector, particularly the oil and gas vertically-integrated company – Naftogaz, the transmission system operator – Ukrenergo, and *oblenergos* (regional companies that previously combined electricity supply and distribution functions).

## Prices and taxes

Electricty and gas tariffs are established by the regulator (NEURC) following cost-plus methodology. The pricing and marketing of petroleum products are fully liberalised.

The standard VAT rate of 20% applies to most energy products and is incorporated in tariffs for end-users. Two cases of VAT exemption were identified and represented in the Inventory. Excise tax is applied on motor fuels (rates varying on the type of product), LPG and electricity. With the introduction of the new Tax Code in 2010, Ukraine's government introduced a carbon tax initially at a very low rate, until reaching a noticeable rate of UAH 10/t$CO_2$ in 2019.

**Total support for fossil fuels in Ukraine by support indicator (left) and fuel type (right)***




Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate. Category "Several" stands for measures, which support production or consumption of several fuels but could not be disaggregated by type of fuel due to data limitations.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, these estimates do not reflect the totality of support provided by means of artificially lower domestic prices. For example, cross-subsidies in the electricity sector (over UAH 40 bln in 2014 and 2015) as well as the capital injection into NJSC "Naftogaz of Ukraine" (over UAH 96 bln) discussed in the OECD (2018) study are not included in this Inventory. Particular caution should, therefore, be exercised when comparing these estimates to those reported by the IEA and OECD (2018) for these countries. Data for 2019 are preliminary.

### Recent developments and trends in support

The bulk of government support for fossil fuels in Ukraine is targeting consumers either through budgetary transfers to cover losses of utility providers due to regulated below-market tariffs or through social subsidies and benefits allocated directly to households. Over the last five years, the government of Ukraine undertook considerable reforms in the energy sector. Most notable among these is a substantial increase of utility tariffs applied in 2014, 2015 and 2016, which helped reduce the deficits of utility providers and consequently cut or eliminate various government compensations schemes. Rather than keeping low tariffs for all households for social and political reasons, the government has gradually reformed its social support programmes to target eligible low-income households.

In terms of fuels, producer support (PSE) measues are concentrated in the coal sector as various budget transfers have been provided to support inefficient and unprofitable state-owned coal mines. The drop in the total PSE after 2013 is explained by temporary loss of government control of territories in the Donbas region where most state-owned coal-mines in Ukraine are located, and, on a smaller scale, reforms in the coal sector.

| Examples of measures | |
|---|---|
| **Restructuring of coal and peat industry** | A budget programme on the restructuring of the coal and peat industry introduced by the government back in 2005. Budget transfers are provided to state-owned coal mines for settling arrears of wages and social payments, settling arrears for the electricity consumed, as well as technical re-equipment and modernisation of coal mines. |
| **Excise tax relief for operations on sale of the LPG at specialized auctions for the needs of households** | According to art. 213, para. 213.3.11 of the Tax Code, operations on the sale of LPG for the needs of households at specialised auctions (under the procedure defined by the Cabinet of Ministers) are exempt from the excise tax. This measure was introduced back in 2011 and is still valid. |