

The Eastern Neighbourhood Region and the EU's energy interests

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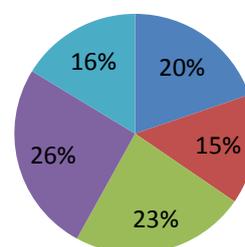
Analysis of EU investments in Ukraine's energy sector, 2007–2014

Between 2007–2014, Ukraine received from EU public institutions¹ over EUR 2.5 billion for 56 projects in the country's energy sector. This is the highest amount of support for the energy sector among all ENP countries, both by volume and number of investments.

Ukraine is critically dependent on imported energy resources (gas, nuclear fuel and now also coal) and suffers from highly inefficient energy use. Ukraine's energy intensity per capita is three to four times higher than in other EU countries. Yet only 15 per cent of EU support for the energy sector went to combating inefficient energy use or to developing local sustainable energy sources. The focus of EU financial support has remained on 'traditional' sources of energy and has thus increased the country's reliance on these (Chart 1).

Total EU investments in energy sector of Ukraine by sub-sectors, 2007-2014

■ Fossil fuels ■ RES/EE
■ Nuclear ■ Transmission
■ Hydropower



¹ The EIB, EBRD, NIF and Euratom Loan Facility and Inogate.

Investments in renewables and energy efficiency

While the EIB made no investment in Ukraine's renewables sector, the EBRD provided about EUR 73 million in eight solar, wind and biomass energy projects. The EBRD worked with a number of municipalities and by 2014 at least five projects on district heating systems modernisation have been approved². The bank also extended several credit lines to Ukraine's commercial banks, mostly for energy efficiency measures for small and medium enterprises.

The **Neighbourhood Investment Facility (NIF)** supported five projects in Ukraine, primarily in support of two transmission projects undertaken jointly with the EIB and the EBRD. NIF also supported the rehabilitation of hydropower projects. These efforts, however, were not sufficient to foster any transformation of the country's ageing energy system towards a more sustainable and efficient model in line with EU trends.

In addition to EUR 342 million for energy efficiency and renewables projects, another EUR 510 million went to fossil fuels (mostly gas and oil), EUR 600 million to the state nuclear operator Energoatom and EUR 661 million to construct high-voltage power transmission lines. Despite minor efficiency gains and transparency improvements in those projects with state-owned Ukrtransgas and Ukrenergo, this EU 1.7 billion has continued to fuel a largely inefficient and centralised energy system.

Conclusions

Developing areas that are of the most benefit to the Ukrainian public, like energy efficiency, the introduction of energy saving measures and small scale renewable energy, has received just 15 per cent of total EU investments in Ukraine in recent years. Meanwhile, these areas could bring the biggest public

benefits to Ukraine by decreasing energy demand and the country's dependence on imported fuels. This is the only true solution to the energy crisis the country faces.

Continuing business as usual with EU financing will only deepen the energy crisis and lead to government 'band-aid' solutions that ultimately will only increase the gap between Ukraine and the EU.

The EU public financiers should clearly **define as the priorities in the energy sector energy savings and renewables**, and stick to these rather than readily financing any bankable energy sub-sector. Such a step from EU institutions sends an important message to Ukrainian authorities that a solution for the country lays in utilising its vast energy efficiency and renewables potential.

The Neighbourhood Investment Facility should limit its focus to energy efficiency projects, including on the municipal level, and begin granting more for the development of renewable energy projects. It is also important to improve the transparency of NIF operations to enable better public oversight and improve the visibility of its role.

The largest EU investments in Ukraine's energy sector:

Rivne-Kyiv high voltage line project

EUR 300 million (2008)

750kV Zaporizska nuclear power plant, Kahovka

EUR 350 million (2010–2011)

Nuclear power plants safety upgrades

EUR 300 million (2013)

Urengoy-Pomary-Uzhgorod gas pipeline

EUR 300 million (2014)

² Although these projects are considered "Municipal and environmental infrastructure" by the bank, we count them in our calculations as energy projects in order to have a more accurate picture of the banks' investments that are connected directly with increased energy efficiency. The status of three other district heating modernisations (in Lviv, Luhansk and Zhytomir) are unclear but still included into the calculation of the total figures for EE/RES investment made by the EBRD;