



Low Carbon Ukraine

Policy advice on low-carbon policies for Ukraine

Supported by:



Federal Ministry
for the Environment, Nature Conservation
and Nuclear Safety

based on a decision of the German Bundestag

A socially acceptable transformation of mining regions

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Berlin/Kyiv, May 2021

Implemented by

 Berlin
Economics

Why a coal phase-out?

1

Decarbonization path

- Coal is responsible for 30% of global temperature increase
- NDC2: 50% primary coal consumption reduction in Ukraine by 2030

2

Outdated power plants

- Currently in force but lack of implementation: **National Emission Reduction Plan**

3

Carbon pricing

- Higher carbon tax is likely in order to avoid EU Carbon Border Adjustment Mechanism

4

Energy security

- Former net exporter of coal
- 2018: UKR imported 22 Mt and exported 0.09 Mt t of coal

5

Unprofitability

- State-owned coal mines are not profitable
- Receive high subsidies

Phasing out coal subsidies



Coal subsidies for state coal mines

Direct budget transfers by the government and foregone government revenue

01 Fiscal support subsidies

Loans, grants, guarantees or equity granted by institutions under government control or IFIs

02 Public finance support

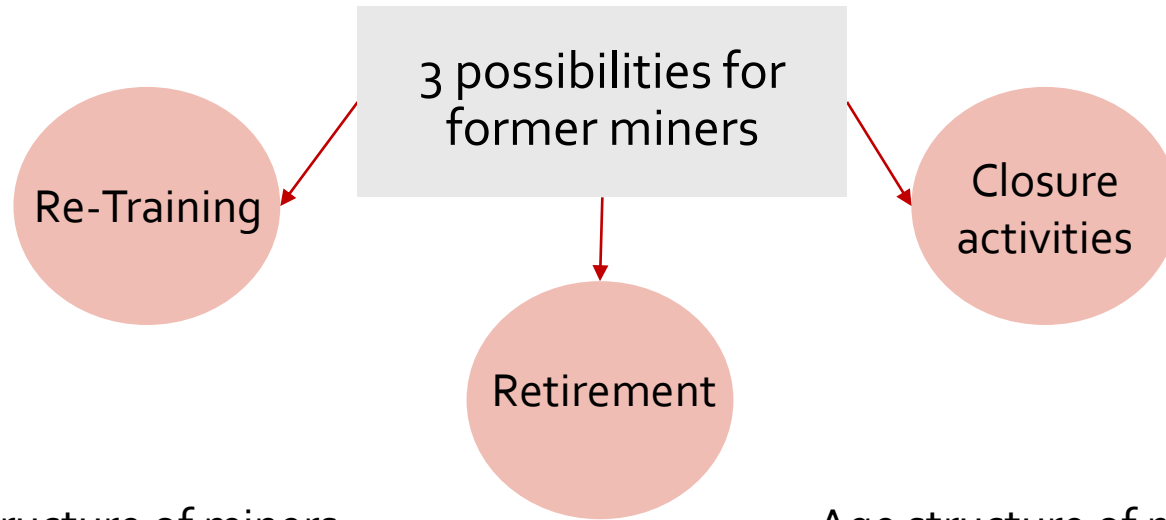
Transfers of funds made by SOEs that cannot be justified from a pure economic point of view

03 SOE investment support

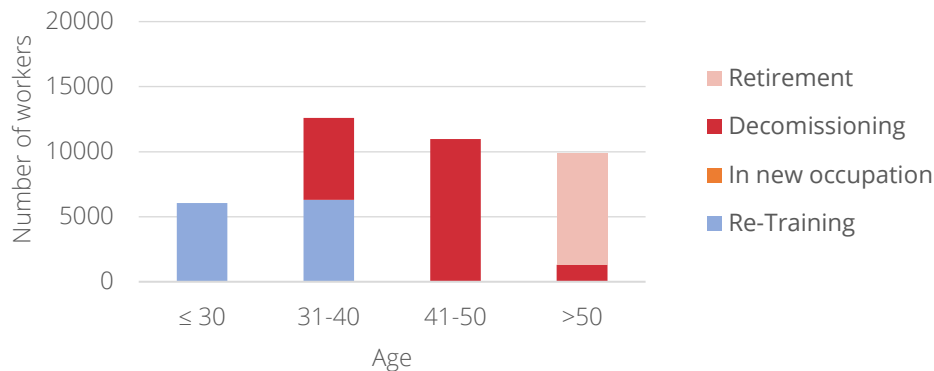
+ Deferred electricity bills & preferential treatment in electricity sector

In total: EUR 400 m per year

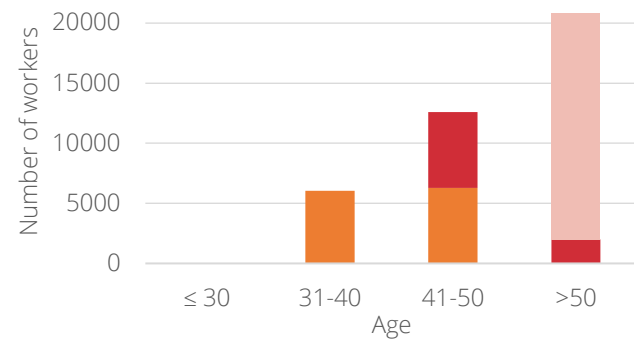
Labour policies



Age structure of miners in state mines (2020)



Age structure of miners in state mines (2030)



Structural measures



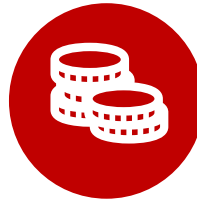
Coal commission

- With clear mandate
- Including all affected stakeholders



Regional agencies

- Complementary to coal commission
- For targeting measures on affected groups



UA Just Transition Fund

- Cross-financing from phase-out of coal subsidies
- Providing grants for social and environmental projects
- Unlock private capital (loans from IFIs)

Current debate on coal transition

Plans affecting coal transition

- Climate neutrality by 2060
- Coal phase-out by 2050
- DTEK will exit coal-fired electricity generation by 2040
- 5-6 mines to be closed in 2021
- From 2022: stop of coal subsidies + phase-out plan

Ukraine lacks a comprehensive approach for its long-term coal phase-out strategy



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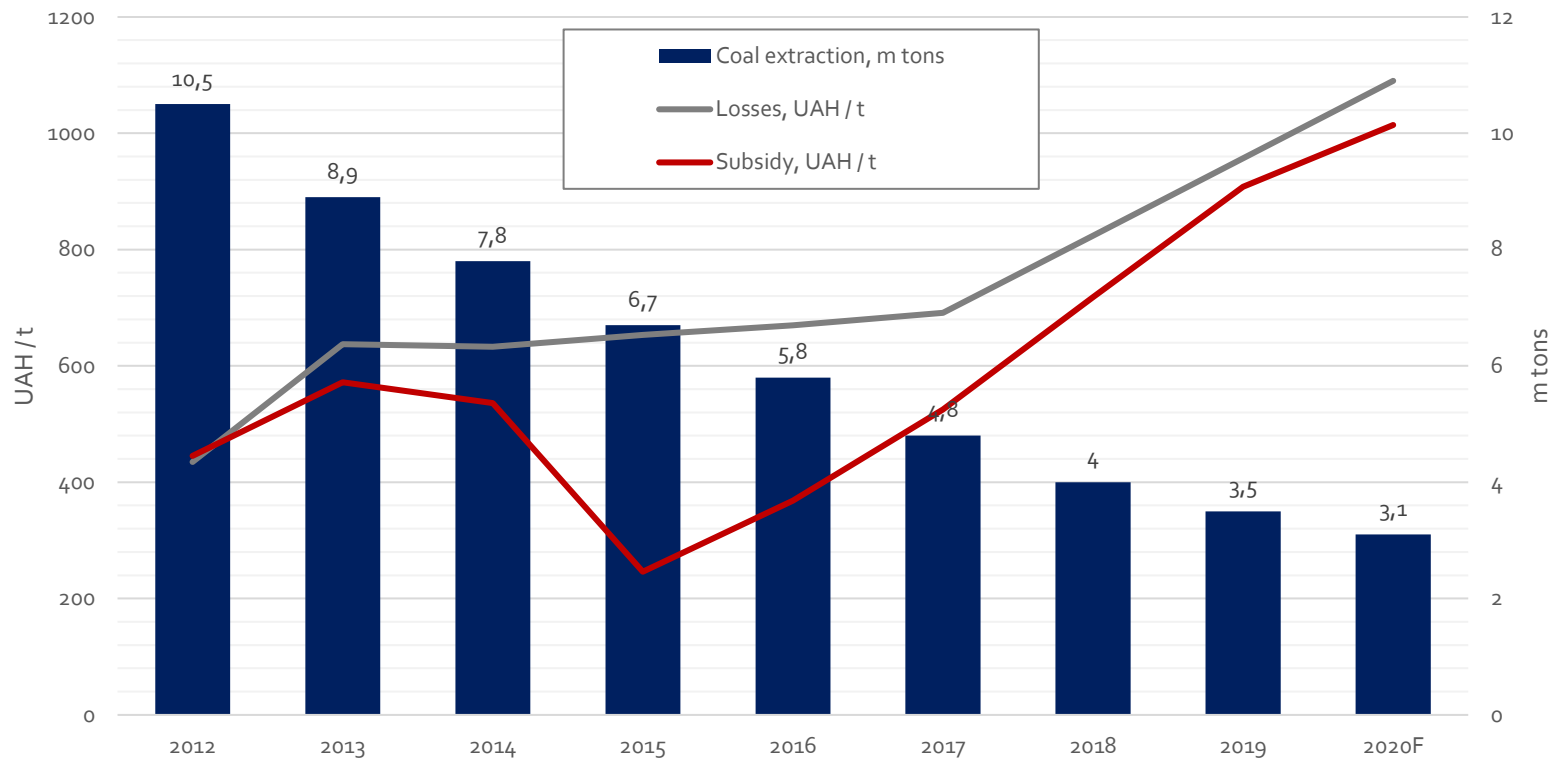
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Annex

Fiscal support-type subsidies in coal sector



Source: MinEconEnergy (2020)

Subsidies to state coal mines

EUR m	2015	2016	2017	2018	2019
(1) FISCAL SUPPORT-TYPE SUBSIDIES	76	80	93	107	146
Restructuring of coal and peat industry (2015-17)/ Liquidation of non-profitable coal enterprises (after 2018)	8	4	8	9	4
Rescue measures at coal mining enterprises	9	9	10	9	10
State support for coal mining enterprises on partial compensation of production costs of finished marketable coal	46	48	70	33	-
Measures to improve safety measures at mining enterprises	-	-	3	-	-
Replenishment of current capital or increase the statutory funds of coal mines to settle the arrears of wages to employees as of 01-01-2015	8	18	-	-	-
State support for construction of mine №10 "Novovolynska"	6	2	2	1	2
Implementation of measures to ensure domestic coal production and further reform of the state sector of the coal industry	-	-	-	52	114
Prevention of the emergency situation due to flooding of the mines of Pervomaysko-Stakhaniv coal mining region	-	-	0	3	16
(2) PUBLIC FINANCE SUPPORT SUBSIDIES	16	16	15	14	14
Loan guarantee payment from budget for Loan between Lisichanskvugillya PJSC and the State Development Bank of the PRC					
(3) SOE INVESTMENT SUPPORT SUBSIDIES	127	147	174	239	248
Taxes and contributions in arrears - state coal mines					
Total subsidies to state coal enterprises	219	244	282	370	407

Source: Miljevic et al. (2017), Ministry of Finance Ukraine (2020)