



PRIORITIES FOR UKRAINE'S POST-WAR ENERGY RECOVERY

Summary of the discussion

DiXi Group Supervisory Board members have met on April 1, 2022, to highlight the need for stronger support of Ukraine in energy sector, identify immediate steps for ensuring stronger energy security and resilience in the short-term perspective, and discuss priorities for Ukraine's recovery in the post-war period.

**SUMMARY OF THE DISCUSSION OF DIXI
GROUP SUPERVISORY BOARD
MEMBERS ON THE PRIORITIES FOR
UKRAINE'S POST-WAR RECOVERY**



Janez Kopac



Marc-Antoine Eyl-Mazzega



Georg Zachmann



Frank Umbach

Security of gas supply and sufficiency of gas reserves for the winter period 2022/2023 will be an important issue not only for Ukraine but for all the EU countries.

In the coming months, as the EU countries would pursue plans to refuse from Russian gas or even may decide to impose an embargo, or as Russia may suspend gas supplies to blackmail the EU, there would be a need to quickly prepare for the winter season and look for other sources of gas supply. [Qatar, Azerbaijan, and North African countries](#), increased production in Norway and U.S. can be such an alternative for the EU countries.

As for Ukraine, as its access to liquefied natural gas terminals is limited and firm capacity of cross-border interconnections with the EU member states (to physically reverse gas) also has limits, it is important to start early preparations for the winter season. The [completion of the Baltic Pipe](#) and further expansion of LNG terminals in Poland and Lithuania, as well as expansion of the interconnection between Poland and Ukraine could help to diversify gas supply sources in this part of Europe. It is also worth negotiating with Norway to obtain the volumes of gas needed for the safe winter season. In his address to the Storting, the [President of Ukraine Volodymyr Zelenskyi has already reported](#) on a dialogue with Norway on the supply of app. 5 billion cubic meters of natural gas to Ukraine. It is very important that these deliveries take place in practice and that the gas comes at an affordable price.

Liquidity in the electricity market remains a problem for Ukraine.



[According](#) to the Minister of Energy Herman Halushchenko, as of late March, the level of payments has dropped by 30% in retail (households to suppliers) and by 40% in wholesale (to producers); the numbers can become even worse as the war continues. State-owned companies such as Ukrhydroenergo and Energoatom need opportunities to have other sources of revenue, as much of their capacity is free. The hostilities resulted in a decline in consumption, which is an additional argument for finding alternative sources of demand for the electricity producers.

The Ukrainian electricity system was [synchronized ENTSO-E in trial mode in March 2022](#). For Ukraine, this opens prospects not only for technical synchronization and stable operation, but also for the exports of electricity to the EU countries. [Ukrenergo is exploring the possibility of selling electricity](#) through Slovakia, Romania and Poland. For the neighboring EU markets, imports from Ukraine would be also beneficial to lower the prices and achieve decarbonization goals. It is very important that, before the necessary technical and legal conditions are fulfilled for markets integration, a transitional regime is set up to use all the benefits of cross-border trade. The mechanism should be as transparent as possible, and the revenues be used to support state-owned enterprises and living standards of Ukrainians, not the enrichment of some local private business groups.

The effective operation of trust/donor funds for post-war reconstruction and further energy reforms requires significant flexibility and simplicity.

The experience of the [Energy Efficiency Fund](#) in Ukraine has shown that a large number and complexity of procedures constrain the speed of projects implementation. Governance and projects policies/procedures of such an institution should be as flexible and simple as possible in order to enable fast implementation of recovery projects (especially those related to infrastructure) and allow more parties (individuals, SMEs, municipalities) benefit from the services of such fund.

The Energy Community Secretariat has already established the [Ukraine Energy Support Fund](#). The European Union plans to [establish a Solidarity Fund](#) in support of Ukraine. There are many private initiatives on setting up support funds. The government of Ukraine has created [four recovery funds](#) (so far, by setting special bank accounts) to rebuild infrastructure, restore the economy, repay public debt and support affected businesses. All these tools would not work well if the mechanism of their performance is not effective. It is important to study lessons learned and create simple and quick support programs for the new funds.



The issue of leadership among the international donors emerges regarding collecting and directing aid to Ukraine.

The experience of other countries - Serbia, Myanmar, Iraq – demonstrates the importance of a leading donor. Since Ukraine may soon become a Candidate Country for membership in the European Union, the EU could be such a responsible stakeholder.

Special new funding mechanisms are needed to rebuild Ukraine and support its efforts in the transition period towards full membership in the EU. The existing European neighborhood policy mechanisms are ineffective, outdated, and slow. Even copying those financial instruments that have been developed for the Western Balkans would not allow providing rapid funding for Ukraine's reconstruction. The EU and Ukraine should develop new models of financial cooperation soon and/or Ukraine should be allowed access to more EU funds and programs.

To end dependence on imported gas and become a net exporter, Ukraine must pay close attention to synthetic methane and biomethane production. Ukraine should receive cheap loans from the international financial institutions for further development of the decarbonized economy based on renewable energy sources. At the same time, incredibly large subsidies are needed for the construction sector to cope with the needs of post-war reconstruction. This should take into account that new buildings shall be constructed in compliance with the requirements of highest energy efficiency standards, i.e. be nearly zero-energy buildings.

International donor community and partner countries should encourage investors to engage with Ukraine; however, to use investments effectively and successfully, Ukraine should present its strategic vision of the future development – also in the energy sector. The Cabinet of Ministers has to demonstrate vision of Ukraine's energy mix in the perspective of 20 to 30 years and, particularly, show the shares of different types of electricity generation. This means that the 2050 Energy Strategy and the National Energy and Climate Plan should be adopted.

The Supervisory Board will continue convening regularly for further discussions on opportunities for swift and effective rebuilding of the energy sector of Ukraine.

