Honourable Minister, Excellencies, Ladies and Gentlemen,

Thank you for joining us today as we launch the findings of our review of Ukraine’s energy policies. I would like to thank Minister Boyko and his team for organizing this event. I would also like to thank them for their co-operation and support throughout the review process. My gratitude goes to Ambassador Tombinski of the Delegation of the European Union to Ukraine, which has played a vital in supporting our work financially.

The IEA reviews the energy policies of its 28 member countries regularly. Every five to six years, with energy experts from IEA member countries we analyze those policies, and then formulate energy policy recommendations for our members.

We also conduct energy policy reviews for partner countries, of course only at their request. This is the third IEA review of Ukraine energy policies, the previous ones have been released in 2006 and 1996.

My presentation will focus on:

• the main challenges of energy policies in Ukraine,
• the opportunities we see to foster energy security and economic growth through sound and bold energy policies,
• and the recommendations our experts have provided in order to meet those challenges and benefit from those opportunities.

First let me say that Ukraine matters very much to the IEA and our members, and we share long-standing relations.

Your country’s strategic geographic location makes it especially important for gas transit. About 100 billion cubic metres of Russian gas for European markets are transported through Ukraine every year. Your large gas storage infrastructure is an important asset for all of Europe, especially during peak demand in winter.

There are more reasons why Ukraine matters to European energy.

• Ukraine is a large energy market on its own, and its policies have significant impacts in the region.
• The country is a significant producer of coal, gas, oil, nuclear, and hydro-power, and holds substantial conventional and unconventional gas reserves.

Today’s review of Ukraine energy policies is very timely: The Ukrainian government is finalizing work on its “Energy Strategy 2030”. We are pleased that this review can make a substantial contribution to this strategy.

No doubt, the need for substantive energy policy reforms was never stronger than today. High oil and gas import prices are a huge burden for public finance. In addition, they hamper economic growth and add to the economic difficulties stemming from global crises. They also demonstrate
how dependent Ukraine is on Russia regarding its energy supplies. Energy security must play a crucial role in Ukraine’s energy strategy.

Subsidized energy and regulated tariffs add to the fiscal burden, but this also means that the social dimension of energy policies in this country is huge.

The high energy intensity of the economy, and the urgent need for modernization of the energy supply chain, pose major investment challenges. In purchasing power parity, Ukraine’s energy consumption per GDP is 3.2 times higher than the OECD average. Experts have calculated that modernizing the energy infrastructure of Ukraine will require USD 5-10 billion per year over the next 20 years – a huge sum, and one which will require foreign investment.

Our review shows that major improvements are not only possible, but also realistic. Ukraine has sufficient conventional and unconventional gas resources at its disposal, to become independent from Russian gas imports by 2030.

But looking just at the supply side would not be enough to make this energy revolution happen. Rigorous and long lasting efforts to increase energy efficiency in buildings, industry and transport are necessary for this revolution to take place.

Our World Energy Outlook 2012 will call energy efficiency the “hidden fuel”. Tapping its potential is not always easy. But for Ukraine to be successful in its energy reforms, much more political focus must be here.

I am fully aware that implementing such reforms won’t be easy. However, they will produce substantive benefits in

- fostering economic growth and the creation of jobs,
- enhancing the competitiveness of industries and
- substantially improving Ukrainian energy security.

Let us now look in more detail at the opportunities on the supply side.

In 2012, Ukraine is likely to produce about 21 bcm of gas and to import about 33 bcm from Russia.

Yet at the same time, there is a large potential to develop Black Sea offshore gas resources and also unconventional gas, from shale or coal-bed methane. If successfully developed this could create thousands of jobs and make Ukraine independent from gas imports. Indeed, Ukraine could possibly produce about 3 bcm of shale gas by 2020 and about 15 bcm by 2030.

For this to happen the existing gas transmission infrastructure is surely an asset. But modernization and stable framework conditions are necessary.

I am convinced that the Energy Community Treaty can offer the kind of framework Ukraine needs to attract the necessary foreign capital.
For the first time ever, Ukraine has a real opportunity to diversify gas import sources from Austria via Slovakia. Increased cooperation with neighboring countries and stakeholders in this context is important.

There is also great potential for renewable energy. The government’s feed-in tariff scheme is a start. But the level of support may be unrealistic. The scheme also excludes some key renewables with a competitive advantage, such as small hydro and biomass. In addition, the present scheme does not unlock the country’s waste-to-energy potential, especially for heat generation. Biomass can play an important role in fostering economic development in rural regions.

Considerable efforts to increase domestic conventional and non-conventional gas production have been undertaken by the government of Ukraine. Those include

- successful tenders for offshore and shale gas plays;
- improvements in the upstream regulatory regime; and
- initiatives to develop coal-bed methane in the East.

Those efforts are already bearing fruit, offering access to expertise, technology, and financing. Further efforts should be made to improve the regulatory, industrial and financial environment for shale gas development. The IEA has developed “Golden Rules” for shale gas investments which could be of help in this context.

But also,

- the government should build on the successful tender experience;
- consider the provisions of the Energy Community treaty, also for gas; and
- consider the restructuring of Naftogaz. While the last is a difficult issue, it could help to mobilize the capital necessary to increase upstream production and modernize the gas transmission system.

Now let us look at the demand side.

Ukraine has a pre-independence legacy, adopted from a time when Soviet energy policies were heavily biased towards the supply side. Across the region, there is need to focus now much more on demand.

For oil and gas exporters, high energy prices mean very substantial lost revenue from potential exports consumed wastefully at home. For importing countries, those same prices mean a high burden for consumers and the public budget.

Ukraine should act now to harness its huge energy efficiency potential.

Saving only 10% of gas in the residential sector amounts to 1 billion Euros saved at today’s gas prices. Savings of that magnitude and even greater ones are achievable, provided comprehensive and concerted action.
In the industry sector, inefficiency means that expensive gas and wasteful consumption are reducing the competitiveness of Ukrainian products abroad. Already progress has been made, for example in the metallurgy sector. That experience can be emulated more widely.

The Ukrainian government is surely aware of the huge scope for energy savings. Policy planning started to address the need for energy efficiency improvements, as in the *Presidential Programme for Economic Reforms 2010-2014*. But the focus of the Draft Energy Strategy 2030 is still very much on supply.

Strong energy efficiency policies need an institutional base. The State Agency on Energy Efficiency and Energy Savings is a good start. But its role, responsibilities and coordinating power across the government should be strengthened to give it weight within the Ukrainian energy policy community.

Now a quick word on tariffs.

The regulated tariffs for natural gas remain far below full cost-recovery levels. Such subsidies invite wasteful consumption. I recognize the political difficulty of making prices cost-reflective, and lifting subsidies.

Such reforms need to include targeted support to the poorest, and need to be introduced gradually. A planned transition to market prices must be progressive and transparent for consumers.

Other efforts to reduce demand must encourage bottom-up change. Proper metering can help consumers to recognize their consumption and raise social acceptance. Tighter standards for household appliances can reduce end-use. Homeowner associations should be able to take affordable credits to order energy efficiency investments. And the systematic installation of metering substations to optimize heat supply should be a precondition for upgrades. Metering also ensures the collection of high quality data to allow adequate policy setting and to track the progress.

Ukraine is currently undertaking a complex electricity market reform.

This reform should:

- deliver better quality of service for consumers,
- support economic growth and welfare,
- remove cross-subsidies,
- and strengthen the government’s fiscal position.

Privatizations of generation assets are currently ongoing and, should be an opportunity to foster competition and attract investments. Reform should continue to seek improved efficiency of markets, and strengthened competition.

Ukraine currently encourages a switch from gas to coal in the current environment of cheap coal. That can bring cost and security benefits, but under certain conditions. Those include supercritical power plants, and the deployment of carbon capture and storage technologies. That in turn requires
progressively removing cross-subsidies - especially since Ukraine has committed to implement by 2018 the EU Large Combustion Plant Directive.

At the same time, Ukraine is also aiming at maintaining its nuclear energy production capability on the longer term. Realizing safety investments and securing investments in new capacity will be essential.

Ukraine is facing important challenges that need to be urgently addressed. However, at the same time the country has the potential for a real energy revolution. However, it will not be easy and your energy stakeholders will have to work hard to get there.

Let me therefore leave you with three messages.

First, the level of investment which needs to be mobilized will necessarily involve private sector capital, both domestically and from abroad.

To be successful in the international competition for investment, Ukraine needs a stable and predictable as well as transparent energy policy framework. Participation of Ukraine in international agreements, like the Energy Community Treaty and the Extractive Industries Transparency Initiative, plays a key role in this context.

Second, policies that can yield the greatest gains in efficiency, particularly at the household level, will require prioritisation, effective implementation and financial support, as well as monitoring.

Finally, price signals will be key both to attract investment and to effectively implement energy efficiency measures. This means bold decisions are needed for reducing fossil fuel subsidies. Targeted support to low-income families, as well as a gradual and transparent move to market prices, should facilitate this transition.

I am convinced that energy policies based on these principles will foster growth and employment to the benefit of the whole Ukrainian society.

Thank you very much for your kind attention.