

Reforming Ukraine's Energy Sector: Critical Unfinished Business **Bus./Industry**

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Transforming Ukraine's energy sector is essential to strengthening the country's economic and national security. Despite intensified efforts and some recent progress, the outlook is troubled. This publication is part of Carnegie's [Reforming Ukraine](#) project and is supported in part by grants from the Center for East European and International Studies (Zentrum für Osteuropa- und internationale Studien, ZOiS) and the Open Society Foundations.

By ANTON ANTONENKO, ROMAN NITSOVYCH, OLENA PAVLENKO, KRISTIAN TAKAC for Carnegie Europe, February 05, 2018 The weaknesses of Ukraine's energy sector since independence in 1991 shine a spotlight on the foundational link between energy security and national security. Ukraine is one of the least energy-efficient countries in Europe—[analysis by the U.S. Energy Information Administration](#) found Ukraine's economy to be two or three times as energy intensive as many neighboring countries, including Poland, Slovakia, and the Czech Republic. While Ukraine's energy sector accounts for about [12.6 percent of its GDP](#), the country's energy intensity is staggering. This creates a massive headwind that drags down national welfare, crowds out economic growth and job creation, and leaves the country vulnerable to political pressure from energy suppliers. Energy is at the heart of every country's economic well-being, and thus its social and political health. A well-functioning energy sector, which enables all other economic activity, is essential to economic and national security. Reforming its energy sector is critical, unfinished business in Ukraine's economic and political agendas. A key question is whether Ukraine is in a position to complete its unfinished energy reform business—the outlook is troubled, but the task is far from simple. To Ukraine's credit, almost every aspect of Ukraine's energy sector—the gas market, the electricity sector, regulatory setup, thermal and nuclear power, and energy efficiency—is in flux and some significant steps forward have been achieved. Nonetheless, transforming Ukraine's energy sector from being a drag on its economy and national security into a positive enabling force will require both well-designed plans and sound implementation pathways that can be sustained. Proceeding without due planning and preparation poses risks of creating ill-conceived market structures or regulations and negative unintended consequences. Proceeding after excessive deliberation, however, allows opponents of reform to marshal their political forces and obstruct needed change. The challenge for Ukraine is to navigate between these counterposed hazards. **NATURAL GAS: THE MOST VISIBLE PART OF THE PICTURE** For more than two decades, natural gas supply and transit—and the related politics—have dominated what is said and written about Ukraine's energy system, both inside the country and out. For much of this period, Ukraine imported most of its gas from Russia, despite Ukraine's remaining prospective deposits and its legacy as one of the earliest centers of the global gas industry. In the absence of a transparent and well-regulated gas market, Ukraine's gas supply and transit relationship with Russia was widely understood to have enriched politicians and oligarchs in both countries. Decisionmaking in Ukraine's gas industry took the form of a series of tactical course corrections, tailored to short-term political expediency rather than a long-term strategy, and executed according to international practices in the

industry. Access the complete article at the link below: <http://carnegieeurope.eu/2018/02/06/r...nished-business-pub-75449>