



UKRAINE AND EUROPEAN GREEN DEAL

ANNUAL MONITORING REPORT 2022





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DiXi Group (coordinator), Resource and Analysis Centre "Society and Environment", Energy Efficient Cities of Ukraine (EECU) Association, Ukrainian Leadership Academy, Women's Energy Club of Ukraine, DZYGA, PLATO.

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SUMMARY

The implementation of the principles and goals of the European Green Deal (EGD) in Ukraine during 2022 was marked by significant difficulties associated with a full-scale Russian military invasion. Similarly, the **Russian war against Ukraine and the economic aggression against the EU countries** led to the revision of many policies and measures related to the EGD in the European Union itself, which affected the processes in Ukraine. Despite all the difficulties, the implementation of the EGD approaches remained among the priorities of the Ukrainian government and parliament throughout the year, and **Ukraine's acquisition of the status of a candidate country** to the EU created additional grounds for maintaining this priority.

The general trends of 2022 are:

- Slowing down the reform of energy markets and **introducing temporary mechanisms to increase security of supply and consumer protection** in wartime, which was partially consistent with practices in the EU;
- **Updating some sectoral strategic planning documents** in the field of energy (for example, the Concept of the introduction and development of the green bond market, the Concept of the introduction of smart networks);
- Continuing the legislative work on the implementation of the relevant EU legislative acts which, at the same time, preserves the shortcomings associated with the **closed decision-making process and the lack of sufficient expert examination** of the regulatory acts for compliance with the EU norms;
- Continuing active **climate diplomacy** and, at the same time, a significant **slowdown in the pace of domestic reforms** in the field of climate policy and environmental protection;
- Obtaining **access by Ukraine to certain financial instruments of the EU (for example, LIFE)**, in particular those related to the areas of the EGD;
- The beginning of the planning of Ukraine's post-war restoration, where priority was given to the approaches of the EGD and, in general, to the acquisition of membership in the EU.

The devastating consequences of the war actualized the issue of a full-fledged rebuilding of Ukraine's economy on a new basis and without past shortcomings, in particular, the lack of quality strategic approaches, regulation of markets, lack of incentives for the introduction of new technologies. We believe that a **quality post-war reconstruction should be in synergy with the processes of acquiring membership in the EU**, where the implementation of the EGD principles is of key importance. However, it should be borne in mind that this process does not cancel or replace the current obligations of Ukraine.

At the current stage, it is necessary to ensure the **full implementation of all existing obligations of Ukraine**, in particular within the framework of the Association Agreement with the EU and the Treaty establishing the Energy Community, as well as to **take into account the latest trends of the EGD** in all areas of policy and legislation in the process of implementing relevant reforms. For example, the adopted Law "On Ensuring Chemical Safety and Management of Chemical Products", draft laws on the reform of industrial pollution do not take into account part of the provisions of the relevant EU acts, and this will require amendments and revision of the acts in the future. Thus, the implementation of the **Association Agreement should acquire a new understanding** – the minimum that Ukraine must fulfill, without waiting for the opening of official negotiations on

sections that will cover, inter alia, the environment, climate change, energy, etc.

Achieving the ambitious goals of post-war restoration and implementation of the EGD principles is impossible **without increasing transparency in the process of decision-making and development of legislative acts**, for effective and broad discussion and determination of optimal approaches. Currently, the practice is widespread when **the public and expert circles are not involved in making important decisions and adopting regulatory acts, or are involved purely formally**, without following procedures and sufficient time for discussion. For example, various stakeholders were widely involved in the development of the draft Ukraine Recovery Plan, but most of the suggestions provided by the public, at least at the level of the energy security group, were not taken into account. The continuation of such a trend will lead to the failure of systemic reforms in the spheres of the EGD and, therefore, to the lack of real progress in European integration and post-war reconstruction of Ukraine. Therefore, we expect a fundamental change in the approach to decision-making.

Another important aspect of EGD implementation should be the full implementation of the EU legislative acts into the national legislation of Ukraine, so that it not only corresponds to the general directions but also to the content and the *acquis* principles. To this end, it is important to ensure a **full and comprehensive expert examination of draft acts** at the stage of development and approval. Therefore, the improvement of relevant expert examination is expected in the work of all government authorities and especially the Cabinet of Ministers and the Verkhovna Rada.

The process of optimization of governmental authorities must take into account these needs and, among other things, provide for **sufficient capacity** to perform European

integration functions. In this context, an important positive signal is the changes introduced in December 2022 to the action plan for the implementation of the Strategy of Public Administration Reform in Ukraine for 2022-2025. They provide for an examination of the institutional capacity and staffing of public authorities responsible for fulfilling Ukraine's obligations in the field of European integration, further strengthening of this capacity, including through advanced training programs for civil servants.

It is important to note other positive aspects of the activities of governmental authorities and the public in Ukraine in the context of EGD implementation. Thus, despite the war, Ukraine continued to **plan the green transformation of the economy** both at the local and national levels. In addition, there was active work in the field of **climate diplomacy**, in particular in the issues of the relevance of post-war green reconstruction and bringing to the international community information about the environmental damage caused by the war, its negative consequences for the climate and the need for green reconstruction and transformation.

A great **joint achievement of the public and the government was also granting Ukraine the status of a candidate country for EU accession**, which was preceded by painstaking diplomatic and technical work. Moreover, in 2022, Ukraine gained access to EU financial instruments, in particular the LIFE and Horizon programs, which should also significantly increase the private and public initiative for the implementation of the EGD in Ukraine. For the effective use of this potential and the new opportunities of Ukraine, it is important to continue the work on increasing the potential and eliminating the shortcomings in the process of EGD implementation in Ukraine, in particular, taking into account the recommendations below.

GENERAL RECOMMENDATIONS

FOR GOVERNMENTAL AUTHORITIES IN UKRAINE

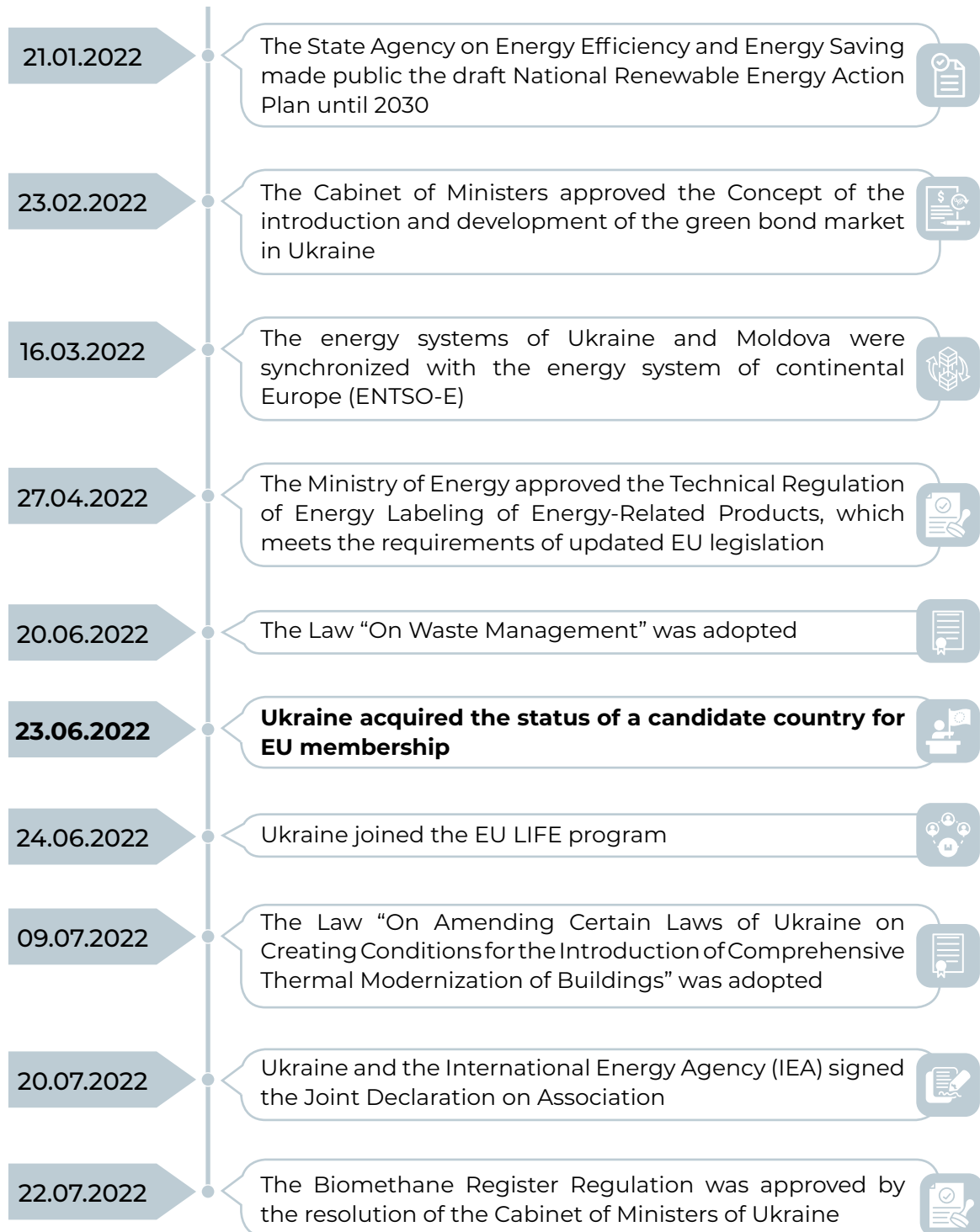
- Continue work on the Ukraine Recovery Plan, which must be **based on green recovery as a general vision**. The plan should take into account the current obstacles to reforming the relevant areas and develop the main approaches to overcome them. Corresponding amendments to Ukraine's strategic planning documents in the areas related to the EGD are also necessary to develop a systemic approach to planning and avoiding contradictions.
- Ensure the **comprehensive involvement of the expert environment and the public** in the process of decision-making and development of regulatory legal acts. In particular, the practice of timely notification of the public about the development of draft regulatory legal acts, holding extensive discussions and recording all proposals, justifications for their adoption, partial acceptance or rejection should be established.
- Establish a **full-fledged expert examination of draft regulatory legal acts on compliance with the EU acquis**. Such expert examination must not only formally assess compliance with EU legislation but also take into account the actual further implementation of the acquis requirements into the Ukrainian legal system and the additional steps necessary for this, including changes to other legislative acts.
- Actively **monitor changes in EU legislation and policies, participate in discussions** and conduct preparatory work on the implementation of these changes in Ukraine. For this purpose, it is expedient to establish an effective exchange of information and a dialogue with EU institutions, using the status of a candidate country.
- Defend **possible exceptions to the general requirements** of EU legislation for Ukraine in cases where this is due to military actions on the territory of Ukraine and the consequences of Russian aggression. At the same time, such exceptions must not terminate the overall long-term objectives of the EU.
- Promote the **use of EU funding**

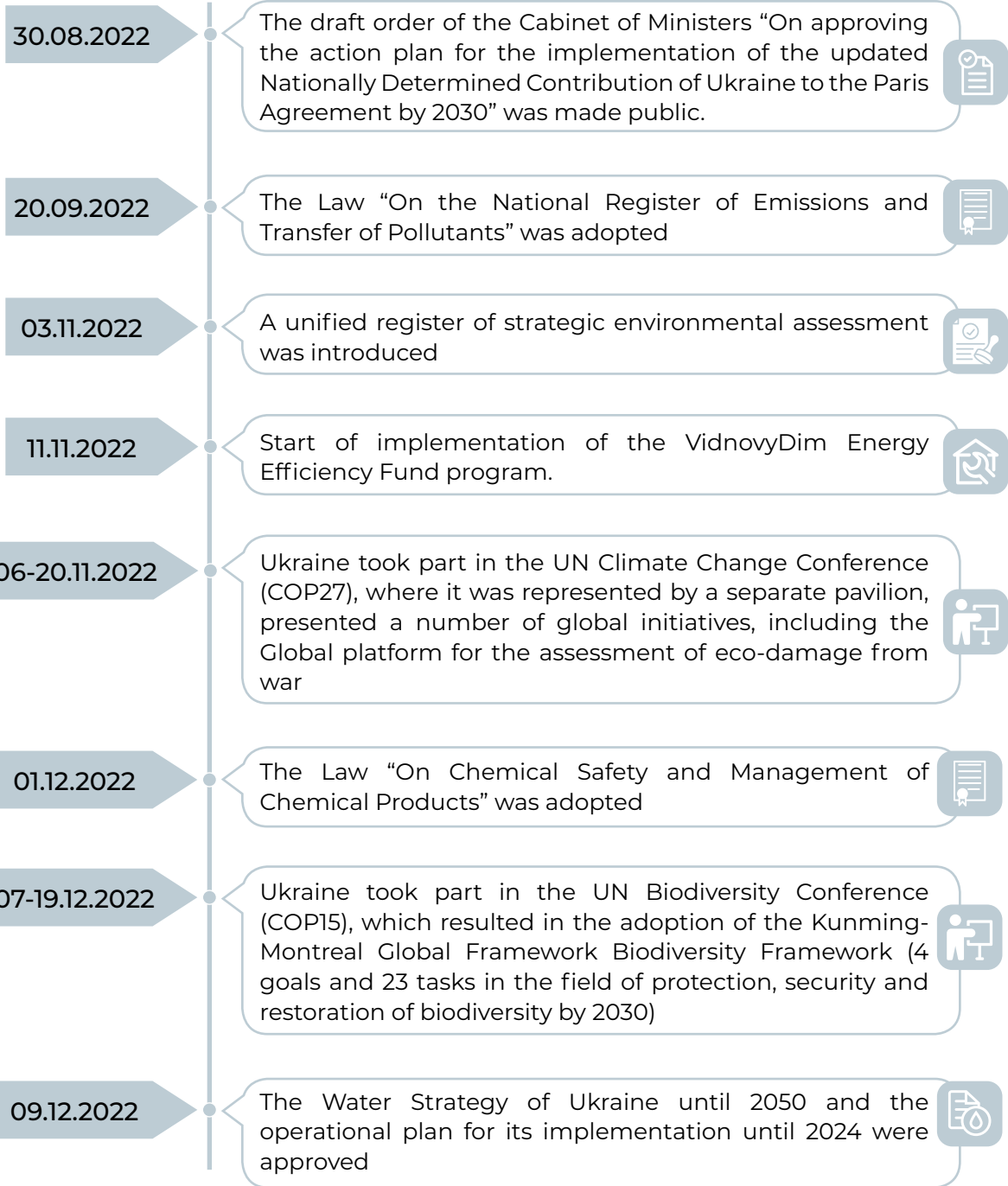
tools for the reconstruction and transformation of Ukrainian cities. This requires systemic support for increasing the capacity of the cities themselves for reconstruction, development and green transformation, providing them with clear mechanisms for obtaining funds.

FOR EU INSTITUTIONS

- Ensure an **effective and inclusive process of involving the public in the activities of the platform for the post-war recovery of Ukraine** as well as ensure the participation of the public and the expert environment **in the process of negotiations on Ukraine's accession to the EU**, in particular, the preparation of negotiating positions and road maps of the necessary reforms within the framework of the relevant chapters of the EU acquis.
- Contribute to the reform of the civil service in Ukraine, in particular by **supporting the capacity of governmental authorities** in matters of European integration and implementation of the requirements of European legislation in the framework of Ukraine's international obligations.
- Carry out active explanatory work on the **possibilities of joining EU funding programs and instruments** for potential applicants from Ukraine as well as to **expand funding opportunities**, namely within the framework of instruments intended for candidate countries for EU accession. The green recovery of Ukraine's economy will require both the use of existing and the **development of new support programs** (in coordination with other partner countries and donors).
- **Include stakeholders from Ukraine (not only from the governmental authorities but also from the public) in discussions about EU policies** in the spheres of the EGD, discussion of legislative changes as well as changes in EU policies that will have an impact on Ukraine.
- Create **conditions for the involvement of Ukrainian cities** in the existing instruments of the EGD, such as the New European Bauhaus, the European Climate Pact and the Green City Accord.

TIMELINE





GENERAL POLITICAL CONTEXT

During 2022, important geopolitical events took place, in particular, the processes of strengthening the common security of European countries in the light of Russian aggression and military invasion of Ukraine intensified. The above processes were also supported at the level of other countries of the world, in particular within the framework of the UN, G7 and other formats of international cooperation.

The military invasion of Ukraine caused an unprecedented energy crisis, a rapid increase in the prices for natural gas and other energy products and overall high inflation. However, the EU managed to organize a systemic response to the crisis, in particular, in joint approaches to diversify energy supply sources and strengthen energy security.

It is also important that the climate policy remained among the main priorities of both the EU and other major economies of the world, which was particularly confirmed during the COP27 in Sharm El Sheikh. Moreover, climate policy is becoming an important tool for long-term energy security by abandoning fossil fuels.

Likewise, during the year, European integration processes, accelerated granting of EU candidate country status to Ukraine and other states (in particular, Moldova) and strengthening of cooperation mechanisms within the European Union continued actively. It is assumed that an important milestone next year will be the opening of accession negotiations between Ukraine and the EU and further fulfillment of the criteria for accession. This process will determine the pace of future reforms and the implementation of the EGD principles in Ukraine.

It is also expected that the military aid to Ukraine and the solidarity of the countries of the world in opposing the Russian invasion will strengthen, which may allow restoring the territorial integrity of Ukraine and achieving the end of the active phase of the war in the course of the next year.

In any of the scenarios, all stakeholders should intensify work on the implementation of the EGD in order to ensure the conditions for the effective post-war recovery of Ukraine.

ENERGY MARKETS

SUMMARY

Russia's full-scale aggression and its consequences practically paused the development of gas and electricity markets in Ukraine. In certain areas of regulation, there was a rollback of already implemented reforms – a return to strict price regulation in the natural gas market, tougher lower and upper price caps in the electricity market.

At the same time, there was some progress, though insignificant, on some issues. Part of this progress was related to the implementation of the previous-generation EU regulatory acts into Ukrainian legislation (implementation of the ITC mechanism), while others were more related to the EGD goals (development of the biomethane market).

RECOMMENDATIONS

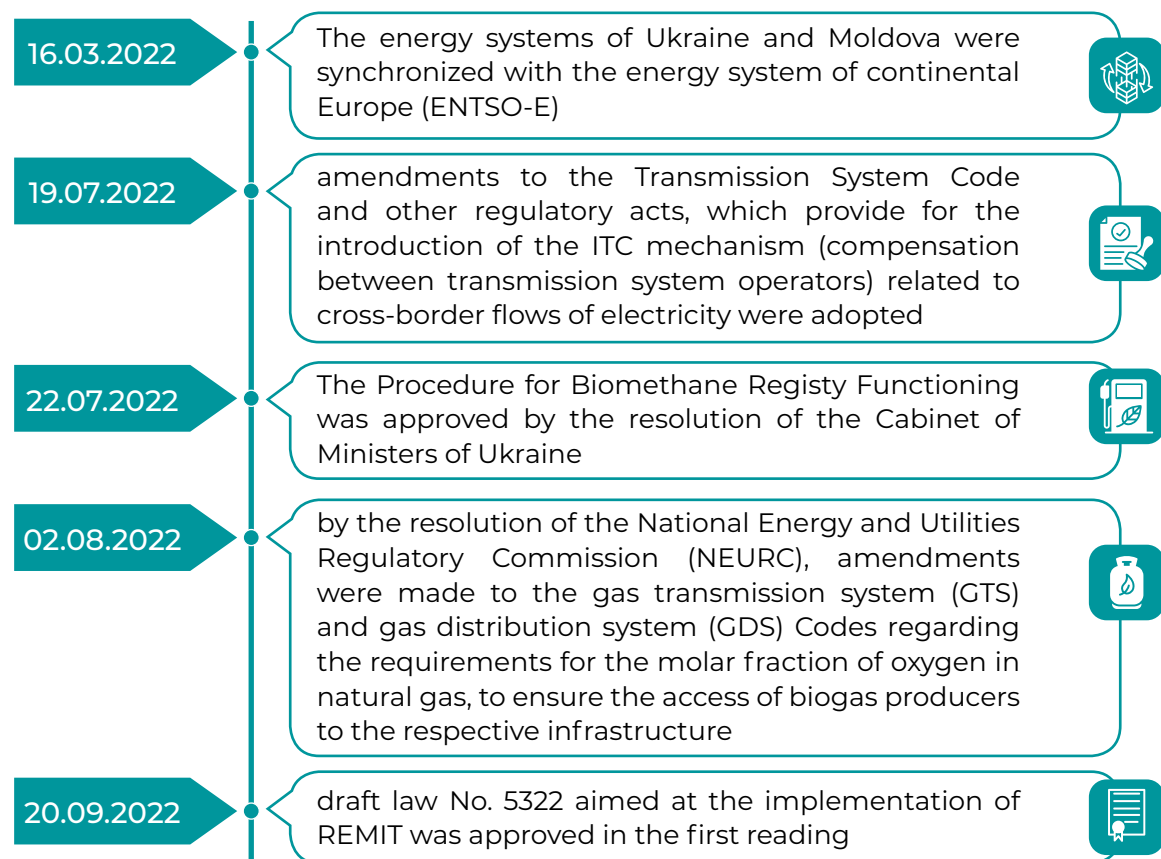
The Verkhovna Rada of Ukraine: adopt all acts necessary for the implementation of the European Union's Third Energy Package, primarily Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency (REMIT) and Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure (updated version – Regulation (EU) 2022/869);

The Government of Ukraine (namely, the Ministry of Energy), the National Commission for State Regulation of Energy and Public Utilities:

- to jointly develop a procedure for a gradual transition to market pricing for gas and electricity, which would take into account the circumstances of wartime, Ukraine's ambitions in respect of renewable energy development and the requirements of relevant EU acts;
- for the period of such a transition, to develop methods for calculating regulated prices for electricity and gas, which would allow to balance the interests of various market participants, improve its liquidity without imposing an excessive financial burden on final consumers;
- to introduce a formal Ukraine-EU partnership aimed at the development of the biomethane industry in the country. The partnership is important for the unification of the functioning of the biomethane markets in Ukraine and the EU, Ukraine's acquisition of industry regulation experience;
- to develop, in consultation with all stakeholders, draft legislative acts aimed at the implementation of market directives and regulations of the so-called fourth energy package of the EU (Clean energy for all Europeans package).

The Government of Ukraine (namely, the Ministry of Energy, the Ministry of Social Policy, the State Inspectorate for Energy Supervision, the State Service of Ukraine on Food Safety and Consumer Protection), National Energy and Utilities Regulatory Commission: to develop and approve the Procedure for the Protection of Vulnerable Customers, which would allow to determine the categories of vulnerable customers, the procedure for their accounting, measures for monitoring and state control of belonging to such categories and special protection measures (in particular, the scope of targeted assistance).

TIMELINE



Main events

In the reporting year, events, decisions and regulatory acts related to the gas and electricity markets were aimed primarily at responding to Russia's full-scale aggression and its financial, economic and security consequences. In general, there was a rollback in market reforms, which was characterized by a number of *general trends*.

Opportunities for quality supervision and monitoring of energy markets were narrowed, as the Verkhovna Rada, the Cabinet of Ministers and the National Energy and Utilities Regulatory Commission (NEURC) adopted a number of decisions that limited such capacity. Thus, by NEURC resolution, scheduled and unscheduled inspections of licensees were [canceled](#) for most of 2022. At the end of the year, this restriction [applies](#) only to those licensees who are located in temporarily occupied territories or in

areas of hostilities. According to the Law of Ukraine [“On Protecting Interests of Entities Submitting Reporting and Other Documents During Martial Law or State of War”](#), reporting entities (including licensees of the NEURC and respondents of the State Statistics Service) are allowed to submit relevant documents within 3 months from the day of martial law termination. Such a decision significantly limits the Regulator in the collection of market data, which, in turn, affects the quality of regulation.

The protection of household consumers against price fluctuations on the energy markets was strengthened. The economic consequences of the war forced the political leadership of the country to resort to quite active measures to protect household consumers. The main decisions in this sense are the imposition in March of a [moratorium](#)

on the discontinuance of utility service delivery and the charging of penalties and late fees for their non-payment, and in July 2022 – a [moratorium](#) on raising tariffs for gas, its distribution, heat supply and other utilities.

The main trends of the *gas* market were:

Return to strict price regulation in the wholesale and retail markets. After a period of quasi-regulation of gas prices in 2021 (through [basic annual offers](#) and [three-year contracts for heat producers](#)), the government returned to direct regulation for almost all categories of consumers. In March 2022, the supply of gas on preferential, non-market terms was applied [initially](#) to 12 TPPs, [later](#) to distribution system operators (DSOs) to cover their operational and technological consumption/losses, [as well as](#) to household consumers. In July, the Cabinet of Ministers adopted a [resolution](#) by which direct price regulation was applied to heat producers and public institutions. In December, the scope of public service obligations (PSO) regime was [extended](#) to the whole thermal electricity generation. It should be noted that along with low prices, the recipients of preferential gas received a number of obligations in terms of guaranteeing payments for the received resource (the need to enter into agreements on voluntary write-off of funds, etc.). The volumes of gas supplied to various categories of consumers are strictly limited, for example, by historical volumes of consumption.

Continuation of decline in liquidity of the wholesale market, increase in debts. A drop in payments, a reduction in market volumes due to destruction and a decrease in consumption expectedly led to a deterioration in the financial condition of market participants, an increase in already significant debts of DSOs and suppliers as well as heat producers. At the same time, historical debts in Ukraine are planned to be settled through a [complex set-off mechanism](#), which will also involve significant allocations from the state budget (such allocations were to [amount](#) to UAH 76 billion in 2022).

Problems of exchange trading transparency. Despite strict regulation of almost all segments of the natural gas market, there remained a share of the market where competitive sales and purchase of gas were possible. This market segment is represented by the sale of gas by private production companies, which [lost](#) their large industrial consumers as the war unleashed. In July 2022, [amendments](#) to the Law “On the Natural Gas Market” required Naftogaz to purchase gas from private producers “in a transparent and non-discriminatory manner at stock and/or over-the-counter auctions (tenders)”. However, the platform chosen by Naftogaz for such trading is [non-transparent](#), as it does not have its own website and commodity exchange license, which is a violation of the relevant legislation.

Significant concentration in the retail segment and in gas distribution activities, the growing role of Naftogaz. In May 2022, the corporate rights seized from 26 DSOs were [transferred](#) to the National Agency of Ukraine for Identifying, Tracing and Management of Assets Derived from Corruption and Other Crimes (Asset Recovery and Management Agency, ARMA). Subsequently, the Cabinet of Ministers [transferred](#) these assets to Chornomornaftogaz (a subsidiary of Naftogaz of Ukraine). During the year, Naftogaz [did not have effective control](#) over the acquired assets but [created](#) a new subsidiary to manage gas distribution network called “Gas Distribution Networks of Ukraine”. In 2023, Naftogaz is going to exercise full control over the majority of gas distribution in Ukraine, which may require verification of compliance with the rules of unbundling (separation of supply activities from transportation and distribution).

In addition, effective June 2022, almost all household consumers (8.8 million) were [transferred](#) to the suppliers of last resort – a subsidiary of Naftogaz (GC Naftogaz of Ukraine LLC). The reason is that the historical suppliers (the so-called gazzbuts) could not fulfill the conditions for receiving preferential gas under the

new PSO model and dropped out of the market per se. Thus, Naftogaz [controls](#) almost the entire retail segment of the gas market.

The main trends of the *electricity* market were:

Continuation of price restrictions in the wholesale electricity market. As of the end of the reporting year, the wholesale electricity market continued to be subject to restrictions on both prices (upper and lower price caps) and volumes of electricity traded in various segments. The main restrictions are set out in the NEURC [resolution](#) adopted on 25 February “On ensuring the stable functioning of the electricity market, including the financial condition of electricity market participants during the period of martial law in Ukraine”, which was repeatedly changed and supplemented with new restrictions during the war. The NEURC [adopted](#) methods for determining significant price fluctuations and setting limit prices on organized market segments (DAM, IDM and BM) only in September 2022, and new levels of price caps were proposed at the end of the year and underwent public discussion.

The reduction of payments to producers of electricity from RES, enshrined in respective regulation. On 15 June, the Ministry of Energy adopted an [order](#), which provided for a significant reduction in payments under the feed-in tariff for the period of martial law. Payments in 2022 are made based on the availability of funds in the Guaranteed Buyer’s account, in particular based on the results of electricity sales, monthly (every 10-day) payments for solar plants are 18% of the weighted average feed-in tariff in 2021, for wind plants – 18%, for hydropower producers – 35%, biogas producers – 45%, biomass producers – 75%; the remaining funds should be distributed among RES producers in proportion to these indicators.

Synchronization of the Ukrainian energy system with the European one and further commercial export of electricity. On 16 March, the Integrated

Power System (IPS) of Ukraine and Moldova were [synchronized](#) with ENTSO-E, which made it possible to eliminate the risks associated with Russian and Belarusian influence on the stability of the Ukrainian energy system. It also opened opportunities for increasing cross-border trade with EU countries, in particular exports from Ukraine, which were carried out before the first massive missile strikes on the energy system on 10 October 2022. The lion’s share of export revenues was directed to the financing of the Guaranteed Buyer within the framework of the [new](#) changes to the PSO regime.

Despite these trends, which mainly marked a backtracking on European practices of regulation of energy markets, there were point changes that, on the contrary, contributed to their introduction, including in the fairway of the European Green Deal.

Thus, two decisions were made that contribute to the **formation of a full-fledged biomethane market in Ukraine**. The first is the adoption by the Cabinet of Ministers of the [Procedure for the functioning of the biomethane register](#), which creates regulatory prerequisites for accounting for the production, transportation and consumption of biomethane, and the creation of a biomethane guarantee of origin system. The second is the [amendment of the GDS and GTS Codes](#), which ease the requirements for the quality of biomethane when it is transported by main and distribution networks by increasing the permissible molar fraction of oxygen in the gas to 0.2 mol. % for GTS and up to 1.0 mol. % for GDS. This opens up greater opportunities for the transportation of Ukrainian-produced biomethane through main and distribution gas pipelines. By the way, in the [working document](#) that supplemented the communiqué of the European Commission REPowerEU and was adopted in May 2022, Ukraine was mentioned as one of the possible partners of the EU in the development of the biomethane industry.

The adoption of regulatory acts has become important in the power engineering sector, which enable the **introduction of the ITC mechanism in Ukraine**. The ITC is a mechanism for compensating a transmission system operator for costs related to cross-border flows of electricity. The introduction of the mechanism is a fulfillment of the requirements of Regulation (EU) No 838/2010, which can contribute to more active cross-border trade in electricity, which is important in times of war.

An important step in achieving the transparency of energy markets should be the adoption of a draft law that implements the provisions of Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency (REMIT) into Ukrainian legislation. This act provides for the introduction of anti-

abuse tools, in particular by giving the Regulator greater powers. REMIT also sets out requirements for the disclosure of inside information by participants in the electricity and gas markets. In September 2022, the Verkhovna Rada [adopted](#) the relevant draft law No. 5322 in the first reading, its further consideration is expected in 2023.

Moreover, energy markets were mentioned in the [relevant section](#) of the draft Ukraine Recovery Plan, in particular, the need for transition to market pricing was determined, but without specifying respective regulatory means and planning tools. Clarifying the manner and means of transitioning to market pricing for gas and electricity is essential to ensure the viability and enforceability of the Recovery Plan.

EU policy

In 2022, the actions of the EU in the energy markets were mainly aimed at mitigating the consequences of the gradual phaseout of Russian energy carriers. The first fruit in this sense was the [REPowerEU plan](#), which launched a series of initiatives that were implemented and continued in new regulatory documents.

In particular, in the context of the gas market, it is about setting mandatory storage filling targets provided for by [Regulation \(EU\) 2022/1032](#) of June 2022, the voluntary and mandatory reduction of gas consumption established by [Regulation \(EU\) 2022/1369](#) of August 2022, the joint procurement of gas for the diversification of import sources (the EU Energy Platform initiative defined by [Regulation \(EU\) 2022/2576](#) of December 2022).

In the electricity market, [Regulation \(EU\) 2022/1854](#) of October 2022 also introduced restrictions on electricity demand during peak hours to reduce price pressure. In

addition, the Regulation provides for the redistribution of surplus profits of certain categories of electricity producers for the purpose of mitigating the consequences of the record increase in energy prices in the EU (in particular, measures to support vulnerable customers).

Exceptional market circumstances also forced the EU to temporarily depart from existing rules on state aid for businesses hit by record energy prices, establishing a [temporary regulatory framework](#) for simplified funding, which was adopted in March 2022.

There is also a discussion in the EU about reforming the existing design of [electricity](#) and [gas markets](#) to better meet the challenges posed by the green transition and the consequences of Russian aggression. The results of this discussion will have practical consequences for Ukraine as well, in particular, the process of acquiring EU membership.

RENEWABLE ENERGY SOURCES

SUMMARY

Ukraine's initiatives and policies regarding the development of the RES sector, in general, even in spite of the war and the great losses of the sector (90% of wind capacities and 40-50% of solar capacities are occupied, damaged or destroyed), continue to move in accordance with European policies and initiatives of the European Green Deal, taking into account the goals of the EU; work is underway on strategic planning for the development of green, in particular, hydrogen energy.

Hydrogen initiatives are also fully in line with the policies within the framework of the EGD, since the European Commission identified Ukraine as one of the priority partners in the EU Hydrogen Strategy. In addition, in the REPowerEU plan, the European Commission envisages the creation of several hydrogen import corridors in the EU, one of which is with Ukraine, as soon as the conditions for this are met.

RECOMMENDATIONS

The Verkhovna Rada of Ukraine: To accelerate the consideration and adoption of government legislative initiatives to introduce a RES incentive system based on auctions and contracts for difference (based on the Feed-in-Premium scheme), as well as a net billing mechanism in order to achieve a more flexible, decentralized energy system, increase distributed generation from RES, in particular by creation of a class of prosumers (consuming producers of energy);

The Government of Ukraine (Ministry of Energy, State Agency on Energy Efficiency and Energy Saving):

- to approve the [National Renewable Energy Action Plan until 2030](#), which should include incentives for the development of the RES sector in accordance with the EGD policies, in particular, the further development of generation from renewable energy sources by small consumers
- to ensure revision of key assumptions and indicators of the plan in the post-war period, taking into account new economic conditions.

The Government of Ukraine in the context of projects of the Ukraine Recovery Plan:

- to review the proposed measures to increase RES generation in terms of increasing ambition for the period until 2026, in particular in the restoration of destroyed RES capacities and the transformation of "traditional" generation capacities;
- to provide for the launch of a wider support program for household consumers, small businesses for the deployment of RES installations.

The Government of Ukraine (Ministry of Energy): to complete the development and approve the Hydrogen Strategy of Ukraine, which would provide for compliance with the EU's hydrogen initiatives and its plans to involve stakeholders from Ukraine in the elements of the added value chain in the EU.

TIMELINE



Main events

On 23 February, the **Cabinet of Ministers approved** the Concept of the introduction and development of the green bond market in Ukraine in order to attract financing for environmental projects. Such a market would contribute to attracting financing to RES projects, energy efficiency, reducing the consumption of fuel and energy resources and also reducing emissions. However, the next day, 24 February, Ukraine’s plans to stabilize the financial market, service and reduce debts as well as and introduce the green bond market were interrupted by the war.

Therefore, the initiated and approved policies of Ukraine regarding the development of the RES sector are considered not only through the prism of the Sustainable Development Goals but also through the lens of security

challenges. However, even during the time of military and energy terror by russia, while ensuring the operation of critical infrastructure facilities, Ukraine also does not abandon opportunities for the development of the RES sector.

At the beginning of 2022, in order to implement the provisions of the RED II Directive, a draft National Renewable Energy Action Plan until 2030 was developed, which will determine the development of the industry for ten years and will be an integral part of the integrated National Energy and Climate Plan. The draft document specifies that the share of RES should increase to the level of 27% by 2030, including in power engineering – up to 25%, heating and cooling – up to 35%, transport – up to 14%. In addition, the State Agency on Energy Efficiency and Energy Saving of


Ukraine proposes to ensure the further development of renewable energy on a competitive and market basis, including within the framework of the auction support system, namely under the Feed-in-Premium model (the relevant draft law was **developed** by the Ministry of Energy in August 2021). As of December 2022, the draft Plan was **approved** by the Ministry of Energy, coordinated with stakeholders and revised with due regard to comments.

Work is also underway to update primary legislation to introduce guarantees of origin for all types of green energy. In this area, a partnership has been established with the Secretariat of the Energy Community to create a regional hub for guaranteeing the origin of energy. The State Agency on Energy Efficiency and Energy Saving of Ukraine emphasizes the need to introduce a system of issuing guarantees of the origin of electricity from alternative energy sources, including those consumers who build RES installations for their own consumption.

In February 2022, the Verkhovna Rada of Ukraine **adopted** a law on amendments to certain laws on the development of energy storage systems and their operators. One of the key goals of the law is to regulate the possibility of using energy storage systems (ESS) by consumers, producers of electricity, including RES generation, under certain conditions – by transmission and distribution system operators. In addition, in June, the National Energy and Utilities Regulatory Commission (NEURC) **approved** the license conditions for energy storage activities, and in **July** – the license conditions for the implementation of energy storage business activities, which will ensure the use of ESS, balance the operation of the energy system and increase the stability of electricity supply to consumers.

In order to stimulate the development of distributed generation, in July 2022, the Ministry of Energy **initiated** the draft law “On Amending Certain Laws of Ukraine to Improve the Conditions for Supporting the Production of Electricity from Alternative Energy Sources by Consumer Generating Installations”. The draft law proposes to replace the fixed and, in the opinion of government officials, inflated green tariff for consumers to introduce a new model of net billing support, which will be focused on covering own consumption and will not require additional financial costs from the state and/or other consumers. According to the authors, the introduction of a new model is necessary to guarantee realistic and stable support for the production of energy from RES in the future.

In addition, it is worth noting certain initiatives in the development of the green hydrogen sector in Ukraine, with the aim of integrating Ukraine into the European processes of decarbonization and entering the EU markets. Thus, in September 2022, the State Agency on Energy Efficiency and Energy Saving of Ukraine **joined** the European Clean Hydrogen Alliance for the purpose of building a hydrogen economy as one of the pillars of Ukraine’s reconstruction, its energy transformation, and forming the basis for the decarbonization of the economy. In turn, in May, Ukrhydroenergo **signed** a Memorandum of Understanding with MAN Energy Solutions, Germany (supplier of hydrogen production plants) and a global supplier of equipment and services for the Andrytz Hydro HPP, which provides for the development and implementation of projects for the production of green hydrogen in Ukraine. As of the end of 2022, this project is already being implemented. Meanwhile, in October, Ukrhydroenergo **signed** a memorandum with the Galnaftogaz concern, according to which the companies will share a vision for the development and



implementation of projects for the production, transportation and sale of green hydrogen.

At the beginning of July 2022, Ukraine **presented** the draft Ukraine Recovery Plan at the International Ukraine Recovery Conference in Lugano. As part of its preparation, the National Council for the Recovery of Ukraine from the War was **established** in April 2022 (Presidential Decree No. 266/2022 dated 21 April 2022), and the selection of proposals for priority reforms and strategic initiatives **began** in August 2022.

Analyzing the list of proposed **national projects** within the framework of the document, among projects for the development of the RES sector with estimated financing, only a few are indicated, in particular, the construction of 5-10+ GW of capacity (depending on the volume of exports) and 30+ GW for the production of hydrogen, which is provided for the period from 2026 to 2032. Thus, one may get the impression that there will be no increase in renewable energy capacity in Ukraine in

the period until 2026, and the sector will be developed at the expense of investing in nuclear energy and increasing gas production.

The proposed projects and their ambition are not sufficient in view of the goals to increase the share of RES. In particular, among the proposals, the only project that offers a solution to increase the share of RES on sites is the replacement of gas boilers with heat pumps. This can be a good solution for meeting priority needs with the help of green technologies, however, it does not correspond to the desire to increase the share of RES in Ukraine in the long run.

Thus, despite the high ambition of individual steps, in particular projects to increase RES capacities, energy accumulation systems, development of hydrogen and biomethane technologies (developments of the Energy Security working group), **gaps remain** regarding an increase in the share of RES generation and other measures to decarbonize the energy sector in the period until 2026.

EU policy

During 2022, EU countries saw an increase in measures to implement RES against the background of the energy crisis caused by the Russian Federation's full-scale invasion of Ukraine. High and unstable prices for energy carriers stimulated attention to increasing consumption of energy from RES, in particular the substitution of fossil fuels for hydrogen technologies.

Thus, at the beginning of March, the European Commission presented the [REPowerEU](#) initiative, which aims to end the EU's dependence on Russian fossil fuels by 2030. And on 18 May, the [REPowerEU plan](#) was presented, with one of the goals - accelerate the introduction of RES in electricity production, industry, construction and transport.

On 18 May, the European Commission, as part of the REPowerEU plan, published [Recommendations](#) on accelerating the procedures for granting permits for RES projects and facilitating the conclusion of electricity sales and purchase agreements. According to the recommendations, EU member states can create special zones for the deployment of RES capacities under a shortened and simplified procedure for obtaining permits in areas with a lower environmental risk.

However, the situation on the energy markets has deteriorated since then, prompting the need for urgent measures. So, on 9 November, the European Commission proposed a draft [Regulation](#) to accelerate the deployment of renewable energy. According to the proposal, RES installations will be

considered to be of higher public interest, allowing the new permitting procedures to benefit with immediate effect from a simplified environmental assessment. On 15 December, the European Commission's plans to stimulate the use of RES [were supported](#) in the European Parliament (with certain amendments).

On 18 October, the European Commission [published](#) the Digitalisation of Energy Action Plan. It aims to improve the efficient use of energy resources, facilitate the integration of RES into the network and save costs of consumers and companies through new technologies. As stated in the Plan, in order to increase the efficiency and "intelligence" of networks, the European Commission will support closer cooperation between operators of transmission and distribution systems to create a virtual model (digital "twin") of the European electricity grid, which will improve the availability, stability and sustainability of the EU energy grid.

In 2022, the European Commission intensified work in the development of the hydrogen market. Thus, cooperation in the field of green hydrogen was deepened with [Japan](#), [Egypt](#), [Namibia](#), [Kazakhstan](#) and [Vietnam](#) through the conclusion of political declarations on strategic partnership. The European Commission also approved two projects ([1](#) and [2](#)) of common interest in the hydrogen industry, which will contribute to the achievement of the EU's decarbonization goals, as stipulated in the EU Climate Law, and will contribute to the implementation of the REPowerEU plan.

ENERGY EFFICIENCY

SUMMARY

Focusing on the EGD policies and the ambitious goals of the REPowerEU plan as well as following the obligations under the Association Agreement with the EU, in 2022, despite the war, Ukraine continued to work on the development and adoption of the necessary legislative framework to stimulate the systemic development of an energy-efficient economy.

Based on EU experience, energy audits, energy management systems, energy efficiency certification of buildings, eco-design and energy labelling of energy-related services, green financing tools, etc. are being implemented.

RECOMMENDATIONS

The Government of Ukraine: to accelerate the adoption of 11 technical regulations on eco-design requirements, in particular for refrigeration devices, transformers, household washing machines and household washer-dryers, light sources and separate control mechanisms, household dishwashers and electronic displays.

The Government of Ukraine in the context of drafts of the Ukraine Recovery Plan:

- to take into account the compliance of projects and proposed measures with the current EU directives as well as the European Commission's proposals to increase the ambition of energy efficiency goals by 2030 (on the basis of the REPowerEU plan).

TIMELINE



Main events

In the last days of 2021, the Government of Ukraine [approved](#) the National Energy Efficiency Action Plan until 2030, and also approved a 3-year action plan for its implementation in 2021-2023. This plan, which was developed in accordance with the Directive 2012/27/EU, defines the following national goals – the primary and final energy consumption in Ukraine in 2030 shall not exceed 91.5 million tons of oil equivalent and 50.5 million tons of oil equivalent, respectively. The plan also provides for a number of measures to increase energy efficiency in the residential and public sectors, transport, industry and energy.

In addition, a large number of initiatives in 2022 were carried out in pursuance of the Law “On Energy Efficiency” (adopted in 2021), which implements most of the requirements of Directive 2012/27/EU.

Thus, in May 2022, the government [cancelled](#) the state expert examination on energy saving, and European instruments, in particular, energy management and energy audit, should “come” to replace it.

Moreover, in May, the State Agency on Energy Efficiency and Energy Saving of Ukraine [developed](#) the Procedure for forming, making public and updating the list of energy service providers and potential energy service facilities. As you know, the energy service is one of the effective tools due to which governmental authorities can attract private investments in the modernization and improvement of the level of energy efficiency of budget-sustained institutions as well as other buildings and facilities, which is very important in the reconstruction and restoration of the country, taking into account European standards.

The following should be noted in the sphere of energy management. In November, the government [approved](#) the Procedure for submitting information on the certification of energy and/or

environmental management systems of economic entities to the State Agency on Energy Efficiency and Energy Saving. Thus, a register of enterprises that have implemented certified energy and/or environmental management systems will be created in Ukraine. In addition, the Agency [launched](#) a large-scale campaign to implement energy management systems in government bodies and subordinate institutions. Thus, as of the end of 2022, [according to](#) the State Agency on Energy Efficiency and Energy Saving, 44 governmental authorities have started work on the implementation of energy management systems. About 20% of all buildings that are used and/or owned by public authorities are covered by energy monitoring. In addition, energy monitoring extends to 69% (14 thousands) of buildings that are used and/or owned by 17 region military administrations. Furthermore, more than 170 ESCO contracts were entered into during the year.

The Agency is also [working](#) on the development of a government decision on the establishment and operation of the National Energy Efficiency Monitoring System. It is assumed that the system will work on the basis of the latest digital technologies, with the use of technical means that ensure the collection, processing and storage of information on the use of energy resources for further monitoring and evaluation of the efficiency of their use.

In the sphere of energy audit, taking into account the requirements of the Law “On Energy Efficiency”, the State Agency on Energy Efficiency and Energy Saving of Ukraine is [working on the development](#) of a number of draft laws, in particular, in the autumn of 2022, a draft resolution of the Cabinet of Ministers of Ukraine was [developed](#) “On establishing the amount of the fee for the independent verification of the energy audit report at the request of the customer of the energy audit”, which will make it possible to implement the norm of EU legislation

regarding independent verification of the quality and efficiency of energy audits based on reports on their conduct; and a draft government resolution was [developed](#) providing for the approval of the Procedure for maintaining and making public a database of extracts from the energy audit report, as well as: independent monitoring of extracts from energy audit reports and independent verification of energy audit reports, which will allow to systematize and increase the transparency of the processes of maintaining and making public a database of extracts from energy audit reports.

In addition, in November 2022, the government [approved](#) the Procedure establishing the mechanism for the provision by qualification organizations to the State Agency on Energy Efficiency and Energy Saving of Ukraine of information on confirmation of the qualification of energy auditors, cancellation of a qualification certificate or refusal to issue it.

It is also worth noting that despite the war and active hostilities in the territory of Ukraine, the implementation of European norms regarding eco-design and labelling of energy-related products continues in accordance with the updated EU legislation. Thus, as of September 2022, 16 technical regulations on energy labelling of energy-related products and 29 technical regulations have already been [adopted](#) in the field of eco-design implementation in Ukraine, in particular:

- technical regulation on eco-design requirements for local solid fuel heaters, (by [resolution](#) of the Cabinet of Ministers No. 532 dated 3 May 2022);
- technical regulation of energy labelling of energy-related products, in accordance with the updated EU legislation (by [order of the Ministry of Energy](#) No. 164 dated 27 April 2022);
- technical regulation on eco-design requirements for air heaters, coolers, high-temperature industrial coolers and fan coils (by [resolution](#) of the Cabinet of

Ministers No. 1023 dated 13 September 2022).

[Amendments](#) were made to:

- technical regulation on the system for determining requirements for eco-design of energy-related products (resolution of the Cabinet of Ministers No. 804 dated 3 October 2018);
- of the technical regulation on eco-design requirements for small, medium and large power transformers (by resolution of the Cabinet of Ministers No.152 dated 27 February 2019).

Part of the resolutions approving technical regulations will enter into force six months after the termination or abolition of martial law in Ukraine. It is also [expected](#) to adopt 11 technical regulations on eco-design requirements, in particular for refrigeration devices, transformers, household washing machines and household washer-dryers, light sources and separate control mechanisms, household dishwashers and electronic displays.

Another set of energy efficiency policies worthy of attention are policies in the context of recovery. On 9 July 2022, the Law “On Amending Certain Laws of Ukraine on Creating Conditions for the Introduction of Comprehensive Thermal Modernization of Buildings”, which is designed to create conditions for comprehensive thermal modernization of residential and public buildings, was [adopted](#). Later, on 18 October, the government [adopted](#) a resolution providing for the launch of the VidnovyDIM program within the framework of the Energy Efficiency Fund. This resolution was adopted by the government in pursuance of the [Law](#) and [provides](#) for the launch of a program to restore residential buildings damaged as a result of military operations, the draft of which has been under [development](#) since May. The VidnovyDIM program started already on 11 November 2022, and on 29 November, the Energy Efficiency Fund and the International Finance Corporation (IFC) entered into an

agreement on the allocation of EU grants in the amount of up to EUR 25 million for the repair of high-rise buildings damaged as a result of the war within the framework of this program.

The launch of the VidnovyDIM program can be considered a certain stage in the restoration of the Energy Efficiency Fund's activities in the new realities in which the country is forced to live, and also with the important goal of implementing housing restoration projects. At the same time, one should not deviate from the main goal of the Fund, which means that the restored housing should demonstrate better energy and operational characteristics.

Analyzing the draft Ukraine Recovery Plan in terms of increasing energy efficiency, it is worth noting that the [developments](#) contain a positive signal to the issues of reconstructing the destroyed infrastructure, since, as noted,

the assessment takes into account the needs for recovery according to the Build Back Better principle, which includes an additional need to ensure the energy efficiency of buildings and industries; construction of bomb shelters; technological modernization. Thus, the construction must be in compliance with modern standards for energy efficiency (compliance with requirements for thermal insulation). This, in turn, is in line with EU practices and policies to promote energy efficiency. Despite the fact that the proposed measures to fulfill the set goals and corresponding projects do not contradict the approximation of Ukrainian legislation to the EU, in particular, they take into account the provisions of Directive 2010/31/EU on the energy performance of buildings, Directive 2012/27/EU on energy efficiency and Directive (EU) 2018/2002 on energy efficiency, they are still characterized by the insufficient ambition of the goals until 2030.

EU policy

In 2022, the EU proposed raising the 2030 energy efficiency target to 39% (against the 2018 target of 32.5%) compared to the 2007 base year. This target involves the revision of the Directive 2012/27/EU on energy efficiency in the framework of following the general ambition of reducing emissions by 55% from the level of 1990 until 2030.

The new, more ambitious energy efficiency targets are also reflected in the [REPowerEU plan](#) mentioned above. In particular, saving energy is recognized as the fastest and cheapest way to overcome the energy crisis and reduce bills for households in the EU. The European Commission proposes to strengthen long-term energy efficiency measures, in particular to increase from 9% to 13% the mandatory energy efficiency target (set by Directive 2012/27/EU on energy efficiency compared to the forecasts of the base scenario of 2020) as part of the Fit for 55 package.

Moreover, in 2022, the European Commission proposed to the European Parliament and the Council of the EU to ensure additional savings and increase energy performance in buildings through the [revision of Directive 2010/31/EU](#) as well as to adopt a new [Regulation on Ecodesign for Sustainable Products](#).

In addition, active work continues in the EU to integrate energy efficiency requirements into the broader framework of the circular economy, resource efficiency, durability and maintainability of products. So, on 30 March, the European Commission published the Ecodesign and Energy Labelling [Working Plan 2022-2024](#). The plan covers both the area of work on the requirements for new products and those requirements that have been worked on in previous years, in particular for consumer electronics products (smartphones, tablets and solar batteries).

CLIMATE POLICY

SUMMARY

During 2022, the development of climate policy slowed down, not least due to the war unleashed by the Russian Federation. Stagnation can be observed in the development and adoption of legislation, namely in those areas covered by the EGD in particular and the EU *acquis* in the climate sphere.

Currently, there is no clear link between the activities of the relevant ministry in terms of the development of regulatory acts and the developments of the working group that prepared the materials for the draft Recovery Plan, in particular, the list of regulatory and legal acts

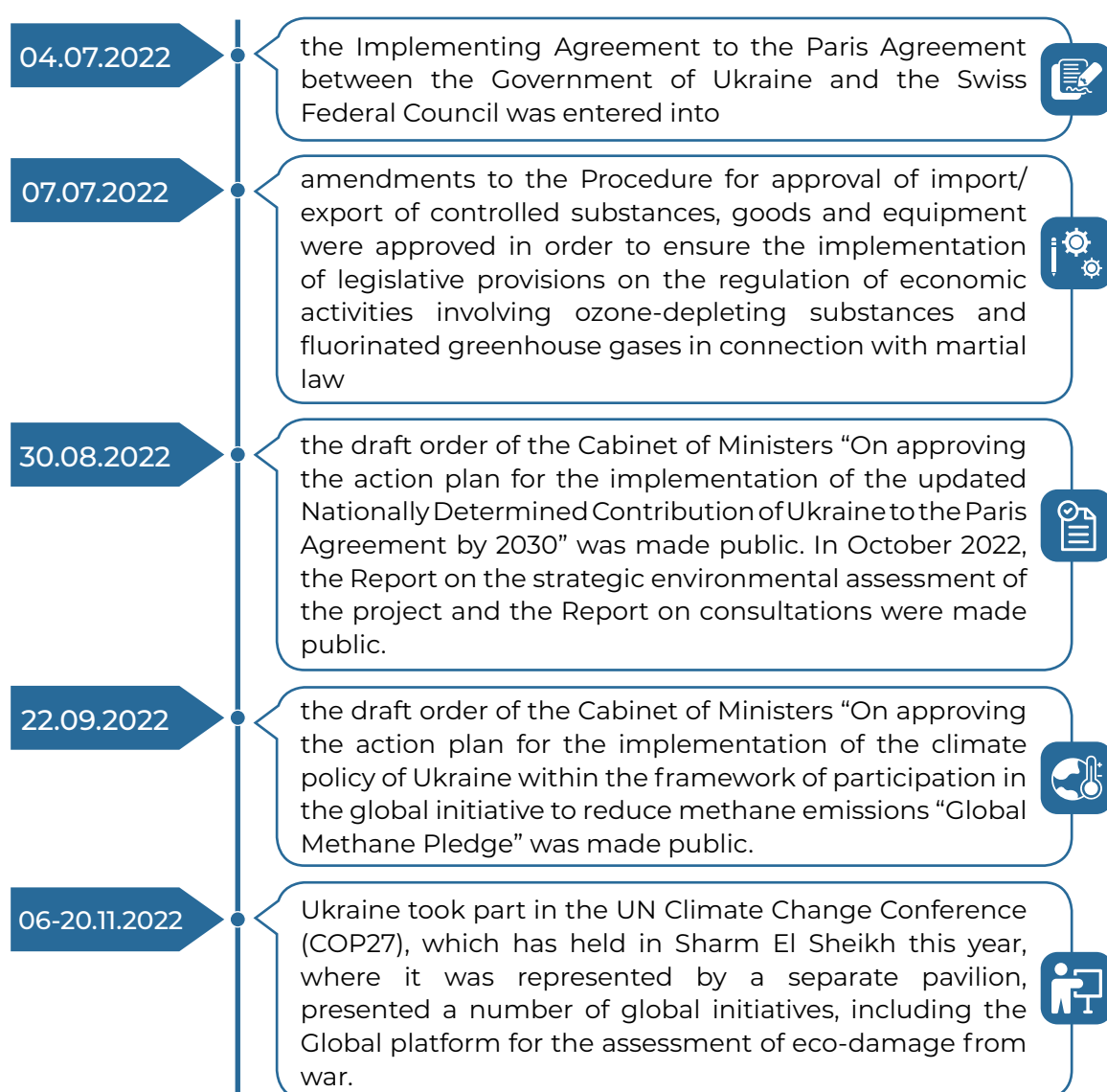
Basically, Ukraine focused its efforts on the international level, promoting the initiative to create Global platform for the assessment of eco-damage from war, obtaining the necessary international support and assistance in conducting such an assessment. Some issues, which are a continuation of the efforts of previous years (for example, the development of measures for the implementation of the updated NDC), were reflected in the development of draft action plans, or actually reflect the state's interest in promoting the participation and involvement of Ukraine in certain issues (for example, in the global initiative to reduce methane emissions).

RECOMMENDATIONS

The Verkhovna Rada and the Government of Ukraine (including the Ministry of Environmental Protection and Natural Resources):

- to review and define systemic reforms in the climate sphere, taking into account the further implementation of the EU *acquis* in the climate sphere, the basis of which will be determined by the legislative initiatives adopted as part of EGD implementation and the Fit for 55 package.
- to review the principles on which the draft Ukraine Recovery Plan proposes to carry out post-war reconstruction and development, laying down climate neutrality in all sectoral policies; to define a clear relationship between the reforms proposed by the Recovery Plan, existing strategies/concepts and those reforms that Ukraine will be required to implement in connection with the acquisition of EU membership.


TIMELINE



Main events

At the international level, a key event was the UN Climate Change Conference 2022 (COP27) held in November 2022, in which, [for the first time](#) in the history of such international conferences, Ukraine is represented by a separate pavilion. The key task of both Ukraine's participation and the pavilion itself was to demonstrate to the whole world the harmful effects of war, in particular on climate change, and to get support from the international community for the recovery of Ukraine.

In the framework of COP27, Ukraine presented a number of high-level initiatives, including the [Global Platform for Environmental Damage Assessment as a result of war](#). The platform should be used for international expert cooperation, within the framework of which unified approaches to determining harmful effects of armed conflicts on the environment and climate will be developed. At COP27, the Minister of Environmental Protection and Natural Resources of Ukraine announced



the launch of the Ukrainian Climate Office initiative with the international technical assistance of the BMWK/EU, which will function for the purpose of providing assistance to Ukraine in the implementation of climate goals on the way to decarbonization.

Ukraine promoted climate policy issues in both multilateral and bilateral international negotiation platforms, which were part of a wide range of environmental issues but also reached agreements to support changes in national climate policy and law. Thus, the governments of Ukraine and Switzerland entered [into](#) an Implementing Agreement to the Paris Agreement.

At the national level, Ukraine focused attention on the development of draft acts of strategic planning in climate policy. In August 2022, the draft order of the Cabinet of Ministers “On approving the action plan for the implementation of the updated Nationally Determined Contribution of Ukraine to the Paris Agreement by 2030” was made public. In October 2022, the Ministry of Environmental Protection and Natural Resources published the Report on the strategic environmental assessment of the draft and the Report on consultations. Another area of strategic planning was the development of measures for Ukraine’s participation in the global initiative to reduce methane emissions. In October 2022, the [draft](#) order of the Cabinet of Ministers “On approving the action plan for the implementation of the climate policy of Ukraine within the framework of participation in the global initiative to reduce methane emissions “Global Methane Pledge” was made public.

There are gaps in the development and adoption of laws necessary for the implementation of the national climate policy, which would reflect Ukraine’s fulfillment, *inter alia*, of its international obligations, as they were not adopted. It is noteworthy that the [plan](#) of activities

of the specialized ministry for drafting regulatory acts for 2022 did not provide for the development of draft acts in the climate sphere. At the same time, representatives of the Ministry of Environmental Protection and Natural Resources of Ukraine have repeatedly [emphasized](#) in public discourse that work was ongoing on finalizing the draft Climate Law of Ukraine.

The factor that influenced the formulation of state policy as a whole and, in particular, climate policy, was the full-scale war of Russia against Ukraine, the negative consequences caused by it and challenges to the recovery and further development of Ukraine. The key element of this process was the development of materials for the [draft](#) Ukraine Recovery Plan by working groups. An integrated climate policy is defined as one of the key reforms in the materials of the working group Environmental Security, the implementation of which involves a number of measures and tasks to prevent and adapt to climate change. However, such an approach is not outlined in the materials of the working groups of the draft Recovery Plan as an end-to-end reform or a task for the recovery of Ukraine.

Some of the measures of the climate policy, which were implemented during 2022, also related to other components, in particular, project activities to develop the adaptive capacity of the regions. So, even before the war, the team of the Ministry of Environmental Protection, together with the experts of the APENA3 project, [created](#) the Methodology for the development of climate change adaptation strategies and implementation plans in three pilot regions – Ivano-Frankivsk, Lviv and Mykolaiv. The need to develop such methodologies is provided for in the Strategy for Environmental Security and Adaptation to Climate Change for the period until 2030 and the plan for its implementation.

Before the war, work on the development and implementation of a system of trading quotas for greenhouse gas emissions in Ukraine began and continued. The Ministry of Environmental Protection, with the support of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), as part of the Support for the

establishment of an emissions trading scheme in Ukraine project together with the international consulting company Adelphi, held a series of thematic events, but in connection with the war and the purposeful destruction of critical infrastructure by the Russian Federation, they were postponed

EU policy

During 2022, the EU's climate policy as a component of the EGD was formulated within the framework of the Fit for 55 package of legislative initiatives, in particular regarding the EU Emissions Trading System (EU ETS), the distribution of emission reduction efforts by EU member states, emissions and absorption from land use, land-use change, and forestry (LULUCF), CO₂ emission standards for cars and vans, the Carbon Border Adjustment Mechanism (CBAM) and the Social Climate Fund. Currently, negotiations between the EU institutions regarding the adoption of relevant acts are ongoing.

As for individual initiatives, the process of adopting the necessary acts reached the final stage. Thus, political agreements have already been reached between the European Parliament and the Council of the EU on the revision of EU ETS rules as a whole and those rules that apply to the aviation sector, enhancing the

contribution of the LULUCF sector to the growth of the EU's overall climate ambitions until 2030, tougher emission reduction targets for member states under the Effort Sharing Regulation as well as tougher CO₂ emission standards for new passenger cars and vans, creation of a Social Climate Fund and implementation of CBAM. The final step will be the official approval of political agreements by the European Parliament and the EU Council.

The European Commission is further working on legislative proposals aimed at the implementation of the EGD, in particular in the climate sphere. In November 2022, it made public a draft Regulation on the creation of a carbon removal certification system in the EU. With this initiative it is proposed to introduce such an instrument on a voluntary basis for the first time in the EU.

ENVIRONMENT AND ZERO POLLUTION

SUMMARY

In general, due to Russian aggression, the implementation of environmental reforms was practically frozen in 2022. Most of the introduced changes related to deregulation and adaptation of certain mechanisms to martial law conditions (especially in the areas of environmental impact assessment and strategic environmental assessment).

At the same time, since obtaining the status of a candidate for EU membership, favourable conditions have been observed in Ukraine for the adoption of systemic laws and strategies in this area. Thus, the laws “On Waste Management” and “On Chemical Safety and Management of Chemical Products” were adopted; a unified register of strategic environmental assessment was introduced; preparations are underway for the adoption of a new systemic law in the field of genetically modified organisms. The Water Strategy until 2050 was adopted.

In the current conditions, systemic reforms are carried out within a very limited public space (discussion, review), which does not contribute to the transparency and quality of such reforms.

RECOMMENDATIONS

The Verkhovna Rada:

to ensure proper transparency of the process of discussion and consideration of systemic draft laws in the field of environment.

The Government of Ukraine (Ministry of Environmental Protection):

to ensure proper finalization of the draft Ukraine Recovery Plan in order to fully reflect the necessary measures for the restoration of nature.

Local self-government authorities:

to strengthen their own capability for submitting applications and implementing projects within the framework of the LIFE program.

TIMELINE



Main events

In the first half of 2022, all efforts in the field of environment and pollution control were aimed at adapting environmental mechanisms to martial law conditions. First of all, it is about changes in the legislation on environmental impact assessment and strategic environmental assessment. The Ministry of Environmental Protection launched **EkoZagroza** (an official web resource and a mobile application). In the second half of 2022, there were attempts to introduce separate system reforms. Among the main ones, the adoption of the laws “On Waste Management”

(more details in the section “Waste management and circular economy”), “On Chemical Safety and Management of Chemical Products”, “On Amending Certain Legislative Acts of Ukraine on Objects of Increased Danger” should be emphasized. Joining the EU LIFE program opened significant additional opportunities for the implementation of systemic projects in the environmental sphere.

A number of changes related to **adaptation** to martial law conditions (restriction of access to information,

restriction of forms of public discussion) and **deregulation** were introduced in the field of environmental assessment (environmental impact assessment and strategic environmental assessment). Thus, the activity of restoring damaged facilities was **excluded** from the scope of the environmental impact assessment. Similarly, draft recovery plans (programs) were **excluded** from the scope of SEA. At the same time, the government **proposes** further changes to the EIA mechanism, and the Verkhovna Rada has adopted a law introducing a unified register in the field of SEA, which should be operational from the spring of 2023.

In the field of air protection, the Ministry of Environmental Protection has adopted procedures for developing and approving **short-term** action plans and approving **plans to improve** air quality (for agglomerations).

In the field of water resources, work continued on the development of river basin management plans (4 plans have already been developed), all flood risk management plans (9 in total) were **approved**, the State Water Monitoring Program (in particular, the **Black and Azov Seas**) was adopted, and the **draft law** on waste water drainage was adopted as a basis, all **technical requirements** for the quality of drinking water, etc. were established. In December, the Water Strategy until 2050 and the operational plan for it for 2022-2024 were **adopted**, which, in particular, defined the tasks for the implementation of a number of EU directives in this area. The strategy provides for a number of measurable indicators and criteria for achieving the relevant targets.

In the field of regulation of genetically modified organisms, work is underway to introduce a new system of their control, and the **draft** of a new basic law in this field has been adopted as a basis.

In the field of industrial pollution and nature protection, there have been no significant changes, the obligations under the Association Agreement are not implemented. At the same time, full adaptation to the requirements of the Seveso III Directive **took place** in the field of industrial accidents. An important achievement is the adoption of the Law “On the National Pollutants Release and Transfer Register” (which will potentially contribute to the fulfillment of the requirements for joining the EU and ensures the fulfillment of the relevant international legal obligations of Ukraine under the PRTR Protocol). A number of by-laws still need to be adopted for the practical implementation of the law.

On 1 December 2022, the Verkhovna Rada adopted Law No. **2804-IX** “On Chemical Safety and Management of Chemical Products”, submitted by the Cabinet of Ministers. According to the **explanatory note**, the main purpose of the document is to create a legislative basis for the implementation of the requirements of Regulation (EC) 1907/2006 on chemicals (the so-called REACH Regulation) into national legislation.

Regulation 1907/2006 is the basis of the chemical safety system in the EU and ensures the protection of public health and the environment from risks that may arise from the use of chemicals. In principle, its scope covers all chemical substances – not only for industrial but also for household use. The central element is the mandatory evaluation and registration of chemicals by a specially established agency at EU level (European Chemicals Agency, ECHA). Only registered substances can be placed on the EU market.

The adopted **Law** does not ensure the full implementation of the REACH Regulation into the national legal system of Ukraine. Conceptual problems are primarily related to the nature of the regulation

as an EU legal act: such acts have direct effect and are applied in EU countries directly (they do not require national acts on their implementation). In addition, a feature of the REACH Regulation is a supranational approach to the regulation of chemical safety by granting relevant powers to a specially established agency.

Instead, the Law does not propose a mechanism for coordinating national registration by an authorized body with this process in the EU. In particular, the act only proposes a reduced amount of payment for state registration of chemical substances already registered in the EU, does not establish a ban on state registration of substances that have not passed such registration in the EU, etc. In general, it can be agreed that the Law is too general, which makes it impossible to analyze it in detail in comparison with EU requirements (see the [comparative table](#) provided by the office of the Deputy Prime Minister of Ukraine for European and Euro-Atlantic Integration).

Given Ukraine's status as a candidate for EU membership and, accordingly, the need for full implementation of EU law, we believe that the Law needs substantial revision.

Among the three goals of the draft Ukraine Recovery Plan, two have a [green component](#): sustainability (the goal of the first stage) includes "environmental sustainability"; restoration (the goal of the second stage) includes restoration of natural ecosystems. Among the five principles proposed in the draft Ukraine Recovery Plan, only one has green elements: Build Back Better. This principle provides for the "use of advanced and ecological technologies" in the construction of new facilities and the "implementation of key principles of the EU transition to a "green" economy". Digitization and the European Green Course are defined as "strategic vectors of development".

The draft Plan presented in Lugano contains a separate national program No. 3 "Restoration of a clean and safe environment". Unfortunately, [this](#) part of the plan contains a chaotic set of initiatives and projects of different scale and validity: from the restoration of specific facilities, even unrelated to the impact of military actions (such as the Solotvyno salt mines, the creation of an eco-portal) to general, completely reasonable, proposals for the restoration of wild nature. Some projects require an explanation to understand their content and purpose, in particular, "increase in the mineral and raw material base of Ukraine".

EU policy

Preservation and restoration of ecosystems and biodiversity is one of the key goals at the achievement of which the European Green Deal is directed. The EU is actively promoting transformation policies in this area; the EU Biodiversity Strategy for 2030 and the New EU Forest Strategy for 2030 have already been adopted. The EU's goal is to cover at least 20% of the EU's land and sea areas with nature restoration measures by 2030, and all ecosystems in need of restoration by 2050.

The war in Ukraine had a significant impact on the environmental agenda in the EU in 2022. This was manifested in calls to weaken environmental goals or mechanisms, especially in the field of nature and biodiversity protection. The reform of the regulation on chemical substances was constantly postponed.

At the same time, in the field of environmental policy, the EU approved the new 8th Environmental Action Programme to 2030, the European Commission made public a draft of changes to the industrial emissions directive, and the EU Council agreed

on a general position on the draft CBAM Regulation and on the new Regulation on combating deforestation worldwide (due to relevant restrictions on placing goods on the EU market).

On 22 June 2022, the European Commission made public draft decisions in the field of nature protection and the use of pesticides. In particular, the European Commission took the initiative to adopt the so-called Nature Restoration Law (in the form of a **Regulation**). For the first time, the EU proposes to adopt a regulation in the field of nature protection, and this is the first systemic proposal in this field since the adoption of the Habitats Directive in 1992. At the same time, the European Commission made a **proposal** to reduce the use of chemical pesticides – in particular, to set a goal to reduce the use and risks from chemical pesticides by 50% before 2030, to prohibit their use in vulnerable areas, and in general to establish clear rules for the use of pesticides and their accounting. In this context, it can be noted that **much fewer** pesticides are currently used in Ukraine: 0.75 kg/ha against 3.14 kg/ha in the EU.

CIRCULAR ECONOMY

SUMMARY

Currently, there is an extremely low attention to the introduction of the circular economy in Ukraine. In particular, the majority of legislative acts in this area do not meet the requirements of European legislation; there is no legislative adoption of relevant procedures for the collection and processing of waste in various areas, and there is also a lack of development of strategic planning documents for the development of the circular economy in Ukraine. Instead, the process of reforming this area is actively ongoing in the EU, which will require appropriate consideration and further implementation in Ukraine.

RECOMMENDATIONS

The Verkhovna Rada and the Government of Ukraine:

- to regulate the issue of using waste for the production of organic fertilizers by adopting the corresponding by-law regulatory legal act;
- to start work on the preparation of the National Circular Economy Plan and relevant action plans for its implementation, by analogy with the EU;
- to complete work on the adoption of the draft Law “On Packaging and Packaging Waste”, bringing it into compliance with the requirements of Directive 94/62 on packaging and packaging waste;
- to establish the procedure for separate collection of textile waste, features of their processing and further utilization.

Local self-government authorities:

to promote the transition of cities to renewable energy sources, the maximum approximation and transition to a circular economy in cities as well as adaptation to climate change.

TIMELINE

19.04.2022

The resolution of the Cabinet of Ministers of Ukraine “On approval of the Procedure for the implementation of works on the dismantling of facilities damaged or destroyed as a result of emergency situations, military actions or acts of terrorism” and “On approval of the Procedure for the implementation of urgent works on the elimination of the consequences of the armed aggression of the Russian Federation related to the damage to buildings and facilities” were adopted.



20.06.2022

The Law “On Waste Management” was adopted



20.09.2022

The Law “On the National Register of Emissions and Transfer of Pollutants” was adopted



27.09.2022

The resolution of the Cabinet of Ministers of Ukraine “On the approval of the Procedure for handling waste generated in connection with the damage (destruction) of buildings and facilities as a result of hostilities, acts of terrorism, sabotage or work to eliminate their consequences and amending certain resolutions of the Cabinet of Ministers of Ukraine” was adopted



1.12.2022


The Law “On Ensuring Chemical Safety and Management of Chemical Products” was adopted



Main events

According to the Association Agreement, Ukraine had to harmonize legislation in the field of packaging and packaging waste by September 2020. Given that the priority issue for the circular economy is waste management, including prevention of their generation, the circular economy is currently only planned, since the adopted Law of Ukraine “On Waste Management” will enter into force in June 2023. The law provides for the development and approval of criteria for classifying substances or items as by-products and separating them from waste; acquisition of ownership of waste, detection and accounting of waste, the owner of which has not been identified (Articles 11 to 12 of the Law); legal status of citizens generating waste, entities in the field of waste management (Articles 14 to 17 of the Law); hazardous waste

and municipal solid waste handling. Enhanced control over hazardous waste, its collection and processing is provided. In the field of municipal solid waste management, a procedure for collection, including separate collection, removal, processing, and recycling of such waste is provided. In addition, the Law provides for the introduction of the position of operator of the municipal system for the management of municipal solid waste, which ensures the functioning of the municipal system for the management of municipal solid waste. In addition, targets for preparing for reuse and recycling of municipal solid waste until 2040 and licensing of hazardous waste management business activities and specifics of permitting systems in the field of waste management have been established:



The war shifted priorities from waste management and the circular economy to ensuring more pressing needs of defence and war waste management. It is planned to develop mechanisms for the disposal of waste generated as a result of destruction during the war in the most ecological way and to reuse it in construction works. On 27 September 2022, the Government of Ukraine approved the “Procedure for handling waste from the demolition of buildings and facilities”. This Resolution defines the concept of “demolition waste”, the classification of such waste, the main operations of handling demolition waste and the sequence of their implementation as well as the main provisions on the organization of places for temporary storage of demolition waste and sets out the List of components of demolition waste and possible ways of their reuse in construction, construction materials industry (manufacture of construction products). The Resolution established 7 types of operations for the management of demolition waste.

It is also important to enshrine in legislation new rules for the reconstruction of residential and non-residential buildings, taking into account the provisions of the [Construction Products Regulation](#) of the domestic market of construction products and ensuring the harmonization of the compliance of the regulatory and legal framework so that the built environment takes into account the sustainability and climate goals of the EGD.

In Ukraine, there is no adequate reduction of emissions from large industrial plants and there is no public reporting on emissions from industrial plants. Instead,

there is an attempt to implement an unclear mechanism of “exchange of emissions”, in particular, the draft resolution of the Cabinet of Ministers “On the approval of the Procedure for the exchange of volumes of emissions of pollutants into the atmosphere within the framework of the implementation of the National Emission Reduction Plan from Large Combustion Plants” made public on 16 February 2022. There is generally no progress on the implementation of NERP as part of the implementation of Directive 2010/75/EU with the mandatory implementation of the best available techniques for the integrated prevention or minimization of emissions. The current state of development of the circular economy in Ukraine can be assessed as very low or non-existent. On 8 September, the European Commission published the Third Environmental Report 2022 Turning the tide through environmental compliance, which states that while most Member States have national circular economy strategies and action plans, there are significant differences between Member States’ resource productivity and indicators of circular use of materials. Productivity ratios measure how efficiently an economy uses resources in production, while ratios of circular use of materials measure the share of material recovered and returned to the economy. Additional actions are needed to improve the recycling potential of plastics, construction materials and textiles. Waste prevention remains an important issue in all Member States, and in some countries substandard landfills still need to be tackled.” In Ukraine, we still need to go this way, along with joining the EU. We have neither a national circular economy strategy nor a corresponding action plan.

EU policy

On March 22-30, the European Commission presented a [package of European Green Deal proposals](#) to make sustainable products the norm in the EU, boost circular business models, in particular in the production and processing of textiles and construction, and empower consumers for the transition to green markets and proposed four key initiatives, namely [Ecodesign for Sustainable Products Regulation](#) (ESPR), [Ecodesign and Energy Labelling Working Plan 2022-2024](#), [Amendments to the Consumer Rights Directive](#) and [Unfair Commercial Practices Directive](#) (UCPD).

In April 2022, the European Commission made public proposals for the revision of the Directive 2010/75/EU on industrial emissions.

In July, Regulation (EU) 2019/1009, laying down rules on the fertilizer market, entered into force. This will allow more organic and waste-based fertilizers to be sold in the EU.

According to the plans, two more important legislative packages of the European Commission are provided.

The Zero Pollution package includes:

- a revised list of pollutants of surface and underground waters;
- revision of EU legislation on air quality (Directives 2004/107/EC and 2008/50/EC)
- revision of Council Directive 91/271/EEC concerning urban waste-water treatment;
- revision of Regulation (EC) No 1907/2006 concerning classification, labelling and packaging of chemicals (CLP Regulation).

Circular Economy Package II includes:

- a proposal of a regulatory legal act regarding the validity of green positioning of products;
- a new policy framework for the use of bio-based, biodegradable and compostable plastics;
- revision of Directive 94/62/EC on packaging and packaging waste (PPWD);
- a proposal for measures to reduce microplastics emissions;
- Right to Repair initiative.

In November, the European Commission came up with a proposal for the Circular Economy Package II as well as [new EU-wide rules on packaging](#). For consumers, the proposed changes will ensure reusable packaging options, get rid of unnecessary packaging, limit overpackaging, and provide clear labels to support correct recycling. The headline target is to reduce packaging waste by 15% by 2040 per Member State per capita, compared to 2018.

In the field of waste transportation, the European Commission approved the draft Regulation on waste transportation and sent the document to the European Parliament for consideration in December 2022. According to the proposal, there is a direct ban on the transportation within the EU of all waste destined for landfilling, except when it is allowed in limited and justified cases, as well as a ban on the exportation of hazardous waste from the EU to countries that are not members of the Organization for Economic Cooperation and Development (OECD). The exportation of safe waste from the EU for processing will be allowed to non-OECD countries that grant their consent and demonstrate their ability to manage this

FINANCIAL INSTRUMENTS

SUMMARY

A significant number of new EU financial instruments became available to Ukraine during 2022, including opportunities to finance projects related to the EGD targets. Access to such financial instruments was facilitated by the granting of candidate country status to Ukraine as well as general support in the context of overcoming the consequences of a full-scale Russian invasion and the crisis caused by the war. At the same time, the effective use of these tools depends on the informational and organizational support expected from the governmental authorities.

RECOMMENDATIONS

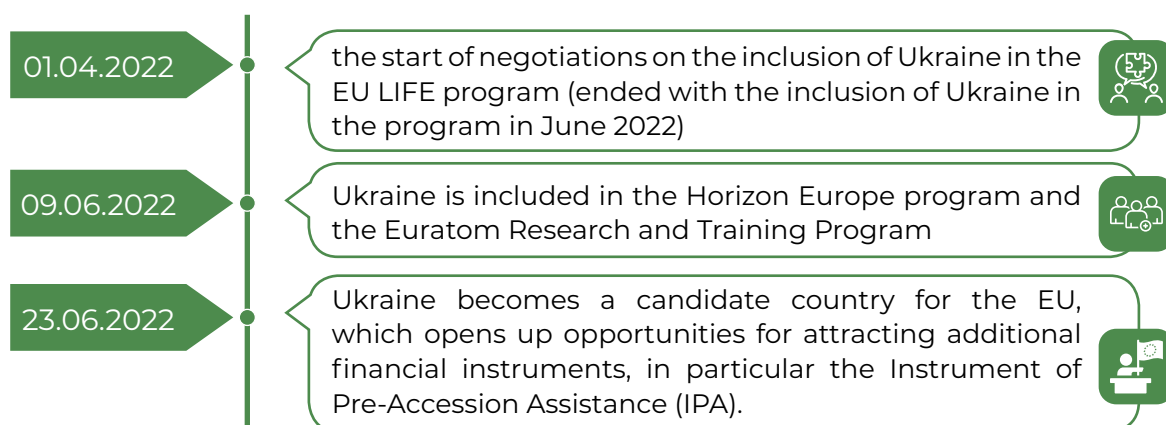
The Government of Ukraine (Ministry of Education and Science of Ukraine, Ministry of Ecology and Natural Resources of Ukraine, Ministry of Energy of Ukraine, other central executive authorities):

to ensure comprehensive coverage of opportunities for the use of EU financial instruments by interested institutions in Ukraine, in particular with regard to the financing of projects and research in the fields related to EGD, as well as to facilitate the establishment of contacts with relevant scientific, research and other institutions in EU countries.

Scientific and research institutions; enterprises of all forms of ownership operating in the field of energy, nature protection and other areas related to the EGD:

to participate in applications for funding from available EU funds and strengthen cooperation with partner institutions in EU countries.

TIMELINE



Main events

With the beginning of the full-scale Russian invasion, the Government of Ukraine took an active part in strengthening cooperation with the EU and obtaining opportunities for additional funding. As a result, during April-July 2022, Ukraine was included in several financial instruments of the EU, including the [LIFE](#) programs (budget until 2027 is EUR 5.4 billion) and [Horizon Europe](#) (budget until 2027 is EUR 95 billion).

These programs provide for the possibility of independent submission of an application for funding by institutions that carry out research and other project activities in combating climate change, environmental protection and other fields related to the EGD. Applications can be submitted by both private and public organizations regarding the planned new types of project activities. Applications undergo a detailed assessment for compliance with the main framework criteria (in particular, SMART). Great attention to cross-border cooperation in the proposed projects is also an important selection criterion.

Considering that most of the instruments are new for Ukraine (with the exception of Horizon Europe, which is the next one after Horizon 2020, in which Ukraine also participated), comprehensive support and promotion by governmental authorities regarding funding opportunities from EU sources is expedient. During 2022, some central executive authorities carried out such activities, for example, a [seminar](#) on participation in the LIFE program was organized by the Ministry of Ecology and Natural Resources, as well as explanatory [materials](#) on possible participation in the program were prepared with the assistance of the Ministry of Ecology and Natural Resources.

At the same time, it would be expedient to strengthen the coordination between the central executive authorities in promoting the attraction of funds at the expense of available financial instruments of the EU, in particular through systemic information support for applicants and the creation of a single reference center. It is reasonable to carry out the above measures before the start of consideration of applications for attracting funds of the relevant EU financial instruments in 2023.

EU policy

The start of the full-scale Russian invasion led to an increase in the funding of certain activities in the areas related to the EGD at the EU level. In particular, the [REPowerEU plan](#) proposed in May 2022 provided significantly more ambitious goals for increasing energy generation from RES, introducing hydrogen technologies, reducing natural gas consumption and energy efficiency measures. To finance these measures, the [EU budget](#) was increased for certain funds and programs for 2022, in particular NextGenerationEU and the Just Transition Fund.

The importance of the climate agenda was preserved in the EU [budget](#) for 2023, where the tendency to increase funding for the above-mentioned areas was also preserved. In addition, the European Parliament [managed](#) to defend an additional increase in the funding of the Horizon Europe program (by more than EUR 660 million) next year despite the position of the Council of the EU which initially proposed a reduction in funding.

The consequences of the Russian invasion of Ukraine and economic aggression against the EU countries were the deterioration of economic growth in the EU, an increase in inflation, which was particularly manifested in the excessive growth of prices for energy resources. To overcome these negative consequences, the European Commission has repeatedly approved state aid schemes for certain areas of the economy in EU countries and has developed a [Temporary Crisis Framework](#) for the evaluation of such aid, where great attention is paid to the support of RES technologies and energy efficiency measures.

In general, there is a tendency to increase the priority of supporting Ukraine and the EU countries that suffered as a result of the Russian invasion of Ukraine in the financing of activities at the EU level in 2022 and the next year.