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Position Paper

Ideas to Stimulate Bioenergy Development in Ukraine

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Introduction

Issues concerning the use of biomass energy are pressing and urgent due to a high replacement potential of traditional energy by biomass energy: On average about 15% of the territory in Ukraine is covered by forests. It is estimated that biomass can account for thirty-three (33) mtce [millions of tons of coal equivalents]. Bioenergy development is seen as a high priority for Ukraine due to the necessity to increase its energy security in relation to direct dependence of national measures on the price for imported gaseous and liquid hydrocarbon fuels from Russia. Herein, additionally appears a number of positive issues: creation of new employment, development of local economics, environmental improvement through reduction of greenhouse gas emissions and as a result the engagement of additional resources via the mechanisms of Kyoto-protocol.

However, at present the development of the bioenergy sector in Ukraine is confronted with: different bottlenecks, gaps in the existing legislation regarding bioenergy, lack of experience, access to necessary information, infrastructures, absence of effective mechanisms for the engagement of overseas investments into bioenergy sector. Negotiation of these barriers requires implementation of a certain number of tools and mechanisms. This paper gives our view of the list of these high priority measures.

1. The green tariff for generation of electricity from biomass is a positive step forward for the enabling schemes to be developed and apart from being expanded to cover more biomass options (such as biogas, gasification etc), the tariff should be retained, as should the existing waiver on VAT (through 2019) and custom duties (no set term) on imported equipment and zero profit tax for sold electricity through 2020. The process for utilizing these benefits should be open and transparent to ensure that all market players have access and equal chance to benefit and investors are confident that these benefits will be realized for all qualified bioenergy schemes.
2. Extension of the green tariff until 2035, most schemes being considered have a 20 year write off period, and not many biomass green tariff projects have been realized until now. So it is necessary to extend the tariff to account for the above. Delay or have waived completely the planned 10% decrease to the minimum Green Tariff for projects that come on-line after 2014, which is part of the current Green Tariff Legislation.
3. Land issues – currently the legislation surrounding land use, and the acquisition of land needs to be made far simpler and achievable. Lifting the ban on the moratorium of land auctions (the law on the land market is in the parliament right now: no ownership for companies, no ownership for foreigners,

limitations on areas owned by physical persons) would help the general development of land issues in relation to renewable energy scheme. But having a specific land designation for the use of biomass for energy crops would remove a lot of bureaucratic problems that any biomass developer faces at the moment. Leading biomass and bioenergy exporters, such as Brazil (leader in bioethanol exports) develop national standards for land for biomass, to insure land for biomass does not compete with land for food as it is a major requirement for sustainability certification systems.

4. Foundation of a Target State Fund responsible for competitive partial or full funding of pilot projects within bioenergy sector in Ukraine.
5. Keep VAT zero rating on all biomass granular exports including any torrefied granular exports.
6. Revise the green tariff to allow for inflationary factors within the biomass sector. At present the inputs for wind and solar may not dramatically rise over the economic lifetime of the scheme (as most costs are equipment costs upfront) but with biomass, much of the cost is based on items that are all affected by inflation (transport, vehicle maintenance and especially salaries as biomass is the very most labour intensive green energy). There is no provision for this inflationary pressure at present within the tariff for biomass and it makes an unacceptable risk for most developers, preventing them from moving forward with potential schemes.
7. Allow and encourage State Enterprises within the biomass sector to form fixed price long term contracts with biomass developers for wood/agro waste and ensure government backing that these contracts will be honoured. Enforced auctioning of biomass resources allows no firm development in the market and prevents any electricity generation schemes on wood waste from being developed. The only players that can flourish are those with short term opportunities in pelletizing which does not provide full development of the sector.
8. Grid connections – dividing up the grid allocations by previous applications received and pre-agreed capacities within certain sectors do not take into consideration the effect of biomass. Biomass can provide grid stability and diversity to help the grid balance its many loading/transportation problems. A fair and equal policy when considering granting grid connections needs to be developed and brought into practice. Developers need to know at early stages, what are the definite costs and implications for grid connections and that they will be able to achieve a connection within a timely process and be able to be reimbursed for any recoverable costs incurred within that same process without excessive delays or doubts on how mechanisms might work.
9. Exporting sustainable biomass energy to Europe in the form of electricity. In the present climate there is a clear outstripping of capacity for renewables in Europe compared to need. One of the peculiarities of this is that the market for agro/wood waste pellets continues to grow and grow within Ukraine. Taking a slightly densified form of energy, and shipping at low value to Europe makes no economical or environmental sense for Ukraine. Under the 20/20 directives in Europe, Renewable Energy Directive Article 9, EC countries have the ability to use third party land projects to meet their objectives. In Ukraine, there already have been circumstances of energy exported to Europe produced by Burshtyn power plant which is synchronized with the European grid. By introducing a book and claim system for biomass electricity produced across Ukraine, developers could produce electricity close to sources of biomass, introduce to the grid and receive the sale price from the European buyer who has an environmental commitment to meet. Not only would this allow massive development in the market,

creating a diverse array of jobs, especially in rural areas, Ukraine would boost its exports in hard currency.

10. Governmental support in the implementation of bioenergy projects within the framework of JI-mechanisms of Kyoto Protocol:

- a) enhance the transfer from JI-projects approval procedure Track 2 to the procedure Track 1, which enables determination and verification of projects under the national procedure and integration of several small projects into one package, crucial for bioenergy;
- b) partial financing of the preparation and approval of JI-projects from the target funds.

11. The green tariff should be extended or clarified to ensure that it includes the gasification of biomass for the generation of electricity. There is no logic in limiting the technologies that can be used to convert biomass to electricity, and gasification technologies provide good workable solutions for effective use of biomass. In particular biogas installation, like biomass power plants can provide baseload electricity as well as peak electricity and they are primarily in rural areas where electricity provisions are weakest.