

May 23, 2013

Comments from Germany on the Revised CTF Investment Plan for Ukraine

Dear Patricia,

as discussed during the CTF meeting, pls find attached detailed comments to the rev IP for Ukraine.

Kind regards
Annette

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4. CTF/TFC.11/8 Update of CTF Investment Plan for Ukraine

In order to approve the rev IP for Ukraine and as discussed during the CTF TFC Meeting in May/Washington the rev IP should be amended as follows: On page 24 the "Residual Risk" for "Sector policies and institutions" has to be increased from "Moderate" to "High" and under "Mitigation Measure" the following has to be added:

"There are severe administrative and legislative hurdles to wind projects in the Ukraine, which have to be tackled. One is the minimum local content rule for investment components that are in principle eligible for the 'green tariff' and the other the intricate process of obtaining a construction permit."

Background

Investment Plans have to reflect the legal/regulatory framework of the country correctly. In the case of the Update of the CTF Investment Plan for Ukraine this is not the case. Due to the below mentioned two overwhelming policy constraints not described in this revIP, **it can not be endorsed without corresponding amendments**. We expect that these amendments should (i) reflect the legal/regulatory framework correctly and (ii) explain, how the IP can be successful in spite of the following constraints:

- Minimum local content: By Ukrainian legislation, from 2013 onwards, up to 30%, and from 2014 onwards up to 50% of all investments components that are in principle eligible for the "Green Tariff", must be of Ukrainian origin. Due to the political nature of this provision which is badly aligned with the country's industrial realities, this is widely considered a grave setback for the development of Renewable Energies in the country.
- According to a number of Ukrainian experts KfW is currently working with, the local content rule is likely to bring to a standstill all development of new wind power parks. No manufacturer in the Ukraine can adhere to this requirement as many components are not, or not in sufficient quality, produced in the Ukraine. In addition, the certification process for each component is intransparent. This sheds severe doubts about the overall feasibility and sustainability of the CTF intervention.
- The same applies to biomass projects where the potential is among the greatest in Europe. Similarly, the key constraints are that local suppliers cannot fulfill the minimum local content requirements.
- Severe administrative and legislative hurdles: Only land belonging to the state and designated as "land on energy use" may be used for wind power projects. Use of private property with agricultural designation, in contrast, is prohibited. Further complications arise from the intricate processes of obtaining a construction permit. We feel the risks and potential consequences from these extraordinarily cumbersome processes and legislative are not sufficiently addressed in the IP.