

Zelenskyi postpones energy price pain for Ukrainians - but for how long?

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The Ukrainian government says the rich are taking advantage - but poorer people are likely to lose the most

The Ukrainian government is considering raising consumer electricity prices in a move that could exacerbate the financial pressures of Russia's war on ordinary Ukrainians.

Removing subsidies for energy bills – a form of poverty protection during wartime – could increase the financial needs of Ukrainians by up to \$750m (about £600m), according to a [recent study](#) by the World Bank.

But now a range of factors – including demands from the International Monetary Fund, Russia's infrastructure campaign, and the state's costly commitments to supporting green energy producers – mean Volodymyr Zelenskyi's administration is considering [raising consumer prices at the end of May](#).

As speculation mounted that the government would raise prices within days, prime minister Denys Shmyhal [said](#) on Tuesday that the subsidies would continue for another month.

Government officials say they are looking at a range of options – from gradually “softening the economic consequences” for consumers to more “radical” options.

“By supporting [the subsidised consumer] tariff, the state subsidises every kilowatt-hour, regardless of consumers' income levels,” said senior government advisor Yuriy Boyko in a [recent interview](#), noting that the state spends 140bn hryvnia (£3.7bn) a year on these subsidies.

Russia's invasion of Ukraine has already led to falling incomes and the flight of millions of people from the country. At least 24% of the population currently lives on less than \$6.85 per day as a result of the invasion, the World Bank [reported](#) in March.

Officials say the country's wealthiest households are taking advantage of the subsidised prices. But in reality, it's likely that price rises will affect those who are facing the economic crisis caused by the Russian invasion.

High prices

Over the past decade, energy prices have [risen sevenfold](#) in Ukraine – and have become a [frequent source of public concern](#). In the wake of the country's 2014 revolution, the government was forced to raise consumer prices as part of its financing arrangement with the IMF.

Thus, while in 2012 the minimum price per kilowatt hour was 0.22 hryvnia for consumers, since 2017 it has been 1.44 hryvnia.

Thanks to state price subsidies, Ukrainians pay some of the lowest prices in Europe for electricity – but it is also one of the poorest countries in Europe, and now its economy has been wrecked by the Russian invasion.

As a recent World Bank needs assessment [reported](#), Ukraine's blanket energy subsidy "reduces losses that accumulate in social protection by shifting them to the energy sector".

Today, Ukrainian government officials are arguing the case for a price rise on the basis that the richer members of society consume too much electricity – and are therefore taking up much-needed state funds.

At the same time, officials from the government, the Energy Ministry and state energy regulator [argue](#) that Ukraine's subsidised consumer prices don't reflect the cost of production and transportation of energy.

"Those who can pay should pay, and companies should sell their products at a fair price and have incentives to increase electricity production, gas and oil production," [said](#) Rostislav Shurma, deputy head of the President's Office of Ukraine.

Shurma noted that "citizens who need help should not suffer" from higher prices. "The state needs to help them in a targeted way," he said, suggesting that the state could offer either complete or partial compensation for vulnerable people.

While there are no wartime statistics on energy consumption in Ukraine, official [data for the first half of 2021](#) suggests that the country's "middle segment" of consumers will bear the brunt of higher prices – if introduced.

"Ukrainians are quickly cut off from electricity [when you stop paying], so they will pay for it regularly, and build up debts for heat or hot water instead"

- Oleg Popenko

That data shows that the wealthiest segment of Ukrainian consumers amounts to about 0.6% of households (0.1 million out of 17 million households). This group used more than 15,000 kilowatt hours a year prior to Russia's full-scale invasion, or 7.6% of all electricity consumed.

The least well-off group consumes less than 1,000 kilowatt hours per year, and is the largest – 49% of all households, who consume only 11.4% of electricity.

Finally, roughly 81% of all electricity is consumed by the remaining 50% of households, who can be classified as average consumers – and benefit most from subsidised prices. It is unlikely they will benefit from the limited state support when the government raises prices, as subsidies are limited to about [160 kilowatt hours a month for a family of three](#).

"Of course, when there's a war and life is difficult for people as it is, it's hard to pass a decision raising [energy] tariffs that affects 40 million of our citizens," said Shurma.

Oleh Popenko, head of Ukraine's Union of Utilities Consumers, told openDemocracy he believed most consumers would pay the new electricity tariffs, but higher prices would lead to people incurring debts for other utilities.

"Ukrainians are quickly cut off from electricity [when you stop paying], so they will pay for it

regularly, and build up debts for heat or hot water instead, as has been the case for the last six or seven years,” Popenko said.

How are low prices enforced?

The low price of electricity for Ukrainians stems from a [government decree](#) from June 2019.

The decree made it possible to contain the rise in electricity prices for household consumers through ‘special obligations’ imposed on state-owned energy companies Energoatom (nuclear) and Ukrhydroenergo (hydro).

According to these special obligations, Energoatom has to sell electricity at 0.15 hryvnia per kilowatt hour, and Ukrhydroenergo at 0.01 hryvnia per kilowatt hour. A state energy company called Guaranteed Buyer then buys it at these prices, and sells it on the wholesale market for deliveries to the public.

Green tariffs

Aside from criticism that subsidies don’t reflect the true cost of energy in Ukraine, the proposed price rises stem from several factors.

First, Russia’s missile campaign targeting Ukraine’s critical infrastructure has caused extensive damage to energy producers and suppliers, and at least 40 billion hryvnia (about £868m) is required to prepare for the next winter heating season as a result.

Roughly 20% of Ukraine’s solar power stations and nearly 80% of its wind power [has been destroyed](#), either partially or completely, or is now in occupied territory. Zaporizhzhia nuclear power plant used to provide 46% of Ukraine’s nuclear energy, but is now occupied by Russia

Secondly, the Ukrainian government is under pressure from [commitments made under the recent \\$15.6bn \(about £12.5bn\) IMF loan](#), which includes raising tariffs for gas and electricity to ensure the viability of state-owned production and transmission companies. The government has also pledged to the IMF that it will not print any more money via the National Bank of Ukraine to cover expenses caused by the war.

The government has little time to look for alternative solutions, and is faced with a choice between worsening the plight of genuine investors in green energy, the rebuilding of damaged energy infrastructure and everyday consumers

Thirdly, the Ukrainian state’s historic obligation to subsidise renewable energy has led to extensive ongoing debts, including to foreign investors.

The country’s “green tariff” was introduced 15 years ago, and as a result close associates of then-president Viktor Yanukovich began to invest heavily in green energy in a scheme that many have [perceived as corrupt](#).

In effect, the Ukrainian government agreed to subsidise private producers for solar and wind energy, and plants set up by some of the country’s richest men have [directly benefited from the green energy subsidy](#).

At the same time, Ukrainian and foreign companies have also taken advantage of the generous

tariffs as they have built up the country's renewable energy capacity, and are now owed extensive debts by state companies.

"There are both foreign companies and Ukrainian politicians and 'former' oligarchs among these investors," said Oleh Popenko, from Ukraine's Union of Utilities Consumers, who argues that the country's green energy debts are helping drive up consumer prices.

"Separately, there is a group of foreign investors who have secured support in their countries at the highest level," Popenko said.

In order to find a stable source of money to pay for the 'feed-in tariff' that handed subsidies to green energy producers, the government has obliged two state-owned companies, Energoatom and Ukrhydroenergo, to sell even more electricity produced under the 'special obligations' imposed on them, in excess of what is needed to supply electricity to the population.

The state-owned company Guaranteed Buyer then resells this energy at market prices, through which it compensates for part of the costs of the "green tariff".

The state electricity transport company, Ukrenergo, also subsidises the green tariff by paying fees from transport costs to the Guaranteed Buyer company. As of April 2023, Ukrenergo [owes](#) 16bn hryvnia (£347m) to renewable producers.

With the onset of the summer period, payments under the "green tariff" will increase even more, as the seasonal generation of electricity by solar power plants, both industrial and those that are in the population, increases.

In this situation, the government has little time to look for alternative solutions, and is faced with a choice between worsening the plight of genuine investors in green energy, the rebuilding of damaged energy infrastructure and everyday consumers.

According to presidential adviser Boiko, the government is [looking at different options](#). "The most radical [option] foresees introducing full market prices for energy. The others involve schedules of raising prices, in order to soften the economic consequences for consumers," he said.

"From my side, the more radical option we take, the quicker [Ukraine's energy] market will see investments."

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