

Thus, recreational activities, focused primarily on the recreational needs of the population, act as an element of a social balance of the national economic complex. At the same time, recreational needs are considered to be a dynamic, manageable and one of the most important categories, since they are a part and a condition for implementation of the program of a harmonious development of the personality and a socio-biological recovery.

## **FIRST RESULTS OF GAS MARKET REFORM**

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Over the past three years, Naftogaz, has been actively involved in promoting reforms in the energy sector. The military conflict in Eastern Ukraine has exacerbated the issue of the country's energy independence, which can only be achieved through drastic and sometimes painful reforms.

In April 2016, a supervisory board was set up. This independent body assumed a number of duties previously performed by the government. At the same time, the supervisory board still lacks sufficiently broad authority and responsibilities to control the company's board activities. As envisaged by the corporate governance action plan, starting from April 2017, a targeted charter was expected to come into force to grant to the supervisory board powers recommended by the OECD. Political interference in the Company's activities was reduced, leading to greater confidence from international lenders and partners. Due to internal audit risk management, compliance and transparent procurement. Naftogaz obtained effective safeguards against undesirable effects.

The unprecedented openness of, and market pricing in, the unregulated segment made it possible to de—monopolize imports and the wholesale segment of the natural gas market. As a result, the number and percentage share of private companies are steadily growing. For example, the percentage share of private importers in total gas imports has increased from 7% in 2015 to 28% in 2016. In April-May 2016, a single price level for natural gas as a commodity was introduced for both households and district heating company entities (DHCs), which produce thermal energy for households, at parity with imported gas prices.

In July 2016, the Cabinet of Ministers of Ukraine, together with the Energy Community Secretariat, the EBRD and other international partners of Ukraine approved a plan for the unbundling of the gas transmission network

operator. Full implementation of this plan will result in establishing a truly independent operator that will meet European standards of efficiency and professionalism.

In September 2016, the Verkhovna Rada of Ukraine adopted the law “On the National Commission for state regulation in the energy and utility services sectors.” The law was a significant step forward, creating basic preconditions for the establishment of an independent market regulator. Undoubtedly, implementation of this law will be another necessary step in this direction.

Despite these isolated achievements, 2016 saw a slowdown of natural gas market reform. Market experts also point out that there is a significant risk of curtailing Ukraine's natural gas market reform and returning to past problems, including threats to energy security and the welfare of citizens.

Corporate governance reform and efforts to separate the duties of the TSO (“unbundling”) are very much behind the schedule set out in approved government plans.

At the same time, the current status could be used as a launch-pad to restart natural gas market reform, including decisive steps aimed at solving fundamental problems of the market.

### **Creation of a competitive wholesale and retail natural gas market**

Naftogaz sells domestic and imported gas to designated regional gas supply companies (oblgazzbuts) for further delivery to all residential consumers throughout Ukraine. These companies are de facto monopolies operating on preferential terms in the household supply segment and are not exposed to competition. Naftogaz cannot enter the retail market and compete with monopolistic oblgazzbuts.

The Energy Community Secretariat expressed surprise at the situation in the household gas supply segment. Naftogaz is ready to compete with regional gas supply companies and to supply natural gas to households bypassing intermediaries. In April 2017, the company submitted proposals to the government.

At the time of publication of this report, no secondary legislation, notably the Network Code (the Gas Transmission Network of Ukraine Code which establishes the “rules of the game” in the market) that meets the EU standard network codes and the requirements of the Third Energy Package including the Directive 2009/73/ EU “Concerning common rules for the natural gas internal market” and EU Regulation 715/2009 “On conditions for access to natural gas transmission networks” had been adopted. Ukrtransgaz is drafting appropriate changes to legislation.

### **References:**

1. In the black. Annual report 2016.