



MINISTRY OF FUEL AND ENERGY OF UKRAINE

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For No _____ as of _____

**To the Head of International Secretariat of the
Extractive Industries Transparency Initiative
Mr. Jonas Moberg**

Mr. Moberg!

First of all, we thank you for your participation and your delivered speech during the round table on the 24th of September, 2013, as well as for the opportunity to meet with the members of MSHG on the 25th of September.

We were pleased to hear your opinion on Ukraine's progress towards obtaining the status of candidate country of the EITI, and to learn about your views concerning the role of the coal industry and other extractive industries within the Extractive Industries Transparency Initiative.

In addition to the information that we have shared with you during the meeting of MSHG, we would like to draw your attention to the positions of the MSHG members concerning the coal industry coverage by the EITI reporting (attached in Ukrainian). We hope that you will take this information into consideration.

Annex: mentioned on 2 sheets

Yours faithfully

The First Deputy Minister

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The members of the Multilateral Working Group recognize that the coal industry is significant in fuel and energy sector of Ukraine.

Coal is seen as a guarantee of energy, economic and political independence of Ukraine. It is the primary minerals of fuel and energy resource in the country. In 2011, the coal production was approximately 82 million tons and in 2012 - 85.9 million tons.

Today, the coal industry in Ukraine is characterized by a combination of state and private ownership. The share of state ownership is reduced while the privatization process is progressing.

Ukraine has significant reserves of coal, which account for over 90% of the fossil fuel reserves of the country. These reserves include the full range of coal types from anthracite to lignite, power-generating and coking coal. Reserves of anthracite and bituminous coal are estimated at approximately 32 billion tons from 49 billion tons of resources. Ukraine occupies sixth place in the world rating in terms of coal reserves after the USA, China, Russia, Australia and South Africa¹. Reserves of sub-bituminous coal and lignite are estimated at approximately 2 billion tons (fifteenth place in the global rating of lignite reserves) from 5 billion tons of resources. The government estimates that coal reserves amount to 117 billion tons (including sub-bituminous) and 8.6 billion tons of brown coal. Government data shows that there are more than 6 billion tons of reserves at operating mines, allowing approximately 75 years of mining at current levels of production.

The geological conditions for the development of the majority of reserves are difficult. Coal is found in the small and very deep layers with high methane content and, along with other problems, high risk gas dynamic manifestations. More than 80% of coal reserves are found in layers less than 1.2 meters thick.

In 2010, government funding of the coal industry amounted to 7.7 billion hryvnias, in 2011 - 10.5 billion hryvnias and in 2012 - 13.1 billion hryvnias. For 2013 it is planned to allocate 15.2 billion hryvnias from the budget to support the coal industry.

The government has begun the process of coal industry reforming. In September, 2012, the Cabinet of Ministers instructed the Ministry of Fuel and Energy and the State Property Fund to corporatize 17 coal mining companies by 2015¹. Within the next two years, the privatization of major mines will be carried out, the market structure will be changed and the amount of subsidies will be reviewed. The inclusion of the coal industry may be more effective after such changes than during the process of reforming.

http://newsradio.com.ua/2013_04_05/V-dterm-nuvannja-privatizac-shaht-problem-ne-vir-shu-profsp-lki/

The inability to take into account all the mining output of the industry is crucially important. In Ukraine, along with the major public and private coal mines, the so-called “kopankas” (small illegal coal mines) are still operating. This is an unauthorized coal mining production market by the residents of Donbass. According to experts, illegal mining could amount to 6 million tons, accounting for nearly a tenth of the market. This amount must also be included in the scope of EITI, however, time

¹ http://newsradio.com.ua/2013_04_05/V-dterm-nuvannja-privatizac-shaht-problem-ne-vir-shu-profsp-lki/

is required to find mechanisms for this to be implemented².

The fact that Ukraine is both the exporter and importer of coal should also be taken into account. Some grades of coal produced in the excess are sold in European markets, others, which are deficient, are imported.

During the first few meetings, the members of MSHG, together with World Bank representative, discussed the possibility of preparing a study on the mining industry of Ukraine (including coal), which would allow to see clearly which industries excluding oil and gas, should be included in the scope of the EITI. Unfortunately, such study has not still been conducted due to the lack of funding from the Bank. According to the members of MSHG, the conducting of such study, along with the preparation of the first report on the oil and gas industry, will help, on the one hand to have a clear rationale for the inclusion of other industries in the scope of EITI in two years and also to gain experience in the development of reporting forms and of working within EITI framework.

Based on the afore mentioned, the members of MSHG confirm their readiness to include the coal industry in the scope of EITI, but after first reporting on the oil and gas sector. At the same time within the next 24 months, along with the on-going work, an additional study will be carried out on the analysis and the mechanism of inclusion of the coal industry in the scope of EITI.

² <http://dt.ua/ECONOMICS/kopanki-ce-potuzhniy-udar-pid-dih-ukrayinskomu-vuglepromu-profspilka.html>