

The members of the Multilateral Working Group recognize that the coal industry is a significant part of the fuel and energy sector of Ukraine. High-quality coal reserves amount to a billion tons. In 2012, its production was 64.7 million tons<sup>1</sup>. Coal is used mainly for the generation of electricity and heat, as well as in the steel industry (coke). Therefore, the coal industry should become one of the areas to be covered by the Extractive Industries Transparency Initiative.

Industrial coal production in Ukraine has more than a 200-year history. The most attractive coal-bearing deposits were developed in the past. Now coal production is carried out from the deep layers (up to 800 m) and thin coal-bearing strata (0.45 m). Therefore, **today, the coal sector is not budget-generating, but on the contrary – subsidized**. 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 reforming the coal industry. 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 2015<sup>2</sup>. 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 in the process of reforming.

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 coalmines) are still operating. This is an unauthorized coal mining production market by the residents of Donbass. According to the experts, illegal mining is up to 6 million tons, amounting to nearly a tenth of the market. This amount must also be included in the scope of EITI, however, time is required to find mechanisms for this to be implemented<sup>3</sup>.

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

During the first few meetings, the members of MSHG, together with World Bank representatives, discussed the possibility of preparing a study on the mining industry of Ukraine (including coal), which would allow to see clearly which industries

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<sup>1</sup> <http://www.rbc.ua/ukr/top/show/dobycha-uglya-v-ukraine-v-2012-g-vyrosla-na-4-3---do-64-7-mln-t-17012013191900>

<sup>2</sup> [http://newsradio.com.ua/2013\\_04\\_05/V-dterm-nuvannja-privatizac-shaht-problem-ne-vir-shu-profsp-lki/](http://newsradio.com.ua/2013_04_05/V-dterm-nuvannja-privatizac-shaht-problem-ne-vir-shu-profsp-lki/)

<sup>3</sup> <http://dt.ua/ECONOMICS/kopanki-ce-potuzhniy-udar-pid-dih-ukrayinskomu-vuglepromu-profspilka.html>

excluding oil and gas, should be included in the scope of the EITI. Unfortunately, such a study has not still been conducted due to the lack of funding from the Bank. According to members of MSHG, the conducting of such a 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.

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.