



The Business & Law Readers Digest

Natural Resources

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Coal-mining industry. New in 2007

The territory of Ukraine is characterized by the uniqueness of its physiographic and geological conditions, which favor to the forming of a significant amount of natural resources. The most valuable of these are land and mineral resources.

Ukraine is one of the wealthier states of the world with respect to mineral resources. There is a great amount of coal storage in Ukraine; according to the calculations of state officials the amount of coal constitutes approximately 110 billion tones. Moreover, Ukrainian coal is in requisition abroad as well as in the territory of Ukraine. During 2007 more than 20 million tonnes (with the overall value of more than UAH 6 billion) were exported. It is necessary to point out that the issue of coal industry is also becoming relevant for individuals and legal entities due to the elaboration of the draft law on "Peculiarities of the development and privatization of the coal industry's mines of Ukraine" in 2007. The majority of the state officials agree that the coal industry has to be controlled by investors. The draft law mentioned above is planned to be reviewed by the Supreme Council of Ukraine this spring. According to the information provided by some state officials this law intends to be very liberal for both Ukrainian and foreign investors.

Forests are another type of natural resources that is very valuable for Ukraine. They play an important role in matters of environment protection and

economic activity of people, since they are an important raw material for development in many branches of economic activity. The total area of Ukrainian forests is about 11 millions hectares. According to the effective Ukrainian legislation forest resources may be used by enterprises on the basis of the special permission, which has been issued by the government. In 2007 certain amendments and supplements were added to the legislation of Ukraine regarding the usage of foreign resources. For example, the Cabinet of Ministers has adopted Resolution regulating the issues of special usage of forest resources. Due to the legislative changes a transparent and clear method of obtaining the special permissions on the usage of forest resources was established.

Moreover, in 2007 the Cabinet of Ministers adopted a Resolution regulating the division of forests into certain categories and making clear requirements as to such division. Besides, the changes were introduced into the order of forest cadastre and accounting conduction. In particular, the list of documentation for conducting of forest cadastre has been expanded.

Despite the fact that during the last year tariffs for wood have increased it is worth mentioning that these tariffs are still less than in many European countries. On the whole it may be concluded that effective



Ukrainian legislation regarding the usage of forest resources complies with international standards regarding the protection

of the environment and at the same time is rather liberal for subjects of forestry activity.

Land. Changes in legislation since 2007

Land is another Ukraine's valuable natural resource. It is necessary to bring attention to the fact that the Law of Ukraine "On the State Budget 2008" has introduced certain changes into the land legislation of Ukraine. These changes have come into effect as of the 1st January 2008. In particular, the date when the sale - purchase of the land of the agricultural designation will be allowed depends now on the circumstances, but not on the actual date. That is according to the amendments made into the land legislation; the contracts on the sale-purchase of agricultural designation's land plots as well as the contribution of the ownership right for the land plot into the charter capital of a company, are not permitted until the date of entering into force the Law of Ukraine "On the land cadastre" and the Law of Ukraine "On the land market".

Additionally, the bodies of privatization have authority to sell the state land plots to foreign states and foreign companies under the concordance of the Cabinet of Ministers. Before the adoption of the above mentioned amendments it was necessary to receive instructions from the Cabinet of Ministers and to concord

it with the Supreme Council of Ukraine in order to take such decision.

The changes made into the land legislation also touched upon the land rent. The Law of Ukraine "On the State Budget 2008" establishes that acquisition of the ownership right for the rent of land plots which are in a state or communal property is carried out exclusively at auctions, except for land plots on which the objects of real estate are located, land plots that belong to individuals and legal entities and which do not have shares (portions) belonging to the state. Earlier the conducting of the competition was allowed in order to determine the land lessee. At the same time the conducting of auctions with respect to the land plots or building that are rented by the state organizations, museums and organizations in the sphere of culture and art is prohibited.

Also, the minimum and maximum amounts of land rental payment have been changed. The Law of Ukraine "On land rent" in the edition effective until the 1st January 2008, established that the annual amount of rental payment for the land plots that are in state or com-



munal property shall not be less than the amount of land tax and may not exceed 10% of the land plots' normative monetary assessment. Since the 1st January 2008, the minimal amount of the land plots' rental payment has been varied. For the lands of agricultural designation the minimal rental amount may not be less than the land tax and for lands of other categories the minimal rental amount may not be less than three amounts of the land tax. The maximum amount of the rental payment has also been changed. It is common for all land categories and may not exceed 12% of their monetary assessment.

It is also worth mentioning that since the 1st January 2008, the tax rate for land plots which have not been monetarily estimated has become twenty times smaller. The amendments to land legislation also provide that in case of the land plot's purchase on the basis of contract the amount of tax is calculated from the sum that equals the monetary assessment of the land plot. However, the sum from which the amount of the tax rate is calculated in any case may not be less than the value of the land plot indicated in the contract.

Iron ores and steel. Prospects for 2008

Another mineral resource that can be found in great amounts in the territory of Ukraine is iron ore and steel. The quantity of the iron ore is about 28 billion tonnes that constitute approximately 12% of the world's supply of iron ore. Such quantity of iron ore lays a strong foundation for the development of the metallurgy industry. It is necessary to underline that Ukraine's impending WTO membership will cause certain changes to the metallurgy industry. In particular, WTO membership will lead to the cancellation of export quotas for

Ukrainian steel. Taking into consideration that the prices of many industrial domestic products are lower than those of foreign products and the fact Ukraine is a net-exporter of most industrial products, particularly metallurgical, the cancellation of export quotas for Ukrainian steel will bring great benefits for the metallurgy industry. These benefits may be increased by introducing energy-saving production techniques that will make Ukrainian industry products more competitive, however this process requires investments.



Dependency on some natural resources: oil and gas

Despite the uniqueness of some natural resources Ukraine is dependant on other mineral resources such as oil and gas. Nevertheless, lately there have been active discussions in the Ukrainian governmental bodies on the necessity to gain energy independence from other countries, first of all from Russia, regarding oil and gas issues. Analyzing the facts that have given rise to such discussions one can point out a decision of the Russian government in 2007, according to which the gas prices for the CIS countries within three years will be based on the fair market value. The basis will be the price for gas on the border between Germany and Poland and will constitute approximately USD 250 for one thousand cubic meter plus transporting expenses.

Thus, Ukraine has two more years to become less dependent on energy resources and this period of time has to be used productively. The aim of gaining energy independence is planned to

be achieved by decreasing oil and gas' external supplies and the subsequent greater exploitation of Ukrainian oil and gas storages. It is therefore the declarations of the state officials of Ukraine regarding the necessity to attract foreign and domestic investors to the gas and oil industry are extremely relevant. In particular, in 2007 Ukraine declared the intent to attract investments in sum of approximately USD 2 billion for exploitation of the continental shelf of the Black Sea. The draft program elaborated last year includes three plans of actions: the exploitation of the shallow shelf, hydrocarbon production and the exploitation of the deep-water shelf.

According to the National Program "Oil and Gas to 2010" Ukraine intends to increase the exploitation of oil and gas by approximately 1.5 times comparing to 2005. Experts believe that Ukraine needs to invest USD 2.1 - 2.3 billion annually in order to achieve this goal.

Attractiveness for foreign and Ukrainian investors

The economic attractiveness of investments in the exploitation of the natural resources of Ukraine is quite reasonable. In addition, it may be emphasized that Ukrainian legislation provides guar-

antees and protection for Ukrainian and foreign investors. In particular, it stipulates a guarantee of stable conditions in which to conduct investment activity. Moreover, Ukraine guarantees protec-



tion for foreign and domestic investments that means they may not be nationalized without compensation.

The above mentioned information proves that Ukraine is indeed one of the most affluent countries in the world with respect to natural resources. On the whole it contains approximately 5% of the world's natural resources with an overall value more than USD 12 tril-

lions. The legislation of Ukraine permits companies to exploit natural resources of Ukraine. Moreover, the Ukrainian government intends to attract domestic and foreign investments for the in exploitation of its natural resources guaranteeing investments' protection. Taking into consideration all of these facts we may conclude that natural resources are definitely an attractive sphere for investments in Ukraine.

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