

## STRENGTHENING THE TRANSPARENCY IN EXTRACTIVE INDUSTRIES IN UKRAINE

On 16 June 2015 the Verkhovna Rada of Ukraine adopted the Law "On Amending Certain Legislative Acts of Ukraine Related to Strengthening the Transparency in Extractive Industries of Ukraine" (the "Law") which will become effective in the coming weeks.

This Law has been developed in order to introduce the European financial reporting standards in Ukrainian extractive industries and to ensure Ukraine's compliance with its obligations as a candidate country for the Extractive Industries Transparency Initiative (the "EITI")<sup>(1)</sup>. EITI developed an independent and voluntary international standard for openness around the management of revenues from natural resources (the EITI Standard), which is currently being implemented by 48 countries.

The countries implementing the EITI Standard should publish reports that disclose the revenues from extraction of natural resources. The companies involved in extraction of natural resources should report payments made to the government (taxes, royalties, etc.) and the government should report its income from extraction. An Independent Administrator should reconcile the figures published in an EITI Report.

In order to implement the EITI Standard, the Verkhovna Rada of Ukraine obliged the state authorities in charge of geological exploration, use and protection of subsoil to provide and publish information on current situation in this field according to the procedure adopted by the Cabinet of Ministers of Ukraine.

Subsoil users (legal entities mining oil, gas, coal or other fossil minerals) were obliged to submit reports in accordance with the international reporting standards, where they have to disclose information on taxes paid and commercial activities related to mining operation at certain sites. The precise procedure for strengthening the transparency in Ukraine's extractive industries and the list of information which should be disclosed by subsoil users should be approved by the Cabinet of Ministers of Ukraine within two months after the Law becomes effective.

Experts in the field believe that the implementation of the EITI Standard (including by virtue of the Law) will have a positive impact on the sovereign credit rating of Ukraine and strengthening of the investors' trust due to the decrease in corruption and increase in the competitiveness of the industry, which in turn will facilitate the inflow of capital.

It is believed that the disclosure of data on payments of mining companies to the Ukrainian budget and on the government's income from the activities of such companies

will facilitate the formation of favorable investment climate, conditions for the elimination of corruption and effective competitive environment. In addition, it is expected that such measures will allow to obtain technical assistance from international financial institutions for the implementation of investment projects in the area of modernization of gas transportation system and other projects aimed at further reforming Ukraine's gas sector.

Open information on duties paid will, among other things, allow to objectively evaluate the feasibility of the amounts of duties for using individual deposits. For many companies this legislative initiative is a tool for increasing trust of their international partners in the Ukrainian market.

- (1) The EITI is established as a non-profit association under Norwegian law. It is registered as "The Association for the Extractive Industries Transparency Initiative" or "EITI Association".

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