

Verkhovna Rada of Ukraine

**The Committee on Fuel and Energy Complex,
Nuclear Policy and Nuclear Safety**

Overview of National Legislation on Coal Mine Methane

*Seminar: “Coal Mine Methane Recovery and Utilization:
Moving Forward”*

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Status of the Legislative Basis

- ❑ Legislative basis that regulates administrative, organizational and social aspects of coal mine methane is largely formed.
- ❑ Several laws and regulations form overall national policy strategy.

Law of Ukraine “On Coal Mine Methane”

- This law defines the legal, economic, environmental and organizational framework for activities related to geological exploration of coal mine methane (CMM), including research and industrial development, mining and extracting it during degasification and future use of this resource.

Law of Ukraine “On Coal Mine Methane” (cont’d)

- The law covers matters regarding improvement of working conditions and safety of miners; geological studies of mineral deposits; subsequent capture of CMM not under commercial development, regardless of their future use; methane capture during degasification of mines that are active, abandoned or in development; and use of CMM as a fuel resource.

State policy on geological exploration, extraction and use of CMM is based on the following principles:

government
regulation of CMM
capture and
utilization

improve the safety and
efficiency of operation of
facilities that capture and use
CMM

protect the rights
and interests of
all related
stakeholders

promote competition
in the field of CMM
capture and utilization

improving the
environment

sustainable use of
mineral resources

Art. 11. of the law stimulates geological exploration, capture and utilization of CMM by: (entered into effect 1 January 2010)

- Creating attractive conditions for investment from domestic and foreign investors
- Providing state guarantees for protecting investments that aim to improve degasification
- Taking into account characteristics of CMM as a minerals resource when developing standards, rules and regulations in this area
- Individually tailored approaches to drafting CMM projects at specific facilities

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- ❑ Providing customs and tax incentives to businesses engaged in CMM capture and CMM-based production
 - ❑ Introducing incentives for businesses, sole activity of which is CMM capture and engaging mines in CMM capture
 - ❑ Providing government support and guarantees for producers and suppliers of energy generated from CMM
 - ❑ Temporary exemption until 1 January 2020 from income tax from activities related to CMM capture and utilization

Environmental Safety Requirements

- The first part of Art. 12 of the law came into force on January 1, 2011, increasing environmental safety requirements during coal mining. This provision prohibits mining at gassy mines without conducting ventilation or degasification that ensure that methane concentration is at established norms.

The main directions for CMM capture and utilization are:

- utilization of CMM as a material resources onsite
- utilization of CMM as an energy resource onsite
- utilization of CMM by end-users through natural gas transmission systems (subject to standards)

The right to extract CMM during degasification may be given to:

Holders of a special permits for commercial development of coal deposits within a given mining lease

specialized organizations hired by permit holders, as specified in the law

Tax Code of Ukraine

- ❑ Transitional provisions of the Tax Code provide temporary (until January 1, 2020) tax credit on the income tax for business activities related to CMM capture and use as described in the Law "On CMM"
- ❑ According to § 151.1. Art. 151 of the Tax Code of the basic rate of income tax is 16 percent

Law of Ukraine "On Alternative Fuels"

- Art. 5 of this law defines CMM as an alternative gas fuel. The law describes organizational and economic principles for stimulating the development of alternative fuels in Ukraine, including CMM capture and utilization. In addition, legislation on geological exploration, extraction and use of CMM is related to other laws and codes, namely the Code of Ukraine on Mineral Resources, Land Code of Ukraine, the Mining Law of Ukraine , laws of Ukraine "On Oil and Gas", "On Environmental Protection", "On Labor Protection“ and other legal acts.

Incentives for CMM as alternative fuel under Art. 16 of the Law of Ukraine "On Energy Saving"

- ❑ Tax incentives to enterprises that use equipment that runs on alternative and renewable sources energy and alternative fuels
- ❑ Priority lending measures to ensure efficient use and saving of energy resources, including production of alternative fuels

Draft laws aimed at resolving the issue of disproportionate tax burden on businesses that conduct their activities in accordance with the rules under Law of Ukraine "On CMM"

- ❑ Draft Law on Amending the Law of Ukraine "On CMM" to support and stimulate the production of alternative fuels (Reg. № 2693 of 04/02/2013), author - O. Myrnyy, I. Miroshnichenko
- ❑ Draft Law on Amending the Law of Ukraine "On CMM" to stimulate environmental protection measures during mining operations (Reg. № 2693-1 of 15.04.2013), author - O. Koval
- ❑ Draft Law on Amendments to the Tax Code of Ukraine to reduce the tax burden on producers of alternative fuels (Reg. № 2694 of 02/04/2013), authors - O. Myrnyy , I. Miroshnichenko
- ❑ Draft Law on Amendments to the Tax Code of Ukraine to support and stimulate the degasification of coal mines (Reg. № 2758 of 04/09/2013), author - S. Pashinsky
- ❑ Draft Law on Amendments to the Tax Code of Ukraine to stimulate environmental protection measures during mining operations (Reg. № 2811 of 15.04.2013), author – O. Koval

The aim of the proposals is to eliminate economic (tax) barriers to establishment and development of degasification of mines to ensure safe working conditions in the mines, coal mining safety improvement, creation of appropriate conditions for capture and utilization of CMM as material or energy resource.

One of the key barriers that now constrain coal mines in effectively implementing CMM projects is a rule, adopted in the Law of Ukraine "On Amendments to the Tax Code of Ukraine concerning improvement of certain tax rules » № 4834 -VI on May 24, 2012. The rule introduced fees for mineral use to unreasonable level for companies that capture CMM. Today, the Committee is considering laws that are designed to eliminate such barriers by eliminating payments for mineral use for CMM capture or reconsider calculation such fee, ensuring that the legislation provides stimulus for CMM.

Draft Law on efficient use of energy resources (registration number 3071, author - KMU)

- ❑ The bill is intended to regulate the use of energy resources by businesses and citizens, and to ensure effective use of resources.
- ❑ However, the main piece of legislation, which now governs the relationship is the Law of Ukraine "On Energy Saving".

Discussion of the Draft Code of Mineral Resources

- The hidden danger in adopting the Code, as it is currently defined, is that it will terminate the Law of Ukraine "On CMM" and does not provide for maintaining currently existing incentives for CMM.

CMM in the draft of the revised Energy Strategy to 2030

- The new proposed “Energy Strategy until 2030” deals with nonconventional gases, including CMM.
- However, primary data on the characteristics of geological structures and results of the analysis of the technological aspects of future outputs help build preliminary forecasts based on international practice. The purpose of these preliminary forecast to establish the likely range of costs and potential production. Taking into account international experience and features of CMM resources in Ukraine, the cost of production could range from 2,300 to 3,300 USD for 1 thousand cubic meters. With such a high cost of production, CMM becomes economically attractive only in 2025 in the baseline scenario. Potential production in 2030 could reach 3.1 billion cubic meters. To achieve this in production, we need to invest around 12-15 billion HRY into exploration and building of infrastructure.

Thank you for your attention