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Coal Mining Restructuring: Experience and Perspectives

Coal industry in Ukraine has been restructured since 1995. The subject of my paper is to describe this process.

In 1995, when the reform in the power industry was well under its way and the gas industry had embarked on the first steps toward reform, Ukraine’s coal industry remained untouched by the changes that happened in the country. In that year the coal industry employed 650,000 workers, who produced 66 million tons of coal in 276 mines and 64 washing plants. In addition, 200,000 people were employed in supporting functions such as mine construction, machine building, and social services (such as kindergartens). Labor productivity was far lower than in other countries, and about one-third of the mines produced coal at a cost above the import parity level. The 383 coal industry enterprises were managed by the coal ministry, which, following the tradition of central planning, appointed enterprise managers, set production targets and prices, and allocated physical and monetary flows. But this old industry model was under severe strain:

The accumulation of uncollected receivables by the central coal marketing agency (Uglesbyt) created strong incentives for mines and mining associations to arrange their own sales (mostly through barter to minimize the risk of the coal ministry confiscating their revenues). Lower prices, better availability, and superior quality led imported coal to capture an increasing share of the domestic market, reaching 20 percent in 1995.

Nowadays the situation has changed a little bit. Thus, the mining facilities of Ukraine go through their poor state being the oldest ones among coal mining regions CIS. Today it is only 14 mines or 8.5 percent that are less than 30 old, 73 mines or 44.5 per cent are in the age between 30 and 50 years old while the operation life of 77 mines or 47 per cent exceeds 50 years including 36 mines or 21.9 per cent that are older than 70 years. Besides, in Central Donbass there are 7 mines which operation life is more than 100 years. Due to the heavy conditions of coal extraction and the low quality of mine works the annual output that is manifestation of mining potential does not exceed 600 thousand t in 105 mines or 64 per cent, of which 47 mines have their annual output of 300 thousand t. It is only 26 mines that provide 1,000 or more thousand t of output.

To overcome the crisis it could be recommended: to nationalize all mining enterprises, to reform the power industry, to reduce coal imports from other countries that may contribute to positive changes in the Ukrainian mining industry.