



June 2009

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Gambling Business Prohibited in Ukraine

The latest disputes in Ukraine regarding the future of the gambling business were settled when the law "On Prohibition of Gambling Business in Ukraine" No. 1334-VI (the Gambling Prohibition Law) went into effect on 25 June 2009.

Problems with Ukraine's gambling business began with a fire on gambling machine premises in Dnepropetrovsk (7 May 2009) that caused human loss. After that incident the Cabinet of Ministers of Ukraine initiated investigations of gambling organizations and terminated the gambling license of the owner of the premises. The Parliament of Ukraine adopted the Gambling Prohibition Law on 15 May 2009, which was vetoed by the president. The Parliament overruled the veto, and the law was signed by the president.

The Gambling Prohibition Law provides for the temporary prohibition of gambling activity in Ukraine (until legislation on special gambling zones is adopted) and imposes significant financial sanctions on illegal gambling businesses.

The prohibition against participating in gambling and gambling business – defined as any activity associated with the organization and provision of gambling in casinos, on gambling machines, in betting offices and in online casinos – does not include lotteries, competitions and games (such as billiards and bowling) that are not aimed at winning a prize.

One of the negative consequences of the Gambling Prohibition Law is the suspension of the gambling licensing regime and termination of recently purchased gambling licenses, which occurred on the date the Gambling Prohibition Law went into effect. The gambling licenses

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were issued for a term of five years with an annual payment of €30,000 for each betting office, online gambling server, casino gambling hall and entity with a gambling machine business. The Gambling Prohibition Law is silent with respect to whether the licensees should be reimbursed for the cost of new licenses after the prohibition is terminated and what the mechanism for compensation of losses will be (if there will be compensation).

The other important issue is the length of the moratorium on gambling. The Gambling Prohibition Law will remain in effect until a special law regulating the provision of gambling in special gambling zones is adopted by the Parliament. The Gambling Prohibition Law establishes a three-month term for the Cabinet of Ministers of Ukraine to draft such a law. However, it is difficult to say whether the Cabinet of Ministers will meet this deadline and how quickly the Parliament will adopt a respective law, as both events may greatly depend on the position of local authorities where gambling zones will be located.

The seriousness of the measures undertaken by Ukraine to prohibit gambling business is underscored by the strict financial sanctions to be imposed on offenders. The Gambling Prohibition Law provides for a fine of 5,000,000^[1] UAH (approximately €474,095) for conducting illegal gambling business, as well as confiscation of gambling equipment and income from such activity, all of which will go to the state budget.

Such sanctions will be imposed by a decision of the administrative courts based on the claims of tax authorities. The Gambling Prohibition Law grants the State Tax Service of Ukraine the power to file in court for such sanctions.

If you have questions about the Gambling Prohibition Law or any of the provisions, please contact your primary Squire Sanders lawyer or one of the lawyers listed in this Alert.

^[1]The amount of the fine will be subject to change with respect to fluctuations in the minimum wage. The total amount of the fine is prescribed as 8,000 times the minimum wage.

The contents of this update are not intended to serve as legal advice related to individual situations or as legal opinions concerning such situations. Counsel should be consulted for legal planning and advice.

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2009

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