

UKRAINE:

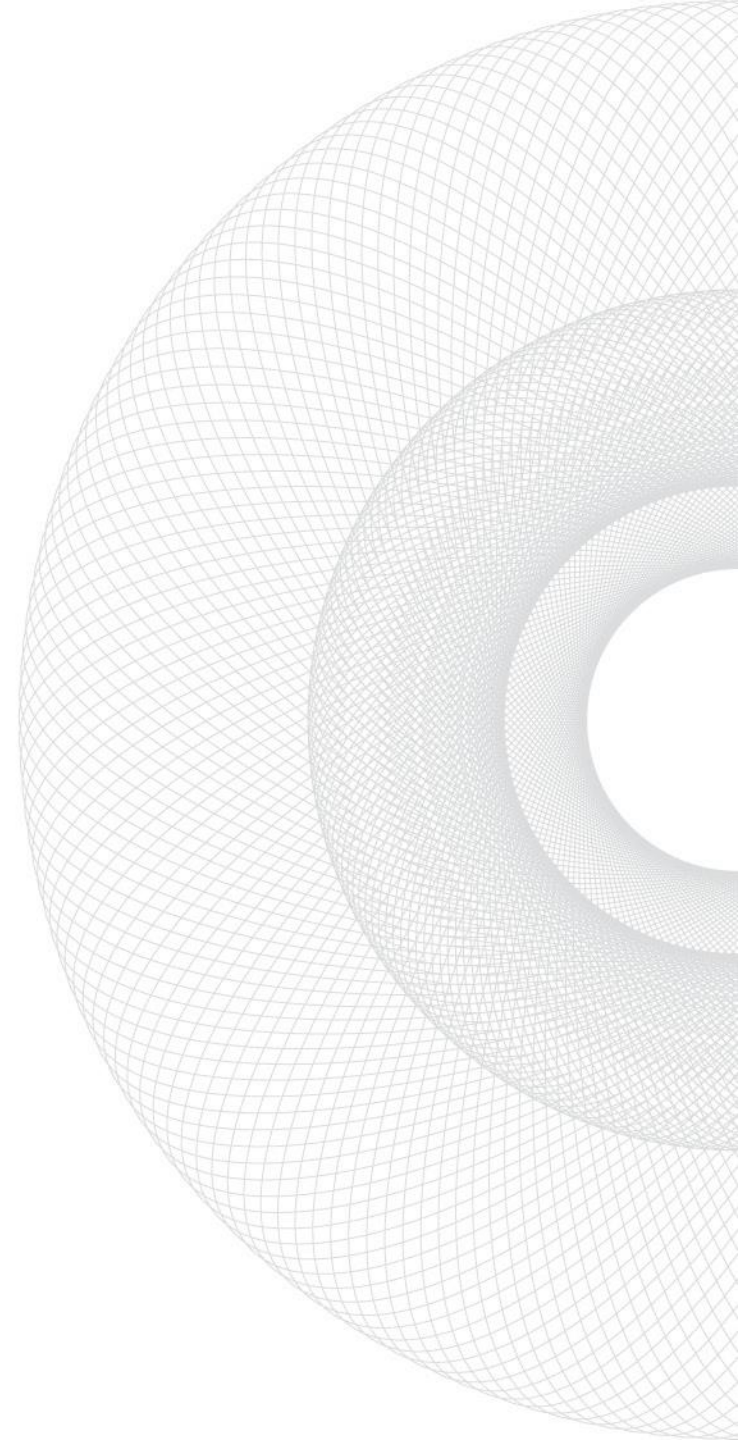
Improvements and challenges in the upstream regulations

KINSTELLAR



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ETCSEE 2018, Budapest, 13 June 2018



Regulatory framework: IMPROVED



- Number of permits / authorizations decreased:
 - Obligation to obtain a **mining allotment** for oil and gas permit holders abolished
 - **Soil stripping permit** is not required for oil and gas wells drilling and building related infrastructure
 - No decision of Derzhgeonadra required to set a field into exploration or production; instead, a notification process is in place
- **Transfer of geological data** does not require approvals of state or local agencies but it subject to notification of Derzhgeonadra
- Land use liberalized:
 - Land plots can be used under **agreement for exploration works** until the title to use land is obtained for production purposes
 - Easement can be a legitimate ground for using land for oil and gas production. Designated use does not need to be changed



Fiscal policy: IMPROVED



Two types of payments

- **Bonus** payment for issuance of a license
- **Royalty** payments:

For new gas wells (since 1 January 2018)

> 5,000 m – 12% (used to be 29%)

< 5,000 m – 6% (used to be 14%)

PSAs – 2%

JAAAs – 70%

Offshore drilling – 11%

Stabilisation clause

5 years (until 1 January 2023)

Decentralisation of royalties

5% to be allocated to the respective local and regional budgets



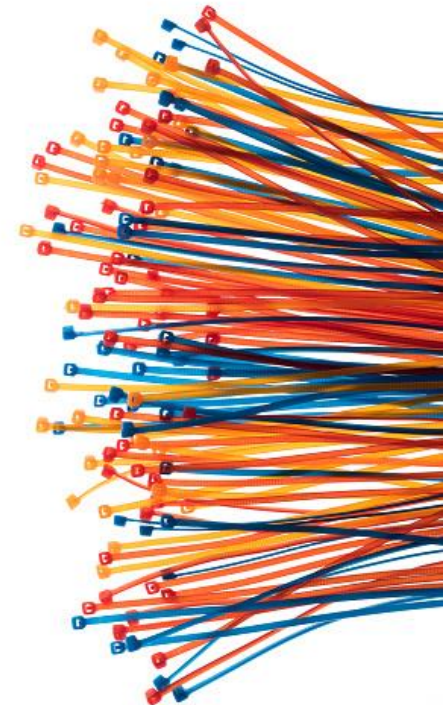
Increase of number of new wells in private sector

80% in 1st quarter 2018 compared to 1st quarter of 2017 (source: AGPU)

Auctions / License Issuance Procedures: IMPROVED



- Approbation procedure prohibited for fields without licenses
- Open auction to become the only way to obtain a license in 2019
- Term for endorsement of decision to issue a license by local authorities shortened two times (45 days)
- Endorsement of local authorities is not required for offshore license
- Prohibition to renew license for tax debtor lifted, instead disposal to be restricted
- Private companies can transfer licenses to their subsidiaries (until end of 2018)
- Transition period for environmental impact assessment – until 1 Jan 2019



CHALLENGE: Environmental Impact Assessment

- EIA Law came into effect in December 2017
- Market players made more than 120 applications for EIA
- Nine applications (for extension of licenses) have been satisfied
- Formal reason for delays: Ministry of Environment has not approved fee for public hearings to be charged by the regional state
- Without EIA UGV had to stop production on one well
- Ministry of Environment to clarify that only production activities requires EIA



Transition period introduced



BARRIERS

No Access to Geological Data

Access and transfer of geological data to be simplified

Secondary information (wells' profiles, geological maps, summaries) to become publicly available

- in digital form through electronic data room
- free of charge

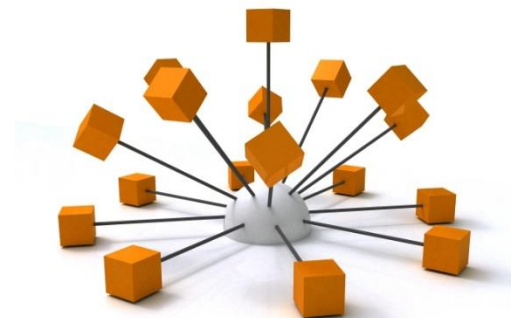
No Open Auctions

In 2014-2017 – 43 auctions held, while 679 licenses issued

In 2017 – only one auction for hydrocarbons

In 2018 - 40 – 50 fields, 150 th sq m expected to be auctioned

Draft CMU Resolution prepared



Thank you for your attention

