

**Latest developments in the Russian oil and
gas legislation:**

New challenges, new opportunities

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2008: A Year of Change

O&G Legislation – Approved:

- Strategic Industries Law
- Amendments to Subsoil Law
- Amendments to Continental Shelf Law/Gas Supply Law
- Amendments to Tax Law

In the Pipeline:

- Amendments to Gas Export Law
- Gas Pipeline Access Rules

Investing in Exploration and Production: New Legal Framework

- Concept of “subsoil area of federal significance” introduced (FSA)
- Special rules on getting access to and transfer of rights over FSA included in Subsoil Law
- Companies holding licences to FSA become “strategic”
- Acquisition of 10% (5%) or more in such companies and certain other transactions require government consent

Subsoil Areas of Federal Significance: Criteria

- Deposits and shows of uranium, diamonds, particularly rare raw quartz and certain other elements and metals;
- Containing, based on state balance of mineral reserves starting from 1 January 2006
 - Recoverable reserves of oil – 70 million tons or more
 - Reserves of gas - 50 bcm or more
 - Reserves of vein gold – 50 tons or more
 - Reserves of copper – 500 thousand tons or more
- Those of interior marine water, territorial sea and continental shelf
- Where use of defence and security land is involved

Subsoil Area of Federal Significance: Qualification and Re-Qualification Procedure

- FSA list to be published
- Already licensed areas to be included in FSA list
- Discovery or further appraisal may result in re-qualification of area into FSA
 - No grant/ termination of E&P rights if threat to national security
 - Compensation mechanism unclear
- Special Government resolution to move to production stage

Granting Rights over FSA

- By decision of RF Government only
- No geological study licences (only E&P; GS/E&P; state contract)
- Tender, auction or discovery under existing GS licences for non-FSA areas
- Special rules for continental shelf and gas-containing FSA

“Strategic” Oil and Gas Companies (SOGC)

- Russian companies holding geological study and (or) E&P rights over FSA qualify as “companies having strategic significance”
- Transactions to be approved
 - Resulting in acquisition of “control” over SOGC, including 10% or more voting shares (5% for state-controlled acquirers)
 - Acquisition of any number of shares by foreign investor already holding 10% or more
 - Both onshore and offshore; both active and passive acquisition of control
- Transactions in respect of SOGC where RF holds more than 50% (directly or indirectly) exempted but scope of exemption unclear

Approval Process

- Final decision to be taken by Government Commission for Control over Foreign Investment chaired by Prime Minister (formed in July 2008)
- Decision to be taken within 3 months, maximum 6 months from application date
- Application to be handled by “authorised body” (Federal Anti-Monopoly Service)
- Federal Security Service and Commission for Protection of State Secrets involved

New Rules for Continental Shelf FSA

- Special requirements to continental shelf licence holders:
 - Legal entities registered in Russia
 - 5 year experience of exploration of Russian continental shelf areas
 - more than 50% RF participation (directly or indirectly)

- Special FSA List to be approved by Government
- Non-tender grant of E&P or GS/E&P rights
- Existing licences?

New Rules for Gas-Containing FSA

- Special requirements to continental shelf licence holders:
Gazprom or owners of regional gas supply network
- Special list to be approved by Government (first list approved in November 2007)
- Non-tender grant of E&P or GS/E&P rights by Government resolution

New Tax Incentives

- Amendments to Tax Code passed in July 2008, come into force from 1 January 2009
- Tax holidays on mineral extraction tax for oil produced from areas located north of Polar Circle, Azov sea, Caspian sea, Nenetsk and Yamal regions
- Similar amendments expected for Black Sea and Sea of Okhotsk this autumn

Gas Export Law: Changes Expected

- Draft prepared Federal Anti-Monopoly Service, approved by MED and FCS
- Monopoly of Gazprom to cover only natural gas and dry stripped gas
- Gas for export to be purchased from independent producers pro rata their share in total production
- Gazprom to pay “fair price” based on formula to be approved by Government

Rules for access to gas pipelines

- Developed by Federal Anti-Monopoly Service since 2006; draft to be submitted to Government in September
- Main ideas:
 - “Available Capacity of Gas Transportation Network” defined as technical capacity minus transportation for state or municipal needs; household supplies; supplies under international contracts
 - Long-term supplies (contracts for more than 1 year) to be given priority on pro rata basis
 - Short term supplies to be transported on first come, first served basis
 - Substantial disclosure obligations to be imposed on Gazprom
- Supply for Gazprom’s own needs to be deducted for available capacity? Priorities for associated gas?

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