The International Energy Agency (IEA), an autonomous agency, was established in November 1974. Its primary mandate was – and is – two-fold: to promote energy security amongst its member countries through collective response to physical disruptions in oil supply, and provide authoritative research and analysis on ways to ensure reliable, affordable and clean energy for its 28 member countries and beyond. The IEA carries out a comprehensive programme of energy co-operation among its member countries, each of which is obliged to hold oil stocks equivalent to 90 days of its net imports. The Agency’s aims include the following objectives:

- Secure member countries’ access to reliable and ample supplies of all forms of energy; in particular, through maintaining effective emergency response capabilities in case of oil supply disruptions.
- Promote sustainable energy policies that spur economic growth and environmental protection in a global context – particularly in terms of reducing greenhouse-gas emissions that contribute to climate change.
- Improve transparency of international markets through collection and analysis of energy data.
- Support global collaboration on energy technology to secure future energy supplies and mitigate their environmental impact, including through improved energy efficiency and development and deployment of low-carbon technologies.
- Find solutions to global energy challenges through engagement and dialogue with non-member countries, industry, international organisations and other stakeholders.

IEA member countries:

Australia
Austria
Belgium
Canada
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Japan
Korea (Republic of)
Luxembourg
Netherlands
New Zealand
Norway
Poland
Portugal
Slovak Republic
Spain
Sweden
Switzerland
Turkey
United Kingdom
United States

The European Commission also participates in the work of the IEA.
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pipelines. It is in the interest of both investors and the government to address this issue in a timely manner to avoid uncertainty in the legal and regulatory regime that may affect investment in oil field developments. This includes gathering pipes and low-pressure connection lines within the existing infrastructure.

DEVELOPMENT OF UNCONVENTIONAL HYDROCARBON RESOURCES

TENDERS

Ukraine holds sizable untapped reserves of unconventional oil and gas. The government has pursued vigorous legislative changes to amend existing regulations to make these reserves attractive for investors. For example, it has streamlined PSAs and in 2012 offered tenders for the Oleska and Yuzivska blocks and the Black Sea shelf under this regime allowing for the exploration and production of natural gas, shale gas, tight gas, coalbed methane, crude oil and oil and gas condensates for a 50-year period. These tenders are considered potential game-changers for the Ukrainian economy and have attracted high interest among international majors. Bidders included Royal Dutch Shell, TNK-BP, ExxonMobil and Eni.

The Oleska block, located in the western part of Ukraine, covers an area of 6324 km². The minimum investments required at the exploration stage of this field are estimated to be USD 163 million and for the commercial production stage at USD 3.13 billion. The cost of the tender package for potential bidders was valued at USD 1.3 million and the winning bid was submitted by Chevron.

The Yuzivska block is in the eastern part of Ukraine with an area of 7886 km². The minimum investments required during the exploration stage are estimated at USD 200 million and for the commercial production stage at USD 3.7 billion. Tender package cost for this field was USD 1.9 million and Royal Dutch Shell won the tender.

The Foros and Skifska areas are oil and gas fields on the Black Sea shelf, near the Ukrainian-Romanian border and the Crimean Peninsula respectively. Estimated recoverable reserves are 3 bcm/year to 4 bcm/year of natural gas at Skifska and 2 bcm/year to 3 bcm/year of gas at Foros. The reserve depth of 10,000 m required a minimum investment of USD 200 million in the tender process. With a participation fee of USD 125,000, the cost of the tender package for the Foros area are USD 1.25 million and USD 1.5 million for Skifska. The term of the tenders are for 50 years and allow for natural gas, oil and oil condensate development. The tender was announced in June 2012. In August 2012, the government selected ExxonMobil and Royal Dutch Shell to lead development of the Skifska deepwater natural gas field offshore of the Black Sea, together with Romania’s OMV Petron and NJSC Nadra Ukrayn. No bids were submitted for the development of the Foros field.

The terms for the tender for the four areas require joint development at the exploration stage with 50% state partner participation. Shell and Chevron are required to set up a joint venture with the Ukrainian state partner (a joint venture between NJSC Nadra Ukrayn, the state mineral resources company, and SPK-Geoservice, a service company). SPK-Geoservice was chosen by the Ukrainian authorities to take a 10% minority share in

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a partnership with NJSC Nadra Ukrayny for the multi-billion dollar shale exploration projects. Profit sharing terms at the commercial production stage require a minimum share for the state of 15% for Oleska, 16.5% for Yuzivska, and 20% for the Foros and Skifska areas. Details for state participation as well as the work programme and licence terms are negotiated with the government as part of the PSA agreement.

FISCAL STRUCTURE

The Tax Code of Ukraine sets royalty payments and subsoil use tax rates. Amendments to the Tax Code, in force from 1 January 2011, have raised royalty payments by 16% for natural gas and by 29% for oil and gas condensate. It also increased the level of subsoil use tax by 66% per tonne of oil and gas condensate and almost 90% per thousand cubic metres of natural gas.

Different ranges of royalty payments are set for natural gas production from offshore and onshore fields and for oil and gas condensates. For onshore production, the rates are differentiated based on the depth of production (below or above 5 000 m) and also between the supply to two categories of customers: residential and commercial/industrial. Oil and gas producing companies and joint ventures with a minimum of a 50% state interest have the statutory requirement to supply domestically produced natural gas to domestic residential, commercial and industrial customers.

The Tax Code fixes the base price of natural gas at USD 179.5/tcm. The methodology for calculating the royalty payment for domestically produced natural gas to residential customers is based on a multiplier, calculated by dividing the average customs value of natural gas imported into Ukraine during the previous reporting month by the base price.

In May 2012, the parliament approved a legislative proposal that would replace the existing royalty scheme for oil and gas extraction with higher mineral extraction taxes effective 1 January 2013. The proposed new tax on oil producers is linked to the Urals oil price and the tax on gas producers is tied to their sale price. Oil tax rates were set at 39% and 17% depending on reservoir depth (up to or below 5 000 m). For gas extraction, a wider range of tax rates was proposed. Companies whose gas is supplied to households face tax rates of 28% and 25% based on the 5 000 m depth threshold (but not less than Ukrainian hryvnia (UAH) 101.3 (EUR 10)/tcm from reservoirs above 5 000 m and UAH 89.45 (EUR 8.9)/tcm from reservoirs below 5 000 m). Offshore gas production is to be taxed at 15%, but not less than UAH 53.9/tcm. For other gas producers, rates of 17% and 9% were proposed based on reservoir depth (but no less than UAH 594.64/tcm from reservoirs above 5 000 m and UAH 18.34/tcm from reservoirs below 5 000 m). Companies operating under production-sharing agreements would be taxed at 2% for oil and 1.25% for natural gas.

If signed into law, the bill will have a mostly neutral impact on oil and gas producers such as Ukrnafta and JKX at current oil and gas prices, as the proposed taxes are close to what these companies currently pay (royalties plus mineral extraction tax). Yet the proposed minimum taxes on gas production are close to the rates implied by current gas prices, hence should gas prices for industrial consumers decline from their current level of USD 438/tcm (e.g. in case of revision of the gas contract with Gazprom), gas producers would still pay the same minimum rate, implying an increased amount of taxes in relation to revenues.