REFORMS IN OIL&GAS SECTOR OF UKRAINE

American Chamber of Commerce in Ukraine
Energy Committee

About the Chamber

The American Chamber of Commerce in Ukraine (Chamber) is among the most active and effective non-government, non-profit business organizations operating in Ukraine. One of the principal activities of the Chamber is to represent the foreign investment community as well as to facilitate the entrance of potential new investors into this market. The Chamber advocates on behalf of its member companies who are from more than 50 nations across the globe not only to the Ukrainian government, but also to all other governments, which are economic partners of Ukraine, on matters of trade, commerce, and economic reforms. The Chamber's diverse Membership base unites companies from a variety of regions and countries, including North America, Europe, Asia and Ukraine. The Member organizations represent the largest strategic and institutional investors operating in Ukraine who have committed a majority of the foreign direct investment into this market. The Chamber cooperates closely with the Ukrainian authorities to improve the business environment and attract domestic and foreign investment into the economy, advocate for predictable, transparent, equitable and stable rules of doing business and promotes Ukraine's integration into the larger global community.

The Chamber Energy Committee has been successfully operating for many years within the Chamber with the main mission to represent and protect interests of the leading energy companies as well as promote the further development and modernization of Ukraine's energy sector by attracting investment, in support of the vision of a more energy self-reliant Ukraine.

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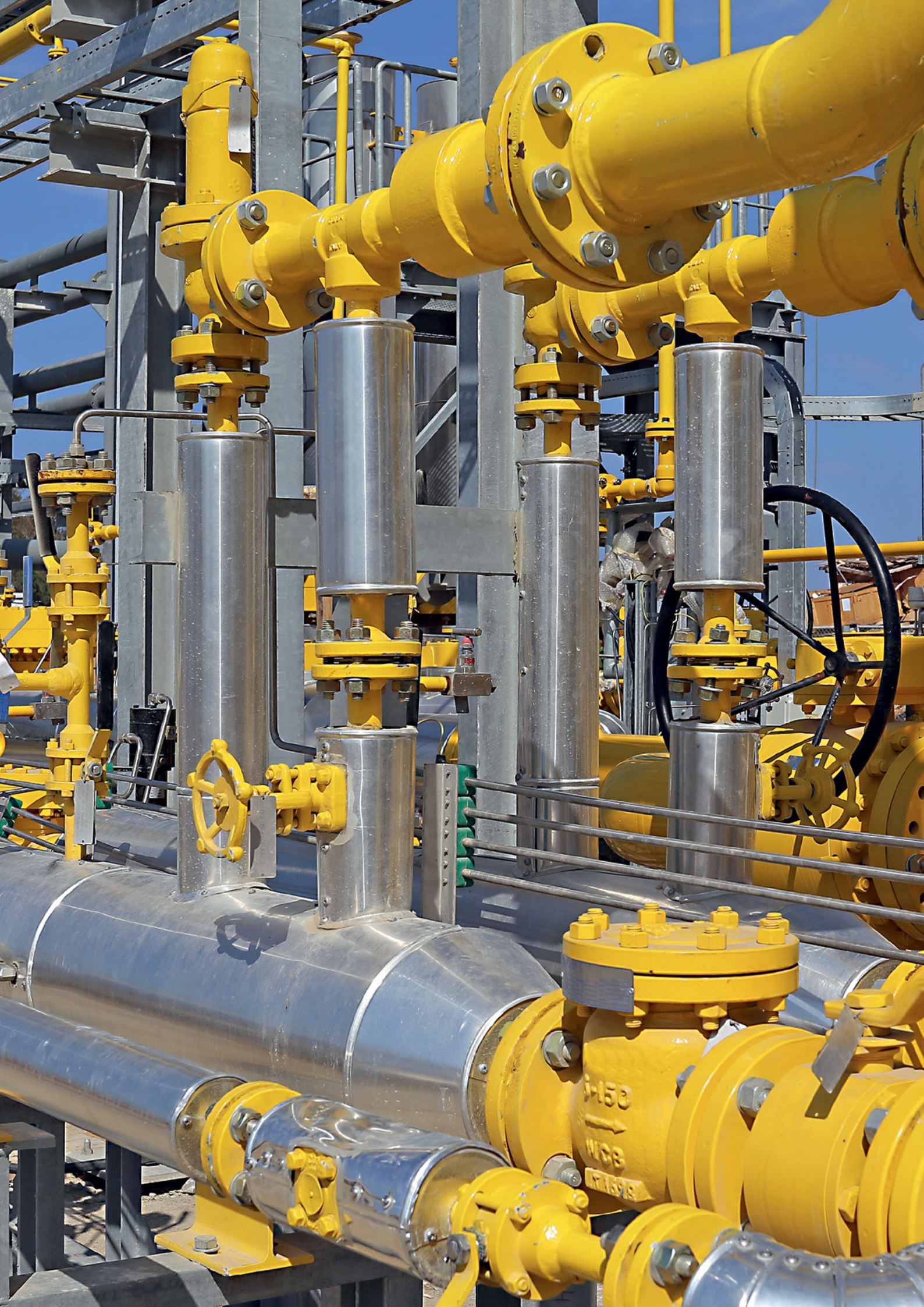


REFORMS IN OIL&GAS SECTOR OF UKRAINE

This White Paper is the second edition issued by the American Chamber of Commerce regarding the reform of the oil & gas sector. The main goal of this publication is to communicate the position of independent private companies and investors to governmental institutions and experts of how the business community sees the reform of the oil and gas sector as well as which priorities it outlines for 2016.

The priorities identified in this White Paper reflect Ukraine's commitments under such documents as the EU-Ukraine Association Agreement. At the same time, it is an absolute priority for Ukraine to solidify its energy security by radically reforming its oil & gas sector to make it more efficient and attractive for the benefit of both of the State and investors. The development of competitive, transparent and non-discriminatory energy markets in line with EU rules and standards through regulatory reforms is one of key milestones of energy cooperation between EU and Ukraine according to art. 338 of the Association Agreement.

Energy reform and deregulation are some of the key priorities for the Strategy 2020 reform action plan of Petro Poroshenko, the President of Ukraine. Energy sufficiency is one of two programs of this Action Plan.

Also, the priorities identified by the Chamber Members as necessary to implement the reforms were mentioned in the Energy part of the Coalition Agreement signed on 21 November 2014 which many experts believe to be one of the best prepared documents.

REFORMS: PROGRESS TO DATE

The Chamber has identified three main categories of issues which, if tackled effectively, would transform the situation in the oil and gas sector and lead to Ukraine being internationally recognized as an attractive place to conduct oil and gas business. These are:

- Hydrocarbon taxation reform
- Gas market Law practical implementation
- Regulatory reform

It is important to address all three of these issues together as they are interdependent. For example the practical implementation of the Gas market Law will lead to a transparent gas market and objective gas pricing mechanism which are key both to taxation and the regulatory system. Without reform of the taxation system, even if the Gas market Law is implemented, and regulatory reform takes place, an attractive investment environment will not have been created.

WHAT WAS ACCOMPLISHED IN 2015
(based on the implementation of priorities from the White Paper 1st edition)

ACTION PLAN	STATUS
1. Prevent further monopolization of the Ukrainian gas market. Abolish provisions on mandatory sale of natural gas by private producers to Naftogaz of Ukraine.	Resolution #647 revoked. Law on Natural Gas Market enacted.
2. Stabilize taxation of hydrocarbons production in Ukraine.	Done partially: Hydrocarbons production royalties reversed to the level of 2014. However, this issue requires further work because even the reduced royalties do not help improve the situation nor reflect the global downward trend of energy prices.
3. Adopt the new Law on Natural Gas Market.	Done.
4. Reform Land Legislation to meet the needs of the Oil and Gas Sector.	May be resolved partially if Draft Law #3096 is enacted.
5. Reform oil and gas well registration procedure.	May be resolved partially if Draft Law #3096 is enacted.
6. Adopt new Rules for Oil and Gas Fields Development (subject to best international practices and particularities of the development of unconventional hydrocarbon systems).	Decree of the Ministry of Ecology and Natural Resources approved, approval by the Ministry of Justice pending.
7. Cancel mandatory monitoring and academic support of subsoil use as well as geological expert opinions.	Done. Academic monitoring canceled. However, the geological expert review still remains.
8. Effective management of big infrastructure projects. Effective PSA implementation models.	–
9. Prepare a permitting guide for the industry based on the analysis of the existing procedure, implement the best practices for the approval of permitting documents and reduction of bureaucracy.	–
10. Adopt a new Subsoil Code (subject to the particularities of the development of unconventional hydrocarbon systems).	–

ACTION PLAN	STATUS
11. Cancel the discriminatory provisions of art. 93 of the Code of Civil Protection of Ukraine.	–
12. Further liberalize land access legislation (possibility to purchase/lease agricultural land for the purposes of the oil and gas industry).	May be resolved partially if Draft Law #3096 is enacted.
13. Cancel special import measures (quotas) for tubular goods used for drilling.	–
14. Create a unified geological database.	Some progress. State Enterprise "Geoinform" created an open interactive database of issued licenses available on their web site
15. Create conditions for compliance with the requirements of the Extractive Industries Transparency Initiative (EITI), in particular prepare an EITI Report.	EITI secretariat in Ukraine established, report form confirmed. First EITI report presented in 2015. However, the submission of reports by companies is still a work in progress.
16. Liberalize foreign currency exchange rules.	–
17. Adopt IFRS accounting principles.	–
18. Allow private companies to operate at a loss during geological exploration stage.	–
19. Normalize oil and gas well tax treatment.	–
20. Allow tax consolidation among Ukrainian-incorporated affiliates.	–
21. Allow the use of resources and services of affiliated companies (the ability to purchase services without profit elements, deductibility of consulting and engineering services, remove obstacles to payment for services from abroad).	–
22. Simplify employment procedure for foreign nationals.	

#1.
Hydrocarbon taxation reform

Despite the recent and welcome reductions to the rates of rent tax applicable to independent producers, Ukraine lacks a coherent tax structure for hydrocarbon producers. The current system is uncompetitive, internationally, is very complex with many different rates of rent tax and has in the recent past been subject to dramatic changes without consultation. What is needed is a simple system which would allow Ukraine to compete globally for the large and risky capital investments required to revitalise the industry. Simplicity means eliminating distortions caused by having different rates of rent tax, for example, related to the type of producer (independent, state or JV) or the type of customer for gas (industrial or supply for popular needs). The position of the Chamber is that Ukraine should embrace profit based taxation as soon as practicable, but recognising difficulties in the interim it is important to simplify the rent tax system, linking it to an objective market price. This needs to be combined with a stability pledge protecting investors against any possible future adverse changes in taxation.

PROPOSED ACTIONS:

1. Modernize, stabilize and make competitive the tax system for hydrocarbons production.
2. Liberalize foreign currency exchange rules.
3. Improve P(s)BO No. 33 Mineral Exploration Costs, use accounting data for the purposes of taxation of exploration costs.
4. Abolish VAT obligations on unsuccessful wells.
5. Allow tax deductibility of lost assets in ATO zone.
6. Allow tax consolidation on a group basis.
7. Allow the use of resources and services of affiliated companies.
8. Ensure clear definition of the tax categorization engineering services, which will not cover exploration and development expenses.

#2.
Gas market Law practical implementation

This new piece of legislation was well crafted and welcomed by the industry, but the lack of sound secondary and enabling legislation means that the benefits for the gas industry (producers, transporters, distributors and consumers) are not realised. For example the excessive burden imposed by the security stock requirement is a disincentive to investment. The gas market cannot function as intended without the freedom of gas imports and exports which will result in Ukraine's gas market joining the European gas trading network and gas pricing to follow the real market. Further, monthly gas balancing is extremely outdated and results in heavy distortions – daily balancing is possible and eliminates these distortions.

PROPOSED ACTIONS:

9. Adopt the Law on National Commission for State Regulation of Energy and Public Utilities.

10. Normalize the formation of the gas stock reserve.

11. Adopt secondary legislation to ensure the efficient operation of the natural gas market.

12. Provide the regulation of the licensing of natural gas supplies.

13. Develop a state program of transfer to new gas quality standards.

14. Development of a state program of transition to gas metering in energy.

#3.
Regulatory reform

A new Subsoil Code (to include rules for oil and gas field development) is urgently needed to reform and streamline the legal and regulatory environment of the hydrocarbon which today is heavily dependent on obsolete Soviet era practices and systems. For example, subsoil licenses (special permits) should not be divided into separate exploration and production phases without automatic rights to convert to production – otherwise there is no incentive for investors to risk their money on much needed exploration. New licenses should be issued through transparent auction processes, governed by law. State bodies should not be entitled to suspend or terminate subsoil licenses except through court processes on specific narrow grounds as specified in the Law. The new law should cover all provisions of subsoil use including clear surface land access rights and contradictions and overlap with other laws eliminated.

PROPOSED ACTIONS:

15. Adopt a new Subsoil Code.

16. Adopt new Rules for oil and gas fields development.

17. Reform Land Legislation to meet the needs of the oil and gas sector.

18. Create a modern unified geological database.

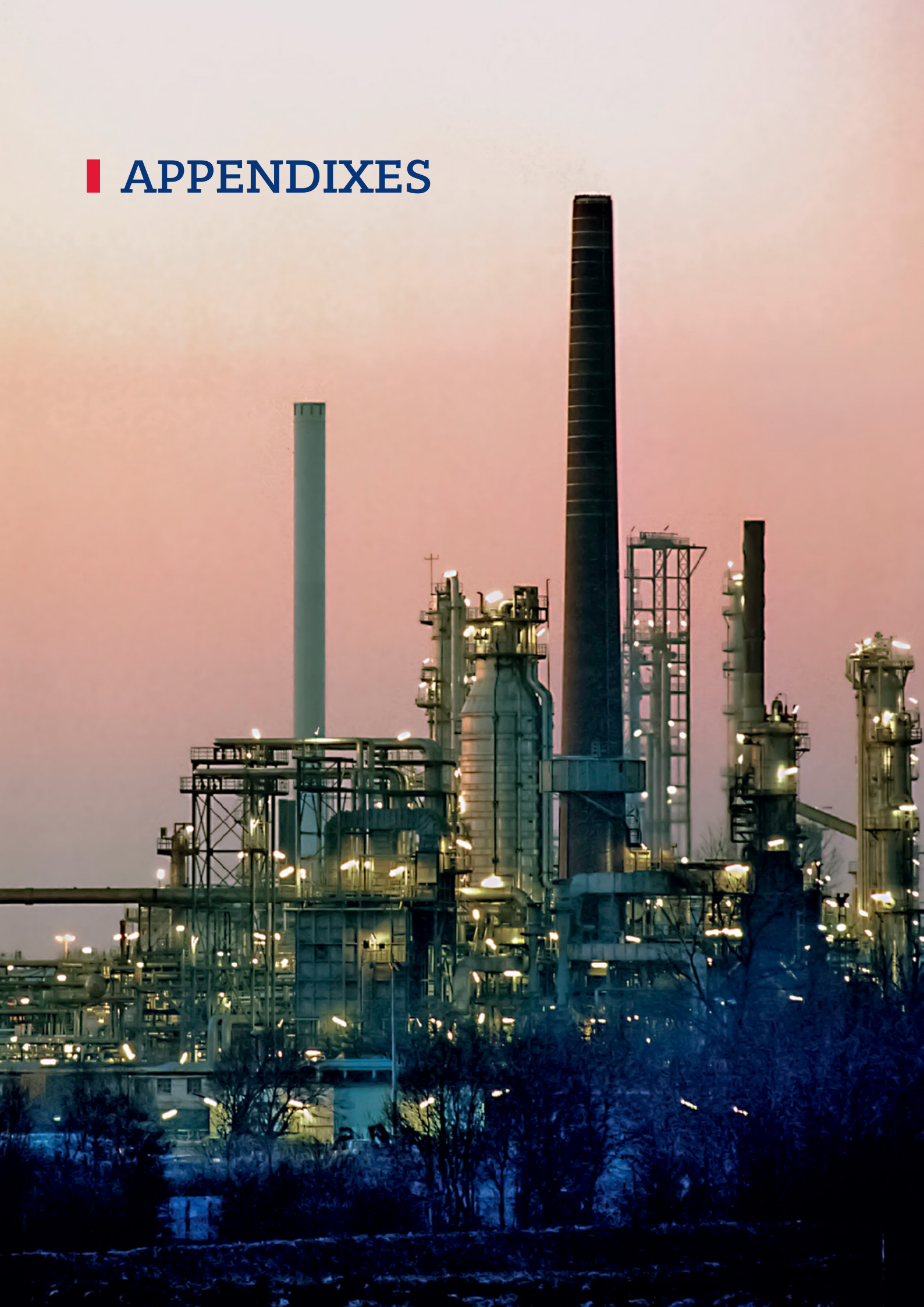
19. Ensure effective implementation of Production Sharing Agreements (PSA).

20. Regulate of oil and gas wells legal status.

21. Prepare a unified permitting guide for the industry and reduction of bureaucracy.

22. Cancel special import measures (quotas) for tubular goods used for drilling.

APPENDIXES



Appendix 1.

Modernize, stabilize and make competitive the tax system for hydrocarbons production

Background: In 2014 the Government of Ukraine increased taxes on gas production for private companies from 28% to 55% of proceeds from the sales of gas produced from reservoirs shallower than 5,000 meters, and from 14% to 28% of those from the sale of gas produced at a depth of more than 5,000 meters. The tax increase, originally introduced as a temporary measure, was extended till the end of 2015. Thus, Ukraine operated one of the heaviest tax regimes in Europe, the consequences of which were the substantial reduction or rejection of investment programs of exploration and production drilling. Based on the recommendations of experts, at the beginning of 2016 the royalty rates were reduced to 14% / 29% for private producers, however, different approach to royalty rates is still applied to different subsoil users, projects implemented under production sharing agreements, which do not have a separate tax regime and which is the international practice, have no royalty preferences. Today the new market conditions require a revision of fiscal conditions in order to ensure economically reasonable fiscal regime for the production of gas, oil and condensate. Also, given that the geological study of licensed areas and their further development is a long-term process, it is critical that a stable fiscal regime is in place for a long time, at least 5 years.

Position: implement and follow sustainable tax policies of hydrocarbon production which would ensure the increase in investment including the high-risk ones, in exploration and production growth.

Arguments:

- Producing fields naturally deplete; replacing this production requires exploration which needs high risk investment. The existing fiscal system, given the political situation in Ukraine, is not competitive compared to other fiscal systems to attract investment capital;
- Economically unreasonable tax burden will force the collapse of current study programs and will make new projects impossible, which will lead to an outflow of investment in the long run and, accordingly, a decline in domestic gas production, which contradicts the stated goals of the country's energy self-sufficiency;
- The introduction of unpredictable changes to the tax system undermines the confidence of investors and leads to the deterioration of the sector's investment appeal;
- Uniform fiscal conditions should apply to all upstream companies, regardless of ownership;
- The lack of special PSA royalty rates makes this instrument unattractive for investment.

Solution:

1) in the short term, introduce economically reasonable royalties in order to stimulate production given falling gas prices;
2) in the medium term, introduce a balanced tax system, which will be based on taxation of profits and will take into account the geological conditions of fields and exploration costs.

Decision makers: Ministry of Finance, State Fiscal Service and the Cabinet of Ministers.

Appendix 2.

Liberalize foreign currency exchange rules

Background: The main purpose of foreign currency exchange control in Ukraine is to prevent illegal capital flow. Foreign currency transactions are regulated by the Decree of the Cabinet of Ministers On the System of Currency Regulation and Currency Control, Law of Ukraine #185/94-VR On Procedure of Payments in Foreign Currency, dated September 23, 1994 ("Law") and a number of rules issued by the National Bank of Ukraine ("NBU"). Ukrainian banks act as agents of currency control for the Ukrainian government. They are required to enforce compliance of their clients' foreign currency transactions with Ukrainian law. The restrictions introduced in 2014 to settle the situation on Ukrainian monetary and foreign exchange markets have been extended every quarter without any significant deregulation of transactions in foreign currency.

Currently Resolution #863[1] of NBU On Settlement of the Situation on Ukrainian Monetary and Foreign Exchange Markets, dated December 04, 2015, and Resolution #124 of NBU On Particularities of Certain Foreign Exchange Transactions, dated February 23, 2015, the Law establishes the following main restrictions and preconditions regarding foreign currency transactions:

- A mandatory sale of a defined amount of foreign currency imported in Ukraine (currently 75% of foreign currency income).
- Service payments to non-residents are subject to approval by a special governmental agency – the National Research and Information Center for Monitoring International Commodity Markets ("DZI") which ensures that payments for works and services are not excessive and are in line with world market prices. The procedure currently provides for state review of payments for contractual services in excess of EUR 50,000 (NBU Regulation #597 of December 30, 2003).
- Goods paid for by a Ukrainian resident, pursuant to an import contract concluded with a non-resident, must be imported and cleared through the Ukrainian customs within 90 days (NBU Resolution #863 of December 04, 2015) from the date on which such resident`s payment was made. Failure to comply results in severe penalties as prescribed by Law.
- A number of actions and transactions, including opening and operating[2] bank accounts in any currency outside Ukraine by Ukrainian companies are subject to licensing by the NBU for every single currency transaction. Existing licensing procedures are often too burdensome and allow the NBU too much discretion; besides, some of the documents required are nearly impossible to obtain.
- Temporarily prohibition of foreign currency transfers as part of certain transactions including:
  - » repatriation of monies earned by foreign investors through the sale of securities, outside of the stock exchange, issued by Ukrainian entities (other than Ukrainian government bonds);
  - » repatriation of monies earned by foreign investors through the sale of corporate rights in Ukrainian entities (other than shares);
  - » repatriation of dividends paid to foreign investors (other than dividends paid by listed joint-stock companies);
  - » transactions authorized by individual NBU licenses (other than opening bank accounts abroad and depositing funds into such accounts).
- All foreign currency transactions in excess of 50 000 US dollars (foreign currency purchase and payments at own expense) have to be approved by the NBU, the time for approval being 3 business days;
- Advance payments for the import of goods under international economic contracts totaling in excess of 500,000 US dollars must be carried

[1] NBU Resolution #863 of 04.12.2015 expires on 04.03.2016 unless extended.

[2] "Operate" as used in this context means the ability to cash and retain proceeds from sales and other earnings, make payments in any currency to any beneficiary anywhere in the world including Ukraine.

out exclusively using the letters of credit confirmed by first-class banks, which significantly increases contract costs;

- The monies in UAH directed to purchase foreign currency, are accumulated on separate bank accounts and transferred for the purchase not earlier than on the fourth business day after the UAH is deposited into such accounts.

Position: Ukrainian foreign currency exchange rules are overloaded with restrictions introduced by the NBU from time to time; moreover, such restrictions can hardly be justified with the fight against capital outflow and are unpredictable in their nature and applicability.

The foreign currency exchange rules must be as flexible as possible for foreign investors, the legislation should enable Ukrainian individuals and legal entities, especially those owned or controlled by foreign investors, to operate effectively at international markets, including the unlimited right to freely open and operate bank accounts in any currency outside Ukraine. Foreign investors' right to repatriate their legally obtained profits or other monies from their investments in Ukraine must be guaranteed and protected.

A complete revision of the foreign currency exchange rules is needed whereby all foreign exchange restrictions should be canceled. The following provisions that are currently causing the greatest complications to investors should be cancelled without delay:

a) mandatory sale for UAH of foreign currency income transferred to Ukraine;

b) currency control function assigned to banks;

c) mandatory approval by DZI prior to executing any international payments for services in excess of EUR 50,000;

d) Approval by NBU of foreign currency transactions in excess of USD 50,000;

e) restriction on advance payments under international economic contracts in excess of USD 500,000 without using letters of credit;

f) restriction on the repatriation of profits obtained by foreign investors in Ukraine.

Arguments:

- In general, it would help the de-regulation of financial markets if the existing restrictions are canceled and the legislation simplified. Besides, it would greatly promote Ukraine's investment appeal if foreign investors could freely invest in Ukraine, transfer their investments and profits resulting from such investments outside Ukraine and avoid any possible difficulties in connection with investing into Ukraine.

- Enabling Ukrainian residents to operate at international markets will result in more efficient financing of Ukrainian businesses and bring new solutions and innovations into the Ukrainian financial system.

- Cancellation of the watchdog function assigned to Ukrainian banks will increase the banks' efficiency, decrease their risk and costs and remove the obstacles restricting the conduct of business by their clients.

- Cancellation of the prior approval of the DZI as a pre-condition to executing service payments will contribute to operational and financial efficiency and decrease the cost-base of services rendered to Ukrainian entities.

- Cancellation of the restrictions on repatriation of the proceeds from the sales of shares, corporate rights and dividends will be in line with investment protection treaties and the laws on foreign investment.

Solution: Amend all statutory acts regulating foreign currency exchange issues.

Decision makers: Ministry of Finance, National Bank of Ukraine, the Cabinet of Ministers, Parliament.

Appendix 3.

Improve P(s)BO No. 33 Mineral Exploration Costs, use accounting data for the purposes of taxation of exploration costs

Background: The high-risk nature of extracting companies and their specific type of assets – mineral reserves, require special rules for the accounting of business investment and special reporting requirements. Much of the investment in extraction is made before the presence of minerals in the explored area is determined. As the extent of investment in future production is very significant on the scale of an extracting company's operations, the procedure for their accounting significantly affects the quality of financial reporting (reliability, informative value, comparability).

The current version of P(s)BO No. 33 Mineral Exploration Costs does not reflect all the aspects of hydrocarbons exploration, which are reflected in the world's best practices

Position: Improve P(s)BO No. 33 Mineral Exploration Costs. Revise the Tax Code as regards the adjustments of the accounting of differences arising from the formation of reserves/security and differences arising in the depreciation of non-current assets.

Arguments:

- If mineral exploration costs are presented in accordance with the standards used in most EU countries, the USA and on stockmarkets which ensure the customary methods for the implementation of planned and actual operations and projects, the costs will be presented in full subject to the risky nature of exploration and its economic essence;
- The significant differences arising from the formation of reserves/security and depreciation of non-current assets increase the tax burden, especially for unconventional hydrocarbons, and affect project performance thus obstructing the attraction of additional investment;
- Tax accounting and reporting can be easily obtained by bringing accounting results in compliance with IFRS. The dialogue between tax auditors and taxpayers will be facilitated.

Solution: Amend and restate P(s)BO No. 33 Mineral Exploration Costs, amend Section III of the Tax Code as regards the accounting adjustments for the presentation of differences arising from the formation of reserves/security and differences arising during the depreciation of non-current assets.

Decision makers: State Fiscal Service of Ukraine, Cabinet of Ministers, Parliament.

Appendix 4.

Abolish VAT obligations on unsuccessful wells

Background: The Tax Code still does not regulate VAT issues relating to unsuccessful wells.

In particular, the current version of the Tax Code (Art. 189.9) provides for VAT assessment where fixed assets are written off by an independent decision of the taxpayer. The taxable base should be the regular price but not lower than the book value as at the write-off.

Given that, under the current version of the Tax Code, a well is not an individual accounting entity like it was until 1 January 2015 but rather is accounted for as a tangible asset being part of the fixed assets, there is a high risk that the write-off of unsuccessful wells will be treated by fiscal authorities like the write-off of fixed assets by independent decision whereafter VAT will be assessed on the residual value of such wells as at the write-off.

Position: The Tax Code should regulate issues relating to the write-off of well construction costs where wells turn out to be unsuccessful so that such operations should neither be treated as "write-offs based on an independent decision" nor fall under Article 189.9 of the Tax Code.

Arguments:

- To ensure proper performance of VAT obligations, VAT being essentially an indirect tax assessed on each stage from production to marketing, from the raw material to the end product based on the value added to each stage and paid by the end consumer.

Solution: Amend the Tax Code of Ukraine.

Decision makers: State Fiscal Service of Ukraine, Cabinet of Ministers of Ukraine, Parliament.

Appendix 5.

Allow tax deductibility of lost assets in ATO zone

Background: Whereas the non-current assets of some companies are located in the ATO area with access to such assets being limited or totally unavailable, companies with such intangible assets on their books must properly indicate the actual status of such assets in their records. Where companies have totally lost control over such assets, impairment tests should be conducted with relevant costs to be specified in a reporting period. On the other hand, Tax Code provisions do not allow the inclusion of such impairment costs in deductions from the CPT taxable base. If the Tax Code allows such deductions in the future, the write-off of such assets will in fact be impossible due to such assets not being in accounting records during a relevant period. Therefore, due to the current circumstances preventing owners from exercising control over assets in the ATO area, taxpayers incur significant losses.

Position: Allow the deduction from the CPT taxable base of the costs arising from the impairment of assets which are located in the ATO area and cannot be controlled, such deduction to be performed simultaneously with the adoption of a resolution that such assets be impaired according to accounting regulations.

Arguments:

- Significant differences arising from the depreciation of non-current assets increase the tax burden;
- Tax accounting and reporting data can be easily obtained by bringing accounting data in compliance; The dialogue between tax auditors and taxpayers will be facilitated.

Solution: Amend the Tax Code of Ukraine.

Decision makers: State Fiscal Service of Ukraine, Cabinet of Ministers, Parliament.

Appendix 6.

Allow tax consolidation on a group basis

Background: Consolidation of taxes should be allowed between affiliates incorporated in Ukraine. This will significantly improve the investment climate in Ukraine as investors, especially those carrying out long-term investment in such activities as the oil and gas business, would be able to compensate for the costs and revenues incurred by their own Ukrainian companies on a consolidated basis separately for each company. As an additional benefit, it would also reduce the cost of compliance with tax legislation.

In 2013 the Ukrainian tax system was expanded with tax control over the transfer pricing. According to common international practice, transfer pricing control is accompanied by the introduction of tax consolidation among certain groups of tax payers. However, applicable Ukrainian legislation does not allow tax consolidation among Ukrainian-incorporated companies.

Position: Allow tax consolidation among Ukrainian companies.

Arguments:

- Successful experience of tax consolidation practice in the leading economies: USA, UK, Austria, Australia, France, the Netherlands, Denmark, Spain, Germany, Japan etc;
- Currently the European Commission is working to implement the Common Consolidated Corporate Tax Base (CCCTB) which will expand the tax consolidation practice from a single country to the global level. The CCCTB administrative framework provides for a "one-stop-shop" approach which would allow groups with a taxable presence in more than one EU country to deal primarily with a single tax authority across the EU.
- Tax consolidation will minimize the opportunities for contractual pricing abuse aimed to reduce tax liabilities by groups of companies; the pricing will be more transparent and market-oriented.
- Excluding of operations inside the consolidated group of tax payers from the tax control will simplify both profit tax administration and tax control procedures.

Solution: Amend the Tax Code of Ukraine.

Decision makers: State Fiscal Service of Ukraine, Cabinet of Ministers, Parliament.

Appendix 7.

Allow the use of resources and services of affiliated companies

Background: Applicable Ukrainian legislation establishes substantial limitations regarding the deductibility of a significant scope of services received from foreign providers, including affiliates. Furthermore, payments against invoices for such services are subject to approval of the Price Monitoring Body (SC Derzhzovnishinform, "DZI").

On the contrary, international oil companies (IOC), as well as other foreign investors, carry out part of their international activities though Centralized Services Centers (also known as Shared Services Centers). These are centers of industrial, technological, managerial and service excellence specifically set up to serve the generality of IOCs' exploration and production (E&P) activities, allowing each affiliate and joint venture to access and use own technologies and processes and receive specialist services (Centralized Services) incurring only a share of the cost centrally incurred.

Position: To allow tax deductibility of the cost of Centralized Services received by Ukrainian companies from their affiliates regardless of the origin of such services and to allow related payments to be made without any prior approvals. The pricing method "at cost, without profit elements" should be accepted and permitted by Ukrainian legislation as an established E&P Industry practice.

Arguments:

- Provision of the Centralized Services, which include the whole spectrum of skills necessary to a successful E&P operator, would improve control, quality and consistency, reliability and the profitability of E&P projects in Ukraine, as well as their number, and decrease the cost of operating for foreign investors.

- Provision of the Centralized Services "at cost, without profit elements" with the use of high quality services, goods and materials would ensure much safer, earlier, larger and more longer production of hydrocarbons.

- Cancellation of the prior approval of the DZI as a pre-condition to executing international payments would contribute to operational and financial efficiency and decrease the cost-base of services rendered to Ukrainian entities.

- Derzhzovnishinform price approval function is an unnecessary practice since price monitoring is performed by the tax authorities based on TP rules adopted this year.

- Compliance with industry standards for Centralized Service Centers would help the liberalization of Ukrainian legislation and investment appeal of the Ukrainian oil & gas industry.

Solution: In respect of Centralized Services the following changes in Ukrainian tax legislation (UTL) are necessary:

- The definitions of "Consulting Services" and "Design Engineering Services" should be revised to allow their unrestricted tax-deductibility as expenses necessarily incurred in the E&P activity; the definition of "Centralized Service Centre" should be introduced.

- Payments by IOC's to the "Centralized Service Centre" should be made by international money transfer without any prior approvals.

- The pricing method "at cost, without profit elements", should be permitted by Ukrainian Tax Laws.

Decision makers: Ministry of Finance, Cabinet of Ministers, Parliament.

Appendix 8.

Ensure clear definition of the tax categorization engineering services, which will not cover exploration and development expenses

Background: According to applicable Ukrainian legislation the definition of engineering covers the provision of services/works with the preparation of technical specifications, proposals, research and feasibility surveys, engineering and exploration work on construction sites, development of technical documentation, engineering and design study of facilities and processes, consultation and designer's supervision during installation and start-up, as well as consultation related to such services/works, i.e. a significant amount of work during exploration, pilot and commercial production fall under the definition of engineering. If the such engineering services are provided by by foreign providers including affiliates, a tax on such income at the rate of 15% is charged and paid when the payment for such services is made unless otherwise provided by international treaties between Ukraine and the countries of residence of persons to whom the payments are made. Unfortunately, most of these agreements do not provide for any taxation benefits for engineering services. Thus, the cost of services for Ukrainian customers increases by 15% to cover the cost of the tax.

Position: Remove expenses associated with the implementation of licensing agreements and pilot and commercial production projects from the list of engineering services subject to taxation on such income at the rate of 15%.

Arguments:

- Unfortunately, the hardware and methodologies available to domestic service providers does not always meet modern international expertise, and sometimes such services are unavailable at all. Thus, subsoil users attract foreign service providers to reduce geological, technical and technological risks.
- Engineering services cover a significant scope of work, especially at the exploration stage, when investors incur the highest geological risks by investing high-risk capital;
- Many of double taxation treaties do not provide for tax benefits for the taxation of the provision of engineering services by non-residents;
- The necessity to pay an additional 15% to the amount of services provided by non-resident providers increases the contract price and requires additional funds from the subsoil user, especially at the exploration stage.

Solution: to amend Tax Code of Ukraine with the changes of definition of engineering, in relation to centralized services.

Decision makers: Ministry of finance, Cabinet of Ministers, Parliament.

Appendix 9.

Adopt the Law on National Commission for State Regulation of Energy and Public Utilities

Background: High-quality state regulation of energy and utilities is one of the main preconditions for the development of markets for such services. Today, the weak spot is the existing legal regulation of the work of national commissions including the National Commission for State Regulation of Energy and Public Utilities ("NERC"). It is the NERC that should deal with energy prices, tariffs and, finally, energy policy priorities given natural monopolies. However, the NERC is actually operating by virtue of a Presidential decree, therefore its authority and powers are rather limited. It should be stressed that the Commission's resolutions are often contingent upon the political context which is inconsistent with the principle of openness, transparency and independence of the regulator which may, in turn, result in corruption, natural monopolies gaining super profits, deterioration in the quality of services etc.

Position: The normal operation of the gas market and the energy sector is impossible unless the Regulator is granted proper authority and assumes obligations by legislative action and is also granted the status of an independent body.

Arguments: Establish legal framework for unbiased decisions by the Regulator and prevent political and economic pressure upon the NERC intended to influence its decisions.

Solution: Adopt the Law on National Commission for State Regulation of Energy and Public Utilities.

Decision makers: Parliament.

Appendix 10.

Normalize the formation of the gas stock reserve

Background: The recently adopted Code of Gas Transportation System ("Code") obligates natural gas market participants to provide to the GTS Operator, i.e. PJSC Ukrtransgaz, financial security by providing the GTS Operator with financial guarantees or natural gas in material form to the extent of 20% of monthly gas supplies. This requirement is perceived as reasonable by market participants, which is a common practice for Ukraine's market operation and is agreed with the European Energy Community. CMU resolution #795 as of September 30, 2015 adds a requirement to maintain a security stock equal to 50% of monthly gas supplies, which, combined with the Code requirements, means gas suppliers need to additionally reserve cash equal to 70% of monthly gas supplies rather than 20%. **Thus, unreasonably burdensome provisions are being imposed, which require financial investments to ensure gas supplies plus 70% of their cost. This means that gas may not be supplied to customers unless a gas supplier is able to cover 170% of the cost, being stripped of to 70% of working capital for each "product lot".**

Position: The obligation to establish gas stock reserve (which is different from the "strategic stock" concept) is incompatible with European practices. As a result, this obligation will lead to a price increase for end consumers, as market participants will be forced to transfer the addition costs for gas supply to end consumers.

Whereas the key idea of the gas stock reserve is to protect vulnerable consumers, it would be reasonable to apply the obligation to maintain the stock reserve only to those companies that supply gas to these categories of customers.

The Code grants Ukrtransgaz, as gas storage operator, the so called "right to hold" natural gas in storages; the Code, however, does not provide for a procedure to exercise such right. This would lead to situations when the gas storage operator, at its discretion, unilaterally, without any volume limitations what so ever, would be able to "hold" gas intake from storage by its legitimate owners without any liability for violating the rights of entities storing the gas. It is unacceptable to grant such unlimited right to an entity with manages natural gas storages. This gas storage operator's right must be clearly limited by law so that it complies with the competitive European market standards and does not scare investors away. Just imagine the said 70% financial burden on gas supplies added to the risk of being unable to receive natural gas back from storage facilities at all.

Position: in order to prevent investment climate deterioration and to ensure the security of gas supplies, the approach to maintaining a reserve stock must be optimized.

Solution: fundamentally revise CMU Resolution #795.

Decision makers: Ministry of Energy, Cabinet of Ministers, Parliament.

Appendix 11.

Adopt secondary legislation to ensure the efficient operation of the natural gas market

Background: The adopted secondary statutory acts relating to the Law On Natural Gas Market caused considerable shock effect on the market, put a brake on the reforms of the natural gas market operation and neutralized the positive effect from the enactment of the Law.

Position: Amend the secondary statutory acts which regulate the operation of the natural gas market.

Arguments: Some of the innovations do not comply with the market principles or lead to the significant financial burden for market participants, even in those spheres where it is not justified, and have compromised the very principle of open and transparent operation of the Ukrainian natural gas market which was established by the relevant Law.

Solution:

- abolish quotas and licensing of gas exports.
- switch to daily gas balancing.
- uniformly apply market rules and capacity fees to all its subjects.
- input-output tariffs (both internal and at interconnection points) must be reasonable.
- set a reasonable base price of gas.
- improve transparency regarding the possibility of using idle gas pipeline capacities between the neighboring countries and Ukraine, and provide access to cross-border gas pipeline capacities between Ukraine and neighboring countries by tender for bundled capacity.
- exempt settlement netting under gas import / export contracts.
- introduce transparent rules for gas trade at VTP in Ukraine.

Decision makers: Cabinet of Ministers, NERC, Ministry of Energy, Ukrtransgaz, Naftogaz.

Appendix 12.

Provide the regulation of the licensing of natural gas supplies

Background: After the Law of Ukraine On Natural Gas Market became effective, natural gas supply is a type of business activities subject to licensing. Also, under the transitional provisions of this Law, the supply and distribution of natural gas are carried out on the basis of valid licenses which were issued before the effective date of this Law during three months after the approval of the licensing conditions for carrying out the relevant type of business under the provisions of this Law. Licensing terms for the natural gas activities associated with the supply of natural gas are approved by the regulator following consultation with the Secretariat of the Energy Community.

However, according to the Law of Ukraine On Licensing of Types of Business, which came into force in June 2015, the licensing of the supply of natural gas was excluded from Article 7 of the Law.

Therefore today there is a conflict of laws on the licensing of natural gas and as a result potential domestic and foreign suppliers willing to work on the Ukrainian natural gas market cannot obtain new licenses.

Position: It is necessary to improve the legislation and eliminate inconsistencies regarding the licensing of natural gas.

Arguments:

- There is a risk that gas supply contracts may be invalidated by the supervisory authorities with all the proceeds the sale of gas under such contracts confiscated by the State;
- Currently natural gas is only supplied by those suppliers who were issued licenses before June 2015, and since then (as of February 2016) not a single new license to supply natural gas has been issued and not a single new supplier has been able to enter the Ukrainian market;
- The removal of conflicting business conditions is an important step to avoid a negative impact on the investment climate in Ukraine, the creation of competitive conditions and the security of gas supply.

Solution: Amend the Law On Licensing of Types of Business and other statutory acts in order to harmonize Ukrainian legislation on natural gas supply.

Such amendments are provided by Draft Laws #2312a dated July 7, 2015 On Amendments to Some Statutory Acts of Ukraine to Bring them in Line with the Law of Ukraine On Natural Gas Market (concerning the peculiarities of economic activities in the natural gas market during the transition period) and Draft Law #3325 dated October 10, 2015 On Amendments to Certain Statutory Acts of Ukraine about the Conditions in the Natural Gas Market.

Decision makers: Parliament, Ministry of Energy, NERC, Ministry of Economy.

Appendix 13.

Develop a state program of transfer to new gas quality standards

Background: The Code of Gas Transportation System ("Code"), which was approved in September 2015, provides certain requirements for the physical and chemical composition of the natural gas which can be accepted to the pipelines. However, the physical and chemical composition of natural gas produced in Ukraine does not meet these requirements of the Code. Currently the operator of the gas transportation system is guided by GOST 5542-87 regarding the standards for the quality of gas which is accepted into pipelines. Thus, there is a certain conflict of laws as to what standards of physical and chemical composition of natural gas should companies should comply with.

As a result of such conflict of laws there is a risk that the gas of some producers may be rejected and the compliance with the requirements for the physical and chemical composition as specified in the Code requires time and significant capital investment. Moreover, so far there is neither a state program of transition to new gas quality standards nor time limits.

Arguments: The conflict of laws could lead to a refusal to accept gas into the gas pipeline network operated by PJSC "Ukrtransgaz" or heavy fines being imposed on companies for incompliance with the requirements of the Code.

Position: Requirements regarding the physical and chemical composition of the natural gas accepted into the system may result in rejection of gas. Absent a state program of transfer to new standards, there is a risk that the energy business climate may deteriorate.

To make the operation of the natural gas market efficient and effective and the conditions of doing business predictable, there should be a program of transition to new standards of quality and a reasonable timeframe for it.

Solution: Develop a state program that would provide for gas quality control methods in accordance with European legislation and eliminate differences between the requirements of the Code and other regulations regarding the composition of natural gas.

Decision makers: Ministry of Energy, Ukrtransgaz, NERC, Parliament.

Appendix 14.

Develop a state program of transition to gas metering in energy units

Background: Currently in Ukraine there is no uniform method for metering consumed energy.

Besides, according to Directives 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas, Each consumer should be given unrestricted access to information on prices, tariffs and their structure, status of payments, the actual volume of consumed goods and services. In addition, the information on prices, tariffs and consumption of services should be comparable so that consumers had an opportunity to choose a supplier and energy resource (gas or electricity) on the basis of comparable quality and price performance.

Position: Ukraine should create the conditions for the calculation of natural gas in energy equivalent and inform consumers about energy efficiency instruments.

Arguments:

- Compliance with EC Directives 2006/32/EC and 2009/73/EC
- End consumers should pay for the gas actually consumed

Solution: In Ukraine, a range of measures should be introduced which would allow payments for natural gas, depending on the content of energy in the gas mixture used by the consumer (it is necessary to develop a methodology for converting gas volume to the amount of energy as well as set of incentives and compensation for gas, transport, distribution and supplying companies for the content of energy per one cubic meter for the end user and pricing methodology, which would provide the final user with a possibility to pay for the energy actually consumed etc.).

Decision makers: NERC, Ministry of Energy and Coal Industry.

Appendix 15.
Adopt a new Subsoil Code

Background: Reforming of oil and gas sector is carried out slowly and randomly by the way of introduction of numerous cosmetic amendments (The Procedure for granting special permits for subsoil usage adopted by CMU Resolution # 615 as of 30.05.2011 can be an example). The current Ukrainian legislation is discrete, outdated, its provisions are usually conflicting.

New Draft Subsoil Code is pending for its approval since 2012 and went through a number of approval rounds by MENR and State Geology Service.

Position: subsoil use legislation needs 1) systematization and codification 2) modernization. Such targets can be achieved only by adoption of a unified document. First of all new Subsoil Code should achieve the following goals:

- The procedure for obtaining of special permits for subsoil usage, introduction of amendments to it, termination and deprivation of rights for subsoil usage must be unified, made transparent and formalized by law;
- Provide for secured conversion of exploration special permits into production ones;
- Provide for a number of transparent legal instruments to partner relationship and investments in subsoil use sphere (such as implementation of operatorship concept, creation of legal base for agreements on joint operation, service contracts, lease of drilling rigs etc.);
- Add more liquidity to the licensing regime allowing for transferring of licensing rights to interested investors (under control of state);
- Insure equal rights for all market participants during granting of special permits (to eliminate preferences for state companies);
- Reduce overregulation and a state pressure on subsoil users.

Arguments:

- Significant investments will be attracted only if the transparent rules are established by law.

Solution: to adopt new Subsoil Code.

Decision makers: State Geological Service, Ministry of Ecology, Cabinet of Ministers, Parliament.

Appendix 16.

Adopt new Rules for oil and gas fields development

Background: The Chamber has been participating in development of the updated Rules for Oil and Gas Fields Development since early 2013. During this period the coordination of the process repeatedly was moved from the State Geology Service to Ministry of Ecology and Natural Resources and vice versa. At the beginning of 2015 Draft Rules were finalized and approved by the majority of the interested persons, however the document has been never adopted.

Position: Document should be adopted by the Order of Ministry of Ecology upon consent from the Ministry of Energy and the Ministry of Justice. The value of the document is that it modernizes national regulatory regime, having regard to peculiarities of geological exploration, development of unconventional hydrocarbon systems as well as gives more clarity with regards to permitting procedures.

Arguments:

- Current Rules are outdated and require codification;
- More flexibility is desired for companies in terms of production plans, wells allocation, well write-off decisions, geological reporting procedures (which should be slightly different for unconventionals) etc.;
- Clear and definitive guidelines for the companies on permitting and approval procedure are lacking. Wells should not be considered as construction objects and more clarity should be given to permitting procedure;
- Separate chapter is required to address the difference between conventional and unconventional hydrocarbons (pilot production duration, co-mingled production, phases of pilot production).

Solution: Industry expects for the Rules to be adopted before June of 2016.

Decision makers: State Geological Service, Ministry of Ecology, State Mining and Safety Authority, Ministry of Energy, Ministry of Justice.

Appendix 17.

Reform Land legislation for the needs of oil and gas sector

Background: Today O&G companies are constantly facing problems with acquiring land rights. Such problems associated with the following factors:

- The procedure for land allotment is too complicated and can continue for 1,5–2 years;
- Land where the most hydrocarbon deposits are located, is mainly agricultural land which is in moratorium on disposal and conversion of land designation;
- Inadequate regulation of easement agreements;
- Agreements for exploration works as provided for in art.97 of the Land Code have numerous legal drawbacks, including the lack of a procedure for registration of such agreements; such agreements are not applicable at the production stage and at the stage of conversion from geological exploration to the production stage, and that may result in blocking the whole project.

A number of draft laws aimed at solution of the land allotment problems was registered in the Parliament, however, draft laws were never put on vote due to different reasons.

Position: Land allotment agreements for building, construction, exploitation and servicing of gas and oil wells should be simplified. If no abolishment of moratorium is planned in the nearest future, than purchase/rent of agricultural land for the purposes of oil and gas industry should be an exception from it. Such issue can be resolved by introduction of complex amendments to the Land Code, particularly by adoption of Draft Law #3096 registered in the parliament.

Arguments:

- Current legislation does not provide for any legally perfect procedure for arrangement of land relations the purposes of subsoil use, creating an ideal environment for abuse of rights and corrupt practice;
- Investments into oil and gas industry are unsecured due to drawbacks in land regulation;
- Lasting process of land relations arrangement is the principal cause of late performance of geological exploration and production works;
- Subsoil users have to opt for less geologically perspective sites for the activity due to legal inability to arrange land relations at the land plots with agricultural designation;

Solution: To put on vote and to adopt Draft Law #3096, to ensure an active support of the Draft Law by the Ministry for Energy and Coal Industry.

Decision makers: Ministry for Energy, State Land Agency, Cabinet of Ministers, the Agrarian and Land Committee, Fuel and Energy Committee of the Parliament.

Appendix 18.

Create a modern geological database

Background: The Procedure for Disposing of Geological Information, approved by Resolution of the Cabinet of Ministers of Ukraine #423 dated June 13, 1995, provides possibilities to access to geological information such as seismic data, wells data and reports ("technical data"). However, in practice it is almost impossible as geological information that can be attractive for initialisation of the investment projects in the area of study, exploration and productions of natural resources is dispersed among different public institutions and private companies.

Position: There is a need in establishing centralized database of geo data which would be amongst the most powerful tools of the State to attract international oil and gas companies investments. Digital national data-bases with access for registered users for some "User's Fee" could be a best alternative to the present situation.

Arguments: The ready availability of an adequate set of geological information (technical data)

- Shall advertise and promote Ukraine as a country with rich mineral reserves;
- Shall be one of the fundamental factors that contributes in attracting new investors including international, to Ukraine;
- Shall allow regional and semi-regional studies that would drive the geological assessment of investors.
- Shall contribute to transparent communication and exchange of information on licensed areas and a constantly updated inventory of open areas.

Solution: It is proposed that the State [and probably international donors] invests in the creation of national Data-bases, ideally of digital nature and using internationally recognized standards for geological information (technical data) preparation, (e.g. the UKOOA standards for seismic) in order to facilitate the use of such data by investors. The access to, and the right to use geological information (technical data) can be subject to the payment of a "User's Fee" that – like the License Fee – would contribute in funding the State Geology Service. This could be a one-time fee of an amount that would not discourage investments.

Decision makers: State Geological Service, Ministry of Ecology, Cabinet of Ministers.

Appendix 19.

Ensure effective implementation of Production Sharing Agreements (PSA)

Background: Successful implementation of effective and future PSA projects in Ukraine require daily coordination of different central and regional government bodies of both executive (CMU, ministries, state agencies/services) and legislative branches (Parliament, regional councils). Existing practice of appointing a single ministry (currently Ministry of Energy and Coal Industry) as State Authorized Body (hereinafter – SAB) for implementation of PSAs has already proven to be ineffective, as one ministry does not have authority and means to secure timely decisions by other government bodies necessary for such massive projects as PSAs. As a result, often PSA investors are left one-on-one with issues with individual authorities that practically have no interest or experience in PSA projects. Therefore, investors are often forced to spend their time and resources on resolving government-related issues with their PSAs without a proper support from the government.

Position: CMU should initiate transformation of Interagency Commission on Organization of Signing and Execution of PSAs into an interagency government body that is able to facilitate execution of already signed PSAs during the entire period of the projects' implementation. Also, CMU should raise the status of the commission and its decisions by transforming protocols/resolutions approved by the commission into orders of the CMU level, signed by the Prime Minister. SAB should be a core state organ responsible individually for project implementation, effective laws implementation by the government bodies and for effective work of Interagency Commission. To enact aforementioned functions respective changes should be made into CMU Resolution #644 dated September 1, 2013 "On creation of Interagency Commission on Organization of Signing and Execution of PSAs". SAB could borrow some experience from Western Australia on administering big infrastructural projects in the most budget-effective way, in particular their Lead Agency concept according to which SAB make ranking of the projects according to their priority for national economy and appoint high level official who is in charge with project implementation (original in Eng and translation Ukr). In Ukrainian realities this should be at least one of the vice-PMs, who would coordinate the cooperation between the different state agencies to implement PSAs.

Arguments:

- SAB as a single ministry/agency is not capable of effectively securing proper implementation of PSA projects due to limits of its authority, staff, expertise, resources, etc.
- SAB's approved resolutions must be elevated to CMU-level orders to ensure their execution by subordinating bodies and other central and local executive authorities.
- SAB, which would serve as a working body of the Interagency Commission with the coordination of vice-PM by default would have more resources, expertise and authority to secure proper and timely execution of PSA projects.

Solution: Adopt necessary changes to CMU Resolution #644 dated August 1, 2013 "On Creation of Interagency Commission on Organization of Signing and Execution of PSAs".

Decision makers: Cabinet of Ministers, Ministry of Energy, Interagency Commission on PSAs.

Appendix 20.

Regulate of oil and gas wells legal status

Background: Ukrainian Law contains numerous gaps in regulation of the status, recordkeeping and certain aspects of the life cycle of oil and gas wells. This leads to different interpretations of the Law by the various central and regional authorities and creates ambiguity and insecurity in the regulatory environment, in particular:

- Well title is separated from the subsoil usage rights, being in contradiction with the international practice. Firstly, such separation does not contribute to rational and efficient use of subsoil and resources. Secondly, it allows the well owner to manage the well under its sole discretion ignoring obligations of a subsoil user, but the subsoil user remains to be responsible for the control of wells and environmental safety at the mineral resources area.

- The law mostly interprets O&G wells as objects of real estate, which leads to mandatory state registration of each well as a real estate object, thus creating a practical issue since the real estate registry/regulatory framework is not suitable for registration of O&G wells. The same problem applies to linear infrastructure objects such as pipelines, grids, roads, telecommunication lines, etc. related to O&G projects.

- Currently, hundreds of wells majority of which were drilled and abandoned in the days of the Soviet Union, have not been recorded, the information (including geological) about them is lost or fragmented, but the condition of such wells is dangerous to the environment.

- The provisions of the Law of Ukraine "On Pipeline Transport» prohibit any disposal of assets of "Naftogaz of Ukraine", its affiliates and subsidiaries, including disposal by the way of concession, rent and lease, which makes it impossible to perform any works on such wells situated on the licensed areas of subsoil users.

- Well abandonment procedure is outdated and needs to be revised (e.g. Regulation on the Procedure for Oil, Gas And Other Wells Abandonment And the Construction Cost Recovery was last updated in 1989).

Position: Aforementioned inconsistency must be removed from the Ukrainian legislation by introduction of respective amendments to Law of Ukraine "On State Registration of Proprietary Rights to Immovable Property and their Encumbrances", Mining Law of Ukraine, Law of Ukraine "On City Development Regulation", Law of Ukraine "On Pipeline Transport" as well as by adoption of new Subsoil Code and Rules for Oil and Gas Fields Development.

Partially necessary amendments are reflected in Draft Law #3096 unanimously endorsed by the investment community and supported by the specialized state authorities.

The wells fund and geological information related to wells need to be systematically reviewed; the wells registry must be public.

Arguments:

- Current ambiguity with the wells legal status and registration bears significant risks for private investors and seriously defers implementation of O&G projects.

- Subsoil users must have a possibility to use wells and related information on the granted subsoil area which will speed-up geological exploration and contribute to efficient subsoil usage;

- Construction, commissioning and exploitation of the O&G wells and related infrastructure should be regulated by relevant subsoil and mining, not by land and construction legislation.

Solution: to put on vote and adopt Draft Law #3096, to ensure support of the Draft Law by the Ministry for Energy and Coal Industry; to develop integrated amendments to the legislation.

Decision makers: Ministry for Energy, Ministry Regional Development & Construction, CMU, Construction/Fuel and Energy Committees of the Parliament.

Appendix 21.

Prepare a permitting guide for the industry and reduction of bureaucracy

Background: Ukraine has no unified permitting document, permitting process is dispersed in numerous legal acts like Subsoil Code, Oil and Gas Law, Mining Law, there are uncertainties about Urban Construction Law applicability as well as the role of regional councils in permitting process. Permitting differs significantly from region to region, where for instance exploration well is seen either as a construction object either as an object with a potentially environmentally sensitive activity, therefore the number of different permitting documents are needed.

Position: Industry calls the Government of Ukraine to prepare permitting guide for the industry similar to the Planning practice guidance for onshore oil and gas prepared by DECC in UK. Based on this mapping up of permitting process, we would like to start discussion on how to optimize permitting process to make it effective and sustainable.

Arguments: Companies are concerned about different interpretations of existing permitting procedures and many uncertainties around them. Role of regional councils must be finally defined, one-stop shop for permitting must be implemented on regional level, including issues regarding waste etc. Industry calls to look for best permitting models in North America, in particular to B.C. Canada as an example.

Solution: MECI or MENR/State Geology Service to prepare guideline to the Industry on Permitting in Oil and Gas Industry of Ukraine – Phase 1. Prepare amendments to legislation to get permitting aligned – Phase 2. This goal also can be partly reached by adoption of Draft Rules for Oil and Gas Fields Development and New Subsoil Code – both cover existing permitting procedures for exploration wells on high level.

Decision makers: Ministry of Energy, State Geological Service / Ministry of Ecology, Parliament.

Appendix 22.

Cancel special import measures (quotas) for tubular goods used for drilling

Background: Seamless steel casing and pump-compressor pipes with an external diameter not exceeding 406,4 mm (nomenclature code 7304 29 10 00 and 7304 29 30 00) are subject to import quotas being regularly set up by the Trade Commission under the Ministry of Economy of Ukraine. Last decision N СП-329/2015/4442-06 was made on March 27, 2015 by the Commission for the period from April 01, 2015 to September 30, 2016. Such super high quality pipes are required for deep drilling and to secure high environmental standards. Ukrainian producers are being prepared to produce such high quality goods and undergo through international certification.

Position: Industry calls to reconsider state policy on import of certain pipes products of extra high quality to meet highest HSE standards.

Arguments: Quotas set up by Trade Commission for imported pipes is not big enough to accommodate current needs of the industry.

Solution: Make quota exemption for certain pipes products or to increase such quotas to accommodate the needs of the industry (less preferable choice).

Decision makers: Ministry of Economy.

List Of Acronyms

ATO – Anti-terrorist Operation

CMU – Cabinet of Ministers

DZI – SC "Derzhzovnishinform"

GTS – Gas Transportation System

EEC – European Energy Community

E&P – Exploration and Production

IFRS – International Financial and Reporting Standards

MECI – Ministry of Energy and Coal Industry

MENR – Ministry of Ecology and Natural Resources

MP – Member of Parliament

NBU – National Bank of Ukraine

NERC – National Commission for State Regulation of Energy and Public Utilities

O&G – Oil and Gas

PSA – Production Sharing Agreement

SAB – State Authorized Body

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