



Association
of Gas Producers
of Ukraine

RECOMMENDATIONS:
DEREGULATION OF PERMITTING SYSTEM
IN THE OIL AND GAS PRODUCTION INDUSTRY

July 2017





Parliament's Energy, Nuclear
Policy and Security Committee



Cabinet of Ministers of Ukraine



State Service of Geology and
Mineral Resources of Ukraine



Ministry of Economic Development
and Trade of Ukraine



Naftogaz of Ukraine



American Chamber of Commerce
in Ukraine



Ministry of Energy and
Coal Industry of Ukraine



Better Regulation Delivery Office



State Regulatory
Service of Ukraine



National Investment Council

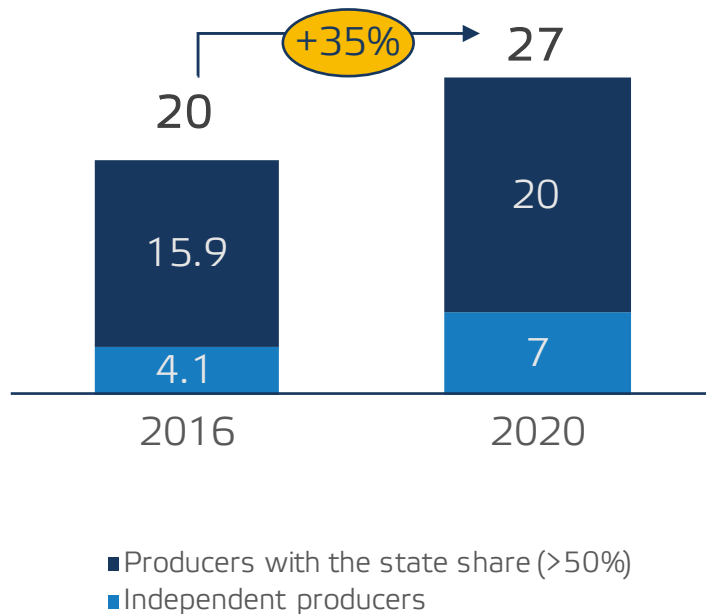


- Ukraine's subsoil use permitting system is outdated, which was inherited from the era of planned economy. It is too prescriptive and excessively long-lasting, which is completely opposite to the advanced international practices.
- To start the development of the field, the company must spend **3.5 years on just collecting documents** – receiving numerous approvals (**~44**) in various authorities (**~16**). Moreover, it takes an additional year to register each new well, which is much longer than the drilling itself.
- The current system is impossible to work in, especially without deep knowledge about the local “kitchen”, which results in an absence of a transparent and competitive environment, and facilitation of corruption. This causes slow dynamics of industry development and lack of foreign investors, who are not willing to put their reputation at stake.
- Without freeing from regulatory burden, the large foreign investments will not come to the national upstream. It is another obstacle on the way to achieving the goals set in the Government's Concept for Development of Ukraine's Gas Production Industry – achieving energy independence by 2020.
- Our analysis indicates that most of the permits and approvals are duplicates of one another and are trivial. Abolishing **82%** of them will not have any negative effect on environmental protection, labor safety or budget revenues.
- The proposed steps will turn the Ukrainian permitting system into an exemplary one, which will advance Ukraine to better world standards and guarantee the investors a transparent and equal access to subsoil. In particular, it is proposed to:
 - shorten the permitting procedure for the field commercial development and simplify land allocation for wells (pass the bill 3096-d), which will speed up the process to 2 years;
 - Liberalize the turnaround of the geological information, open access to it and simplify the procedure of special permit receiving approval (pass amendments to several Government's acts);
 - cancel 20 approvals for well drilling and settlement (a series of laws and subordinate acts require amendments), which will shorten the approval time to 2 months.

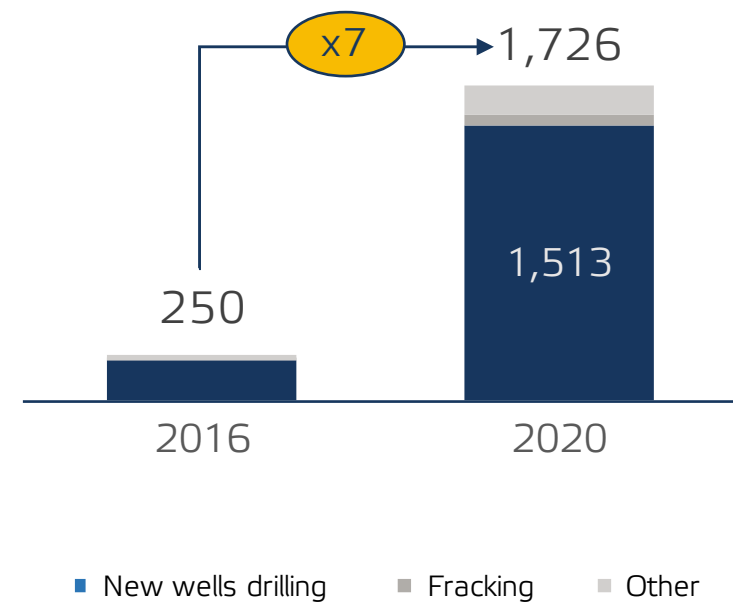


THE PERMITTING SYSTEM MUST PROMOTE INVESTMENTS AND DEVELOPMENT OF THE NATIONAL GAS PRODUCTION INDUSTRY

Natural gas production in Ukraine
bcm



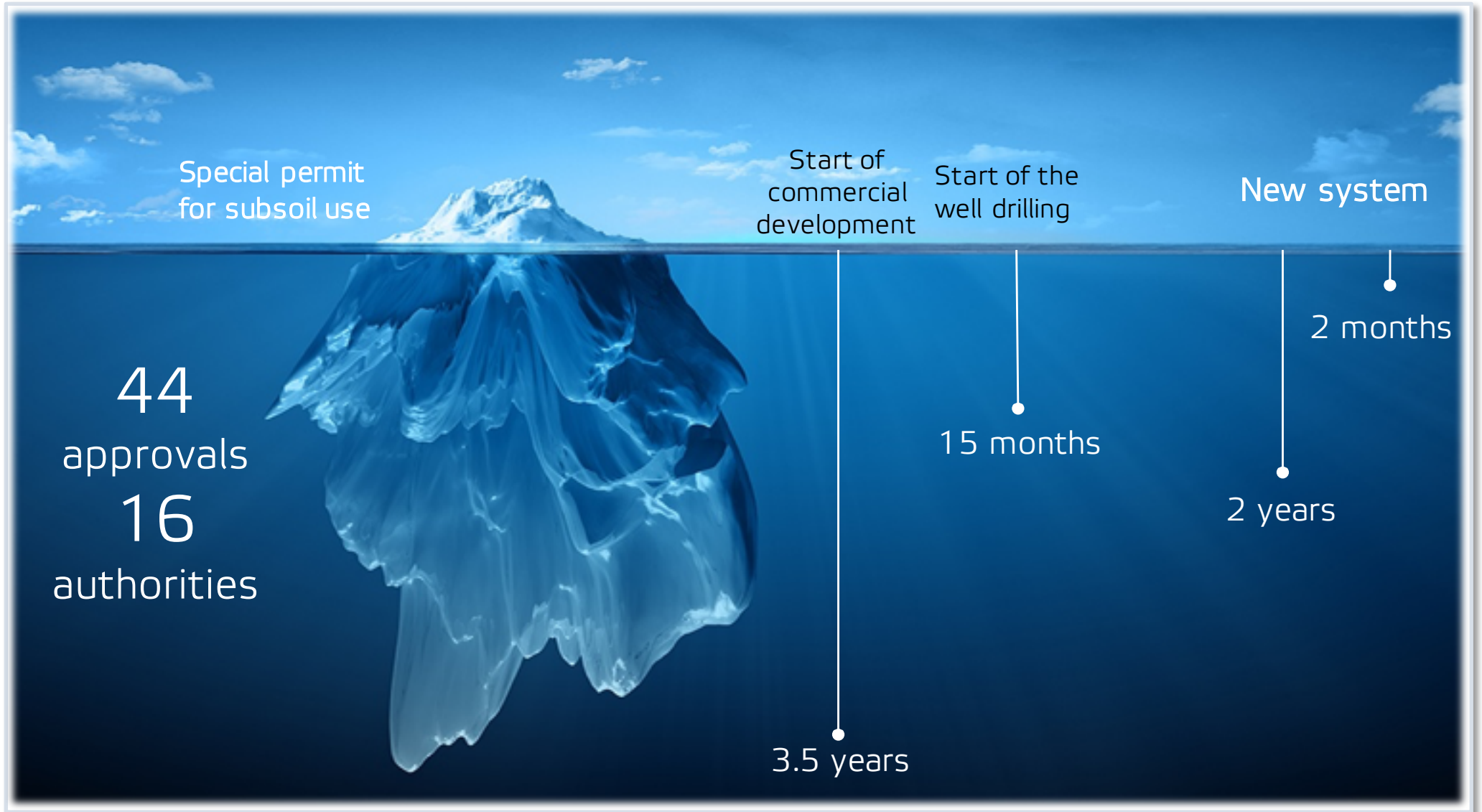
Total required investments
\$m per annum



Without relief from the regulatory and permitting burden, it is unlikely that significant new investments in hydrocarbons will be forthcoming*

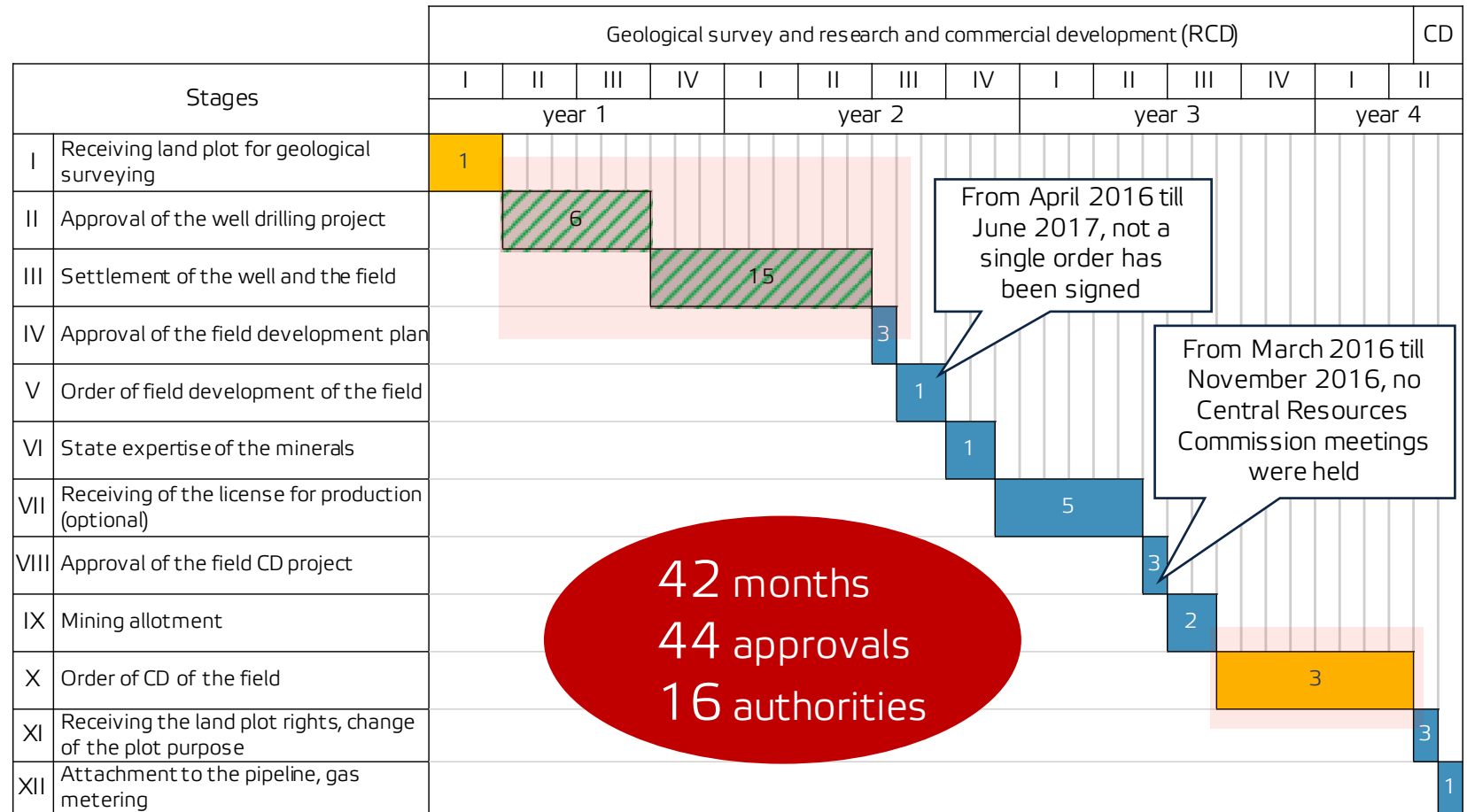


THE BURDENING PERMITTING SYSTEM CAN BE SIGNIFICANTLY IMPROVED BY ELIMINATING 82% OF THE APPROVALS





Approval procedure of starting commercial development of a field (1/2)*
(for a tracts of land with the agricultural purpose)



- For a new field, the application process takes over 3 years and requires receiving multiple approvals
- The application for each new commercial well takes over a year

Quantity of approvals by regulation area

■ Subsoil use
 ■ Land
 ■ Ecology
 ■ Labor safety and construction

Recursive path of every well

*Terms – as determined by legislation or as usually happens, judging from the established practice

Approval procedure of starting commercial development of a field (2/2) (for a tracts of land with the agricultural purpose)

Authority	Stages											
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
State Minerals Reserves Commission (SMRC)						X						
Ministry of Energy and Coal Industry					X						X	
Ministry of Energy and Coal Industry (CDC ¹)				X				X				
State Labor Service		X	XX	X				X	X		X	
Regional Administration of the State Labor Service			XXX						X			
State Geology and Subsoil Service				X			X	X				
Regional Council			X				X					
State Geodesy, Cartography and Cadaster Service (SGCCS)*	X		X							XXX		
Ministry of Ecology and Natural Resources		X	XX				X					
Regional Administration*		X	XX									
State Architecture and Construction Inspection		X	XX									
State Sanitary and Epidemiological Service		X	XX									
State Emergency Service		X	X									
State Fiscal Service							X					
Ministry of Internal Affairs							X					
Regional Scientific, Technical Center for Standardization, Metrology, and Certification												X

Quantity of
approvals by
regulation
area

■ Subsoil use
 ■ Land
 ■ Ecology
 ■ Labor safety and construction

Recursive path
of every well

- Most permits and approvals duplicate each other and are trivial

¹Central oil & gas Development Commission

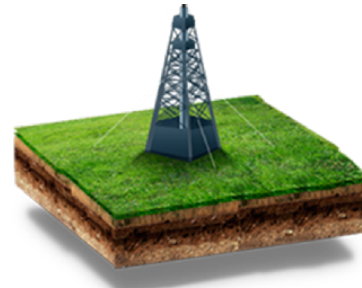
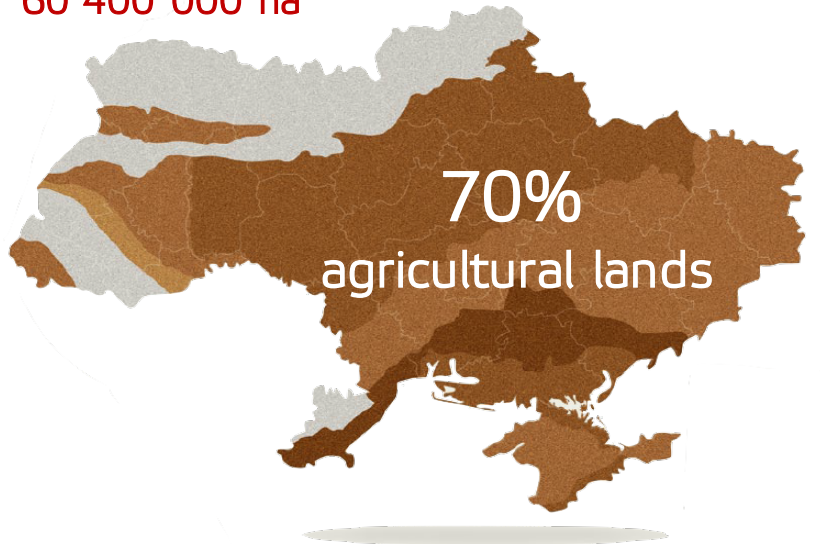
*In other cases, land plots are managed by the Regional State Administrations, Regional Councils, which depends on the location of the plot and its purpose



A PARTICULARLY TROUBLESOME IS THE ISSUE OF ALLOCATION OF TRACTS OF LAND FOR WELL DRILLING

Ukraine's total area
60 400 000 ha

Area per well
0.04 ha

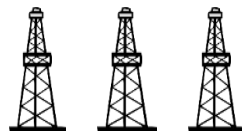


- Most tracts of land are agricultural, which significantly complicates their allotment for drilling
- Despite the fact that wells require a land plot of tiny area, its legalization for industrial development may take almost a year
- In case of private lands, a complete ban for purpose change is in place

Upstream industry development requires insignificant area

Energy
independence
in 2020

=



~200 wells
per annum

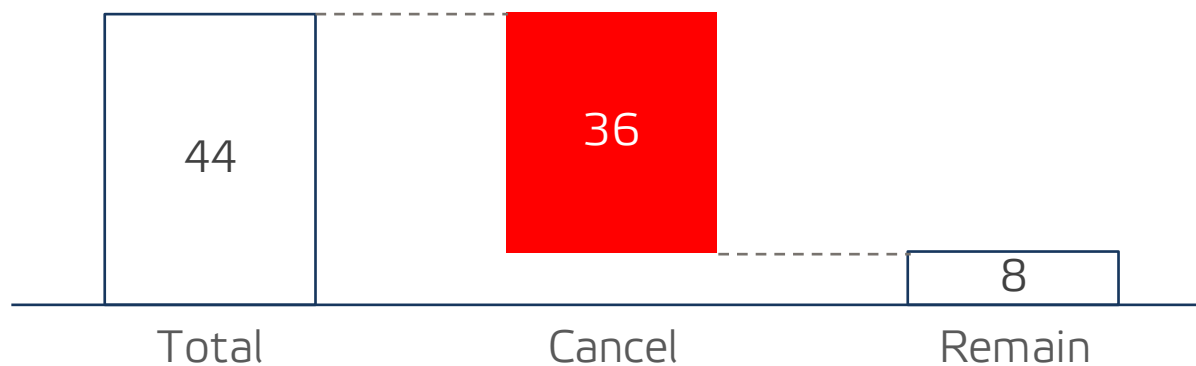
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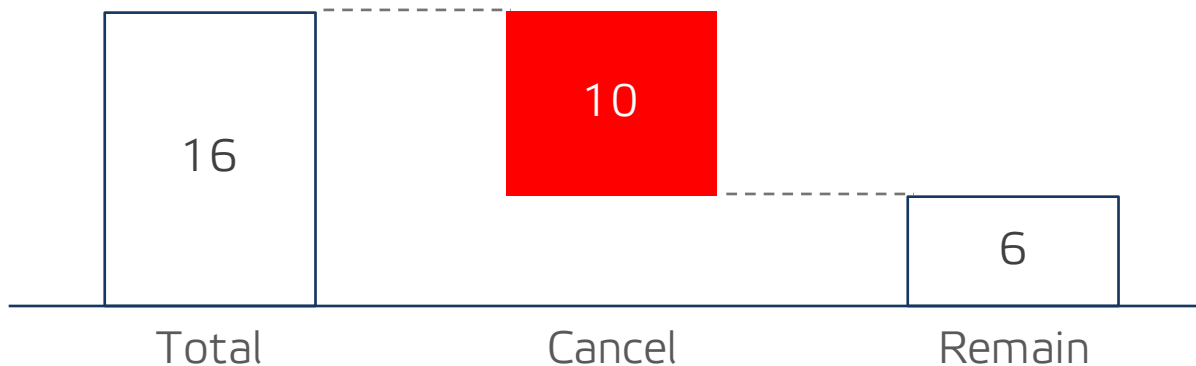
40 ha
in four years



Quantity of approvals



Quantity of authorities

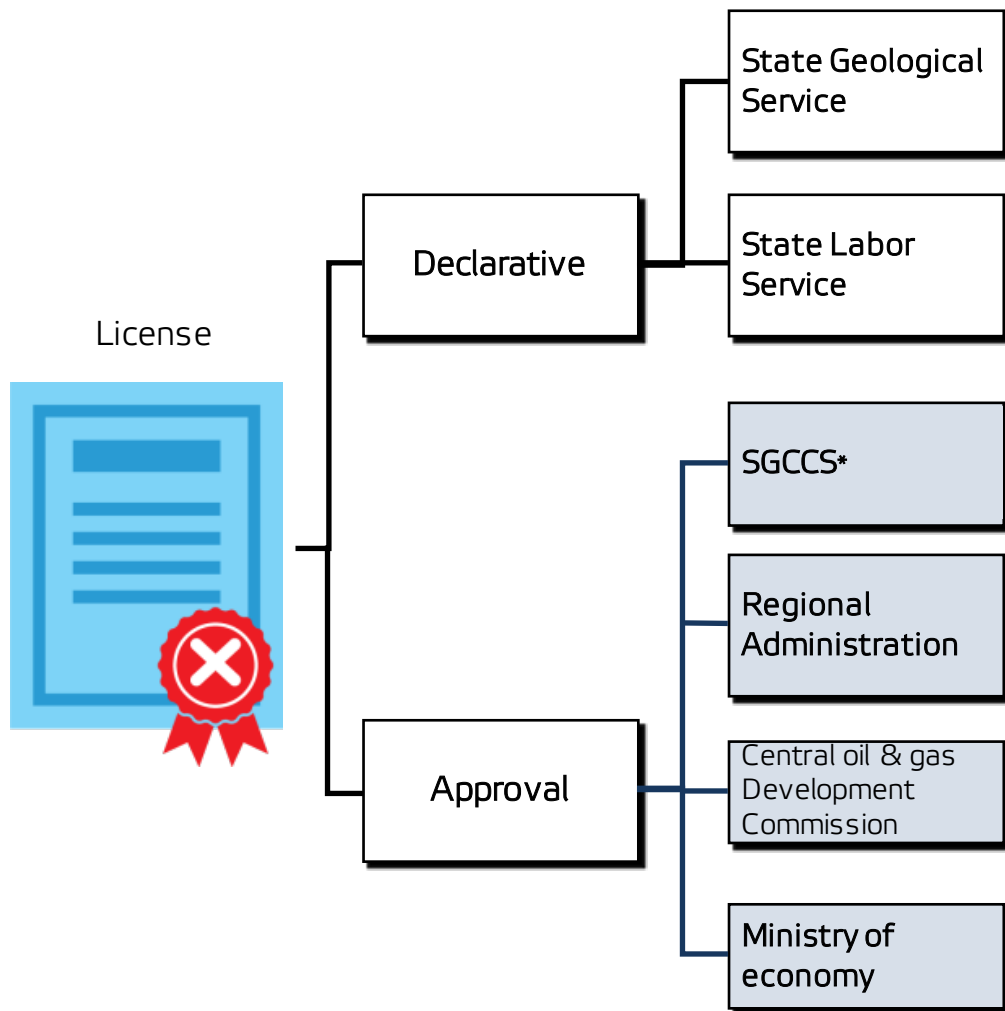




... AND TO MAINTAIN ONLY SELECTIVE CONTROL OVER THE FOUR KEY AREAS OF REGULATION

List of documents

1. Research and Commercial Field Development Project
2. Commercial Field Development Project
3. Well construction and settlement project
4. Land allocation for appraisal works
5. Land allocation for commercial development
6. Environmental impact assessment
7. Approval of the field's reserves
8. Attachment to the pipeline and gas metering





- 3096-d will solve a big portion of the problem. It will:
 - simplify tracts of land allocation for oil and gas wells
 - liberalize the field development plan's approval procedure
 - cancel 13 approvals

see Appendix 1, pp. 1.1–1.10

Pass the bill № 3096-d

(on amending certain legislative acts of Ukraine to simplify certain aspects of the oil and gas industry, from 25.05.2017)

Implement
amendments
to certain
subordinate
government
acts

- open geological information and simplify the rules of its use
- liberalize the special permit receipt approval procedures
- balance out the fees for issue and prolonging of the special permit
- motivation to increase reserves due to cancellation of additional fees for it

see Appendix 1, pp. 2.1-2.10

Amend laws

(Water Code, laws
"On Ecological Examination",
"On Occupational Health",
"On Waste")

- cancel 20 approvals for drilling and settlement of a well

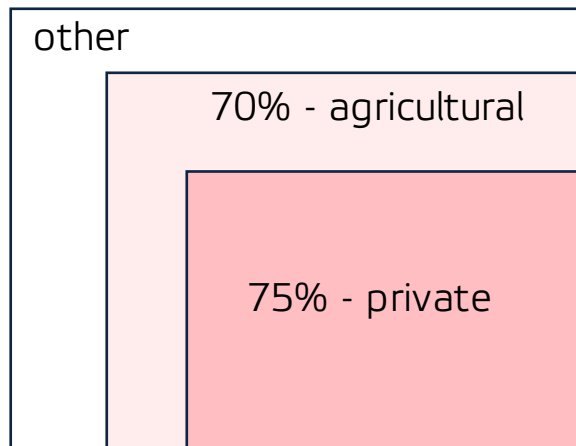
see Appendix 2, pp. 1–20



3096-D WILL IMPROVE THE CURRENT LAND ALLOCATION PRACTICE BY ENSURING CONTINUOUS DEVELOPMENT OF A FIELD

Current situation

Land purpose in Ukraine



RCD
(without change of purpose)

Article 97*

+

easement

Land allotment



Industrial development

change of purpose (>1 year)

possible

moratorium (ban)

not possible

Problem №1

Problem №2

- Currently, to use the land, an exploration contract is signed and easement is established
- It is proposed to update the current land allocation practice to ensure continuous development of a field

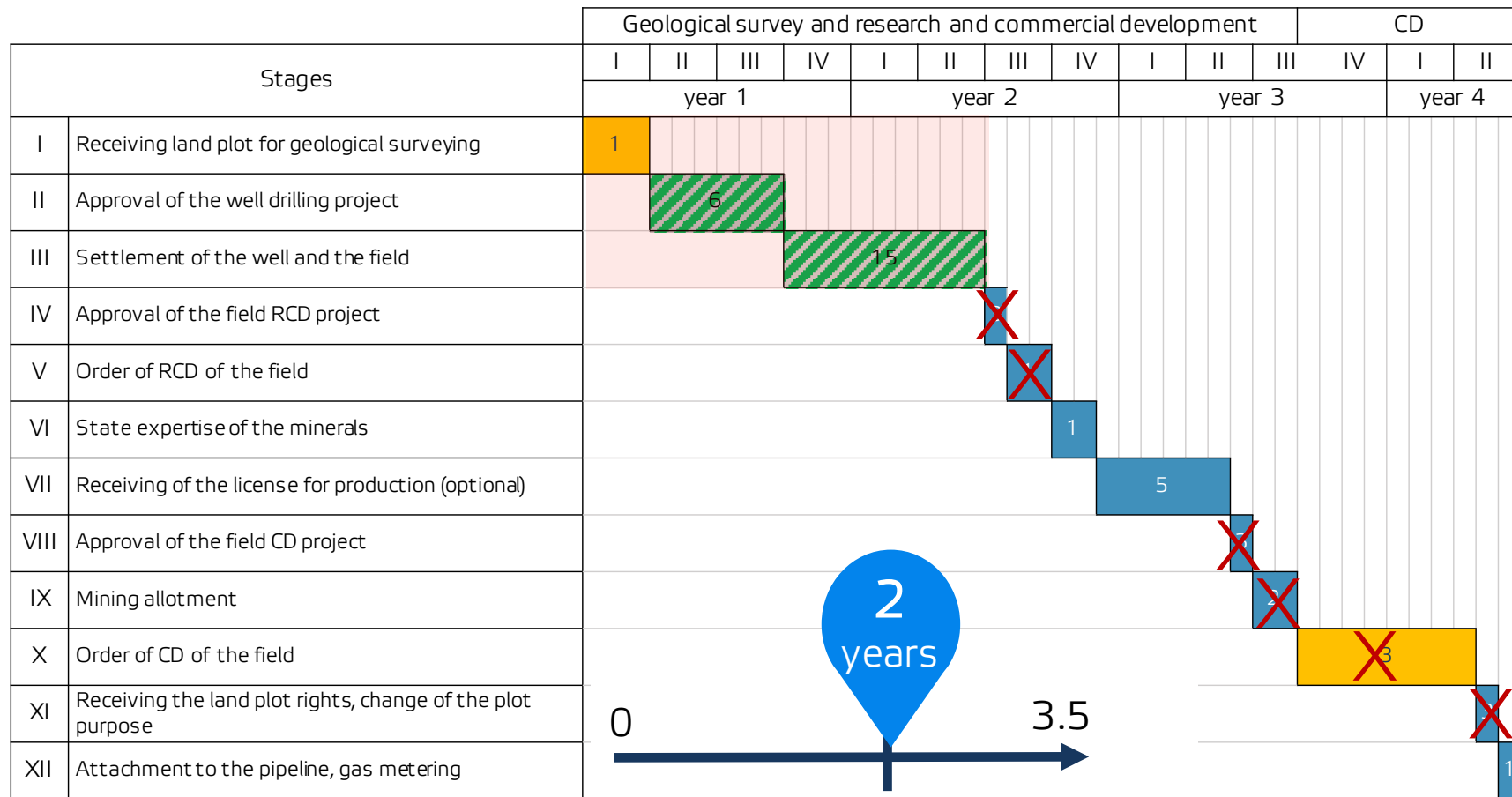
3096-d bill proposals

1. Embed the right to shift to field commercial development on the basis of the exploration contract, which should be followed by a change of purpose of the land plot and its renting out
2. Determine a separate easement for wells and related objects construction to simplify access of the producers to all the land plots

*of the Land Code on the possibility to enter into an exploration contract without land plot purpose change



Approval procedure of the field commercial development legalization (with the proposed changes)



- 3096-d will speed up by over 40% the legalization of the field development project and shorten the procedure to 2 years

Quantity of approvals by regulation area

■ Subsoil use
 ■ Land
 ■ Ecology
 ■ Labor safety and construction

Recursive path of every well

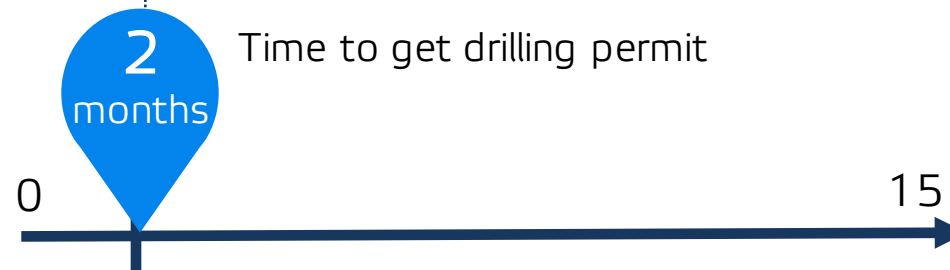
*If such an option exists and there are no limits to the land use (e.g., the moratorium)



FURTHER DEREGULATION SHOULD SIMPLIFY THE PROCEDURE OF APPROVAL OF WELL DRILLING AND SETTLEMENT

Погоджувальна процедура буріння свердловини та її облаштування
(з урахуванням запропонованих змін)

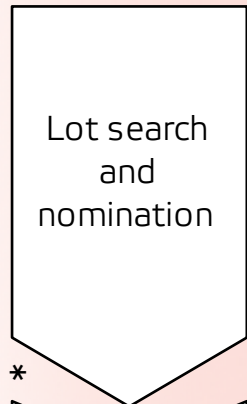
Stages		I	II	III	IV	I	II
		year 1				year 2	
I	Receiving land plot for geological surveying	1					
II	Approval of the well drilling project	1	5				
III	Settlement of the well and the field				15		



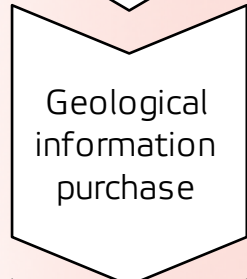
- Cancelling 20 well drilling and settlement approvals will shorten the time necessary to obtain a permit to drill from 15 to 2 months



The existing subsoil access procedure



- Selection of promising lots and their preparation by the State Geological Service requires effort, time and financing, all of which are critically lacked
- Free to access at the archives is the state-owned information, obtain in the Soviet era (170 thousand volumes of paper-based reports)
- It is prohibited to disclose the data, which was obtained by the companies



- The quality of the geological information, which is sold by the state, does not meet the modern requirements, and its cost is significantly overestimated due to a subjective approach to its calculation and inflation estimates



- All the auctioned lots do not have almost any confirmed reserves of oil and gas (the probability of a successful discovery does not exceed 20%), therefore the current calculation of the starting price is very subjective and nontransparent

Proposed amendments to Government's decrees

• № 423, 835:

- establish online access to all the secondary geological information (with a certain confidentiality term) by giving free access and use of the geological reports, wells' passports, logging diagrams, reserves estimates protocols.
- create a single Register of primary geological information (core, samples, etc.) with the contact information of the owner.

NB: it is necessary to scan the reports, create the data room portal, ensure financing of Geoinform's creation and maintenance of the portal

• № 1075 :

- cancel the payment for secondary geological information use

• № 1374 :

- implement transparent approach to determining the starting price of the special permit based on the fixed payment for a unit of a land plot area (km²)

*organization of an auction



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APPENDICES

(IN UKRAINIAN)
