

## **TERMS AND CONDITIONS FOR APPLICATION UNDER P.S.A.**

The Ministry of Economy, Trade and Energy through the National Agency of Natural Resources (AKBN) has declared free onshore and offshore areas open for petroleum operation and invites applications for Production Sharing Agreements.

In accordance with the "Petroleum Law" No.7746, date 28.07.1993, which authorizes the Ministry to enter into a Petroleum Agreement with foreign and local companies, in order to promote petroleum exploration and production on-shore Albania, the Ministry of Economy, Trade and Energy offers free areas for exploration.

Beginning in 1991 the Albanian Government has entered several agreements with oil companies for exploration and production of oil and gas.

### **I. SPECIFIC TERMS AND CONDITIONS**

#### **1. Form of Agreement**

Petroleum agreements will be in the form of Production Sharing Agreements signed between the Ministry of Economy, Trade and Energy represented by the National Agency of Natural Resources (AKBN) and the Contractor. The most important items of PSA are given in the "Petroleum Law", No.7746, date 28.07.1993 and the document "Albanian Legislation and the Framework for Petroleum Exploration and Production" attached.

#### **2. Terms of the Agreement**

##### **2.A. Duration of Exploration Period**

An initial exploration period is planned, followed by two additional exploration periods to be negotiated with AKBN, subject to satisfactory completion of work program obligations of the previous period. The duration of the exploration period is up to 5 years and can be extended up to 7 years in conformity with the "Petroleum Law". The Exploration Periods are subject to negotiation.

##### **2.B. Duration of the Development and Production Period**

In the case of a commercial discovery, the period for development and production of the development area shall be twenty-five years and can be further extended as provided for in the "Petroleum Law".

##### **2.C. Mandatory Relinquishment**

The preferred portion to be relinquished is:

- i) Twenty five percent (25%) of the original contract area at the end of the initial exploration period.
- ii) Twenty five percent (25%) of the original contract area at the end of first extension of the initial exploration period. (The area upon which a Contractor has reported a Commercial Discovery is excluded from the above).

Both of the above provisions are subject to negotiations.

#### 2.D. Minimum Work and Expenditure Obligations

These obligations will be defined by the Contractor in its application to AKBN and are subject to negotiations before entering the agreement.

#### 2.E. Natural Gas

In the case of a commercial Natural Gas discovery, AKBN and the Contractor will negotiate additional terms in the P.S.A, which will endeavor to ensure that the proportion of economic returns for both parties is similar to that for an oil discovery.

#### 2.F. Training and Administration Funds.

The amount will be specified by the Contractor in its application and is subject to negotiations.

#### 2.G. Cost Recovery and Petroleum Sharing

The terms for cost recovery and petroleum sharing will be specified by the contractor in its application, subject to negotiations with AKBN before the signing of the Agreement.

#### 2.H. The Contractor shall have the right to receive and retain abroad the proceeds from its export sales to the extent that they are not required to meet on a current basis its local currency costs in Albania. The Contractor shall have the right to convert foreign currency into local currency at the generally applicable rate of exchange for commercial transactions.

#### 2.I. Bonus

Under the P.S.A., the Bonus is payable in various stages, including the signature bonus. The production bonus and the signature bonus per square kilometer are subject to negotiation.

## **II APPLICATION PROCEDURE**

1. There is no deadline for the submission of applications. Discussions will commence directly thereafter with all companies that submitted offers provided that the Area is still available.

2. Address for Delivery

National Agency of Natural Resources, Blloku Vasil Shanto, ish Instituti Minierave, Tirana, Albania

3. Method of Delivery:

3.A By sealed envelope delivered by registered mail, or by hand.

3.B The envelope must be clearly marked:

Petroleum Exploration Project

CONFIDENTIAL

3.C There is no application fee.

4. Presentation of applications shall be in accordance with the provisions of Item III below, taking into account the specific terms and conditions specified in the "Petroleum Law", No.7746, date 28.07.1993, the Decree of the President No. 782, date 22.02.1994 as well as the document "The Albanian Legislation and the Framework for Petroleum Exploration and Production" attached.

5. Any information or clarification for the submission of an application may be obtained from:

National Agency of Natural Resources, Blloku Vasil Shanto, ish Instituti Minierave, Tirana, Albania

Tel.& Fax. +355 42 34 031

Att. Milo Kuneshka  
Chairman

6. After having examined the application received, AKBN will invite for negotiation the applicant in due time. It is the intention of AKBN that once contracts are negotiated and agreed upon by both parties, they will be entered into as soon as possible.

### **III. FORM OF PRESENTATION OF APPLICATIONS**

1. An application will be presented in a sealed envelope.
2. An applicant may present applications for more than one Area, but each application will be made in a separate envelope.
3. A company or a group of companies may apply for a contract
4. An application shall contain the following:
  - 4.1. The contract area to which the application applies.
  - 4.2. In respect of each applicant:
    - 4.2.A. The name of the applicant in full.
    - 4.2.B. The nature of its business.
    - 4.2.C. The place of incorporation.
    - 4.2.D. The countries in which the applicant or applicants operate.
    - 4.2.E. Evidence of the financial standing and technical qualifications of the applicant, including the most recent audited accounts, and those for the previous three years, of the applicant and of any corporate body having control of such applicant
  - 4.3. The main terms proposed by the applicant in respect of the major aspects of the model Production Sharing Agreement i.e.
    - 4.3.A. Duration of exploration periods.
    - 4.3.B. Minimum exploration work and expenditure obligations.
    - 4.3.C. Training.
    - 4.3.D. Cost recovery and the net profit oil for Contractor.
  - 4.4. Each application may contain the applicants technical evaluation of the area and an explanation of the adequacy of the proposed minimum work commitment in support of the Contractor's exploration concepts for the area.

### **V OPEN BLOCKS**

The open areas for bidding are all the areas where at the time of application there are no contract signed or no negotiations carried out on exclusive basis.

**ALBANIAN LEGISLATION AND FRAMEWORK  
FOR  
PETROLEUM EXPLORATION AND PRODUCTION**

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**I. INTRODUCTION**

Petroleum Exploration, Development and Production in Albania is governed by "The Petroleum (Exploration and Production) Law", No.7746 dated 28 July 1993, amended by Law No.7853 dated 29 July 1994 and Law No.7811 dated 12 April 1994 On Approval of Decree No.782 date 22.02.1994, "On the Fiscal System in the Hydrocarbons Sector (Exploration and Production)". The legislative framework offers considerable flexibility to the Government in negotiating acceptable terms with oil companies. At the same time these laws give incentives and enough flexibility to attract international oil companies and thus stimulate oil exploration in the country.

All petroleum deposits existing in their natural condition in strata lying within the jurisdiction of Albania are the exclusive property of the Albanian State

"The Petroleum (Exploration and Production) Law" expressly permits the Ministry to enter into a Petroleum Agreement under which an oil company may be granted exclusive rights to explore for and produce petroleum.

The Government's objective is to negotiate terms with the oil industry which are fair and balanced, bearing in mind the usual risk associated with exploration and the State's legitimate right for revenues as owner of natural resources. At the same time Government seeks to encourage the development of small and marginal discoveries.

Exploration for hydrocarbons in Albania commenced before the Second World War and many important oil fields in limestone and sandstone's have been discovered.

Albania has the favorable geological and geochemical conditions for the discovery of new fields, providing exploration and commercial opportunities for oil companies.

## **II. LEGISLATION**

### **A. Terms and Conditions of Production Sharing Agreements**

A.1 According to "Petroleum Law", "Petroleum Operations" means all or any of the operations related to the exploration for development, extraction, production, separation and treatment, storage and transportation and sale or disposal of petroleum up to the point of export, or to the agreed delivery point in Albania or the point of entry into a refinery and includes natural gas processing operations but does not include petroleum refining operations.

A.2 Hydrocarbons existing in their natural state are the property of the Albanian State. The Government represented by the National Agency of Natural Resources authorizes the performance of petroleum operations by the National Oil Company (ALBPETROL) in its exclusive areas, or a Contractor in remainder of the territory of Albania.

The National Agency of Natural Resources (AKBN) is authorized to make available to interested oil companies the existing geological and geophysical data in the open areas in order to give oil companies the opportunity to evaluate the data before submitting bids.

A.3 The contract type is the Production Sharing Agreement between the National Agency of Natural Resources, acting on behalf of the Albanian Government, and the Contractor.

According to the "Petroleum Law", "Production Sharing Agreement" means a Petroleum Agreement which provides for the recovery of Contract Costs from Petroleum produced in the Contract Area or from a proportionate part thereof, and for the division between the State and the Contractor of the balance of petroleum remaining after the recovery of Contract Costs in accordance with a scale or formula specified in the Petroleum Agreement

A.4 The Production Sharing Agreement includes provisions such as:

A.4.1 The performance of a minimum work program, backed by a performance guarantee.

A.4.2 The presentation of an annual work program and budget

- A.4.3 Preference given to local employment and supplies during petroleum operations, where these are competitive in terms of quality, availability and cost
- A.4.4 The opportunity for local service companies to bid and preference given to them when the offer is comparable or better than other third parties.
- A.4.5 Indemnify the State or the Ministry against all claims made by third parties in respect of injury, loss or damage resulting from the conduct of any operation carried out by the Contractor or by any subcontractor.
- A.4.6 "The Petroleum Law" deals with access to private land after giving the occupier and the owner a minimum time notice. However, the Contractor must pay fair, just and equitable compensation with regard to any disturbance or damage caused during the conduct of petroleum operations.
- A.4.7 The P.S.A. provides for the establishment of a training and administration fund, which is used for the training of National Agency of Natural Resources employees, and for administrative purposes.
- A.4.8 The Contractor shall conduct Petroleum operations in a safe and proper manner in accordance with generally accepted international petroleum industry practice and shall cause as little damage as is reasonably practicable to the general environment including (inter alia) the surface air, seas, lakes, rivers, marine life, animal life, plant life, crops, other natural resources and property, and shall forthwith repair any damage caused to the extent reparable, and shall pay reasonable compensation for all damage which is beyond repair.

## **B. Technical Clauses**

- B.1 Under the model agreement the Contractor is authorized to conduct petroleum operations during an Initial Exploration period, which can be extended twice.

It is preferred that the Exploration Period includes a drilling commitment by the Contractor.

The duration of the exploration period is up to 5 years and can be prolonged up to 7 years according to the "Petroleum Law". The phases of Exploration Period are subject to negotiation.

- B.2 If the Contractor declares a commercial discovery during the exploration period, it has the right to extend for a development/production period of twenty-five years, which can be prolonged according to the "Petroleum Law".
- B.3 During the exploration period, the Contractor is subject to minimum work obligations. In the case of either the Initial Exploration period or the additional Exploration period expiring and the Contractor not having fulfilled its obligations for the said period, the Contractor must pay to the Government the monetary equivalent in respect of the work not carried out.

All monetary obligations are expressed in US Dollars.

- B.4 Before the end of each Contract year, the Contractor must submit and present to National Agency of Natural Resources the exploration program and budget for the next Contract year. National Agency of Natural Resources may suggest some modifications to this work program and budget, which shall be implemented by the Contractor when in accordance with good international petroleum industry practice.
- B.5 In the event of a discovery, the Contractor will notify National Agency of Natural Resources and evaluation of this discovery will be carried out pursuant to an approved appraisal work program. After evaluation, the Contractor will declare to National Agency of Natural Resources the commercial implications of the discovery.
- B.6 if the Contractor considers the discovery commercial, the area in respect of that commercial discovery is set apart from the Contract area as a Development area. The Contractor prepares a development plan, which is submitted for approval by National Agency of Natural Resources.
- B.7 For the exploitation of discovered marginal fields, or fields that have become marginal due to their exploitation, pursuant to Decree No.782 of 22.02.1994 "On the Fiscal System in the Petroleum Sector", the Council of Ministers may issue special decisions to alleviate the fiscal system in order to render possible the exploitation of the marginal fields.
- B.8 In the case of an oil discovery together with the flow of associated gas, the Contract considers the utilization of such gas. (Provisions concerning the flare and use of such gas either in petroleum operations or in the local economy are open for negotiations).
- B.9 Contractor has the right to develop and produce the natural gas discovered in the Contract Area. Preferably such gas will be utilized in the internal market or exported.

In case of a commercial Natural Gas discovery, National Agency of Natural Resources and the Contractor will negotiate additional terms in the P.S.A, which will endeavor to ensure that the proportion of economic returns for both parties is similar to that for an oil discovery.

National Agency of Natural Resources may process and utilize the natural gas with no compensation to the Contractor where the Contractor considers that the natural gas is not required for use in petroleum operations; there is no possibility of exporting it; or its utilization is not economical.

#### B.10 Unitization

According to the "Petroleum Law", if a petroleum reservoir is located partly in one Contract Area and partly in an other Contract Area and where it appears to the Ministry that gains in efficiency may be achieved through the joint development and operation of that reservoir, the Ministry shall have the right to order the Contractors to develop and operate the reservoir jointly under an agreement entered into by them for that purpose.

If at any time in which the Petroleum Agreement is in force the petroleum bearing strata in the Contact Area, forming part of a single Commercial Discovery, overlap an area over which the Government of Albania has jurisdiction and in respect of which no contact or license has been entered into or is in force, the National Agency of Natural Resources and Contractor shall enter into an agreement to enlarge the Contact Area accordingly and to provide for the proper development of the Commercial Discovery.

### C. **Cost Oil and Profit Oil Sharing**

- C.1 Exploration expenditures and capital expenditures are recoverable only in the case of a commercial discovery but not before the start-up of production.
- C.2 Operating expenditures are recoverable during the year in which they are incurred.
- C.3 Reasonable and necessary administrative expenditures of the Contractor are recoverable.
- C.4 The oil from which costs are recovered is referred to as "Cost Oil". The remaining part of production which is referred to as "Profit Oil" is shared between National Agency of Natural Resources and the Contractor according to a sliding scale, which is subject to negotiations.

"R" factor model can be used in Profit Sharing. "R" factor is defined as the ratio between the cumulative revenues of Contactor reduced by cumulative tax assessed on Contractor and the cumulative costs and expenses incurred in Petroleum Operations.

- C.5 The Contactor is subject to income tax law. According to the Decree No.782 date 22.02.1994, "On the Fiscal System in the Petroleum Sector", the Contractor is obligated to pay each fiscal year only the impost on the profit realized during that fiscal year.

The tax is at the rate of 50% of the realized profit.

- C.6 The Contractor shall pay a Royalty Tax of 10% of the revenues from the sales of petroleum according to the Law No. 9975, date 28.07.2008 "On National taxes".

- C.7 According to the Decree No.782 date 22.02.1994, "On the Fiscal System in the Petroleum Sector", The National Agency of Natural Resources may elect to take the Government's tax and/or its share of profit oil in cash or in kind or in both forms. (According to the international market prices in case the National Agency of Natural Resources elects cash).

- C.8 The Contractor shall have the right to receive and retain abroad the proceeds from its export sales to the extent not required to meet on a current basis its local currency costs in Albania. The Contractor shall have the right to convert foreign currency into local currency at the generally applicable rate of exchange for commercial transactions.

#### **D. Miscellaneous**

- D.1 The Contractor and its sub-contractors are allowed to import into Albania all equipment and materials required for use in petroleum operations provided that National Agency of Natural Resources has certified that equipment and materials are to be used solely in petroleum operations.

The Contractor and his sub-contractors are exempted from the customs obligations as for the equipment, machinery, materials etc.

- D.2 The Contractor may export the share of production to which he is entitled.

- D.3 The Contractor may assign all or part of its interest under the contract to any affiliate or third party, which assignation is subject to a guarantee for the performance of Contractor's obligations to be submitted by the assignee, as well as subject to the consent of the National Agency of Natural Resources.

- D.4 The petroleum agreement and petroleum operations are governed by the laws of ALBANIA and the generally accepted practices of International Oil Industry.
- D.5 Arbitration shall be in accordance with the UNCITRAL arbitration rules, preferably under Swiss Law.
- D.6 All international oil industry investments are fully protected (as are all foreign investors) pursuant to Law No.7764 of 22.11.1993 "On Foreign Investments"