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Ukraine: PSA tenders for two offshore oil and gas areas

On 23 May 2012 the Cabinet of Ministers of Ukraine (**CMU**) adopted two Resolutions on Holding Tenders for the Award of Production Sharing Agreements (**PSA**) for the Extraction of Hydrocarbons within the Foros and Skifska Areas (Resolutions No. 454 and No. 455 respectively, hereinafter the "**Resolutions**"). The Resolutions became effective on 30 May 2012 and contain the main conditions on which the PSA tenders for the above mentioned areas will be held.

On 2 June 2012 both tender announcements were published in the state newspaper "Uryadovyi Kurier" (No.98). Tender bids must be submitted within two months from the date of their publication (i.e. on or before 2 August 2012).

The Skifska and Foros areas are oil and gas fields, located on the Black Sea shelf near the Ukrainian-Romanian border and the Crimean Peninsula respectively. The estimated recoverable reserves are expected to be 3 to 4 billion cubic meters of natural gas per year at Skifska and 2 to 3 billion cubic meters at Foros areas.

The most important tender conditions are summarized below:

	Foros Area (Resolution No 454)	Skifska Area (Resolution No 455)
Type of special permit	combined: exploration, pilot and commercial production of fossil fuel resources (natural gas, oil and condensate).	
Period	50 years (may be further extended, if and as provided by Ukrainian law)	
Acreage	13614.9 km ²	16698.2 km ²
Depth	10,000 meters below the surface or at the depth of a geologic basement (whichever comes first)	
Minimum investment	at the exploration stage: UAH 1.6 billion (USD 200 million).	
Investor's production costs	shall not exceed 70%	
State's share in the production profit	shall not be less than 20% percent.	
Main bidding parameter	the attractiveness of the investment terms and conditions, in particular the amount to be paid by the investor to the State Budget within 10 days after execution of the PSA (the so-called "signing bonus", which may not be less than UAH 2.4 billion (USD 300 million)).	
Other bidding parameters	(i) efficient use of natural resources; (ii) efficiency of the technological solutions; (iii) efficiency of the HSE protection program; (iv) attractiveness of the investment terms;	

	(v) financial capabilities and experience in the light of the work program and investment terms of the tender; (vi) attractiveness of the State-bidder profit share split suggested by the bidder; (vii) experience of the bidder in real life projects for exploration and/or production of fossil fuels at a deep marine shelf; (viii) the extent to which the use of local goods, works and services of Ukrainian origin is ensured.	
Description of the work programme	1) 1st exploration stage, which includes the geological survey and the drilling of at least one exploration well – to be completed within 5 years; 2) 2nd exploration stage (if any) which includes a further geological survey and the drilling of at least one exploration well; 3) pilot production stage (if any) which includes the drilling of the exploitation wells and the development of the deposits; 4) submission of the report (based on the results of the exploration stages) to the State Information Geological Fund; 5) estimation of the mineral deposits and successful approval by the State Commission on Reserves of the Mineral Resources	
Disclosure of information concerning the investor's methods for the efficient use of subsoil resources	1) measures intended to be adopted in order to start the commercial production and to reach the peak volumes of the extracted hydrocarbons as soon as possible; 2) evidence of safe and modern technology and equipment capable of ensuring the implementation of the most effective methods of exploration and production of hydrocarbons; 3) availability of technology to protect water resources and ecological system of the Black Sea continental shelf; 4) availability of technology to protect the atmosphere and prevent air pollution	
Participation fee	UAH 1 million (USD 125,000)	
Price of the tender documentation (comprising: (i) tender terms and conditions; (ii) a cartographic layout of the area, (iii) general and geological description of the area, (iv) geological data; (v) list of the geological data which can be further purchased)	UAH 10 million (USD 1.25 million)	UAH 12 million (USD 1.5 million)

Law: Resolution No. 454 of the Cabinet of Ministers “On Holding Tenders for the Award of Production Sharing Agreements for Extraction of Hydrocarbons within the Area of Foros” dated 23 May 2012

Resolution No. 455 of the Cabinet of Ministers “On Holding Tenders for the Award of Production Sharing Agreements for Extraction of Hydrocarbons within the Skifska Area” dated 23 May 2012

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