



ukrainian legal group
www.rulg.com

Legal Alert – 3 June 2011

Adoption of the National Program for the Development of Minerals - Raw Materials Base in Ukraine for the Period until 2030

On 20 May 2011 the President of Ukraine signed the Law "On Amending the Law of Ukraine "On Approving a National Program for the Development of Minerals - Raw Materials Base in Ukraine for the Period until 2010", which restates the old law in a new version and contains the National Program for Development of the Minerals - Raw Materials Base in Ukraine until 2030 ("**the Program**").

Olimpiysky Center
72, Velyka Vasylkivska Street
Suite 14, Kiev 03150
Ukraine
Phone: [380] (44) 207-1060
Fax: [380](44) 207-1064

4056 Mansion Dr., N.W.
Washington, D.C. 20007
USA
Phone: [1] (202) 338-1182
Fax: [1] (202) 338-4237

The Program took effect on 25 May 2011.

The main objectives of the Program are meeting the growing domestic demand for mineral resources by means of domestic production, reducing Ukraine's dependence on imports of minerals and increasing its export potential by means of domestic production of minerals.

The issue of mineral resources in Ukraine requires a systematic approach that should include a balanced use of resources by the State and private sectors and introduction of innovative investment mechanisms of subsoil use. The Program envisages concentration of efforts on priority areas of minerals - raw materials base, intensification of works on geological study of subsoil with modern methods and technologies, differential approach to stock assessment and potential mineral resources, enhanced international cooperation, etc.

The Program's implementation requires new improved legislation, including development of the new version of the Subsoil Code, improving methods for calculating the starting price for Special Permits for the use of subsoil (exploration and production), criteria for determining winners of the auctions and of the right to conclude Production Sharing Agreements, responsibility of subsoil users for the implementation of investment agreements, project documentation for exploration and liquidation of subsoil use consequences, regulating secondary market for sale-purchase of rights to use subsoil in accordance with the practice of developed countries.

Within the framework of international cooperation the Program stipulates that the State Service of Geology and Mineral Resources of Ukraine shall take part in the European Geological Services and in the Intergovernmental Council of CIS Countries.

Furthermore, in order to expand the minerals - raw materials base through participation in international projects and to develop the promising areas of the world's oceans, the

Ukrainian Government submitted an official application concerning Ukraine's intention to join the Interoceanmetal Organization.

The exploration of minerals, including hydrocarbons, is planned together with geological organizations of other countries.

As for the geological surveys particularly in the offshore areas of the Black and Azov Seas the Program foresees *inter alia*: medium-sized geological surveys - throughout the shelf; large scale geological surveys - in coastal zones and in certain specific areas; prospecting works (as related) for building materials, sapropel deposits, alluvial deposits of titanium and zirconium, nonferrous metals, mineral salts and mud; international cooperation in geological studies of the bottom of the Black and Azov Seas; exploration in the offshore areas of the Black and Azov Seas hydrocarbon deposits, including gas hydrates, etc.

The Program also stipulates the development of geological and geophysical information on Ukraine's subsoil, in particular: generalization of the information based on the results of earlier works by taking a set of maps of the Black and Azov Seas in scale 1:500000; comprehensive geological, geotechnical, ecological and geological mapping of the Black and Azov Seas in 1:200000 scale compiling multi-purpose maps; geological survey of shelf in the coastal waters of the Black and Azov Seas in 1:50000 scale, etc.

Please see below the tasks outlined by the Program for most important fuel and energy recourses:

- **Gas, Oil, Condensate**

According to the Program the degree of use of initial total resources in the total amount of all hydrocarbons as of 1 January 2010 was approximately 54%. The initial share of total undiscovered resources is 2.5652 billion tons of equivalent fuel, including gas - 2.1814 trillion cubic meters and oil and condensate - 383.8 million tons. In total during the years 2011 - 2020 it is planned to add 127 billion cubic meters of gas and 32.5 million tons of oil and condensate, and during the years 2021-2030 - 160 billion cubic meters of gas and 40 million tons of oil and condensate accordingly. Annual growth rate of their reserves for the period of up to 2030 is foreseen at 2% depending on available reserves of hydrocarbons. In general, during the years 2011-2030 it is expected to secure at the State Budget costs an increase of free gas reserves up to 287 billion cubic meters and of condensate and oil – up to 72.5 million tons.

- **Methane**

An important additional resource of potential hydrocarbon deposits is coal bed methane of Donetsk and Lviv-Volyn coal basin. As of 1 January 2010 in Ukraine the balance reserves of categories A+B+C1 and C2 are estimated at 313.9 billion cubic meters of coal bed methane (the balance of operating mines is 140.8 billion cubic meters).

The Program provides for the development of methods for the study and evaluation of methane, exploration works with the assessment of methane reserves and resources of individual areas and ensuring its production in the amount of 8 billion cubic meters in 2020 and 16 billion cubic meters in 2030.

- **Shale Gas**

Shale gas reserves, as of 1 January 2010, were not recorded in the State balance of mineral resources. No company in Ukraine was engaged in any theoretical and practical research of challenges and opportunities of natural gas extraction from shale rocks.

The Program provides for: basic and applied research and case studies of perspective areas scientific forecasting of shales with high organic matter content study, which is associated with the prospects of gas production in all oil and gas basins of Ukraine, Ukrainian crystalline shield, Vohlynnya-Podillya and the Black Sea; estimating the prognosis and perspective shale gas resources in oil and gas basins of Ukraine, Ukrainian crystalline shield, Vohlynnya-Podillya and the Black Sea; drafting a program of a feasibility study for regional geological exploration and production of shale gas resources; identification and preparation of plots for first-priority geological prospects for shale gas deposits; analysis of international experience and technologies of shale gas production; and implementation of a pilot project on prospecting, exploration and production of shale gas in the most promising area.

Disclaimer

The content of this Legal Alert is not legal advice, but a general informational summary of the law. Resource to qualified legal counsel is always required for legal advice. Failure to make timely inquiries of legal counsel may cause important legal deadlines to be missed.