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On January 25, a few days before the exhaustion of crude oil stocks at Belarusian refineries, Moscow and Minsk agreed on conditions for oil deliveries. Belarus has accepted all conditions laid down by Russian oilmen - the oil price will be increased. Beginning in February, a formula based primarily on oil and oil product duties will determine the premium for Russian oil deliveries to refineries in Belarus and will total \$40 per ton. January contracts contained the fixed premium at a rate of \$6.30 per barrel, or \$46 per ton. Nonetheless, Russian oil remains 30 percent cheaper than oil delivered to Belarus from Venezuela. In addition, Moscow will provide Belarus subsidies totaling \$4.1 billion due to deliveries of Russian oil.

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The Ministry of Natural Resources and Ecology (MNRE) and the Federal Subsoil Use Agency (Rosnedra) announced record achievements in hydrocarbon resource replacement. On preliminary data, the gain in oil reserves exceeds extractions by 150 percent. Gas reserves replacement exceeded production by 24.6 percent. However, the reserves replacement may be the only result for which the ministry can be proud. In 2010, only 42 new oil and gas deposits were opened, almost half of the 2009 result (74 discoveries). In 2010, Rosnedra scheduled 288 auctions and competitions, but only 46 auctions occurred, 15.9 percent of the plan. The total revenue to the budget from auctions and competitions in 2010 amounted to R8.7 billion in comparison with a planned target of R39 billion or 22 percent of plan.

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### Government

#### 5 European Natural Gas Transit Routes Changing

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European Union Energy Commissioner Günther Oettinger has announced that the commissioning of the Nord Stream and South Stream gas pipelines will make gas transit across Ukraine and Belarus unnecessary. It seems that Europe no longer doubts that both Russian projects will be implemented. Certainly, European officials have no doubts that Nabucco too will be implemented. Europe, apparently, has accepted the new Russian gas routes, unless that is only a concession to Russia in exchange for transport of Turkmen gas across the floor of the Caspian Sea.

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### Projects

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On January 27, ExxonMobil and Rosneft signed an agreement for strategic partnership on the Black Sea shelf during the international forum in Davos. It is the third such agreement Rosneft has signed since last summer with a global major for joint work on a Russian shelf. On June 1, Rosneft and Chevron signed agreements on development of the Shatsky Val block. On January 14 of this year, BP and Rosneft announced a shares swap totaling \$7.8 billion, as well as joint development of the Arctic shelf. However, the cooperation agreement on that venture was signed only on January 26 at Davos. Rosneft and ExxonMobil had entered the final negotiations stage on the Black Sea's Tuapse Trough last fall, but successfully concluded an agreement only at the end of January.

### Electricity

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On January 20, Inter RAO presented a development strategy until 2015. It calls

over the next five years for the company to become one of the ten largest power companies in the world, to locate a strategic investor for a blocking package of its shares and to control a quarter of the Russian electricity market. Only two and a half years after the end of the UES reform, such news allows analysts to speak about nationalization in the power sector. The basic purpose for the reform had been to attract investors into the sector, but that has not succeeded. Audits have shown that only R529 billion has been attracted from a needed total of R3 trillion between 2006 and 2009. Only about 25 percent of the investments have been used for the intended purposes. Meanwhile, there was the 2009 accident at the Sayano-Schuschenskaya power station and a more recent rash of blackouts and electric power industry corruption.

### Transportation

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Transneft is now discussing with Rosneft a possible swap of the recently constructed Vankor-Purpe oil pipeline for the Kozmino oil seaport in Nakhodka (the terminal point for the East Siberia-Pacific Ocean pipeline). This is the third private oil pipeline in Russia. The other two - CPC and LUKOIL's Kharyaga-Usa - have consistently caused complaints from both the Russian authorities and pipeline users. In 2009, the government instructed Transneft to purchase Vankor-Purpe from Rosneft. By 2012

## Update on Ukraine's Legal Regime for Upstream Oil and Gas at the Beginning of 2011

By Dr. Irina Paliashvili, President and Senior Counsel, and Tamara Lukanina, Senior Counsel  
RULG - Ukrainian Legal Group

In our article last month summarizing the developments in Ukraine's upstream sector in 2010 (See "Developments in the Ukrainian Oil and Gas Sector," *Russian Petroleum Investor*, January 2011) we predicted a very busy year for the upstream sector in Ukraine. However, the beginning of 2011 turned out to be so eventful that we offer an update below of the most significant developments during the first few weeks of 2011.

- First the Ukrainian Government (GOU) gave several very positive signals to the investment community, such as: meetings of the GOU leadership in February 2011 with top executives of major international oil companies (IOCs) – President Viktor Yanukovich with Royal Dutch/Shell (Netherlands/UK), Prime Minister Mykola Azarov with Chevron (US) and upcoming meetings of Minister of Energy and Coal Industry Yuriy Boyko with IOCs in the US; the Interagency PSA Commission recommending several shale gas areas to be included in the list of subsoil areas eligible for PSA; and the completion of negotiations and soon expected peaceful settlement between GOU and Vanco on the ongoing PSA dispute (in particular, deputy prime minister Andriy

Klyuyev recently announced that a settlement could be signed with Vanco Prykerchenska Ltd as soon as February).

- As of 1 January, amendments to Article 14 of the Law "On Oil and Gas" took effect, eliminating tenders altogether and leaving auctions as the only competitive mechanism for obtaining subsoil licenses in the oil and gas sector.
- In January, the Cabinet of Ministers Ordinance dated 10 December 2010 was published, which became the only known example of an approval of a joint activity agreement (JAA), since the requirement was enacted in May of 2008 that an individual approval of the Cabinet of Ministers must be obtained for any JAA that involves a state-owned company (any company where the state's stake exceeds 50 percent). The ordinance granted approval to a JAA between state-owned joint stock company Chornomornaftogaz (a subsidiary of Naftogaz) and LUKOIL with regards to three subsoil areas on the Black Sea shelf: Odesskoe, Bezimennoye and Subbotinskoye (See "LUKOIL Admitted to Ukrainian Black Sea Shelf" in this issue). The share of Chornomornaftogaz in this JAA must be no less than 50 percent and the subsequent to its signing the JAA must be submitted to the GOU for final approval.

- Ukraine has completed the accession procedures to the Treaty establishing the Energy Community (Energy Community Treaty of 2005, Athens), becoming the tenth party to join.
- Finally, a very important first step was made by GOU at the end of January towards preparing PSA tenders for two shale gas areas: the GOU's Interagency PSA Commission, responding to the initiative of two IOCs, recommended for the inclusion on the PSA List the Oleska and the Yuzivska shale gas areas. The move will be finalized when the Cabinet of Ministers approves the amendments to its resolution containing the list, which is a necessary pre-requisite for preparing respective PSA tenders for these areas.

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