

PID-NBQ-974
99687

**LONG-TERM ADVISORY SERVICES
WILLIAM JAMES - TURKMENISTAN
PERIOD COVERED FEBRUARY, 1997 - SEPTEMBER, 1998**

**NIS INSTITUTIONAL BASED SERVICES UNDER THE
ENERGY EFFICIENCY AND MARKET REFORM PROJECT
Contract No CCN-Q-00-93-00152-00
Delivery Order No 17**

**Central Asian Republics
Regional Energy Sector Initiative**

Final Report

Prepared for

U S Agency for International Development
Bureau for Europe and NIS
Office of Environment, Energy and Urban Development
Energy and Infrastructure Division

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September 1998

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*Turkmenistan, what should it do
With all its natural wealth?
So far away its sands do lie
From economic health*

*Beneath its desert locked in faults
lies crude petroleum
perhaps its fate, this land of rugs,
twill be linoleum*

SUMMARY OF ACCOMPLISHMENTS & MAJOR ACTIVITIES UNDERTAKEN

1ST QUARTER, 1997

DO 17 activities began in Turkmenistan with a survey tour in February 1997. Traveling with a group of Hagler Bailly consultants and staff, as well as several USAID personnel from both Washington, DC, and Almaty, Kazakhstan, we met and discussed with Turkmen officials their potential need for technical assistance in the petroleum sector. We also met and discussed with petroleum industry representatives working in Turkmenistan about their views of having USAID provide technical assistance. Indeed, both the Turkmen officials and industry representatives were very enthusiastic and receptive to the possibility of receiving such assistance from USAID. A Workplan was designed from among the various projects discussed. As a coincidence, there was an oil and gas conference being held about the same time and both Kris Gupta and I stayed on in Ashgabat to attend the conference. During this conference, a new Petroleum Law (Attachment A) was announced by the Government of Turkmenistan. We reviewed the content of the Law and found it to be progressive and an excellent first step toward legal and regulatory reform in Turkmenistan.

2ND QUARTER, 1997

I returned to Ashgabat in late April to take up the position of Resident Advisor. Following discussions with the Ministry of Oil and Gas Industry and Mineral Resources (MOG) and with the American Ambassador to Turkmenistan, we were assigned that Ministry as our counterpart and provided offices directly adjacent to the Minister of Oil & Gas. Again, we made the rounds

of public officials and representatives of those oil firms doing business in Turkmenistan. We also began preparing reports on the existing legal and regulatory framework, and on recommended changes in laws and decrees. Part of the report also commented on recommended changes to regulations and on recommended process and changes in the institutional structure for foreign investment in the oil and gas sector. Midway through the quarter we were asked to reassign our counterpart focus from the MOG to the State Agency for Foreign Investment (SAFI). Finally, in early June, the President of Turkmenistan issued a decree establishing the Competent Body for the Use of Hydrocarbon Resources at the President of Turkmenistan (Attachment B). The decree also named specific individuals to sit as an Expert Council to monitor the activities of the Competent Body, and further named the Executive Director of the Competent Body to be Mr. Toily Kurbanov. Mr. Kurbanov immediately informed us that the Competent Body was to be our new (and third) counterpart and that the working relationship we had developed with the MOG and continued with SAFI was to be changed. Essentially, we were asked to “re-apply” for the technical advisor’s position. With our assistance, the local USAID representative began what would turn out to be a six-month process of arriving at agreement on a Memorandum of Understanding (MOU) (Attachments C & D) and a Work Plan (Attachment E) for such MOU.

3RD QUARTER, 1997

During this quarter we finalized our reports begun in the previous quarter, and established new office facilities outside of the Ministry. Much of the effort this quarter was negotiation of the MOU with the Competent Body. Efforts to engage in technical assistance activities was blocked by Mr. Kurbanov, including the cancellation of our first seminar on International Petroleum Agreements.

4th Quarter, 1997

Negotiation of the MOU continued into this quarter, with the final agreement being executed in mid-October. A second attempt was made to hold a seminar — this time in Petroleum Economics — but again Mr. Kurbanov thwarted the plans, telling us that he had been unaware of the plan to conduct the seminar although, in fact, his assistant had been very much involved in the planning process. A Work Plan for the MOU was finally agreed to by the Competent Body on November 17. We were asked by the Competent Body to review a set of rules and regulations that had been prepared within the government for oil and gas operations under the new Petroleum Law. These regulations turned out to be a poorly edited version of the former Gost Standards from the Soviet days, complete with all the prescriptiveness and grueling detail for which the command economy had been famous. We submitted our review suggesting the rules not be adopted (Attachment F). Late in the quarter I traveled to Almaty, Kazakstan to see the rule-making process which was underway in that country. Mr. Gupta and our staff accompanied

a group of Central Asian officials to the United States to attend the semi-annual meeting of the Interstate Oil and Gas Compact Commission, and to tour various oil field facilities and oil company sites

1ST QUARTER, 1998

Our epistle suggesting the rules prepared by the government not be adopted was not well received by either the Competent Body or the Major State Inspection Agency which had authored, or more correctly, had edited them from the former set of rules. We suggested a new process be adopted for development of the new rules — namely, creation of a committee with representatives from various agencies affected by the petroleum sector as well as industry (Attachment G). Ultimately, a variation of this suggestion was made a decree of the President in creating a number of Permanent Expert Groups (PEG's) to take specific steps to implement the Petroleum Law. I was appointed by the President to serve on the PEG for development and approval of "Uniform Rules for Development of Oil and Gas Deposits of Turkmenistan." Hagler Bailly assistance was requested for two specific other PEG's, that for development of "Uniform Principles and Methods of Accounting for Oil Operations in Turkmenistan" and another for development of "The National Strategy for The Use of Hydrocarbon Resources of Turkmenistan." Within the Ashgabat office, I have taken primary responsibility for the rule-making effort, while Kris Gupta has taken the primary responsibility for the accounting PEG and strategic planning PEG's work.

The rule-making task is ongoing at the writing of this report. A total of thirteen chapters of new rules and regulations — some 150 pages of rules and regulations in Russian and English — have been submitted and debate remains on only one chapter. It is anticipated that work will continue beyond the termination of DO 17 by preparation of a preliminary-final draft of the entire set (all thirteen chapters) of such rules and submittal of the set to the Expert Council of the Competent Body for the Exploitation of Hydrocarbon Resources¹, receipt and consideration of industry comments to the preliminary-final set of rules, possible shepherding and advocacy of the set of rules before the Experts Council, explaining the merit and purpose of each section, and explaining the merit and content of industry comments to such preliminary-final draft, re-drafting or amendment of sections to the specification of the Expert Council, and development of a final-final set of rules for adoption by the government.

¹The Expert Council includes the President of Turkmenistan, and the heads of various Ministries concerned with the issues of hydrocarbon development. It can be thought of as the "Board of Directors" of the regulatory agency, the Competent Body, created by the new Petroleum Law to control all facets of petroleum development within the bounds of Turkmenistan.

The thirteen chapters of the Turkmenistan Oil and Gas Rules include

Chapter 1	General Rules and Definitions
Chapter 2	Permits
Chapter 3	Exploration
Chapter 4	Appraisal
Chapter 5	Drilling & Completion
Chapter 6	Development
Chapter 7	Well Operations
Chapter 8	Conservation of Oil & Gas Resources
Chapter 9	Environmental Protection
Chapter 10	Safety & Health
Chapter 11	Offshore Matters
Chapter 12	Records & Reporting
Chapter 13	Remedies

Consensus has nearly been reached by the PEG assigned to develop such rules. Industry comments have been solicited and will be considered before a preliminary-final draft of the rules is submitted to the Expert Council. Importantly, the newly drafted set of rules dramatically alters the old Soviet style of prescriptive regulations which micro-managed oil field operations, and which froze equipment and technology at moments in time which were seldom changed or updated. The new rules, if adopted, will require the regulatory body, the Competent Body, to substantially professionalize its operation so as to become competent in the constantly improving technologies available to international firms. Decision making and permit and application processing would no longer be a simple matter of checking boxes and stamping "Approved" or "Denied" but rather would involve knowledgeable negotiation with Operators for a wide range of design specifications and permissible operating techniques.

Two training seminars were also held this quarter. The first course was conducted on February 17 and 18, 1998, by Dr. Bhagy Shenoy. Discussed under his broad topic of Petroleum Economics were the concepts of time value of money, return on investment, financial analysis of investments including the impact of royalties, taxes, and production sharing arrangements. The forces which set prices in the international petroleum and the impact of transportation costs on the producing country were highlighted. Illustrative examples explored, among other things, refinery investment, pipeline costs, and different product values.

The second seminar was held on March 9-10, 1998, by Dag Lillegraven. The discussions focused on the creation and purpose of accounting data, and the usefulness of such data to managers, investors or creditors, and others who may be indirectly interested in such information for

purposes such as taxation or economic pulse measures. Issues specific to oil and gas accounting were explored in detail including 'full cost' versus 'successful efforts' accounting, the acquisition and conveyances of mineral rights, exploration and production costs, petroleum reserves, capitalization and amortization of exploration and development costs, and joint ventures.

2ND QUARTER, 1998

Work this quarter continued to support the work of the three PEG's with which our office was, and is, working. That work is described more fully in the immediately preceding section.

Mr. Bhamy Shenoy spent two weeks in April, and 10 days in June in Ashgabat to work with the committee working on a National Strategy for the oil and gas sector. Mr. Shenoy's efforts provided the committee with direction and substance, and were so helpful that he has been asked to return for a longer period of time to become a full member of the committee and see its work to completion. During his last visit to Ashgabat, Dr. Shenoy held meetings with the new Chairman of the committee, the Minister of Oil and Gas Industry and Mineral Resources, and with other members and assisted them in preparing an action plan to complete the National Strategy by the end of August.

3RD QUARTER, 1998

Again, work in this quarter has continued to support the work of the three PEG's with which our office is working.

Our third and fourth seminars were held this quarter. The third workshop was held on July 15-16, 1998, with Houston oil and gas attorney John Sanders speaking on Independent Regulatory Agencies. Sessions explored the nature and creation of such agencies, their importance and purpose in common 'three-branch' governmental systems, and their practices and procedures. Finally, a Model Oil & Gas Regulatory Agency was presented and discussed.

Working in concert with the PEG on National Strategy, Dr. Bhamy Shenoy conducted a fourth workshop on August 4-5, 1998. What was supposed to have been an active two-way discussion or brainstorming session quickly demonstrated how far behind the learning curve the Turkmen officials are. Virtually no one from the government side was prepared to present any ideas to the other workshop participants and hence Dr. Shenoy was forced to 'lead' the brainstorming session through discussions and on to its inspiration. One topic discussed which is of considerable timeliness and relevance to Turkmenistan is the rehabilitation and upgrading of the

Turkmenbashi Refinery — a three staged, nearly 1 billion dollar project, the economics of which Dr Shenoy helped the participants to analyze The workshop also exposed the need for the restructuring of Turkmenistan's oil and gas sector

LESSONS LEARNED

Gaining the confidence of the Turkmen officials has proven to be more difficult than I anticipated Aside from the problem of getting others to accept your ideas and to abandon their own, Turkmenistan is particularly difficult because of the special respect they extend to the country's leader, Saparmurad Niyazov, or Turkmenbashi Literally no decision is made in this country without his approval secretaries are not hired, leave is not granted, documents are not handed out, nothing is done without his approval Often, therefore, rather than exercise initiative, Turkmen officials do nothing knowing that to do something would require them to approach the President to request approval I do not foresee this changing any time soon It requires a lot of patience to achieve changes in Turkmenistan

Turkmenistan is starting down the road toward its legal and regulatory reform far behind other countries The education system of the country is dismal and there is a very low level of understanding about all but the most basic concepts To be sure, there is some talent in the government, but the bench has little depth and there is no one in the bull pen This country may be heading over the precipice and yet no one seems to notice, or care, or maybe even understand When the Financial Times called the country's economy a "basket case" earlier this month, and placed it dead last by a three-fold margin on the chart of post-communist emerging economies, that was not just alarmist histrionics And, yes, the average Turkoman does not read the Financial Times, but some must, and others even used to hardscabble Turkmenistan must feel the pinch without needing to read about it So, where's the beef? A lesson learned is that eight years after the fall of communism, and command economic rule, nothing has changed The motto of Turkmenistan is "Don't ask don't tell don't worry!" If USAID really wants to nudge the country toward economic and legal reform it can't use the metaphor of 'priming the pump' This pump is broken and the agency had better plan on buying them a new one

ATTACHMENT A

PETROLEUM LAW OF TURKMENISTAN

Petroleum Law of Turkmenistan

The Present Law is elaborated by the President of Turkmenistan Saparmurat Turkmenbashi on the basis of the Constitution of Turkmenistan taking into consideration the national interests of Turkmenistan and its people and is directed towards securing rational and effective exploitation of the Petroleum resources and the protection of the natural wealth of Turkmenistan for future generations

Chapter 1 General Provisions

Article 1 Definitions

In this Law the definitions listed hereunder shall have the following meanings

Block - areal section on land or on water which is partially or completely located in the territory under the jurisdiction of Turkmenistan and designated as such on a specially compiled map of Blocks

Internal water basins - lakes artificial water reservoirs and other surface water circumvented by land under the jurisdiction of Turkmenistan

Production Operations - all types of operations for recovery of Petroleum its saving treating handling storing transporting metering delivery and marketing as well as operations connected with primary and secondary production and other kinds of activities connected with these operations

Contract - agreement entered into between a Contractor (Contractors) and the Competent Body or Concern for the conduct of Petroleum Operations

Contract Area - the area delineated and defined by geographical coordinates as described in the Appendices to a Contract within which a Contractor is allowed to conduct Petroleum Operations

Competent Body - State Body to which the Cabinet of Ministers delegates powers, to issue Licenses and enter into the Contracts with the Contractors

Concern - an operating structure of the Petroleum Sector of Turkmenistan conducting Petroleum Operations on its own account or in a Joint Venture or in other forms

License the legal instrument instituted in the form of legal act and issued by the Competent Body and granting the right to carry out all or certain types of Petroleum Operations

Person - a physical or legal person

Commercial Discovery - a discovery of Petroleum which after consideration of all relevant data and of the operative technical and economical factors could be developed commercially

Petroleum Operations - all Exploration and Production Operations and related operations for treating metering saving storing marketing delivery and transportation of Petroleum and its derivatives as well as other operations connected to the implementation of a Contract

Normal Atmospheric Pressure and Temperature - pressure of 1 01325 atmospheres and temperature of 60 degrees Fahrenheit

"License Holder" - a Physical or a Legal Person being granted a License pursuant to the present Law

'Contractor - a Physical or a Legal Person being a License Holder and having entered into a Contract with the Competent Body or the Concern pursuant to the present Law

'Natural Gas - hydrocarbons, which are in the gaseous state at Normal Atmospheric Temperature and Pressure associated or non-associated to Crude Oil

Exploration Operations geological, geophysical aerial and other surveys the drilling of such shotholes core holes stratigraphic tests and other wells for the discovery of Petroleum and the purchase as well as the leasing of materials and equipment therefor

Parent Company - a Legal Person which owns more than 50% of the voting shares of the Contractor and which controls him at the general meetings

Affiliate - a Legal Person which executes control over the Contracting Party or is controlled by such Contracting Party or is controlled by an other Legal Person which at the same time executes control over the Contracting Party For the purposes of this definition the control is understood as the power to define strategy of the Legal Person or the Contracting Party though direct or indirect ownership of more than 50% of the voting shares

Joint Venture - the activity carried out by an aggregation of Persons without constitution of a new legal entity jointly participating in the supply of technical and financial resources for the implementation of the Contract entered into between the Competent Body and such aggregation

Contracting Parties the Competent Body or the Concern and a Contractor at the moment of entering into a Contract

Crude Oil any hydrocarbons including distillates and condensates extracted from Natural Gas which at Normal Atmospheric Pressure and Temperature are in liquid state at the well head or oil/gas separator

Model Contract - standard form of an agreement elaborated by the Competent Body for drafting a Contract and entering into a Contract with a Contractor

Petroleum - Crude Oil and Natural Gas as well as all components derived therefrom or produced therewith

Article 2 Sphere of application of the present law

The present Law regulates relations arising in the course of conduct of Petroleum Operations in the territory under the jurisdiction of Turkmenistan including sea and internal water basins issuance of the Licenses entering into and implementation of the Contracts on conduct of such Operations and regulates powers rights and obligations of State Entities as well as of the Companies Enterprises and Organisations carrying out Petroleum Operations

Should the legislation of Turkmenistan contain rules conflicting with those contemplated herein the provisions of this Law shall apply

Should an international treaty to which Turkmenistan is a signatory party set rules different from rules contemplated herein then the rules of the international treaty shall apply

Article 3 Ownership of Petroleum

Petroleum in its natural state in or upon the land in the territory of Turkmenistan is the exclusive property of Turkmenistan

Competence for ownership exploitation and disposal of Petroleum is granted to the Cabinet of Ministers (the Government) of Turkmenistan pursuant to the provisions of this Law

Chapter 2 Competence of the Cabinet of Ministers (the Government) of Turkmenistan, the Competent Body and the Concern in the sphere of exploitation of Petroleum resources

Article 4 Competence of the Cabinet of Ministers (the Government) of Turkmenistan

The Cabinet of Ministers (the Government) of Turkmenistan within the field of exploitation of Petroleum resources and the conduct of Petroleum Operations

- defines the strategy for exploitation further expansion of the productivity of Petroleum reserves as well the rates of its production

- sets the order of priority for the exploitation of Petroleum resources and the rules of protection thereof

- takes measures for the natural environment public life and health protection ensuring healthy and safe labour conditions in the conduct of Petroleum Operations

- organises statistic reports on Petroleum reserves

- sets restrictions for the conduct of Petroleum Operations in certain areas with the purpose of saving holy sites historical and cultural monuments and the like being important for the

safeguard and development of the traditional values and culture of the Turkmen people,

- exercises other powers granted to it by the Laws and the acts of the President of Turkmenistan

Article 5 Competence of the Competent Body

The Competent Body in the field of exploitation of Petroleum reserves and the conduct of Petroleum Operations

- under the assignment by the Cabinet of Ministers (the Government) of Turkmenistan sets uniform rules for the development of Petroleum fields which shall comply with the uniform standards of the international practice for the conduct of Petroleum Operations

- carries out the activity for preparation of a tender to be held in compliance with the rules set by this Law and other legislative acts of Turkmenistan and publishes terms conditions and procedure for holding a tender

- works out a Model Contract and gives it for consideration to Legal and Physical entities interested to obtain a License

- carries out negotiations with a License applicant

- carries out negotiations with a potential License Holder and Contractor about the terms and conditions of a Contract

- issues the Licenses pursuant to this Law

- signs a Contract

- provides for registration of the Contract within fifteen (15) days from the date of its signature

- executes control over the conduct of Petroleum Operations and their compliance with the laws as well as with the terms of the License and the Contract

- suspends and revokes a License pursuant to this Law

- upon the nomination by the Cabinet of Ministers (the Government) and jointly with the Contractor carries out negotiations and enters into agreements with relevant authorities of other States concerning the construction and operation of transportation facilities for the transportation of the produced Petroleum through their territory and also concerning the utilisation of such transportation facilities being available and used in these Countries

- submits annual reports to the Cabinet of Ministers (the Government) of Turkmenistan on the implementation of Contracts

- exercises other powers attributed to him by the laws and the

acts of the President of Turkmenistan

The Competent Body is entitled to require the License Holder and the Contractor to submit a bank guarantee or the guarantee of its Parent Company. Granting of the License and entering into the Contract may be subject to providing such guarantees

The Competent Body in the exercise of its powers shall comply with the national interests of Turkmenistan

Article 6 Competence of the Concern

The Concern assists the Competent Body in the exercise of its powers

The Concern is entitled to sign Contracts, conduct on its own account Petroleum Operations in specific sites of the Turkmen territory, to act as a member of Joint Ventures as well as an entity authorised to execute control over the conduct of Petroleum Operations in accordance with the established order

Chapter 3 Licensing of Petroleum Operations

Article 7 Types of Licenses

The present Law determines the following types of Licenses

Exploration License
Production License
combined Exploration and Production License

Article 8 Methods for granting a Licenses

An Exploration or a Production License or a combined Exploration and Production License shall be granted on the basis of a tender or direct negotiations carried out by the Competent Body with the License applicant

The method for granting a License shall be determined by the Cabinet of Ministers (the Government) of Turkmenistan

Article 9 Main conditions for holding a tender

A tender could be open or with a short list of bidders

Tender conditions are published or delivered to the potential bidders not later than 90 days prior to the tender starting date

A tendering procedure consists of 2 phases: submission of the application to prequalify and the submission of the bidding proposal

All Persons wishing to prequalify are entitled to obtain an information related to the procedure and conditions for holding a tender

A notice for holding a tender should contain the following information on

timing and location of the tender and on the deadline for submission of applications

- main conditions for prequalification
- location and description of the Blocks offered for conduct of Petroleum Operations

An application for prequalification should contain

- name of the applicant, its address, its nationality (for legal persons) or citizenship (for physical persons)

- data on applicant's shareholders, its directors and authorised representatives which shall represent it upon holding the tender or conducting the negotiations, as well as upon the granting of the License

- data on applicant's technical, managerial, organisational and financial capabilities

An application shall be accepted for consideration after the payment by the applicant of a tender fee, the amount of which is determined by the Competent Body

Upon the compliance with the conditions for submission of applications, it shall be accepted for participation to a tender and the applicant shall be notified to this effect within one month from the date of its filing

Prequalified applicants shall be notified about the second phase of the tender. Such notification should contain an information on the cost of the package with technical and legal documents, on the deadline for paying such cost and on the main conditions for determination of the tender winner

Article 10 Bidding proposal

An applicant, within the deadlines set by terms of the tender and in compliance with the requirements set therein, shall compile a bidding proposal and submit it to the Competent Body

A bidding proposal shall be regarded as an application for the grant of an Exploration or a Production License or a combined Exploration and Production License, as the case may be

Article 11 Evaluation of bidding proposals

The Competent Body shall form a commission of experts for the evaluation of technical, financial and organisational capabilities of the applicants and their bidding proposals

The winner of the tender is determined on the basis of a combination of the following criteria

- the commencement date of the operations and the work implementation pace
- the expected date for start up of Production and the projected time to attain the peak production (in the case of the issuance of a Production or a combined Exploration and Production License)

- the minimum commitments of an applicant in terms of conduct of geological and geophysical operations and exploratory drilling as well as appraisal and development drilling (in the case of the issuance of a combined Exploration and Production License) and of the expenditures for the conduct of aforesaid operations

compliance with the requirements for the protection of natural environment and subterranean resources and the safe conduct of operations

- a projection of revenues for Turkmenistan during the Contract validity

Article 12 Application for the grant of a License

An application for the grant of an Exploration License shall contain

- name of the applicant its address nationality (for Legal Persons) and citizenship (for Physical Persons)

- data on applicants shareholders its directors and authorised representatives which shall represent it upon holding a tender or conduct of negotiations as well as upon granting a License

- data on applicant's technical managerial organisational and financial capabilities

- information on previous activities of the applicant, including a list of the States where he has conducted Petroleum Operations during the last five years and also a balance sheet for the said period

- proposals of the applicant in respect to the conduct of Petroleum Operations including minimum commitments with indication of quantity of work and expenses for its implementation

obligations of the applicant concerning natural environment protection including replanting and reclamation of the Contract Area

numbers of the Blocks applied for by an applicant

- sources of financing of Petroleum Operations

- the time period the Exploration License is applied for

In case of a Commercial Discovery the Exploration License Holder shall have an exclusive right to be granted a Production License subject to the submission of an application therefore

An application for a Production License shall contain

- data on the results of the Exploration Operations

- official notification of the Commercial Discovery including relevant data and conclusions

- a detailed plan for the development of the Commercial Discovery with the indication of recoverable Petroleum reserves

- an expected start-up date for the development of the Commercial Discovery and the expected date for the start-up of the production of Petroleum

- an estimated profile of production and expected date for attaining its peak production

- an estimated calculation of the expenditures associated with the development and production operations and of the proceeds from the sales of Petroleum

- an analysis of the economic viability of the Commercial Discovery

- a projected cash flow for Turkmenistan and recovery for capital investments

into the development of an operational and social infrastructure of the Contract Area

An application for a grant of a combined Exploration and Production License shall contain conditions required for the application for a grant of an Exploration and a Production License

Article 13 Terms and procedures for the issuance of Licenses

A License shall be issued to a Person to which the right to conduct Petroleum Operations shall be granted as the result from a tender or direct negotiations

A License shall be issued upon reaching an agreement on the terms of the relevant Contract and concurrently to its conclusion

The License issuance procedure shall be determined in compliance with the rules set forth by the present Law and other regulatory legal acts of Turkmenistan adopted in accordance with the present Law

A License shall be issued to Foreign Physical and Legal Persons who register in Turkmenistan as an individual entrepreneur or open a branch in Turkmenistan of a foreign Legal Person or register as a member of Joint Venture

Article 14 Purpose of a License

No person is entitled to conduct Petroleum Operations without a relevant License A License Holder is entitled to conduct only those kinds of Petroleum Operations which are specified in the License

The terms of the Contract shall comply with the terms of the License

Article 15 Licensing Body

The issuance of the Licenses giving the right to conduct Petroleum Operations is carried out by the Competent Body after its approval by the Decree of the President of Turkmenistan

Article 16 Content of an Exploration License

An Exploration License should contain

- data on the License grantee

- type of Petroleum Operations the License is issued for

- delimitation of the Contract Area through the indication of

the geographical coordinates

- License validity period
- type of the Contract entered into between the Contracting Parties
- commitments of the Contractor to comply with the requirements for the protection of the natural environment
- conditions for the extension of the License validity period
- other similar elements as may be determined by the Competent Body

Article 17 Content of a Production License

A Production License should contain

- data on the License grantee
- type of the Petroleum Operations the License is issued for
- delimitation of the part of the Contract Area which encompasses the Commercial Discovery
- License validity period and conditions for its extensions confirmation of the applicability of the Contract entered into by the Contracting Parties
- commitments of the License Holder to comply with the requirements of natural environment protection
- other similar elements as may be determined by the Competent Body

A combined Exploration and Production License should contain all the conditions contained in an Exploration and a Production Licenses

Article 18 License validity periods

An Exploration License shall be granted for the period of up to 6 years

An Exploration License Holder shall have the right to extend the License validity period subject to the fulfilment of the work program and other commitments stipulated in the License and the Contract

The validity period of an Exploration License may be extended twice with duration of each extension period of up to 2 years

A Production License shall be granted for the period of 20 years The validity period of a Production License may be extended for the period of 5 years if the License Holder applies for the extension of the License not earlier than 2 years and not later than 1 year prior to the Production License expiry date

An application for the extension of the License validity periods shall be examined not later than in one month from the date of their submission to the Competent Body

A combined Exploration and Production License shall be granted for a period which includes the Exploration License validity period and the Production License validity period including their possible extensions

The License validity period is counted from the date of its simultaneous registration with the Contract in the authorised bodies

Article 19 Rights of a License Holder

An Exploration License Holder shall have an exclusive right to carry out an Exploration of Petroleum and required kinds of Petroleum Operations connected to the Exploration pursuant to this Law and the terms of a License and provided for in the Contract

A Production License Holder shall pursuant to the present Law and the terms of the License have the exclusive rights

- to carry out Exploration development and Production Operations in that parts of the Contract Area, which are specified in the content of the License
- to sell or otherwise dispose of its share of Petroleum
- to carry out such operations and works inside and outside the Contract Area as required for or connected to the issues provided for in the section 2 of this Article 21

Article 20 Termination of the License

A License shall terminate

- upon expiration of the License validity periods or extensions thereof
- if it is revoked in accordance with the present Law
- in the event of the termination of the Contract pursuant to the provisions provided therein

Article 21 Suspension of a License

The validity of a License shall be suspended by the Competent Body in the event when the License Holder

- conducts Petroleum Operations not provided for in the License
- carries out the activities within the framework of the License but not under the program provided for in the Contract
- in the course of its activities systematically violates the legislation of Turkmenistan in respect with the protection of subterranean resources and of natural environment and of safe conduct of Petroleum Operations

In the event of suspension of the License validity the Competent Body shall notify in written the License Holder of the reasons for such suspension and shall set a reasonable deadline for their elimination

Upon the elimination by the License Holder of the reasons which have caused the License suspension its validity shall be immediately restored and the License Holder shall be notified in writing to that effect

The suspension of the License validity shall entail the suspension of the Contract entered into on the basis of said License The validity of the Contract shall be restored at the

same time as the License validity is restored

Article 22 Revocation of a License

The Competent Body shall have the right to revoke the issued License in the following cases

- when the License Holder refuses to eliminate the causes that have resulted in taking the decision to suspend the License or if he fails to eliminate such causes within the fixed deadline
- upon discovery of the fact of a deliberate submission to the Competent Body of false information which has materially affected the latter's decision to issue a License to such person
- in the event of a deliberate infringement by the License Holder of the deadline for the signing and registration of the Contract as well as the commencement date for conduct of Petroleum Operations stipulated in the Contract
- in other cases provided for in this Law

Revocation of the License shall entail the cancellation of the Contract entered into on its basis

Chapter 4 Contracts

Article 23 Types of Contracts

For carrying out Petroleum Operations in Turkmenistan the following types of Contracts shall be adopted

- Production Sharing Contract
- Joint Venture Contract

Under a Production Sharing Contract the Concern and/or the Competent Body shall sign the Contract on behalf of the Turkmen side Under such type of the Contract also the Concern shall have the right to act in the role of Contractor

Under a Joint Venture Contract the Concern or any other entity designated by the Government shall participate as one party to the Joint Venture

Depending on the nature of the specific Petroleum Operations and other circumstances a combination of the aforementioned types of Contracts and other types of contracts are allowed

Article 24 Validity periods and terms of a Contract

The validity period and terms of a Contract shall be defined by the agreement between the Parties in conformity with the present Law and the License and also taking into account provisions of the Model Contract

Article 25 Signing of Contracts and registration procedure

It is a mandatory procedure that the Contract shall be agreed upon with State Entities in charge of health protection and sanitation ecology subterranean resources protection and

safe conduct of Petroleum Operations The time for such agreement shall not exceed 15 days from the date of filing of the contractual documents by the relevant entities The absence of the agreement of the aforesaid entities within the fixed deadline shall not constitute an impediment for the registration of the Contract

A Contract shall be registered in the competent entities designated by the Cabinet of Ministers (the Government) of Turkmenistan

A Contract shall enter into force from the date of its registration in the competent entities

Article 26 Annulment of a Contract

A contract shall be rendered null and void in case of revocation of the License granted to the Contractor

Article 27 Amendments to and termination of the Contract

Amendments to the terms of the Contract can be made only upon written consent by the Contracting Parties provided that such terms are consistent with requirements of the License and the present Law

A Contractor and the Competent Body may terminate the Contract on the grounds and in accordance with the procedure provided for in the Contract

Revocation of the License shall entail termination of the Contract

The parties shall not be released from the discharge of current obligations which remain outstanding at the time of delivery of the notice on termination of the Contract

In the event of premature termination of the Contract the Contractor shall unless otherwise provided for in the Contract, have the right to freely dispose of the assets owned by him In this case the Competent Body shall have the priority right to an acquisition of such assets

The issues concerning the transfer of ownership of such assets belonging to the Contractor during the Contract validity as well as upon its expiration are stipulated in the Contract

A Contractor shall leave the Contract Area in the condition which corresponds to the duly approved rules for conduct of Petroleum Operations and the protection of subterranean resources and natural environment

Chapter 5 Conduct of Petroleum Operations

Article 28 Conditions for the conduct of Petroleum Operations

Conditions for the conduct of Petroleum Operations including a work program and a budget for expenditures for its

implementation shall be specified in the Contract

If the Exploration results in a Commercial Discovery of Petroleum the Contractor shall be obliged to notify the Competent Body of such discovery to carry out an appraisal of the field including an appraisal of its reserves and prepare a report on whether the latter constitutes a Commercial Discovery. The deadline for the notification of the discovery the results of the field appraisal and the preparation of a report on whether the field constitutes a Commercial Discovery shall be defined in the Contract

If a Commercial Discovery is achieved the Contractor shall have the right to full recovery of its expenses related to the conduct of Petroleum Operations the amount of which shall not exceed an amount of proceeds for its Petroleum entitlement share

If upon the expiration of the Exploration License validity or its extension periods no Commercial Discovery is achieved a Contractor shall have no right to recover its investments. In this case the validity of the License and the Contract shall terminate

In the event that the Contractor deems that the field doesn't constitute a Commercial Discovery or fails to proceed with the development of the Commercial Discovery Contractor shall be obliged to relinquish that part of the Contract Area, which encompasses such field

Article 29 Unit Development of a Field

Unit Development of a field means coordination between two or more Contractors carrying out their activity for the development of the same field which lies on the adjoining Contract Areas

Contractors may enter into written agreements between themselves on unit development of the field such agreement being subject to the approval by the Competent Body

If Contractor (Contractors) fails to enter into an agreement with another Contractor (Contractors) or if Contractor is not in agreement with the unit development plan the Competent Body is entitled to bind him (them) to enter such agreement or to direct preparation of such plan by an independent expert and its following mandatory implementation. In the event of failing to comply with the Competent Body's directions the Production License issued for such field shall be revoked and the relevant area shall be withdrawn from the exploitation by the Contractor (Contractors)

Article 30 Artificial Islands, Dams and Structures

The construction operation and use of artificial islands dams and other structures installed for the purpose of conduct of Petroleum Operations at sea, shall be carried out on the basis of the permission issued to the Contractor by the Competent Body subject to the protection by the Contractor of natural

environment and bioresources

A safety zone shall be established around such artificial islands dams and other structures which shall extend to a distance of 500 meters from each point of their external boundaries

Location of the artificial islands dams and other structures shall not constitute an impediment to the customary sea routes of significance for navigation and fishing activities

Contractors or subcontractors in charge of the construction maintenance and operation of artificial islands dams and other structures shall ensure their safeguard and constant availability of warning facilities signalling their location

Abandoned or unused artificial islands dams and other structures shall if they cannot be used for other purposes be dismantled in such a manner, that they do not constitute a hazard for human safety and an impediment to the navigation and fishing activities

Article 31 Discharge and burial of wastes associated with the conduct of Petroleum Operations

Discharge into and burial in the sea of wastes associated with the conduct of Petroleum Operations shall not be allowed

Discharge of industrial waters into the sea shall be allowed only on the condition of their pre-treatment in order to bring them down to the permissible levels of impurity

Article 32 Turkmenistan's right to purchase Petroleum

The Cabinet of Ministers (the Government) of Turkmenistan shall have the priority right to purchase at the proportionate basis Petroleum from the entitlement share of foreign or Turkmen contractors of the private form of property in order to satisfy the internal market requirements and on the condition that such requirements were not satisfied by full utilisation of the Turkmenistan's entitlement share of Petroleum

The maximum amounts of the Petroleum purchased pricing procedure form of the payment and the payment currency shall be specified in the Contract

Article 33 Requisition of Petroleum and its compensation

In the event of war natural hazard or other circumstances specified by the legislation on emergency situations the Cabinet of Ministers (the Government) of Turkmenistan shall have the right to requisition Petroleum belonging to the Contractor

The requisition shall be carried out to such an extent as is necessary to satisfy the needs of Turkmenistan during the period when such emergency situation remain

The Government of Turkmenistan shall guarantee the compensation of the requisitioned Petroleum either in kind or by payment of its value in freely convertible currency at the international market price

Article 34 State control over the conduct of Petroleum Operations

State control over the conduct of Petroleum Operations shall be carried out by the Competent Body and other state entities (within their competence) in accordance with the current legislation of Turkmenistan. The officers of such entities shall be obliged to secure the confidentiality of any information received during an inspection

Article 35 Measurement of Petroleum produced

The Contractor shall carry out measuring and weighing of Petroleum produced or saved in the Contract Area, at regular time intervals specified in the Contract with the application of methods adopted in the international practice for conduct of Petroleum Operations

Application of other methods for measurement or weighing of Petroleum as well as appliances and equipment used for such purposes by the Contractor shall be done only upon the written consent of the Competent Body

The Competent Body shall have the right systematically and at specified time intervals to direct that the equipment or appliance used for weighing and measurement of Petroleum be tested

If any Petroleum weighing or measuring equipment or appliance upon its test or examination found to be false or unjust such equipment or appliance shall if it is impossible to determine the time at which such equipment or appliance became false or unjust be deemed to have been false or unjust during a period which is represented by half of the period from the last date upon which the equipment and appliances were tested and found to be in good order to the date upon which such equipment and appliance were found to be false or unjust. Adjustment to all relevant terms under a contract shall be then effected

Chapter 6 Rights and obligations of a Contractor

Article 36 Rights of a contractor

Contractor shall have the right

- to use the Contract Area for carrying out the activities specified in the Contract and in the License
- to construct inside and outside the Contract Area facilities of operative logistic and social infrastructures necessary for the conduct of Exploration and Production Operations and also to use upon agreement with the owners facilities and communications of general use inside as well as outside the Contract Area

-to avail itself of the services of sub-contractors in performing certain types of Petroleum Operations

- to freely dispose of its Petroleum entitlement share in Turkmenistan as well as in other States subject to the special agreement with such States

-to carry out with the right of first refusal negotiations in respect with the extension of the Contract validity period above the periods provided for in the part 4 of Article 18

- to surrender all or part of its rights and to terminate its activities in accordance with terms specified in the Contract

Article 37 Obligations of a Contractor

In the course of implementation of a Contract the Contractor shall be obliged

- to adopt the most efficient methods and technologies for the conduct of Petroleum Operations based on standards of the international practice for the conduct of Petroleum Operations

- to conduct Petroleum Operations in strict compliance with this Law terms of the Contract and the License to comply with the requirements pertaining to the protection of natural environment and subterranean resources

- to control the flow and prevent the waste or escape of Petroleum inside or outside the Contract Area

- to prevent damage of productive strata, caused by water or other matter entering into Petroleum reservoirs

- to take measures to prevent pollution of any water spring river canal irrigation system lake sea by the escape of Petroleum salt water drilling mud chemical additives or any other waste product or effluent. In case if pollution occurs Contractor shall treat or disperse it in an ecologically acceptable manner

- to give preference to the equipment materials and finished products produced in Turkmenistan if they are competitive in terms of quality price operating parameters and delivery conditions

to give preference to Turkmen citizens in hiring personnel for the conduct of Petroleum Operations and to provide for training programs of such personnel in accordance with the terms of the Contract

- to provide free access to the necessary documents information and the sites of operations to the authorised representatives and officers of the Cabinet of Ministers (the Government) of Turkmenistan and of the Competent Body

- to make payment of taxes and other mandatory payments in due time

- to participate in the development of social infrastructure in accordance with the Contract

- to restore at its own account, parts of land and other natural sites which have been damaged in connection with the conduct of Petroleum Operations to the condition acceptable for their further utilisation

Contractor shall be liable for the damages resulting from risks connected with the conduct of Petroleum Operations. The enumeration of such risks is given in Article 52

Chapter 7 Main pipeline

Article 38 Ownership of the Main Pipeline

Main Pipeline means an engineering facility consisting of the main (linear) part of the pipelines systems and associated on-land facilities communications and equipment designated for transportation of Petroleum from the place of production (treatment) to the place of transfer to another transportation refining and consumption facilities

Construction, financing, operation and maintenance of the Main Pipeline shall be carried out by a specially established company the owners of which can be the Government Contractor independent investors or jointly aforesaid entities and persons

Article 39 Transportation tariff

Transportation tariff shall be set and charged by the Pipeline Company

Article 40 Construction of main pipeline

Main Pipeline shall be planned and constructed in such a way as to allow a throughput capacity necessary for handling and transportation to land or seaboard terminals of Petroleum estimated in accordance with medium and long term projections of production

In the event that an extra throughput capacity is available in the Main Pipeline and subject to the payment of relevant transportation tariff independent producers may use such capacity for the transportation of their Petroleum production

Article 41 Maintenance of the Main Pipeline

The maintenance of the Main Pipeline and its associated facilities shall be carried out in conformity with the norms for maintenance safety and security applied in the international practice for conduct of Petroleum Operations A control over the application of such norms shall be executed by the Cabinet of Ministers (the Government) of Turkmenistan and the Competent Body

The owner (owners) of the Main Pipeline jointly with the Governmental Bodies of the States which territories are crossed by the pipeline shall elaborate the plan for joint control over the safe operation of the Main Pipeline and prevention of eventual accidents and emergencies

A conduct of any operations or actions within the security zone of the Main Pipeline set by owners shall be prohibited

Construction of any objects and facilities which are not related to the pipeline and its purpose shall be prohibited within the minimum distance from the Main Pipeline set in conformity with the construction standards and safety norms applicable in Turkmenistan

Article 42 Construction, laying and operation of

submarine pipelines and cables

Construction laying and operation of submarine pipelines and cables shall be carried out in conformity with the safety and natural environment protection rules applied in the international practice for conduct of Petroleum Operations in respect of such types of activities

Chapter 8 Natural environment protection

Article 43 Status of natural environment protection measures

Natural environment and health protection measures for the population and the Contractors personnel are the obligatory condition for planning and carrying out any types of Petroleum Operations

Article 44 Ecological grounds for conduct of Petroleum Operations

Before starting a conduct of Petroleum Operations a Contractor shall submit to the special competent State entities a plan for the natural environment protection measures that he intends to adopt in the implementation of its work program

Conclusion of the special Competent Body shall be given in writing within 30 days of the date of submission of the aforesaid plan and shall be applied by the Contractor to the extent to which it is compatible with the conduct of the planned activity and relevant planned expenditures In case of absence within the fixed deadline of the decision of the special competent bodies the Contractor shall have the right to start implementation of the aforesaid plan

Article 45 Monitoring

Before starting the conduct of Petroleum Operations and for the entire period of their conduct a Contractor shall set up a monitoring system for obtaining comprehensive current information on changes occurring in the natural environment and on the nature of environmental impact of the Petroleum Operations conducted with the purpose of taking necessary measures to eliminate and reduce the negative impact on the natural environment and ensure ecologically safe conduct of Petroleum Operations

Chapter 9 Financial and fiscal regime

Article 46 Currency transactions

The procedure for carrying out currency transactions by the Contractor and sub-contractor shall be determined by the current legislation of Turkmenistan and specified in the Contract

Proceeds accruing to the Contractor from the sale of its Petroleum entitlement share may be deposited on the accounts

in Turkmen banks as well as in foreign banks. In doing so, the Contractor shall submit statements of such accounts to the competent entities of Turkmenistan for control in accordance with the current legislation of Turkmenistan.

Contractor shall have the right to open and maintain accounts in national currency of Turkmenistan and foreign currency in banks in the territory of Turkmenistan.

Article 47 Customs regime

Customs regime shall be applied in accordance with the legislation of Turkmenistan.

All materials and equipment used in the conduct of Petroleum Operations shall be exempted from custom duties and the registration at the State Commodity Exchange of Turkmenistan.

Contractor shall not be exempted from the payment of custom duties and other payments for the conduct of operations other than Petroleum Operations.

Article 48 Taxes and payments

In the conduct of Petroleum Operations, the Contractor shall pay only the following taxes and levies:

- a tax on profit at the rate established by the legislation of Turkmenistan. Procedure for determination of the taxable profit shall be provided for in the Contract;
- a royalty on Petroleum production at the rate specified in the Contract.

Payment of the bonus in form of lump-sum may be provided for in the Contract at the rate specified therein. A bonus may be paid upon the signing of the Contract and upon achievement of certain Petroleum production level specified in the Contract.

In the event that new taxes or levies are introduced subsequently to the date of entering into a Contract, a Contractor shall pay only those which are substituting taxes and levies paid by him. In such a case, an overall amount of due payments shall not exceed the amount of taxes and levies imposed on the Contractor as for the time the Contract is entered into.

Payment of taxes and levies envisaged in the present Law and the Contract shall not release Contractor from the payment of other taxes and levies due for the activities other than Petroleum Operations.

A sub-contractor shall pay profit tax at the same rate as imposed on the Contractor and no other taxes than the Contractor.

Employees of contractor and of its subcontractors shall pay income tax in accordance with the legislation of Turkmenistan and provisions of the Contract.

In the event of amendments to the legislation of Turkmenistan which was applicable at the time when the Contract was entered into, including amendments due to the changes to the international treaties to which Turkmenistan is a signatory party, the Contractor and the Competent Body shall consider an issue of introducing the amendments into the Contract in order to secure balance in the interests of the Contracting Parties and economic results which were expected by them in accordance with the terms of the Contract at the time the Contract was entered into.

Article 49 Bookkeeping and auditing

Contractor (sub contractor) shall maintain bookkeeping and submit accounting in compliance with the legislation of Turkmenistan in respect with the salaries and social security of the Turkmen employees.

For the purpose of recording Contractor's costs and revenues as well as for calculation of the taxable profit, bookkeeping and accounting shall be maintained in compliance with the international practice for bookkeeping and accounting applied in the conduct of Petroleum Operations and in accordance with the Contract provisions. For the purposes of foregoing, a freely convertible currency shall be used as the monetary unit of the bookkeeping.

National currency shall be used for the purpose of periodical and annual reporting through the translation of foreign currency at the official exchange rate of the Central Bank of Turkmenistan.

Auditing of the financial and economic activity of the Contractor (subcontractors) shall be carried out by the Competent Body or other State entity designated by the Government at the time intervals specified in the Contract. The aforementioned entities shall be entitled to avail themselves of the services of independent auditing firms.

Chapter 10 Legal terms

Article 50 Assignment of the Contractor's rights and obligations

Contractor may assign all or part of its rights and obligations under the License and the Contract to the other interested party with the prior written consent of the Competent Body.

Contractor shall be entitled to assign all or part of its rights and obligations under the License and the Contract to an Affiliate or one of its members (in case of the multi-membered Contractor) with no consent required, subject to the submission of the document endorsed by assignor, such document stating the joint liability of the Contractor for all the actions of the assignee.

As long as Contractor retains any participation interest in the License and the Contract, such Contractor and the assignee of its rights and obligations shall bear joint responsibility under

the Contract

Expenses associated with the assignment of rights and obligations shall be borne by the Contractor

Article 51 Ownership of information on subterranean resources

Ownership of geological and geophysical information data on Petroleum reserves and all other information obtained or prepared by the Contractor in the course of conduct of Petroleum Operations shall belong to the Government. Such information shall not include proprietary rights and secrets of the Contractor

Article 52 Insurance

Contractors shall be obliged to obtain and maintain an insurance as follows

- all risks insurance covering all plant equipment, buildings and other property of the Contractor used or intended for use in the conduct of Petroleum Operations
- insurance covering eventual loss of Petroleum and its by-products up to the point in time and location at which the title is transferred from Contractor to the Competent Body (in respect to the Competent Body's entitlement share of production) or other persons,
- insurance covering clean-up costs for damage to the natural environment, including pollution of the air, water surface and subsurface soil under and in the Contract Area
- general liability insurance covering property damage and life and health harm resulted from or in connection with the conduct of Petroleum Operations
- control-of-well insurance covering control of well and redrill costs caused by accidents to wells in the Contract Area
- health, life and accidents insurance covering the insurance for employees and other persons engaged by the Contractor for the conduct of Petroleum Operations
- such other types of insurance as would be applied by the Contractor in compliance with the international practice for conduct of Petroleum Operations
- such other insurance required by the current legislation of Turkmenistan on obligatory types of insurance

Contractor shall be obliged to require sub-contractors which activities are connected to the conduct of Petroleum Operations to obtain and maintain insurance in such forms and amounts stipulated by the relevant contracts of sub-contractors

Article 53 Employment relations

The employment legal relations of the Contractors with its employees are regulated by the legislation of Turkmenistan collective or individual employment contracts

Employment contracts of the Contractor with foreign employees may contain special provisions in accordance with the international practice for entering such contracts. In such

case the level of guarantees of labour rights of foreign employees should not be lower than the level of guarantees provided for by the legislation of Turkmenistan

Article 54 Social insurance and social security

Social insurance and social security of the employees which have entered into the employment legal relations with Contractor (except for the pensions provisions of foreign employees) are regulated by the legislation of Turkmenistan

Contractor may contribute to the State social insurance in respect of foreign employees only in such cases when latter wish to enjoy social benefits in the territory of Turkmenistan

Pension provisions and provisions on other kinds of social security of foreign employees are regulated by employment contracts and shall comply with the legislation of the States of their permanent residence

Article 55 Guarantees of Contractors rights

Contractor shall be guaranteed the protection of its rights in accordance with the principles of international law, legislation of Turkmenistan, the License and the Contract

Article 56 Resolution of disputes

Disputes associated with the issuance, refusal to issue, suspension or revocation of the License, as well as those related to the implementation of the Contract, shall be possibly resolved by way of negotiations including the involvement of independent international experts or in accordance with dispute resolution procedures previously agreed in the Contract

In the event that disputes cannot be resolved in accordance with the provisions of part 1 of this Article within 3 months from the moment of a written communication from either part to the other, either party may, with prior written notification to the other party, refer to international arbitration bodies determined by the parties in the Contract

All other disputes, including disputes between the Contractor and Legal Persons and citizens of Turkmenistan, shall be resolved by competent judicial bodies of Turkmenistan unless otherwise provided for in the agreement of the parties

Article 57 Force Majeure

Failure by the Contractor to fulfil the terms of the License and (or) the Contract or to comply with the requirements of the legislation shall not constitute their infringement if such actions are caused by war, act of war, military conflicts, natural hazard or other events beyond the will and actions of the Contractor or by other causes envisaged in the Contract as circumstances of Force-Majeur

In the event of failure to fulfil terms of the License and/or the Contract, the Contractor shall be obliged to immediately inform the Competent Body in that respect with indication of

causes for such circumstances to arise

Validity periods of the License and of the Contract shall be extended for periods during which the Contractor did not exercise its rights and obligations in compliance with the present Law the License and the Contract due to the circumstances of Force Majeure

In the event that circumstances of Force-Majeur endure for more than 1 year either party has the right to propose to the other to terminate the Contract Upon reaching agreement by the Parties the Contract shall terminate

In the event that the circumstances of Force Majeur remain during a period of more than 2 years either party has the right to unilaterally terminate the Contract with prior notification to the other party

In the event that the Contractor did not recover its costs connected to the conduct of Petroleum Operations the Contract may be terminated at the Contractor option

The force of this Article shall not apply on the requirement of payments to be made in due time as provided for by this Law the License and the Contract

Chapter 10 Final provisions

Article 58 Information required by the Competent Body

The Competent Body shall have the right to summon the Contractor in writing to furnish an information and data related to Petroleum Operations such data including also world price of Petroleum in the event that the Competent Body has the ground to believe that the Contractor is in possession of such information or data, which information and data have not be submitted to the Competent Body in accordance with the provisions of the Law and terms of the Contract Contractor shall be obliged to provide such information

Article 59 Powers of the Competent Body and authorised officers

In order to ensure control over the compliance with present Law and fulfilment of the terms of the Contract the Competent Body and authorised officers shall have the right to

- enter any area, structure vehicle being used in connection with the conduct of Petroleum Operations
- to carry out an inspection or testing of the equipment or appliance being used in the conduct of Petroleum Operations
- to extract samples of Petroleum or other substances from any area where Petroleum Operations are being conducted with the purpose of their analysis or testing or for use as evidence upon the violation of the Law or infringement of the terms of the Contract
- carry out an inspection of the documents relating to the

Petroleum Operations, make extracts from and make copies of such documents

- give directions and introduce restrictions on the activities of Contractor related to securing safety and health protection of the Contractor s personnel and of the population
- carry out any necessary examination and inquiry in respect with the issues of compliance by the Contractor with the laws other regulatory acts and terms of the Contract

In the exercise of its powers the Competent Body or its authorised officers may involve other persons as experts

Contractor shall be obliged to supply necessary help and assistance to the Competent Body or an authorised officer in the execution of their powers

Article 60 Confidentiality of information

Neither party has the right to publish disclose or transfer any information which is considered confidential and is related To Petroleum Operations to a third party without prior written consent of the other Contracting Party

Confidential information may be supplied to legal counsels accountants, other consultants underwriters lenders subcontractors shipping companies subject to a prior written undertaking from such persons not to disclose the information received

Article 61 Indemnity of Turkmenistan and the Cabinet of Ministers of Turkmenistan

A License Holder and Contractor shall keep the Government indemnified against all actions claims and demands which may be brought or made against the Government by reason of anything done by such License Holder and the Contractor in the exercise of the latter s rights and obligations under the Law the License and the Contract

ATTACHMENT B

DECREE OF THE PRESIDENT OF TURKMENISTAN

DECREE OF THE PRESIDENT OF TURKMENISTAN

Nr 3189

6 June 1997

Ashgabat

The steps to be taken in order to implement the Law of Turkmenistan on Hydrocarbon Resources (Petroleum Law)

With the aim to implement the Petroleum Law most effectively, I decree

- 1 To create the Competent Body for the Use of Hydrocarbon Resources at the President of Turkmenistan
- 2 To ratify the ordonnance " About the Competent Body for the Use of Hydrocarbon Resources at the President of Turkmenistan " attached as Annex 1
- 3 To nominate the Members of the Expert Counsel of the Competent Body for the Use of Hydrocarbon Resources at the President of Turkmenistan in accordance with Annex 2
- 4 To approve a Model Production Sharing Agreement for the exploration and production of oil and gas in Turkmenistan attached as Annex 3
- 5 To approve the Model Joint Venture Agreement for exploration and production of oil and gas in Turkmenistan attached as Annex 4
- 6 To control petroleum operations according to the Petroleum Law and to the ordonnance " About the Competent Body for the Use of Hydrocarbon Resources at the President of Turkmenistan "
- 7 To form at the Competent Body for the Use of Hydrocarbon Resources at the President of Turkmenistan management committees for contracts concluded for petroleum exploitation

President of Turkmenistan

Saparmurat Turkmenbashi

Annex 1
ratified by decree of The President of Turkmenistan
Nr 3189 of June 6, 1997

Ordonnance

" About the Competent Body for the Exploitation of the Petroleum Resources at the President of Turkmenistan"

The Competent Body for The Exploitation of the Petroleum Resources at the President of Turkmenistan, further " Competent Body ", is a Government organ invested with the exclusive powers to negotiate (on applications-translater's remark), to issue licenses and to enter into contracts, and also to control the course of the implementation of concluded contracts for the exploitation of the Petroleum resources of Turkmenistan

The Competent Body shall execute his activity according to the Petroleum Law of Turkmenistan, this Ordonnance, and other legislative acts directed towards securing rational and effective exploitation of the Petroleum resources and the protection of the natural wealth of Turkmenistan

The Competent Body is headed by the President of Turkmenistan

Goals

The main goals of the Competent Body are

- to submit and to receive investment proposals in accordance with the policy for the development of the Petroleum Industry, the strategy and priorities for the exploitation of the Petroleum resources
- to carry out negotiations with potential licence holders
- to issue licenses and to enter into contracts about the exploitation of Petroleum resources
- to control the implementation of contracts on the exploitation of Petroleum resources
- to submit periodical reports to the President of Turkmenistan on the exploitation and development of the Petroleum resources of Turkmenistan

Functions

In order to reach the main goals of its activity, the Competent Body has the following functions

- to set uniform rules for the development of Petroleum fields according to international standards for Petroleum Operations and to the strategy of exploitation of Petroleum resources, as defined in the complex program for the development of the Petroleum Industry,
- to organise and to execute work for preparation of tenders, to inform about the time limits, the conditions and the order for holding tenders, to set procedures for making applications, for obtaining licence and for signing respective contracts
- to organise and to negotiate with investors, to prepare contracts with respect to the national interests of Turkmenistan and in accordance with the investment policy for the development of the Petroleum Industry
- to issue licenses and to sign contracts on Production Sharing and Joint Ventures upon the order of the President of Turkmenistan, to register contracts with the Government organs nominated for this,
- to execute control over the conduct of Petroleum Operations and their compliance with the legislation as well as with the terms of a license and contracts on Production Sharing and Joint Ventures,
- upon the nomination by the President of Turkmenistan and together with interested organs, to conduct negotiations and to prepare for the conclusion of treaties with authorized organs of other countries on the questions of construction and operation of pipelines and other transport facilities for the transport of Petroleum
- to receive from the Cabinet of Ministers, the Ministry of Gas and Oil Industry and Natural Resources the description, criteria and directives for uniform rules for the development of Petroleum fields and their protection as well as the strategy for the exploitation of the Petroleum resources as defined in the complex program for the development of the gas and oil industry, and to bring them into compliance with the standards of international practice and to prepare the main requirements for the conduct of negotiations and the conclusion of contracts
- to receive from the State Agency for Foreign Investments at the President of Turkmenistan the description, criteria and directives on the general investment policy of Turkmenistan which define the main requirements of the economic and investment block of questions for the conduct of negotiations and complex expertise

Structure

The structure of the Competent Body consists of

1 Licensing Department

- 1 prepares investment proposals (under tender or direct negotiations) and organizes its accompanying informational
- 2 implements the acceptance of applications for obtaining Licenses and the transfer of documents on an investment project to the Department of negotiations
- 3 in case of holding a tender, the department shall carry out the prequalification selection among all the investors, wishing to participate in the tender, and, on the basis of results of such a prequalification selection, the department obtains the bidding proposals who passed the first round, carries out their

- complex expertise through a specially established Expert Commission, after which it transfers the documents on the investment project to the Department of negotiations
- 4 the department obtains the preliminary draft contract, the report on the negotiations and complex feasibility for issuing the license from the Department of negotiations, carries out the final complex expertise of the documents and submits them for the review to the Expert Counsel of the Competent Body
 - 5 transfers the results of the expertise to the State Agency for Foreign Investment at the President of Turkmenistan
 - 6 in case of the positive decision of the Expert Counsel, prepares the draft of decree and submits the accompanying application for obtaining the licenses, with the signatures of all the members of the Expert Counsel to the President of Turkmenistan
 - 7 upon the approval of the President, issues the License and signs the contract, in the adverse case it either prepares the refusal giving the reasons or returns the draft of the contract for workover to the Department of contracts
 - 8 The License is given to the foreign physical and legal entities provided that they are registered in Turkmenistan. In case of absence of such registration at the moment of obtaining the License, the application for formation of the appropriate legal-organisational entity is submitted to the state organ for registration
 - 9 prepares the package of documents and transfers it to the State Agency for Foreign Investment at the President of Turkmenistan for entering it into the state register of investment programs, and also to the Department of control for the subsequent handling

2 Department of Negotiations

- 1 receives the package of documents on an investment project for which a license has been applied for from the Licensing Department
- 2 determines the group of experts out of the staff members of the Competent Body and the invited consultants and prepares the scenario of negotiations on the subject, the strategy and the tactics for conducting the negotiations, safeguarding the maximum interests of Turkmenistan and submits this for approval by the President of Turkmenistan
- 3 carries out the negotiations on the basis of Model Agreements approved by the President of Turkmenistan, with detailed protocolling of the negotiations, prepares the report on the basic parameters and results of the process on conducting the negotiations, prepares protocols of disagreement and other documents, composing the format of the contract agreed by the parties
- 4 in case of principal disagreements, submits without delay the description of the situation and the alternative ways of decision to the President of Turkmenistan for further approval and changes for the conduct of negotiations
- 5 upon the end of negotiations the report on negotiations and contract and also all the necessary documentation for feasibility of the application and the issuance of the License shall be prepared
- 6 in case of necessity for workover of the contract the abovementioned actions shall be repeated

3 Department of Control

- receives the full package of documents from the Licensing Department in order to execute the further control on the implementation of the contract and the compliance with the conditions of the issued license
- In order to provide the constant control and management of the newly formed household units ["domestic companies" ??], the Department forms the staff of members - representatives of the Competent Body in the Committees for management which are to be created for every separate contract
- executes the constant control for the implementation of the contract in compliance with the Petroleum Law of Turkmenistan, with the present regulation and with other legislative acts which can be adopted in relation to the activities of the management Committees
- in the case of shortcomings carries out their detailed protocolling, and determines the complex of actions for notifications and rejection of shortcomings

- in cases of breaches which are the reasons for revocation of license according to the art 22 of the Petroleum Law of Turkmenistan it prepares the reasons for revocation and submits them for consideration to the Expert Council. If the Expert Council issues the decision for the revocation of the license, the draft of such decree is to be prepared and the application for revocation is to be transferred to the President of Turkmenistan with the signatures of all the members of the expert council

Expert Council and Experts

In order to perform the functions and tasks of the Competent Body the Expert Council is to be formed consisting of the persons appointed by the President of Turkmenistan whose decision is the basis for issuance of a license as well as for signing of contracts and for their revocation and the termination of concluded contracts

For the participation in the process of negotiations, for the conduct of complex expertise, for the control over the compliance with the conditions of the contracts and licenses, Experts (Specialists) out of the representatives of the Ministry of Oil and Gas and Mineral Resources, the Ministry of Nature and Environmental Protection, the State Inspection for Standards, Metrology, Protection of Underground Resources, the State Committee for Carrying out the Compliance with Technical Standards, the Military Firefighting Services of Turkmenistan, the State Concerns and from other organs shall be invited

In case of inviting the experts out of the members of the related Ministries and State Organs, the priority responsibilities of the latter shall be the functional obligations in the Framework of tasks defined by the head of the Competent Organ

The Competent Organ shall have the right to determine the main subject of the research and development centers and institutions of Turkmenistan and to coordinate the works related to the conduct of expertise on the subject of the feasibility studies of contracts, investment feasibility researches and programs of for management training

In order to provide the high professional level and quality of the independent expertise and as well as for inviting the international experts, the fund for financing the Competent Organ shall be formed, the sources of which are to be deducted from bonuses and royalties from the concluded contracts, and also by the contributions received during the organization of tenders and issuance of licenses

The amounts of contributions are to be determined according to the level of the necessary financing and are subject to the approval of the President of Turkmenistan

The number of the staff, the amounts and form of the salaries for the staff members of the Competent Body shall be approved by the President Turkmenistan

The Competent Body is a Legal Entity, it has a seal showing the State Emblem and its title and also accounts in the banks of Turkmenistan

Nomination of the Expert Council of the Competent Organ for the Exploitation of Petroleum Resources at
The President of Turkmenistan

Gurbanmuradov, Y A	Vice Prime Minister of the Cabinet of Ministers, Director of the State Agency for Foreign Investment at the President of Turkmenistan, Vice President of the Competent Organ
Sardjayev, B K	Vice Prime Minister of the Cabinet of Ministers, Minister for the Petroleum Industry and Mineral Resources
Kurbanov T H	Minister for Foreign Economic Relations, Executive Director of the Competent Organ
Altayev, D C	President of the State Concern Turkmengeologia
Babayev, Kh	Vice Minister for the Petroleum Industry and Mineral Resources
Bordjayev, A	Executive Director of the State Fund for the Development of the Petroleum Industry and Mineral Resources
Kulniyasov, A K	President of the State Concern Turkmenneft
Kurbanov, P K	Minister of Nature and Environmental Protection
Niyasliyev, O	President of the State Concern Turkmenneftgasstroy
Tatchnasarov, G	President of the State Concern Turkmengas
Khasanov, B	Deputy Head of the Main State Inspection for Standards, Metrology, Protection of Underground Resources and Safe Working Conditions
Khodjamukhamedov, D G	Deputy Director of the State Agency for Foreign Investment at The President of Turkmenistan

ATTACHMENT C

MEMORANDUM OF UNDERSTANDING

MEMORANDUM OF UNDERSTANDING

Between

THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

And the GOVERNMENT OF TURKMENISTAN

Regarding

**NEW LEGAL & ECONOMIC DEVELOPMENT
IN THE OIL & GAS SECTOR**

In

THE COUNTRY OF TURKMENISTAN

This Memorandum of Understanding (MOU) outlines the framework for mutual cooperation between the Government of Turkmenistan (the "Government") and the United States Agency for International Development (USAID) in support of the Government's effort to restructure its laws and rules and regulations relating to the oil and gas industry. To this end, the parties commit to the following:

The Government of Turkmenistan agrees

To provide the USAID consultant, Hagler Bailly Consulting, Inc., with office space in the Ministry of Oil and Gas Industry and Mineral Resources or in such other space as may suit the Government.

To provide the said consultants with copies of all existing laws and rules and regulations, and relevant studies necessary to provide informed advice.

The United States Agency for International Development agrees

To provide the necessary expatriate experts for the implementation of the assistance contemplated by this agreement, a list of which is set forth on Exhibits A and B attached hereto, and to provide the local staff and office equipment necessary for the functioning of their office.

To continue supporting the development of laws and rules and regulations for the oil and gas industry of Turkmenistan which conform to international standards

Terms of Implementation

This MOU will take effect upon signature by the respective parties and remain in force through May, 1998

All undertakings of USAID pursuant to this MOU are subject to the availability of funds and to further agreements and obligations between USAID and such public and private parties regarding the provision of such assistance. The USAID field mission in Almaty, Kazakstan, and the local office in Ashgabat, Turkmenistan, will be responsible for managing the implementation of this proposed activity of the Government of the United States of America

In the event that i) the Government of Turkmenistan fails to comply with any provisions of this Memorandum of Understanding, ii) USAID determines that facts have arisen which makes it improbable either that the purpose of the Memorandum of Understanding will be attained or that the Government of Turkmenistan or USAID will not be able to comply with the provisions of the Memorandum of Understanding, iii) USAID determines that the continuation of assistance will result in violation of US law, then USAID may, at its option suspend, in whole or in part, provision of assistance under this Memorandum of Understanding upon providing written notice of this action to the Government of Turkmenistan. In the event of partial suspension, such notice shall specify affected activities and be effective upon receipt by the Government of Turkmenistan. If, at any time after such notice, USAID determines, in its sole discretion, that the cause for suspension has not been corrected or correction is improbable, USAID may terminate assistance and provide written notice of this action to the Government of Turkmenistan

In the event that USAID fails to comply with any provision of this Memorandum of Understanding, the Government of Turkmenistan can demand compliance with or correction of the violation during an agreed period of time. If there is not an appropriate remedy within the agreed period of time, the Government of Turkmenistan has the right to terminate, at its sole discretion, the effect of the agreement

This Memorandum of Understanding may be amended by written agreement of the signatory parties

This Memorandum is signed in Ashgabat, Turkmenistan this _____ day of June, 1997, in two copies, each of them in English, and Russian, with each having equal authority, by

Government of the United
States of America

By _____

By _____

Patricia Buckles
Mission Director
United States Agency for
International Development

Government of Turkmenistan

By _____

Ministry of Oil & Gas
Industry and Mineral
Resources

By _____

The State Agency for Foreign
Investment at the
President of Turkmenistan

EXHIBIT A

ASSISTANCE PROJECTS

Priority	Project
1	Review and comment on existing proposals for the formation of the Competent Body, and recommend changes if needed
2	Review and comment on current drafts of Model Production Sharing Agreement and Joint Venture Contracts Assist in the development of the Model Offshore Production Sharing Agreement Provide guidelines for negotiating such agreements
3	Review and comment on existing and proposed regulations and standards, and recommend changes and additions to attain compliance with international standards and the special needs of Turkmenistan Assemble a library of model regulations from authorities such as the American Petroleum Institute
4	Review, summarize and comment on the pipeline tariff methodology and the pipeline economics study currently being considered and recommend changes, if any
5	Assist in the presentation of the new Petroleum Law and model contracts to other Turkmen governmental agencies, foreign companies, and oil and gas conferences and other interested parties abroad A part of the effort undertaken in this regard shall include the publication of a brochure setting forth the new Petroleum Law
6	Assist in the preliminary preparation for the tender for exploration/production areas in the Amudarya basin Recommend negotiation preparation procedures for those usual negotiation activities in which the Competent Body or other governmental officials would frequently become involved
7	Develop a proposal for western style chart of accounts for the oil and gas sector Provide training on how to use such charts and develop at least two or three specialists

EXHIBIT B

SUBJECTS FOR INDIVIDUAL CONSULTING, EXCHANGE OF THOUGHTS, AND FOR THE REVISION AND PREPARATION OF WRITTEN MATERIALS (Preliminary List)

1 Basic Concepts Of Finance

These include cash flow analysis, time value of money, discount rates(nominal and real), relationship between risk and return, return criteria (IRR and NPV), difference between debt and equity investors, advantage of debt on the weighted cost of capital

2 Investor Return Requirements

Return requirements for equity investors, country risk premiums, how risks can be shared through commercial structure and contracts, and lower risk means lower cost of capital and lower return requirements

3 Basics Of Project Finance

Limited recourse financing, requirements for World Bank (and other MLA) support, and project company, sponsor subsidiaries, and sponsor parent relationship

4 Basics Of International Contracts

Fundamental concepts of contracts, choice of law in international contracts, international treaties and conventions, dispute resolution, and common types of international oil and gas contracts

5 Production Sharing Agreements, Joint Ventures, & Other Types Of Agreement

The current petroleum law allows the Competent Body to sign PSCs, JVs, and other types of agreements. In our meetings, the Turkmen Government officials expressed the need for explaining the Law and the agreements to people within their organizations. The course could present a comparison of more prevalent oil and gas agreements and their typical economics

6 Contract Negotiations

The substance of this course should be discussed with experts and should include negotiations techniques and address cultural and political differences between Turkmenistan and the western countries

7 Oil And Gas Accounting

The course would cover international oil and gas accounting standards and a comparison with accounting practices in Turkmenistan This would be beneficial in both explaining the Accounting Procedures attached to PSC and other agreements as well as the tariff calculation methodology

8 Petroleum Economics Training For Oil And Gas Managers

The purpose of this course would be to acquaint oil and gas managers in the government and state concerns with worldwide supply, demand, trade, transportation, and economics in crude oil, products, natural gas, and LNG

ATTACHMENT D

MEMORANDUM OF UNDERSTANDING: EXHIBIT A

EXHIBIT A

ASSISTANCE PROJECTS

USAID will provide three broad areas of assistance, as follows

The structuring of business transactions in the oil & gas sector, including assistance in the area of negotiation and tender for exploration

The development of operational procedures and methodologies, including pipeline tariffs, and conservation, health, safety, and environmental regulations

The implementation of various other functions connected with the oil & gas sector

Specific projects providing such assistance will include

1

Provide guidelines and assistance for negotiating Production Sharing Agreement and Joint Venture Contracts Give assistance in performing techno-economic studies to evaluate both the economic and technical soundness of different production sharing contracts From the workshop on International Petroleum Economics which is offered as a part of this MOU, there will be a computer model available to do the economic analysis There may be a need to make changes to this computer model to comply with Turkmenistan terms Review the contract terms to make recommendations keeping in view the twin objectives of getting maximum returns to Turkmenistan as well as meeting the strategic need to invest foreign investment Whenever it is possible to improve the economic returns to the state based on the present prevailing standards in the world, recommendations regarding the changes in the terms to be offered during the negotiations will be made

2

Review and comment on existing and proposed regulations and standards, and recommend changes and additions to attain compliance with international standards and the special needs of Turkmenistan Assemble a library of model regulations from authorities such as the American Petroleum Institute Using these international standards, develop for the consideration, deliberation, and debate of the Competent Body, additional regulations to provide a substantive framework to the New Petroleum Law, including, among others

Procedures and obligations relating to Exploration, Production, and Combination Licenses

Rules for the Protection of Petroleum Resources

Rules for the Protection of the Environment

Rules for the Public Life and Health Protection

Rules for the Identification and Protection of Holy Sites, and Historical and Cultural Monuments

Rules for Registration of Contracts
Rules for Revocation of Licenses
Rules regarding Bank Guarantees or Substitute
Rules concerning the timing and procedures for holding a Tender
Rules concerning submission of Bidding Proposals Rules regarding License Validity
Periods, as well as the suspension, revocation, and termination thereof
Rules regarding the substance and approval process of Voluntary and Forced Unitization
Rules regarding the location, construction, operation, use and the ultimate dismantling of structures placed
in navigable waters
Rules regarding the discharge and burial of wastes from Petroleum Operations, including the setting of
permissible levels of impurity
Rules concerning the Measurement and weighing of Petroleum, including the frequency, methods
Rules concerning the protection of natural resources, and the conduct of spill clean-up operations
Rules concerning the reclamation of land utilized for Petroleum Operations
Rules concerning the laying and operation of submarine pipelines and cables
Rules regarding the content, and submission requirements relating to an Environmental
Protection Plan

3

Review, summarize and comment on the pipeline tariff methodology and the pipeline economics study currently being considered and recommend changes, if any A review and analysis of the existing pipeline cost accounting as well as the pipeline tariff methodology will be carried out

A standardized computer model will be developed with the following objectives

- 1 To evaluate pipeline economics
- 2 To develop pipeline methodology
- 3 To estimate actual pipeline tariffs based on international standards

Training will be given to the concerned personnel on the use of the above computer model

4

Assist in the preliminary preparation for the tender for exploration/production areas
Recommend negotiation preparation procedures for those usual negotiation activities in which the Competent Body or other governmental officials would frequently become involved In such assistance, USAID will assist in the preparation and collection of data relevant to effective consideration of the tender by prospective bidders, development of procedures for the disbursement of such information to prospective bidders, procedures for the consideration, and the award or rejection, of bids

5

Provide assistance to concerned personnel on familiarization with, and the use of, internationally accepted accounting standards for oil and gas operations. Even in the western countries, the standards for oil and gas accounting are different from the normal practice. Therefore it is necessary for oil and gas sector personnel to be familiar with the western oil and gas accounting procedures. Assistance in the form of formal training and computer software will be given to the concerned personnel. Assistance will also be given to do system study to develop computer software and thus to have a full fledged Management Information System.

6

Provide seminars and discussion forums wherein officials and others from the country of Turkmenistan will have an opportunity to exchange thoughts and individually consult with experts on a variety of topics including those set forth on Attachment B.

ATTACHMENT E

WORK PLAN

**USAID LEGAL AND REGULATORY DEVELOPMENT PROJECT
FOR OIL AND GAS SECTOR IN TURKMENISTAN**

DRAFT WORK PLAN (NOVEMBER 17, 1997)

(English version)

- 1 Develop proposals for improvement of oil and gas legal and regulatory structure
 - A Assist in the formation of a library of international oil industry legal and regulatory materials consisting of text, electronic media, computer models, and programs
 - a Library of Standards, Recommended Practice, and Regulations from API, ISO, MMS, & other sources
 - b Off-the-Shelf Oil & Gas PC software
 - c Texts Legal, Business, & Regulatory Subjects
 - d Examples of Regulatory Agency Structure from different countries
 - B Develop uniform rules for exploration and exploitation of oil and gas fields and for environmental protection using international standards for oil operations
 - a Provide comments on the draft Unified Regulations For Development Of Oil, Oil-and-Gas, Gas, and Gas-Condensate Fields
 - b Update existing draft of Unified Regulations to international standards and/or draft new Unified Regulations
 - C Develop proposals for improvement of legal and regulatory structure of current oil and gas state agencies
 - a Review existing Oil & Gas industry structure
 - b Recommend improvements in the legal & regulatory structure
 - D Organize and conduct seminars, workshops, and conferences as needed including the following
 - a Concepts Of Energy Regulatory Agency Law
- 2 Develop proposals and regulations related to oil & gas agreements
 - A Evaluate existing oil and gas agreements for consistency with the new Petroleum Law and the Model Agreements
 - B Recommend standards for oil and gas accounting, plans and budgets, and performance reports relevant to international requirements
 - C Develop methodology for reporting, analysis, and control of licensed oil companies activities
 - D Provide advice as needed on legal, economics, negotiations, PSA and JVA issues
 - E Develop uniform mechanisms for dispute resolution
 - F Organize and conduct seminars, workshops, and conferences as needed including the following
 - a Oil and Gas Accounting
 - b International Petroleum Economics
 - c International Oil & Gas Contracts
- 3 Develop proposals on issues related to carrying out tenders
 - A Develop principles for evaluation of bids for exploration and production of Caspian Sea oil and gas resources
 - B Develop proposal for model commercial structure for future agreements
 - C Develop proposals for conducting future rounds of Caspian Sea tender
 - D Develop proposals for conducting tender for onshore blocks
 - E Organize and conduct seminars, workshops, and conferences on the above topics as needed

- 4 Develop proposals on strategic oil and gas infrastructure development issues
 - A Develop proposals for existing export pipeline projects
 - a Evaluation of pipeline feasibility studies
 - b Proposals with respect to creation and form of consortiums
 - c Writing contracts and agreements
 - B Develop proposal for an oil and gas export strategy for Turkmenistan
 - C Develop proposals for oil and gas pipeline tariff methodology
 - D Develop proposals for oil field supply and service business development
 - a Review state of service business capabilities within Turkmenistan at present, and within the region of Central Asia
 - b Proposals with respect to the size and form of ownership of the service business
 - state, private, or mixed
 - c Proposals with respect to regulation of oil and gas service business
 - E Organize and conduct seminars, workshops, and conferences as needed including the following
 - a Oil and Gas Project Financing
 - b Strategic Planning Retreat

(Russian version)

- 1 Разработка предложений для совершенствования юридической и регулирующей структуры нефтегазового сектора
 - A Содействие в формировании библиотеки материалов международной нефтяной промышленности по юридическим вопросам и вопросам управления. Материалы будут состоять из текстовых документов, электронных файлов, компьютерных моделей и программ
 - a Библиотека стандартов, рекомендуемой практики и правил из АНИ, ОМС, СУМБ и других источников
 - b Готовое коммерческое программное обеспечение для нефтегазового сектора
 - c Тексты по юридическим, организационным и деловым вопросам
 - d Примеры структур регулирующих агентств разных стран
 - B Разработка единых правил освоения и эксплуатации нефтегазовых месторождений и охраны окружающей среды с использованием международных стандартов ведения нефтяных работ
 - a Предоставление комментариев по проекту Универсальных правил для разработки нефтяных, нефтегазовых, газовых и газоконденсатных месторождений
 - b Доработка существующего проекта Универсальных правил для разработки нефтяных, нефтегазовых, газовых и газоконденсатных месторождений и/или выработка новых Универсальных правил
 - C Разработка предложений по совершенствованию организационно-правовой структуры существующих государственных учреждений нефтегазового сектора
 - a Обзор существующей структуры нефтегазовой промышленности
 - b Некомендовать изменения по совершенствованию юридической и регулирующей структуры
 - D Организация и проведение следующих семинаров, дискуссий и конференций
 - a Концепция закона о Регулирующем органе в области энергетики
- 2 Разработка предложений и правил, связанных с договорами по нефти и газу
 - A Дать оценку соответствия существующих соглашений по нефти и газу с Законом об углеводородных ресурсах Туркменистана и модельными соглашениями
 - B Рекомендовать стандарты по ведению бухгалтерского учета и отчетности, выполнению планов и бюджета, соответствующих международным требованиям
 - C Разработать методологию отчетности, контроля и анализа деятельности лицензированных нефтяных компаний,
 - D По мере необходимости предоставить консультации по юридическим, экономическим вопросам и вопросам ведения переговоров в отношении соглашений о разделе продукции и совместных предприятиях
 - E Разработать единые механизмы разрешения разногласий
 - F Организация и проведение следующих семинаров, дискуссий и конференций
 - a Бухгалтерский учет в области нефти и газа
 - b Международная нефтегазовая экономика
 - c Международные контракты по нефти и газу
- 3 Разработка предложений по вопросам проведения тендеров
 - A Разработка принципов оценки заявок на разведку и добычу нефтегазовых ресурсов Каспийского моря

- B Разработка модели коммерческой структуры будущих соглашений
 - C Разработка предложений по проведению очередных раундов тендера по Каспийскому морю
 - D Разработка предложений по проведению тендера на оншорные блоки
 - E Организация и проведение соответствующих семинаров и конференций
- 4 Разработка предложений по стратегическим вопросам развития инфраструктуры нефтегазового сектора
- A Разработать предложения по существующим проектам экспортных трубопроводов
 - a Оценка ТЭО трубопроводов
 - b Предложения, касающиеся создания и формы консорциумов
 - c Написание контрактов и соглашений
 - B Разработка предложений по стратегии Туркменистана в области экспорта нефти и газа
 - C Разработка предложений по нефтегазовой тарифной методологии
 - D Разработка предложений по развитию сервисного бизнеса для нефтяных компаний
 - a Оценка возможностей государства в области сервисного бизнеса в Туркменистане и Центральноазиатском регионе на настоящий момент
 - b Предложения, касающиеся величины и формы собственности сервисного бизнеса - государственная, частная или смешанная
 - c Предложения, касающиеся регулирования сервисного бизнеса в области нефти и газа
 - E Организация и проведение следующих семинаров, дискуссий и конференций
 - a Нефтегазовое проектное финансирование
 - b Стратегическое планирование

ATTACHMENT F

LETTER TO MR. KURBANOV

Tel / Fax (993-12) 354305 / 393085



Hagler Bailly

December 11, 1997

Mr T N Kurbanov
Executive Director of the Competent Body
For the Use of Hydrocarbon Resources
53 Azady Street
Ashgabat 744000

Subject Draft Unified Regulations For Development Of
Oil, Oil-And-Gas, Gas, And Gas-Condensate Fields

Dear Mr Kurbanov

You have asked us to translate the Unified Rules For Field Development drafted by the Office of the Chief State Inspector of the Major State Inspection of Turkmenistan, and to provide our comments on the same. Hagler Bailly has now translated the draft Uniform Regulations from Russian to English language and had the draft reviewed by Kris Gupta and myself, Hagler Bailly's Resident Advisors in Ashgabat. A copy of our translation is attached to this letter. While we believe that with more time we could better conform our translation to an accurate oil field vocabulary, we believe that the current rendering is a reasonable restatement of the Russian version.

During our review of the Unified Regulations we have also requested input from an international regulatory expert as to a limited portion of the Regulations. Further, we have discussed certain aspects of the Unified Regulations with Messrs Bayram Hasanov, Baltabay Lukmanov, and Hageldy Hankuliev of the Major State Inspection Of Turkmenistan. In making these comments we were guided by (1) the New Petroleum Law of Turkmenistan, and the (2) the Decree of the President, dated June 1, 1997, by which the Competent Body envisioned in the Petroleum Law was established and given structure. A sovereign government delegates to administrative agencies by such specific grants of authority those rule-making powers with which that sovereign, but for the constraints of time and expertise, could otherwise concern itself. Several of the more important sections of the New Petroleum Law which bestow upon the Competent Body rule-making authority, together with those in the supporting Presidential Decree, are listed in the attachment of this letter designated Attachment A.

Hagler Bailly's comments are preliminary in nature because of limited time available for review and because only a limited amount of regulatory resource material was available in Ashgabat. With that caveat, it is Hagler Bailly's opinion that the overwhelming tenor of the draft Unified Regulations is to set forth overly detailed work procedures and guidelines for those engaged in normal oil field activities. Although we have been unable to find comparable features in the regulatory frameworks of leading international producing countries, it should be noted that

frequently a more flexible form of such work procedures and guidelines are part of in-house 'Procedures Manuals' by which oil companies suggest to field personnel procedures to be followed in a variety of situations. Indeed, such guidelines and procedures are, in our opinion, best left to each company's management of its own ever-refining vision of "normal oil field practice" and no significant purpose is served by making them the subject of inflexible regulations. More to the point, it is Hagler Bailly's preliminary opinion that these Unified Regulations are not based upon "international standards" as specified in the New Petroleum Law but rather are almost wholly a re-edit of prior regulations developed for the prior Soviet model of exhaustive procedural specification. In both substance and form the Unified Regulations are very prescriptive, i.e., they prescribe what should be done in certain situations in great detail. Normal oil field operation, however, requires flexibility in responding to unpredictable situations so that creative solutions can be developed taking into account (a) rapidly changing technology, and (b) economics. Hence, the ideal regulations tend to be objective, i.e., goal oriented leaving operators to select procedures and technologies to achieve regulatory purpose.

There are four major goals of regulations commonly found in the international upstream oil and gas sector. They are (a) conservation of natural resources, (b) health and safety, (c) environmental protection, and (d) data collection. The Unified Regulations address these areas primarily through reference to specific regulations such as classification of reserves, oil and gas safety, subsoil and environmental protection, and well suspension and abandonment. Hagler Bailly has had no opportunity to review these other specific regulations and cannot comment as to whether they conform to international standards.

In summation, it is the opinion of Hagler Bailly that the draft Unified Regulations do not conform to the legislative mandate of the New Petroleum Law of Turkmenistan to prepare regulations conforming to international standards, but rather are a re-visitation of the former Soviet model of regulation by prescription.

Very truly yours,

Hagler Bailly Consulting, Inc

By, William R. James
Senior Resident Advisor

ATTACHMENT G

LETTER TO MR. RASHID REDJEPOV

To Rashid Redjepov
From William R James
Re Suggested Rule-Making Process

The following is a suggested rule-making process. The estimated times can either be longer or shorter in actual implementation, but they are a current "best guess." The Governmental make-up of the Rule-Coordinating Committee was suggested by the various disciplines specified in the new Petroleum Law as requiring some regulatory in-fill. The non-Governmental make-up of the Committee seeks participation and acceptance of the rule-making process from the industry that will be regulated. Some countries would also include private interest groups such as environmental or educational groups from the communities that could be affected by oil field development, but, at some point the growing number of representatives on any committee can become unwieldy.

Suggested Rule-Making Process

A Rule-Coordinating Committee or other Alternative

I *Recommendation* Establishment of Rule-Coordinating Committee with reps from

Competent Body – Chair (head of Dept of Control)
Government of Turkmenistan (one representative from each of the following)

Est Time
one week

Ministry of Oil & Gas Industry and Natural Resources
Ministry of Nature
Ministry of Culture

Petroleum Industry Currently Operating in Country (one representative from each of the following)

Turkmenneft
Turkmengaz
Monument/Mobil Consortium
Unocal
Petronas

USAID as consultant to GOT will prepare drafts of regulations

II Alternatives to Committee

Staff of the Competent Body
Staff of the Ministry of Oil & Gas Industry and Natural Resources
Staff of the Major State Inspection of Turkmenistan

Est Time
two weeks

- B Identification of all statutory areas requiring regulatory promulgation under new Petroleum Law—These rules should be patterned after international standards, be goal-oriented and not prescriptive
Recommendation A suggested listing, with potential substantive content, would include

I Exploration, Development and Production of Oil & Gas
Resources

General Rules, Definitions, Applicability, Measurements
Drilling, Development, Producing, and Abandonment

a Includes requirements for drilling, completion, workover, notice requirements, data collection needs, conservation, abandonment specifications

Secondary and Tertiary Recovery Projects

Pollution Prevention and Control

a Includes measures for the protection of ground waters, surface waters, waste disposal measures, sulfur treatment, as well as air pollution prevention, and noise abatement, as well as development and implementation of oil-spill contingency plans

Environmental Protection

a These would include special environmental requirements relating to wildlife and fisheries protection, identification and protection of historical sites and holy sites, and sites of cultural importance, development and submission of Environmental Protection Plan, reclamation of land utilized for petroleum operations

Public Life, Safety and Health

a Includes worker training and instruction, H₂S considerations, facilities specifications, required equipment

Special Off-Shore Rules

a This would include Platform and Structure Requirements, structural placement and navigational, and bio-resources protection, submarine pipelines and cables

Licensing procedures

a This would include methods for application for license, registration thereof, determination of exploration period, submission and procession of request for extension of license, the causes and process for termination, revocation, and/or suspension of license, requirements (including time periods) for circulation and comment among the various GOT agencies of a license or proposed contract

- Est Time*
one day
- C Setting of priorities among all sets of required regulations
 I **Recommendation** Begin with sections 4, 5, 6, and 7 as shown above, continue with sections 1, 2, and 3, above, finally, end with sections 8 and 9, above
- Est time*
two weeks
- D Consideration of available model options
 I **Recommendation** pick and choose from among the systems of the United Kingdom, Indonesia, or the Minerals Management Service of the United States Other systems could also be considered
- Est Time*
two weeks
for each set
/ less time
if model
used
extensively
- E Preparation of each set of rules and consideration of same by Committee **Recommendation, follows**
 I USAID consultants draft new rules using model wherever possible—edit model and add new materials to complete for specific Turkmenistan requirements
- Est Time*
two weeks
for each set
/ less time
if model
used
extensively
- II Distribution to Committee members / individual consideration and response
- Est Time*
two weeks
for each set
/ less time
if model
used
extensively
- III Committee Deliberation, Re-edit of Rules and Re-submission

F Presentation to Competent Body for its Consideration and Adoption

Est Time
6 months
for entire
set