

PN-A0J-098

**REPORT ON THE GEORGIAN LAW ON
OIL AND GAS**

**Georgia Oil and Gas Sector Reform
Contract No. LAG-I-00-98-00005-00
Task Order No. 5**

Final Report

Prepared for:

U.S Agency for International Development
Bureau for Europe and the NIS
Office of Environment, Energy and Urban Development
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May 20, 1999

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Background

For almost two years, USAID and other donor agencies have worked with Georgian counterparts on an Oil and Gas Law. Hagler Bailly has provided technical support for this effort, beginning under Delivery Order 16 and continuing under Task Order 5. The drama that attended the drafting, and then subsequent redrafting, of the Oil and Gas Law is known to USAID through reports that Hagler Bailly has submitted over the many months of the Law's gestation. In sum, numerous drafts, untold rounds of comments, scores of meetings, and miscellaneous random chores were required to see the Oil and Gas Law through to its ultimate conclusion. In the final stages, the efforts of the Mission's Senior Energy Advisor to narrow the issues and focus all interested parties on the joint resolution of those issues proved decisive.

We have attached a translation of the Law.

Enactment of the Law

The Georgia Parliament conducted its third and final reading of the Oil and Gas Law on 16 April 1999. President Shevardnadze signed the Law on 3 May 1999.

Principal Features of the Law

The Oil and Gas Law represents the first comprehensive law in Georgia to address upstream petroleum operations. Prior to adoption of the Law, investors faced a number of difficulties: a vacuum of government policy respecting oil and gas exploration and development; the existence of several, sometimes conflicting legislative acts purporting to regulate the oil and gas industry; the absence of any law or regulation whatsoever with respect to certain important areas; the absence of a legislative basis for production sharing agreements; and a dual system of contracting and licensing which potential investors found confusing because the existing law did not clearly identify who was authorized to negotiate on the State's behalf.

To large degree, the Law on Oil and Gas addresses the foregoing deficiencies and sets out the essential elements needed to support oil and gas exploration, development, and production. The following outlines the basic principles reflected in the Law.

The Law establishes a single competent authority, named "the State Agency for the Regulation of Oil and Gas Resources" (hereinafter the "State Agency"), which is granted the authority to act on behalf of the Government of Georgia ("GoG" or "State") for the negotiation, signing, and administration of oil and gas contracts. The State Agency is also authorized to issue all licenses, permits, certificates, or other authorizations necessary to explore for and produce oil and gas. The Law intends the State Agency to be the "one-stop shop" which, throughout the process of

developing the Law, USAID and Hagler Bailly recommended as essential to the attraction of western investors. The "one-stop shop" feature of the Law is an attempt to eliminate the dual conflicting regime that was in place prior to adoption of the Law.

The Law establishes the State Agency as a separate entity within GoG's executive authority, accountable directly to the President. The President appoints the Head of the Agency, which will have a staff not to exceed 25 persons. No employee of the State Agency may be associated, directly or indirectly, with any entity engaged in oil and gas operations in Georgia.

The Law establishes a simplified and transparent system of licensing geared to the form of contract agreed to by the investor. It authorizes the State Agency to issue all necessary regulations, to oversee oil and gas operations, to create a database for Georgian oil and gas resources, to select areas to be offered to investors for exploration and development, and to award tenders and negotiate contracts.

The Law separates the State's sovereign and regulatory authority from its commercial interests. Under the Law, the national oil company, Saknavtobi, will be limited to commercial activity on behalf of the State; heretofore, it had also exercised Georgia's authority as sovereign, which authority the Law now lodges with the State Agency. The Law directs that Saknavtobi be corporatized under the procedures of the Law on Entrepreneurs, which may serve as prelude to privatization of the enterprise.

The treatment to be accorded existing oil and gas contracts by the new Law was a priority issue. The new law recognizes the legality of "Production Sharing Contracts" concluded between the State (or on behalf of the State) and the Investor prior to the law's effective date. The State ensures that investor's rights under such contracts are protected. The Law stabilizes the investment conditions of such Existing Agreements for a period of 25 years. During this period, any amendments to Georgian legislation which adversely affect the investment conditions of such contracts are inapplicable to existing agreements.

The manner by which disputes arising under oil and gas contracts are to be resolved was an important concern. The new Law permits international arbitration in cases where the dispute relates to investors who are not "residents of Georgia" or who are not legal entities "registered in Georgia."

Conclusion

This new Law on Oil and Gas represents a significant step forward in the process of the legal reform of an important segment of the Georgian economy. This Law accomplishes three major goals: (1) it protects the legitimate interests of the state; (2) it permits investors to earn a return on and of invested capital; and, (3) it does not burden the Georgian economy with an unwieldy, inefficient, and counterproductive bureaucracy. The attainment of all three of these objectives should be heralded as a triumph for reason, logic, and persistence.

As sparkling as this achievement is, the Law presents a few concerns. Some of these concerns can be overcome by the regulations that the State Agency will draft. Other concerns can best be tackled by amendment to the Law, as may be appropriate in times to come.

Attachment

The Georgian Law on Oil and Gas (English translation) is attached.

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APPENDIX A

GEORGIAN LAW ON OIL AND GAS

GEORGIAN LAW ON OIL AND GAS

CHAPTER I. General Provisions

Article 1. Definitions of Basic Terms

Basic terms used in this Law shall have the meanings specified below:

1. "Oil and Gas"—complex natural compound of hydrocarbons which may be at Normal Atmospheric Pressure and Temperature in gasiform (associated or natural gas), liquid (oil, condensate) or solid state (paraffin, bitumen, gas hydrates).
2. "Oil and Gas Operations"— exploration and production of oil and gas within the Area specified in the Agreement and the License, and activities connected with the operations (such as gathering, treating and storage on the Area of produced oil and gas).
3. "Oil and Gas Operations not connected with the usage of the Subsoil"— operations which are not connected with exploration and production of oil and gas, including oil and gas import, transit; transportation by trunk pipelines and by non-fixed facilities, treatment; supply and import and export of oil products.
4. "Investor"—Georgian or foreign citizens, legal entities and associations of legal entities (consortium) which are engaged in the exploration and production of Oil and Gas Resources and are using their own, borrowed or attracted funds.
5. "Persons"— Public and private legal entities and physical entities.
6. "Area"- the area, specified in an Agreement, in respect of which the Investor is granted the exclusive rights to explore for and produce Oil and Gas.
7. "Affiliated company" —
 - a) any legal entity representing the legal entity (hereinafter referred to as Entity) in which the legal entity, directly or indirectly, owns 50% or more of the shares, voting rights or otherwise has the right to determine the management policy of the Entity; or,
 - b) a legal entity which directly or indirectly owns 50% or more of the shares, voting right or otherwise has the right to determine the management policy of the Entity.
8. "Oil and Gas Deposit"—substantial collection of Oil and Gas in a natural reservoir of Subsoil.
9. "Oil and Gas Field"—a unity of Oil and Gas deposits.
10. "Oil and Gas Resources"—amounts of oil, gas and condensate existing in subsoil.

11. "Exploration of Oil and Gas Fields"—geological, geophysical, drilling and other auxiliary works on the basis of which a preliminary assessment of economic importance of the field is made.
12. "Exploration of Oil and Gas Deposit"— geological, geophysical, technological and other works for determination of the deposit structure, Oil and Gas reserves, their qualities and production conditions.
13. "Development of Oil and Gas Deposits"— technological and organizational works for production of Oil and Gas, extraction of hydrocarbons from Subsoil, gathering, transportation to the place of treatment and treatment of the Oil and Gas;
14. "Treatment"—cleaning of produced Oil and Gas from admixtures.
15. "Bonus"- a payment to be made to the State when an Agreement between the Investor and the State is signed, or when a declaration of commercial discovery is made, or when certain level(s) of oil or gas production are reached or in other circumstances stipulated in this Law.
16. "Subsoil Usage Tax"- a tax for utilization of natural resources under the Tax Code of Georgia. Precise tax rate is determined by the State Agency for Regulation of Oil and Gas Resources; the tax rate shall be included in the License for Utilization of Oil and Gas Resources and the Agreement.
17. "Investor's Cost Recovery Oil and Gas" - a part of the Oil and Gas produced in the Area that is used to reimburse the expenses and costs including financing costs incurred by the Investor in the exploration and production of the Oil and Gas in the Area. Cost Recovery Oil and Gas amount and rules and procedures of compensation shall be defined in the Agreement.
18. "State Cost Recovery Oil and Gas" - a part of produced Oil and Gas that is used to reimburse the costs and expenses for exploration and development of Oil and Gas in the Area incurred by the State prior to granting the Investor the rights for exploration and production of Oil and Gas in the Area, provided that such costs and expenses are recognized by the Investor under the Agreement.
19. "Base Line Oil and Gas"- the amount of Produced Oil and Gas to be allocated to the State, methods for calculation of the amount shall be specified in the Agreement, including:
 - (I) amount of Oil and Gas produced on the Area transferred to the Investor prior to granting to the Investor the right for performance of Oil and Gas Operations;
 - (II) the depletion profile of the deposit(s); and
 - (III) any other factors agreed between the State and the Investor.
20. "Incremental Oil and Gas"- the amount of Oil and Gas produced in addition to the Base Line Oil and Gas.

21. "Profit Oil and Gas" - the part of the produced Oil and Gas remaining after deduction of Base Oil and Gas and Cost Recovery Oil and Gas.
22. "Force Majoure" - Acts of God, strikes, sabotages and other industrial disturbance, civil unrest, war, blockade, earthquakes, avalanches, epidemy, flood and similar events, which are out of reasonable control of Parties and which are impossible to eliminate by Parties. Force Major does not include deterioration of Investor's financial condition provided that it is not connected to the above listed events. In such cases advantages under Force Major conditions does not apply to the amount payable by Parties under Agreement.
23. "Operating Company"— a legal entity, established in Georgia, which performs Oil and Gas Operation, for and on behalf of the Investor, under Agreement concluded between the State and the Investor.
24. "Georgian Territorial Waters" — a section of the Black Sea coastal waters, whose width is 12 sea miles and which shall be accounted from the straight connection lines of those points, whose coordinates shall be approved by the President of Georgia on the bases of proposal, submitted by the State Department of State Border Protection of Georgia.
25. "Special Economic Zone of Georgia" —maritime area width of which is 200 sea miles and shall be accounted from those straight connection lines, from which the Georgian Territorial waters are to be accounted.
26. "Georgian Continental Shelf" — the sea bottom and underwater subsoil, which extend beyond the Georgian territorial waters along the whole stretch of natural extension of land territory up to outer boundary of underwater edge or extend to 200 sea miles from those straight lines, from which the territorial waters are accounted, unless underwater outer edge extend to this distance.
27. "Georgian Continental Shelf Resources" —subsoil minerals and other non-living resources in the sea bottom and its subsoil.
28. "Subsoil"— a part of earth crust under the land surface or water resources (including internal waters, Territorial Sea, Exclusive Economic Zone) and Continental Shelf bottom, which is available for research and usage with updated scientific and technical facilities.
29. "Mining Allotment"— a Subsoil area determined by the License, within the borders of which the Subsoil User is granted the right to use the Subsoil. The permit for usage of Mining Allotment is an integral part of the License and will automatically be awarded along with the License.
30. "Geological allotment"— Subsoil Area, specified in the Agreement and the License issued under the Law, which shall be used only for geological study. The permit for usage of Geological Allotment is an integral part of the License and is issued automatically together with the License.

31. "Land Allotment"— Area for subsoil usage, specified in the Agreement and the License issued under the Law. The permit for usage of Land Allotment is an integral part of the License and is issued automatically together with the License.
32. "Agreement" - a written agreement concluded between the State and the Investor, regarding performance of oil and gas operations by the Investor within the Area.
33. "Production Sharing Agreement" - an agreement made between the State and the Investor under which, for a specified period of time and within a specified Area in Georgian subsoil and/or Georgian Black Sea Offshore, the Investor is granted, on a chargeable basis an exclusive right to perform Oil and Gas Operations. The Investor undertakes obligations to conduct at his own risk and expense all exploration and production operations under the Agreement. The State undertakes obligations to support the investor in compensation of costs and expenses incurred under the Law and the Agreement.
34. "Risk Service Agreement" - an agreement concluded between the State and an Investor, under which the investor is granted the right, for a specified period and within a specified area, to conduct Oil and Gas exploration activities.
36. "Existing Agreement" – Production Sharing Agreements concluded between the State and/or National Oil Company on behalf of the State and Investor under the Presidential Resolution, and/or the Oil and Gas License issued on behalf of the State prior to effective date of the Law.
37. "State Agency for Regulation of Oil and Gas Resources" – the State Sub-Agency created for regulation of Oil and Gas Resources.
38. "License for Usage of Oil and Gas Resources" – a legal document issued on behalf of the State by the State Agency for Regulation of Oil and Gas Resources, which verifies the rights of the Investor to conduct Oil and Gas Operations within the Area.
39. "National Oil Company" – State Company "Saknavtobi" or its successor legal entity.
40. "Costs and Expenses Associated with Oil and Gas Operations" – Expenses for Oil and Gas Operations and exploitation costs, determination rules and procedure of such costs and expenses shall be determined in the Agreement.
41. "Working Program and Budget" – Annual working program and related budget for its implementation.
44. "Eminent Domain" – temporal expropriation of land or private property existing on this land by the State, for public purposes, on the basis of court decision, only after payment of appropriate compensation. Eminent Domain is conducted according the Georgian Constitution and the Law.

45. "Non-trunk Pipeline" - gathering and technological pipelines located in the area, which are aimed only for performance of Oil and Gas Operations.
46. "Trunk Pipeline" – a pipeline for transportation of oil and gas, which is not Non-trunk Pipeline.

Article 2: Legal Regulation of Oil and Gas Resources

1. Oil and Gas Operations in Georgia shall be conducted in accordance with this Law and the Georgian legislation.
2. All terms and conditions of invitations to tender or auction shall be made pursuant to this Law and the Subsoil Law of Georgia.
3. Preparation, signing and termination of Agreement shall be made pursuant to this Law.

Article 3. The Basic Objectives of Law

The basic objectives of this Law shall include:

1. creation of a general legal basis for the development of the Oil and Gas Resources of Georgia and the implementation of a uniform state policy in the sphere of development of Oil and Gas Resources;
2. promotion of foreign and Georgian investment participation in the Oil and Gas sector of Georgia and the protection of legal interests of Persons engaged in Oil and Gas operations in Georgia;
3. creation of effective legal basis for State Supervision and control of Oil and Gas operations in Georgia; and respectively establishment of a relevant state body.
4. determination of general principles of agreements made between the State and the Investor for the exploration and production of Oil and Gas; and
5. determination of functions of the National Oil Company of Georgia.

Article 4. Ownership Right on Oil and Gas Resources

1. Oil and Gas Resources in the Subsoil of the territory of Georgia are the state property. The land ownership right shall not entail the ownership or exploitation right on Oil and Gas natural resources in the Subsoil.
2. Georgia has an exclusive and sovereign right to explore for and exploit oil and gas resources on Georgian onshore and Continental Shelf.

3. The ownership right on produced Oil and Gas shall be determined in accordance with the Agreement.
4. Oil and Gas that has been produced and placed in an underground reservoir for storage shall be considered as produced.
5. Oil and Gas that has been returned to reservoir for operational reasons (drilling, testing, work over, development of wells, etc.) shall be considered as a part of Oil and Gas Reserves and shall not be deemed as produced.

Article 5. Ownership Right on Property Used for Oil and Gas Operations

1. Movable and such immovable property, connected to Oil and Gas Operations, which can be dissembled without any damage to the main property and which was purchased or built by a Person performing oil and gas operations, is the property of the Person, unless the cost is covered by the Cost Recovery Oil and Gas. If cost of such property is covered than it becomes the state property, besides the Person has the right to use such recovered property for oil and gas operations in the area specified in the Agreement and takes all risks and pays all costs for using and maintenance of such property.
2. In case of termination of Oil and Gas Agreement, regardless of reason for such termination, any construction and other immovable property within the licensed area and its subsoil is the state property, whether the cost of such property has been recovered or not.

Article 6. Performance of Oil and Gas Operations

Oil and Gas Operations may be carried out fully or partially by the State or by legal and physical entities pursuant to Agreements made and the Licenses issued in under this Law.

CHAPTER II. State Management of Oil and Gas Operations

Article 7. State Agency for Regulation of Oil and Gas Resources

1. In Georgia, state management of Oil and Gas Operations shall be performed by the State Agency for Regulation of Oil and Gas Resources, which is a State Sub-Agency.
2. The State Agency for Regulation of Oil and Gas Resources (hereinafter referred to as Agency) shall be created within six (6) month of the Effective Date of this Law.
3. Activities of the Agency shall be performed in accordance with Georgian Constitution, this law, Georgian Legislation and the Resolution of the President of Georgia.
4. Head of the Agency is appointed and dismissed by the President of Georgia.
5. The Agency staff will comprise of not more then 25 employees.

6. The Head, Deputy Heads, Head of Staff and staff of the Agency shall not be entitled to be associated directly or indirectly, with any entity engaged in oil and gas operations in Georgia.

Article 8. Functions of the State Agency for Regulation of Oil and Gas Resources

Functions of the State Agency for Regulation of Oil and Gas Resources are as follows:

- a) Selection of areas to be offered to Investors for Oil and Gas Operations, following to consultations with relevant state bodies; making decision regarding form of offering (tender or auction) of areas and form of agreement to be made with Investor.
- b) Preparation of rules and conditions of tenders and auctions for awarding to the winner the Areas offered to Investor for Oil and Gas Operations.
- c) Organization, performance and awarding of tenders and auctions in respect of Areas offered to an Investor for Oil and Gas Operations.
- d) Preparation, negotiation and conclusion of all Agreements, on behalf of the State. In the process of negotiations and preparation of an agreement, the Agency is entitled to request for, and shall receive, assistance from any governmental body, state organization and enterprise.
- e) Issuance of licenses to Investors required for performance of Oil and Gas Operations, on behalf of the State; approval and the issuance or securing the issuance of all other authorizations, allotments, permits, certificates. Upon receipt of a notice from the State Agency for Regulation of Oil and Gas Resources, every State bodies of Georgia is obliged to prepare and transfer to the Agency documents.
- f) Supervision and control of implementation of provisions and activities envisaged in Agreements made and Licenses issued under this Law. Provision of conditions required for implementation of Oil and Gas Operations under the Agreement and the License.
- g) Creation and management of a centralized information bank in respect of all data and information Oil and Gas Resources and Oil and Gas Operations in Georgia (collection, systematization, analysis and storage of information and data).
- h) The preparation and proposal to the President of Georgia for approval normative acts, required to establish a clear stable non-discriminatory and effective legal and regulatory work project for performance of Oil and Gas Operations based on market principles and operating in the national interest.
- i) The delegation of all operational or commercial tasks under Agreements (except delegation of regulatory functions) to the National Oil Company, until the State ceases to be its owner or owns more than 75% of its shares; the supervision and control of implementation of all operational and commercial tasks, under agreements, delegated to the National Oil Company.

- j) In performance of the above functions the Agency shall observe the principle of transparency; including public consideration of auction and tender terms and conditions in the process of preparation and their further approval, publication of annual report on performed activities, etc.

Article 9. The National Oil Company (GNOC) of Georgia

1. The State Company, " Saknavtobi" performs functions of the NOC in Georgia. Decision regarding privatization of the National Oil Company of Georgian ("Saknavtobi") shall be made by the President of Georgia.
2. Under paragraph 8 sub-paragraph f) functions of NOC, so long as the state is the owner of the National Oil Company or owns more then 75% of its shares, are as follows:
 - a) to participate in the course of drawing up of, and negotiations on the Oil and Gas Agreement and initial the Agreement prior to official signing by the Agency.
 - b) act as a partner from Georgian Party, in the implementation of agreements.
 - c) to dispose the state share of oil and gas produced in Georgia and transfer all taxes to state budget pursuant to Production Sharing Agreement.
 - d) to carry out state expertise of mining operation plans and technological schemes for development of oil and gas resources.
 - e) In case of the Production Sharing Agreement, create a Coordination Committee on an equal footing with the Investor, in order to insure supervision and management of commercial and economic aspects of oil and gas operations and their implementation. Function of the Coordination Committee shall include, but not limited to, approval of work programs, budgets and development plans, and control of their implementation.
 - f) to carry out all other functions which may be imposed on him by Decree of the President of Georgia or legislation.
3. NOC is entitled:
 - a) to conclude Agreements with third parties, on its own behalf or through affiliated companies;
 - b) to create affiliated companies and participate in agreements under the Civil Code of Georgia together with other companies and entities; correspondingly the NOC is entitled to purchase, own, sell and transfer its share; and
 - c) to participate in cooperative and partnership agreements with third parties in/outside of Georgia.

Article 10. Procedures for Granting to the Investor Rights on Exploration and Production of Oil and Gas Resources

1. An Agreement granting the Investor rights for exploitation of Oil and Gas Resources and Subsoil usage in a specific Area shall be concluded between the State and only the Investor, who won a tender or auction conducted by the State Agency for Regulation of Oil and Gas Resources. Terms and conditions of the tender or auction shall be incorporated into the provisions of the Agreement and be identically reflected in the Agreement and the License for Usage of Oil and Gas Resources issued in accordance with this Law.
2. The terms and conditions for tenders or auctions shall be defined by the State Agency for Regulation of Oil and Gas Resources and registers them at the Ministry of Justice of Georgia prior to 1 month from announcement of tender or auction.
3. In case if any other minerals are discovered on any Area selected for auction or tender, the Agency shall make the final decision regarding announcement of tender, in compliance with the Ministry of Environment and Natural Resources (if necessary, is compliance with other interested state bodies)
4. Any Investor willing to participate in a tender or auction announced by the State Agency for Regulation of Oil and Gas Resources shall submit the following information to the Agency:
 - a) Forms and parameters on exploration and/or production of Oil and Gas;
 - b) Applicant's address and its business contacts with industrial and financial partners;
 - c) Information about the Applicant's owners and management staff;
 - d) Applicant's financial conditions and possible financial resources for Oil and Gas exploration and /or production operations;
 - e) Applicant's technical and technological capacities; also where feasible technical and technological capacities of the Applicant's proposed contractors;
 - f) Applicant's business experience, and the list of those countries where the Applicant has worked over the past five years;
 - g) Applicant's proposal regarding the optimal way on performance of Oil and Gas exploration and/or production operations on the area.
 - h) A guarantee to provide the State Agency for Regulation of Oil and Gas Resources with all information in respect of performance of Oil and Gas operations;
 - i) Where relevant, a preliminary consent from any private land owner for the use of his land for Oil and Gas operations by the Investor and lease conditions; if an applicant is unable to obtain a preliminary consent from a relevant land owner he shall present information regarding location and parameters of the land, and nature of difficulties encountered in the process of preliminary negotiations and detailed contract offered to the land owner.

5. In case of a tender:

- Winner is deemed to be the Applicant who has met the tender requirements and has provided economically technically the most acceptable bid. Negotiations on the basis of the terms and conditions of the tender invitation between the Agency and the winner shall commence within one month of the date of winning aimed at conclusion of Agreement.
- If there is only one bid, the Agency may annul the tender.
- If several Applicants meet equally the requirements of the tender, an auction shall be held between the Applicants.
- If within six months from the date of commencement of negotiations an Agreement is not concluded between the Agency and the winner, the tender results shall be deemed annulled.
- If no applicants satisfy the tender requirements the Agency shall announce the tender annulled.

6. In case of an auction:

- The Applicant who has met the auction terms and conditions and offers the highest bid to the state shall win the auction. Within one month of the date of winning, under auction terms, negotiation shall between the Agency and the winner aimed at conclusion of Agreement.
- If there are no bids then the Agency shall declare the auction canceled.

7. The Applicants shall pay a fee, established by the Agency, for participation in auction or tender which shall is not refundable.

CHAPTER III. OIL AND GAS AGREEMENTS

Peculiarities of Usage of Oil and Gas Resources

Article 11. Agreements

Main forms of Agreements along with other forms of Oil and Gas Agreements are as follows:

- a) Production Sharing Agreement;
- b) Risk Service Agreement;
- c) Service Agreement; and,

2. The Agency is entitled to use model form of Agreements, envisaged in paragraph 1 of this Article.

Article 12. General Terms for Any Oil and Gas Agreement

An agreement made between the State Agency for Regulation of Oil and Gas Resources and Investor shall comprise as follows:

- Division of Agreement terms into periods for exploration and production;
- Agreed minimal compulsory work (seismic works, drilling of wells etc.) and costs for these works;
- Conditions for covering expenses and production sharing;
- A rule of market price determination for oil and gas;
- Ownership right on oil and gas;
- Entrepreneur status, functions and obligation of operating company created for performance of oil and gas operations;
- Bonus determination, terms of payment of bonuses and other taxes;
- Terms and rules for elaboration and funding of oil and gas exploration and assessment projects, general and annual work programs;
- Minimal compulsory exploratory and assessment works and rules for their revision;
- Obligations to relinquish territory;
- Rules and terms for elaboration and funding of oil and gas deposit arrangement and development projects and/or technological schemes and general and annual work programs;
- Agreed amounts of oil and gas production that will be specified later in compliance with the approved technological schemes or projects, obligations on minimal compulsory works on field arrangement and terms on commencement of oil production, well exploitation, and other operations;
- Obligation on usage of associated gas;
- Terms for transportation of raw materials;
- Peculiarities of field development;
- Ownership rights on property created and used for oil and gas production;
- Ownership right on geological information received (obtained) while subsoil usage;
- Methods and amounts of sub-surface disposal on industrial wastes, formation water and sewerage; terms of performance of such works;

- Obligations of environmental protection and safety measures;
 - Rules and terms of using the general infrastructure;
 - Control mechanism on implementation of License and Agreement provisions;
 - Terms on performance of liquidation works;
 - Terms of insurance;
 - Obligations under Force Major;
 - Rules of dispute settlements;
 - Rules of making record regarding geological works;
 - Rules for calculation of oil and gas reserves; and recording of amount and qualities of oil and gas produced, remained in subsoil and lost irrecoverably;
 - Peculiarities of accounting procedure under the current legislation;
 - Agreement may envisage other provisions, which do not contradict the current legislation and are determined considering peculiarities of specific works planned for performance;
2. Amendments to Agreement shall be made following to written consent from the Parties, provided these amendments do not contradict Agreement and relevant License provisions. In case if amendments to Agreement contradict Agreement and/or License provisions, then consent of the Agency is required.
 3. If following to adoption of this Law, changes or terms are determined by legislative or normative acts, which deteriorate economic conditions of Person performing oil and gas operations, then amendments may be made to Agreement, and afterwards Person shall receive a relevant compensation in order to ensure against deterioration of economic conditions of Person under Agreement. This provision does not extend upon requirements on environmental protection, protection of places of cultural importance and safety measures.
 4. Following to payment of taxes under Georgian legislation, Produced Oil and Gas belong to State and Investor under Agreement.

Article 13. Production Sharing Agreement

1. This Law shall regulate issues related to the conclusion, implementation, and termination of Production Sharing Agreement, responsibilities of Parties, and other provisions.
2. Relations arising from the conclusion implementation and termination of Production Sharing Agreement, and activities which are not regulated by this Law or not specified in Agreement shall be conducted in accordance with Georgian legislation.

3. If Investor is an association of legal entities (Consortium), which is not a legal entity, then each member of the Consortium shall have sole (joint and separate) rights and responsibilities under Production Sharing Agreement. Production Sharing Agreement shall be made with a designated member of the Consortium, which is granted relevant rights.
4. The License for Usage of Oil and Gas Resources on the Area specified in Production Sharing Agreement shall be issued automatically by the Agency within thirty days from conclusion of the Agreement. Such License shall confirm granting to the Investor of the exclusive rights on subsoil usage and performance of Oil and Gas Operations for implementation of Production Sharing Agreement. Provisions of the License for usage of oil and gas resources shall be identical to provisions stipulated in Production Sharing Agreement. Geological and/or mining allotment shall be granted together with the License, provisions of the License shall be identical to provisions stipulated in Production Sharing Agreement.
5. Production Sharing Agreement shall include as follows:
 - a) The principles, rules and procedures for reimbursement by Investor of his costs and expenses, incurred for Oil and Gas Operations i.e. determination of costs and expenses which shall be reimbursed from Produced Oil and Gas as Investor's Cost Recovery Oil and Gas;
 - b) The amount of State Cost Recovery Oil and Gas;
 - c) The amount of Base Line Oil and Gas;
 - d) Rules and procedure of distribution of Profit Oil and Gas between Investor and State;
 - e) Rules and procedures for payment of Subsoil Usage Tax based on amount of Oil and Gas produced from the Area. These rules shall comprise a provision on compulsory payment of Subsoil Usage Tax to the State prior to recovery of Cost Recovery Oil and Gas and Base Line Oil and Gas or allocation of Profit Oil and Gas.
 - f) The Investor's right to freely export his share of the Cost Recovery Oil and Gas and Profit Oil and Gas from Georgia, without any hindrances and by zero rate of VAT, if it is not otherwise provided in Agreement.
 - g) Taxes payable by Investor or by Operating Company, on behalf of and/or instructed by Investor, that cover following taxes under Georgian Legislation:
 - ▶ Profit Tax of Georgia at rate in force at the moment of signing Agreement. This rate shall be effective for the duration of Agreement;
 - ▶ Tax on Usage of Natural Resources at rate in force at the moment of signing Agreement. This rate shall be effective for the duration of the Agreement. Mineral Usage Tax shall be allowed as a deduction for purposes of calculating liability to Profits Tax;

- ▶ Land Tax at rate in force at the moment of signing Agreement. This rate shall be effective for the duration of Agreement. Land Tax shall be subject to deduction for purposes of calculating liability to Profit Tax;
- ▶ Tax on Entrepreneurial Activity at rate in force at the moment of signing Agreement. This rate shall be effective for the duration of Agreement. Tax on Entrepreneurial Activity shall be allowed as a deduction for purposes of calculating liability to Profit Tax;
- ▶ Taxes to relevant state funds for social and medical insurance;
- ▶ License fees and other levies and bonuses under Georgian Legislation, License and Agreement.
- ▶ Customs Duties and VAT, if equipment, transportation means, spare parts and material necessary for the conduct of Oil and Gas Operations under the agreed project which were imported into Georgia by the Investor or Operator Company and were exempted from Customs Duties and VAT hereunder, are sold, disposed of or used for other purposes;
- ▶ VAT in case if the Investor sells its share of oil and gas on the territory of Georgian customs.

i) Other tax obligations of the parties to the Agreement which include the following:

1. Import to and export from the customs territory of Georgia of the equipment, transportation means, spare parts and materials necessary for the conduct of Oil and Gas Operations under the Agreement and the agreed project are exempt from customs Duties and VAT and other similar taxes and levies.
2. Expatriates and their family members shall have the right to import to and re-export from Georgia personal effects and household goods free of tax. If any of such property is sold or otherwise disposed in Georgia, customs fees and other taxes shall be paid in accordance with Georgian Legislation.
3. Agreement may include a term under which a party to the Agreement which receives state's share of Profit Oil and Gas undertakes liabilities, wholly or partially, of the other Party(s) (Investor(s)) to Profit Tax and Tax on Usage of Natural Resources. Where such a term exists the Investor's liability will be deemed to have been settled and the State shall have no further recourse to the Investor in this regard. Correspondingly, Georgian tax authorities shall annually issue to the Investor tax receipts evidencing the payments.
4. Oil and Gas Operations performed by Investor and Operating Company under agreement are exempt from all other taxes.

j) Following rules of financial and accounting procedures:

- ▶ in conducting Oil and Gas Operations under Agreement Investor (or the Operator under Investor's instruction) shall record financial and economic activities and maintain accounts. Financial and accounting procedures shall be carried out in accordance with international standards;
- ▶ book-keeping and accounting shall be conducted in national currency and US dollars;
- ▶ in the Model Agreement and in an Annex to the Agreement shall envisage details of recoverable costs related to Oil and Gas Operations; procedures for recording, calculation and reporting on production; also procedures for calculation of Tax on Usage of Mineral Resources, Cost Recovery, sharing of Profit Oil and Gas, and Profit Tax;
- ▶ Agreements shall envisage detailed provisions relating to the compulsory work program and minimum expenditure of Investor by time and the maximum possible expenditure incurred outside of Georgia.

k) Banking and rules of foreign currency exchange which include the following:

- ▶ for the purposes of conducting the activities set forth in Agreement, Investor, Affiliate Company and Operator Company are entitled to open, maintain and use bank account in foreign currency in Georgia and outside of Georgia, and use local currency accounts inside of Georgia;
- ▶ Investor, Affiliate Company and Operator Company are authorized to receive and maintain on their bank accounts, income received from realization of their share of production, to conduct any type of accounting associated with the performance of the activities under Agreement and use the funds existing on the account without any limits;

l) Stabilization provisions, under which the State may include in Production Sharing Agreement a provision stating that, in the event of changes in Georgian legislation (except for the changes regarding environmental protection, protection of places of cultural significance and security requirements) that will adversely effect the Investor's taxation obligations, the State agrees to amend Production Sharing Agreement so as to allow the Investor to retain the same economic conditions, that he had prior to such changes.

m) Purposes, functions and obligation of Operating Company are as follows:

- 1) Perform functions of operator in the course of oil and gas operations (including employment of and paying salaries to personnel) on behalf of and according to instruction of Investor, which shall be in compliance with Work Program and Budget and Development Plans. Investor takes full responsibilities on any activities performed by the Operating Company, for implementation of such Programs and Plans;
- 2) Carry out Oil and Gas Operations under the principles of non-commercial company, owning no assets, in accordance with international standards accepted in oil industry;

- 3) As per approved Work Program and Budget and Investor's instructions, is responsible for purchase of equipment and supplementary materials; participates, on behalf of the Investor, in sub-contracts and Service Contracts made with companies providing services related to oil land gas operations and whole-sale companies.
- 4) Prepare and submit to Coordination Committee for approval program for personnel training and annual budget; fulfil the approved program and budget.
- 5) Maintain complete and accurate accounting of costs and expenses related to Oil and Gas Operations, under this law and Agreement;
- 6) Organize Coordination Committee Sessions and submit to Coordination Committee information regarding issues, reviewed and approved by him;
- 7) Upon Investor's request, assist the him in presentation to Coordination Committee of reports on Oil and Gas Operations performed under Agreement,.
- 8) Provide all Parties to Agreement with information and reports on Oil and Gas Operations, requested by Parties.

Article 14. Risk Service Agreement

Risk Service Agreement shall contain the following main terms:

- a) Investor shall pay all costs relating to geological study and exploration of oil and gas and undertake risk in the event of failure;
- b) in the event of successful exploration of oil and gas resources decision on producing of oil and gas and conducting other oil and gas operations shall be made by the Agency;
- c) Investor undertakes liabilities from the State to reimburse spent capital at loan percentage rate and VAT for taking risk regarding oil and gas exploration, provided such provision is envisaged in Agreement
- d) recovery of the Investor's expenses shall be made by monetary means. In accordance with decision of the Agency, Investor's expenses may be covered wholly or partially by oil and gas; or may be granted the right to purchase produced Oil and Gas at world Market Price.

Article 15. Service Agreement

1. Service Agreement may be concluded for certain types of oil and gas activities, or for complex of different activities (Oil and Gas exploration, exploitation of fields, well workovers, restoration of non-operating well fund, equipment of oil and gas fields, supply of new technology and equipment, marketing services, etc).

2. Party to Service Agreement shall be a Person, which is granted License for Usage of Oil and Gas Resources;
3. The other Party to the Service Agreement is not entitled to deposit capital and does not take risk in case of failure;
4. Recovery of costs incurred under Service Agreement shall be made by monetary means at current World Market prices for lease activities and service. In certain cases, under decision of the Agency the service provided may be recovered partially or wholly, by oil and gas. The other Party to Agreement may be entitled to purchase a part of the production obtained as a result of his service at current World Market Prices.

Article 16. Term of Agreements and Licenses for Usage of Oil and Gas Resources

1. The term of an Agreement and respective License for Usage of Oil and Gas Resources shall not exceed twenty-five (25) years. Parties can divided the Agreement period into an exploration period and a production period.
2. Extension of Agreement term can be initiated by the Investor. The extended term shall be efficient and necessary to ensure economic and rational production, usage and protection of oil and gas. In case if following to expiration of 25 year term, it is necessary to extend the term, Agreement and License may only be extended for five years.
3. Terms and rules of extension of Agreement term are determined by agreement between Parties. In case of extension of Agreement term, License for Usage of Oil and Gas Resources is automatically extended.
4. Agreement and License terms are not effective during force-major as stipulated in this Law. Misconduct or delay of Agreement terms and conditions created by force-major together with the term which will be needed to cover the loss caused by this delay will be added to the term determined by the Agreement.

Article 17. Termination of Agreement and Oil and Gas Operations

1. Investor and the Agency are authorized to terminate the Oil and Gas Agreement only according to procedure set out in the Agreement. In case of termination of the Agreement parties are not relieved from their obligations and liabilities, which are not performed at the moment when decision regarding termination is made.
2. In case of termination of Agreement Investor is obliged to leave the Area in conditions which meets the requirements of the laws of Georgia on mining sanitation, sub-soil usage and environmental protection and established procedure.
3. Investor is liability on timely termination of Oil and Gas Operations under conditions set out in Georgian Legislation.

4. In order to avoid expected loss caused by such abandonment of the Area and utilized facilities Agreement shall include a provision for the establishment of a special Escrow Account. Investor is obliged to have this fund established at the moment of signing Agreement or make contributions to this Account during the lifetime of the Agreement, which shall be envisaged in the Agreement. Amount of the account shall exceed estimated abandonment costs at appropriate stage. Contributions shall be defined as recoverable costs. If the contributions actually exceed the sums required to meet the Abandonment obligation the surplus shall constitute Profit Oil. Contributions to the Escrow Account shall be allowed as deductions for purpose of calculation of Profit Tax.

Article 18. Usage of Produced Natural Gas

1. Open flaring of a natural gas without just cause and proper justifications shall be deemed as waste of natural resources and is hereby restricted.
2. The Agency may grant to Investor a waiver from restrictions set out in above paragraph 1, in case of:
 - well drilling, testing or maintenance,
 - breakage of pipes or other equipment,
 - force-major conditions,

Article 19. Licenses for Usage of Oil and Gas Resources

- (a) A License on Usage of Oil and Gas Resources shall be issued by the State Agency for Regulation of Oil and Gas Resources on the basis of Agreement, within one month from signing of Agreement. Licenses terms and conditions shall be identical to Agreement terms and conditions.
2. Investor shall pay a license fee, which shall comprise two elements:
 - (i) Participation Fee - for reimbursement of costs and expenses incurred by the Agency respect of the tender or auction; and
 - (ii) Oil and Gas Mineral Usage Fee - amount of which shall be determined by the Agency.
3. Each Applicant shall pay Participation Fee for participation in tender or auction and afterwards the Agency shall provide him with a relevant certificate at least ten days prior to the closing date of the tender or auction. The winner of the tender or auction shall also pay Oil and Gas Mineral Usage Fee. The procedure for payment of Mineral Usage Fee shall be determined by the Agency prior to the tender or auction, which shall be stated in rules of the tender or auction.
4. The amount raised by the License fees shall be allocated by the Ministry of Finance from State Budget to the Agency for fulfillment of its functions.

5. The License fee shall not be recovered by Cost Recovery Oil.

Article 20. Land Allotment

1. On the basis of License for Usage of Oil and Gas Resources and relevant Agreement issued by the Agency, the Agency shall simultaneously issue a permit on usage of Land Allotment to Investor prepared by the State Department on Land management of Georgia.
2. In the event the land required for Oil and Gas Operations belongs to an individual or legal entity (which is not the State), then Investor prior to signing Agreement shall conclude an agreement with the landowner for the exclusive usage of the required land for the entire period of the Agreement. Investor shall submit such agreement to the Agency for concluding Agreement in accordance with rules established by the Agency.
3. The Agency is invested with the right to appeal to court for Eminent Domain. The Agency shall prepare and adopt rules and normative acts that shall govern the exercise of the power of Eminent Domain.
4. In case Investor and the landowner fail to reach agreement on land usage for certain period for Oil and Gas Operations, then Investor may apply to the Agency for commencement of Eminent Domain proceedings. The Agency makes decisions regarding Investor's appeal. In case if Investor's request is satisfied, following to taking the relevant application to court, Investor is obliged to cover all costs related to Eminent Domain proceedings, including compensation payment established by the court, which shall be paid to landowner.
5. All interested parties have the right to participate in public consideration of Eminent Domain proceedings, present arguments, witnesses and evidence, and to refute the arguments of others, cross-examine witnesses, and challenge evidence;

Article 21. Transportation of Produced Oil and Gas

1. Construction, operation and usage of non-trunk pipelines and building connected with Oil and Gas Operations shall be carried out in accordance with Georgia Legislation and Agreements.
2. Investor is entitled to hold negotiations regarding utilization of free volumes of trunk pipelines owned by the State on chargeable basis.
3. Under Georgian Legislation, Investor is entitled to build and use a trunk pipeline in order to get connected with the existing trunk pipeline for transportation of his share of Oil and Gas under Agreement.

Article 22. Transfer of Rights and Obligations, Alienation of Investor's Share

1. Investor has the right to transfer, wholly or partially, its rights and obligations under Agreement and License for Usage of Oil and Gas Resources to an Affiliated Company, without prior consent of the Agency. In this case Investor remains responsible for fulfillment

of transferred rights and obligations by the Affiliated Company. The Agency shall be informed in writing, within terms provided in Agreement, on transfer of rights and obligations under Agreement and License.

2. Upon receipt of consent in writing from the Agency Investor shall have the right to transfer, wholly or partially its rights and obligations under Agreement or License for Usage of Oil and Gas Resources to a Person (Third Party) provided that the Person has sufficient financial and technical resources and experience to conduct Oil and Gas Operations necessary to perform the transferred obligations. Investor shall submit a written notice of a proposed transfer and all necessary supporting documentation to the Agency; within thirty (30) days of the receipt of such notice the Agency shall notify Investor in writing on its consent or refusal regarding the proposed transfer, providing reasons in case of refusal. Decision of the Agency shall not be unreasonably withheld. In case of transfer of rights and obligations, wholly or partially to Third Party, Investor shall not be responsible for, nor benefit from, transferred rights and obligations.
3. The Investor has the right to transfer to any Person (Third Party), either wholly or partially, the rights and obligations under Risk Service Agreement or Services Agreement only with the prior written consent of the Agency. The Person to whom the rights and obligations have been transferred shall inform the Agency in writing on transfer of rights and obligations. Investor shall submit a written notice of the proposed transfer and supporting documentation to the Agency. Within thirty (30) days of the receipt of such notice the Agency shall notify in writing the Investor on its consent or refusal regarding the proposed. In case of transfer of rights and obligations, wholly or partially to Third Party, Investor shall not be responsible for, nor benefit from, transferred rights and obligations.
4. Transfer of Investor's rights and obligations to Third Party shall be executed in writing. This document shall be an integral part of Agreement and License for Usage of Oil and Gas Resources and shall be issued automatically in case of re-issue of License. License shall be re-issued within thirty (30) days of execution of such document. Contents and form of such document shall be established by the Agency.
5. With the prior written consent of the Agency Investor may use his rights under Agreement and License for Usage of Oil and Gas Resources as security to obtain funds necessary to finance the fulfillment of its obligations under the Agreement.
6. Under Agreement and License for Usage of Oil and Gas Resources, transfer of rights and obligations to an Affiliated Company is not subject to any tax.
7. In the event of the transfer of rights and obligations under an Agreement and License to Third Party, Investor shall pay all costs associated with such transfer incurred by the Agency and any tax or charge due on such transfer under Georgian Legislation.

Article 23. Joint Development of Field

1. Joint Development of Field means co-ordination of production operations between two or more Investors, in one field, which extends within boundaries of each Investors' Area.
2. In the event if joint development of Field is required, Investors may conclude a written agreement on joint development of Field. Project for joint development of Field (Technological scheme) shall be agreed with the Agency.
3. In the event if Investors are unable to reach agreement on joint development of Field, the issue shall be settled by the Agency, on the basis Independent Experts' conclusions. Decision of the Agency can be appealed at the court according to established rules. Expenses for expertise shall be covered by Investors in proportion to their potential share of Oil and Gas.

Article 24. Rights, Obligations and Liabilities of the Investor.

The Investor shall have the following obligations during the Oil and Gas Agreement term:

1. to select the most efficient methods and technologies while carrying out Oil and Gas Operations based on accepted international standards of Oil and Gas Industry;
2. to use Area only for the purposes set out in License for Usage of Oil and Gas Resources and Agreement;
3. to follow relevant legislation, environmental and mining protection and security requirements while performance of Oil and Gas Operations;
4. not to prevent other persons from moving freely on the Area, or from proper usage of equipment and communication means or from performance any other works including exploration, development and production of any natural resources other than Oil and Gas, in case any special safety measures are not required for such operations, provided the operations do not prevent performance of Oil and Gas Operations;
5. to observe technological plans and projects while performance of Oil and Gas Operations, under established rules, which ensure safety of personnel and society;
6. to give preference to equipment, materials and products made in Georgia if their ecological and technological properties, prices, operating parameters and terms of supply are competitive;
7. to give preference to services of Georgian enterprises and while performance of Oil and Gas Operations including transportation by air, railway, sea, etc. provided that such services are competitive in terms of price, efficiency and quality;
8. to give preference to Georgian employees in equal conditions while performing Oil and Gas Operations, not to employ persons without relevant experience;
9. to submit work program and full information on implementation of project to the Agency;

10. to disclose information regarding Oil and Gas Operation to a third party, if necessary, only with prior consent of Agreement Parties, unless otherwise provided in Oil and Gas Agreement;
11. to submit to the Agency geological and geophysical information together with results of works performed on Area; in case if other minerals are discovered in Area, to submit written notice regarding the discovery to the Agency and the Ministry of Environmental Protection within 30 days;
12. to pay all taxes and other compulsory fees in due time frame;
13. to participate in development of social infrastructure in accordance with Agreement;
14. to protect places of historical and cultural importance of Georgia;
15. to restore at his own expenses the land and other area damaged due to performance or suspension prior to expiry of Agreement term or termination of Oil and Gas Operations, and bring them to the shape suitable for their further utilization under Georgian legislation;
16. to receive and retain abroad income derived from sale of his Share of Oil and Gas exported from Georgia, provided that compulsory taxes are paid to the State;
17. If Investor's sells his Share of Oil and Gas in Georgia, to convert Georgian currency into freely convertible foreign currency at free market rates, and to dispose such financial means, including money transfer to foreign countries without restriction or other charge, provided that compulsory taxes are paid to the State.

Article 25. Confidentiality of Information

1. Initial geological, geophysical, geo-chemical information, data on their interpretation, operational data, mining rock samples including earth crest and rock fluid obtained while conducting activities provided in Agreement by Investor are the State property. Investor has a right to use, freely and free of charge, the above information, data and samples in and outside of Georgia only for performance of Oil and Gas Operations, provided that confidentiality of the information is observed.
2. Investor is entitles to disclose the confidential information regarding implementation of Agreement to Affiliated Company, any professional advisor, bank or financial body, from which Investor tries to attract funds, provided that confidentiality of the information is observed .
3. After a certain period of time the State may disclose confidential information to a third party.

CHAPTER IV. TRANSITIONAL AND FINAL PROVISIONS

Article 26. Existing Oil and Gas Agreements

1. This Law recognizes legality of existing Agreements regarding provisions hereunder.
2. Under existing agreements, all rights and responsibilities of the State Management of sovereign and regulatory nature (except those of operational and commercial nature) shall be transferred to the State Agency for Regulation of Oil and Gas Resources, following to its foundation.

Article 27. Stabilization of the Relations Regulated by the Law and State Guarantees on Investor's Rights

1. The State ensures protection of Investors' rights under Georgian Legislation. Within 25 years from the effective date of the Law, amendments to Georgian Legislation, which adversely affect investment conditions, shall not apply to existing Oil and Gas Agreements.
2. The provision of above paragraph 1 shall also apply to normative acts adopted by Executive Body of Georgia, if such acts limit the Investor's property rights obtained and implemented hereunder.
3. Governmental Bodies and Authorities have no right to create any obstacles for Investor in execution of the rights granted under Oil and Gas Agreement, except for the cases when Investor violates Georgian Legislation or provisions of Oil and Gas Agreement.

Article 28. Business Relationships

Terms of reimbursement, schedule of working days and holidays, security and social insurance of citizens of Georgia employed by Investor shall be determined by Georgia Legislation.

Article 29. State Immunity

Agreements made with Investors under Georgian Legislation, may envisage a provision on waiver of court immunity by the State, in case of dispute.

Article 30. Dispute Resolution

1. Disputes between Parties to Agreement, related to land or other real property shall be resolved only by a court of Georgian, according to location of such property.
2. Disputes relating to interpretation, legal status, fulfillment of the terms and conditions, termination or suspension of Agreement shall be resolved by a court of Georgian. If Investor is not a resident of Georgia or is not a legal entity registered in Georgia, then disputes related to such Investor may be resolved by international arbitration under Agreement.

Article 32. Effective Date

This Law shall enter into force at the date of publication.

Eduard Shevardnadze

President of Georgia

Tbilisi

April 16, 1999

Law of Georgia

on Amendments and Additions to Certain Legislative Acts of Georgia

The Parliament of Georgia resolves:

1. The following amendments and additions shall be made to “Tax Code of Georgia” (Parliamentary Bulletin #32, 1997):
 - a) Add to sub-paragraph 27) of paragraph I of Chapter 101: “Also import of personal effects and household goods, which belong to expatriates or their family members, participating in oil and/or gas exploration and/or production.”
 - b) Add to sub-paragraph 33) of paragraph I of Chapter 101: “import of equipment, transportation means, spare parts and materials intended for Oil and Gas Operations (activities) under the Georgian Law “On Oil and Gas”.”
 - c) Add paragraph h) to Article 143: “Property used for oil and gas operations under the Georgian Law “On Oil and Gas”.”
 - d) Add paragraph d) to Article 187: “Income of foreign citizens engaged in Diplomatic and Consulting entities, and in oil and/or gas exploration and/or production operations”
 - e) Amend subparagraph b) of Chapter 194 as follows: “Amount of the Subsoil Usage Tax, according to tax limits given in above sub-paragraph a), considering the main types of useful minerals, their qualities and conditions of expansion, is determined by the Interdepartmental Experts Council for Licensing of Mineral Usage. The Tax amount shall be stipulated in the Subsoil Usage License, except for the cases of oil and gas mineral usage, if specific amount of Subsoil Usage Tax is determined by the State Agency for Regulation of Oil and Gas Resources, within limits given in sub-paragraph a) of paragraph I of this Chapter and the Tax amount is stipulated in the License for Usage of Oil and Gas Resources issued under the Georgian Law “On Oil and Gas”. The Tax amount is determined in percentage according to price of produced mineral resources (without VAT).
 - f) Add section 30 to Article 273: “Profit gained from Oil and Gas Operations (activities) performed under the Georgian Law “On Oil and Gas”, entrepreneur activities and land area granted for such activities are subject to taxation according to tax rates in force at the moment of signing Oil and Gas Agreement with the state”.
2. The following additions shall be made to the Georgian Law “On Georgian Traffic Fund” (Parliamentary Bulletin #31-33, 1995):
 - a) Add paragraph 4) to Article 4: “Oil and Gas Operations (activities) performed under the Georgian Law “On Oil and Gas” are exempted from the tax on utilization of general traffic roads.”
3. The following amendments and additions shall be made to the Georgian Law “on Customs Tariff and Tax” (Parliamentary Bulletin #13-14, 1998)
 - a) Add paragraph p) to Chapter 18: “import of equipment, transportation means, spare parts and materials intended for oil and gas operations, under the Georgian Law “On Oil and Gas”.
 - b) Add to sub-paragraph h) of Chapter 18: “also import of personal effects and household goods, which belong to expatriates or their family members, participating in oil and/or gas exploration and/or production under Georgian Law “On Oil and Gas”.

4. The following amendments and additions shall be made to the Georgian Law “On Subsoil” (Parliamentary Bulletin #6, 1997):
 - a) Add paragraph 2) to Chapter I and correspondingly change the numeration:
Operations connected to usage of oil and gas resource in Georgia are regulated by Georgian Law “On Oil and Gas”.
5. This Law shall enter into force at the date of publication.