

**REPUBLIC OF ALBANIA
THE PEOPLE'S ASSEMBLY**

THE PETROLEUM LAW
(EXPLORATION AND PRODUCTION)

Nr. 7746 date 28.7.1993

Whereas is the Policy of the Republic of Albania:

- (i) to encourage exploration for and production of oil and natural gas;
- (ii) to rehabilitate existing facilities and enhance the recovery of oil and gas from already established reserves;
- (iii) to ensure that the development of these non-renewable resources takes place in accordance with national interests, in an orderly way, in accordance with applicable international standards;
- (iv) to ensure that petroleum operations do not endanger human life or cause damage to the environment;

On the basis of Article 16 of Law No. 7491 of 29.4.1991 "On the Principal Constitutional Provisions", on the proposal of the Council of Ministers

**THE PEOPLE'S ASSEMBLY
OF THE REPUBLIC OF ALBANIA**

Decided:

Article 1
Citation

This Law is cited as the Petroleum (Exploration and Production) Law, 1993.

Article 2
Definitions

In this Law, unless the context otherwise requires;

"Albania" means the Republic of Albania;

"Albpetrol" means the Albanian Petroleum Corporation created by the Statute on Albpetrol 1993;

"Contract Area" means the area within which the Contractor is authorized to explore for, develop and produce petroleum under a Petroleum Agreement;

"Contractor" means any person or persons with whom the Ministry enters into a Petroleum Agreement, and may include Albpetrol or any other agency of the Government;

"Crude Oil" means crude mineral oil, asphalt, ozokerite and all kinds of hydrocarbons and bitumen, both in solid and liquid form in their natural state or obtained from Natural Gas by condensation or extraction, but does not include coal, or any substance which can be extracted from coal;

"Development" means the building and installation of facilities for the production of petroleum and the drilling of development wells;

"Development Plan" means a plan for the Development and Production of Petroleum discovered on a Contract Area prepared in accordance with the requirements of Section 6 of this Law and the relevant provisions of the Petroleum Agreement covering that Area.

"Discovery" means a discovery of petroleum encountered in the first well drilled on a structure which can be recovered at the surface in a flow measurable by conventional petroleum industry testing measures;

"Exploration" means the search for petroleum by geological, geophysical and other means and includes drilling of exploration and appraisal wells;

"Good Oilfield Practices" means all those things that are generally accepted in the international petroleum industry as good, safe, economical and efficient in exploring for and producing petroleum";

"Ministry" means the Ministry of Industry, Natural Resources and Energy;

"Natural Gas" means all hydrocarbons which are in a gaseous state under normal atmospheric conditions, including wet gas, dry gas, casing head gas and residue gas remaining after the extraction or separation of liquid hydrocarbons from wet gas, and non-hydrocarbon gas produced in association with liquid or gaseous hydrocarbons;

"Person" means a natural person, partnership, body corporate or other association;

"Petroleum" means the crude oil or natural gas;

"Petroleum Agreement" means an agreement, entered into by the Ministry pursuant to subsection (1), Section 5 of this Law authorizing the Contractor to conduct operations in the Contract Area

and may take the form of a Production Sharing Agreement or any other form agreed between the Ministry and the Contractor which is not inconsistent with this Law;

"Petroleum Operations" means all or any of the operations related to the exploration for development, extraction, production, separation and treatment, storage and transportation and sale or disposal of petroleum up to the point of export, or to the agreed delivery point in Albania or the point of entry into a refinery and includes natural gas processing operations but does not include petroleum refining operations.

"Production" means the extraction and disposal of petroleum;

"Production Sharing Agreement" means a Petroleum Agreement which provides for the recovery of Contract Costs from Petroleum produced in the Contract Area or from a proportionate part thereof, and for the division between the State and the Contractor of the balance of petroleum remaining after the recovery of Contract Costs in accordance with a scale or formula specified in the Petroleum Agreement;

"Reservoir" means a discrete accumulation of Petroleum;

Article 3

Property in Petroleum

All Petroleum Deposits existing in their natural condition in strata lying within the jurisdiction of Albania, including maritime areas, are the exclusive property of the Albanian State represented by the appropriate Ministry and all such resources are to be used for the benefit of the people of Albania.

Article 4

Petroleum Operations

Subject to section 12 (2) and save in the case of reconnaissance operations carried out under and in accordance with a Reconnaissance Permit issued pursuant to Article 8, no person shall explore for, develop or produce in Albania unless authorized to do so by the Ministry under the terms and conditions of a Petroleum Agreement.

Article 5

Petroleum Agreements

- (1) The Ministry may subject to paragraph 2 of this Article enter into a Petroleum Agreement with any Person authorizing that Person on the terms and conditions set out therein to explore for, develop and produce Petroleum in the Contract Area.
- (2) The Ministry shall not enter into a Petroleum Agreement with any Person unless the Ministry is satisfied that the Person with whom the Petroleum Agreement is to be made, has or can acquire the financial resources and technical competence required to discharge the obligations of the Contractor under the Petroleum Agreement.

- (3) A Petroleum Agreement may:
- (a) Grant to a Contractor on terms and conditions specified therein:
 - (i) The exclusive right to conduct exploration within the Contract Area for a period which save for an additional time required to complete work undertaken to appraise a Discovery shall not in the aggregate exceed 5 years unless the Contractor has satisfied the Ministry that there are special circumstances which require a longer period when a period not exceeding in the aggregate seven years may be granted;
 - (ii) In accordance with the stipulations of a Development Plan approved by the ministry, the exclusive right for a period not exceeding 25 years to develop and produce reserves of petroleum located in the Contract Area, and to renew that right where and to the extent the Petroleum Agreement so provides:
 - (iii) Subject to the requirement to provide access to excess capacity to third parties on commercial terms, the right to construct, lay and operate pipelines within Albania and subject to the applicable terms of any treaty to which Albania may be a party to connect them with pipelines and facilities in other countries.
 - (b) Grant to the Contractor title to his portion of petroleum produced in the Contract Area at a point as specified in the Petroleum Agreement.
 - (c) Subject to a right of requisition in the event of an emergency and subject to any obligation contained in the Petroleum Agreement to supply or contribute to the supply of the local market, guarantee to the Contractor the right to sell or trade, for export or otherwise, the petroleum to which it has acquired title under the Petroleum Agreement.
 - (d) A Petroleum Agreement to which a Foreign Investor is a party may contain provisions for the purpose of ensuring the stability of the fiscal regime.
 - (e) Subject to such safeguards and reservations as may be set out in the Petroleum Agreement, such Agreement may recognize to Contractor the right to:
 - (i) Subject to remitting funds to Albania to meet Income Tax and other local liabilities as they arise, receive any retain abroad the proceeds of sale in foreign currency of the Petroleum to which it has acquired title under the Petroleum Agreement and dispose of those proceeds as it sees fit.
 - (ii) Remit in convertible foreign exchange profits earned by the Contractor from the sale of Petroleum in Albania.

- (iii) Open and operate foreign bank accounts for the purpose of paying for goods, services and personnel required for the conduct of Petroleum Operations under the Petroleum Agreement.
- (iv) For the purpose of meeting local currency obligations arising out of Petroleum Operations convert foreign currency into local currency at the most favorable rate of exchange available at authorized agencies.
- (f) Where a Foreign Investor is a party to a Petroleum Agreement make provision for the settlement of disputes arising out of or connected with the Agreement by international arbitration.
- (g) Include such other provisions relating to the conduct of Petroleum operations as may appear necessary or desirable.

Article 6

Obligations of the Contractor

Every Petroleum Agreement entered into by the Ministry shall contain in an appropriate form agreed between the parties, undertakings by the Contractor to:

- (a) Carry out Petroleum Operation in compliance with this Law, the legal provisions in effect on the protection of environment and in compliance with the Regulations made hereunder and in accordance with Good Oilfield Practices;
- (b) Report to the Ministry the Discovery of Petroleum in the Contract Area;
- (c) In the event of a commercial Discovery prepare and submit to the Ministry for approval a Development Plan which will:
 - (i) Ensure the efficient, beneficial and timely use of the Petroleum reserves identified by the Contractor;
 - (ii) Provide adequately for the protection of the environment and the welfare of the people located in the area where Petroleum Operations are carried out in conformity with the Agreement;
- (d) Indemnify the State or the Ministry against all claims made by third parties in respect of injury, loss or damage resulting from the conduct of any operation carried out by the Contractor or by any subcontractor.
- (e) Give priority to the employment and training of Albanian nationals as well as to local goods and service in accordance with stipulations to be included in the Development plan to the extent that they are competitive in terms of price and comparable in terms of quality;

Article 7

Authorization for the Contractor

Where a Contractor has entered into a Petroleum Agreement with the Ministry, the State will grant the Contractor or ensure that the Contractor is granted all the permits, license approvals or other lawful authorizations which the Contractor may reasonably require to enable Petroleum Operations to be carried on in accordance with the Petroleum Agreement.

Article 8

Reconnaissance Permits

- (1) The Ministry may grant to any person on terms and conditions set out therein a Reconnaissance Permit authorizing the holder of the Permit to undertake exploration in the area covered by the Permit by means of aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation.
- (2) Unless otherwise specifically provided in the Reconnaissance Permit, a Reconnaissance Permit:
 - (a) Shall expire at the end of the period of two years;
 - (b) Shall be non-exclusive;
 - (c) Shall not authorize the drilling of exploration wells;
 - (d) Shall not confer on the holder of the permit at a preferential right to enter a Petroleum Agreement with the Ministry.

Article 9

Regulations and Model Agreements

- (1) Subject to this Law, the Ministry may make regulations for or with respect for:
 - (a) The registration of Contractors;
 - (b) The manner in which reports, data, information and accounts shall be submitted by the Contractor;
 - (c) Measures relating to conservation of petroleum resources, safety, health, environmental protection and the avoidance of leaks, wastes, pollution and accidents;
 - (d) The division of areas of petroleum potential into numbered areas or blocks;
 - (e) Access to public and private lands in connection with Petroleum Operations and

- (f) Any other matter in respect of which the Ministry considers that Regulations should be made to give effect to this Law.
- (2) The Ministry may from time to time publish model Petroleum Agreements.

Article 10

Access to Land

- (1) Subject to the terms and conditions specified in Regulations made under Section 9.1 (e) a Contractor will be deemed to have been granted under the provisions of the "Law on the Land" the right to enter and use public or private land for the purpose of carrying on Petroleum Operations under the Petroleum Agreement to which the Contractor is a party.
- (2) If the Contractor fails to pay compensation when so required he shall be liable to penalties specified in the appropriate regulations.
- (3) For the purpose of this section, "private land" means land privately owned and lands the subject of a grant, lease or license from the State.

Article 11

Unitization

Where a petroleum reservoir is located partly in one Contract Area and partly in another Contract Area and where it appears to the Ministry that gains in efficiency may be achieved through the joint development and operation of that Reservoir, the Ministry shall have the right to order the Contractors to develop and operate the reservoir jointly under an agreement entered into by them for that purpose.

Article 12

Transitional Provisions and Savings

- (1) In respect of the Agreements listed in the Schedule attached to this Law (the offshore agreements) from the date on which this Law enters into force:
 - (a) each of those Agreements shall be deemed to have been lawfully made by the Ministry under section 5 of this Law and subject to section 1.2 (1) shall continue to be valid and binding in accordance with its terms;
 - (b) each of those Agreements shall be read and construed as though references therein to DPNG (hereinafter to be read as Drejtoria e Pergjithshme e Naftes dhe Gazit) or any successor in title of DPNG were references to the Ministry;
 - (c) without prejudice to any participating share which may hereafter be acquired by any successor in title to DPNG by Agreement with the Contractor and the

Ministry, DPNG and its successors in title shall not be parties to or have any right, title or interest in any of those Agreements.

- (2) In respect of the areas where Albpetrol is carrying on operations for the exploration development and production of Petroleum it will be assumed that the Ministry has entered into an agreement with Albpetrol authorizing Albpetrol to conduct these, operations in compliance with that agreement.

Article 13 **Entry into Force**

- (1) A Petroleum Agreement pursuant to Section 5 of this Law shall be signed by the Minister for Industry, Natural Resources and Energy or by a person authorized by the Minister through an instrument in writing.
- (2) A Petroleum Agreement enters into force after its approval by the Council of Ministers.

Article 14

All legal provisions inconsistent with this Law are repealed.

Article 15

This Law enters into force 15 days after publication in the Official Notebook.

CHAIRMAN

Pjeter Arbnoiri

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Schedule

1. Agreement "On the exploration, development and production of petroleum" between DPNG and Deminex Albania Petroleum GMBH and OMV, by decision of the Council of Ministers, No. 152 dated 20.04.1991.
2. Agreement "On the exploration, development and production of petroleum" between DPNG and Chevron International (Albania) Limited, by decision of the Council of Ministers, No.334 dated 10.9.1991.
3. Agreement "On the exploration, development and production of petroleum" between DPNG and Occidental of Albania Inc., by decision of the Council of Ministers, No.360 dated 21.9.1991.
4. Agreement "On the exploration, development and production of petroleum" between DPNG and AGIP (Overseas) Ltd., by decision of the Council of Ministers, No.376 dated 11.10.1991.
5. Agreement "On the exploration, development and production of petroleum" between DPNG and Hamilton Oil (Albania), by decision of the Council of Ministers, No. 476 dated 23.12.1991.