

# Montenegro: Oil and Gas Explorations, No Profit if Net Gain is Taxed

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The Government should have reduced significantly the period for hydrocarbon explorations and it should not have taxed the net gain achieved by the concessionaries from oil and gas production, but they should have increased the concession fee, Veselin Kovačević, oil and gas explorations expert said.

"The contract envisages an exploration period of four plus three years. For an area of 1,200 square kilometers, this is an extremely long period. The sub-phases, then the duration of works for ZD seismics, as well as of on-field recording, processing of recorded data and, finally, interpretation, are not defined at all in the mandatory work program. The world standard for this kind and scope of works is maximum two years", Kovačević said.

According to him, the work program is designed as if nothing had been done within this area in the previous period, whereas a lot has been done, as he stated, there are even some structures that are completely ready for immediate exploration drilling.

"Such work program brings the explorations in Montenegro back to the beginning. On one part of the block Ulcinj, Jugopetrol implemented the most up-to-date explorations with its partners and they obtained fantastic results, which has been confirmed by all the companies that visited the data room. All this increases the capital costs which have to be returned to the concessionaries (the consortium Eni and Novatek), and this means smaller net profit, and thereby also less revenue for the state", Kovačević said.

Commenting on draft contracts for oil and gas explorations and production, as well as the Joint Operating and Accounting Agreement, he said that this was a typical Norwegian model, with small changes and adjustments to the specificities of the grantor country.

"All concerned contracts should have been preceded, on the basis of expected annual production quotas and the envisaged oil and gas prices, by a study on the assessment of economic benefits for the state, for each year separately, as well as for the entire concession duration period. Croatia has done such study on a similar fiscal formula as in Montenegro. The results were devastating, very small income for the state, which is one of the reasons for placing a moratorium on these activities. The category of net profit as the main source of income for the state is very dangerous, because its determination and maintenance on a solid level is very hard. Particularly if large capital investments are taken into consideration, especially in the phase of developing the field and bringing it to exploitation. Because of the nature, disposition, dimensions and depth of potential gas and oil fields, this phase will be enormously expensive, whereby capital investments will be high", Kovačević emphasized.

He also stressed that the contracts had not defined at all the dynamics and volume of return

of the previous capital investments realized before the start of production.

"This is very important because it may happen that all achieved profit in the initial years goes to the return of past investments (four to seven years). During this time, the profit is minimized, and thereby also the revenue for the state", Kovačević concluded.

According to him, the state should have opted for achieving the majority of its revenue on the basis of ownership in the share of production, i.e. the amount of concession fee, because this is the only thing sure. Net profit is an unstable category and it depends on many factors.

At the beginning of week, the Government sent to the National Assembly draft contracts on oil and gas explorations and production with the Italian-Russian consortium Eni and Novatek. If the National Assembly supports the drafts, they will explore and later produce oil and gas using four blocks. It has been envisaged that the production should last for 20 years.

The value of the guarantee for the first exploration period of four years amounts to 85 million, transmits Serbia-energy.eu