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Energy & Natural Resources - Croatia



First offshore licensing round for Adriatic exploration and production opens

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Exploration history
Licence
Production sharing and fees

On April 2 2014 the long-awaited first offshore licensing round for the exploration and production of hydrocarbons in the Adriatic Sea was opened.⁽¹⁾ The bid round closing date is 14:00 on November 3 2014. The offshore licensing round comprises approximately 36,823 square kilometres divided into 29 blocks of between 1,000 and 1,600 square kilometres each.

Exploration history

Exploration offshore Croatia started in the northern Adriatic in 1968, with the acquisition of two-dimensional seismic data. Traditionally, the former Croatian national oil and gas company INA dd (which today is only partially state owned) was the sole holder of exploration and exploitation licences and concessions (for further details please see "[Oil and gas exploration update](#)"). Once the current government took office in December 2011, preparations for encouraging activity in the upstream hydrocarbon sector began, with the introduction of the necessary legal framework and conditions to attract foreign investment (for further details please see "[New hydrocarbon exploration and exploitation regime](#)" and "[Hydrocarbon exploration and exploitation tenders in the Adriatic](#)").

Licence

A licence is required for the exploration and exploitation of petroleum in Croatia. Licences are granted by the government to selected applicants for a 30-year period, which comprises both the exploration period (five years, which may be extended twice for a further six months) and the exploitation period. The licensee is entitled to the direct grant of a concession if it makes a commercial discovery and all contractual commitments have been met. A draft of the product sharing agreement forms part of the tender documents.

Production sharing and fees

A contractor which enters into a production sharing agreement with the government is entitled to a share of the profit petroleum, calculated in accordance with the factor specified in the production sharing agreement. It is also obliged to pay the following fees and bonuses:

- exploration area fee (approximately €50 per kilometre);
- exploitation area fee (approximately €500 per kilometre);
- signature bonus (minimum approximately €185,000);
- royalty (10%);
- production bonus (approximately €185,000 for oil fields and €120,000 for gas fields); and
- administration fee (approximately €80,000 annually)

Application procedure and timeframe

Tenderers must prove their financial and technical capacity - in particular, their operating experience. The minimum work programme, likely monetary spend and health, safety and environmental framework should also be provided. A bid guarantee in the form of a first-class bank guarantee of €500,000 must be submitted with the tender.

A decision on the tender and the grant of licences is expected by December 3 2014. Between December 2014 and March 2015, the government and the licensees should negotiate draft production sharing agreements. Conclusion of the production sharing agreements is expected by March 3 2015.

Strategic projects

Following the enactment of the Strategic Investment Act (for further details please see "[Hydrocarbon exploration and exploitation tenders in the Adriatic](#)"), the government received 29 applications for the

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award of strategic project status (13 public investment projects and 16 private investments). Five projects have been awarded such status thus far, including:

- Plomin C – the construction of a 500 megawatt coal-fired thermal plant, with a project value of €800 million (for further details please see "National electricity company calls for investors in €800 million Plomin C project"); and
- the liquefied natural gas terminal on the island of Krk in the northern Adriatic.

Investors in high-value projects (over €20 million) of national interest are encouraged to file applications for the award of strategic project status, to take advantage of preferential treatment and expedite their projects.

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Endnotes

(1) The tender documents are available at www.mingo.hr/userdocs/images/rudarstvo/Tender_Guidance_Documentation.pdf.

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