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Amendments to the law "On Subsoil"

The president has recently signed into law a bill "On Making Amendments to the Law of the Russian Federation "On Subsoil" Regarding the Improvement of the Legal Regulation of Relations in the Field of Geological Survey, Exploration and Production of Tight (hard-to-recover) Natural Resources" (the "**Law**").

The Law aims at improving subsoil legislation of the Russian Federation (RF) to bring hard-to-recover natural resources into exploitation, and introduces a new type of subsoil use for the development of new technology for geological survey, exploration and production of hard-to-recover natural resources ("**Technology Development**").

The Law will only come into force on 31 May 2020, because of the need to adopt subordinate legal acts required for the implementation of the Law's provisions. The RF Government will specify particular types of hard-to-recover natural resources for which the right to use subsoil areas can be granted, as there is no universally accepted definition of hard-to-recover resources. (Generally, these are considered to be hydrocarbon resources that require the application of special technologies for their extraction to be profitable due to low porosity, high viscosity etc.).

The Law provides for two separate regimes to grant licenses for such subsoil use:

1

by competitive tender, in subsoil areas which have not been allocated earlier (from so called unallocated fund), containing no resources of the same type that fall outside the hard-to-recover category

2

by decision of Rosnedra (Russia's Federal Agency for Subsoil Management), upon application by a subsoil user, within subsoil area where a subsoil license has already been granted to this subsoil user, by singling out a subsoil area containing hard-to-recover natural resources from this licensed subsoil area

The Law also provides for:

1. The following time limitations for subsoil use under the new type of license:
 - up to 15 years with the possibility of multiple extensions of up to 5 years at a time for Technology Development in areas which have not been allocated earlier, by competitive tender
 - up to 7 years with the possibility of a single extension of up to 3-years for Technology Development, as well as for the actual exploration and production of hard-to-recover resources, under a combined license
2. The possibility to require the development, clearance and approval of a specific type of project documentation for Technology Development
3. The subsoil user's right to product hard-to-recover natural resources while carrying out Technology Development
4. An exemption for subsoil exploiters from one-off and regular payments for subsoil use in respect of the above facilities

Overall:

The Law adds flexibility to subsoil use in RF as it allows singling out particular areas containing hard-to-recover resources from a subsoil area that has already been granted to a subsoil user. This may have a positive effect on the ability of foreign investors (especially in the light of current sectoral sanctions) to join projects where an allocated subsoil area contains both conventional and unconventional (hard-to-recover or shale) hydrocarbons.

This Law may also be a first step in a process to introduce general rules to split subsoil areas with respect to different types of natural resources (i.e., not limited to hard-to-recover hydrocarbons), which would be a considerable development in RF subsoil legislation and would decidedly increase flexibility in structuring subsoil use projects.

