

THE GOVERNMENT OF THE REPUBLIC OF CROATIA

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Pursuant to Article 30, paragraph 2 of the Act on Exploration and Exploitation of Hydrocarbons (Official Gazette 94/2013 and 14/2014), the Government of the Republic of Croatia, at its session on 19 March 2014, adopted the following

REGULATION

ON ROYALTY FOR EXPLORATION AND EXPLOITATION OF HYDROCARBONS

I GENERAL PROVISIONS

Article 1

This Regulation stipulates methods for royalty determination, royalty amounts and proportion of distribution of the royalty for exploration and exploitation of hydrocarbons (hereinafter: the royalty).

II METHODS FOR ROYALTY DETERMINATION

Article 2

The royalty referred to in Article 1 of this Regulation shall be determined for the following:

1. Exploration and exploitation of hydrocarbons (oil, natural gas, gas condensate and ozokerite);
2. The storage of hydrocarbons in geological structures;
3. Permanent disposal of gas in geological structures.

III THE ROYALTY FOR EXPLORATION AND EXPLOITATION OF HYDROCARBONS

Article 3

(1) The royalty referred to in Article 1 of this Regulation shall consist of:

1. Total fees;
2. Distribution of the recovered quantities of hydrocarbons.

(2) Total fees for exploration and exploitation of hydrocarbons shall consist of:

1. A fee for the approved exploration area determined by its entry in the register of the exploration areas of the ministry competent for mining, regulated in accordance with provisions of the applicable Mining Act;
2. A fee for the area of the established exploitation field determined by its entry in the register of the exploitation fields of the ministry competent for mining, regulated in accordance with provisions of the applicable Mining Act;
3. A fee for conclusion of the contract between the Investor and the Government of the Republic of Croatia, in accordance with the issued license;
4. A fee for the recovered quantities of hydrocarbons;
5. Additional fees for the realised exploitation of hydrocarbons;
6. Administrative fees.

(3) Total amount of fees referred to in paragraph 2 of this Article shall not be calculated in reimbursement of costs which the Investor is entitled to.

(4) Distribution of the recovered quantities of hydrocarbons shall be expressed in percentage of the recovered quantities of hydrocarbons belonging to the Republic of Croatia.

(5) Provisions of paragraph 1, point 2 and paragraph 2, points 1, 3, 5 and 6 of this Article shall not apply to hydrocarbon exploitation fields where hydrocarbon exploitation is conducted in accordance with vested rights referred to in then applicable provisions of the Mining Act, and prior to entry into force of provisions of the Mining Act (Official Gazette 56/2013 and 14/2014) and provisions of the Act on Exploration and Exploitation of Hydrocarbons.

Article 4

(1) The fee referred to in Article 3, paragraph 2, point 1 of this Regulation shall amount to 400.00 HRK/km² and shall be calculated annually starting from the first day of the validity period of the licence and of the contract and it shall become due by the end of fourth quarter of the current year, at the latest.

(2) The fee referred to in Article 3, paragraph 2, point 2 of this Regulation shall amount to 4,000.00 HRK/km² and shall be calculated annually starting from the day of establishment of the exploitation field, and it shall become due by the end of fourth quarter of the current year, at the latest.

(3) The fee referred to in paragraphs 1 and 2 of this Article shall be paid for the period of validity of the exploration area/exploitation field in the current year, and it shall be in proportion to the amount of the fee for the whole calendar year.

(4) The fee referred to in paragraphs 1 and 2 of this Article shall be the revenue of the State Budget of the Republic of Croatia, and shall be entirely transferred to the local self-government unit where the exploration area or exploitation field are located.

(5) If the exploration area or exploitation field are located on the territory of more than one local self-government unit, the fee referred to in paragraphs 1 and 2 of this Article shall be in proportion to the size of the exploration area or exploitation field on the territory of an individual local self-government unit.

(6) The fee referred to in paragraphs 1 and 2 of this Article for the size of the exploration area or exploitation field in the continental shelf of the Republic of Croatia shall be the revenue of the State Budget of the Republic of Croatia.

Article 5

(1) The amount of the fee referred to in Article 3, paragraph 2, point 3 of this Regulation in accordance with the issued license may not be less than HRK 1,400,000.00.

(2) The fee referred to in Article 3, paragraph 2, point 3 of this Regulation in accordance with the issued license shall be one of the criteria for selection of the highest bidder in the license granting tender.

(3) A deadline and method of payment of the fee referred to in Article 3, paragraph 2, point 3 of this Regulation in accordance with the issued license shall be regulated in a contract.

(4) The fee referred to in Article 3, paragraph 2, point 3 of this Regulation in accordance with the issued license shall be the revenue of the State Budget of the Republic of Croatia.

Article 6

(1) The fee referred to in Article 3, paragraph 2, point 4 of this Regulation shall be the revenue of the State Budget of the Republic of Croatia and shall be determined in the amount of 10% of the market value of the recovered hydrocarbons.

(2) The amount of the fee referred to in paragraph 1 of this Article shall be divided as follows:

- 30% to the local self-government unit where the hydrocarbons are recovered;
- 20% to the regional self-government unit where the hydrocarbons are recovered;
- 50% to the State Budget of the Republic of Croatia.

(3) If the exploration area or exploitation field where hydrocarbons are recovered comprises more than one local/regional self-government unit, the fee referred to in paragraph 2 of this Article shall be divided in proportion with the size of the exploration area or exploitation field on the territory of an individual local/regional self-government unit.

(4) The fee referred to in Article 3, paragraph 2, point 4 of this Regulation in the continental shelf of the Republic of Croatia shall be the revenue of the Republic of Croatia.

(5) The Investor shall deliver to the ministry competent for mining and to the Agency for Hydrocarbons information on recovered quantities of hydrocarbons and information on the market value of the recovered quantities of hydrocarbons for the previous quarter, by the tenth day of the following quarter, at the latest.

(6) The fee referred to in Article 3, paragraph 2, point 4 of this Regulation shall be calculated at least quarterly and shall become due on the fifteenth day of the following quarter.

Article 7

(1) The fee referred to in Article 3, paragraph 2, point 5 of this Regulation shall be paid for the realised oil exploitation as follows:

- HRK 1,400,000.00 at the beginning of the recovery;
- HRK 1,400,000.00 when recovered quantities in total reach 50,000 barrels;
- HRK 1,400,000.00 when recovered quantities in total reach 100,000 barrels;
- HRK 1,400,000.00 when recovered quantities in total reach 150,000 barrels;
- HRK 1,400,000.00 when recovered quantities in total reach 200,000 barrels.

(2) The fee referred to in Article 3, paragraph 2, point 5 of this Regulation shall be paid for the realised gas exploitation as follows:

- HRK 900,000.00 at the beginning of the recovery;
- HRK 900,000.00 when recovered quantities in total reach 25,000 boe;
- HRK 900,000.00 when recovered quantities in total reach 50,000 boe;
- HRK 900,000.00 when recovered quantities in total reach 75,000 boe;
- HRK 900,000.00 when recovered quantities in total reach 100,000 boe.

(3) A deadline and method of payment of the fee referred to in Article 3, paragraph 2, point 5 of this Regulation shall be regulated by the contract between the Investor and the Government of the Republic of Croatia in accordance with the issued license.

(4) The fee referred to in Article 3, paragraph 2, point 5 of this Regulation shall be the revenue of the State Budget of the Republic of Croatia.

Article 8

(1) The fee referred to in Article 3 paragraph 2 point 6 of this Regulation shall amount to HRK 600,000.00 and shall be calculated annually, starting from the first day of the validity period of the licence and of the contract and for each year shall be increased by 4%.

(2) The fee referred to in Article 3 paragraph 2 point 6 of this Regulation shall be paid once a year during the validity period of the licence and the contract.

(3) The deadline and the method of payment of the fee referred to in Article 3 paragraph 2 point 6 of this Regulation shall be regulated by a contract between the Investor and the Government of the Republic of Croatia pursuant to a licence issued.

(4)) The fee referred to in Article 3 paragraph 2 point 6 of this Regulation shall be the revenue of the Agency for Hydrocarbons.

Article 9

1) Division of the recovered quantities of hydrocarbons shall be expressed in the percentage in the quantity of recovered hydrocarbons belonging to the Republic of Croatia.

(2) The percentage of the recovered quantity of hydrocarbons shall be calculated by means of R-Factor (R) for every quarter.

(3) R-Factor (R) shall be calculated in the following way:

$$R = X/Y$$

Where:

– X is the amount of the achieved cumulative net revenue of the Investor on the basis of the recovered quantities of hydrocarbons pursuant to the licence issued and the contract concluded between the Government of the Republic of Croatia and the Investor in the previous quarter.

– Y is the amount of cumulative capital expenditures on the basis of the recovered quantities of hydrocarbons pursuant to the licence issued and the contract concluded between the Government of the Republic of Croatia and the Investor in the previous quarter.

– »*Net revenue*« represents total amount of money that the Investor has earned because of the return of expenses, as well as its part of the revenue from the division of the quantity of recovered hydrocarbons pursuant to the licence issued and the contract concluded, diminished for operating costs.

– »*Cumulative capital expenditures*« represents all development expenses and exploitation expenses pursuant to the licence issued and the contract concluded.

(4) Percentage of the division of quantities of the recovered hydrocarbons to which the Investor is entitled since the first day of exploitation shall be equal to the percentage of the value of R-Factor (R) as follows:

R-Factor (R) the percentage to which the Investor is entitled

$0 < R < 1.0$	90%
$1.0 < R < 1.5$	80%
$1.5 < R < 2.0$	70%
$R > 2.0$	60%.

(5) All the components and the method of calculating R-Factor (R), as well as the liabilities of the Investor and the Agency for Hydrocarbons in the calculation, approval and monitoring of the same shall be regulated in detail in the contract concluded between the Investor and the Government of the Republic of Croatia.

(6) Return of expenses to which the Investor is entitled shall be an integral part of the contract concluded between the Government of the Republic of Croatia and the Investor.

IV STORAGE FEE FOR HYDROCARBONS IN GEOLOGICAL STRUCTURES

Article 10

(1) Fee for the approved exploration area for the storage of hydrocarbons in geological structures shall amount to 500.00 HRK/ha and shall be calculated annually from the date of the start of the validity period of licence and agreement, and shall become due no later than by the end of the fourth quarter of the current year.

(2) The fee for the area of established exploitation field for the storage of hydrocarbons in geological structures shall amount to 2,000.00 HRK/ha and shall be calculated annually, starting from the first day of the exploitation field establishment and shall become due no later than by the end of the fourth quarter of the current year.

(3) The fee referred to in paragraphs 1 and 2 of this Article shall be paid for the validity period in the current year, and shall be proportionate to the amount of the fee for the entire calendar year.

(4) The fee referred to in paragraphs 1 and 2 of this Article shall be the revenue of the State Budget of the Republic of Croatia and shall be divided in the following way:

– 50% to the unit of local self-government on whose territory is located the exploration area or the exploitation field for the storage of hydrocarbons in geological structures,

– 50% to the State Budget of the Republic of Croatia.

(5) If the exploration area or the exploitation field for the storage of hydrocarbons in geological structures are located on the territory of more units of local self-government, the fee referred to in paragraphs 1 and 2 of this Article shall be divided in proportion to the size of the exploration area or the exploitation field for the storage of hydrocarbons in geological structures on the territory of an individual unit of local self-government.

(6) The fee referred to in paragraphs 1 and 2 of this Article for the size of the exploration area or the exploitation field for the storage of hydrocarbons in geological structures in the continental shelf of the Republic of Croatia shall be the revenue of the State Budget of the Republic of Croatia.

(7) For storage of hydrocarbons in geological structures shall not be paid the fee for the injected and recovered quantities of hydrocarbons in geological structures.

V FEE FOR PERMANENT GAS DISPOSAL IN GEOLOGICAL STRUCTURES

Article 11

(1) Fee for the approved area for permanent gas disposal in geological structures shall amount to 5,000.00 HRK/ha and shall be calculated annually, starting from the first day of validity period of the licence and the contract, and shall become due no later than by the end of the fourth quarter of the current year.

(2) Fee for the area of the established exploitation field for permanent gas disposal in geological structures shall amount to 20,000.00 HRK/ha and shall be calculated annually, starting from the day of the establishment of the exploitation field and shall become due no later than by the end of the fourth quarter of the current year.

(3) The fee referred to in paragraphs 1 and 2 of this Article shall be paid for the validity period in the current year, and shall be proportionate to the amount of the compensation for the entire calendar year.

(4) The fee referred to in paragraphs 1 and 2 of this Article shall be the revenue of the State Budget of the Republic of Croatia and shall be divided in the following way:

- 50% to the unit of local self-government on whose territory is located the exploration area or the exploitation field for permanent gas disposal in geological structures,
- 50% to the State Budget of the Republic of Croatia.

(5) If the exploration area or the exploitation field for the storage of hydrocarbons in geological structures are located on the territory of more units of local self-government, the fee referred to in paragraphs 1 and 2 of this Article shall be divided in proportion to the size of the exploration area or the exploitation field for the permanent gas disposal in geological structures on the territory of an individual unit of local self-government.

(6) The fee referred to in paragraphs 1 and 2 of this Article for the size of the exploration area or the exploitation field for permanent gas disposal in the geological structures in the continental shelf of the Republic of Croatia shall be the revenue of the State Budget of the Republic of Croatia.

(7) For permanent gas disposal in geological structures, the fee for the injected quantities of gas in geological structures shall be paid.

(8) The amount of the fee for the quantities of gas injected in geological structures shall be regulated by a contract between the Investor and the Government of the Republic of Croatia pursuant to the licence issued.

VI TRANSITIONAL AND FINAL PROVISIONS

Article 12

On the day of entry into force of this Regulation, the Regulation on Concession Fee for Exploitation of Mineral Raw Materials (Official Gazette 40/2011) shall expire in the part relating to hydrocarbons.

Article 13

This Regulation shall enter into force on the first day after its publication in the Official Gazette.

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Zagreb, 19 March 2014

Prime Minister
Zoran Milanović, m. p.