

The RGR is formed by 3 per cent of the revertible assets collected from energy concessionaires. These funds, transferred over the 12 months of the year, are included in the companies' services costs, made possible by the enactment of Law 8631/93.

The transfer of funds to Finel is one of the basic objectives of RGR, although its main purpose is to provide the Federal Government with resources to revert the services assigned at the end of a concession term or by a governmental decision.

Concerning the selection of a project by concessionaires applying for funds from Finel, the applicants must follow certain rules and conditions. They must obey the conditions of the 'Plano Decenal' (a compulsory economic plan elaborated by the Government stipulating the terms of the calculation of the budget, to be followed during a period of ten years by the concessionaire); have a minor funds participation in Finel on the total amount involved in the enterprise; observe the environmental rules; and be integrated with local companies.

In addition, the concessionaire must not present any debt and must prove its financial, technical and administrative capacity to implement the project and pay the loans granted for its global investment programme.

In relation to financing, limits differ according to the regions. The companies in the southern and south-eastern regions will have up to 30 per cent for generating, transmission, distribution and improving the system. Those in the northern and north-eastern regions of the country will be granted up to 40 per cent of the total budget of the project.

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Germany

GAS SUPPLY

*Integration of East German economy
transforms industry*

The Energy Report of the Minister for Economy of the province of Brandenburg (one of the 16 provinces of the German Federation) is typical in many aspects of developments in the five new provinces of the former German Democratic Republic. Owing to the changes in the economic structure the consumption of gas fell from 27.39 GW/h in 1989 to 14 GW/h in 1993. The number of employees in the energy industries (exclusive of the brown coal industries) fell from 20,000 in the year 1990 to 12,900 in 1993. In the last year 15 public utilities were granted licences for the supply of gas in the sense of § 5 of the German Energy Economy Act. One application was rejected. Five are regional public utilities, ten are active on a local basis. A further 14 local undertakings filed applications in 1993.

The gas supplying economy continued the conversion from the use of town gas to natural gas. The public utilities laid fixed mains of a length of 2,450 km, a fifth of which were high pressure grids. 31,000 new customers were connected and 274,000 customers are now supplied with natural gas instead of town gas. The corresponding investments of the industry amounted in 1993 to DM630 million. Characteristically, the consumption of town gas fell in 1993 by more than 50 per cent, whereas the consumption of natural gas was lower by only 10 per cent, mainly owing to the weak demand of the manufacturing industry. The consumption of private households increased during the same period, mainly by reason of the extension of the grids.

The energy policy of Brandenburg had to be modified, because the government recognised that the aim of the 'Guiding Principles of the Energy Policy of Brandenburg of 1992', to produce in the year 2000 some 60 million tons of brown coal, the important local energy source, is not realistic. In consideration of the competitiveness of natural gas and heating oil in the heating market this objective had to be corrected to 45 million tons. The development of the energy economy is characterised by the fall in production of brown coal since 1989 when the corresponding industry had 52,000 employees. Now the industry employs a staff of 22,000, but a further reduction of the workforce to 8,000 employees is expected. Under the socialist government the public utilities used mainly domestic natural gas and town gas, the cost price of which, however, are not competitive with those of natural gas and heating oil in the post-socialist economy. The rapid expansion of the new natural gas grids was due to the strength of the public utilities engaged in this field of the economy so that the structure of the supply is now similar to the conditions in West Germany.

The energy policy of Brandenburg aims at a reasonably priced and reliable supply of gas. The administration intends to accomplish this task through the grant of licences to regionally active public utilities which cover large areas, and supply the gas reliably and in a manner compatible with environmental needs. Local public utilities will complement this task by distributing the gas to end customers, making use of co-operative efforts and contributing to local gas

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PETROLEUM INVESTMENT
Outline of legal framework

production. In the granting of licences for the operation of public utilities according to §5 of the Energy Economy Act the public authority examined the circumstances of the individual cases and analysed, in particular, whether the establishment of a local public utility was reasonable with regard to standards jointly established with the Federal Government and the other new German provinces. The public authority for the supervision of the energy industry examines the applications and assists the local public utilities in their first activities. A tendency has been noted towards an attempt by the public utilities to increase gas prices. In this respect the secure and reasonably priced supply of gas is an essential criterion for the examination of applications by the public authority which is of considerable importance for the position of Brandenburg, so that the grant of licences will be made carefully. The energy report for 1993 thus shows considerable difficulties for the re-structuring of the post-socialist economy, in particular with regard to the application of the principle of competition.

In late July Kyrgyzstan launched a licensing round for E & P acreage in the Alai Depression. Other areas have been shortlisted for subsequent offers during late 1994/1995. Because of its landlocked situation in central Asia, the success of the country's licensing efforts will largely depend either on sufficient domestic energy demand, with prices to be indexed to international market prices, or the availability of appropriate export infrastructure. However, the latter option, requiring a huge investment for pipeline infrastructure, would not only have to face the question of economic feasibility but also the looming and as yet unresolved question of transit rights through neighbouring republics.

In this situation any advice given to the Government of Kyrgyzstan must concentrate on issues which would offer oil companies sufficient incentives to assume risks. The current (sketchy) terms and conditions, and the model contract follow traditional lines of petroleum investment and are unlikely to spur significant interest.

Legislative basis

There is no specific petroleum legislation in place in Kyrgyzstan, and petroleum activities are mainly governed by the Subsoil Law and business and foreign investment legislation, in particular the following:

- the Law on Foreign Investment of 28 June 1991 (as last amended on 7 May 1993);
- the Law on the General Regulation of Foreign Economic Activity of 18 April 1991;
- the Law on Concessions and Foreign Concession Companies of 6 March 1992;
- the Law on the General Regulation of Commercialisation, Privatisation and Business of 20 December 1991 (as last amended on 12 January 1994);
- the Law on the Procedure for the Foundation and Registration of Foreign Companies, Joint Ventures, International Associations and Organisations;
- the Law on Taxes on Foreign Juridical Persons' Profit;
- the Law on the Order of Quantitative Regulation and Licensing of Goods (Works, Services) Exported and Imported;
- the Land Code, with regard to the use of the surface.

All mining activities, including petroleum operations, are governed by the Law on the Subsurface 1066-XII of 15 December 1992. It vests all rights to underground resources and the use of the underground in the state.

In November 1993 a model concession agreement was issued which governs prospecting and exploration for and exploitation of hydrocarbons in the Alai Valley. This model contract and the underlying basic terms were approved by the Ministry of Energy and Government Decree 308 of 19 November 1993. The model contract provides the flexible basis for negotiations. However, not open to negotiations are the following:

- the amount of the signature bonus;
- rentals during the exploration phase;
- the production split.

Under the model contract the contractor carries out exploration at its own cost and risk. On discovery of petroleum in commercial quantities either a joint