



The Legal 500 & The In-House Lawyer
Comparative Legal Guide
Greece: Oil & Gas

This country-specific Q&A provides an overview of the legal framework and key issues surrounding oil and gas law in Greece.

This Q&A is part of the global guide to Oil & Gas.

For a full list of jurisdictional Q&As visit <http://www.inhouselawyer.co.uk/index.php/practice-areas/oil-and-gas>



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1. Does your jurisdiction have an established upstream oil and gas industry? What are the current production levels and what are the oil and gas reserve levels?

Greece's geographical location at the crossroads between the West and the East allows it to play a key role in Europe's energy map. In recent years large quantities of gas have been discovered in the offshore zone of Cyprus. Following 2007, when the "Prinos Concession", relating to the oil field located at the Northern Aegean, was taken over by Energean Oil and which is the only oil producing area at the moment, there have been major developments in recent years regarding the awarding of new concessions. This year alone the Greek Parliament ratified the lease agreements for the exploration and exploitation of hydrocarbon reserves of the offshore regions of «Southwest of Crete»

and «West of Crete», for the Ionian Sea oil block and oil block 10, which is located offshore of West Peloponese. All these developments gave new impetus to Greece's oil and gas industry. Until today, Greek Government has concluded 13 leases agreements both onshore and offshore. All oil blocks are at the exploration stage with the exception of Energean's Epsilon block, at the Northern Aegean.

2. How are rights to explore and exploit oil and gas resources granted? Please provide a brief overview of the structure of the regulatory regime for upstream oil and gas. Is the regime the same for both onshore and offshore?

Greek oil and gas legal framework is mainly provided in Law 2289/1995 (Hydrocarbon Law) which has transposed Directive 94/22/EC. Law 2289/1995 establishes the basic rules for the exploitation of hydrocarbons in Greece and sets out the requirements for the licensing of the respective rights. In addition, Law 4001/2011 incorporates the provisions of Directive 2009/72/EC and provides for the establishment of a state-owned company, under the name « Hellenic Hydrocarbon Resources Management S.A.» (“HHRM”).

According to Article 2 of Law 2289/1995 the management of the exploration, production and exploitation rights that exist in the Greek Territory, both in onshore and offshore areas is exercised on behalf of the Greek State by HHRM.

The rights for exploration and exploitation of hydrocarbons are granted by HHRM on behalf of the Greek State, according to the following alternatively applied procedures (Article 156, paragraph 17 L 4001/2011), which are the same for onshore and offshore activities:

a) An invitation to tender, initiated by the HHRM and approved by the Minister of Environment, Energy and Climate Change, is published in the Government's Gazette and sent for publication in the Official Journal of the European Union.

b) Following an application by an interested party; in connection with this form of

expression of interest, the HHRM can only decide whether to include the area specified by the applicant in a tender, in which case it issues a relevant invitation which, following its approval by the aforementioned Minister, is sent for publication in the Government's Gazette and the Official Journal of the EU.

c) An open door invitation for the expression of interest, when the area under concession is available on a permanent basis or has been the subject of a previous procedure which has not resulted in the conclusion of a lease agreement or a production sharing agreement or has been abandoned by the previous concessionaire. With an invitation published in the Government's Gazette and sent for publication in the Official Journal of the EU, the Minister of Energy specifies such areas as well as the minimum basic terms of their concession.

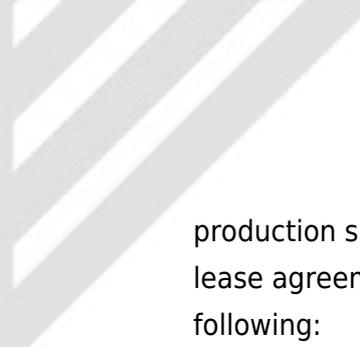
Within thirty (30) days from the end of the relevant semester, the Minister of Environment, Energy and Climate Change announces that a specific area is excluded from the areas made available for bidding, due to being subject to a concession process following the submission of offers provided during that semester. The offers are evaluated and among them is selected the one most advantageous to the State, following negotiations with the interested parties and based on the selection criteria set out in the open door invitation.

At present, the interest is focused on case (c) «open door», since the country disposes a considerable number of areas identified already and this procedure fits the need for informed decisions from all parties.

In general, the exploration rights on onshore areas are granted for seven years and on offshore areas for eight years.

3. What are the key features of the licence/production sharing contract/concession/other pursuant to which oil and gas companies undertake oil and gas exploration and exploitation?

The Law provides for two types of agreement, namely the lease agreement and the



production sharing agreement. However, in practice Greece has applied so far the lease agreement type. The main features of the lease agreement model are the following:

The exploration stage is subdivided in phases linked with minimum work program and minimum expenditure obligations. Pursuant to what the hydrocarbon law provides, the lessee may also apply for an extension of the exploration stage.

Drilling and clean-up activities, upon the abandonment of an area should be performed in line with good oilfield practices.

The royalty as well as signature and production bonuses included in the lease agreement are biddable.

The lease agreement may also provide for a surface rental fee.

The lessee is obliged to provide to the lessor a detailed Appraisal Program when a discovery is made in the contract area which merits appraisal of its commercial viability.

Following a commercially exploitable discovery, HHRM, acting on behalf of the State, may choose to receive the royalty (rent), which is calculated by reference to the R Factor, in respect of any of the calendar years to which the royalty payment is applied, in cash, in-kind or in combination of both.

4. Are there any unconventional hydrocarbon resources (such as shale gas) being exploited and is there a separate regulatory regime for unconvensionals?

So far, the potential of unconventional hydrocarbons in the country is unknown, as detailed investigations are lacking. Moreover no shale gas/oil extraction techniques have been developed either at Greek or EU-wide level.

5. Who are the key regulators for the upstream oil and gas industry?

Law 4001/2011 updated the legal framework and created a new state authority to coordinate and promote hydrocarbon activities, known as the Hellenic Hydrocarbon Resources Management (HHRM), which operates under the supervision of the Energy Ministry. HHRM is a state-owned company with the Hellenic State being the sole stakeholder (100%), however it operates independently as a private-sector economic entity. Hence, until today HHRM is the sole state-owned management body, which is the reference point between the State and the contractors with respect to hydrocarbons. On the other hand, the competent authority to legislate in hydrocarbon matters is the Ministry of Environment, Energy and Climate Change.

6. Is the government directly involved in the upstream oil and gas industry? Is there a government-owned oil and gas company?

Yes. Please see above, under 5.

7. Are there any special requirements for or restrictions on participation in the upstream oil and gas industry by foreign oil and gas companies?

In principle, Hydrocarbon Law does not impose any special requirements or restriction for the participation of foreign companies in oil and gas upstream activities. In fact Article 4 par. 1 provides that any individual or legal entity or joint venture may become a concessionaire, regardless of their origin from an EU or a third country. However, according to par.2 of the same law, the Greek State reserves the right to exclude, under certain circumstances a third country national for security reasons.

8. **What are the key features of the environmental and health and safety regime that applies to upstream oil and gas activities?**

A concessionaire who intends to proceed with the exploration and exploitation of hydrocarbons in Greece, both onshore and offshore has to be compliant with hazardous activity rules and the provisions of environmental protection in accordance with European and international practices (Directive 2004/35/EU and 2013/30/EU). HHRM, is responsible for monitoring compliance with the European Directive 2013/30/EC on safety in offshore hydrocarbon exploration and exploitation, as incorporated into Greek law by Law 4409/2016.

9. **How does the government derive value from oil and gas resources (royalties/production sharing/taxes)? Are there any special tax deductions or incentives offered?**

The Greek State receives the following revenues from contract areas:

- Signature bonus: The amount is biddable and is tax deductible for the concessionaire. No limits are applied
- Depending on the contract, there can be stipulated payment of a surface rental fee which varies per exploration sub-phase and during the exploitation stage and is a fixed amount per Km² of contract area. The amount is tax deductible
- Royalties: These are based on the R-factor, whereby: R equals the cumulative gross inflows divided by the cumulative total outflows. In this context, there applies a sliding scale as follows, with the corresponding royalty rate being negotiable:
 - $R \leq 0.5$
 - $0.5 < R \leq 1$
 - $1 < R \leq 1.5$
 - $1.5 < R \leq 2$
 - $R > 2$The royalty amount is tax deductible.
- Production bonus, which is linked to the daily production and is biddable and tax deductible
- The net taxable income earned by each Co-Lessee's share in the operations (i.e. each Co-

Lessee in a joint-operation agreement is obliged to keep separate books and records to reflect its transactions, per each exploration or exploitation area) is subject to a special income tax of 20% and to a regional tax of 5%. All the works, the purchases of fixed assets and the other expenses incurred in line with the lease agreement are carried out by the operator in its name but on behalf of the Co-Lessees. Each month the operator will issue a clearance document allocating the expenses incurred to each Co-Lessee in accordance with their percentage in the joint operation agreement. The taxable income is ring-fenced in respect of each contract area. With that being said, up to 50% of the expenses of a contract area which is still in the exploration stage can be combined with the expenses of a contract area of the same Lessee or Co-Lessee for which for which exploitation has already began. Annual tax depreciation for infrastructure, other fixed assets and for expenses incurred prior to the commercial production date may not exceed the lower between, on the one hand, 40-70% of the relevant hydrocarbon production, with the exact rate being biddable, and, on the other, the amount of the relevant capital expenditure and pre-exploitation accumulated expenses. There apply limitations as regards the tax deductible amount of interest on loans, which may not include any excessive amount of interest over and above the application of a reasonable interest rate, according to the arm's length standard and amounts corresponding to the financing of capital investments during the exploitation stage. There also apply limitations as regards the tax deductibility of general administrative expenses incurred abroad. On the other hand, reserves built for satisfying the lessee's obligations relating to the termination of Hydrocarbon exploitation are tax deductible, whereby any unutilized amounts shall be taxed upon termination of the exploitation.

In terms of tax incentives, apart from the accelerated depreciation of fixed assets, according to the rate falling within the range set out above and agreed in the lease agreement, no profit repatriation taxation nor dividend withholding tax applies. In addition, according to the terms of a lease agreement and Hydrocarbons Law further tax exemptions may be provided for the income of the employees of contractors and subcontractors, even when such employees are tax residents of Greece.

10. Are there any restrictions on export, local content obligations or domestic supply obligations?

The law does not provide for any restriction with respect to the exportation of the hydrocarbons by the Lessee. However, in the event of emergency, the Lessee may be required to sell the hydrocarbons to the Greek state.

11. Does the regulatory regime include any specific decommissioning obligations?

The Lessee shall, within six (6) Months from the date of termination of any Phase of the Exploration Stage, remove the installations used, plug and abandon all wells and restore the environment as nearly as possible to the original condition that existed on the Effective Date, such related costs shall be included in the Actual Expenditures.

12. What is the regulatory regime that applies to the construction and operation of offshore and onshore oil and gas pipelines?

Public Gas Corporation (DEPA), founded in 1988 with a view to efficiently cover all the needs arising from the establishment of natural gas network and is until today the public gas supplier company in Greece which participates actively in the major task of transporting natural gas. Its subsidiary, under the name DESFA SA, was founded in 2005, with the aim of liberalizing the gas market. Laws 3428/2005 and 4001/2011, provide the regulatory regime for construction and operation requirements of oil and gas pipelines in Greece both onshore and offshore. Until today, DESFA SA, continues to maintain the ownership and the operations rights of the National Natural Gas System (NNGS) in Greece and the Regulatory Authority for Energy (RAE) is the competent authority for overseeing and regulating the Greek natural gas market .

13. What is the regulatory regime that applies to LNG liquefaction and LNG receiving terminals? Are there any such terminals in your jurisdiction?

As of today the LNG receiving Terminal in Revithousa, is the only LNG receiving terminal in Greece and is owned and operated by DESFA SA. It is located on the island of Revithousa in the Gulf of Megara, west of Athens. In fact, the abovementioned Terminal is the third entry point of natural gas to the NNGS (National Natural Gas System), after the entry points from Bulgaria and Turkey. According to the provisions of article 2. Law 3428/2005 the Terminal is used for the import, unloading and gasification

of LNG and for the liquefaction of the Natural Gas, including the ancillary services and temporary storage that are necessary for its re-gasification and its transmission into a Transportation System. The second LNG receiving terminal is about to start operating within 2020 close to city of Alexandroupoli (Floating storage Reglasification Unit-FSRU).

14. What is the regulatory regime that applies to gas storage (not LNG)? Are there any gas storage facilities in your jurisdiction?

Law 3428/2005, as in force, sets out the framework for the operation of the gas market in Greece and includes also provisions relating to the gas storage. This law has transposed Directives 2003/55/ EC and 2004/67/EC into Greek law. According to the national regulatory framework, there are two possibilities for implementation of the development of an underground gas storage facility: a) As part of NNGS (Articles 6 and 7, par. 3 of Law 3428/2005).b) As an Independent Natural Gas System (Articles 15 and 18 of Law 3428/2005), which is not part of NNGS, regardless of interfacing with this System. In any case, the contactor must apply for installation and operation permits of the storage tanks, along with the relevant Ministerial approval. Until today, there are no gas storage facilities in Greece. However, a tender for the utilization of a depleted natural gas field in the offshore South Kavala region as an underground gas storage facility will be launched in early 2020.

15. Is there a gas transmission and distribution system in your jurisdiction? How is gas distribution and transmission infrastructure owned and regulated? Is there a third party access regime?

In Greece Natural gas is imported either into the gaseous form transported through the high-pressure pipelines of the National Gas Transmission System (NNGTS) from the Greek-Bulgarian and Greek-Turkish borders or in liquefied form via tankers and stored at the LNG Terminal of Revithousa. Responsible for the transportation of natural gas is the National Gas System Operator (DESFA) SA, which is also in charge for the operation, management, exploitation and development of the National Natural Gas

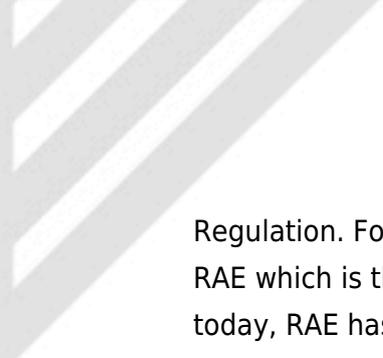
System (NNGS) and its interconnections. DESFA offers transmission services to its Transmission Users by implementing an Entry/Exit model. According to this model, natural gas entering the NNGTS at one or more Entry Points, can either be delivered to one or more domestic Exit Points, be traded at the Virtual Trading Point (VTP) or be exported via reverse flow (physical or backhaul) to Bulgaria or Turkey. Transactions (capacity booking, nominations / confirmations / allocations etc.) between DESFA and the Transmission Users are effectuated through DESFA's Electronic Information System (EIS). For this purpose DESFA concludes with the transmission users several type of agreements such as: transmission agreements, usage and installation and storage agreements etc., which are published on its website after RAE's (Energy Regulatory Authority) approval providing also access to third parties (TPA).

16. Is there a competitive and privatised downstream gas market or is gas supplied to end-customers by one or more incumbent/government-owned suppliers? Can customers choose their supplier?

By the end of 2005, DEPA SA was the sole operator, importer and supplier of gas to the Greek market. Recently, DEPA established three Gas Distribution Companies, called EDA's are responsible for the operation of gas network at the three larger urban centers of Greece (Attiki, Thessaloniki, and Larissa-Volos) under a 30-year concession license under the provisions of Article 80 par.2 Law 4001/2011. DEPA is the majority shareholder of EDAs, holding the 51% of the total share capital while the remaining stakes belong to private investors. More specifically DEPA remains the direct gas supplier of

- large consumers, mainly industrial units, with annual consumption of over 10 million cubic meters
- existing Gas Distribution Companies (EDAs)
- end-customers in areas where EDA's are not established
- field of gas transportation, refueling of the ETHEL - OASA buses etc.

In the current context, the supply of end-customers with natural gas requires a special license, in accordance with the provisions of the 1st Revision of the Licensing



Regulation. For this purpose interested parties shall submit relevant requests before RAE which is the competent authority for the issuance of distribution licenses. Until today, RAE has issued -in favor of third private companies which have dynamically entered the gas market - plenty of distribution licenses given that as of 1.1.2018 all end customers have the right to freely choose their supplier.

17. **How is the downstream gas market regulated?**

Please see our answer under 16.

18. **Have there been any significant recent changes in government policy and regulation in relation to the oil and gas industry?**

The fundamental legal framework for Hydrocarbons has been set in Greece by Law 2289/1995 as amended by Law 4001/2011 which have not yet been further amended by a new law.

19. **What key challenges have been identified by the government and/or industry in relation to your jurisdiction's oil and gas industry?**

The challenges encountered are mainly geostrategic and relate to disputes with neighbouring countries regarding the delineation of offshore exploitation sovereign rights in connection with the reach of each country's Exclusive Economic Zone.

20. **Are there any policies or regulatory requirements relating to the oil and gas industry which reflect/implement the global trend**



towards the low-carbon energy transition?

The Ministry of Energy and Climate Change and as well HHRM aim to gradually enter to low-carbon energy transition and harmonize the Greek regulatory and legislative framework with the international expectation.