



TEXAS A&M UNIVERSITY
SCHOOL OF LAW

Energy Law Symposium

Regulating and Managing Energy Resource Across International Borders

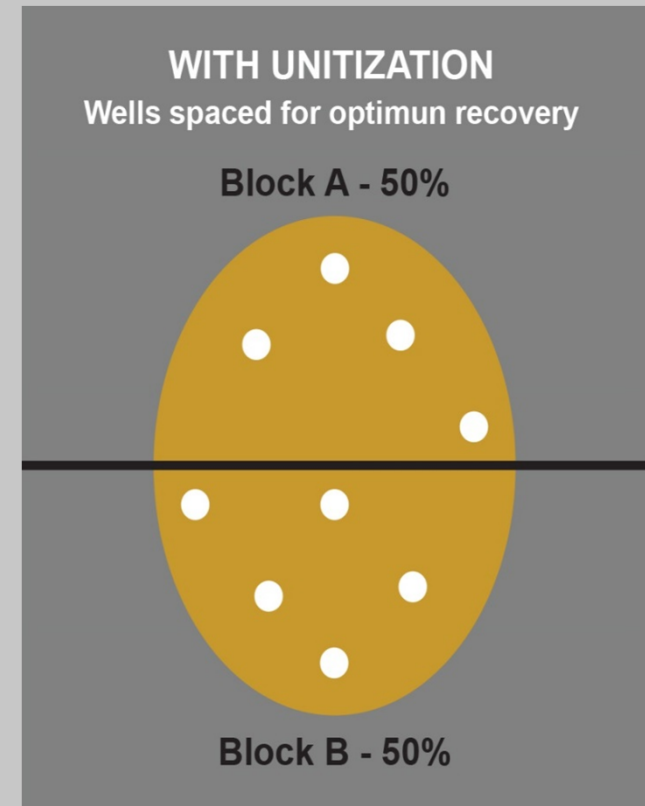
Cross Border Unitization

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What is Unitization?

- > Internationally recognized best practice for jointly develop an oil and gas field underlying more than one block
- > Promotes efficient field development and prevents waste
- > Avoids unnecessary wells and facilities
- > Ensures fair sharing of resource between blocks
- > Each block receives a share of production and pays costs related to the unit based on the share of oil and gas located beneath the block regardless of where the actual production or cost may relate



Block 'A' receives **50%** of production and pays **50%** of costs even though only **~45%** of wells are on Block 'A'

World-Wide Application of Unitization

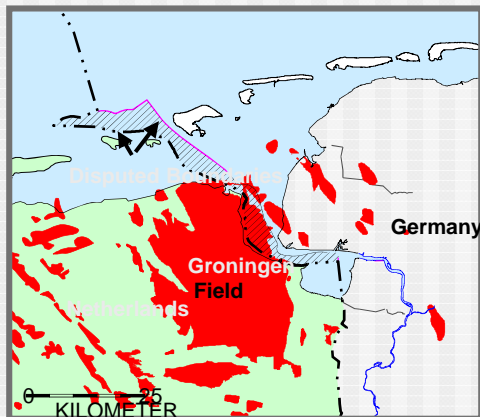
- > Unitization of fields within the same country generally included in Petroleum / Hydrocarbon Laws of most countries
- > Unitization of fields within the same country widely used in many countries
- > Cross Border Unitization is less common

Unitization

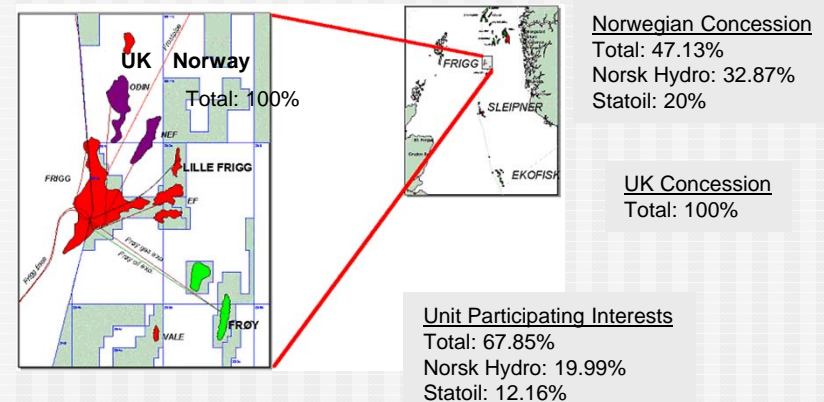
Some Cross-Border Examples

■ Austria/Czechoslovakia	Zwersndorf-Vysoka	1960
■ Germany/Netherlands	Groningen	1960
■ Malaysia/Brunei	Fairley-Baram	1974
■ UK/Norway	Frigg Gas Field	1976
■ UK/Norway	Statfjord	1979
■ UK/Norway	Murchison	1979
■ UK/Netherlands	Markham	1980
■ Nigeria/Eq. Guinea	Ekanga, Zafiro	2002
■ Australia/East Timor	Bayu-Undan	2003
■ Venezuela/Trinidad & Tobago	Plataforma Deltana	2015

Groningen Field



Frigg Field



Why Unitization (and not JDA)?

UNITIZATION

- Blocks are already awarded
- Border agreed
- Commercial terms (vis-à-vis the governing authority) are established
- Establishes cost and revenue allocation between blocks – with periodic redeterminations to maintain equities
- Simpler process because it uses what's already agreed

JOINT DEVELOPMENT AREA

- > Solution typically used when international boundaries are in dispute
- > Requires agreement on commercial terms
- > Entails agreement on resource split before resource is even proved to exist – without subsequent adjustments
- > More difficult process because there is so much to be negotiated and agreed among multiple parties

Cross Border Unitization - Challenges

- > Legal framework in each country may not exist – need for a Treaty
- > Agreeing the initial equities and redeterminations – to maintain fairness between neighbors
- > Requirement for approvals in both countries for operations, work programs and budgets, and other matters and resulting possible delays
- > Which country's standards (health, safety, environment, construction, etc.) to apply – highest standard should prevail
- > Each country's inspectors must have access to all facilities, even if in the other country, and power to stop work on any facility
- > Each country have access to facilities for security purposes

Cross Border Unitization - Challenges

- > Local employment shared between countries on roughly the same equities as hydrocarbons
- > Local content shared between countries on roughly the same equities as hydrocarbons
- > Operational reports and information freely shared with both countries – full transparency
- > Unitization Agreement to be fair and balanced for all
- > Assets revert to both countries and countries decide how to share
- > Decommissioning of facilities not assumed by the countries
- > Harmonization of taxes that directly impact cost of project (e.g. withholding taxes, VAT) so that both countries equally benefit

Conclusion

- Cooperation resulting from cross border unitization to be fostered and encouraged
- Lack of binding international Unitization laws adds to complexity of cross border Unitization
- Unitization:
 - builds on existing host government contracts in each country
 - is considerably simpler than JDA/JDZ
 - quicker to implement

