Government of Pakistan

Ministry of Petroleum and Natural Resources

Petroleum Exploration & Production Policy

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PETROLEUM EXPLORATION AND PRODUCTION POLICY, 1993

Introduction

To accelerate inter-alia the process of exploration and development of oil and gas, overnment of Pakistan (GOP) announced a Petroleum Policy in 1991. This policy did ot have the impact that was envisaged in view of the changing international petroleum cenario. Investment, both local and foreign, in petroleum exploration has been minimal nd only a few concession applications have been received. Pakistan's indigenous supply f oil of 60,000 barrels per day satisfies only 25% of the current oil requirements. The maining requirements are met through import at a cost of around US $ 1.8 billion. The annual oil import bill is expected to rise substantially unless the current decline in production is reversed. The gap between the supply and demand of gas is also expected to increase substantially. Our economy would not be able to sustain additional expenditure on imports and the needed investment on infrastructure. It is therefore, evident that if Pakistan has to substantially boost oil and gas production, it has to take immediate remedial measures by changing the current policy, adjusting the package of incentives, and improving the regulatory environment.

2. Principles

The basic principles underlying the policy are:

i) Step up exploration and development of indigenous oil and gas resources.

ii) Mobilise domestic and external financial and technical resources from private and public sectors.

iii) Strengthen the technical and administrative capabilities of the government agencies responsible for making policies and their effective implementation.

iv) Progressively free the petroleum industry and trade from government controls.

v) Create a competitive environment for giving the best deal to the consumer in price and quality.

vi) Introduce transparency and and reduce discretion.

vii) Correct the imbalance between the economics of an oil and a gas discovery.

ix) Generate interest in the unexplored areas of Pakistan.

The policy is divided into three sections: Section I deals with the procedural matters: Section II with the economic package and, Section III with the applicability of the policy.

I. Procedural and Regulatory Measures

I.1 *Expeditious Disposal of Applications*

Procedures for security clearances by Provincial Governments and security agencies (Defence, Interior, IB, ISI, etc.) shall be streamlined through a negative area map . No area clearance would be required for concession blocks falling outside the negative areas.

The procedures for expeditious disposal of concession applications have been streamlined. It has been decided to introduce a new concession award process through competitive bidding for the work program, thereby introducing transparency and minimizing discretion (Annexure 1).

Once the new Model Concession Agreement is in place, the negotiated draft based on the defined economic package, will not be circulated for concurrence of the departments/ministries of the Federal Government and will be submitted to the Minister for Petroleum and Natural Resources for final approval. Where the negotiated draft substantially deviates from the Model Concession Agreement, the document shall require prior consultation of the ministries/departments concerned before submission to ECC in which case the departments/ministries shall give their clearance or otherwise within a period not exceeding 15 days after which their approval shall be assumed.

All applications for exploration licences will be decided within 60 days. The applications contested may take upto 90 days but no more.It has been decided to create a negotiation cell in DGPC in order to meet the above mentioned deadlines (Annexure 2).

I.2 *Petroleum Regulatory Board*

An independent Petroleum Regulatory Board (PRB) will be established, funded through an administrative fee to be imposed on the companies. A study for implementation of this decision and to establish procedures shall be undertaken immediately.

I.3 *Operations in Balochistan and Tribal Areas*

A high level committee will be formed to review the operational and security problems of working in Balochistan and Tribal Areas of NWFP. This committee shall submit its recommendations in consultation with the Provincial Governments and other parties concerned within 4 months.

Oil and Gas Installations in Balochistan and tribal areas shall be exempted from the application of Industrial Relations Ordinance (1969). In addition GOP will also consider giving special status to the producing areas of Sui, Pirkoh, Loti, Uch etc., by bringing them under Federal control if legally and constitutionally feasible.

I.4 *Investment Company*

A new 100% GOP owned investment company will be formed to separate the ownership and regulatory/administrative and policy making functions. GOP buyback option will be exercised through this Investment Company (Annexure 3).

I.5 *Autonomy to the Oil & Gas Development Corporation*

The Board of Directors of OGDC will be strengthened and restructured on commercial lines, to allow it complete autonomy and authority in all administrative, operational and financial matters, so that OGDC is able to enhance its exploratory effort.

I.6 *Incentives for Local E&P Companies*

There is need to develop a strong indigenous base in exploration and production activities so that the exploratory effort is sustained at a reasonable level during periods in which foreign investment is minimal. Following incentives will be provided:

i. The local companies will be provided an additional 2-1/2% share in the development phase out of GOP's working interest provided they invest to the extent of 10% during exploration.
ii. As far as practicable, GOP's disinvestment in the E&P companies will be limited to local companies.
iii. Local companies will be paid 30% of their sales proceeds in foreign currency to meet their day to day requirements.
iv. A detailed study will be undertaken for examining ways and means to attract Pakistani risk capital into this sector.

I.7 *Gas Allocation*

GOP will decide within 6 months of commercial declaration to allocate gas to specified buyers (gas companies/individual consumers like power/fertilizer). The gas producer and the specified buyer will enter into an agreement within 6 months specifying the time frame for the sale/purchase of gas on a "take or pay" basis. If no allocation of gas is made by the GOP within 6 months of commercial declaration, the producers will be free to dispose off the gas as they wish.

I.8 *Miscellaneous Matters*

a. DGPC is designated the ultimate arbiter for interpretation of the concession agreements.

b. DGPC is authorized to allow intercompany transfer of equipment.

c. DGPC is authorized to allow export of data for processing.

d. The requirement for security clearance of expatriates is discontinued and security clearance will be done at the time of issue of visa.

e. Companies will undertake industry funded multi-client basin and other studies for improvement of the database.

f. Commercial declaration of a discovery can be accepted even on the basis of one well, subject to justification, current rules and regulations.

g. Streamlined procedure for Import/Export permits will be adopted (Annexure 4).

h. Procedure for disposal of junk/obsolete material and vehicles will be simplified (Annexure 5).

i Steps will be taken to streamline the procedure for land acquisition by oil companies. A working group comprising representatives from the Federal Government, the concerned Provincial Governments and the Industry shall be formed to review the procedures and submitt recommendations to the Cabinet within 6 months (Annexure 6).

j. Locally manufactured machinery and equipment used by the exploration companies will be entitled to all such benefits as are admissible on its export.

k. New environmental and safety regulations shall be applicable to all E&P companies.

l. A standing panel of experts will be constituted to advise the government on important policy and operational issues relating to exploration and development of oil and gas resources.

II. Economic Terms

The Economic Package has been defined and fixed for offshore and onshore areas. The economic package will be updated on an annual basis in the light of additional information and adjustment for international competitiveness.

II.1 *GOP buyback*

All concession agreements will provide for a 5% carry for GOP during the exploration phase. The expenditure incurred will be reimbursed by GOP after commercial discovery in installments through production over a 5 year period. Level of GOP buyback will be 20% for offshore and 35% for onshore areas.

II.2 *Producer Pricing*

i) *Oil:* The existing linkage to internationally quoted price of comparable Middle East crude shall continue to form the basis for oil pricing. A fixed discount of 5% shall be aplicable for onshore oil production upto a maximum price of $ 25/BBL. In the case of an increase in the price beyond $ 25/BBL, only 50% of the increase shall be payable to the producer. There will be no discount upto $ 16/BBL. For the offshore area there will be no discount as per existing policy.

ii) *Condensate:* Linkage to price of Internationally quoted comparable condensate (without marine freight) with same discounts as applicable to oil.

iii) *Non-Associated Gas:* For offshore gas delivered to the nearest onshore facilities the price shall be 125% of HSFO Marker price without any discount with a base price of $ 80/MT. For onshore areas the minimum price shall be 100% of HSFO price with a base price of $ 80/MT without any discount. In the case of an increase in the marker price beyond $. 80/MT or 100% HSFO price, only 50% of the increase shall be payable to the producer over the base price.

iv) *Associated Gas:* Same price as for non-associated gas will be allowed as applicable to offshore and onshore areas for acceptable gas specifications.

v) *LPG:* Current producers will be given incentive through a higher price (FOB) for incremental production exceeding currently committed levels upto a maximum of US $ 175 per metric ton. For new projects, C&F parity prices based on proper port off-loading facilities will be given.

II.3 *Import Duties*

For onshore areas, no customs duties including sales tax and any other surcharge related thereof shall be levied on all equipment, material and machinery imported for petroleum exploration as per Concession Agreement. A concessionary consolidated duty rate of 5-1/4% ad valorem including sales tax and any other surcharge related thereof shall be charged on material, equipment and machinery imported for a commercial discovery, enhanced petroleum recovery and gas compression project. For offshore areas, no customs duty including sales tax and any other surcharge related thereto shall levied on all equipment, material and machinery imported as per Concession Agreement for exploration, development, production and enhanced petroleum recovery.

No import licence fees will be charged.

This concession will be extended to all the companies including OGDC and bonafide service companies on certification by DGPC.

New procedures shall be enforced by CBR in consultation with the Ministry of Petroleum and Natural Resources and the industry in order to remove all bottlenecks and to reduce paperwork.

II.4 *Crude Oil Transportation*

Crude oil transporation to refineries will be left to producers as per market conditions.

II.5 *Production Bonuses*

Production bonuses for Offshore and Onshore areas will be payable on a field by field basis, as under:

AMOUNT, $MM	CUMULATIVE PRODUCTION, MMBOE	
	offshore	onshore
1.0	On Declaration Of Commerciality	
1.0	10	5
1.5	15	10
3.0	25	15
5.0	50	20

II.6 ***Incentives for Deeper Drilling***

For existing mining/production and development lease areas, if a company discovers hydrocarbons below the deepest known producing horizon, it shall be entitled to the same price formulae for oil and gas discovered from such deeper horizon as is applicable to onshore - offshore area.

II.7 ***Local employment, training and social welfare***

Local employment, training and social welfare schemes will apply to all existing and new concessions (Annexure 7).

II.8 ***Income Tax for offshore Production***

For offshore production, as stated in the 91 Policy, the rate of income tax will be lower by 5%.

III. Applicability

III.1 These incentives shall be applicable to new concessions as well as to exploratory effort[1] currently being undertaken in the country. The provision of GOP buyback shall be applicable to new concessions only. The procedural changes such as import procedures, disposal of obsolete/junk materials, intercompany equipment/material transfers, export of data, foreign exchange requirements, basin studies, employment and social welfare programme etc., shall be applicable to all existing and new operators.

III.2 Existing laws and rules will be amended to reflect these policy changes.

III.3 This policy supersedes the 1991 policy to the extent modified hereabove.

III.4 A committee comprising: Secretary (MPNR), Additional Secretary (PM Secretariat), Additional Secretary (Cabinet Division), Additional Secretary (Finance), Member Customs (CBR) and DGPC shall oversee the implementation of the new policy. Additional members to the committee shall be co-opted as required.

1. The term Exploratory effort will include Existing Concessions where new exploratory wells are spudded after the approval of the policy by the Cabinet.

ANNEXURE 1

THE NEW CONCESSION AWARD PROCESS

The new process would be as follows:

(a) Company applies for a block.

(b) Application is published within 15 days.

(c) Company and any other company wishing to compete for the same block would have 30 days in which to make bids specifying the work program commitments. All the economic terms and conditions will remain fixed for offshore and onshore.

(d) Bids are opened in public forum and the winner decided on the basis of the best work program and financial commitments offered. If no competing bids received then the company applying shall be awarded the concession.

(e) OGDC would also be subject to the same process.

(f) If one company is applying for a Reconnaissance Permit and the other for an Exploration Licence, then preference shall clearly be given to the exploration licence provided that the work program contained in the exploration licence is better than the reconnaissance permit.

The amended concession award process would require a simplification of the Model Concession Agreement. The work is currently being undertaken by Asian Development Bank consultants. A model production sharing contract is also being prepared by the consultants so that an alternative is available as an option to the oil companies

ANNEXURE 2

NEGOTIATION CELL

DGPC staffing and resources must be augmented: Inorder to meet the deadlines, a separate negotiating cell would be constituted on a full time basis and comprise of:

i) DGPC

ii) Legal Advisor

iii) Petroleum Economist

iv) Petroleum Explorationist

It has been decided to finance these positions through training funds avilable under the Concession Agreements. MPNR shall select and appoint the appropriate professionals on a contract basis.

ANNEXURE 3

FRAMEWORK OF THE NEW INVESTMENT COMPANY

A new investment company 100% owned by GOP be created for managing the erests of the GOP in this sector. In addition this company will assume GOP interest new concessions. There will be no risk in these new ventures as under the new angements the 5% GOP interest will be carried by the companies to be reimbursed rough production after commercial discovery over a period of five years. All the money flowing from the present state holdings and from future discoveries will form a very ge contribution directly to the GOP resources. The above system when in place will sure that OGDC is treated at par with the other oil companies.

The technical nature of the business warrants that the holding company be manned highly qualified and competent industry experts. The framework suggested is as llows:

Composition of the Board of the Investment Company

(1) *Chairman:* He should be a Pakistani professional with extensive industry experience and should be appointed for a fixed tenure by the Prime Minister.

(2) *Finance Director:* He should be a competent petroleum economist and appointed for a fixed tenure by the GOP.

(3) *Technical Director:* He should be a competent industry professional with relevant experience appointed by the GOP for a fixed tenure.

(4) *Non Executive Directors should be:*

   (a) Additional Secretary Finance.

   (b) Director General Gas.

   (c) Director General Petroleum Concessions.

All investment decisions by the Board should be based on sound financial and economic criteria.

ANNEXURE 4

IMPORT/EXPORT PROCEDURE

Imports and exports by oil companies will be allowed on the recommendations of DGPC. The procedure will be guided by the terms of Petroleum Concession Agreements. The control will be as follows which is simple and can be easily tracked by DGPC/Ministry of Commerce/Customs.

Imports

(a) Open L/C through an accredited bank or direct imports on Supplier's invoices involving outside funding.

(b) Upon arrival of goods, file Bill of Entry with complete shipping documents (invoice, certificate of origin, packing list, bill of lading) alongwith relevant copies from the Petroleum Concession Agreement.

(c) After clearance, customs should send a copy of Bill of Entry to DGPC/Ministry of Commerce.

(d) In case of confusion/doubt the consignment should be released on an undertaking and authority for resolution/decision will rest with DGPC.

Exports

(a) *Crude Oil Export*

Submit a copy of Bill of Lading alongwith a copy of Sales Agreement, certificate of origin, name and address of the buyer with vessel and destination details to Custom/CBR. Copy of above should be sent to Ministry of Commerce/DGPC/EPB for record.

(b) *Re-Export of Equipment*

Submit copy of original import documents or transfer of equipment letter alongwith Bill of Lading, Packing list and shipping details (name, address for destination) to Ministry of Commerce, Customs and EPB/DGPC.

ANNEXURE 5

DISPOSAL OF VEHICLES, UTILITY ITEMS AND OTHER OBSOLETE MATERIAL

Items that are imported at concessionary duties and subsequently become scrap or obsolete may be disposed off in the following manner:

(a) *Obsolete junk material/equipment*

The material may first be offered to joint venture partners and other oil companies. In this case, since these companies are concessionary importers themselves, there will not be any issue of duty payment.

Should joint venture partners and oil companies refuse, the scrap may be disposed off through a public tender. Duty should then be applied at 5-1/4% of sale proceeds.

(b) *Procedure for disposal of vehicles*

For motor vehicles, there should be a minimum retention period of 5 years, since vehicles operating under field conditions approach the end of their useful lift at an accelerated rate. Thereafter, the vehicles may be disposed off in the manner prescribed in (a) above, except that full duty rate net of duties already paid, may be applied in case of vehicles subject to adjustment of depreciation @ 2% per month upto a maximum of 24 months in calculating duty on import value of the vehicle. This is in line with the non-concessionary importers. As a last resort the oil companies may continue to be allowed to abandon vehicles in favour of the Government of Pakistan without the payment of any duties and taxes whatsoever, as is the current practice.

(c) *Utility Items*

For disposal of utility items including airconditioners (capacity range 1 to 3 tons) refrigerator and washing machines, current rules shall apply.

ANNEXURE 6

LAND ACQUISITION

A working group comprising representatives from the Federal Government, the concerned Provincial Governments and the Industry shall be formed to review the procedures and submitt recommendations to the Cabinet within 6 months. The basic problems are:

1. Current Land acquisition procedure starting from Section 4 notification to the final stage of mutation takes several years. It is suggested that:
   - land acquisition procedure be simplified.
   - Guidelines be provided to Civil Administration for expeditious availability of land for exploration/production operations.
2. Government should fix land prices for various areas in accordance with the prevalent market price with some premium added to the market price for Oil/Gas exploration and production operations.
3. Lease rates should also be fixed as per Sr.No. 2 above.
4. Reservation of Government Land also entails a long procedure involving several months. Also the price fixed by the government is very high (Rs. 100,000 to Rs. 150,000 per acre for barren undeveloped lands). It is suggested that procedure in this case will be simplified for expeditious finalization. Rates fixed will be in line with prevalent market rate.
5. Procedure/Legislation will be enacted for handling of Lands which have already been leased out by owner to another party for agricultural purposes. In such situations both the Lessor/Lessee make claims on oil companies. Existence of a procedure/law will facilitate resolution of disputes and speedy availability of Land for Oil/Gas operations.
6. In some cases the land has been sold out by owner to another party on deferred payment basis and under a sale agreement. Till such time full payment is made by the buyer, a clear title of property does not exist in favour of anybody. This also becomes an un-resolvable issue. Procedure/law may be enacted for resolution of such issues as well.

EMPLOYMENT, TRAINING AND WELFARE PROGRAM

The following employment and training will be applicable in addition to current requirements in Concession Agreements and rules.

I & II years: 2 Geologists/Geochemists and related disciplines.
1 Geophysicists
2 Financial/Admin./Material

III & IV years: 2 Drilling/Petroleum Engineers.
1 Geophysicists
2 Lawyer/Petroleum Economist

Employment program should be implemented by the operator and compliance reported in the OCMs.

The annual training obligation[1] would amount to US $ 50,000 per annum during pre commercial stage and US $ 100,000 after commercial discovery.

Welfare Program

The amount of social welfare funds pledged by the companies in PCA must be utilized to give lasting benefit to the communities. Social welfare projects must be agreed with the local community and GOP keeping in view the following objectives.

i) Development of roads, water supply, health and educational facilities in the areas of their operations.
ii) Promotion of technical education.
iii) Rehabilitation of the mentally retarded and handicapped children
iv) Promotion of sports
v) Fight against narcotics.

Following minimum expenditure[1] will be expected:-

Pre-production US $ 100,000 per licence year.

Post Production

Production Rate (BOE/d)	Amount/Year (US$)
Less than 2,000	100,000
2,000 - 5,000	150,000
5,000 - 10,000	200,000
10,000 - and above	300,000

1. The levels of expenditure will be subject to review on an annual basis.