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PETROLEUM POLICY 1997

GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

(October 1997)

October 28, 1997

1 - INTRODUCTION

Pakistan's indigenous supply of oil of around 60,000 barrels per day meets only about one sixth of the country's current oil requirement and the balance is met through imports at a high cost of US\$ 2.5 Billion. This cost will continue to increase unless the current decline in production is reversed. At the same time the demand for natural gas is outstripping supply due to increased domestic, industrial and power generation requirements. Even if the high cost of oil import could be met, Pakistan lacks the necessary infrastructure to handle the increasing volumes of imported oil. Heavy investment is required to augment this infrastructure. There is thus an imperative need to attract private sector investment on improving the petroleum supply and infrastructure thereby allowing the Government to commit additional funds to the social sectors.

The 1994 Petroleum Policy proved attractive for the upstream sector. However it could not evoke sufficient interest in offshore areas and Balochistan Basin. It also stayed short in attracting interest in the downstream oil and gas sectors.

Adding dynamism to the process of improvement in the petroleum policy, a review of the existing policy has been carried out. Some changes have been made in the 1994 Policy for mobilization of greater resources, promoting private sector investment for enhancing indigenous oil and gas production. The changes are in the form of improved incentives, procedures, regulatory framework and transparency.

The 1997 Petroleum Policy offers major incentives in the upstream and downstream petroleum sectors including a package based on production sharing arrangement for offshore areas. Efforts for improvement in other areas will continue and necessary announcements will be made in due course through a dynamic process.

2 - EXPLORATION AND PRODUCTION SECTOR

2.1 PROCEDURAL AND REGULATORY MEASURES

2.1.1 Expeditious Disposal of Applications

- a. Procedure for clearances by Provincial Governments and security agencies (Defence, Interior, IB, ISI, etc.) has been streamlined through a “Green Area Map”. No area clearance would be required for concession blocks falling inside the green areas.
- b. The existing Block Award Process through competitive bidding (Annexure I) will continue. This will however not apply to a Government to Government arrangement.
- c. The Petroleum Concession Agreement (PCA) or Production Sharing Agreement (PSA) based on Model Agreements and the defined economic package, will not be circulated for concurrence of the Ministries/Departments of the GOP and will be submitted to the Minister for Petroleum and Natural Resources for final approval.
- d. All applications for Exploration Licences will be decided within 60 days. Applications which are contested may take upto 120 days but no more.
- e. The Negotiation Cell in the Directorate General of Petroleum Concessions (DGPC) will continue to function for expeditious disposal of applications in accordance with aforesaid deadlines (Annexure II).

2.1.2 Operations in Balochistan and Tribal Areas

- a. A high level committee will review the operational and security problems in Balochistan and the Tribal Areas of NWFP. This committee shall submit its recommendations in consultation with the Provincial Governments and other parties concerned within 4 months.
- b. Oil and Gas installations in Balochistan and the Tribal Areas shall be exempted from the application of Industrial Relations Ordinance, 1969.
- c. The law and order situation in and around the producing fields in Balochistan will be improved for sustaining optimum production.

2.1.3 *Holding Company*

A new 100% GOP owned Holding Company as outlined in Annexure-III will be formed to separate GOP's ownership and regulatory functions. The GOP participation in joint ventures will be handled through this Holding Company. Pending formation of such a company, the GOP's investment in joint ventures will continue to be handled by the Ministry of Petroleum and Natural Resources.

2.1.4 *Autonomy to Oil & Gas Development Corporation (OGDC)*

OGDC will be restructured on commercial lines and its Board of Directors strengthened, to allow it complete autonomy and authority in all administrative, operational and financial matters. As a first step OGDC will be converted into a joint stock company after necessary amendments to the OGDC Ordinance. The GOP will restructure its investments in OGDC to make it a viable joint stock company.

2.1.5 *Incentives for Local E&P Companies*

There is a 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. Therefore, the following incentives are being provided to local E&P companies:

- a. A local E&P company investing with a minimum of 5% working interest during exploration phase will be assigned an additional share out of GOP's Working Interest after Commercial Discovery. Provided, however, that if two or more local E&P companies participate in a joint venture, then the GOP will assign a maximum of 5% working interest out of its share to such companies on a pro-rata basis. However, such E&P companies should neither be affiliated, associated, holding or subsidiary companies of each other. Except for this and other incentives mentioned in this Policy, local and foreign E&P companies will be treated equally.
- b. Local E&P companies will, on a case to case basis, be entitled during the exploration phase to receive foreign exchange against payment in Rupees to meet their day to day obligations under Permits, Licences and PCAs. After Commercial Discovery, local E&P companies would be paid upto 30% of their sale proceeds in foreign currency to meet their day to day operational requirements. For project financing after Commercial Discovery, local E&P companies will be required to make their own foreign exchange arrangements.

2.1.6 *Gas Allocation*

The GOP will decide within 3 months of Commercial Declaration in Zone 3 to allocate gas to specified buyers (gas companies/individual consumers like power/fertilizer). Thereafter the gas producers and the specified buyers 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 or no agreement is reached as specified above, the producers will be free to dispose of the gas as they wish. In the case of gas production from Zones 0, 1 and 2 the producers will be free to dispose of the gas as they wish.

2.1.7 *Improvement of Prospectivity*

In addition to the exploratory effort envisaged through the private sector, the GOP has also devised an approach for acceleration of oil and gas exploration including specific budgetary allocations for basin studies, geological/geochemical studies, seismic surveys etc. in order to achieve a break-through success in prospectivity and to improve the data bank. The GOP would institute the forementioned programmes directly, on a multiclient basis, through OGDC or through service contractors. A minimum percentage of OGDC’s profit would be dedicated for exploration and the Provinces would be encouraged to allocate a portion of their royalty and development surcharge proceeds for exploration activities.

2.1.8 *Miscellaneous Matters*

- a. DGPC is authorized to allow export of data for primary processing.
- b. The system of Security Clearances of expatriates has been streamlined. A Security Board has been constituted in the Interior Division which meets every fortnight to clear the pending cases.
- c. Declaration of a Discovery as commercial in the on-shore areas can be accepted even on the basis of one well, subject to justification, current rules and regulations.
- d. Steps will be taken to streamline the procedure for land acquisition by E&P companies. A working group comprising representatives from the GOP, the concerned Provincial Governments and the Industry has been formed which is reviewing the procedures and will submit its recommendations to the Cabinet within 6 months (Annexure IV).

2.2 ECONOMIC TERMS

I On-shore areas

The Economic Package has been defined and fixed for three defined on-shore geological Zones (1, 2, and 3) on the basis of prospectivity and corresponding financial and economic parameters. The Zones are shown in Annexure V. The economic package will be reviewed from time to time in the light of additional information and may be subsequently adjusted to maintain international competitiveness.

2.2.1 *GOP Working Interest (Pre and Post Commercial Discovery)*

All PCA's will provide for a 5% carry for the GOP during the exploration phase. The expenditure incurred will be reimbursed by the GOP in installments from Commercial Discovery through production over a 5 year period. The level of GOP Working Interest in each Commercial Discovery in each Zone will be as under:

Zone-1 (High Risk/High Cost).....	15%
Zone-2 (Medium Risk/High Cost).....	20%
Zone-3 (Medium Risk/Low to High Cost).....	25%

2.2.2 *Producer Pricing*

- a. **Oil:** The price for Crude Oil delivered at the refinery gate shall be based on the C&F price of a comparable Crude Oil or a basket of Arabian/Persian Gulf Crude Oils plus or minus a quality differential between the basket and the local Crude Oil. No other adjustment or discount will apply.
- b. **Condensate:** The price for Condensate will be the FOB price of internationally quoted comparable Condensate. No other adjustment or discount will apply.
- c. **Non-Associated Gas:** The price for Non-Associated Gas will be indexed to the C&F price of a basket of imported Arabian/Persian Gulf Crude Oils as follows:

Zone-1	77-1/2%
Zone-2	72-1/2%
Zone-3	67-1/2%

- d. **Associated Gas:** The price for Associated Gas shall be equal to the price of Non-Associated Gas as applicable to each Zone for acceptable gas specifications.
- e. **Liquefied Petroleum Gas:** The current LPG producers will be given incentive for incremental production over currently committed levels, which come on stream after the announcement of this Policy, through a higher price (FOB) subject to a maximum of US\$ 175 per metric ton. For new projects, C&F parity prices, based on proper port off-loading facilities will be allowed.
- f. **Fixed Return Formulae:** Application of fixed return formulae to the industry will be progressively changed to market related formulae after giving due consideration to relevant factors.

2.2.3 *Import Duties, Taxes, Fees*

- a. Incentives in respect of Import Duties/Taxes and Fees for the E&P companies and the “service companies” are set out in SRO 400(I)/97 dated 31st May, 1997 (Annexure VI).

2.2.4 *Production Bonuses*

- a. Production bonuses for Zones 1, 2 and 3 will be payable on a Concession Area basis, as under:

<u>AMOUNT, US\$</u>	<u>CUMULATIVE PRODUCTION (MMBOE)</u>
500,000	On Commencement of Commercial Production
1,000,000	30
1,500,000	60
3,000,000	80
5,000,000	100

- b. Local E&P companies will pay their share of Production Bonuses in Pakistan Rupees.
- c. As long as the GOP is OGDC’s majority shareholder, OGDC will not be subject to Production Bonuses. This will also be true for Government Holdings.
- d. Production Bonuses will be expended on infrastructural development in and around the Concession Areas.

2.2.5 *Incentives for Deeper Drilling*

For existing Lease areas, if an E&P company discovers hydrocarbons below the deepest known producing horizon, such company shall be entitled to the price formula applicable to the respective Zone under this Policy for the hydrocarbons produced from the deeper horizon.

2.2.6 *Local Employment, Training and Social Welfare*

Local employment, training and social welfare schemes will apply as per Annexure VII.

II Off-shore areas

2.2.7 A new geological Zone '0' to cover off-shore areas has been defined as shown in Annexure VIII. The economic package for this zone has been prepared based on production sharing arrangement as detailed in Annexure IX. This off-shore package will apply to all new grants in off-shore areas. The E&P companies who hold exploration licences in off-shore areas and are presently governed by Zone I terms, can apply for conversion to production sharing arrangement. Otherwise they will continue to be governed by Zone I terms as per PCAs. This off-shore package will apply to E&P companies who are granted Exploration Licences during a period of 5 years from the enforcement of the new package.

2.3 APPLICABILITY

- a. These incentives shall apply to E&P companies who sign PCAs/PSAs after the announcement of this Policy.
- b. The incentives given in respect of import duties, taxes and fees shall be applicable to all E&P companies holding Permits, Licences, Leases who sign the Supplemental Agreements or those who sign PCAs/PSAs after the announcement of this Policy.
- c. The remaining upstream incentives given in this Policy shall also be applicable to "new exploratory efforts" of E&P companies operating in on-shore areas. To give effect to the aforesaid incentives, Supplemental Agreements will be entered into between the GOP and eligible companies who are willing to accept the terms of this Policy as set out in (b) and (c) above as a package.
- d. Zone '0' package for off-shore will be effective 1st January, 1998 after the release of Model Production Sharing Agreement.

Note: The term "new exploratory efforts" means Exploration Wells spud after the announcement of this policy.

3 - OIL REFINING AND LUBES

3.1 REFINERIES

- 3.1.1 No permission is required for setting up new refineries or for expanding the existing ones.
- 3.1.2 Import parity price formula for new oil refinery projects has been linked to a market related mechanism of refined products' prices based on Singapore Mean FOB spot, price alongwith all applicable local charges as detailed in Annexure-X. There will be no minimum Rate of Return guarantee for new refinery projects. In addition the petroleum refinery investment will be included in the package for facilitation and incentives in the Investment Policy to be announced shortly.
- 3.1.3 The limit of 10-40% on the rate of return for existing refineries will be removed subject to agreements being executed with the Ministry of Petroleum and Natural Resources covering development and expansion plans.
- 3.1.4 Other income earned from non-refinery operations can be retained by the refineries.
- 3.1.5 Import of crude oil will be permitted from any source, subject to price economics after upliftment of local crude oil if so allocated.
- 3.1.6 Export of surplus products will be allowed freely.
- 3.1.7 GOP will not give any product offtake right guarantee. Refineries shall be allowed to sell products to any marketing company or they can setup their own companies.
- 3.1.8 Custom/relevant authorities will accept instructions for release of equipment on the basis of the recommendations of Regulatory Authorities. Import duties and taxes will be payable as per applicable SROs.

3.2 LUBES

- 3.2.1 Lube products will remain free from price control.
- 3.2.2 No permission will be required for establishing lube blending, reclamation, grease and wax plants except registration for quality check based on the following:-

 - 3.2.2(i) Certification of HDIP that plant is technically sound to produce products of approved specifications.
 - 3.2.2(ii) Technical services agreements will be executed with HDIP except in respect of plants owned by or set up in collaboration with oil marketing companies/multi-national oil companies.
- 3.2.3 To have more effective quality control, all existing reclamation plants (other than those owned by or having collaboration with oil marketing companies or multi national oil

companies) will be required to enter into technical services agreements with HDIP by 30th June, 1998.

3.2.4 Investors will be free to procure raw materials from local or foreign sources, if not available locally.

3.2.5 Used lubricating oils will be sold only to registered reclamation plants operating in accordance with the prescribed guidelines.

4 - OIL MARKETING AND DISTRIBUTION

4.1 MARKETING COMPANIES' MARGINS AND DEALERS' COMMISSION

The commission of the Oil Marketing Companies(OMCs) and dealers will be reviewed and adjusted annually by the GOP, if necessary, to enable them to invest in the construction of commercial POL storages, logistics and allied facilities for which a specific linkage would be stipulated. Improved margins and infrastructure will also help to eliminate short measurements, adulteration and other malpractices.

4.2 RETAIL OUTLETS

Development of retail outlets will be left to the OMCs subject to environmental and safety rules.

4.3 QUALITY CONTROL

Anti Adulteration Law will be introduced by June, 1998 for strict quality control and enforcement.

4.4 Import duties and taxes will be payable as per applicable SROs.

5 - INFRASTRUCTURE DEVELOPMENT

- 5.1** Tariff for new white/black oil pipeline projects will be determined based on competing options of transporting the products by road or rail.
- 5.2** A storage surcharge of Rs. 0.10 per liter will be imposed on POL products for construction of strategic storages through NLC or OMCs for a 45 days cover by the year 2000.
- 5.3** Import duties and taxes will be payable as per applicable SROs.

6 - NATURAL GAS/LPG/CNG

6.1 NATURAL GAS IMPORTS

In view of the depletion of existing fields, the import of Natural Gas would be inevitable and the GOP will encourage the import of Natural Gas.

6.2 SALE OF NATURAL GAS TO THE PRIVATE SECTOR

After the Natural Gas Regulatory Authority (NGRA) has been established and subject to availability of gas, the private sector may obtain gas from trunk mains for distribution in specific areas or for specified purposes like power generation and fertilizer. For this purpose, a bulk purchase price formula will be announced for sale of gas to private distributors.

6.3 NATURAL GAS ALLOCATION FOR MANUFACTURING INDUSTRIES

Manufacturing industries having continuous operations like glass, textile, ceramics, pharmaceutical etc. will be given priority, after existing commitments are met, for gas allocation over power generation to enable them to operate round the year.

6.4 NATURAL GAS CONSUMER PRICE

Instead of increasing the consumer price of gas to improve the economics of gas companies, non-tariff measures have been taken to reduce the gas losses and improve the efficiency. However, steps will be taken in due course to rationalise the gas price subsidy to domestic and fertilizer sector.

6.5 LIQUEFIED PETROLEUM GAS (LPG), IMPORTS AND TERMINAL

The Government has taken a bold and far reaching initiative and liberalised integrated infrastructural projects of LPG free from Government guarantees and permissions. Now all credible LPG companies are free to develop integrated projects of LPG import terminals, storage facilities, inland transportation, storage depots and retail marketing/distribution, without requiring any guarantees or permission from the Government except the marketing licence which would be issued without any difficulty.

6.6 COMPRESSED NATURAL GAS (CNG)

The use of CNG in vehicles is being encouraged to reduce pressure on petroleum imports, to curb pollution and to improve the environment. The existing price differential between CNG tariff and motor gasoline will be maintained as an incentive for CNG use.

Efforts are being made so that imports of CNG machinery, equipment, conversion kits, CNG cylinders etc. by CNG companies are exempted from duties and sales tax for a period of five years. Also efforts will be made to eliminate double taxation in the form of Excise duty on CNG.

7 - MISCELLANEOUS

7.1 ENERGY CONSERVATION, ENVIRONMENT AND SAFETY CONTROL

- a. Incentives in respect of Import Duties, Taxes, Licence/Authorisation Fees in respect of E&P companies are set out in Annexure VI. Down stream oil and gas companies will be governed by the relevant SROs.
- b. New environmental and safety regulations shall be applicable to all companies.
- c. A standing task force has been established to address the problems of the oil and gas companies and to oversee and coordinate safety hazards at the oil/gas fields and other oil and gas installations.

7.2 REGULATORY AUTHORITIES

The relevant Regulatory Authority shall notify the CBR from time to time of the list of machinery, equipment, materials, accessories, specialised vehicles, spares, chemicals and consumables required to be imported by the petroleum sector. A general indicative list of the items covered under this policy will be jointly prepared by the Regulatory Authorities within one month of the announcement of the policy. This list will be subject to amendments by additions and deletions from time to time as considered appropriate by the relevant Regulatory Authority. Whether a specific item falls within the list shall be decided by the relevant Regulatory Authority. Until the general indicative list is finalised the relevant Regulatory Authority will certify whether a company or an item can avail the concessions and incentives set out herein.

Note: For the purposes of these incentives the Regulatory Authorities shall be as under:

PETROLEUM EXPLORATION, PRODUCTION AND PETROLEUM SERVICE COMPANIES	DGPC
DOWN STREAM OIL SECTOR INCLUDING OIL REFINERIES, MARKETING COMPANIES AND PIPELINES	DG (Oil)
DOWN STREAM GAS SECTOR INCLUDING IMPORTS FOR GAS PIPELINES, LPG, CNG AND OTHER GAS PROJECTS.	DG (Gas)
PETROLEUM TERMINALS	DG (Ports & Shipping)
ENERGY CONSERVATION, ENVIRONMENT AND SAFETY CONTROL	RELEVANT REGULATORY AUTHORITY

7.3 IMPORT OF DOMESTIC APPLIANCES

Imports of domestic appliances like room air-conditioners, fridges, freezers etc. and saloon vehicles will not be allowed. Import of specialised vehicles will be allowed. The Regulatory Authority will certify whether any vehicle qualifies as a specialised vehicle.

7.4 FOREIGN EMPLOYEES AND CONSULTANTS

Foreign employees and consultants of petroleum sector companies and foreign employees of such companies' contractors and sub-contractors will be entitled to import as per applicable SROs used and bonafide personal and household effects, excluding passenger vehicles provided that the effects were acquired or were in such person's possession before his arrival in Pakistan or were imported within 6 months of such arrival. Such personal and household effects may thereafter be freely exported free of Export Duties and Fees. Such articles shall not be sold or disposed off or transferred in Pakistan except with the prior permission of the Regulatory Authority and on a payment of Import Duties and Taxes at the rate and value operating on the date the goods were first imported into Pakistan on the declared value of the goods at the time of import less depreciation @ 10% per annum.

7.5 DISPUTES IN RESPECT OF IMPORTS

In the event a dispute arises as to whether any item can be imported, the amount of import duty payable thereon, or the description or valuation of such item, the item will be immediately released by the Customs Department against a corporate guarantee. A subsequent certificate from the relevant Regulatory Authority to the effect that item imported is covered under the Policy shall be given due consideration by the Customs Department towards finally resolving the dispute.

7.6 EMERGENCY CONDITIONS

In the event that an emergency condition occurs in connection with operations by a petroleum sector company which seriously endangers life or property, the relevant Regulatory Authority shall declare an emergency and the operating company shall be allowed to import any item or items considered necessary by the said company to deal with the emergency under intimation to the Regulatory Authority and Collector of Customs without formalities or delays and the formalities will be attended to thereafter as soon as practicable.

7.7 ARBITER

The relevant Regulatory Authority shall be the ultimate arbiter between various GOP Departments in respect of the interpretation of Agreements.

7.8 INTER-COMPANY TRANSFERS

The relevant Regulatory Authority is authorized to allow the inter-company transfer of machinery, equipment, materials, accessories, specialised vehicles, spares, consumables and chemicals where both are petroleum sector companies enjoying similar duty concessions under the Policy. Where the petroleum sector companies are subject to different rates of duty the Regulatory Authority may allow the transfer under intimation to CBR on payment of differential rate of duty.

7.9 CONTINGENCY PLANS

In view of the petroleum sector's lack of flexibility to adjust to crises situations due to infrastructural constraints, alternative plans/fall back positions will be formulated. A study will be undertaken to conceive all possible adverse situations the petroleum sector may face and to formulate appropriate contingency plans for all key sectors like refining, storage, transportation and distribution etc. These plans will be integrated to provide necessary alternatives to the GOP.

7.10 DATABASE

The existing upstream and downstream data base in the Ministry of Petroleum and Natural Resources will be strengthened to undertake quantitative analysis and to simulate real life problems and to answer "what if" questions.

7.11 PROTECTION OF INVESTMENT

Foreign investors whether on their own or in association with the local investors will enjoy the benefits under the Private Investment (Promotion and Production) Act, 1976, the Enforcement of Shari'ah Act, 1991, and the Protection of Economic Reforms Act, 1992.

Government will consider the question of amendment of the Protection of Economic Reforms Act, 1992 so as to include all policy incentives within the scope of "Economic Reforms" as defined in Section 2(b) of this Act.

7.12 DISINVESTMENT/PRIVATISATION

Disinvestment/Privatisation of Public Sector companies/corporations such as Sui Northern Gas Pipelines Ltd., Sui Southern Gas Company Ltd. and Oil & Gas Development Corporation is under consideration of the Privatisation Commission. Efforts are in hand to expedite this process.

7.13 PETROLEUM REGULATORY BOARD AND POLICY CELL

7.13.1 Petroleum Regulatory Board

An independent Petroleum Regulatory Board (PRB) will be established as early as possible and will be funded through an administrative fee or a cess. The Department of Petroleum and Energy Resources will be merged with the PRB and the Ministry after the creation of PRB.

7.13.2 Petroleum Policy Cell

A Petroleum Policy Cell for the ongoing review of the Petroleum Policy and the issues facing the petroleum sector will be set up in the Ministry of Petroleum and Natural Resources as soon as possible.

7.14 IMPLEMENTATION OF PETROLEUM POLICY

7.14.1 Implementation committee

The implementation of this policy will be coordinated by a Committee comprising the following:

- | | |
|---|------------------|
| a. Minister for Petroleum & Natural Resources | Chairman |
| b. Secretary, Planning & Development | Member |
| c. Secretary, Finance Division | Member |
| d. Secretary, Petroleum & Natural Resources | Member/Secretary |

7.14.2 Formalisation of the Petroleum Policy

Existing laws, rules, procedures, policies and orders etc. will be amended to reflect these policy changes. The Central Board of Revenues (CBR), Ministry of Commerce and other Ministries concerned shall issue specific SROs and notifications for the petroleum sector to give effect to the changes within one month of the announcement of this policy.

7.14.3 Effect of the Petroleum Policy

This policy supersedes the 1991 Petroleum Policy, the 1993 Petroleum Exploration and Production Policy and the 1994 Petroleum Policy without affecting the rights that may have accrued to any party under the superseded policies.

8 - ANNEXURES

BLOCK AWARD PROCESS

It is a prerequisite for this Block Award Process that the standard Model Agreements are followed. All applicants will be required to follow the Model Agreements. The new process will be as follows:

- (a) A company can apply for a block in accordance with the laid down grid system and the rules without a Work Programme.
- (b) Offers will be invited through the press within 15 days thereafter from interested E&P companies.
- (c) The first applicant company and any other company wishing to compete for a block will have 30 days to submit sealed bids specifying the Work Programme and the related minimum financial obligation in US Dollars. The GOP reserves the right to seek a bid bond of an appropriate value. All the economic terms and conditions will remain fixed as defined in this Policy, unless relaxed by the GOP.
- (d) Bids will be opened in public and the winner decided on the basis of the best Work Programme and related financial commitment offered. The first applicant company may be given the opportunity to match the best Work Programme and financial obligation. This however, cannot be claimed as a matter of right. If no competing bids are received, the first applicant company can be considered for award provided the company has the technical and financial standing and offers a reasonable Work Programme commensurate with the prospectivity of the area.
- (e) Applications submitted by OGDC will also be subject to the same process.
- (f) If a company applies for a Reconnaissance Permit and another for an Exploration Licence, preference shall clearly be given to the applicant for the Exploration Licence.
- (g) A Model Production Sharing Agreement will be prepared by consultants after necessary amendments in the law. This will be available from 1st January, 1998.

INVITATION TO BID
(**Block No.**_____)

Applications are invited for grant of Petroleum rights over the Exploration Block No. _____ (technical name) (_____ - common name) in accordance with the provisions of the Pakistan Petroleum (Exploration and Production) Rules 1986 and the Petroleum Policy.

Applicants are required to submit their Work Programme and related minimum financial obligations under a sealed cover to the DGPC, 1019, Pak Plaza, Fazal-e-Haq Road, Blue Area, Islamabad by _____ (time) _____ (date).

The sealed bids will be opened publicly at _____ (time) on _____ (date) in the DGPC offices.

DGPC will select a successful bid on the basis of the best Work Programme and related minimum financial obligations consistent with the Rules and the Petroleum Policy.

DGPC reserves the right to accept or reject any application without assigning any reason.

The successful bidder will be notified in writing by the DGPC by no later than _____ (date).

Director General,
Petroleum Concessions

NEGOTIATION CELL

DGPC staffing and resources will be augmented. In order to meet the deadlines, a separate negotiating cell headed by Director General, Petroleum Concessions will be constituted on a full time basis and will comprise:

- (a) Legal Advisor,
- (b) Petroleum Economist,
- (c) Petroleum Explorationist.

It has been decided to finance these positions through training budgets under PCAs/PSAs with E&P companies. The Ministry of Petroleum & Natural Resources will select and appoint the appropriate professionals on contract basis.

FRAMEWORK OF THE GOP HOLDING COMPANY

A Holding Company 100% owned by the GOP will be created for managing the interests of the GOP in this sector. In addition this company will assume the GOP's interest in new PCAs and Production Sharing Agreements (PSAs). Such a company will, however, not operate like OGDC. There will be no risk in these new ventures as under the arrangement the 5% GOP interest will be carried by the E&P companies until Commercial Discovery. The GOP will reimburse the 5% exploration cost of the E&P companies related to a Commercial Discovery from its share of production in installments over a 5 year period from the date of Commercial Discovery.

The Holding Company will receive all the revenues from the present State holdings and from future discoveries.

The technical nature of the business warrants that the Holding Company be manned by highly qualified and competent industry experts. The framework will be as follows:

Composition of the Board of the Holding Company:

- (a) Chairman/Chief Executive: He should be a Pakistani professional with extensive industry experience and should be appointed for a fixed tenure by the Prime Minister.
- (b) Finance Director: He should be a competent petroleum economist/financial expert and appointed for a fixed tenure by the GOP.
- (c) Technical Director: He should be a competent industry professional with relevant experience appointed by the GOP for a fixed tenure.
- (d) Non Executive Directors shall not be from the PRB.

All investment decisions by the company will be based on sound financial and economic criteria.

LAND ACQUISITION

A working group comprising representatives from the Federal Government, the concerned Provincial Governments and the Industry has been set up to review the procedures and submit recommendations to the Cabinet. The basic problems are:

1. Current Land acquisition procedure starting from Section 4 notification to the final stage of mutation takes time. Therefore there is a need for:
 - Land acquisition procedure be simplified.
 - Guidelines to be provided to Civil Administration for making land expeditiously available for exploration/production operations.
2. The respective Governments need to fix land prices for different areas in accordance with the prevalent market rates with some premium added to the market price for oil/gas exploration and production operations in order that acquisition proceedings are not unnecessarily delayed.
3. Lease rates also need to be fixed as per Sr. No.2 above.
4. As reservation of Government Land also entails a long procedure, it needs to be simplified for expeditious finalization of cases. Rates need to be fixed in line with prevalent market rates.
5. Procedure/Legislation needs to be enacted for handling of Lands which have already been leased out by an owner to another party for agricultural purposes. In such situations both the Lessor/Lessee make claims on E&P companies. Formulation 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, clear title of property does not exist in favour of either the seller or buyer. A Procedure/Law needs to be enacted for resolution of such issues as well.

**ZONAL AREA MAP
(On-shore)**

GOVERNMENT OF PAKISTAN
MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

Islamabad the 31st May, 1997.

NOTIFICATION
(CUSTOMS)

S.R.O.400(I)/97.- In exercise of the powers conferred by section 19 of the Customs Act, 1969 (IV of 1969), and sub-section (2) of section 13 of the Sales Tax Act, 1990, (VII of 1990), the Federal Government is pleased to exempt the machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumables, as are not manufactured locally, if imported by the Exploration and Production Companies including OGDC, their contractors and sub-contractors (hereinafter called E&P companies), and Service Companies for the projects mentioned in column (2) of the table below for the phases mentioned in columns (3) thereof, from custom-duties including regulatory duty and sales tax, subject to the following conditions, namely:-

- (1) Only such machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumable shall be entitled to the exemption under this notification, as are recommended by the relevant Regulatory Authority from time to time. The relevant Regulatory Authority shall, however, take such measures as it deems necessary to ensure that the concerned companies are entitled to avail exemption under this notification only on machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumables as is necessary to meet their actual project requirement.
- (2) Exemption available under S.No.1 of this notification shall be admissible only to such E&P companies who hold permits, licences, leases and who enter into supplemental agreements with the Government of Pakistan in terms of the said Petroleum Policy or those who sign new petroleum concession agreements or to Service Companies. Exemption under S.No.2 to S.No.7 shall be available to E&P companies without any such conditions.
- (3) In respect of goods imported under S.No.1 of the table of this notification, after the first Commercial Discovery has been made in the concession area, as certified by the relevant Regulatory Authority, the respective E&P Company shall pay to the collector of Customs on an annual deferred basis a consolidated fee equal to 3% of the total invoice value as determined by the Collector of Customs at the time of import of the equipment, materials, specialized vehicles, accessories, spares, chemicals and consumables imported by it, its contractors and sub-contractors. All the activities subsequent to such first commercial discovery in the concession area will attract the aforesaid fee of 3%. Goods imported free of import duties under S.No.2 to 7 of the Table, shall not be subject to such consolidated fee.
- (4) Items imported by Service Companies free of customs duties and sales tax if sold to E&P companies as part of their services which are rendered after first commercial discovery in a concession area, will be included in the total invoice value for calculation of the fee

payable as aforesaid. The value to be taken for such items imported by Service Companies under this notification for inclusion in the total invoice shall be their value as determined by the Collector of Customs at the time of import.

- (5) The E&P Company shall submit an account of all import invoices to the Regulatory Authority and the Collector of Customs for confirmation with their record at the time of annual payment.
- (6) The companies availing benefits under this notification shall furnish to the Collector of Customs an Indemnity Bond in the form set out in the Annex-I to the extent of customs duties and sales tax exempted under this notification on the import of items of the value as accepted or determined by the Collector of Customs. The Indemnity Bond shall be valid for a period of five years for the amount of custom duties and sales tax payable and exempted under this notification.
- (7) The Indemnity Bond shall be discharged on production of a certificate set out in the Annex-II issued by the Assistant Collector of Customs and Central Excise in whose jurisdiction the project is located to the effect that items imported under this notification have been duly installed, consumed, used or have been scrapped in the prescribed manner or continue to be held in project inventory of the company or have been transferred to another company.
- (8) The Indemnity Bond may be extended by the Collector of Custom for a further period of one year if the relevant Regulatory Authority recommends such extension for any reason. The Collector of Customs may, however, require for substitution of such Bond from transferee company for outstanding amount of custom duties and sales tax on items transferred to such transferee company which is entitled to import such items under this notification.
- (9) In the event of non-production of a certificate as required under sub-para (7) and (8) above, the Collector of Customs shall enforce the Indemnity Bond and proceed to recover Government dues under section 202 of the Custom Act, 1969 (IV of 1969) and section 48 of the Sales Tax Act, 1990 (VII of 1990) and the rules made thereunder.
- (10) In the event a dispute arises whether any item is entitled to the exemption under this notification, the item/consignment will be immediately released by the Collector of Customs against a corporate guarantee from the company. A subsequent certificate from the relevant Regulatory Authority that the item is covered under this notification shall be given due consideration by the Collector of Customs or the Central Board of Revenue as the case may be, towards finally resolving the dispute.
- (11) In the event that an emergency condition occurs in connection with operations by a E&P Company which seriously endangers life or property or the operations of the project, the relevant Regulatory Authority shall declare an emergency and the company shall be allowed to import any item or items considered necessary by the said company to deal with the emergency under intimation to the Regulatory Authority and Collector of

Custom without fulfilling such formalities as are likely to cause delay and such formalities will be attended to thereafter as soon as practicable; and

- (12) Items imported free of Customs duties and sales tax under this notification which become surplus, scrap, junk, obsolete or otherwise required to be disposed of, shall be disposed of in the following manner, namely:-
- (i) In the event an item other than vehicles, is sold, under intimation to the Central Board of Revenue, to another company entitled to the benefits of this notification, no customs duties and sales tax shall be levied or charged. If the item is not sold to such a company, it shall be sold through a public tender/auction and import duties and taxes shall be recovered at the consolidated rate of 5-1/4% of the sales proceeds;
 - (ii) For vehicles there would be a minimum retention period of five years after which the vehicles may be disposed of in the manner provided in (i) above except that import duties and taxes shall be charged at full rates subject to an adjustment of depreciation @ 2% per month up to a maximum of twenty-four months. Vehicles can be surrendered at any time to the Collector of Customs without payment of any import duties and taxes under intimation to the Central Board of Revenue; and
 - (iii) Any item imported free of import duties and taxes under this notification may be exported for replacement, repair, modification or renovation and may be re-imported without payment of any customs duties and taxes subject to the production of a certificate from the Regulatory Authority to the effect that the item needs to be exported for replacement, repair, modification, or renovation, as the case may be, and all the conditions prescribed in the notification shall, mutatis mutandis, apply on the re-import of such items:

Provided that the items which, for having been rendered scrap with change in their physical status/composition/condition and PCT classification, will be dealt with as scrap and chargeable to Customs duties and sales tax accordingly at standard rates.

Explanation:- In this notification, “Regulatory Authority” means the Regulatory Authority as specified in Annexure VI to the Petroleum Policy, 1994.

TABLE

S.N. (1)	Project Description (2)	Project Phase (3)
1.	Petroleum Projects, covered under Petroleum Concessions Agreements, Permits, Licences and Leases	Exploration, Development, Production, Compression and Enhanced Recovery.
2.	Refinery projects.	Establishment (Initial Installation), Expansion, Modernization, and Upgradation.
3.	Oil and Gas Pipeline Projects.	Oil Transportation and Gas Transmission Distribution (as determined by the relevant Regulatory Authority)
4.	Liquid Petroleum Gas (LPG) Projects.	Establishment (Initial Installation), and Expansion of LPG Processing and Extraction Plants, LPG Bottling and Handling Facilities.
5.	Compressed Natural Gas (CNG) Projects	Establishment of Natural Gas Compression, Re-filling and Outlet Facilities, the Conversion of Vehicles to CNG and Transportation of CNG through Specialized Vehicle Mounted System (SVMS)
6.	Petroleum Terminal Projects	Establishment of port terminals mainly used to handle petroleum products including crude and fuel oil, LPG and CNG whether for import or export.
7.	Energy Conservation, Environment and Safety Control Projects.	Energy Conservation, Efficiency Enhancement, Pollution, Environmental and Safety Control.
8.	Construction and Erection of Projects listed at S.No.1 to S.No.7 above.	During all phases listed at S.No.1 to S.No.7 above.

(on appropriately stamped non-judicial paper)

INDEMNITY BOND

THIS DEED OF INDEMNITY is made on the _____ day of _____ BETWEEN Messrs _____ having registered office at _____ (hereinafter called "the importer" which means and includes their successors, administrators, executors and assignees), of the one part, AND THE PRESIDENT of Pakistan through the Collector of Customs, (hereinafter called "the Collector of Customs"), of the other part;

WHEREAS the Government of Pakistan has, by its decision contained in Notification No.S.R.O.400(I)/97 dated the 31st May, 1997 and subject to the conditions given in the said Notification, been pleased to direct that machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumables as are not manufactured locally, shall be exempt from all customs-duties and sales tax, leviable thereon, if imported for the projects specified in the table of the said notification.

AND WHEREAS M/S _____ having registered office at _____ have imported the items mentioned in the Schedule (please specify in the Schedule, description, quantity and value of items imported) to this Bond for the purpose of (please specify the particulars of the project and phase of the project).

NOW, THEREFORE, in consideration of the release of the goods without payment of customs duties, and sales tax the importer binds himself to pay on demand to the Collector of Customs the sum of Rs. _____ being the Customs duties and sales tax leviable on the goods, if the importer fails-

- (i) to produce a certificate of verification on the format set out in Annex-II from the concerned Assistant Collector of Customs and Central Excise as required under the said notification within the period as approved by the relevant Regulatory Authority.
- (ii) to produce such other evidence as the Collector of Customs may require to satisfy himself that the goods have been installed, used, consumed, scrapped, retained in the project inventory or transferred, as the case may be, in accordance with the conditions of the said Notification.

The importer further agrees and binds himself that the amount covered by this Bond may be recovered as arrears of customs duties and sales tax under section 202 of the Customs Act, 1969 (IV of 1969) read with Section 48 of the Sales Tax Act, 1990 (VII of 1990) and the rules made thereunder.

This Bond shall be rendered void when the aforesaid certificate has been produced and

the Collector of Customs is satisfied that the importer has fulfilled all the conditions of this Bond and the aforesaid Notification.

Signed by the importers on this _____ day of _____ 19____.

(Authorized Officer)
Name and permanent address

Collector of Customs
(on behalf of the President)

Witness _____
(Signature, name, designation and full address).

Witness _____
(Signature, name, designation and full address).

Note:- The amount of Indemnity Bond may be reduced by the Collector of Customs, if any company produces a certificate from relevant Assistant Collector of Customs and Excise to the effect that part of the goods covered under the Indemnity Bond has been installed, used, consumed or transferred, as the case may be, in terms of the said Notification during the validity period of the Indemnity Bond.

CERTIFICATE

Certificate No. _____ dated _____ I Assistant Collector, Customs and Central Excise, _____ is fully satisfied that the goods imported by Messrs _____ under the provisions of notification No. SRO 400(I)/97 dated the 31st May, 1997, against Bill of Entry No. _____ dated _____ and IGM No. _____ dated _____ and Index No. _____ have been duly installed, used, consumed, scrapped, transferred to Messrs _____ as per permission granted (if required) by the Central Board of Revenue vide its letter No. _____ dated _____, as the case may be, in terms of the conditions of the aforesaid notification in their project (give details of the project). These goods were covered under Indemnity Bond No. _____ dated _____ deposited with the Collector of Customs _____ and cleared without payment of Customs duties and sales tax on the basis of recommendation No. _____ dated _____, issued by the Regulatory Authority as defined in Annex-VI of Petroleum Policy of 1994.

This certificate is issued to meet the requirements of Notification SRO 400(I)/97 dated the 31st May, 1997 and the Collector of Customs concerned may charge fee @ 3% as and if required under the said notification after confirmation of the actual phase of the said project from the Regulatory Authority.

Note:- Copies of this certificate should be sent to the concerned Collector of Customs, Regulatory Authority, Secretary (Machinery), CBR besides the importer. The Collector of Customs concerned will inform the concerned Regulatory Authority, Secretary (Machinery), CBR and the Assistant Collector who has issued this certificate about the discharge of the Indemnity Bond and the payment of aforesaid fee if required from and made by the importer in terms of notification SRO 400(I)/97, dated the 31st May, 1997.

(Name, Stamp and Signature of
Assistant Collector)

[F. No. 3(9) Mach./97.]

RIAZ AHMAD MALIK,
Additional Secretary.

EMPLOYMENT, TRAINING AND WELFARE PROGRAM

EMPLOYMENT AND TRAINING

Training shall be provided annually by foreign and local E&P companies. A minimum expenditure of US Dollars 10,000 per Licence Year at the Pre-Commercial Production stage and US Dollars 25,000 per Lease Year during the Post Commercial Production stage will be incurred which will be subject to review from time to time.

Employment programs for Pakistani nationals shall be agreed upon with DGPC on an annual basis.

WELFARE PROGRAM

The amount of social welfare funds pledged by the companies (local and foreign) in their respective agreements must be utilized to give lasting benefit to the communities. Social welfare projects must be agreed with the local community and GOP.

The following minimum expenditure shall be incurred on welfare projects:

a) Pre-Commercial Production US\$ 10,000 per Licence Year for Zone 1 and US\$ 20,000 per Licence Year for Zones 2&3

b) Post Commercial

Production rate (BOE/d)	Amount/Lease Year (US\$) (For all Zones)
Less than 2,000	20,000
2,000 - 5,000	40,000
5,000 - 10,000	75,000
10,000 - 50,000	150,000
More than 50,000	250,000

These amounts will be subject to annual review in accordance with the respective PCAs.

Local E&P companies will incur these expenditures in equivalent Rupees.

Note: For off-shore areas, minimum training expenditure has been specified in Annexure IX.

Offshore Zone “0” Map

PAKISTAN OFFSHORE PACKAGE

PAKISTAN OFFSHORE PACKAGE

The new offshore package is based on the concept of Production Sharing Agreements (PSA) and all offshore areas of Pakistan will be treated under a new classification to be called Zone-0. Following are the salient features of the new offshore package. The fiscal provisions of the proposed PSA are summarized in Appendix-I

1. FISCAL INCENTIVES

I. ROYALTIES

Following Royalty schedule will be followed :

■ First 4 years of production	-	0%
■ Year 5	-	5%
■ Year 6	-	10%
■ Thereafter	-	12.5%

II. CORPORATE INCOME TAX

Corporate income tax is capped at 40%.

III. DEPRECIATION

The following depreciation rates will apply:

- On successful exploration wells	25% SL
- On facilities and offshore platforms	20% DB

Carry forward of any unabsorbed depreciation until such depreciation is fully absorbed.

IV. DIRECT GOVERNMENT PARTICIPATION

Sliding scale production sharing arrangement instead of direct Government participation.

V. PRODUCTION SHARING

The production sharing agreement would be executed with GOVERNMENT HOLDINGS. This company will therefore initially receive the profit oil and profit gas shares and will be responsible for the management of the production sharing agreements. A provision will be made in the Model PSA for windfall price levy beyond specified oil and gas prices which may include the concept of a floor and a ceiling price.

VI. COST LIMIT

Cost limit is 85% including the royalty of 12.5%. The contractors can recover 100% of the costs up to a limit of 85% of the gross revenues.

VII. PROFIT OIL AND PROFIT GAS SPLITS.

The profit split is set on the basis of a sliding scale. The sliding scale is based on cumulative production permitting a rapid recovery of investments and a higher net present value.

a) Profit Oil/Gas split for wells shallower than 4000 Meters and in less than 200 Meters water depth

	Oil	Gas
0-100 MMBBLS	20%	10%
100-200 MMBBLS	25%	15%
200-400 MMBBLS	40%	35%
400-800 MMBBLS	60%	50%
800-1200 MMBBLS	70%	70%
Over 1200 MMBBLS	80%	80%

b) Profit Oil/Gas split for wells deeper than 4000 Meters and in more than 200 Meters water depth.

	Oil	Gas
0-100 MMBBLS	10%	5%
100-200 MMBBLS	15%	10%
200-400 MMBBLS	250%	25%
400-800 MMBBLS	45%	45%
800-1200 MMBBLS	60%	60%
Over 1200 MMBBLS	80%	75%

VIII. PRODUCTION BONUSES

Production Bonuses will be as follows:

- \$1 million at the start of production (within 90 days)
- \$2 million upon first reaching 200 million cubic feet per day or equivalent
- \$5 million upon first reaching 600 million cubic feet per day or equivalent

IX. RENTALS

Modest acreage rentals of \$ 50,000 plus \$ 10 per square kilometer will be applicable.

X. IMPORT DUTIES AND TAXES

Import duties and taxes are based on the 1994 Petroleum Policy: 0% for exploration and 3% after a commercial discovery as per SRO No. 400(I)/97 dated May 31, 1997.

XI. MARINE RESEARCH FEE

A marine research fee will be applicable as per the following schedule:

- \$ 50,000 per year till first discovery
- \$ 100,000 per year thereafter till first commercial discovery
- \$ 250,000 per year during development phase
- \$ 500,000 per year during production phase.

XII. TRAINING CONTRIBUTIONS

Training fee will be applicable as follows:

- \$ 20,000 per year - Exploration phase
- \$ 100,000 per year - Development and Production phase

XIII. NATURAL GAS PRICE

The Non-Associated Gas price of 77.5% of the crude oil price at the platform, as for Zone-I, will be applicable. The price for Associated Gas shall also be the same as defined in 1994 Petroleum Policy for Zone-I.

XIX OIL/CONDENSATE PRICE

The Zone-I price will be applicable.

XX LPG PRICE

The Zone-I price will be applicable.

2. NEW LAND MANAGEMENT INCENTIVES

I. EXPLORATION PERIOD

Exploration period will consist of an initial term of 5 years and two subsequent renewals of two-years each, for a total exploration period of 9 years.

II. RETENTION PERIOD

A maximum retention period of 10 years will be considered on a case by case basis.

III. TOTAL TERM

Total term will consist of 44 years plus 5 possible additional years in order to accommodate the retention period and the longer exploration period. The last 5 years will be subject to new fiscal terms and conditions.

IV. LAND SYSTEM

A systematic land system will be followed for grants and relinquishments of all offshore acreage. Details of the land system are enclosed. (Appendix-2)

V. RELINQUISHMENTS

The contractor has to return 20% of the original contract area prior to the termination of the initial term, 30% of the original contract area prior to the termination of the first renewal and another 30% of the original contract area prior to the termination of the second renewal.

3. MISCELLANEOUS

I. COVERSION OF EXISTING CONTRACTS.

Some of the current concessions on the shore line were entered into on the understanding that the licence holders would benefit from possible new terms.

Therefore these licence holders will have the option to convert to the new production sharing agreements under conversion principles of at least the additional work requirements.

The effective date of the contract would not change as a result of the conversion.

II. CHANGES IN THE EXISTING LAWS

It is proposed to amend the following sections of Act No. LXXXIII of 1976 and the Income Tax Ordinance 1979:

1976 Act

Section 3(A) (2), and 3(B)

Income Tax Act 1979

Third Schedule

New item XII (addition to Table) (to cover depreciation on production platforms and installations).

Fifth Schedule

Section 2(4)	(amendment)
Section 2(6)	(amendment)
Section 2(7)	(addition)
Section 3	(addition to second paragraph)
Section 4(1)	(addition to second paragraph)
Section 4	(addition of paragraph 4)
Section 6(2)	(amendment)

FISCAL PROVISIONS OF PSAs

- ROYALTY: 0% FIRST FOUR YEARS
5% IN YEAR 5
10% IN YEAR 6
12.5% THEREAFTER
- TAX CAP: 40%
Improvements in depreciation provisions and carry forward provisions
- DIRECT PARTICIPATION: None
- PRODUCTION SHARING: Cost limit: 85% (including royalty)

Profit oil/gas split for wells shallower than 4000 meters and in less than 200 meters water depth.

	<u>OIL</u>	<u>GAS</u>
0-100 MMBBLS	20%	10%
100-200 MMBBLS	25%	15%
200-400 MMBBLS	40%	35%
400-800 MMBBLS	60%	50%
800-1200 MMBBLS	70%	70%
OVER 1200 MMBBLS	80%	80%

Profit oil/gas split for wells deeper than 4000 meters and in more than 200 meters water depth.

	<u>OIL</u>	<u>GAS</u>
0-100 MMBBLS	10%	5%
100-200 MMBBLS	15%	10%
200-400 MMBBLS	25%	25%
400-800 MMBBLS	45%	45%
800-1200 MMBBLS	60%	60%
OVER 1200 MMBBLS	80%	75%

A provision will be made in the Model Production Sharing Agreement for windfall price levy beyond specified oil and gas prices which may include the concept of floor and ceiling prices.

- PRODUCTION BONUSES:
 - \$ 1 million - Within 90 days of start of production
 - \$ 2 million - at 200 MMcft/day equivalent
 - \$ 5 million - at 600 MMcft/day equivalent
- RENTALS: \$ 50,000 PLUS \$ 10 PER SQ.KM

IMPORT DUTIES/TAXES

**LAND SYSTEM FOR
PETROLEUM EXPLORATION AND PRODUCTION
(Offshore Pakistan)**

POSSIBLE SYSTEM FOR THE OFFSHORE OF PAKISTAN

A geographical grid system could work very well in the Pakistan offshore. It simplifies administration and prevents future difficulties if the government right from the start establishes a grid system as permitted under the Rules. The system could be applied to the offshore as well as the onshore, with respect to new concessions in the onshore, or could only be applied to the offshore areas (including onshore parts of contract areas that fall under the “offshore” regime). The main advantage of a grid system is that it makes the enforcement of Rules easier.

One could establish on a geographical basis the following concepts:

- a “block” of one by one degree
- a “grid area”, “lot” or “parcel” or five by five minutes, and
- a “section” of thirty by thirty seconds.

The “blocks” would only be used as map reference. The basic units in the Rules would be “grid areas” for the definition of exploration areas and their relinquishments and “sections” for the definition of leases or development areas as well as for the use of unitization and conservation practices. A block would consist of 144 grid areas and a grid area would consist of 100 sections.

At the latitude of Karachi the sizes and configurations would be about:

- a block would be 100 km wide and 111.1 km long, with a surface of 11,110 sq. kilometers,
- a grid area would be 8.33 km wide by 9.26 km long or 77.1 sq. kilometers, and
- a section would be 833 meter wide by 926 meter long and be 0.771 sq. kilometers or 77.1 hectares (almost 200 acres).

EXPLORATION

The maximum offshore contract area is 7500 Sq. kilometers. Usually, however, areas not larger than 2,500 sq. kilometer are granted. This means that a 2,500 kilometer concession area at the latitude of Karachi would be about 32 grid areas.

It will be very easy to configure almost any type contract area on the basis of 32 grid areas. The grid area would be small enough to provide good flexibility to select adequate contract areas but would be small enough to provide sufficient flexibility in case of relinquishments. A typical relinquishment of at least 20% of the concession area of 32 grid areas would be a relinquishment of 7 grid areas. All relinquishments could take place on the basis of complete grid areas. Rules may limit the shapes and sizes of the relinquished areas.

A single grid area could still be valuable exploration area because such an area could still contain a large oil or gas field.

DEVELOPMENT

Currently a typical lease area cannot exceed 125 sq. kilometer. This would mean about 160 sections. Again the 160 sections would provide more than sufficient flexibility in order to define any type of lease area.

NUMBERING SYSTEM

The above division system could be based on the following concepts:

1. The degree block would be numbered on the basis of the degree longitude and latitude in the SW corner of the block. Block 2564 would be the degree block with a SW corner at 25 degrees latitude and 64 degrees longitude.

2. Each block would be divided in 144 grid areas. These areas could be simply numbered from "A" through "L" along the parallels and from "a" to "l" along the meridians. Grid area Aa would be in the SW corner of the Block. Grid area Al would be in the NW corner, grid area La would be in the SE corner and Ll in the NE corner. See figure 1 for the layout of the Block.

3. Each grid area would be divided in 100 sections simply based on ten numbers along the parallels and the meridians 0 to 9. Number 00 would be in the SW corner, 90 in the SE corner, 09 in the NW corner and 99 in the NE corner. See figure 2.

Based on this numbering system one could identify any oil well spacing unit in Pakistan down to the individual well with a simple code. For instance a simple code such as '2564-Bb-81' would completely describe the individual well spacing unit of an oil well in Pakistan.

If one would like to have an even smaller spacing unit for low productivity oil wells for onshore operations, one could subdivide the section into 25 "parcels" of 6 by 6 seconds of slightly over 3 hectare each (corresponding to about 8 acres per well). Such spacing units could simply be described with "a" through "y". For instance 2564-bb-81-c would describe a small individual 3 hectare spacing unit. This would provide each well with its own unique identification which will be very helpful for well files or databanks.

Rules would describe the determination of the location of the well. The location of the well may be different for different purposes. For fiscal purposes one may use the wellhead location. For conservation purposes one may use the point where the well intersects the reservoir or the bottom hole location.

NUMBERING OF CONCESSIONS AND CONTRACTS

The numbering of the concessions and contracts could be on the basis of the SW corner of the concession or contract. The numbering could be simply sequentially based on the historical signing dates of the concessions or contracts.

For instance, Concession number 2564-4 would be the fourth concession or contract signed with a SW corner in Block 2564.

IDENTIFICATION OF OFFSHORE ZONES

Having established the grid system, it will be easy for government to pre-establish the “land”, “shallow” and “deep” waterdepth zone. A map can be made in such a manner that the zone for each grid area is indicated and established. This map cannot be changed later on with respect to any concession or contract. It will be a permanent feature attached to the concession or contract. The concession or contract map will indicate for each of the grid areas in the concession or contract to which zone these grid areas belong.

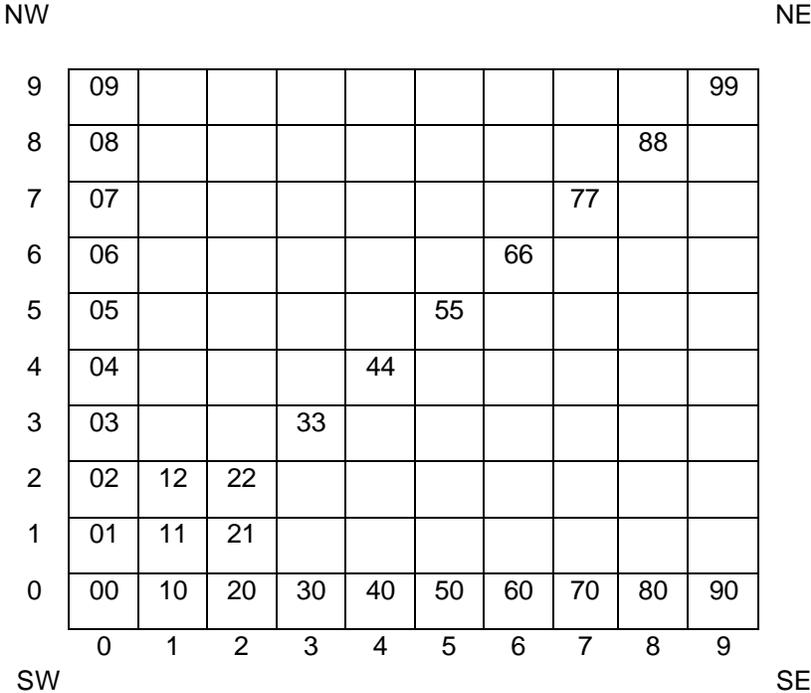
For instance, if a grid area is identified on the map as “less than 300 meter waterdepth” and a later nautical identification indicates that may be 51% of the grid area is in waters that are deeper than 300 meter, the classification of the grid area in the concession or contract cannot change.

If contract area is in various zones, the contract will simply spell out the fiscal terms for each zone. It will be easy to identify the production coming from each zone and take the weighted average of the applicable production sharing percentages.

**Division of Block
in Grid Areas**

NW													NE
l	Al												LI
k	Ak											Kk	
j	Aj									Jj			
l	Ai								li				
h	Ah							Hh					
g	Ag						Gg						
f	Af					Ff							
e	Ae				Ee								
d	Ad			Dd									
c	Ac		Cc										
b	Ab	Bb											
a	Aa	Ba	Ca	Da	Ea	Fa	Ga	Ha	Ia	Ja	Ka	La	
SW	A	B	C	D	E	F	G	H	I	J	K	L	SE

**Division of a Grid Area
in Sections**



PRICING FORMULA FOR NEW REFINERIES

1. The ex-refinery prices will be set on a calendar quarter basis.
2. The base price for each product will be the 3 month Average of the Singapore Mean Spot Prices as reported in an International Pricing Service. For price setting purposes, the last 3 running months date ending on the 14th of the month immediately preceding the month in which the prices will become effective, will be used e.g. the date for the period September 15th to December 14th will be used to establish the prices effective January 1st.
3. All local/landing charges applicable on import of crude oil is allowed to be recovered in the price build-up, calculated as if applicable at the same rate on each refined product. Such local/handling charges currently are:
 - Letter of credit opening charges, 0.25% of C&F
 - Marine Insurance, 0.11% of C&F
 - Ocean loss element, 0.5% of the CIF
 - Wharfage at actual applicable on crude oil
 - Local Handling Charges applicable on crude oil 0.15% of C&F
4. Crude imports will be exempt from custom duties and taxes. However all other incidental charges are payable by the refinery.
5. The individual product price calculation formula will be as under:
 - a) LPG taken at Kerosene plus BTU premium of 5% i.e. 105% of Kerosene.
 - b) Mogas. Current 80 Ron, 0.4 g/l lead quality. Taken at S'pore 92 Unleaded (UL) less 0.5 Cents/AG (CAG) per RON Octane penalty i.e. penalty of 0.5 CAG = \$ 0.21/barrel/RON x 12 RON = \$ 21.42/mton.
 - c) Premium gasoline. Current 87 RON, 0.63 g/lead quality. Same octane penalty as Mogas i.e. \$ 0.21 x 5 RON - \$ 1.05/Bbl. = \$ 8.925/mton.
 - d) HOBC Current 97 RON 0.84 g/lead quality. Taken at S'pore Mean for 95 UL. (Lead penalty considered).
 - e) Regular Gasoline: 92 RON, 0.15 g/lead. Taken at S'pore mean for 92 UL.
 - f) Premium Gasoline: 97 RON at 0.15 g/lead. Taken at S'pore mean, 97 UL.

- g) Kerosene: Taken at S'pore Mean, Kerosene.
- h) HSD 0.5% S: Taken at S'pore Mean, gasoil 0.5%.
- i) HSD 1.0% S: Taken at S'pore Mean, gasoil 1.0%.
- j) Fuel Oil 180 cst, 3.5% S: Taken at S'pore Mean, HSFO 180.

Blending grades:

LDO = 30% Fuel Oil 180 cst, 3.5% S plus 70% HSD 1.0% S.

Low Sulphur Fuel Oil, 1% S (LSFO) = S'pore FO 180/2% plus premium equal to difference between S'pore HSFO 180 and FO 180/2% divided by 1.5 multiplied by 2.

125 cst Fuel Oils = 80% fuel oil 180cst (of corresponding sulphur level) plus 20% HSD 1.0% S.