
GOVERNMENT OF PAKISTAN
Ministry of Energy (Petroleum Division)

**PAKISTAN OFFSHORE
PETROLEUM
(EXPLORATION AND
PRODUCTION)
RULES, 2023**

GOVERNMENT OF PAKISTAN
MINISTRY OF ENERGY (PETROLEUM DIVISION)

Islamabad, the 7th February 2023

NOTIFICATION

S.R.O.[_____ /2023].- In exercise of the powers conferred by section 2 of the Regulation of Mines, Oilfields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), and by section 14 of the Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976), the Federal Government is pleased to make the following rules, namely:-

PART I.- GENERAL

1. **Short title, application and commencement.-** (1) These rules shall be called the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2023.

(2) These shall apply to offshore areas of Pakistan and shall regulate petroleum rights thereto.

(3) They shall come into force at once.

2. **Definitions.-** In these rules, and in every permit, licence and lease issued hereunder and every agreement executed pursuant to these rules, unless there is anything repugnant in the subject or context,-

- (i) “actual loss or damage” means all proceedings, expenses, costs, charges, claims, losses, damages, penalties and demands whatsoever including without limitation claims for loss or damage to property or injury or death to any person caused by or resulting from any petroleum operations conducted by or on behalf of contractor or anything done or purporting to be done in pursuance thereof;
- (ii) “agreement” means an offshore petroleum production sharing agreement entered into pursuant to these rules between the President of the Islamic Republic of Pakistan, GHPL, and a contractor for the purpose of exploration for or development and production of petroleum from within the offshore area;
- (iii) “allowed transportation cost” means the actual cost incurred for moving the petroleum produced and saved from the field gate to the point of determination of value of the petroleum as approved by the relevant authority;
- (iv) “approved” or “approval” means approval in writing by the Authority, except in the case of an environmental management and protection plan or a

safety plan, in which case it means approval in accordance with the procedures of the concerned authority under applicable law;

- (v) “arm’s length sales” means the sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, *inter alia*, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices and arm's length sales value, accordingly, means the value of such sales;
- (vi) “Authority” means the Directorate General Petroleum Concessions (DGPC) or any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the DGPC;
- (vii) “certifying authority” means such certifying authorities as are approved by the Authority, including but not limited to the American Bureau of Shipping, Bureau Veritas, Det Norske Veritas Classification A/S and Lloyd's Register of Shipping;
- (viii) “commercial discovery” means a discovery which, in the opinion of a contractor with the consent of GHPL, which shall not be unreasonably delayed, would yield a reasonable profit on the funds invested in petroleum operations and which has been declared a commercial discovery after consideration of all pertinent operating and financial data such as recoverable reserves, sustainable production levels, estimated development and production expenditure, applicable prices and other technical and economic factors according to good international petroleum industry practices and would justify its economic development and commercial production;
- (ix) “commercial production” means production of petroleum out of a commercial discovery which production allows at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;
- (x) “contractor” means a petroleum exploration and production company or companies who has entered into an agreement or reconnaissance agreement as the case may be, to perform the functions and assume the rights and liabilities of a contractor pursuant to the terms of an agreement or reconnaissance agreement as the case may be;

- (xi) “debris” means any material that has broken away or been jettisoned or displaced in the course of any petroleum operations by a contractor;
- (xii) “DGPC” means the Director General, Petroleum Concessions and includes any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these rules;
- (xiii) “discovery area” means an area, within the area of a licence or lease, which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication and demarcation of which shall be made by a contractor with the consent of GHPL as development area in accordance with the provisions of an agreement;
- (xiv) "discovery" means the finding of a deposit of petroleum from an exploratory effort in a licence or lease area not previously known to have existed within the area held by a contractor which produces a flow of petroleum and is measurable by the petroleum industry testing methods including Modular formation Dynamic Test (MDT) surveys;
- (xv) “environmental management and protection plan” means an environmental management and protection plan submitted to and approved by the concerned authority under applicable law;
- (xvi) “exploration well” means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location;
- (xvii) “good international petroleum industry practices” means, generally, the reasonable and prudent diligent use of policies, procedures, practices, methods, equipment and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, always having due regard for safety and other factors and means, in particular, knowledge of and compliance with the standards that have been developed by the following professional institutions:-
 - a) the American Gas Association (AGA);
 - b) the American Petroleum Institute (API);

- c) the American Society of Mechanical Engineers (ASME);
 - d) the American Society for Testing and Materials (ASTM);
 - e) the British Standards Institute (BSI); or
 - f) the International Organization for Standardization (ISO);
- (xviii) “Government Holdings (Private) Limited” or “GHPL” means the State owned corporate body established under the laws of Pakistan to perform certain functions as are specifically described in these rules and which is a party to an agreement or reconnaissance agreement, as the case may be, and includes its successors and assigns;
- (xix) “Government” means the Federal Government;
- (xx) “laws” means laws, rules and regulations of the Government, and includes where applicable, laws of a Province of Pakistan;
- (xxi) “lease” means an exclusive right to develop and produce petroleum within a designated portion of a licence in offshore area, which has been granted under a lease in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part III of the Second Schedule, so as to enable it to enter into an agreement with a contractor;
- (xxii) “licence” means an exclusive right to explore for petroleum within a designated portion of offshore area, which has been granted under a licence issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part II of the Second Schedule, so as to enable it to enter into an agreement with a contractor;
- (xxiii) “natural gas” means petroleum which at standard atmospheric conditions of pressure and temperature is in a gaseous phase, including non-hydrocarbon gas which is in association with and produced at the surface together with such gaseous hydrocarbons;
- (xxiv) “offshore area” means all the areas within the territorial waters, the historic waters, the contiguous zone, the continental shelf and the exclusive economic zone, as are defined in the Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976);
- (xxv) “operator” means, unless otherwise specified in these rules, any of the company comprising a contractor who is designated and approved as operator pursuant to these rules to carry out petroleum operations under an agreement on behalf of the contractor;

- (xxvi) “permit” means a non-exclusive right to carry out preliminary reconnaissance work for exploration of petroleum in a designated portion of offshore area, which has been granted under a permit issued in the name of GHPL pursuant to these rules which shall be substantially in the form as set out in Part I of the Second Schedule, so as to enable it to enter into a reconnaissance agreement with a contractor;
- (xxvii) “person” means any natural person or body corporate, and includes a partnership or other entity constituted under the laws of, or authorized to do business in, Pakistan;
- (xxviii) “petroleum” means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;
- (xxix) “petroleum operations” means all activities conducted by a contractor under an agreement or reconnaissance agreement, related to petroleum exploration, appraisal, development and production activities and any ancillary activities reasonably related thereto and may include any gas processing, pipeline and other transportation storage or other ancillary activities necessary to facilitate the production, processing, storage, transportation and disposal of petroleum as specified in an agreement;
- (xxx) “petroleum right” includes a reconnaissance permit, licence or lease issued under these rules;
- (xxxii) “President” means the President of the Islamic Republic of Pakistan;
- (xxxiii) “record” means all record pertaining to petroleum operations conducted by a contractor including but not limited to an account, book, return, statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, data, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or reproduced by any other means and the result of recording of electronic data, its processing systems and programmes to illustrate what the systems and programmes do, and how they operate without compromising proprietary rights, if any, related to hardware and software;
- (xxxiiii) “reconnaissance agreement” means an agreement entered into between the President, GHPL, and a contractor for the purpose of carrying out reconnaissance work under a permit;

- (xxxiv) “rules” mean Pakistan Offshore Petroleum (Exploration and Production) Rules, 2023 and “rule” mean any referred provision thereto, unless otherwise specified;
- (xxxv) “safety plan” means a safety plan submitted to and approved by the concerned authority under applicable law;
- (xxxvi) “schedule” means a schedule to these rules;
- (xxxvii) “security interest” means any charge or lien on right in relation to an agreement or any asset in respect thereof, that, pursuant to a written instrument, secures any payment or performance of an obligation, including (a) the payment of an indebtedness arising from an existing or future loan or advance of money; (b) a bond, debenture or other security of a corporation; or (c) the performance of the obligations of a guarantor under a guarantee given in respect of all or any part of an indebtedness liability referred to above;
- (xxxviii) “ship” means any form of vessel, boat or craft designed, used or capable of being used solely or partly for marine navigation and transportation, without regard to method or lack of propulsion which shall include without limitation floating production storage and operation (FPSO) ship;
- (xxxix) “significant gas discovery” means, a discovery of natural gas from an exploration well in a licence which has tested significant flow rates of natural gas from one or more reservoirs, and which is estimated to be capable of continuous production from the said reservoir(s), over a reasonable period and which in the opinion of a contractor could be declared a commercial discovery in the future, provided, *inter alia*, that, (a) adequate gas pipeline transportation facilities are installed; or (b) markets have been sufficiently developed for sale of natural gas on commercial basis, or the requirements of both (a) and (b) have been met;
- (xl) “spill” means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law or approved by the Authority;
- (xli) “wellhead value” means the wellhead value of the petroleum as defined in rule 44;
- (xlii) “waste” or “wasted” means waste as understood in the petroleum industry and shall include working methods which, in accordance with good international petroleum industry practices are considered wasteful;
- (xliii) “working interest” means all or any undivided interest in the entirety of any petroleum right, rights and obligations and liabilities imposed by the rules, the licence and any lease granted pursuant to the rules; and

(xliv) “year” means unless the context provides otherwise, a period of twelve consecutive months according to the Gregorian calendar.

3. **Administration and regulation.-** The Authority shall be responsible for the administration and regulation of these Rules and the execution of all duties imposed upon it by these Rules, or pursuant to any agreement or any other function entrusted by the Federal Government. Notwithstanding anything to the contrary contained herein, in the administration and application of the rules, the Authority may give due consideration to relevant facts and grant such relaxation as is deemed necessary in larger public interest in terms of section 5 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948.

4. **Role of Government Holdings (Private) Limited.-** GHPL shall secure petroleum rights over the area(s) designated by an interested exploration and production company and to enter into an agreement or reconnaissance agreement, as the case may be, in its capacity as contracting party with such company, as per the powers conferred upon it by the Government from time to time.

5. **Division of offshore area.-** (1) Any portion of offshore area may be divided into blocks of size and shape by the Authority as it may, from time to time, by notification in the official Gazette, determine.

(2) The offshore zones shall be as per map attached as Annexure – I to these Rules.

6. **By whom applications may be made.-** Any company whether incorporated in Pakistan or abroad may submit an application for entering into an agreement or reconnaissance agreement with respect to any area located in the offshore area to carry out either petroleum exploration or production activities, or both.

7. **Manner in which application may be made.-** (1) Every application shall be made in writing in the form set out in the First Schedule or as otherwise decided by the Authority and addressed to the Authority. Every application shall be entered in the register to be maintained by the Authority, which shall be in such form as may be specified by the Authority.

(2) The application shall state the nature of and the principal place of business of the company showing interest, the authorized, subscribed and paid-up capital of such company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.

(3) With every application there shall be deposited-

- (a) a fee of fifty thousand rupees if the application is for a reconnaissance agreement related to the grant or renewal of a permit;
- (b) a fee of one hundred thousand rupees if the application is for an agreement related to the grant or renewal of a licence; and

(c) a fee of two hundred thousand rupees if the application is for an agreement related to the grant or renewal of a lease.

(4) There shall be attached with an application five copies of the map upon which shall be delineated the boundaries of the areas in respect of which the application has been made. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 5, a reference to the relevant block number shall be sufficient.

(5) The applicant shall furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under a reconnaissance agreement or an agreement, as the case may be, in accordance with the good international petroleum industry practices. Such applicant shall furnish further evidence relating to such matters, as may be requested for, by the Authority and failure to provide such evidence to the satisfaction of the Authority, within three months of the request thereof, shall, unless the Authority determines otherwise, render the application void.

(6) The applicant shall furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage.

(7) The applicant shall furnish such other information as the Authority may, from time to time, specify.

8. **Separate application to be made for each area.**-(1) Where an applicant shows interest over two or more areas which are not contiguous, separate applications for executing reconnaissance agreements or agreements, as the case may be, for each such areas shall be filed, unless otherwise permitted by the Authority.

(2) Nothing in these rules shall prevent any applicant to file applications for more than one area.

9. **Several companies.**- Where a contractor comprises two or more companies, each of the company shall be liable jointly and severally towards the Government and GHPL, as the case may be, for obligations and liabilities, resulting from petroleum operations under an agreement or reconnaissance agreement. The contractor shall, with the prior written approval of the Authority, appoint an operator from amongst them, except that such special arrangements as to the operatorship will be applicable as may be approved by the Authority under rules 69 and 71. No change in such appointment shall be made without the prior approval of the Authority.

10. **Interest not assignable without consent.**-A contractor or any company forming part of the contractor shall not transfer, assign, convey or otherwise dispose of its interest in the agreement or reconnaissance agreement without the previous consent in writing of the Authority as specified in the agreement.

11. **Method for seeking assignments.-** An application by a contractor for consent to the assignment, transfer or otherwise disposal of its interest in the agreement or reconnaissance agreement shall be made in writing to the Authority, and shall be accompanied by a fee of fifty thousand rupees. With the application, such contractor shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of a fresh application for entering into an agreement or reconnaissance agreement.

12. **Power to grant or refuse an application.-** Subject to rules 26, 27 and 34, an application for execution of an agreement, or reconnaissance agreement, as the case may be, or renewal or extension thereof, shall always be decided by the Authority. In the event of refusal to such application, the Authority shall as far as possible provide the reasons therefor.

13. **Lapse of entitlement to petroleum right.-** Where an agreement or reconnaissance agreement, as the case may be, is not executed within three months or such longer period as may be mutually agreed, after approval of the application by the Authority has been conveyed to the applicant, the entitlement of the applicant to execute such agreement or reconnaissance agreement shall be deemed to have lapsed, unless the Authority considers that the delay is not attributable to the fault of the concerned applicant.

14. **Surrender of an agreement.-**(1) A contractor wishing to surrender its right and where there are more than one contractor, all contractors shall give the Authority and GHPL one month's notice of intention to do so, and if the contractor fulfills all its obligations under the Rules and the agreement or reconnaissance agreement, including the obligations pursuant to rule 79 or if such contractor pays liquidated damages pursuant to rule 32, it shall on the expiry of the notice be entitled to surrender its right in whole or in part. On doing so, the contractor shall cease to be entitled to rights and shall be liable to perform the obligations related to the surrendered right.

(2) In case less than all contractors wish to surrender its right, it shall give the other contractors, GHPL and the Authority one month's notice of its intention to do so and in case other contractors decide not to acquire its right within such thirty days' notice period, it shall surrender its right by paying liquidated damages equal to its proportionate share to GHPL and shall also pay outstanding financial obligations, if any, to the Government. The Authority, after being satisfied that all outstanding obligations and liquidated damages have been paid by the surrendering contractor, shall notify the surrender of its right and shall assign its right to the remaining contractors in proportion to their right.

15. **Submission and publication.-** (1) Application for entering into an agreement or reconnaissance agreement may be submitted, either-

- (a) at the initiative of an interested applicant; or
- (b) on the basis of an invitation from the Authority to submit competitive bids.

(2) In the case as specified in clause (b) of sub-rule (1), a notice for competitive bidding may be published in such national and/or foreign publications as the Authority may determine.

16. **Terms and conditions of a petroleum right.-** (1) Every permit, licence and lease shall, subject to such modifications as may be made by the Authority, be in the form as set out in Parts I, II and III, as the case may be, of the Second Schedule and shall include such additional clauses relating to ancillary or incidental matters as the Authority may deem fit to insert.

(2) Once a petroleum right has been granted, it shall not be modified, amended, altered, or terminated, surrendered or relinquished, in whole or in part, except in accordance with these rules and a reconnaissance agreement or an agreement, as the case may be, or with the prior written consent of the Authority, GHPL and the contractor.

(3) Within a period not exceeding ninety days after award of a petroleum right, the contractor shall either become incorporated in Pakistan or obtain permission to operate in Pakistan as a registered branch office of a foreign company.

17. **Guarantees.-** (1) The Authority may require any successful applicant to furnish irrevocable and unconditional guarantee, in an acceptable form, with respect to the obligation and liabilities of the contractor on or before the execution of the agreement.

(2) The Authority may, in its sole discretion, accept a performance guarantee in one or more of the following forms:-

- (a) a bank guarantee equal to twenty-five per cent of the minimum financial obligation from a bank of international repute acceptable to the Authority;
- (b) a parent company guarantee of a multinational exploration and production company of international repute with a proven track record;
- (c) a corporate guarantee of a Pakistan registered exploration and production company having operatorship with majority working interest in producing fields within Pakistan;
- (d) in case of local production, first and preferred lien on petroleum production equal to 100% of the minimum financial obligation;
- (e) in case of other local assets, first and preferred lien on assets equal to 100% of the minimum financial obligation; and
- (f) deposit in an escrow account equal to 25% of the minimum financial obligation with a bank of international repute acceptable to the Authority.

(3) Subject to acceptance of the Authority, in the event the successful applicant elects to provide any guarantee as mentioned at sub-rule (2) above, other than a parent company guarantee, the guarantee so provided shall only be released in case all work obligations including but not limited to social welfare, marine research fee, training, data, rental etc. are fully discharged. The Authority shall have the right to recover the due amount for non-performance of all such obligations from the performance guarantee.

(4) The petroleum right holder will be under an obligation to have the performance guarantee renewed commensurate with the tenure to the exploration license.

18. **Agreements.-** (1) Following approval of an application, the Government may cause GHPL to enter into an agreement or reconnaissance agreement, as the case may be, with a contractor to enable such contractor to carry out reconnaissance, exploration, development and production activities under relevant petroleum right.

(2) An agreement or reconnaissance agreement, as the case may be, shall remain valid for the applicable term of relevant petroleum right and may be extended or renewed for such additional period that corresponds with the term of renewal or extension of relevant petroleum right in accordance with these rules. On the expiry or early termination of petroleum right, the agreement or reconnaissance agreement, as the case may be, shall cease to be valid provided that the agreement or reconnaissance agreement, as the case may be, shall survive expiry or early termination in respect of the matters specifically covered thereunder.

(3) In the event of any conflict between the agreement or reconnaissance agreement, as the case may be, and these Rules, the latter shall prevail.

PART II.- PERMIT FOR RECONNAISSANCE SURVEYS

19. **Permit.-** (1) The Authority may allow GHPL to carry out through a contractor under a reconnaissance agreement, preliminary surveys including geophysical, geological, geo-chemical and geo-technical surveys and drilling of geological information bore hole over such area under a permit and on such terms and conditions as it may determine in each case.

(2) Subject to the terms of the permit, the Authority may grant a licence or a lease to any other person at any time over any part of the area covered under a reconnaissance agreement.

(3) A contractor shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of a survey no later than six months of the completion of the survey.

(4) A contractor shall comply with all instructions which the Authority may issue regarding the use of maps, plans, graphs and other data generated or collected by the contractor in the course of the reconnaissance survey.

(5) A permit and reconnaissance agreement shall not extend to areas already covered by a licence or a lease unless otherwise specified by the Authority pursuant to sub-rule (1) of rule 70.

(6) A contractor of GHPL under a permit shall perform work stipulated in the reconnaissance agreement with due diligence.

(7) A contractor shall for each square kilometre or part thereof comprised in the permit area pay to the Government rent at the rate of one thousand rupees per year.

20. **Period of a permit.-** (1) The initial term of a permit shall be one year. The work programme to be performed by a contractor during the term of the permit will be set out in the reconnaissance agreement.

(2) The permit shall, at the discretion of the Authority, be subject to one renewal of one year. An application for renewal shall be made in writing by the contractor on behalf of GHPL at least thirty days before the expiry of the permit or such lesser period as the Authority allows.

(3) On receipt of an application in accordance with sub-rule (2), the Authority shall renew the permit if the contractor has -

- (a) complied with the work programme and all other obligations under the reconnaissance agreement; and
- (b) agreed with the Authority the minimum work programme for the renewal period.

21. **No implied rights under a permit.-** (1) The reconnaissance agreement pursuant to a permit shall not imply that a contractor shall be entitled to seek subsequently execution of an agreement over all or any part of the area covered under the reconnaissance agreement.

(2) On the expiry of the reconnaissance agreement, a contractor may apply to the Authority for entering into an agreement in accordance with these rules but shall not be entitled to claim a relaxation of these rules. However, the Authority, upon a request of such contractor, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under an agreement covering the area of a permit, if executed.

PART III.-LICENCE FOR PETROLEUM EXPLORATION

22. **Grant of licence.-** The Authority may grant an exclusive petroleum licence to GHPL to enable it to carry out exploration over any area through a contractor under an agreement on such conditions as are specified in the licence and the agreement.

23. **Size of area.-** A licence shall not be granted in respect of any area of more than two thousand five hundred square kilometres.

24. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines.

25. **Rights and obligations of licence holder and contractor.-** (1) Subject to the provisions of these Rules, a licence shall give the exclusive right to GHPL to undertake, within the licence area, all activities through contractor under an agreement related to reconnaissance and exploration, including drilling for petroleum. A contractor shall not be entitled to extract any petroleum from discoveries other than such test and/or early production as the Authority may allow upon a written request submitted by the contractor provided that in no event, such test or early production shall cause loss of revenues to the Government.

(2) A contractor shall perform the work programme stipulated in the agreement.

26. **Period of licence and relinquishment of area.-** (1) The initial term of a licence shall not exceed five years, which shall comprise two phases with first three years period designated as phase-I and the next two years period as phase-II. Minimum work programme for phase-I shall be determined through competitive bidding. The minimum programme for Phase-II shall be determined in accordance with the agreement.

(2) The Authority may, subject to the terms of the licence and if the contractor has complied with the committed work programme and discharged all other obligations of the preceding term of the licence, grant up to two renewals after the initial term. The term of each renewal shall be up to one year. However, to avail a renewal, a contractor shall offer adequate work programme keeping in view the geological conditions of the licence area. A contractor desiring such renewal shall make an application on behalf of GHPL at least three months before the expiry of the licence or such lesser period as the Authority may allow. Upon grant of such renewal to GHPL, the term of the agreement shall stand extended for the corresponding period.

(3) The initial term or renewal thereof of a licence shall be extended by the Authority for drilling an exploration well in progress for a period as may be approved by the Authority on case to case basis. The extended period shall be considered to be part of the initial term or renewal, as the case may be. In the event of an extension, granted for a well under drilling, the Authority may grant a further extension for upto three months for post well studies on the request of the contractor.

(4) A contractor shall comply with obligation of following partial area relinquishment schedule during the term of a licence on behalf of GHPL:

(a) at the end of phase-I – thirty percent of the original licence area;

(b) at the end of phase-II – twenty percent of the remaining licence area; and

(c) on or before the start of the second renewal- ten percent of the remaining licence area.

(5) Upon a written request of a contractor on behalf and with the consent of GHPL, the Authority may, on a case to case basis, extend the term of the licence on the following grounds only:

(a) if seismic and drilling services are not readily available for the timely discharge of the minimum work obligation, a proof to this effect will be required before the Authority considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the contractor has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other petroleum right holders, if possible;

(b) if a contractor commits to undertake additional work which is equivalent to at least 20% more than the minimum work obligation of same phase or renewal, whichever is applicable;

(c) if a contractor makes additional accelerated area relinquishment equivalent to 20% of the original licence area; or

(d) if the contractor was unable to perform work because of circumstances beyond its reasonable control such as law & order situation, unforeseeable reasons including but not limited to flood, earthquake etc.

(6) Notwithstanding the above, in no circumstances shall an extension or extensions cumulatively exceed twenty four months during the currency of an exploration licence.

(7) Notwithstanding anything contained in these rules, upon a written request of a contractor, the Authority may, on case to case basis, revise the coordinates of the area covered under the license, provided, the geological structure extends into an adjoining free area.

27. Appraisal, evaluation, extended well testing and renewal.– (1) A contractor having made a discovery of petroleum may perform additional work, so as to appraise the discovery after submitting the appraisal program to the Authority for approval.

(2) If the contractor has complied with the work programme and other obligations, GHPL shall be entitled to renewal of the licence not exceeding one year for the purpose of appraisal and evaluation of the discovery by the contractor. The renewal shall only apply to the estimated discovery area. The term of the appraisal renewal may be extended further keeping in view the reservoir uncertainty, the proposed investment outlay and other relevant factors for such period as may be approved by the Authority on case to case basis following a written request of the contractor.

(3) The Authority shall not allow flaring of gas during appraisal for a period longer than thirty days except under exceptional circumstances.

(4) Subject to approval of the Authority, a contractor may be permitted to undertake extended well testing (EWT) during the appraisal phase and before the grant of lease. Such approval shall be granted provided that the contractor *inter alia* complies with the requisite royalty, tax, rentals, marine research fee, training and social welfare obligations as applicable under the lease.

(5) Request for approval of EWT shall be made to the Authority along with the following information, namely:-

- (a) detailed technical justification;
- (b) proposed duration; and
- (c) a plan for disposal of natural gas.

(6) The duration of EWT shall be allowed keeping in view the reservoir uncertainty and the proposed investment outlay on EWT.

(7) During EWT period, a contractor shall be allowed to produce petroleum based on EWT pricing terms and subject to the condition that the production during EWT period shall be accounted for the purpose of payment of production bonus and all other obligations as are applicable to lease. The royalty shall not be exempt during the EWT period. However, the first production bonus shall be payable upon commencement of commercial production subsequent to grant of lease.

(8) The facilities that are required to undertake EWT shall be constructed and operated in accordance with good international oilfield practices.

28. **Early commercial production (ECP).**- (1) After declaration of commerciality and before grant of lease, the Authority may grant approval to undertake early commercial production (ECP) of petroleum from the discovery, on the condition that the production taken during ECP shall be accounted for the purpose of payment of production bonus, royalty and all other obligations as are applicable to a lease and no EWT discount will be applicable.

(2) The contractor desiring to undertake ECP shall submit the request to the Authority including plan for the disposal of petroleum during ECP period.

(3) The facilities that are required for early production shall be constructed and operated in accordance with good international oilfield practices.

29. **Retention of significant gas discovery.**- (1) In the case of a significant gas discovery, a retention period of up to five years will be considered for licences, on a case to case basis, provided such discovery can be declared a commercial discovery when *inter alia* adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis. A further period of up to five years will be available subject to justification acceptable to the Authority. No such retention period shall be allowed for an oil discovery.

(2) A discovery containing oil and gas or oil, gas and condensate is considered to be a gas discovery for the purposes of obtaining a retention period only when liquid production is not considered economic without marketing the gas stream.

30. **Declaration of commercial discovery.**- (1) Upon completion of the appraisal and evaluation work including EWT, if any, the contractor may submit a notice with the consent of

GHPL, for declaration of commercial discovery to the Authority along with a report in accordance with clause (d) of rule 60.

(2) Notwithstanding anything contained in sub-rule (1), submission of notice for declaration of commercial discovery shall not result in accruing any right or privilege to the contractor with respect to gas, condensate or oil pricing and shall not be construed as acceptance of any assumptions used in preparation of economic and financial viability for developing a discovery or field.

(3) After submission of notice under sub-rule (1), the contractor on behalf of GHPL shall be entitled to apply for the grant of a lease in respect of the discovery area along with a field development plan in accordance with rule 40. The lease shall prevail over the licence within the designated lease area, however, the licence shall continue to be valid outside such lease area without modifying the rights and obligations contained in the licence.

(4) Upon termination of the licence, a contractor shall relinquish the licence area except the area covered by the lease or leases granted to it.

31. **Extension pending grant of lease.-** If a contractor, before the expiry of the licence, has applied for grant of a lease on behalf of GHPL and such application is registered with the Authority, the duration of the licence shall be extended until the lease has been granted or refused.

32. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender, termination, revocation or the expiry of a licence, the obligations pursuant to rule 25, 26 or 27 have not been fulfilled, a contractor shall either-

(a) pay to GHPL such sum by way of liquidated damages (LDs) for undischarged work obligations as set forth in the agreement within a period of thirty days from the surrender, termination, revocation or expiry of the licence. The amount of LDs shall be deposited by GHPL in the Federal Treasury within a fortnight of receipt from the contractor; or

(b) approach GHPL to request the Authority to allow transfer of undischarged work obligation committed under rule 25 or rule 26 to another offshore area if it is demonstrated to the satisfaction of the Authority that there is no drillable prospect in the licence area. Such transfer shall be subject to such terms and conditions as may be specified by the Authority on a case to case basis.

(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to another area pursuant to clause (b) of sub-rule (1), is not approved, the Authority may, in addition to any other action or remedy, revoke a lease granted to GHPL in respect of any area comprised within the area of the licence which has been surrendered or expired.

(3) Where a contractor is found to be in default or breach of these rules or the terms and conditions on which an agreement was executed or of its work or other obligations and has remedied such default or breach to the satisfaction of the Authority in accordance with clause (a) of rule 78, the contractor shall be deemed to have mitigated such default or breach for the purposes of rules 25, 26 and 34.

33. **Rent.-** (1) A contractor shall on behalf of GHPL for each square kilometer or part thereof comprising the licence area pay rent to the Government at the rate of fifty seven thousand US Dollars plus a further rate of eleven US Dollars and fifty Cents per square kilometer or a part thereof every year.

(2) The rent due shall be annually indexed on first January each year, by reference to United States Consumer Price Index (USCPI) as published by the US Bureau of Labor Statistics, Department of Labor so as to ensure that the rent retains its value in real terms starting from the date of promulgation of these rules. For timely indexation of rent, the contractor shall approach the Authority in the first week of January each year.

(3) The rent shall be paid in advance of the period to which it relates. Further, for first year of the grant of the license, the rent shall be calculated up to thirty first December of that year. Subsequently, the indexed rent shall be paid before thirty first January of each year.

PART IV.- LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION

34. **Grant of development and production lease.-** The contractor may submit with the consent of GHPL, an application for grant of development and production lease along with field development plan (FDP). The Authority shall examine the said application and on being satisfied that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that a contractor is in satisfactory progress with the work programme and that the requirements of rule 40 have been duly complied with by the applicant, grant a lease effective from the date of notice of declaration of commerciality in the form prescribed in Part III of the Second Schedule in respect of discovery area within the licence area granted to the applicant. In case, the contractor does not avail ECP, the effective date of lease shall be the date of application for lease along with submission of FDP.

(2) The Authority may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the discovery area which is larger in extent.

(3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Authority may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.

(4) Subject to sub-rule (1) of this rule and rule 40, the Authority shall grant a lease along with approval of the FDP.

35. **Rights of a contractor pursuant to a lease granted to GHPL.**-A contractor shall, subject to these rules and terms of the agreement have the exclusive right to carry out development and production operations for GHPL in respect of the commercial discovery within the area of lease including the right to undertake transportation of petroleum, subject to approval pursuant to rule 42.

36. **Shape of discovery area.**- Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible.

37. **Survey expense of a contractor.**- Before a lease is granted by the Authority, a contractor shall, if so required by the Authority, at its own expense cause a bathymographical and site survey of the sea-land specified therein to be made to scale normally required for petroleum operations purposes, and approved by the National Oceanographic Institute, and submit a report thereof to the Authority.

38. **Period of lease.**- (1) The Authority may grant a lease for a period upto twenty-five years on the basis of relevant technical and other information submitted by the contractor. In the event the lease is initially granted for a period less than twenty-five years, the same may be extended on same terms and conditions for the remaining period provided commercial production is continuing.

(2) Upon application by a Contractor, on behalf and with the consent of GHPL, production period of a lease may be renewed by the Authority for one term of up to five years. A revised field development plan will be required to be submitted for approval by the Authority. In order to obtain such a renewal, the contractor shall fulfill the following conditions:

- (a) the application for a renewal has been submitted not less than three years in advance of expiry of initial term of the production period; and
- (b) that the lease area has been producing on a regular basis on the date of the application.

39. **Re-grant of lease after expiry of lease term.**- (1) After the expiry of the lease period, the Authority may renew the lease for upto a further five years, provided the contractor agrees, at least one year prior to the expiry of the lease period, to pay, 15% of wellhead value of petroleum produced to the Federal Government. If such agreement is not concluded, the Authority may invite bids from prequalified companies seeking to act as contractor to GHPL, for the grant of a lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue. The bids shall be evaluated on the basis of signature bonus, which would be spent on social welfare nearest coastal

populated area towards the passing latitude line of the contract area in accordance with the guidelines issued by the Government from time to time.

(2) Each bidder shall provide a bid bond of ten per cent of the offered signature bonus at the time of bidding along with the field development plan.

(3) The Authority shall be under no obligation to grant any extension in the renewal or re-grant period.

40. **Development plan.-** (1) A contractor shall submit with the consent of GHPL, a development plan along with the application for a lease, which shall contain all information in respect of the construction, establishment of all facilities, operation, safety, environment management and services for and incidental to the recovery, storage and transportation of petroleum which shall include but not limited to such information as is specified in an agreement. The Authority may require the contractor to submit any additional information as deemed necessary.

(2) The plan shall require the approval of the Authority. Such approval shall not be unreasonably delayed provided the requisite information has been provided by the contractor.

(3) After approval of the plan, a contractor shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Authority from time to time.

41. **Other plans.-** (1) Prior to commencement of petroleum operations under an agreement pursuant to a lease, a contractor shall also submit an environmental management and protection plan and a safety plan or any amendment thereto for approval by the appropriate authority.

(2) Each environmental management and protection plan shall be prepared in accordance with applicable law and good international petroleum industry practices, which shall ensure that petroleum operations are conducted in environmentally safe manner as per the highest principles of good international petroleum industry practices and shall provide for the protection of the natural environment. Such plan shall include without limitation-

- (a) a description of the program established by the contractor to monitor the effect of routine operations on the natural environment and the measures adopted to minimize or mitigate the same;
- (b) all contingency plans including without limitation response to, and mitigation of, the accidental spill of petroleum or hazardous substances;
- (c) a description of equipment and procedures for treatment, handling and disposal of waste material;
- (d) compliance monitoring programs to ensure that the composition of spilled waste material is in accordance with the limits specified in the environmental management and protection plan;

- (e) a summary of the chemical substances intended for use in petroleum operations; and
- (f) plans for abandonment, including without limitation removal of all structures and environmental restoration of the production site following termination of commercial production.

(3) An environmental management and protection plan, if so required by the Authority, shall be accompanied by a review completed by a third party approved by the appropriate authority certifying that the environmental management and protection plan, the equipment proposed, the risks assessed, the practices and procedures identified, and all other necessary documents, have been reviewed and are reasonable and efficient and are consistent with good international petroleum industry practices, for the protection of the environment.

(4) If so required by the Authority, the third party referred to in sub-rule 3 or any other competent person approved by the appropriate authority shall annually review or audit the environmental management and protection plan and having conducted such review or audit as they deem necessary, provide the appropriate authority with its professional opinion that the plan remains valid as specified in sub-rule (2) or that the plan requires some amendments for which the contractor shall take appropriate steps immediately to update the plan and ensure its immediate implementation.

(5) Each safety plan shall be prepared in accordance with applicable law and good international petroleum industry practices and shall include but not limited to-

- (a) details of the contractor's safety management policy and a description of the procedures established to ensure its effectiveness including demarcation of safety zones which shall conform to good international petroleum industry practices;
- (b) a summary of the results of all studies undertaken to identify hazards and to assess risks and means to mitigate those risks;
- (c) a description of the features incorporated in the design of any installation and of the equipment provided to eliminate hazards and reduce risks to personnel;
- (d) a description of the procedures established for the safe operation and maintenance of the installation;
- (e) the standards adopted for the training and qualification of personnel;
- (f) a description of the command structure on any installation and onshore base, and their relationship to each other;
- (g) contingency plans for response to and mitigation of accidental events affecting the safety of persons, or the integrity of the installation;
- (h) a description of the physical environmental monitoring equipment; and

(i) the distance from the production installation, at which a ship, if any, shall remain during normal operations.

(6) The safety plan, submitted to the appropriate authority, shall be accompanied by a review by the certifying authority, certifying that the equipment proposed for use, the practices and procedures identified, and all other necessary elements, have been reviewed by the certifying authority and are reasonable and efficient and are consistent with good international petroleum industry practices for safe operations.

(7) The certificate issued by a certifying authority, shall state that the equipment or installation in question-

(a) is fit for the purposes for which it is to be used and may be operated safely in the relevant area, without posing a threat to persons or to the environment in the location and for the time set out in the certificate; and

(b) is in conformity with all of the requirements and conditions that are imposed for the purposes of this rule

(8) The certificate referred to in sub-rule (7) shall remain in force for so long as the equipment or installation to which the certificate relates is used in the work or activity, and shall be renewed, if so decided by the Authority, annually by a certifying authority.

(9) A certificate of fitness from a certifying authority which has previously been involved in any element of the fabrication, installation or construction shall not be acceptable.

42. **Transportation of petroleum.**- (1) Subject to approval in accordance with this rule, a contractor under an agreement shall have the right to lift and transport petroleum from the area of lease, either through transportation facilities owned wholly or partly by itself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.

(2) A contractor under an agreement shall submit an application comprising the proposed organization and implementation of the transportation system to the regulator concerned. In case of pipeline transportation, the application shall also comprise the design, construction and route plans.

(3) The relevant Authority may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and it may:-

(a) require that several contractors or leaseholders install jointly-owned transportation facilities; and

(b) grant to any third party access to transportation capacity at tariffs to be approved by the relevant Authority.

43. **Royalty.-** (1) Royalty on petroleum produced and saved (liquid and gaseous hydrocarbons, such as LPG, NGL, Solvent oil, gasoline as well as all substances including sulphur, produced in association with such hydrocarbon) shall be payable by a contractor to the Government at the rate of twelve and half per cent of the value unless a different rate for royalty is provided for in the agreement.

(2) Royalty shall be paid in cash unless the Government elects to take the delivery of royalty, whether wholly or partially, in kind at field gate. In such case, the contractor shall at the request and at the costs of the Government make arrangement for transportation of the royalty petroleum in the same manner as if it was its own petroleum. The election to take the royalty in kind shall be made by the Government at the time of approval of field development plan. Provided that the Government shall consult the concerned province if it is in kind, to the extent of their share only, if the block falls within the territorial waters. Provided further if the majority of a block falls beyond the territorial waters of Pakistan, the royalty shall be paid to the Government.

(3) Royalty shall be payable monthly within a period not exceeding forty-five days of the end of the month of production in question which if delayed beyond this stipulated period shall attract fine at rate of London Inter Bank Offer Rate (“LIBOR”) plus two per cent as may be determined by the Authority. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Authority may take such action as it deems appropriate in accordance with these rules.

(4) In case the Government elects to take royalty in kind, the Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting agreement as may be mutually agreed with a contractor under an agreement.

(5) A contractor shall be permitted to use petroleum produced from area of lease for drilling, production, maintenance and processing of petroleum obtained from the area of lease free of cost, royalty and excise duty provided that it shall not be entitled to include any notional costs in claiming its business expenses for income tax purposes.

(6) From the amount of royalties payable in respect of any one year of the term of a lease, there shall be no deduction of any expenditure including lease rent, except allowed transportation cost.

(7) The Authority may from time to time issue guidelines which will *inter-alia* cover procedure for administration and payment of royalty due from the contractor of GHPL under a lease.

44. **Wellhead value of petroleum.-** (1) For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using the monthly weighted actual selling price of the various transactions in the following manner, namely:-

(a) for the petroleum sold to the national market pursuant to rule 48, the actual selling price means the price determined in accordance with the relevant

agreement between the contractor and the Government or its designee less allowed transportation cost; and

- (b) in all other cases, the actual selling price means the greater of-
 - (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or
 - (ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs; or
 - (iii) the price applicable to the sales made under clause (a).

(2) For the purpose of calculating the cost recovery and production sharing, the wellhead value of the petroleum shall be determined by using the monthly weighted actual selling price of the various transactions in the following manner, namely:-

- (a) for the petroleum sold to the national market pursuant to rule 48, the actual selling price means the price determined in accordance with the relevant agreement between a contractor and the Government or its designee less allowed transportation cost; and

- (b) in all other cases, the actual selling price shall be the price realized through a competitive process for which the Authority may issue guidelines from time to time.

(3) For avoidance of doubt, in the case of LPG, the value for payment of royalty shall be its realized market value.

45. **Royalty administration.**- (1) If a contractor comprises two or more companies, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the Authority to remit royalty themselves. The Authority may at any time, during the currency of lease period, change the arrangement at its discretion and any decision made by the Authority shall be enforced in the manner as may be determined by the Authority from time to time.

(2) Royalty shall be remitted with the supporting forms specified by the Authority with documents and information required.

(3) If the Authority determines that petroleum was avoidably lost or wasted then royalty shall be payable on such lost or wasted petroleum in accordance with the directions issued by the Authority.

(4) If a contractor receives insurance compensation for unavoidably lost petroleum, royalty shall be due on the amount of the compensation in accordance with the directions issued by the Authority.

(5) In case the lease area falls in territorial waters of Pakistan, ten percent of royalty shall be utilized by the respective Provincial Government for infrastructure development in the district adjacent to the territorial waters.

(6) If a discovery area falls within the territorial waters of more than one Province, then the apportionment of royalty between such Provinces shall be determined on the basis of the reserve potential of that discovery area with respect to each such Province.

46. **Yearly lease rents.-** (1) A contractor shall on behalf of GHPL for each square kilometer or part thereof comprising the lease area pay rent to the Government at the rate of fifty seven thousand US Dollars plus a further rate of one hundred eleven US Dollars and fifty Cents per square kilometer or a part thereof every year.

(2) The rent due shall be annually indexed on first January each year, by reference to United States Consumer Price Index (USCPI) as published by the US Bureau of Labor Statistics, Department of Labor so as to ensure that the rent retains its value in real terms starting from the date of promulgation of these rules. For timely indexation of rent, the contractor shall approach the Authority in the first week of January each year.

(3) The rent shall be paid in advance of the period to which it relates. Further, for first year of the grant of the lease, the rent shall be calculated up to thirty first December of that year. Subsequently, the indexed rent shall be paid before thirty first January of each year.

47. **Surface rent.-** A contractor shall pay for all land which he may use or occupy for the purposes of the operations conducted under the agreement, a surface rent at the rate assessable under the applicable laws and water rates as assessable under any relevant rules.

48. **Deliveries to the national market.-** (1) The Government may decide that a contractor under an agreement shall deliver petroleum from its production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose mean the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The contractor shall deliver the petroleum at such place or places in Pakistan as the Government may direct.

(2) The provisions of sub-rule (1) shall apply to all companies producing petroleum as far as practicable, *pro rata* to their production. Each contractor's obligation may be fulfilled directly or by means of swap arrangements approved by the Authority.

(3) The Government may also decide that a contractor shall arrange and pay for adequate transportation of crude oil, condensate and natural gas liquid which it has thus ordered to be delivered to the nearest operating refinery in Pakistan.

(4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and a contractor.

49. **Measurement of petroleum.-** (1) A contractor shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good international petroleum industry practices and approved by the Authority which may,

from time to time and as and when deemed necessary, issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good international petroleum industry practices.

(2) The Authority or any officer authorized by it shall, at all times during the term of an agreement or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.

(3) A contractor shall install, operate and maintain all measuring and weighing equipment ensuring that such equipment remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the Authority, so determines after considering any representations in writing made by the contractor, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the contractor's willful tampering or negligence in which case appropriate adjustment in royalties, and production share together with imposition of fine will be made as determined by the Authority. The royalties and production share payable in respect of such period shall be adjusted accordingly.

(4) A contractor shall not make any alteration in the method or methods of measurement or weighing used by it or any equipment used for that purpose. The Authority, may require that no alteration shall be made save in the presence of an officer authorized by it.

50. **Revocation of lease.-** (1) The lease may be revoked and the agreement may be terminated if regular commercial production has not commenced within seven years from the grant of the lease. The lease may also be revoked and the agreement may be terminated if production has ceased for more than ninety days without prior written approval of the Authority, unless this is due to *force majeure*.

(2) In the event, a contractor is found to have contravened sub-rule (1), the Authority may issue a ninety days notice requiring the contractor to remedy the breach within the notice period failing which the Authority may revoke the lease and terminate the agreement.

PART V.- ACCOUNTS, RECORDS, INSPECTION AND REPORTS

51. **Keeping of records and accounts.-** (1) A contractor shall maintain full and accurate record.

(2) Original copies of all record shall be kept in Pakistan unless otherwise approved by the Authority.

(3) A contractor shall immediately comply with the demand of the Authority or GHPL, as the case may be, to submit the certified copy of any record.

52. **Period of record-keeping.-** (1)The record shall be kept and maintained for a period of six years or for a longer period as is required under the applicable law following the end of the calendar year to which the information contained in the record relates. In case of any particular record, upon application by a contractor, the Authority may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.

(2) Notwithstanding the provision of sub-rule (1), if based on reasonable grounds, the Authority is of the opinion that it is necessary for the administration of any rule, to retain record for a longer period, it may direct the concerned contractor to do so by specifying the reasons thereof.

53. **Well records.-** (1) Notwithstanding the generality of rule 51, a contractor shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion, side tracking, testing or abandonment of all wells containing particulars of the following matters with respect to each well, namely:-

- (a) the strata and subsoil through which the well was drilled;
- (b) the casing used in any well and any alteration to such casings;
- (c) any petroleum and other reservoir fluids, or minerals encountered; and
- (d) such other matters as the Authority may, from time to time, require.

(2) A contractor shall deliver copies of the said record to the Authority as and when these become available or are required by it.

54. **Production records.-** A contractor shall always keep full and correct record of production from each well, formation or reservoir and field wherever possible, which shall contain accurate entries of-

- (a) the gross quantity and quality of petroleum won and saved;
- (b) the method and results of tests conducted;
- (c) the quantity and quality of petroleum delivered in Pakistan and exported;
- (d) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;
- (e) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;
- (f) the quantity and quality of natural gas treated and processed for the removal of impurities and inert and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and
- (g) such further particulars as the Authority may from time to time, require.

55. **Data to be property of the Government.-** (1) All data including but not limited to well logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by a contractor as a result of its activities under an agreement or reconnaissance agreement shall be the property of the Government. The contractor shall submit all of the aforesaid data and information as soon as it has become available to it. The contractor may, during the subsistence of an agreement or reconnaissance agreement, after prior intimation to the Authority, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance with good international petroleum industry practices.

(2) All raw and processed geophysical and geological data and information referred to in sub-rule (1) shall be submitted to the Authority on transparent, dimensionally stable material as well as in the digital format as may be notified by the Authority from time to time. The Authority may disclose certain data except seismic and drilling data to the concerned Provincial Government in case the relevant offshore area falls in the territorial waters.

(3) Information and data as mentioned in this rule shall be kept confidential by the Government, Provincial Government, Authority and GHPL for a period of three years from the date the data is acquired by a contractor with the following exceptions, namely:-

- (a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Government, which will be bound to keep the same confidential;
- (b) information required for general statistical purposes;
- (c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and
- (d) all raw geophysical, geological and well data including well logs may be disclosed by the Government, Authority or GHPL to any interested party after three years of the activity to which such data relates. This however shall not be applicable to the data generated under multi-client arrangements.

(4) Notwithstanding anything contained in these rules, the data in the possession of the Government or the Authority in respect of a surrendered or relinquished area of a permit, licence or lease or agreement may be released by the same to any company or to an organization engaged in petroleum exploration, production and research, on the actual reproduction and other costs of the data and on such terms and conditions as it may determine.

(5) Except as provided under these rules, a contractor shall not disclose or cause to disclose any data to a person who is not legally entitled to obtain that data.

(6) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (5).

56. **Power to inspect plants, records and accounts, etc.-** (1)The Authority or a person designated by it may, at any reasonable time after notice in writing enter any place where any activities or business is carried out by a contractor under the rules for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works.

- (2) A contractor for the purpose of an audit, or inspection or examination shall-
- (a) provide access to the Authority or a person designated by it to conduct the audit or inspection or examination on its behalf to perform its duties without any hindrance;
 - (b) provide all reasonable assistance to the Authority or a person designated by it to perform its duties without any hindrance;
 - (c) promptly provide or make available the certified copies of records required by the Authority or to any person designated by it to perform its duties without any hindrance.

57. **Annual reports.-** (1) A contractor shall submit to the Authority annual reports containing the following particulars, namely:-

- (a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited by a recognized firm of chartered accountants;
- (b) a description of all exploration, development, production and other work carried out by the contractor during the year relating to the permit or licence or lease area;
- (c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good international petroleum industry practices. If so desired by the Authority, the contractor shall be required to carry out reserves certification from an independent reputable consultant; and
- (d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within ninety days after the end of year to which they relate.

58. **Quarterly reports.-** Within fifteen days after the end of each quarter, a contractor shall prepare and submit a progress report to the Authority for each month of the relevant quarter, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain-

- (a) a summary of all geological and geophysical work carried out;

- (b) a summary of all drilling activity and results obtained;
- (c) a list of maps, reports and other geological and geophysical data prepared or acquired in connection with the activities carried out during the reported quarter; and
- (d) a statement of expenditure incurred by the contractor during the quarter on a format as may be specified by the Authority from time to time.

59. **Daily reports.-** During drilling of a well, a contractor shall provide to the Authority, copies of its daily well reports on a format as may be specified from time to time. The contractor shall also provide on daily basis reports of Petroleum production as well as all geological and geophysical work carried out on a format as may be specified by the Authority from time to time.

60. **Occasional reports.-** A contractor shall submit to the Authority, the following reports, namely:-

- (a) within twenty four hours, by fax or email with hard copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drillstem or any other test has been carried out on a well which produces petroleum;
- (b) within fifteen days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drillstem or any other test containing the following additional information, namely:-
 - (i) conditions and results of the drillstem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;
 - (ii) physical analyses; and
 - (iii) any deductions therefrom as to the potential of the reservoir.
- (c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, *inter alia*, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;
- (d) at the latest upon the submission of a commercial discovery notice, a report which shall substantiate such notice and contains all relevant geological information, including estimates of recoverable reserves and daily production;

- (e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area and expiry or early termination of agreement all such maps, plans, reports, records, interpretations, and data that had been made or obtained by or for the contractor relating to exploration, development, production, abandonment, restoration of site and any other operations in the relinquished, surrendered or retained areas;
- (f) report to the Authority particulars of any fresh issues of capital which may be made by the contractor or its parent company from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of the contractor or its parent company. Any fresh issues of capital shall at all times be subject to clause (d) of rule 78; and
- (g) from time to time, such other plans and information as to the progress and results of the contractor's operations as the Authority may require.

61. **General.-** The reports referred to in this Part V shall be made in such form and contain such further particulars as the Authority may specify. A contractor's obligations under this Part V shall comprise reports whether prepared inside or outside Pakistan and whether prepared by itself or by others.

62. **Reports of discovery.-** (1) No announcement or statement, whether direct or implied, with respect to a discovery of petroleum shall be made by a contractor except by the Authority in consultation with the contractor and GHPL.

(2) No statement shall be made by or with the consent of a contractor claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

PART VI.- STANDARD OF OPERATIONS

63. **Avoidance of harmful methods of working.-** (1) A contractor of GHPL under a petroleum right shall undertake and execute all operations in a proper, prudent and diligent manner in accordance with these rules, an agreement or a reconnaissance agreement and good international petroleum industry practices. The contractor shall not unreasonably obstruct or interfere with other activities such as navigation and fishing. All reasonable precautions should be taken to prevent pollution or damage to the environment and surroundings.

(2) Without prejudice to the generality of the foregoing provision, a contractor shall take all steps including but not limited to the following, namely:-

- (a) prevent the escape or waste of petroleum discovered in the area;
- (b) conserve the area for operations;
- (c) prevent damage to adjoining petroleum bearing strata;

- (d) prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Authority for the purposes of secondary recovery; and
- (e) prevent the escape of petroleum into any waters in or in the vicinity of the area.

(3) A contractor shall undertake petroleum operations in such a manner that avoids causing debris, which if caused shall be sole responsibility of the contractor.

(4) The Government may establish safety zones around temporary and permanent installations as per good international petroleum industry practices.

(5) The Authority may, from time to time, determine and notify the standards applicable to the operations under these rules.

64. Principles of sound operations.- (1) All petroleum operations and activities shall be conducted diligently and in accordance with good international petroleum industry practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Authority.

(2) The Authority may specify measures at the time of approval of development plan that a contractor shall take to conserve petroleum resource of Pakistan. These measures shall include, but not limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.

(3) A contractor shall not flare or vent any natural gas without the prior approval of the Authority in writing.

65. Commencement, testing and abandonment of drilling operations.- (1) A contractor shall not commence drilling, re-entry, testing and related operations or abandonment of any well except with the consent of GHPL and without first giving a notice for approval of the Authority in writing and in the manner as follows:-

- (a) forty-five days before the commencement of drilling or re-entry;
- (b) five days before testing; and
- (c) as soon as possible for all the related operations or abandonment of any well.

(2) The Authority shall communicate its approval or otherwise within a period of fifteen working days from the date of receipt of the notice, complete in all respects in accordance with the prescribed template, failing which the notice shall be deemed to have been approved. In case the Authority disagrees with the classification of the well by the contractor (e.g. exploration versus development), the Authority shall inform the contractor to provide additional information or reject the classification with reasons. In case of an emergency due to technical or safety reasons the notice

requirement may be reduced till emergency situation is over. However, such notice shall contain explanation for the emergency.

(3) Notwithstanding anything contained in sub-rules (1) and (2), in case of disagreement over classification of well, the contractor may commence drilling of the well while the Authority may decide the classification of any well based on the data obtained after drilling of well and such classification shall be binding on the contractor.

(4) For testing of wells, the contractor shall-

- (a) as soon as possible make known to the Authority the proposal for testing a well;
- (b) inform the Authority the plan to test potentially productive horizons based on its interpretation of the wire-line recording or relevant drilling data; and
- (c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same as soon as possible to the Authority.

(5) After the completion of all operations, the well shall be safely plugged and abandoned in accordance with good international petroleum industry practices.

66. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable petroleum operations to be carried out thereon.

PART VII.-MISCELLANEOUS

67. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, a contractor shall ensure the use of Pakistani goods and services, to the extent that such goods and services are competitive with regard to price, quality and schedule of delivery provided that the price is reasonable.

(2) Local producers who are qualified under the relevant Customs General Order (CGO) of supplying goods and services of type demanded shall be included in invitations to tenders.

68. **Employment and training of Pakistani personnel.-** (1) A contractor shall give preference to the nationals of Pakistan for employment in its organization at all levels and in all branches including technical, financial, commercial, legal and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill in the aforesaid positions. The number of Pakistani personnel to be employed or trained shall be determined in consultation with the Authority in accordance with the guidelines that may be issued by the Authority from time to time. The operator and its sub-contractor shall ensure the employment of unskilled workers from the locals of the coastal area to the extent of at least fifty percent of their total strength of unskilled workers. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.

(2) The Authority may require that a contractor shall provide training for Federal Government, Provincial Government and Authority's personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines including geology, geophysics, engineering, project management, accounting, commercial, legal and shall also be in the form of on-the-job training and participation in in-house seminars.

69. **Joint exploration and development.**- (1) If a petroleum deposit extends across more than one licence or lease area held by different companies, such companies shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner.

(2) Joint exploration, joint development plans or in case one of the deposits has already been developed, a joint unitization plan, together with agreement between the companies shall be submitted to the Authority for approval.

(3) If the companies fail to reach an agreement on joint exploration, joint development or joint unitization plan referred to in sub-rules (1) and (2), the Authority may, in the public interest, by notice in writing to all concerned companies, direct to finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice. In the event such plan is not submitted to the Authority within the stipulated period or such plan has not been approved by the Authority, the Authority may appoint an independent consultant to prepare such a plan at the cost of the contractors concerned. The plan so prepared by the consultant shall be considered and approved by the Authority with appropriate changes for implementation as per approved schedule. The Authority may, however, stipulate such additional conditions as may reasonably be considered appropriate in the interest of such plan.

70. **Petroleum exploration within a lease area.**- (1) A contractor shall have preferential right to perform petroleum exploration activities on all horizons underlying a lease area provided that, if the Authority receives a bona fide offer from a third party to undertake exploration within such lease area, the contractor shall have to decide whether or not to match such offer within six months of receiving a notice to this effect from the Authority.

(2) In case a contractor decides not to undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any or all the horizons underlying the lease area, then such a third party and the existing contractor shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the lease area so that the activities can be coordinated in a just and equitable manner. In case such an agreement is not reached between the parties within the specified time or such agreement has not been approved by the Authority, the Authority may appoint an independent consultant to prepare such an agreement at the cost of the contractor concerned. The plan so prepared by the consultant shall be considered and approved by the Authority with appropriate changes for implementation as per approved schedule. The Authority may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such an agreement.

(3) For the purpose of petroleum exploration within a lease area, the provisions of rules 27, 29, 30 and 34 shall apply, *mutatis mutandis*, provided that where an existing contractor makes a new commercial discovery, the provisions of rule 0 shall not be applicable and the existing lease shall be amended to bring the discovery area of such commercial discovery under the purview of the lease. In case any discovery area covered under a lease extends beyond the geographical limits of the lease area, the Authority may upon request allow the contractor to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 27.

71. **Exploration and use of facilities by a third party.-** (1) The Authority may allow a third party to undertake exploration in the area of a licence or lease as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding such area. The said exploration activities must not unreasonably interfere with the activities of a contractor. After consultation with the contractor concerned, the Authority shall determine the manner in which such exploration is to be carried out including the determination of the type and duration of exploration in the area, provided in any case that such third party shall not be given any rights whatsoever in the licence or lease area.

(2) The Authority may decide that production, processing and transportation facilities owned by GHPL or a contractor shall be available for utilization by others, if this is deemed to be desirable for the purpose of efficient operations, or if required in the public interest. Such utilization shall be with respect to the capacity of such facilities that is in excess to the existing or reasonably anticipated future needs of the contractor and GHPL and shall not adversely interfere with the activities and the rights of the contractor and GHPL. The user shall pay compensation for such utilization as may be mutually agreed and approved by the Authority. If GHPL or the contractor and the nominated user fail to reach an agreement on compensation within hundred and eighty days or if the Authority does not approve the agreed compensation, the Authority may appoint an independent consultant to determine such compensation at the cost of GHPL or the contractor concerned or the nominated user, as the case may be. The compensation so determined by the consultant shall be considered and approved by the Authority. The Authority may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such joint utilization plan.

72. **Security interest.-** Subject to these rules, and with the prior approval of the Authority, a contractor or any company comprising contractor may create security interest for obtaining financing for petroleum operations. The Authority may cause GHPL to execute all reasonable acknowledgements to formalize arrangements related to creation of such security interest provided that in no event the Authority or GHPL shall be liable for any indebtedness or liability of the contractor or any company comprising contractor.

73. **General right of contractor under a lease to enter land.-** Subject to approval of the Authority and of any other authority which may be involved, and on such conditions as may be

stipulated, a contractor shall have the right, as required for the purpose of carrying out operations under the lease, to-

- (a) enter upon and use land as well as the permit, licence or lease area;
- (b) appropriate water;
- (c) store petroleum;
- (d) erect houses and machinery;
- (e) search for, dig and get gravel;
- (f) cut timber and clear undergrowth;
- (g) enclose with fence areas for which it is paying surface rent; and
- (h) carry out such other activities which the Authority considers necessary.

74. **General rights of a contractor under permit or licence to enter land.**- Subject to approval of the Authority and of any other authority which may be involved, a contractor or GHPL under a permit or licence shall have the rights stipulated in clauses (a), (b), (d), (f) and (h) of rule 73 provided that houses and machinery referred to in clause (d) must be temporary.

75. **Restrictions on a contractor's rights.**- (1) The rights granted to a contractor shall not prejudice or affect the exercise of any of the following powers, namely:-

- (a) the Government or any person authorized by it may within the contractor's area search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said purpose;
- (b) the Government or any other persons authorized by it may within area of the contractor-
 - (i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as it shall deem necessary or expedient for any purpose;
 - (ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;
 - (iii) draw water from the said area and have free access thereto; and
 - (iv) pass and re-pass at all times over the said area for all such purposes as occasion shall require; and

- (c) the Government shall have the liberty and power to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the contractor.

(2) The Government's powers pursuant to clauses (a) and (b) of sub-rule (1) shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of a contractor. Fair and proper compensation shall be paid by the Federal Government for all loss, damage or injury (not, however, including the value of any water, stones, earth or other materials taken) which the contractor may sustain or be put to by reason or in consequence of the exercise of the said powers.

76. **Power to execute works.-** In case a contractor at any time fails to perform its obligations under these rules or under an agreement, the Authority shall be entitled after giving to the contractor reasonable notice in writing of its intention to execute any works which in its opinion may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the contractor.

77. **Power to control spill or waste.-** (1) A contractor shall at all times, has obligation not to cause spill and waste.

(2) Where the Authority, on reasonable grounds, is of the opinion that, with respect to any operation of a contractor, spill or waste is required to be controlled or prevented, it may order the contractor to control or prevent spill and waste within a reasonable period of time, failing which it may cause to take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the contractor.

(3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the Authority under sub-rule (2) then the Authority and a contractor shall make all reasonable best efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the Authority under sub-rule (2) failing which such dispute, controversy or claim shall be referred to an independent consultant who shall be appointed by the Authority at the cost of and with consent of the contractor. The findings of such consultant shall be binding on the Authority and the contractor.

(4) Notwithstanding anything in sub-rules (1), (2) and (3), the Authority or a contractor may exercise the option not to refer such matter to an independent consultant, in which event such dispute, controversy or claim shall be settled through arbitration in accordance with laws in force in Pakistan or as otherwise specified in the agreement.

78. **Power to revoke.-** In addition to other grounds for revocation specified in these rules, the Authority may revoke a petroleum right after serving a thirty days show cause notice and according to the procedure specified in the agreement, if-

- (a) a contractor thereof is, in a material respect, in breach of the terms and conditions on which an agreement or reconnaissance agreement was

executed, of the provisions of these rules or of any other written law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on it by the Authority, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof;

- (b) the agreement or reconnaissance agreement was executed by reason of information given by the contractor which was false in a material respect;
- (c) the contractor or its parent company makes an arrangement or composition with its creditors, a receiver is appointed or the contractor goes into liquidation whether compulsory or voluntary;
- (d) without the prior consent of the Authority, there is a disposition of the share capital of the contractor or its parent company in consequence of which any person who prior to that disposition had effective control of the contractor or its parent company ceases to have such effective control; and
- (e) the contractor has failed to make payment to the Government or GHPL, whether full or part, payable under these rules or an agreement or reconnaissance agreement and such payment remains in arrears or unpaid for two subsequent months from the date on which the payment was due.

79. **Right of the Government upon termination of a petroleum right.**- (1) When a permit, licence or lease has expired and agreement or reconnaissance agreement has terminated or has been surrendered wholly or partly, the area of permit, licence or lease shall so far as practicable be reinstated in its original condition by a contractor and where this is not practicable, the contractor shall pay compensation to the Government for damages suffered as a result thereof.

(2) When a petroleum right has expired and agreement or reconnaissance agreement, has terminated or has been surrendered wholly or partly, or the use of installations and facilities including related equipment has come to an end, the Government through GHPL shall have the right to takeover such installations and facilities including related equipment. An agreement may provide details regarding the same. This shall also include pipeline transportation and related facilities installed by a contractor to secure shipment of petroleum.

(3) Upon taking over the installations and facilities including equipment pursuant to sub-rule (2), a contractor shall be required to hand over such installations and facilities including equipment in such condition as required under good international petroleum industry practices. No compensation shall be given to the contractor in case of such takeover. Takeover shall involve an automatic cancellation of any security for debts or leasing arrangement related to such installations and facilities including equipment and title of the same shall be transferred to the Government.

(4) If the Government does not wish to exercise its right to take over the installations and facilities including equipment, the Government may demand that removal shall be carried out by a contractor at its expense, in which case the provisions of sub-rule (1) shall apply.

(5) Subject to the payment of compensation, which shall be determined through competitive process, by the contractor, the Authority may consider its request to transfer any equipment to another area in Pakistan for its petroleum operations.

(6) Unless otherwise stipulated in an agreement, at least one year prior to termination, a contractor shall submit to the Authority a plan for the orderly closing down and abandonment of its operations, and for the removal of the facilities or their transfer to the Government, as the case may be.

80. **Indemnity.-** (1) A contractor shall be responsible and liable for actual loss or damage and the consequences of its activities under the agreement. The contractor under the agreement shall-

- (a) effectively indemnify, defend and hold harmless the President, the Government, Authority and GHPL at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of contractor, by any third party, or anything done or purporting to be done in pursuance thereof, provided that contractor shall not be held responsible to the Government and GHPL for any indirect or consequential damages or loss, including loss of profit and any loss, claim, damage or injury caused by or resulting from any negligent action of any concerned personnel of the Government or GHPL; and
- (b) if required to do so by the Authority, take out and maintain such insurance as the Authority may approve against any liability of the contractor under these rules and the agreement.

(2) No suit, prosecution or other proceedings shall be initiated against the President, the Authority, the Government or any of its assigns for anything done or purported to have been done in good faith under these rules.

81. **Miscellaneous obligations.-** A contractor shall establish an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall-

- (a) immediately after execution of an agreement or reconnaissance agreement but before commencing any petroleum operations in the relevant area, furnish to the Authority, the name and address of the manager, resident in

Pakistan, under whose supervision petroleum operations are to be carried out;
and

- (b) in writing, keep the Authority informed of the names, addresses and nationalities of sub-contractors employed by it from time to time.

82. **Force majeure.-** (1) Failure on the part a contractor to fulfill any of the terms and conditions of these rules, an agreement or reconnaissance agreement shall not give the President, or the Government, any claim against the contractor or be deemed a breach of its obligations insofar as such failure arises from *force majeure*.

(2) In this rule the expression "*force majeure*" includes the act of God, war, insurrection, riot, civil commotion, blockade, strike, lockout or other industrial disturbances, flood, lightning, explosion, fire, earthquake and any other happening which a contractor could not reasonably prevent or control.

(3) If the ability to fulfill the terms and conditions, is affected by *force majeure*, a contractor shall without delay give notice to the Government, stating the cause of such inability and his efforts to remove such causes and remedy its consequences.

(4) The term of a petroleum right granted to GHPL and an agreement or reconnaissance agreement, as the case may be, shall be extended for the duration of the *force majeure* situation and for such further period as is required to resume a contractor's operations.

83. **Tight Gas and Low BTU Gas.-** The provisions of the Tight Gas (Exploration and Production) Policy, 2011 and the Low BTU Pricing Policy, 2012 shall be deemed incorporated into these rules, as far as possible, and, in the event of any conflict with these rules, the relevant policy shall prevail.

84. **Penalties.-** In case of violation of these rules, the Authority may impose a fine on GHPL, a contractor or a contracting company, which may extend to one hundred million rupees for each violation and where any contravention continues may impose a fine which may extend to five hundred thousand rupees per day, provided that before imposition of any penalty, a notice to show cause shall be issued and an opportunity of hearing shall also be provided.

85. **Arbitration.-** Except as otherwise agreed in a reconnaissance agreement or an agreement, as the case may be, or expressly provided for in these rules, any question or dispute regarding a petroleum right or an agreement or reconnaissance agreement or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistani laws.

86. **Applicable laws, rules and regulations.-** (1) Except as otherwise provided for in these rules, all laws, rules and regulations of Pakistan as are applicable to petroleum exploration

and production activities in onshore areas shall be deemed to be applicable *mutatis mutandis* to such activities in offshore area.

87. **Repeal and savings.**- (1) Except as provided in sub-rule (2), the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2003 are hereby repealed.

(2) Notwithstanding the repeal of the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2003, where any person holds any permit, licence or lease granted or renewed under the said rules, the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.

THE FIRST SCHEDULE

(See rule 7)

APPLICATION FOR CONTRACTORSHIP UNDER A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE

1. Name of the applicant in full exactly as appearing in the certificate of incorporation:

2. Nature of business and incorporation of the applicant:—

(a) Place of incorporation:

(b) Juridical status of the applicant at the place of incorporation:

(c) If incorporated outside Pakistan, whether the applicant has valid permission to operate as a branch of a foreign company in Pakistan:

(d) Nature of the applicant's business:

(e) Principal place of the applicant's business:

(f) If principal place of business is outside Pakistan, name and address of duly authorized agent in Pakistan:

(g) If the applicant is a local company, name and address of duly authorized representative:

3. Details of principal shareholders and the directors:

(a) Name of Principal shareholder(s): Shareholding(%)

(b) Directors: Name(s) Nationality Residential Address

4. Authorized, subscribed and paid up capital of the applicant: _____

5. Economic and financial data for the applicant (Year-wise for the last five years, if available):

a. Total investment in petroleum activities breaks up as follows:-

- (i) exploration;
- (ii) production; and
- (iii) any other related activities;

b. The total turnover of the group as well as the turnover with regard to petroleum activities.

c. Net income after taxes.

d. Trading profit and loss forecasts for the next five years (including projected balance sheets and cash flow statements and any assumptions made in preparing the forecasts), and if appropriate, how any deficit will be met.

6. If applicant intends to apply as an operator, it shall provide the following, namely:-

a. **Applicant structure:** Details of management structure showing clear lines of responsibility and processes for upstream operations providing all details of operations staff to be based in Pakistan. Details of the role of sub-contractors in the applicant's decision making process.

b. **Health, safety and environmental management (HSE):** Details of health, safety and environmental management systems implemented and used by the applicant.

c. **Management system:** Details of how company will manage in practice an exploration, development or production operation, clearly describing the division of responsibility between the applicant's own staff and sub-contractors, if the latter are to be employed.

- d. **Worldwide operating experience of the company and/or its management team:** Details of all worldwide operating experience overseas to demonstrate a track record of effective exploration and field management.
- e. **Field management resources:** Details of the technical resources available to the prospective operator. The company's own capacity to analyse the potential of a field. Details of capability and experience in relation to enhanced recovery operations.
- f. **Training policy:** Details of any formal training standards that the applicant has adopted including how the company will establish such standards with sub-contractors. Particular reference should be made to the company's record of training its indigenous staff.
- g. **Additional information:** Any additional information that the company considers relevant to the application.

7. Details of technical capacity of the applicant:

- a. Name of technical and business professionals including number of years and details of relevant experience to be employed. In case of replacement, the applicant shall employ another professional of equivalent exploration and production experience and expertise.
- b. Proven oil and gas reserves booked as per standards set under good international oilfield practices as of the end of the last accounting year:

	Onshore	Offshore
Oil (million barrels)		
Gas (billion cubic feet)		
Total (million barrel of oil equivalent)(MMBOE)		

- c. Production of oil and gas (Year-wise for the last five years ending at the last accounting year:

	Onshore	Offshore
Oil (barrels per day)		
Gas (million cubic feet per day)(MMCFD)		
Total (barrel of oil equivalent per day)(BOE)		

- d. Wells drilled by applicant or its management team(Year-wise for the last five years ending at the last accounting year):

	Exploration	Appraisal	Development

		Onshore	Offshore	Onshore	Offshore	Onshore	Offshore
20--	Operator						
	Non-operator						
20--	Operator						
	Non-operator						
20--	Operator						
	Non-operator						
20--	Operator						
	Non-operator						
20--	Operator						
	Non-operator						
<i>Total</i>	<i>Operator</i>						
	<i>Non-operator</i>						

8. Operational experience of the applicant:

- a. Name of the countries in which holding operatorship at present (details separately for onshore and offshore): _____
- b. Years since acting as the operator (separately for onshore and offshore):

- c. Same details as required under (a) and (b) above for worldwide non-operated interests: _____

9. We hereby swear that we are not incapable of contracting with the Federal Government, Government Holdings (Private) Limited (GHPL) or name of Provincial Holding Company, if any.

10. We hereby declare that-

- (a) there is no pending litigation, legal process or other circumstances that might cause us to breach our obligations; and
- (b) all particulars contained herein are correct.

11. Furthermore, we hereby declare that we will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially we will eschew all espionage.

Signatures of the authorized representative of the applicant

Title _____

Date _____

* *If the applicant is a subsidiary, the same information shall be given with respect to its ultimate parent company.*

Exhibit-I

**PARTICULARS TO BE FURNISHED BY APPLICANT FOR ENTERING INTO A
PRODUCTION SHARING AGREEMENT**

1. **Information concerning the areas (blocks).**
 - (a) Details of areas (blocks) applied for.
 - (b) If the applicant applies for more than one area (block) the priority assigned to the different areas (blocks) must be given.
 - (c) The applicant must state the percentage working interest applied for in the different areas (blocks).
 - (d) The applicant must state if he applies for operatorship on any or all of the areas (blocks) applied for.
 - (e) Information given in clauses (a) to (d) and paragraph 2 shall be summarized in a separate form.
 - (f) The application must comprise information about the geological and geo-physical material and parameters upon which the application is based, accompanied by structural maps.
 - (g) The application shall, in a separate enclosure, comprise a geological study of the area in a regional geological context. Further, the said enclosure shall contain an evaluation of the prospectivity of the different geological areas and how knowledge about prospectivity in one geological area may depend upon information from another geological area.
 - (h) Information about the techniques used for the evaluation of the prospects from a geological and geo-physical point of view must be included.

2. **Proposed work programme, economic terms, etc,-**

The applicant shall indicate his proposed terms regarding,

- (a) the work programme, expressed where applicable in Work Units, for each of the area (blocks) applied for, including the size of seismic grid, number of exploration wells (wildcats) with indications of depths and geological horizons to be penetrated in each

exploration well, and the minimum expenditure amount to be allocated to and spent on exploration activities;

(b) information as to the applicant's intentions and plans regarding transfer of technology and training, development and integration of the Government officials and Pakistani nationals in general.

THE SECOND SCHEDULE

[See rules 2(xx), 2(xxi) and 2(xxv)]

PART I

STANDARD FORM OF RECONNAISSANCE PERMIT

The President of Pakistan (hereinafter referred to as "the President") hereby grants under and in accordance with the provisions of the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2021, and on the terms and conditions set forth or referred to therein, and GOVERNMENT HOLDINGS (PRIVATE) LIMITED (hereinafter referred to as "the Permit Holder") hereby accepts a Reconnaissance Permit on the terms and conditions aforesaid and on further terms and conditions set forth herein as follows:-

(1) The Permit Holder and _____ (hereinafter referred to as the "Contractor") will enter into a Reconnaissance Agreement as per Annex-I under which the Contractor would carry out work programme outlined below.

(2) This Permit gives the Permit Holder the non-exclusive right to perform activities through the Contractor in connection with reconnaissance and exploration for petroleum in the following areas:

Permit Area No.	Coordinates.	Km ²
_____	_____	_____
_____	_____	_____
_____	_____	_____

(3) The Permit is valid for a period of _____. The Permit Holder shall be entitled to renewal of the licence, as follows: _____.

(4) The Contractor shall undertake a work programme, which shall be fully completed by _____. The contents of the work programme and the timetable for its completion are as follows:-

(a) the Contractor (s) shall undertake to obtain seismic coverage of adequate quality, covering the permit area with a grid of at leastX..... km. The

survey shall be completed no later than _____ after the issue of this Permit; and

(b) in areas where structures are expected to continue into neighbouring areas (blocks), DGPC, may require certain specifications for the survey.

(5) The laws of Pakistan shall govern all activities pursuant to this Permit.

In witness whereof the President has set his hand and seal and Permit Holder has caused its common seal to be affixed hereon this _____ day of _____.

PART II

STANDARD FORM OF EXPLORATION LICENCE

The President of Pakistan (hereinafter referred to as “the President”) hereby grants under and in accordance with the provisions of the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2021, and on the terms and conditions set forth or referred to therein, and GOVERNMENT HOLDINGS (PRIVATE) LIMITED (hereinafter referred to as “the Licensee”) hereby accepts an exploration licence, on the terms and conditions aforesaid and on further terms and conditions set forth herein as follows:-

(1) The licensee and _____ (hereinafter referred to as the “Contractor”) will enter into a Production Sharing Agreement not later than thirty days after this licence has been granted as per Annex-I under which the Contractor would carry out work programme outlined below. Any subsequent amendment, supplement, or exception from the Production Sharing Agreement requires the Government’s prior written approval.

(2) This licence gives the Licensee the exclusive right to perform activities through the Contractor in connection with the exploration for and exploitation of petroleum in the following areas:

Licence Area No.	Coordinates.	Km ²
_____	_____	_____
_____	_____	_____

(3) The licence is valid for a period of _____. The Licensee shall be entitled to renewal of the licence, as follows:_____.

(4) The Contractor shall undertake a work programme, which shall be fully completed by _____. The contents of the work programme and the timetable for its completion are as specified in the agreement.

(5) The Contractor shall undertake such coring and other tests and registrations as the DGPC may regard as necessary in order to estimate possible petroleum finds. Special care

shall be given to coring in all prospective intervals. The sampling shall lead to exhaustive analysis and interpretations.

(6) If the Contractor should fail to complete the above mentioned work programme within the time limits specified, he shall pay liquidated damages to the GHPL, as specified in the agreement.

(7) If the Contractor comprises more than two or more companies then they shall, not later than thirty days after this licence has been granted enter into a Joint Operating Agreement amongst themselves and provide a copy of the same to the Government of the Islamic Republic of Pakistan. No change in the same shall take place without prior intimation to the Government.

(8) The laws of Pakistan shall govern all activities pursuant to this licence.

In witness whereof the President has set his hand and seal and the Licensee has set his hand and caused his common seal to be affixed hereon this _____day of _____.

PART III

STANDARD FORM OF DEVELOPMENT AND PRODUCTION LEASE

The President of Pakistan (hereinafter referred to as the “the President”) hereby grants under and in accordance with the provisions of the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2021, and on the terms and conditions set forth or referred to therein, and GOVERNMENT HOLDINGS (PRIVATE) LIMITED (hereinafter referred to as “the Lessee”) hereby accepts a development and production lease, on the terms and conditions aforesaid and on further terms and conditions set forth herein as follows:-

- (1) This lease gives the Lessee the exclusive right to perform activities through the Contractor in connection with the exploration for, exploitation of, and development and production of, petroleum in the following areas:

Lease Area No.	Coordinates.	Km ²
_____	_____	_____
_____	_____	_____

- (2) The lease is valid for a period of _____. The Lessee shall be entitled to renewal of the Lease, as follows: _____.

- (3) The Lessee shall develop through the Contractor the petroleum deposits in the lease area with due diligence in accordance with the development plan, dated _____ subject to such modifications thereto as the Government may approve.

- (4) When the deposits have been developed, petroleum shall be produced in accordance with a production profile approved from time to time by the Government.

- (5) The laws of Pakistan shall govern all activities pursuant to this lease.

In witness whereof the President has set his hand and seal and the Lessee(s) has caused its common seal to be affixed hereon this ____ day of _____.

File.No.Expl-7(3)Offshore-Rules) 2019

Mian Asad Hayaud Din
Secretary

MAP OF LICENCING ZONE

