

GETTING THE DEAL THROUGH

Oil Regulation

In 35 jurisdictions worldwide

2012

Contributing editor: Bob Palmer



Published by
Getting the Deal Through
in association with:

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General

- 1 Describe, in general terms, the key commercial aspects of the oil sector in your country.

Oman is the Middle East's largest non-OPEC crude oil exporter. Oil is largely an onshore activity. The first concession was granted to the Iraq Petroleum Company (IPC) for 75 years and had five shareholders. The government of Oman acquired a 60 per cent shareholding in IPC and renamed it Petroleum Development Oman (PDO). PDO is the national oil exploration and production company of Oman. It accounts for nearly 85 per cent of the country's crude oil production and nearly all of its natural gas supply. Apart from the government, Royal Dutch Shell has a 34 per cent share, Total has a 4 per cent share and Partex has a 2 per cent share in PDO. Recent years have seen PDO negotiate a number of production sharing agreements and concessions with international oil companies. In addition, the Ministry of Oil and Gas requires that PDO release any acreage where it is currently inactive, which can be put out to tender.

Oman's oil reserves are estimated to be around 5.5 billion barrels and the oil production average in March 2012 was around 903,000 barrels per day (bbl/d) – an increase on previous years and is expected to rise during 2012 to 915,000 bbl/d, just falling short of the Sultanate's high of 970,000 bbl/d in 2000. Around 90 per cent of oil produced is exported. The majority of Oman's exports are destined for the Far East market with China being the largest importer in March 2012 with 39.4 per cent of exports. In 2007 Oman listed and started pricing their crude oil on the Dubai Mercantile Exchange.

Following the merger in October 2007 of Sohar Refinery Company LLC with Oman Oil Refinery Company LLC pursuant to Royal Decree No. 99 of 2007, the country's primary refinery and terminal is the Oman Refineries and Petrochemicals Company LLC (ORPC). The Ministry of Finance owns 75 per cent of the share capital and Oman Oil Company SAOC, a government-owned company that pursues investment opportunities in the energy sector, holds the remaining share capital. ORPC's refineries at Muscat and Sohar produce liquefied petroleum gas (LPG), butane, jet fuel and two grades of petrol. The refinery was designed to meet domestic demand for petroleum products. ORPC meets domestic needs for refined oil products, which Oman previously had to import. ORPC sells refined petroleum products to Omani companies engaged in the distribution of the products within the country.

Petrol, kerosene and diesel are transported via pipelines to local marketing companies' terminals for eventual distribution within Oman. Surplus kerosene and diesel is exported via the Shell Oman Marketing terminal. Bunker fuel oil is transferred via pipeline to ORPC storage tanks at PDO for export. Butane is taken out of the refinery by road tanker. Local gas companies carry out the transportation, bottling and eventual distribution for domestic use.

Only 75 per cent of Oman's natural gas is used domestically and all the output of Oman's LNG is currently committed in concessions

to the international market. Oman imports natural gas from Qatar via the Dolphin pipeline.

- 2 What percentage of your country's energy needs is covered, directly or indirectly, by oil as opposed to gas, electricity, nuclear or non-conventional sources? What percentage of the petroleum product needs of your country is supplied with domestic production? What are your country's energy demand and supply trends, especially as they affect crude oil usage?

Oman's energy needs are basically met by oil and gas. Oman's gas reserves are estimated to be around 30 trillion cubic feet and PDO is processing part of it to meet local demand. An increasing proportion of industrial feedstock is composed of gas, all of which is produced domestically. As such, no alternative sources of energy other than oil and gas are presently in use. To the best of our knowledge, no development of wind power has taken place.

ORPC meets the nation's total demand for LPG, motor petrol, aviation fuel, diesel and fuel oil and is the single supply source of petroleum products in Oman. The products created from Omani crude oil are received from PDO and supplied to the marketing companies after refining. Typical product volumes produced from Oman export blend (OEB) crude are long residue and bunker fuel oil (52 per cent); diesel (22.5 per cent); petrol (17 per cent); kerosene and jet A-1 (6.7 per cent); fuel gas; and LPG.

A 162-mile pipeline between ORPC and the new refinery in Sohar began operations in 2006 to facilitate the transport of a mixed feedstock of crude from PDO and long residue from ORPC to Sohar for processing. The refinery has a crude unit with a capacity of 222,000 bbl/d with a facility for extracting sulphur from petrol and a catalytic cracker with a capacity of 75,260 bbl/d that will produce gas and petrol from the leftover elements of the normal refining process. The major products of the new refinery include propylene, LPG, gasoline, diesel, fuel oil and sulphur.

- 3 Does your country have an overarching policy regarding oil-related activities or a general energy policy?

In the early 1990s, Oman was faced with a diminishing reserve base. Proven reserves were estimated at 4.6 billion barrels in 1992, which is small in comparison with other Gulf states. Oman is not a member of the Organisation of Petroleum Exporting Countries (OPEC); however, Oman has official observer status and has cooperated with OPEC guidelines on occasion. In an effort to ease its dependence on oil, Oman has sought to diversify its economy into light, and recently heavy, industries as well as tourism. The Council for Financial Affairs and Energy Resources regulates all the different aspects of the petroleum industry, be they the concessions granted to companies, transportation of oil and gas, or investments in this sector, and the grounds of fixing the cost of the sale of oil, etc.

Although oil production constitutes less of Oman's GDP than was the case during the 1980s, oil is still the major source of revenue for Oman's government and the mainspring of the country's economy, accounting for 40 per cent of GDP and 65 per cent of all export revenue according to 2009 figures of the Ministry of the National Economy. Manufacturing still accounts for only a small percentage of GDP.

Regulation overview

- 4 Describe the key laws and regulations that make up the general legal framework regulating oil activities.

Royal Decree No. 8 of 2011 issues the law dealing with petroleum and minerals and repealed the previous oil and gas law (Royal Decree No. 42 of 1974 as well as Royal Decree No. 2/99, which defined the restricted areas for oil and gas pipelines). In addition, ministerial decisions by the Ministry of Oil and Gas, decisions by the Committee for Petroleum Concessions, and the regulations of the Council for Financial Affairs and Energy Resources, regulate activities in this sphere. Exploration of oil and gas is undertaken on the basis of concession agreements granted by the government of Oman pursuant to a specific royal decree.

- 5 Identify and describe the government regulatory and oversight bodies principally responsible for regulating oil activities.

The Council for Financial Affairs and Energy Resources, acting in conjunction with the Ministry of Oil and Gas (pursuant to Royal Decree No. 60 of 1996) with its various departments, directs activities relating to the exploration and extraction of oil. The Directorate General of Petroleum and Mineral Resources is authorised to grant permits for this activity. No activity may take place in the petroleum sector without the consent of the relevant governmental authorities. These authorities are as set out in question 4. Oil and gas are considered to be natural resources and as such belong to the government.

As per Royal Decree No. 37/97 the Council of Financial Affairs and Energy Resources considers investments of the state in the sphere of oil and natural gas; formulates the general policy regulating the production and transportation of oil and natural gas; decides the grounds on which the cost of oil sale is to be determined; fixes the prices for the sale of gas for the purpose of local consumption and supervises the Oil Reserve Fund.

- 6 What government body maintains oil production, export and import statistics?

Statistics are maintained by the PDO and the Ministry of Oil and Gas. At the same time, the individual operating companies maintain statistics on their annual production figures.

Natural resources

- 7 Who holds title over oil reservoirs? To what extent are mineral rights on private and public lands involved? Is there a legal distinction between surface rights and subsurface mineral rights?

Royal Decree No. 8 of 2011, which issues the Petroleum and Minerals Law, provides that:

- petroleum substances in their natural form and irrespective of their location in the Sultanate of Oman are its property and their ownership may not be transferred nor may they be acquired by way of prescription; and
- if an oil reservoir or a mineral deposit is located under private property, ownership of the oil or minerals, as the case may be, would lie with the government, and the authorities have the right to expropriate the land on payment of due compensation as per the rule of law.

- 8 What is the general character of oil exploration and production activity conducted in your country? Are areas off-limits to exploration and production?

Oman's northern oilfields produce lighter grades of crude oil, together with natural gas, whereas a group of southern fields produces heavier crudes. Gradual increments made to Oman's reserve base since 1980 are attributable to the discovery of new, smaller oilfields. More than half of Oman's total reserves are concentrated in the northern region, where six fields are part of a single geological structure containing recoverable reserves of more than 2 billion barrels. Similarly, in the south, eight principal producing fields also come from a single geological structure. Hardly any areas of Oman are off-limits to exploration and production activities. As stated earlier, however, all exploration and production activities take place pursuant to concession agreements that define the area of activity of the concession holder.

- 9 What government body regulates oil exploration and production in your country? How are rights to explore and produce granted?

The concession regime is administered by the Ministry of Oil and Gas. The Directorate General of Petroleum and Mineral Resources under the Ministry is the particular body concerned with this aspect. The Council for Financial Affairs and Energy Resources lays down the broad policy guidelines to achieve the various objectives of the government. This activity is generally carried out by virtue of agreements entered into with the government called exploration production sharing agreements (ESPA) agreements. It could be either granted as a concession or it could also be by means of direct Sultani Decree. Concession agreements require ratification by royal decree.

- 10 If royalties are paid, what are the royalty rates? Are they fixed? Do they differ between onshore and offshore production?

Since most production is based on ESPA agreements, dues payable to the government are based on the terms of the particular agreement entered into. These agreements provide that the revenue from the oil production is to be shared between the government and the concession holder or company in an agreed ratio, for example 20:80, or 30:70 as the case may be, after meeting the costs involved. At present, royalty rates are not available.

- 11 What is the customary duration of oil leases, concessions or licences?

Although the original term of the first concession agreement was 75 years, more recently oil concession agreements are for much shorter periods. Generally a three-year exploration licence is granted, subject to a further extension of three years. If oil is discovered and found to be commercially viable, then agreements and contracts are entered into with the government for a 10-year or 20-year period. In the event of a declaration of a commercial discovery in a concession area during the exploration stage, the oil and gas law gives the licence holder priority in obtaining a concession for the exploitation of the area.

- 12 For offshore production, how far seaward does the regulatory regime extend?

The regulatory regime extends up to the international offshore border of Oman. The borders of Oman have been demarcated by peaceful negotiation under the reign of the present ruler, Sultan Qaboos Bin Said, with all the neighbouring countries, principally the UAE, the Yemen and Saudi Arabia.

- 13** Is there a difference between the onshore and offshore regimes? Is there a difference between the regimes governing rights to explore for or produce different hydrocarbons?

There are no separate legal regimes for onshore and offshore exploration and production, as the primary oil and gas law, Royal Decree No. 8 of 2011, draws no specific distinction between onshore and offshore activities with regard to applicability of its provisions. In fact, article 2 of this law provides that, without prejudice to the provisions contained in the existing concession agreements, the provisions of this law will be applicable to all the petroleum substances found on the territories of Oman, its interior, internal waters, regional seas or continental shelf. Thus, the general legal regime is the same, but it may be possible that some specific terms may be contained in the concession agreement with an onshore concessionaire, which may not be found in an offshore concession agreement, and vice versa, due to the difference in the nature of activities.

- 14** Who may perform exploration and production activities? What criteria and procedures apply in selecting such entities?

Exploration and production activities may be conducted only by holders of exploration and production permits or concessions from the Directorate General of Petroleum and Mineral Resources, as per the terms of the agreement that has been entered into, provided that such permit shall not be required if it is obtained directly by a Sultani decree.

Despite PDO's dominance, as noted above as part of its concession agreement it is obliged to divest itself of acreage where it is inactive and several other companies are now involved in Oman's oil sector. These include Elf Aquitaine Oman LLC, China's CNPC, Sinopec and Daleel Petroleum and Occidental Oman LLC, which holds the largest market share after PDO, having been awarded the Mukhaizna cluster in 2005 after it was relinquished by PDO and two blocks close to the border with the United Arab Emirates in 2006. Other relatively new entrants include the Petroleum Authority of Thailand, the Abu Dhabi National Energy Company (both awarded blocks in Dhofar); Australia's Oilex and Emerson of the United States (awarded blocks in the Al Wusta region); BG (awarded a gas concession in block 60); and the Hungarian Oil and Gas Company and Dubai-based Indago Petroleum, which were both awarded blocks in the Buraimi region. Meanwhile, India's Reliance Industries, Maersk Oil Oman, Mitsui & Co, Hunt Oil and Circle Oil of Ireland are among the international companies that operate offshore concessions.

The Sultanate is attractive to companies with expertise in enhanced oil recovery (EOR) techniques due to the complexity of the reserves. Oman's major EOR projects at present include thermal flooding at the Mukhaizna field, steam-assisted extraction at the Qarn Alam field, miscible gas injection in the Harweel and polymer flooding in the Marmul field.

- 15** What is the legal regime for joint ventures?

A joint venture can either be a contractual joint venture or a corporate joint venture. PDO in Oman is a corporate joint venture between the government and the relevant international concession holders. There are also corporate ventures as detailed above.

- 16** How does reservoir unitisation apply to domestic and cross-border reservoirs?

The concerned governments would agree upon the limits of production in case of cross-border reservoirs, if any. Oman and Yemen are considering a joint venture company for oil and gas exploration in concessions that straddle the border of the two countries.

Transfers to third parties

- 17** Is government consent required for a company to transfer its interest in a licence, concession or production sharing agreement? Does a change of control require similar approval? What is the process for obtaining approval?

Article 19 of Royal Decree No. 8 of 2011 provides that a party with whom the government has entered into a concession agreement, cannot waive or give up its rights or liabilities stipulated in the concession agreement without the written approval of the Ministry of Oil and Gas. Approval for transfer of interest in a concession agreement (or any part thereof) is granted by means of a royal decree.

No specific procedure for obtaining the Ministry of Oil and Gas's prior approval has been laid down in the law itself or by the ministry concerned as yet. From our experience of such matters, it is likely that the concessionaire may be required to submit a written application, supplemented with relevant documentation and evidence of the financial and technical capability of the proposed transferee. Due to the requirement for a royal decree, the process may take several months to process and complete and each case will depend on its particular circumstances.

While there is no express provision under the law or applicable regulations which may require the government's prior approval for a change of control of a concessionaire as such, an obligation of this nature may operate on the concessionaire under the terms of its concession or product sharing agreement with the government or under any licence or approval issued to it by the government, although this cannot be confirmed as a concession or product sharing agreement and licences are not in the public domain.

Decommissioning

- 18** What laws or regulations govern decommissioning of oil and gas facilities and pipelines? In summary, what is the obligation and liability regime for decommissioning? Are there any other relevant issues concerning decommissioning?

No specific legal regime is prescribed in Royal Decree No. 8 of 2011, being the primary legislation on oil and gas in Oman, with regard to decommissioning of oil and gas facilities. Such provisions are more likely to be set out in the joint operating agreement and may include a particular work programme that sets out the measures to decommission disused facilities and/or pipelines and the removal of debris and environmental monitoring of the relevant area after removal of the facilities and pipelines.

Transportation

- 19** How is transportation of crude oil and crude oil products regulated within the country and across national boundaries? Do different government bodies and authorities regulate pipeline, marine vessel and tanker truck transportation?

All crude oil from the northern and southern fields is collected and blended into Omani export blend. The transportation of crude oil and crude oil products is regulated as per the regulations laid down by the Council for Financial Affairs and Energy Resources. Royal decrees have been passed setting up the prohibited zones, issuing concessions and setting up bodies to issue regulations relating to oil and gas. Generally it is PDO that finds oilfields and develops them. The crude oil that is produced from the fields is not sold by the company but rather delivered to a storage facility, where it is loaded onto sea tankers at the discretion of the company's shareholders. As such, the company does not 'earn' any money from the sale of oil – its shareholders do. The shareholders in turn cover all budgeted operating and capital expenditure.

- 20 What are the requisites for obtaining a permit or licence for transporting crude oil and crude oil products?

As per the general policy formulated by the Council of Financial Affairs and Energy Resources, permits are required from the relevant authorities for the conduct of any activities relating to the transport of crude oil and crude oil products.

Health, safety and environment

- 21 What health, safety and environment requirements apply to oil-related facility operations? What government body is responsible for this regulation; what enforcement authority does it wield? Are permits or other approvals required? What kind of record-keeping is required? What are the penalties for non-compliance?

Health, safety and environmental issues are addressed by a set of fairly complex regulations promulgated by multiple authorities. To a significant extent, companies operating in the petroleum sector impose health, safety and environmental requirements on their contractors, who are in contractual conformity with the labour laws, social insurance laws and environmental laws. In addition, the municipalities have long taken a leading role in promulgating and enforcing health, safety and environmental regulations. As a result, a significant body of regulation exists that suitably takes care of this aspect. Rules governing drilling rigs, production platforms, refineries, pipelines and service stations are largely the responsibility of the Council for Financial Affairs and Energy Resources. Violations can result in denials of permits to operate.

The Qarn Alam steam injection project referred to above is the world's first full-field steam injection project based on thermally assisted gas/oil gravity drainage (TAGOGD) in a fractured carbonate field, making use of the EOR recovery process, keeping development costs to a minimum. Most of the steam will be generated by waste heat recovery from the existing Qarn Alam power station, thereby significantly reducing the project's carbon dioxide emissions and saving on gas consumption.

- 22 What health, safety and environmental requirements apply to oil and oil product composition? What government body is responsible for this regulation; what enforcement authority does it wield? Is certification or other approval required? What kind of record-keeping is required? What are the penalties for non-compliance?

It is unlawful for any operator to permit waste; they are also to conduct operations with due diligence to prevent serious and irreparable injury to the environment, and take all steps to minimise pollution of air and water. Following the establishment of the Ministry of Environment and Climatic Affairs (MOECA) pursuant to Royal Decree No. 90 of 2007, MOECA has the portfolio of regulating these requirements and promulgates environmental protection regulations that apply throughout Oman. In accordance with the Environmental Law and the Industry Law, before any activity that may be the direct or indirect source of environmental pollution is carried out, an environmental permit must be obtained from MOECA, supported by technical documents. Legislation to prevent air, noise and soil pollution, and the conservation of water has been passed. This is apart from legislation relating to chemicals, onshore and offshore pollutants, discharge of waste water and hazardous waste. Penalties for non-compliance with these laws range from strict fines of three times the cost of restoration or three times the damage to the environment, whichever is greater, to imprisonment.

Labour

- 23 What government standards apply to oil industry labour? How is foreign labour regulated? Are there anti-discrimination requirements? What are the penalties for non-compliance?

The principal legislation is contained in the Oman Labour Law (OLL) (Royal Decree No. 35/2003, as amended, most recently by Royal Decree No. 113/2011). The OLL provides for the minimum benefits to be made available by an employer to an employee, and is applicable to both Omani and non-Omani employees unless expressly stated otherwise. Employers must pay an end of service benefit to their foreign employees, which is calculated on their basic salary. For the first three years of service the amount is equivalent to 15 days' basic pay for each year worked and then for each subsequent year, the amount is equivalent to one month's basic pay.

The Social Insurance Law (Royal Decree No. 72/91, as amended) has provisions which apply to Omani employees to insure Omani employees working in the private sector against old age, disability, death and occupational injuries and diseases. Employees in the public sector are governed either by civil service regulations or the special internal employment regulations followed by their public sector employers.

The majority of the labour force in Oman is foreign. Statutory compliance with the Omani policies is mandatory and requires producers and operators to have 90 per cent Omani participation, while direct services and local companies should reach 82 per cent. All foreign employees must hold residence visas and have labour clearance, sponsored by their employers. Violation of labour regulations can result in fines and other administrative penalties, and may lead to criminal prosecution in extreme cases. Oman does not have any anti-discrimination rules as such. A company that hires female employees must give them statutory maternity leave and may not require them to work at night.

Taxation

- 24 What is the tax regime applicable to oil exploration, production, transportation, and marketing and distribution activities? What government body wields tax authority?

Tax is imposed by the director of taxation affairs pursuant to the Income Tax Law (Royal Decree No. 28/2009). Petroleum companies are taxed at the rate of 55 per cent on their taxable income, which is determined in accordance with the provisions of the production sharing contract.

Commodity price controls

- 25 Is there a mandatory price-setting regime for crude oil or crude oil products? If so, what are the requirements and penalties for non-compliance?

The price-setting mechanism is regulated by the Council for Financial Affairs and Energy Resources, but the shareholders of PDO, which controls 90 per cent of the oil production in Oman, have a say in this decision.

Competition, trade and merger control

- 26 What government bodies have the authority to prevent or punish anti-competitive practices in connection with the extraction, transportation, refining or marketing of crude oil or crude oil products?

There are no competition regulations in Oman as such. All activities in the petroleum sector are subject to regulation at the ministry level by the Ministry of Oil and Gas.

Update and trends

CC Energy Development (CCED) operates Oman's blocks 3 and 4 with a 50 per cent stake and production of around 10,000 bbl/d. Tethys Oil and Mitsui have 30 per cent and 20 per cent stakes respectively. In 2012, CCED plan to drill an additional 37 wells while investing approximately US\$220 million with the potential to invest an additional US\$500 million over the next five years.

In 2011 Petroleum Development Oman (PDO) announced a new discovery of 300 million barrels of oil at the Amal Southeast field. BP's Khazzan tight gas project at block 61 now has four flowing wells with a fifth on its way in 2012. BP are aiming to conclude commercial terms with the Omani government by 2013 with the first gas being produced towards the end of 2016. BP are confident that the block contains 100 tcf of gas and their initial plan is to produce 8 tcf of gas

over 30 years with a production rate of 1 bcf per day for the plateau period of the first 15 years.

Oman LNG and Qalhat LNG have announced that they are discussing a possible merger. The two LNG companies based in Oman together own the three liquefied gas trains at Qalhat near Sur, Oman. A merger could give Oman more weight in the global LNG market and would cut costs for both companies as well as addressing the perceptions of competition between the two majority government-owned companies. The potential merger is seen as a government-wide initiative to consolidate all majority-government owned energy firms, and, as has been reported in the local and regional press, could also include PDO being brought under the auspices of state-owned energy investment firm, Oman Oil Company.

27 What is the process for procuring a government determination that a proposed action does not violate any anti-competitive standards? How long does the process generally take?

See question 26.

International

28 To what extent is regulatory policy or activity affected by international treaties or other multinational agreements?

Oman is not a member of OPEC and is not bound by the OPEC production and export guidelines. On occasion, however, it has complied with OPEC decisions to cut oil production to raise oil prices. Oman's oil is used as a benchmark to price the crude oil exported from the Middle East to Asia, largely as a result of it being an independent producer and therefore not subject to the price swings induced by OPEC.

29 Are there special requirements or limitations on the acquisition of oil-related interests by foreign companies or individuals?

The acquisition of oil-related interests by any party, foreign or local, can only be acquired by means of a royal decree granted by the Sultan of Oman or by the Ministry of Oil and Gas.

30 Do special rules apply to cross-border sales or deliveries of crude oil or crude oil products?

No special rules apply to cross-border sales or deliveries of crude oil or crude oil products. In practice, all of these deliveries are of the nature of export transactions. Such transactions are closely controlled by the shareholders of the relevant operating companies.



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