

Oman

Mansoor J Malik and Mir Nasar Ahmad

Al Busaidy, Mansoor Jamal & Co

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 around 70 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 (including condensates) average rose by 4 per cent in 2012 to an average of 918,000 barrels per day (bbl/d) – an increase on the 884,900 bbl/d in 2011 – and is expected to rise during 2013 to 939,500 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 2013 accounting for 51.96 per cent of exports. In 2007, Oman listed and started pricing their crude oil on the Dubai Mercantile Exchange.

In October 2007, Sohar Refinery Company LLC merged with Oman Oil Refinery Company LLC pursuant to Royal Decree No. 99 of 2007 to become Oman Refineries and Petrochemicals Company LLC (ORPC). In 2010, the merged entity integrated its refinery operations with its two other operating companies, Aromatics LLC and Oman Polypropylene, to form an integrated company rebranded as Oman Oil Refineries and Petroleum Industries Company (ORPIC), 80 per cent owned by Oman Oil Company SAOC (OOC), a government-owned company that pursues investment opportunities in the energy sector both inside and outside Oman, and 20 per cent owned by the Ministry of Finance. ORPIC meets domestic needs for refined oil products, which Oman previously had to import. ORPIC sells refined petroleum products to Omani companies engaged in the distribution of the products within the country. At the time of writing, ORPIC is in negotiations with banks for a US\$2.5 billion loan to fund the expansion of Sohar's refinery by 70 per cent to 197,000 bbl/d, to be completed by the second quarter of 2016, and to refinance an old loan taken out for a previous expansion in 2007. The expansion is part of ORPIC's refinery improvement project, which aims to meet Oman's fuel needs up to 2020 if demand continues to grow at current rates (Oman's consumption of transport fuels doubled between 2006 and 2012).

Oman, like most Gulf Cooperation Council (GCC) countries, is experiencing a domestic gas shortage. Despite this, and a waiting list of firms that want power or gas, or both, for new projects, Oman still exports 55 per cent of its sales gas under long-term contracts and imports natural gas from Qatar via the Dolphin pipeline for domestic requirements. Oman LNG (OLNG) currently runs its two liquefied natural gas (LNG) trains at 90 per cent of production capacity to meet existing commitments, and in March 2013 announced that it will cease production of around 9 million tons annually in 2024 to focus on supplying the gas-strapped domestic market. It is hoped that the BP gas project scheduled to come on stream in 2017 will ease the strain temporarily. OLNG is preparing formalise the *de facto* integration of its two LNG trains with a capacity of 6.6 million tons per year with Qalhat LNG's third 3.7 million tons/year train, which is already effectively operated by OLNG.

- 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.

ORPIC meets the nation's total demand for liquefied petroleum gas (LPG), motor petrol, aviation fuel, diesel and fuel oil, and is the single supply source of petroleum products in Oman. 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 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 ORPIC and the new refinery in Sohar began operations in 2006 to facilitate the transport of mixed feedstock of crude from PDO and long residue from ORPIC 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 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 concessions granted to companies, transportation of oil and gas, or investments in this sector, and the grounds for 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 around 87 per cent of budget revenues, 45 per cent of GDP and 60 per cent of total export revenue according to 2012 figures reported by the National Center for Statistics & Information. Manufacturing still accounts for only a small percentage of GDP.

- 4 Is there an official, publicly available register for licences and licensees?

While Royal Decree No. 8 of 2011 promulgating the Oil and Gas Law (the Oil and Gas Law) does not provide for the maintenance of a public register dedicated to licences and licensees in relation to the oil and gas sector, it should be noted that all concession agreements entered into by the government for the exploration or production of petroleum substances with a third party operator are required to be ratified by issuance of a royal decree (as per article 9 of the Oil and Gas Law). All royal decrees are published in the Official Gazette of the Government of Oman, which is a public document that can be obtained from the Ministry of Legal Affairs on demand. Moreover, the official website of the Ministry of Oil and Gas contains a link to a concessions boundaries map (updated on 4 August 2012), which is a map of all the concession blocks together with the names of the all operators in respect of each of these blocks. However, it is not known whether this map is regularly updated by the Ministry of Oil and Gas.

Regulation overview

- 5 Describe the key laws and regulations that make up the general legal framework regulating oil activities. Are there any legislative provisions that allow for expropriation of a licensee's interest and, if so, under what conditions?

The Oil and Gas Law 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.

The Oil and Gas Law does not contain any provision that allows for expropriation of a concession agreement. The concession agreement, however, would set out the instances and conditions that, if at all, allow the government to terminate the concession agreement prior to the term of the agreement. While expropriation of land and properties owned by citizens is allowed for 'public benefit' under the Law of Expropriation of Lands for Public Benefit issued by Royal Decree No. 64/78, this Law does not apply to concession holders,

since article 14 of the Oil and Gas Law provides that the concession agreement shall not result in the concessionaire securing any ownership right in the concession area.

- 6 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 (see question 5). 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.

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

Statistics are maintained by 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

- 8 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.

- 9 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.

- 10** What government body regulates oil exploration and production in your country? How are rights to explore and produce granted? What is the procedure for applying to the government for such rights?

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 (ESPAs). These could be either granted as concessions or by means of direct royal decree.

Concession agreements require ratification by royal decree. The Oil and Gas Law does not prescribe any specific procedure to be followed while applying to the government for a concession. Tender documents floated by the Ministry of Oil and Gas in relation to a new block will contain the necessary details for preparing and submitting the bids to the Ministry, and of the financial and technical qualifications that an applicant must possess. In our experience, all bidders will be required to submit to the Ministry, inter alia, a letter of intent, a signed confidentiality agreement and a non-refundable deposit with their bids.

- 11** Does the government have any right to participate in a licence? If so, is there a maximum participating interest it can obtain and are there any mandatory carry requirements for its interest? Does the government have any right to participate in the operatorship of a licence?

The right of the government to participate in a concession or in the operatorship of a concession is not dealt with by the Oil and Gas Law. However, the government may reserve such rights under the terms of the concession agreement. The specific arrangement may vary from operator to operator.

- 12** If royalties are paid, what are the royalty rates? Are they fixed? Do they differ between onshore and offshore production? Aside from tax, are there any other payments due to the government? Are there any tax stabilisation measures in place?

Since most production is based on ESPAs, dues payable to the government are based on the terms of the particular agreement entered into. These agreements provide that the revenue from 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. A formula may be agreed between the government and the concession holder in the EPSA for computation of the amount of income tax to be paid by the concession holder. Additionally, the government may agree to grant a concession holder an exemption in the concession agreement from payment of certain taxes, levies and duties applicable under Omani law for the duration of the concession agreement. No tax stabilisation legislation is in force in Oman at present. Information on tax stabilisation agreements is not available.

- 13** 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.

- 14** 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, Yemen and Saudi Arabia.

- 15** 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, its provisions 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.

- 16** Which entities may perform exploration and production activities? Describe any registration requirements. What criteria and procedures apply in selecting such entities?

The Oil and Gas Law does not specify which types of entities are eligible to apply for a concession. Concession holders will either be required to incorporate a subsidiary under the Omani Commercial Companies Law (Royal Decree No. 04/74) or register a branch office with the Ministry of Commerce and Industry. The tender documents for a specific block issued by the Ministry of Oil and Gas should typically specify whether the successful bidder will be required to incorporate a subsidiary, and if so, the time frame for completing the registration formalities for such an entity. 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 royal 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 and 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. PDO predicts that EOR projects will account for 27 per cent of its production by 2021.

17 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.

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

The concerned governments would agree upon the limits of production in the 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.

19 Are parental guarantees or other forms of economic support common practice? Are security deposits required in respect of any work commitment or otherwise?

Article 12 of the Oil and Gas Law states that the party entering into a concession agreement must provide a guarantee equivalent to a minimum of 2 per cent up to a maximum of 5 per cent of the value of the agreement to remain valid throughout the term of the agreement to ensure that the concessionaire discharges its liabilities stipulated in the agreement. In the event of its failure to discharge its liabilities, the guarantee may be invoked by the government. Information regarding parental guarantees is not available. Parental guarantees are not common practice, but may be demanded by the government where the party to the concession agreement is a special purpose vehicle or an entity with insufficient financial credentials.

Transfers to third parties

20 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? Are there any pre-emptive rights reserved for the government?

Article 19 of the Oil and Gas Law 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 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 that 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 concession or product sharing agreements and licences are not in the public domain. It should be noted that Omani law provides for no statutory or regulatory pre-emption rights in favour of the government, and pre-emption rights will only be available to the government if it was a shareholder in the corporate vehicle that is the concession holder.

21 Is government consent required for a change of operator?

Article 19 of the Oil and Gas Law provides that it shall be unlawful for the concessionaire to waive or give up its rights or liabilities stipulated in the concession agreement without the prior written approval of the Ministry, and that a royal decree shall be issued on the waiver. While this is not expressly set out in the Oil and Gas Law, a change of operatorship would amount to a disposal of the operator's rights under the joint operating agreement, and will not be effective without prior approval of the government of Oman.

Decommissioning

22 What laws or regulations govern abandonment and 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 the abandonment and 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 pipelines, and the removal of debris and environmental monitoring of the relevant area after removal of the facilities and pipelines. However, article 16 of the Oil and Gas Law should be noted; it provides that the concessionaire shall, at its expense, after the termination of the concession agreement for any reason whatsoever, restore the concession area to its natural position within the period fixed by the Ministry for each case separately, by removing any premises, factory, machinery, equipment, appurtenance, leftovers or other substances, or any other kind of property. This shall not apply to anything the removal of which is not required by the Ministry. In the event of the concessionaire's failure to remove, the Ministry may do this and charge the concessionaire for the expenses involved in the removal, plus an additional 10 per cent of such expenses.

23 Are security deposits required in respect of future decommissioning liabilities? If so, how are such deposits calculated and when does their payment become due?

The Oil and Gas Law does not require the concession holder to submit a security deposit for future decommissioning liabilities.

Transportation

24 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

Update and trends

- Oman is currently preparing the terms of reference of and time frame for a root and branch review of its energy policy. It is expected to impact the whole energy sector including oil, refining and petrochemicals, power and gas and LNG, with ramifications for the operation of state-owned OOC and PDO, the foremost oil and gas producer. The review is likely to cover previous conceptual discussions on the merger of all state-controlled energy firms under the umbrella of OOC (Oman is the only GCC country without a state-owned integrated energy company dominating the oil and gas industry). This reflects the trend for integration already seen in refining and petrochemicals with ORPIC and the ongoing merger talks between the two LNG companies.
- Oman's target for 2013 is to enhance the production of crude oil to 940,000 bbl/d. Oman's reserves of oil and condensates are estimated at around 4,630 million barrels, in addition to 18 trillion cubic feet (tcf) of gas. Currently, 18 operators are working in oil and gas exploration, appraisal and production in the Sultanate. Oman is in advanced talks with international oil companies about the imminent award of four more blocks, several of which have been relinquished by other companies, and has extended the deadline for its latest bid round for seven other blocks launched in November 2012, three of which are onshore and four offshore.
- The Ministry of Oil and Gas has entered two new ESPAs with Houston-based Frontier Resources for block 38 and with the Hungarian MOL Oman LTD Company for block 66, located within the Al-Wusta and Dofhar Region covering an area of 4,898km².
- The Ministry of Oil and Gas signed a new EPSA with PetroTel Oman Onshore in March 2013, bringing PetroTel's assets up to four. Under the agreement, the company will explore for oil and natural gas in blocks 39 & 67, which occupy 13,379km² in the Dhofar Governorate.
- The government expects to reach agreement soon over the terms and conditions for the development of the 15-20 tcf Khazzan tight gas fields. BP has been in lengthy negotiations with the Omani government over the price BP will receive for the gas production, production volumes and BP's share of condensate and the total length of the production agreement in relation to the US\$15 billion development of the Khazzan-Makarem tight gas fields on Oman's block 61. As economic growth fuels strong domestic demand for gas, a quick resolution to the talks is expected.
- Production of hydrocarbons from block 8 offshore Oman's Musandam peninsula has risen sharply, according to details furnished by operator DNO International to the Ministry of Oil and Gas. Output from the block, which contains the Sultanate's only offshore producing fields — Bukha and West Bukha — has reached a daily record level of around 20,000 barrels of oil and condensate and 60 million cubic feet of gas.
- Regulations and rules for the enforcement of the Oil and Gas Law are yet to be issued by the Ministry of Oil and Gas (pursuant to article 2 of Royal Decree No. 8 of 2011). We are not aware of any proposal for the imminent issuance of such rules or regulations.

by the Council for Financial Affairs and Energy Resources. Royal decrees have been passed setting up 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.

25 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

26 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 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.

27 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 operators to permit waste; they must also 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

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

The principal legislation is contained in the Oman Labour Law (the 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.

Articles 36, 37 and 38 of the Oil and Gas Law prescribe the following obligations on a concession holder in relation to recruitment and protection of workforce:

- the concessionaire should recruit qualified national employees;
- the concessionaire should prepare, in coordination with the Ministry of Oil and Gas, annual training programmes aimed at coaching Omanis for professional and technical works and higher education positions and responsibilities related to operations, and replace expatriate employees with them gradually;
- the concessionaire should comply with the rules laid down by the Ministry of Oil and Gas in respect of recruitment and training;
- the concessionaire should formulate rules and take measures to safeguard the workforce at sites where operations are carried out; and
- the rights of the workforce shall be safeguarded, and their situation not undermined by the concession holder in the event of waiver or abandonment of the concession areas in accordance with the provisions of the OLL and the employment contracts.

The Social Insurance Law (Royal Decree No. 72/91, as amended) has provisions that 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.

Statutory compliance with the Omani policies is mandatory and requires producers and operators to have 90 per cent Omani participation, while for direct services and local companies, this participation should reach 82 per cent. However, foreign labour still

comprises a significant proportion of the labour force in the oil and gas industry. All foreign employees must hold residence visas and have labour clearance sponsored by their employers. Violation of the 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

29 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

30 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

31 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.

32 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 31.



Mansoor J Malik
Mir Nasar Ahmad

mansoor.malik@amjoman.com
nasar.ahmad@amjoman.com

Muscat International Centre, Mezzanine Floor
Muttrah Business District
Bait Al Falaj Street
112 Muscat
Oman

Tel: +968 2481 4466
Fax: +968 2481 2256
www.amjoman.com

International

33 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.

34 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.

35 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.