





Panel Discussion #1

Challenges in petroleum E&P fiscal terms

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Agenda

- Objectives of a Licensing process
- International market for E&P opportunities
- > Typical fiscal and economic terms under a Production Sharing Agreement
- > Typical terms open to bid / Selection criteria
- Lebanon E&P legal framework and fiscal terms under review



Beicip-Franlab

- E&P Consulting Company and Geosciences Software Editor
 - Upstream: Exploration, Reservoir Development and Management, Economics and Contracts
 - **Downstream**: Refining, Gas
- Consulting Services include :
 - Integrated or Specialized Consulting Projects
 - Advisory Services
- A private company, 100% subsidiary of IFP
 - Fully independent from Oil companies, Contractors
 - Experienced in advising both Governments and oil companies
 - Advisor in the 1st Cyprus Licensing Round (from end 2005)
- 45 years of international experience
- 95% of turnover from international clients



Beicip-Franlab

- Advisor to the Lebanon Government (Ministry of Energy and Water - MEW) from April 2011
- 3 main matters
 - Integrated interpretation of regional 2D seismic surveys offshore Lebanon
 > presentations on Day 2
 - Advice on economic simulation modeling
 - Advice on licensing documentation and blocks delineation
 - + Advice on request from MEW

Note:

- This presentation represents Beicip-Franlab's opinions.
- It does not commit MEW, under the process of reviewing options
- The objective is to raise some issues for the Panel Discussion



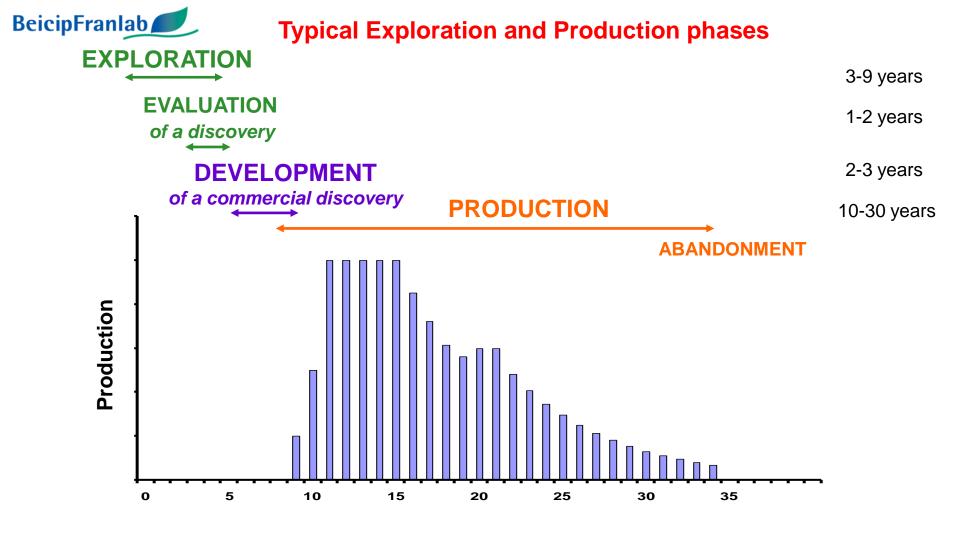
- To promote the exploration acreage under a clear and transparent process
- To attract oil companies under a competitive process with documented data and procedures
- To select the « best » offers under selection criteria
- The whole process should be adapted to
 - the exploration policy of the country
 - the context of the acreage to be licensed
 - the exploration maturity level
 - the potential prospectvity



International market for E&P opportunities

Australia	s licensing rounds (15 M	ww	www.fugro-data.com		
Brazil China Cuba Egypt Greenland India	Round 2, 2009 Round 1, 2010 Round 2, 2010 11th Lic. Round 1st Pre-Salt Round 1st Shale Gas Round CNOOC 2010 GPC International Bid Round Ganope Bid Round EGAS Offshore Round Offshore Lic. Round 2012 Offshore Lic. Round 2013 NELP 9 OALP 1 Shale Oil & Gas Round	Pending awards Open Open Planned, 2011 Planned, 2011 Planned, 2011 Open Open, direct negotiations Open Open Planned Planned Planned Open Planned Open Planned, 2011 Planned, 2012	 Indonesia Liberia New Zealand Norway Syria Trinidad UK 	1st Petroleum Round 2010 2nd Petroleum Round 2010 2010 CBM Round 1st Shale Gas Round 3rd Lic. Round 4th Lic. Round Taranaki Kahili Basin Reinga Kahili Block 21st Lic. Round APA 2011 International Round 2010 Offshore Round 2nd Deep Atlantic Round Deep Water Round UKCS 26th Lic. Round Onshore Round UKCS 27th Lic. Round	Conditionally awarded Open Planned, 2011 Conditionally awarded Planned, 2011 Conditionally awarded Pending awards Pending awards Planned, 2011 Pending awards Planned, 2011 Pending awards Planned, 2011 Conditionally awarded Planned, 2011 Planned, 2011 Planned, 2011
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Source: Fugro, published by Petroleum Economist, May 2011



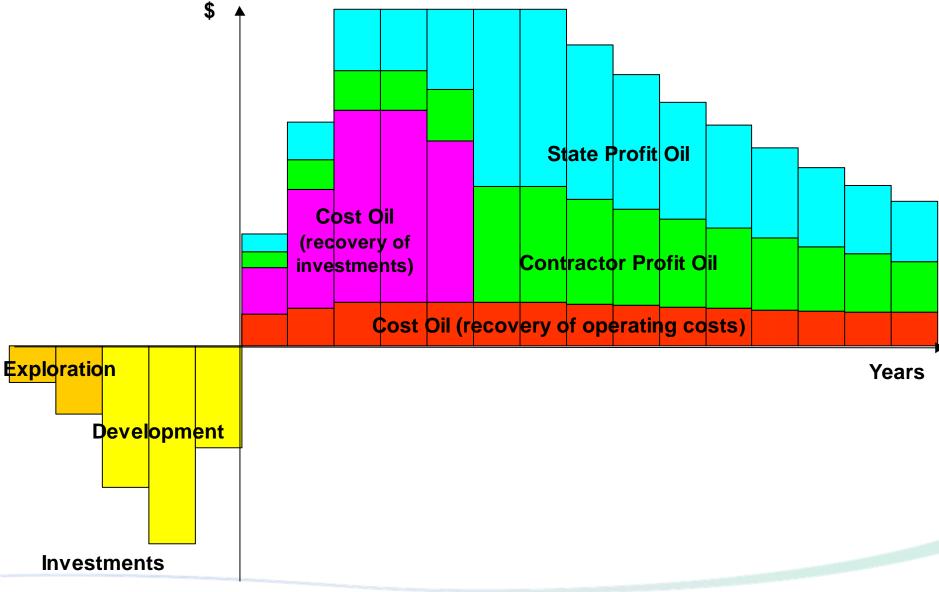
- Exploration risk: possible relinquishment if no commercial discovery
- Long-term process, high costs (offshore)
- Specific economic and fiscal terms



Typical fiscal and economic terms under a Production Sharing Agreement

- During exploration:
 - Signature bonus (option)
 - Area fees (annual)
 - Training and other possible contributions (annual)
- During production:
 - **Production bonus** (option)
 - Area fees (annual)
 - **Training** and other possible contributions (annual)
 - **Royalty** on production (option)
 - Cost petroleum: part of the production is allocated to the Contrator for the recovery of its costs
 - **Profit petroleum**: the remaining is split between State and Contractor
 - Income Tax: applicable on Contractor profit OR included in the State share of profit oil

BeicipFranlab Illustration of the annual breakdown of gross revenues under a Production Sharing Agreement





- Possible pre-qualification: technical & financial capacity minimum requirements
 - To be adapted to the location and prospectivity (frontier / mature) (onshore / offshore / deep offshore)
 - Case of Consortiums: Operator / Partners
- Example of Bidding terms:
 - Minimum Exploration Work programme
 - seismic
 - drilling: number of commited wells
 - breakdown by sub-period
 - Bonus (if any)
 - Training budget
 - Economic terms (to the extent they are subject to bid)



- Selection criteria linked to the bidding terms
- For new exploration frontier areas: emphasis on the exploration work programme
- Possible evaluation mark with weight among the criteria
- Possible minimum thresholds required
- Possible further step with negotiations, depending on the level of open terms

- In some large producing countries, the selection criteria are quite limited:
 - Exploration work programme
 - One or two economic parameters



- Offshore Petroleum Resources Law: enacted August 2010
- Regulations: *under preparation*
- Exploration and Production Agreement (EPA): *under preparation*
- Law: general principles
- Regulations: licensing, operational, technical issues
- Model Agreement : rights and obligations of the Parties (State / Contractor) in the conduct of petroleum operations with respect to a <u>Contract Area</u>
- Economic and Fiscal terms:
 - fixed terms stipulated in the Law and/or Regulations
 - biddable terms in the EPA



- Options still under review by the Government
- Possible orientations under review:
 - Royalty on production: oil / gas, progressive rates, to be stipulated by Regulations
 - Cost petroleum annual ceiling: may be open to bid
 - Profit petroleum split: open to bid, based on a "R factor" mechanism, which allows a progressive State take
 - Possible option to include the income tax in the State share of profit petroleum
 - Possible State participation option
- Issues for the Panel discussion







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