

Panel Discussion #1

Challenges in petroleum E&P fiscal terms

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- **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**

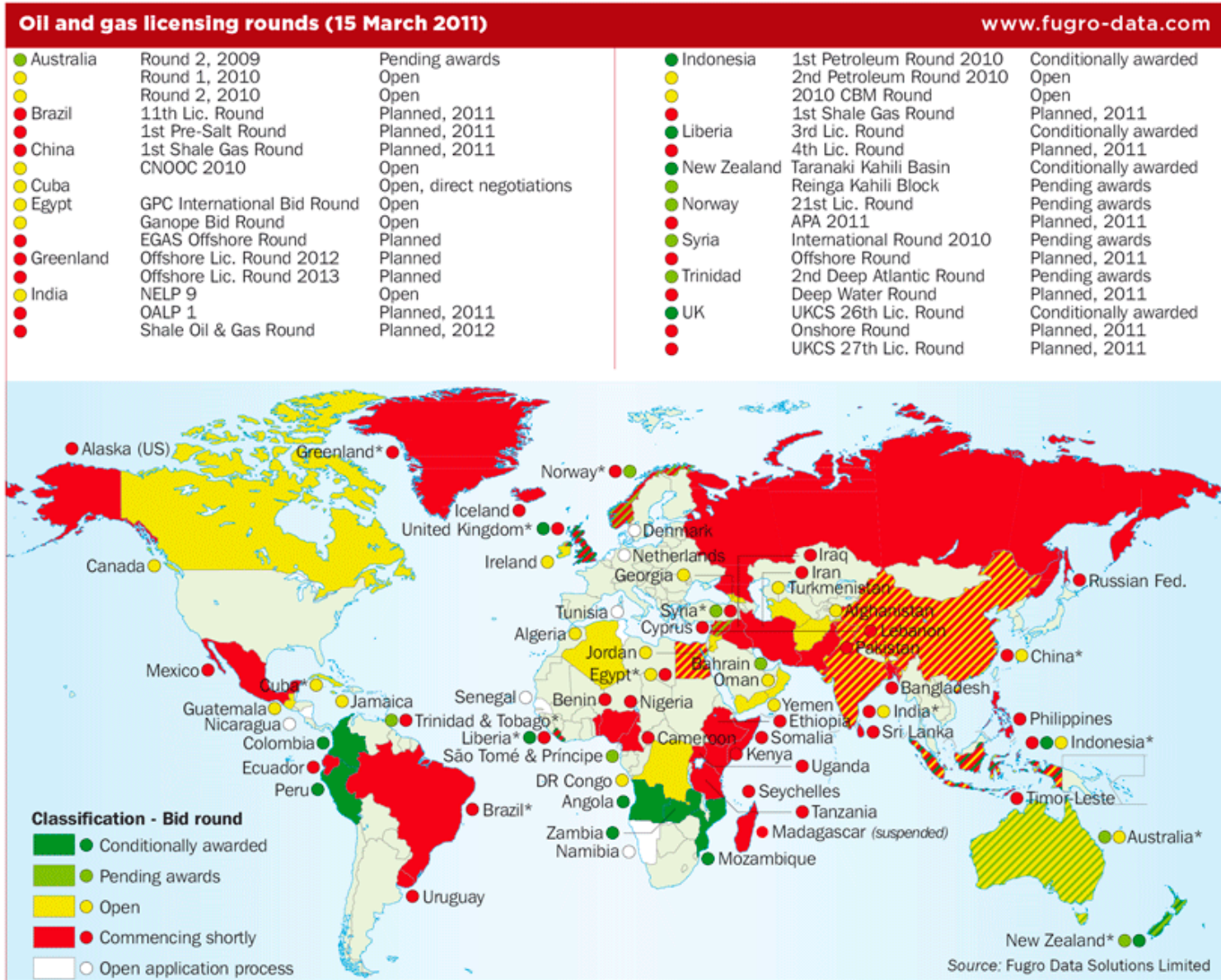
- **E&P Consulting Company and Geosciences Software Editor**
 - **Upstream:** Exploration, Reservoir Development and Management, Economics and Contracts
 - **Downstream:** Refining, Gas
- **Consulting Services include :**
 - **Integrated or Specialized Consulting Projects**
 - **Advisory Services**
- **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**

- **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 **prospectivity**



Source: Fugro, published by Petroleum Economist, May 2011

Typical Exploration and Production phases

EXPLORATION



3-9 years

EVALUATION

of a discovery



1-2 years

DEVELOPMENT

of a commercial discovery

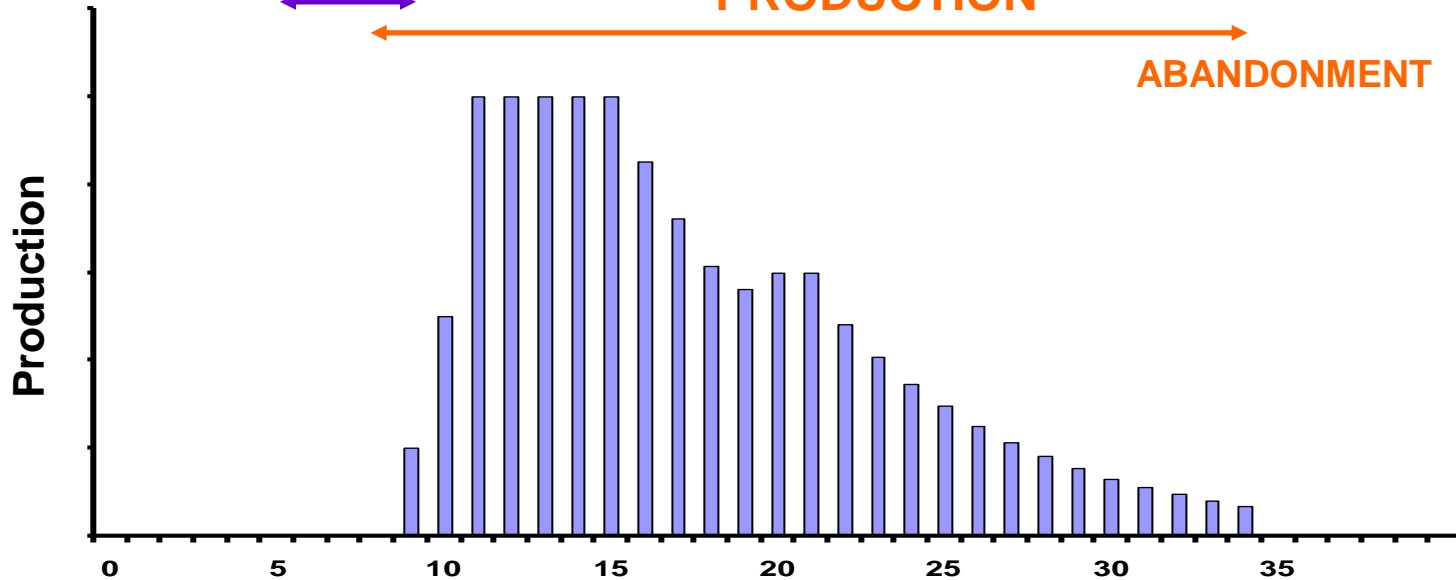


2-3 years

PRODUCTION

ABANDONMENT

10-30 years



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

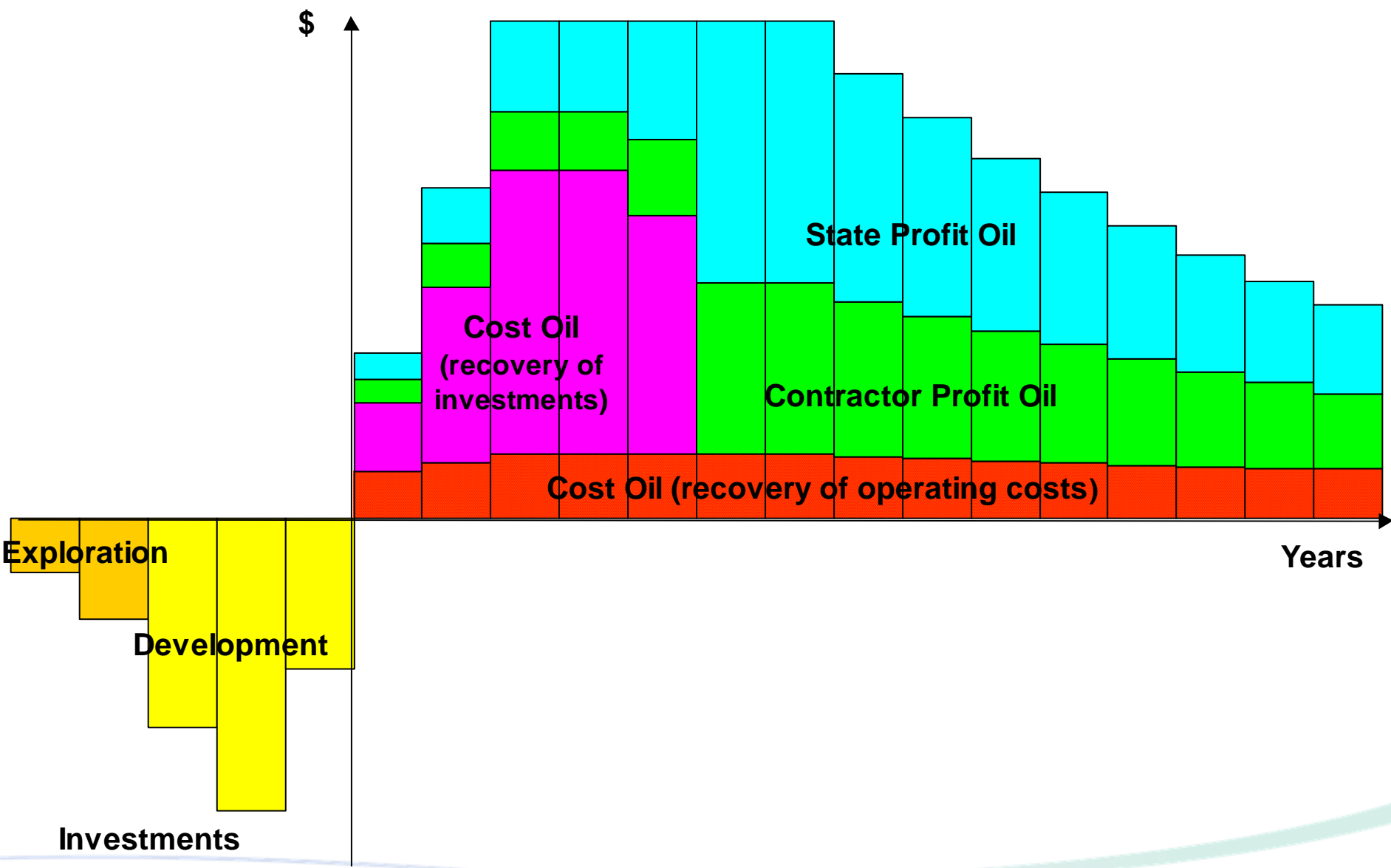
Typical fiscal and economic terms under a Production Sharing Agreement

- 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 Contractor 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

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 committed 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 Contract Area

- 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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