

Offshore Logistics

Sound Management in E & P



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Vinay R Sharma, MD, Oil Field Warehouse Services ushered a new era in the field of logistics for the offshore oil & gas sector, which has changed the look of balance sheets of operators in this sector and opened a whole plethora of opportunities to global suppliers.

Which is the governing body for monitoring E&P activities in India?

The Ministry of Petroleum & Natural Gas is entrusted with the responsibility of exploration and production of oil and natural gas. The Directorate General of Hydrocarbons (DGH) was established in 1993 under the administrative control of Ministry of Petroleum & Natural Gas through Government of India Resolution. Objectives of DGH are to promote sound management of the oil and natural gas resources having a balanced regard for environment, safety, technological and economic aspects of the petroleum activity.

Does the Government of India have any stake in E&P activities?

Government of India signs an agreement called as Production Sharing Contract (PSC) whereby Contractor bears all exploration risks, production and development costs in return for its stipulated share of production resulting from this effort. In case of commercial discovery these costs are recoverable while the government gets its share in terms of royalty on discovered produce. Objectives of DGH are to promote sound management of the oil and natural gas resources having a balanced regard for environment, safety, technological and economic

aspects of the petroleum activity.

What are the Government exemptions available for E&P activities in India?

Central Government via Custom Notification No. 21/2002 dated 01.03.2002 has given custom duty exemption for goods imported in India for E&P activities. Exemptions are available for goods mentioned under List 12 of custom notification. The tax framework provides seven year tax holidays for production income for Mineral Oil as per Section 80-IB (9) wherein each well is considered as an undertaking eligible for Tax holiday. No surcharge on tax is payable by an Indian company engaged in E&P activities as per Notification No. GSR 896(E) dated 26.11.1992

What is an Essentiality Certificate? What are its benefits?

Production sharing Contract (PSC) between an Operator and Govt of India stipulates duty free import of goods / services used for petroleum operations being carried out by E&P companies operating in India. The Customs authority allows the duty free imports on the basis of certification by Director General of Hydrocarbon (DGH). The role of DGH is limited to certification that the intended goods or services

Features

are being imported by E&P companies essentially for petroleum operations being undertaken under PSCs or otherwise. Besides, DGH also issues NOC's for transfer of goods within the country.

What is the time limit for Import under Essentiality Certificate?

The EC stipulates a time period (One year from the date of issue of EC) for duty free importation of goods. After this period the EC needs to be renewed.

Is there any contractor/operator liability on account of goods imported under Essentiality Certificate?

Yes, the DGH have stipulated certain obligations for goods imported under EC. Such importation is either on permanent basis or temporary basis. In case of permanent imports



a consumption report needs to be submitted to DGH while in case of temporary imports the goods are to be re-exported out of India within the

stipulated time frame.

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IEA: Crude Oil Prices to Go Up

On the back of increase in demand, the global crude oil prices have further appeared to surge by breaking the key resistance level. Among the key factors that have boosted oil prices is a sustained increase in demand, especially from the Organisation for Economic Co-operation and Development- (OECD) countries, during the last few months. According to IEA report, November crude prices continued the up-tick evident since August, gaining 3 percent to average around USD 85/bbl and touched USD 90/bbl in early December. Sustained high prices, elevated upstream activity levels, and a lull in cost inflation have seen oil supply in 2010 again exceed initial expectations. The report also said that the global demand growth should ease in 2011, from 2.5 mb/d to 1.3 mb/d, amid renewed structural OECD decline. Global oil demand is expected to rise by 88.8 mb/d in 2011, which was 87.4 mb/d for 2010. Following official data submissions for

September, the extent of the 3Q10 demands spike has become clearer. Global oil product demand increased by 3.3 mb/d year-on-year (some 0.2 mb/d higher when compared with previous report). This rise was largely driven by a strong rebound in the OECD, where growth roughly doubled from the previous quarter matching almost exactly non-OECD growth, report states. These developments do not bode well for India, whose oil import bill and budget deficit will swell if oil prices continue to rise. Similarly, under-recoveries for state-run oil companies will start moving up. Traders remain bullish on crude oil, since the US dollar is likely to remain weak thanks to 'quantitative



easing'. The revised demand forecasts by institutions such as IEA as well as OPEC mean that the signals appear to be more bullish than bearish. Rising oil prices would spell bad news also for economies struggling to recover after the economic turmoil during the last few years. This points to the possibility of weaker 2011 GDP growth, and, thus, the oil demand, the report says. If that is the case, high oil prices may not be sustained in 2011.