

**PAKISTAN PETROLEUM  
(EXPLORATION AND  
PRODUCTION)  
RULES, 2001**

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## SCHEDULES

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Statutory Notifications (S.R.O.)  
GOVERNMENT OF PAKISTAN  
MINISTRY OF PETROLEUM AND NATURAL RESOURCES

Islamabad, the

September, 2001

**NOTIFICATION**

**S.R.O. I/2001.** In exercise of the powers conferred by section 2 of the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), the Federal Government is pleased to make the following rules, namely:-

**THE PAKISTAN PETROELUM**  
**(EXPLORATION AND PRODUCTION) RULES, 2001**

**PART I GENERAL**

1. **Short title and commencement.** - (1) These Rules may be called the Pakistan Petroleum (Exploration and Production) Rules, 2001.  
  
(2) They shall come into force at once.
2. **Definitions.**- In these rules, and in every permit, licence and lease issued hereunder, unless there is anything repugnant in the subject or context,
  - (a) "allowed transportation cost" means the reasonable actual cost incurred for moving the petroleum produced and saved from the field gate within the lease area to the point of determination of value of the petroleum as approved by DGPC;
  - (b) "arm's length sales" means the sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers having conflicting interests and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, *inter alia*, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving an affiliate, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole, or in part, by consideration other than normal commercial practices;
  - (c) "commercial discovery" means a discovery of petroleum duly evaluated by appraisal well which discovery, in the opinion of the holder of a licence or lease, with the approval of the Government which shall not be unreasonably delayed, after

submission of requisite information to the Government, would justify, particularly by its quality, quantity, gravity, place and depth where found, its economic development, and assures a continuous commercial production for a reasonable period. In the event that the discovery so made does not justify the drilling of an appraisal well, then such holder upon submitting detailed technical and economic justification shall, seek the approval of the Government for declaration of commercial discovery on one-well basis;

- (d) "commercial production" means production of petroleum out of a commercial discovery which production ensures at least the recovery of all expenditure directly attributable to such commercial discovery within a reasonable time and earning of a reasonable profit;
- (e) "DGPC" means the Director General, Petroleum Concessions and includes any officer or authority appointed by the Federal Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under these rules;
- (f) "discovery area" means an area, within the area of a licence or lease, which encompasses the accumulation of petroleum in a geological entity limited by lithological boundaries, structural boundaries, the contact zone between petroleum and the limiting water level, or a combination thereof, and so that the petroleum included everywhere is in pressure, fluid or gas communication;
- (g) "discovery" means the finding of a deposit of petroleum from an exploration well not previously known to have existed within the area held by petroleum right holder which produces a flow of petroleum at the surface which is measurable by the conventional petroleum industry testing methods;
- (h) "exploration well" means a well which tests clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location. If the holder of a licence or lease wishes to get a well approved as an exploration well such approval may be obtained from the DGPC prior to the commencement of drilling, after submitting all relevant data and interpretation in support thereof;
- (i) "good oilfield practices" means generally the reasonable and prudent diligent use of policies, procedures, methods, equipments and material that results in effective and efficient exploration, appraisal and development of petroleum including optimum recovery of petroleum from a discovery area with

minimal impact on the environment as permitted and use of efficient and effective practices for transforming produced petroleum into marketable form and delivering it to the market, always having due regard for safety and other factors and means in particular, knowledge of and compliance with the standards that may be developed by relevant professional institutions and adopted by the Government from time to time;

- (j) "Government" means the Federal Government;
- (k) "Ministry" means the Ministry for the time being in charge of petroleum affairs;
- (l) "petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulphur, produced in association with such hydrocarbons, but does not include basic sediments and water;
- (m) "petroleum right" includes a permit, licence and lease issued under these rules;
- (n) "President" means the President of Pakistan;
- (o) "record" means all record pertaining to the activities of a petroleum right holder including but not limited to an account, book, return, statement, report, chart, table, diagram, form, survey, image, invoice, letter, map, agreement, memorandum, plan, core, sample, voucher, financial and non-financial information, and anything containing information whether in writing or in electronic form or represented or reproduced by any other means and the result of recording of electronic data, its processing systems and programmes to illustrate what the systems and programmes do, and how they operate without compromising proprietary rights, if any, related to hardware and software;
- (p) "significant gas discovery" means, a discovery of natural gas which has tested significant flow rates of natural gas predominately methane from one or more reservoirs and which is estimated to be capable of continuous production over a reasonable period which in the opinion of the holder could be declared a commercial discovery in the future provided *inter alia* that adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis;
- (q) "spill" means a discharge, emission or escape of petroleum, other than one that is authorized by applicable law or approved by the Government;

- (r) "waste or wasted" means waste as understood in the petroleum industry and shall include working methods which, in accordance with good oilfield practices are considered wasteful; and
  - (s) "wellhead value" means the value of the petroleum produced and saved less allowed transportation costs as determined by DGPC under these rules.
3. **Division of area.-** Any area of Pakistan, may be divided into blocks of size and shapes the Government may from time to time, by notification in the official Gazette, determine.
4. **By whom applications may be made.-** Any petroleum company whether incorporated in Pakistan or abroad may apply in accordance with these rules for-
- (a) a reconnaissance permit hereinafter referred to as permit;
  - (b) an exploration licence hereinafter referred to as the licence; and
  - (c) a development and production lease hereinafter referred to as the lease.
5. **Manner in which application may be made:** (1) Every application shall be made in writing in the form set out in the First Schedule hereto or as otherwise directed by the Government, addressed to DGPC. Every application shall be entered in the register to be maintained by DGPC. The register shall be in such form as may be prescribed by the Ministry and shall be open to public inspection.
- (2) The application shall state the nature of and the principal place of business of the company, the authorized, subscribed and paid-up capital of the company, the names and nationality of the directors thereof and the names and holdings of the principal shareholders.
- (3) With every application there shall be deposited-
- (a) a fee of twenty thousand rupees if the application is for the grant or renewal of a permit;
  - (b) a fee of forty thousand rupees if the application is for the grant or renewal of a licence; and
  - (c) a fee of eighty thousand rupees if the application is for the grant or renewal of a lease.
- (4) To the application there shall be attached five copies of the map upon which shall be delineated the boundaries of the

areas in respect of which a petroleum right is applied for. The map shall be taken from the relevant Survey of Pakistan map of appropriate scale. If the area is identified by a block system notified under rule 3, a reference to the relevant block number is sufficient.

- (5) The applicant shall, with his application, furnish evidence as to his financial and technical qualifications and as to his ability to conduct the activities under the relevant petroleum right in accordance with the good oilfield practices. The applicant shall furnish further evidences relating to such matters, as may be requested for, by DGPC and failure to provide such evidences to the satisfaction of DGPC, within three months of the request thereof, shall, unless DGPC determines otherwise, render the application void.
  - (6) The applicant shall, with his application, furnish an undertaking that he will abstain from all political activities whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially he will eschew all espionage.
  - (7) The applicant shall furnish such other information as the Government may, from time to time, specify.
6. **Separate application to be made for each area.**-(1) Where an applicant seeks a petroleum right over two or more areas which are not contiguous, the applicant shall apply for separate petroleum rights over each such area, unless otherwise permitted by the Government.
- (2) Nothing in these rules shall prevent more than one petroleum right being granted to the same applicant.
7. **Several holders.**- Where a Petroleum Right is held by two or more companies, they shall be liable jointly and severally towards the Government for obligations and liabilities, resulting from their activities pursuant to the petroleum right. The companies shall, with the prior written approval of the Government, appoint an operator from amongst them, except that such special arrangements as to the operatorship will be applicable as may be approved by the Government under rules 61 and 63. No change in such appointment shall be made without the Government's prior approval.
8. **Petroleum right not assignable without consent.**- A petroleum right or any working interest therein shall not be assigned without the previous consent in writing of the Government.

9. **Method of making applications for assignments.-** An application by the holder of a petroleum right for consent to the assignment of a petroleum right shall be made in writing addressed to DGPC, and shall be accompanied by a fee of ten thousand rupees. With the application, the applicant shall furnish the like particulars in respect of the proposed assignee as are required to be furnished in the case of applicants for a petroleum right.
10. **Power to grant or refuse petroleum right.-** Subject to rules 21, 22 and 28, the grant of a petroleum right, or renewal thereof, shall always be decided by the Government. In the event of refusal to grant such petroleum right, or renewal thereof, the Government shall as far as possible provide the reasons therefor.
11. **Lapse of entitlement to petroleum right.-** Where a petroleum right is not executed within three months after approval of the application by the Government has been conveyed to the applicant, the entitlement of the applicant to such petroleum right shall be deemed to have lapsed, unless the Government considers that the delay is not attributable to the fault of the applicant.
12. **Surrender of petroleum right.-** A holder of a petroleum right wishing to surrender his right under these rules shall give the DGPC, one month's notice of his intention to do so, and if the holder fulfills all his obligations under the petroleum right, including the obligations pursuant to rule 70 or if holder of petroleum right pays liquidated damages pursuant to rule 26, he shall on the expiry of the notice be entitled to surrender his petroleum right in whole or in part. On so doing a holder of a petroleum right shall not be obliged to pay rent for the remaining period of the petroleum right.
13. **Submission and publication.-** (1) Application for a petroleum right may be submitted, either-
  - (a) at the initiative of the applicant, or
  - (b) on the basis of an invitation from the Government to submit competitive bids.
  - (2) In the latter case, a notice for competitive bidding may be published in such national or foreign publications as the Government may determine.
  - (3) Notice of the grant, renewal, extension, surrender, termination and assignment of a petroleum right shall be published in the Gazette of Pakistan.
14. **Terms and conditions of a petroleum right.-** Every permit, licence and lease shall, subject to such modifications as may be made by the Government, be in the form set out in Parts I, II and III, as the case



may be, of the Second Schedule hereto and shall include such additional clauses relating to ancillary or incidental matters as the Government may deem fit to insert.

15. **Guarantees.-** The Government may require the holder of a petroleum right to furnish, in form and substance acceptable to the Government, a guarantee or guarantees, which, if the Government so agrees, may be a parent company guarantee, in respect of the obligations and liabilities of the holder. The Government may also consider accepting the deposits in escrow accounts on a case to case basis. For a company incorporated in Pakistan, the Government may also consider accepting suitable security such as first and preferred lien on their assets, and oil and gas production in Pakistan, in respect of the obligations and liabilities of the holder.

## **PART II PERMIT FOR RECONNAISSANCE SURVEYS**

16. **Grant of permit.-** The Government may grant a permit to any company to carry out reconnaissance surveys over such areas and on such terms and conditions as it may determine in each case but always upon the following conditions, namely:-
- (a) the grant of the permit does not imply that the holder shall be entitled to the grant subsequently of a licence over the areas covered by the permit;
  - (b) on the conclusion of the survey, the holder may apply for a licence in accordance with these rules, but shall not be entitled to claim a relaxation of rules for the grant of a licence applied for by him. However, the Government, upon a request of holder, may allow adjustment of the work carried out or expenditure incurred, excluding any work or expenditure related to a multi-client arrangement unless otherwise agreed, against the minimum work or expenditure obligation under a licence covering the area of permit, if granted;
  - (c) unless otherwise stipulated in the permit, the holder shall have the non-exclusive right to undertake, within the designated areas, petroleum reconnaissance by such geophysical, geological, geo-chemical and geo-technical methods and such other related work including geological information bore-hole, as are stipulated in the permit;
  - (d) the holder shall submit a copy of all the maps, plans, graphs and magnetic tapes and related data as and when these become available and a complete report of the survey no later than six month of the completion of the survey;

- (e) the holder shall comply with all instructions which DGPC may issue regarding the use of maps, plans, graphs and other data generated or collected by the holder in the course of the reconnaissance survey;
- (f) the permit shall be valid for a period of one year and may, at the discretion of the Government, be renewed for a period of up to one year;
- (g) a permit does not extend to areas already covered by a licence or a lease unless otherwise specified by the Government pursuant to rule sub rule (1) of rule 63;
- (h) the Government may grant a licence, or a lease, to any person at any time for any part of an area covered by a permit except as provided therein;
- (i) the holder of the permit shall perform work stipulated in the permit with due diligence;
- (j) the holder of the permit shall for each square kilometre or part thereof comprised in the permit area pay to the Government rent at the rate of one hundred rupees per year.

### **PART III LICENCE FOR PETROLEUM EXPLORATION**

17. **Grant of licence.-** The Government may grant an exclusive petroleum licence for exploration over any area and on such conditions as are specified therein.
18. **Size of area.-** A licence shall not be granted in respect of any area of more than 2,500 sq.km. In special circumstances, the Government may decide to grant an area of up to 7,500 sq. km. provided that the applicant offers a work programme commensurate with the size of the area.
19. **Shape of area.-** Each separate area in respect of which a licence is granted shall be, as far as possible, compact, bounded by straight lines and marked with permanent physical boundaries.
20. **Rights and obligations of licence holder.-**(1) Subject to the provisions of these rules, the licence gives the holder the exclusive right to undertake, within the licence area, all activities related to reconnaissance and exploration, including drilling for petroleum. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production as the Government may allow

upon a written request submitted by the holder of a licence provided however, that in no event, such test or early production shall cause loss of revenues for the Government.

- (2) The holder shall perform the work programme stipulated in the licence as per schedule contained therein. The work programme shall contain the number of exploration wells to be drilled, the depth and time within which they must be drilled, and, where appropriate, the seismic work to be performed, as well as any other matter that may be relevant.

21. **Period of licence and relinquishment of area.-** (1) The initial term of a licence shall not exceed five years keeping in view the surface and geological condition of the licence area. The initial term shall comprise two phases with first three years period designated as "Phase-I" and the next two years period as "Phase-II" respectively. Minimum work programme for phase-I shall be determined through competitive bidding whereas a firm exploration well will have to be committed for phase-II.

- (2) The Government may, subject to the terms of the licence, grant up to two renewals. The term of each renewal shall be up to two years. However, to avail the renewal of maximum term of two years a reasonable work programme comprising at least an exploration well shall have to be offered keeping in view the surface and geological conditions of the licence area. A holder desiring to obtain such renewal shall make an application at least three months before the expiry of the licence or such lesser period as the DGPC may allow.

- (3) The initial term or renewal thereof of a licence may be extended by the Government for drilling an exploration well in progress for a period not exceeding one hundred and eighty days, which shall be considered to be part of the initial term or renewal, as the case may be, and such extension in the licence shall be treated as part of any subsequent phase or renewal, where applicable and granted.

- (4) The holder of a licence shall comply with following part relinquishment schedule during the term of the licence namely:-

- (a) at the end of Phase-I -30% of the original licence area;
- (b) at the end of Phase-II -20% of the original licence area; and
- (c) at the end of first renewal-10% of the original licence area

- (5) A holder shall be entitled to renewal as aforesaid if he-

- (a) has complied with the work programme and all other obligations of preceding term of the licence; and
    - (b) has committed to drill during each renewal period an exploration well or wells as may be agreed with the Government prior to each renewal, to the agreed objective and depth. Decision to this effect shall be taken giving due consideration to surface and geological conditions of the licence area.
  - (6) Notwithstanding anything contained in these rules, upon a written request of a holder, the Government may, on a case to case basis, extend the term of the licence based on technical considerations or revise the co-ordinate of the area covered under the licence provided that the geological structure extends into an adjoining free area.
22. **Appraisal and evaluation of a Discovery and renewal therefor.-** A holder of a licence having made a discovery of petroleum shall perform such additional work as the Government, after consultation with the holder, may specify, so as to enable the holder to make timely determination of a discovery as a commercial discovery. Subject to agreement on such additional work and the holder having complied with the work programme and his other obligations shall be entitled to renewal of the licence not exceeding two years for the purpose of expeditious appraisal and evaluation of the discovery. The renewal shall only apply to the discovery area.
23. **Retention of significant gas discovery.-** Upon a request of a holder of a licence, the Government may allow retention of a significant gas discovery under the licence for a period of upto five years covering the area of Discovery. Before the expiry of allowed retention period, the holder shall make determination as to commercial discovery and submit an application for grant of a lease along with the proposed development plan providing detailed assessment of gas market potential and a plan for infrastructure development.
24. **Declaration of Commercial Discovery.-** (1) Upon completion of the agreed appraisal, evaluation and commercialization work, the holder of a licence may submit a notice for declaration of commercial discovery to the Government for its approval along with a report in accordance with clause (d) of rule 52 and general plan for development. Subject to the approval of commercial discovery, the holder shall be entitled to apply for the grant of a lease in respect of discovery area in accordance with these rules.
- (2) The grant of a lease prevails over the licence within the area designated in the lease, but the licence continues to be valid

outside such lease area without modifying the right and obligations pursuant to the licence.

- (3) Upon termination of the licence, the holder shall relinquish the licence area except the area covered by a lease or leases granted to him.

25. **Extension pending grant of lease.-** If the holder, before the expiry of the licence, has applied for a lease, the duration of the licence shall be extended until the lease has been granted or refused.

26. **Work programme and other obligations not fulfilled.-** (1) Where upon the surrender or the expiry of a licence, the obligations pursuant to rules 20 or 22 have not been fulfilled, the holder shall either:-

(a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of undischarged work obligations as set forth in the licence within a period of thirty days from the surrender or expiry of the licence; or

(b) request the Government, to allow transfer of undischarged work obligation committed under rule 20 to another area if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. Such transfer shall be subject to such terms and conditions as may be specified by the Government on a case to case basis.

(2) In case the liquidated damages payable pursuant to clause (a) of sub-rule (1) are not paid or the transfer of undischarged work obligation to another area pursuant to clause (b) of sub-rule (1), is not approved, the Government may, in addition to any other action or remedy including black listing of the holder, cancel a lease granted to the holder in respect of any area comprised within the area of the licence which has been surrendered or expired.

(3) Where a holder of a licence is found to be in default or breach of the terms and conditions on which a petroleum right was granted or of his work or other obligations and has remedied such default or breach to the satisfaction of the Government in accordance with clause (a) of rule 69, the holder shall be deemed to have mitigated such default or breach for the purpose of rules 21, 22 and 28.

27. **Rent** (1) The holder of a licence shall for each square kilometre or part thereof comprised in the licence area pay rent to the Government at the following rates, namely:-

- (a) (i) in respect of 5 years initial term of the licence; Rs.3000; or
  - (ii) in respect of each year of initial term of the licence; Rs.650;
  - (b) (i) in respect of each renewal of the licence; Rs.5000; or
  - (ii) in respect of each year of the renewal of Licenc; Rs.2750.
- (2) The licence may include a provision for annual adjustment of the rent due by reference to an appropriate index so as to ensure that the rent retains its value in real terms.
- (3) The rent shall be paid in advance of the period to which it relates.

#### **PART IV LEASE FOR PETROLEUM DEVELOPMENT AND PRODUCTION**

28. **Grant of development and production lease.-** (1) The Government shall on being satisfied that a commercial discovery has been made and that the terms and conditions of the licence, including the work programme, have been duly observed and performed, or that the holder is in satisfactory progress with the work programme, and that the requirements of rule 33 have been duly complied with by the applicant, grant a lease in respect of discovery area within the licence area granted to the applicant.
- (2) The Government may grant a single lease covering more than one discovery area within the same licence area provided that such discovery areas are juxtaposed vertically in which case the lease shall be granted on the basis of the discovery area which is larger in extent.
- (3) In the event that any part of a discovery area extends beyond the lease into an open acreage, the Government may upon being satisfied that the discovery area extends into such open acreage and subject to such conditions as deemed necessary, readjust the subsisting boundaries of the lease so as to include such part of the open acreage on which the discovery area extends.
29. **Rights of lease holder.-** The holder of lease shall have an exclusive right to perform activities in connection with the development and production of petroleum in the area covered by the lease, including the right to undertake transportation of petroleum, subject to approval pursuant to rule 34.

30. **Shape of discovery area.-** Each discovery area in respect of which a lease is granted shall be laid out in straight lines between well defined points as far as practically possible and must also be marked with permanent physical boundaries.
31. **Survey expense of applicant.-** Before a lease is granted by the Government the applicant shall, if so required by the Government, at his own expense cause a topographical survey of the land specified therein to be made to scale normally required for petroleum right purposes, and approved by the Survey of Pakistan, and submit 6 copies thereof to the Government.
32. **Period.-** The lease shall be for the period for which application has been made supported by relevant technical and other information but not exceeding twenty-five years. Upon application from the holder, the Government may renew the lease for a period, not exceeding five years, if commercial production is continuing at the time of the application.
33. **Development plan.-** (1) Together with the application for a lease, the holder shall enclose a development plan which shall contain such information as the Government may reasonably deem necessary, including but not limited to the following namely:-
- (a) proposals for the development and production of the each discovery area including possible alternatives and proposals relating to the disposition of associated gas;
  - (b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations and transport and delivery facilities required for the petroleum production. Such proposal shall cover-
    - (i) the estimated number, size and production capacity of production facilities and platforms, if any;
    - (ii) estimated number of production wells;
    - (iii) particulars of production equipment and storage facilities;
    - (iv) particulars of feasible alternatives for the transportation of petroleum including pipelines and
    - (v) particulars of equipment required for the operations
  - (c) the production profiles for crude oil, condensate and natural gas and other products for the life of the field;

- (d) investment plans including cost estimates of capital and operating expenditure;
  - (e) profitability estimates;
  - (f) proposals related to the establishment of processing facilities and processing of petroleum in Pakistan.
  - (g) safety measures to be adopted in the course of development and production operations including measures to deal with emergencies and protection of environmental;
  - (h) a description of the organization in Pakistan, pursuant to these rules;
  - (i) contingency and abandonment plans;
  - (j) time schedule of all activities covered in the development plan clearly specifying the critical milestones and proposed measures to achieve such milestones.
- (2) The plan requires the approval of the Government. Such approval shall not be unreasonably delayed provided the requisite information has been provided to the Government.
  - (3) After approval of the plan, the lease holder shall carry out development and production in accordance with the plan, subject to such modifications as may be necessary and are approved by the Government from time to time.

34. **Transportation of petroleum.-** (1) Subject to approval in accordance with this rule, the holder of a lease has the right to lift and transport petroleum from the lease area, either through transportation facilities owned wholly or partly by himself or through access to transportation facilities owned by a third party and such approval shall not be unreasonably withheld or delayed.

- (2) The holder shall submit an application comprising the proposed organization and implementation of the transportation system. In case of pipeline transportation, the application shall also comprise the design, construction and route plans.
- (3) The Government may, on giving its approval, stipulate such conditions as are reasonable and necessary to secure a rational system of transportation of petroleum and the Government may-
  - (a) require that several lease holders install jointly-owned transportation facilities; and



(b) grant to any third party access to transportation capacity at tariffs to be approved by the Government.

35. **Royalty.-** (1) Royalty on petroleum produced and saved shall be at the rate of twelve and half percentage (12.5%) of wellhead value unless a higher rate for royalty is provided for in any agreement between the petroleum right holder and the Government.
- (2) Royalty shall be paid in cash unless the Government elects to take the delivery of royalty ( wholly or partially) in kind at field gate on a six months advance notice. In such a case the holder shall at the request and at the costs of the Government make arrangement for transportation of the royalty petroleum in the same manner as if it was his own on petroleum.
- (3) Royalty shall be payable monthly within a period not exceeding forty five days of the end of the month of production in question which if delayed beyond this stipulated period would attract fine at rate of Libor plus two per cent as may be determined by the Government. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Government may take such action as it may deem appropriate in accordance with these rules.
- (4) The Government shall lift or take royalty petroleum in a timely manner and in accordance with such lifting or sales agreement as may be mutually agreed with the holder of a lease.
- (5) The holder of a lease shall be permitted to use petroleum produced from lease area for drilling, production, maintenance and processing of petroleum obtained from the said lease free of cost, royalty and excise duty provided that the holder of the lease shall not be entitled to include any notional costs in claiming his business expenses for income tax purposes.
- (6) From the amount of royalties payable in respect of any one year of the term of a lease, there shall be deducted the amount of yearly lease rent actually paid in respect of that year pursuant to rule 38.
- (7) Government may from time to time issue guidelines which will inter-alia cover procedure for administration and payment of royalty due from the holder of a licence or a lease.
- (8) Notwithstanding anything contrary contained in these rules, the election to take the royalty on natural gas in cash or kind shall

be exercised only once within ninety days of the approval of development plan by the Government.

36. **Value of petroleum.-** For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using actual selling price in the following manner, namely:-
- a) If the petroleum is sold to the national market pursuant to rule 40, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between the petroleum right holder and the Government or its designee less allowed transportation cost.
  - b) In all other cases, the actual selling price means the greater of-
    - (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or
    - (ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs; or
    - (iii) the price applicable to the sales made under sub-rule (a) above.
37. **Royalty administration.-** (1) If there are two or more than two companies as holder of a lease, they shall designate the operator to remit royalty on their behalf unless prior approval has been obtained from the DGPC to remit royalty themselves.
- (2) Royalty shall be remitted with the supporting forms prescribed by the DGPC with documents and information required.
  - (3) If DGPC determines that petroleum was avoidably lost or wasted then royalty shall be payable on such lost or wasted petroleum in accordance with the direction issued by DGPC.
  - (4) If the holder of a Lease receives insurance compensation for unavoidably lost petroleum, royalty is due on the amount of the compensation in accordance with the direction issued by the DGPC.
38. **Yearly lease rents.-** (1) The lease holder shall pay to the Government annually in advance, rent at the rate of Rs.7,500 per square kilometre or part thereof covering the lease area.
- (2) A lease may include provision for annual adjustment of the rent due by reference to an appropriate index so as to ensure that the rent retains its value in real terms.

39. **Surface rent.-** The holder of a lease shall pay for all land which he may use or occupy for the purposes of the operations conducted under the lease, a surface rent at the rate assessable under the revenue and rent law in the district in which the land is situated and water rates, if any, ordinarily assessable under any relevant rules if the land has not been occupied for the winning of petroleum.
40. **Deliveries to the national market.-** (1) The Government may decide that the holder of a petroleum right shall deliver petroleum from his production to cover the requirements of the national market for petroleum. The national market for petroleum shall for this purpose means the total market requirements, less petroleum produced by or otherwise available to the Government from indigenous sources. The lease holder shall deliver the petroleum at such place or places in Pakistan as the Government may direct.
- (2) The foregoing provision shall apply to all holders producing petroleum as far as practicable, *pro rata* to their production. Each holder's obligation may be fulfilled directly or by means of swap arrangements approved by the Government.
- (3) The Government may also decide that the holder shall arrange and pay for adequate transportation of crude oil condensate and natural gas liquid which it has thus ordered to be delivered to the nearest operating refinery in Pakistan.
- (4) The price to be paid for petroleum to be delivered pursuant to this rule shall be such price as may from time to time be determined in accordance with terms and conditions of applicable agreement between the Government and the holder.
41. **Measurement of petroleum.-** (1) The holder of a petroleum right shall measure or weigh all petroleum produced and saved from the licence or lease area by a method or methods customarily used in good oilfield practices and approved by DGPC. The DGPC, from time to time and as and when deemed necessary, may issue guidelines for installation, maintenance, inspection and other matters related to measurement of petroleum as per good oilfield practices.
- (2) DGPC, or any officer authorized by him, shall, at all times during the term of the licence or a lease or any renewal thereof, be entitled to inspect the measuring or weighing equipment and to be present whenever such a measurement or weighing takes place.
- (3) The holder of a petroleum right shall install, operate and maintain all measuring and weighing equipment ensuring that

such equipment remains in good working condition at all times. If any such equipment shall at any time be found not to be accurate, the same shall, if the DGPC, so determines after considering any representations in writing made by the holder, be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested, whichever shall be the less. This restriction on time period shall not be applicable if the inaccuracy so discovered is found to be result of the holder's Wilful tampering or negligence in which case appropriate adjustment in royalties and imposition of fine will be made as determined by DGPC. The royalties payable in respect of such period shall be adjusted accordingly.

- (4) The holder shall not make any alteration in the method or methods of measurement or weighing used by him or any equipment used for that purpose. The DGPC, may require that no alteration shall be made save in the presence of an officer authorized by him.

42. **Revocation of lease.-** (1) The lease may be revoked if regular commercial production has not commenced within five years from the grant of a lease. The lease may also be revoked if production has terminated for more than ninety days without prior written approval of the Government, unless this is due to *force majeure*.

- (2) In the event, the holder of a lease is found to have contravened sub-rule (1) above, the Government may issue a ninety days notice requiring the holder of the lease to remedy the breach within the notice period failing which the Government may revoke the lease.

## **PART V ACCOUNTS, RECORD, INSPECTION AND REPORTS**

43. **Keeping of records and accounts.-** (1) The petroleum right holder shall maintain full and accurate record.

- (2) Original copies of all record shall be kept in Pakistan unless otherwise approved by the DGPC.
- (3) The petroleum right holder shall immediately comply with the demand of the DGPC to submit the certified copy of any record;

44. **Period of record-keeping.-** (1) The record shall be kept and maintained for a period of six years or for a longer period as is required under the applicable law following the end of the calendar year to which the information contained in the record relates. In case of any particular record, upon application by the holder of petroleum right, the DGPC may consent in writing to the destruction of record before the end of the six years period or such other period as is required under the applicable laws as the case may be.
- (2) Notwithstanding the provision of sub-rule (1), if based on reasonable grounds, the DGPC is of the opinion that it is necessary for the administration of any rules, to retain record for a longer period, he may direct the concerned holder of the petroleum right to do so specifying the reasons therefor.
45. **Well records.-** (1) Notwithstanding the generality of rule 43, the holder of a petroleum right shall always keep full and accurate record of the drilling, deepening, plugging, completion, re-completion or abandonment of all wells containing particulars of the following matters with respect to each well:-
- (a) the strata and subsoil through which the well was drilled;
  - (b) the casing used in any well and any alteration to such casings;
  - (c) any petroleum and other reservoir fluids, or minerals encountered; and
  - (d) such other matters as the DGPC may, from time to time, require.
- (2) The holder shall deliver copies of the said record to the DGPC as and when these become available or are required by him.
46. **Production records.-** The holder of a petroleum right shall always keep full and correct record which shall contain accurate entries of:
- (a) the gross quantity and quality of petroleum won and saved;
  - (b) the method and results of tests conducted;
  - (c) the quantity and quality of petroleum delivered in Pakistan and exported;
  - (d) the quantity and quality of petroleum used for re-injection, pressure maintenance, venting, flaring, drilling or other operational purposes;

- (e) the quantity and quality of petroleum sold, the name of the purchaser and the price at which it has been sold supported by necessary documents;
- (f) the quantity and quality of natural gas treated and processed for the removal of impurities and inerts and natural gas liquids and liquefied petroleum gases and the quantity and quality of any liquids, gases or any solids obtained from it; and
- (g) such further particulars as the DGPC may from time to time, require.

47. **Data to be property of Government.-** (1) All data including but not limited to, wells logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained by the holder of a petroleum right as a result of his activities in a permit, licence or lease shall be the property of the Government. The holder shall submit all of the aforesaid data and information as soon as it has become available to him. The holder may, during the subsistence of a permit, licence or lease, after prior intimation to the Government, disclose all or any part of the aforesaid data to a third party, provided that before disclosure of the data, such party executes an appropriate confidentiality agreement drawn up in accordance good oilfields practices.

- (2) All processed geophysical and geological information referred to in sub-rule (1) shall be submitted to the DGPC, on transparent, dimensionally stable material as well as in the digital format, as may be notified by the DGPC from time to time.
- (3) Information and data as mentioned in this rule shall be kept confidential by the Government for a period of three years from the date the data is acquired by the holder with the following exceptions:
  - (a) information disclosed to other Pakistani authorities, or financial institutions or consultants of the Government who will be bound to keep the same confidential;
  - (b) information required for general statistical purposes;
  - (c) upon the earlier termination of a permit, licence or lease, or upon the date of relinquishment of the area to which the information relates; and
  - (d) all raw geophysical, geological and well data including well logs may be disclosed by the Government to any interested party after two years of the activity to which

such data relates. This however is not applicable to the data generated under multi-client arrangements.

- (3) Notwithstanding anything contained in these rules, the data in the possession of the Government in respect of a surrendered or relinquished area of a permit, licence or lease may be released by the Government to a holder or to an organization engaged in petroleum exploration, production and research, on the actual reproduction and other costs of the data and on such terms and conditions as it may determine.
- (4) Except as provided under these rules, a holder of petroleum right shall not disclose or cause to disclose any data to a person who is not legally entitled to obtain that data.
- (5) Any other person who is permitted to receive the data shall hold the same subject to the same restrictions as are contained in sub-rule (5).

48. **Power to inspect plants, record and accounts, etc.-** (1) The DGPC or, a person designated by him, may, at any reasonable time after notice in writing enter any place where any activities or business is carried out by a petroleum right holder under the rules for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works.

- (2) The petroleum right holder , for the purpose of an audit, or inspection or examination shall-
  - (a) provide access to the DGPC or the person designated by the DGPC to conduct the audit or inspection or examination on his behalf to perform his duties without any hindrance;
  - (b) provide all reasonable assistance to the DGPC and persons designated by the DGPC to perform his duties without any hindrance;
  - (c) promptly provide or make available the certified copies of Records required by the DGPC or to any person designated by the DGPC to perform his duties without any hindrance.

49. **Annual reports.-** (1) The holder of a petroleum right shall each year submit to the DGPC, annual reports containing the following particulars namely:-

- (a) a financial statement with an abstract of the accounts, prepared in accordance with accounting principles generally accepted in the petroleum industry and audited

by a recognized firm of chartered accountants approved by the DGPC;

- (b) a description of all exploration, development, production and other work carried out by the holder during the year relating to the permit or licence or lease area.
- (c) estimates of in place and recoverable reserves of petroleum at the end of each year classified on the basis of good oilfield practices. If so desired by the Government, the holder shall be required to carry out reserves certification from an independent source as approved by the DGPC; and
- (d) estimates of petroleum production and exports for each quarter of the next year.

(2) The report referred to in clause (a) of sub-rule (1) shall be submitted within six months and the other reports within forty-five days after the end of year to which they relate.

50. **Monthly reports.-** Within ten days after the end of each month each holder of a petroleum right shall prepare and deliver a monthly progress report to the DGPC, which shall contain a narrative report of activities with plans and maps showing the places where work was done. Such report shall also contain-

- (a) a summary of all geological and geophysical work carried out;
- (b) a summary of all drilling activity and results obtained;
- (c) a list of maps, reports and other geological and geophysical data prepared or acquired in connection with the activities; and
- (d) a statement of expenditure incurred by a holder of petroleum right during the month on a format as may be prescribed by the DGPC from time to time.

51. **Daily reports.-** During drilling of a well, each holder of a licence or lease shall provide to DGPC, copies of his daily well reports on a prescribed format.

52. **Occasional reports.-** The holder of a petroleum right shall submit to the DGPC, the following reports namely:-

- (a) within twenty-four hours, by telex or fax with hand copy delivered within next twenty-four hours, if a well shows the presence of petroleum in significant measure or if a drillstem or any other test has been carried out on a well which produces petroleum;



- (b) within seven days after the above-mentioned report, a written report containing relevant geological information and chemical analysis in the case of a showing of the presence of petroleum, and in the case of a drillstem or any other test containing the following additional information namely:-
  - (i) conditions and results of the drillstem or any other test, including but not limited to flow rates, flow periods, tested intervals, pressures, choke sizes, hole condition and stimulation measure;
  - (ii) physical analyses; and
  - (iii) any deductions therefrom as to the potential of the reservoir;
- (c) within one month after the completion or abandonment of drilling operations, a comprehensive well completion report, which shall contain, *inter alia*, the lithological groups, stratigraphic boundaries, hydrocarbon zones, a copy of all well logs and tests and other relevant information including costs, provided that such information which cannot be obtained within this period shall be submitted as soon as possible;
- (d) at the latest upon the issue of a commercial discovery notice, a report which shall substantiate such notice and contains-
  - (i) all relevant geological information, including estimates of recoverable reserves and daily production;
  - (ii) a general plan for the development of the deposit, including possible alternatives, with a description of the main production and transportation installations envisaged, and the relevant cost estimates; and
  - (iii) calculations of the profitability estimates of the discovery;
- (e) within forty-five days after the relinquishment or surrender of any part of the permit or licence or lease area such maps, plans, reports, records interpretations, and data made or obtained by or for the holder relating to exploration, development, production abandoned, restriction of site and any other operations in the relinquished, surrendered or retained areas;
- (f) report to the DGPC particulars of any fresh issues of capital which may be made by him or his parent company from time to time and any alteration which may be made in the memorandum and articles of association or in the constitution of the holder or his parent company. Any fresh issues of capital shall at times be subject to clause (d) of rule 69;

- (g) from time to time, such other plans and information as to the progress and results of the holder's operation as the DGPC may require.
53. **General.-** The reports referred to in this Part V shall be made in such form and contain such further particulars as the DGPC may prescribe. The holder's obligations under this Part V comprise reports whether prepared inside or outside Pakistan and whether prepared by himself or by others.
54. **Reports of discovery.-** (1) No announcement or statement (whether direct or implied) with respect to a discovery of petroleum shall be made except by the Government in consultation with the licence or lease holder.
- (2) No statement shall be made by or with the consent of a holder claiming or suggesting, whether express or by implication, that any Government authority or any person or body active on behalf of the Government has or have formed or expressed an opinion that the licence or lease area is likely to contain petroleum.

## **PART VI STANDARD OF OPERATIONS**

55. **Avoidance of harmful methods of working.-** (1) The petroleum right holder shall undertake execute all operations in a proper, prudent and workmanlike manner in accordance with good oilfields practices and shall not unreasonably obstruct or interfere with other activities each as navigation, fisheries and agriculture. All reasonable precautions shall be taken to prevent pollution or damage to the environment and surrounding;
- (2) Without prejudice to the generality of the foregoing provision, the petroleum right holder shall take all steps including but not limited to the following namely:-
- (a) prevent the escape or waste of petroleum discovered in the area;
  - (b) to conserve the area for operations;
  - (c) to prevent damage to adjoining petroleum bearing strata;
  - (d) to prevent the entrance of water through wells to petroleum bearing strata, except when approved by the Government for the purposes of secondary recovery: and

- (e) to prevent the escape of petroleum into any waters in or in the vicinity of the said area;
  - (3) The Government may establish safety zones around temporary and permanent installations as per good oilfield practices.
  - (4) The Government may from time to time, determine and notify the standards applicable to the operations under these rules.
56. **Principles of Sound operations.**-(1) All petroleum operations and activities shall be conducted diligently and in accordance good oilfields practices. The rate of production from each reservoir shall be the maximum efficient rate needed to achieve the maximum ultimate economic recovery of petroleum from various petroleum reservoirs unless otherwise approved by the Government.
- (2) The Government may specify measures at the time of approval of development plan that a holder of a lease shall take to conserve petroleum resource of Pakistan. These measures shall include, but not limited to, notification of depletion policy, rate and flow of petroleum from the fields and the measures to achieve maximum ultimate economic recovery of petroleum from different reservoirs.
  - (3) The holder shall not flare or vent any natural gas without the prior approval of the Government in writing under these rules.
57. **Commencement, testing and abandonment of drilling operations.**-(1) The holder of a petroleum right shall not commence drilling, re-entry, testing and related operations or abandonment of any well without first having obtained the approval of the DGPC in writing and the holder shall-
- (a) as soon as possible make known to the DGPC the proposal for testing a well;
  - (b) test all potentially productive horizons indicated by wire-line recording as may be finalized in consultation with DGPC; and
  - (c) promptly undertake the technical evaluation of the well testing results and of all other relevant data and submit the same to the DGPC as soon as possible.
- (2) After the completion of all operations, the well shall be safely plugged and the drilling operations shall be conducted in accordance with good oilfield practices.

58. **Shape of relinquished areas.** Areas which are relinquished or surrendered shall be of sufficient size and shape to enable petroleum operations to be carried out thereon.

## **PART VII MISCELLANEOUS**

59. **Use of Pakistani goods and services.-** (1) In all activities carried out pursuant to these rules, the holder shall ensure the use of Pakistani goods and services, to the extent that such goods and services are competitive with regard to price, quality and schedule of delivery provided that the price is reasonable.
- (2) Local producers who are capable of supplying goods and services of type demanded shall always be included in invitations to tenders and shall be chosen if competitive.
60. **Employment and training of Pakistani personnel.-** (1) The Government may require the holder of a petroleum right employ nationals of Pakistan in his organization at all levels and in all branches including technical and administrative units and to arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed or trained shall be determined in consultation with the DGPC in accordance with the guidelines that may be issued by him from time to time. The application for grant of a licence or a renewal or extension thereof and the development plan submitted with the application for grant of lease shall contain a description of the measures proposed to be taken by the applicant during exploration, appraisal, development and production phases so as to ensure compliance with this rule.
- (2) The Government may require that the holder shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to the supervision of petroleum industry. Such training shall cover both technical and management disciplines (e.g. geology, geophysics, engineering, project management, accounting, legal) and shall also be in the form of on-the-job training and participation in in-house seminars.
61. **Joint exploration and development.-** (1) If a petroleum deposit extends across more than one licence or lease area held by different holders, such holders shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner.

- (2) Joint exploration and development plans or in case one of the deposits has already been developed, a joint unitization plan, together with agreement between the holders shall be submitted to the Government for approval.
- (3) If the holders fail to reach an agreement on joint exploration and development or unitization plan referred to in sub-rules (1) and (2), the Government may, in the public interest, by notice in writing to all concerned holders, direct to finalize and submit for approval of the Government relevant plan within the period stipulated in the notice. In the event such plan is not submitted to the Government within the stipulated period or such plan has not been approved by the Government, the Government may appoint an independent consultant to prepare such a plan at the cost of the holders concerned. The plan so prepared by the consultant will be considered and approved by the Government with appropriate changes for implementation as per approved schedule. The Government may, however, stipulate such additional conditions as may reasonably be considered appropriate in the interest of such plan.

62. **Petroleum exploration within a lease area.-** (1) A lease-holder shall have preferential right to perform petroleum exploration activities on all horizons underlying a lease area granted to him provided that, if the Government receives a bona fide offer from a third party to undertake exploration within such lease area, the lease-holder shall have to decide whether or not to match such offer within six months of receiving a notice to this effect from the Government.

- (2) In case the lease-holder decides not to undertake exploration pursuant to sub-rule (1) and a third party is granted petroleum exploration rights over any or all the horizons underlying the lease area, then such a third party and the existing lease holder shall within ninety days enter into an agreement setting forth the detailed terms and conditions of operating within the lease area so that the activities can be coordinated in a just and equitable manner. In case such an agreement is not reached between the parties within the specified time or such agreement has not been approved by the Government, the Government may appoint an independent consultant to prepare such an agreement at the cost of the holders concerned. The plan so prepared by the consultant will be considered and approved by the Government with appropriate changes for implementation as per approved schedule. The Government may, however,

stipulate such additional conditions as may be reasonably considered appropriate in the interest of such an agreement.

- (3) For the purpose of petroleum exploration within a lease area, the provisions of rules 22, 24, 25 and 28 shall apply, *mutatis mutandis* provided that where an existing lease holder makes a new commercial discovery, the provisions of rule 25 shall not be applicable and the existing lease shall be amended to bring the discovery area of such commercial discovery under the purview of the lease. In case any discovery area covered under a lease extends beyond the geographical limits of the lease area, the Government may upon request allow the lease holder to undertake appraisal of such discovery area beyond the limits of the lease in an open area and revise the co-ordinates of the lease area if justified by the results of the appraisal pursuant to rule 22.

**63. Exploration and use of facilities by a third party.-** (1) The Government may allow a third party to undertake exploration in the area of a licence or lease holder as may be necessary to obtain sufficient knowledge as to the geological conditions in areas surrounding the area of such holder. The said exploration activities must not unreasonably interfere with the activities of the holder. After consultation with holders concerned the Government shall determine the manner in which such exploration is to be carried out e.g., type, duration and exploration area.

- (2) The Government may decide that production, processing and transportation facilities owned by the holder of a lease shall be available for utilization by others, if this is deemed to be desirable for the purpose of efficient operations, or if required by the public interest. Such utilization must not unreasonably interfere with the activities of the holder of the lease. The user shall pay compensation for such utilization as may be mutually agreed and approved by the Government. If the holder of the lease and the nominated user fail to reach an agreement on compensation within hundred and eight days or if the Government does not approve the agreed compensation, the Government may appoint an independent consultant to determine such compensation at the cost of the holders' concerned. The compensation so determined by the consultant will be considered and approved by the Government. The Government may, however, stipulate such additional conditions as may be reasonably considered appropriate in the interest of such joint utilization plan.

64. **General right of holder of lease to enter land.-** Subject to approval of the Government and of any other authority which may be involved, and on such conditions as may be stipulated, the holder of a lease shall have the right, as required for the purpose of carrying out operations under the lease, to-
- (a) enter upon and use land;
  - (b) appropriate water;
  - (c) store petroleum
  - (d) erect houses and machinery;
  - (e) search for, dig and get gravel;
  - (f) cut timber and clear undergrowth;
  - (g) enclose with a fence areas for which he is paying surface rent; and
  - (h) carry out such other activities which the Government considers necessary.
65. **General rights of the holder of permit or licence to enter land.-** Subject to approval of the Government and of any other authority which may be involved, the holder of a permit or licence shall have the rights stipulated in clauses (a), (b), (d), (f) and (h) of rule 64 provided that houses and machinery referred to in clause (d) must be temporary.
66. **Restrictions on the holder's rights.-** (1) The rights granted to the holder of a petroleum right shall not prejudice or affect the exercise of any of the following powers:-
- (a) **President may work other minerals, etc.** The President or any person authorized by him may within the holder's area search for and produce any minerals or substances other than petroleum and make and maintain such installations and facilities as required for the said purpose;
  - (b) **President may permit other activities.** The President or any other persons authorized by him may within this holder's area:
    - (i) make and maintain upon, over or through the said area such reservoirs, pumping stations, generating stations, waterways, roads, tramways, railways, telegraph and telephone lines, pipelines or such other installations and facilities as he shall deem necessary or expedient for any purpose;

- (ii) obtain such stone, earth and other materials as may be necessary or requisite for making, repairing or maintaining the said installations and facilities;
  - (iii) draw water from the said area and have free access thereto; and
  - (iv) pass and repass at all times over the said area for all such purposes as occasion shall require; and
- (c) **President may grant or demise said lands to third parties subject to holder's rights.** Liberty and power for the President to grant or demise to any person all or any part of the said area for any purpose so that such grant or demise be made subject to the rights of the holder.
- (2) The President's powers pursuant to clauses (a) and (b) of sub-rule (1) above shall be exercised and enjoyed in such a manner as not to unreasonably hinder or interfere with the rights of the holder. Fair and proper compensation shall be paid by the President for all loss, damage or injury (not, however, including the value of any water, stones, earth or other materials taken) which the holder may sustain or be put to by reason or in consequence of the exercise of the said powers.
67. **Power to execute works.-** If the holder of a petroleum right shall at any time fail to perform his obligations under these rules or under any agreement with the Government, the DGPC shall be entitled after giving to the holder reasonable notice in writing of his intention to execute any works which in his opinion may be necessary to secure the performance of the said obligations or any of them and to recover the costs and expenses of so doing from the holder.
68. **Power to control spill or waste.-** (1) A holder of petroleum right shall at all times, has obligation not to cause spill and waste.
- (2) Where DGPC, on reasonable grounds, is of the opinion that, with respect to any operation of the holder of petroleum rights, spill or waste is required to be controlled or prevented, he may order to the holder of petroleum right to control or prevent spill and waste within a reasonable period of time, failing which he may take such necessary steps and measures to control or prevent the spill or waste as may be required and all cost thereof shall be borne by the holder of petroleum rights.
- (3) If there is any dispute, controversy or claim arising out of or in relation to the exercise of the powers by the DGPC under sub-



rule (2) then the DGPC and the holder of petroleum right shall make all reasonable best efforts to settle such dispute, controversy or claim within sixty days of the issuance of order by the DGPC under sub-rule (2) failing which such dispute, controversy or claim shall be referred to an independent consultant which shall be appointed by the Government at the cost of and with consent of the holder of petroleum right. The findings of such consultant shall be binding on the DGPC and the holder of petroleum right.

- (4) Notwithstanding anything in subrules (1) to (3) the DGPC or the holder of petroleum right may exercise the option not to refer such matter to the independent consultant, in which event such dispute, controversy or claim shall be settled through arbitration in accordance with laws in force in Pakistan.

69. **Power of revocation.-** In addition to other grounds for revocation stated in these rules, the Government may revoke a petroleum right after serving a thirty days show cause notice if-

- (a) the holder thereof is in a material respect in breach of the terms and conditions on which the petroleum right was granted, of the provisions of these rules or of any other written law applicable to the petroleum operations and has not, within a period of sixty days from the date on which a notice in that behalf was served on him by the DGPC, remedied the breach, or where the breach is not capable of remedy, has not, within such period offered reasonable compensation in respect thereof;
- (b) the petroleum right was granted by reason of information given by the holder which was false in a material respect;
- (c) the holder or his parent company makes an arrangement or composition with its creditors, a receiver is appointed or the holder goes into liquidation whether compulsory or voluntary;
- (d) without the prior consent of the Government there is a disposition of the share capital of the holder or its parent company in consequence of which any person who prior to that disposition had effective control of the holder or its parent company ceases to have such effective control; and
- (e) the holder thereof has failed to make payment (whether part or full) payable under the rules or the relevant agreement and such payment remains in arrears or unpaid for two subsequent months next after any of the day on which the same was ought to be paid.

70. **Right of Government upon termination of a petroleum right.-** (1) When a permit or licence or lease has expired or has been

surrendered wholly or partly, area of permit or licence or lease shall so far as practicable be reinstated in its original condition and where this is not practicable, the holder shall pay compensation to the Government for damages suffered as a result thereof.

- (2) When a petroleum right has expired or has been surrendered wholly or partly, or the use of installations and facilities including related equipment has come to an end, the Government has the right to take over the installations and facilities including related equipment. This also comprises pipeline transportation and related facilities installed by the holder to secure shipment of petroleum.
- (3) At takeover, the installations and facilities including equipment pursuant to sub-rule (2), the holder shall be required to hand over such installations and facilities including equipment in such condition as required under good oilfields practices. No compensation shall be given to the holder in case of such takeover. Takeover involves an automatic cancellation of any security for debts or leasing arrangement related to such installations and facilities including equipment and title of the same shall be transferred to the Government.
- (4) If the Government does not wish to exercise its right to takeover the installations and facilities including equipment, the Government may demand that removal shall be carried out by the holder of the petroleum right at the holder's expense, in which case sub-rule (1) hereof shall apply.
- (5) At least one year prior to termination, the holder of a lease shall submit to the Government a plan for the orderly closing down and abandonment of his operations, and for the removal of the facilities or their transfer to the Government as the case may be.

71. **Indemnity.**- The holder of a petroleum right shall;

- (a) effectively indemnify, defend and hold harmless the President and the Government at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from work conducted by or on behalf of petroleum right holder, by any third party, or any thing done or purporting to be done in pursuance thereof.

- (b) if required to do so by the Government, take out and maintain such insurance as the Government may approve against any liability of holder under these rules.
72. **Miscellaneous obligations.-** The holder of a petroleum right shall have an organization in Pakistan with sufficient competence and capacity to conduct all operations and activities pursuant to these rules and shall-
- (a) immediately after grant of petroleum right but before commencing any operations in the relevant area, furnish to the DGPC, the name and address of the manager, resident in Pakistan, under whose supervision operations are to be carried on in the permit, licence or lease; and
- (b) in writing, keep the DGPC informed of the names, addresses and nationalities of sub-contractors employed by him from time to time.
73. **Force majeure.-** (1) Failure on the part of the holder to fulfil any of the terms and conditions of the petroleum right shall not give the President, or the Government, any claim against the holder or be deemed a breach of his obligations insofar as such failure arises from *force majeure*.
- (2) In this rule the expression "*force majeure*" includes the act of God, war, insurrection, riot, civil commotion, flood, lightning, explosion, fire, earthquake and any other happening which the holder could not reasonably prevent or control.
- (3) If the ability to fulfil the terms and conditions, is affected by *force majeure*, the holder shall without delay give notice to the Government, stating the cause of such inability and his efforts to remove such causes and remedy its consequences.
- (4) The term of the holder's petroleum right shall be extended for the duration of the *force majeure* situation and for such further period as is required to resume the holder's operations.
74. **Arbitration.-** Except as otherwise agreed or expressly provided for in these rules, any question or dispute regarding a petroleum right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistan laws.
75. **Transitional.-** (1) The Pakistan Petroleum (Exploration and Production) Rules, 1986 are hereby repealed.
- (2) Notwithstanding the repeal of the Pakistan Petroleum (Exploration and Production) Rules, 1986, hereinafter referred

to as the said rules, where any person holds any permit, licence or lease granted or renewed under the said rules the provisions of the said rules shall continue to apply to such permit, licence or lease, as if the said rules have not been repealed.

## THE FIRST SCHEDULE

### APPLICATION FOR A RECONNAISSANCE PERMIT, EXPLORATION LICENCE OR DEVELOPMENT AND PRODUCTION LEASE

- (1) **Name(s) of applicant(s) in full** \_\_\_\_\_
- (2)\* (A) Particulars of the company(ies):
- (a) Principal place of business \_\_\_\_\_
  - (b) If principal place of business is outside Pakistan, name and address of duly authorized agent in Pakistan \_\_\_\_\_  
\_\_\_\_\_
  - (c) Nature of business \_\_\_\_\_
  - d) Authorized, subscribed and paid up capital of the company  
\_\_\_\_\_
  - (e) Names of directors \_\_\_\_\_ Nationality \_\_\_\_\_  
\_\_\_\_\_
  - (f) Names of principal share holders  
\_\_\_\_\_  
Amount of shareholding  
\_\_\_\_\_
- (B) Provide a copy of Articles and Memorandum of Association alongwith certificates of incorporation and annual audited reports of last three years of all the applicants.
- (3) State whether a reconnaissance permit, exploration licence or a petroleum development and production lease is required \_\_\_\_\_
- (4) Period for which the Petroleum right is required \_\_\_\_\_
- (5) Situation and approximate size of the area or areas for which Application is made \_\_\_\_\_
- (6) Brief particulars of previous experience in petroleum exploration, field development and production work in Pakistan and abroad
- (7) Names and qualifications of managerial personnel intended to be used in the operations \_\_\_\_\_
- (8) State amount of capital available for operations under the Petroleum right applied for:
- (a) At present available \_\_\_\_\_

- (b) Which applicant can make available and the source \_\_\_\_\_
  - (c) The applicant must provide documentary evidence alongwith application to substantiate the above information to the satisfaction of the Government.
- (9) The applicant for an exploration licence shall submit in addition the data referred to in Exhibit-I to this Schedule.

We hereby declare that all the foregoing particulars are correct.

Furthermore, we hereby declare that we will abstain from all political activity whatsoever affecting the sovereignty or security of Pakistan or such as may be tantamount to interference in its internal affairs and that especially we will eschew all espionage.

\_\_\_\_\_  
**Signature(s) of**

Date \_\_\_\_\_ Applicant \_\_\_\_\_  
Title \_\_\_\_\_

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\* *If the applicant is a subsidiary, the same information shall be given with respect to its ultimate parent company.*

**PARTICULARS TO BE FURNISHED BY APPLICANT FOR AN  
EXPLORATION LICENCE**

**1. Information about the applicant:**

Economic Data-worldwide-for the applicant, his ultimate parent company and the group of companies controlled by his ultimate parent company:

1. Total investment in petroleum activities split on the following items:
  - (a) exploration;
  - (b) production;
  - (c) transportation systems;
  - (d) refining and processing;
  - (e) marketing.
2. The total turnover of the group as well as the turnover with regard to petroleum activities.
3. Net income after taxes.
4. Total value of assets.
5. Profitability indicators, including the following;
  - (a) earnings per share.
  - (b) return on common equity
  - (c) return on total capital employed.

(Figures under sub-items 1-5 above shall relate to the three latest years for which these figures are available)

Operational data-worldwide for the applicant, his ultimate parent company and the group of companies controlled by his ultimate parent company:

1. Production of oil gas (            bbl/day).
2. Refinery capacity (            bbl/day).
3. Sales of petroleum products (            bbl/day).
4. Number of exploration wells wildcats and appraisal wells.
5. Number of employees in petroleum activities.

(Figures under sub-items 1-5 above shall relate to the three latest years for which these figures are available).

**2. Information concerning the areas (blocks).**

- (a) Details of areas (blocks) applied for.
- (b) If the applicant applies for more than one area (block) the priority assigned to the different areas (blocks) must be given.
- (c) The applicant must state the percentage working interest applied for in the different areas (blocks).
- (d) The applicant must state if he applies for operatorship on any or all of the areas (blocks) applied for.
- (e) Information given in sub-items 2 a-d and item 3 shall be summarized in a separate form.
- (f) The application must comprise information about the geological and geophysical material and parameters upon which the application is based, accompanied by structural maps.

The application shall, in a separate enclosure, comprise a geological study of the area in a regional geological context.

Further, the said enclosure shall contain an evaluation of the prospectivity of the different geological provinces in the area and how knowledge about prospectivity in one geological province may depend upon information from another geological province.

Information about the techniques used for the evaluation of the prospects from a geological and geophysical point of view must be included.

**3. Proposed work programme, Economic Terms, etc:**

The applicant should indicate his proposed terms regarding:

- (a) the work programme for each of the area (blocks) applied for, including the size of seismic grid, number of exploration wells (wildcats) with indications of depths and/or geological horizons to be penetrated in each exploration well, and the minimum expenditure amount to be allocated to and spent on exploration activities;
- (b) any additional royalty or other economic compensation offered; and
- (c) the participating interest offered to the local companies/GHPL.

The applicant should include information as to his intentions and plans regarding transfer of technology and training, development and



integration of the Government officials and Pakistani nationals in general.

## THE SECOND SCHEDULE PART I

### STANDARD FORM OF RECONNAISSANCE PERMIT

The President of Pakistan (hereinafter referred to as “the President”) hereby grants under and in accordance with the provisions of the Pakistan Petroleum (Exploration and Production) Rules, 2001, and on the terms and conditions set forth or referred to therein, and \_\_\_\_\_ (hereinafter referred to as “the Permit Holder”) hereby accepts a Reconnaissance Permit on the terms and conditions aforesaid and on further terms and conditions set forth herein as follows:

- (1) This Permit is granted to the following companies:

Name(s) of Permit Holder(s)

\_\_\_\_\_  
\_\_\_\_\_

- (2) This Permit gives the Permit Holder(s) the non-exclusive right to perform activities in connection with reconnaissance and exploration for petroleum in the following areas:

Permit Area No.	Coordinate	Km <sup>2</sup>
_____	_____	_____
_____	_____	_____
_____	_____	_____

- (3) The Permit is valid for a period of \_\_\_\_\_

- (4) The Permit Holder(s) shall undertake a work programme which shall be fully completed by \_\_\_\_\_. The contents of the work programme and the time table for its completion are as follows:

- a) the Permit Holder(s) shall undertake to obtain seismic coverage of adequate quality, covering the permit area with a grid of at least .....X..... km. The survey shall be completed no later than \_\_\_\_\_ after the issue of this Permit.
- b) In areas where structures are expected to continue into neighbouring areas (blocks), the DGPC, may require certain specifications for the survey.

- (5) The laws of Pakistan shall govern all activities pursuant to this Permit.

In witness whereof the President has set his hand and seal and the Permit Holder(s) has caused its Common seal to be affixed hereon this \_\_\_\_\_ day of \_\_\_\_\_.

## PART II

### STANDARD FORM OF EXPLORATION LICENCE

The President of Pakistan (hereinafter referred to as “the President”) hereby grants under and in accordance with the provisions of the Pakistan Petroleum (Exploration and Production) Rules, 2001, and on the terms and conditions set forth or referred to therein, and \_\_\_\_\_ (hereinafter referred to as “the Licensee”) hereby accepts an exploration licence, on the terms and conditions aforesaid and on further terms and conditions set forth herein as follows:

- 1) This licence is granted to the following companies, with working interest as stated herein:

Name(s) of Licensee(s)

\_\_\_\_\_  
\_\_\_\_\_

- 2) This licence gives the licensee(s) the exclusive right to perform activities in connection with the exploration for and exploitation of petroleum in the following areas:

Licence Area No.	Coordinate	Km <sup>2</sup>
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_____	_____	_____
_____	_____	_____

- 3) The licence is valid for a period of \_\_\_\_\_. The licensee(s) shall be entitled to renewal of the licence, as follows:

\_\_\_\_\_.

- 4) The Licensee(s) shall undertake a work programme which shall be fully completed by \_\_\_\_\_. The contents of the work programme and the timetable for its completion are as follows:

- a) The licensee(s) shall undertake to obtain seismic coverage of adequate quality, covering the licence area with a grid of at least \_\_\_\_\_ X \_\_\_\_\_ Km. The survey shall be completed no later than \_\_\_\_\_ after the issue of this licence. In areas where structures are

expected to continue into neighbouring areas (blocks), DGPC, may require certain specifications for the survey.

- b) The licensee(s) shall drill \_\_\_\_\_ wildcat wells in the licence area as follows: \_\_\_\_\_
  - c) The licensee(s) shall undertake such coring and other tests and registrations as the DGPC, may regard as necessary in order to estimate possible petroleum finds. Special care shall be given to coring in all prospective intervals. The sampling shall lead to exhaustive analysis and interpretations.
  - d) If the Licensee(s) should fail to complete the above mentioned work programme within the time limits specified, he shall pay liquidated damages to the Government, as follows:
- 5) The licensee(s) shall, not later than thirty days after this licence has been granted enter into a Concession Agreement including Joint Operating Agreement with the Government of Pakistan, with contents as stipulated in Enclosure No. 1 hereto;

Any subsequent amendment, supplement, or exception from the Concession Agreement (\*) requires the Government's prior written approval.

- 6) The laws of Pakistan shall govern all activities pursuant to this licence.

In witness whereof the President has set his hand and seal and the licensee(s) has set his hand and caused his common seal to be affixed hereon this \_\_\_\_\_ day of \_\_\_\_\_

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\* Delete, amend or add as applicable.

### **PART III**

#### **STANDARD FORM OF DEVELOPMENT AND PRODUCTION LEASE**

The President of Pakistan (hereinafter referred to as the "the President") hereby grants under and in accordance with the provisions of the Pakistan Petroleum (Exploration and Production) Rules, 2001, and on the terms and conditions set forth or referred to therein, and \_\_\_\_\_ (hereinafter referred to as "the lessee") hereby accepts a development and production lease, on the terms and conditions aforesaid and on further terms and conditions set forth herein as follows:

- (1) This lease is granted to the following companies, with working interest as stated herein:

Name(s) of lessee(s)

\_\_\_\_\_  
\_\_\_\_\_

- (2) This lease gives the lessee(s) the exclusive right to perform activities in connection with the development and production of petroleum in the following areas:

Lease Area No.	Coordinate	Km <sup>2</sup>
_____	_____	_____
_____	_____	_____

- (3) The lease is valid for a period of \_\_\_\_\_. The lessee(s) shall be entitled to renewal of the Lease, as follows \_\_\_\_\_
- (4) The lessee(s) shall develop the petroleum deposits in the lease area with due diligence in accordance with the development plan, dated \_\_\_\_\_ subject to such modifications thereto as the Government may approve.
- (5) When the deposits have been developed, petroleum shall be produced in accordance with a production profile approved from time to time by the Government.
- (6) The laws of Pakistan shall govern all activities pursuant to this lease.

In witness whereof the President has set his hand and seal and the Lessee(s) has caused its common seal to be affixed hereon this ---day of---.

[No. F 1(3)(Rules-2001)/Expl

M Abdullah Yusuf  
Secretary